Ontario Power Generation Human Resources

Background

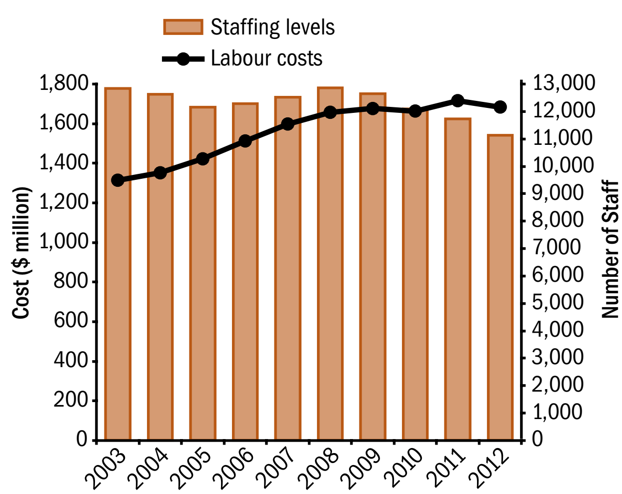
Ontario Power Generation (OPG), a corporation wholly owned by the province of Ontario, was established in April 1999 as one of the five successor companies to Ontario Hydro. Most of OPG's revenue is regulated by the Ontario Energy Board, which regulates Ontario's natural gas and electricity sectors in the public interest. To the extent that OPG's revenues exceed its expenses, any excess, if sufficient, goes toward paying down the stranded debt that remained when Ontario Hydro was split up.

OPG has a generating capacity of more than 19,000 megawatts, making it one of the largest power generators in North America. It produces about 60% of the province's power at its three nuclear stations, five thermal stations, and 65 hydroelectric stations. However, the amount of power that OPG produces has decreased by 23% over the last decade (from 109 terawatt hours in 2003 to 84 terawatt hours in 2012), with the reduction in demand for electricity, closure of coal plants and more private-sector involvement in new power generation.

OPG has been facing considerable challenges in recent years in trying to improve its operational efficiency and reduce its operating costs, especially labour costs. As Figure 1 shows, OPG's labour costs in 2012 were about $1.7 billion, which accounted for about 64% of its total operations, maintenance and administration (OM&A) costs. About 90% of OPG's employees are represented by two unions: the Power Workers' Union (PWU) and the Society of Energy Professionals (Society). As Figure 1 also shows, staffing levels at OPG have dropped by 13% over the past 10 years (from about 12,800 employees in 2003 to about 11,100 in 2012). This came mainly from a reduction in non-regular (temporary and contract) staff; regular staffing levels have remained relatively stable at around 11,000.

Figure 1: Staffing Levels* and Labour Costs at OPG, 2003–2012

Source of data: Ontario Power Generation



* These numbers represent year-end staffing levels. They include regular staff and non-regular (temporary and contract) staff but exclude nuclear security staff for reasons of confidentiality.

Audit Objective and Scope

The objective of our audit was to assess whether Ontario Power Generation (OPG) has adequate procedures and systems to:

- ensure that its human resources are acquired and managed with due regard for economy and efficiency, and in accordance with applicable policies, legislative requirements, contractual agreements and sound business practices; and
- measure and report on its results in this regard.

This objective along with our audit criteria were agreed to by senior management at OPG. In conducting our audit, we reviewed applicable policies, files and studies; analyzed data; and interviewed appropriate staff at OPG, the Ministry of Energy and the Ontario Energy Board. OPG had not conducted an employee engagement survey since 2009, so we conducted an anonymous survey of more than 800 non-unionized staff with a response rate of more than 80%. The objective of the survey was to identify common employee concerns about OPG's human resources practices. We did not survey unionized staff as OPG was in collective bargaining with one of the unions at the time of our audit work.

Most of our audit work took place at OPG's corporate office in Toronto, but we also visited power stations and regional offices at Pickering, Darlington, Kipling, Niagara Falls, Whitby and Ajax. As part of our cross-jurisdictional study of government-owned utility organizations in North America, we visited the Tennessee Valley Authority (TVA), whose organizational structure and operations are similar to those of OPG.

We reviewed the work of internal audit in the Ministry of Energy and OPG in planning our audit. We also engaged an independent consultant with expertise in human resources in the energy sector.

Summary

Over the last decade, the amount of electricity OPG generates has been declining, mainly because of reduced demand, coal plant closures and more private-sector involvement in new power generation. Despite the declining demand, electricity prices have been rising in Ontario. Given that OPG still generates about 60% of Ontario's electricity, its operating costs have a significant impact on the cost of electricity, as well as on OPG's profitability, which in turn affects how quickly the legacy debt of the former Ontario Hydro can be paid off.

