Updated: 2021-03-19
OEB-2020-0290
Exhibit F3-1-1
Attachment 2
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ONTARIO POWER GENERATION

# Ontario Power Generation, Inc. (OPG)

# Benchmark Results Presentation

December 2020

# Agenda

- Executive Summary
- Benchmark Methodology
- Peer Overview
- Results

# Executive Summary

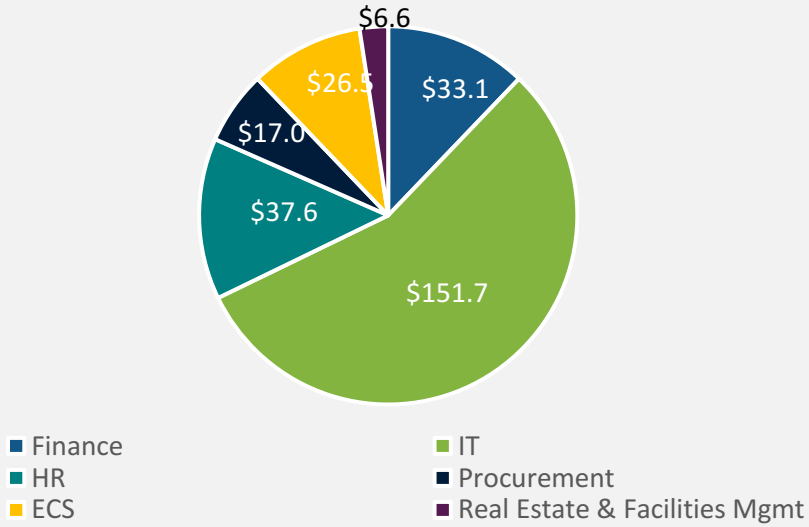
## Overview

- Ontario Power Generation (OPG) has engaged The Hackett Group to perform an independent benchmarking study of OPG's corporate support functions and operating costs for the regulated business
- While performing the 2019 study, OPG requested Hackett to re-state the EB-2016-0152 benchmarking study as a result of determining that there were data inclusions inconsistent with Hackett's taxonomy (the restated 2016 study). The 2016 study was based on OPG's 2014 data.
- Hackett leveraged its expertise and well-defined taxonomy to deliver the following cost assessment to Peers

## 2019 Study General Observations

- Overall OPG 2019 cost (Process Cost and Technology Cost) for the in-scope areas is $272.6 million, which is 8% below the 2019 peer group. OPG's overall costs were 7% below the peer group based on the results from the restated 2016 study.
- OPG's IT cost, including technology cost across all in-scope functions, is 20% below the peer median and remains in the first quartile.
- ECS process costs are 2% below the peer group median, an improvement from the third quartile in the restated 2016 study.
- Real Estate & Facilities Management process costs exceed the median of the peer group, but OPG has reduced costs while the peer group's costs increased since 2016. OPG's cost performance improved from the fourth quartile to the third quartile of the peer group.
- Finance and HR process costs are marginally above the median of the peer group. Compared to the restated 2016 study, Finance process costs improved relative to peer group median. HR also shows modest improvement.
- Procurement process costs of $17.0 million are at the upper end of the peer group range, but show improvement relative to the restated 2016 study.
- OPG is successfully 'bending the cost curve' and OPG's functional costs decreased by 6% and the peer group's costs increased 13% since the restated 2016 study.

**OPG 2019 Total Cost (Process Cost + Tech Cost[1]) in millions**




[1]Technology cost included within the IT function cost

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# Benchmark Methodology

## Data Guidelines and Benchmark Scope

- **Scope:** All OPG Regulated Operations
- **Benchmark data collection period:** Fiscal Year 2019
- All monetary values are in Canadian Dollars (CAD)
  - PPP (Purchasing Power Parity) was used to adjust the peer data from USD to CAD
  - A 2% per year inflation rate was applied to the peer companies to normalize the data
- Technology Cost captured and compared within the IT Function
- Out of scope - the below items were excluded from the peer group to mirror the scope of OPG's functions:
  - Finance: Revenue Cycle processes
  - Procurement: Product Development, Design and Support
  - Executive & Corporate Services: Security, Legal – M&A, Cafeteria & Catering Services,
- Hackett's process taxonomy is applied independent of OPG's organizational structure and functional reporting lines, thereby facilitating an "apples to apples" comparison

## 2016 Data Restatement

- In collaboration with Hackett, OPG updated the 2016 data submission for EB-2016-0152 to correct data inclusions to more accurately align costs with the Hackett methodology, definitions, and taxonomy (the restated 2016 study).
- In addition, Hackett updated the peer group scope to mirror the scope of OPG's functions.
  - Excluded the space cost, training costs, travel costs, & other miscellaneous costs previously captured in each function. These costs were also excluded in OPG's submission
  - This included excluding Technology Cost from each function and included it in the IT Function.
  - The Procurement benchmark data has been normalized using spend for consistency with the 2019 study.
  - Included transferable skills training in the HR function costs.
  - HR benchmark data has been normalized data using average number of employees for consistency with the 2019

## Benchmark Comparison

- **Peer Group**
  - Represents the median of a group of companies that have similar industry characteristics and size to OPG

## Normalization of Benchmark Data

- Normalization of peer data by function is appropriate and consistent with Hackett methodology
- **Finance and Executive & Corporate Services (ECS) Functions**
  - Peer data normalized based on revenue in 2019 of $5.07 billion
- **IT Function**
  - Peer data normalized based on End-User Equivalents (EUE) in 2019 of 14,664
- **HR Function**
  - Peer data normalized based on average employees in 2019 of 9,878
- **Procurement Function**
  - Peer data normalized based on spend in 2019 of $2.27 billion

***Revenue:*** *External Revenue Only, intercompany revenue not included. OPG includes revenue associated with regulated operations only. OPG revenue is adjusted to account for revenue deferred to future periods.*

***End-User Equivalents (EUE):*** *An individual (typically either an employee or contractor) that spends at least 10% of his or her time using a company provided, funded, supported computing device that is part of the company's IT infrastructure (i.e. desktops, laptops, hand-held devices, etc.) to support his or her business function. The user must have direct access to internal applications/systems to execute specific transactions on behalf of the company. OPG used LAN IDs as a proxy for end users. OPG included end users associated with regulated operations only.*

***Employees:*** *Full-time, part-time, temporary, seasonal, and contingent employees . OPG included employees associated with regulated operations only.*

***Spend:*** *Spend refers to the cost of direct and indirect materials and services purchased (i.e., disbursements) in the period measured by this benchmark. OPG included spend associated with regulated operations only.*

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# Hackett's process taxonomy was applied to ensure an apples-to-apples comparison

## Finance

- **Transactional**
  - Cash Disbursements
  - General Accounting & External Reporting
- **Control and Risk Management**
  - Tax Management
  - Treasury Management
  - Compliance Management
- **Financial Planning and Analysis**
  - Planning and Forecasting
  - Business Performance Reporting & Analysis
- **Management & Administration**
  - Finance Function Management

## Procurement

- **Operations and Compliance**
  - Supply Data Management
  - Requisition and PO Processing
  - Supplier Scheduling
  - Receipt Processing
  - Compliance Management
- **Sourcing and Supply Base Management**
  - Customer Management
  - Sourcing Execution
  - Supplier Management and Development
- **Planning and Strategy**
  - Sourcing and Supply Base Strategy
- **Management and Administration**
  - Function Strategy and Performance Management
  - Procurement Function Management

## Real Estate & Facilities Management

- **Real Estate & Facilities Management**
  - Facilities Management (for office space)
  - Real Estate Management

## Human Resources

- **Transactional**
  - Total Rewards Administration
  - Payroll Services
  - Data Mgmt., Reporting, & Compliance
  - Exit Management
- **Employee Life Cycle**
  - Recruiting & Staffing
  - Performance and Talent Development
  - Organizational Effectiveness Services
- **Planning and Strategy**
  - Total Rewards Planning
  - Strategic Workforce Planning
- **Management and Administration**
  - HR Function Management

