COMPENSATION AND BENEFITS

1.0 PURPOSE

The purpose of this exhibit is to:

- Describe the nature of OPG's workforce and the transformational changes to this workforce as a result of the planned shutdown of the Pickering Nuclear Generation Station ("Pickering");
- Provide 2016-2026 compensation information for employees working at and supporting nuclear facilities; and
- Introduce the results of the independent compensation studies prepared by Willis Towers Watson ("WTW").

2.0 OVERVIEW

Compensation costs for Nuclear for the period 2022-2026 are $7,687M and equivalent to approximately 46% of OPG's forecast 2022-2026 Nuclear revenue requirement, reflecting the significant role OPG employees play in producing electricity for Ontario.

OPG has a wide variety of employees, executives who lead the organization, management who direct work functions, professional staff who provide expertise related to OPG's prescribed generation facilities, and the skilled trades who operate and maintain these facilities. OPG employees work in generating stations and facilities across the province and are predominantly unionized. Additional details on OPG's workforce, including the extent of unionization, work locations, and demographics are presented in Section 3.0.

Over the IR term, OPG will undergo a transformational change to prepare for and execute the planned shutdown of Pickering. As part of this effort, OPG is currently planning to reduce its workforce by over 3,000 positions, or approximately 30%, comprised of regular employees,[1] Power Workers' Union ("PWU") represented term employees ("Terms"), and Society of Energy

[1] Regular employees are those employees for which there is an expectation of ongoing employment.

Professionals ("Society") represented extended temporary employees ("ETEs"). Pickering is OPG's single largest generating facility producing approximately 30% of OPG's total generation and 14% of Ontario's total grid supplied electricity.

To prepare the organization for the planned workforce reductions and for the future, OPG is undertaking several initiatives (see Ex. F2-1-1, Section 3.4 and Ex. A2-2-1, Attachment 1, Appendix 6). These initiatives will implement process improvements, enhance available tools and training, and reinforce a unified and innovative culture across OPG to drive performance leading up to and after the planned Pickering shutdown.

Given the extent of unionization, collective bargaining plays a dominant role in determining both ongoing compensation costs and the manner in which the workforce will be downsized as a result of the planned Pickering shutdown. Collective agreements prescribe wages and incentives provided to, as well as the pensions and benefits earned by, unionized employees. Collective agreements also have an indirect impact on the compensation provided to non-unionized positions because internal equity, career development, and ability to attract experienced represented employees into non-represented management positions are important factors in workforce planning and development.

Since EB-2016-0152, OPG engaged in one round of collective bargaining with the PWU and two rounds with the Society. The negotiations with both unions focused on securing ability to hire Terms and ETEs in support of mitigating the organizational and cost impacts of the planned reductions in the workforce as a result of the Pickering shutdown. The resulting collective agreements were ultimately established by an arbitrator's award, which granted OPG ability to hire employees in these categories for the duration of the collective agreements. These developments are discussed in Section 4.0. Additionally, OPG was able to maintain the previously negotiated changes to its pension plan provisions that reduced the company's pension contributions, modified eligibility rules, and pension benefits provided to OPG's represented employees in the future.

Section 5.0 provides an overview of OPG's compensation elements for both unionized and non-unionized positions, and includes discussion of OPG's actions to manage compensation costs, including a summary of the above noted negotiated pension changes and the commensurate pension reforms implemented for management employees and steps taken to reduce benefits costs. This section also includes a summary of compensation costs for employees operating and supporting OPG's Nuclear facilities, with additional details available at Attachment 1 (Full Time Equivalents ("FTE"), Compensation and Benefit Information for OPG's Nuclear Facilities ("Appendix 2k")).

Compensation benchmarking is undertaken to ensure compensation costs are competitive, affordable and aligned with OPG's business strategy and the environment in which OPG operates. This work demonstrates that overall, OPG's Total Remuneration provided is reasonable and at market.[2] Section 6.0 provides an overview of the compensation benchmarking (the "Report") performed by WTW and the full Report is included in Attachment 2. This study meets the compensation benchmarking requirement set out by the OEB in EB-2016-0152.[3]

WTW also undertook a comparison of OPG's wages to those provided by Bruce Power. Bruce Power is OPG's closest comparator, operating in the same energy market, with a workforce represented by the same unions as OPG. Bruce Power unionized wages are higher than those of OPG. See Section 6.0 and Attachment 3 for additional details on OPG's compensation relative to Bruce Power.

3.0 OPG's WORKFORCE

At the end of 2019, OPG employed 9,050 regular and Term employees.[4,5]

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[2] Total Remuneration reflects the total direct compensation, pension and benefits, and paid time off for eligible employees as a percentage of base salary (Attachment 2, p. 7).
[3] EB-2016-0152, Decision and Order, p. 84.
[4] Terms are a PWU-represented classification of employees. Terms may be hired in place of regular employees to to positions likely to be eliminated as a result of planned Pickering shutdown, in order to mitigate the organizational and cost impacts associated with the redeployment and downsizing when Pickering ends commercial operations. There were no Society-represented ETEs at the end of 2019.
[5] All total OPG employee statistics provided exclude operating subsidiaries.

Unionization: OPG's employees work in a predominantly unionized environment, with approximately 88% of employees represented by the PWU or the Society. The PWU represents nearly two thirds of OPG's unionized employees and the Society represents the remainder. The extent of unionization and the mix of PWU, Society and non-unionized staff (management) has generally remained stable over the past several years. The current collective agreement with the PWU is for a three-year term, April 1, 2018 to March 31, 2021. The current collective agreement with the Society is for a two-year term, January 1, 2020 to December 31, 2021.

Work Locations and Employees: OPG's Nuclear and Enterprise Projects employees work in generating stations and other facilities across the province as shown in Figure 1.

OPG employs individuals from a variety of disciplines, many of which are specialized technical roles. This includes engineers, and operations and maintenance staff that operate and maintain OPG's Nuclear facilities in a safe and responsible manner.

