K8.1

OPG

EB-2013-0321

Board Staff Compendium

Panel 5

An Assessment of the Industrial Relations Context and Outcomes at OPG

Richard P. Chaykowski

(September 2013)

With respect to unionization and pay determination at OPG:

- Aside from the impacts of unions on pay levels, broader external labour market forces are expected to establish pay levels that represent a *base* for the wages/earnings that would be required at OPG to successfully attract and retain workers over time.

- The relevant "comparator" firms for purposes of considering industrial relations outcomes at OPG are those in the same broader industry, that are subject to the same labour market and labour relations regulatory regime, and that have similarly very high levels of unionization.

- Ontario Hydro labour relations legacy effects were substantial and highly deterministic because OPG was bound to accept the existing collective agreements and to recognize and negotiate with the PWU and SEP; and the collective agreements inherited by OPG are highly developed and complex contracts.

- On net, consistent with the empirical research evidence that unions deliver a sizable compensation premium, I expect both the PWU and SEP to be successful in raising compensation levels, considerably, above the wage levels that would be expected to prevail were there broader competitive labour markets characterized by little or no unionization.

- OPG wage settlements are consistently either at or below the wage increases that have been negotiated at the most appropriate comparators in the electricity industry; and the salary levels of individual occupations compare closely as well.

With respect to my assessment of the prospects for achieving significantly different labour costs at OPG: In view of the industrial relations context and specific industrial relations circumstances at OPG, I expect OPG to make incremental changes in various aspects of the terms and conditions of employment negotiated with the unions, including aspects of compensation, job security, or other characteristics of the employment contract deemed significant to the union. In particular:

- OPG faces significant structural challenges even as it engages in workforce downsizing, including ongoing workforce renewal in the context of sustained labour demand in the broader Ontario electricity industry, and across occupational categories, that will create overall upward pressures on wages in the labour market.

- OPG faces significant labour cost challenges associated with growing pension obligations.

- While the government has attempted to set guidelines for wage increases in collective bargaining, there is little prospect of government imposing ongoing limits on wage increases for unionized employees in the electricity sector.

- A "forcing strategy" in collective bargaining that attempts to achieve substantial reductions in the labour cost structure at OPG is not likely to be successful in the near term.

- The best likelihood of success through collective bargaining is to adopt a fostering approach and negotiate incremental change that also preserves the high quality of the labour-management relationship.

Memorandum of Agreement

BETWEEN

Her Majesty the Crown In Right of Ontario (the "Shareholder")
And
Ontario Power Generation ("OPG")

Purpose

This document serves as the basis of agreement between Ontario Power Generation Inc. ("**OPG**") and its sole Shareholder, Her Majesty the Queen in Right of the Province of Ontario as represented by the Minister of Energy (the "**Shareholder**") on mandate, governance, performance, and communications. This agreement is intended to promote a positive and co-operative working relationship between OPG and the Shareholder.

OPG will operate as a commercial enterprise with an independent Board of Directors, which will at all times exercise its fiduciary responsibility and a duty of care to act in the best interests of OPG.

A. Mandate

1. OPG's core mandate is electricity generation. It will operate its existing nuclear, hydroelectric, and fossil generating assets as efficiently and cost-effectively as possible, within the legislative and regulatory framework of the Province of Ontario and the Government of Canada, in particular, the Canadian Nuclear Safety Commission. OPG will operate these assets in a manner that mitigates the Province's financial and operational risk.

2. OPG's key nuclear objective will be the reduction of the risk exposure to the Province arising from its investment in nuclear generating stations in general and, in particular, the refurbishment of older units. OPG will continue to operate with a high degree of vigilance with respect to nuclear safety.

3. OPG will seek continuous improvement in its nuclear generation business and internal services. OPG will benchmark its performance in these areas against CANDU nuclear plants worldwide as well as against the top quartile of private and publicly- owned nuclear electricity generators in North America. OPG's top operational priority will be to improve the operation of its existing nuclear fleet.

4. With respect to investment in new generation capacity, OPG's priority will be hydro- electric generation capacity. OPG will seek to expand, develop and/or improve its hydro- electric generation capacity. This will include expansion and redevelopment on its existing sites as well as the pursuit of new projects where feasible. These investments will be taken by OPG through partnerships or on its own, as appropriate.

Impasse – In the event of an impasse with the PWU, the parties are required to satisfy statutory requirements of the Ontario Labour Relations Act (the Act) before engaging in a strike/lockout. Where the parties become deadlocked on issues they must engage in mandatory conciliation under the Act. Mandatory conciliation involves the appointment of a mediator by the Minister of Labour to confer with the parties in the interest of resolving any impasse prior to a work stoppage. OPG and the PWU have engaged in mandatory conciliation twice in recent history following a deadlock. In the event of an impasse with the Society, the parties are required to enter into an interest mediation/arbitration process due to the no strike/no lock-out clause in the collective agreement. OPG and the Society have used interest mediation/ arbitration to resolve their differences for the two most recent contracts.

Agreement/Award – Where an agreement is reached, the unions must take the agreement out for a ratification vote by their members. Once an agreement/award is finalized, the details of the agreement are communicated through a comprehensive change management plan that is put in place to ensure line managers are informed about contract changes.

Implementation – Once the parties have an agreement (or arbitration award), Labour Relations oversees the implementation of the changes to the collective agreement.

4.2 The PWU and Society Collective Agreements

As discussed above, OPG has collective agreements with the PWU and the Society covering approximately 90 per cent of its regulated staff. The PWU represents the majority of employees who perform the work of technicians, tradespersons, plant operators, security guards and administrative assistants.

4.2.1 PWU

The current collective agreement with the PWU covers the period from April 1, 2012 to March 31, 2015. The wage increases provided under agreement are: April 1, 2012 – 2.75%; April 1, 2013 - 2.75%; and April 1, 2014 - 2.75%.

Cumulative	47.3%	n/a	52.4%	n/a	50.0%	n/a	n/a

4.2.2 Society

The Society of Energy Professionals represents the majority of employees who perform the work of professional engineers, front line managers, and accountants. The current collective agreement with the Society covers the period from January 1, 2013 to December 31, 2015. Pursuant to the Government's direction, OPG attempted to negotiate zero compensation increase in the current collective agreement. When a negotiated agreement was not achieved, the matter was submitted to interest arbitration as the collective agreement requires. The terms of the agreement, including compensation were fixed by binding arbitration conducted within the criteria established by the collective agreement, and the generally established protocol for interest arbitrators (See Attachment 1, "An Assessment of the Industrial Relations Context and Outcomes at OPG" by Professor Richard Chaykowski, which is discussed in Section 4.4).

The collective agreement requires the arbitrator to consider:

a) A balanced assessment of internal relativities, general economic conditions, external relativities
b) OPG's need to retain, motivate and recruit qualified staff
c) The cost of changes and their impact on total compensation
d) The financial soundness of OPG and its ability to pay

Section 4.4 below and Attachment 1 provide additional discussion of the considerations that inform interest arbitration decisions.

The Interest Arbitrator awarded annual increases over 2013, 2014 and 2015 of 0.75, 1.75 and 1.75 per cent, respectively, based on his assessment of the criteria and evidence presented by each side. He also ordered a temporary freeze on pay progression through the established pay grid for employees during the 2nd and 3rd years of the collective agreement (2014 and 2015).

4.0 OPG's COLLECTIVE AGREEMENTS AND LABOUR RELATIONS ENVIRONMENT

Pursuant to the Ontario *Labour Relations Act*, as a successor employer to Ontario Hydro OPG was required by law to adopt collective agreements covering the employees transferred from Ontario Hydro to OPG when it began operation on April 1, 1999. For the unionized employees within OPG, items such as wages, pensions, and benefits can only be changed through the collective bargaining process; they cannot be changed unilaterally by OPG.

The nature of collective bargaining dictates that outcomes result from agreements reached by both parties. To obtain agreement, parties often must modify their initial positions. Ultimately, "success" in collective bargaining is influenced by the priorities and approaches pursued by both management and the union over the course of negotiations. Since subsequent collective agreements build on past agreements, changes can only occur where bargaining produces new arrangements that both sides can agree to.

4.1 OPG's Approach to Collective Bargaining

OPG and its unions follow a formal and structured approach to collective bargaining. The following paragraphs outline the process.

Research and Consultation – OPG begins with a review of the external labour relations landscape. The review focuses on the bargaining results of Ontario Hydro successor companies and other broader public sector employers. Included in the review is an assessment of recent agreements and arbitrated decisions relating to wages, benefits, pensions, contracting out, job security, productivity issues, and other compensation issues. Sources used as part of this review include the Ministry of Labour (MOL) and successor companies collective agreements. The economic and political environment is also reviewed to evaluate general economic conditions and to identify any government directives or initiatives that impact collective bargaining. Internal consultation is carried out to identify key strategic, operational, cost, revenue and productivity issues facing the company.

discussed at Ex. D2-2-1. The Darlington New Nuclear Project will continue in the planning and preparation phase as discussed at Ex. F2-8-1.

OPG Nuclear's 2013 - 2015 Business Plan is provided in Attachment 2.

3.0 NUCLEAR BUSINESS PLANNING AND BENCHMARKING

3.1 Gap-Based Business Planning Process

OPG Nuclear's business planning is undertaken annually as part of and consistent with the overall OPG business planning process (Ex. A2-2-1). The business planning process is focused on establishing strategic and performance targets for nuclear, in alignment with OPG's objectives, and identifying the initiatives and resources required to achieve these targets.

Since 2009, OPG nuclear has used a gap-based business planning process which consists of the following steps:

- **Benchmarking:** Using selected industry performance metrics, establish the current status of OPG nuclear relative to its peers.
- **Target Setting:** Implementing a "top-down" approach to set operational, financial and generation performance targets that will move OPG nuclear closer to top quartile industry performance over the business planning period.
- **Closing the Gap:** By reference to OPG Nuclear's four cornerstone values of Safety, Reliability, Human Performance and Value for Money, developing various initiatives to close the performance gaps between current and targeted results.
- **Resource Planning:** Preparing an OPG Nuclear business plan (i.e., the development of cost, staff and investment plans) that is based on the "top-down" targets and incorporates initiatives necessary to achieve targeted results.

3.2 Gap-Based Business Planning – Benchmarking

The 2012 Nuclear Benchmark Report benchmarks OPG's performance against industry peers based on 2011 data and uses 20 indicators aligned with the cornerstone values of Safety, Reliability, and Value for Money and Human Performance (see Attachment 1). The

3. Assign a single point of accountability for reporting OPG data to EUCG, WANO and other outside organizations. This will help improve data quality and consistency of presentation.

4.2 Target Setting

The next step in gap-based business planning is to use the results of the benchmarking effort to establish meaningful targets that will help drive future performance. This step was completed by OPG during June and July 2009.

Target Setting	
Observations	**Conclusions**
▪ OPG used the 2009 Benchmarking Report to educate managers and raise performance expectations ▪ OPG conducted two formal target setting workshops and established desired performance levels for the year 2014 across common performance metrics ▪ Specific 2014 targets were set for each site and support unit ▪ The process of setting top-down performance targets based upon where OPG wants to be by 2014 represented a significant departure from past OPGN business planning practices. Adopting this practice represented a major cultural change within the organization at multiple levels ▪ The targets were agreed to by all of the site and support unit executives and were distributed to the site and support unit business managers for adoption in their 2010-2014 five-year business plan	▪ OPG executive leadership demonstrated a firm commitment to top-down business planning throughout the planning process ▪ While the targets set for 2014 will not achieve "best quartile" performance in all performance categories for all sites, they represent a significant improvement over current performance ▪ In our opinion, the targets established by OPG management are fair and reasonable given OPGN's baseline position ▪ Without downplaying the success achieved during the current planning cycle, we believe that opportunities remain for continuous improvement beyond the current business planning horizon

Related Recommendations:

1. When the OPG Nuclear Benchmarking Report is updated in 2010, analyze the new benchmarks and use them to establish operational and financial performance targets for 2015.

2. Through a process of continuous improvement, continue closing the gap to "best quartile" industry performance for all metrics and at all sites as additional years are added to the rolling five-year plan.

UNDERTAKING J8.6

Undertaking

To provide OPG's best estimate of impact of adjusting labour costs to the 75th percentile or to the 50th percentile.

Response

The attached table provides the difference between OPG average salaries for represented staff and the 75th and 50th percentiles from the information provided by Towers Perrin based on their 2009 survey. The information in the chart below represents only 28% of the incumbents in union-represented jobs in OPG's regulated businesses (2804 staff out of 10003 incumbents). OPG does not have information that would allow it to calculate the difference between existing average salaries and the 75th or 50th percentile for the remainder of its represented incumbents.

In order to get to the 75th percentile for these occupations approximately $16M would need to be removed from the payroll. To move to the 50th percentile for these occupations would require removing approximately $37.7M from the payroll.

Two occupations (9 incumbents) have been removed from the list because the jurisdiction of these occupations has changed to Management since the survey was conducted.

The following table indicates the differences between OPG average salaries and the 75th and 50th percentiles from the information provided by Towers Perrin based on their 2009 survey.

Job Title	Representation	Count Of Employee Number	OPG Salary Variance from 75th Percentile	OPG Average to 75th (Total Cost)	OPG Salary Variance from 50th Percentile	OPG Average to 50th (Total Cost)
Operation Technician - Senior	PWU	336	-13%	$ 3,903,388.26	2%	$ (464,947.74)
Operating Technician - Entry	PWU	166	-14%	$ 1,295,125.08	-3%	$ 270,407.08
Senior Business Developer	Society	5	-16%	$ 95,252.42	2%	$ (11,062.58)
Project Financial Analyst - Senior	Society	25	-5%	$ 135,072.05	2%	$ (64,077.95)
Project Financial Analyst - Fully Qualified	Society	18	-10%	$ 142,576.25	1%	$ (8,659.75)
Engineer - Specialist or Group Leader	Society	19	10%	$ (221,077.94)	15%	$ (322,993.94)
Engineer - Fully Qualified	Society	684	15%	$ (10,446,487.40)	21%	$ (14,413,003.40)
Engineer - Developmental	Society	140	18%	$ (2,213,733.43)	22%	$ (2,722,493.43)
Engineer - Entry	Society	205	14%	$ (2,234,514.30)	20%	$ (3,154,759.30)
Technologist - Advanced Specialist or Supervisor	Society	1	11%	$ (13,069.34)	15%	$ (17,302.34)
Technologist - Fully Qualified	PWU	327	8%	$ (2,239,363.90)	17%	$ (4,880,869.90)
Technologist - Developmental	PWU	4	5%	$ (15,057.81)	16%	$ (46,269.81)
Technologist - Entry	PWU	31	12%	$ (269,434.81)	25%	$ (544,342.81)
Senior Daily Trader/Power Trader	Society	6	15%	$ (121,029.95)	29%	$ (237,111.95)
Environment - Fully Qualified	Society	1	24%	$ (25,177.51)	35%	$ (36,090.51)
Industrial Nurse	Society	17	-7%	$ 104,508.04	-3%	$ 42,815.04
Safety - Advanced Specialist or Supervisor	Society	14	4%	$ (54,916.74)	11%	$ (164,704.74)
Safety - Specialist or Group Leader	Society	1	18%	$ (20,957.31)	20%	$ (24,153.31)
Puchasing Supervisor	Society	1	14%	$ (16,765.09)	17%	$ (20,380.09)
Junior Buyer	PWU	48	3%	$ (103,472.23)	23%	$ (779,792.23)
Fleet Manager	Society	1	2%	$ (2,072.04)	10%	$ (11,188.04)
Regulatory Analyst - Specialist or Group Leader	Society	3	9%	$ (31,427.51)	17%	$ (61,688.51)
Regulatory Analyst - Fully Qualified	Society	2	4%	$ (7,894.79)	5%	$ (10,658.79)
Warehouse Supervisor	Society	10	16%	$ (189,269.97)	30%	$ (354,969.97)
Maintenance Supervisor	Society	196	12%	$ (2,758,736.69)	21%	$ (4,867,500.69)
Maintenance Techician - Dual Trade	PWU	429	-1%	$ 203,645.03	7%	$ (2,667,651.97)
Maintenance Planner	Society	23	19%	$ (512,173.55)	38%	$ (1,038,597.55)
Labourer	PWU	91	11%	$ (549,639.64)	21%	$ (1,058,875.64)
		2804		$ (16,166,704.82)		$ (37,670,924.82)

Filed: 2013-09-27
EB-2013-0321
Ex. F5-1-1 Part a

Nuclear Staffing Benchmarking Analysis

A Report For:

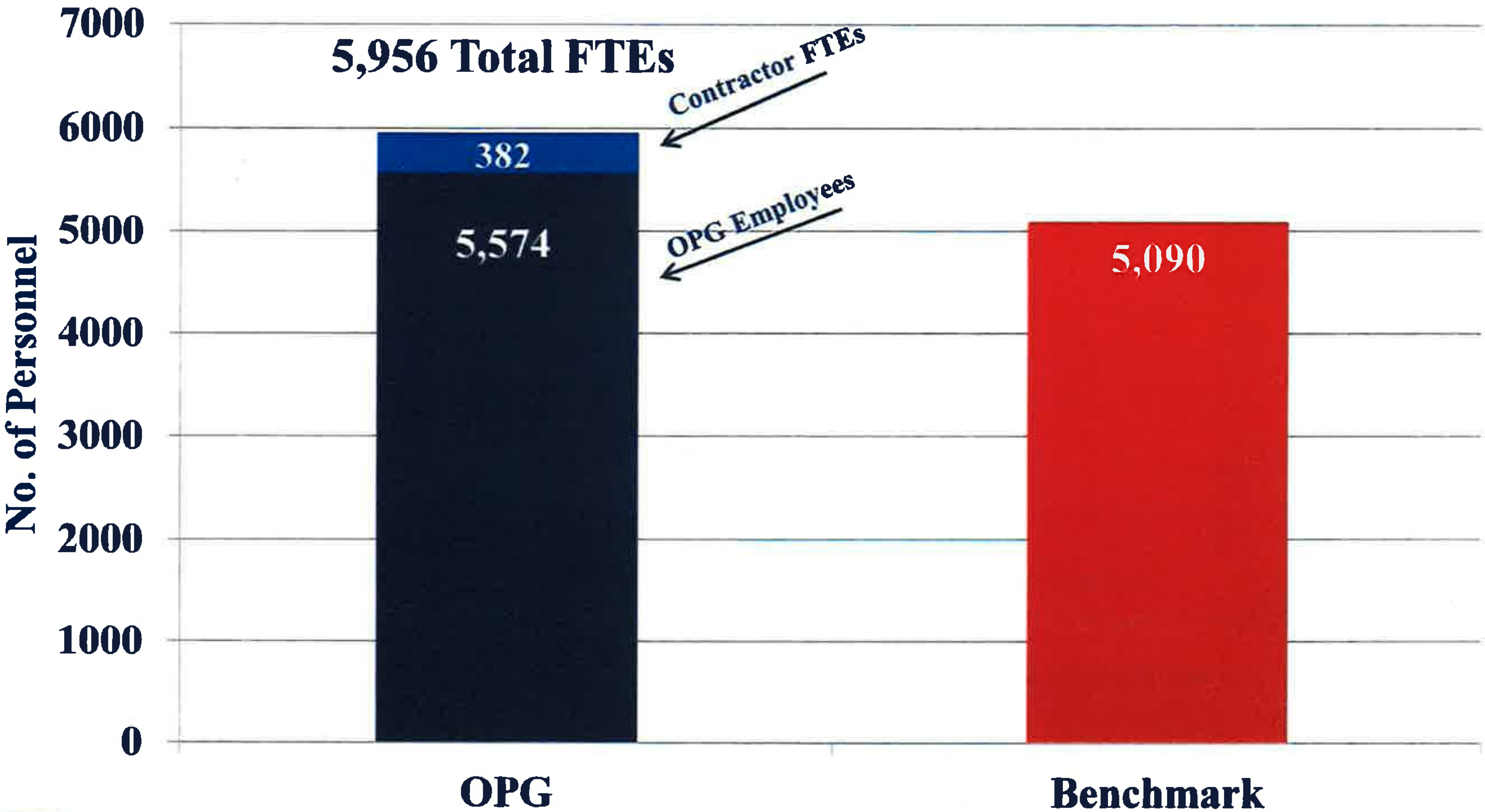
ONTARIO POWER GENERATION

February 3, 2012

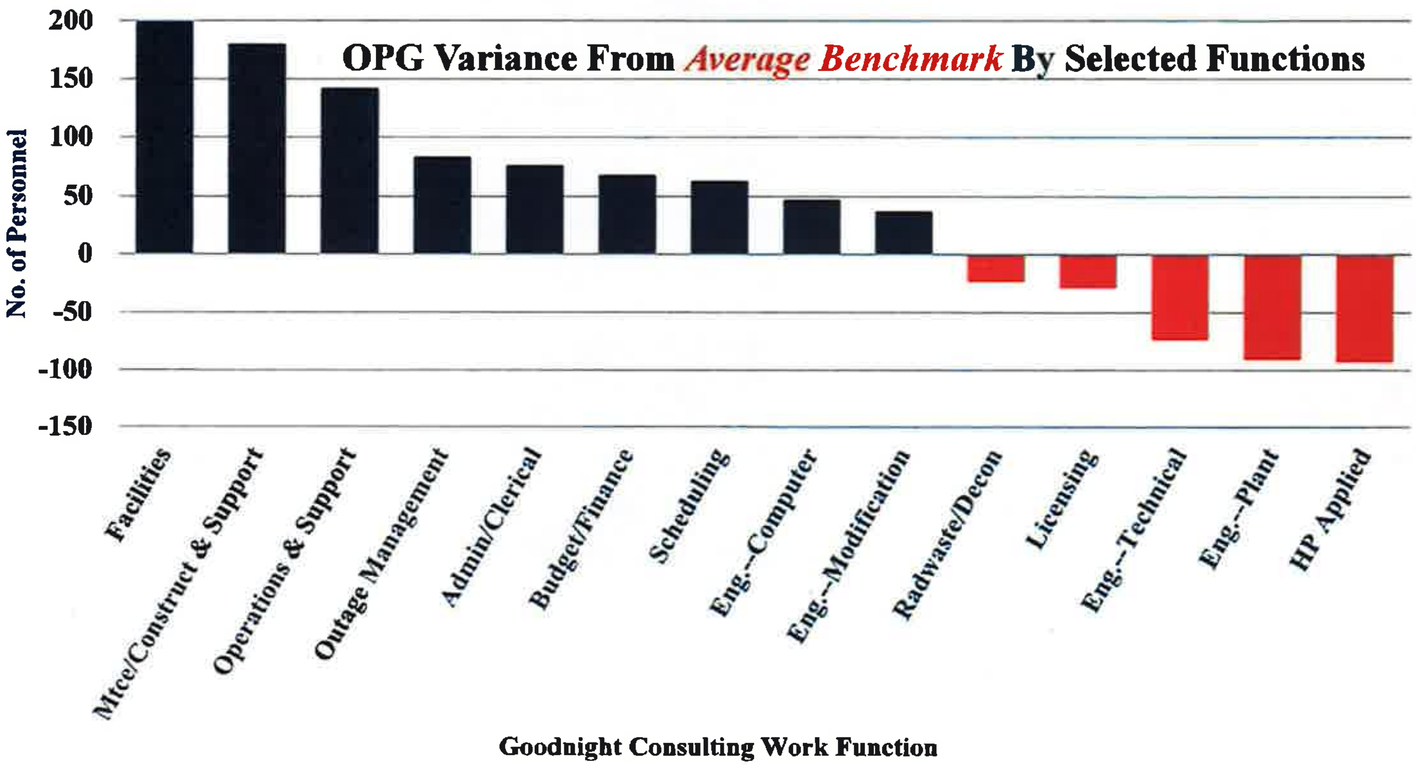
Goodnight Consulting, Inc.
42395 Ryan Road, Suite 112-650 ◆ Ashburn, VA 20148 USA
Voice: +1 -703-729-2247 Fax: +1-703-729-8053
WWW.GoodnightConsulting.com

FINAL REPORT

OPG Staffing, Including Contractor FTEs Is 866 Above the Benchmark



Total Staffing: 23 Functional Areas Are Staffed Above the *Average Benchmark*, 14 are Below



All Functions by Variance	
Maint/Construct Support	251
Facilities	1
Operations Support	1
Outage Management	83
Admin/Clerical	76
Budget/Finance	68
Scheduling	63
Contracts/Purchasing	60
Warehouse	51
Project Management	50
Eng.--Computer	47
Management	41
Eng.--Modification	39
Training	28
Human Resources	23
Materials Management	21
Eng.--Procurement	19
QC/NDE	17
Management Assist	13
Safety/Health	12
QA	7
Document Control	3
Eng.--Reactor	1
Design/Drafting	0
Communications	0
Chemistry	0
Fire Protection	-1
Environmental	-6
Nuclear Fuels	-15
Nuclear Safety Review	-17
ALARA	-19
Emergency Planning	-20
HP Support	-21
Radwaste/Decon	-24
Licensing	-29
Maintenance/Construction	-34
Operations	-47
Eng.--Technical	-76
HP Applied	-93
Eng.--Plant	-93
Grand Total	866

OPG Staffing Analysis Conclusions

- **Benchmark analysis indicates OPG exceeds benchmark by 866 FTEs**
- **OPG is generally headed in the right direction by taking action to reduce their headcount; more than half of the staffing above the benchmark will be reduced by end of 2014 based on OPG's business plan**
- **A comprehensive workforce plan will be necessary to ensure staff reductions are appropriately pursued by functional area, and to direct backfilling after attrition to the appropriate areas**

Objectives of the Study

16

- Benchmark OPG nuclear staffing levels against other North American nuclear operators
- Identify the source of any significant differences in staffing levels
- Analyze the nature of the differences
- By referencing the OPG 2012 business plan, analyze OPG's planned 2014 staffing levels and compare them with the benchmarks
  - *Note: Major project staffing, (e.g. the Darlington Refurbishment project and the Darlington New Nuclear Project) was excluded from this study*

exceeded the value of the electricity generated and asked the Board to withhold payments for any facility that raises the cost of power for consumers.

