EB-2016-0152

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act 1998*, Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an application by Ontario Power Generation Inc. pursuant to section 78.1 of the *Ontario Energy Board Act, 1998* for an Order or Orders determining payment amounts for the output of certain generation facilities.

CROSS-EXAMINATION COMPENDIUM OF THE SCHOOL ENERGY COALITION (Panel 4)

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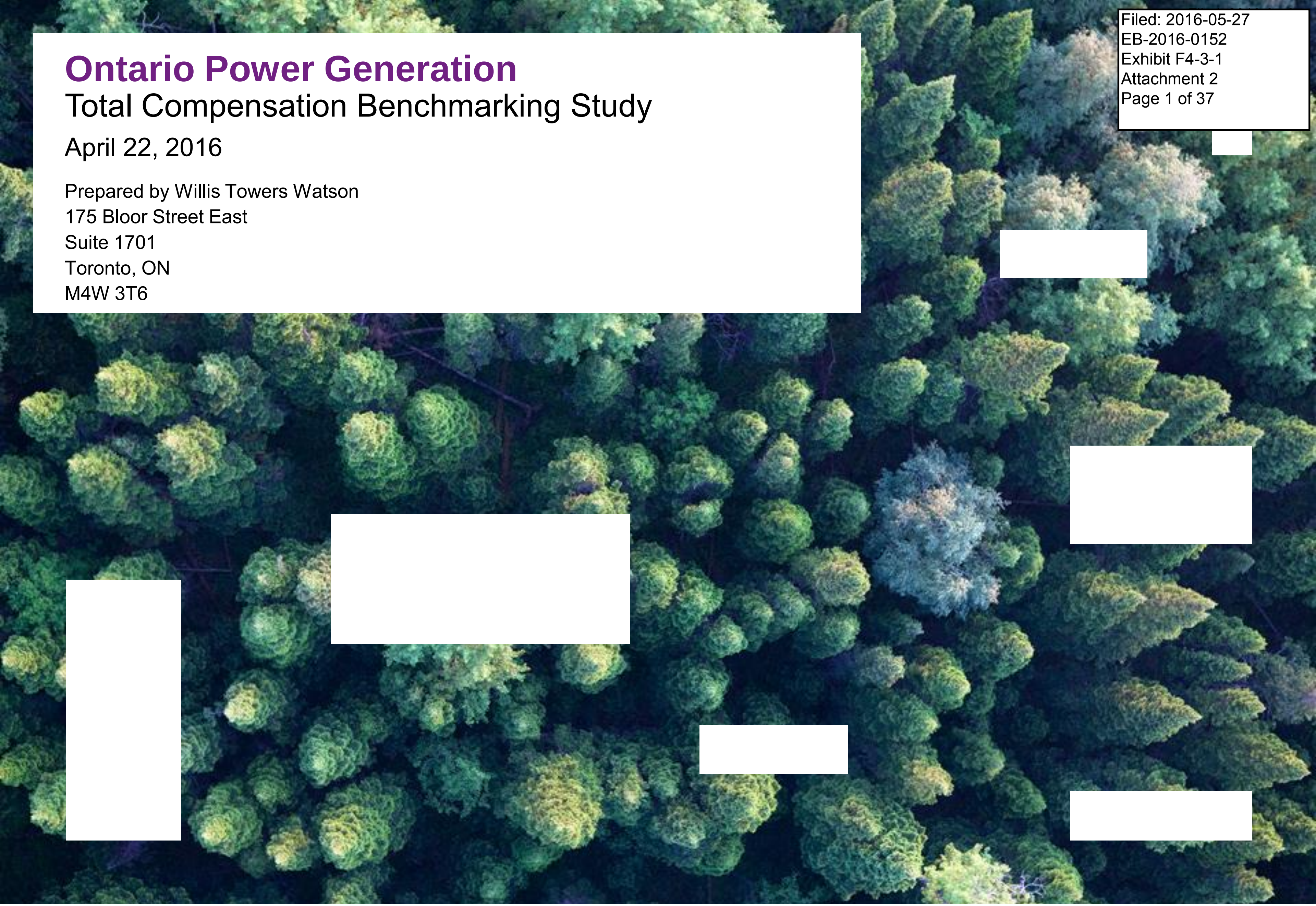

Ontario Power Generation

Total Compensation Benchmarking Study

April 22, 2016

Prepared by Willis Towers Watson
175 Bloor Street East
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Willis Towers Watson

Introduction

- Willis Towers Watson has conducted a total compensation benchmarking study for roles across Ontario Power Generation's (OPG) Management, PWU and Society employee groups.
- This benchmark review has been conducted on a segmented basis. Roles are benchmarked against comparator organizations best representing the underlying skill sets required.
- The three segments are: Utility, Nuclear Authorized and General Industry.
- 78% of OPG incumbents are in roles covered by this benchmark review. In our experience, this is a strong representative sample.

OPG Group	Total # OPG Incumbents	Total # OPG Incumbents Benchmarked	% OPG Incumbents Benchmarked
PWU	**5,533**	**4,475**	**81%**
Utility	3,754	3,169	84%
Nuclear Authorized	255	255	100%
General Industry	1,524	1,051	69%
Society	**2,918**	**2,151**	**74%**
Utility	2,235	1,808	81%
Nuclear Authorized	111	53	48%
General Industry	572	290	51%
Management	**1,062**	**754**	**71%**
Utility	532	355	67%
Nuclear Authorized	39	37	95%
General Industry	491	362	74%
Total	**9,513**	**7,380**	**78%**

Note: OPG incumbent information as of April 2015

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Comparator Group Selection

- Comparator groups by segment were derived from the full list of organizations participating in the Willis Towers Watson 2015 Compensation databases, based on the criteria below. The full list of comparator organizations used by segment is provided in *Appendix I*.

1. **Utility**
   - Primarily consists of public and private sector utility companies.
2. **Nuclear Authorized**
   - These roles represent a small percentage of the total OPG population and are characterized by unique complexity requirements and pay practices (particularly licensing and certification allowances). Comparable roles are not readily found in Canada. Unlike the comparator organizations for the other segments which reflect data for Canadian employees only, this comparator group reflects a sample of 10 large nuclear organizations of a comparable size to OPG, including Bruce Power (Canada) and nine US nuclear organizations.
3. **General Industry**
   - Includes both public and private companies requiring a large range of skill sets and emphasis on large Ontario employers. The "total sample" data consists of data weighted "50/50" between the public and private companies within the peer group.

Compensation Elements and Market Statistics

- Market statistics reported reflect the 50th percentile and 75th percentile of the benchmark samples for the data elements summarized below:
  - 50th percentile represents the mid-point of the sample, 50% of the data points are positioned below and above this level.
  - 75th percentile represents the level where 75% of the data points are positioned below and 25% are positioned above this level.
    - For survey confidentiality purposes, the 75th percentile can only be shown if there are a minimum of 5 data points in the sample.
- Market data for the US nuclear peer group used for the Nuclear Authorized segment were converted to CAD, consistent with Willis Towers Watson's practice, using an average annual exchange rate to February 2016 of $1 USD - $1.29676 CAD to moderate fluctuations.

Compensation Element	Market	OPG
Salary	2015 actual reported comparator organization salaries of incumbents in benchmark roles	Average salary (as of April 2015) of incumbents in benchmark roles
Total direct compensation (TDC)	2015 actual reported comparator organization salary + target bonus + nuclear allowances + perquisites (if applicable) + long-term incentives (if applicable) of incumbents in benchmark roles	Average salary (as of April 2015) + target bonus (if applicable) + nuclear and/or and other applicable allowances of incumbents in benchmark roles

Overview: Compensation Analysis Results

- Willis Towers Watson considers compensation for benchmark jobs to be aligned with the competitive market when it falls within +/- 10% of the target market position. OPG's compensation philosophy defines a target market position at the 50th percentile for Utility and General Industry segments and the 75th percentile for the Nuclear Authorized Segment (based on role complexity).
- Overall, OPG's Total Direct Compensation is positioned within 5% of the target market. The Utility segment, which includes approximately three quarters of the incumbents, is positioned within 2% of the target market.

OPG Group and Segment	# OPG Matched Incumbents	% +/- Target Market Base Salary	% +/- Target Market TDC
PWU	**4,475**	**13%**	**8%**
Utility	3,169	10%	4%
Nuclear Authorized	255	7%	10%
General Industry	1,051	31%	27%
Society	**2,151**	**18%**	**8%**
Utility	1,808	17%	7%
Nuclear Authorized	53	-7%	-14%
General Industry	290	38%	27%
Management Group	**754**	**-7%**	**-13%**
Utility	355	-12%	-19%
Nuclear Authorized	37	-18%	-27%
General Industry	362	3%	1%
Overall	**7,380**	**12%**	**5%**

OPG Segment	% +/- Target Market Base Salary	% +/- Target Market TDC
Utility	10%	2%
Nuclear Authorized	1%	-3%
General Industry	25%	19%

Note: Target positioning for roles in the Nuclear Authorized segment is the 75th percentile, except for Senior Executive roles which target the 50th percentile.

Methodology – Pension and Benefit Analysis

- Pension and benefit information was obtained from the Willis Towers Watson's Benefit Data Source – Canada based on comparator organizations representing a 50%/50% mix of private and public sector organizations. Comparator organizations are not differentiated by segment as organizations typically offer common pension and benefit plans across all roles and skill sets. A list of comparator organizations are presented in *Appendix I.*
- Comparator organizations were established based on data availability where program information is available for comparator PWU, Society and Management populations. Plan provisions valued are those that apply to newly hired employees.
- Results are based on the benefits data and information provided to Willis Towers Watson by participating organizations. Benefit plans included in the analysis are: pension, savings (including stock purchase, group RRSP, DPSP), active and retiree health care and dental care, short-term disability, long term disability and active and retiree benefits. Benefits no longer available to new hires are not considered.
- We determined a value for these benefits by applying a standard methodology to develop employee profiles based on applicable PWU, Society and Management age, service, gender and salary demographics. Detailed methodology is presented in *Appendix III*.

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Compensation Comparator Organizations
Utility Segment

#	Company (n = 29)		
1	Alberta Electric System Operator	16	FortisAlberta Inc.
2	Alcoa Canada	17	GE Energy
3	Algonquin Power and Utilities Corp.	18	Hydro One Inc.
4	Altalink	19	Hydro Quebec
5	ArcelorMittal Montreal Inc.	20	Kinross Gold Corporation
6	ATCO Group	21	Newfoundland and Labrador Hydro Electric Corporation
7	Barrick Gold Corporation	22	Rio Tinto Alcan Canada
8	BC Hydro Power & Authority	23	Samuel, Son & Co., Ltd.
9	Bruce Power LP	24	SaskPower
10	Capital Power Corporation	25	Spectra Energy Transmission*
11	Chevron Canada Limited	26	Toronto Hydro Electric
12	Enbridge Inc.*	27	TransAlta Corporation
13	ENMAX Corporation	28	TransCanada Corp.
14	EPCOR Utilities Inc.	29	United States Steel Canada
15	ExxonMobil Canada		

** Data excludes Alberta incumbents*

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Market Statistics

- For the market studied in this review, pension and benefits represent a small component of the overall total compensation package.
- The table below illustrates the weighted average of pension and benefit employer-provided values as a % of base salary at OPG and how it compares to the 50th percentile of the market, recognizing that values vary across demographic, tenure and age profiles.
- The employer-provided value of OPG's pension and benefits as a % of base salary is above the 50th percentile of the market for the PWU, Society and Management Groups.