Figure 1 – OPG Nuclear and Enterprise Projects Work Locations

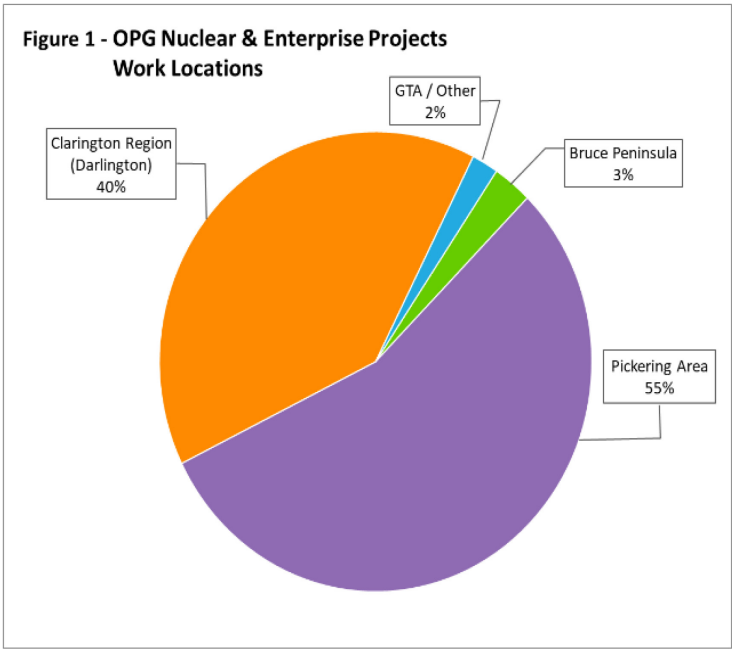
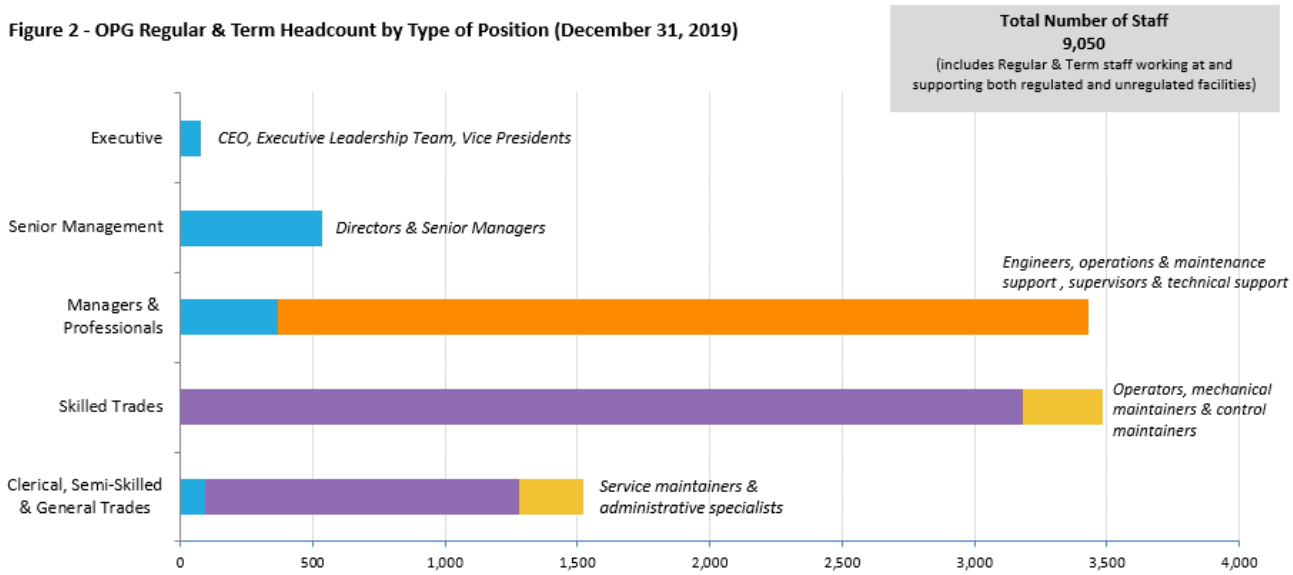


Figure 2 shows an overview of total OPG employee headcount (regular and Term[6]) as of December 31, 2019 by type of position. This information includes staff supporting both OPG's regulated and unregulated facilities.

Figure 2 – OPG Regular and Term Headcount by Type of Position (December 31, 2019)



	Clerical, Semi-Skilled & General Trades	Skilled Trades	Managers & Professionals	Senior Management	Executive
Management	91	-	367	536	76
Society	-	-	3,061	-	-
PWU	1,187	3,184	-	-	-
Term	246	302	-	-	-

In addition to Terms and ETEs, OPG also employs other forms of non-regular labour, where employees are hired for a fixed period of time with a start and end date.

Demographics: OPG has a mature and experienced workforce. By year-end 2021, approximately 21% of active regular employees will be eligible to retire with an undiscounted pension, with an additional 14% becoming eligible to retire between 2022 and 2026.

[6] The ETEs category of employees came into effect in 2020.

4.0 PICKERING SHUTDOWN

As discussed in Ex. A2-2-1, preparing for the end of Pickering commercial operations and transition to subsequent four-unit nuclear operations is a crucial focus area for OPG and a significant driver of its workforce strategies. This includes preparing the workforce for a large-scale reduction. In addition to mitigating the cost impacts of the downsizing, OPG is focused on ensuring continued availability of a skilled, committed and diverse workforce through this period of significant change. This includes leadership development and management of talent retention and attraction risks to ensure the organization's ongoing success.

OPG presently expects that the planned Pickering shutdown will eliminate over 3,000 positions across the organization, including direct station operations, Operations and Project Support functions and corporate Support Services. Affecting approximately 1 out of every 3 positions, this will be a profound event for OPG, its employees and the communities where they live and work. As discussed in Ex. A2-2-1, this will also trigger the need for a transformational change in OPG's cost structure, in addition to resulting in significant one-time costs. The one-time costs will include severance obligations for exiting management and unionized employees, as well as post-station shutdown transition costs necessary for the effective redeployment and training of affected employees.

The need for redeployment and training will arise as certain unionized regular employees transition from former Pickering positions to similar positions at Darlington or other affected parts of the organization under the downsizing provisions in the collective agreements. This transition will be a complex process. While such redeployment provisions are typical of collective agreements, they give rise to training needs and other incremental transition costs. OPG is developing a detailed plan aimed at executing the redeployment in a manner that maintains high safety and operational standards, ensures effective post-refurbishment operations at Darlington, and where possible, mitigates organizational impacts. Providing necessary training to redeployed employees will be an integral element of this plan given inherent differences in equipment, technology and operations at the Pickering and Darlington stations. Key strategies to mitigate organizational impacts include hiring PWU Terms and Society ETEs, facilitating the transfer of regular employees from Pickering to Darlington ahead

of the Pickering closure within operational constraints, and leveraging attrition-based headcount reductions.

The planning work for this downsizing process to be executed over the IR term will be inherently uncertain. Sources of uncertainty include: employee attrition patterns, implementation of previously untested provisions of collective agreements, seniority and skillset of transitioning employees, future collective bargaining outcomes, and the risk of failing to retain critical staff. Planning and preparation activities will advance over the coming years. For this reason, OPG is not seeking recovery of transition and downsizing costs in this application. All such costs incurred during the IR term will be recorded in the Pickering Closure Costs Deferral Account. During the IR term, OPG will continue to work with the unions and seek ways to reduce the organizational risks and cost implications of the Pickering shutdown.

PWU Term Employees

To assist in mitigating the anticipated organizational and cost impacts associated with the downsizing resulting from the planned Pickering shutdown, the category of “Term” employees was first negotiated with the PWU in the 2015-2018 collective agreement.

In general, Terms may be hired to avoid adding regular staff in circumstances where such additional regular employees are likely to be laid off as a result of the planned shutdown of Pickering. Terms are hired with the understanding that there is no expectation of ongoing employment once Pickering’s operations cease and they receive less severance than PWU regular employees on lay off. Moreover, Terms cannot join OPG’s pension plan.

When the 2015-2018 PWU collective agreement expired, OPG attempted to renew its ability to hire Terms. OPG and the PWU reached a tentative agreement on June 4, 2018 that included the extension of the Term classification for the period of the new collective agreement (April 1, 2018 to March 31, 2021). The PWU membership rejected the tentative agreement twice through votes communicated on August 9, 2018 and then on December 14, 2018. After the second unsuccessful vote, PWU members voted in favour of a strike mandate and the PWU

obtained a "no board" report from the Ontario Labour Relations Board.[7] In the course of this process, PWU members took labour actions, such as refusal of overtime.