About two-thirds of OPG's operating costs are human resources-related. It is therefore critical that OPG's human resources expenditures be effectively managed. OPG's operational efficiency has been the subject of many internal and external reviews and studies. Most of these reviews have identified concerns over high staffing and compensation levels.

Recognizing these concerns, OPG initiated a Business Transformation project in 2010. Its target is to reduce staffing levels by 2,000 employees through attrition by 2015. Between January 2011 and the end of our audit fieldwork in April 2013, OPG had reduced its staff by about 1,200 employees. Although OPG projects that it will meet its target by the end of 2015, with the number of staff it needs to operate expected to drop by almost 50% by 2025, we believe it will continue to face significant challenges in making necessary adjustments.

OPG has started to make some progress in reducing its overall staffing levels and labour costs. However, we found several areas where its human resource management practices need further improvement if it is to achieve its Business Transformation objectives. In addition to high staffing and compensation levels, the areas that particularly concerned us were recruitment practices, performance management, succession planning, outsourcing arrangements, overtime usage, absenteeism and staff training. The respondents to our anonymous survey of over 800 OPG staff echoed many of our concerns. Some of our key audit findings were as follows:

- OPG's overall staffing levels have gone down by 8.5% (from about 12,100 in 2005 to 11,100 in 2012), but the size of its executive and senior management group (directors, vice presidents and above) has increased by 58% (from 152 in 2005 to 238 in 2012). Many respondents to our survey questioned the rationale of reducing overall staffing levels while creating a "top-heavy" organization.
- OPG rehired some of its former employees, mainly for the purpose of identifying, grooming and training successors. Almost all were rehired shortly after leaving OPG. Some continued to receive significant amounts in allowances and Annual Incentive Plan (AIP) awards, and some had already drawn their pensions in single lump-sum payments upon leaving. Many respondents to our survey felt that this was an indication of knowledge transfer and succession planning at OPG not keeping pace with attrition and retirement.
- OPG has reduced staffing levels at its nuclear facilities since 2011. Even after cuts, one of the most overstaffed areas in 2013—facility maintenance, janitorial and custodial services—was still 170% (or 187 staff) above the industry benchmark based on data from other nuclear operators in North America. Some operational functions continue to be understaffed while their associated support functions continue to be significantly overstaffed. For example, in 2013 the staffing level for nuclear plant operations was 8% (or 51 staff) below the benchmark, while support staff for this area was 82% (or 143 staff) above the benchmark.
- Although OPG has adequate policies and procedures in place to govern its recruitment and security clearance processes, we identified areas of non-compliance:
    - About 700 pairs or groups of OPG employees reside at the same address and are likely related. In some cases, OPG had no documentation to show whether family members of existing staff had been hired through the normal recruitment process. In other cases, family members were given jobs although they had not appeared on any interview shortlists following the pre-screening processes.
    - All OPG employees are required to obtain a security clearance and renew it every five years. However, more than 50% of the OPG staff in our sample, including senior staff with access to confidential nuclear information, either had never obtained security clearances or were working with expired clearances.
- We found a number of cases between 2005 and 2012 where the annual base salaries of non-unionized staff exceeded the maximum set out in the base salary schedule by more than $100,000, and in one case in 2005 and 2006 by more than $200,000. OPG told us that before 2010 it had treated the maximum as a guideline rather than a limit, and had approved and implemented salary increases before the 2010 pay freeze legislation.
- OPG gives Annual Incentive Plan (AIP) awards to all non-unionized employees. The awards can range from $1,600 to about $1.3 million, depending on the employee's job band, base salary level and the score achieved on a scale of "0" (lowest, with no award) through "4" (highest). Therefore, a senior executive in job band A, B or C, for example, would receive an award of 45% to 100% of his or her base salary for a score of "2," and 55% to 150% for a score of "3" or "4." On average, we found that from 2010 to 2012, 67% of executive and senior management staff received high scores ("3" or "4") while only 24% of staff in lower job bands achieved them. Many respondents to our survey felt that there was a lack of transparency in

scoring and that it has been in favour of staff in senior positions. We also found in our review a number of cases with limited documentation to support the score achieved.