AMPCO argued that over the 2005 to 2007 period, the average cost of Pickering A power was double the Hourly Ontario Energy Price and the nuclear payment amount received by OPG under O. Reg. 53/05. AMPCO concluded that even with the forecasted cost of 8.1 cent/kWh (AMPCO's calculation) in the test period, the prudence of continued operation of Pickering A remains a concern. AMPCO argued that OPG should be required to file a long-term assessment of the viability of Pickering A in the next rates application. SEC also argued that OPG should be directed to file a plan which demonstrates that Pickering A and Pickering B can operate at costs similar to other generators.

OPG responded that the Board's role in this application is to review the costs of Pickering A, and based on these costs, set reasonable payment amounts. OPG argued that the Board should not, and cannot, decide the ultimate viability of Pickering A, as this is beyond the scope of Section 78.1 of the *OEB Act*.

Regarding the AMPCO and SEC submissions that OPG's costs are excessive given the benchmarking results, OPG responded that the intervenors used selective data and disregarded technical differences regarding Pickering A and Pickering B. OPG also argued that AMPCO's assertion that OPG was resistant to benchmarking was unsupported. OPG maintained that it is committed to benchmarking and is in full compliance with the requirements in the MOA.

OPG also noted that it expects Pickering A and B's performance to improve substantially in the future and submitted that Darlington will continue to perform as well as it has in the past. Most of the intervenors countered that the forecasted results for 2008 and 2009 are unduly optimistic and the Board should discount these projections.

OPG also questioned the arguments by a number of intervenors that the Navigant Study supports the conclusion that 2006 staffing levels were 12% higher than benchmark. OPG claimed that the Navigant Study cannot be used to test the level and reasonableness of OPG's labour cost because the Navigant Study is not representative of staffing levels in the test period.

Board Staff Interrogatory #102

Ref: Exh F4-3-1, Decision of the Court of Appeal for Ontario Docket C55602, C55641, C55633

Issue Number: 6.8
Issue: Are the 2014 and 2015 human resource related costs (wages, salaries, benefits, incentive payments, FTEs and pension costs) appropriate?

Interrogatory

With respect to the collective agreements that are currently in place, please provide all of the information that OPG relied on when OPG committed to that expense, including all benchmarking materials that were prepared by OPG or relied on by OPG.

Response

Each negotiation of a new collective agreement takes place against the background of prior negotiations and the existing agreement. The parties also consider the general compensation environment, particularly as reflected in agreements and arbitrations involving the Ontario Hydro successor companies and the broader public service. OPG assesses a wide range of information from internal and external sources when negotiating collective agreement revisions.

Attached please find examples of such information:

1. Public Sector Compensation Restraint, Remarks to Broader Public Sector Partners on Compensation by Dwight Duncan, Minister of Finance, July 20, 2010

2. Letter to Tom Mitchell, President & CEO OPG from David L. Lindsay, Deputy Minister dated July 14, 2010 Re: Public Sector Compensation Restraint

3. Letter to Jake Epp, Chair OPG from Dwight Duncan, Minister of Finance and Brad Duguid, Minister of Energy dated January 2011 re: OPG Business Plan

4. IESO Release: 18-month outlook dated February 24, 2012

5. Letter to Tom Mitchell, President & CEO OPG from Serge Imbrogno, Deputy Minister, Ministry of Energy, Re: Broader Public Sector Compensation, dated: July 16, 2012

6. Letter to Jake Epp, Chair, OPG from Chris Bentley, Minister of Energy and Dwight Duncan, Deputy Premier and Minister of Finance, Re: Business Plan Expectations, dated September 26, 2012

7. Canada Labour and Employee Relations Network Collective Bargaining Wage Increases – August 2012

8. TD Economics - Provincial Economic Update, October 2012

9. OPG Credit Rating as a November 27, 2012

10. Statistics Canada, Consumer Price Index, by province (monthly), dated December 21, 2012

11. RBC Economics - Provincial Economic Update, October 2012

12. Excerpt of Collective Agreement Management Board of Cabinet and Association of Management, Administrative and Professional Crown Employees of Ontario April 1, 2012 – March 31, 2014

13. Labour Arbitration Cases re Ability to Pay and Wage Restraint as economic factors

    a. Halifax Regional Municipality and Halifax Regional Professional Firefighters Association

    b. University of Toronto and University of Toronto Faculty Association

Also attached are the Management Agendas from both the Power Workers' Union negotiations and The Society of Energy Professionals negotiations.

14 a. Management Agenda – PWU

14 b. Management Agenda - Society

Board to assess what you had done, we need to know what you had before you at the time you were in these negotiations.

And I take it that this list of 14 things is not everything you considered in preparing for your negotiations with your unions?

MR. FITZSIMMONS: No, it's not, but it is certainly representative of the last round of negotiations. Information changes from round to round depending on what the issues are, and this is a healthy representation of the information that was relied upon in the last round of negotiations.

MR. MILLAR: We asked you specifically about benchmarking information. I don't see on this list, for example, the Scott Madden phase 1 and phase 2 reports. Would that have been something that would have been in your possession at the time?

MR. FITZSIMMONS: I recall a question about the Aon Hewitt reports.

MR. MILLAR: I'm not talking about Aon Hewitt. These were reports that were before the Board -- in fact, in the last payments proceeding -- that had some benchmarking information.

MR. SMITH: The question asks -- the question asks not whether OPG had those reports, but whether OPG relied upon those reports in its collective bargaining with the unions in question.

MR. MILLAR: Did you rely on Scott Madden?

MR. FITZSIMMONS: For the most recent round of negotiations, we did not.

I cannot speak to the previous round of negotiations. I wasn't present during that round.

MR. MILLAR: I am only talking about the current round, the one for the test period.

MR. FITZSIMMONS: Yes, for the current round.

MR. MILLAR: What about the Goodnight Consulting report?

MR. FITZSIMMONS: The Goodnight Consulting report came afterwards.

MR. MILLAR: I am recalling a discussion in the last payments case that sometimes OPG looks to information, data provided by Towers Perrin, that shows, I guess, comparables in salaries for similar positions.

Did you look at any of that for the last round of collective bargaining or the arbitration?

MR. FITZSIMMONS: No, we did not. With the mandate for the last round of negotiations, which was a zero mandate, the focus was on broader public sector settlements, and that is information that was relied upon.

MR. MILLAR: You refer in your prefiled evidence -- if you want to pull it up, that's okay. It is Exhibit F-4, tab 3, schedule 1, page 20. Again, F-4, tab 3, schedule 1, page 20.

MR. FITZSIMMONS: Yes.

MR. MILLAR: You will see under the second bullet point, and I am looking at about line 22, it says:

"The increases were below general market

Ontario

ONTARIO ENERGY BOARD

FILE NO.:	**EB-2007-0905**	
VOLUME:	**9**	
DATE:	**June 10, 2008**	
BEFORE:	**Gordon Kaiser**	**Presiding Member and Vice Chair**
	Bill Rupert	**Member**
	Cynthia Chaplin	**Member**

directly into the business plan and budget numbers.

MS. CAMPBELL: One of the things that we spent some time talking about was the fact that with regard to staffing costs, according to the CANDU benchmark, there was a 12 percent above compared to -- this is the Navigant study.

This has to do, again, with control and costs, et cetera. And I believe you are aware of the Navigant study. Ms. Irvine, you probably are.

MS. IRVINE: I am aware that it exists. I'm afraid I am not very familiar with its content.

MS. CAMPBELL: You don't actually need to be, aside from the fact that it said you are 12 percent above, on average, against the CANDU benchmarks, 12 percent with regard to staffing, higher. And with increased staffing, of course, your increased costs; am I correct?

MS. IRVINE: Generally, that's the case.

MS. CAMPBELL: Generally, that's correct.

Yesterday you were talking with Mr. Stephenson about various ways of keeping HR costs down. One was the use of overtime, I believe, for flexibility. But there has also been a discussion before about the fact that there is a movement within OPG to move away from non-regular employees to regular.

Given that you're already 12 percent above the benchmark, and given that you are -- your evidence is you are cost-sensitive, you are aware that the shareholder wishes you to keep costs down and to always operate

The PWU agreement was negotiated in early 2012. Prior to that time, the Government had passed the Public Sector Compensation Restraint to Public Services Act, 2010 (Compensation Restraint Act) as part of Bill 16. The Compensation Restraint Act included measures to extend controls over management compensation. While its provisions covered only OPG's non-unionized employees, the Government requested that OPG, and other Provincially-owned entities, achieve contracts with net zero compensation increases, meaning any increase in compensation had to be offset by corresponding savings elsewhere in the collective agreement. OPG negotiated a number of cost and productivity offsets to the wage increases in the PWU agreement.

OPG tracks the differences between the union wages it pays and those that other employers pay to the extent possible. The primary competitor for nuclear jobs represented by the PWU is Bruce Power LP. A wage comparison, conducted following the last round of negotiations between the PWU and Bruce Power LP is shown in Table 2. Overall OPG wages for PWU represented staff are lower than those at Bruce Power LP.

Table 2 - 2013 Wage Comparison of PWU Positions between OPG and Bruce Power

PWU Job Category (2013)	OPG	Bruce Power	Difference ($/Hr)	Difference (%)
Civil Maintainer I	$38.95	$52.36	-$13.41	34.43%
Emergency Response Maintainer	$38.95	$47.19	-$8.24	21.16%
Civil Maintainer II	$38.95	$49.04	-$10.09	25.91%
Nuclear Operator	$50.08	$58.32	$-8.24	16.45%
Shift Control Technician	$50.08	$57.27	-$7.19	14.36%
Mechanical Maintainer	$50.08	$57.10	-$7.02	14.02%
Nuclear Security Officer	$38.95	$40.87	-$1.92	4.93%
Business Support Representative (OPG - Office Support Representative II)	$38.95	$46.02	-$7.07	18.15%
Project Tech II – E&C (OPG - Project Technician - E&C)	$50.08	$51.34	-$1.26	2.52%
Chemical Technician	$50.08	$51.99	-$1.91	3.81%
Cost & Scheduling Technician (OPG - Planning $ Cost Control Technician)	$50.08	$52.63	-$2.55	5.09%
Finance Clerk (OPG- Finance & Payroll Representative)	$38.95	$48.74	-$9.79	25.13%

* Wage comparisons for PWU positions are based on top step of the OPG salary bands and top step of the Bruce Power competency based scales or multi-trade scales (if applicable).

Bruce Power wage information was obtained from the collective agreement between Bruce Power and the PWU. The above classifications account for the majority of Bruce Power classifications. Some classifications in OPG do not exist at Bruce Power (e.g., Thermal and Hydroelectric classifications).

The following table compares OPG's base wage increases for the PWU since 2001 to the increases in other companies that have collective agreements derived from Ontario Hydro. Cumulative compound 2001-2012 increases are shown for all organizations. Compound increases through 2013 and 2014 are provided where available. OPG negotiated increases have been at or below most of the successor companies in most years since 2001 resulting in cumulative increases that are below most of the successor companies. A comparison of recent (2010-2013) negotiated increases where data is available shows OPG has continued to achieve equal or lower increases. During this period OPG negotiated a simple cumulative increase of 11.5%, which is lower than or equal to Bruce Power (12%), Hydro One (11.5%) and Kinetrics (12%).

Table 3 – PWU Increases Compared Among Successor Companies

	PWU General Wage Increases (%)						
	OPG	Bruce Power	Hydro One	Kinectrics	New Horizons	Inergi	IESO
2001	3.00%	3.00%	3.00%	0.00%	3.00%	3.00%	2.00%
2002	2.00%	3.10%	3.00%	5.00%	3.00%	3.00%	2.00%
2003	3.00%	4.00%	3.00%	3.00%	3.50%	2.00%	3.00%
2004	2.50%	3.00%	3.00%	2.50%	3.25%	4.00%	3.00%
2005	2.50%	3.00%	3.50%	3.00%	3.00%	3.00%	2.50%
2006	3.00%	3.00%	3.50%	3.00%	3.00%	2.75%	3.00%
2007	3.00%	3.25%	3.00%	3.00%	3.00%	3.00%	3.00%
2008	3.00%	3.20%	3.00%	3.00%	3.00%	3.00%	3.00%
2009	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
2010	3.00%	3.00%	3.00%	3.00%	3.70%	3.00%	3.00%
2011	3.00%	2.75%	3.00%	3.00%	2.70%	3.00%	3.00%
2012	2.75%	2.75%	3.00%	3.00%	2.70%	2.60%	2.50%
Cumulative	**39.5%**	**44.0%**	**44.0%**	**40.4%**	**43.8%**	**41.7%**	**38.5%**
2013	2.75%	3.50%	2.50%	3.00%	2.60%	n/a	n/a
Cumulative	**43.3%**	**49.1%**	**47.6%**	**44.6%**	**47.5%**	**n/a**	**n/a**

2014	2.75%	n/a	2.50%	n/a	2.65%	n/a	n/a
Cumulative	47.3%	n/a	51.3%	n/a	51.4%	n/a	n/a

4.2.2 Society

The Society of Energy Professionals represents the majority of employees who perform the work of professional engineers, front line managers, and accountants. The current collective agreement with the Society covers the period from January 1, 2013 to December 31, 2015. Pursuant to the Government's direction, OPG attempted to negotiate zero compensation increase in the current collective agreement. When a negotiated agreement was not achieved, the matter was submitted to interest arbitration as the collective agreement requires. The terms of the agreement, including compensation were fixed by binding arbitration conducted within the criteria established by the collective agreement, and the generally established protocol for interest arbitrators (See Attachment 1, "An Assessment of the Industrial Relations Context and Outcomes at OPG" by Professor Richard Chaykowski, which is discussed in Section 4.4).

The collective agreement requires the arbitrator to consider:

a) A balanced assessment of internal relativities, general economic conditions, external relativities
b) OPG's need to retain, motivate and recruit qualified staff
c) The cost of changes and their impact on total compensation
d) The financial soundness of OPG and its ability to pay

Section 4.4 below and Attachment 1 provide additional discussion of the considerations that inform interest arbitration decisions.

The Interest Arbitrator awarded annual increases over 2013, 2014 and 2015 of 0.75, 1.75 and 1.75 per cent, respectively, based on his assessment of the criteria and evidence presented by each side. He also ordered a temporary freeze on pay progression through the established pay grid for employees during the 2nd and 3rd years of the collective agreement (2014 and 2015).

Table 4 below compares OPG's 2013 pay ranges for the various classifications (bands) of Society represented employees to those of Bruce Power. For each band, both the minimum and the maximum weekly salary offered by Bruce Power exceed the corresponding salary offered by OPG. For the highest salary bands (MP5 and MP6), Bruce Power's minimum weekly salary is more than five percent above OPG.

Table 4 - 2013 Wage Comparison between Society Bands for Bruce Power and OPG ($ per week)

Salary Band	OPG (2013)	Bruce Power (2013)
MP6 Max	2509.67	2528
Min	2162.66	2274
MP5 Max	2353.50	2372
Min	2006.49	2133
MP4 Max	2207.26	2224
Min	1286.42	1331
MP3 Max	2070.93	2086
Min	1286.42	1331
MP2 Max	1942.05	1957
Min	1286.42	1331

Table 5 below compares base wage increases for Society represented employees since 2001 to the increases in companies that have collective agreements derived from Ontario Hydro. Cumulative compound 2001-2013 increases are shown for all organizations. Compound increases through 2014 and 2015 are provided where available. As with PWU, OPG's increases have been at or below most of the successor companies in most years since 2001 resulting in compound increases that are below most of the successor companies. A comparison of recent (2010-2013) cumulative increases shows OPG has continued to achieve lower increases. During this period OPG achieved a simple cumulative increase of 9.75%, which is lower than Bruce Power (12%), and all other successor organizations.

Table 5 – Society Wage Increases Compared Among Successor Companies

	Society General Wage Increases (%)						
	OPG	Bruce Power	Hydro One	Kinetrics	New Horizons	Inergi	IESO
2001	3.00%	3.00%	3.00%	1.00%	3.00%	3.00%	4.50%
2002	2.50%	2.50%	2.00%	1.00%	2.50%	2.00%	4.00%
2003	2.00%	2.00%	3.00%	2.00%	2.00%	3.00%	3.00%
2004	3.00%	4.00%	3.00%	2.00%	3.00%	3.00%	3.00%
2005	3.00%	3.25%	4.00%	3.00%	3.00%	2.00%	3.00%
2006	3.00%	3.25%	3.00%	3.00%	3.00%	3.00%	3.00%
2007	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
2008	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
2009	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
2010	3.00%	3.00%	3.00%	3.00%	2.50%	3.00%	2.60%
2011	3.00%	2.75%	2.50%	3.00%	2.75%	3.00%	2.70%
2012	3.00%	2.75%	2.50%	3.00%	2.75%	2.75%	2.85%
2013	0.75%	3.50%	2%	3.00%	3.00%	1.50%	2.00%
Cumulative	41.6%	46.8%	44.0%	38.5%	43.3%	41.6%	47.8%
2014	1.75%	2.75%	2.25%	n/a	n/a	1.50%	2.00%
Cumulative	44.0%	50.9%	47.2%	n/a	n/a	43.7%	50.7%
2015	1.75%	n/a	2.25%	n/a	n/a	1.50%	n/a
Cumulative	46.6%	n/a	50.6%	n/a	n/a	45.9%	n/a

4.3 Other Relevant Terms of the Collective Agreements.

As in most unionized environments, OPG's collective agreements with both the PWU and Society restrict the company's ability to reduce compensation costs through contracting out work or reorganizing the workforce. The paragraphs below explain how these limitations are structured in both the PWU and Society agreements.

4.3.1 <u>Contracting Out</u>

With respect to contracting out, both the PWU and Society collective agreements contain clauses that restrict the degree to which OPG can contract out the work of employees who are members of the union. Given the degree of unionization, these clauses capture

As shown in Table 3 for PWU staff, Hydro One has negotiated substantially lower wage scales than OPG and Bruce Power for all seven positions with the exception of one.

Table 3
Power Workers' Union – Wage Comparisons, 1999 and 2013

	1999	2013	Percent Change
Mechanical Maintainer/Regional Maintainer - Mechanical			
Hydro One	$ 28.23	$ 42.48	50 %
OPG	$ 29.08	$ 50.08	72 %
Bruce Power	$ 29.08	$ 57.10	96 %
Shift Control Technician/Regional Maintainer – Electrical			
Hydro One	$ 28.23	$ 42.48	50 %
OPG	$ 30.31	$ 50.08	65 %
Bruce Power	$ 30.31	$ 57.27	89 %
Clerical – Grade 56 (based on a 35-hour work week)			
Hydro One	$ 21.46	$ 32.30	51 %
OPG	$ 21.46	$ 31.99	49 %
Bruce Power	$ 21.46	$ 35.59	66 %
Clerical – Grade 58 (based on a 35-hour work week)			
Hydro One	$ 24.20	$ 36.42	50 %
OPG	$ 24.20	$ 38.95	61 %
Bruce Power	$ 24.20	$ 40.13	66 %
Regional Field Mechanic/Transport & Work Equipment Mechanic			
Hydro One	$ 26.20	$ 39.43	51 %
OPG	$ 26.20	$ 50.08	91 %
Bruce Power	$ 26.20	$ 49.71	90 %

Stockkeeper			
Hydro One	$ 23.27	$ 36.75	58 %
OPG	$ 23.27	$ 38.95	67 %
Bruce Power *	$ 23.27	$ 44.88	93 %
Labourer			
Hydro One	$ 19.03	$ 28.63	50 %
OPG	$ 19.03	$ 38.95	105 %
Bruce Power *	$ 19.03	$ 44.88	136 %

* Assumes that the position falls within the Civil Maintainer II classification and corresponding wage rate

Table 4
Society of Energy Professional – Wage Comparisons 1999 and 2013

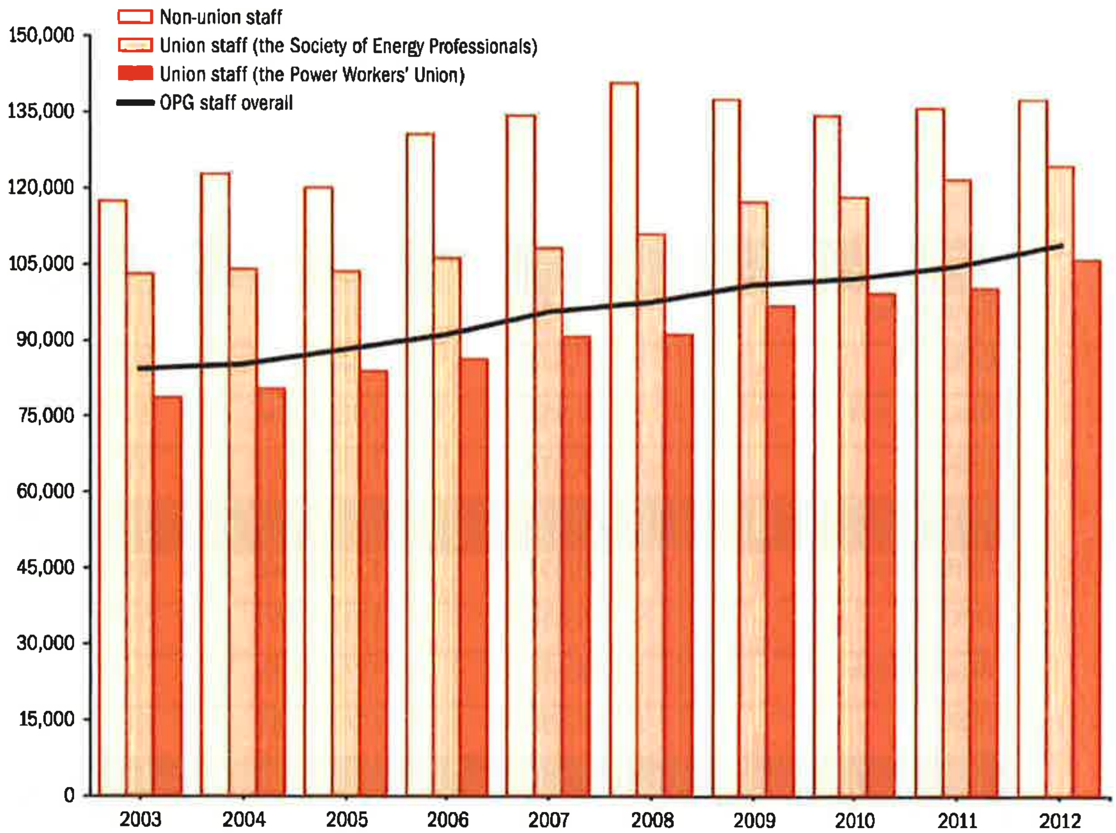
	1999	2013	Percent Change
MP2			
Hydro One	$ 77,954.79	$ 100,078.50	28 %
OPG	$ 77,954.79	$ 101,333.39	30 %
Bruce Power	$ 77,954.79	$ 102,113.46	31 %
IESO	$ 77,954.79	$ 118,068.03	51 %
MP4			
Hydro One	$ 88,651.39	$ 113,801.46	28 %
OPG	$ 88,651.39	$ 115,171.67	30 %
Bruce Power	$ 88,651.39	$ 116,045.14	31 %
IESO	$ 88,651.39	$ 134,218.03	51 %
MP6			
Hydro One	$ 100,756.80	$ 129,350.68	28 %
OPG	$ 100,756.80	$ 130,950.99	30 %
Bruce Power	$ 100,756.80	$ 131,907.42	31 %
IESO	$ 100,756.80	$ 152,617.49	51 %

For Society staff, Hydro One, OPG and Bruce Power have successfully negotiated lower end rates as compared to the PWU wages. However, for all three Society categories, Hydro One has lower wage scales than OPG and Bruce Power. The IESO has continued with the wage schedule structure that existed at demerger.

It is quite clear that compared to these four other companies, Hydro One has been quite successful in controlling costs in collective bargaining over the past ten years to the benefit of all ratepayers.

Figure 6: Average Total Earnings* for OPG Staff, 2003–2012 ($)

Source of data: Ontario Power Generation



* Average total earnings include base salary, overtime, incentives and bonuses as well as various types of allowances.

staff whose annual base salaries exceeded the maximum amount set out in the base salary schedule by more than $100,000, and in one case in 2005 and 2006 by more than $200,000. OPG told us that before 2010 it had treated the maximum as a guideline rather than a limit, and had approved and implemented salary increases before the 2010 pay freeze legislation. OPG also informed us that since 2010, no salary increases had been provided to the employees whose base salaries already exceeded the maximum.

We found similar instances for about 1,200 unionized staff who had received more than the maximum set out by the base salary schedule in 2012. OPG explained that this was because of the implementation of new base salary schedules for PWU staff in 2002 and Society staff in 2006. Essentially, if an employee's old base salary exceeded the maximum set out in the new schedule, he or she was "green circled" to maintain the old level while still receiving annual wage increases.

Sunshine List

OPG is required by the *Public Sector Salary Disclosure Act, 1996* to disclose annually the names, positions, salaries and total taxable benefits of any employees who made $100,000 or more in a calendar year. (This disclosure is popularly known as the "Sunshine List.")

The number of OPG staff on the Sunshine List has grown steadily since the organization was created in 1999, albeit at a slower pace after the 2010 pay freeze legislation. Over the last 10 years,

National Utility Survey
Ontario Power Generation

Survey Findings

September 6, 2013

Prepared by Aon Hewitt
Talent & Rewards Consulting
225 King Street West, Suite 1600, Toronto, Ontario

Presentation to OPG Regulatory Steering Committee

Aon Hewitt

Survey Design

Determination of Comparator Organizations

Considerations in the selection of comparator organizations:

1. Organizations from which OPG recruits
2. Organizations from which OPG loses talent
3. Organizations representative of the same and/or similar industry sectors
4. Organizations that are reflective of the complexity and size of OPG

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The table on page 6 provides a summary of the comparator organizations used to determine the relative competitiveness of Target Total Cash Compensation and Pension and Benefits components.