Pension & Benefits % of Base Salary		
OPG Group	OPG	Market P50
PWU	29.7%	20.2%
Society	30.3%	20.3%
Management	31.3%	22.8%

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Compensation Comparator Organizations
Nuclear Authorized Segment

#	Company (n = 10)
1	Bruce Power
2	Dominion Resources
3	Duke Energy
4	Entergy
5	Exelon
6	FirstEnergy
7	NextEra Energy
8	Public Service Enterprise Group
9	Southern Company Services
10	Tennessee Valley Authority

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Compensation Comparator Organizations
General Industry Segment – Public Sector

#	Company (n = 23)
Public Sector - weighted 50% for benchmarking purposes	
1	Alberta Electric System Operator
2	Alberta Energy Regulator (previously Energy Resources Conservation Board)
3	Bank of Canada
4	BC Hydro Power & Authority
5	British Columbia Lottery Corporation
6	Canada Post
7	Canadian Broadcasting Corporation/Radio Canada
8	CPP Investment Board
9	ENMAX Corporation
10	EPCOR Utilities Inc.
11	Healthcare of Ontario Pension Plan
12	Hydro-Québec
13	Insurance Corporation of British Columbia (ICBC)
14	Loto-Québec
15	Newfoundland and Labrador Hydro Electric Corporation
16	SaskPower
17	SGI Canada
18	Toronto Hydro Electric
19	Treasury Board of Canada Secretariat
20	University Health Network
21	VIA Rail Canada Inc.
22	Workplace Safety & Insurance Board - Ontario
23	York University

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Compensation Comparator Organizations
General Industry Segment – Private Sector

#	Company (n = 58)		
Private Sector - weighted 50% for benchmarking purposes			
1	The Coca-Cola Company-Canada	30	Kinross Gold Corporation
2	Air Canada	31	Kruger Inc.
3	Alcoa Canada	32	Loblaw Companies Limited
4	Algonquin Power and Utilities Corp.	33	Magna International Inc.
5	AMEC Americas Limited	34	Manulife Financial Corporation
6	ATCO Group	35	Maple Leaf Foods Inc.
7	ATS Automation Tooling Systems Inc	36	McCain Foods Limited
8	Bank of Montreal	37	Molson Coors Canada
9	BCE Inc.	38	Nexen Energy ULC
10	Bruce Power LP	39	Nissan Canada, Inc.
11	Canada Colors and Chemicals Limited	40	Parmalat Canada
12	Canadian Imperial Bank of Commerce	41	Procter & Gamble Inc.
13	Canadian National Railway	42	Purolator Inc.
14	Canadian Pacific Railway Ltd.	43	RBC Financial
15	Canadian Tire Corporation	44	Rio Tinto Alcan Canada
16	Capital Power Corporation	45	RioCan Real Estate Investment Trust
17	Cargill Limited	46	Rogers Communications Inc.
18	Celestica Inc.	47	Rothmans Bensons & Hedges
19	Chevron Canada Limited	48	Samuel, Son & Co., Ltd
20	Enbridge Inc. *	49	Scotiabank
21	Encana Corporation	50	Spectra Energy *
22	Ernst & Young Canada	51	Sun Life Financial
23	FCA Canada Inc. (Formerly Chrysler Canada Inc.)	52	Talisman Energy Inc.
24	Federal Express Canada Ltd.	53	TD Bank Financial Group
25	Ford Motor Company of Canada, Limited	54	Toyota Motor Manufacturing Canada
26	General Electric Canada	55	TransAlta Corporation
27	Gerdau Long Steel North America	56	TransCanada Corp.
28	Hydro One Inc.	57	Unilever Canada
29	Johnson and Johnson Canada	58	Viterra Inc

** Data will exclude Alberta incumbents*

Compensation Comparator Organizations
Pension & Benefits Analysis

#	Public Sector (n=12)	#	Private Sector (n=12)
1	British Columbia Hydro and Power Authority*	13	Bruce Power
2	Canada Post Corporation	14	Canadian Imperial Bank of Commerce
3	Canadian Blood Services	15	Canadian Tire Corporation
4	ENMAX Corporation	16	Enbridge Gas Distribution
5	EPCOR Utilities	17	Honda Canada†
6	Hospital for Sick Children, The*	18	Kinross Gold Corporation
7	Hydro One*	19	Maple Leaf Foods*
8	Hydro-Québec	20	Rogers Communications
9	Ontario Public Service	21	Samuel, Son & Co*†
10	SaskPower	22	Sun Life Financial
11	Toronto Hydro-Electric System Limited	23	TransAlta Corporation
12	Workplace Safety & Insurance Board	24	TransCanada Corp.

** Excluded from Society/PWU positioning.*
† Excluded from Senior Executives positioning.

UNDERTAKING JTX3.18

Undertaking

TO GIVE MORE INFORMATION AS TO WHY OPG PICKED THE COMPARATORS INSTEAD OF AON HEWITT IN EX. L-6.6-1 STAFF-157, ATTACHMENT 2.

Response

AON provides guidance to its clients in selecting appropriate comparators, providing information such as industry sector, size and geography to assist in that decision; however the final selection of peers is the client's decision.

The organizations OPG selected focused primarily on public sector organizations, with some private utilities included. The emphasis on public sector arose following the review conducted by the Auditor General in 2013 which utilized the Ontario Public Service as the primary comparator in their assessment.

SEC Interrogatory #83

Issue Number: 6.6
Issue: Are the test period human resource related costs for the nuclear facilities (including wages, salaries, payments under contractual work arrangements, benefits, incentive payments, overtime, FTEs and pension costs, etc.) appropriate?

Interrogatory

Reference:
[F4/3/1, Attach 2]

With respect to the Willis Towers Watson study:

a. What percentage of OPG's employees, that are either directly assigned or allocated (at least in part) to the nuclear facilities, are in each of the Utility, Nuclear, or General Industry comparator category?

b. For each employee category (PWU, Society, Mgmt Group, and Total), please provide the cost impact, for each year of the test period, if OPG was at the 50% median, for each comparator category (Utility, Nuclear, General Industry, Total). Please only include the cost impact as they relate to costs that are either directly attributable to or allocated to the nuclear facilities. Please provide all assumptions used in the calculation.

Response

a. OPG estimates that approximately 68% of employees associated with OPG's Nuclear Regulated Facilities are in the Utility segment, 5% in the Nuclear Authorized segment, and 27% in the General Industry segment.

b. The compensation benchmarking results captured in Ex. F4-3-1, Attachment 2, provide directional information to understand how OPG's compensation compares with the market place as of April, 2015. In Willis Towers Watson's experience, most organizations use this information by considering a range of pay around their desired reference point given the variability within the market data. Typical practice is to consider actual compensation that falls within +/- 10% of the organization's targeted market positioning to be "at market". For OPG, this is the +/- 10% to the 50th percentile or, in the case of a small portion of the population in the nuclear authorized segment +/- 10% of the 75th percentile targeted due to scope and complexity. OPG's overall positioning for total direct compensation currently falls within that market range.

   Cost impacts associated with OPG's total direct compensation being above or below the specific targeted market positioning as of April, 2015 can be estimated for the data included in the study, and have been estimated by Willis Towers Watson for total OPG.

OPG attributed the total OPG cost impact estimates of above target total direct compensation determined by Willis Towers Watson to the nuclear facilities based on the proportion of total OPG FTEs associated with the nuclear facilities. This yielded a cost impact of approximately $30M for the nuclear facilities of being 5% above the targeted marketed positioning. This is comprised of approximately $29M for PWU represented employees and approximately $15M for Society represented employees, and is offset by Management Group employees where OPG's costs are approximately $14M below the 50th percentile. OPG notes that the applicability of these point-in-time benchmarking results to a future period is speculative, as wage increases and compensation changes in the market place are not known.

Cost impacts associated with OPG pension and benefits benchmarking above market are not available because the benchmarking is based on the value of these forms of compensation to the employee, not the cost to the employer. Willis Towers Watson describes this at Ex. F4-3-1, Attachment 2, p. 35:

> *The methodology used determines the value to employees of each organization's benefits program by plan. The purpose is to quantify the provisions offered by each organization. The pension and benefit plan values are determined by applying a common set of actuarial methods and assumptions to employee profiles (these values are not intended to represent actual plan/program costs).*

The approach followed by Willis Towers Watson in conducting the pension and benefits benchmarking analysis is consistent with the prevalent industry practice for the competitive benchmarking of employee pension and benefits, and is similar in this regard to the previous benchmarking study prepared by AON Hewitt (see EB-2013-0321, Ex. F5-4-1, p. 65).

UNDERTAKING JT3.2

Undertaking

TO PROVIDE A STEP-BY-STEP BREAKDOWN OF HOW CALCULATIONS IN EX. L-6.6-15 SEC-083, PART B WERE ARRIVED AT. ALSO TO ADVISE IF ANY ADJUSTMENTS WERE MADE TO THE METHODOLOGY USED IN EB-2013-0321, UNDERTAKING J9.11 TO DETERMINE THAT RESPONSE TO THIS RESPONSE.

Response

Attachment 1 provides a breakdown of the calculations provided in Ex. L6.6-15 SEC-083, part (b).

The approach taken is mostly consistent with the methodology used in EB-2013-0321 Undertaking J9.11, with the following noted differences. The cost impacts reflected in J9.11 were estimated wholly by OPG; and, in providing a response to Ex. L-6.6-15 SEC-083, Willis Towers Watson estimated the total OPG cost impacts, and OPG calculated the percentage of the impacts attributable to the Nuclear regulated business as shown in Attachment 1.

