Board Staff Interrogatory #249

Interrogatory

Reference:
Exhibit F3 / Tab 1 / Schedule 1 / p. 2
Exhibit A2 / Tab 2 / Schedule 1 / p. 18

Preamble:

OPG noted that, between 2022-2026, it is planning to reduce its cost structure for post-Pickering NGS operations.

OPG referred to the impact of "diseconomies" of scale due to the reduced asset base and the fixed nature of some costs. OPG stated that it will mitigate those diseconomies by targeting sustainable structural and efficiency improvements across shared functions and processes in the corporate and nuclear support organizations. Specifically, OPG plans to mitigate approximately 90% of corporate and operations support costs tied to Pickering NGS by 2026 which OPG equates to removing an estimated $460 million (in 2026 dollars) of base OM&A from the corporate support services and operations & project support organizations. In estimating this mitigation impact, OPG used its 2016 actual cost structure (escalated to 2026 dollars) as the baseline to recognize initiatives that already began to be implemented over the current IR term.

Question(s):

a) Please explain the remaining 10% of costs that OPG expects to continue to incur in more detail.

b) Please identify the initiatives that have already begun to be implemented over the current IR term that directly contribute to the estimated $460 million reduction.

Response

a) As stated in Ex. A2-2-1, OPG has identified that, as the company's business shrinks, its cost structure will necessarily be greater than the current baseline due to the fixed nature of some shared functional costs. OPG has, however, established top-down targets that are equivalent a 90% reduction of corporate and operations support costs tied to Pickering NGS when measured against a baseline cost structure as of 2016.

OPG expects the single largest category of residual costs will be information technology ("IT"), making up approximately 40% of the remaining 10%. OPG is not targeting to reduce IT costs at the same rate as some of the other functions. This reflects the fact that a larger portion of IT costs are inelastic as they relate to core organizational systems and infrastructure. Additionally, as discussed elsewhere in the evidence, OPG sees increased investment in IT (and its attendant licencing and maintenance costs) as a key enabler of cost reductions and performance improvement across the organization (for example, see Ex. L-A2-02-CME-013).

Another approximately 15% of the remaining 10% relates to CNSC fees payable by OPG, which have increased since 2016 due to an increase in labour cost. OPG does not expect these fees to be reduced proportionately with the Pickering shutdown.

The remaining portion of the residual support costs relate to a number of other corporate and operations support functions identified at Ex. F3-1-1 and Ex. F2-2-1, reflecting activities that cannot be correspondingly reduced or altered with OPG's transition to a smaller organization. These functions will continue to operate and provide value after Pickering has ceased commercial operations, and are necessary to ensuring a sustainable, efficient and effective organization. These functions include:

- Development, implementation and management of health and safety requirements, standards and programs to maintain OPG's compliance and safety culture;
- Human resources programs such as those related to employee engagement, succession planning, leadership development, labour relations and compensation programs;
- Finance-related compliance and oversight activities, such as financial accounting and reporting obligations including audit fees, taxation, corporate business planning, treasury and insurance, and IESO settlements;
- Expenditures for certain specialized resources maintained in support of critical nuclear outage work that will continue to support Darlington outages and do not scale proportionately with the number of operating Units.
- Enterprise Project Management Office in its role of establishing and implementing standards for project management functions, and provision of related expertise, best practices, tools and processes across the company.

b) See Ex. L-A2-02-CME-013.