## Information Technology

- **Plan**
  - IT Business Relationship Management
  - Enterprise Architecture & Emerging Technologies
  - IT Demand & Portfolio Management
- **Build**
  - Infrastructure Development & Deployment
  - Application Development & Deployment
  - Information Data Sourcing & Integration
- **Run**
  - Infrastructure Management
  - End User Support
  - Application Maintenance
  - Risk & Security Management
- **Manage**
  - IT Function Management

## Executive & Corporate Services (ECS)

- **Administrative Services**
- **Legal**
- **Risk and Environmental Health & Safety**
- **Corporate Communications**
- **Executive Office**
- **Other**
  - **Government Affairs**
  - **Planning and Strategy**

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# OPG Peer Group

## Peer Group

### Composite Peer Group

EnergyAustralia
Public Service Energy Group
National Grid plc
Portland General Electric Company
EPCOR Utilities Inc.
Pinnacle West Capital Corporation
Puget Sound Energy Inc
ENMAX Corporation
Kinder Morgan
NiSource
Duke Energy Corporation
Vattenfall GMBH
Florida Power & Light Company
Algonquin Power & Utilities Corporation

### Nuclear Operators

Pinnacle West Capital Corporation
Public Service Energy Group
Florida Power & Light Company
Duke Energy Corporation
National Grid plc
Vattenfall GMBH


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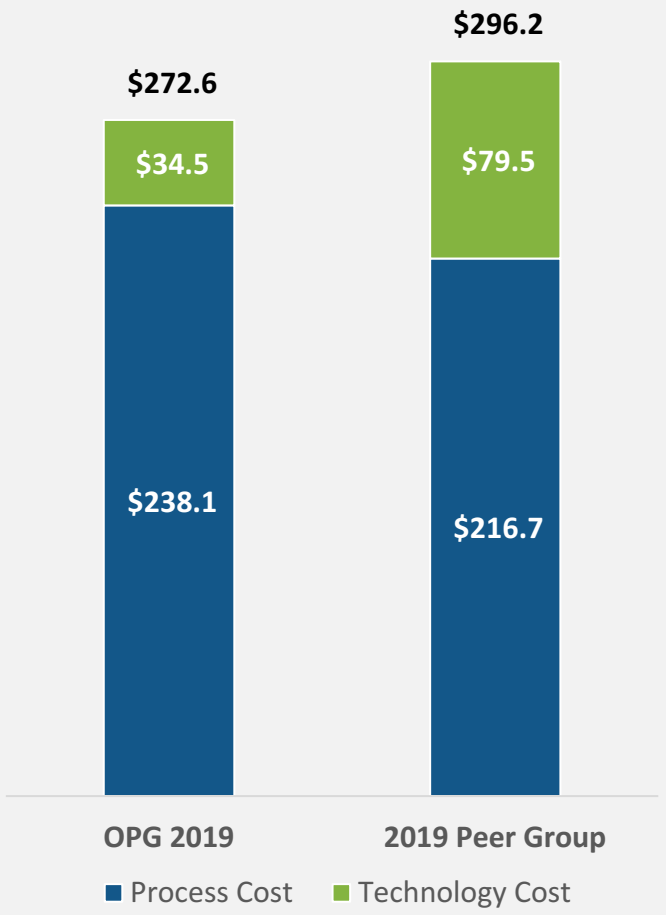
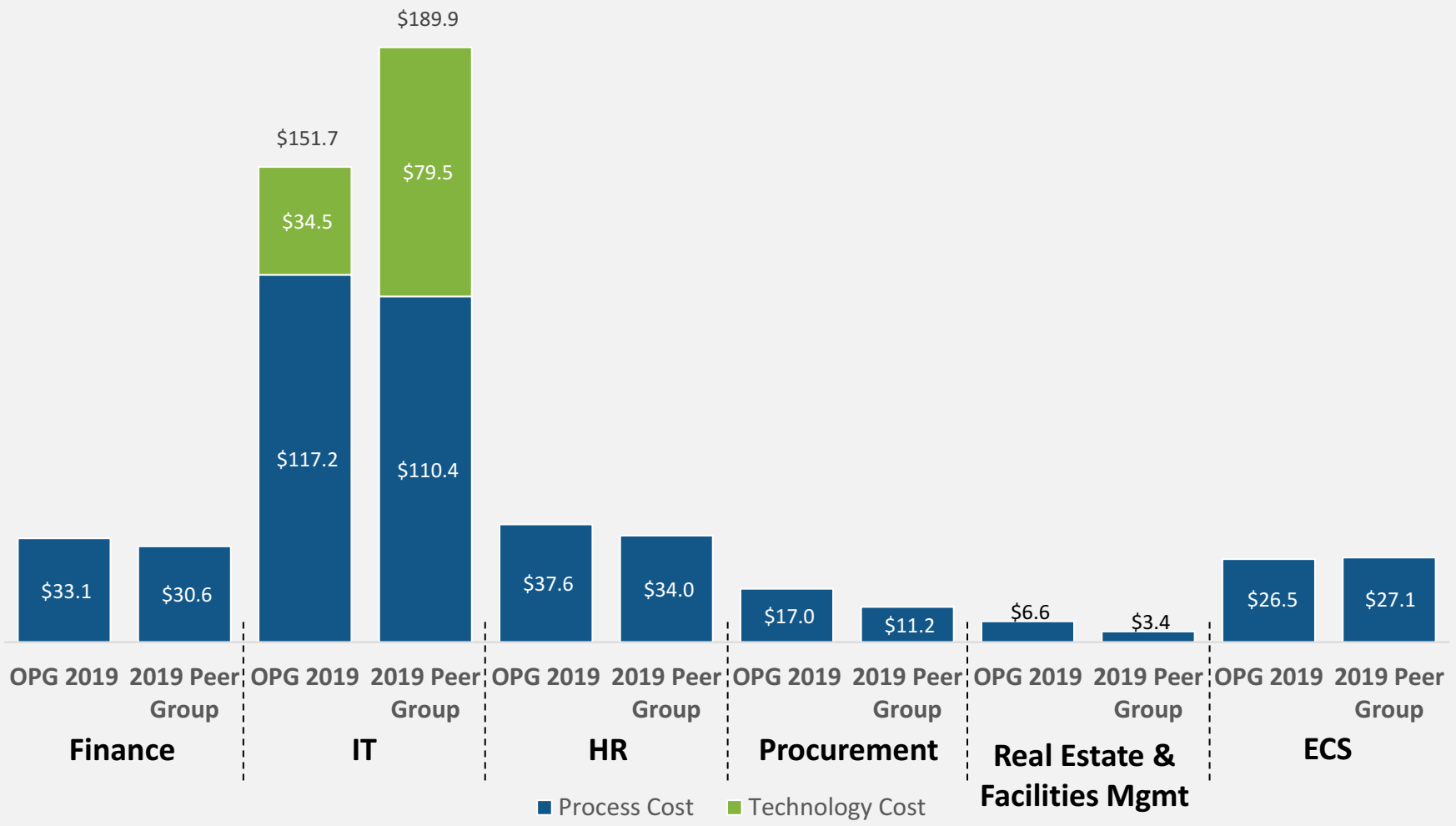
# Process Cost and Technology Cost Comparison by Function