Survey Design - Comparator Organizations

Organization	Group 1 - Power Generation, Electrical Utilities, and Nuclear Research, Development and Engineering (NRDE)	Group 2 - Nuclear Power Generation and Electric Utilities	Group 3 - General Industry	Group 4 - Pension & Benefits Analysis
AltaLink	√			
Atomic Energy of Canada Limited (NRDE)	√	√		√
BC Hydro and Transmission	√			√
Bruce Power	√	√		
Candu Energy Inc. (NRDE)	√	√		
Enmax Corporation	√			√
FortisAlberta	√			
Hydro Quebec	√	√		√
Independent Electric System Operator	√			
Manitoba Hydro	√			
Nalco Energy	√			√
New Brunswick Power	√	√		
New Brunswick System Operator	√			
Nova Scotia Power	√			
SaskPower	√			
Toronto Hydro	√			
Transalta	√			√
TransCanada	√			√
Yukon Energy Corporation	√			
Aon Hewitt's TCM Survey			√	
Mercer Benchmark Database			√	
Aon Hewitt Benefit SpecSelect (additional 9 companies)				√

Survey Design

Benchmark Jobs

Criteria Used to Determine Benchmark Jobs

- Represented within the comparator groups and business sectors
- A relatively stable position over time
- High number of incumbents

Representative Benchmark Jobs

- Selection of jobs is representative of a cross-sample of
  - All functional groups
  - All levels within OPG
  - All employee groups (i.e. Management, Power Workers Union, and Society of Energy Professionals)
  - Within each segment of power generation (i.e. nuclear, hydroelectric and thermal)
- Survey target was 50% of the total OPG employee population
  - Actual reportable survey results represent 54.3%
  - Number of external companies matched 19 (Canadian) and number of OPG jobs matched 204

Survey Design

Data Elements

As outlined in the Terms of Reference, the following elements will be reported where available:

- Base salary
- Target short-term incentive
- Target total cash compensation (base salary and target short-term incentive)
- Eligibility and target long-term incentive*
- Other cash compensation**
- Pension and benefits

*Note: insufficient data was reported by survey participants to report on LTI

**Other cash compensation as reported by participants includes nuclear licensing premiums, lump sum merit, bonuses, allowances.

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Survey Results – Target Total Cash

Interpretation of Competitiveness

- It is common practice to define an individual's target total cash compensation to be "at market", or competitive to the external market, when the differential between current target total cash compensation and intended market position is within +/- 10%
- Data in the following tables are summarized by job family with position vs. market described in terms of a percent differential from the 50^{th} and 75^{th} percentiles
  - 50^{th} percentile represents the median observation of the matching market salaries
  - 75^{th} percentile represents the position where 75% of observations are lower and 25% are higher

Survey Results – Target Total Cash

Comparator Group 1 – Overview

Group 1: Power Generation, Electrical Utilities and Nuclear Research, Development and Engineering (NRDE)

Group 1 was selected by identifying organizations that represent a direct talent pool for nuclear, thermal and hydroelectric power generation positions within OPG. Electric Utilities that operate within the same general sector and hire employees with similar transferable skill sets for some OPG positions were also included. Similarly, Nuclear Research, Development and Engineering organizations with a direct talent pool for nuclear generation positions were included.

- AltaLink
- BC Hydro and Transmission
- Bruce Power
- Enmax Corporation
- FortisAlberta
- Hydro Quebec
- Independent Electric System Operator
- Manitoba Hydro
- Nalco Energy
- New Brunswick Power
- New Brunswick System Operator
- Nova Scotia Power
- SaskPower
- Toronto Hydro
- Transalta
- TransCanada
- Yukon Energy Corporation

<u>NRDE</u>:
- Atomic Energy of Canada Limited
- Candu Energy Inc.

Survey Results – Target Total Cash

Findings and Observations – Group 1

PWU

Group 1: Power Generation, Electric Utilities, and Nuclear, Research, Development and Engineering (NRDE)

			Market Data	
Job Family	#OPG Incumbents	# Market Incumbents	Differential to P50	Differential to P75
Administration	498	686	36%	*33%*
Engineering	34	26	21%	*10%*
Environment, Health & Safety	75	162	-8%	*-17%*
Finance	98	49	35%	*22%*
Human Resources	-	-	-	-
Information Technology	-	-	-	-
Maintenance	2,636	4,051	23%	*7%*
Operations	1,043	1,059	5%	*-2%*
Supply Chain, Materials Mgmt & Purchasing	65	163	33%	*13%*
Corporate Services	-	-	-	-
Average: PWU (Weighted by OPG (incumbent matches)			**20.5%**	**8.1%**

Survey Results – Target Total Cash

Findings and Observations – Group 1

Society

Group 1: Power Generation, Electric Utilities, and Nuclear, Research, Development and Engineering (NRDE)

			Market Data	
Job Family	#OPG Incumbents	# Market Incumbents	Differential to P50	Differential to P75
Administration	1	4	-	-
Engineering	1,139	2,641	-1%	*-10%*
Environment, Health & Safety	11	30	10%	*0%*
Finance	40	143	-12%	*-20%*
Human Resources	-	-	-	-
Information Technology	30	106	-1%	*-9%*
Maintenance	226	57	-15%	*-23%*
Operations	27	35	4%	*-5%*
Supply Chain, Materials Mgmt & Purchasing	-	-	-	-
Corporate Services	9	19	22%	*11%*
Average: Society (Weighted by OPG Incumbent matches)			**-2.9%**	**-12.0%**

Survey Results – Target Total Cash

Findings and Observations – Group 1

Management

Group 1: Power Generation, Electric Utilities, and Nuclear, Research, Development and Engineering (NRDE)

Job Family	#OPG Incumbents	# Market Incumbents	Market Data Differential to P50	Market Data Differential to P75
Administration	127	200	7%	*-2%*
Engineering	32	245	2%	*-11%*
Environment, Health & Safety	3	29	13%	*0%*
Finance	27	70	-6%	*-16%*
Human Resources	48	70	3%	*-7%*
Information Technology	-	-	-	-
Maintenance	16	29	-8%	*-17%*
Operations	24	51	8%	*1%*
Supply Chain, Materials Mgmt & Purchasing	1	3	-	-
Corporate Services	11	57	-10%	*-20%*
Average: Management (Weighted by OPG incumbent matches)			**3.0%**	**-6.5%**

Survey Results – Target Total Cash

Comparator Group 2 – Overview

Group 2: Nuclear Power Generation and Electric Utilities

Group 2 represents a sub-set of companies from Group 1. It was selected to assess OPG's pay levels vis-à-vis Nuclear Power Generation and Electric Utilities organizations.

- Atomic Energy of Canada Limited
- Bruce Power
- Candu Energy Inc.
- Hydro Quebec
- New Brunswick Power

Survey Results – Target Total Cash

Findings and Observations – Group 2

PWU

Group 2: Nuclear Power Generation and Electric Utilities

			Market Data	
Job Family	#OPG Incumbents	# Market Incumbents	Differential to P50	Differential to P75
Administration	498	508	35%	***22%***
Engineering	-	-	-	-
Environment, Health & Safety	75	162	-8%	***-17%***
Finance	-	-	-	-
Human Resources	-	-	-	-
Information Technology	-	-	-	-
Maintenance	2,353	2,566	22%	***5%***
Operations	550	346	-3%	***-13%***
Supply Chain, Materials Mgmt & Purchasing	-	-	-	-
Corporate Services	-	-	-	-
Average: PWU (Weighted by OPG incumbent matches)			**19.1%**	**4.3%**

Survey Results – Target Total Cash

Findings and Observations – Group 2

Society

Group 2: Nuclear Power Generation and Electric Utilities

			Market Data	
Job Family	#OPG Incumbents	# Market Incumbents	Differential to P50	Differential to P75
Administration	-	-	-	-
Engineering	1,094	1,408	-1%	*-10%*
Environment, Health & Safety	-	-	-	-
Finance	-	-	-	-
Human Resources	-	-	-	-
Information Technology	-	-	-	-
Maintenance	208	29	-18%	*-26%*
Operations	-	-	-	-
Supply Chain, Materials Mgmt & Purchasing	-	-	-	-
Corporate Services	-	-	-	-
Average: Society (Weighted by OPG incumbent matches)			**-3.8%**	**-12.9%**

Survey Results – Target Total Cash

Findings and Observations – Group 2

Management

Group 2: Nuclear Power Generation and Electric Utilities

Job Family	#OPG Incumbents	# Market Incumbents	Market Data Differential to P50	Differential to P75
Administration	-	-	-	-
Engineering	24	119	0%	*-9%*
Environment, Health & Safety	2	7	20%	*9%*
Finance	3	8	-24%	*-31%*
Human Resources	-	-	-	-
Information Technology	-	-	-	-
Maintenance	16	29	-8%	*-17%*
Operations	-	-	-	-
Supply Chain, Materials Mgmt & Purchasing	-	-	-	-
Corporate Services	-	-	-	-
Average: Management (Weighted by OPG incumbent matches)			**-3.4%**	**-12.6%**

Survey Results – Target Total Cash

Comparator Group 3 – Overview

Group 3: General Industry

Group 3 was selected to obtain data on general industry organizations that OPG shares a talent pool with for general industry positions. Nationally reported data from two published survey sources is represented in the analysis.

- Aon Hewitt's Total Compensation Measurement Survey (TCM) - 251 participating organizations
- Mercer Benchmark Database (MBD) - 799 participating organizations

Summary of Survey Results – Target Total Cash

Findings and Observations – Group 3

- OPG's overall competitive position to the survey target total cash findings at the 50th percentile (median) for Group 3 is as follows:
  - OPG's PWU Group's target total cash compensation is above the market competitive zone at the 50th percentile
  - OPG's Society Group's target total cash compensation is above the market competitive zone at the 50th percentile
  - OPG's Management Group's target total cash compensation is above the market competitive zone at the 50th percentile

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Survey Results – Target Total Cash

Findings and Observations – Group 3

PWU

Group 3: General Industry

			Market Data	
Job Family	#OPG Incumbents	# Market Incumbents	Differential to P50	Differential to P75
Administration	498	13,990	25%	*12%*
Engineering	-	-	-	-
Environment, Health & Safety	-	-	-	-
Finance	98	1,374	53%	*32%*
Human Resources	-	-	-	-
Information Technology	-	-	-	-
Maintenance	-	-	-	-
Operations	-	-	-	-
Supply Chain, Materials Mgmt & Purchasing	3	925	56%	*33%*
Corporate Services	-	-	-	-
Average: PWU (Weighted by OPG Incumbent matches)			**29.4%**	**15.7%**

Survey Results – Target Total Cash

Findings and Observations – Group 3

Society

Group 3: General Industry

Job Family	#OPG Incumbents	# Market Incumbents	Market Data: Differential to P50	Market Data: Differential to P75
Administration	1	6	15%	*-31%*
Engineering	-	-	-	-
Environment, Health & Safety	-	-	-	-
Finance	40	4,034	20%	*6%*
Human Resources	-	-	-	-
Information Technology	30	1,818	29%	*17%*
Maintenance	-	-	-	-
Operations	-	-	-	-
Supply Chain, Materials Mgmt & Purchasing	-	-	-	-
Corporate Services	3	173	6%	*-12%*
Average: Society (Weighted by OPG incumbent matches)			**23.3%**	**9.4%**

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Survey Results – Pension & Benefits

Findings and Observations – Group 4

Pension & Benefits – Employer-Paid Value

Category	OPG	Comparator Group
Pension (% of base pay)	16.10%	10.77%
Life/LTD/STD (% of base pay)	4.18%	3.64%
Medical/Dental ($)	$2,816	$2,471

U.S. Survey Results – Nuclear Premium
Methodology

- The graph on the page 39 shows the U.S. base pay trend lines for the nuclear jobs and their corresponding non-nuclear counterpart
- In the survey, there were nine instances where U.S. data was available for the same nuclear and non-nuclear job
- These jobs spanned the Maintenance, Engineering and Environment, Health and Safety families and represented Technical, Professional, Management and Executive employees
- The R^2 (coefficient of determination) exceeds 0.9, indicating high correlation in the data comprising the trend lines

U.S. Survey Results – Nuclear Premium

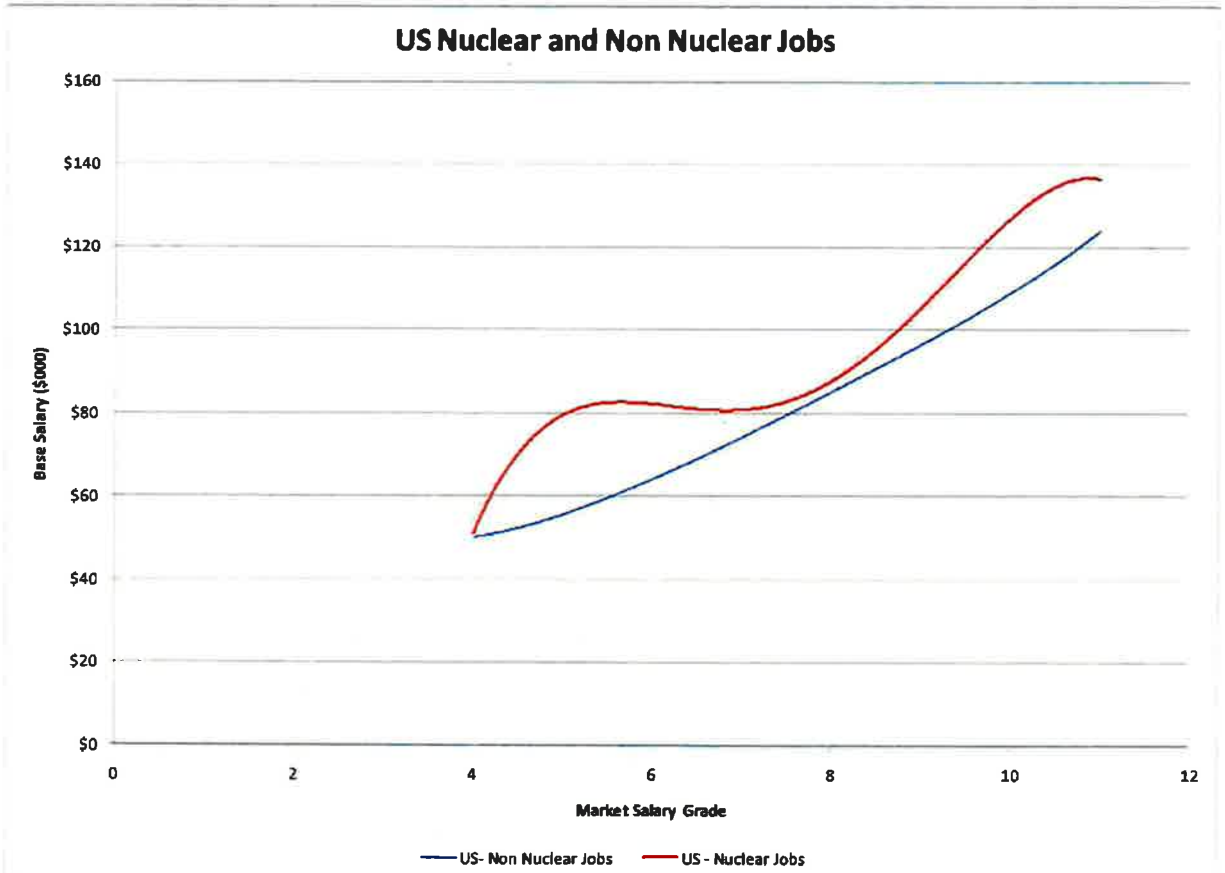
Findings and Observations

- Our analysis of U.S. companies indicates that nuclear positions are paid a premium of between 0-30% over similar non-nuclear positions; averaging approximately 13% for jobs in the $50,000 to $85,000 salary range
- U.S. companies also indicate a premium for positions in the $120,000 to $140,000 salary range (approximately)

54

U.S. Survey Results – Nuclear Premium

Findings and Observations



meaningful, informative and effective communication to employees about Business Transformation since rollout.

- "Working in silos" has led to a lack of engagement, commitment and buy-in from OPG employees in response to Business Transformation.

Staffing Levels for Executives and Senior Management

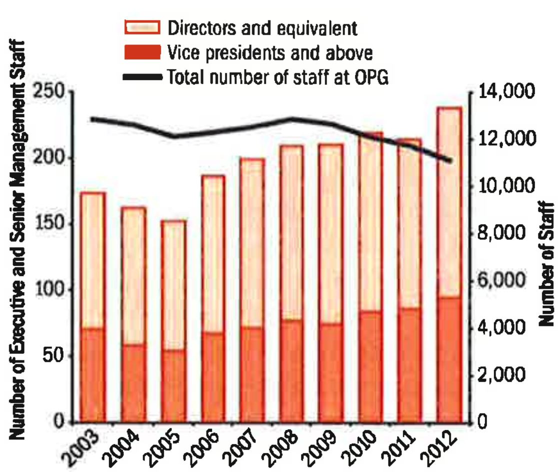
In the rate application it submitted to the OEB in 2007, OPG indicated that it had made changes since 2004 "to signal a return to a more public-sector employment situation." One of these changes was reducing the number of executives at OPG. However, we noted that this has not been the case in recent years.

Despite the overall reduction OPG has recently made to its staffing levels, the size of its executive and senior management group (directors, vice presidents and above) has moved in the opposite direction. Figure 4 shows the overall number of staff has decreased from about 12,800 in 2003 to 12,100 in 2005 and 11,100 in 2012, a reduction of 8.5% since 2005. However, the number of executives and members of senior management dropped initially from 173 in 2003 to 152 in 2005 but went up again to 238 by 2012, an increase of 58% since 2005. Specifically:

- The number of executives (vice presidents and above) dropped from 70 in 2003 to 54 in 2005 but increased to 94 by 2012—an increase of 74% since 2005.
- The number of senior management staff (directors and equivalent) decreased from 103 in 2003 to 98 in 2005 but increased to 144 by 2012—an increase of 47% since 2005.
- The most obvious jump occurred in 2012, during Business Transformation. Nine vice presidents and 21 directors left OPG that year, but 17 employees were promoted to VPs and 50 to directors, indicating that many of the promotions were for newly created positions rather than to fill vacant positions. OPG informed us that the new positions were part of Business Transformation and for nuclear refurbishment.

Figure 4: Number of Staff* vs. Number of Executives and Senior Management Staff at OPG, 2003–2012

Source of data: Ontario Power Generation



* These numbers represent year-end staffing levels. They include regular and non-regular (temporary and contract) staff but exclude nuclear security staff for reasons of confidentiality.

We also found that the number of vice presidents and directors with no specific titles or job descriptions has increased considerably, from 12 in 2005 to 40 in 2012. OPG explained that some employees were not assigned specific titles or portfolios because they were working on special projects without job descriptions, or their job descriptions were still being written.

Many of the respondents to our survey questioned the rationality of reducing overall staffing levels while creating a "top-heavy" organization. They felt that the only visible change brought about by Business Transformation was numerous promotions to expand the size of the executive and senior management group. They also felt that promotions had been made hastily with no transparent selection process and had been communicated poorly, creating ill feeling and mistrust among employees.

- There were numerous examples of employees who had started working at OPG before their security clearances were issued.
- In a sample of 50 employees who were on OPG's payroll but not on its security clearance record, 13 had never obtained security clearances. OPG informed us that this was because hydro/thermal and corporate support staff hired before May 2003 were exempt from security clearance. One of these employees had held various senior positions in nuclear finance, nuclear reporting and nuclear waste management, and had access to sensitive information. The remaining 37 employees in our sample had joined OPG after May 2003, but more than half of them had never obtained security clearances or were working with expired clearances.

RECOMMENDATION 1

To ensure that staffing levels are reasonable and that it has the right people in the right positions to meet its business needs, Ontario Power Generation should:

- evaluate and align the size of its executive and senior management group with its overall staffing levels;
- address the imbalances between overstaffed and understaffed areas in its nuclear operations; and
- review and monitor compliance with its recruitment and security clearance processes.

ONTARIO POWER GENERATION RESPONSE

In 2010, Ontario Power Generation (OPG) launched a multi-year Business Transformation initiative to reduce labour costs, create a sustainable cost structure and allow OPG to continue to moderate consumer electricity prices.

The number of executive and senior management positions, as well as overall staffing levels, is addressed through Business Transformation. There are currently a number of interim positions relating to Business Transformation, project work and other new initiatives. By August 2013, there were 218 senior management positions compared to 238 at the end of 2012. This number is forecast to continue to decline.

OPG has conducted extensive benchmarking of its nuclear and other operations. Based on this benchmarking, we are executing several initiatives that are designed to address opportunities for efficiencies, cost reductions and staff imbalances in nuclear operations. In 2012, the Ministry of Energy engaged a consulting firm to assess OPG's existing benchmark studies, and to identify organization and structural opportunities for cost savings. The report validated OPG's Business Transformation initiative and its objectives. We will continue to identify and implement other improvement initiatives.

As recommended by the Auditor General, OPG will review and monitor compliance with its recruitment and security clearance processes. We will also conduct an internal audit of our hiring practices.

COMPENSATION

OPG's labour costs account for most of its total operating costs. This proportion has increased from 55% in 2003 to 64% in 2012. In its March 2011 decision, the OEB also noted the significance of OPG's labour costs compared to its total operating costs and that its compensation levels were a concern in light of the overall poor performance of its nuclear business, in terms of operations and costs, compared to its peers. Therefore, the OEB disallowed $145 million in compensation costs, stating in its decision that the staffing levels and amount of compensation at OPG were both too high. OPG appealed the OEB's ruling. In June 2013, the Ontario Court of Appeal found that the OEB had based its decision on information that had not been available to OPG when it

[Witness panel confers]

MR. MILLAR: Or you could just put it in our table.

MR. MAUTI: As part of doing business planning, we don't generally forecast to the level of granularity you get with some of the data they selected, in terms of who they considered to be senior management.

So we don't generally have that breakdown and don't plan to that detail. We have headcount and target organization structures, and attrition numbers that we use for planning, but not to this level of detail.

MR. MILLAR: So you don't have a headcount number for 2014-2015 on the basis that the AG did it?

MR. MAUTI: No.

MR. MILLAR: You don't know if the number is higher or lower than 238?

MR. MAUTI: Well, again, I believe we may have responded and the number has already gone down from 238.

MR. MILLAR: I thought I saw that as well, which led me it believe you knew what the number was. But why don't I leave that for the time being?

There was a significant increase from 152, as the Auditor General reports, to 238 -- and a little bit less than that now, perhaps, but I still think it is above 152.

Just as a general question, when you create a new position for an executive or a senior manager, is a business case prepared? Or what documentation would there be prepared that would support the creation of a new position?

Headcount, FTE and Employee Costs for OPG's Regulated Facilities

Line #		2010 Actual	2011 Actual	2012 Actual	2013 Plan	2013 Actual	2014 Plan	2015 Plan
	Headcount							
1	Nuclear Operations & Projects	8,246	7,901	6,556	6,542	6,362	6,329	6,210
2	DRP and New Nuclear	153	241	227	270	198	266	276
3	Allocated Corporate Support to Nuclear	871	857	1,941	1,880	1,883	1,759	1,683
4	Previously Reg Hydro Operations	365	376	343	342	319	339	337
5	Allocated Corp Support to Previously Reg Hydro	87	79	103	102	102	102	96
6	Newly Reg Hydro Operations	609	617	589	584	571	591	573
7	Allocated Corp Support to Newly Reg Hydro	127	113	143	129	128	144	138
8	Total (Regular and Non-Regular Staff)	10,458	10,184	9,902	9,850	9,563	9,529	9,314
9	Less DRP And New Nuclear Regular Staff (Incl Allocated Corp Support)	176	283	290	365	276	367	378
10	Less All Non-Regular Staff (Incl DRP & New Nuclear)	496	463	449	539	551	464	460
11	Regular Staff in Ongoing Operations	9,786	9,438	9,163	8,946	8,736	8,698	8,475
	FTE							
12	Nuclear Operations & Projects	8,292.5	7,988.6	6,536.7	6,547.8	6,353.6	6,315.6	6,243.9
13	DRP and New Nuclear	152.9	226.5	225.1	259.4	200.6	264.1	276.0
14	Allocated Corporate Support to Nuclear	875.0	876.1	2,037.2	1,903.2	1,910.6	1,790.6	1,714.1
15	Allocated Corp Support to Previously Reg Hydro	359.7	369.4	343.8	346.8	321.5	343.1	340.9
16	Previously Reg Hydro Corp Support	88.7	80.8	108.9	104.7	103.0	104.6	97.8
17	Newly Reg Hydro Operations	584.3	617.4	600.9	596.8	584.0	599.5	582.2
18	Allocated Corp Support to Newly Reg Hydro	127.7	115.6	152.8	132.5	129.1	148.6	140.8
19	Total (Regular and Non-Regular Staff)	10,480.8	10,274.4	10,005.5	9,891.2	9,602.5	9,566.1	9,395.6
20	Less DRP And New Nuclear Regular Staff (Incl Allocated Corp Support)	178.3	268.6	290.7	355.4	280.2	368.1	380.4
21	Less All Non-Regular Staff (Incl DRP & New Nuclear)	787.2	698.6	635.0	485.9	676.2	423.8	475.4
22	Regular Staff in Ongoing Operations	9,515.3	9,307.2	9,079.8	9,049.8	8,646.0	8,774.3	8,539.8
	Headcount (regular and non regular)							
23	Management	1,067	1,039	1,015	1,108	978	1,084	1,063
24	Society	3,292	3,198	3,066	3,101	2,876	2,995	2,937
25	PWU	5,603	5,484	5,372	5,102	5,159	4,986	4,853
26	Sub Total - Regular	9,961	9,721	9,453	9,311	9,012	9,065	8,853
27	Non-Regular	496	463	449	539	551	464	460
28	Total (Regular and Non-Regular Staff)	10,458	10,184	9,902	9,850	9,563	9,529	9,314
	FTE (regular and non-regular)							
29	Management	1,101.7	1,099.2	1,095.6	1,124.5	1,091.0	1,101.0	1,076.3
30	Society	3,269.0	3,254.6	3,112.6	3,146.9	2,909.2	3,043.3	2,965.6
31	PWU	6,012.9	5,840.7	5,711.0	5,564.7	5,542.0	5,371.7	5,300.3
32	EPSCA	97.2	79.8	86.3	55.1	60.2	50.1	53.4
33	Total (Regular and Non-Regular Staff)	10,480.8	10,274.4	10,005.5	9,891.2	9,602.5	9,566.1	9,395.6
	Employee Costs ($million)							
34	Nuclear Operations & Projects	1,274.6	1,281.5	1,135.7	1,166.1	1,242.7	1,143.6	1,163.9
35	DRP and New Nuclear	23.1	36.3	37.6	49.5	41.7	52.2	55.2
36	Allocated Corporate Support to Nuclear	122.4	129.1	268.2	297.8	291.7	290.1	280.5
37	Previously Reg Hydro Operations	50.4	54.5	51.8	57.1	53.7	58.4	59.0
38	Allocated Corp Support to Previously Reg Hydro	12.7	13.1	15.9	17.7	17.4	17.9	16.8
39	Allocated Corp Support to Newly Reg Hydro	79.2	87.9	91.5	102.1	96.1	105.8	104.1
40	Newly Reg Hydro Corp Support	18.6	18.7	23.0	23.6	22.5	26.4	25.3
41	Total	1,581.0	1,621.0	1,623.7	1,713.8	1,765.8	1,694.4	1,704.9
	Employee Costs ($million)							
42	Management	222.8	230.9	220.8	238.5	233.1	238.2	233.5
43	Society	522.9	541.0	543.4	570.1	567.3	556.7	551.5
44	PWU	820.9	837.9	847.6	897.6	897.5	893.0	912.8
45	EPSCA	14.4	11.3	11.9	7.6	67.9	6.6	7.1
46	Total	1,581.0	1,621.0	1,623.7	1,713.8	1,765.8	1,694.4	1,704.9

Notes

1. Employee Costs: Total of Base Salary & Wages, Overtime, Incentive Pay, Fiscal Year Adjustment and Total Benefits
2. Plan figures for 2013, 2014 and 2015 are based on 2013-15 Business Plan
3. Headcount, FTE and Employee Cost plan figures exclude New Nuclear since the proposed revenue requirement excludes New Nuclear costs as discussed in Ex F2-8-1.