Group	Segment	WTW Estimate	Determination of Regulated Portion Based on Organizational Details *(Prorated costs provided by WTW to each organization, and then used 2K FTE proportions to identify that which is assocaited with Regulated Nuclear, including both Direct (Nuclear Org) & Allocated (Corp Group) costs.*						
		TDC Costs Above (Below) 50thP ($M)	Nuclear Org	Corporate Groups	OPG Headcount by Org (Apr 1 2015)	% Nuclear Regulated (from Appendix 2K Data): Nuclear Org	% Nuclear Regulated (from Appendix 2K Data): Corp Groups	% of Headcount	Estimate of Nuclear Regulated Costs
		A	B	C	D	E	F	G = (B x E + C x F) / D	H = A x G
Mgmt	Utility	(13.8)	358	81	532	99%	71%	78%	(10.7)
	Nuclear Authorized	(4.0)	33	6	39	100%	100%	100%	(4.0)
	General Industry	0.6	94	386	491	99%	71%	75%	0.5
	Mgmt Sub-Total	(17.1)	485	473	1,062	99%	71%	77%	(14.2)
Society	Utility	13.4	1,630	302	2,235	100%	75%	83%	11.1
	Nuclear Authorized	(1.9)	77	34	111	100%	100%	100%	(1.9)
	General Industry	7.4	118	429	572	100%	75%	77%	5.7
	Society Sub-Total	18.9	1,825	765	2,918	100%	75%	82%	14.9
PWU	Utility	14.1	2,711	191	3,754	100%	90%	77%	10.8
	Nuclear Authorized	3.9	255	0	255	100%	100%	100%	3.9
	General Industry	17.6	621	680	1,524	100%	90%	81%	14.2
	PWU Sub-Total	35.6	3,587	871	5,533	100%	90%	79%	28.9
Total		37.4	5,897	2,109	9,513			80%	29.6

SEC Revised JT 3.2

Group	Segment	WTW Estimate	SEC Estimate	SEC Estimate	Determination of Regulated Portion Based on Organizational Details *(Prorated costs provided by WTW to each organization, and then used 2K FTE proportions to identify that which is assocaited with Regulated Nuclear, including both Direct (Nuclear Org) & Allocated (Corp Group) costs.*								
					OPG Headcount			% Nuclear Regulated (from Appendix 2K Data)		% of Headcount	OPG Estimate of Nuclear Regulated Costs	SEC Estimate of Nuclear Regulated Costs	SEC Estimate of Nuclear Regulated Costs (All P50)
		TDC Costs Above (Below) 50thP ($M)	TDC Cost Difference P50 for Entire Org (1)	TDC Cost Difference P50 inc P50 for Nuc Auth for Entire Org (2)	Nuclear Org	Corporate Groups	(Apr 1 2015)	Nuclear Org	Corp Groups				
		A	A2	A3	B	C	D	E	F	G = (B x E + C x F) / D	H = A x G	i = A2 x G	J = A3 x G
Mgmt	Utility	-13.8	-20.7	-20.7	358	81	532	99%	71%	77%	-10.7	-16.0	-16.0
	Nuclear Authorized	-4	-4.2	-3.1	33	6	39	100%	100%	100%	-4.0	-4.2	-3.1
	General Industry	0.6	0.8	0.8	94	386	491	99%	71%	75%	0.4	0.6	0.6
	Mgmt Sub-Total	-17.1	-24.1	-23.0	485	473	1,062	99%	71%	77%	-14.2	**-19.6**	**-17.7**
Society	Utility	13.4	16.6	16.6	1,630	302	2,235	100%	75%	83%	11.1	13.8	13.8
	Nuclear Authorized	-1.9	-4.0	-1.8	77	34	111	100%	100%	100%	-1.9	-4.0	-1.8
	General Industry	7.4	14.6	14.6	118	429	572	100%	75%	77%	5.7	11.2	11.2
	Society Sub-Total	18.9	27.2	29.4	1,825	765	2,918	100%	75%	82%	14.9	**21.0**	**23.2**
D\A\I 1	Utility	14.1	16.7	16.7	2,711	191	3,754	100%	90%	77%	10.8	12.8	12.8
	Nuclear Authorized	3.9	3.9	7.7	255	0	255	100%	100%	100%	3.9	3.9	7.7
	General Industry	17.6	25.5	25.5	621	680	1,524	100%	90%	81%	14.2	20.6	20.6
	PWU Sub-Total	35.6	46.1	49.9	3,587	871	5,533	100%	90%	79%	29.0	**37.4**	**41.1**
Total		37.4	49.2	56.3	5,897	2,109	9,513				**29.7**	**38.8**	**46.7**

Source:
(1) See Calculation Sheet column E
(2) See Calculation Sheet column G

Calculation Sheet

OPG Group (a)	Total # OPG Incumbents (b)	Total # OPG Incumbents Benchmarked (c)	WTW Estimate - TDC Costs at P50 ($M) (d)	TDC Cost at P5O Entire Org (e) b/c*e	TDC Cost at P50 - Nuc Auth at P50 ($M) (f)	TDC Cost at P50 Entire Org - Nuc Auth at P50 ($M) (g) b/c'*f
Management Group						
Utility	532	355	-13.8	-20.7	-13.8	-20.7
Nuclear Authorized	39	37	-4	-4.2	-3.0	-3.1
General Industry	491	362	0.6	0.8	0.6	0.8
Management Subtotal	**1062**	**754**	**-17.2**	**-24.1**	**-16.16**	**-23.0**
Society Group						
Utility	2235	1808	13.4	16.6	13.4	16.6
Nuclear Authorized	111	53	-1.9	-4.0	-0.8	-1.8
General Industry	572	290	7.4	14.6	7.4	14.6
Society Subtotal	**2918**	**2151**	**18.9**	**27.2**	**19.952**	**29.4**
PWU Group						
Utility	3754	3169	14.1	16.7	14.1	16.7
Nuclear Authorized	255	255	3.9	3.9	7.7	7.7
General	1524	1051	17.6	25.5	17.6	25.5
PWU Subtotal	**5533**	**4475**	**35.6**	**46.1**	**39.35**	**49.9**
TOAL	9513	7380	**37.3**	**49.2**	**43.1**	**56.3**

Source: (b)& (c) F4-3-1, Attach 2, p.3; (d) JT3.2, Attach 1, column A

Nuclear Authorized (P50)					
Category	# OPG Matched Positions	TDC OPG. Avg.n ($K)	TDC P50 ($K)	Difference ($K)	Diff x OPG Matched Positions ($K)
Management*	37	287	367	-80	-2,960.00
SEP	53	213	229	-16	-848.00
PWU	255	167	137	30	7,650.00

Source: F4-3-1, Attach 2, p.18-20

* Management has 37 positions listed, but for one position the information is not disclosed due to small sample size in that sub-category. For the purposes of this calculation SEC has assumed the 37th person has the same difference from the other positions in the category.

Board Staff Interrogatory #153

Issue Number: 6.6
Issue: Are the test period human resource related costs for the nuclear facilities (including wages, salaries, payments under contractual work arrangements, benefits, incentive payments, overtime, FTEs and pension costs, etc.) appropriate?

Interrogatory

Reference:
Ref: Exh F4-3-1 Attachment 2

The Towers Total Compensation Benchmarking Study provides a compensation analysis and a pension and benefits analysis.

a) Nine of the ten comparators in the "nuclear authorized" group are based in the United States; accordingly Towers converted their compensation figures into CAD. Please confirm that the results of the nuclear authorized comparison can be heavily influenced by fluctuating exchange rates.

b) At page 11, the report states: "OPG's compensation philosophy defines a target market position at the … 75th percentile for the Nuclear Authorized Segment (based on role complexity)." Does Towers agree that the 75th percentile is the most appropriate comparison point for the Nuclear Authorized Segment? Please elaborate.

Response

a) As referenced in Ex. F4-3-1, p.21, footnote 7, "the Nuclear Authorized segment results are being affected by volatile exchange rates." It is also important to note that due to the small percentage of staff in this segment, the overall impact of exchange rates on OPG's benchmarking results is not significant.

b) Willis Towers Watson ("Towers") agrees that the 75th percentile is an appropriate comparison point for the Nuclear Authorized segment.

The purpose of benchmarking compensation at the job role level is to ensure a comparison to market for comparable skills and accountabilities. Management, Society and PWU roles in the Nuclear Authorized Segment at OPG are subject to greater complexity due to how the nuclear units are structured with responsibility for 4 units at OPG compared to 1-2 in the market. This makes the scope of the management, society and PWU roles broader and more complex. As such in reviewing the range of market data, the 75th percentile data was determined to be the best proxy to address this relative level of complexity. It should be noted that use of the 75th percentile data is not used for top executive jobs where accountability for overall nuclear operations is consistent across roles in the comparator group.

Board Staff Interrogatory #142

Issue Number: 6.6
Issue: Are the test period human resource related costs for the nuclear facilities (including wages, salaries, payments under contractual work arrangements, benefits, incentive payments, overtime, FTEs and pension costs, etc.) appropriate?

Interrogatory

Reference:
Ref: Exh F4-3-1 page 6, Figure 3
Figure 3 has a line showing total compensation per FTE.

a) Does the total compensation per FTE include the value of the lump sum payment and share performance plan discussed at Exh F4-3-1 page 17? If it does not, please update the table to include this remuneration.
b) Further to question (a), does the total compensation per FTE include all compensation in any form provided to OPG employees? If not, please elaborate.
c) In its Total Compensation Benchmarking Study, Towers compares OPG's "Total Direct Compensation" (which is average salary + target bonus + nuclear and other allowances) with several comparator groups. How does Total Direct Compensation map to Figure 3? Is it the "base salaries and incentives" line?
d) Please prepare a chart showing the average total compensation per employee from 2010-2021 for the management, PWU and Society groups. Please include all compensation, including the lump sum payments and the share performance plan. OEB staff suggests that OPG use the format of EB-2013-0321 Undertaking J9.7 to present this data.

Response

a) Yes, the total compensation per FTE shown in Ex. F4-3-1, Figure 3 does include the value of the lump sum payment and share performance plan.

b) The total compensation per FTE shown in Ex. F4-3-1, Figure 3 includes all the compensation elements captured in Ex. F4-3-1, Attachment 1. This includes base salaries and incentives, overtime, current employee benefits and all current service costs (on an accrual basis) for pension and other post-employment benefits (OPEB). Base salaries and incentives include all wages and salaries, costs associated with OPG's Stakeholder Return Program, as well as allowances such as bonuses paid to Nuclear Authorized staff and shift premiums paid to unionized workers. For clarity, amounts paid to employees to reimburse them for expenses incurred, such as relocation, are not included in Ex. F4-3-1, Attachment 1. Also excluded are the non-current service cost components of centrally-held pension and OPEB costs (Ex. F4-4-1

Table 3, line 1) and the offsetting adjustment that converts pension and OPEB costs from an accrual to a cash basis (Ex. F4-4-1 Table 3, line 2).

c) No, Total Direct Compensation in the Towers' benchmarking study do not map to "base salaries and incentives" line in Ex. F4-3-1, Figure 3. The information in Ex. F4-3-1, Figure 3 is derived from "Appendix 2k" found at Ex. F4-3-1, Attachment 1. Figure 1 below shows the relationship between "Base Salaries & Incentives" line shown in Ex. F4-3-1, Figure 3 and the "Total Direct Compensation" captured in the Towers' benchmarking study at Ex. F4-3-1, Attachment 2.

Figure 1

<table>
<tr><th colspan="2">"Appendix 2k"
Exhibit F4-3-1 Attachment 1</th><th colspan="2">Compensation Benchmarking
Exhibit F4-3-1 Attachment 2</th></tr>
<tr><td colspan="2">Acutal & planned compensation costs associated with <u>Nuclear Facilities</u> presented over multiple years</td><td colspan="2">Compensation elements associated with matched positions across <u>all of OPG</u> as of April 2015</td></tr>
<tr><td rowspan="4">Base Salary & Incentives</td><td>Annual salaries paid or planned during the year</td><td rowspan="3">Total Direct Compensation</td><td>Annual salaries as of a point in time</td></tr>
<tr><td>Actual Stakeholder Return Program Costs</td><td>Target Stakeholder Return Program Costs</td></tr>
<tr><td>Actual Nuclear Authorization Allowances</td><td>Actual Nuclear Authorization Allowances for the <u>prior year</u></td></tr>
<tr><td>Other Allowances
(i.e. shift premiums, on call)</td><td colspan="2">Not Benchmarked</td></tr>
</table>

d) Please see Attachment 1 for a depiction of the average total compensation per employee from 2010 -2021 for Management, PWU and Society. The lump sum payments and share performance plan have been included in the compensation amounts shown.

SEC Interrogatory #76

Issue Number: 6.6
Issue: Are the test period human resource related costs for the nuclear facilities (including wages, salaries, payments under contractual work arrangements, benefits, incentive payments, overtime, FTEs and pension costs, etc.) appropriate?