- OPG engaged a consultant to conduct a compensation benchmarking study in 2012, which found that base salary, cash compensation and pension benefits for a significant proportion of staff were excessive compared to market data. Our analysis showed that total earnings were significantly higher at OPG than total earnings for comparable positions in the Ontario Public Service (OPS), and many of OPG's senior executives earn more than most deputy ministers.
- OPG has contributed disproportionately more to its pension plan than its employees have. Since 2005, the employer–employee contribution ratio at OPG has been around 4:1 to 5:1, significantly higher than the 1:1 ratio at OPS. OPG is also solely responsible for financing its pension deficit, which was about $555 million in its latest actuarial valuation.
- OPG provides numerous employee benefits, such as relocation benefits and meal and travel allowances, some of which we found questionable. For example, an employee who transferred to another office received over $392,000 in housing and moving allowances and related reimbursements from OPG, on top of the proceeds of $354,000 from the sale of his old residence. Another employee who moved further away from his new work location received over $80,000 in 2011 and 2012.
- OPG incurred losses on 95 of the 98 purchase guarantees it offered to employees whose properties had not sold within a 90-day listing period, resulting in a total loss of about $2 million between January 2006 and April 2013.
- OPG has been outsourcing its IT services to the same private-sector vendor since 2001, when it conducted a competitive process and signed a 10-year, $1-billion contract with the vendor. Under this contract, OPG transferred about 700 IT staff to the vendor. In 2009, OPG decided to end the contract early and renew it with the same vendor without competition for a term of six years and four months at $635 million. In awarding a contract of this size on a single-source basis, OPG has not taken advantage of the benefits of open competition, which can help demonstrate fairness and accountability, ensure value for money, eliminate the risks associated with over-reliance on a single supplier, and minimize the perception of conflict of interest.
- OPG's total overtime costs were about $148 million in 2012. Although they have declined somewhat in recent years, the number of OPG employees earning more than $50,000 in overtime pay has doubled since 2003, from about 260 to 520 in 2012. Planned outages have resulted in high overtime pay, especially for inspection and maintenance (I&M) technicians. During outages, I&M technicians who are regular day-workers are placed on different schedules and their normal base hours are shown as unpaid leaves while the hours they work are considered overtime and paid at a rate of 1.5 or 2 times their base pay. In 2012, the average overtime pay earned by OPG's 180 I&M technicians was more than $66,000 each. The perception of many respondents to our survey was that poor planning and scheduling led to unnecessary overtime.
- OPG monitors its nuclear training on a regular basis, but it needs to act on previously identified ways to improve the quality of its training programs, and review the nature and timing of its mandatory training for staff in its hydro/thermal unit.

OVERALL ONTARIO POWER GENERATION RESPONSE

Ontario Power Generation (OPG) is committed to continuous improvement. We regularly benchmark against the performance of our peers and invite scrutiny to help us further improve. OPG welcomes the Auditor General's audit as an opportunity to strengthen our policies and implement recommended improvements.

To enable OPG to continue to be the lowest-cost generator of electricity for Ontarians, a multi-year Business Transformation initiative was launched in 2010, with the specific objectives of reducing labour costs and creating a sustainable cost structure by implementing over 120 key improvement initiatives. OPG continues to moderate consumer electricity prices, as it currently produces 60% of Ontario's electricity at an average price that is 45% below the average price received by all other electricity generators in Ontario.

Our Business Transformation successes to date include:

- headcount reductions of 1,350 from January 2011 to August 2013 (a further reduction of 150 since April 2013), with a target of 2,000 over the 2011–15 period;
- a forecast productivity (production/headcount) improvement of 11% over 2011–15; and
- a significant decrease in the overall management compensation, and employee business travel and expenses, since 2008.

A review of OPG's cost-saving opportunities conducted by a consulting firm concluded that "OPG has employed a systematic and structured approach to developing a company-wide transformation plan."

The Auditor General conducted an employee survey and noted that the majority of the responses were favourable with some exceptions, recognizing that the survey was conducted during a period of significant reorganization when employees were experiencing uncertainty and stress.

We acknowledge that the findings of the Auditor General demonstrate a need to improve diligence and further tighten controls in some areas of our company and our culture. OPG is committed to taking actions that will strengthen and further ensure that its human resources practices are managed with due regard for economy and efficiency, and in accordance with applicable legal requirements. OPG has a Code of Business Conduct policy and will follow up on any exceptions identified in the report. OPG will report to the Office of the Auditor General the actions taken to address the report's recommendations, as we did with respect to the Auditor General's 2006 audit of OPG's Acquisition of Goods and Services.

OPG will continue to pursue its Business Transformation initiatives to deliver value to its shareholder and Ontario ratepayers.

Detailed Audit Findings

STAFFING LEVELS AND RECRUITMENT

The Ontario Energy Board (OEB), which regulates the power produced by OPG's nuclear and major hydro stations, raised concerns about overstaffing at OPG in its March 2011 decision on OPG's rate application, stating that "although collective agreements may make it difficult to eliminate positions quickly, it is not reasonable to ratepayers to bear these additional costs in face of strong evidence that the positions are in excess of reasonable requirements." While OPG has started to reduce its staffing levels, given its projected decreases in the amount of energy it will produce, it will face significant challenges in further reducing its staffing levels in the coming years. We also found several areas for improvement in OPG's recruitment practices.

