ONTARIO POWER GENERATION

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April 6, 2017

Kirsten Walli
Board Secretary
Ontario Energy Board
27th Floor - 2300 Yonge Street
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

Re: EB-2016-0152 - Ontario Power Generation Inc. ("OPG") Application for Payment Amounts (the "Application") – Confidential Treatment re Hearing Transcript Volume 16

Pursuant to section 6.2.4 of the OEB's Practice Direction on Confidential Filings, OPG requests confidential treatment for the redacted portions of the transcript for the hearing day held on March 31, 2017 (attached).

OPG's basis for this request is that the redacted sections of the transcript contain sensitive information for purposes of labour relations. If disclosed, this information could potentially interfere with OPG's future collective bargaining negotiations. This information has previously been granted confidential treatment in Procedural Order No. 3 and in the Order and Decision on Confidentiality dated January 31, 2017.

Respectfully submitted,

[*Originally Signed By*]

Barbara Reuber
Regulatory Affairs
Ontario Power Generation

cc: John Beauchamp (OPG) via email
Charles Keizer (Torys) via email
Crawford Smith (Torys) via email

UNREDACTED CONFIDENTIAL

ONTARIO ENERGY BOARD

FILE NO.:	**EB-2016-0152**	**Ontario Power Generation Inc.**
VOLUME:	**16**	**UNREDACTED - CONFIDENTIAL**
DATE:	**March 31, 2017**	
BEFORE:	**Christine Long**	**Presiding Member and Vice Chair**
	Ellen Fry	**Member**
	Cathy Spoel	**Member**

EB-2016-0152

THE ONTARIO ENERGY BOARD

Ontario Power Generation Inc.

Application for payment amounts for the period from January 1, 2017 to December 31, 2021

Hearing held at 2300 Yonge Street,
25th Floor, Toronto, Ontario,
on Friday, March 31, 2017,
commencing at 9:34 a.m.

VOLUME 16

BEFORE:

CHRISTINE LONG	Presiding Member and Vice Chair
ELLEN FRY	Member
CATHY SPOEL	Member

A P P E A R A N C E S

MICHAEL MILLAR IAN RICHLER	Board Counsel
VIOLET BINETTE LAWRIE GLUCK JANE SCOTT RUDRA MUKHERJI	Board Staff
CHARLES KEIZER CRAWFORD SMITH BARBARA REUBER JOHN BEAUCHAMP CHRIS FRALICK	Ontario Power Generation Inc. (OPG)
IAN MONDROW SHELLY GRICE	Association of Major Power Consumers of Ontario (AMPCO)
EMMA BLANCHARD VINCE DeROSE	Canadian Manufacturers & Exporters (CME)
MICHAEL BUONAGURO JULIE GIRVAN	Consumers Council of Canada (CCC)
BRADY YAUCH LARRY SCHWARTZ	Energy Probe Research Foundation
KENT ELSON	Environmental Defence (ED)
DAVID POCH	Green Energy Coalition (GEC)
SCOTT WALKER	Ontario Association of Physical Plant Administration (OAPPA)
RICHARD STEPHENSON	Power Workers' Union (PWU)
MIKE McLEOD	Quinte Manufacturers' Association

A P P E A R A N C E S

MARK RUBENSTEIN JAY SHEPHERD	School Energy Coalition (SEC)
BOHDAN DUMKA	Society of Energy Professionals (SEP)
MICHAEL JANIGAN MARK GARNER CYNTHIA KHOO	Vulnerable Energy Consumers' Coalition

I N D E X   O F   P R O C E E D I N G S

E X H I B I T S

U N D E R T A K I N G S

Friday, March 31, 2017

--- On commencing at 9:34 a.m.

MS. LONG: Good morning, everyone. The Panel is sitting again today in EB-2016-0152. Before we continue with this panel, Mr. Smith, any preliminary matters?

PRELIMINARY MATTERS:

MR. SMITH: Yes, Madam Chair, thank you very much. Two things, briefly. Yesterday OPG filed Undertaking J10.2. We have some further undertakings that will be coming in, I imagine, over the weekend. Also, Ms. Rees advised me on review of the transcript last night that she has a clarification to make, I believe, in response to a question from Ms. Fry, and if we could --

MS. LONG: Ms. Rees.

MR. SMITH: -- turn to Ms. Rees.

ONTARIO POWER GENERATION - PANEL 4, RESUMED

Alex Kogan,

Donna Rees,

David Milton; Previously Affirmed.

MS. REES: Thank you. So yesterday you had asked me about the correlation between staff going down and overtime going up, and I had responded yes to your comment that when head count goes down overtime goes up. That's not correct. It actually is when staffing is below plan overtime will go up and vice versa. So it's not just the matter of staff going down. It's that we're understaffed --

MS. FRY: Okay. So --

MS. REES: -- on our plan.

MS. FRY: -- building on that, can you comment just at a high level, you know, throughout the last couple of years how has it gone? When has staffing been below plan and when not?

MS. REES: Just one second, please.

So in 2015 staffing was below plan. In 2014 it was above plan.

MS. FRY: Okay. 2016?

MS. REES: 2016 is below plan.

MS. FRY: Thank you.

MS. LONG: Nothing further, Mr. Smith?

MR. SMITH: Nothing further, Madam Chair, thank you.

MS. LONG: Okay. Thank you. Then we are going to turn to Mr. Stephenson. And thank you, Mr. Stephenson, for accommodating Mr. DeRose's scheduling issues yesterday. And to all the intervenors, thank you; the Panel appreciates everyone being flexible as we move through the hearing. Mr. Stephenson.

CROSS-EXAMINATION BY MR. STEPHENSON:

MR. STEPHENSON: Thank you, and good morning, thank you, Madam Chair.

Good morning, panel. My name is Richard Stephenson. I'm counsel for the Power Workers' Union. I just want to follow up a little bit on this question about staffing and above and below plan. You have filed your forecast FTE numbers for the entirety of the test period out through 2021. And you've filed evidence about the fact that you are experiencing -- you are forecasting natural attrition throughout that period.

And can you just assist me, am I correct that in order to maintain staff at your plan levels, you are actually going to have to recruit and hire new people throughout the entirety of the test period? Am I right about that?

MS. REES: I would expect we would be hiring throughout the test period.

MR. STEPHENSON: Right. So that your attrition levels are such that even when your plan numbers are going down you're actually having to do new hires in order to maintain at plan, correct?

MS. REES: Correct.

MR. STEPHENSON: Okay. I just wanted to follow up on a couple of items arising from some of the issues that were covered yesterday. The first one is about this issue of rehiring certified staff. You recall some questions about that. And I just -- and I think in your evidence there was -- you actually have some numbers about how many people have been rehired.

Are the people that we are talking about, are they being rehired as direct hires of OPG, or are these people being brought in as contractors through some contracting arrangement outside of your employment?

MS. REES: The ones we're tracking through the rehire are either coming in as temporary, so direct hires, or as augmented staff, which are one form of purchased service.

MR. STEPHENSON: Okay. And with respect to the certified staff, do they fall into one or both of those two categories?

MS. REES: If -- they would be following under the augmented staff purchased service --

MR. STEPHENSON: Okay.

MS. REES: -- I believe.

MR. STEPHENSON: Just a question about the document that was marked at the end of the day yesterday, the CNSC draft regulatory document, and I'm sorry, I've forgotten what the exhibit number on that was.

The question I have about it is, this is the document upon which OPG is seeking the $41 million of OM&A in this application, right? That's -- this is the basis of it, correct?

MR. MILTON: That's correct.

MR. STEPHENSON: So can you assist us, why wasn't this filed as part of your N1 update? Did you just forget?

MR. MILTON: I can't answer that for you.

MR. STEPHENSON: Okay. So -- okay. All right. Let me move on.

So the first item I just want to talk about is a conceptual item, and it's about, in terms of compensation, I want to cover what OPG has done and what they forecast doing in the future and what the limitations on those two things are.

So with respect to the compensation costs that are governed by collective agreements, you are now in the middle of collective agreements with both the Power Workers and the Society, correct?

MR. MILTON: Correct.

MR. STEPHENSON: And those are both going to expire during the test period, and there will be a new collective agreement in each of those cases that cover the balance of the test period, correct?

MR. MILTON: We would anticipate that. It depends on the duration of the next collective agreement --

MR. STEPHENSON: It may actually be more than one.

MR. MILTON: Could be less than the duration, could be greater than the --

MR. STEPHENSON: Right.

MR. MILTON: -- duration of the test period.

MR. STEPHENSON: Right. And obviously as a result of that you were forced to make certain forecasts to put into your application with respect to the anticipated outcome of those negotiations, correct?

MR. MILTON: That's correct.

MR. STEPHENSON: Okay. Let talk for at the moment about the situation while the collective agreements are in place, okay? And in particular I just want to review and make sure that we're on the same page about what is within OPG's control and what is not within OPG's control while these collective agreements are in place, okay?

So number one, you can't decrease wages and benefits, correct?

MR. MILTON: That's correct.

MR. STEPHENSON: And you can't affect any of your pension plan contribution amounts insofar as they're dictated by the collective agreements.

MR. MILTON: That's correct.

MR. STEPHENSON: And -- but what you can -- and there's no involuntary layoffs, right, so you can't --

MR. MILTON: Oh, the current collective agreements, yes.

MR. STEPHENSON: Right. And I take it just on that point, that's -- viewed through one lens, that's actually not a big concession for OPG in the -- because, number one, you're experiencing natural attrition at fairly high levels, correct?

MR. MILTON: We're experiencing attrition, yes.

MR. STEPHENSON: And number two, if you were going to do involuntary layoffs it otherwise triggers a very cumbersome bumping routine that's really difficult to manage for the company, correct?

MR. MILTON: Yeah, I wouldn't agree with the premise, though, that it's not something of significance for the company to agree to, because what you have to understand is it limits the company's ability to respond to unforeseen events that may arise during the course of a collective agreement.

So at bargaining that's a value to OPG. Yes, we anticipate attrition, and we look at what our attrition is to see if we can manage a commitment like that as part of a collective agreement, but it clearly limits our flexibility in the future.

MR. STEPHENSON: Okay. Now, what can you do? Number one, you can manage your replacement rate of employees arising from the attrition, correct?

MR. MILTON: Yes, that's correct.

MR. STEPHENSON: But as I think I just heard previously, in fact you are anticipating -- in fact, actively recruiting throughout the test period in order to maintain your planned staffing levels, right?

MR. MILTON: In order to execute the planned work programs, that's correct.

MR. STEPHENSON: Right, and we've actually heard evidence already in this case that you've had some challenges recruiting quickly enough, at least on the DRP side of the business, right?

MR. MILTON: Correct.

MR. STEPHENSON: And so am I -- I am right that if you are not able to keep your staffing levels up to your plan, the FTE numbers you've indicated in your application, that's going to have some consequences both financially and from a business perspective for you, correct?

MR. MILTON: Yes, if we don't have those staffing numbers, then we have to look at how to execute that work program.

MR. STEPHENSON: Yes, and I'm going to come up to that in a minute. If you can't get the staff in, you've got to find other resources in order to do the work you have to do. You have two choices; either you're not doing the work or you're using different resources. Basically, those are the choices, right?

MR. MILTON: That's correct.
MR. STEPHENSON: And if you don't do the work, that creates issues for the company as well, right. It leads to maintenance backlogs and operational problems, right?
MR. MILTON: Yes, it's not desirous to not accomplish the work programs we map out for each year.
MR. STEPHENSON: Right. And it may even have regulatory issues, CNSC-related issues. Like backlogs is a big issue for them, right?
MR. MILTON: Yes, it is.
MR. STEPHENSON: And so if you instead decide to use other resources, all those other resources -- sorry, let me put it this way. None of those other resources come for free; fair?
MR. MILTON: That's correct.
MR. STEPHENSON: And the other resources that are potentially available to you come within a few categories. One is overtime, right?
MR. MILTON: Correct.
MR. STEPHENSON: And at least in the short term, that actually is more expensive than staff. It may be cheaper in the long term, but in the short term, you're paying a premium rate.
MS. FRAYER: Yes, you have to look at the work in question and make a business decision based on those options. For a day, two days, overtime is probably the correct option to make. But it is costly obviously as you pay additional hourly compensation compared to regular base

compensation.
MR. STEPHENSON: And then you've got purchased services as a potential solution as well?
MR. MILTON: Correct.
MR. STEPHENSON: But there are constraints on that, correct?
MR. MILTON: Yes.
MR. STEPHENSON: Number one, there may be cost constraints in the sense it may well be again a relatively speaking more expensive option?
MR. MILTON: It could be, but you have to look at each individual set of circumstances.
MR. STEPHENSON: Sure. And then secondly, it's got to conform with whatever your collective agreement restrictions are?
MR. MILTON: Correct.
MR. STEPHENSON: Is there anything else? Have I missed anything in terms of what your options are, in terms of alternative resources if your staffing is below plan?
MR. MILTON: No, I don't believe so.
MR. STEPHENSON: Okay. Let me then talk about the outcome of your 2015 collective bargaining, at least with my client, the PWU, and I've forgotten whether the SEP one was in 15 or early 16. In any event, your current wages and benefits for the unionized staff arise out of that round of bargaining, correct?
MR. MILTON: That's correct.
MR. STEPHENSON: From the company's perspective, as I

understand it, you feel like there were some significant accomplishments made in that round of bargaining from the company's perspective, correct?

MR. MILTON: Yes, we believe we made progress.

MR. STEPHENSON: I mean I -- I cross-examined a panel from Hydro One that had a set of bargaining that went on more or less at the same time, and they described the outcome as a, quote, paradigm shift for the company in terms of its cost base in its collective agreements. Would you go that far?

MR. MILTON: It's been -- in my years of bargaining, it's been a significant improvement in our pension costs and our pension design in my years with the company. So without a doubt, it's significant there.

With refer to the base wages, if you look at the history over the last 15, 16 years, it's been -- with the exception of a Society arbitrated settlement, the wages have been lower than what we've negotiated in the past.

So it has been a very good deal for a collective agreement for OPG.

MR. STEPHENSON: You speak about this in your written evidence to a degree, but let me touch on it a little bit. Just to be clear, this was an unusual round of bargaining in 2015 in terms of the structure of it compared to what has been done in the past, in the sense that there was two distinct sets of bargaining that went on in parallel, correct?

MR. MILTON: I don't think it's as simple as that.

What happened was both OPG and Hydro One and the government, representatives of the government, were at a central table bargaining wages, contract duration, pension changes. And then there were separate OPG and Hydro One -- what we would call local tables that would look at issues not related to that, and were tasked with offsetting any costs on base wages that came from the central table.

MR. STEPHENSON: Right. And this was all happening in the environment of the impending Hydro One IPO, and that's one of the reasons why Ed Clark gets involved in this bargaining, right?

MR. MILTON: That's my understanding, yes.

MR. STEPHENSON: And he is running the central table bargaining, right?

MR. MILTON: That's correct.

MR. STEPHENSON: And part of his mandate at the central table on behalf of your shareholder, the government of Ontario, is to achieve a significant change with respect to pension costs from the employer perspective, correct?

MR. MILTON: Yes, that's correct.

MR. STEPHENSON: And at the end of the day, the employer and Ed Clark were able to achieve that from the employer's perspective, correct?

MR. MILTON: Absolutely, yes.

MR. STEPHENSON: As I understand it, and I may get this wrong a little bit, but fundamentally what happened is two things. One is the employees' contributions go up, correct?

MR. MILTON: That's correct.
MR. STEPHENSON: And secondly, a bunch of plan rules get changed, all of which have the effect directionally of driving pension costs, total pension costs down?
MR. MILTON: That's correct.
MR. STEPHENSON: It makes the pensions, from the employees' perspective, less generous?
MR. MILTON: That's correct.
MR. STEPHENSON: So from the employees' perspective, turning things around, they're paying more and getting less?
MR. MILTON: Future employees would be getting less. And employees in their current employment career would have a pro-rated based on the old plan rules, and the new plan rules when they came into effect.
MR. STEPHENSON: None of this stuff effects retirees. By statute you can't change their entitlements, correct?
MR. MILTON: Correct.
MR. STEPHENSON: But there's a quid pro quo, as there always -- as there often is at the bargaining table. You have to give to get, and there was a quid pro quo on that issue, correct?
MR. MILTON: Yes, that's correct.
MR. STEPHENSON: And that's the Hydro One share program.
MR. MILTON: It's a combination of the lump sum payments and Hydro One share.
MR. STEPHENSON: Okay. And the lump sum payment, let

me deal with that one first. From the employers' perspective, there is a significant benefit to the lump sum payment as distinct from a percentage increase to base compensation, correct?

MR. MILTON: That's correct.

MR. STEPHENSON: And the base -- the reason why it's beneficial is that it doesn't form the platform of subsequent wage increases?

MR. MILTON: So it's not part of the wage increase, which has a beneficial impact on the pension liability.

MR. STEPHENSON: Yeah, there's a bunch of knock-on effects to it --

MR. MILTON: Correct.

MR. STEPHENSON: -- correct, all of which are beneficial from the employer's perspective.

MR. MILTON: That's correct.

MR. STEPHENSON: And then the -- and if I'm not mistaken, the lump-sum payment, that of course only goes to people that were employed on certain dates, right?

MR. MILTON: Yes, that's correct.

MR. STEPHENSON: So if somebody got hired in 2017, they're just simply not getting it, I don't think.

MR. MILTON: Let me --

MR. STEPHENSON: Or they might get part of it.

MR. MILTON: Let me check that. I know that's certain for the share grants.

MR. STEPHENSON: I'm going to come to that in a second.

MR. MILTON: Yes. You're correct. So the lump-sum payments, it's only people who are eligible who are contributing to the pension plan as of April 1st, 2015.

MR. STEPHENSON: Right. So because you're experiencing this, as I'm going to call it, material attrition and you're doing rehiring, there's a growing group of employees who simply aren't eligible.

MR. MILTON: For the lump-sum payment --

MR. STEPHENSON: Yeah.

MR. MILTON: -- that's correct.

MR. STEPHENSON: Okay. And the same goes for the share grants.

MR. MILTON: Correct.

MR. STEPHENSON: You had to be an employee on a specific date back in 2015, and by definition, by virtue of the attrition, there is a declining number of people over time that are going to get that benefit, right?

MR. MILTON: That's correct.

MR. STEPHENSON: And you've actually forecast in this application what those numbers are going to be through the period of the test period?

MR. MILTON: Yes, we have.

MR. STEPHENSON: And you don't need to pull it up. It's the answer to an interrogatory, and it's -- but it's redacted, and so I don't know what your forecast is, and I just -- somehow this is sensitive to labour relations. For the life of me I can't figure out why.

Is there some -- can you explain to me why this is problematic for this to be publicly disclosed, how many people are going to be eligible for share grants in future years?

MR. MILTON: Yeah, I think -- I think maybe we got overly aggressive with confidentiality. What I can tell you is what materials in there is approximately 4,800 PW employees are entitled, and that declines over the test period to 3,600 PW employees.

MR. STEPHENSON: Okay. And you say -- so that's the 21 -- that's the 2021 number, the 3,600 is your forecast?

MR. MILTON: That's correct.

MR. STEPHENSON: Okay. And just on pension for a moment -- let me sort of back up. Before I leave the question of the 2015 bargaining, you've indicated in your evidence that the outcome of that was reported by OPG to the government, correct?

MR. MILTON: That's correct.

MR. STEPHENSON: And the government assessed it -- those outcomes relative to the mandate that OPG was given going into that bargaining, correct?

MR. MILTON: That's correct.

MR. STEPHENSON: And the government reported back that it had been reviewed by the Cabinet and they were satisfied that the mandate had been fulfilled, correct?

MR. MILTON: That's correct.

MR. STEPHENSON: Now, let me just talk about going forward to your next round of bargaining, and I'm not asking any questions here about strategy or anything, so don't feel -- that's not where I'm going.

So you have embedded in your application a forecast of the cost of the new PWU and SEP collective agreements, correct?

MR. MILTON: Not the cost of the collective agreements. We've estimated on what an increase in labour costs may be.

MR. STEPHENSON: The cost in the sense that what the impact of those agreements are on your labour costs, given all of the other factors affecting your work plan.

MR. MILTON: So given the uncertainties of bargaining, as you know, we have to make some assumptions, and those assumptions may turn out to be accurate or not accurate, given the outcomes of bargaining.

MR. STEPHENSON: For sure, but the reality is, is that because of the five-year test period that you're seeking in this case, whatever the Board decides in terms of your costs, you're now -- you're going to be stuck with those numbers, assuming that the Board gives you exactly what you're asked for, then you're stuck with that outcome, correct?

MR. MILTON: That's correct.

MR. STEPHENSON: And my point really is -- actually is this. So when OPG is coming into those negotiations, isn't the simple reality that OPG has an extraordinarily strong incentive to meet or beat your planning assumptions in terms of the outcome of those actual negotiations? Because if you do worse, you're not going to get any recovery through rates in this case for several years, and if you do better, that goes to the benefit of the company.

MR. KOGAN: So just two comments on that. One is I think as a general premise that I think has been discussed in previous panels, we do have an incentive, given that we have variable rates in terms of both output and ensuring a maximum possible efficiency, so that that's not restricted to collective agreements, so in that sense that incentive as you laid out applies broadly.

And a second comment just to augment to your previous question regarding there being no mechanism throughout the five-year period to true-up to the actual outcome, an asterisk to that would be for pension and OPEB outcomes, because we do have variance accounts that are continuing.

MR. STEPHENSON: Fair enough. But -- and the thing that's just somewhat unique about this case is that you have got this bargaining coming up, I think, in 2018, so there's three full -- three -- more than three years you're going to be locked into a cost commitment, and insofar as there's a variance between that cost commitment and what you get in this case, you will either be the beneficiary or it will be problematic, because you're not going to be able to recover those costs otherwise, correct?

MR. KOGAN: All else equal, that's correct.

MR. STEPHENSON: And my point simply is that gives you a very strong incentive to meet or beat your assumption, fair? That's just economic reality.

MR. MILTON: Well, I think it's more than that. It's not only to beat the assumption, but we're always going in to try and improve the efficiency of the company, reduce costs, so that we're a more effective organization. We're always attempting doing that.

MR. STEPHENSON: My point -- for sure, that's a given. My point's a slightly different one. My point is that, you know, if you do really badly in those negotiations, it will create enormous problems, because you'll have additional costs that are not -- there is no mechanism that you can come back and recover on them? Similarly, if you do really well, you're going to directly benefit and you don't have to share those benefits with anybody?

MR. KOGAN: All else equal and subject to any other mechanisms that may be part of the ultimate custom IRM that is approved, that would be true, just like it would for any other cost that's not subject to a deferral variance account.

MR. STEPHENSON: Right. Just before I leave this issue about the 2018 bargaining, you haven't made your -- your assumptions about that are redacted, at least for my purposes. But it's -- you can reverse engineer it. You can sort of figure out there is a modest increase embedded in that analysis.

There are going to be people in this room that say that's not reasonable. There are going to be people in this room that say your compensation levels are already too high, and anything less than an absolute rollback in compensation rates for PWU and SEP employees is unacceptable and unreasonable.

What do you say to that, in terms of the achievability of that outcome in 2018? What is the achievability of obtaining absolute rollbacks in those compensation rates in that round of bargaining?

MR. MILTON: I guess I can answer two ways. If you look historically the wage increases, that would be extremely challenging. But bargaining is not done based solely on past experience. It's based on the climate at the time, the political climate, the corporate issues and concerns at the time, the government shareholder issues and concerns, so you would have to make an assessment at that time of what the priorities are and what the likelihood of success of those priorities are.