Interrogatory

Reference:
[F4/3/1, p.12]
With respect to any management employee's incentive plan:

a. Is OPG still using the Annual Incentive Plan (AIP) for management incentive pay? If so, please provide details of the plan. If not, please explain the new program.

b. Has the plan changed since 2012? If so, please explain how.

c. Please provide a similar chart to that of Figure 10 on p.168 of the 2013 Annual Report of Office of Auditor General of Ontario, showing the distribution of AIP scores for Executive and Senior Management (Bands A–F) and Below Executive and Senior Management (Bands G–L), for each year between 2013 and 2015.

d. For each year between 2016 and 2021, what assumptions is OPG making regarding the distribution of its AIP scores for the purposes of its setting its budget.

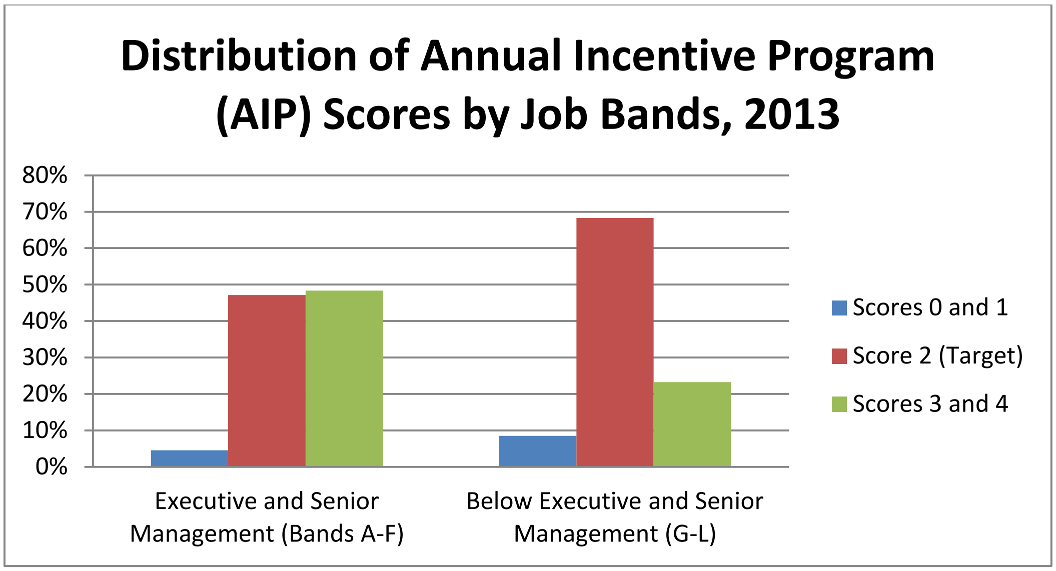
Response

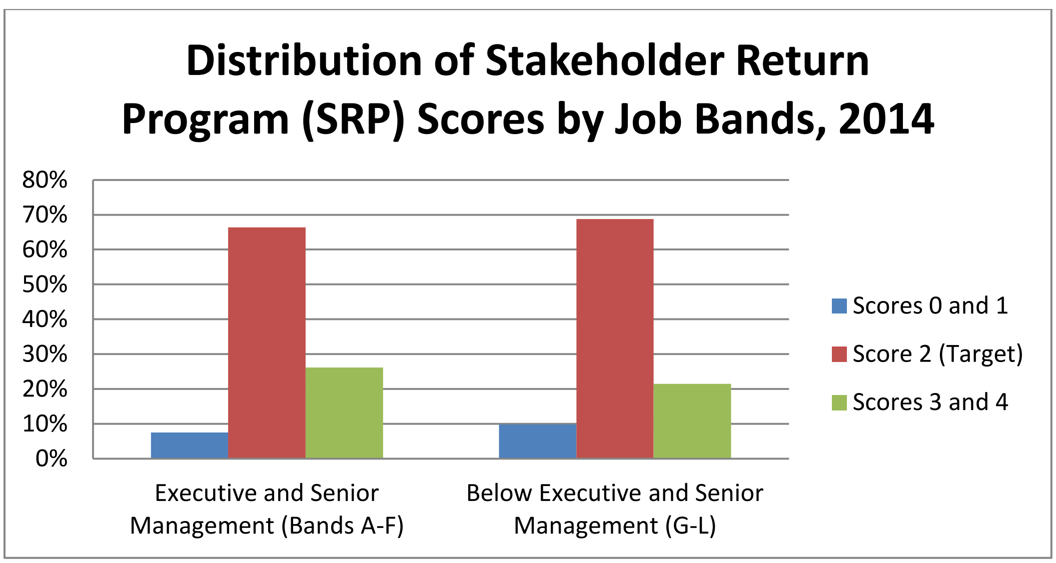
a. No, OPG is no longer using the Annual Incentive Plan (AIP) for management incentive pay. OPG has replaced the AIP with a rebranded program: the Stakeholder Return Program (SRP). Details of the revised SRP program are provided in the Program brochure attached to this response as Attachment 1.

b. Yes, the AIP program has changed. Key changes included:
   - Rebranding AIP as the "Stakeholder Return Program" (SRP).
   - Reducing the number of metrics on the Corporate Balanced scorecard to increase the focus on key metrics and increase score variability by reducing diversification.
   - Eliminating Fleet scorecards for purposes of calculating incentive awards; Fleet metrics were incorporated into individual ELT and SLT scorecards.
   - Changing the scale (and descriptors) for individual performance ratings to provide increased granularity and drive more differentiation in individual results.

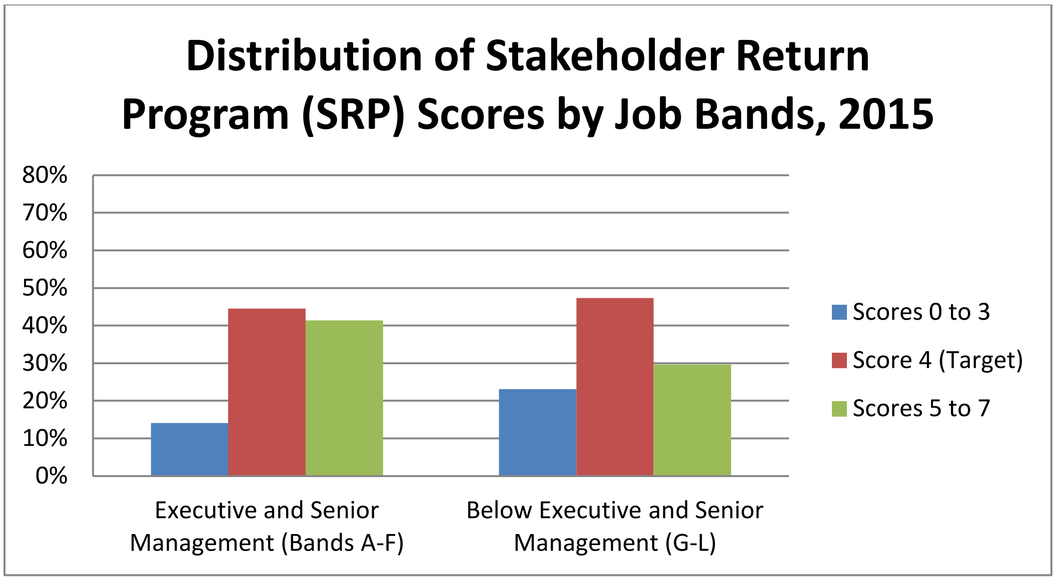
   In 2015, the 5-point rating scale was replaced with a 7-point rating scale. This new scale incorporated employees' demonstration of OPG behaviours. This change made it easier for managers to differentiate performance, strengthening the link between employees' actual performance and their incentive payments.

c. OPG has prepared a similar chart to that of Figure 10 on p.168 of the 2013 Annual Report of Office of Auditor General of Ontario, showing the distribution of AIP scores for Executive and Senior Management (Bands A–F) and Below Executive and Senior Management (Bands G–L), for each year between 2013 and 2015. This chart is filed as Attachment 2 to this response. The assumptions for SRP budget setting are that both Corporate and individuals receive a score at target.





The 2014 program was rebranded Stakeholder Return Program (SRP).



In 2015 the 5 point rating scale (target 2) was replaced with the 7 point rating scale (target 4).

Numbers may not add due to rounding

Line No.	NUCLEAR FACILITIES	2013 Actual	2014 Actual	2015 Actual	2016 Budget	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	**Staff** (Regular and Non-Regular)	FTEs	FTEs	FTEs	FTEs	FTEs	FTEs	FTEs	FTEs	FTEs
2										
3	**Nuclear - Direct**									
4	Management	578.6	553.1	521.7	573.3	605.8	602.9	606.2	596.0	583.2
5	Society	2,008.5	1,922.2	1,893.7	2,089.7	2,119.0	2,117.1	2,065.9	1,994.4	1,955.1
6	PWU	4,026.9	4,002.4	3,975.2	4,164.9	4,162.8	4,165.6	4,173.2	4,015.4	3,885.7
7	EPSCA	60.2	69.6	94.2	119.6	170.7	172.1	139.6	165.1	213.1
8	Subtotal	6,674.2	6,547.3	6,484.8	6,947.4	7,058.4	7,057.7	6,984.9	6,770.9	6,637.0
9										
10	**Nuclear - Allocated**									
11	Management	382.2	376.0	368.6	353.6	352.7	347.3	339.6	337.6	337.4
12	Society	607.1	625.6	590.3	664.2	665.5	652.8	642.2	638.9	636.9
13	PWU	930.2	882.8	658.0	739.5	708.7	687.6	682.0	666.6	665.9
14	EPSCA	0.0	0.0	12.0	16.0	16.0	16.0	16.0	16.0	16.0
15	Subtotal	1,919.5	1,884.4	1,628.9	1,773.3	1,742.8	1,703.7	1,679.8	1,659.0	1,656.2
16										
17	**NUCLEAR FACILITIES**									
18	Management	960.8	929.1	890.3	926.9	958.5	950.2	945.7	933.6	920.6
19	Society	2,615.5	2,547.8	2,484.0	2,753.9	2,784.5	2,769.9	2,708.1	2,633.3	2,592.0
20	PWU	4,957.1	4,885.2	4,633.2	4,904.3	4,871.4	4,853.2	4,855.3	4,681.9	4,551.5
21	EPSCA	60.2	69.6	106.2	135.6	186.7	188.1	155.6	181.1	229.1
22	Total	8,593.7	8,431.8	8,113.7	8,720.7	8,801.2	8,761.4	8,664.7	8,429.9	8,293.2
23										
24	**Salary & Incentive Pay** (including Fiscal Adjustment)	$M	$M	$M	$M	$M	$M	$M	$M	$M
25	Management	145.8	147.8	144.1	147.2	152.9	153.5	155.0	154.8	153.7
26	Society	318.9	312.9	310.8	348.9	361.0	367.3	363.0	362.1	363.5
27	PWU	502.1	507.0	487.3	535.8	549.1	555.2	565.2	560.4	553.9
28	EPSCA	8.9	10.6	14.3	13.6	19.1	19.3	16.3	19.3	25.0
29	Total	975.7	978.4	956.5	1,045.6	1,082.1	1,095.3	1,099.5	1,096.7	1,096.1
30	**Overtime**	$M	$M	$M	$M	$M	$M	$M	$M	$M
31	Management	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
32	Society	46.8	32.2	36.8	33.1	36.0	35.7	36.8	30.4	24.0
33	PWU	110.5	83.4	89.4	77.5	79.6	78.4	80.3	69.9	54.6
34	EPSCA	1.8	1.9	5.7	1.3	1.8	1.7	1.5	1.6	2.5
35	Total	159.2	117.6	132.0	111.9	117.5	115.7	118.6	101.9	81.1
36	**Benefits** (Current Benefits and Pension & OPEB)	$M	$M	$M	$M	$M	$M	$M	$M	$M
37	Management	57.8	48.7	51.3	50.2	52.6	51.4	51.8	51.6	51.0
38	Society	147.1	117.7	136.3	141.0	145.0	141.7	142.8	142.5	143.1
39	PWU	194.0	174.8	228.6	200.2	201.8	200.0	204.6	203.1	201.4
40	EPSCA	0.5	0.6	1.0	5.1	7.2	7.2	6.1	7.2	9.4
41	Total	399.5	341.9	417.2	396.5	406.5	400.3	405.2	404.4	404.9
42										
43	Current Benefits (Statutory)	56.5	55.6	58.7	56.1	58.2	57.2	57.4	57.5	57.7
44	Current Benefits (Non-Statutory)	48.3	47.5	47.2	63.2	65.1	64.5	64.2	64.0	65.1
45	Pension & OPEB (Current Service)*	294.7	238.8	311.3	277.2	283.2	278.7	283.6	283.0	282.1
46	**TOTAL COMPENSATION**	$M	$M	$M	$M	$M	$M	$M	$M	$M
47	Management	203.6	196.6	195.4	197.5	205.5	204.8	206.8	206.4	204.8
48	Society	512.8	462.9	483.9	523.0	542.0	544.7	542.6	535.0	530.7
49	PWU	806.6	765.3	805.4	813.5	830.5	833.7	850.0	833.5	809.9
50	EPSCA	11.3	13.1	21.0	20.0	28.2	28.2	23.8	28.2	36.9
51	Total	1,534.4	1,437.8	1,505.7	1,554.0	1,606.1	1,611.4	1,623.3	1,603.0	1,582.2
52										
53	*presented on an accrual basis									