UNDERTAKING J3.12

Undertaking

TO PROVIDE BREAKDOWN FOR 2010-2015 OF ACTUAL NUMBERS AND ACTUAL REDUCTION OF NON-UNIONIZED EMPLOYEES.

Response

The table below identifies the percentage of non-unionized FTEs in the Management Group Bands A-H, which includes staff down to the *"Manager"* job title, and the percentage of non-unionized FTEs categorized as Management Group Bands I-L, which are mostly administrative staff, as outlined in Exhibit L, Tab 6.8, Schedule 17 SEC-108, Attachment 2.

The percentages are based on historical headcount information. While this this level of detail is not available for the test period, OPG expects that the historic percentages will continue at essentially the same levels into 2014-2015.

The relatively consistent ratio indicates that reductions have been fairly evenly distributed between the two groups.

	2010 actual	2011 actual	2012 actual	2013 actual	2014 plan	2015 plan
Total Mgt FTE (from JT2.33)	1101.7	1099.2	1095.5	1091.0	1101.0	1076.3
% MGT FTE bands A-H	80.5%	81.2%	80.7%	81.5%	---	---
% MGT FTE bands I-L	19.5%	18.8%	19.3%	18.5%	---	---

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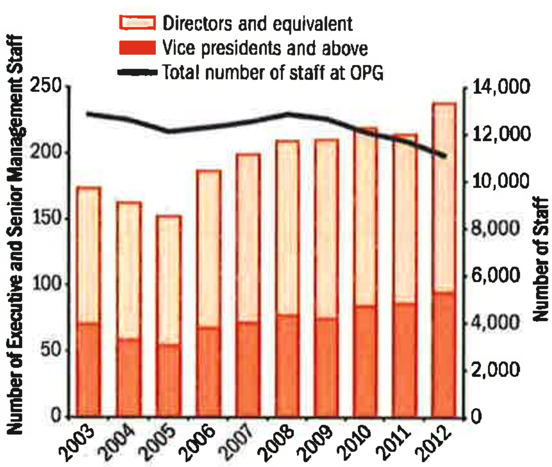


* These numbers represent year-end staffing levels. They include regular and non-regular (temporary and contract) staff but exclude nuclear security staff for reasons of confidentiality.

FTE and Compensation Costs Analysis - Regulated Operations

JT2.33 Line	n.	Item	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Plan	2015 Plan	Change to date	Percent	Total Change	Percent
		Management										
36	29	**FTE**	1101.7	1099.6	1095.6	1091.0	1101.0	1076.3	-10.7	-0.97%	-25.4	-2.31%
37	42	**Compensation**	$222.8	$230.9	$220.8	$233.1	$238.2	$233.5	$10.3	4.62%	$10.7	4.80%
38		**Compensation per FTE**	$202,233	$209,985	$201,533	$213,657	$216,349	$216,947	$11,424	5.65%	$14,714	7.28%
		Society										
39	30	**FTE**	3269.0	3254.6	3112.6	2909.2	3043.3	2965.6	-359.8	-11.01%	-303.4	-9.28%
40	43	**Compensation**	$522.9	$541.0	$543.4	$567.3	$556.7	$551.5	$44.4	8.49%	$28.6	5.47%
41		**Compensation per FTE**	$159,957	$166,226	$174,581	$195,002	$182,926	$185,966	$35,045	21.91%	$26,009	16.26%
		PWU										
42	31	**FTE**	6012.9	5840.7	5711.0	5542.0	5371.7	5300.3	-470.9	-7.83%	-712.6	-11.85%
43	44	**Compensation**	$820.9	$837.9	$847.6	$897.5	$893.0	$912.8	$76.6	9.33%	$91.9	11.20%
44		**Compensation per FTE**	$136,523	$143,459	$148,415	$161,945	$166,242	$172,217	$25,422	18.62%	$35,694	26.14%
		EPSCA										
45	32	**FTE**	97.2	79.8	86.3	60.2	50.1	53.4	-37.0	-38.07%	-43.8	-45.06%
46	45	**Compensation**	$14.4	$11.3	$11.9	$7.9	$6.6	$7.1	-$6.5	-45.14%	-$7.3	-50.69%
47		**Compensation per FTE**	$148,148	$141,604	$137,891	$131,229	$131,737	$132,959	-$16,919	-11.42%	-$15,189	-10.25%

K3.5
SEC Compendium

[Witness panel confers]

MR. MAUTI: I guess a business case in a traditional sense is not performed. But understanding and coming up with an organization structure as part of the organizational redesign, it would require us to evaluate the proper positions and the numbers that would be required to operate.

And I know in some cases, they have merged two manager positions to eliminate one body, and perhaps amalgamating that work, you create what is considered a higher-level position.

So I know several of those instances did happen as part of transformation.

MR. MILLAR: So there wouldn't be a business case per se supporting all of the executive and senior management positions?

MR. MAUTI: No, not a business case, but a rationale and justification for each of those positions and the ratings that they're evaluated at.

MR. MILLAR: For the increases since 2005, so for all the new positions since 2005, do we have that documentation on the record or is that available?

MR. SMITH: No. We certainly don't have it on the record.

MR. MILLAR: Okay. So if the Board is attempting to evaluate the prudence of having a 58 percent increase in management staff, we wouldn't find anything on the record to support that?

MR. SMITH: Well, the Board is not going to be asked to make that evaluation for '14 and '15 unless the Board is also going to make a disallowance for earlier years, which I don't think the Board would be doing.

MR. MILLAR: The Board can't make disallowances -- well, let's not argue. So the answer is no. Thank you.

MR. SMITH: Well, I certainly don't think it is an appropriate question at a technical conference. You have our position.

MR. MILLAR: Okay. I will move on. Thank you.

Thank you. Those are my questions. I think Mr. Ritchie had some additional questions in this area. Thank you very much, panel.

MR. RITCHIE: Thank you. Keith Ritchie for Board Staff.

First, actually, I am going to follow up on behalf of one of my colleagues, Mr. Battista, from yesterday. And this is going back to pages 70 and 71 of the transcript from the technical conference yesterday, where he was asking, I think it was the hydroelectric panel, with respect to 4.4, Board Staff 24. And this is with respect to calculating LUECs on the Niagara Tunnel project.

The reason that I am just following up here is because, in fact, in the discussion he posed a question, which would have been an undertaking, and it was sort of punted to the corporate panel today.

MR. MAUTI: Can you specifically take me to the

the number has doubled, from 3,980 employees in 2003 to 7,960 in 2012, representing about 62% of the employees on OPG's payroll; the corresponding increases in total salaries and taxable benefits paid to those on the list were $513 million for 2003 and $1.11 billion for 2012. The number of OPG top-earners (people who earned $200,000 or more) on the Sunshine List has increased at an even faster rate—in 2012 it was almost four times higher (448 employees) than it was in 2003 (117 employees).

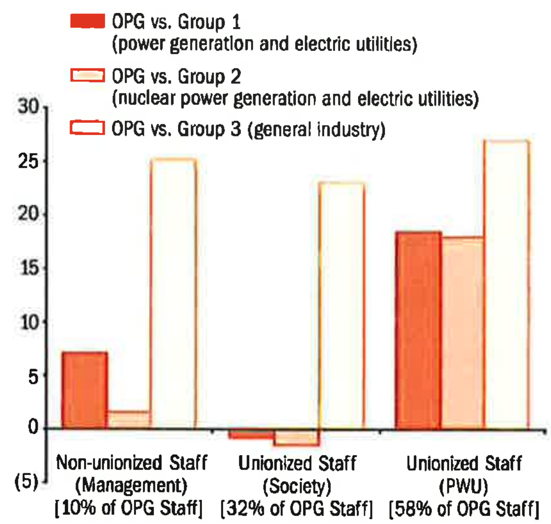
Compensation and Pension Benchmarking

OPG vs. Similar Organizations

In its March 2011 decision, the OEB noted that OPG's compensation benchmarking analysis has not been comprehensive. It directed OPG to file a full, independent compensation study with its next application and recommended that the study cover "a significant proportion of OPG's positions" and that the benchmark should generally be set at the median (50th percentile).

OPG engaged a consulting firm to conduct a compensation benchmarking study in 2012. The study compared base salary levels and total cash compensation for about 50% of staff at OPG with similar organizations, including Bruce Power and utility companies in other Canadian jurisdictions. The study looked at three groups of positions (Power Generation & Electric Utilities, Nuclear Power Generation & Electric Utilities and General Industry) and found that compensation for a significant proportion of OPG's staff was well above the market median (see Figure 7). The study also found that OPG's annual pension and benefits (health, dental and life insurance as well as disability benefits) were higher than the market average, depending on base salary level. For example, the annual pension and benefits of an OPG employee earning a base salary of $60,000 would be about 19% ($2,400/year) higher than the market average; for an employee with a base salary of $220,000, they would be about 38% ($13,000/year) higher than the market average.

Figure 7: OPG's Total Cash Compensation Above/Below Canadian Market Median, 2012 (%)
Source of data: Ontario Power Generation



OPG vs. Ontario Public Service

In January 2007, the government established an Agency Review Panel to review specific issues at OPG and the other four provincial electricity-sector institutions (Hydro One, the Independent Electricity System Operator, the Ontario Power Authority and the Ontario Energy Board). Commenting on the organizations OPG chose to use as comparators for its compensation benchmarking, the Panel said there appeared to be "a bias in favour of utility/energy organizations in the private sector. To the extent public-sector organizations are used as comparators, it is almost exclusively Canadian utilities (for example, Hydro-Quebec, BC Hydro and Atomic Energy of Canada), and there is only very limited use of a broader public-sector group (for example, Ontario Public Service, provincial and federal Crown corporations or agencies and regulators)."

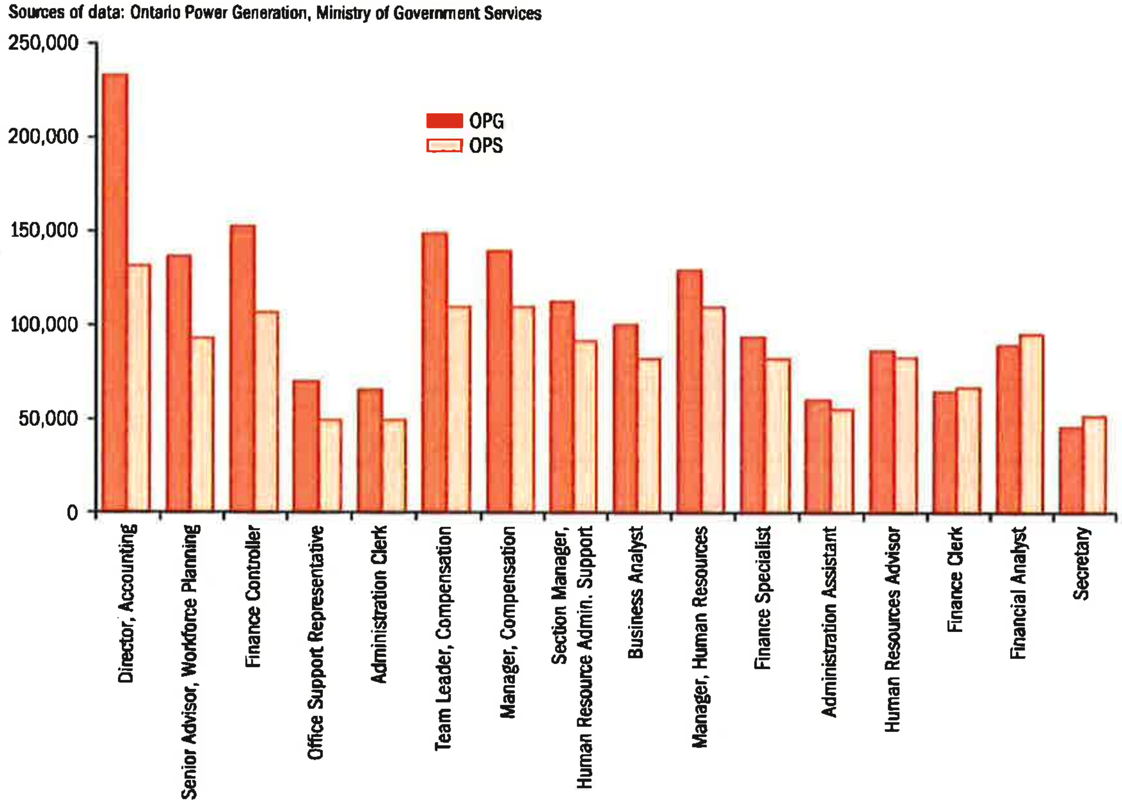
Given that the Province of Ontario is OPG's sole shareholder, we compared total earnings and pensions at OPG with those in the Ontario Public Service (OPS) for perspective. For total earnings, we selected 16 typical positions below the executive levels at OPG in areas such as administration, finance and human resources to benchmark against comparable positions in the OPS. For 13 of the 16 positions, the average total earnings at OPG were higher than the maximum total earnings in the OPS (see Figure 8). As for the executive levels, the total earnings for most OPG senior vice presidents significantly exceeded those for most deputy ministers in the OPS.

Pensions are a very significant part of total compensation at OPG. This is especially the case for executives, whose pensionable earnings can be greatly increased when bonuses or awards are added to their base salaries. Unlike the OPS, which has a 50–50 split between employer and employees for making pension contributions and funding pension shortfalls, OPG has unequal cost- and responsibility-sharing between employer and employees. We noted in particular:

- OPG's contributions to the pension plan have been disproportionately larger than those of its employees every year. Since 2005, the employer–employee contribution ratio at OPG has been around 4:1 to 5:1, significantly higher than the 1:1 ratio at OPS. For example, employees contributed $70 million to the pension fund in 2012 while OPG put in $370 million.
- Executives, who contribute only 7% of their earnings up to a maximum of $17,254 annually while OPG contributes 18.1%, are eligible for particularly generous pensions. For example, the top five executives at OPG will be eligible to receive annual pensions ranging from $180,000 to $760,000 when they reach age 65.
- OPG also bears the responsibility of financing any pension funding shortfalls. The most recent actuarial valuation, as at January 1, 2011, showed OPG's pension fund in a deficit position, with a shortfall of $555 million. This

Figure 8: Comparison of Average Total Earnings at OPG vs. Maximum Total Earnings at Ontario Public Service (OPS) ($)

Sources of data: Ontario Power Generation, Ministry of Government Services



was more than twice its projected shortfall of $239 million as at January 1, 2008. The next actuarial valuation will be prepared as at January 1, 2014.

- In July 2013, Dominion Bond Rating Service (DBRS), a Canadian-owned and globally recognized ratings agency, released its annual pension study reviewing 461 pension plan funds in Canada, the U.S., Japan and Europe. The report highlighted the 20 Canadian funds with the largest pension deficits. OPG was at the top of the list with a deficit of $3.3 billion. This amount, derived from the accounting valuation used for preparing OPG's financial statements, was different from the $555-million deficit amount from the most recent actuarial valuation, which is the valuation used for funding purposes.

Compensation and Staff Performance

Non-unionized Staff

In 2004, the OPG Review Committee established by the Ontario government noted that "accountability and compensation are closely linked. Providing the right incentives can help keep people accountable." However, the Committee found that there was "not a strong enough link between achievement and rewards" at OPG. We found that this was still the case.

Under OPG's Annual Incentive Plan (AIP), non-unionized employees are scored on their job performance on a scale of "0" (the lowest, with no award) to "4" (the highest), and receive an annual cash award for meeting key financial and operational objectives. As Figure 9 shows, awards can range from 4% of base pay (starting at $1,600) to 150% of base pay (as high as $1.3 million) depending on an employee's position, base salary level and AIP score. Therefore, a senior executive in job bands A, B or C, for example, would receive an award of 45% to 100% of his or her base salary for a score of "2," and 55% to 150% for a score of "3" or "4."

Figure 10 shows that the distribution of high AIP scores ("3" or "4") has been skewed toward executives and senior management staff (directors, vice presidents and above). On average, 67% of

Figure 9: Annual Incentive Plan (AIP) Award Structure*

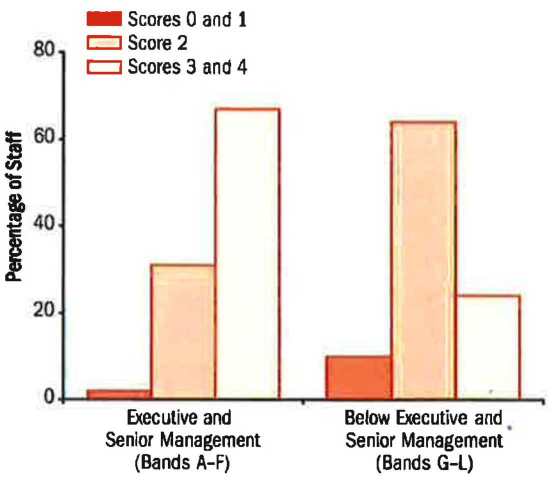
Source of data: Ontario Power Generation

			Base Salary Range ($)			AIP Score and Associated % Award			
Band	Position Group	Positions (Example)	Min	Mid	Max	1	2	3	4
A	Senior Executive	Chief Executive Officer	580,000	720,000	860,000	50	100	125	150
B	Senior Executive	Executive Vice Presidents	315,000	390,000	465,000	22.5	45	55	67.5
C	Senior Executive	Senior Vice Presidents	265,000	330,000	395,000	22.5	45	55	67.5
D	Executive	Chief Information Officer	195,000	260,000	325,000	12.5	25	30	37.5
E	Executive	Vice Presidents	160,000	200,000	240,000	12.5	25	30	37.5
F	Management	Directors	120,000	150,000	180,000	10	20	25	30
G	Management	Managers	95,000	130,000	160,000	7.5	15	20	22.5
H	Management	Section or First Line Managers	85,000	110,000	140,000	7.5	15	20	22.5
I	Professional	Analyst	65,000	85,000	105,000	5	10	12.5	15
J	Professional	Service Co-ordinator	55,000	70,000	90,000	4	8	10	12
K	Administrative	Administrative Assistant	45,000	55,000	65,000	4	8	10	12
L	Administrative	Secretary	40,000	50,000	60,000	4	8	10	12

* Award amounts are calculated by multiplying the base salary by the percentage that corresponds with the AIP score. Both base salary ranges and AIP structure have remained unchanged since January 2008. There is no award for an AIP score of "0."

Figure 10: Distribution of Annual Incentive Program (AIP) Scores by Job Bands, 2010–2012

Source of data: Ontario Power Generation



executive and senior management staff received high AIP scores from 2010 to 2012. Only 24% of staff in lower job bands received high scores during the same period; the majority of them achieved a score of "2."

Some executives had incomplete or no performance evaluation documentation to support their high AIP scores. OPG explained that AIP scores are reviewed and validated in calibration meetings, but acknowledged that many performance evaluations were verbal and not documented in writing. We noted one case where an employee received a severance payment of $450,000 when terminated for ineffective performance and inappropriate behaviour. This employee had received a total of $760,000 in AIP awards in the previous four years. OPG informed us that the employee's behaviour had become an issue only in the last few months of his employment and was not related to his performance before then.

The majority of respondents to our survey indicated that they felt AIP was unfair and said they did not feel it encouraged them to be as productive as possible. In particular, respondents cited a lack of transparency in AIP scoring, which they felt had been to the benefit of senior management staff, and that scores were based on factors other than job performance and productivity.

Unionized Staff

We found that performance evaluations of unionized employees have not been done adequately and consistently. For example, the collective agreement for PWU staff stipulates that progression through steps in salary ranges will be time-based subject to satisfactory performance and successful completion of training, and that progression is to be withheld for six months if performance is not satisfactory. The usual method of determining whether staff performance has been satisfactory is a performance evaluation, but in our review of a sample of 15 PWU staff, we found that only two out of a possible 30 evaluations for 2010 and 2011 had been completed. OPG informed us that it does not have a requirement to prepare and document formal performance evaluations for PWU staff.

The majority of respondents to our survey felt that OPG did not have timely, effective and appropriate performance management in place for its unionized staff. They felt that collective agreements, grievances, arbitrations and automatic progression had created a perception that "nothing can be done" and a tendency to avoid dealing with poor performance.

At the time of our audit, there were 960 unionized employees in managerial and supervisory roles. In 2004, the government's OPG Review Committee also noted that "many staff members that OPG considers to be managerial belong to a bargaining unit, which may be an obstacle to accountability and effective pursuit of company goals. We strongly encourage all parties to make every effort to put in place a more rational arrangement." OPG informed us that two-thirds of its unionized staff with managerial or supervisory roles are represented by the Society, and a clause in their collective agreement allows them to perform those functions.

The majority of respondents to our survey also indicated that they felt unionized staff performing managerial or supervisory functions had a negative impact on accountability and performance management. They cited conflicts of interest and reluctance amongst unionized managers or supervisors to carry out performance reviews or deal with performance problems of their unionized subordinates.

Other Employee Benefits

In addition to base salary and incentive awards, OPG grants its employees various other types of benefits. Some were for significant amounts, which we found questionable in some cases.

Housing and Moving Allowances

When regular OPG employees change their work location, they are eligible for housing and moving allowances and relocation benefits that cover various expenses. These include legal fees and disbursements related to the sale and purchase of properties; real estate brokerage fees; upkeep costs on former residences that have not yet sold; interim living expenses before moving into a new residence; packing and shipping of household goods; temporary storage; house-hunting trips; home-inspection fees; and incidental out-of-pocket expenses. OPG indicated that all relocation benefits are subject to Canada Revenue Agency taxation requirements and employees are cautioned to retain receipts in case they are audited.

Payroll data from 2009 to 2012 showed that OPG spent on average about $1.4 million each year on housing and moving allowances. When we reviewed the files documenting the costs of moving individual employees, we found employees who had not only received housing and moving allowances granted by OPG through payroll but also received further benefits by claiming various other expenses. OPG was unable to locate the supporting documents for some of these claims. For example:

- An employee transferring to another office sold his former residence for about $354,000 and purchased a new property for $1.35 million. Payroll data showed that he had received more than $244,000 for housing assistance and moving expenses. However, when we added up the other expenses his file showed that he had claimed, we found the total amount that he received was actually over $392,000.
- Another employee chose to rent an apartment instead of buying a property in his new location. Payroll data showed that he had received $75,000 for rental assistance and moving expenses. However, with the other benefits his file showed that he received, the actual total was $140,000.
- A third employee, when transferring to another office, sold his old residence for $380,000 and bought a new property for $830,000. Payroll data showed that he had received about $43,000 for housing assistance and moving expenses. With the other benefits his file showed that he received, the actual total was $79,000.

OPG's policy is that employees must move a minimum of 40 kilometres closer to their new work location to qualify for housing and moving allowances. However, OPG informed us that staff who moved fewer than 40 kilometres closer could qualify if a move caused hardship. In one example of this, an employee who transferred from the Toronto office to Pickering received over $80,000; however, not only had he moved only 10 kilometres, but he moved further away from his new work location (the move was within the same city as his old residence, which was not Toronto or Pickering).

OPG also provides a purchase guarantee in the event that a transferring employee's property is not sold within a 90-day listing period. It incurred losses for 95 of the 98 properties it purchased and resold on behalf of its employees from January 2006 to April 2013, for a total loss of about $2 million.

- Overseeing senior executive pay, including total compensation, and individual contract provisions in senior executive employment offers and severance agreements.

The CHRC establishes salary band ranges for all MG staff including executives. The President and CEO does not participate in CHRC decisions that could impact his compensation. When reviewing executive salaries (and incentives and benefits), the CHRC uses external compensation advisors to provide information on market-based executive compensation.

5.2 Management Group Annual Incentive Plan ("AIP")

OPG has an Annual Incentive Plan (AIP) for MG employees. The intent of the AIP is to deliver a portion of compensation on a pay at-risk basis, if key financial and operational objectives of the corporation, business unit and individual are met. The AIP program design provides line of sight to corporate objectives and provides control over program costs. Corporate objectives must be met in order for the AIP to payout because in the event that corporate objectives are not met, the AIP is not funded. The AIP envelope for a given year is capped based on corporate performance. In accordance with Bill 55, the AIP envelop is further constrained to ensure the total performance pay envelope is capped at the envelope awarded for 2011 performance (paid in 2012). Corporate, business unit and individual scorecards are established at the beginning of the year, outlining the expectations for performance. The Corporate Scorecard is reviewed by the CHRC and approved by the OPG Board of Directors. There have been no changes to the current AIP Plan design since January 2010. Performance incentives costs are presented in Ex. F4-4-1.