But to get an absolute zero or a rollback? Very challenging.

MR. STEPHENSON: And that's why the company has focused really on using other mechanisms that allow it to save money overall, in terms of giving it flexibility, about deployment of issues, and use of purchased services, use of augmented staff and so forth. You've had to look to a broader range of options that wind up saving you net dollars overall, fair? It's not just about rates?

MR. MILTON: We look at all options that could make us more effective and save costs at bargaining, and where we can negotiate those and get agreement with the PWU, we do so.

MR. STEPHENSON: I'm going to ask you to turn to one document. I didn't do a compendium, because I don't have many documents. So I'm going to take you to see -- it's Exhibit F4, tab 3, schedule 1, attachment 1. This was, I guess, page 14 in the CME compendium.

This is the breakout of your comp costs, and this is the global one including regular and non-regular. I'm looking down at the bottom of the page starting at line 46, and in particular at line 49, which is the line for PWU costs. And I'm looking out at your forecast for 2021 at 809 million.

So just looking at those numbers, I'm right that by 2021, you're actually going to be spending -- forecasting at least to be spending, in aggregate for PWU-represented members, less than you are through the plan periods. It's a declining amount and it's an amount actually equal, or pretty much equal to what you spent in 2013 and 2015, pretty close.

MS. REES: That's correct.

MR. STEPHENSON: And that -- I take it that outcome is achieved largely through a decrease in PWU-represented complement, right?

MS. REES: Yes, we do see a decline in staffing.

MR. STEPHENSON: Right. I want to talk a little bit about benchmarking for a moment. You're going to -- you've already been asked questions about this, and you're going to be asked more questions about this. I only have two small points.

The Towers study, like all benchmarking studies, is a point in time analysis, correct?

MS. REES: That is correct.

MR. STEPHENSON: And what's the -- is it 2015? Was that the point in time that they're examining, or is it a 2016 number?

MS. REES: April 2015.

MR. STEPHENSON: Okay. Like all benchmarking, if you go -- as time progresses from the study period, benchmarking is a relative result, right? It's where you stand relative to some other group, correct?

MS. REES: That is correct.

MR. STEPHENSON: And so the results of that can change over time based upon two main factors. Number one, what your performance is, correct?

MS. REES: Correct.

MR. STEPHENSON: And number two is what the performance of everybody else is, right?

MS. REES: Correct.

MR. STEPHENSON: And those are both dynamic. They're both moving at all times, correct?

MS. REES: Correct.

MR. STEPHENSON: So what, if anything, does the Towers study tell us about where your benchmark placement will be in 2018, or 2020, or 2021?

MS. REES: It does not tell us what the forecast placement will be. It only tells us what it is as of this date.

MR. STEPHENSON: And is that something you can ask them to do, or is that just simply not what benchmarking people do?

MS. REES: That would be a forecast of making assumptions about what was going to happen to the market, and then making assumptions about what was going to happen to -- how successful we would be at bargaining, and any other changes we were to put in place.

So could a calculation be done? Yes, but it's not benchmarking any more; now it's a forecast.

MR. STEPHENSON: Right. Lastly, I want to explore a point you touch on in your written evidence, and that's the relevance of Bruce Power as a comparator.

When I looked at the benchmark, I sort of think of the benchmark as -- this is my words, not theirs -- it's sort of a synthetic comparator. You're looking at a group of people and putting them together, and making medians and averages, and things like that.

But it's a composite of a group of things, and some people in that composite group may be more similar than others to you. Some are not very similar at all, and some may be quite similar, correct? They're diverse.

MS. REES: Depending on the segment; general industry would be very diverse organizations, but -- and within the utility and the nuclear the diversity is not as strong.

MR. STEPHENSON: Well, but you actually make a point of saying how, even within the nuclear group, these comparators actually aren't that -- aren't that relevant a comparator because that's the basis for your 75th percentile, right?

MS. REES: Correct.

MR. STEPHENSON: On the other hand, we actually have in this jurisdiction an actual, real-life, genuine highly comparable comparable, don't we?

MS. REES: Bruce Power is the closest comparator to OPG.

MR. STEPHENSON: It's not only just the closest, it's actually incredibly close, isn't it?

MS. REES: It is.

MR. STEPHENSON: And the reason why it's incredibly close is because, number one, it has got the same legacy as OPG, in the sense that it actually is spun out of the same company.

MS. REES: Correct.

MR. STEPHENSON: And it came out -- from a compensation perspective it had all the same legacy compensation issues from management right down all the way through, correct?

MS. REES: Correct.

MR. STEPHENSON: It's in the same jurisdiction and therefore governed by all the same labour laws and so forth, correct?

MS. REES: Correct.

MR. STEPHENSON: It is -- uses essentially the same technology, is the closest comparator in terms of the technology.

MS. REES: Correct.

MR. STEPHENSON: It has a comparable work force in terms of its size, mix, composition, skills, demographics, et cetera, correct?

MS. REES: Correct.

MR. STEPHENSON: And actually, the -- there is a significant difference, but it's also relevant, and that is, it's not a rate-regulated utility, it's a competitive utility, correct?

MS. REES: Correct.

MR. STEPHENSON: And so from -- when the Board is looking at how OPG is doing, obviously you've got your benchmarking report, and you've provided some evidence about Bruce Power, but what's your message to the Board about where they should be looking if they want to look for the closest comparator for the purposes of this benchmarking?

MS. REES: For the purposes of compensation benchmarking I would actually direct the Board towards the Towers Watson study.

MR. STEPHENSON: Okay.

MS. REES: Bruce Power is the closest single comparator, and it's very useful to look at them, particularly when we're looking at our bargaining environment and how well we're doing relative to that. And they -- they are an organization we lose and attract talent to, so they're in the population we're considering with Towers, but more broadly, it's not what we're not striving for. We're not striving to achieve Bruce Power's compensation, so it's not the appropriate comparator for us. Single comparator.

MR. STEPHENSON: Well, you're not striving to achieve because it's higher.

MS. REES: Yes.

MR. STEPHENSON: But it is the closest comparator.

MS. REES: It's the organization that's most similar to us, yes.

MR. STEPHENSON: Okay. Thank you, panel. Those are my questions.

MS. LONG: Thank you, Mr. Stephenson.

Mr. Dumka.

CROSS-EXAMINATION BY MR. DUMKA:

MR. DUMKA: Thank you, Madam Chair. I have to say that we've got a cross-section in terms of what we're going to cover, so I'm going to be shorter. Wasn't planning on spending quite as much time on some of this stuff, but I will be shorter than planned.

Just one thing that I wanted to follow up on, and it's with regards to the Towers benchmarking, and there has been a trend the last few years and I just want to get some clarification on using the general industry comparator or segmenting for things like finance positions, et cetera.

And my recollection in years gone by it was -- a general industry comparator wasn't used. It would be similar positions in the utility industry. And I'm just curious as to why it would seem the last year or two there has been a shift to compare those positions to general industry.

MS. REES: It really was a refinement in our looking at the organizations that we attract and lose talent to, and when we were looking for finance positions and HR positions it's really in the general industry, the broader markets, that we're playing.

MR. DUMKA: Okay. No, that's fine. I suspected as much. But basically what that -- and that's in terms of drawing people in as compared -- new hires as compared to skill sets. I know from my own experience dealing with, for example, finance people who have come in from general industry, it takes them a while to understand rate regulation and whatever else. So there's a trade-off there in terms of using that type of a comparison, because it isn't exactly one for one in terms of skills and knowledge that are needed; is that right?

MS. REES: Utility experience is always desirable, but it's not a requirement of those jobs.

MR. DUMKA: Yeah, okay. That's fine.

I have got a compendium that is very short and, it will be even shorter as we go through, thanks to the intersection of things. I e-mailed it around the other day, and I don't know if you want to give an exhibit number to it.

MS. LONG: We have it. Let's mark it, please.

MR. MILLAR: K16.1.

EXHIBIT NO. K16.1: SEP CROSS-EXAMINATION COMPENDIUM FOR OPG PANEL 4

MR. DUMKA: Okay. And hopefully my friends on the screens here have got a copy of that. Okay. If I could ask you just to go to compendium page 3, please. And I'm just going to go through these slides fairly quickly. I'm just going to stop, and Mr. Stephenson has already covered off a whole bunch of stuff I was going to ask about, so I won't repeat that. I'll just draw your attention to line 14, where it says:

"Until recently typical union salary increases have tended to be between 2 and 3 percent for both OPG and other large companies within the electricity sector in Ontario, as shown in figures 5 to 8."

So for example, on figure 8, the figures we see there, the numbers we see there, line up. We can see prior to 2015 the increases across the three companies are in the 2, 3 percent range. And in 2015, '16, '17 we see the drop in both Hydro One and OPG, and we already heard what happened with those contract negotiations.

And if we flip over to the next page, page 4, at the top we also see the cumulative salary increases, and if we look under the 2017 column we can see that for PWU the OPG is the lowest of the three companies that are provided there.

So this is further to Mr. Stephenson's discussion with regards to Bruce Power as a comparator and what Ms. Rees and Mr. Milton had to say about that, but those are the hard numbers in terms of where the relative pay schedules have gone since 2001; is that correct?

MS. REES: Yes, that's correct.

MR. DUMKA: And if we look at figure 7 at the bottom, this is the Society, and again, if we take a look going -- you know, the earlier years, the increases are in the 2, 3 percent range for all three companies, and then when we get to 2016 and on again, as we talked about, there is a substantial decrease, and I can't help but note that Hydro One is the lowest of the three, and we'll be talking about that in the Hydro One application that's coming up.

But again, we see OPG at 1 percent over those three years, and if we go to page 5, top of page 5, we've got figure 8. And what we see there again, the cumulative increases since 2001 to 2018, OPG is the lowest of the three, and we just -- you know, if you want you can look across the chart, but pretty well they're at the same level or slightly under, and that gap has increased since about 2011 to 2018; is that correct?

MS. REES: That's correct.

MR. DUMKA: Okay. I'm going to -- again, this is another portion where -- or segment where I was going to ask a number of things that have already been covered. So I'll leave that.

I'll ask you to go to compendium page 6. This is a PWU interrogatory. And basically this is the setup with regards to the new contracts and the and whole thing of keeping wage escalation below inflation. So the question is PWU and Society wage escalation is at a level below inflation; please quantify the impact on the test period revenue requirement had wage escalation be set at inflation.

So I understand OPG used 2 percent as the estimator, so the impact was estimated at 31 million in 2017 and 20 million in 2018. Is that correct?

MR. KOGAN: Yes, as stated in the interrogatory.

MR. DUMKA: Okay. And I'm not going to get you to forecast, but you've used 2 percent. So would I be right in assuming that for the test period, OPG assumes inflation will be roughly 2 percent?

MR. KOGAN: I think that's -- in any particular context you're asking, or just a general question?

MR. DUMKA: In this context, in terms of cost of living and whatever else, in terms of how you approached this particular IR. I'm not going to ask you -- I'm not expecting you to be forecasters or whatever, but would that be a rule of thumb for this test period?

MR. KOGAN: I think what I can say is that for the purposes of this response, we assumed a 2 percent inflationary impact.

MR. DUMKA: That's fine. I'll get back to that in a moment.

If you can flip over to the compendium page 7, please? That's a big chart which I had a hard time making sense of, because there's so much there. So this was in response to Staff interrogatory 142. Basically, Staff asked you to update an IR from your last proceeding, or using that format, and provide at the end average pay per FTE for the three classes of staff for the period between 2010 and 2021.

I just want to confirm with you what the total compensation represents here. Is that pretty well everything; overtime, the cost of benefits, pension benefits, et cetera, as well as salary? Is that what is provided there?

MS. REES: Everything except for the EPSCA.

MR. DUMKA: And that's pretty small. We see some adjustments. I think that's in or around row 19, and those dollars range from about 14 million to 37 million. So when we're looking at a total compensation tap of 1.4, 1.5 million that's not really significant. Would you agree?

MS. REES: I would agree.

MR. DUMKA: What Board Staff asked you to do in this IR was provide -- and I'll ask you to go to the far right of this huge table, and this is in columns M and N. You've got what's labelled changes to date. So that's the 2010 to 2015 changes in compensation, staffing, and average cost per FTE. And the row or column N is that percentage change.

And if we go towards the bottom over that five-year period, this would be rows 24 through 27. Let's focus on 27, the total for OPG. Over that five-year period, wages went up 35K per FTE, with a total percentage increase of about 23 percent. Is that correct?

MS. REES: That is correct.

MR. DUMKA: Okay. In the last pair of columns, this is column O and P, we have similar numbers for the entire 11-year period. Just again focusing at the total on line 27, we see the total percentage change in pay per FTE is about 27 percent, and that would be somewhere in the range of two and a half percent or so, just pulling numbers out of the air in terms of the increases. Is that correct?

MS. REES: You were referring to which row again, sorry?

MR. DUMKA: Sorry, row 27, and that's where we see the total change for the entire period, 2010 to 2021.

MS. REES: So based on the compendium page 8, I think you calculated it out to two and a half percent.

MR. DUMKA: Yes.

MS. REES: If you actually factored in the compounding impact of increases --

MR. DUMKA: No, this was just a straight average.

MS. REES: It would be lower, slightly lower.

MR. DUMKA: Okay. I would like to draw your attention to the table -- or sorry, the graph that we see at the bottom of that particular page, and just eyeballing it -- we do have the numbers up top and we'll get to that in the last page of my compendium. But if we look at 2015, the total compensation, you know, dollars per FTE, and compare that to 2021, if we go across each of the staff cuts for management, and Society and PWU, we see over that period, that six-year period, there really isn't that much of a change when it comes down to it, just eyeballing it on the chart, in terms of pay per FTE.

The management figure looks -- well, it looks almost the same. PWU was up slightly and Society is up slightly. Would you agree with that description of what we see there?

MS. REES: I would, yes.

MR. DUMKA: Okay. If we can flip to the last page of the compendium --

MS. FRY: Before you go there, just a question of clarification about this chart. Obviously, regular employees are members of the union, or whatever the group is.

MS. REES: Yes.

MS. FRY: What about your non-regular types of employment arrangements? Are they members of the Society and PWU?

MS. REES: A significant portion would be, yes.

MS. FRY: Thank you. But rehires, I guess -- so a rehire after retirement, as long as they're under one of those non-regular employment arrangements, would be part of the unions?

MS. REES: They could be part of the union as well, yes.

MS. FRY: Okay, thanks.

MR. DUMKA: Just flipping to the last page of the compendium, page 8, and just so you can see things are consistent -- my apologies for not numbering or lettering rows and columns -- but if we look where the big arrow is, that provides the 2010 to 2021 changes from the IR chart.

And basically, as we've already discussed, as Ms. Rees pointed out, in the last two columns basically what I did is took the simple average in terms of what is the annual change for the 2010 to 2021 period. Without taking into account the compounding, this actually overstates what the average increase is over that period. And it works out to be in total about a two-and-a-half percent increase per annum.

Now, the interesting thing is we've had the discussion earlier on about the new union contracts -- for Society, it's 2016, '17, '18 -- and the assumptions going forward in terms of contracting. Mr. Milton gave some good responses to Mr. Stephenson earlier on.

Now, if we take a look at the two yellowed columns, what we've done there is we've looked at the period 2015 to 2021, which was not in the Board Staff IR, and this lines up with the new contracts as per bargaining. So we see the impact of the 1 percent wage increase, whatever adjustments were made to pension contributions, as well as the lump sum payments and the share grants. That's all covered in here, in terms of how the table was costed out as per what Ms. Rees said earlier on, is that correct?

MS. REES: Yes, that's correct.

MR. DUMKA: Okay. So if we take a look at this, for the bridge year and the test years, basically what we're looking at is overall, in terms of payment per FTE, it's point 6 percent per annum.

I realize there could be some nuances or whatever else, and it's overstated, because compounding has not been taken into effect. But we're looking at a total pay per FTE of less than.6 percent per year; is that correct?

MS. REES: Yes.

MR. DUMKA: Okay.

MS. REES: One moment, please. I believe that percentage is actually not per year. I believe that's the total change you're showing there, 2015 --

MR. DUMKA: Oh, my apologies. The first two columns is the total change, and what you see yellowed on the screen, that's the annual average change.

MS. REES: Yes, thank you.

MR. DUMKA: Yeah. So again --

MS. REES: Yes, I would agree.

MR. DUMKA: All right. So basically when we look at everything from what was discussed earlier on we have got a contract in place, there's assumptions about future contracts, and overall in terms of the ratepayer we're going to see annual increases in compensation per FTE in the three staff groups in the range of less than .6 percent per year; is that correct?

MS. REES: Yes, that's correct.

MR. DUMKA: Okay. Thank you. That's all I wanted to ask about this morning. Thanks.

MS. LONG: Thank you, Mr. Dumka. Mr. Millar.

MR. MILLAR: Yes, thank you, Madam Chair --

MS. LONG: Do you want to get us started and take us to our morning break around 11:00, 11:05, whatever --

MR. MILLAR: I'll do that.

MS. LONG: -- is a convenient time?

MR. MILLAR: Madam Chair, before we begin, Staff has prepared a compendium for this panel. I would propose to mark that as K16.2.

MS. LONG: Thank you.

EXHIBIT NO. K16.2: BOARD STAFF CROSS-EXAMINATION COMPENDIUM FOR OPG PANEL 4.

CROSS-EXAMINATION BY MR. MILLAR:

MR. MILLAR: Panel, do you have a copy of the compendium?

MR. MILTON: Yes.

MR. MILLAR: Okay. I would like to start off with -- you may get a sense of deja vu here, because some of my questions at least at the beginning will be things that we've gone over in previous cases, but this is a new proceeding, so I just want to go over some of the basics and the groundwork here, so forgive me if these are questions that you may have heard before.

But I want to start with a few questions about OPG's overall philosophy or your overall approach when it comes to compensation for your employees. And my first question is, is it OPG's goal to pay your employees market rates, and we might differ over how we define "market", but would you accept that as a proposition?

MS. REES: Yes, our philosophy is to have our compensation at the 50th percentile.

MR. MILLAR: There is actually an exception to that, but I -- I --

MS. REES: Correct, yes --

MR. MILLAR: -- but we will --

MS. REES: -- thank you for clarifying that for me.

MR. MILLAR: Okay. Thank you.

MS. REES: But generally.

MR. MILLAR: And that would be true whether you are talking about your management employees or your unionized employees or the small segment of non-unionized, non-management you have.

MS. REES: Correct.

MR. MILLAR: And would you also accept that it's the task of this Board to improve your compensation costs to the extent that they reflect these market rates?

MS. REES: I would take that that is OPG's accountability to achieve that.

MR. MILLAR: Okay. OPG's -- and let's imagine the Board determines you have failed to achieve that. I guess one of the points of this review is to assess whether or not you've been successful in doing that; is that fair?

MS. REES: So as I understand, the Board's role in this is to set reasonable rates and ensure that our application -- our costs are reasonable.

MR. MILLAR: Okay. Let's look at the overall numbers just to frame this exercise. Could I ask you to go to page 2 of the compendium? And you'll see a chart here, figure 3, which we'll actually come back to several times over the course of this cross-examination, but it provides a good snapshot picture of your total compensation cost; is that fair?

MS. REES: Yes.

MR. MILLAR: And what is -- I mean, you list discrete items here, but am I correct, when we talk about total compensation we're talking about pretty much any form of remuneration to your employees? Like, is there anything that's excluded from this chart in terms of compensation to your employees?

MS. REES: This would reflect all the compensation elements. I know there are sometimes certain benefits that people consider to be compensation, like moving expenses. Those sorts of things are not included in here, so this is what we pay people and the pension and benefits that they receive.

MR. MILLAR: Okay. So there may be some very small discrete items that are not included in here. You mentioned moving costs, something like that, which I guess is a benefit of sorts, but by and large everything you pay your employees is here.

MS. REES: Yes.

MR. MILLAR: And would you agree with me that when you look at your total compensation costs that you're seeking to recover from ratepayers, that would be a function of two inputs. The first would be the number of employees you have, and the second would be the amount that you pay them, the total compensation that they get?

MS. REES: Yes.

MR. MILLAR: And you've provided us with your total compensation costs for your nuclear facilities. That's what we see on figure 3. First, can you confirm, this is just for FTEs, right? It would not include the various types of contract workers you have or purchased services?

MS. REES: It does not include purchased services. It's strictly our labour costs.

MR. MILLAR: And we look -- the top line is pension and benefits, and if we flip to page 3 of the compendium we see that described there, starting, I think, at line 24 of page 3. Again, most of the things in this compendium are taken straight from the application. It says that:

> "Pensions and benefits includes current employee benefits and current service costs for pensions and OPEBs."

Does it include your supplemental pension plan?

MS. REES: For the current service, yes.

MR. MILLAR: Okay. And if we go back to page 2, we see that pension and benefits line, and there's a little asterisk, and that asterisk confirms that the numbers you presented here are presented on an accrual basis?

MS. REES: That is correct.

MR. MILLAR: Okay. So I just had a question on how this number was derived. You can see, we'll just take 2017 for an example because that's the first year of the test period. You see the number under pensions and benefits is $407 million?

MS. REES: Yes.
MR. MILLAR: And that would include, as we just discussed, not just your pensions and OPEB amounts but it also includes benefits for current employees?
MS. REES: Correct.
MR. MILLAR: Okay. And it's presented on an accrual basis?
MS. REES: Correct.
MR. MILLAR: So let's go to page 4 of the compendium. This is where you present your total pension and OPEB accrual costs. I understand this is a subset of the numbers that we looked at on page 2, because it doesn't include benefits for current employees?
MR. KOGAN: This represents the total pension and OPEB cost. That includes more than just the current service cost, which -- and the current service cost is that which is a subset of the pension and benefits line that you were referencing earlier in the other chart.
MR. MILLAR: Because I think you see where I'm going, Mr. Kogan. For some reason the number we see on page 4 is actually higher than the number on page 2, and my understanding was it should actually be lower because it excludes some of the benefits that are included on page 2, but I think you were about to explain to me why that would be the case.
MR. KOGAN: Yes, and just to reiterate, the numbers that you're looking at at page 4 of your compendium include all components of accrual costs, whereas the numbers that

are at the chart in F4-3-1 include the current service cost component, which is associated with the service that is being rendered in the period by current active employees.

MR. MILTON: Okay. I'm not nearly as familiar as you are with these issues. Could I ask you to dumb that down just slightly? What is included -- when you say "current service costs", how that different from what we see on page 4?

MR. KOGAN: So as we're sitting here working today we are earning service based on the actual calculation and the formula of the plan, and that cost is being reflected in what's labelled as compensation. The fact that there is an interest improvement on the present value and obligation of somebody who has retired five years from now and that interest cost is still part of our obligation and our accounting cost, that is a great example of what's not included.

Or for example if there is a change in actuarial assumptions such that the costs go up or down for previously accrued service, the amortization of that impact also would be an example of what's not included in the F4-3-1.

MR. MILLAR: Okay. So page 2 includes the costs associated with your current employees.

MR. KOGAN: It includes the current service cost associated with the current employees, yes.

MR. MILLAR: And to the extent there were changes that might impact already retired people, that's what's excluded? Did I understand that correctly? If I've got this wrong, just -- you might have to --

MR. KOGAN: Well, this --

MR. MILLAR: -- run it by me one more time.