2014 Nuclear Staffing Benchmarking Analysis

A Report For:

ONTARIO POWER GENERATION

December 22nd 2014

GOODNIGHT CONSULTING

OPG Contractor Support Data Was Reviewed To Identify Headcounts For Baseline Contractors

Staff augmentation contractor data

- Professional staff providing specialized skills, including authorized training contractors and/or variable work support

Other purchased service data

- Specialized contractors, such as nuclear safety analysis, and maintenance/construction trades

Exclusions

- Consistent with our standard nuclear benchmarking methodology, outage execution contractors and outage overtime were both excluded

OPG Contractor Data Was Converted From Hours Or Costs, Into Full Time Equivalents (FTEs)

Data Provided

OPG provided contractor data via contractor billed annual costs, or cumulative contractor annual hours

Spend Converted to FTEs

Cumulative contractor billed annual dollar values were first divided by an average hourly cost that include wages plus benefits, and then by estimated annual hours* to prorate the data into annual FTEs

Hours Converted to FTEs

Cumulative contractor annual hours were also divided by the same value to prorate the data into annual FTEs

*1890 hours/year = 1 FTE, consistent with previous studies

Applicable OPG Baseline Contractors Equates To 531 FTEs In 32 Job Functions

32 job functions where OPG contractor FTEs were identified

	Contractor FTEs
Admin/Clerical	14
Budget/Finance	1
Chemistry	12
Contracts/Purchasing	3
Emergency Planning	11
Eng.--Computer	2
Eng.--Modification	11
Eng.--Plant	17
Eng.--Procurement	1
Eng.--Reactor	17
Eng.--Technical	12
Environmental	2
Facilities	77
HP Applied	4
HP Support	2
Human Resources	1
Licensing	1
Maintenance/Construction	133
Maintenance/Construction Support	53
Management	3
Management Assist	1
Nuclear Fuels	6
Nuclear Safety Review	17
Operations Support	3
Project Management	32
QA	2
QC/NDE	5
Radwaste/Decon	26
Safety/Health	4
Scheduling	1
Training	39
Warehouse	18
Grand Total	**531**

Number of OPG contractor FTEs identified in each function (531 total)

A line-by-line accounting of where each Contractor was functionalized is provided in the Appendix

Benchmarking *Summary:*
Total 2014 OPG Nuclear Benchmark Is 5,208

	Pickering 1-4	Pickering 5-8	Darlington	Total
Large 2-Unit PWR Benchmark	944	944	944	2832
CANDU Technology Adjustment	80	80	80	240
35 Hour Work Week Adjustment	55	55	55	165
Scale From 2 to 4 Units	0	897	897	1794
Adjust For Pickering Units 2 & 3	16	0	0	16
Add Management Benchmarks	37	60	64	161
Total	**1132**	**2036**	**2040**	**5208**

GOODNIGHT CONSULTING

Board Staff Interrogatory #147

Issue Number: 6.6
Issue: Are the test period human resource related costs for the nuclear facilities (including wages, salaries, payments under contractual work arrangements, benefits, incentive payments, overtime, FTEs and pension costs, etc.) appropriate?

Interrogatory

Reference:
Ref: Exh F4-3-1 pp. 15-16
The evidence discusses changes to pension and benefits.

a) Figure 10 shows the employee/employer contribution ratio. Does this figure relate to pensions only, or does it include OPEBs? If it does not, please provide a chart showing the employee/employer ratio including OPEB costs.

b) Do retirees receive the same benefits as current employees?

c) The evidence states that the mandate of the Advisory Council on Government Assets included "obtaining a multi-year agreement, wage increases that were neutral to Ontario taxpayers and electricity ratepayers, and longer term solutions to help address pension stability." Did the agreements reached with the PWU and the Society result in wage increases that were neutral to electricity ratepayers? If yes, please provide the details.

d) The evidence describes three concessions that were negotiated with the unions respecting pensions: increased employee contributions, changes to the earnings basis for pensions, and changes to retirement eligibility for undiscounted pensions. Please provide the anticipated annual savings over the test period for each of these changes. Are these savings included in Figure 3 at F4-3-1 p. 6?

e) How does the "Rule of 85" compare with pension plans in the Ontario public service generally?

f) Approximately how much money is expected to be saved annually in the years after the test period on account of the concessions described in question (d)?

g) In return for the concessions described in question (d), PWU and Society employees received a "lump sum payment" and a number of Hydro One Limited shares (the Share Performance Plan). Please provide the annual costs for these measures. Are these costs included in Figure 3 at F4-3-1 p. 6?

h) Is OPG targeting a 1:1 contrib ution ratio for some point in the future? If so, when? What is the revenue r equirement impact in the test period for contribution ratios higher than 1:1? Please provide the answer for each year, and on an accrual basis and a cash basis.

Response

a) The employee / employer contribution ratio shown in Ex. F4-3-1, Figure 10 relates only to OPG's registered pension plan. OPEBs are not funded; as a result, OPG has not provided a chart showing the employee/employer ratio including OPEB costs as requested.

b) Retirees receive similar benefits to employees. Employees, retirees and their respective dependents are eligible for health and dental coverage. Retirees also receive basic life insurance coverage; however, the amount of the life insurance benefit is reduced compared to the coverage provided to employees. Only employees are eligible for short-term and long- term disability benefits.

c) [redacted]

Please see Attachment 1 for a copy of the letter from the Minister of Energy informing OPG of the Ministry's revised bargaining mandate for negotiations with both PWU and Society.

Please see Attachment 2 for a copy of a letter from the Minister of Energy confirming the results from the collective agreement negotiations with PWU align with the bargaining mandate referred to in Attachment 1.

d) The total projected savings associated with increased employee contributions attributed to the nuclear facilities are $88M over the 2017-2021 period ($17M/yr for 2017-2018 and $18M/yr for 2019-2021). These savings are reflected in Figure 3 at Ex. F4-3-1, p. 6.

Witness Panel: Corporate Groups, Compensation

There are no savings during the 2017-2021 period associated with the changes to the earnings basis for pensions and changes to retirement eligibility for undiscounted pensions for unionized employees because, as noted at Ex. F4-3-1, p. 16, lines 12-14 and lines 20-21, these changes apply to future service accrued by employees after March 31, 2025.

e) Most major Ontario public sector pension plans currently utilize a Rule of 85 (with some of these requiring a minimum age of 55), with some also utilizing a Rule of 90.

f) OPG declines to provide the requested information on the basis of relevance. This interrogatory seeks information for periods beyond the IR Term that is not relevant to deciding any issue on the approved Issues List in this application and is not readily available.

g) The total projected costs associated with the "lump sum payments" made in the first two years of the respective collective agreements, and the Share Performance Plan for the remaining years of the respective collective agreements, attributed to the nuclear facilities are $92M over the 2017-2021 period ($26M in 2017, $24M in 2018, $15M in 2019, $14M in 2020, and $13M in 2021). These costs are reflected in Figure 3 at Ex. F4-3-1, p. 6.

OPG notes that, unlike employee contribution increases that apply to both existing and new employees, the Share Performance Plan applies only to employees contributing to the pension plan on April 1, 2015 (PWU) and January 1, 2016 (Society), and having less than 35 years of pensionable service as of those dates, as noted at Ex. F4-3-1, p. 17, lines 7-11. This means that while savings from higher employee contributions are expected to continue at similar levels beyond 2021, the cost of the Share Performance Plan will decline as the number of eligible employees declines.

h) [redacted]

AMPCO Interrogatory #129

Issue Number: 6.6
Issue: Are the test period human resource related costs for the nuclear facilities (including wages, salaries, payments under contractual work arrangements, benefits, incentive payments, overtime, FTEs and pension costs, etc.) appropriate?

Interrogatory

Reference:
Ref: F4-3-1 Page 5

Preamble: OPG indicates that by managing staff reductions through retirements and putting in place vacancy controls, OPG was able to reduce its regular headcount by nearly 2,700 positions between 2011 and 2015…"

a) Please explain OPG's vacancy controls.

b) Please confirm the date the vacancy controls became effective.

c) Please provide the number of nuclear vacancies in June and December for the years 2013 to 2015 and June and Year to Date for 2016.

d) Please provide the forecast number of nuclear vacancies for the years 2017 to 2021 built into the application.

Response

a) As described in EB-2013-0321, Ex. A4-1-1, p. 5, additional vacancy controls were put in place to support the reduction of staff levels through attrition and associated redeployment activities. These included establishing a gated process for hiring to ensure that company wide internal redeployment was considered before any external hiring was undertaken. The gated process included requiring justification before any positions could be filled externally. This gated hiring process was in place during the Business Transformation initiative between 2011 and 2015.

   Currently, OPG's primary vacancy controls are embedded in the hiring approval process. Standard approval processes require concurrence from both Finance Controllership and HR Business Partners staff before line management approves a request to create a new position and / or fill a position, with CEO approval required to create new Senior Executive and Director level positions.

Concurrence by Finance and the HR Business Partner is in place to ensure budget funding is available and to obtain guidance regarding resourcing options and alternatives (i.e., regular hire, temporary hire, temporary assignment, etc.). This control is an on-going well established practice.

CEO level approvals for Senior Executive and Director level vacancies was put in place in 2014, to control staffing levels for these senior positions.