Business Transformation

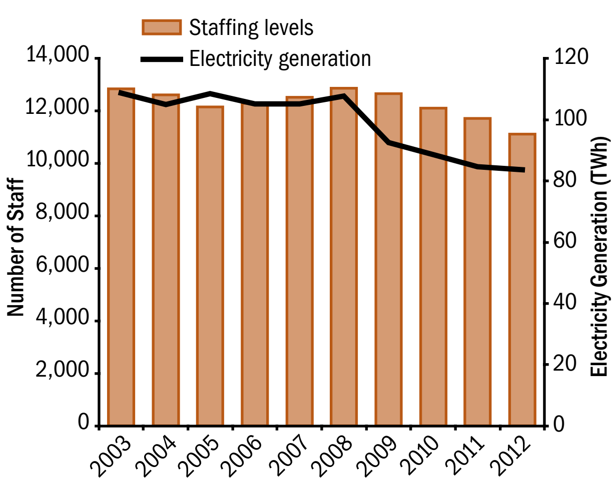
With the reduction of electricity demand, closure of coal plants and more private-sector involvement in new power generation, the amount of electricity generated by OPG has been decreasing steadily. The decline has been sharpest over the past four years, dropping 22%, or from 108 terawatt hours in 2008 to 84 terawatt hours in 2012. Over the same period of time, the number of staff at OPG has decreased by 13%, from about 12,800 employees in 2008 to about 11,100 in 2012 (see Figure 2).

OPG's projections show that the amount of electricity it needs to produce will continue to decrease (see Figure 3). Therefore, the number of staff needed to operate, maintain and support its business activities is expected to drop significantly from 2013 to 2025—by close to 50%. As a result, OPG will need only about 5,400–7,000 staff by 2025. In response to these projections, OPG has initiated a Business Transformation project that is expected to reduce its staffing levels through organizational restructuring over a five-year period (2011–15) and save about $700 million. OPG's target is to reduce the number of its staff by 2,000, going from 11,640 in January 2011 to 9,640 by December 2015.

At the end of our audit fieldwork in April 2013, OPG had about 10,400 staff—a reduction of about 1,200 since January 2011. OPG projected that at its current rate of reducing staff it would meet its staff

Figure 2: Electricity Generation and Staffing Levels* at OPG, 2003–2012

Source of data: Ontario Power Generation



* These numbers represent year-end staffing levels. They include regular staff and non-regular (temporary and contract) staff but exclude nuclear security staff for reasons of confidentiality.

reduction target by the end of 2015. Beyond 2015, OPG plans to make further organizational changes and assess whether it needs to reduce staffing levels by a further 500 employees as part of its 2016 business planning.

