# ALLOCATION OF SUPPORT SERVICES COSTS

## 1.0 PURPOSE

The purpose of this evidence is to describe the Support Services costs assigned and allocated to the nuclear business.

## 2.0 OVERVIEW

The centre-led Support Services discussed in this exhibit, which provide services to the nuclear business are: the Chief Information Office, Real Estate, Supply Chain, Finance, Human Resources, Environment, Health & Safety and the Corporate Centre. Section 3 discusses the Support Services costs. A description of Support Services by function is provided in Attachment 1.

In EB-2016-0152, the OEB directed OPG to file an updated corporate costs benchmarking study.[1] In response, OPG engaged The Hackett Group to perform an independent benchmarking study of OPG's corporate support functions and operating costs. This study identifies that, overall, OPG's total cost for the areas addressed is 8% below the median of the peer group total cost. An overview of the benchmarking study is provided in Section 4 and the full report is provided in Attachment 2.

Support Services costs are either directly assigned or allocated to the regulated businesses. OPG directly assigns costs that are specific to a business. For example, Support Services employees working at, and solely in support of, a business would be directly assigned to that business. Support Services costs that are associated with services utilized by more than one business are allocated. Cost allocation is based on appropriate cost drivers, which reflect cost causation or the benefits a business receives.

[1] EB-2016-0152, Decision with Reasons, p. 72.

The methods used to allocate costs are discussed in Ex. F3-1-4 and confirmed by Elenchus in Ex. F3-1-4, Attachment 1.

## 3.0 SUPPORT SERVICES COSTS – TOTAL OM&A

Exhibit F3-1-1, Table 1 summarizes the total Support Services costs over the 2016-2026 period. These costs reflect reductions achieved by OPG through a variety of initiatives since EB-2016-0152. Since then, OPG has realigned support organizations and implemented technology solutions to improve efficiency. This has also allowed OPG to meet demand for corporates services while leveraging attrition based on workforce demographics.

Various support organizations have also moved from organizing themselves along traditional business unit technology lines (i.e., nuclear and hydroelectric) toward organizations designed to capture common best practice elements found across the company. For example, in Finance, planning and reporting functions were established under an Operations Controller organization that services the whole company using common practices rather than having functions replicated for each generation technology. Also, as discussed in Ex. A2-2-1, OPG's most recent organizational realignment allowed OPG to eliminate over 10% of management positions, the benefits of which are carried through the IR term.

Between 2022 and 2026, OPG is planning to reduce the company's cost structure for post-Pickering operations as reflected in the business plan OM&A targets to be achieved over the IR Term (see Ex. A2-2-1). OPG's OM&A targets show reductions in Support Services costs in earlier years as cost savings initiatives are implemented to support efficiencies in centre-led functions and processes. Greater cost reductions occur in the later years in order to achieve OPG's targeted post-Pickering cost and organizational structure.

To that end, Support Services costs attributed to the nuclear business decline across all functions over the IR term, reflecting OPG's business plan commitments to mitigate the diseconomies that would otherwise result in the reallocation of Support Services costs currently tied to Pickering to Darlington and other remaining operations.

Allocated Support Services costs for nuclear are: $387.9M, $380.0M, $375.3M, $334.3M and $252.9M over the 2022-2026 IR term, as presented in Ex. F3-1-1, Table 3. Over the IR term, total nuclear Support Services costs decline by about 35%. Larger declines in the latter two years occur as OPG drives further cost reductions to align with two Pickering units coming offline by the end of 2024 and the planned Pickering shutdown at the end of 2025.

OPG expects that the reduction of costs in Support Services groups will be achieved by: (1) continuing to reduce its real estate footprint by investing in a new, sustainable corporate campus for OPG's non-plant employees (see Ex. D3-1-1, Section 2.2); (2) adopting solutions that will allow OPG to reduce headcount, including the increased use of business process automation and artificial intelligence (Ex. D3-1-1, Section 2.1); and (3) executing strategic sourcing and company-wide category management in the Supply Chain organization (Ex. F3-3-1). The ongoing realignment of organization structures to replicate best practices consistently across the business, which will allow Support Services to take advantage of natural attrition and plan for leaner operations in advance of nuclear units coming off line also will facilitate achievement of OPG's targeted post-Pickering cost and organizational structure.