## Process Cost and Technology Cost[1] ($M)




## Cost by Function ($M)




[1]Technology cost compared within the IT function cost

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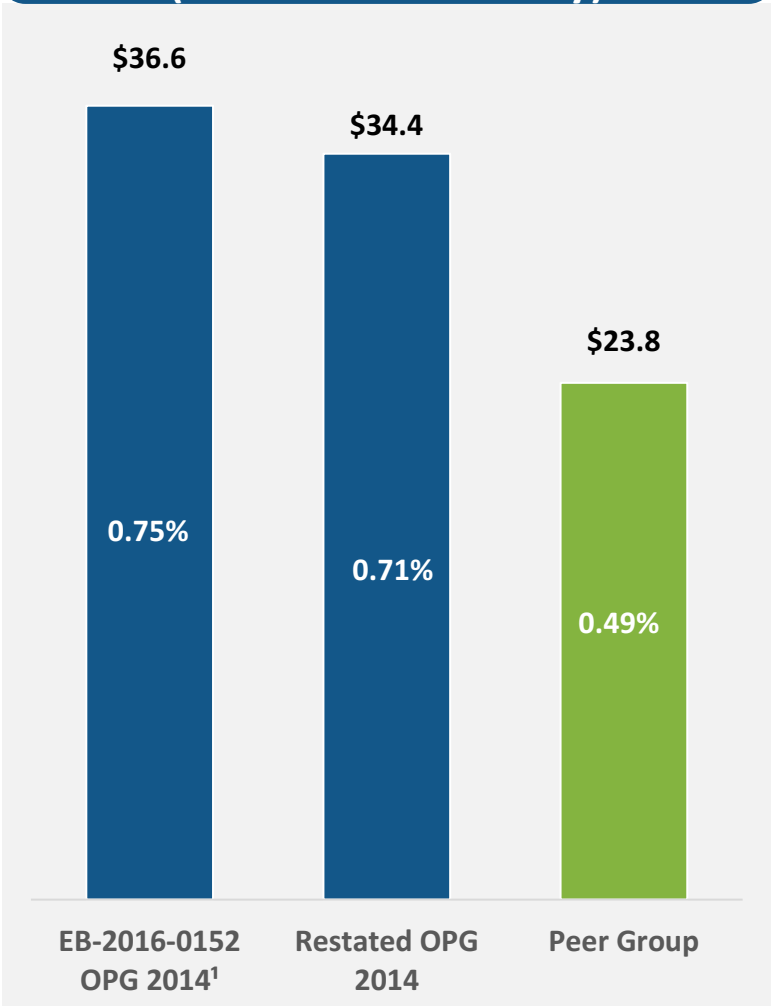
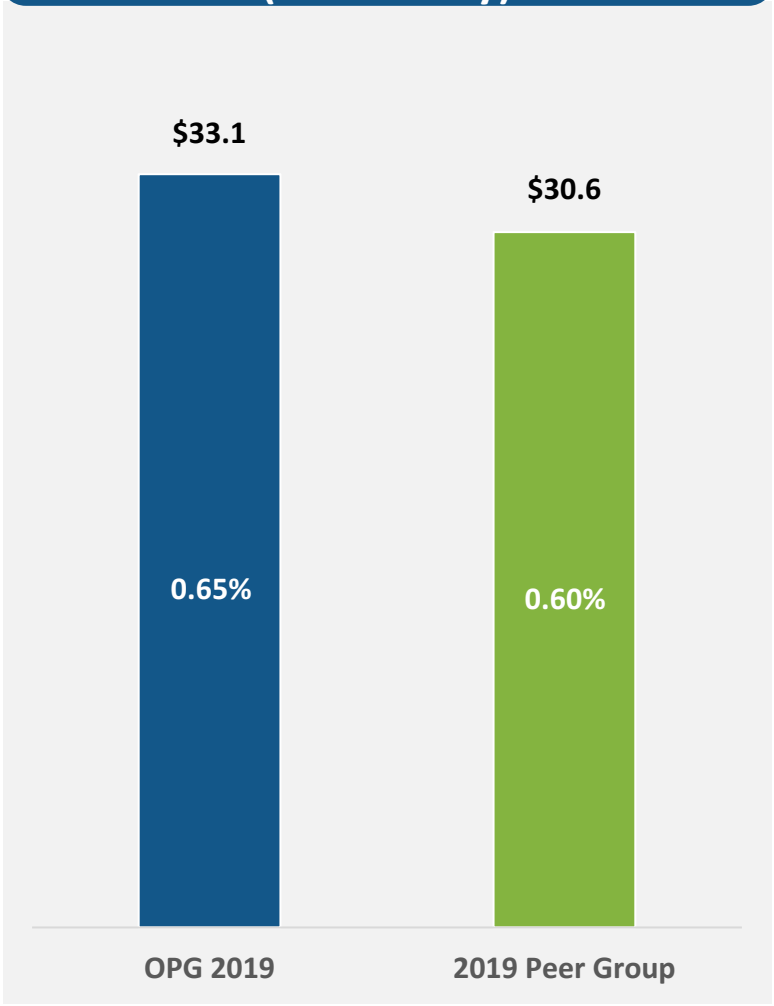
# Finance Function

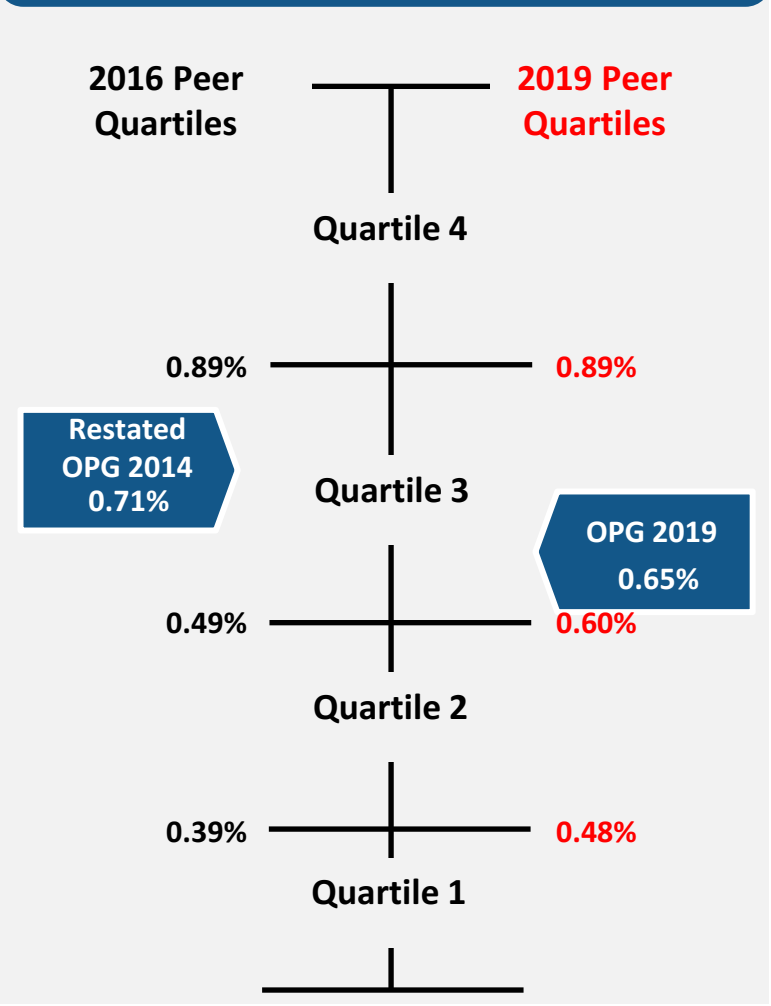
## Finance Process Cost
in millions & % of Revenue
(Restated 2016 Study)




## Finance Process Cost
in millions & % of Revenue
(2019 Study)




## Finance Quartile Analysis vs. Peer Group as a % of Revenue




[1]EB-2016-0152 OPG 2014 is a total cost that includes Technology and Other Cost on a per function basis