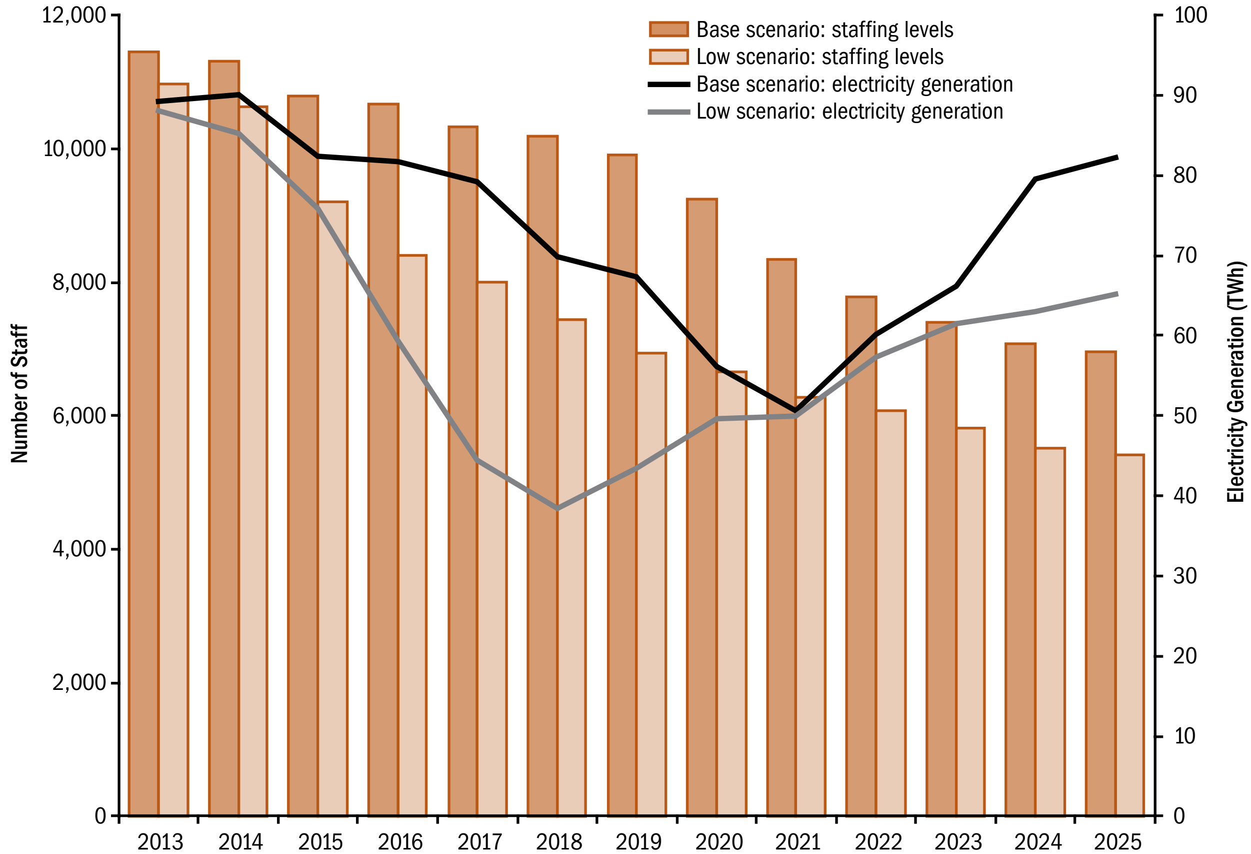
To avoid having to offer staff costly severance packages, the reductions are to take place through attrition (gradually reducing staff through retirement or resignation) and redeployment (relocating staff to areas where they are required) rather than layoffs. OPG informed us that it decided not to lay off staff en masse because a large number of staff are eligible to retire between 2011 and 2015 and because layoffs would pose difficulties in a unionized environment. For example, the collective agreements in place not only give first refusal for voluntary job termination by seniority, they also provide a displacement right that allows a senior staff member to take over the job of a junior staff member instead of being laid off. If unionized staff exercised those rights, OPG would bear severance costs for junior staff as well as relocation and retraining costs for senior staff. In addition, with many people eligible to retire, staff might stay to take advantage of severance packages equivalent to a maximum of 24 months' salary in the event of a layoff announcement. This would curtail the rate of staff leaving through attrition.

OPG told us that to achieve its staff reduction target and sustain its operations with fewer staff, it has introduced 120 initiatives to improve efficiency and eliminate unnecessary work. OPG also informed us that there is no direct correlation between specific initiatives and attrition—the positions vacated will not match up exactly to the areas in which work has been eliminated.

Although OPG informed us that staff who leave through attrition do not receive packages, we noted that its staff reduction in recent years has still cost a significant amount. There has been a fourfold increase in total severance and termination costs (from about $4 million in 2009 to about $17 million in 2012). The two key components of these costs are retirement bonuses (equivalent to one month

Figure 3: Projected Electricity Generation* and OPG Staffing Levels, 2013–2025

Source of data: Ontario Power Generation



* Projections were prepared by OPG at the end of 2010. Both scenarios assume that all coal production will cease by 2014, that the Darlington refurbishment will begin in 2016 and that hydroelectric projects will proceed as planned. Variations between the scenarios relate to the timing of the nuclear new build, the length of time the Pickering nuclear facility will remain in operation, and the number of thermal units being converted to biomass or gas.

of base pay for unionized staff and three months of base pay for non-unionized staff) and severance pay, which employees negotiate with management along with input from the legal department. In addition, under the *Pension Benefits Act*, employees can choose to receive their pensions in one lump sum as long as they are eligible for early retirement or they resign before age 55. Our review noted that some employees who received lump-sum payouts were rehired by OPG shortly after they retired or resigned (see the section on Rehiring Former Employees as Temporary or Contract Staff).

Respondents to our employee engagement survey generally felt the intention of Business Transformation was valid but raised some concerns about its execution, for example:

- Business Transformation came too late—it should have started much sooner for the financial health of OPG.
- It has been under way for two years but limited practical changes have been made.
- It has put too much focus on staff reduction and not paid enough attention to developing a succession plan, deploying the right people to the right places and reducing workloads.
- The collective agreements and the “culture of entitlement” among staff have restricted OPG from making many changes through Business Transformation.
- There was no consultation to obtain input from all staff before Business Transformation was rolled out, and there has been a lack of

meaningful, informative and effective communication to employees about Business Transformation since rollout.