MR. KOGAN: -- this includes anything related -- excludes anything related to colloquially what I would label as past service, so it could be past service of currently active employees, it could be past service of employees who have already retired.

MR. MILLAR: Okay. So that explains why -- we don't have to go through it, but the number on page 2 and the number on page 4, they don't match in any year, and that would explain that for -- for all of these.

MR. KOGAN: Right. And what -- you know, just for further context, I'll point you to Exhibit F4-3-2, page 19, at chart 6 that actually specifically sets out the detail of -- sorry, about that. Chart 7 at page 21 specifically sets out the current service cost and goes through and around that section, and explains probably better than how I've done it here with what's included.

MR. MILLAR: That's very helpful, thank you. Thank you for clearing that up.

Let's go back to page 2 of the compendium, just so we can get a handle on the total numbers that you're seeking to recover. First, there actually have been some minor updates in the N1 update. So I'm looking at the total compensation cost, which is about the middle. Would these numbers be slightly different now?

MS. REES: Yes, they would be.
MR. MILLAR: I think your mic is off, Ms. Rees.
MS. REES: Yes, the cost would be slightly different for 2017 --
MR. MILLAR: With that understanding, I want to talk at a very high level. I think this is the easiest place to look at everything at once.
Starting in 2017 and over the test period, you're seeking to recover more or less $1.6 billion a year for compensation costs?
MS. REES: Yes.
MR. MILLAR: And over the total of the five years, it's something like $8 billion, subject to check or slight variation; is that about right?
MS. REES: Yes.
MR. MILLAR: There was a discussion earlier of the Hydro One share purchase plan and the lump sum payments. Are those included in these numbers?
MS. REES: Yes, they are.
MR. MILLAR: Okay, thank you. I'll ask a few more questions about that later in the cross-examination.
If you look at your total compensation, again starting in 2017, it actually goes up a little bit in the first couple years, but then it starts to decline through to 2021?
MS. REES: That is correct.
MR. MILLAR: And as you discuss with Mr. Stephenson, I believe, that's largely a function of the fact you're

continuing to shed employees, is that right?

MS. REES: Between the -- towards the end of the plan?

MR. MILLAR: Yes. That's why the total compensation number goes down towards the end. It's not because you're paying less on average. It's because the number of FTEs are --

MS. REES: The number of FTEs are declining as the work programs are declining as well.

MR. MILLAR: Indeed, if you look at the average total compensation per FTE, which is the second line from the bottom there, it increases in every year of the test period -- not by much, but it goes up a little every year. Is that right?

MS. REES: It goes up a little bit and comes down, that's correct.

MR. MILTON: I don't see it go down.

MS. REES: The growth rate shown on the line below it, and there's -- it starts to decline in the later years slightly.

MR. MILLAR: I'm looking at total compensation $100,000 per FTE, and it looks like it goes from 182, 184, 187, 190, 191.

MS. REES: I stand corrected. I was looking at total compensation.

MR. MILLAR: Okay. Just so I understand what that means, in 2021, if you take all your employees, their average compensation -- total compensation is 191,000 dollars a year?

MS. REES: That is correct, including the pensions, the benefits, the overtime, all of those aspects.

MR. MILLAR: Ms. Rees, I think it's the distance between us. I'm having a little trouble hearing you. So if I can ask you to speak directly into the mic.

MS. REES: I'm just saying that includes everything, base salary, incentives, overtime.

MR. MILLAR: Understood. That's the total compensation number, not just base salary.

And then again if we look at the FTEs, I think it's easy to look at it here, there's kind of a ramp-up in 2015 and 2016 -- though I recognize your actuals were a little bit different from this. But over the course of the test period, it declines every year?

MS. REES: Yes.

MR. MILLAR: We'll discuss the FTEs numbers later. I just wanted to get the broad overview snapshot.

Some questions about your negotiating environment at OPG. First, you can confirm the majority of your employees are unionized; I think it's something like 90 percent?

MR. MILTON: That's correct.

MR. MILLAR: And the majority of your compensation costs go to your unionized employees?

MR. MILTON: That's correct.

MR. MILLAR: And you're legally required to collectively bargain with your two major unions, those being the PWU and the Society?

MR. MILTON: That's correct.

MR. MILLAR: Would you agree with me that the fact that they're unionized gives these employees significant bargaining power, more so than they would have if they were not unionized?

MR. MILTON: Generally, that's the function of a union, correct.

MR. MILLAR: And you don't have a choice but to negotiate with them, correct? You can't go around your labour unions -- I mean, there are some slight exceptions for purchased services. But by and large, you don't have the choice to say, you know, PWU you're costing too much, so we're just going to hire other people to do that. You have to work through your unions?

MR. MILTON: That's correct.

MR. MILLAR: So in effect, they hold a monopoly on much of your labour; is that fair?

MR. MILTON: For the jurisdiction they have over their work, yes, we have to negotiate and discuss with them. And to get to the flexibilities that we built in over time require negotiations.

MR. MILLAR: And OPG itself also has a form of monopoly over electricity generation in this province, in that anyone who's connected to the grid has to purchase electricity, or a portion of its electricity, from OPG; is that right?

MR. MILTON: So from my limited perspective, I wouldn't believe we have a monopoly, given the competition in the market now and the other generators.

MR. MILLAR: Is there competition in the sense that someone can choose to purchase electricity from somebody other than OPG?

MR. SMITH: Yes, they can. In my neighbourhood, there's a whole bunch of people who have signed up with Bullfrog Power.

MR. MILLAR: Is it your position they're not getting electricity from OPG, and OPG is not being paid for all the electricity it produces?

MR. SMITH: I don't know where Bullfrog Power gets their power, Mr. Millar.

MR. MILLAR: So it's OPG's position that people don't have to pay OPG for the electricity it produces?

MR. SMITH: I don't think this is a productive discussion for the compensation panel.

MR. MILLAR: I'll move on. So we've agreed there's a monopoly on labour. We have not agreed that people have to pay OPG for their electricity.

When you sit down with your unions to negotiate a collective agreement, generally who is at the table?

MR. MILTON: Generally it would be senior leaders from the line organization, the vice-president of labour relations, and other support staff.

MR. MILLAR: Sorry, those are the OPG folks?

MR. MILTON: Correct.

MR. MILLAR: And then, of course, the union would have their representatives.

MR. MILTON: Typically, they're senior vice-presidents and other elected people.

MR. MILLAR: On some occasions, there's other people, right? You spoke -- in the last negotiating session, a Mr. Clark had a role in at least some of the negotiations.

MR. MILTON: That's correct, he lead the central table between ourselves and Hydro One.

MR. MILLAR: But generally, is it just the company and the unions?

MR. MILTON: Generally, that's correct.

MR. MILLAR: Who are the unions there to represent?

MR. DUMKA: The interests of their membership.

MR. MILLAR: Who is OPG there to represent?

MR. MILTON: We're there to represent the ratepayers and the company's interest to be more effective and efficient in delivering our services.

MR. MILLAR: You put ratepayers first and OPG second. If I suggested to you it was the other way around, how would you respond?

MR. MILTON: We look at it together. OPG has to be successful for the ratepayers to benefit.

MR. MILLAR: Is it -- isn't OPG's job to create returns for its shareholder?

MR. MILTON: Correct.

MR. MILLAR: And I don't doubt for a second you consider ratepayer interests. But would you agree with me that those things aren't always perfectly aligned, your desire to create returns and the interests of ratepayers?

MR. MILTON: I think, by and large, they're pretty aligned because our mission is to be a low cost provider to the province of electricity.

MR. MILLAR: There is obviously no representative from the Board at the proceedings, at the negotiations.

MR. MILTON: That's correct, there is not.

MR. MILLAR: And there wouldn't be any direct representative of a ratepayer group, like a CCC, or School Energy Coalition, or something like that?

MR. MILTON: That's correct, there is not.

MR. MILLAR: Mr. Stephenson spoke to you about some of the incentives OPG has to drive a hard bargain. I thought you made some good points, that to the extent you do better than forecast, you might be able to keep -- presumably, you can keep that. If you do worse, you're on the hook for it without the ability to recover it.

Is it fair to say then that the Board's oversight is one of the key drivers of you seeking incentives?

MR. MILTON: I think it's a consideration on how the Board would view, and how the Board has ruled on rate applications.

But internally, as I've said, we're driven to improve our performance and efficiency and reduce our costs.

MR. MILLAR: Madam Chair, I am moving to a new area. It's a bit before 11, and I'm happy to carry on, or if you'd like a break --

MS. LONG: Why don't we take a break now? Let's take a twenty-minute break, and come back at 11:15.

--- Recess taken at 10:55 a.m.

--- On resuming at 11:18 a.m.

MS. LONG: Mr. Millar.

MR. MILLAR: Thank you, Madam Chair.

Panel, I would like to talk now about the Willis Towers Watson study that we've already mentioned, and just to provide some background to this study, this was a report that you prepared at the Board's direction, a total compensation benchmarking study?

MS. REES: The Board had requested the study be done, and we would have undertaken it on our own regardless.

MR. MILLAR: Okay. And the study is dated April 22nd, 2016 and it uses 2015 data; is that correct?

MS. REES: Yes, that's correct.

MR. MILLAR: Okay. And you filed similar studies in previous cost-of-service applications?

MS. REES: Correct.

MR. MILLAR: So this report, it covers OPG as a whole, right? It's not just your nuclear business?

MS. REES: That is correct.

MR. MILLAR: And just at a ballpark level what percentage of your employees work in or are allocated to the nuclear business? I assume it's a significant majority?

MS. REES: Roughly around 80 percent, subject to check, yes.

MR. MILLAR: Okay. Could we turn to page 6 of the compendium, please. And we can see here that the approach this study took was it -- first it benchmarks the PWU, the

Society, and your management employees? It's at page 6 of the compendium again.

MS. REES: Correct.

MR. MILLAR: And you can see at the bottom -- the bottom right corner there they were able to benchmark overall about 78 percent of your total employees?

MS. REES: That is correct.

MR. MILLAR: And it uses the term "incumbents" at the top. Is that the -- what does that equate to? Is that regular head count or is that FTEs?

MS. REES: It would be regular head count.

MR. MILLAR: Okay. So it would not include -- would it include non-regular staff?

MS. REES: No, it would not.

MR. MILLAR: And it wouldn't include contractors, purchased services, things like that?

MS. REES: No, it only focuses on regular employees.

MR. MILLAR: Okay. Thank you. If we could flip to page 7, please. This is sticking with the report. Towers grouped OPG's positions into three segments. There's a utility segment, a nuclear authorized segment, and a general industry segment?

MS. REES: That is correct.

MR. MILLAR: And it had a different list of comparators for all three of those categories?

MS. REES: Correct.

MR. MILLAR: And I didn't reproduce the list of comparators, though they are included in the study. Can you confirm that all the comparators are unionized, or to the best of your knowledge?

MS. REES: Not all of them would be unionized, but there is unionized positions in the comparator groups. Some of them would be.

MR. MILLAR: So in the utility segment the comparators are not all unionized?

MS. REES: I couldn't confirm if they all are. I would be -- I don't believe they are all unionized, but I don't know that for a fact.

MR. MILLAR: And there would be -- obviously I'm excluding the management category, but nuclear authorized, there would be examples or comparators where the nuclear authorized folks are not unionized? I'm sorry, I didn't actually produce a list, because I didn't think we would need to go there, but it's...

MS. REES: We're not certain if they're all unionized in the States. Definitely some of them would have unions.

MR. MILLAR: Okay. Maybe I'll -- I'll swing back to that if necessary.

So the study is divided into two parts; is that right? The first part looks at total direct compensation, and then there's a second separate part that looks at your pensions and benefits; is that correct?

MS. REES: That is correct.

MR. MILLAR: So let's start with total direct compensation first, and if we can flip to page 8, please. You'll see at the bottom it describes both what salary is and what total direct compensation is. And for OPG you can see it includes average salary as of April 2015 plus target bonus if applicable plus nuclear and/or other applicable allowances of incumbents in benchmark roles.

So a couple things. First of all, total direct compensation does not include overtime; is that correct?

MS. REES: That is correct.

MR. MILLAR: Does it include the lump-sum payments that your employees received that you negotiated in the most recent collective bargaining agreements?

MS. REES: No, it does not. Again, the study was as of April 2015. Those payments had not been made --

MR. MILLAR: Okay. So those would not be -- because it's 2015 data.

MS. REES: In fairness, they would not have been paid -- they would not have been included because they're one-time arrangements. As part of the study they wouldn't have been there anyways.

MR. MILLAR: So they wouldn't have been included either way. Those are being paid out, though, over the entire test period?

MS. REES: The lump sum is for two years.

MR. MILLAR: Okay. Two years. Thank you.

The share purchase plan for the Hydro One shares, I assume that's also not included in the data?

MS. REES: That is also not included.

MR. MILLAR: So total direct compensation does exclude -- I don't know, I don't know how -- I don't want to put an adjective on it, but it excludes certain elements of compensation.

MS. REES: It focuses on the core elements of compensation.

MR. MILLAR: If we flip back to page 2, there's our snapshot. What would total direct compensation here include? Would it be the base salaries and incentives line?

MS. REES: It would represent most of that, but there would be certain amounts and the base salaries and incentives that are not included in this study.

MR. MILLAR: Okay. Would it include any of the benefits for current employees from the first line, where it says pensions and benefits?

MS. REES: Not in the -- we were talking about the total direct compensation, so not in that study, no.

MR. MILLAR: Yes, it is addressed later, but it wouldn't be included in total direct compensation, so it would be a portion of the base salaries and incentives, I assume a large portion, but there would be incentives included in this line that are not included in total direct compensation?

MS. REES: Could you just repeat to make sure --

MR. MILLAR: Yes, sorry, I thought what you said was if I was trying to find where total direct compensation would be on figure 3 I understood your answer to be it would be base salaries and incentives, though there are some incentives included in base salaries and incentives that are actually not part of total direct compensation.

MS. REES: Correct. Yes.

MR. MILLAR: I'm sorry if I didn't word that properly. Okay. Let's flip to page 9, please. So this shows the high-level results for the total survey. It's a summary of everything that they found.

First, can you confirm for me that Towers states that it considers compensation to be aligned with the competitive market if it falls within plus or minus 10 percent of the target market position?

MS. REES: That is correct.

MR. MILLAR: And Mr. DeRose took you there, but the next sentence refers to the nuclear segment:

> "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."

And you will recall you had a discussion about that with Mr. DeRose yesterday?

MS. REES: Yes.

MR. MILLAR: so I found the wording a bit odd here. It says "OPG's compensation philosophy", where I don't see that term repeated throughout the document. Is this -- I take it this is a number that OPG provided to Towers?

MS. REES: We discussed with Towers what would be an appropriate comparator in developing our philosophy. And through those discussions with Towers and with our Board of

Directors we arrived at a 75 percent for the nuclear authorized.

MR. MILLAR: Okay. So they accepted your suggestion with respect to that?

MS. REES: Yes.

MR. MILLAR: And as Mr. DeRose mentioned, all of the comparators in the nuclear authorized group are in fact nuclear operators. That's why you have that group.

MS. REES: In fact, they're licensed nuclear operators, so they're --

MR. MILLAR: Are there unlicensed nuclear operators?

MS. REES: Yes, there are.

MR. MILLAR: Okay. Well, I did not --

MS. REES: There are operators that do not hold licences and there's nuclear operators that do.

MR. MILLAR: Okay. Thank you.

We in fact asked you about this in Staff 153, which you can see on page 10. First we asked if Towers actually agreed with 75th percentile, and you can see the answer there is yes. I'm looking at around line 35. And then a further explanation is provided starting at line 39:

> "Management, Society, and PW roles in the nuclear authorized segment at OPG are subject to greater complexity due to how the nuclear units are structured, with responsibility for four units at OPG compared to one to two in the market. This makes the scope of the management", et cetera, "roles broader more complex. As such, in

reviewing the range of market data, the 75th percentile was determined to be the best proxy to address this relative level of complexity."

I'm hoping you can help me with that. Why do things become more complex if you go from two units -- or one unit, for that matter, to four? Why does that bump you from 50 to 75?

MS. REES: It's more than just the four to the two units, or the two to the four units. One, with the number of units, you're responsible for the safe operations of more units from a single control room. You're overseeing more equipment, you're overseeing more systems. With the CANDU technology as well, there are more functions that is are not found in the U.S. utilities; so online fuel handling, and the heavy water handling as well are functions that are done by these licensed in the control rooms, and they will have more staff and more responsibility.

So the overall -- you might say sort of rating or level of the position has more responsibility associated with it in like with our units relative to the nine U.S. comparators.

MR. MILLAR: CANDU is not mentioned in this interrogatory response, the difficulties attendant with running a CANDU facility?

MS. REES: I think if you look to our response to JT2.33, it is addressed there, is it not?

MR. MILLAR: Just to be clear, is that your view or is that Towers' view with respect to CANDU?

MS. REES: That would be an OPG view. I think it would be one that was recognized in the industry. I know it was recognized in the Goodnight study. When they looked at the benchmarking, they made adjustments for the fact that the CANDU technology was unique in that manner.

MR. MILLAR: The item mentioned in the interrogatory response on page 10, which I'm assuming comes from Towers, mentions the difference between 4 and 2. And I understand that for your comparators, I looked up most of these and it does seem they're all one or two units.

MS. REES: Yes.

MR. DEROSE: Does Towers make a differentiation between if there's one or two units? For example, is running two units more complex than running one unit? And if they do, do you know if they make any adjustments based on that?

MS. REES: I couldn't answer that. I don't believe so, but I don't know.

MR. MILLAR: Let's go back to page --

MS. LONG: Can I ask a question here? Does OPG take the view that being a nuclear operator, a licensed nuclear operator as between Darlington and Pickering, there's a distinction there in skill sets?

MR. MILTON: I think the best answer is there's a distinction in qualification that is are unique to the stations. But the overall skill sets, the training programs, and the requirements for experience are similar, very similar. But there are unique training programs to each station, because they have slightly different changes in the technology as the technology evolved when we built the nuclear plants.

MS. LONG: I guess I'm trying to understand better if we're talking about different units, more units, whether or not internally you consider one job to have more responsibility than the other, depending on which station you're at. Is that something that's discussed or considered?

MS. REES: While Pickering has four units run out of one control room and then two separately, they still are operating on using the CANDU technology, so they still have the additional systems and functions associated with that. So there is no differentiation between Pickering A and B.

MS. LONG: As opposed to Darlington?

MS. REES: Pickering A and Darlington would be --

MR. MILTON: No, Pickering B and Darlington are similar; they're four units. The CANDU technology has a number of interdependent systems and redundant systems that you don't typically find in the nuclear technology in the United States. That adds complexity.

And then when you add additional reactors, they interconnect with one another, particularly in their safety systems, and how that's reflected is authorized staff training programs, as you heard from the nuclear panel, take an average three years once you start the training program. In the United States, it's in 14 to 16 months, and again that's because of the complexity of the additional systems that have to be learned and studied and understood.

And when you add units onto a unit that, one for one, is more complex and has more systems than the U.S., and multiple units that are interconnected through safety systems, you introduce more complexity.

MS. FRY: How many employees, generally speaking, would each manager be managing? Do you have a rule of thumb?

MS. REES: In response to JT2.33, we do refer to a shift manager in any of the control rooms would be -- have a team responsible for up to 50 staff.

MS. FRY: And would that be the same for Pickering and Darlington? So the shift manager would be managing roughly the same number of employees?

MS. REES: I believe so, subject to check.

MS. FRY: Okay, if you could check.

MS. REES: Yes.

MS. LONG: Are we marking that as an undertaking? Are you checking, Mr. Smith?

MR. SMITH: We were going to check, so let's keep track of it.

MS. LONG: Why don't we, so we don't lose that?

MR. MILLAR: J16.1.

UNDERTAKING NO. J16.1: TO CONFIRM WHETHER PICKERING AND DARLINGTON HAVE ROUGHLY THE SAME NUMBER OF EMPLOYEES MANAGED BY THE SHIFT MANAGER

MR. MILLAR: If I were to go to the Darlington control room -- in fact, I have been to the Darlington control room, but I don't remember every detail about it -- are the operators assigned discretely to each unit?

MR. MILTON: Yes, that's correct.

MR. MILLAR: Are any of them in charge of all four, or do you just have X number for units one through four?

MR. MILTON: With the PWU, there would be authorized staff for each unit. When it comes to supporting one another in responding to events or circumstances, they all support one another because the units can be affected, as I said, because of the interdependency of the systems. As far as the supervisory staff of those, it would again be a shift supervisor or shift manager over all four units for those authorized staff.

MR. MILLAR: Thank you. Let's go back to page 9. These again are the overall results and you can see that for the company as a whole, for the positions that could be surveyed, if you look at the bottom, based on base salary, you are 12 percent above the target market position. Is that right?

MS. REES: I'm not following. Could you repeat that?

MR. MILLAR: Yes, I'm sorry. I'm looking at the chart and overall for the entire company, you can see at the bottom the number 12 percent under base salary?

MS. REES: Yes, so we're at 12 percent above median for base, and when you factor in the incentives, we're at market at 5 percent for the total --

MR. MILLAR: That's right, the next one over is 5 percent. And again, we're not talking pensions and benefits here; that's something we will discuss in a few moments. But that excludes that, as well as some of the other things we already discussed.

If you break down the numbers a little bit more, looking again on the chart in front of us, your managers overall actually do quite poorly. They're 7 percent below market base salary and 13 percent on total direct compensation basis?

MS. REES: We are under market in our management group.

MR. MILLAR: But it's a different story for your unionized employees. For the PWU, they're 13 over on a base salary basis, and 8 over TDC. And for the Society, it's 18 percent over on base salary, and 8 percent for TDC. I recognize that TDC is still within plus or 10 percent of the base position, but certainly those numbers are significantly different from your manager's numbers?

MS. REES: Yes, and overall PW and Society is -- would be considered at market at 8 percent overall.

MR. MILLAR: On TDC?

MS. REES: On TDC.

MR. MILLAR: Yeah. And if we break it down even further you see the general industry numbers here. There the numbers are quite stark, and I think Mr. DeRose took you to some of this, but 31 and 38 percent over on base salary and 27 percent over for both on total direct compensation?

MS. REES: So our general industry is above market, and it represents -- it's not the largest portion of our population, but it is one that we're very aware of.

MR. MILLAR: If we go back to page 6, it sort of discusses who you were able to benchmark there, and it seems that overall general industry seemed to be an area you had trouble finding comparable positions. For the PWU you were able to benchmark 81 percent overall, but under general industry you could only benchmark 69 percent of them?

MS. REES: 69 percent, correct, is the number we --

MR. MILLAR: And then again for the Society it was 74 percent overall, but only 51 percent of the general industry folks were you able to benchmark.

MS. REES: That is correct.

MR. MILLAR: That seems a bit counterintuitive to me. I would have thought that general industry people would actually be easier to find benchmarks for than the utility or nuclear authorized employees, but I guess I'm wrong.

Can you explain why it's difficult to find suitable benchmarks under general industry?

MS. REES: So there are two different factors. One is within the PWU the security exclusion, and with the Society there are a number of -- there are a lot of different jobs in finding the right job at the right level that matches, just, we weren't able to do for as many.

MS. SPOEL: Sorry --

MS. REES: And I --

MS. SPOEL: -- when you say security exclusion do you mean the need for those employees to have security clearance to work at a nuclear plant?

MS. REES: No.

MS. SPOEL: Or are you referring to something else?

MS. REES: I'm referring to our security officers at the nuclear facilities. That is protected information. We're not allowed to share that information. So they were one group that was excluded from the study, that population.