On December 20, 2018, the Government of Ontario passed legislation that amended the *Labour Relations Act, 1995* to prohibit and stop any strikes or lockouts between OPG and the PWU for the 2018 round of negotiations, and referred the bargaining to interest arbitration. On April 3, 2019, an arbitration decision was issued awarding the tentative agreement reached by the parties in June 2018 – including the renewal of Terms. As of July 2020, approximately 700 Terms have been hired since inception of this employee classification.

Society Extended Temporary Employees

During both the 2018 and 2019 rounds of collective bargaining with the Society, OPG attempted to negotiate a classification of employees similar to PWU Terms. Despite these repeated efforts, parties could not reach an agreement. The arbitrator also did not award OPG's requested classification in the 2018 interest arbitration, which resulted in a one-year collective agreement with the Society (January 1, 2019 to December 31, 2019).

When bargaining with the Society was referred to interest arbitration in 2019, OPG was successful in arguing for the new classification of Society represented employees, called "Extended Temporary Employees" or "ETEs". The award was issued on November 5, 2019 and covers a two-year term (January 1, 2020 to December 31, 2021).

Like PWU represented Terms, Society ETEs may be hired to avoid adding regular staff in circumstances where additional regular employees are likely to be laid off as a result of the planned shutdown of Pickering. Society ETEs also receive less severance than regular Society represented employees upon lay off. Similar to Terms, Society ETEs cannot join OPG's pension plan.

[7] A "no-board" report indicates that the Ontario Labour Relations Board will not appoint a board of conciliation and begins the 17-day countdown period to the date on which either the employer or the union could begin a legal work stoppage.

OPG's 2020-2026 Business Plan and therefore this application assume continued ability to hire Terms and ETEs.

Management

OPG has taken steps to reduce management positions where possible. In 2020, OPG underwent a corporate realignment, consolidating a number of functions within the company. As discussed in Ex. A2-2-1, the reorganization merged operating and project groups across business units to facilitate cross-functional synergies and, where possible, drive efficiencies to reduce management positions in preparation for the planned shutdown of Pickering. The realignment has allowed OPG to eliminate over 10% of management positions, the cost savings from which will be carried through the IR term. The early implementation of these structural changes allows OPG to mitigate operational impacts from a large volume of reductions post Pickering shutdown.

5.0 COMPENSATION COSTS

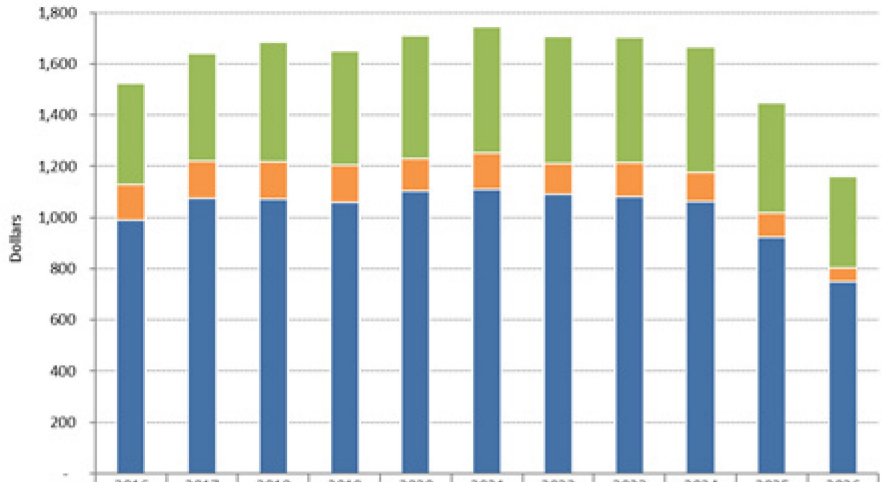
Compensation costs for OPG's Nuclear facilities for 2022-2026 are comprised of the following elements:

- Base Salaries and Incentives
- Pension and Benefits
- Overtime

Each of these elements is discussed below, as are Nuclear FTEs.

Figure 3 summarizes the compensation costs for OPG's nuclear facilities for 2016-2026 and reflects the impacts of wage escalation during the IR term. OPG's total compensation costs for its nuclear facilities decrease over the 2022-2026 rate period primarily based on two factors: the substantial completion of Darlington Refurbishment Program, and the planned shutdown of Pickering.

Figure 3 – Compensation Costs for Nuclear

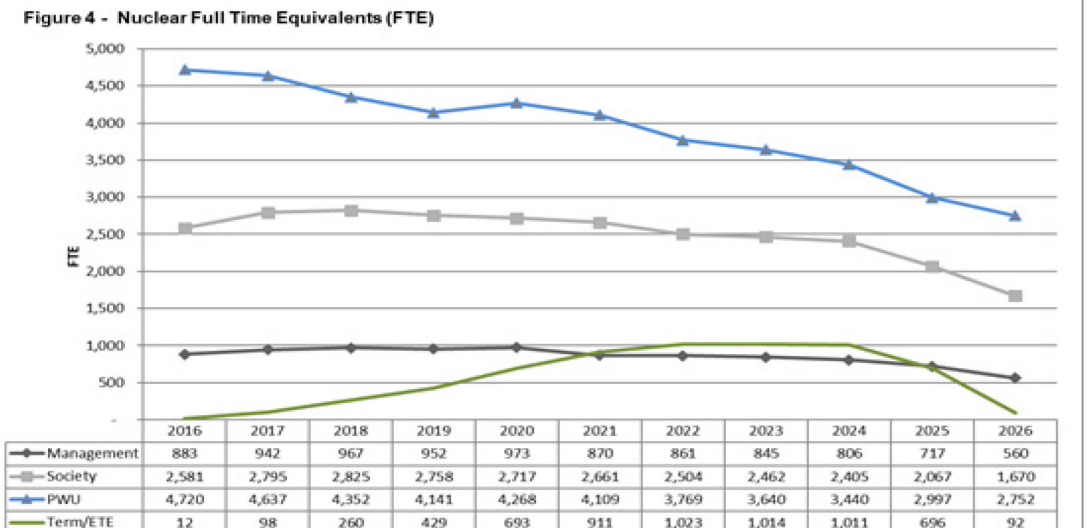


	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Pensions & Benefits (M$)*	397	419	469	444	481	494	498	490	490	430	356
Overtime (M$)	136	145	145	145	126	140	121	134	114	96	56
Base Salaries & Incentives (M$)	991	1,076	1,072	1,060	1,103	1,110	1,090	1,081	1,062	922	748
Total Compensation (M$)	1,524	1,640	1,686	1,649	1,709	1,745	1,708	1,705	1,666	1,448	1,160
Growth Rate (Total Compensation)	1%	8%	3%	-2%	4%	2%	-2%	0%	-2%	-13%	-20%

*Pension and benefits include current service costs only and are shown on an accrual basis.

Figure 4 shows the FTE breakdown by management, Society, and PWU represented regular employees and non-regular employees, including Terms and ETEs, for Nuclear facilities (including allocation of corporate Support Services).

Figure 4 – Nuclear Full Time Equivalents



	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Management	883	942	967	952	973	870	861	845	806	717	560
Society	2,581	2,795	2,825	2,758	2,717	2,661	2,504	2,462	2,405	2,067	1,670
PWU	4,720	4,637	4,352	4,141	4,268	4,109	3,769	3,640	3,440	2,997	2,752
Term/ETE	12	98	260	429	693	911	1,023	1,014	1,011	696	92

* Excludes EPSCA

Base Salaries and Incentives

Base salaries and incentives represent about 64% of OPG's total compensation costs related to the nuclear facilities over the IR Term. These costs are largely a function of the collective bargaining agreements that cover approximately 88% of OPG's employees. The details of these salaries and incentives are discussed below.