- "Working in silos" has led to a lack of engagement, commitment and buy-in from OPG employees in response to Business Transformation.

Staffing Levels for Executives and Senior Management

In the rate application it submitted to the OEB in 2007, OPG indicated that it had made changes since 2004 "to signal a return to a more public-sector employment situation." One of these changes was reducing the number of executives at OPG. However, we noted that this has not been the case in recent years.

Despite the overall reduction OPG has recently made to its staffing levels, the size of its executive and senior management group (directors, vice presidents and above) has moved in the opposite direction. Figure 4 shows the overall number of staff has decreased from about 12,800 in 2003 to 12,100 in 2005 and 11,100 in 2012, a reduction of 8.5% since 2005. However, the number of executives and members of senior management dropped initially from 173 in 2003 to 152 in 2005 but went up again to 238 by 2012, an increase of 58% since 2005. Specifically:

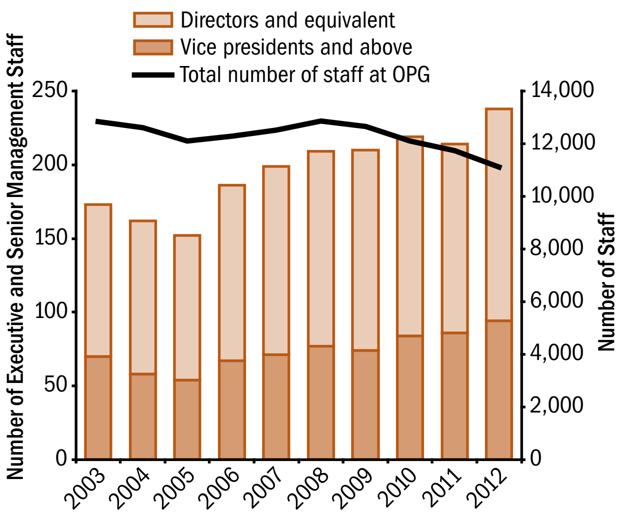
- The number of executives (vice presidents and above) dropped from 70 in 2003 to 54 in 2005 but increased to 94 by 2012—an increase of 74% since 2005.
- The number of senior management staff (directors and equivalent) decreased from 103 in 2003 to 98 in 2005 but increased to 144 by 2012—an increase of 47% since 2005.
- The most obvious jump occurred in 2012, during Business Transformation. Nine vice presidents and 21 directors left OPG that year, but 17 employees were promoted to VPs and 50 to directors, indicating that many of the promotions were for newly created positions rather than to fill vacant positions. OPG informed us that the new positions were part of Business Transformation and for nuclear refurbishment.

We also found that the number of vice presidents and directors with no specific titles or job descriptions has increased considerably, from 12 in 2005 to 40 in 2012. OPG explained that some employees were not assigned specific titles or portfolios because they were working on special projects without job descriptions, or their job descriptions were still being written.

Many of the respondents to our survey questioned the rationality of reducing overall staffing levels while creating a "top-heavy" organization. They felt that the only visible change brought about by Business Transformation was numerous promotions to expand the size of the executive and senior management group. They also felt that promotions had been made hastily with no transparent selection process and had been communicated poorly, creating ill feeling and mistrust among employees.

Figure 4: Number of Staff* vs. Number of Executives and Senior Management Staff at OPG, 2003–2012

Source of data: Ontario Power Generation



* These numbers represent year-end staffing levels. They include regular and non-regular (temporary and contract) staff but exclude nuclear security staff for reasons of confidentiality.