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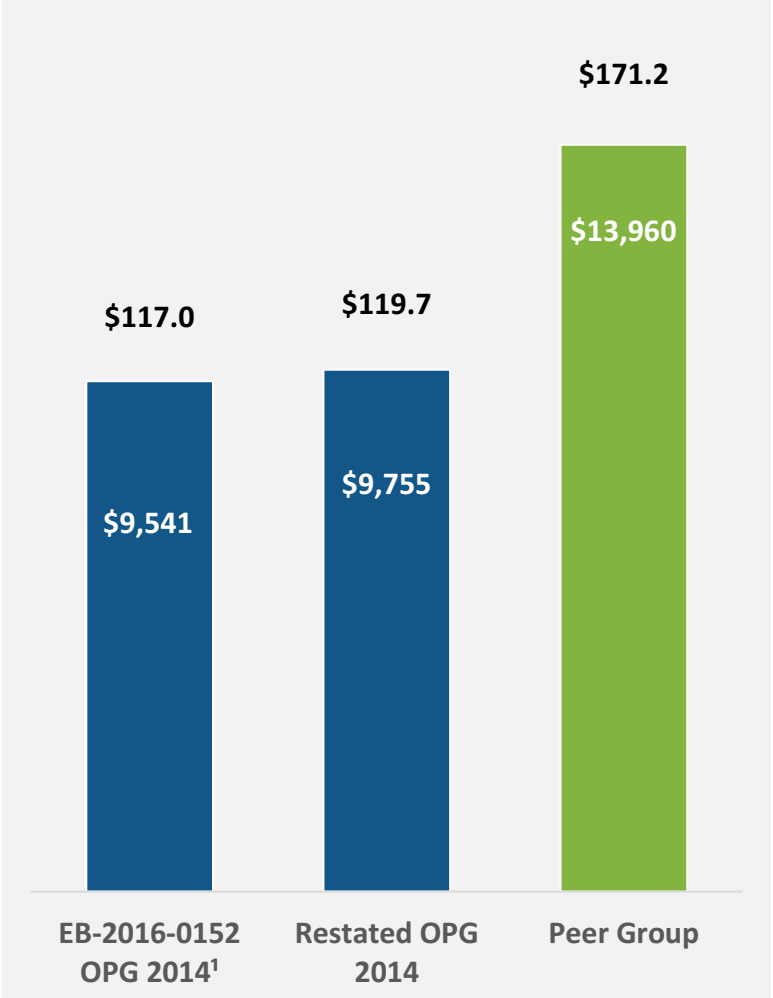
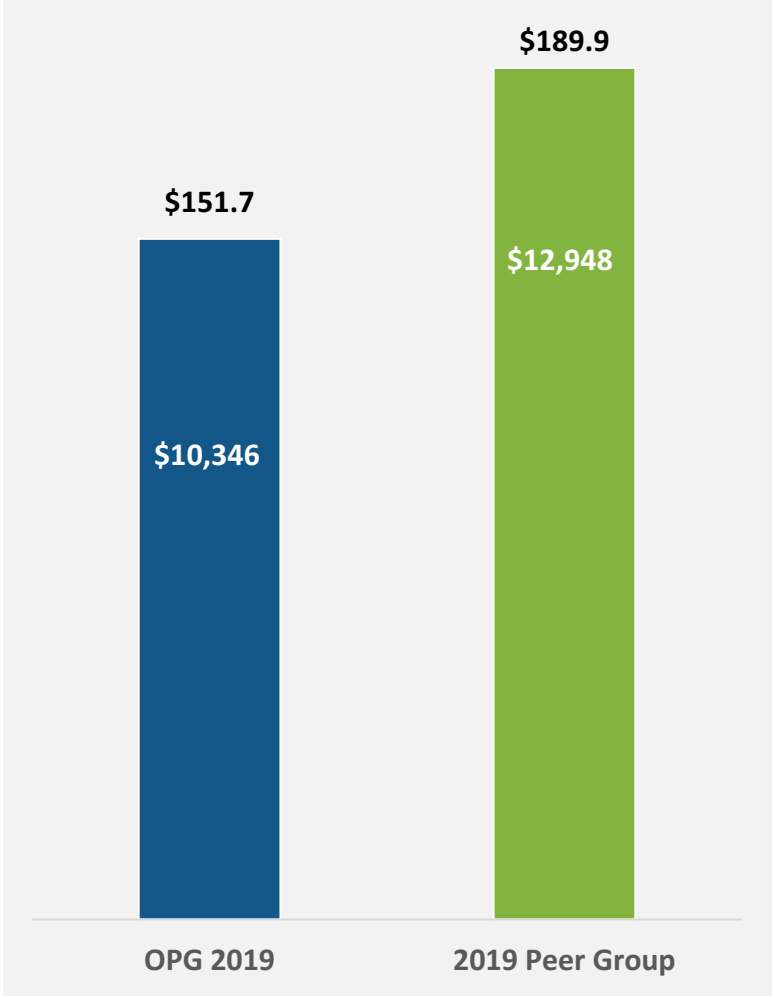
# IT Function

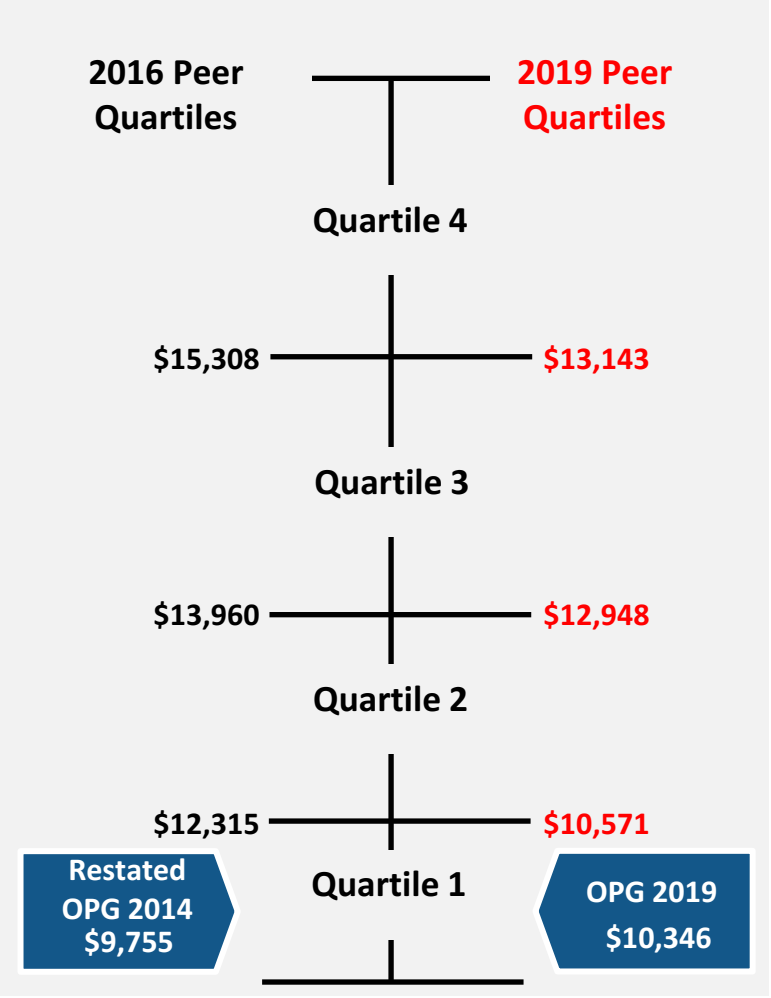
## IT Process + Technology Cost
in millions & per EUE
(Restated 2016 Study)




## IT Process + Technology Cost
in millions & per EUE
(2019 Study)




## IT Quartile Analysis vs. Peer Group per EUE




[1]EB-2016-0152 OPG 2014 is a total cost that includes Technology and Other Cost on a per function basis