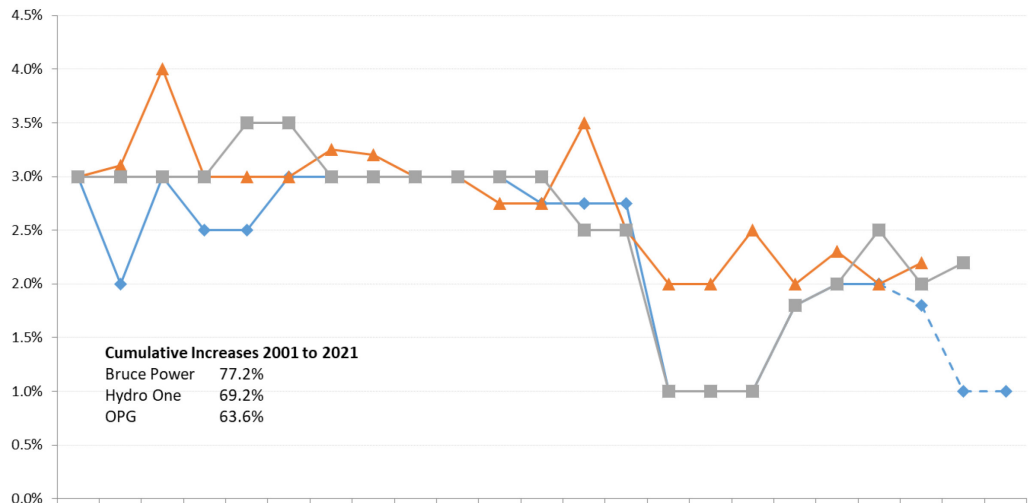
<u>Unionized Salaries</u>

OPG is legally bound by its collective agreements, which establish salary rates and govern salary increases, any cost of living adjustments, and progressions through established salary ranges.

Typical union salary increases have tended to be between 2% and 3% per year for both OPG and other large companies within the electricity sector in Ontario, as shown in Figures 5 to 8.[8,9]

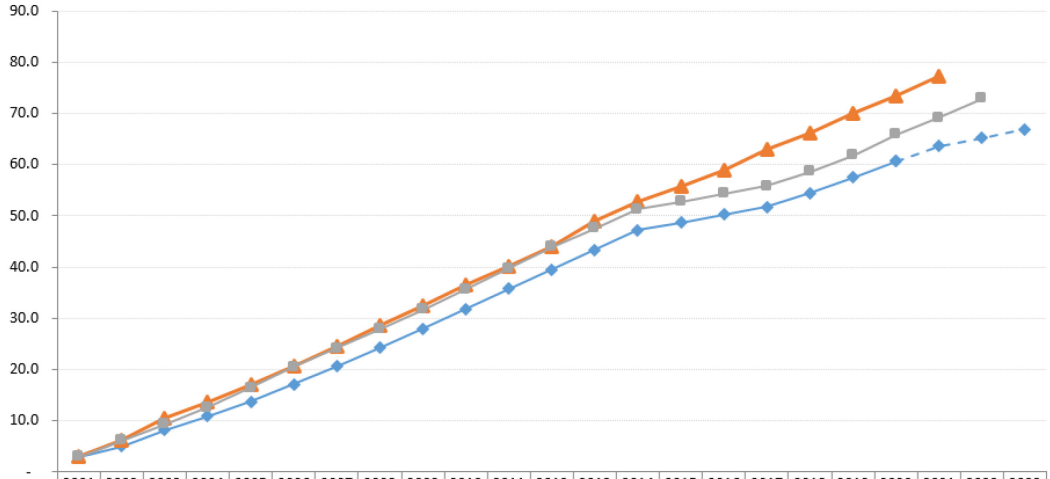
[8] Figures reflect annual increases per negotiated agreements. Any absence of data is the result of the collective agreement expiration at a future date. OPG projections are based on known requirement per Bill 124.
[9] Where there are two economic increases in one calendar year, they have been added to provide an overall total for the year.

Figure 5 - PWU Negotiated Annual Salary Increases



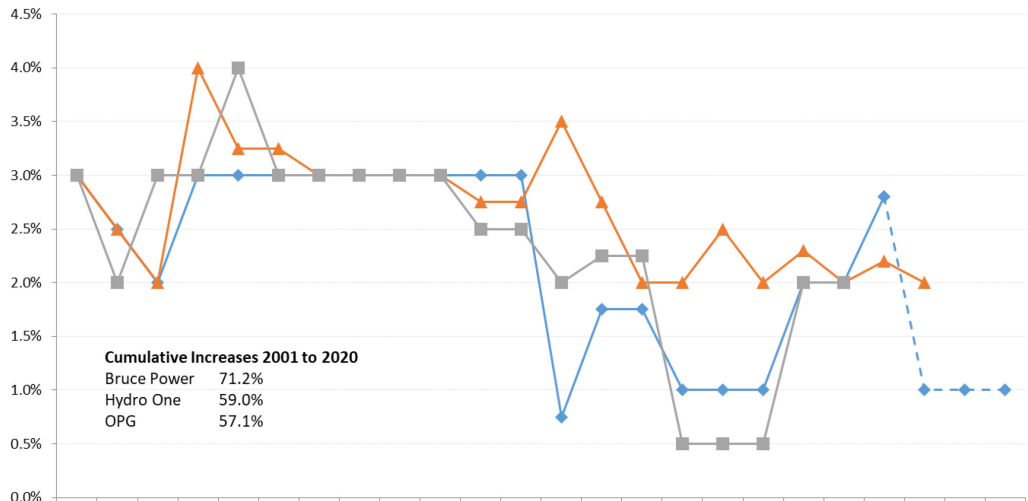
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
OPG	3.0%	2.0%	3.0%	2.5%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.75%	2.75%	2.75%	1.0%	1.0%	1.0%	1.8%	2.0%	2.0%			
OPG Projected																				2.0%	1.8%	1.0%	1.0%
Bruce Power	3.0%	3.1%	4.0%	3.0%	3.0%	3.0%	3.25%	3.2%	3.0%	3.0%	2.75%	2.75%	3.5%	2.5%	2.0%	2.0%	2.5%	2.0%	2.3%	2.0%	2.2%		
Hydro One	3.0%	3.0%	3.0%	3.0%	3.5%	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.5%	2.5%	1.0%	1.0%	1.0%	1.8%	2.0%	2.5%	2.0%	2.2%	

