Board Staff Interrogatory #254

Interrogatory

Reference:
Exhibit F3 / Tab 1 / Schedule 1 / p. 6
Exhibit F3 / Tab 1 / Schedule 1 / Attachment 2 / pp. 3, 5, 11-16

Preamble:

In OPG's 2017-2021 Payment Amounts Proceeding, the OEB directed OPG to undertake an independent benchmarking study of Corporate Support functions and costs. OPG retained The Hackett Group (Hackett) to undertake that study.

OPG noted that in the course of providing data to Hackett, it became aware that it included certain costs in the "2016 Study" prepared by Hackett that do not form part of Hackett's taxonomy which had a material negative impact on the benchmarking results as presented in OPG's 2017-2021 Payment Amounts Proceeding (based on 2014 data). OPG requested that Hackett re-state the "2016 Study" results and OPG worked with Hackett to correct the previously submitted 2014 cost data to more accurately align with the Hackett methodology, definitions and taxonomy. Hackett included those restated results in the Hackett benchmarking study submitted as part of this application (which Hackett refers to as the "2019 Study"). OPG also noted that its 2014 overall costs, based on the restatement, were 7% lower than the peer group.

OEB staff has prepared the table set out below that summarizes the restatement discussed in Hackett's "2019 Study."

($M)	Finance Process Cost	Procurement Process Cost	Real Estate & Facilities Mgmt.	ECS Process Cost	HR Process Cost	IT Process + Technology Cost	Total
EB-2016-0152 OPG 2014	$36.6	$25.8	$17.3	$86.4	$31.4	$117.0	$314.5
Restated OPG 2014	$34.4	$19.0	$4.9	$38.2	$31.9	$119.7	$248.1
Costs Removed	**$2.2**	**$6.8**	**$12.4**	**$48.2**	**($0.5)**	**($2.7)**	**$66.4**

Question(s):

a) Please confirm or revise OEB staff's summary table set out above.

b) Please provide the benchmarking results that OPG achieved in the 2016 Study prior to the restatement (i.e. how many % above or below the peer group was OPG).

c) Please provide a more detailed description of the types of costs that have been removed including the associated dollar amounts. For example, what are the procurement process costs that were removed?

d) Please explain why Hackett revised the peer group scope based on OPG's revised data.

e) Please explain why the types of costs that have now been excluded should not be compared against OPG's peers for benchmarking purposes in the 2019 Study.

f) Please provide a table that compares OPG's 2019 costs based on the scope of costs that was used in OPG's 2017-2021 Payment Amounts Proceeding and the costs that are actually used in the 2019 Study (in a format similar to the table above).

g) Please provide OPG's 2019 benchmarking results based on the scope that was used in OPG's 2017-2021 Payment Amounts Proceeding (i.e. how many % above or below the peer group is OPG).

h) Please advise whether any changes to the normalization of peer data were made between the 2019 Study and the 2016 Study.

Response

a) Confirmed.

b) The benchmarking results that OPG achieved in the 2016 Study prior to the restatement are shown below:

Line No.		Finance *(% of Rev)*	Hr *(Cost / Employee)*	IT *(Cost / End User)*	ECS *(% of Rev)*
1	OPG 2014	0.75%	3,375	9,541	2.75%
2	Peer 2014	0.66%	3,350	14,995	1.07%
3	**Difference**	**0.09%**	**25.0**	**(5,454.0)**	**1.68%**

As found in Hackett benchmarking study pages 12-16 (EB-2016-0152 F3-1-1 Att 1)

c) Please refer to Attachment 1.

d) The Hackett Group prepared the following response:

As noted at Ex. F3-1-1, Attachment 2, Hackett revised the peer group scope to mirror the scope of OPG's functions.

e) The Hackett Group prepared the following response:

A subset of OPG's costs were excluded from the analysis because they did not align with the Hackett definitions within its taxonomy. In other words, Hackett did not have the peer costs against which to compare OPG's excluded costs. This is consistent with all other Hackett benchmarking, since the Hackett process taxonomy does not include the cost structure for an entire organization. Including costs that are not aligned with the Hackett taxonomy would lead to demonstrably incorrect results. For clarity, OPG's costs that aligned to the taxonomy and therefore could be compared against peers were included.

f) The table below provides OPG's 2019 costs based on the scope of costs included in the 2016 Study filed in EB-2016-0152 (OPG 2019 restated). As explained in part e) above, the OPG 2019 restated values include costs that are inconsistent with the Hackett taxonomy and that were incorrectly included in the 2016 Study.

Line No.	$M	Finance	Procurement	Real Estate & Facilities	ECS	HR	IT	Total
1	OPG 2019 restated	$35.4	$24.6	$17.3	$71.7	$37.0	$150.6	$336.7
2	OPG 2019	$33.1	$17.0	$6.6	$26.5	$37.6	$151.7	$272.6
3	**Differences**	**$2.3**	**$7.5**	**$10.7**	**$45.3**	**($0.6)**	**($1.1)**	**$64.1**

g) OPG declines to provide the requested information on the basis of relevance. As clearly indicated in the update to Ex. F3-1-1 at page 5, in restating the 2016 Study, Hackett modified the "peer group scope to mirror the scope of OPG's functions." Hackett did this to ensure the best comparison between OPG's costs and those of the peer group consistent with the Hackett taxonomy and methodology. Redoing the 2019 Study using the 2016 scope, as the question requests, would only produce a poorer comparison between OPG's costs and those of the peer group would not provide any information relevant to the issues to be decided in this application.

h) The Hackett Group prepared the following response:

Procurement process costs were normalized based on revenue for the original 2016 Study as procurement was included within ECS, which was normalized based on revenue. Benchmarking procurement separately from ECS in the 2019 Study allowed for procurement costs to be normalized based upon spend, which is

consistent with Hackett's methodology. The sourceable spend of an organization is a better driver of the workload and costs of a procurement function than the revenue of an organization. The 2016 Study was restated using spend for comparability with the 2019 Study.