MS. SPOEL: So you can't share what the -- how much they get paid for what they do?

MS. REES: We can't share any information that suggests the number of security officers we may have, so we do not release any information on that.

MR. MILLAR: So other than the security people, can you just give me an example of the type of position that would be difficult to benchmark in general industry?

MS. REES: Off the top of my head, I would really need to go back and refer to the --

MR. MILLAR: Who is in general industry? We see that at page 7. It seems to be people who -- would these be your janitorial staff, or are they managers of some -- I guess they're not managers, generally, but -- no, some of them are managers. I'm just trying to get a -- who are these -- how are these people different from the utility?

MS. REES: So they would be things like financial analysts --

MR. MILLAR: Okay.

MS. REES: -- HR. In fact, all of us would be general industry here. IT people, administrative clerks, janitors, you mentioned, are civil maintainers, are considered part of the general industry as well, and then there would be -- there would be a number of, like, sort of probably legal admin roles or other sorts of -- maybe more specialized, but again, part of the general industry that would be in here, but they would be smaller numbers. Those are the groups that have the largest numbers.

MR. MILLAR: Those don't sound to me like people you would have trouble benchmarking.

MS. REES: And these wouldn't be the ones we had problems --

MR. MILLAR: Okay.

MS. REES: -- it would have been those other ones that I would have to go back and look at the specific jobs that were not benchmarked, we could not find matches for.

MR. MILLAR: Madam Chair, I wasn't necessarily going to ask for an undertaking, but if the Panel is interested, we could --

MS. LONG: I think we are interested --

MR. MILLAR: Okay.

MS. LONG: -- in finding out the segments that you're not able to benchmark.

MS. REES: So the jobs -- to clarify, the jobs within the general industry that were not part of the benchmark?

MS. LONG: Yes.

MR. MILLAR: 16.2.

UNDERTAKING NO. 16.2: TO ADVISE THE JOBS WITHIN THE GENERAL INDUSTRY THAT WERE NOT PART OF THE BENCHMARK.

MS. SPOEL: And can I just ask you, Ms. Rees, I'm curious about the restrictions on the ability to even disclose the number of employees you have doing security or the information -- so is that a licensing requirement from CNSC that you can't disclose any information whatsoever about your security arrangements?

MR. MILTON: Yeah, certainly it's my understanding on the numbers that we cannot disclose information that would indicate the numbers of security officers we have at our sites, because people could use that against our sites if they were so inclined. They could know the strength and the shift, 24/7 complement, the day complement, those types of issues, so it's part of the CNSC regulations.

MS. SPOEL: Okay. Thank you.

MR. MILLAR: So whatever the reason for the lower amounts that you were able to benchmark under general industry, the end result of that is that general industry has less relative weight than the other categories in the overall analysis, just because you were able to benchmark a lower percentage of them?

MS. REES: Yes, that would be correct.

MR. MILLAR: Is that something that concerns OPG, that -- the relatively low number of benchmarkable positions there? I mean, it's already an area where it seems that at least according to the results you are well above benchmark. Are you concerned that a lot of people seem to be excluded from this analysis?

MS. REES: Well, we would always like to have -- the more representation the better. Even the percentage we have there for the general industry is pretty good. It's quite a bit more than -- I was just looking back to confirm it was more than what we had with the Aon study in past. Yeah, considerably more, actually. Or on par. The Aon study actually matched, I think, for that group 7 percent of the population, so -- if I've got those numbers right --

MR. MILLAR: Did you say 7 or 70?

MS. REES: I said 7, but subject to check. I'd like to double-check that number.

MR. MILLAR: Okay. Why don't we mark that, just so you can report back. I'm sorry, you were going to tell us the number of general industry people that Aon was able to benchmark, the percentage.

MR. SMITH: Yes, we'll do that.

MR. MILLAR: So that's J16.3.

UNDERTAKING NO. J16.3: TO PROVIDE THE PERCENTAGE OF GENERAL INDUSTRY PEOPLE THAT AON WAS ABLE TO BENCHMARK.

MR. MILLAR: You just mentioned Aon. Aon did your last compensation benchmarking study?

MS. REES: Correct.

MR. MILLAR: And if we flip to page 26 of the compendium, and if we scroll to the bottom of the page, you'll see figure 11 there. And this is -- I guess it's a high-level summary of the differences in the results between the 2015 study, which is the Towers study, and the 2013 study, which is the Aon study?

MS. REES: Yes, that's correct.

MR. MILLAR: That's what this is showing? What stood out for us is there are some huge swings in certain areas, and just by way of example, if you look at utility for the PWU in almost the top left corner, in 2013 you were 21 percent above benchmark and in 2015 you're 4 percent -- I guess you were 4 percent above, but it's at benchmark more or less. There's other examples of this. The management group for utility went from 3 percent above to 19 percent below, and again on management for nuclear, 3 percent below to 27 percent below.

So those are very significant swings over a two-year period?

MS. REES: So looking at the results, some of the swing is going to be a change driven a little bit by the methodology, and we have a much more robust study, more reliable information with the Towers, than we had with what was undertaken in 2013.

And if I took a look, for example, at the utility group as a whole on average, the -- we're at about -- if we looked at the total direct compensation it's about 11 percent overall, the weighted average, which would be a fair comparison to make to the OPG number of 5 percent.

So from that we're actually seeing some improvement, and some of that is going to be tied to things like in the management group and the AON study, they didn't include long-term incentives, so even the representation of the market wasn't fulsome in terms of the elements that are being considered.

So really the -- I would place more heavy reliance on what you're saying with the Towers report than I would with the AON.

MR. MILLAR: Indeed, we asked you about that in an interrogatory, Staff 149, and if you turn to pages 19 -- I guess 19-20 of the compendium, we reproduced that response there, and I think you more or less say in that response what you've just said now.

But is it fair to say that the large swings in result are more driven by changes in the methodology of the study than in changes in the total direct compensation you paid to your employees?

MS. REES: I think when you look at the details side by side for each of the segments, the methodology is having an impact there. But the overall results, it's back to the quality, I think, a little bit.

MR. MILLAR: I'm sorry, I couldn't hear.

MS. REES: It's back to the quality.

MR. MILLAR: The quality of?

MS. REES: Of the previous study.

MR. MILLAR: Right. So I think we're agreeing that the changes in the results are because the studies are different, and not necessarily because the compensation levels are different. I mean, that might be a part of it, but the biggest driver is methodology?

MS. REES: There are things we have done as well. We've had really modest, low wage increases recently. We've had the management freeze, which is having an impact on that. So there are things the company has done that we believe has made improvements. So that is there as well.

MR. MILLAR: That's fair. Your compensation, on a per employee level, it is up, but modestly, as we discussed before.

MR. KOGAN: Just to clarify, when you're referring to the benchmarking methodology difference, you are encompassing methodology and data quality, right? Just to make sure that we're --

MR. MILLAR: I took what I know from your response in 149. So if that includes data quality, then fine.

My point is it wasn't the -- perhaps there is an element related to the fact that the cost curve has been levelling off on a per-employee basis. But the biggest driver appeared to me to be changes in either the quality of data or the methodology.

I thought we were more or less in agreement on that, so I'll move on.

MS. LONG: Can you be specific when you reference data quality with respect to the last report, the AON report, what concerns you're flagging for me?

MS. REES: There are a few things. One, I mentioned the exclusion of the LTI. Because AON did a custom survey for the utility and the nuclear segments previously, they didn't have sufficient data; there were fewer comparator organizations used. So they didn't have sufficient data to be able to report and include LTI; so that's one factor.

Another one is with the nuclear segment, if you looked at the organizations that were included in the AON study, there were a few generators, but it was broader nuclear industry. So as a result, we weren't even able to benchmark our nuclear authorized segment at all. They weren't represented in the previous study because there wasn't sufficient generators for them to be able to share -- disclose the information. I think there were two generators in the old population, in the old comparator organization. So that's another factor that leads me to believe the approach we're taking now is more sound and has an impact on the data quality.

MS. LONG: You feel this study is more representative than the last study?

MS. REES: I do, very strongly, yes.

MR. MILLAR: If I understand your answer, did Towers take everything AON did and then include more?

MS. REES: Towers didn't base what they did on what AON did. They used their own methodology, their approach combined with our philosophy, and did the study.

MR. MILLAR: Right. But does Towers' analysis include everything that AON considered? I know they didn't use AON as a starting point, but did it consider all the data that AON had, all the inputs into the model, and then added additional things like LTI, which you discussed?

MS. REES: So the Towers Watson study covers more people, it covers more organizations, and it does include LTIs, which were not part of the other study.

MR. MILLAR: Did AON include anything that isn't included in Towers?

MS. REES: No.

MR. MILLAR: Let's talk about pensions and benefits. Just to start us off, again big picture stuff, OPG offers its employees three types of retirement benefits, as I understand it. And those are the, one, the registered pension plan, and then there's a supplemental pension plan, at least for some employees, and then there's other post employment benefits, is that correct?

MS. REES: Correct.

MR. MILLAR: And Mr. Kogan, this is probably a question for you. Very basic stuff. There's two types of accounting treatment you can use to calculate the amounts owing in a particular year, and that would be the cash method and the accrual method?

MR. KOGAN: I wouldn't characterize them as two types of accounting, but there are two different methods -- those are two different methods that one could use to determine the amount that is reflected in rates, for example.

MR. MILLAR: Okay, thank you for that clarification. But I am right? One is cash and one is accrual?

MR. KOGAN: Those would be two such methods, yes.

MR. MILLAR: Those are the only ones that are relevant to this application? Those are the ones that appear in different portions of this application?

MR. KOGAN: Yes, those are the two that are relevant, as far as I know.

MR. MILLAR: Just in twenty seconds or less, can you give us -- what is cash and what is accrual? What's the difference between the two?

You can take thirty seconds, if you like. I think most people understand this, so I just want the very high level.

MR. KOGAN: And I guess referring you to the EB-2015-0040 consultation is probably not the right answer.

So the cash basis represents amounts that are expanded by the company for the registered pension plan, which is funded. It represents contributions that we would make as required by law, by actual evaluations, to the fund.

For un-funded plans, such as the other post retirement benefits, those would represent amounts that we pay to our retirees. So this would be amounts that are paid to individuals who no longer work for the company, and they're drawing on their health and dental benefits after retirement.

MR. MILLAR: Just to stop you there, I think of it as the actual cash that goes out the door in a particular year. But when you talk about OPEBs, that's the money you spend on OPEBs.

MR. KOGAN: It's the actual cash that goes out the door from the company for the funding purposes I've stated, and the accounting method is -- the accrual method is the amounts recognized in our financial statements in accordance with generally accepted accounting principles. That, of course as you know our position is, is more representative of the costs actually incurred by the company and more properly matching the service that is provided. And a lot of other good reasons are set out in our submission in EB-2015-0040.

MR. MILLAR: Yes, understood. And the accrual number which you say you tend to prefer, that captures the -- again, I'm not an accountant and I often get the terminology wrong. But I think of it -- it captures the liability that you're incurring in a particular year. You have employees that are going to retire in the future that you don't have cash payments for necessarily now. But you account for those through the accrual method, is that right? That's why it's different from the cash number?

If I've got that wrong --

MR. KOGAN: There would be a few differences in cash and accrual. I think the way that you've characterized it is generally fair for unfunded plans. For the funded plans, we are setting money aside today for individuals who are employed, not just for individuals who are retired. So in that sense, it's a little bit less accurate, your characterization.

MR. MILLAR: Thank you for that. In the previous application, the previous cost-of-service application, you filed seeking recovery using the accrual method, is that right?

MR. KOGAN: Yes, that is correct, which was consistent with how it had previously been approved by the Board in prior proceedings.

MR. MILLAR: That's right. But in that decision of the Board, for a number of reasons we don't need to get into right now, the Board approved a cash number instead, is that right?

MR. KOGAN: The Board approved the cash number to be included in the revenue requirement, and ordered that the difference be set aside for future consideration.

MR. MILLAR: Yes, it created a deferral account for that purpose.

MR. KOGAN: Yes, for the difference between actual cash and actual accrual amounts.

MR. MILLAR: Can we turn to page 27 of the compendium, please? I actually think these numbers have been updated in the N1 update. But this shows -- in chart 1, you'll see the pension and OPEB cash amounts, nuclear.

Subject to the update that's in the N1 update, these are the numbers you're actually seeking to recover through this application?

MR. KOGAN: Subject to the N1 update, yes, that's correct.

MR. MILLAR: Which is at page 30. And again, I'm not getting into the specific numbers here, but I did include that as well.

MR. KOGAN: That's right.

MR. MILLAR: Just to confirm, I don't see the supplemental pension plan included here. Is that included under pension, or is that not included in this chart?

MR. KOGAN: It is included in this chart, and it is included under the OPEB line.

MR. MILLAR: It's under OPEB, okay. Is that because it's not funded?

MR. KOGAN: That's right. That's been the historic characterization between the two categories, going back to the original filing.

MR. MILLAR: And just to confirm, based on Board's previous decision, at least for now you're seeking to recover on a cash basis and record the difference between cash and accrual in the existing deferral account?

MR. KOGAN: Yes, that's correct. And including a finding similar to the last proceeding that the amount set aside in the deferral account would not be subject to a prudence review beyond this proceeding.

MR. MILLAR: And overall the accrual number if you count pensions and OPEBs, the accrual number is higher in every year of the application than the cash number?

MR. KOGAN: No, that's not accurate once you take into account the N1 update.

MR. MILLAR: Could you take me to that? I was looking at the pre-filed. I guess there have been some changes?

MR. KOGAN: Well, if I'm literally combining -- actually, there's a table in the N1 update that sets out the cash accrual differential, so let me just pull that up.

Yeah, that's actually at page 13 of Exhibit N1-1-1, chart 3.1.3.

MR. MILLAR: Okay. So we see the pension -- there is actually a crossover with the pension number between cash and accrual, and OPEBs stay higher, but on an overall basis the last two years you're actually -- the cash number is higher than the accrual number?

MR. KOGAN: That's right. And by way of context, you know, the way I look at it, at a high level that's an average of about 20, 25 million dollars a year that's a cash accrual differential which, you know, by way of context compares to something like 200, 250 million that was the case in the EB-2013 proceeding.

MR. MILLAR: Yeah, that's right. So overall for the five years the cash number is still lower than the accrual number overall, although it switches at the last two years?

MR. KOGAN: Overall, yes.

MR. MILLAR: Yeah, okay. And if we turn to page 24, please -- no, sorry, page 31, my mistake. You'll see here this deferral accounts at both line 9 and 24, but for nuclear you see at line 24 that's the deferral account we're discussing?

MR. KOGAN: That is the deferral account that captures the difference in actual cash and accrual amounts, yes.

MR. MILLAR: And the balance as of the end of 2015 was $271 million?

MR. KOGAN: For nuclear; that's correct.

MR. MILLAR: And over the course of the test period that number will increase. It will be higher in 2021, assuming it's not cleared before then, it will be higher in 2021 than it is in -- at the end of 2015.

MR. KOGAN: I don't know that, because that would depend on the actual cash and accrual amounts that will materialize over the test period.

MR. MILLAR: Based on your forecast, it would be higher. That's the chart that we were just looking at.

MR. KOGAN: Based on the forecast, if things unfolded, yes, then it would be higher.

MR. MILLAR: Okay. Thank you.

Let's go -- I have some questions about the Leech report. Are you generally familiar with that document? You would have been involved -- I don't know if you were involved in the discussions around it, but I assume you're familiar with the Leech report?

MR. KOGAN: We are.

MR. MILLAR: And, sorry, I should have put the title page there just so we could see the date and the official title, but I think it's called the "Report on the sustainability of electricity sector pension plans to the Minister of Finance." That's the actual name of the report?

MR. KOGAN: Yes, that's the name of the report.

MR. MILLAR: And since I didn't put the title page I don't have the date here, I understand it's -- was it released in 2014?

MR. KOGAN: Yes, the report is dated in 2014.

MR. MILLAR: And I think, just to provide some background to this, there was a concern on the part of the government regarding sustainability issues of public-sector pension plans, and the government struck a working group to examine that issue? Is that what happened? Or is that your understanding?

MR. KOGAN: So I'm not sure that a working group was struck. There is some references late in the document potentially to a future working group, if that's what you're thinking about. I think all we can see here in the report is that there were consultations conducted with various parties as part of this report. That's what it states at page 34 of your compendium.

MR. MILLAR: And that would have included OPG, I assume?

MR. KOGAN: Yes.

MR. MILLAR: And were any of you involved in those consultations?

MS. REES: No.

MR. MILLAR: Okay. The terms of reference to the document I've reproduced at page 32 and 33, and it provides some of the background. First, it points out that there were four agencies that were reviewed, you see the top, and that OPG is one of the four agencies?

MR. KOGAN: Yes.

MR. MILLAR: In fact, it's all Hydro One -- or, pardon me, Ontario Hydro successor corporations?

MR. KOGAN: All four of those entities are successor corporations, yes.

MR. MILLAR: And the report, if you look at page 33, it lists the mandate here, and I won't take you through all this just in the interests of time, but it was essential to look at some of the funding challenges and sustainability issues and recommendations for going forward with pension plans at these four entities? Is that a fair summary? We can read through them if we like, but I took that to be the gist of it.

MR. KOGAN: That's a fair summary of the gist.

MR. MILLAR: Okay. And as I see it, this report seems to focus almost entirely on the registered pension plan. I actually did see one offhand reference to the supplemental pension plan, but by and large would you agree this appears to relate to the registered pension plan? That's what he is discussing in this report?

MR. KOGAN: Do you happen to have the reference to supplementary --

MR. MILLAR: I do. It's at page 35. And all I did was a word search. If you want to take it subject to check that's fine, or if you want to actually check and come back, but I understood this to be about the registered pension plan.

MR. KOGAN: My view of the report is similar, yes.

MR. MILLAR: Okay. It doesn't include OPEBs, in other words.

MR. KOGAN: No, it certainly does not include post-employment benefits -- other post-employment benefits.

MR. MILLAR: Can we turn to page 36, please. It discusses here single employer pension plans. And maybe without reading everything here first, I can -- you can confirm for me that OPG's registered pension plan is a single employer pension plan?

MS. REES: That would be correct.

MR. MILLAR: And it's also a defined benefit plan?

MS. REES: Yes.

MR. MILLAR: And while your employees contribute to the registered pension plan, it's OPG that's solely responsibility for ensuring that the plan is fully funded?

MS. REES: Yes.

MR. MILLAR: And you bear all -- in other words, you bear all the funding risks?

MS. REES: Yes.

MR. MILLAR: So when a special payment or a deficit payment is required to fund a deficit in planned funding, that has to be paid entirely by OPG; is that correct?

MR. KOGAN: By law, yes.

MR. MILLAR: Yes. And that's money you would seek to recover from ratepayers. That's part of your revenue requirement.

MR. KOGAN: Under the cash basis of recovery we would seek to recover those amounts, yes.

MR. MILLAR: Well, either cash or accrual. Eventually you would seek to recover it. It's not a hit against OPG.

MR. KOGAN: Your comment is fair on the theoretical basis that cash and accrual amounts are equal over time for a company, and as I'm sure you're aware, there's some unique challenges potentially in that regard for OPG from the special pension consultation.

MR. MILLAR: Yes, okay. That's a fair comment, but thank you for that.

Back to page 35. There's some discussion here about defined benefit plans starting in the first paragraph, I guess, the second sentence. It says:

> "Compared to other public-sector pension plans, the defined benefit plans in the electricity agencies are generous, expensive, and inflexible. They generally require lower contributions from employees while providing substantial benefits. Furthermore, electricity sector employers are responsible for a larger share of pension contributions compared to most other public-sector employers. In addition, single employer pension plans, the employer bears all risks, such as investment performance, interest-rate changes, and increased longevity. These risks increase both the amount and the volatility of pension costs, which is ultimately borne by ratepayers, customers, and the shareholder."

Do you disagree with anything in that paragraph?

MR. KOGAN: I think, yes, we would agree that it does highlight the challenges that were faced in the sector, challenges that -- as again I'm sure you're well aware, we also acknowledged in some material that we discussed in the last hearing and probably discuss here again. And of course, we made some changes in this regard through the last round of collective bargaining, as well as with management. So we are working on improving in that area.

MR. MILLAR: Can you turn to page 37, please? This is still with the Leech report. There are some comments at the top of the page about the collective bargaining environment in which you have to work.

It states:

> "Generally, employees and employers are able to negotiate a compensation package that can include trade-offs between current and future compensation, where pensions represent future payments. In the electricity sector, it is not obvious that such trade-offs have been realized. The pensions are generous in comparison to comparators and, according to the companies, current compensation is also at least equivalent to, or better than, other employers."

Do you agree with this assessment?

MS. REES: I think in 2014, at the time that this was written, if you had asked me this question, I might have agreed. But I would say now we have started to realize some of those trade-offs and made progress on our pensions, and as we've seen already, the compensation is at least equivalent to what's available on the market.

MR. MILLAR: Right, so the compensation -- we just discussed this. The compensation, at least on the Towers evidence, is more or less at market, so equivalent. But the pensions aren't, right? We'll talk about Towers Watson with respect to pensions in a moment. But you're still well above benchmark for pensions and benefits?

MS. REES: We are not there yet.

MR. MILLAR: Let's turn to page 38 under the grim heading "The plans are far from sustainable". And just to review some of what is said here:

"As demonstrated by chart 2, approximately 75 percent of pension plan benefit liabilities have been accrued and cannot be changed under the PBA."

What's the PBA?

MS. REES: Pension Benefit Act.

MR. MILLAR: "With employer contributions already at

high levels, none of the plans have the ability to absorb further market fluctuations, investment performance significantly below actuarial assumptions, or the costs associated with increased longevity of its members. Should plans go further into deficit, the sponsors and ultimately ratepayers will be required to pay even larger contributions. This exposes the plan to volatility."

It continues:

"Employer contribution rates have been volatile, with large increases in special payments in the period since the 2008 economic downturn. As described earlier, this volatility increases the potential impact on regulated electricity rates. With stronger 2013 investment returns and higher long-term interest rates, as reflected in the plan's discount rate, deficits in all plans are decreasing. This may create a sense of complacency; if we just wait, then problem will go away. However, the plans are far from sustainable. They have a high total cost, volatile, unpredictable contribution rates, have yet to incorporate new actuarial mortality assumptions, and no flexibility to absorb the effect of future adverse events."

I know there have been some changes since this report came out. But would you care to comment on what we just reviewed there and what, if anything, has changed since this report was issued?

MR. KOGAN: I'll start of by saying that I think you've picked one of the most loaded parts when I was reviewing it, because there's a lot of assertions that are being made here.

First of all, I'll start out by saying that, as I mentioned earlier, we have made progress in this area through the collective bargaining process and with changes to management plan. And this is an area that, as we discussed last time, OPG certainly was acutely aware to and we've continued to work on that since then.

There is reference -- the number of generalized references in this paragraph that you read to large increases in special payments. That's a question that -- really -- sorry. The issue of large special payments, I think the implication of ratepayers would depend on the method of recovery, first of all. OPG has not had solvency special payments, as again we discussed in EB-2015-0040, so it's hard for me to agree with some of these generalized statements the way they're presented, to be honest.

It's also difficult to agree with the statement that says that none of the plans have the ability to absorb further market fluctuations. That to me sounds like a -- I mean, it's a judgment call that assessment somebody has made. But it almost sounds too categorical and absolute to me.