Figure 6 - PWU Negotiated Cumulative Salary Increases



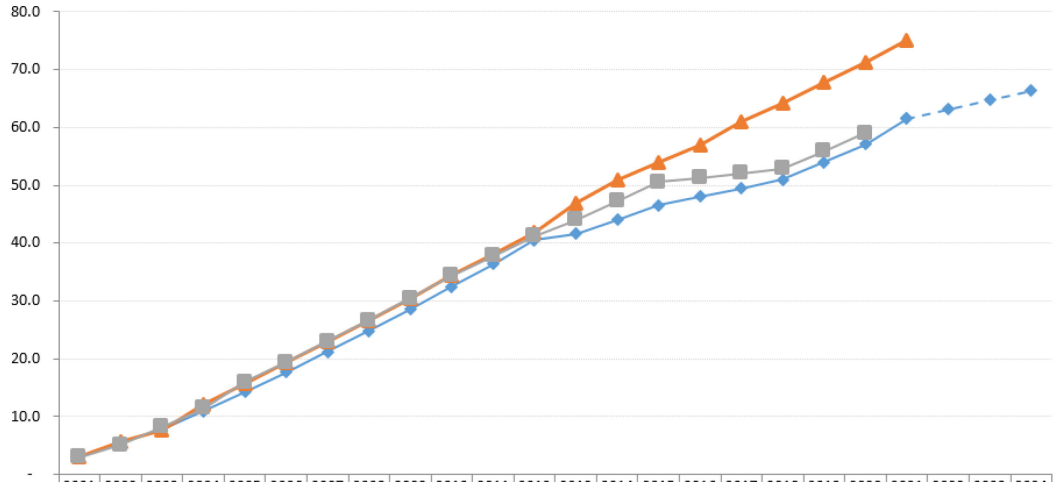
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
OPG	3.0	5.1	8.2	10.9	13.7	17.1	20.6	24.2	28.0	31.8	35.8	39.5	43.3	47.3	48.7	50.2	51.7	54.5	57.5	60.7			
OPG Projected																					63.6	65.2	66.9
Bruce Power	3.0	6.2	10.4	13.8	17.2	20.7	24.6	28.6	32.4	36.4	40.2	44.0	49.1	52.8	55.9	59.0	62.9	66.2	70.0	73.4	77.2		
Hydro One	3.0	6.1	9.3	12.6	16.5	20.6	24.2	27.9	31.7	35.7	39.8	44.0	47.6	51.3	52.8	54.3	55.8	58.6	61.8	65.9	69.2	72.9	

Figure 7 - Society Negotiated Annual Salary Increases



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
OPG	3.0%	2.5%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	0.75%	1.75%	1.75%	1.0%	1.0%	1.0%	2.0%	2.0%	2.8%			
OPG Projected																					2.8%	1.0%	1.0%	1.0%
Bruce Power	3.0%	2.5%	2.0%	4.0%	3.25%	3.25%	3.0%	3.0%	3.0%	3.0%	2.75%	2.75%	3.5%	2.75%	2.0%	2.0%	2.5%	2.0%	2.3%	2.0%	2.2%	2.0%		
Hydro One	3.0%	2.0%	3.0%	3.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.5%	2.5%	2.0%	2.25%	2.25%	0.5%	0.5%	0.5%	2.0%	2.0%				

Figure 8 - Society Negotiated Cumulative Salary Increases



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
OPG	3.0	5.6	7.7	10.9	14.2	17.7	21.2	24.8	28.6	32.4	36.4	40.5	41.6	44.0	46.6	48.0	49.5	51.0	54.0	57.1	61.5			
OPG Projected																					61.5	63.1	64.7	66.4
Bruce Power	3.0	5.6	7.7	12.0	15.6	19.4	23.0	26.7	30.5	34.4	38.1	41.9	46.8	50.9	53.9	57.0	60.9	64.1	67.9	71.2	75.0			
Hydro One	3.0	5.1	8.2	11.5	15.9	19.4	23.0	26.7	30.5	34.4	37.7	41.2	44.0	47.2	50.6	51.3	52.1	52.8	55.9	59.0				

OPG's recently negotiated and awarded salary increases are generally at or below comparator salary increase ranges. In particular, with respect to the PWU, the negotiated yearly salary increases for the 2018-2021 collective agreement period are 1.8% (2018), 2% (2019), 2% (2020), and 0.8% (2021).[10] As noted earlier, with respect to the Society, there have been two recent collective agreements awarded through interest arbitration, the first in effect for 2019 and the second in effect for 2020-2021. The Society yearly salary increases for the 2019-2021 period are 2% (January 1, 2019 and January 1, 2021) and 0.8% (November 1, 2021).

The introduction of Bill 124: *Protecting a Sustainable Public Sector for Future Generations Act, 2019* ("Bill 124"), which came into force on November 8, 2019, will impact future wage negotiations with bargaining units at OPG. Bill 124 sets limits on compensation increases for unionized and non-unionized employees in the Ontario public sector, which includes OPG. Bill 124 limits the maximum annual increase in both wages and total compensation to 1% for a three year period, referred to as the "moderation period". The moderation period is tied to the expiration dates of the collective agreements and, accordingly, these wage restrictions will be in effect for any PWU collective agreement renewal period within April 1, 2021 to March 31, 2024. Similarly, the wage restrictions will apply to any Society collective agreement renewal period within January 1, 2022 and December 31, 2024.

<u>Management Salaries</u>

The remaining 12% of employees are management, whose salaries are not prescribed by collective agreements, and whose base salary ranges and OPG's pay for performance programs are approved by the Board of Directors.

Management compensation continues to be impacted by certain legislative and regulatory constraints. Prior to and during the IR term, the following legislative and regulatory restrictions apply to OPG management compensation:

[10] Increases are effective April 1 of each year shown, with the exception of 2021 when the increase is effective February 1.

a) Between 2011 and 2015, OPG implemented a legislated freeze on base salary for management employees.

b) On August 13, 2018, the Ontario government implemented the Compensation Framework Regulation (O. Reg. 406/18) issued under the *Broader Public Sector Executive Compensation Act, 2014*, which imposed a cap on base salaries and pay at risk envelopes, at the prior pay year. As a result of this regulation, OPG has not provided base salary increases to its executive management employees (being Vice-President level and above) since 2019, and pay for performance amounts have been maintained at 2017 amounts.

c) Bill 124 will further limit management salary and pay for performance envelope increases to a maximum of 1% annually for the duration of the applicable moderation period. Consistent with the timing set out in Bill 124, OPG plans to implement the moderation period for management employees not then subject to O. Reg 406/18 starting on January 1, 2022.

Limits on OPG's management compensation have resulted in compensation benchmarking at or below the broader labour market for most positions, as shown in Section 6.0. The limits on salary increases, while reducing the growth of management compensation costs, have created internal equity issues and impact OPG's ability to attract and retain talent:

a) Salary compression exists across OPG with approximately 220 managers currently earning less than the staff they supervise, making it difficult to attract qualified represented staff into management positions. The future salary cap is expected to exacerbate this situation.

b) The talent market for skilled management has become highly competitive. OPG's ability to retain and attract into management positions continues to be at risk.

<u>Management Stakeholder Return Program</u>

The Stakeholder Return Program ("SRP") is a short-term (i.e. single year) pay for performance incentive plan for eligible management employees, intended to deliver a portion of total

compensation on a pay for performance basis. Assessment of performance is based on individual and corporate objectives set for the applicable program year. As in OPG's previous proceedings, the costs of the SRP are shown separately as a centrally held cost in Ex. F4-4-1 Table 1 and Table 3, and are included in Attachment 1.

Pension and Benefits

Pension and benefits represent approximately 29% of OPG's nuclear compensation costs over the IR term and include current employee benefits and current service costs for pension and other post employment benefits ("OPEB"). Pension and benefit plan provisions for represented employees are established in collective bargaining, while the pension and benefits offered to management employees are determined by OPG's Board of Directors.

Current Benefits

Current benefits include the cost of OPG's health, dental and group life insurance benefits for employees while on payroll, as well as statutory requirements such as the Employer Health Tax, Employment Insurance and Workers Compensation. Health, dental and life insurance benefits for PWU and Society employees are negotiated during collective bargaining, whereas OPG's Board of Directors approves the management benefit programs.