OPG's Support Services Costs reflect the requirements of Bill 124: Protecting a Sustainable Public Sector for Future Generations Act, 2019, which limits the maximum annual increase in both wages and total compensation for OPG's unionized and non-unionized employees to 1% for a three year "moderation period," as further discussed in Ex. F4-3-1.

In line with its goal of preparing the workforce for the planned Pickering shutdown, OPG's staff resource plan forecasts a decrease in regular corporate staff (full-time equivalents ("FTEs")) allocated to nuclear over the IR term (Ex. F3-1-1, Table 7). To effectively manage the transition, however, OPG expects a slight increase in overall allocated labour (regular and non-regular FTEs) in 2020 and 2021, due to an increase in non-regular labour FTEs to address requirements for enhanced cleanings and safety measures in response to the COVID-19 pandemic; partially offset by a decline in regular labour. Non-regular labour FTEs will also address Support Services needs in support of Pickering shutdown, taking into account training time requirements and anticipated attrition leading up to the planned Pickering shutdown. Thereafter, during the period of 2022 to 2025, OPG expects labour (regular and non-regular) to decline.

The emergence of COVID-19 in 2020 impacted Support Services costs in a number of ways. Real Estate has engaged additional personnel to carry out enhanced cleaning protocols and safety measures at various sites in line with disinfection guidelines set by public health authorities. Supply Chain procured the company's initial shipment of N95 and surgical masks during the early stages of the pandemic. Environment Health and Safety assumed responsibility for subsequent purchases of personal protective equipment ranging from additional masks to thermometers for the remainder of 2020 and are expected to continue through 2021. CIO acquired additional software licenses and incremental hardware to enable the workforce, at various non-generating sites, to rapidly transition to working remotely in order to comply with social distancing requirements.

Exhibit F3-1-1, Tables 3a and 3b present the Support Services costs assigned and allocated to nuclear over the historical, bridge, and IR term periods for each corporate function. For comparability with IR Term information, OPG has restated the Corporate Support & Administrative costs from EB-2016-0152. These restatements reflect organizational changes and transfers to/from Nuclear Support and Renewable Generation & Power Marketing (formerly Hydro-Thermal Operations). Details of these changes include:

- CIO - Shared Financial Services (formerly in Finance), HR Service Centre and Payroll Services (both formerly in People & Culture), and Business Infrastructure Services (formerly in Real Estate) have been combined into Shared Services within Chief Information Office. An additional breakdown of CIO costs assigned and allocated to nuclear over the historical, bridge, and IR Term periods is provided in Ex. F3-1-1, Table 6, with Tables 6a and 6b showing the amounts in Table 6 split between Darlington and Pickering, respectively.
- Finance - now includes Assurance other than Nuclear Oversight (formerly in Corporate Centre), Enterprise Risk Management (formerly in Corporate Centre) and Integrated Revenue Planning (formerly in Commercial Operations & Environment).
- Human Resources (formerly People & Culture) - now excludes Nuclear Training, which has been transferred to Operations Support.
- Environment, Health & Safety - includes Environment (formerly in Commercial Operations & Environment) and Health & Safety (formerly in People & Culture).
- Corporate Centre - now includes Regulatory Affairs (formerly in Commercial Operations & Environment) and Indigenous Relations (formerly in Hydro-Thermal Operations. Corporate Centre now excludes Nuclear Oversight, which has been transferred to Operations Support. The Corporate Centre costs for the years 2020-2026 in Ex. F3-1-1 Table 1 reflect the current organizational structure underpinning the 2020-2026 business plan.
- Commercial Contracts, other than Commercial Services and Bruce Lease Management Office, and Electricity Sales & Trading (both formerly in Commercial Operations & Environment), have been combined into Energy Markets within Renewable Generation & Power Marketing. Commercial Services and Bruce Lease Management Office have been transferred to Operations Support.