In recognition of the hiring activity required to support the Darlington Refurbishment Project and Pickering operations as described in Ex. F4-3-1, p. 6, a Resource Planning and Control Team was established to review and approve all staffing requests for the Nuclear business. This includes vacancies associated with regular, temporary and contract positions. This team, and the associated approvals, are closely integrated with OPG's standard approval processes regarding vacancies.

b) Please see part (a) above.

c) The number of vacancies for the month of June and the month of December for OPG's nuclear organization are shown in Table 1 below for 2013 through 2015. These numbers reflect the number of jobs advertised for full time regular positions that were posted internally and externally for that month. Internal job postings target existing employees to fill vacant positions, whereas external job postings target external labour markets to fill vacant positions.

Table 1

Month / Year	Internal	External
Jun 2013	5	0
Dec 2013	1	0
Jun 2014	25	1
Dec 2014	2	0
Jun 2015	259	6
Dec 2015	9	2
Jun 2016	25	24

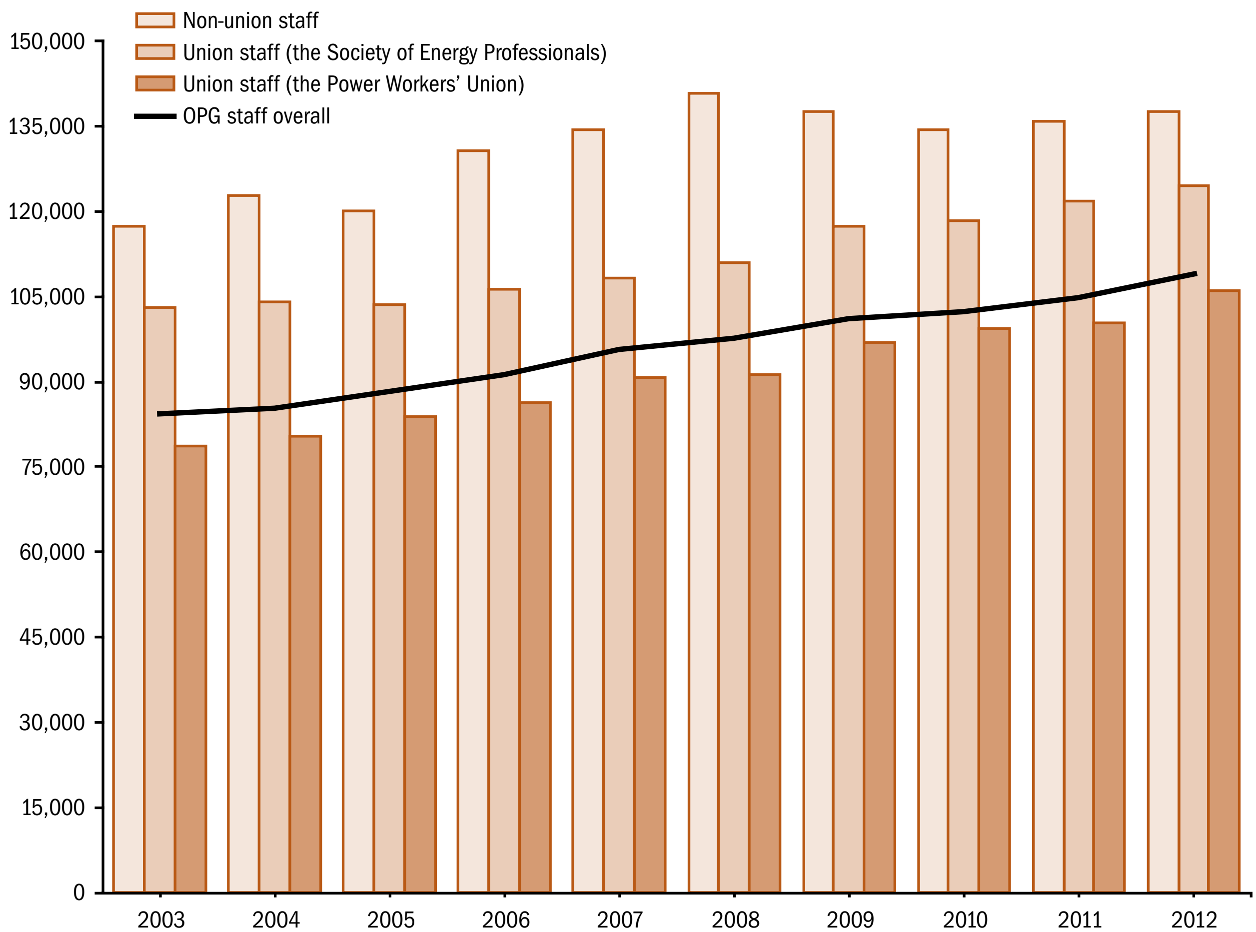
The number of vacancies in any given month can vary substantially, as indicated by the large number of internal vacancies shown for Jun 2015 in Table 1. In Jun 2015, a number of vacancies were bundled together and included hiring for OPG's Nuclear Operators In Training program, Supervising Nuclear Operators, and Senior Engineering positions.

The number of year to date vacancies for regular positions in OPG's nuclear organization for 2016 includes: 767 jobs that were posted internally and 484 jobs that were posted externally. These year to date vacancies reflect the number of positions that were posted for the first nine months of 2016.

d) OPG does not plan for positions it does not expect to fill, and therefore the rate application reflects only resource levels considered necessary to execute planned work programs.

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, 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

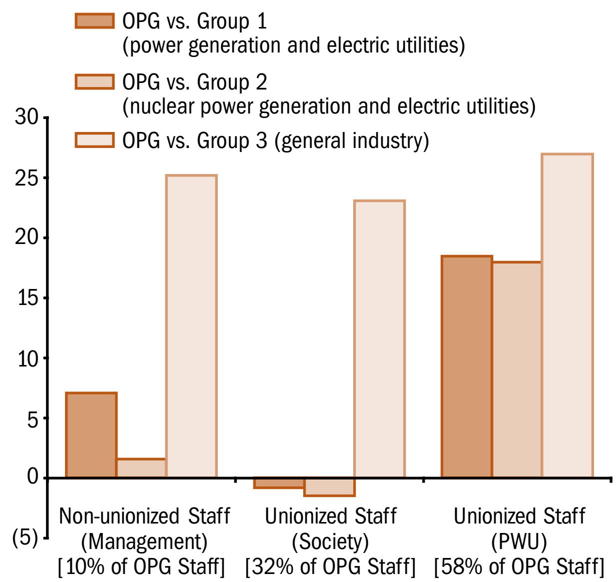
OPG vs. Similar Organizations

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

OPG Public Sector Salary Disclosure				
	2013	**2014**	**2015**	**2016**
$100,000 or greater	7958	7668	7632	7730
$200,000 or greater	526	369	428	505
$300,000 or greater	48	31	48	59
$100,000 to $199,999	7432	7299	7204	7225
$200,000 to $299,999	478	338	380	446
$300,000 or greater	48	31	48	59

Source: https://www.ontario.ca/page/public-sector-salary-disclosure overtime pay had doubled since 2003. We also found that each department used different methods for pre-approving overtime, and in most departments verbal approvals were sufficient.

OPG has implemented a number of additional controls to minimize the overtime cost and the risk that overtime pay would be abused. To strengthen the pre–approval process, OPG now requires documented pre-approval prior to overtime being worked, and line managers are required to keep records of these pre-approvals. The Finance Department is required to provide weekly reports of employees' overtime to department managers so they can track the hours employees work and take action to limit excessive overtime. The Finance Department is also responsible for reviewing overtime to ensure approvals are given only by those authorized. As well, senior managers receive reports that show variances from approved overtime budgets. As a result of these enhanced controls, including improvements in scheduling staff for planned outage maintenance, OPG's total overtime costs decreased to $127.5 million in 2014 from $148 million in 2012. The number of employees who earn more than $50,000 in overtime pay decreased to 230 in 2014 from 520 in 2012.

Absenteeism

Recommendation 5

To minimize the cost of sick leaves and avoid potential misuses or abuses of sick leave entitlements, Ontario Power Generation should:

- *review its sick leave plan for staff who joined prior to 2001;*

  Status: In the process of being implemented by December 2015.

Details

In our *2013 Annual Report*, we reported that OPG's sick leave plans were relatively generous compared to those of the Ontario Public Service. In particular, unionized staff that began working for OPG prior to 2001 were entitled to not only carry over unused sick days from one year to the next but also to restore their used sick days every five years. For example, an employee who took four sick days in Year 1 will receive these four sick day credits back after five years of service in addition to the normal number of sick leave credits he or she is entitled to for the year. As of December 31, 2012, almost half of OPG's staff were still under the old plan and each of them had, on average, restored and accumulated about 162 sick leave credits with full pay and 191 sick leave credits with 75% pay.

During our follow-up, OPG indicated that it did review and assess the sick leave plans for staff who joined prior to 2001 in the context of overall benefits and compensation. However, OPG was unable to make any changes to the sick leave provisions in the current round of collective bargaining with the PWU, which represents a majority of OPG's workforce. OPG is expected to begin the negotiation process with the Society in the fourth quarter of 2015.

- *monitor the results of sick leave management programs to identify and manage unusual sick leave patterns.*

  Status: In process of being implemented by December 2015.

Details

In 2013, we noted that some of OPG's key sick leave management programs were not being used as effectively as they could be. While we noted no abuses of sick leave credits in our sample testing, there was a risk of significant accumulation and abuse of sick leave credits.

Since then, OPG has designed an enhanced sick leave management program that requires supervisors to speak to employees who do not meet attendance expectations to correct attendance concerns. This new program was to be implemented in December 2015. As part of the sick leave management program, OPG will also have an automated email notification tool to identify and manage

Board Staff Interrogatory #150

Issue Number: 6.6
Issue: Are the test period human resource related costs for the nuclear facilities (including wages, salaries, payments under contractual work arrangements, benefits, incentive payments, overtime, FTEs and pension costs, etc.) appropriate?

Interrogatory

Reference:
Ref: 2013 Annual Report of the Office of the Auditor General of Ontario (Dec. 10, 2013) The Auditor General's 2013 report noted that OPG payroll data indicated that a large number of employees received salaries that exceed the maximum set out in the base salary schedule.

a) Is receipt of salary above base salary schedule still occurring?

b) If yes, how many staff are affected?

c) If yes, was Towers' analysis based on salary schedules or actual salaries?

Response

a) Yes, OPG continues to have individuals who are paid above current salary schedule maximums. These circumstances arose from the introduction of new salary structures dating back to 2002 for PWU represented employees and 2006 for Society represented employees.

b) Currently, there are just over 700 (8%) employees affected across OPG. The number of staff affected has been steadily declining since the new salary structures were put in place. This declining trend is expected to continue.

c) The Towers' analysis was based on actual salaries and included individuals who were paid above current salary schedule maximums.

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.

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:

Board Staff Interrogatory #140

Issue Number: 6.6
Issue: Are the test period human resource related costs for the nuclear facilities (including wages, salaries, payments under contractual work arrangements, benefits, incentive payments, overtime, FTEs and pension costs, etc.) appropriate?

Interrogatory

Reference:

Ref: Exh F4-3-1 Attachment 1
Ref: 2015 Annual Report of the Office of the Auditor General of Ontario (Dec. 2, 2015)
Nuclear facility FTE increase in 2016 and for the period 2017-2021 are higher than 2015, when Business Transformation concluded.

a) Are any of the FTE added after 2015 former OPG employees?

b) If yes to (a), how many?

c) If yes to (a), was the process described at page 630 of the 2015 Auditor General of Ontario Report (below) followed?