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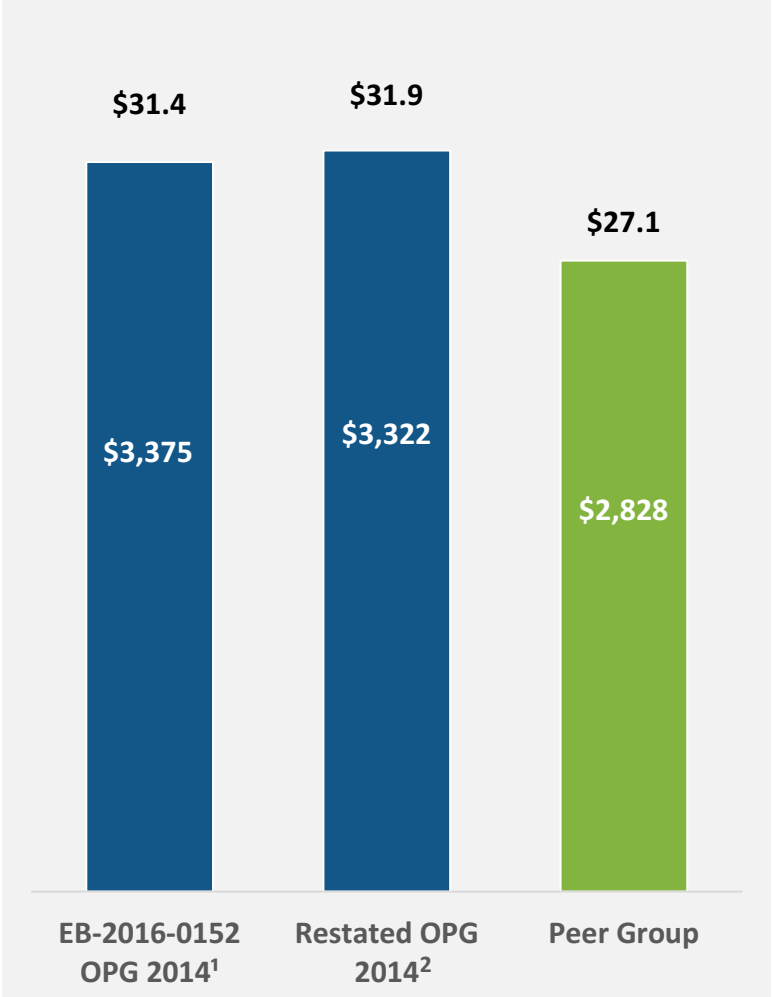
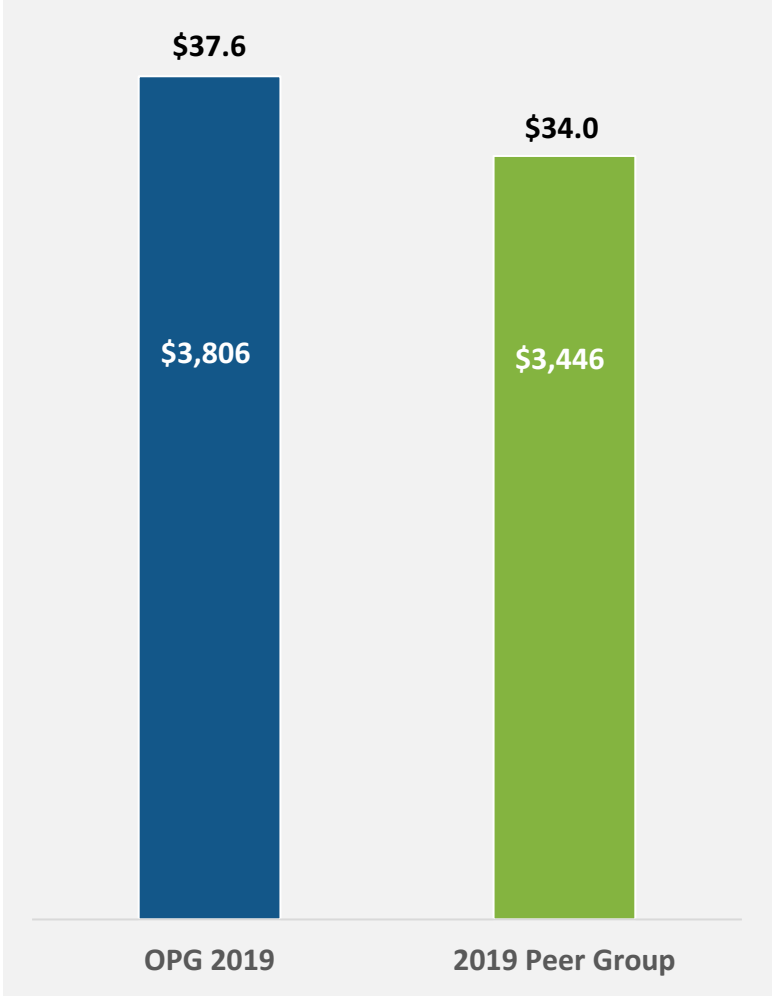
# HR Function

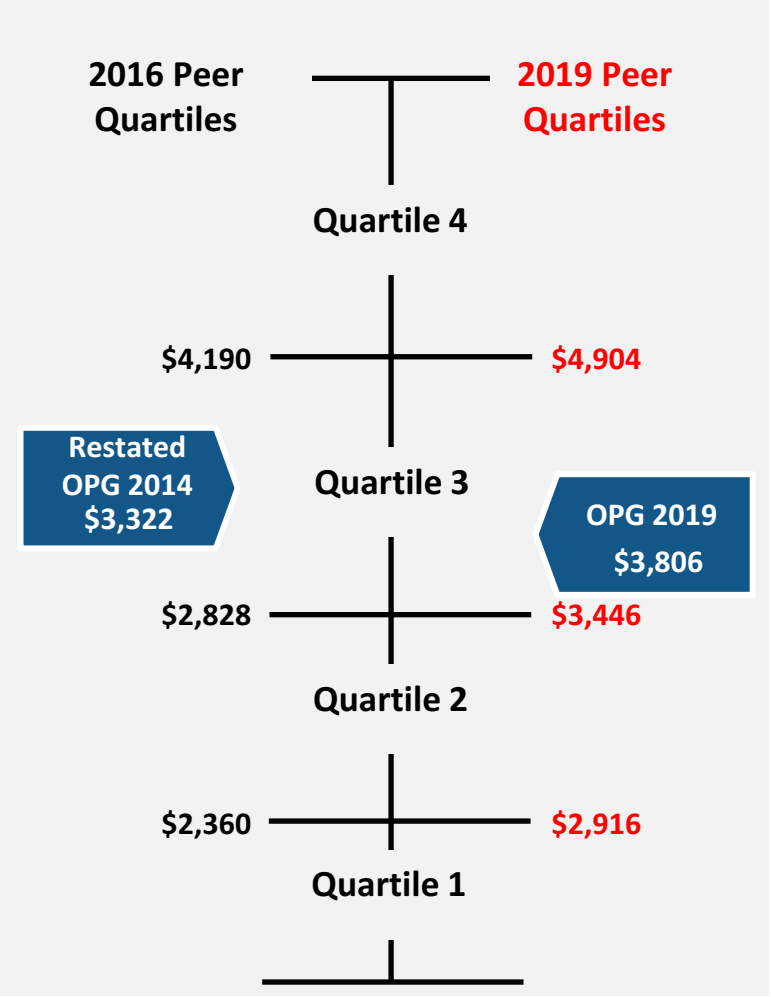
## HR Process Cost
in millions & per employee
(Restated 2016 Study)




## HR Process Cost
in millions & per employee
(2019 Study)




## HR Quartile Analysis vs. Peer Group per Employee




[1]EB-2016-0152 OPG 2014 is a total cost that includes Technology and Other Cost on a per function basis

[2]HR benchmark data has been normalized data using average number of employees for consistency with the 2019