OPG outsources claims administration to Sun Life Financial and has plan management and adjudication mechanisms in place to control benefit costs. These include a frequency limit on prescription drug refills, mandatory substitution of lowest cost equivalent drugs, maximizing coordination of benefit opportunities, and a requirement for prior approval for certain drug and treatment therapies.

Pension and Other Post Employment Benefits Costs

Pension and OPEB costs include the employer paid costs of providing a pension along with OPEB such as life insurance, and health and dental care for pensioners and their dependants, as well as long-term disability ("LTD") benefits for current employees.

As discussed in Ex. F4-3-2, pension and OPEB amounts are included in the proposed revenue requirements on an accrual accounting basis, consistent with the OEB's policy on pension and OPEB cost recovery set out in the OEB's Report: *Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs* in EB-2015-0040. The amount and calculation of forecast pension and OPEB accrual costs for the IR term are described in Ex. F4-3-2.

As also discussed in Ex. F4-3-2, pension and OPEB accrual costs are actuarially determined to reflect the present value of the benefits earned by today's employees for service they have rendered in support of the company's operations. These costs are sensitive to changing economic conditions (e.g., changes to interest rates that drive the discount rates used in the actuarial calculations) as well as demographic and other actuarial assumptions. Increases in the pension and OPEB current service component of total compensation in certain years of the 2016-2026 period are driven mainly by changes in discount rates; they are not driven by pension or OPEB plan changes. Additionally, the impact of lower regular headcount reducing current service costs in earlier years of the IR term is offset by increases in the costs due to the passage of time in their present value calculation. Ex. F4-3-2 discusses the major drivers of year-over-year trends in the current service costs components of pension and OPEB costs.

<u>Changes to Pension and Benefits</u>

Changes to employee contribution rates and pension plan design were negotiated with both the PWU and the Society in 2015, as described below. As discussed in EB-2016-0152, a broader approach to collective bargaining was taken in 2015, involving both Hydro One and the Government of Ontario, in recognition of the impact that unionization has on sector-wide compensation. The resulting changes to contribution rates became effective during the 2015-2017 period, and a number of pension reform measures aimed at reducing pension costs over the long term will start in 2025. In 2018, OPG negotiated additional limitations for its health and dental plan to contain costs, while maintaining pension changes achieved in 2015.

a) <u>Employee Contributions Increases</u>

Through negotiations in 2015, OPG was able to increase employee pension contributions beginning April 1, 2015 for PWU employees, and January 1, 2016 for Society employees.

Comparable changes were made to contributions for management employees beginning January 1, 2016. Figure 9 provides an overview of the increases in employee contributions.

Figure 9 – Overview of Employee Contributions

Employee Pension Contributions*	% of Pensionable Earnings Contributed by Employees (% below / above YMPE / above Earnings Limit)			Contribution Ratio (Employee/Employer)
	MG	PWU	Society	
2014	7 / 7	5 / 7	7	24% / 76%
2015	7 / 7	6 / 8	7	
2016	7.3 / 8.25 / 2	7 / 9	8	29% / 71%
2017	7.6 / 9.5 / 4.5	7.5 / 10	9	32% / 68%
2018	7.6 / 9.5 / 4.5	7.5 / 10	9	33% / 67%
2019	7.6 / 9.5 / 4.5	7.5 / 10	9	34% / 66%
2020	7.6 / 9.5 / 4.5	7.5 / 10	9	32% / 68%

*Employee pension contributions are tiered for PWU and Management employees based on Canada Pension Plan Yearly Maximum Pensionable Earnings (YMPE), with Management group employees having an additional tier at the prescribed earnings limit as defined in the OPG Pension Plan. Society employees are not subject to tiered contributions.

In the EB-2016-0152 Decision and Order, the OEB directed OPG to "file pension and OPEB evidence that clearly sets out the elements included and excluded in its determination of employer:employee contribution ratios."[11] The discussion below responds to this direction.

As in EB-2016-0152, OPG confirms that the contribution ratio shown above is calculated as the ratio between: (i) the current service cost (also known as normal cost) funding contributions made by OPG to its registered pension plan pursuant to actuarial valuations filed with the Financial Services Regulatory Authority in accordance with the *Pension Benefits Act* (Ontario),[12] and (ii) the total amount of contributions made by OPG's employees to the plan. Funding for special payments toward a plan deficit, if any, is excluded from this calculation.[13] OPEB payments are also excluded. OPG has confirmed with Aon, an independent actuary, that this is the appropriate approach to measure the employee percentage cost-sharing in a single employer pension plan, and

[11] EB-2016-0152 Decision and Order, p. 84.
[12] See Ex. F4-3-2 for further details.
[13] As discussed in Ex. F4-3-2, OPG has not made any such payments toward a deficit since 2017.

is typical of how Aon actuaries would calculate the cost-sharing ratio for a single employer pension plan. This is also consistent with the approach used in the *Report on the Sustainability of Electricity Sector Pension Plans* (the "Leech Report").[14]

Aon has also confirmed that it is appropriate to exclude OPEB costs from this calculation where the plans are pay-as-you-go unfunded arrangements, as is the case for OPG.

b) Earnings Basis for Pension

OPG negotiated changes in 2015 to the basis for determining pension benefits. Previously, the calculation basis was an employee's highest three consecutive years. This was increased to the highest five consecutive years for future service beginning March 31, 2025 for both the PWU and Society. This change applies to both current employees and new hires.

c) Retirement Eligibility for an Undiscounted Pension

In 2015, OPG successfully negotiated a change in the retirement eligibility formula. Currently, PWU and Society employees can retire with an undiscounted pension when their age plus service equals 82; this is referred to as the Rule of 82. For service after March 31, 2025, the eligibility for an undiscounted pension will be changed to the Rule of 85. The retirement eligibility formula of age plus service was also changed for management employees from 84 to 90 years, effective July 1, 2014 for new management employees, and effective for future service beginning January 1, 2025 for existing employees.

In exchange for the pension reforms negotiation in 2015, PWU and Society represented employees who were contributing to the pension plan on April 1, 2015 (PWU) and January 1, 2016 (Society) and had less than 35 years of pensionable service as of those dates were granted Hydro One Limited shares awards at the start of the third year of the applicable contract term (April 1, 2017 for PWU and January 1, 2018 for Society). Eligible employees

[14] Leech Report, p. 2 (the term used is "ongoing contributions").

continue to receive shares annually for up to 15 years subject to certain conditions.[15] Based on projections, the number of employees entitled to shares, as compared to the number at the commencement of the program, will decrease by approximately 30% in 2026. Over the IR term, the cost associated with the share performance plan is less than the cost savings from the pension reforms that apply to all employees (existing and new), and the pension savings will continue to grow over time.[16]

Health Benefit coverage

OPG negotiated an overall improvement in 2018 to the health benefit plan, with both the PWU and the Society that are expected to reduce benefit costs. Changes with the PWU were effective April 1, 2018 and for the Society they were effective January 1, 2019.

a) PWU and Society Benefit Changes

OPG successfully negotiated with both the PWU and Society for limitations in two benefits areas to help control future costs. The changes implement a cap on the frequency of dispensing fees for maintenance level drugs and mandate use of the lowest price equivalent drug (generic or brand name). These changes are significant because prescription drugs account for approximately 60% of OPG's health spending. In exchange, OPG provided for modest benefit improvements to both the PWU and Society.

b) Management Benefit Changes

For management employees, OPG applied both the prescription drug cost control measures that were implemented for the PWU and Society. The modest benefit improvements implemented for PWU and Society employees were not extended to management employees.