OPG also implemented a new procedure for rehiring of retirees that requires a minimum waiting period of one year between the time an employee retires and when that employee can be rehired, and then only with a maximum contract length of one year. Any such hire must also receive senior management approval. Exceptions may be made to accommodate employees in the nuclear field because of the limited availability of highly skilled workers.

Response

a) The FTEs captured in Ex. F4-3-1, Attachment 1 from 2016-2021 reflect forecast values from OPG's business plan. OPG did not plan for the rehiring of former employees as part of its business planning process. Therefore, the extent to which former OPG employees may form a part of these numbers when the actual hiring takes place over the period is not known.

b) OPG has rehired 85 former employees to date in 2016 (as of Sept 20, 2016). 64 of these former employees report directly to the nuclear organization.

c) The process described in the 2015 Auditor General's report is no longer followed by OPG as of June 2016, when OPG revised its rehiring procedure. The main changes to the rehiring procedure include a reduction to the waiting period and an extension to the working period, both by six months. Please find below a chart summarizing the June 2016 changes to OPG's rehiring procedure.

Chart 1: Summary of Changes to OPG Rehiring Procedure

Provision	Past Re-hire Policy	June 2016 Re-hire Policy
Eligibility Criteria	Individuals who receive a regular pension payment form OPG, were retirement eligible at time of departure from OPG or received a severance package and are returning to work directly.	No Change.
Waiting Period	Must not be employed by OPG directly or indirectly. • **12 months** continuous waiting period; or • **6 months** continuous waiting period for Darlington Refurbishment or Authorized in Learning & Development; or • **6 months** continuous waiting period for Managed Task contracts.	Must not be employed by OPG directly or indirectly. • **6 months** uninterrupted waiting period for all of OPG; and • **No waiting period** for previously certified individuals who are returning to a role where a certification or license is required.
Working Period	Maximum cumulative time working directly for OPG: • **12 months** maximum continuous working period; or • **3 years** for Darlington Refurbishment or Authorized in Learning & Development.	Maximum continuous time working directly for OPG: 1. For retirees: • who took any commuted value pension: **18 months** maximum uninterrupted working period; or • who are collecting a pension: **3 years** maximum uninterrupted working period. 2. For former employees: • who received a severance package: 18 months maximum uninterrupted working period; or • who resigned: working period is defined as per employment contract and provisions of respective collective agreement.
Approvals	Manager Recruitment Hiring Manager Line OAR VP Human Resources ELT	Hiring Manager VP Human Resources Business Partners R2 or Line VP
Exceptions	President/CEO	ELT, SVP PC&C and CEO

Compensation

Recommendation 2

To ensure that employees receive appropriate and reasonable compensation in a fair and transparent manner, Ontario Power Generation should:

- *make its Annual Incentive Plan (AIP) more effective by creating a stronger link between awards and staff performance based on documented annual evaluations;*

  Status: In process of being implemented by April 2016.

Details

In 2013, we found that OPG gave AIP awards up to $1.3 million to all non-unionized employees based on job level, base salary level and performance score achieved. However, we found that a number of cases had limited documentation to support the score achieved. We also noted that distribution of performance scores had been skewed toward executives and senior management staff. On average, 67% of executive and senior management staff received high AIP scores from 2010 to 2012. However, only 24% of staff in lower job bands received high scores during the same period.

Since then, OPG has implemented several new policies and procedures to create a stronger link between awards and staff performance. According to these new policies, staff are required to document their performance objectives annually by March 31 of each year. Performance objectives are required to include both quantitative and qualitative metrics and be more specific, measurable, achievable, realistic and time-bound (SMART) so staff performance can be adequately assessed. With respect to staff evaluations, OPG has replaced the old four-point rating scale with a more detailed seven-point rating scale for better differentiation of performance levels. OPG has implemented a new calibration process for performance scores, which requires the executive leadership team to review and adjust performance scores of management employees to ensure ratings are relative to job performance across the organization and that scores are broadly distributed. OPG has also made improvements to its performance reports so that achievements can be more closely linked to performance metrics. All OPG employees have already completed and documented their performance objectives for 2015 in the Performance Planning and Review system. OPG informed us that its internal audit will conduct an assessment of performance objectives in April 2016 to determine if they adequately meet the SMART criteria.

- *review salary levels and employee benefits, including pensions, to ensure that they are reasonable in comparison to other similar and broader-public-sector organizations and that they are paid out in accordance with policy, adequately justified and clearly documented.*

  Status: In process of being implemented by December 2015.

Details

In 2013, we reported that total earnings of employees at OPG were significantly higher than those of comparable positions in the Ontario Public Service. We also found a number of cases where the annual base salaries of non-unionized staff exceeded the maximum set out in the OPG's base salary schedule by more than $100,000.

Subsequent to our 2013 audit, OPG engaged an independent consulting firm to review its compensation philosophy for the management group. The consultant concluded that while OPG's overall compensation principals are sound, its compensation structure is not tailored to each of the company's business segments. In response, OPG has implemented changes in 2015 so that compensation within business segment peer groups reflects their unique roles and responsibilities. The consulting firm also reviewed the effectiveness of the AIP and concluded that the range is generally in line with market practices. However, it asked OPG to consider reviewing the complexity of the balanced report card. In response, OPG implemented changes in 2014 to sharpen the focus on key performance metrics.

With respect to pensions, our 2013 audit reported that the employer-employee pension contribution ratio at OPG has been around 4:1 to 5:1, significantly higher than the 1:1 ratio for the Ontario Public Service.

At the time of our follow-up, OPG had reformed its pension plan for the management group to align with that of the Ontario Public Service. Under the new plan, management staff members have to contribute more to their pension and wait longer to retire with unreduced pension benefits. Management staff's pension contributions will increase starting in 2016, but a 1% increase has been phased in for new management staff as of 2014. OPG informed us that any pension changes affecting unionized staff are subject to collective bargaining. About 90% of OPG employees are represented by two unions: the Power Workers' Union (PWU) and the Society of Energy Professionals (Society).

At the time of our follow-up, OPG had completed negotiations with the PWU. As per the new collective agreement, employee contributions increased by 1% in 2015, and will reach 2.75% by 2017. PWU members will also have to wait longer to retire with unreduced pensions. As part of the negotiation, PWU members will also receive Hydro One shares.

Pension changes for employees represented by the Society were to be discussed in the collective bargaining process expected to begin in the fourth quarter of 2015.

With respect to employee benefits, our 2013 audit reported that OPG spent on average about $1.4 million each year on housing and moving allowances from 2009 to 2012.

Since then, OPG has revised its relocation policy for the management group to align with Ontario Public Service policy. As a result of the changes made to the management group's relocation policy, OPG was able to reduce the housing and moving allowance to $1.1 million in 2014 from $1.5 million in 2012. Relocation policy changes for members of the Society are to be discussed in the upcoming collective bargaining.

Use Of Non-Regular Staff And Contract Resources

Recommendation 3

To ensure that its non-regular and contract resources are used cost-efficiently, Ontario Power Generation should:

- *improve its succession planning, knowledge retention and knowledge transfer processes to minimize the need to rehire retired employees for extended periods;*

  Status: Fully implemented.

Details

In our 2013 audit, we found that OPG had rehired some of its former employees as temporary or contract staff mainly for the purpose of identifying, grooming and training successors. Some of them continued to receive significant amounts in allowances and AIP awards, and some had already drawn their pensions in single lump-sum payments upon leaving.

At the time of our follow-up, OPG had expanded succession plan programs for its management positions to improve its succession planning. OPG also introduced a formal process to identify critical at-risk roles so management can develop appropriate mitigation strategies and knowledge transfer plans. OPG also implemented a new procedure for rehiring of retirees that requires a minimum waiting period of one year between the time an employee retires and when that employee can be rehired, and then only with a maximum contract length of one year. Any such hire must also receive senior management approval. Exceptions may be made to accommodate employees in the nuclear field because of the limited availability of highly skilled workers. As a result of the revised policies and new controls, the number of retirees rehired has decreased since 2013. OPG's internal audit conducted an examination to determine the operating

OPG CONFIDENTIAL

Internal Audit

SMART Objectives Follow-up Audit

September 29, 2016

Report Rating: **Requires Improvement**

Distribution:

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1.0 EXECUTIVE SUMMARY

1.1 Report Rating and Summary of Findings

Report Rating: Requires Improvement

No.	Finding	Risk Type	Risk Rating[1]		
			High	Moderate	Low
1	Forty-three percent (43%) of Performance Planning and Review ("PPR") Plans did not have a minimum of three SMART performance objectives.	Operational	X		
Total		**1**	**1**	**-**	**-**

1.2 Background

SMART is defined as Specific, Measurable, Achievable, Relevant & Realistic and Time-bound. In order to provide clarity in performance objectives and establish a strong link between incentive awards and staff performance, OPG Management Group ("MG") employees are required to have at least three of their 2016 performance objectives developed using the SMART framework.

Internal Audit ("IA") performed an audit on SMART objectives in Q2-2016. The audit was rated "Not Effective", only 36% of the 2016 Performance Planning and Review ("PPR") Plans sampled were found to have at least three objectives sufficiently aligned with the SMART framework. Subsequent to the release of the audit report, OPG's President & CEO requested that all MG employees' 2016 PPR Plans be reviewed and adjusted as necessary by July 31, 2016 to have a minimum of three SMART objectives.

People, Culture & Communications ("PC&C") developed various actions to address the finding, which included providing additional communication to People Leaders (Band G and above) to clarify the expectations for SMART objectives, enhancing guidance and examples available on PowerNet and rolling out the SMART Objectives Learning Session. While mandatory attendance of the SMART Objectives Learning Session by MG employees is a longer term action designed to address the 2017 performance objectives planning process, approximately 50% of MG employees had already completed the session by July 31, 2016.

This follow-up audit was performed to assess whether the issues identified in the Q2-2016 audit had been resolved satisfactorily in the adjusted 2016 PPR Plans by MG employees.

1.3 Objective & Scope

The objective of this audit was to assess whether MG employees' performance objectives were set based on SMART principles, as per the requirements outlined in the President & CEO's email dated June 2, 2016 (i.e. "each MG employee has a minimum of three performance objectives following SMART Framework").

[1] Please refer to Appendix B for risk rating definitions

The scope covered performance objectives set by MG employees for 2016 – documented in the PPR system by July 31, 2016. Testing of these PPR Plans was performed on a sample basis to assess the level of compliance with SMART principles.

The following were excluded from the scope of the audit:

- Performance objectives / scorecards for the Executive Leadership Team ("ELT"), which were reviewed by the Enterprise Risk Management ("ERM") group and reported to the Compensation, Leadership and Governance Committee, a subcommittee of the Board of Directors; and
- Performance objectives / scorecards for unionized employees.

Fraud Risk Considerations: no fraud risk areas were identified.

1.4 Testing Methodology

- Fifty PPR Plans were sampled, stratified across all Business Units and Band levels;
- Three objectives that were most aligned to the SMART framework were selected from each PPR Plan for evaluation; and
- All PPR Plans that did not pass the SMART Objectives audit in Q2-2016 were also re-tested.