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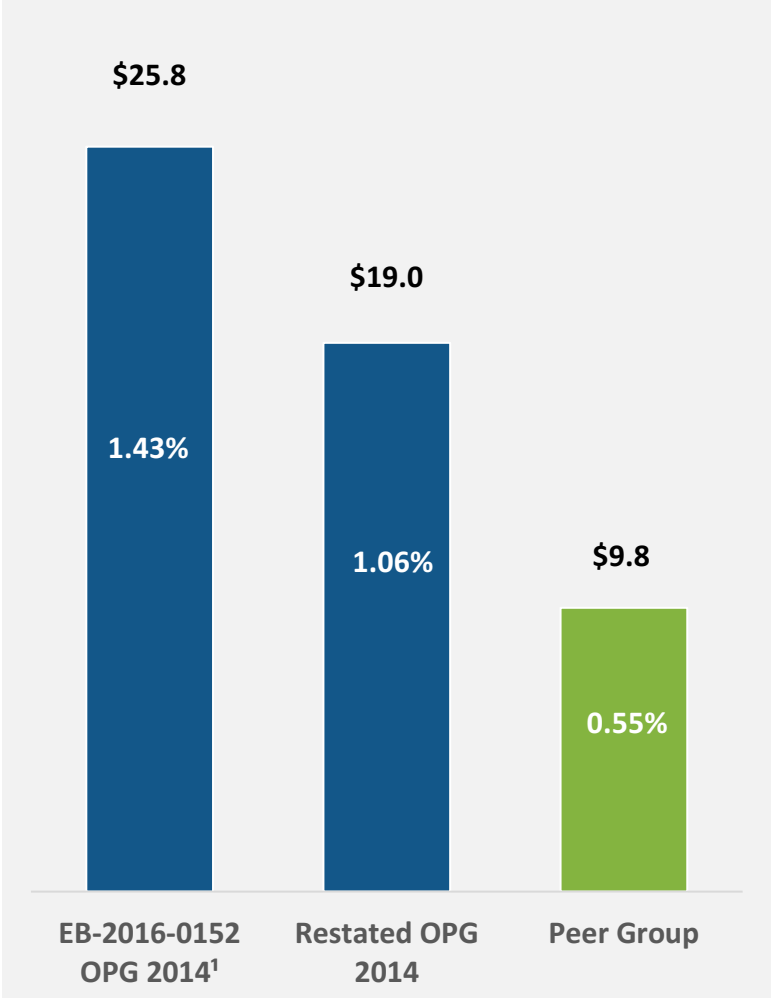
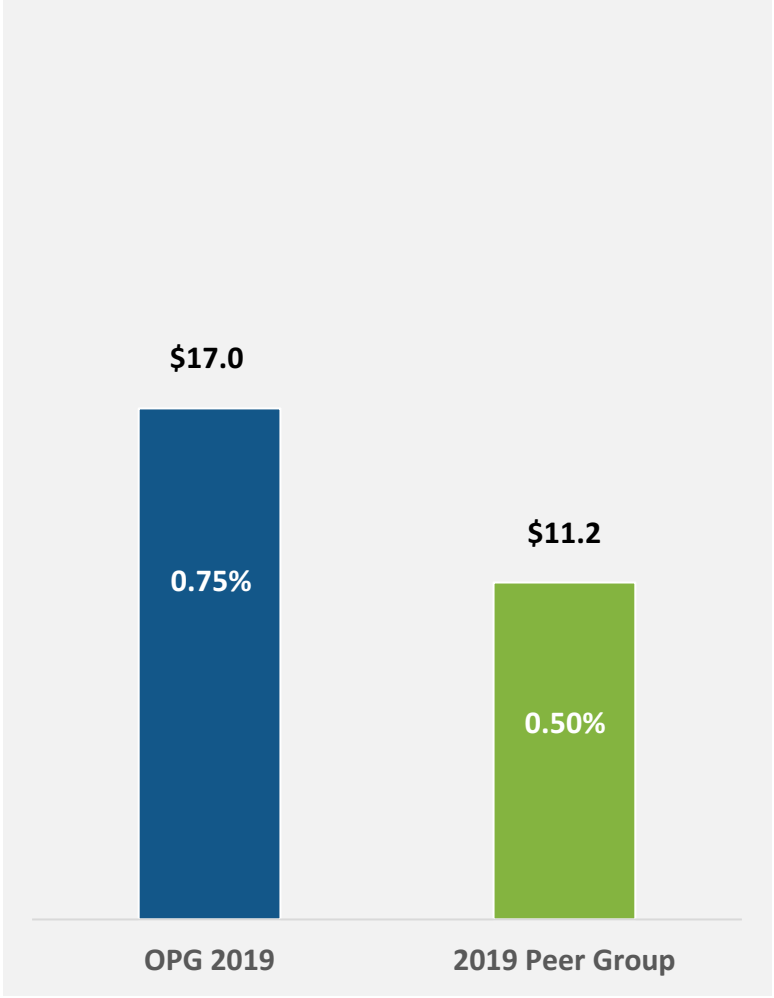
# Procurement Function

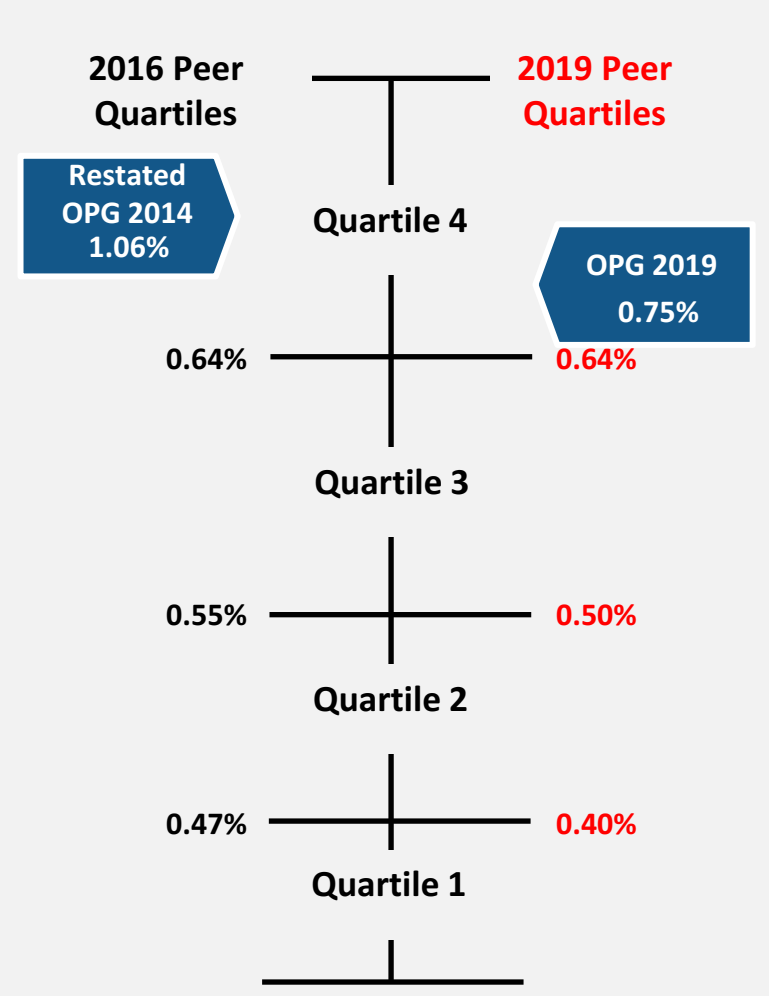
## Procurement Process Cost
in millions & % of Spend
(Restated 2016 Study)




## Procurement Process Cost
in millions & % of Spend
(2019 Study)




## Procurement Quartile Analysis vs. Peer Group as a % of Spend




[1]EB-2016-0152 OPG 2014 is a total cost that includes Technology and Other Cost on a per function basis

*Spend used as normalizer for peer data instead of revenue to align with Hackett methodology