Benchmarking of Staffing Levels at Nuclear Facilities

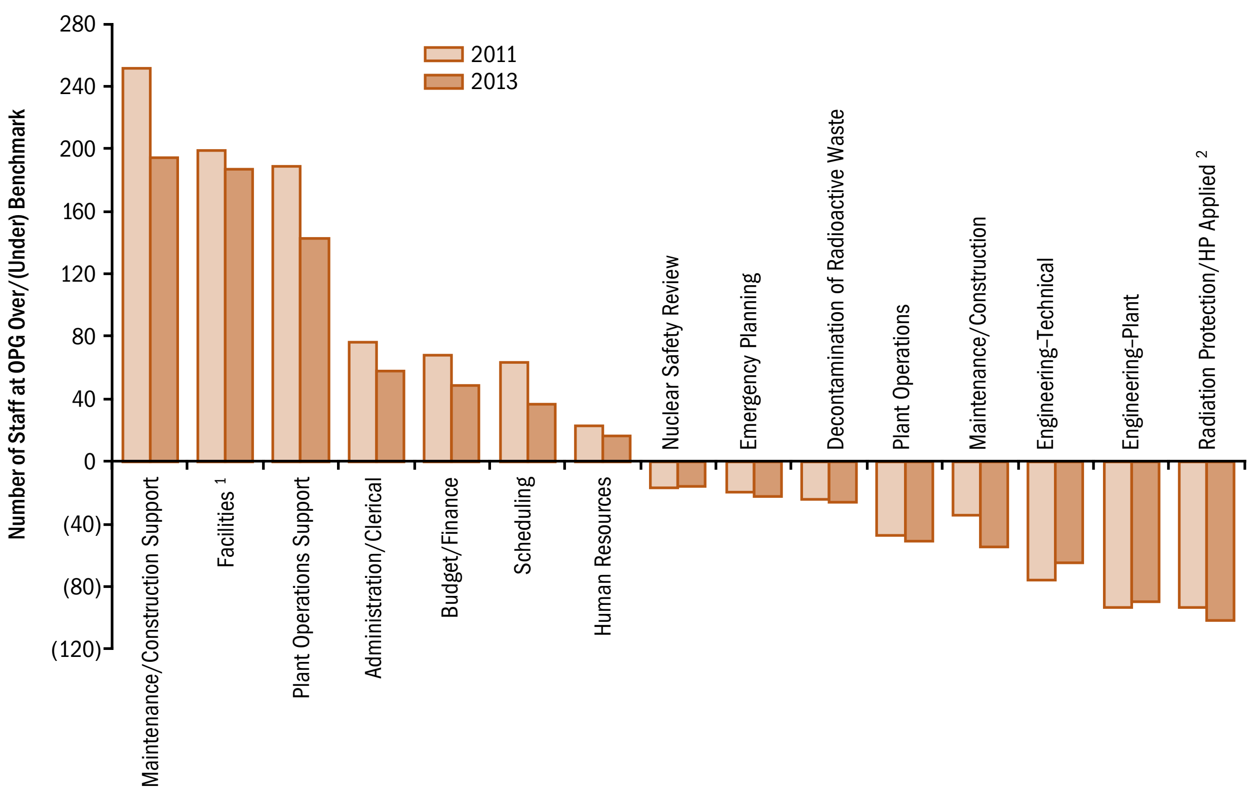
OPG has been under increasing scrutiny from the OEB to demonstrate that its operations are in line with those of other nuclear stations across Canada and in the United States. In its March 2011 decision, the OEB directed OPG to submit in its next rate application a study comparing staffing levels at its nuclear facilities with industry benchmark data from other nuclear operators in North America.

OPG engaged a consultant who produced two reports for OPG's management to measure and report on whether OPG's nuclear staffing level was in line with comparable organizations. The first, issued in February 2012, noted that OPG's nuclear staffing level was 17% (or 866 employees) higher than the benchmark in 2011, with 23 overstaffed areas and 14 understaffed areas. OPG informed us that it has since adjusted its staff reduction target to address the imbalances. In the second report, issued on the last day of our audit fieldwork in April 2013, the consultant found that OPG's nuclear staffing level was 8% (or 430 employees) above the benchmark, with 23 overstaffed areas and 16 understaffed areas.

Figure 5 shows selected functional areas identified as over- or understaffed in the two studies. Both benchmarking studies found that the overstaffed areas related mainly to support functions (for example, general maintenance, administrative support and human resources) while the understaffed areas related mainly to operational functions (for example, maintenance/construction, plant operations, engineering, emergency planning and safety). We noted that several operational functions were understaffed while their

Figure 5: Selected Areas Identified as Overstaffed/Understaffed at OPG by Nuclear Benchmarking Studies

Source of data: Ontario Power Generation



1. "Facilities" refers to general maintenance and custodial services, such as cleaning and changing light bulbs.

2. "HP" is an acronym for health physics, the physics of radiation protection.

associated support functions were overstaffed. For example, in 2013, Maintenance/Construction was 6% (or 55 staff) under the benchmark, but Maintenance/Construction Support was 78% (or 194 staff) above it. Similarly, Plant Operations was 8% (or 51 staff) below the benchmark while Plant Operations Support was 82% (or 143 staff) over the benchmark in 2013. A similar pattern was shown in 2011.

One of the most overstaffed areas, Facilities (general maintenance, janitorial and custodial services), has improved only slightly. It went from being 173% (or 199 staff) above the benchmark in 2011 to 170% (or 187 staff) above it in 2013. Other key understaffed areas have shown limited or no improvement. For example, staffing levels in the Engineering–Technical and Engineering–Plant areas remained almost unchanged in 2013, still about 30% below the benchmark.