1.5 Conclusion

IA examined a sample of 82 PPR Plans, which included the 32 PPR Plans that did not pass the SMART Objectives audit performed in Q2-2016. Overall, 57% of PPR Plans examined had met the "minimum of three" SMART requirement. This was a substantial improvement from the Q2-2016 SMART Objectives audit, where only 36% of the PPR Plans sampled had met the requirement. The positive trend reflected the impact of PC&C's management actions implemented to date, which included enhanced communication and guidance to MG employees (e.g. additional SMART examples on PowerNet, rollout of the SMART Objectives Learning Session).

For the 43% of PPR Plans examined (35 of 82) that did not meet the "minimum of three" SMART requirement, breakdown of the exceptions by Business Units are summarized below:

Business Unit / Group	**Retests**			**New Samples**			**Total**		
	Tested	**Pass**	**Fail**	**Tested**	**Pass**	**Fail**	**Tested**	**Pass**	**Fail**
Legal/Ethics & Compliance	3	3	-	-	-	-	3	3	-
Finance	7	4	3	2	2	-	9	6	3
People/Culture & Communications	7	4	3	6	5	1	13	9	4
Business & Admin Services	1	1	-	4	4	-	5	5	-
Total Corporate Functions	**18**	**12**	**6**	**12**	**11**	**1**	**30**	**23**	**7**
Nuclear	11	2	9	25	9	16	36	11	25
Renewable Generation & Power Marketing	3	2	1	13	11	2	16	13	3
Total	**32**	**16**	**16**	**50**	**31**	**19**	**82**	**47**	**35** *
Total %	**100%**	**50%**	**50%**	**100%**	**62%**	**38%**	**100%**	**57%**	**43%**

* PPR Plans with less than three SMART performance objectives and the criteria failed are set out in Appendix A.

The following key gaps were identified in this follow-up audit:

- Instances were noted where employees had not identified individual actions to be taken that would contribute to the achievement of corporate or business unit level objectives (e.g. An individual's goal would be stated as the Corporate All Injury Rate target or Business Unit's annual budget). Individual actions should have been included to meet the "Specific" and "Achievable" criteria; and

- Employees had not defined the specific timeframes for the measures / objectives in order to meet the "Time-Bound" criteria.

PC&C management should provide feedback to People Leaders so that the exceptions noted in this follow-up audit are communicated to the individuals for remediation.

PC&C management is continuing its efforts to reinforce the SMART requirements with MG staff and implement the remaining action plans that were developed in response to the Q2-2016 SMART Objectives audit. Key actions included mandatory attendance of the SMART Objectives Learning Session by MG employees by March 31, 2017, as well as the performance of quality assurance review over 2017 PPR Plans (sample-based) by June 30, 2017.

APPENDIX A – PPR PLANS WITH LESS THAN 3 SMART OBJECTIVES

Business Unit / Group	Employee #	Performance Objective #	Criteria Failed S	M	A	R	T	Retest / New Sample
Finance	***001	2	X		X			Retest
	***181	2	X	X				Retest
	***677	3		X			X	Retest
Finance – Total # Failed								**3**
People/Culture & Communications	***830	1	X		X			Retest
	***564	2					X	Retest
	***364	5		X		X	X	Retest
	***162	1					X	New
		2		X			X	
		5		X			X	
People/Culture & Communications – Total # Failed								**4**
Nuclear	***223	6	X					Retest
	***995	4					X	Retest
	***453	2		X			X	Retest
		4					X	
	***880	1	X		X	X		Retest
		2	X		X	X		
		3	X	X			X	
	***401	6	X				X	Retest
		9	X				X	
	***244	2	X		X	X		Retest
		3	X		X	X		
		5			X	X		
	***823	3	X		X			Retest
	***125	4	X	X			X	Retest
	***736	5			X	X		Retest
		6	X					
	***940	6	X					New
	***021	1	X		X			New
		2	X		X			
		6	X		X			
	***405	2	X		X	X		New
		3	X		X			
		4	X		X	X		
	***949	3	X		X			New
		5	X					

Business Unit / Group	Employee #	Performance Objective #	Criteria Failed					Retest / New Sample
			S	M	A	R	T	
Nuclear	***361	2					X	New
		3		X				
	***923	5				X		New
		6	X					
	***974	2	X		X			New
		3	X		X			
	***331	3	X	X				New
	***507	4	X			X		New
		9	X		X	X		
	***211	3					X	New
		4					X	
	***998	1	X		X			New
	***350	1	X		X			New
	***115	3	X		X			New
		4	X		X			
		6	X		X			
	***591	2	X		X			New
		3	X		X			
	***860	6	X					New
	***353	1	X		X			New
		2	X		X			
Nuclear – Total # Failed								**25**
Renewable Generation & Power Marketing	***697	3	X	X			X	Retest
	***901	1		X			X	New
		3		X			X	
	***621	3					X	New
		4					X	
Renewable Generation & Power Marketing – Total # Failed								**3**
Total								**35**
Total % (out of 82 samples)								**43%**

APPENDIX B – RISK RATING DEFINITIONS FOR AUDIT FINDINGS

Ratings are derived through professional judgment by the audit team and discussion with management. The ratings for individual control findings are outlined below.

Rating	Definition
High Risk	The finding presents a risk that could potentially have severe/major impact on financial sustainability (≥$5M), operational excellence, project excellence, safety, environment and reliability, reputation, regulatory relationship, or compliance with laws and regulations.
Moderate Risk	The finding presents a risk that could potentially have a moderate impact on financial sustainability ($500K to <$5M), operational excellence, project excellence, safety, environment and reliability, reputation, regulatory relationship, or compliance with laws and regulations. If not remediated, this risk could escalate to high risk.
Low Risk	The finding could potentially have a minor impact on financial sustainability (<$500K), operational excellence, project excellence, safety, environment and reliability, reputation, regulatory relationship, or compliance with laws and regulations. Recurring “low risk” findings may be elevated to medium risk status.

OVERALL REPORT RATING SCALE

An overall report rating has been assigned as an indication of the overall design, existence and effectiveness of the components of the internal control structure that was subject to the internal audit. The internal audit rating should be considered in conjunction with the definitions noted above.

- *Effective:* control and risk management practices provide reasonable assurance that business process objectives will be achieved and may include minor improvements and/or opportunities for improvement.
- *Generally Effective*: control and risk management practices require more than minor but less than significant improvements to provide reasonable assurance that business process objectives will be achieved.
- *Requires Improvement*: control and risk management practices require significant improvements in high risk and/or core areas to provide reasonable assurance that business process objectives will be achieved.
- *Not Effective:* control and risk management practices are not designed and/or are not operating effectively.

Ministry of Energy

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Ontario

MC-2015-239

FEB 0 5 2015

Mr. Tom Mitchell
President and Chief Executive Officer
Ontario Power Generation
700 University Avenue
Toronto ON M5G 1X6

Dear Mr. Mitchell:

I understand that Ontario Power Generation (OPG) will be engaging in collective bargaining discussions with the Power Workers' Union (PWU) shortly, and with the Society of Energy Professionals (Society) later this year. In advance of these discussions, I am writing to confirm that OPG will engage in negotiations that reflect a revised bargaining mandate that includes specified cost-savings objectives.

You may recall that in recent budgets the Province has expressed its commitment to manage the costs of public sector compensation, and to review electricity sector pensions, in particular. The Province is now looking to ensure there are savings achieved in the short and long term by minimizing the impact of compensation and pension costs to ratepayers across Ontario.

As you prepare for upcoming bargaining negotiations with the PWU and the Society, the government expects that the following bargaining mandate will form the basis for those discussions. Prior to entering into negotiations, please ensure that the mandate and requirement for government approval is made clear to the PWU and the Society. OPG's bargaining mandate comprises the following elements:

- Multiple year agreements (two to four years).
- Pension contributions from employees adjusted upwards gradually in order to achieve equal cost sharing between employers and employees.

.../cont'd

- While protecting all employee pension benefits earned under the plans to date, modestly reduce future service benefit accruals for current employees and new hires through a number of mechanisms that may include:
  - Adjustment of number of years upon which the calculation of final average earnings would be based;
  - Revising the points formula for the threshold for reduced early retirement;
  - Reducing bridge benefit before age 65; and/or
  - Basing indexation on a modestly reduced percentage of CPI.

- Introduce a model of shared governance of risk through a combination of:
  - Funded conditional indexation; and
  - Limiting employer funding for deficits arising under a new funding policy to a defined corridor, after which the funding policy would define how to address deficits.

- Where relevant, enable restructuring activities recommended by the Premier's Advisory Council on Government Assets and approved by government.

- The cumulative effect of the resolution of compensation issues would reflect an overall net neutral costing result. Any changes to pension contributions and benefits would not count as offsets for the purposes of calculating this net zero result.

I would appreciate confirmation that OPG's final negotiating mandates reflect the elements described above, as the company commences engagement with PWU and with the Society. I expect that OPG will provide regular updates to the Ministry on the status of negotiations and return to government for approval prior to finalizing any and all collective agreements.

Sincerely,

Bob Chiarelli
Minister

Ontario

ONTARIO ENERGY BOARD

FILE NO.:	**EB-2016-0160**	**Hydro One Networks Inc. Transmission**

VOLUME:	**10**	
DATE:	**December 9, 2016**	
BEFORE:	**Ken Quesnelle**	**Presiding Member**
	Emad Elsayed	**Member**
	Peter C.P. Thompson, Q.C.	**Member**

details or the mechanics of the share grant beyond a couple of questions.

Number one, the share grants go only to your employees who were employed as of a certain date, correct?

MR. McDONELL: That is correct. There is a finite number of employees who are entitled to share grants.

MR. STEPHENSON: So somebody that was hired, for example, in 2016 into a PWU regular position simply isn't eligible for those share grants, correct?

MR. McDONELL: I believe, yes. And that date, I believe, is July 2015. So any new employees after that date aren't entitled to share grants.

MR. STEPHENSON: So from the perspective of that employee, they took certain -- in effect, they got -- they got the concessions that were in the agreement but didn't get the offset by way of the share grant; correct?

MR. McDONELL: If you mean that they would be paying the higher employee contribution rates without the benefit of the share grant, that's absolutely true.

MR. STEPHENSON: Okay. And the share grants also require -- there is a significant hold period for the employees, correct? They can't dump the shares, if I recall.

MR. McDONELL: I believe it's two years, but that's so that they could take advantage of a tax deduction by holding it for two years.

MR. STEPHENSON: Okay. I take it from the company's perspective they actually like the share grants for a completely different reason other than the -- that it allowed them to make the deal. From the company's perspective it aligns the employees' interests with the company's and the shareholders' and so forth.

MR. McDONELL: Yeah, I would say, you know, there is skin in the game, right? The employees' behaviour, their outcomes, are going to be more aligned with the goals and the objectives of the company by having part ownership by share grants.

MR. STEPHENSON: Okay. If I can, I would just like to take you to Exhibit 9.7, which was marked at the end of the day yesterday. That's my two-page document with a couple spreadsheets on it. And the first page you will see is sourced out of Exhibit C1-4-1, attachment 1, which is your payroll table from the pre-filed evidence. You're familiar with that document?

MR. McDONELL: I am familiar with that document, and these numbers do look like they came from that payroll table, yes.

MR. STEPHENSON: Okay. And you will see what we have done here, we have just extracted some of the categories of your -- from the table and then outlined some of the information over time. But what I wanted to review with you, first off, is the complement numbers, okay, the total number of employees.

And let me actually, just before I get into this, we have heard already that the numbers in the payroll table from which this information is extracted is Hydro One