6.0 PENSION AND BENEFITS

OPG's pension and benefit programs consist of a registered pension plan ("RPP"), a supplementary pension plan, health, dental, life insurance and other benefits for current employees and their dependants, and other post employment benefits ("OPEB"). OPEB include post retirement benefits, such as group life insurance and health and dental care for

OPG Performance Incentive Payments 2009 - 2013

Performance Year	Performance Incentive Plan	Employee Category	Total Incentive Payments	Total Number of Employees in receipt of Incentive Payments
2009	Annual Incentive Plan ("AIP")	Management Group	$24M	1428
	Award for Performance ("AFP")	Society	$8M	4069
	Goalsharing	PWU	$7M	7321
	Nuclear Station Specific Results Bonus	Management Group	$0.33M	30
	Nuclear Station Specific Results Bonus	PWU	$1.6M	170
	Nuclear Station Specific Results Bonus	Society	$0.88M	105
	2009 Total		**$41.81M**	**13123**
2010	AIP	Management Group	$30.26M	1448
	AFP	Society	$9.7M	4020
	Goalsharing	PWU	$8M	7213
	Nuclear Station Specific Results Bonus	Management Group	$0.08M	8
	Nuclear Station Specific Results Bonus	PWU	$1.61M	179
	Nuclear Station Specific Results Bonus	Society	$0.88M	93
	2010 Total		**$50.53M**	**12961**
2011	AIP	Management Group	$28.97M	1293
	Goalsharing	PWU	$7.9M	6929
	Nuclear Station Specific Results Bonus	Management Group	$0.37M	36
	Nuclear Station Specific Results Bonus	PWU	$1.76M	179
	Nuclear Station Specific Results Bonus	Society	$0.92M	94
	2011 Total		**$39.92M**	**8531**
2012	AIP	Management Group	$27.4M	1230
	Nuclear Station Specific Results Bonus	Management Group	$0.44M	34
	Nuclear Station Specific Results Bonus	PWU	$1.89M	179
	Nuclear Station Specific Results Bonus	Society	$0.99M	90
	2012 Total		**$30.72M**	**1533**
2013	AIP	Management Group	$19.14M	1186
	Nuclear Station Specific Results Bonus	Management Group	$0.39M	35
	Nuclear Station Specific Results Bonus	PWU	$1.88M	185
	Nuclear Station Specific Results Bonus	Society	$1.11M	101
	2013 Total		**$22.52M**	**1507**
2014 PLAN	AIP	Management Group	$29.1M	N/A
	Nuclear Station Specific Results Bonus	Management Group	N/A	N/A
	Nuclear Station Specific Results Bonus	PWU	N/A	N/A
	Nuclear Station Specific Results Bonus	Society	N/A	N/A
	2014 PLAN Total		**$29.1M**	**0**
2015 PLAN	AIP	Management Group	$29.1M	N/A
	Nuclear Station Specific Results Bonus	Management Group	N/A	N/A
	Nuclear Station Specific Results Bonus	PWU	N/A	N/A
	Nuclear Station Specific Results Bonus	Society	N/A	N/A
	2015 PLAN Total		**$29.1M**	**0**

Notes:

Total Incentive Payments reflect the value of awards earned in the *Performance Year,* however these amounts are accrued and paid out in the following year (i.e. The 2009 Incentive Payments were actually paid out in 2010);

AFP was suspended effective 2011;

Goalsharing was suspended effective 2012

Corporate Balanced Scorecard – Projected Results as of January 20, 2014

Corporate 2013 Balanced Scorecard – Forecast

(Revised Jan20, 2014)

Weight	Key Performance Indicators	Threshold	Target	Maximum	Projected Y/E Results	YE Score	Weighted Score
10%	**Safety, Environment, Reliability and Code of Conduct** Deliver front-line/core services						
	• **AIR:** All Injury rate (Target = CEA Top Quartile)	1.57	0.89	0.36	0.61	1.26	0.00
10%	• Safety focus areas: ○ Improvement in the area of Work Protection Code ○ Continued focus on Situational Awareness • No significant events that impact OPG's reputation	As determined by CEO			Below Threshold	0.0	
30%	**Financial Performance** - Reduce costs & improve OPG financial health						
7%	EBITDA ($M) (-10%, +15%)	948	1,053	1,211	$1,302M	1.50	0.11
5%	Headcount – Ongoing Operations (+173, -252)	10,550	10,377	10,125	10,048	1.50	0.08
15%	Operating OM&A expenditures ($M) (+5%, -10%)	2,735	2,605	2,344	$2,491M	1.22	0.18
3%	Support Services Operating OM&A expenditures ($M) (+5%, -10%)	643.7	613	551.7	$575M	1.31	0.04
35%	**Fleet Operating Performance** - Control costs while delivering front-line/core services						
25%	Nuclear: TW.h	45.99	47.99	48.99	44.69	0.0	0.0
2.5%	Thermal: Start Guarantee rate	85%	94%	97%	97%	1.50	0.04
7.5%	Hydro: Availability (%)	89.5%	91.6%	93.5%	91.6%	1.00	0.08
25%	**Project Performance** - Support Ontario's Long Term Energy plan and deliver front-line/core services						
8%	• OPG Business Transformation Strategy	Meet project milestones and measures specific to each project – See Attached				1.00	0.08
4%	• Niagara Tunnel					1.25	0.05
4%	• Lower Mattagami					0.94	0.04
2%	• Atikokan conversion					0.59	0.01
7%	• Nuclear Refurbishment					1.06	0.07
100%							0.77

These measures form the basis on which our overall corporate performance will be assessed but the scores against these measures and overall Corporate score are not absolute. The Board and President reserve the right to determine the Corporate Score. In exercising their discretion, the Board and President may choose to make adjustments to the Corporate Score or individual scorecard items.

OPG EB-2013-0321
Pension and Other Post Employment Benefits Summary

	PENSION ($million)	2010 Actual	2011 Actual	2012 Actual	2013 Budget	2014 Plan	2015 Plan
	Nuclear						
1	Standard labour rate component	113.8	165.8	163.5	229.7	222.4	220.6
2	Centrally held component	-21.2	29.7	110.9	131.5	120.2	110.7
	Previously Regulated Hydroelectric						
3	Standard labour rate component	5.3	7.9	8.2	12.4	12.2	12.0
4	Centrally held component	-1.0	1.5	5.6	7.1	6.6	6.0
	Newly Regulated Hydroelectric						
5	Standard labour rate component	8.8	14.2	14.5	21.4	21.7	21.0
6	Centrally held component	-1.7	2.5	9.9	12.3	11.7	10.6
7	Sub-Total - labour rate component	127.9	187.9	186.2	263.5	256.3	253.6
8	Sub-Total - centrally held component	-23.9	33.7	126.4	150.9	138.5	127.3
9	TOTAL	104.0	221.6	312.6	414.4	394.8	380.9
10	Exh N1-1-1					516.3	488.7
11	Exh N2-1-1					471.3	405.3

	OPEB ($million)	2010 Actual	2011 Actual	2012 Actual	2013 Budget	2014 Plan	2015 Plan
	Nuclear						
12	Standard labour rate component	45.9	62.9	65.6	79.8	76.9	76.0
13	Centrally held component	103.7	139.6	153.1	165.1	172.4	177.7
	Previously Regulated Hydroelectric						
14	Standard labour rate component	2.1	3.0	3.2	4.3	4.2	4.1
15	Centrally held component	4.9	6.7	7.7	8.9	9.4	9.7
	Newly Regulated Hydroelectric						
16	Standard labour rate component	3.5	5.3	5.7	7.4	7.5	7.3
17	Centrally held component	8.1	12.0	13.7	15.4	16.8	17.0
18							
19	Sub-Total - labour rate component	51.5	71.2	74.5	91.5	88.6	87.4
20	Sub-Total - centrally held component	116.7	158.3	174.5	189.4	198.6	204.4
21	TOTAL	168.2	229.5	249.0	280.9	287.2	291.8
22	Exh N1-1-1					245.4	250.4
23	Exh N2-1-1					204.6	212.8

	Unfunded Liabilities ($millions)	2012 Actual	2013 Actual
24	Pension Plan	3,332.0	2,461.0
25	Supplementary Pension Plan	297.0	289.0
26	OPEBs	3,174.0	2,719.0
27	Total unfunded liabilities	6,803.0	5,469.0
	Pension & OPEB Variance Account Balance ($millions)		
28	Hydroelectric Historic	2.5	1.0
29	Hydroelectric Future	12.6	11.3
30	Hydroelectric Additions		18.6
31	Nuclear Historic	51.5	20.7
32	Nuclear Future	257.6	231.8
33	Nuclear Additions		383.7
34	Total	324.2	667.1

Sources: Exh F4-3-1 Charts 2, 3, 4, Exh N1-1-1, Exh N2-1-1, Exh L-2.1-ED-3, Exh L-9.1-SEC-132

UNDERTAKING JT2.37

Undertaking

To explain how the ratio of 3:1 in response to Board Staff interrogatory 121(b) was arrived at, and explain how the methodology differed from the Auditor General's.

Response

The employer/employee contribution ratio is generally calculated using employer contributions to Current Service Cost and the total employee contributions. Based on the OPG Pension Plan Report to Members 2012, p. 2, this ratio has been approximately 3:1 since 2009.

The Auditor General calculated the employer/employee contribution ratio using the employer contributions to Current Service Cost + Deficit Repayment + Voluntary Payment, and the total employee contributions. Including these special payments yields a higher employer/employee contribution ratio, which was approximately 5:1 for 2012.

A copy of OPG's Pension Plan Report to members 2012 is provided as Attachment 1 to this response.

Appendix A – Other Sustainability Measures to Monitor

The following sustainability metrics will also be monitored and may be used in key stakeholder communications:

- **P&B Cash should not exceed 100% of Operating Cash Flow after CapEx**
  - Operating Cash Flow cannot be depleted after making for provision for CapEx and providing cash requirements for P&B
- **P&B Expense should not exceed 60% of Payroll**
  - P&B burden needs to be managed especially in conjunction with the management of overtime/etc.
- **P&B Cash should not exceed $6M per TWh**
  - P&B program spending should remain in line with OPG's overall cost of power production
- **Pension Windup Deficit should not exceed $5B**
  - Substantial portion of windup deficit is exempt from solvency funding under current pension law
  - Pension deficit represents a potential but crippling financial burden if the Ontario government removes current funding exemptions applicable to the OPG pension plan
- **Annual pension plan contributions should not exceed 5x employee contributions**
  - As OPG contributions exceed more than 5x employee contributions, significant concern that the basic cost-sharing relationship is impaired

Funding of the OPG Pension Plan

With over $10 billion in assets, the Plan is well positioned to pay pensions for many years. However, pension plans are required to take into consideration all obligations over a much longer time horizon. When we look at the projected asset values and pension liabilities over the long term, the Plan is in a deficit position (liabilities are larger than assets) and OPG, like many other employers, is taking steps to close the gap.

OPG analyzes the financial position of the Plan on an ongoing basis and files a valuation with the Financial Services Commission of Ontario every three years. The valuation is conducted by an external actuary. The valuation report prepared by the Plan actuary determines whether the Plan is in a surplus or a deficit position. These determinations are made using three different approaches:

- on a **going concern basis** (which assumes the Plan is continued indefinitely);
- on a **solvency basis** (which assumes a termination of the Plan and the settlement of the Plan's liabilities as at the date of the report. As permitted by applicable law, this calculation is subject to adjustments (1) to exclude the value of indexation (inflation adjustment) and (2) to take into account the changes in the values of assets and liabilities over a five year period (smoothing)); and
- on a **wind-up basis** (which assumes a termination of the Plan and the settlement of the Plan's liabilities as at the date of the report, without any adjustments).

The Plan's most recent actuarial valuation report was prepared as at January 1, 2011. That report showed that the Plan has a deficit on a going concern basis and a small surplus on a solvency basis (see table below).

The next valuation will be prepared as at January 1, 2014.

Going Concern	January 1, 2011 ($ millions)	Solvency	January 1, 2011 ($ millions)
Actuarial Value of Assets	$9,638	Solvency Assets (smoothed)	$9,283
Actuarial Liability	$10,193	Solvency Liabilities (smoothed)	$9,280
Unfunded Liability	($555)	Solvency Excess	$3

OPG is making special contributions to the Plan of $65 million per year, over a period of 15 years to eliminate the going concern deficit of $555 million in accordance with applicable laws.

The law requires that contributions be made to pension plans on a going concern basis and on a solvency basis – but not on a wind-up basis. The Plan's deficit, calculated on a wind-up basis, was approximately $5.7 billion as at January 1, 2011.

The contributions to the Plan by OPG and its employees over the five year period 2009-2013 are:

($millions)	2009		2010		2011		2012		2013 (est.)	
Employee Contribution	$83		$82		$80		$75		$72	
▪ Current Year Service	$72	25%	$75	25%	$74	26%	$73	26%	$72	24%
▪ Transfers In	$11		$7		$6		$2		n/a	
Employer Contribution	$264		$270		$300		$370		$300	
▪ Current Service Cost	$212	75%	$219	75%	$218	74%	$225	75%	$233	76%
▪ Deficit payment	$28		$28		$65		$65		$65	
▪ Voluntary payment	$24		$23		$17		$80		$2	

- *Power Workers' Union-represented employees* contribute 5% of pensionable earnings up to $50,100, plus 7% of pensionable earnings in excess of $50,100
- *Society of Energy Professionals-represented and Management Group employees* contribute 7% of pensionable earnings.

The payments out of the Plan over the five year period 2009-2013 are:

($millions)	2009	2010	2011	2012	2013 (est.)
Benefit Payments	$346	$360	$387	$420	$440
Transfers/Lump Sum Payments	$100	$62	$97	$163	n/a
Expenses	$32	$33	$36	$35	$36

Total benefit costs, including the impact of the Pension and OPEB Cost Variance Account and Impact for USGAAP Deferral Account, for the years ended December 31 are as follows:

(millions of dollars)	2013	2012
Registered pension plans	**476**	358
Supplementary pension plans	**29**	27
Other post-employment benefits	**262**	260
Pension and OPEB Cost Variance Account *(Note 5)*	**(312)**	(192)
Impact for USGAAP Deferral Account *(Note 5)*	**-**	(47)
Pension and other post-employment benefit costs	**455**	406

The pension and OPEB obligations and the pension fund assets measured as at December 31 are as follows:

(millions of dollars)	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
	2013	2012	2013	2012	2013	2012
Change in Plan Assets						
Fair value of plan assets at beginning of year	**10,337**	9,604	**-**	-	**-**	-
Contributions by employer	**306**	375	**14**	16	**87**	83
Contributions by employees	**74**	77	**-**	-	**-**	-
Actual return on plan assets, net of expenses	**923**	898	**-**	-	**-**	-
Benefit payments	**(679)**	(617)	**(14)**	(16)	**(87)**	(83)
Fair value of plan assets at end of year	**10,961**	10,337	**-**	-	**-**	-
Change in Projected Benefit Obligations						
Projected benefit obligations at beginning of year	**13,669**	12,197	**297**	261	**3,174**	2,708
Employer current service costs	**291**	264	**10**	9	**86**	78
Contributions by employees	**74**	77	**-**	-	**-**	-
Interest on projected benefit obligation	**589**	618	**13**	14	**138**	139
Benefit payments	**(679)**	(617)	**(14)**	(16)	**(87)**	(83)
Past service credits	**-**	-	**-**	-	**(2)**	(7)
Net actuarial (gain) loss	**(522)**	1,130	**(17)**	29	**(590)**	339
Projected benefit obligations at end of year	**13,422**	13,669	**289**	297	**2,719**	3,174
Funded status – deficit at end of year	**(2,461)**	(3,332)	**(289)**	(297)	**(2,719)**	(3,174)

The following table provides the pension and OPEB liabilities and their classification on the consolidated balance sheets as at December 31:

(millions of dollars)	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
	2013	2012	2013	2012	2013	2012
Current liabilities	**-**	-	**(9)**	(8)	**(91)**	(98)
Non-current liabilities	**(2,461)**	(3,332)	**(280)**	(289)	**(2,628)**	(3,076)
Total liabilities	**(2,461)**	(3,332)	**(289)**	(297)	**(2,719)**	(3,174)

The accumulated benefit obligations for the registered pension plans and supplementary pension plans as at December 31, 2013 are $12,242 million and $237 million, respectively (2012 – $12,366 million and $242 million, respectively). The accumulated benefit obligation differs from the projected benefit obligation in that the accumulated benefit obligation includes no assumption about future compensation levels.

OPG EB-2013-0321
OPG Pension Plan Report to Members - 2012 (JT2.37)

The contributions to the Plan by OPG and its employees over the five year period 2009-2013 are:

($millions)	2009		2010		2011		2012		2013 (est.)	
Employee Contribution	$83		$82		$80		$75		$72	
▪ Current Year Service	$72	25%	$75	25%	$74	26%	$73	26%	$72	24%
▪ Transfers In	$11		$7		$6		$2		n/a	
Employer Contribution	$264		$270		$300		$370		$300	
▪ Current Service Cost	$212	75%	$219	75%	$218	74%	$225	75%	$233	76%
▪ Deficit payment	$28		$28		$65		$65		$65	
▪ Voluntary payment	$24		$23		$17		$80		$2	

- *Power Workers' Union-represented employees* contribute 5% of pensionable earnings up to $50,100, plus 7% of pensionable earnings in excess of $50,100
- *Society of Energy Professionals-represented and Management Group employees* contribute 7% of pensionable earnings.

Employer:Employee Ratio	**3.2:1**	**3.3:1**	**3.8:1**	**4.9:1**	**4.2:1**

Employer:Employee Ratio (2009 to 2013 Average): 3.8:1

and amend controls as needed to ensure compensation is justified and clearly documented.

We acknowledge that OPG pension and benefits are higher than market average. As a result, in 2011, we completed a review of pension and benefit plans to reduce costs and improve sustainability. OPG also participated in a 2012 pension reform committee established by the government, and will be participating in the electricity sector working group, consisting of employer and employee representatives, as announced in the 2013 Ontario Budget.

USE OF NON-REGULAR STAFF AND CONTRACT RESOURCES

Apart from regular employees, OPG's other human resources include non-regular staff (temporary and contract), outsourced information technology (IT) workers, and contractors from private-sector vendors. Of particular concern to us were OPG's practice of rehiring former employees, the IT outsourcing arrangement, and management of nuclear contractors.

Rehiring Former Employees as Temporary or Contract Staff

There were approximately 1,700 temporary staff and contract staff working for OPG in 2012. We noted that about 120 of them had formerly been regular employees. In our review of a sample of temporary and contract staff who were former employees we found that most had been rehired mainly for the purpose of identifying, grooming and training successors or meeting core business needs, suggesting that knowledge transfer and succession planning at OPG has not kept pace with attrition and retirement. We also found that almost all of them had been rehired shortly after leaving OPG. Some of them continued to receive significant amounts in allowances and Annual Incentive Plan (AIP) awards, and some had already drawn their pensions in single lump-sum payments upon leaving. We noted in particular:

- An employee who chose to receive his pension in a lump sum was rehired by OPG shortly after he retired and continued to work at OPG for about six years. His total earnings in his sixth year as a temporary employee were $331,000, which included an executive allowance of $12,000 and an AIP award of $98,200—double his annual amount as a regular employee.
- Another employee who chose to draw his pension in a significant lump sum returned to work at OPG a month after his retirement. His total earnings that year as a temporary employee working three days a week were $328,000, which included an AIP award of $147,000 for his performance before retirement.
- Shortly after leaving OPG, two nuclear employees who chose to receive their pensions in lump-sum payments were rehired as contract employees.

We also found that selection processes and decisions to rehire former employees were not always transparent:

- All the temporary staff in our sample had been selected and rehired by executive or senior management staff without job postings or competitions. OPG explained that these were unnecessary because only former employees would have been suitable for the positions. Most of their original contracts were extended beyond 12 months with only a one- or two-page document attached indicating the contract length and terms but without specifying why the contract needed to be extended.
- For the contract staff in our sample, justifications for extending contracts beyond 12 months had been documented, but no evaluations were kept on file. OPG explained that these were unnecessary because contract employees who did not perform satisfactorily could have their contracts terminated without any significant notice period or penalty payment.

Ontario Power Generation

CHRC Briefing

December 14, 2011

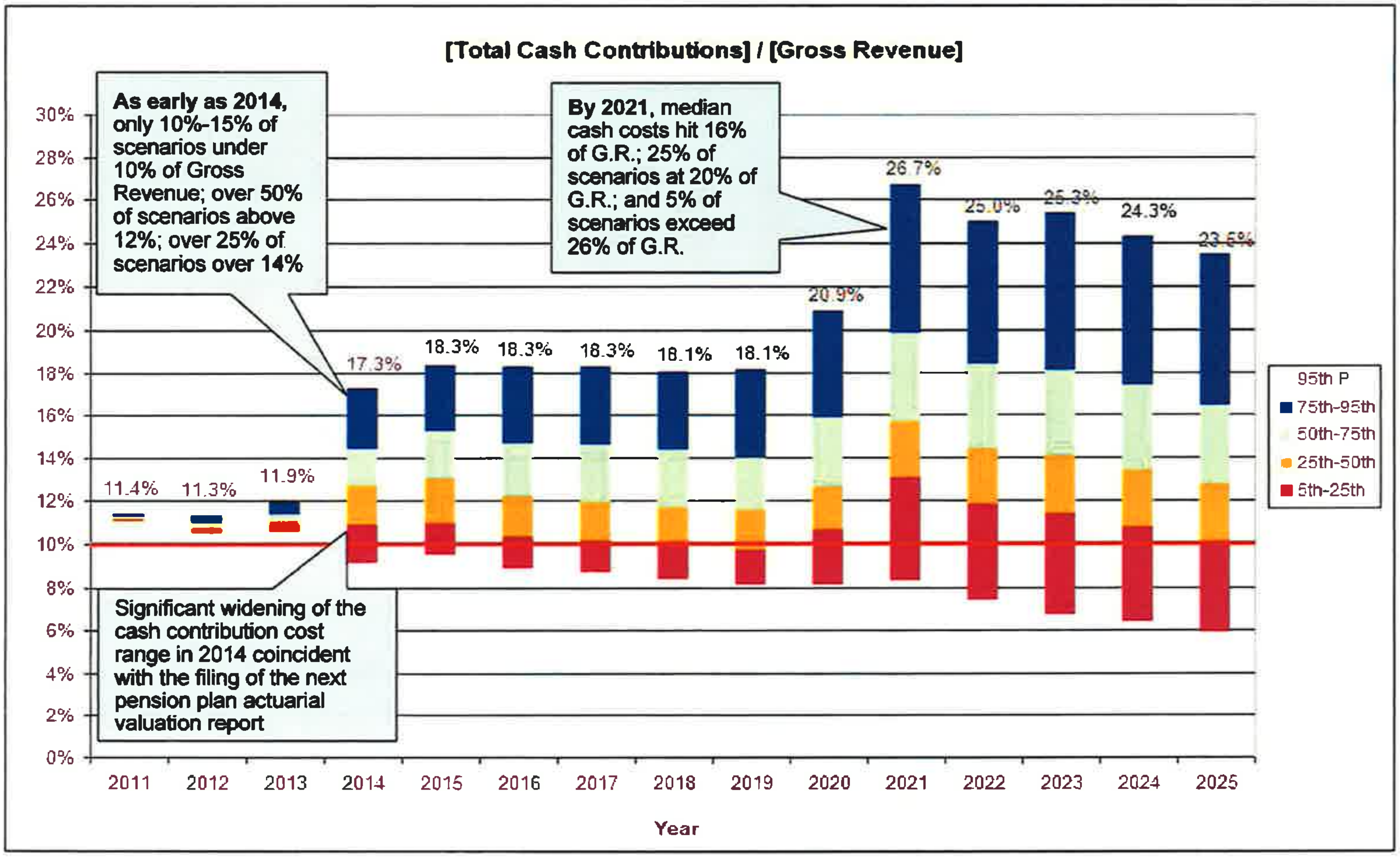
TOWERS WATSON

Executive Summary

- The analysis confirms the belief and quantifies the extent to which OPG's P&B plans are unsustainable
  - Under the status quo the threshold levels for all metrics chosen to assess sustainability are exceeded
- Initial set of six interventions analyzed have potential to provide significant financial benefit (growing to roughly 3% of Gross Revenue; $1.3B cumulative over 15 years) but do not move P&B plans to a fully sustainable position
  - Three interventions are within management control and are being pursued for implementation through the BTS
  - Further three interventions requiring negotiation are being used to influence labour negotiation strategies
  - Beneficial effect of additional interventions identified by the work teams are being evaluated
- Consistent with prior CHRC discussions, significant changes to P&B design and program management will be required to improve sustainability
  - Long term strategy will require aggressive pursuit of significant design changes through a variety of channels, supported by critical cost reduction approaches through plan management

Metric #1 – P&B Cash Should Not Exceed 10% of Gross Revenue

- Starting in 2014 (after next pension valuation), more than 75% of scenarios show cash contribution requirements above 10% of gross revenue each year