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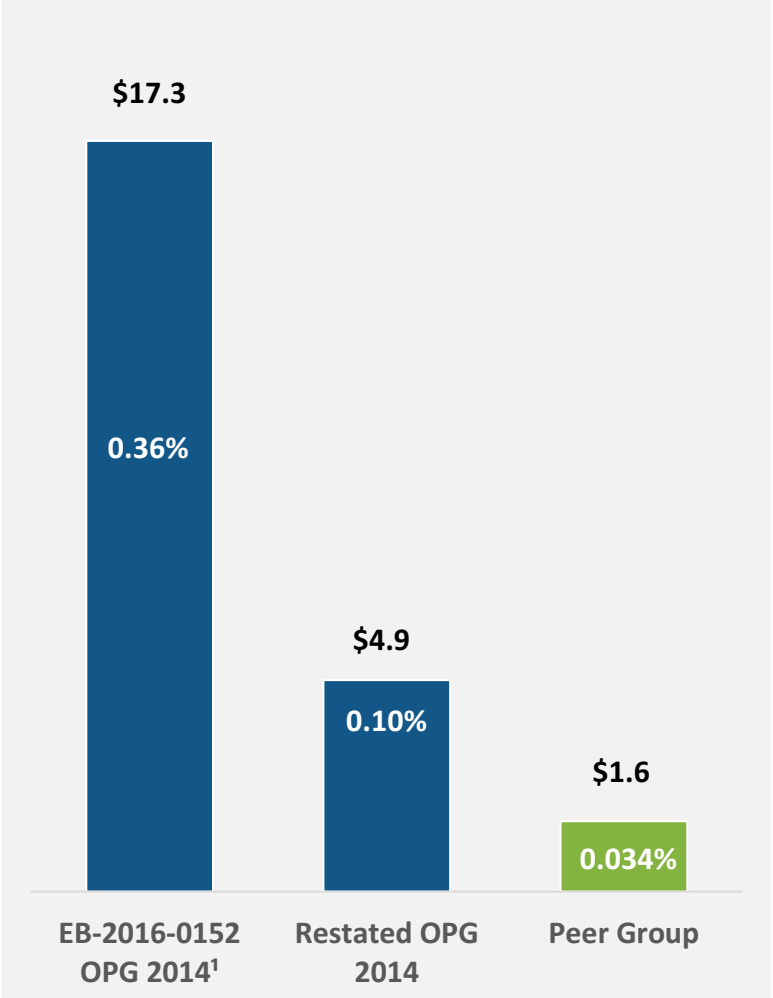
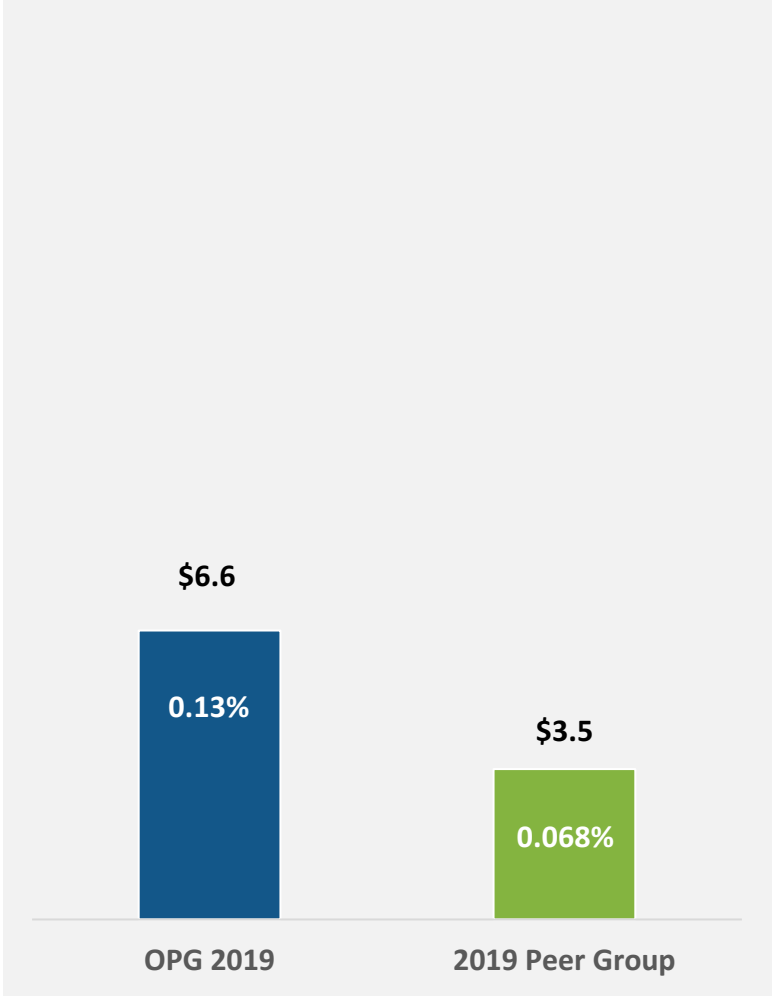
# Real Estate and Facilities Management Function

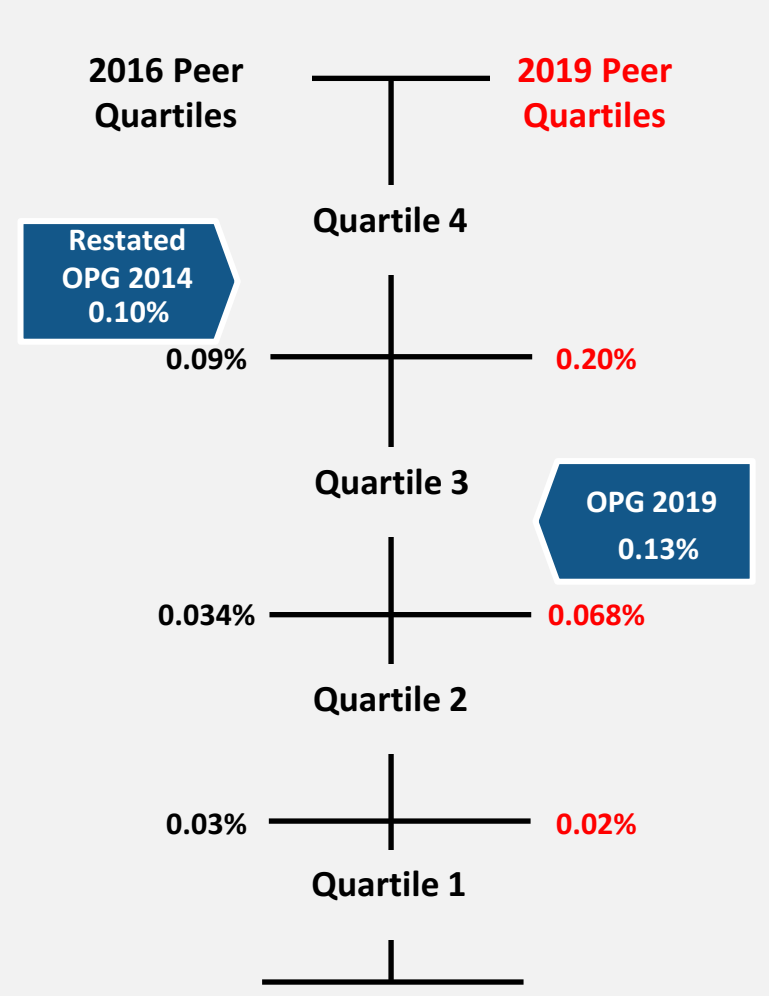
## Real Estate & Facilities Mgmt. Process Cost
in millions & as % of revenue
(Restated 2016 Study)




## Real Estate & Facilities Mgmt. Process Cost
in millions & as % of revenue
(2019 Study)




## Real Estate & Facilities Mgmt. Quartile Analysis vs. Peer Group as a % of Revenue




[1]EB-2016-0152 OPG 2014 is a total cost that includes Technology and Other Cost on a per function basis