There's also assertions here around a number of new mortality assumptions and such not having been reflected. And again, as you know from the last proceeding, we have reflected those in our studies.

Our cash contributions for the pension plan as projected in N1-1-1 are lower than they were in the last proceeding. Our accounting costs are significantly lower for pensions than they were in the last proceeding. We have also looked at the timing of our funding valuation, as you know from the N1 impact statement, and we have filed that with a view to manage the risk to higher contribution levels and discount rates, and therefore ratepayers.

So we really -- and in the accounting area, we have implemented an accounting change that will, in the near term, reduce costs significantly for OPG and to ratepayers, and I'm sure we'll get into that in panel 5.

So there's a number of things that we've implemented over this period that we believe mitigates a number of the risks that are described here, and we're going to continue to focus, subject to collective bargaining and other priorities, on making further improvements in this area.

But overall, I'd say that while this is certainly an area of risk, the situation may not necessarily be as dire as it has been characterized in this report.

MR. MILLAR: That's why I asked you in fact, because I know time has passed and there have been changes, including the things you reference. So thank you for that answer.

Where Mr. Leech or the report states, "However, the plans are far from sustainable," that was something that certainly stuck out to me.

Do you agree with that view as of today, or do you take a different view?

MR. KOGAN: No, I don't agree with that view as of today.

MR. MILLAR: You would concede that challenges remain? Is that fair?

MR. KOGAN: For sure. We would concede that we're not done and, as you mention, we are still above market in that area. But we feel that we've made very significant gains and gathered momentum.

MR. MILLAR: Can we turn to page 39, please, of the compendium? This is where the conclusions and recommendations of the report are found. There's a summary at the top; I won't take you through all of them. But then they itemize a few of them on the next few pages.

So first at the bottom of page 39, the first one is a recommendation for equal cost sharing for ongoing contributions and it states:

"It is recommended that employer/employee contribution move to the target of 50-50 on an agreed timeline. The government has suggested five years to reach that target, which would appear to be a reasonable phase-in period."

So this was dated 2014. It's fair to say that by 2019-2020, you won't be at 50-50; is that right? I think your mic is off, sir. It's still off.

MR. MILTON: I don't think it's accurate to say that or fair to say that, because we won't know what future rounds of bargaining bring to the parties. I can say right now we're not at 50-50.

MR. MILLAR: So we know your contribution ratio up to 20 -- the end of 2018. I guess it depends on the union, but the collective -- the current collective agreements go -- is it to the end of 2018? Or early --

MR. MILTON: It's the December 31st, 2018 for the Society and March 31st, 2018 for the Power Workers' Union.

MR. MILLAR: Okay. So certainly until that time you will not be at one to one?

MR. MILTON: That's correct.

MR. MILLAR: And I want to make sure we don't get into confidential information here, so I'm going to save my next question until we go in camera later today, so I'll make a little note.

Okay. If we can flip the page, please, to page 40. At the top there is a recommendation relating to a contribution ceiling:

"Parties should establish a ceiling on the contribution rate to be paid by the employer and employees. Suggested appropriate range would be 9 percent to 12 percent."

Is this something that you've achieved or expect to achieve in the test period?

MR. KOGAN: So it's not in the terms of the plan right now to -- in the collective agreement that there is such a concept of a ceiling, but just, I think it's useful context even to note later on that there is a point that says if the parties are unable to agree on affordable ceiling then there could be a role for the government in establishing a ceiling on the contribution rate, which I think just more broadly ties in with the theme that the changes that we have been able to effect thus far that we have now referenced several times did involve the government, and I think it's pretty consistent with what we stated in the last proceeding when we said that -- we were asked, you know, what could effect significant change, such as the kind that are outlined in this report. We stated that it really would take the involvement of the government, and here we are where that's transpired, and, you know, because of that we've made some progress in this area.

MR. MILLAR: Okay. There has been some progress and the government has been helpful, but there is not currently a contribution ceiling?

MR. KOGAN: No, there's not.

MR. MILLAR: So 4.3, joint responsibility for the sustainability of plans, has that happened, or do you expect it to happen in the near future?

MR. MILTON: So I think it would be speculative to try and determine what our future negotiations might involve --

MR. MILLAR: With regards to 2018/2019 that won't be the case?

MR. MILTON: Correct, for 2018.

MR. MILLAR: Well, 2019 for the Society, whatever the date is.

MR. MILTON: The Society collective agreement ends December 31st, 2018.

MR. MILLAR: Sorry, is it the Power Workers that goes to --

MR. MILTON: Power Works is March 31st, 2018.

MR. MILLAR: Oh, okay. Thank you.

Okay. Madam Chair, what time were you thinking of for a lunch break?

MS. LONG: Whatever is a convenient time.

MR. MILLAR: I could break here or I could go another 15 or 20 minutes, whatever you'd prefer.

MS. LONG: Why don't we break now.

MR. KOGAN: Just before we do, so not to come back to this, Mr. Millar, but --

MR. MILLAR: Yes.

MR. KOGAN: -- you know, again, on the topic of the GSPP, the following page of the report says, you know -- this is page 36 of the Leech report. I'm not sure if that page is in your compendium, but --

MR. MILLAR: It's page 41, yeah.

MR. KOGAN: It says:

"During this process the parties may determine it to be their interest to move to company-specific JSPP, which the government should facilitate."

So I think --

MR. MILLAR: Yes.

MR. KOGAN: -- again it's the same point that I've made before in response to your earlier --

MR. MILLAR: Scattered throughout the report it certainly mentions a potential role for government. I think we can agree on that.

MR. KOGAN: Yeah.

MR. MILLAR: Okay. With that perhaps we can break for lunch?

MS. LONG: Yes, we'll take an hour. Thanks.

--- Luncheon recess taken at 12:22 p.m.

--- On resuming at 1:28 p.m.

MS. LONG: Mr. Smith, I understand there's no preliminary matters?

MR. SMITH: That's correct.

MS. LONG: Okay. Mr. Millar?

MR. MILLAR: Thank you, Madam Chair. Good afternoon, panel.

I would like to start with a little minor housekeeping matter. Ms. Rees, you will recall we had a discussion about the Towers report and the extent to which your comparators were unionized.

We went back over lunch and had a look, and it looked to us like all of them were. So rather than spending any more time, I would ask for an undertaking and if you can point to any of them where it's not a unionized work environment, if you can let us know that to the best of your knowledge

MR. SMITH: It would help, Mr. Millar, if perhaps you advised as to the basis for the conclusion that it's a unionized work environment, so that we're --

MR. MILLAR: Sure. We just looked at them, and many of them we know. Enbridge is there, for example; there's a bunch of utilities that we regulate there. Some are of them are like Honda, places like that.

My belief is those are all unionized. If they're not, that's what I will like to know. If you need to check with Towers, that's fine. But they all look to be unionized to me.

MR. SMITH: We can give you our belief.

MS. LONG: Can you check with Towers? They must have that information in doing the assessment to have found them to be comparators. I would expect they would have that type of information. Perhaps you can make the inquiry.

MS. REES: We didn't make the selection -- or Towers didn't make the selection based on them being unionized or not unionized. But I would expect they would have an awareness of which organizations had unions in them.

MR. SMITH: We can do that.

MR. MILLAR: J16.4.

UNDERTAKING NO. J16.4: TO ADVISE WHICH IF ANY OF THE COMPARATORS IN THE TOWERS STUDY WERE UNIONIZED WORK ENVIRONMENTS

MR. MILLAR: While we're talking about the Towers report, I would like to turn now to the Towers report part that discusses pensions and benefits, and maybe we can turn to page 45 of the compendium to get us started there.

And just to remind us about what Towers covers and what it doesn't, again this report section related to pensions and benefits covers the entire company, right? It's not limited to just nuclear?

MS. REES: That is correct.

MR. MILLAR: And we discussed the date of the report. Can you advise as to whether it includes the current arrangements in the collective agreements with respect to pension contributions and the changes to the pension regime that we discussed earlier today?

MS. REES: So the pension and benefits analysis actually looks at the pension reforms that were negotiated.

MR. MILLAR: So it includes those reforms?

MS. REES: It does include those reforms.

MR. MILLAR: Thank you. And for both the Society and the power workers?

MS. REES: Correct.

MR. MILLAR: There's a statement here: "Benefits no longer available to new hires are not considered," sorry, that's under the third bullet point, the last sentence.

There was a mention this morning about -- and I didn't quite follow it and I think it might have been you, Mr. Milton -- about a prorating of benefits for current employees.

I couldn't recall if that was about the lump sum payment, or if that was the share purchase plan, or if that was something to do with pensions.

MR. MILTON: It was to do with pensions.

MR. MILLAR: Okay. Could you explain that to me?

MR. MILTON: Currently, for existing employees, they have the current pension provisions, and when the new changes take provision, the changes to the H factor and the best five years to calculate instead of best three, the years they work after that are based on that, and then it's blended together when they retire.

MR. MILLAR: Okay. Ms. Rees, you discussed it -- it does include -- it's based on the new pensions, so it would not recognize the grandfathering effects that Mr. Milton just discussed?

MS. REES: That is correct.

MR. MILLAR: Okay. Let's look at what's included in the definition of pensions and benefits, and again under the third bullet point there, the second sentence:

"Benefit plans included in the analysis are pension, savings, including stock purchase, group RSP, DPSP, active and retiree healthcare and dental care, short-term disability, long-term disability, and active and retiree benefits."

I think we asked this in either an IR or the technical conference, but this does include OPEBs, you can confirm?

MS. REES: Yes.

MR. MILLAR: What about the supplemental pension plan? Would that be included in this?

MS. REES: Yes.

MR. MILLAR: Sorry, I think we already covered this, but the share purchase plan and lump sum benefits are not included in this.

MS. REES: Not in the pension and benefits analysis, no.

MR. MILLAR: It wasn't included in the other analysis either, was it?

MS. REES: No, it was not included in the other either.

MR. MILLAR: To take you back to page 2, figure 6, I just want to see if we're talking about the same thing. Would what Towers looked at more or less what we see in the pension and benefits line?

MS. REES: The elements would be -- the same elements would be looked at, yes.

MR. MILLAR: Would there be anything that Towers looked at that's not in that pension and benefits line?

MS. REES: No.

MR. MILLAR: Okay. Back to Towers; can we go to page 46, please? This shows the overall results of their analysis, and it says:

> "The table below illustrates the weighted average of pension and benefit employer-provided values as a percentage of base salary at OPG, and how it compares to the 50th percentile of the market, recognizing that values vary across demographics, tenure, and age profiles."

And then when you look at the results, we see for the PW that figure -- for all three of them, it's about 30 percent, is that right?

MS. REES: Yes.

MR. MILLAR: And then the market, P50, it's about 20 percent or slightly over?

MS. REES: Slightly over 20. It's 20, 20 and a half, 21.

MR. MILLAR: Okay. So would I be reading this right if I said that according to Towers' analysis, your plans are approximately 33 percent more generous than your comparators? Is that how you would do that calculation?

MS. REES: When I did the calculation, I calculated 32.

MR. MILLAR: I'll take your number. Now, the starting point for this analysis is base salary, correct? We see that in bullet point 2; it's a percentage of base salary.

MS. REES: That's the basis upon which it's compared?

MR. MILLAR: Right.

MS. REES: That is the basis upon which it's compared.
MR. MILLAR: Thank you. So the starting point is not total direct compensation; it's base salary?
MS. REES: Correct.
MR. MILLAR: If we go back to page 9 where we reproduce those results, for base salary the PW is 13 percent above 50, the Society is 18 percent above, and management group is 7 below.
MS. REES: Yes.
MR. MILLAR: I'm having a bit of trouble seeing how these numbers were derived, and I'm hoping you can help me with this.
Back to page 2 of the compendium, our snapshot of the application, and we'll take 27 -- I wonder if we should -- yes, we should take 2015, I guess, because that's the year this analysis was based on?
MS. REES: Yes.
MR. MILLAR: When I take pensions and benefits there, I see 417 million, and that's done on an accrual basis, subject to the discussion I had with Mr. Kogan earlier.
But then we look at base salaries and incentives; those are 956 million. And by my simple math, the pensions and benefits is 44 percent of that number, not 30 percent. Can you assist me with that?
MS. REES: There's probably two things. One, a correction to my statement earlier. The pension and benefits captured in figure 3 would actually also include statutory benefits.

MR. MILLAR: What are those?
MS. REES: CPP, UI, employee health tax, sort of the costs associated with that. So that would be in there and is not the in the Towers study; just one point of correction.
MR. MILLAR: Okay.
MS. REES: The second thing is those are costs as incurred, and the Towers isn't a cost benchmarking. So although it's taken from 2015, it actually doesn't directly tie to the costs that are depicted here.
MR. MILLAR: Is that because they didn't have actuals?
MS. REES: Well, they would have used our base salary, our average base salary, as a basis for comparison, but the Towers -- the pension and benefits analysis is actually based on a modelling with market assumptions and market -- a lot of market data as well, so sort of normalizes the data that is used, and then we -- so it's actually -- it's not based on the cost.
MR. MILLAR: So in terms of the things that are included in the pensions and benefits line that aren't included in Towers, is there anything other than statutory benefits?
MS. REES: Could you just repeat it one more time again, sorry?
MR. MILLAR: Yeah, you told me that on the pensions and benefits line that we're looking at on figure 3 here, that excluded statutory benefits -- or, sorry, it included statutory benefits, whereas Towers did not.

Were there any other things that you're aware of that are included in this line but not included in Towers?

MS. REES: There was only the statutory benefits that was a -- would be a difference.

MR. MILLAR: Okay. Do you actually have a breakdown of your pensions and benefits numbers? In other words, is there a discrete number for statutory benefits somewhere? Not in the application, but is that something you have?

MS. REES: Yes, I would. I believe that was in the 2K.

MR. MILLAR: Yeah, I think you're right, and you can see it at page 84 of our compendium. Line 43. Is that the number?

MS. REES: Yes, line 43 is the correct reference.

MR. MILLAR: Okay. Just a second. So just by my quick math, which is almost never right, so I invite you to correct me if I'm wrong -- I've gone back to Table -- to figure 3 on page 2, and I've subtracted 55 million from 417, and I got 362, and that works out to about 38 percent of the base salary and incentive.

Again, when I say subject to check on that I do mean check.

MS. REES: So to repeat back, your comment was that the question was confirming subject to check that the -- for 2015 the pension and benefits excluding statutory benefits would have been about 38 percent in 2015?

MR. MILLAR: Yes, I'm just curious as to why when I do the math I get 38 percent, but Towers must have used different numbers, I guess, because they come up with about 30 percent across the board. I'm just curious as to what I've included or not included that they did or did not.

MS. REES: Right. So again, the Towers study isn't based on these costs, so they're going to be different. The Towers study also was looking at the provisions going forward, so the new provisions that are applicable, the reform, whereas the 2015 costs that you're seeing would not have had any reform impacts in there.

MR. MILLAR: So did you -- you provided the numbers that Towers used; is that right? You must have. I don't know where else they would have got them?

MS. REES: We provided them with the salary information and we provided them with our plan provisions for this part of the analysis.

MR. MILLAR: So could I ask you to undertake to just provide the calculation whereby they got the approximately 30 percent for each of the categories? That's something they must have?

MS. REES: It's not a calculation in the manner that you've done it. It's actually a model they run, so I'm not sure --

MR. MILLAR: Okay. So it's not a discrete calculation --

MS. REES: -- it's not a discrete --

MR. MILLAR: -- number --

MS. REES: -- calculation that we could work through with these numbers.

MR. MILLAR: Would they be able to provide an explanation of how the number is derived?

MR. SMITH: Yes, I'm sure we can get that.

MR. MILLAR: Okay. That will be K -- pardon me, J16.5.

UNDERTAKING NO. J16.5: TO PROVIDE AN EXPLANATION OF HOW THE NUMBER IS DERIVED, THE APPROXIMATELY 30 PERCENT FOR EACH OF THE CATEGORIES.

MR. MILLAR: Just a quick question here. Page 48 of the compendium. This was just a response to an AMPCO interrogatory, AMPCO 144. And I think it was about the comparisons you may do internally with other OPS organizations, and you state:

> "OPG has in the past undertaken high-level comparisons of certain provisions of its benefit plans and that of the OPS."

Are there any actual studies or documents in this regard, or is this just you kind of keeping an eye on what other people are doing?

MS. REES: This is a very high-level review.

MR. MILLAR: Okay. So you didn't produce a report or anything like that.

MS. REES: No report, no.

MR. MILLAR: Thank you. I would like to speak with you about your contribution ratio with your employees. Perhaps we could turn to page 49 of the compendium. And we see here figure 10. It seeks to show the contribution ratio as between employees and employer.

First of all, again, this is on a company-wide basis, as opposed to just nuclear?

MS. REES: That is correct.

MR. MILLAR: And in 2014 we see the ratio. There's some numbers that lead up to it, but it's about 24 to 76? By my math that's about 3.2 to 1? Is that about right?

MR. KOGAN: Subject to check, yes.

MR. MILLAR: Okay. And then as of 2017 there's an improved -- well, an improvement, at least as far as ratepayers might consider it, of 3,565, which I work out to about 1.9 to 1, so there's material improvement there?

MS. REES: Yes.

MR. MILLAR: And this would be the result of the changes to the pension plan that we discussed earlier today?

MS. REES: Yes.

MR. MILLAR: So that would be in effect at least through until 2018 and then following the expiry of the collective agreements. There could be further changes going forward?

MS. REES: We will see what negotiations bring, yes.

MR. MILLAR: Okay. We don't know, but this would be in effect until at least through 2018?

MR. MILTON: To end of 2018 for the Society, and as I stated earlier, March 31st for the PWU of 2018.

MR. MILLAR: Understood. Okay. So I want to discuss with how you actually calculated this contribution ratio. And maybe we can turn to page 50. This is a series of charts produced by Staff. All of the numbers are taken from the application or official OPG documents, and they're all footnoted and sourced there. And maybe we can just start by looking at 2015, which is the top left. I just want to make sure I understand how the ratio was calculated.

Essentially what you did, if we look at 2015, you would have taken -- so first you used the cash numbers; is that right?

MR. KOGAN: Yes, this is a cash ratio.

MR. MILLAR: And it sort of has to be a cash ratio, right, because the employer side of the contribution is always a cash number.

MR. KOGAN: Yes, and you might pre-empt a comment I was going to make when we turn to the next page, where you try to do the same on an accrual basis, that stops to make sense to me, but that would be the reason, yes --

MR. MILLAR: Understood, yes, and --

MR. KOGAN: -- on a cash basis --

MR. MILLAR: -- I am going to focus on the cash numbers --

MR. KOGAN: Yeah.

MR. MILLAR: -- because I think --

MR. KOGAN: Please.

MR. MILLAR: -- there's some fairness to that, that employers don't fund on an accrual basis, they give you a cash -- it's -- they pay you cash every year.

MR. KOGAN: That's right.

MR. MILLAR: Okay. So what you did, as I understand it, for 2015 would have been -- and the numbers might have changed slightly, because we get a very slightly different ratio, but you took the RPP payment that the employer contributed, $231 million, and then you compared that against the total employee contribution, which is $72 million, and we get that as a 76/24, which almost matches what we were looking at on the other page.

Is that how that ratio is calculated?

MR. KOGAN: Generally speaking, yes. It may not be based on any given one particular year actuals, because there may be small fluctuations as your population of employees goes up or down, so you would normally look at it sort of on a static valuation basis once each valuation is struck, and that would be the point of reference, but it makes sense that it works out to pretty much the same number.

MR. MILLAR: That's the theory behind it anyway. You take the employer contributions as a ratio of the employee contributions.

MR. KOGAN: At a high level, that's correct.

MR. MILLAR: Then if you look at 2017, we did the same calculation. You can see that at table 3, I think it's called -- yes, table 3. The RPP number, the registered pension plan, 193 from the employee and 93 -- pardon me, 193 from OPG and 93 from the employee, and we get 6733, which is very close to what we saw on the previous page?

MR. KOGAN: Yes, that's fair. And for completeness, when you're looking at our 2015 actual numbers, or '16, for that matter, if you're sourcing from our financial statements, they are going to be slightly different because they include some consolidated amounts for the nuclear waste management organization.

It's not material to this discussion. But just if you're trying to match dollar for dollar, I wanted to make you aware of that.

MR. MILLAR: Thank you for that. Okay. When you calculate the ratio, you don't include special payments; is that right?

MR. KOGAN: I would say that's not just the way we calculate it. I think that's the way that ratio should be generally calculated, because it can only be for a plan such as ours on the basis of current service cost since by law, we are fully responsible to fund the special payments.

So a ratio that includes those special payments to me isn't meaningful, frankly.

MR. MILLAR: That's what happens with an employer -- an entirely employer funded plan, like we discussed in the Leech report. You're entirely responsible for any deficit or special payments.

MR. KOGAN: Yes, we are.

MR. MILLAR: And you pass those along to ratepayers, so ratepayers are responsible for those.

MR. KOGAN: I think I'd refer you to my previous answer in our discussion regarding cash to accrual, subject to that.

MR. MILLAR: This is cash money, a cash payment, payment on a cash basis that OPG is making on behalf of its employees?

MR. KOGAN: It is making towards the benefits that are promised to employees as required as law, yes.

MR. MILLAR: Why wouldn't you include that as part of the contribution ratio?

MR. KOGAN: Because the premise of the contribution ratio is to look at the service cost, because the employees cannot contribute under this regime for past service. So in that way, it's meaningless.

MR. MILLAR: They can't contribute because they're not responsible for it. But you're responsible for it; you have to pay it.

MR. KOGAN: That's correct.

MR. MILLAR: They're not responsible for your portion of RPP either, you they? You are.

MR. KOGAN: Yes, that's correct.

MR. MILLAR: Okay. The amounts for 2017 and 2018 for special payments are both $55 million?

MR. KOGAN: That is what -- that's correct. That was forecast in the impact statement at Exhibit N1.

MR. MILLAR: I know you don't agree with using this as the ratio, by our math, if you include the RPP and the special payments, the ratio becomes 73 to 27 on a mathematical basis. Do you dispute that?

MR. KOGAN: Mathematically, subject to check, I agree.

MR. MILLAR: Let's look at OPEBs. You've also

excluded those from the calculation of the ratio?
MR. KOGAN: That's right, because OPEBs are not employee funded.
MR. MILLAR: They're not funded.
MR. KOGAN: They're not funded, period, actually; that's a good point.
MR. MILLAR: Well, they're funded by you.
MR. KOGAN: What I mean by funded is they're not pre-funded. They're paid as the benefits are drawn.
MR. MILLAR: Understood, you're quite correct. Whether they're funded or not funded, they do form a significant portion of your retirement benefits? I mean, you can look -- depending on whether you use cash or accrual, it's something like 50 to 90 percent of the value of the RPP?
MR. KOGAN: I would agree that it's not an immaterial portion of the benefits package certainly, yes.
MR. MILLAR: And we invited you to produce the ratio using OPEBs -- you can see that on page 61 of the compendium, this was from Staff 147 -- and you declined.
And I think, Mr. Kogan, the response you provided in the IR is essentially what you just said to me two minutes ago?
MR. KOGAN: Effectively, yes.
MR. MILLAR: Okay. Maybe we can go back to page 50. These are benefits you offer to your employees after they retire, they're retirement benefits?
MR. MILTON: Yes, with the exception of LTD, which is

included in those values as well.

MR. MILLAR: Sorry, where is LTD included?

MS. REES: It's included with the OPEBs.