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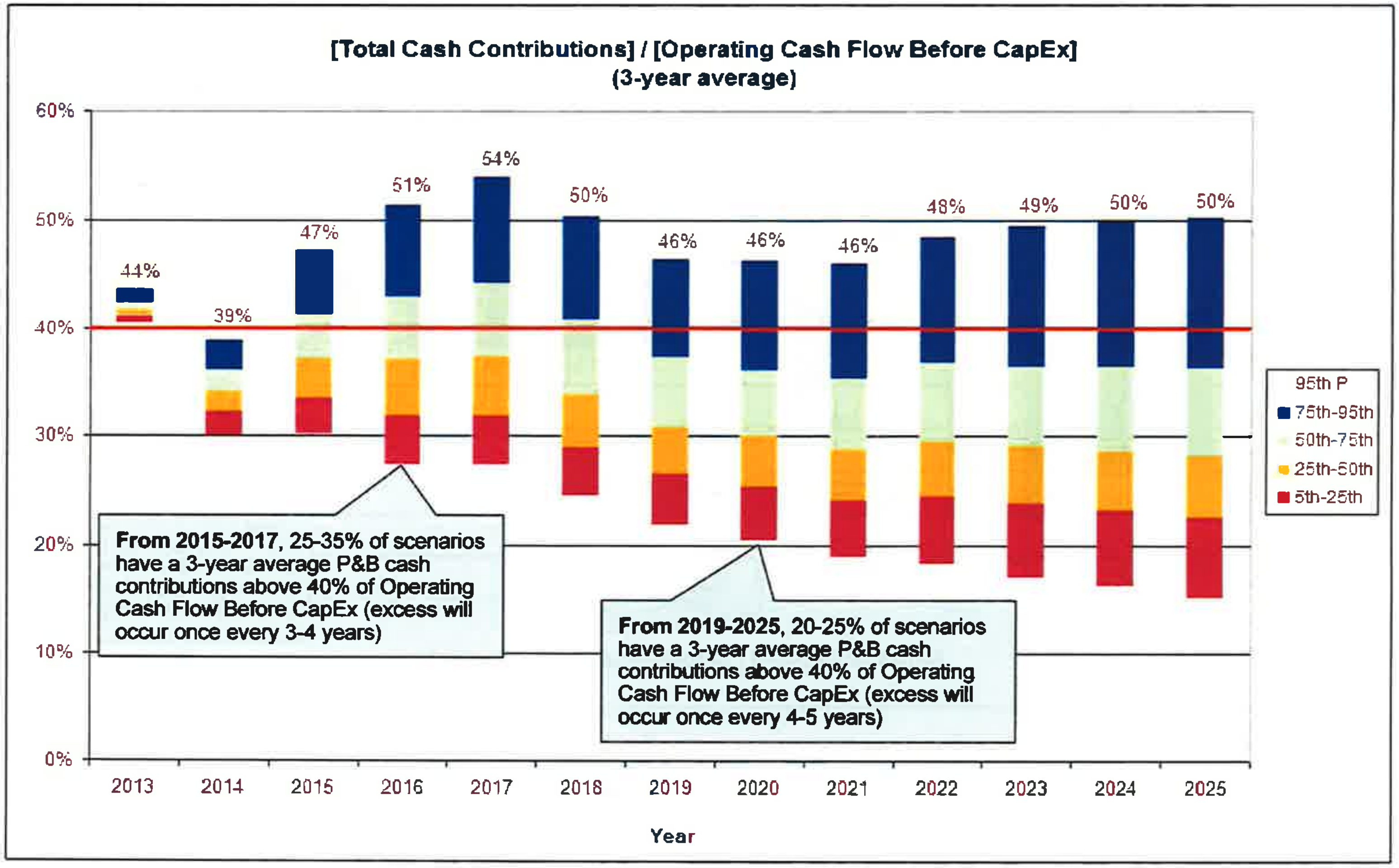
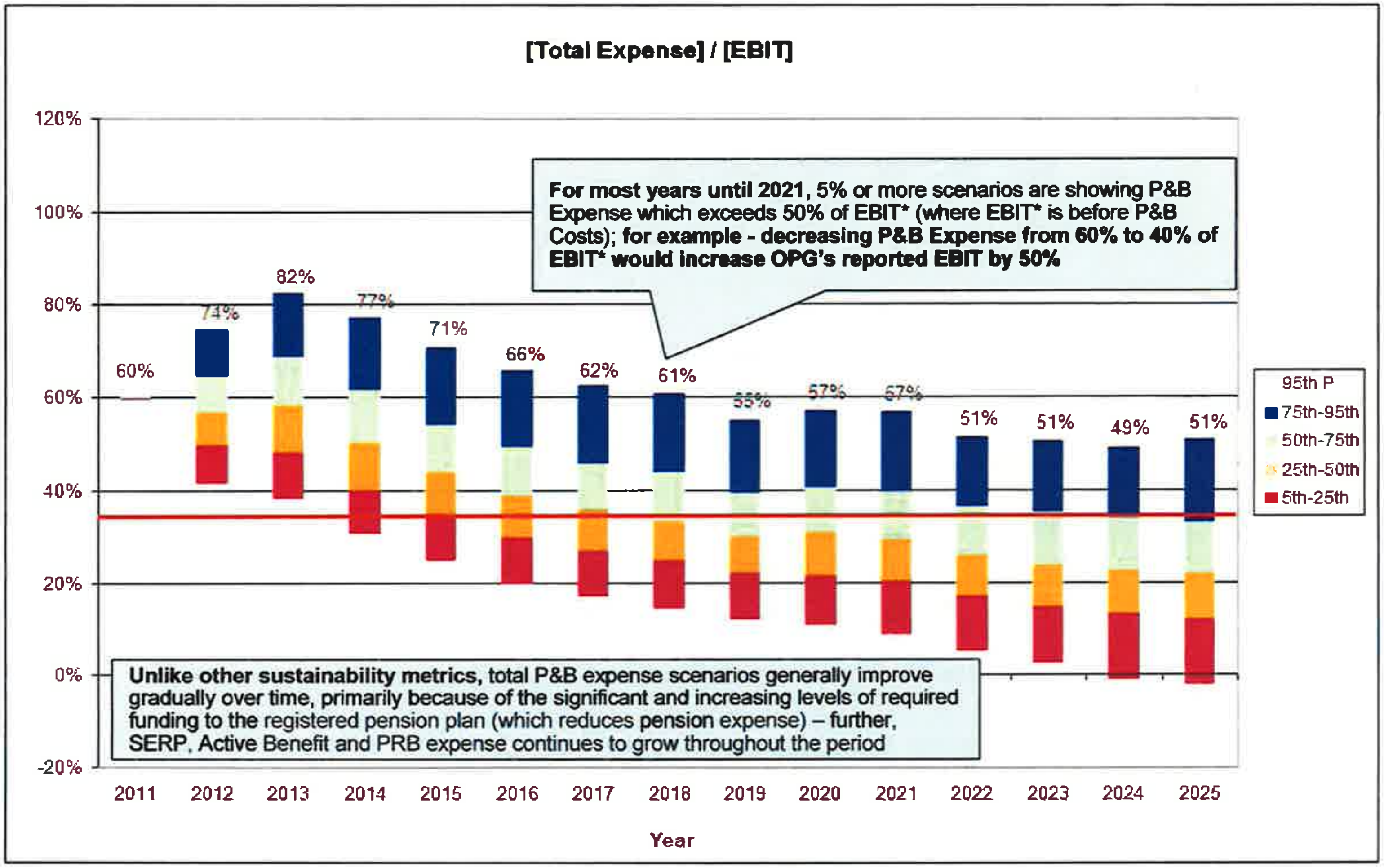
Metric #2 – P&B Cash Should Not Exceed 40% of Operating Cash Flow Before CapEx

- Cash contributions represents over 40% of Operating Cash Flow before CapEx in 20-35% of scenarios for entire projection period



Metric #3 – P&B Expense Should Not Exceed 35% of EBIT

- Projected ratio of P&B expense to EBIT is expected to gradually reduce over time, primarily due to significant contributions to pension plan



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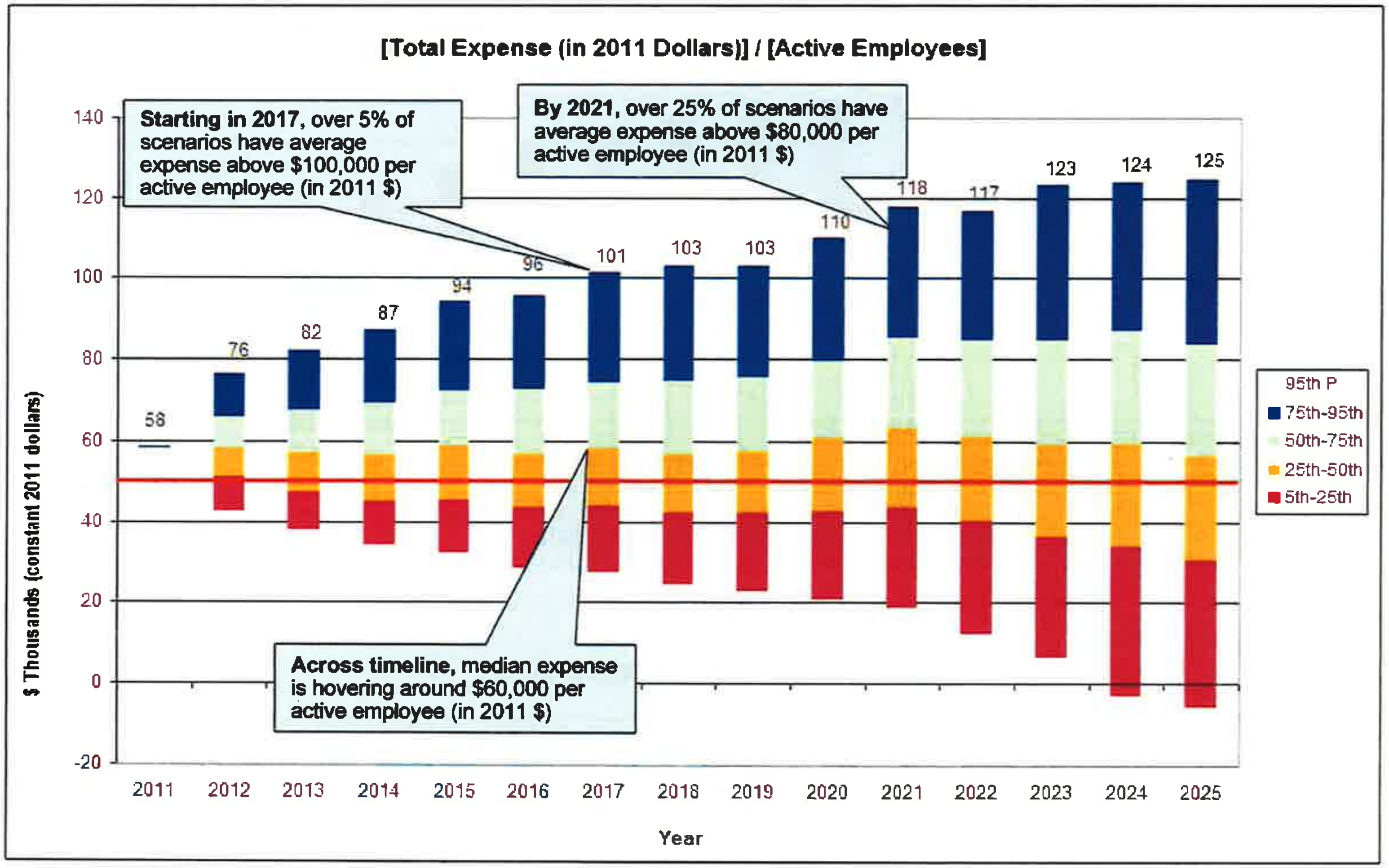
Metric #4 – P&B Expense Should Not Exceed $50K Per Active Employee (const. 2011 $)

- Median per capita expense stays at $60,000 for projection period, with 25% of scenarios having per capita expense above $80,000 (constant 2011 dollars)



Business Alternatives if Cost Thresholds Exceeded

- Non-P&B alternatives to address financial shortfalls were reviewed and found to be insufficient – certain options may provide short-term tactical relief

Alternative	Assessment/Impact on OPG's Business
Reduce Capital Expenditures	• CapEx includes sustaining and developmental expenditures (other than significant builds/refurbishments) – reductions would impair future power generation and/or value of OPG assets; not viable to reduce CapEx and deliver on OPG business strategy • Supplemental CapEx funds would require OEB approval (cost borne by rate payers)
Obtain Additional Capital via Shareholder	• Notwithstanding a common belief by many employees and other stakeholders that the government will backstop all financial shortfalls at OPG, Ontario government has provided no explicit commitment for any such funding
Increase Level Of External Financing	• Potential adverse implications on OPG's credit rating (and total cost of credit) • Credit rating agencies would expect increased levels of Free Cash Flow to maintain higher coverage ratios and support higher debt servicing costs (not in current OPG business plan)
Earn Better Fund Returns / Revise Pension Asset Mix	• Market movements and/or significant correction will not provide sustained financial support • Asset mix changes to generate higher expected returns would significantly increase risk/volatility • Incremental fund returns provides no relief for SERP, PRB and Active Benefits
Implement Workforce Reduction	• Longer term cash costs and expense can be reduced with reduced headcount; however, implementation costs usually exceed savings in the first year or two years • Reduction programs constrained by collective bargaining agreements • Limitation to total cost savings which can be achieved by workforce reduction before business is impaired (reduction of headcount in regulated segments also affects revenue)
Eliminate Certain Internal Non-Labour Programs	• Limitation to total cost savings which can be achieved by reducing/eliminating internal non-labour programs (significant amount of re-evaluation already implemented)
OEB Rate Increase	• Roughly $200M p.a. of additional revenue equates to roughly 70¢ increase in average monthly consumer hydro bill; OPG faces significant challenges in getting new OEB increases approved
Asset Sales / Service Spinoffs / Shutdown	• If counterparties exist, could sell/spin off certain services or power generation assets; significant asset sales/shutdowns will have workforce implications and will adversely affect future OPG revenue stream

Recap of Current State

- A number of current cost levels exceed the thresholds which OPG views as necessary to maintain a sustainable business (across all key measures)
- The risk of costs escalating far beyond an affordable level is very plausible
- OPG is operating within a period of relative P&B cost stability until the next pension plan actuarial valuation report is filed in 2014
  - This provides a limited window to achieve selected changes in program management and plan design as the first phase of an overall strategy to reign in P&B costs
- Overall change strategy needs to recognize the reality of labour negotiation dynamics and related bargaining capital required for implementing changes
- Negotiation strategies and mandates must carefully evaluate impacts on P&B costs

- Promotion of stable and harmonious labour-management relations;
- Minimization of conflict, especially work stoppages that would disrupt the output of services.

Consequently, the main guiding principles of Ontario labour policy, as embodied in the various labour relations legislation, support:

- **The public interest in ensuring good labour relations and the rights of association of BPS employees;**
- **The public interest, in maintaining the continuous provision of BPS services that are to varying degrees essential or, at the least, of very high importance to the welfare and well-being of the public.**

3.2 The Room for Government Intervention in Collective Agreements

There are a variety of specific circumstances under which a government may want to intervene in a labour-management dispute, or work stoppage, or impose terms or conditions of employment upon unionized employees. In general, a government may decide that there is a broader public interest at stake in a dispute and that this constitutes a sufficient reason for an intervention.

Two recent landmark Supreme Court of Canada (SCC) *Charter of Rights and Freedoms* cases dealing with labour relations, BC *Health Services* and *Fraser*, have significantly impacted labour relations policy.[5] In BC *Health Services*, the SCC essentially recognized collective bargaining as a constitutionally protected right. The SCC decision in *Fraser*, in 2011, delineates the constraints on governments in undertaking policies that impact collective agreements: "In practical terms, the SCC decision in Fraser specifies that a substantive change that is unilaterally imposed on unionized employees (that is significant to, and materially hinders bargaining) is likely to be held invalid unless the government:

(i) engages in a "meaningful process" of consultation and/or negotiation with the union(s); and
(ii) that the negotiation be undertaken in "good faith." "[6]

In the March 2012 budget, the Ontario government indicated a clear interest in either imposing or actively encouraging restraint in wage and salary increases in the BPS.

[5] BC *Health Services* is: *Health Services and Support – Facilities Subsector Bargaining Assn v British Columbia* 2007 SCC 27, [2007] 2 SCR 391.
Fraser is: *Ontario (Attorney General) v. Fraser*, 2011 SCC 20.
[6] Source: Chaykowski and Hickey (2012: 92).

Therefore,

- **The role of bargaining power, and the impact of the factors that determine bargaining power, are fundamental to determining the terms and conditions of employment under collective bargaining, including pay increases.**

4.2 Union Density and the Capacity of Unions to Raise Wages under Collective Bargaining

One of the main objectives of unions in Canada is to raise the wages (earnings) of their members through collective bargaining.[14] However, increases in wages (or benefits) achieved through collective bargaining can increase the cost of labour relative to the cost of other inputs into the production process. This creates an incentive for firms to substitute away from the relatively more expensive unionized labour input, typically toward less expensive nonunionized labour.[15] The greater the proportion of employees that is unionized in an industry, the fewer the options that are available to firms to substitute towards nonunionized workers.

For example, unionized firms may seek to substitute towards less costly nonunionized labour by contracting out, or by opening nonunionized facilities at another location. The problem with these strategies is that unions have tended to be successful in negotiating clauses that prevent contracting out, or in organizing non-union facilities of the same firm.

Therefore, unions seek to "take wages out of competition"; that is, to organize as large a proportion of employees in an industry as is possible, precisely in order to limit substitution possibilities, thereby increasing their bargaining power and enabling them to further increase wages and enhance other employment terms:

> "There seems to be a strong relationship between the extent of unionism in an industry (or occupation) and the wage markup ... in industries where almost all firms are unionized, unions will have more bargaining power and will therefore be able to secure a higher wage markup. This is known as the "extent of unionism" effect."[16]

[14] In contrast to unions in other major countries of the world, which have a strong social and/or political agenda, Canadian unions are generally characterized as "business unions" because their main focus is on enhancing the terms and conditions of employment, including the wages, benefits and other working conditions of their members. Most employment terms that are negotiated have either a direct cost, or monetary equivalent value.

[15] Another (typically long term) possibility is for firms to increase the utilization of capital or labour-saving technologies. The standard way in which unions mitigate the employment impacts of substitution towards capital or technology are by negotiating limits to technological change, or strong job security provisions. Alternatively, unions may accept lower employment levels but negotiate for higher wages that are supported by the higher productivity arising from the higher capital-to-labour ratio.

[16] Source: Aidt and Tzannatos (2002: 57).

Pay Increases of Unionized Employees at OPG Relative to Pay Increases at Appropriate Individual Comparators

Determining whether or not the negotiated pay levels and increases at OPG are (mis)aligned with the predominant pay patterns in the industry needs to be assessed in relation to the wage increases negotiated at other appropriate comparators in the electricity industry. The most appropriate comparators for purposes of industrial relations outcomes would (in addition to other relevant criteria[58]):

- be in the same jurisdiction;
- be subject to the same labour relations legislation; and
- negotiate with the same major unions.

Under these three criteria, the relevant comparator companies for industrial relations outcomes for OPG would be Ontario power companies; and among the potential comparator firms in Ontario, the most appropriate are:

- Hydro One, which shares a common predecessor company, the same shareholder, and the same major unions, and is in the BPS; and
- Bruce Power, which has similar operations, and the same major unions, but is in the private sector.

A comparison between OPG and these major comparators, in the general wage increases negotiated with the PWU over the period 2000 through 2013, indicates that:

- OPG wage increases consistently track at or somewhat lower than the increases observed at these comparators (refer to Figure 6);
- the cumulative wage increase at OPG, over the 2001-2013 period, is substantially lower than at either Bruce Power or Hydro One (refer to Figure 7); and
- pay comparisons by specific occupation (e.g., OPG vs. Bruce Power) shows that earnings at OPG are generally lower.[59]

Notably, OPG pay outcomes and increases therefore compare very favourably to Bruce Power, the major private sector comparator.

[58] These criteria are identified and discussed in Section 6.3 above.
[59] Source: [EB-2010-0008 Exhibit F4 Tab 3 Schedule 1 Chart 11 (Filed: 2010-05-26)].

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February 29, 2012

PRIVILEGED AND CONFIDENTIAL

Dr. Richard P. Chaykowski
55 Watts Crescent
Kingston, Ontario
K7M 2P4

Dear Dr. Chaykowski:

Re: Ontario Power Generation Payment Amounts Application

We represent Ontario Power Generation Inc. ("OPG") in connection with an application to be brought by OPG to the Ontario Energy Board (the "Board") to determine payment amounts for the 2013 and 2014 test period.

I confirm that Torys LLP ("Torys") has agreed to retain you as an expert in this matter, to:

(a) provide us with labour relations related advice in order to assist us in providing legal advice to our client;

(b) prepare an independent expert report, or provide other evidence within your area of expertise, if requested; and

(c) testify before the Board and assist in the preparation of interrogatories asked in respect of any evidence prepared by you, if requested.

Our agreement with you is subject to the following terms:

1. You agree to hold in confidence: (a) the facts of this retainer, (b) all information provided to you, and (c) your opinions to us as they relate to the information, whether the information or opinions are documentary or oral. You will not disclose the information or opinions to any person unless we authorize you in writing to do so. All documents given to you in connection with this retainer remain the property of our firm, and are held in trust by you as our agent. You agree to return these documents on request.

2. You agree during this engagement not to provide, directly or indirectly, without our written consent, your consulting services to the Board, Board staff or any party intervenor to Board proceedings.

3. You confirm that you are free to provide your services to Torys in connection with Torys' representation of our clients in this litigation, and that our firm and our clients are free to use and disclose such information in any manner whatsoever.

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2. You agree during this engagement not to provide, directly or indirectly, without our written consent, your consulting services to the Board, Board staff or any party intervenor to Board proceedings.

3. You confirm that you are free to provide your services to Torys in connection with Torys' representation of our clients in this litigation, and that our firm and our clients are free to use and disclose such information in any manner whatsoever.

4. You agree to refrain from referring to our firm or the defendants, directly or indirectly, in connection with the promotion of your services, without obtaining the prior written approval of our firm.

5. You are to be compensated at your hourly rate of $300 for all services and will bill for actual expenses as incurred without mark-up. You will bill for travel expenses only in accordance with OPG's Standard Form Business Expense Schedule provided by Torys to you as the same may be amended, supplemented or replaced from time to time. Please direct your accounts to my attention at the address above.

6. In the event that we request that you prepare an expert report for filing with the Board, Rule 13A of the OEB's Rules of Practice applies, a copy of which is attached. You agree to accept the responsibilities that are or may be imposed on you as an expert pursuant to the provisions of Rule 13A.06.

Please indicate your agreement to the terms of your retainer as set out above, by signing a copy of this letter and returning it to me.

Thank you for your assistance.

Yours truly,

Crawford Smith /

Crawford G. Smith

Tel 416.865.8209
csmith@torys.com

CS/tm
Enclosure

Agreed, this 29 day of February, 2012

Dr. Richard Chaykowski

cc: Carlton Mathias

Survey Design - Comparator Organizations

Organization	Group 1 - Power Generation, Electrical Utilities, and Nuclear Research, Development and Engineering (NRDE)	Group 2 - Nuclear Power Generation and Electric Utilities	Group 3 - General Industry	Group 4 - Pension & Benefits Analysis
AltaLink	√			
Atomic Energy of Canada Limited (NRDE)	√	√		√
BC Hydro and Transmission	√			√
Bruce Power	√	√		
Candu Energy Inc. (NRDE)	√	√		
Enmax Corporation	√			√
FortisAlberta	√			
Hydro Quebec	√	√		√
Independent Electric System Operator	√			
Manitoba Hydro	√			
Nalco Energy	√			√
New Brunswick Power	√	√		
New Brunswick System Operator	√			
Nova Scotia Power	√			
SaskPower	√			
Toronto Hydro	√			
Transalta	√			√
TransCanada	√			√
Yukon Energy Corporation	√			
Aon Hewitt's TCM Survey			√	
Mercer Benchmark Database			√	
Aon Hewitt Benefit SpecSelect (additional 9 companies)				√

Board Staff Interrogatory #106

Ref: Exh F4-3-1 Attachment 1 (pages 151 and 152 of F4 pdf document – Attachment pages unnumbered), F4-3-1 page 10 Table 2

Issue Number: 6.8
Issue: Are the 2014 and 2015 human resource related costs (wages, salaries, benefits, incentive payments, FTEs and pension costs) appropriate?

Interrogatory

In his study, Dr. Chaykowski states:

> A comparison between OPG and these major comparators, in the general wage increases negotiated with the PWU over the period 2000 through 2013, indicates that:
> - OPG wage increases consistently track at or somewhat lower than the increases observed at these comparators (refer to Figure 6);
> - The cumulative wage increase at OPG, over the 2001-2013 period, is substantially lower than at either Bruce Power or Hydro One (refer to Figure 7); and
> - Pay comparisons by specific occupation (e.g. OPG vs. Bruce Power) shows that earnings at OPG are generally lower.[Footnote reference to EB-2010-0008 Exhibit F4 Tab 3 Schedule 1 Chart 11 (Filed 2010-05-26)] [Emphasis in original]

Table 2 on page 10 of F4-3-1 provides a comparison of 2013 wages for comparable PWU positions at OPG and Bruce Power, which supports the last bullet above.

However, Dr. Chaykowski concludes:

> Therefore,
> - **OPG wage settlements are consistently either at or below the wage increases that have been negotiated at the most appropriate comparators in the electricity industry; and the salary levels of individual occupations compare closely as well.** [Emphasis in original]

a) Based on the evidence summarized on the previous page, on what basis did Dr. Chaykowski conclude that "salary levels of individual occupations compare closely as well"?
b) Did OPG provide Dr. Chaykowski with the findings of the National Utility Survey conducted by Aon Hewitt?
    i. If yes, how are the Aon Hewitt results reflected in Dr. Chaykowski's conclusion.
    ii. If no, why not?

Response

a) This conclusion refers to the third bullet in the preamble to the question above which states: "Pay comparisons by specific occupation (e.g. OPG vs. Bruce Power) shows that earnings at OPG are generally lower"; and which, as noted, is supported by the accompanying footnote. However, the footnote contains a typographical error in that it should refer to Chart 12 and not Chart 11.

b) Yes
   i. The conclusion reflects the assessment in Dr. Chaykowski's Report, set out in Section 6.3 that, "Either or both of [Bruce Power and Hydro One] would constitute reasonable comparators because they are similarly unionized, operate within the same jurisdiction (i.e., are subject to the same labour relations regulatory regime), and hire workers within the same general labour market in the electricity and (broader) utilities industries – both of which are among the most highly organized industries in the country"; and Dr. Chaykowski's conclusion takes into account that the design of AON Hewitt survey is, in contrast, based on a broad cross-section of firms, and does not include Hydro One. Therefore, Dr. Chaykowski's conclusion focuses on comparisons with the organizations that are considered to be the key comparators to OPG (i.e., Bruce Power and Hydro One).
   ii. Not applicable.