## 4.0 BENCHMARKING STUDY

In EB-2016-0152, the OEB directed OPG to undertake an independent benchmarking study of corporate support functions and costs. The Hackett Group ("Hackett") was

retained to carry out this study. A copy of the "Hackett Study" is filed as Attachment 2 to this exhibit.

Hackett benchmarked OPG against peers using 2019 data in order to reflect the most recently completed fiscal year at the time of the benchmarking exercise. Corporate costs assigned and allocated to both nuclear and regulated hydroelectric businesses were included in the scope of the benchmarking study.

Consistent with their standard practice, Hackett normalized OPG's corporate costs based on key demand drivers for each function. For IT, number of end users was used to benchmark costs per end user. For HR, number of employees was used to benchmark costs per employee. For Procurement, spend was used to benchmark costs as a percentage of spend. For Finance, Real Estate, and Executive and Corporate Services ("ECS"), revenues were used to benchmark costs as a percentage of revenues.

In providing data to Hackett, OPG closely followed Hackett's methodology, cost definitions and taxonomy to ensure OPG's corporate support functions and costs were benchmarked against peers on a comparable basis. OPG's data was reviewed by Hackett.

In the course of providing data to Hackett, OPG and Hackett became aware that in connection with the study previously prepared by Hackett in 2016, based on 2014 data (filed in EB-2016-0152 at Ex. F3-1-1, Attachment 1), OPG had erroneously included certain costs that do not form part of Hackett's taxonomy. These costs had a material, negative impact on OPG's 2016 benchmarking results as presented in EB-2016-0152.

As a result of the above data issue, OPG worked with Hackett to correct the previously submitted 2014 data to more accurately align OPG's 2014 costs with the Hackett methodology, definitions and taxonomy. Hackett then restated its previous OPG benchmarking study using the corrected cost data. The results of this update are also

shown in the Hackett Study. OPG's 2014 overall costs, based on Hackett's updated study, were 7% lower than the peer group based on these corrected results.

The 2019 Hackett Study found that on an overall basis, OPG's cost (including both Process Costs and Technology Costs[1]) is 8% lower than the median of the peer group. The 2019 study demonstrates that:

- OPG's IT cost, including technology cost, across all in-scope functions, is lower than the median of the peer group and remains in the first quartile.
- ECS process costs are in the second quartile, below the median of the peer group, an improvement from the third quartile in the 2016 updated study.
- Real Estate & Facilities Management costs exceed the peer group median, but OPG has reduced its costs while the peer group's costs have increased since 2016. OPG's cost performance has improved from the fourth to the third quartile.
- Finance and HR process costs both are marginally above the median of the peer group. Compared to the 2016 updated study, OPG's Finance process costs improved relative to the peer group median, OPG's costs decreased while those of the median increased. HR also shows some improvement as its cost increased less that those of the peer group median. Both groups remain in the third quartile.
- Procurement process costs show improvement as OPG's costs decreased while those of the peer group median increased. Nevertheless, OPG's results remain in the fourth quartile.
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Overall, OPG is successfully "bending the cost curve." OPG's functional costs decreased by 6.0% and the peer group's costs increased 13.0% since the 2016 study.

## 5.0 CONCLUSION

OPG's Corporate Support and Administrative Cost allocated to nuclear decline over the IR Term as the result of corporate realignment, corporate initiatives to leverage process improvements and technology and the use of workforce strategies that recognize the

[1] All technology costs are captured within IT.

upcoming transformation from Pickering shutdown. The decline in support costs allocated to nuclear is substantial in the latter years of the IR term as OPG advances toward and then enters a post-Pickering operating state.

The benchmarking of OPG's corporate support function costs shows, overall, that OPG's costs are lower than the median of the peer group by 8%. Moreover, OPG's cost trend is significantly more favourable than that of the peer group. While OPG's benchmarked costs have declined 6.0% since the last benchmarking study, those of the peer group have increased by 13.0%.

## ATTACHMENTS

Attachment 1: Description of Corporate Support Functions

Attachment 2: Benchmarking Study of OPG's Corporate Support Functions and Costs prepared by The Hackett Group