MR. MILLAR: Okay. Is it fair to say the ratio you've calculated includes some of the benefits you provide to your employees, but not all of them?

MR. KOGAN: Sorry, could you restate that question?

MR. MILLAR: I'll come back to it in a moment. But when you calculate your ratio, you exclude special payments, you exclude OPEBs, and I believe you include the supplemental pension plan as well. Those are all excluded from the ratio?

MR. KOGAN: As a factual matter, yes. But maybe I would also add that in some ways, we also exclude the salaries we pay them also.

MR. MILLAR: What do you mean by that? Salaries are not a retirement benefit.

MR. KOGAN: No, that's correct. I was just highlighting that we provide a number of elements to our compensation package. I was just, I guess, questioning the utility of the ratio that I think you may be advancing here.

MR. MILLAR: I understand. And sorry to make you repeat yourself, Mr. Kogan, but the primary reason you've excluded these three elements is because they're not funded? If there is another reason, I'm happy to hear it.

MR. KOGAN: I guess we're struggling a little bit, because it's a pretty standard calculation, by our understanding, that you look at the current service employee/employer contribution ratio with respect to the pension fund, and that's what we focused on and that's what we wanted to highlight as resulting from the recent changes in our pre-filed evidence.

MR. MILLAR: Okay. Could we turn to page 67, please? This is a press release from 2014, and I understand from this that the Ontario Public Service is moving towards a 50-50 cost sharing model for OPEB benefit premiums. Are you familiar with that?

MR. MILTON: That's correct.

MR. MILLAR: Has OPG looked at doing this?

MR. MILTON: At a very high level, yes. But the key difference here is our post retirement benefits are part of the collective agreement, so we have to negotiate any changes with the unions.

In this situation here, the post retirement benefits for the majority of the unions covered under this are not part of the collective agreement. So the government, being the employer, can take unilateral action and that's what they did here in 2014, effective in 2017.

MR. MILLAR: And although you may have given some thought to having employees contribute to OPEBs, at least for the currency of your application, you don't anticipate that happening. That's not reflected in the application.

MR. MILTON: Certainly it's not reflected in the collective agreement changes that are effective to 2018. I can't speculate on what may be negotiated in future collective agreements.

MR. MILLAR: Well, whatever goes into the collective agreements, you're already seeking your revenue requirement for 18, 19, 20 and 21. I assume you weren't assuming, when you built those forecasts, that there would be a contribution from your employees for OPEBs?

MR. KOGAN: I don't think it would be appropriate for us to speculate, without being in camera, on what is and isn't assumed.

But in any event, just to highlight an earlier point, the pension and OPEB costs are subject to a deferral and variance account during the test period.

MR. MILLAR: That's a good point, thank you. Could we go back to page 50? And again, I'm not asking you to accept that this is the correct way to do it. But just by my math for both 2017 and 2018, we've done a calculation including all of the costs that OPG is contributing to retirement benefits over the years, and we get a ratio of 79 to 21. Do you have any cause to disagree with that math?

MR. KOGAN: I accept the math subject to check. I'm not sure if you're going to be speaking to page 51, but there is a footing error on that page. If we're going to speak to it later I can hold it 'til then.

MR. MILLAR: Yeah, my next question was going to take us there. So I'll ask the question. If you want to add something as well, that's fine, Mr. Kogan. It's just that we had -- we had wanted to produce some similar ratios for

'19, '20, and '21, but we don't have the expected employee contributions for that year.

Does OPG have a forecast of that or is that something that will have to await the outcome of the next collective agreements?

MR. KOGAN: So there is a forecast that would be reflected, because that's necessary in order to calculate a forecast pension cost for the company since it's the employer paid portion that is only reflected in that cost.

MR. MILLAR: Is that a confidential number or is that something that can be provided?

MR. KOGAN: I think it would have to be confidential, in my understanding, because it does tie into the expectations with respect to the collective agreements that would cover the rest of the test period, sir.

MR. MILLAR: Yeah, no, that makes sense.

Are you willing to provide it on a confidential basis?

MR. SMITH: Yes, we can do that.

MR. MILLAR: K16.6. Pardon me, J16.6.

UNDERTAKING NO. J16.6: TO PROVIDE THE FORECAST PENSION COST ON A CONFIDENTIAL BASIS.

MR. MILLAR: Sorry, Mr. Kogan, you had another comment on this page, and I was going to move away from it, but --

MR. KOGAN: Sure. It was just when I was looking over the numbers I think there is just a simple footing error --

MR. MILLAR: Ah.

MR. KOGAN: -- in the '19, '20, and '21 tables at the line called total employer payment/cost in the cash column.

It seems to be just adding the bottom two numbers, as opposed to all three numbers.

MR. MILLAR: Yes, you're right. Thank you for that.

Back to page 50, we've done all these calculations on a cash basis, as you and I discussed, Mr. Kogan, largely because that's how the employees pay. It wouldn't be appropriate to do it on an accrual basis, perhaps, but if you did, if you looked at what you're actually liable for over those years the number would be higher, right? The employer portion of the contribution would be higher, using an accrual number. I didn't do the math, I'm not going to ask you to do the math, but directionally that's the way it would go? And I'm just looking -- your accrual number for 2017 is 477 million, 430 million in 2018, which is significantly higher than the cash number in both periods?

MR. KOGAN: So if you're asking me if we did the math that way, which as I said I don't agree with the logic and perhaps you don't either, then, yes, mathematically that would be correct. And again, just for completeness of this table, while the differential between cash and accrual is relatively on the high side in the '17, as I pointed out earlier, and we discussed it's shown in Exhibit N1, that does actually turn around to a negative number by the end of the period in '21.

MR. MILLAR: Yes, that's quite right, that's quite right. But in every year, whether the number is higher or lower than what you're seeking to recover through the cash amount, you will actually, subject to the clearance of the deferral account, you will recover that accrual number? The difference between the cash and accrual number will go into the deferral account and you'll seek to recover that at some point.

MR. KOGAN: Subject to the Board's decision on the whole issue of the pension OPEB recovery, sure, yes.

MR. MILLAR: Of course. Again, we'll -- I'm almost finished with this page, but -- page 50. I want to walk through what we have here. So for -- in terms of the value of the retirement benefits you provide your employees on a cash basis, just looking at 2017, that we can pick any year, $193 million for the RPP, $55 million for special payments, $94 million for OPEBs, and $18 million for the supplemental pension plan? Have I got those numbers right?

MR. KOGAN: Those are our updated forecast, that's correct, and just for clarity, special payments are also towards the RPP.

MR. MILLAR: That's right, they're part of the RPP, but that is a cash outlay for you in 2017?

MR. KOGAN: Yes, it is.

MR. MILLAR: Okay. So when you're calculating the ratio you only consider 193 million of that and you exclude 167 million?

MR. KOGAN: And again, Mr. Millar, as we've discussed, it's not just how we calculate it. That's the way that I believe this ratio is meant to be calculated by definition. So if you're asking me is that what 6,733 represents, what you described is fair characterization.

MR. MILLAR: And for 2018 the numbers would be -- you're seeking to recover 196 million and 173 million would be excluded? Again, I appreciate you don't support this as a methodology --

MR. KOGAN: Sorry --

MR. MILLAR: -- but that's the math?

MR. KOGAN: -- no, I just didn't follow that. Could you say that again?

MR. MILLAR: Yes, sorry, 196 million is the RPP amount which you do include in the ratio, and then if you add up the other numbers I come to 173 million? So almost half as much as the RPP -- or, sorry, almost half the total amount?

MR. KOGAN: Again, I can confirm that -- you're right, those additional amounts are not included in the ratios that we presented in our evidence that were meant to illustrate how much is being funded by employer versus employee for the current service, and to reflect the recent -- to illustrate the recent changes we've had in terms of the pension plan.

MR. MILLAR: So is it fair to say that the employer/employee contribution ratio that you show in your application represents only a fraction of the cost that ratepayers are being asked for for retirement benefits?

MR. KOGAN: No, sorry, I don't -- I don't see how those two things intersect, because they're meant to illustrate different things. Is there another way you could restate the question? Mathematically I can certainly agree that that's the math of it, but on the substance of what the two things are showing, I just don't see how they intersect.

MR. MILLAR: Well, maybe we're at the point of argument now as opposed to facts, so I think we've gone through the numbers and I have your answer, so thank you for that.

MS. SPOEL: Mr. Kogan, can I just ask a couple questions --

MR. KOGAN: Certainly.

MS. SPOEL: -- about the -- about this table on page -- or these tables on page 50. The numbers are there.

So I take it that for the pension, the RPP, just -- you can just look at -- it doesn't matter which box, because I'm just asking you what the numbers mean as opposed to what the numbers themselves are or what the -- yeah, what the numbers represent.

So when you've got the cash column for RPP -- let's just take 2015 because it's the top left. So your 231 cash column for RPP, those are the contribute -- the cash contributions -- the employer cash contributions to the pension plan as required by the collective agreement and your management employment arrangements and so on.

MR. KOGAN: Yes, for --

MS. SPOEL: For the current service --

MR. KOGAN: -- for normal costs --

MS. SPOEL: -- the actual -- so you've got ten employees and they're each being paid $10 and you pay one dollar per dollar of work into the plan, you would pay in

the one dollar per employee per year, whatever, like a --
MR. KOGAN: That's right.
MS. SPOEL: -- however it works.
MR. KOGAN: That's right.
MS. SPOEL: Okay. So that's the actual contribution for current employees to fund their future pensions.
MR. KOGAN: That's right.
MS. SPOEL: Okay. And of course the accrual is the -- as you discussed, Mr. Millar, that's the liability that you have for the future payouts for those employees, with looking at it on an actuarial basis, but it's not what your contribution is today, from reflecting their salaries.
MR. KOGAN: I hope this will be helpful, but one way to think about it is at the end of the day both the accrual and cash basis are in of themselves at a high level similar actuarial type calculations. So for example, within the accrual number there is also a current service cost number, and in fact I think we spoke about that earlier. I know that's not kind of split out here because it's not quite comparable, but conceptually, they are equivalent numbers.
MS. SPOEL: Okay. When you get down to OPEBs, and you've got a cash number here and you have an accrual number, is the cash number for OPEBs what you're currently -- is that a current service number or is that the amount of money that OPG spent in 2015 to provide benefits to employees who had already retired and are therefore collecting post-retirement benefits?
MR. KOGAN: It is the latter, and it is the crux of

the issue that we -- the fundamental issue that we have, and I think the industry has, with moving OPEB to a cash basis because of the -- that inequity, huge time period gap that arises and the lack of matching that you're having to pay for today for benefits that were incurred in the past, and the benefits earned today would not be paid or recovered many years out.

MS. SPOEL: I wasn't going there. I was just trying to understand --

MR. KOGAN: I couldn't resist. I'm sorry.

MS. SPOEL: Okay. But that 94 million, that's got nothing to do with current employees.

MR. KOGAN: Precisely.

MS. SPOEL: That's paying out benefits to former employees.

MR. KOGAN: For other post-retirement benefits, precisely, yes.

MS. SPOEL: Okay. And so employees who are employed now, that cash number if they retire in 2020, that cash number would start to show up in 2021.

MR. KOGAN: That's right.

MS. SPOEL: I just want to make sure I understand all this. And the accrual number for OPEBs, is that what it would cost if you were to fully fund the future liability for OPEBs for current employees?

If I said to you today you have to, in effect, set aside the money -- like as if you did it like a registered pension plan. If you had a registered OPEB plan that was accruing, that would be what it would cost to ensure you had the money to meet the reliability for OPEBs for your current employees when they do retire down the road.

Is that what that accrual number is for OPEBs, or is it something different?

MR. KOGAN: I think conceptually, if I understand where you're going, the answer is yes. I would augment to say that just like we discussed for pensions, there's both an actuarial cash calculation, an actuarial accrual calculation. This is the equivalent of the actuarial accrual calculation for OPEB.

If hypothetically we were to set money aside, I'm not saying that would be exactly how you would calculate the equivalent cash number, but you'd use a similar kind of logic and actuarial approach to calculate a funding number.

MS. SPOEL: That would be looking at funding future liabilities for OPEBs for people who are currently your employees, as well as those who have already retired?

MR. KOGAN: Sorry, could you state again?

MS. SPOEL: Let's say you had two employees and one retired in 2014 and one is going to retire in 2020. The person retired in 2014, their OPEBs are already happening, so they come in the cash number. But would that those people's benefits show up in the accrual number, as well as the benefits for the people who haven't yet retired?

MR. KOGAN: What will show up in the accrual number -- so for the people who are still here, everything shows up, the accrual of the liability. For the people that already retired, there is a growth of the liability due to the passage of time -- so effectively, interest for the present value calculation.

But there is no accrual of additional service cost, if you will, because they already earned their eligibility, they're done.

MS. SPOEL: Right. But the reliability for OPG to fund it, that would be rolled into that accrual number for both categories of employees, former and current?

MR. KOGAN: If there was such a hypothetical funding liability and you had the obligation to fund the past, yes, if I wanted to fully establish the full liability, that would include that, yes.

MS. SPOEL: Is that what that 232 number on your table under accrual for OPEBs as of 2015, is that what that number would represent? Or is it something different?

MR. KOGAN: Effectively, yes. That would be the additional liability that is incurred for this period, in relation to both the person who retired in 2014 for the interest, and the whole lot for the person still here earning service today, yes.

MS. SPOEL: Great. That's exactly what I wanted to establish or confirm, find out. Thank you.

MR. MILLAR: I'm about to leave this page and move on, but before I do, on page 50 in front of us -- when we were talking about the Towers report and where they measured the relative generosity of your pension plan, they were just looking at the RPP number, is that right?

MS. REES: They were looking at the full pension plan, so the supplementary and the RPP.

MR. MILLAR: I thought supplementary pension plan was part of OPEBs, but maybe Towers look at that. So you can confirm it was both?

MS. REES: Towers looked at that.

MR. MILLAR: Okay. But it would have excluded OPEBs and special payments?

MS. REES: It would not have included special payments, but it did include OPEBs.

MR. MILLAR: I'm sorry, yes, you're right. Thank you. Can we turn to page 53, please?

MR. KOGAN: To clarify, Mr. Millar, on your question that they didn't consider special payments, that's a bit of an apples to oranges comparison. They're trying to the measure the value of the benefits we provide. They're not looking at the funding streams, the timing of the funding, given the returns of the plan; that's not part of what's benchmarking.

So it's not really correct to say that it excludes it.

MR. MILLAR: It's the stream of benefits they look at, not the costing of them?

MR. KOGAN: They look at the value of the benefits, that's correct, not the funding decisions that may be associated with those plans.

MR. MILLAR: You're getting a little over my head with that, so I'll move on.

Ms. Rees, earlier you told me you like to keep an eye on some of the old Ontario Hydro companies to see how they're doing; is that right?

MS. REES: I don't recall specifically saying that, but okay.

MR. MILLAR: That was my characterization. You say you do, at least in an informal way, you monitor the benefits that are provided by other OPS companies.

MS. REES: I wasn't considering Hydro One to be part of the OPS.

MR. MILLAR: Let me ask you directly. Do you follow Hydro One at all? They're another large regulated company before the Board. Do you keep an eye on what their benefits are as compared to yours?

MS. REES: We would normally look at that at the time when we're preparing for bargaining.

MR. MILLAR: I'm going to ask you some questions about these. You may not know the answers. I've taken extracts from a recent application before the Board from Hydro One. I think it was transmission, if I'm not mistaken, EB-2016-0160, and there is a section on pensions you'll see in front of us.

It says:

> "In EB-2010-0002, the Board stated Hydro One must demonstrate measurable progress towards having it pension contributions reflect those prevailing in the public sector generally. The evidence suggests that an employee contribution level of 50 percent is the norm."

And it continues: "Hydro One has strived to increase employee contributions and reduce benefits with all employees groups. Hydro One has demonstrated this commitment by reducing pension costs by …," and there's a list of bullet points. But just to look at a couple of them, "introducing lower cost defined benefit plans for MCP employees."

Is MCP management, to your knowledge?

MS. REES: Yes.

MR. MILLAR: "… and Society employees as of 2005," and then it discusses "increasing employee pension plan contributions annually since 2013 for all employee groups."

And if we flip to the next page, there's a chart and down at the bottom at line 11:

"In summary, Hydro One has been successful in reducing pension costs by," and the first they list is "making incremental increases every year since 2013 to employee pension contributions for all employee groups."

First of all, were you aware of Hydro One's work in that regard?

MS. REES: Yes.

MR. MILLAR: If we look at the chart, and this is all I have to show you, you'll see this one is for the PWU on page 54. We have a similar one for the Society in a couple of pages.

But they show -- the contribution ratio appears to be the dotted line with the circles, and it shows it falling from just about four in 2013, and then it goes down every year shows it up to 2018, where they have 1.5.

Are you familiar with what they have done here?

MS. REES: This would have been done through the latest round of bargaining?

MR. MILLAR: Well, it looks like it started as far back as 2013; is that right?

MR. MILTON: That's correct.

MR. MILLAR: So they've been working on this for a number of years now. Why is OPG getting to it only in -- I guess it's 2015?

MR. MILTON: I wouldn't agree that OPG is getting to it in 2015. 2015 is when the actual changes were negotiated and agreed to took place. OPG was attempting to negotiate those changes prior. But as you can see, we were not successful in the prior negotiations.

And I think what's important to understand is what Hydro One put forward here is the changes they've made, but it doesn't have the context of what the Leech report itself draws attention to, which is what were the trade-offs to get these increasing contributions.

MR. MILLAR: Do you know what those trade-offs were?

MR. MILTON: Not specifically, I do not.

MR. MILLAR: In fairness to you, I only reproduced the pension section and I didn't look at the trade-offs either. I was just looking at the contribution ratio.

Okay. I'm content to move on from that, unless you have anything else to add.

MR. KOGAN: I think again just for completeness, as I was looking at this last night, one thing just struck me. They kind of got to 3 to 1 in 2013. We were probably at 3 to 1 before then, and by the end of the period, I think overall they get to 1.621 from my reading of their actual valuation report I know they filed as part of this or as an update to this, which is, while a bit lower than ours of 2 or 1.921 as per our earlier discussion, it's certainly converging.

MR. MILLAR: All right. I'm going to move to a new area. Madam Chair, you were looking around 3:00 or something like that for a break?

MS. LONG: Yes.

MR. MILLAR: Okay. I have some questions about the lump-sum payments and the share purchase plan that we've discussed throughout the day. Maybe we can start by turning to page 60 of the compendium.

And as we've discussed in the most recent collective bargaining negotiations, you were able to negotiate some concessions from your unions regarding pension plans, and you described those earlier in the application and in the discussions with Mr. Stephenson? You will recall that?

MR. MILTON: Yes.

MR. MILLAR: I'm sorry, your microphone, sir?

MR. MILTON: Yes.

MR. MILLAR: And the big one or one of the biggest ones was the increase in employee contributions to the registered pension plan?

MR. MILTON: That was one of the changes.

MR. MILLAR: And there was a talk about the quid pro quo, and I guess in exchange for those reforms you gave your PWU and Society members two things. One was a lump-sum payment equal to 1 percent of salary in the first year and 2 percent in the second year; is that right?

MR. MILTON: That's correct.

MR. MILLAR: And the second was what's referred to as a share performance plan, and under that employees that were contributing to the pension plan as of, I think it's April 2015 for the PWU and January for -- 2016 for the Society, they were granted a certain number of Hydro One shares starting in 2017-2018?

MR. MILTON: That's correct.

MR. MILLAR: And subject to certain conditions these employees can continue to receive additional shares annually for up to 15 years?

MR. MILTON: Subject to the conditions; that's correct. MR. MILLAR: And to fill this portion of the obligation in 2016 OPG purchased 9 million Hydro One shares for $212 million? I don't know if I reproduced those numbers, so you can take that subject to check if you want, but I took it directly from the application.

MR. KOGAN: 9 million for 213, you said, correct?

MR. MILLAR: I said 212, but it...

MR. KOGAN: Yeah.

MR. MILLAR: Whatever that --

MR. KOGAN: Subject to that, yes.

MR. MILLAR: Okay. And you expect that these

9 million shares will see you through the test period?
MR. KOGAN: Yes, that's correct.
MR. MILLAR: Okay. And these costs are included as part of your nuclear revenue requirement?
MR. KOGAN: Yes, the costs of the shares are included at the purchase price.
MR. MILLAR: And I don't think you need to flip back to page 2, but that figure through -- we've looked at so many times, presumably it would show up under base salaries and incentives?
MR. KOGAN: Yes, they are included in that line.
MR. MILLAR: Okay. Thank you. So on page 61 of the compendium, which is the Staff 147, we asked you to calculate the value of the savings that you realized through the changes you negotiated over the test period, and you'll see under (d), around line 45, that number was $88 million for nuclear over the test period?
MR. KOGAN: That's right.
MR. MILLAR: And then if we look at the cost of that, in other words the share purchase plan and the lump-sum payment, if you turn to page 62, response (g), line 20, the total cost of these benefits over the test period is $92 million?
MR. KOGAN: The total cost that is included in the proposed revenue requirement, yes, that's correct.
MR. MILLAR: Okay. So looking strictly at the test period you're paying $4 million more for the concessions than you're actually saving? Just 88 and 92?

MR. KOGAN: I pause because 92 is not entirely a cash number, it's an accounting cost.

MR. MILLAR: Okay.

MR. KOGAN: But -- so that that's why I think I won't agree that the answer is pay. But I would say that the costs we're seeking to recover are $4 million higher if you compare those two numbers, then, yes.

MR. MILLAR: Thank you. And Mr. Kogan, I do appreciate you trying to help me with these things, so that is appreciated, because we would be here all day and it would get ugly if I had to chase you on all these accounting issues, so I do thank you for being helpful.

Now, of course, the benefit -- one of the things you discuss, the benefits from the changes to the pension plan will extend beyond the test period?

MR. KOGAN: Yes, they do. Those benefits do not expire.

MR. MILLAR: Again, we're assuming there's no subsequent changes to the collective agreements, but at least you're not anticipating they will go back up.

MR. KOGAN: No, we're not anticipating that they would go back up.

MR. MILLAR: And the cost -- the lump-sum payments won't impact the next test period at all because they're all paid out in the next year or two?

MR. KOGAN: That's right. The lump-sum payments are just for the first two years of the collective agreements.

MR. MILLAR: And the share purchase plan will continue but presumably less every year as people retire?

MR. KOGAN: Significantly less as time goes on and the eligible population dwindles, yes.

MR. MILLAR: Okay. We asked you in Part F of that interrogatory to quantify the long-term savings of the changes you had negotiated to the pension plans, and you declined to provide an answer to that. Is that right?

MR. KOGAN: Yes.

MR. MILLAR: So is it fair to say that on the record of this proceeding there is no evidence of what the long-term changes will be from the changes you've negotiated? All we know is that it cost $4 million more in the test period?

MR. SMITH: It's fair to say that we have not quantified what the savings are anticipated to be beyond the test period.

MR. MILLAR: Okay. Let me move to the next area. If we could jump all the way -- and I do have a few confidential areas we'll have to get to at some point which may backtrack on some of these issues, but I'm going to save all that for one segment after I finish the non-confidential stuff.

So can we turn -- flip all the way to page 105. You'll see here this is another Towers report or a report assisted by Towers. It's called a CHRC briefing report. And this was filed in the last cost-of-service proceeding; is that right, Mr. Kogan?

MR. KOGAN: Yes, this briefing to the human resources committee of our board of directors was filed in the last proceeding.