The Canada Pension Plan ("CPP") also implemented changes to the program effective January 1, 2019 that will see a gradual increase in employee and employer contributions over

[15] EB-2016-0152, Ex. F4-3-2, pp. 17-18.
[16] The cost impact of the Hydro One share performance plan is included in total compensation cost presented in Attachment 1.

seven years. For OPG, the increase in employer contributions is largely offset by projected headcount reductions.

Overtime

Overtime is available to represented employees for work performed outside their normal working hours. Management employees are not eligible to receive overtime payments.

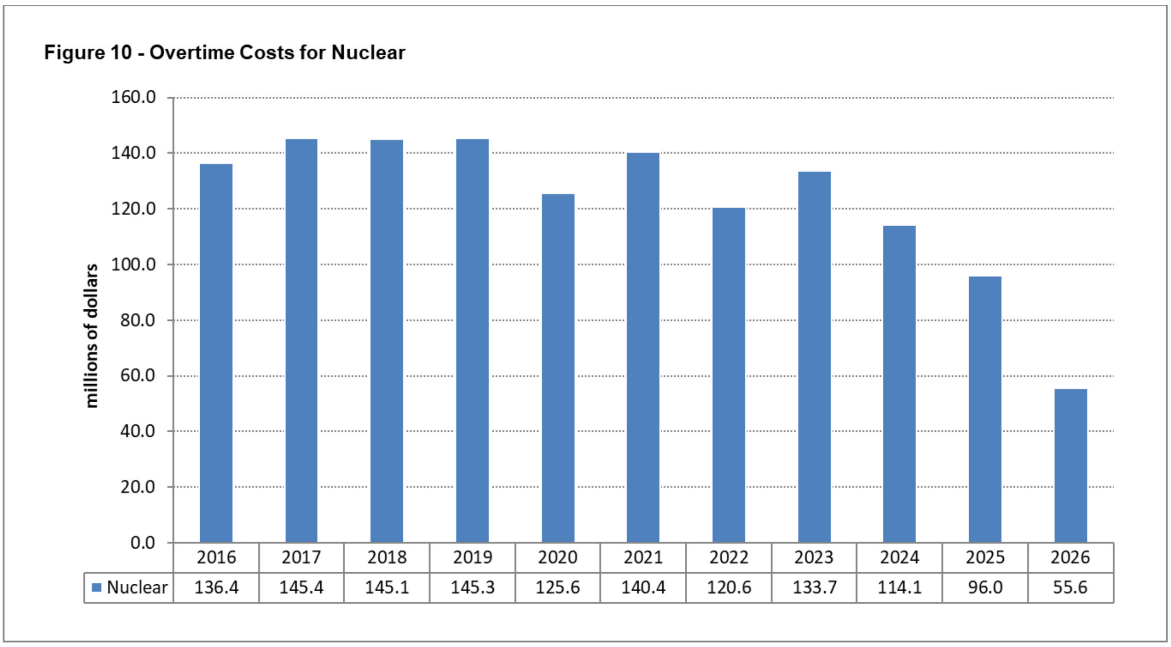
Provisions relating to the payment of overtime are established through collective bargaining. The control and approval of overtime hours worked rests with OPG.

Over the IR term, overtime costs typically account for about 7% on average of the total compensation costs for OPG's Nuclear facilities. Overtime rates are usually paid on a premium basis, at either time and a half or double time, with double time applicable in most circumstances, which is consistent with many unionized environments. As set out in Attachment 2, OPG's overtime elements are also generally aligned with energy sector market practice.[17]

OPG uses overtime to meet peak work demands and as a cost effective alternative to other options for accomplishing work. Overtime requirements fluctuate with key work programs and is primarily driven by outages and work to maintain unit reliability. OPG's use of incremental short-term labour resources for the Nuclear facilities, including overtime and non-regular labour, is discussed in Ex. F2-2-1.

Overtime costs for OPG's Nuclear facilities display an overall downward trend between 2022 and 2026 with the exception of increases forecast in 2023 as shown in Figure 10 below. The 2023 increase is due to there being more regular planned outages in 2023 versus 2022 and 2024. No regular planned outages are forecast at Pickering after 2024. See Attachment 1 for additional details.

[17] Attachment 2, p. 17.



FTE Staffing Levels

The number of FTEs employed in support of OPG's nuclear facilities is forecast to decline by approximately 6% cumulatively from 2020-2023 and approximately 40% cumulatively from 2020-2026. The reductions reflect the substantial completion of the Darlington Refurbishment Program, and, in the later years, the planned Pickering shutdown. In line with its goal of preparing the workforce for the Pickering shutdown, OPG's regular FTEs are forecast to decline steadily leading up and through the IR term over the period. The decline in management FTEs in 2021 over 2020 reflects the elimination of positions through the organizational realignment implemented in the second half of 2020. As discussed, the classifications of Terms and ETEs are currently in place to allow OPG to avoid adding regular staff in circumstances where additional regular employees are likely to be laid off as a result of the planned shutdown of Pickering.

6.0 COMPENSATION BENCHMARKING STUDY

Introduction

OPG seeks to manage its labour costs while ensuring its total compensation is positioned competitively relative to the external labour markets in which it competes to attract and retain employees.

Benchmarking conducted by WTW[18] indicates that OPG's Total Direct Compensation and Total Remuneration are at market: 5.2% and 7.7% above the midpoint of market peers, respectively.

A copy of the Report prepared by WTW is included as Attachment 2, and an overview of the approach taken, comparator groups used, and summarized results are provided below. The assessment by WTW included reviewing OPG's Base Salaries, Total Direct Compensation, Total Remuneration, as well as Pension and Benefits.

WTW considers compensation benchmarking results to be at market if they are within +/- 10% of the target market positioning. OPG's target market positioning for purposes of talent attraction and retention continues to be the mid-point (50th percentile) for positions in the Standard segments, and 75th percentile for the Nuclear Authorized segment.[19] Based on the Decision and Order in EB-2016-0152,[20] the Report also shows all Nuclear Authorized positions benchmarked to the 50th percentile.

Segmentation

For benchmarking purposes, OPG previously divided its compensation structure into three segments: Nuclear Authorized, Utility, and General Industry, each with a unique peer comparator group. In 2020, OPG reviewed its approach to segmentation to ensure alignment with business objectives during a period of significant transformation for the company. The previous approach to segmentation created certain barriers for OPG's broader talent strategy

[18] As of April 2019.
[19] For Nuclear Authorized non-executive positions (below Band E); Nuclear Authorized positions in bands A-E continue to be benchmarked at the 50th percentile.
[20] EB-2016-0152, Decision and Order, p. 80.

with respect to management positions, including limiting management's ability to implement development and succession strategies for existing talent, and encourage movement across positions and business units.

The company's difficulty in implementing its broader talent strategy for management positions indicated some tension between its business strategy and its approach to compensation benchmarking. To address this tension, OPG modified its compensation structure to employ two segments: Nuclear Authorized and Non-Nuclear Authorized ("Standard") with each segment having its own comparator group. The revised segmentation approach better aligns OPG internally within its management positions, and, as between management and represented positions, allows for greater development, retention of top talent, and lateral movement. In employing this new segmentation, OPG continues to maintain its competitive positioning relative to the 50th percentile of external labour markets comprised of appropriate peer comparators.