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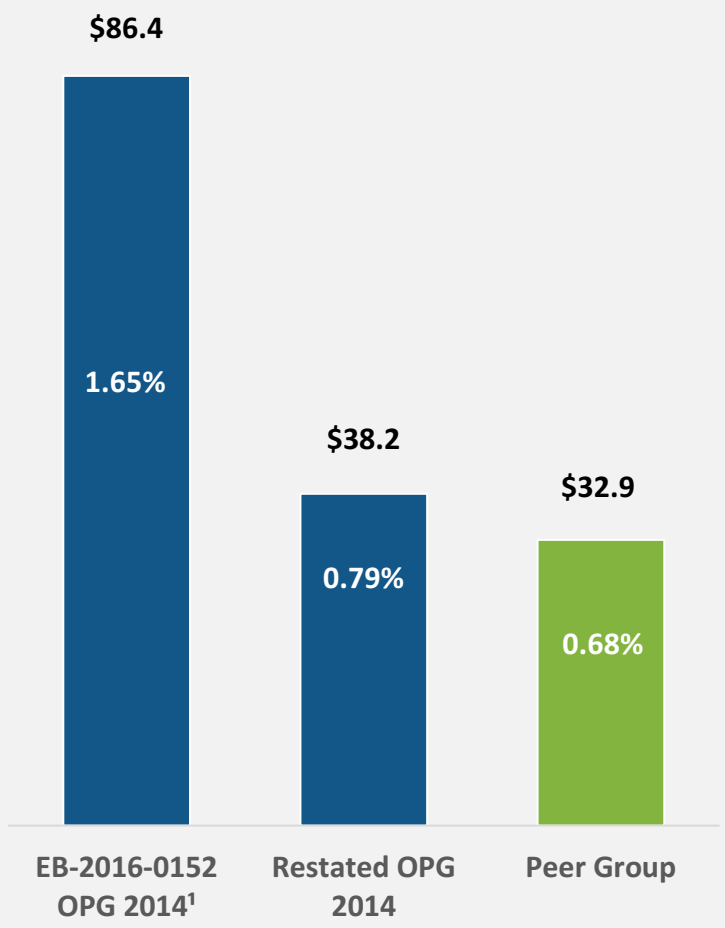
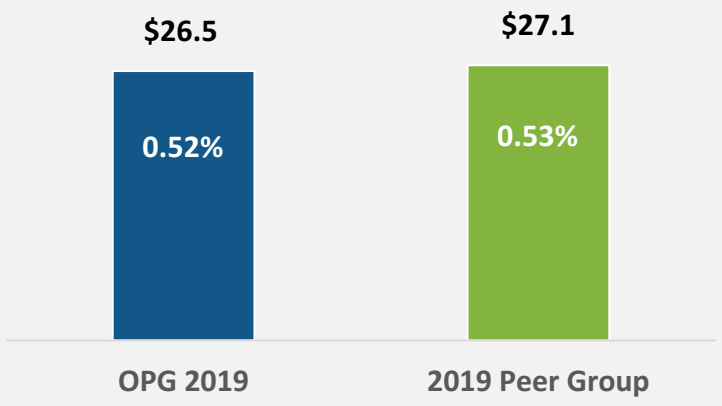
# Executive & Corporate Services Overall

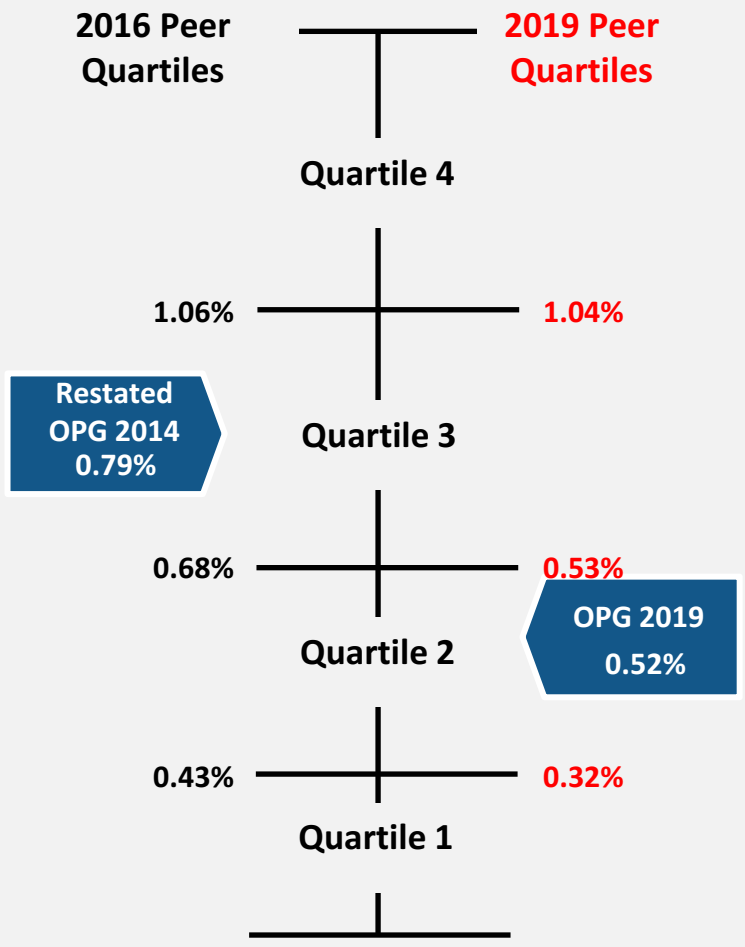
## ECS Process Cost
in millions & as % of revenue
(Restated 2016 Study)




## ECS Process Cost
in millions & as % of revenue
(2019 Study)




## ECS Quartile Analysis vs. Peer Group as a % of Revenue




[1]EB-2016-0152 OPG 2014 is a total cost that includes Technology and Other Cost on a per function basis

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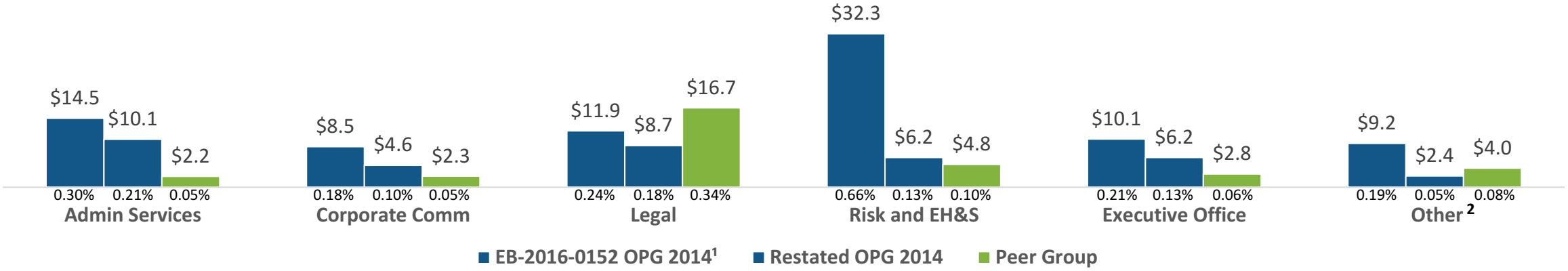
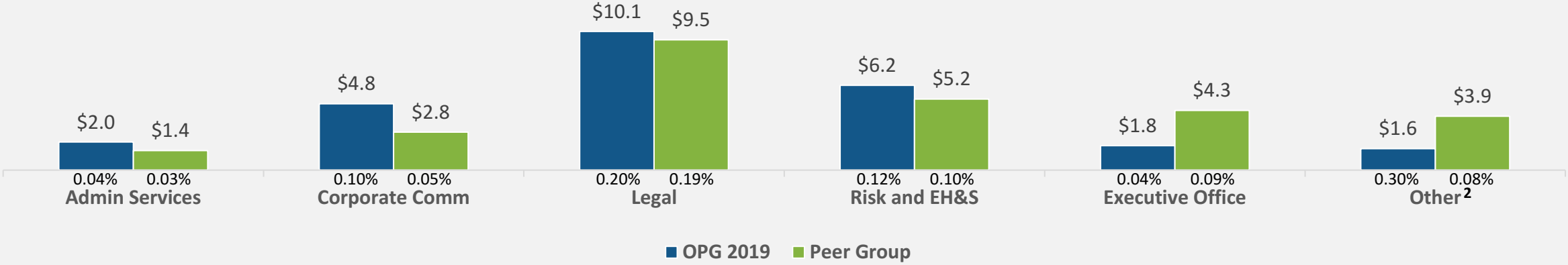
# Executive & Corporate Services (ECS) Function by Sub-Process

## ECS Process Cost by Sub-Process in millions & % of revenue (Restated 2016 Study)




## ECS Process Cost by Sub-Process in millions & % of revenue (2019 Study)

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[1]EB-2016-0152 OPG 2014 is a total cost that includes Technology and Other Cost on a per function basis

[2]Other includes Government Affairs and Planning & Strategy processes for the 2014 restated values and the 2019 values

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