MR. MILLAR: And it's dated December 14th, 2011. I actually thought this was an updated version from 2013, but as I look at the document itself I actually don't see that noted anywhere.

Do you happen to know, Mr. Kogan, what the time currency is of this document, or Ms. Rees or Mr. Milton?

MS. REES: It is from 2011, and there was no update.

MR. MILLAR: Okay. So this is -- all right. I --

MS. REES: This is the report.

MR. MILLAR: I don't know how I got that in my head. I apologize.

Okay. I don't want to go through this in great detail, but this was a -- what does CHRC stand for?

MS. REES: It's the compensation and human resources committee of our board of directors.

MR. MILLAR: Okay. And this is a report that Towers Watson prepared for that committee?

MS. REES: Yes.

MR. MILLAR: And if you look -- if we can flip to page 106, I've copied some extracts from the report. It starts off with a doozy. This is in the executive summary:

> "The analysis confirms the belief and quantifies the extent to which OPG's pension and benefits plans are unsustainable. Under the status quo the threshold levels for all metric chosen to assess sustainability are exceeded."

Do you see that? And I'll ask you what's changed since then, but I just kind of want to go through the conclusions of the report first.

MR. KOGAN: Sure, that's what it says.

MR. MILLAR: Okay. And then Mr. Kogan and Ms. Rees and Mr. Milton, you'll be familiar that Towers chose to measure you against four separate metrics?

MR. KOGAN: Now, just to clarify -- and I think that there is a good record of that in the last proceeding -- it wasn't Towers' choice. These were metrics that were ultimately decided on and selected by management --

MR. MILLAR: Okay.

MR. KOGAN: -- and in fact this whole briefing, you know, stemmed from an initiative that was started and driven by management. Towers was just engaged in a consulting role to help us work through these and do modelling and --

MR. MILLAR: Okay.

MR. KOGAN: -- very far-thinking.

MR. MILLAR: Okay. Thank you for that correction.

So these metrics were selected by OPG.

MR. KOGAN: Yes, these metrics were only selected by OPG at the time.

MR. MILLAR: Yeah, and I don't want to go through them in any detail, but the first one you can see at page 110, and that first metric is:

> "Pensions and benefits cash should not exceed 10 percent of gross revenue."

And can you help me with what we are looking at in this chart, Mr. Kogan? I'm sorry, I keep picking on you, Mr. Kogan. I assume you're the person who will be answering these questions.

So 10 percent is the metric and you see, starting in 2014, you have 17.3, 18.3, 18.3, but then there's a number of percentile variances with that. I'm hoping you can explain exactly what we're looking at.

MR. KOGAN: At a high level as I understand it, there was, I guess, a stochastic analysis that was run of possible scenarios, and measured the probabilities that these metrics could reach that level. That's my basic understanding. I wasn't directly involved, as you may recall.

And I think the -- my understanding is that the value of this analysis was in fact in the stochastic work that was done, in that it demonstrated that there was a range of possible outcomes and the risks associated with that.

MR. MILLAR: What it's showing, at least at the time this calculation was done, it looked like you were going to significantly exceed that threshold for metric one. That's what they were predicting?

MR. KOGAN: I think this does show there was a good likelihood that that metric would be exceeded under various scenarios.

MR. MILLAR: Let's flip to the next page. This is the second metric, which was pensions and benefits cash should not exceed 40 percent of operating cash flow before cap ex.

And we see a similar story here. The graphs -- I'm not sure what you call those. The numbers don't look quite as high here, but it exceeds the threshold that they're discussing?

MR. KOGAN: Again, it looked at a range of possible outcomes, and I think the graph speaks for itself in terms of the percentiles that would land potentially exceeding this threshold.

MR. MILLAR: If we flip to page 112, metric 3, pensions and benefits expense should not exceed 35 percent of earnings before interest and taxes. We see the graphs; they show what they show. But according to this report, it looked like you were going to exceed the metric?

MR. KOGAN: Again, I would refer to my previous answer that this shows a range of probabilities and the percentile outcomes associated with that.

MR. MILLAR: Well, that's true. But didn't -- back on page 106, it says:

> "Under the status quo, the threshold levels for all are metrics chosen to assess the sustainability are exceeded."

I have a little bit of trouble determining what these bars are showing exactly, but it seemed to be the conclusion that you were likely to exceed the threshold?

If you don't know any better than I do, that's fine, Mr. Kogan.

MR. KOGAN: Sorry, I'm trying to follow the actual report; I'm getting my pages confused. Again, I don't have an intimate knowledge of this, but I think it's a fair conclusion that what the report showed is that there was a good likelihood these metrics would be exceeded and that there were notable risks associated with the pension plan. That's what that report was trying to drive home.

MR. MILLAR: And then finally on page 113, the final metric, pensions and benefits expense should not exceed $50,000 per active employee, and the results are shown underneath. Do you see that?

MR. KOGAN: Yes.

MR. MILLAR: And then at page 115, it has a recap of the current state of affairs in first two bullet points:

> "A number of current cost levels exceed the threshold which OPG views as necessary to maintain a sustainable business across all key measures. The risk of costs escalating far beyond an affordable level is very plausible."

This must have been very troubling to OPG when they received this report?

MR. KOGAN: Again, I think it's important to put this in context. This is something that OPG management commissioned, if you will, and drove. So it's not like we were sitting back and all of a sudden a report landed in our lap and we said, oh holy, we have a problem.

If anything, this report arose because management recognized this is an area that required careful examination. We worked to prepare this document to brief our board, so that they would have candid understanding of the kind of risks that we were possibly facing. And that helped us propel over the next few years eventually to where we are today with the improvements that we've made, with the assistance of the government and across the sector.

MR. MILLAR: That's all fair enough, and I know OPG is the one who asked for this report, presumably because they had some concerns about these areas.

But certainly it must have been bracing to read that costs escalating far beyond an affordable level is very plausible. That must have given some cause for concern, I assume, at OPG.

MR. KOGAN: It certainly is a striking statement. I think it is also fair to say that -- and this is my personal opinion as I look at this report and reflect on what's happened is that in some ways, this was a bit inflammatory. And I think that perhaps it needed to be to make the point that it eventually did, and helped us to get where we needed to be.

So I would just look at it from that lens. It really is a recognition of the risks. It was an active recognition and we've been acting on it since then.

MR. MILLAR: We asked you about this in Staff 157, which you can see at page 126 of the compendium. In question C, we asked if you had run these metrics again.

If you look at the answer, which is on page 127, you see C there and it says:

"OPG does not update or monitor the four referenced metrics found in the briefing. For the purpose of this interrogatory, OPG does estimate the values for each of these metrics and determined that from 2015 to 2021, most of the values are within their threshold values as stated in the report. Do you see that?

MR. KOGAN: That's right.

MR. MILLAR: First of all, I guess I'm surprised you didn't ever run these numbers again before receiving the Staff interrogatory. Why would that be?

MR. KOGAN: Again, it goes back to the purpose of what this report was. The purpose of this report and of this briefing wasn't to create a set of metrics that we would monitor on an ongoing basis, and you could sit there sort of with a tick in the box and say, okay, I'm above the metric this year, so it's bad. And next year, I'm below the metric, so it's good.

The purpose was really to do a holistic analysis, again to underscore the risks that we're facing and to highlight the challenges. What we do monitor on an ongoing basis is from a sustainability perspective, if you will.

We look at our corporate liquidity metrics. We look at our credit metrics. Some of those are discussed in our business plans and elsewhere in evidence. We look at the employer-employee contribution ratio; we've discussed that. We look at the funded status of the plan, which is what we're required to fund by law, and that status is very strong. For probably this valuation, I think we're in the

96 to 99 percent range. And from a value standpoint, we look at benchmarking, as Ms. Rees has discussed.

So really I would say these are not metrics that are meaningful for us to be monitoring on an ongoing basis, and we stand by the answer that it's not necessary to do so.

Once we recognized what the risks are, that report had served its purpose.

MS. LONG: Can I just ask a question of clarification here?

I saw this report in your 2013 application, and I just want to be clear. So this was prepared in December 2011. I think the way the interrogatory was phrased, it seemed to say that it was updated in 2013 and I think, Ms. Rees, you said it was not.

So this 2011 -- even though you say it hasn't been further updated since 2013, what you really mean is since the 2013 proceeding. And the 2011 report is the latest report?

MS. REES: Correct.

MS. LONG: Thank you.

MR. MILLAR: Thank you for that. So we asked you about that information first in the interrogatory, and we got this answer. We asked about it again at the technical conference, and asked you to provide the analysis that you've done, and you did. We're going to have to wait for that because it's confidential, right? So that's a little teaser.

MR. KOGAN: Certainly. Butt I think the overall conclusion, which is not confidential, is that if you do this as a static analysis now -- which again I contend isn't necessarily all that meaningful -- but if one did, it does actually show significant improvement over the thresholds that were indicated.

MR. MILLAR: Yes, and we'll get to that. But I can't discuss it with you at this moment. Top-secret. Okay.

Let's keep on going here. Let's talk about FTEs. So we have -- I've got a series of questions relating to the various categories of people who work for OPG in one capacity or another. Could we turn to page 73 of the compendium. And I think as one of the Board Panel members has brought up before, there are a large number of terms for the various people that you have on-site or incorporates -- that are on the payroll, so I just want to go over these to make sure I understand what all these are.

Okay. The first one -- page 73, you see at the bottom -- regular employees, regular staff. I take it these are full-time and part-time staff that are paid from payroll? Is that what those folks are?

MS. REES: That would be correct.

MR. MILLAR: And then on page 74, non-regular, these are -- well, they're described here:

"Hired for a fixed period of time with a start and end date. Non-regular employees include students, other employees hired directly by OPG or through a trade union hall for a limited duration."

That's what non-regular staff are.
MS. REES: That is correct. And --
MR. MILLAR: And they also count as FTEs?
MS. REES: They also count as --
MR. MILLAR: Okay.
MS. REES: -- FTEs, and you may sometimes see them referred to as temporary.
MR. MILLAR: Okay. Well, I'll get to that in a second. And first of all, obviously regular staff count as FTEs as well?
MS. REES: Of course, yes.
MR. MILLAR: Okay. The next -- I was next going to ask you about temporary employees, which you see described at page 75. They are the same as non-regular.
MS. REES: Correct. Those terms are interchangeable.
MR. MILLAR: Okay. And then at page 76 there is another category called augmented staff, and you see a description here:

"External personnel providing specialized expertise, such as engineering..."

Et cetera, et cetera. So that's what augmented staff are?
MS. REES: Yes, augmented staff are purchased service.
MR. MILLAR: Okay. So they do not count as FTEs.
MS. REES: Correct.
MR. MILLAR: And then there is a new category if we turn to page 77, something called a term employee, and I guess that's a type of non-regular employee? These are --

maybe you can tell me, but I understood these were for things like Pickering, where the plant is going to close so you don't want them to be regular employ -- why don't you just tell me what a term employee is.

MS. REES: So term employees are also like a type of non-regular -- they are a non-regular employee or a temporary employee. They are typically hired into regular positions, so this makes it a little bit unique, and that was a classification of employee that was bargained through this last round.

MR. MILLAR: Okay. And they would show up as FTEs?

MS. REES: They show up as FTEs, and they are specifically tied to Pickering.

MR. MILLAR: Okay. And then you also have various contract employees. Those would not count as FTEs, correct?

MS. REES: Correct. And I can see why it's confusing. So when we refer to contract employees, that sometimes is in reference to the augmented staff, would be one portion of it, as well as other purchased services.

MR. MILLAR: Okay. But whoever they are, if they're contract staff, they're not FTEs?

MS. REES: They are not in the compensation cost, they are not in the 2K, and we don't track the FTEs for them as a whole.

MR. MILLAR: Okay. You track the costs but not the FTEs?

MS. REES: Correct.

MR. MILLAR: Can we turn to page 81, please. This is an interrogatory from my friend Mr. Dumka, Society 15, and he had a question about the various contractor costs and FTEs that are working at OPG these days -- actually, he picks 2015 -- and you'll see the response (c):

"OPG obtains contractor services through non-regular staff, augmented staff, and other purchased services."

I think that was what we just discussed.

"As per table 3, nuclear operations had 670 non-regular staff FTEs in 2015. Augmented staff and other purchased services contracted are not quantified as FTEs."

And that's what we've just discussed, Ms. Rees? Is that right? Yeah, I'm sorry, we're at page 81 at the bottom, and I'm just reading the response, so there were 670 non-regular staff FTEs in 2015, and then it mentions augmented staff and other purchased services contractors are not quantified as FTEs?

MS. REES: Yes, that's correct.

MR. MILLAR: Okay. And then if we flip to the next page, okay, here's where I'm hoping you can help me:

"Base OM&A includes contractor costs for 2015 of 30.2 million dollars for non-regular labour."

So are those 30 million -- is that -- would that show up in FTEs or not? Is that non-regular labour or is that contractor costs?

MS. REES: Sorry, can you just slide the page -- thank you.

I would need to clarify this with the other panel that produced this interrogatory.

MR. MILLAR: Okay.

MS. REES: It's --

MR. MILLAR: So I propose to mark that as J16.7.

MR. SMITH: Yes.

UNDERTAKING NO. J16.7: TO CLARIFY WITH THE PANEL THAT PRODUCED THE INTERROGATORY WHETHER THE FIGURE IS FOR NON-REGULAR LABOUR OR CONTRACTED COSTS.

MR. MILLAR: And that would be -- I think the question is the $30.2 million referenced in line 2, does that relate to FTEs or to -- or not? In other words, is it a contract or a purchased services cost?

Okay. So moving to the next sentence, 4.4 million for augmented staff, those are not FTEs, correct?

MS. REES: Correct.

MR. MILLAR: And then there's $108 million for other purchased services. Those are not FTEs?

MS. REES: Correct.

MR. MILLAR: And then outage OM&A includes contractor costs in 2015 of $19.9 million. Those are not FTEs?

MS. REES: Again, I really need to refer to the other panel.

MR. MILLAR: Okay. So let me ask the questions, and maybe as part of the undertaking you can clarify that.

But first, just to be clear, the $108 million, that's definitely not FTEs? That says purchased services?

MS. REES: I don't believe any of these contract costs would have FTEs associated with them --

MR. MILLAR: Okay. So why don't we proceed on that basis. Obviously you will respond in the undertaking and let me know, but just to run through the rest of them, it was 19.9 for non-regular labour, 25.8 for augmented staff, and then $123.3 million for other purchased services? That was the response to the undertaking?

MR. KOGAN: Sorry, can you just give us one moment?

MR. MILLAR: Of course.

MS. REES: So again, we're going to need to clarify with the other panel.

MR. MILLAR: Okay. That's fine. So just -- I guess the undertaking can be expanded to, for all of the costs identified on page 82 of the Staff compendium which, if any, of them can be correlated to FTEs, okay?

I'm operating -- my understanding is that all or most of these do not relate to FTEs, and if that's wrong obviously we'll change that, but I'm going to operate on that assumption.

I mean, these numbers, including the 30 million at the top, it's something in the range of 280 to $300 million, all told? I didn't actually do the math, but it's something like that? It's a lot of money?

MS. REES: Again, this isn't my -- the evidence that we produced. I --

MR. MILLAR: Okay.

MR. KOGAN: It's not a small amount of money. We agree with that.

MR. MILLAR: Thank you, Mr. Kogan. Mr. Kogan is always very helpful when I struggle. So thank you for that.

Goodnight, when it did its staff benchmarking study, I know -- I don't think this is your area, but are you aware that they actually assigned an FTE value to contract labour?

MS. REES: Yes, I understood that they looked at some of the contracts and did an analysis to assess the number of FTEs.

MR. MILLAR: Do you know how they do that? Do they just kind of divide -- assume a certain pay level and divide the total costs, and come up with a number? Do you know what they do?

MS. REES: I believe they describe that in their study. I'm not intimate with the calculation.

MR. MILLAR: It's not something OPG does?

MS. REES: It's not something I do. I believe Goodnight did that analysis, not OPG.

MR. MILLAR: I understand that that was their study. But you don't have a practice of converting contract labour costs into FTEs equivalents -- well, the E is already equivalent.

MS. REES: Not to my knowledge.

MR. MILLAR: Indeed, if we look at page 84, this is what's colloquially known as the 2K table, we see all your FTEs presented here?

MS. REES: For employees, all FTEs are included there, yes.

MR. MILLAR: You'd agree it doesn't include any of your contract labour or your purchased services.

MS. REES: Yes.

MR. MILLAR: And there is no line item here that would show those?

MS. REES: That is correct.

MR. MILLAR: Do you have a way of presenting contract labour as FTEs? Is that something that can be added to a chart like this?

MS. REES: So for the entire purchased services or contracts that we have out there, I could not do that. But for the subset that are augmented staff, I do know the numbers of people and we could estimate an FTE.

MR. MILLAR: Augmented staff is a very small number?

MS. REES: It is. I would expect it to be a relatively small portion of the total contract.

MR. MILLAR: I think that's right, based on my review of the application. What we're trying to get a sense of is the number of humans that work for OPG in one way or another. And I guess what you're telling me is if we wanted to consider contractors as part of that number, you don't have a way that we can do that?

MS. REES: No.

MR. MILLAR: There's no easy way to convert contract dollars into FTEs?

MS. REES: That is correct.

MR. MILLAR: Goodnight did have a way to do that, but that's not something you're able to reproduce?

MR. KOGAN: I'm going by memory here what the testimony may have been by the previous panel, but I'd understood Goodnight had undertaken an analysis of some kind to arrive at that. I'm not sure how extensive that analysis is, whether that is something easily replicable on an ongoing basis to track or monitor. I think if that was the question, we would have to look into that.

But just for clarity, other purchased services that you're referring to, which is the biggest category there, that doesn't just include humans. That includes other purchased services, which is exactly what it means, which is everything else that we buy.

So I want to make sure it was understood these are not all hands and bodies you're buying there. And for the non-regular staff, I'm going to go and, subject to the undertaking, I think likely those would be included in the FTEs. So I bring that up to give everyone here a sense that the pie you're thinking of may not be that big. And second of all, I don't think we have a way to track every single person that works on anything that OPG needs it to work on when we hire external parties.

MR. MILLAR: And Goodnight presumably didn't go and physically count bodies that were there either. We did ask the previous panel about what purchased services was, and I take your point it's not 100 percent contract labour. But my understanding is the majority of it certainly is. You may not know that, and the transcript will say whatever it says. So I'm not seeking to give evidence.

Could we add a line to this chart that shows the cost for contracted labour? You have the dollar figure, right? In fact, the undertaking will provide that?

MS. REES: The items we would have would be a dollar amount for augmented staff or a dollar amount for the entire purchased services?

MR. MILLAR: It was J16.7 and that will provide with us a dollar number, I guess, the dollar amount for contract labour.

MS. REES: Sorry, when I refer to having a dollar amount for --

MR. SMITH: Sorry, Mr. Millar. You're asking about the undertaking that was just given?

MR. MILLAR: What we're trying to get a handle -- I guess, if I understand the witnesses, we can't get a number, a proxy for FTEs for contract labour. But I understood the undertaking response for J16.7 was going to confirm which of these costs were for contract labour as opposed to FTEs cost.

MR. SMITH: I see, yes.

MR. MILLAR: That will provide with us that number, is that right?

MR. KOGAN: I think when we took the undertaking, I'm not sure that we were able to split other purchased services between hands and stuff. I don't think that was the intent of the undertaking.

I think what we're going to end up confirming is that whether the -- in particular, the non-regular labour referenced there is indeed labour. That was really the point of uncertainty that we have.

I suspect it is likely non-regular labour that's sitting in the 2K augmented staff. As Ms. Rees stated, we do have some information on that as bodies and other purchased services. I don't think we undertook to break that out.

MR. MILLAR: That's fair. I understand the undertaking is you'll tell us -- of the numbers listed on page 82, you'll tell us which are related to FTEs and which are not. And you're right that we don't know exactly what portion of purchased services is hands versus whatever -- fuel, whatever, who knows, non-hands.

MS. FRY: You're not saying that services includes goods?

MR. KOGAN: It may. I'm not sure what -- if there's elements of goods, to be fair. I know there may be --

MR. SMITH: There was evidence on this. One of the services that was purchased which isn't people is laundry, for example. That was the example that the witnesses I believe gave.

MS. FRY: Machines not people doing --

MS. LONG: Mr. Smith, do we not have an undertaking to the effect of what the breakdown of the other purchased services is. I thought we did. And if we don't, we need to know -- I thought we had one with what the components were of other purchased services.

Maybe I'm remembering incorrectly, but I thought we did.

MR. SMITH: You're remembering an undertaking from earlier.

MS. LONG: Yes, I thought Ms. Carmichael perhaps spoke to breaking out what other purchased services was. I know laundry was one of the examples she used. So I don't know if -- I would have to go back and look whether the breakdown of that sets out what are, I guess, services as opposed to contracted labour.

I had asked her about outage, forced outage, and she had said that was included in other purchased services.

MR. SMITH: Why don't I take a look?

MS. LONG: Maybe we can check and see. That's my recollection, that we were getting more information on what constituted other purchased services. But I might be wrong.

MR. SMITH: You're probably not, but I'll have to check at the break.

MS. LONG: If not, that is going to be something that the panel is going to ask for, because we would like to have --

MR. SMITH: Something we've given, or will be giving.

MS. LONG: Yes, you've read my mind, yes. Sorry, Mr. Millar.

MR. MILLAR: Thank you, Madam Chair. Now that I've left everything clear as mud, I'll skip off to the next section.

Why don't we turn to page 85 of the compendium. Madam Chair, I am getting fairly close to the end from my non-confidential portion.

MS. LONG: Why don't we finish that, if it's only 10 more minutes or so.

MR. MILLAR: I'll do my best.

MS. LONG: Only because the witnesses have been up for a while.

MR. MILLAR: I'll go as quickly as I can. Let's talk about business transformation, and this is an excerpt from your previous proceeding, but it discusses a business transformation to a program introduced in 2011 to develop approaches to reducing staff levels and modify OPG's cost structure, consistent with expected decreases in capacity and energy production in the coming years.

And if you skip down a bit, you'll see it expects to reduce staff levels by about 2000 by the end of 2015, and then create a scalable organization which is more efficient and effective. This will give OPG flexibility to scale up or down areas of the organization based on changing needs to support various operational units.

You'd be well familiar with that, Ms. Rees?

MR. MILLAR: And indeed, you got rid of more than 2,000 people as events unfolded; is that right?

MS. REES: Our head count did decline beyond 2,000, correct.

MR. MILLAR: And in fact, you'll see on page 86 this is an extract from this application. I don't want to read it all out, but you shed 2,700 positions between 2011 and 2015?

MS. REES: Correct.

MR. MILLAR: And it says:

“While business transformation has ended as a discrete initiative, efforts to continually improve and manage OPG's resources are embedded in day-to-day operations and business plans."

Is that correct?

MS. REES: Correct.

MR. MILLAR: And first, when we talk about 2,700 people, that's organization-wide, correct, it's not just nuclear?

MS. REES: That was for ongoing operations, so that number would not have included refurbishment.

MR. MILLAR: Right. But it did include hydro and non-regular --

MS. REES: That is correct.

MR. MILLAR: Okay. Business transformation, if I read this correctly, it was meant to be a sustainable initiative. It wasn't aimed at getting rid of 1,000 people and then hiring them all back in two years?

MS. REES: That is correct.

MR. MILLAR: Let's turn to page -- why don't we go straight to page 16. And this is a table produced by Staff, but it's the numbers taken directly from the application just showing nuclear FTEs.