Board Staff Interrogatory #126

Ref: Exh F3-1-1

Issue Number: 6.9
Issue: Are the corporate costs allocated to the regulated hydroelectric and nuclear businesses appropriate?

Interrogatory

Exhibit F3 describes the corporate support services.

a) Please confirm the data in the following table for corporate support services.

	$millions	2010 Actual	2011 Actual	2012 Actual	2013 Bridge	2014 Test	2015 Test
1	OPG	362.0	364.7	547.7	597.9	577.6	547.8
2	Nuclear	226.5	233.1	408.4	451.0	433.9	417.4
3	Hydroelectric - Pres	22.4	22.0	24.5	29.7	29.8	26.9
4	Hydroelectric - N.Pres	31.4	32.3	36.6	38.8	42.1	39.6
5	Total Regulated (2+3+4)	280.3	287.4	469.5	519.5	505.8	483.9
6	Total Unregulated (1-5)	81.7	77.3	78.2	78.4	71.8	63.9
7	%Current Regulated (2+3)/1	69%	70%	79%	80%	80%	81%
8	%Current & Newly Prescribed 5/1	77%	79%	86%	87%	88%	88%

b) Please explain the trend in corporate support service expense for total regulated (row 5) for the period 2010 to 2015.

c) The unregulated business corporate support service expense is largely unchanged in the period 2010 to 2013 (row 6). Please explain why the costs for the regulated business (nuclear and hydroelectric) are going up when the costs for the unregulated business are largely unchanged.

Response

a) The data in the above table for corporate support services is correct.

b) As discussed in Ex. F3-1-2, corporate support service costs for total regulated increased from 2010 to 2013 mainly due to a transfer of staff from generation business units to

The IT Support Costs identified in the tables refer to the cost of the internal IT support groups providing IT Service and Project Portfolio management, IT Enterprise Strategy and Architecture and IT Programming and Performance Management.

IT continues to use the benchmarking data services of Electric Utility Cost Group ("EUCG"), a non-profit association with membership from North America and international utilities.

2011 EUCG data was used by IT to compare OPG against ten North America electric utilities' IT spending per employee and IT spending per GWH. The 2011 results for the two metrics are as follows:

2011 EUCG Comparator Group Data

Metric	OPG	Q1	Median Q2	Q3	Average
IT Spending (k$)/Employee	$9.9	8.2<$	13.6<$	17.8<$	$13.6
IT Spending (k$)/ GWh	$1.4	1.0<$	1.2<$	1.8<$	$1.4

The 2011 results indicate the OPG's IT costs were within the second quartile for IT spending per employee and within the third quartile for IT spending per GWh. The IT group has committed to further cost reductions over the 2013 - 2015 business planning period through a series of cost saving initiatives by improving demand management, leveraging existing applications, storage reduction and re-tiering, data centre and server optimization, increased standardization and simplification of the information technology environments, and negotiated savings in software maintenance contracts and outsourced services.

Board Staff Interrogatory #130

Ref: Exh F3-1-1

Issue Number: 6.9
Issue: Are the corporate costs allocated to the regulated hydroelectric and nuclear businesses appropriate?

Interrogatory

The application at pages 6 to 8 summarizes IT benchmarking results for OPG with respect to the Electricity Utility Cost Group Comparator Group data, for the year 2011.

The 2011 results indicate that OPG's IT costs were within the second quartile for IT spending per employee and within the third quartile for IT spending per GWh. While the actual costs are lower, OPG's performance with respect to the quartiles is unchanged from 2008 data reported in the EB-2010-0008 proceeding.

How much lower would the 2014-2015 revenue requirement be if IT costs were within the top quartile for IT spending per employee and IT spending per GWh?

Response

Using the 2011 EUCG Comparator Group Data as outlined in Ex. F3-1-1 page 8, the reductions in the 2014-2015 revenue requirement based on IT costs being in the top quartile are as follows:

- IT spending per employee
  - 2014 revenue requirement would be $23.5M lower if IT spending per employee was in the top quartile ($8,200)
  - 2015 revenue requirement would be $21.9M lower if IT spending per employee was in the top quartile ($8,200)
- IT spending per GWh
  - 2014 revenue requirement would be $28.3M lower if IT spending per GWh was in the top quartile ($1,000)
  - 2015 revenue requirement would be $24.4M lower if IT spending per GWh was in the top quartile ($1,000)

Board Staff Interrogatory #131

Ref: Exh F3-1-1

Issue Number: 6.9
Issue: Are the corporate costs allocated to the regulated hydroelectric and nuclear businesses appropriate?

Interrogatory

The application at pages 14 to 15 summarizes People & Culture benchmarking results for OPG with respect to the Electricity Utility HR Metrics for the year 2012.

The 2012 results indicate that OPG's HR Expense Factor (total HR expense divided by the number of regular HR employees) was $172k/HR employee. This result is between the median of $155k and bottom quartile of $175k for OPG's peer group of very large utilities. The 2008 data reported in the EB-2010-0008 proceeding was $120k.

OPG's HR Employee Ratio improved modestly from 64 in 2009 to 65 in 2012, but the result remains in the bottom quartile.

How much lower would the 2014-2015 revenue requirement be if People & Culture costs were within the top quartile for HR Expense Factor and HR Employee Ratio?

Response

If in 2012 OPG were at the top quartile of all EU-HR benchmarked utilities with respect the HR/FTE Employee ratio and top quartile with respect to the HR Expense Factor for our peer group of very large utilities, total OPG HR expenses, including both regulated and unregulated operations would have been $14.9 M (Cdn) less.

This figure is based on calculations using the definition of HR functions that is used in the Electric Utility benchmarking group, which has been included below.

OPG notes, however, that there are no utilities in the Electric Utility benchmark group who are in the top quartile in both benchmarked categories – HR/FTE Ratio and HR Expense Factor. This is mainly due to the fact that improvements in the HR/FTE ratio are often achieved by outsourcing HR functions, which would reduce the number of HR staff resulting in an increase in HR expenses per remaining HR employee – and therefore, an increase in the HR Expense Factor.

This is demonstrated in the 2012 EU-HR benchmarking data which shows that of all EU-HR benchmarked utilities who achieved top quartile with respect to the HR/FTE Employee ratio, the average HR Expense Factor was $251k/HR Employee – significantly higher than OPG's HR Expense factor of $172k/HR employee.

EU-HRMG Survey Definition of HR Expenses

Include expenses associated with the groups included in the Regular HR EE. Expenses include the total $ spent by these HR groups during the reporting year. Includes the total internal and external costs incurred by HR: Benefits, Compensation/Total Rewards, Employee Relations, HR Service Center, Labor Relations, Diversity, Recruiting/Staffing, Org & Workforce Development, Corporate and Field HR. Include costs for: salaries, benefits, outsourcing, consulting fees, HR-related legal and court fees and all other external HR expenses. Include overhead and load costs. EXCLUDE: Occupational Health & Safety, Payroll, Technical Training, internal/external costs for contingent/contractual, temporary and seasonal workers, legal actions and settlements.

EU-HRMG Survey Definition of regular HR employees

Regular HR EE includes: Benefits, Compensation/Total Rewards, Diversity, Employee Relations, Labor Relations, HRIS, Staffing & Recruiting (Talent Acquisition), Org & Workforce Development, HR Service Center & HR Admin/Mgt. Excluded from Reg HR EE: Occupational Health & Safety, Payroll, Technical Training, Outsourced, Contingent/Contractors, LTD, Temporary, Interns, Seasonal, Co-ops. Also excluded are any other areas that report into HR, but are not a traditional HR function, for example: Medical, Records Retention, Facilities Management, etc.

Board Staff Interrogatory #132

Ref: Exh F3-1-1

Issue Number: 6.9
Issue: Are the corporate costs allocated to the regulated hydroelectric and nuclear businesses appropriate?

Interrogatory

OPG filed a Finance Benchmarking report prepared by the Hackett Group in the EB-2010-0008 proceeding. Finance metrics were not provided in the current application.

a) What is "Finance Cost as a Percent of Revenue after Rebates" for the most recent year for which OPG has actual data?
b) What are Finance "FTEs per OPG's Revenue after Rebates" for the most recent year for which OPG has actual data?

Response

The last Finance benchmarking study was conducted in 2010 based on 2008 data. Finance has not completed a benchmarking study since then as it has been implementing cost reduction and re-structuring initiatives. OPG has calculated the two metrics it reported in EB 2010-0008 using the same methodology, applied to 2012 actual data.

a) OPG's revenue has declined from approximately \$6.0B in 2008 to approximately \$4.7B 2012. The decline in revenue is partly due to lower market prices. Holding prices constant at the 2008 level, "Finance Cost as a Percent of Revenue after Rebates" is 0.75%. Finance Cost as a Percent of the actual 2012 Revenue after Rebates is 0.82% compared to the 2010 study's result of 0.81%. Market prices have declined significantly and base rates have been held constant since 2008, however Finance has been able to largely offset the impact of declining revenue through headcount reductions.

b) Holding prices constant at the 2008 level, "Finance FTEs per OPG's Revenue After Rebates" is 39.6, which is close to the 2010 study's result of 38. If 2012 prices are utilized, Finance FTEs per OPG's Revenue After Rebates would be 43.4. As stated above, actual revenue has declined significantly since 2008 partly due to lower prices.

Benchmarking Reports provided by OPG

18 reports were provided by OPG, 7 reports were used in our benchmark report evaluation covering 5 functional areas

OPG Benchmark Reports	Functional Area																			
Report Name	Company wide Compensation	Generation	IT - Internal	IT - Outsourced	HR - Internal	HR - Outsourced	Finance- Internal	Finance - Outsourced	Administration	Enterprise Risk Management	Regulatory Affairs	Corporate Citizenship	Legal	Source	Operational Focus	Within Evaluation Timeline?	Benchmarking report?	In scope?	Used?	Reason
World-Class Progress Report Finance Final Results							2006-2008							Hackett	Productivity / Efficiency	Yes	Yes	Yes	Yes	In-scope
OPG Nuclear 2009 Benchmarking Report		2003-2008												ScottMadden	Productivity / Efficiency, Reliability, Safety	Yes	Yes	Yes	Yes	In-scope
2010 Nuclear Benchmarking Report		2004-2009												ScottMadden	Productivity / Efficiency, Reliability, Safety	Yes	Yes	Yes	Yes	In-scope
2011 Nuclear Benchmark Report		2005-2010												ScottMadden	Productivity / Efficiency, Reliability, Safety	Yes	Yes	Yes	Yes	In-scope
OPG HR Metrics Analysis	2000-2008				2000-2008									ScottMadden	Compensation	Yes	Yes	Yes	Yes	In-scope
Benchmarking of Human resources Function Metrics and OPG with Other Electric Utilities	2003-2010				2003-2010									Internal / ScottMadden	Compensation, Productivity / Efficiency	Yes	Yes	Yes	Yes	In-scope
Final OPG IT Cost Benchmark Analysis 2010			2007-2010											EUCG	Productivity / Efficiency	Yes	Yes	Yes	Yes	In-scope
Business Planning and Benchmarking Regulated Hydroelectric		2000-2009												Navigant / CEA / EUCG	Productivity / Efficiency, Reliability	Yes	No	Yes	No	Benchmarks not provided
Achieving World-Class Performance Finance Benchmark Results							2005-2006							Hackett	Productivity / Efficiency	No	Yes	Yes	No	Age of Report
OPG BS&IT IT Benchmarking Results & Analysis 2007			2005-2007											Gartner / EUCG	Productivity / Efficiency	No	Yes	Yes	No	Age of Report
Final OPG IT Cost Benchmark Analysis 2008			2003-2008	2003-2008										Gartner / EUCG	Productivity / Efficiency	Yes	Yes	Yes	No	More recent report used
Final OPG IT Cost Benchmark Analysis 2009			2007-2009											EUCG	Productivity / Efficiency	Yes	Yes	Yes	No	More recent report used
Corporate Executive Board Legal Department Spending and Staffing Benchmarking													2011	Corporate Executive Board	Productivity/Efficiency	Yes	Yes	Yes	No	Scope of Function
Uranium Procurement Program Assessment		2011												Longenecker & Associates	Procurement	Yes	No	No	No	Out of Scope
Uranium Supply Status and Procurement Strategy		2008												Ux Consulting	Procurement	Yes	No	No	No	Out of Scope
Enterprise Risk Management (ERM) Health Check										2010				Corpo Executive Board	ERM	Yes	No	No	No	Out of Scope
OEB Payments Application, OPG Regulatory Affairs Process Review											2012			ScottMadden	Rate Filing	Yes	No	No	No	Out of Scope
OPG Corporate Citizenship Benchmarking Review												2009		Grant Stream	Corporate Social Responsibility	Yes	Yes	No	No	Out of Scope

Many of the respondents to our survey expressed concerns similar to ours. They felt that rehiring former employees on an ongoing basis was an indication of poor succession planning. They also felt that better processes should have been put into place to capture the knowledge and experience of retiring staff; to identify and train their successors with sufficient lead time for the transition; and to avoid "double-dipping" by former employees who had withdrawn their pensions in lump sums upon leaving OPG only to return and earn a salary again.

In response to the above concerns, OPG indicated that it was necessary to hire former employees and to pay them at higher rates because it was difficult to find people with the right skills to fill the positions right away, and that it could not influence employees who wished to draw their pensions in single lump sums before returning to work at OPG because this was a personal choice.

Outsourcing of Information Technology Services

OPG has been outsourcing its information technology (IT) function to the same private-sector vendor since February 2001, after it conducted a competitive process and signed a 10-year (February 1, 2001–January 31, 2011), $1-billion contract with the vendor. They formed a joint venture (ownership: 51% vendor and 49% OPG) for delivering IT services to OPG, and 684 OPG employees (about 400 unionized) were transferred to the joint venture. A little over a year later, in March 2002, OPG accepted the vendor's offer of purchasing OPG's share of joint venture ownership.

In March 2007, OPG reviewed its existing outsourcing arrangement and decided to end the contract early in October 2009 and then renew it with the same vendor without competition for a term of six years and four months (October 1, 2009–January 31, 2016) at $635 million. Including the durations of the original and renewed contracts, the total contract length is 15 years.

Although OPG did not go through an open-competition process, its management did prepare a "single-source justification" form, which indicated that renewing the contract would avoid transition costs of $25 million and save $105 million from 2009 to 2015, and identified labour relations as a factor that would make switching to a new vendor unfavourable. OPG informed us that if it stopped using the current vendor, it would have an obligation to reimburse the vendor for severance costs associated with about 270 staff who are former OPG employees. We note, however, that OPG is still responsible for the severance costs whenever these staff leave the vendor's employ (for example, by being laid off or retiring)—staying with the current vendor simply means the severance payout will not be immediate.

OPG's management submitted its proposal to renegotiate and renew the contract with the current vendor to its Board on October 1, 2009, and received approval on the same day. However, only after it received this approval did OPG start looking for consultants to validate and endorse the proposal. Two consultants were engaged on October 6, 2009, and issued their final reports within a week.

There are good reasons for public-sector organizations to use open competition rather than non-competitive approaches. Through open competition, organizations can determine a fair market price for the goods and services they require when a variety of suppliers submit competitive bids, and this also helps demonstrate accountability and ensure value for money. In addition, competition eliminates risks associated with over-reliance on a single supplier and minimizes the perception of conflict of interest. By single-sourcing its IT services, OPG did not take full advantage of these benefits.

Time Reporting of Nuclear Contractors

OPG uses Oncore, a web-based time management system, to track the hours and costs of nuclear contractors. It uses a three-step process to do this:

Executive Summary

- Over the past 29 months, OPG has been working to develop and then execute its End of Term Strategy (ETS) for its IT outsourcing agreement with NHSS. OPG and NHSS have come to an agreement for a renegotiated contract

- OPG has requested that Everest provide an assessment of the ETS that has been employed against market best practices. The deliverable is divided into two reports; the first is a narrative on ETS market best practices and the second is an assessment of OPG's ETS relative to these best practices

- As the first of the reports, this document is focused on market best practices for ETS

- As the outsourcing marketplace has matured and the need to develop strategies around an end of term event has become more frequent, Everest has developed a Best Practice framework that is applied to assist a Buyer in developing its ETS

- The ETS Development Framework provides a structured method for creating a strategy based on both market and Buyer-specific information which includes:
  - An assessment of the existing outsourcing environment
  - The major objectives and areas of consideration for an ETS
  - The options that should be reviewed as the possible strategies

- Our analysis includes market based research on commonly employed strategies in the outsourcing industry and Buyer behaviours, including when and how these strategies are being employed

Executive Summary

OPG was entirely consistent with leading practices in both the process to develop its ETS and in the ETS itself.

Background:

- Anticipating the 2011 conclusion of a ten-year IT outsourcing agreement with Capgemini/New Horizon System Solutions (NHSS), OPG has been developing, and subsequently executing an end-of-term sourcing strategy (ETS) since early 2007. During that time OPG had undertaken a lengthy process in which it traversed a structured process through which it developed its ETS, founded on a number of interim steps.

Scope:

- In October 2009 OPG hired KPMG to perform a two-day due diligence review of the process it undertook in developing its ETS, the ETS itself, both against leading practices.

Approach & Methodology:

- In the assessment timeline (initiated on October 6, 2009 completed October 9, 2009) KPMG employed the follow approach:
  - KPMG assembled a team of three advisors experienced in end-of-term strategy development, outsourcing and due diligence.
  - KPMG made an information request to OPG to obtain necessary documentation related to the ETS development process and the ETS itself. KPMG scheduled interviews with OPG personnel representing key ETS development areas.
  - KPMG evaluated the information gathered from all noted sources against leading practices; leading practices represent a hybrid of what mature organizations would do in similar circumstances, in tandem with leading practices espoused in various popular sourcing and IT management frameworks (e.g. COBIT).
  - KPMG documented its findings (this report) against leading practices.

Findings:

1. KPMG's review of OPG's ETS development process finds that OPG was entirely aligned with leading practices in the ETS development process. OPG made proper use of the correct inputs at the appropriate times in the process, and each process step involved the right parties.
2. KPMG finds that OPG consistently developed each necessary component of the ETS, aligned each with the business strategy, and rigorously consulted internal and external stakeholders and advisors, therefore KPMG finds that OPG was entirely aligned with leading practices in its ETS.

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KPMG

Overview

Background

- Ontario Power Generation (OPG) entered into a ten-year IT outsourcing agreement with Capgemini/NHSS in 2001.
- In 2007 OPG undertook a multi-year process to evaluate their sourcing strategy options and to create and execute an end-of-term strategy (ETS) related to the IT outsourcing agreement with Capgemini/NHSS. This process sought to identify and evaluate potential alternatives to the existing contract as well as to renew/modify/extend the existing contract.
- Presently, OPG has completed renegotiating its current agreements based on its ETS. As part of the due diligence process OPG has engaged KPMG LLP/ Canada (KPMG) for the below purpose.

Purpose

- This document summarizes KPMG's Point of View (POV) of the process OPG undertook to develop an End of Term Strategy, and the ETS itself.

Approach

- In the assessment timeline (initiated on October 6, 2009 completed October 9, 2009) KPMG employed the following approach:
  - KPMG assembled a team of three advisors experienced in end-of-term strategy development, outsourcing and due diligence.
  - KPMG made an information request to OPG to obtain necessary documentation related to the ETS development process and the ETS itself. KPMG scheduled interviews with OPG personnel representing key ETS development areas.
  - KPMG evaluated the information gathered from all noted sources against leading practices; leading practices represent a hybrid of what mature organizations would do in similar circumstances, in tandem with the leading practices espoused in various popular sourcing and IT management frameworks (e.g. COBIT).
  - KPMG documented its findings (this report) against leading practices.

Nature of our Work

- KPMG relied on information and representation from OPG management and staff for the completeness and accuracy of the information provided.
- KPMG did not attempt to validate the accuracy of the information received through this review.
- KPMG did not assess the correctness of the decisions made or the quality of the documents reviewed.
- KPMG were not acting as auditors and accordingly, our work did not result in expressing an audit opinion on OPG's ETS or the process in which it was developed.
- KPMG did not conduct a review of the IT renewal contract with Capgemini.

Board Staff Interrogatory #127

Ref: Exh F3-1-1

Issue Number: 6.9
Issue: Are the corporate costs allocated to the regulated hydroelectric and nuclear businesses appropriate?

Interrogatory

Exhibit F3 describes the corporate support services.

a) Please complete the following table for corporate support services. Provide references for the data from the pre-filed evidence and EB-2010-0008.

		2010 Plan[1]	2010 Actual	2011 Board Approved	2011 Actual	2012 Board Approved[2]	2012 Actual
1	Nuclear						
2	Currently Regulated Hydroelectric						
3	Variance						

Note 1 – As noted in EB-2010-0008
Note 2 – As restated for Business Transformation

b) Please provide explanations for the variances, and the trend if any, determined in row 3.

Response

a)

		2010 Plan[1]	2010 Actual	2011 Board Approved	2011 Actual	2012 Board Approved[2]	2012 Actual
1	Nuclear	247.0	226.5	249.2	233.1	450.3	408.4
2	Currently Regulated Hydroelectric	25.1	22.4	24.8	22.0	29.0	24.5
3	Variance		(23.2)		(18.9)		(46.4)

References for the data from the pre-filed evidence and EB-2010-0008 can be found in Ex. F3-1-1-3 and Ex. F3-1-1-2. The 2012 Board Approved as restated for Business Transformation can be found in Ex. F3-1-1 pages 2-3.

Witness Panel: Corporate Groups, Compensation

b) Please refer to Ex. F3-1-2 (pages 2, 3, 6, 7) for variance explanations for actual versus plan for 2010 and actual versus Board Approved for 2011.

<u>2012 Board Approved (Restated) versus 2012 Actual</u>

Actual Support Services costs in 2012 are $46.4M lower than the 2012 Board Approved (restated for Business Transformation). This is due to reductions in information technology related costs due to hardware optimization and successful contract negotiations for IT maintenance and system support costs. In addition, OPG reduced labour costs by effectively managing staff attrition.

Actual costs were 9% and 7% below plan in 2010 and 2011 respectively as OPG has been managing attrition and not replacing staff that retire by virtue of eliminating work, and implementing efficiencies. The variance between 2012 actual costs and 2012 Board approved was 10% for this same reason. In addition, OPG was able to achieve cost reductions in the Information Technology area as explained above.

Chart 1

Purchased Services – Support Services OM&A Contracts

Vendor Name	Description/ Nature of Activities	Procurement Process	
		Competitive	Single Source
New Horizons System Solution	Provide OPG with information technology services as specified in F3-T1-S1.	✓ Until October 1, 2009	✓ Leveraged renegotiation after October 1, 2009
ARI Financial Services Inc.	Transport and work equipment leasing.	✓	
Microsoft	Enterprise software licensing		✓

Total 2011 spend = $104M

Total 2012 spend = $102M

part of Business Transformation. Organization structure changes from Business Transformation include transfer of Supply Chain, Facility Management, Records Controlled and Administrative Services to Business and Administrative Services ($106.3M), Finance Business Support to Finance ($12.3M), Training Services to People and Culture ($53.5M), and Environment Support and Commercial Contracts Support to Commercial Operations and Environment ($4.0M). These are partially offset by $20.0M in lower costs in Commercial Operations & Environment and Corporate Centre due to a decision to defer the rate application filing, successful contract negotiations with software suppliers, hardware optimization, a storage reduction initiative, and a reduction of IT services in information technology, and lower labour costs resulting from lower staff levels as a result of aggressively managing attrition and not filling staff vacancies.

2012 Actual versus 2011 Actual ($408.4M versus $233.1M)

Support Services costs increase by $175.3M in 2012 versus the 2011 Actual due to the transfer of Business Unit staff to Support Services groups as part of Business Transformation in 2012. Organization structure changes from Business Transformation include transfer of Supply Chain, Facility Management, Records Controlled and Administrative Services to Business and Administrative Services ($106.3M), Finance Business Support to Finance ($12.3M), Training Services to People and Culture ($53.5M), and Environment Support and Commercial Contracts Support to Commercial Operations and Environment ($4.0M)

2011 Actual versus 2011 Board Approved ($233.1M versus $249.2M)

Actual Support Services costs decrease by $16.1M in 2011 compared to the 2011 Board Approved, due to successful contract negotiations with software suppliers, hardware optimization, a storage reduction initiative, a reduction of IT costs in information technology, and lower than planned costs in Commercial Operations & Environment and Corporate Centre. This is partially offset by higher costs in Finance for oversight of the Nuclear Funds and external reporting requirements, and increased spend in consulting services in People & Culture.

UNDERTAKING JT2.15

Undertaking

To confirm whether a report exists related to the IT benchmarking data, and provide it or explain why it will not be provided.

Response

EUCG (IT Chapter) is a voluntary group established to exchange data related to IT activities and costs. EUCG does not perform studies nor does it produce any reports for its member companies. It simply collects and disseminates the agreed raw data for its members.

OPG IT staff have analyzed and summarized IT Cost / Employee and IT Cost / GWh for the quartile information, which has been summarized in Ex F3-3-1, pp. 6 – 8 and Ex L-6.9-2 AMPCO-064 c), but has not completed a report related to the information contained at these references. OPG has completed an IT benchmarking report for 2010, which is provided as Attachment 1 to this response.