Benchmarking

As set out above, OPG retained WTW to undertake compensation benchmarking. The remainder of this section provides an overview of WTW's approach and results. The Report benchmarks over 80% of OPG positions, and indicates that OPG's Total Direct Compensation and Total Remuneration are at market.

In assessing OPG's compensation relative to external labour markets, OPG's positions were categorized into the revised segments: Nuclear Authorized and Standard. OPG's compensation in each of these segments was compared to other companies that employ similar positions. This assessment included reviewing OPG's Base Salaries, Total Direct Compensation, Pensions and Benefits, as well as Total Remuneration. "Total Direct Compensation" reflects the cash compensation paid to employees, excluding overtime. It includes base salary and pay at risk incentives. "Total Remuneration" reflects Total Direct Compensation paid to employees, and for eligible employees, Pension & Benefits and paid time off. Total Remuneration benchmarking reflects the competitive position of the value of the

programs relative to market, as opposed to Total Direct Compensation benchmarking that reflects the costs of the underlying programs relative to market.

The benchmarking analysis also includes Terms as part of the PWU incumbents. As discussed above, Terms may be hired for an extended period of time, to perform work of regular employees in view of the planned Pickering shutdown, and as such are comparable to regular employees. Terms do not participate in OPG's pension and benefit from plans. The number of Terms increased from 390 employees as of April 2019 reflected in the benchmarking, to approximately 700 incumbents in July 2020, further improving OPG's overall positioning against market comparators (see p. 15 of Report).

As noted earlier, a Hydro One share performance plan was negotiated as part of the 2015 collective bargaining process, in exchange for changes to pension plan provisions. In its Decision and Order in EB-2016-0152, the OEB indicated that share performance plan should be included in the compensation benchmarked by WTW as the plan forms part of the compensation received by employees. [21]

In response to this finding, the Report separately presents OPG incumbent information including the impact of the share performance plan. However, OPG continues to believe that the results excluding the impact of share performance plan are more representative of its positioning against market. As discussed in Section 5, the share performance plan is only available for a defined group of eligible employees, and all new employees are not eligible. The number of eligible employees will continue to decline over time.

In addition, as noted on page 14 of the Report, annual share grants, while relatively uncommon, are included in Total Direct Compensation, but other types of lump sum payments are not, as WTW does not routinely include this information in its compensation data base. Without directly inquiring with each comparator company, it is not possible to determine which companies have provided similar lump sum payments (whether cash or shares) or the quantum of such payments. As such, including the share performance plan grant for OPG, without

[21] See EB-2016-0152, Decision and Order, p. 81.

information on lump sum payments by comparators, potentially overstates OPG's Total Direct Compensation relative to the market. On this basis, the analysis below refers to the benchmark results excluding the share performance plan grants.

The Nuclear Authorized segment captures only those positions that require the incumbent to be, or have been, licensed by federal regulators, and represents a very small portion of OPG's employee population (about 4%). All other positions fall under the Standard segment.

In determining the appropriate comparator group or companies, WTW focused on the following types of organizations:

a) organizations from which OPG recruits,
b) organizations to which OPG loses staff,
c) organizations which operate in the same or similar industry sectors,
d) organizations that reflect the complexity and size of OPG,
e) organizations with similar geographic scope, and
f) organizations with both public and private ownership structure.

Figure 11 depicts the results of the WTW studies conducted in 2019. These results are shown for Total Direct Compensation and Total Remuneration by applicable segment and representation.

Figure 11: Total Direct Compensation

	OPG	Standard	Nuclear Authorized
	2019	2019	2019
PWU	10.4%	11.1%	5.1%
Society	8.6%	9.9%	-14.3%
MG	-13.1%	-12.8%	-15.5%
OPG	5.2%		

Legend
Below Market
At Market (+/- 10%)
Above Market

Figure 12: Total Remuneration

	OPG	Standard	Nuclear Authorized
	2019	2019	2019
PWU	11.0%	11.4%	7.2%
Society	14.1%	15.4%	-11.0%
MG	-11.8%	-11.3%	-15.4%
OPG	7.7%		

Legend
Below Market
At Market (+/- 10%)
Above Market

The benchmarking results vary as follows by representation and between segments for each of Total Direct Compensation and Total Remuneration:

a) PWU represented employee Total Direct Compensation and Total Remuneration, in the Standard segment, benchmark slightly above market. PWU represented employee Total Direct Compensation and Total Remuneration, in the Nuclear Authorized segment, benchmark at market.

b) Society represented employee Total Direct Compensation benchmarks at market and Total Remuneration above market for the Standard segment. Society represented employee Total Direct Compensation and Total Remuneration benchmark below market for the Nuclear Authorized segment.

c) Management's Total Direct Compensation and Total Remuneration for both Standard and Nuclear Authorized segment continue to benchmark below market.

In line with the results of the benchmarking, the following actions are being been taken:

a) Compensation Benchmarking and Pension and Benefit information continues to be shared with union representatives to inform and set context for the collective bargaining processes.

b) Management salary ranges were established in 2020 to align the mid-point of the salary range with the target market position for the Standard segment. OPG's target market for base salaries was set at the 50th percentile and remains in place.

c) Senior Leaders received education on OPG's compensation philosophy, including achieving affordability through targeting market 50th percentile and remaining competitive to attract and retain required talent. Also, in order to mitigate retention risk, significant effort has been placed on advancing a culture shift that encourages staff retention and further enables leader development.

7.0 WAGES AND THE GENERATION OF ELECTRICITY IN ONTARIO

Bruce Power is OPG's closest competitor for attracting and retaining talent. Both Bruce Power and OPG generate electricity in the same energy market, operate similar technology, have a workforce comprising similar roles, and have staff represented by the same unions.

WTW undertook a comparison of OPG's wages to those provided by Bruce Power. The results of this comparison are captured in Attachment 3 and a summary is provided below in Figure 13. Bruce Power's unionized wages are 19% higher for PWU positions and 6% higher for Society positions.

Figure 13

Comparison of OPG and Bruce Power PWU and Society Base Salary

Annual Base Salary Comparison	OPG k$	Bruce Power k$	Difference (OPG-Bruce Power) k$	Difference (OPG-Bruce Power) %
PWU	113.9	134.7	(20.8)	(19)
Society	134.1	142.4	(8.3)	(6.0)

8.0 CONCLUSION

OPG employs a highly skilled workforce across the Province. Its regulated facilities constitute critical infrastructure for the Province's electricity supply. OPG's compensation and benefits are largely the product of its collective agreements. Notwithstanding this, OPG's overall Total Remuneration and Total Direct Compensation are positioned at market compared to industry peers. During the IR term, OPG will be subject to further caps on wage increases at 1% annually for applicable three year periods, for both management and unionized employees, pursuant to Bill 124. When compared to EB-2016-0152, important progress has been made in both the recent PWU and Society collective agreements. Leading up to the shutdown of Pickering, OPG has be able to achieve additional resource flexibility through extending use of PWU Terms, and introduction of Society ETEs, who receive less severance than regular

employees and are unable to participate in OPG's pension plan. The availability of these categories of employees will reduce the ultimate cost of the significant workforce reduction exercise that will take place as a result of the planned Pickering shutdown.

ATTACHMENTS

Attachment 1 - FTE, Compensation and Benefit Information for OPG's Nuclear Facilities ("Appendix 2k")

Attachment 2 - Total Compensation Benchmarking Study prepared by Willis Towers Watson

Attachment 3 - Comparison of Salary Schedules for Society and PWU Roles prepared by Willis Towers Watson – "Confidential"