And first of all, if I understood from -- from the Goodnight -- if we look at 2014 actuals, that was the year the Goodnight staffing study -- will you take that subject to check if you don't know?

MS. REES: Subject to check, yes.

MR. MILLAR: Okay. And that study showed you pretty close to benchmark for 2014? Are you familiar with that?

MS. REES: I am familiar with that.

MR. MILLAR: And then I heard you say earlier today, Ms. Rees, that in 2014 you were above plan in terms of your staffing numbers?

MS. REES: In terms of total FTE.

MR. MILLAR: Total FTEs.

Okay. So our chart here shows your FTEs for operations, Darlington, and your corporate allocated? And you can see that. We've just taken the numbers directly from the application.

If we can look at line 3, that's the nuclear FTEs -- for operations, sorry. And 2014, the number we just referenced was about 6,200 people?

MS. REES: I see that, yes.

MR. MILLAR: And then it falls off a bit in 2015 by about 100, and then you'll see we produced both the budget and actuals for 2016, because we now have those, so it was more or less at 2014 levels by 2016, a little bit less, and then in 2017 and 2018 it goes 100 or more above where you were in 2014 before it starts to fall again. Do you see that?

MS. REES: Yes, I see that.

MR. MILLAR: So why the increases in 2017, 2018 if you were close to benchmark in 2014, in fact you were above complement at that time? Why do we go up in 2017 and 2018?

MS. REES: And are you comparing, just to be clear, the increase from 2016 to 2017 when you -- the actuals to the plan? Is that -- are these the numbers you're comparing, or --

MR. MILLAR: Well, starting 2014 where we had the benchmark from Goodnight and your evidence that you were above plan at that point, but you're higher in '17/'18 than you were in '14, '15, or '16.

MS. REES: Yes, so of course some of that increase is related to -- with the business transformation and the 2,700 that we dropped. Attrition didn't necessarily always happen in those places where we need it. Attrition in 2015 was also high, so we have some staffing up we need to do to get back to plan, would be part of that.

The other thing is with the refurbishment project now in full swing we have an increase related to that, although we're looking at -- sorry, we are looking at operation --

MR. MILLAR: That's line 7, so I'm --

MS. REES: Right. Well --

MR. MILLAR: -- only looking at --

MS. REES: -- I'll take that back. So we're really, if you -- like, the staffing we're doing in this year is really to get us back up to our 2016 plan. You'll see the 2016 budget and the 2017 plan are relatively close. In fact, the 2017 plan is slightly lower.

MR. MILLAR: See, I thought you were above plan in 2014 when you only had 6,200.

MS. REES: We were above the 2014 plan. Let me just double-check that. Just one second.

And also, that reference was to the nuclear total, not just operations.

MR. MILLAR: Okay. We discussed business transformation being sustainable, and I know we're not talking about 500 or 1,000 employees or something. And we went over this a bit with Ms. Carmichael as well on some of the critical positions and whatnot.

It just seems to me that you've bounced back a bit from the -- certainly from the 2015 low, but even from 2014 when your benchmarking said you were more or less in the right place, you were actually slightly above plan by your own numbers, and we see increases of more than 100 for 2017 and 2018.

I guess I don't think I have another question there, because I think you've already answered that, but do you have anything to add? Okay. You're getting as tired as I am.

MS. REES: A little bit, yes.

I mean, there's a little also because of the extended operations at Pickering. There would be some impact there.

MR. MILLAR: Okay. I just have one other very short area, Madam Chair, before I'd have to move in camera.

Could we turn to page 92, please. This is a Staff interrogatory 143, and it goes on for a few pages. So actually, please turn to page 96. And I'll try and be very brief here. There's a response (d), and if you look at line 15, it's about some staffing reductions, is what the question is, but what I'm interested in is:

“Also embedded in the business plan are staffing reductions for corporate support head counts associated with achieving a 5 percent reduction from 2015 planned levels by 2020."

Which business plan are you referring to there? Is it the 2016-2018 business plan that underlies this application? MR. KOGAN: No, it is the previous business plan, the 2015 to 2017 plan.

MR. MILLAR: So is that 5 percent reduction actually referenced in that business plan? We had not seen this before, this interrogatory, and if it's there somewhere I apologize, but we --

MR. KOGAN: It's certainly referenced -- the continued target to achieve this is referenced in our 2016 to '18 business plan. So I can maybe at the break find the reference for you, but it is in our Board-approved document, so I don't know if that sort of helps, if you feel --

MR. MILLAR: What you're saying, there is a reference to this specifically, a reference to a 5 percent reduction?

MR. KOGAN: Yeah, if you just give me one moment.

MR. MILLAR: If you can't find it right away, Mr. Kogan, I'm happy to take an undertaking, just given where we are in the day.

MR. KOGAN: You can find the reference at Exhibit A2, tab 1, Schedule 1, attachment 1, page 15 in the second-last paragraph. And to be clear, it's the non-nuclear, as opposed to just corporate, that this applies to.

MR. MILLAR: Does it refer to regular head count or FTE, do you know?

MR. KOGAN: It refers to full-time, which is regular head count.

MR. MILLAR: And is the 5 percent reflected in Exhibit F4, tab 3, Schedule 1, attachment 1, which is -- we've got it in the compendium somewhere -- page 84? Is it reflected on the 2K table?

MR. KOGAN: In short, yes, but just to be clear, it's non-nuclear, so therefore you can't directly observe it there. And it is regular head count, not FTEs, and it is from the 2015 planned levels per our 2015-'17 business plan, which isn't the same as the Board-approved number from last time, for example, because that would have been based on the prior business plan.

MR. MILLAR: I'll probably have to ruminate over that answer, Mr. Kogan, but I do thank you for trying to assist me.

Madam Chair, I'm about to move into confidential matters, so would this be an appropriate time for a break?

MS. LONG: Yes, let's take a break for 15 minutes, and when we come back I'll remind anyone in the room that has not signed the declaration undertaking or is not a member of OPG staff that they will have to leave the room for that portion of the cross-examination. Thank you.

--- Recess taken at 3:08 p.m.

--- On resuming at 3:28 p.m.

MS. LONG: Mr. Smith?

MR. SMITH: Madam Chair, thank you. We did go back at the break and look at the transcript. We did not find an undertaking I think of the type that you were contemplating, so we can obviously give an undertaking to look at I believe the purchased services line, which is what I believe you were referencing.

MS. LONG: Let me tell you what I'm looking for. I'm trying to get a sense of -- I mean, I don't want to take an example of laundry. I'm not looking for what the labour component of that is, and what the actual service part of that is.

But I have no concept of that 100-odd-million dollars what is -- with respect to OPG employment cost with respect to forced outages, and what is in respect of laundry or something like that. So I'm really looking for those general buckets so we can get an assessment of what the materiality is of those different components.

MR. SMITH: That we can definitely do.

MS. LONG: That's what I'm looking for.

MR. MILLAR: J16.8.

UNDERTAKING NO. J16.8: TO PROVIDE A BREAKDOWN OF OTHER PURCHASED SERVICES AMOUNTS

DECISION:

MS. LONG: And just before we go in camera, I would like to advise on a decision on confidentiality.

On March 8, 2017, OPG filed a letter with the Board requesting confidential treatment for certain information in the oral hearing transcripts, volume 2 and 3 dated February 28th, and March 2, 2017, respectively.

Further, on March 17, 2017, OPG filed a request for confidentiality for certain information in undertaking responses J2.10 attachments 1 and 2, and J 5.7 attachment one. Were there any parties that wanted to make any submissions with respect to those requests for confidentiality?

I look at you, Mr. Rubenstein, as I think the only person in the room. I'm assuming, we did not think they were controversial.

MR. RUBENSTEIN: To be honest, there's a lot of documents being filed.

MS. LONG: All right. I don't want to put you on the spot there. So the Board has come to a decision. And the request for confidentiality in respect of the information in lines 1 to 6 at page 100 of oral hearing transcript volume 3 is denied. In the Board's view, this information is of a general nature and should be disclosed on the public record, with the exception of that noted information in volume 3 of the transcript, the Board grants OPG's request for confidentiality for the information in the remainder of the oral hearing transcript and the noted undertaking responses.

With that said, we are now going to go in camera.

--- On commencing in camera at 3:33 p.m.

MS. LONG: Mr. Millar?

CONTINUED CROSS-EXAMINATION BY MR. MILLAR:

MR. MILLAR: Thank you very much, Madam Chair. I would like to start with the most recent section that has some confidential materials attached to it, and this was the CHRC briefing that we were discussing, Mr. Kogan. And I left that tantalizing tidbit of what was to come, and now we're here so we can enjoy it.

We asked you in the technical conference to provide us the data that showed how your results had improved since that CHRC briefing, and you did that as undertaking JT 2.34.

MR. KOGAN: We did file an undertaking that shows what the status metrics looked like at that time.

MR. MILLAR: And that's a confidential document; again the reference is JT 2.34. We have it on the screen. Mr. Kogan, I assume you were involved in producing this document, or you can speak to it?

MR. KOGAN: Yes.

MR. MILLAR: What strikes me from this -- and I don't propose to go through a line by line review of the CHRC briefing. Would you agree with me that the numbers shown on this attachment are radically better than what was shown in the CHRC briefing?

MR. KOGAN: To be honest, I haven't done a line by line comparison. They are better.

MR. MILLAR: Maybe I should avoid adjectives and let the evidence speak for itself. These are materially better results than you were showing previously, and I think you already addressed this in your previous comments.

MR. SMITH: I think Mr. Kogan is -- yes.

MR. KOGAN: Was that a --

MR. MILLAR: Let's take one example; I don't propose to spend much time on it.

If you turn to page 110 of the Staff compendium, that's just for metric one. Again page 110 of the Staff compendium, again metric here, we see -- I am still slightly confused on how you read this. But number 17, 18 percent, that range. And now if you go back to JT2.34, we're down [redacted] percent -- so there's a big swing?

MR. KOGAN: There's an improvement. But again, I don't think maybe I did it justice when I was answering your questions earlier, in that -- so the numbers, when you read off on page 110, for example, that are 17, 18 percent, those are numbers that are at the, if my memory is right, is maybe the 75th to 95th percentile, right?

So I'm not sure there is actually depicted on here a static case, right. So what we've done in JT2.34, for example, in response to the interrogatory from Staff was look at our business plan and say, given the business plan numbers that we have, if you do the math on the metrics, that's what they turn out to be.

What the report did in JT2.12 from the last hearing is, as I understand it, it looked at a breadth of possible scenarios and then sort of graphed them and said, okay, in more than 50 percent of scenarios, you end up at this value, or above this value, or below that value.

So I don't know, I can't tell from this graphs unless I haven't looked carefully enough, that what the static case would be. So that's why it's difficult for me to comment on the relative improvement.

But as a general point, I accept that these were all improvement.

MR. MILLAR: If you can't answer, that's fine. But if we go back to page 110 of the Staff 110 compendium, I was reading you the numbers from the top, and I understand what you're saying; that's probably not the right number. Is it more likely the right number is the dividing line between the orange and the blue-green portions of the bar? In other words, the 50th percentile? Or if you don't know, that's fine.

MR. KOGAN: I just don't know, Mr. Millar.

MR. MILLAR: Whatever numbers we look at, the numbers are certainly better, as you've conceded. Can you give me the reasons? What are the primary drivers of that improved performance, or improved measure?

MR. KOGAN: I think I would be largely speculating at this point. I don't know what the underlying details were in this report that was done in 2011, what the underlying set of data was, the planning data that was at that time, what information was being used.

I can certainly say, as I mentioned earlier, that there are reductions, there are notable reductions in the contributions in the contributions that we're seeing for pensions -- for example, if we're looking at metric one. So I would expect that to be a contributing factor.

But it's very difficult for me to be able to explain the differences between these two outcomes, (a) because I don't have the data, as I mentioned, that was underlying the original report, and also because one was a stochastic model and one was a point in time calculation.

MR. MILLAR: That's fair enough, thank you. It's fair to say that when you do this type of analysis, it would be highly sensitive to whatever assumptions you used. That's true of any analysis, I assume.

MR. KOGAN: This analysis would be sensitive to our planning assumptions, yes.

MR. MILLAR: There were changes to the discount rate that changed your accrual number for your pension recovery and whatnot. Is that the type of thing that would impact these numbers? If you don't know, that's fine. I --

MR. KOGAN: It would certainly impact those numbers, yes.

MR. MILLAR: Positively from OPG's perspective? In other words, that was one of the drivers that makes the numbers better now than they were back in -- at the end of 2011?

MR. KOGAN: It's -- you know, for example, when you're looking at things like ratios you'd have to think of what impact that would have on both the numerator and the denominator, so if the -- what other collateral impacts there would be from a change in discount rates on, you know, other elements such as revenue, which would include the recovery of the costs as well, that's -- I'm sorry I'm not being more helpful. It's difficult for --

MR. MILLAR: No, that's fine. I think maybe we've gone as far as we can with this based on the information that we have, so maybe I'll move on to my next area, but thank you for that.

Still on pensions, let's turn to Staff interrogatory 147. That's Exhibit L, tab 6.6, Staff 147, portions of which are confidential. And you may recall under (h) we had asked you if you're targeting a one-to-one contribution ratio and, if so, when you expect it to get there, and if you turn to the response under (h), which is on page 3, you'll see there:

[redacted]

You see that?

MR. MILTON: That's correct.

MR. MILLAR: And as we discussed earlier, Mr. Milton -- yeah, I think you've got your mic --

MR. MILTON: That's correct. Sorry.

MR. MILLAR: Yeah, as we discussed earlier, this refers to the pension plan. [redacted] I'll ask you. [redacted] for OPEBs at this point? I asked you some questions about this before, and you responded that there might be something you could say confidentially that you couldn't say non-confidentially, so I give you that opportunity now.

MR. MILTON: [redacted]

MR. MILLAR: Do your cost forecasts past 2018 assume that there will be contributions from your employees for OPEBs?

MR. KOGAN: [redacted] any such change would be subject to the deferral and variance account treatment.

MR. MILLAR: The change between cash and accrual, you mean? The difference between cash and accrual? Why --

MR. KOGAN: Well, I should clarify. So assuming that ultimately it's the accrual basis of recovery that materializes through the processes, what I'm saying is that, for example, if there were a change that reduced our OPEB costs through the collective bargaining process, whether it's through funding or another means, I was referring to the fact that that cost reduction would be captured in the -- in one of the existing accounts. I think we have --

MR. MILLAR: I understand.

MR. KOGAN: -- three, I think.

MR. MILLAR: Yeah, okay. No, I understand what you're saying.

Okay. So talking only about pensions, the registered pension plan right now, in terms of [redacted] you commissioned a report from AON to show you some scenarios as to what that might look like; is that right? These are probably questions for you, Ms. Rees?

MS. REES: I was going to say, that's in Staff 157?

MR. MILLAR: Yes. That's right. You provided us a couple of reports. I'm speaking right now to the report contained at attachment 1 of Staff 157, so that's Exhibit L, tab 6.6, schedule 1, Staff 157.

MS. REES: Yes.

MR. MILLAR: Okay. So you had AON run some numbers, if I can put it that way, to show you what various scenarios might look like [redacted] with your unions?

MS. REES: Correct.

MR. MILLAR: And if we turn to page 12 of that report, it can be a bit difficult to take it all in. So I'll ask you if I've got -- if I understand this chart correctly. So first, this is for the PWU; is that right? You see that at the top?

MS. REES: Yes, it is.

MR. MILLAR: And what it shows is a [redacted] Is that what this is showing?

MS. REES: Yes, that's correct.

MR. MILLAR: Okay. Thank you. And the starting point for this analysis, it shows 2014 on the chart. Those are your actual contribution levels from 2014?

MS. REES: Yes.

MR. MILLAR: Okay. And then the [redacted] would vary somewhat depending on what the employees' pensionable earnings happened to be, but to get [redacted] is that right? Do you see that in the final column, where it shows figures of between [redacted] and [redacted] percent?

MS. REES: Yes, I would agree -- we would agree with that.

MR. MILLAR: And you did in fact make some progress in increasing employee contributions in your most recent collective agreements with the PWU, and I think we went over this in the technical conference, but my understanding is that as a result of those changes to the pension contributions up until 2018 when the current agreement ends [redacted]?

MS. REES: It was probably just a little bit beyond [redacted].

MR. MILLAR: Okay. So maybe [redacted]

MS. REES: Yes.

MR. MILLAR: And what are your expectations or what are your planning assumptions with respect to 2019, 2020, and 2021? Do you have an expectation as where you might be on years one through six through your next one or more rounds of collective bargaining agreements out to 2021?

MS. REES: Where we land will depend on the successes of our negotiations, so I --

MR. MILLAR: What are your planning assumptions with respect to the application? You have cost forecasts which would incorporate these elements.

MR. KOGAN: [redacted]

MR. MILLAR: Okay. Thank you. Can we go to page 15, please. This is the comparable information for the Society. And without spending too much time on this, would you agree with me that the numbers are broadly similar over a -- if you were to take [redacted] -- again, it depends on their pensionable earnings, but you'd have to a little bit [redacted] is that right? To between [redacted] percent?

MS. REES: Yes, that's correct.

MR. MILLAR: Okay. And again, my understanding is as of the most recent and current collective agreement you've moved to somewhere [redacted]?

MS. REES: It'd probably be around [redacted]. It's -- the Society agreement gets [redacted], so it's a little --

MR. MILLAR: Okay.

MS. REES: -- it's not exactly the same basis as what was projected here.

MR. MILLAR: So about [redacted], give or take?

MS. REES: It would be [redacted].

MR. MILLAR: So between [redacted]. It's [redacted]?

MS. REES: Subject to check.

MR. MILLAR: I think we went over some of this in the technical conference and that was my understanding, so I won't ask for an undertaking. But if you find out we're wrong, you can let us know.

Again, Mr. Kogan, in terms of your planning assumptions, is it also true [redacted]?

MR. KOGAN: [redacted].

MR. MILLAR: Let's move to the next document, which is attachment 2 to Staff 157. Again it's -- yes, we have it there, thank you.

This is what's titled a Benefit Index Report and that was also prepared by AON, is that correct?

MS. REES: That is correct.

MR. MILLAR: If you turn to page 3 of the report, you'll see these are the comparators that were selected against whom you were measured. It's essentially a type of benchmarking report, is that right?

MS. REES: That is correct.

MR. MILLAR: And these are the comparable companies?

MS. REES: That is correct.

MR. MILLAR: And I believe it says here that OPG selected the comparators, and we asked you about that in the technical conference, and I think you told us you picked a cross-section of public sector utilities with a few -- public sector entities with a few utilities sprinkled in?

MS. REES: That is correct.

MR. MILLAR: Can you confirm for me this report only looks at the registered pension plan. It does not include OPEBs?

MS. REES: This report does include OPEBs.

MR. MILLAR: Does, or does not?

MS. REES: Does.

MR. MILLAR: I thought --

MS. REES: Just to clarify, it includes health and dental benefits into retirement, and includes LTD, which are part of the OPEBs.

MR. MILLAR: What does it -- I can't find it now. I thought there had been an undertaking that suggested that it did not include OPEBs. Obviously it includes some benefits, because those are detailed here. Can you tell me what it does include with respect to OPEBs?

MS. REES: I don't recall an undertaking specifically about that.

MR. MILLAR: I've been wrong before, Ms. Rees; you could well be right. Could you tell me, with respect to OPEBs, does it include everything, or is it just for current employees?

MS. REES: No, it's for employees and retirees; it captures both and it actually also captures vacation.

MR. MILLAR: Yes, it has vacation as well. Would the supplemental pension plan be in there as well?

MS. REES: I believe so, subject to check.

MR. MILLAR: Okay. Let's turn to page 31 of the report and again these graphics, when you first look at them, they look a bit puzzling. But after you see a few, you get the hang of what they're showing.

I just want to go over what we can see here. First of all, this is the overall summary of all the benefits that were reviewed in this report?

MS. REES: That is correct.

MR. MILLAR: And it shows us a number of things. It shows the employer value and the total value, is that right?

MS. REES: That is correct.

MR. MILLAR: And the employer value is the value of the employer's contribution to the benefit, is that right? So OPG's portion of the contributions?

MS. REES: That would be a correct statement, yes.

MR. MILLAR: I'm assuming the total value would be the value including the employer contributions? Is that the difference between the total value and the employer value?

MS. REES: The total value would reflect the total value that the member would receive, the employee would receive. The employer paid value recognizes where there may be employee contributions made.

MR. MILLAR: But the employer value represents your share of the contributions to the benefits?

MS. REES: Yes.

MR. MILLAR: All right. If we look at the overall -- I'll call it score for the employer, you'll see, if you follow down the index towards the bottom, it says your position relative to base companies. And you see under employer value index, you see 111.1; do you see that?

MS. REES: Yes.

MR. MILLAR: And I understand that to mean the value of your benefits is 11.1 percent higher than the mean. Is that what that's showing us?

MS. REES: Yes.

MR. MILLAR: And then if you go down one, it has a ranking. I take it what that's showing us is that the employer value is between the second and third most generous of the companies that were assessed?

MS. REES: It's showing we rank between second and third.

MR. MILLAR: And the reason you can be between is because OPG itself is not part of this study. There's the 16 comparators, and you're slotted in where you would fit. That's why you're not a round number?

MS. REES: We were -- our results are in the study, but yes, it's positioning us relative to everyone else.

MR. MILLAR: That's why you're between second and third, and not second or third. Second and third would be other companies, and you're between those two. Is that right?

MS. REES: It could be we're more at 2.5.

MR. MILLAR: I don't think much turns on it.

MS. REES: I think the general concept --

MR. MILLAR: Okay. We’re in general agreement what it’s showing?

MS. REES: Yes.

MR. MILLAR: Thank you. If we go to page 32 -- I guess really 33 is where the graph is, AON has also measured what it describes as all security benefits and what I understand this to be is the same as the all benefits chart that we just looked at, except that it excludes time off with pay. Is that your understanding of what this shows?

MS. REES: Yes, it would exclude vacations.

MR. MILLAR: Otherwise, it's the same as the chart we just looked at?

MS. REES: Yes, that is correct.

MR. MILLAR: Okay. And then by this measure, if you scroll down a little ways, you see you're at [redacted] percent, in between [redacted] in the ranking?

MS. REES: Yes.

MR. MILLAR: Okay. We could go through all of these. There's many measures, and I don't for a second want to make you do that on a Friday afternoon.

But why don't we turn -- there is a summary helpfully provided at page 91, and I think what this shows -- and again, there's a lot of numbers and a lot of data on these pages, so sometimes it takes a moment to take it all in.

But what it shows is a high level overview of the areas [redacted] Is that what this is showing?

MS. REES: Yes.

MR. MILLAR: And it also shows their relative weight to your overall performance?

MS. REES: Yes.

MR. MILLAR: And your benefits, as I look at them, [redacted]

MS. REES: Yes, that would be correct.

MR. MILLAR: Okay. Panel, thank you, that's all I wanted to go over confidentially. I really do thank you for a you will your assistance in this section and all of them. It's been useful to us, so thank you.

MS. LONG: Thank you, Mr. Millar. We will now go back on-air.

--- On resuming public session at 3:58 p.m.

MS. LONG: I think that concludes the cross-examination that we have scheduled for today. Are there any issues we need to deal with before next week?

Seeing none, we will adjourn for today and I will see everybody back Monday morning at 9:30.

--- Whereupon the hearing adjourned at 3:59 p.m.