ONTARIOPOWER GENERATION

IT Spend

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- Some IT costs were excluded to better achieve an apples-to-apples comparison. Below are some exclusions per EUCG IT Data Dictionary such as:
  - Floor space and furniture associated with the IT function
  - Process and simulator computing support
  - Remote access, SCADA network, cellular phones, radio and paging systems, whether or not part of IT organization
  - Document and records management operations (non-IT costs)
- Cost components of EUCG IT Spend include:
  - Labour Costs
  - Hardware & Software Maintenance Expenses and Depreciation
  - Circuit Costs
  - Outsourced Costs and
  - Decentralized Costs

ONTARIOPOWER GENERATION

IT Spend Summary

IT Spend Metrics	2007 OPG Quartile Ranking	2008 OPG Quartile Ranking	2009 OPG Quartile Ranking	2010 OPG Quartile Ranking	2009-2010 Change
IT Spend Per GWH	Q2	Q2	Q3	Q3	⬇$141
IT Spend Per Employee	Q2	Q2	Q2	Q2	⬆$39
IT Spend as a % of Revenue	Q3	Q3	Q3	Q3	⬇0.40%
IT Spend Per End User	Q3	Q3	Q3	Q2	⬇$1,160

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ONTARIOPOWER GENERATION

OPG Desktop Support Service Metric Summary

IT Service Metrics	2007 OPG Quartile Ranking	2008 OPG Quartile Ranking	2009 OPG Quartile Ranking	2010 OPG Quartile Ranking	2009-2010 Change
Help Desk Cost Per Transaction	Q4	Q4	Q4	Q4	↑$3.73
First Call Resolution	Not available	Q2	Q3	Q4	↑1.1%
Average Speed to Answer	Not available	Not available	Q2	Q1	↓6.0 sec
Help Desk Tickets Per End User	Q3	Q3	Q3	Q4	↓0.2
Help Desk Cost Per End User	Q4	Worse than Q4	Worse than Q4	Worse than Q4	↑$31.14
Desktop Cost Per PC	Worse than Q4	Q3	Q3	Q4	↑$85.20
PCs Per Employee	Better than Q1	Q1	Q1	Q1	↑0.04
PCs Per End User	Q1	Q2	Q2	Q1	↓0.07
End Users Per Network Printer	Q2	Q3	Q3	Q2	↓0.08

ONTARIOPOWER GENERATION

OPG Computing Service Metric Summary

IT Service Metrics	2007 OPG Quartile Ranking	2008 OPG Quartile Ranking	2009 OPG Quartile Ranking	2010 OPG Quartile Ranking	2009-2010 Change
Computing Services Cost Per Data Centre	Q3	Q3	Q3	Q2	↓$0.78M
IT Sites Per Data Centre	Q3	Q3	Q4	Q4	↑1
Mainframe Cost Per Installed MIPS	Q3	Q3	Q3	Q3	↓$336
Unix Cost Per Unix OS	Not available	Q4	Q4	Q4	↓$36,243
Unix Cost Per Physical Unix Server	Not available	Q4	Q3	Q3	↓$25,200
Wintel Cost Per Wintel OS	Not available	Q3	Q4	Q4	↑$2,545
Wintel Cost Per Physical Wintel Server	Not available	Q3	Q3	Q4	↑$7,516
% Unix Virtualization	Not available	Q4	Worse than Q4	Q3	↑21.4%
% Wintel Virtualization	Not available	Q4	Q4	Q4	↑17.1%
Storage Cost Per Capacity	Not available	Q4	Q3	Worse than Q4	↑$1.77
Storage Capacity Per End User	Not available	Q2	Q2	Q2	↑28.2 GB

ONTARIOPOWER GENERATION

OPG Telecommunication Service Metric Summary

IT Service Metrics	2007 OPG Quartile Ranking	2008 OPG Quartile Ranking	2009 OPG Quartile Ranking	2010 OPG Quartile Ranking	2009-2010 Change
Data Network Cost Per End User	Q3	Q4	Q4	Q4	↑$26
Data Network Cost Per LAN Port	Q3	Q4	Q4	Q4	↑$230
Data Network Cost Per Network Device	Not available	Not available	Q4	Q4	↑$53.99
Voice Cost Per End User	Q2	Q3	Q3	Q3	↓$47
Voice Cost Per Phone Extension	Q4	Q3	Q3	Q3	↓$48.1
Phone Extension Per End User	Q2	Q2	Q2	Q3	↑0.04

ONTARIOPOWER GENERATION

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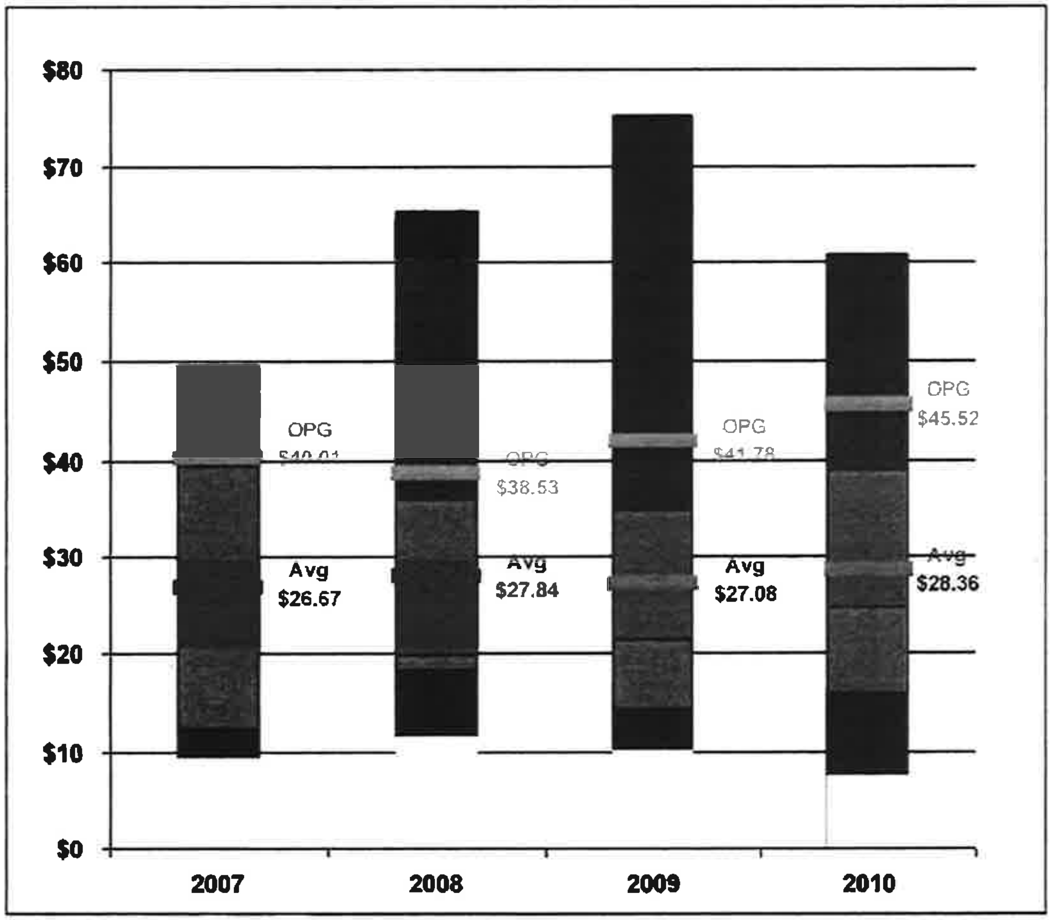
Help Desk Cost Per Transaction



Data Source	2008	2009	2010
OPG Help Desk Cost (M$)	6.200	6.372	6.674
OPG Annual Transactions	160,926	152,500	146,629
Peer Size	14	12	10
Q1 Range ($)	11.59-18.20	10.13-14.22	7.59-15.90
Q2 Range ($)	18.20-19.73	14.22-21.35	15.90-24.59
Q3 Range ($)	19.73-35.91	21.35-34.77	24.59-38.94
Q4 Range ($)	35.91-65.42	34.77-75.29	38.94-60.90
Benchmark Results			
OPG Help Desk Cost ($) Per Transaction	38.53	41.78	45.52
Peer Average ($)	27.84	27.08	28.36
Benchmark Analysis			
Reduction to Achieve Q1 ($/Transaction and %)	20.33	27.56	29.61
	↓53%	↓66%	↓65%
Reduction to Achieve Q2 ($/Transaction and %)	18.80	20.43	20.93
	↓49%	↓49%	↓46%

Filed: 2014-05-08
EB-2013-0321
JT2.15
Attachment 1
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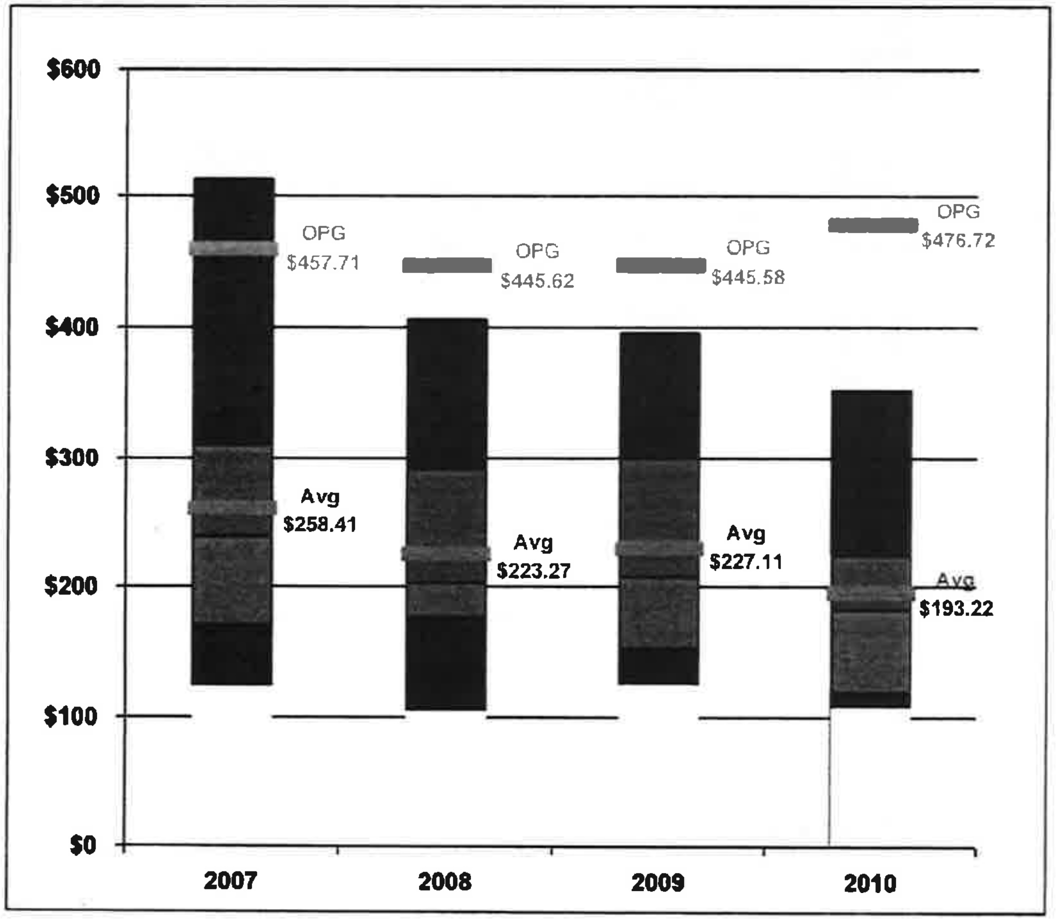
ONTARIOPOWER GENERATION

Help Desk Cost Per End User



Data Source	2008	2009	2010
OPG Help Desk Cost (M$)	6.200	6.372	6.674
OPG End User	13,913	14,300	14,000
Peer Size	14	13	10
Q1 Range ($)	103.48-176.10	124.82-151.95	106.78-119.16
Q2 Range ($)	176.10-202.49	151.95-207.20	119.16-181.73
Q3 Range ($)	202.49-291.07	207.20-299.71	181.73-223.11
Q4 Range ($)	291.07-406.44	299.71-395.40	223.11-351.63
Benchmark Results			
OPG Help Desk Cost ($) Per End User	445.62	445.58	476.72
Peer Average ($)	223.27	227.11	193.22
Benchmark Analysis			
Reduction to Achieve Q1 ($/End User and %)	269.52	293.63	357.55
	↓60%	↓66%	↓75%
Reduction to Achieve Q2 ($/End User and %)	243.13	238.37	294.99
	↓55%	↓53%	↓62%

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Survey Results – Target Total Cash
Findings and Observations – Group 3

Society
Group 3: General Industry

Job Family	#OPG Incumbents	# Market Incumbents	Market Data Differential to P50	Market Data Differential to P75
Administration	1	6	15%	-31%
Engineering	-	-	-	-
Environment, Health & Safety	-	-	-	-
Finance	40	4,034	20%	6%
Human Resources	-	-	-	-
Information Technology	30	1,818	29%	17%
Maintenance	-	-	-	-
Operations	-	-	-	-
Supply Chain, Materials Mgmt & Purchasing	-	-	-	-
Corporate Services	3	173	6%	-12%
Average: Society (Weighted by OPG incumbent matches)			**23.3%**	**9.4%**

ONTARIOPOWER GENERATION

2010 Peer Group

- 2010 peer group is composed of the following North American utilities:
  - Center Point Energy
  - Energy North West
  - New Brunswick Power
  - Omaha Public Power District
  - Oncor
  - Pacific Gas & Electric
  - Pennsylvania Power & Light Corp
  - Progress Energy
  - Southern California Edison
  - Tennessee Valley Authority

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A portion of OPG's total pension and OPEB costs continues to be charged directly to the business units as part of standard labour rates. The portion of pension and OPEB costs included in standard labour rates is based on an estimate of the current service cost for pension and OPEB. The remainder of pension and OPEB costs, which includes interest costs on the obligations, the expected return on pension plan assets, amounts for past service costs and actuarial gains and losses, and any current service cost variance from the estimate reflected in the standard labour rates, continues to be recorded as a centrally-held cost (presented in Ex. F4-4-1, Section 3.0).

The centrally-held costs for pension and OPEB are directly assigned and allocated to the regulated business units in proportion to the amount of pension and OPEB costs directly charged to the regulated business units plus the costs assigned and allocated from the support services groups. The same methodology was used in EB-2010-0008 and EB-2012-0002. It has been reviewed by HSG Group, Inc. in the cost allocation study presented in Ex. F5-5-1, as well as by Black & Veatch Corporation Inc. in the cost allocation study filed in EB-2010-0008.

The costs associated with plans that provide benefits to OPG's employees during their employment continue to be charged to regulated business units largely via standard labour rates with a small portion included in centrally-held costs.

6.3.5 Comparison of Pension and OPEB Costs

Charts 2, 3 and 4 below present pension and OPEB costs attributed to nuclear, previously regulated hydroelectric and newly regulated hydroelectric operations, respectively, for the 2010-2015 period.[23] The 2011 and 2012 amounts for the nuclear and previously hydroelectric operations were reflected in the December 31, 2012 balances of the Pension and OPEB Cost Variance Account (on a Canadian GAAP basis) and the Impact for USGAAP Deferral Account approved in EB-2012-0002. Actuarial and audit reports in support of the 2011 and

[23] The figures in these Charts differ from those used in Table 1 and Attachment 6 because the amounts here include total pension and OPEB costs (i.e., all components) while Table 1 and Attachment 6 include only the current service cost component of pension and OPEB costs.

THE GLOBE AND MAIL

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The Third Rail: New Brunswick's electrifying pension-plan revival

By JIM LEECH and JACQUIE McNISH

From the National Business Book Award winner: How the employees, retirees, unions and government worked together to create sustainable pensions

Scores of New Brunswick pension funds were rocked by the global 2008 financial crisis, which sent asset values plummeting. Across Canada, the value of corporate and government investment holdings crashed, leaving many without assets to pay existing and future pensions. Careless pension management and a frail economy made matters worse in New Brunswick.

Among the hardest hit New Brunswick pensions was a plan for ten thousand working and retired nurses and health care and community employees. Health care employees enjoy great benefits because of incentives needed to draw workers to an aging, sparsely settled province. New Brunswick nurses earned average salaries of $72,000, while making a modest pension contribution equal to 5.25 per cent of their paycheques – one of the lowest rates in the province. Further weakening the plan, the provincial government, which employs nurses and health care workers, had been allowed to spend the fund's surplus to enhance pension benefits. The practice, unchallenged by union and plan members, left the fund with little cushion to absorb market shocks.

When the 2008 financial crisis struck, the pension fund was mortally wounded. By the end of 2008, the value of assets plunged to $830-million from $1.2-billion, leaving the plan with a deficit in excess of $340-million. It was a brutal blow for a fund facing a huge increase in retirements. In the nurses union, more than 40 per cent of workers are over fifty-five, leaving little time to recoup the losses.

On June 26, 2009, the plan's governing committee met inside the squat, red brick Wu Conference Centre at the University of New Brunswick. Gathering in the Fredericton campus at a large horseshoe table were the unions' senior executives and a handful of provincial officials.

Joining them were two advisers who would become indispensable pension paramedics.

In his mid-forties, Conrad Ferguson is tall and rangy, with a thick crop of grey-flecked black hair. His uncanny ability to forecast the implications of pension modifications would frequently be put to good use as New Brunswick struggled to fix its pension system.

Sue Rowland, an outspoken lawyer in her mid-sixties, had represented governments or workers in some of the country's biggest corporate restructurings, including Algoma Steel and the Canadian arms of Chrysler and General Motors. By the late 2000s, job stress had taken a toll on her health. She selected less demanding cases and devoted time to her octogenarian husband. One 2004 assignment she did accept was advising New Brunswick medical workers. Rowland initially hoped to travel to the province a few times a year, but she and her husband were so attracted to the friendly, no-nonsense Maritimes that they bought a second home near Fredericton.

With no imminent funding help from the province, Ferguson said, the plan had some tough decisions. Employees would have to increase pension contributions by an additional 8.55 per cent of salary or the value of future benefits would be reduced by 66 per cent. Both options put an enormous burden on current workers. Without drastic measures, the actuary warned, the pension plan was no longer sustainable. "It was the holy shit moment," said Rowland. "That's when we knew it was going in the tank. Unsustainable is actuarial code for bankruptcy."

Saving the plan

After Ferguson dispensed grim pension deficit news in 2009, a committee of union and government representatives endorsed a recommendation that benefit cuts be shared by all members, including retirees. The committee dispatched Ferguson and Rowland to find a fair, pragmatic solution. The committee's willingness to swallow harsh medicine was crucial. Few unions cede core benefits such as pensions without a fight. But the nursing and hospital employee union leaders on the committee understood from the beginning that they needed to move quickly to save their damaged plan.

Marilyn Quinn was elected president of the New Brunswick Nurses Union in 2004 after twenty years as a palliative care nurse. "You can't work in palliative care and not have hope," says Quinn of the years she spent helping families reconcile themselves to death. When she heard the pension diagnosis in 2009, she says, "I put on my palliative care glasses. It was time to be honest and tell people what they didn't want to hear."

Her counterpart, Susie Proulx-Daigle at the New Brunswick Union, had a tougher challenge. Her group was a local of Canadian Union of Public Employees, whose national leaders strongly oppose pension cuts. "I told them that we had our own problems in New Brunswick and that we were going to solve them our way. We are more of a social union. We are part of communities that work together to fix our problems."

To prepare members for harsh medicine, the unions made two crucial decisions. The first was trusting membership with bad news. Shortly after meeting with their actuary in June 2009, the unions alerted members in a newsletter that pension benefits could be reduced or changed and contributions increased to fortify the wounded fund. "Transparency was essential; we told them what was happening and they trusted us to do the right thing," said Quinn.

The other decision was to follow Rowland's advice to seek direction from the courts regarding the pension committee's right to change plan benefits and contributions.

After two days of hearings, Mr. Justice William Grant of the Court of Queen's Bench of New Brunswick handed down a decision on July 8, 2011, that would help pave the way to pension reform. Grant made three key findings. Recognizing the serious condition of the pension plan, he ruled that the governing committee of the Nurses and New Brunswick Union had a legal obligation to protect the long-term survival of the pension plan, even if that meant imposing benefit cuts. He ruled that the committee had the power to eliminate cost-of-living allowances (COLA) from the pensions of active workers. COLA increases, Justice Grant ruled, were not a benefit accrued during workers' careers but rather a perk earned on retirement day. The flip side of Grant's ruling was that retirees' COLAS could not be touched. Stripping a benefit that was already being paid to retirees would be a contractual violation. On the issue of asking workers to increase paycheque pension contributions, Grant ruled such hikes were possible, provided the employer, in this case the Government of New Brunswick, similarly increased its contributions to the plan.

Grant's decision marked one of the few times a Canadian court allowed a solvent pension plan to change benefits without a membership vote or collective bargaining process. The struggling pension fund had a green light to suspend a perk it could no longer afford.

Grant's decision also sharpened the legal boundaries of pension rights. If troubled funds needed to scale back payments to retirees or ask employees and employers to save more for pensions, New Brunswick had to change its laws. Premier David Alward was willing, but before he introduced laws to shrink pension benefits, he had to ensure his government was bulletproof. That meant rolling back rich pensions for provincial politicians. MLAs would be the province's first pension beneficiaries, outside of bankruptcy proceedings, to swallow significant benefit reductions. "It was the right thing to do. We needed to be part of the change," Alward said.

For the next ten months the task force and Alward's government worked behind the scenes to draft new legislation and calculate the right mix of pension cuts and funding increases needed to rescue their retirement system. Although reformers were confident they could find financial solutions, they were uncertain of political support. "We were taking a significant risk as a government," Alward said. About 70 per cent of the province's workers did not have pensions. If the government was too generous with troubled funds, which largely covered public sector workers, it could have a taxpayer rebellion.

He had to convince unions and voters that a pension overhaul would save the province from a financial meltdown.

After Justice Grant's decision, Rowland encouraged unions to meet with Alward in late 2011 to pave the way for a new approach. Alward promised union chiefs Quinn and Proulx-Daigle that he would support a collaborative approach. If they worked with the task force to repair broken pension funds, their solution could be a template for other ailing funds.

Over the next weeks and months, the two sides inched toward an agreement. Alward's government agreed to increase contributions to the pension fund, but in exchange the unions had to swallow benefit reductions and other changes to ensure the long-term viability of their pensions. Rowland and Ferguson, played a key role in guiding the unions to the right mix of benefit cuts.

By March 2012, the task force and unions had reached an agreement on general terms of a new pension plan. They also had something else. Thanks to Rowland's shuttle diplomacy with other troubled New Brunswick pension funds, two more unions agreed to consider reforms.

The blueprint for New Brunswick's reforms came from the Netherlands. The Dutch had reformed their pensions in the early 2000s to prepare for the strain of baby boom retirements. The result was a shared-risk model that ranked as one of the world's most admired pension systems.

Like the Dutch model, the province's pension system would be called a shared-risk plan. Employers and employees would increase contributions if needed, and benefits could be scaled back or redesigned to ensure pensions had sufficient surpluses to survive market shocks and demographic changes. Unlike Conrad Ferguson's alarming 2009 prognosis that the plan for the two New Brunswick unions would need to slash benefits by more than 60 per cent to save pension plans, most new reforms would be introduced incrementally. Those pensions that agreed to reforms would also have to adhere to more conservative risk management tactics – practices that would use more modern and conservative mortality and investment forecasts. Overly optimistic forecasts would no longer mask funding issues. Overseeing all these changes would be independent administrators.

The reform's most profound changes affected retirees. Planned new provincial legislation, the country's most sweeping pension reform in decades, would allow shared-risk pension plans to expropriate certain rights of retirees. If a fund was hit with a deficit, retiree benefits could be temporarily altered. For the four unions negotiating with the task force, the change meant both retirees' cost-of-living allowances and other active member benefits would become conditional. If their pension fund had a deficit, the contingent benefits would be suspended until a surplus was restored. This was the benefit cut that Justice Grant had rejected when the two unions asked for his direction in 2011. Now New Brunswick was changing its laws so that all members who joined the new model would shoulder their share of the pension repair bill.

Another major change was the retirement age. It would be pushed to sixty-five from sixty. Addressing the nursing union's concerns, this shift would be introduced gradually over a forty-year period, which meant the bulk of the union's older workers would only delay their retirements by a few months. New employees would take a bigger hit, retiring years later than their predecessors.

Workers would also be asked to increase contributions to the pension fund. Keeping Alward's promise, the province also agreed to increase contributions. The nurses, for example, would see their average pension contributions increased to 7.86 per cent from 5.25 per cent, a jump matched by the province.

Reforms also downsized the formula for calculating pension values. Like most Canadian plans, New Brunswick pensions are typically calculated from a base salary that reflects an average of a worker's highest salary years. Some New Brunswick plans were so generous that workers could supersize their base by adding overtime payments. Under the new model, pension values would be calculated from a lower base, derived from a worker's average career salary, contingently adjusted for inflation.

Overtime pay would no longer be added to the formula.

The Dutch pension system was ranked as one of the soundest pension systems in the world because it had enforced many of the standards and practices that New Brunswick was now adopting. One of Canada's weakest provinces was building the foundations for the country's most secure pension fortresses.

Four union leaders flanked Premier Alward when he strode onto the stage at Fredericton's new conference centre on the morning of May 31, 2012. Walking with him was Marilyn Quinn, Susie Proulx-Daigle, Norma Robinson, and Gary Ritchie, heads of unions who were announcing their participation in the new shared-risk pension model.

Alward began the press conference by talking about the acute condition of the province's pension plans, which he revealed for the first time were no longer sustainable. "It is not fair or realistic to expect New Brunswick taxpayers to backstop" troubled funds, he said. As a result of "unprecedented" collaboration with the unions, workers were sharing the burden, allowing the province to build a stronger system "before crisis struck." Like so many times before in the province's difficult history, he said, New Brunswickers had come together in the face of adversity because "we are driven by both a fiercely independent spirit and deeply rooted sense of community."

Alward asked union leaders and Sue Rowlands, there on behalf of the task force, to walk with him across the street to the ornate Victorian-era legislature building, where he was scheduled to introduce a bill with the new pension reform laws. Expecting to watch the session from the gallery, the five were instead escorted to the carpeted floor of the Assembly Chamber, where they were given seats on a wooden bench facing Alward. After the premier gave a speech explaining the significance of the new shared-risk pension plan, which would also be applied that day to MLA pensions, Alward asked his guests to stand as he thanked them for their co-operation. As they rose, the two-storey chamber was soon filled with thunderous applause. Every attending MLA from the two elected Liberal and Conservative parties stood to give the unions and the labour lawyer a standing ovation. Stunned by the reaction, Rowlands, the hard-nosed labour lawyer, began to cry. "Other than the day I was married it was the happiest day of my life. No one was playing silly buggers with politics. New Brunswick was fixing its pensions."