Recruitment Practices and Requirements

Although we found that OPG had adequate policies and procedures in place to govern its recruitment practices, it did not always follow them. We found non-compliance in several areas.

Hiring Process

We identified about 700 pairs or groups of OPG employees (about 1,400 staff, or more than 10% of OPG employees) who resided at the same address, indicating that they were most likely family members. OPG has no policy prohibiting the hiring of family members so long as proper recruitment practices are followed: family members of the prospective employee cannot be involved in the hiring decision and family members should not be in reporting relationships with one another. We reviewed the personnel files for a sample of 20 pairs or groups and found that it was not evident whether proper recruitment processes had been followed for half the employees in the sample. Specifically:

- Four of the employees were offered jobs although their names had never appeared on interview shortlists following the pre-screening process.
- Another four employees had no documents in their files to show whether they had been hired under the normal recruitment process.
- Two other employees had been hired as temporary staff based on referrals without going through the normal recruitment process and were later offered permanent jobs on the basis of their temporary work experience.

Security Clearance Requirement

All employees are required to obtain security clearances before commencing work with OPG and must renew them every five years. There are three types of security clearance:

1. **Standard**: A Criminal Record Name Check (CRNC) must be completed for staff from hydro/thermal and corporate support units, as well as contractors working in nuclear units for a specific timeframe but with no access to protected areas or nuclear information.
2. **Site Access**: In addition to a CRNC, a Canadian Security Intelligence Service check and verification of employment and education must be completed for staff from nuclear units as well as for some other employees with access to nuclear information.
3. **Level II (Secret)**: All the checks in a site access clearance plus a financial credit check must be completed for staff with access to information classified as "secret" by the federal government.

We reviewed security clearances initiated by OPG during a five-year period, from January 2008 to December 2012, and noted the following:

- Aside from the Chair and the CEO, none of the members of OPG's Board of Directors had obtained security clearances even though they had access to confidential information. OPG indicated that it was in the process of obtaining security clearances for them.

- There were numerous examples of employees who had started working at OPG before their security clearances were issued.
- In a sample of 50 employees who were on OPG's payroll but not on its security clearance record, 13 had never obtained security clearances. OPG informed us that this was because hydro/thermal and corporate support staff hired before May 2003 were exempt from security clearance. One of these employees had held various senior positions in nuclear finance, nuclear reporting and nuclear waste management, and had access to sensitive information. The remaining 37 employees in our sample had joined OPG after May 2003, but more than half of them had never obtained security clearances or were working with expired clearances.

RECOMMENDATION 1

To ensure that staffing levels are reasonable and that it has the right people in the right positions to meet its business needs, Ontario Power Generation should:

- evaluate and align the size of its executive and senior management group with its overall staffing levels;
- address the imbalances between overstaffed and understaffed areas in its nuclear operations; and
- review and monitor compliance with its recruitment and security clearance processes.

ONTARIO POWER GENERATION RESPONSE

In 2010, Ontario Power Generation (OPG) launched a multi-year Business Transformation initiative to reduce labour costs, create a sustainable cost structure and allow OPG to continue to moderate consumer electricity prices.

The number of executive and senior management positions, as well as overall staffing levels, is addressed through Business Transformation. There are currently a number of interim positions relating to Business Transformation, project work and other new initiatives. By August 2013, there were 218 senior management positions compared to 238 at the end of 2012. This number is forecast to continue to decline.

OPG has conducted extensive benchmarking of its nuclear and other operations. Based on this benchmarking, we are executing several initiatives that are designed to address opportunities for efficiencies, cost reductions and staff imbalances in nuclear operations. In 2012, the Ministry of Energy engaged a consulting firm to assess OPG's existing benchmark studies, and to identify organization and structural opportunities for cost savings. The report validated OPG's Business Transformation initiative and its objectives. We will continue to identify and implement other improvement initiatives.

As recommended by the Auditor General, OPG will review and monitor compliance with its recruitment and security clearance processes. We will also conduct an internal audit of our hiring practices.

COMPENSATION

OPG's labour costs account for most of its total operating costs. This proportion has increased from 55% in 2003 to 64% in 2012. In its March 2011 decision, the OEB also noted the significance of OPG's labour costs compared to its total operating costs and that its compensation levels were a concern in light of the overall poor performance of its nuclear business, in terms of operations and costs, compared to its peers. Therefore, the OEB disallowed $145 million in compensation costs, stating in its decision that the staffing levels and amount of compensation at OPG were both too high. OPG appealed the OEB's ruling. In June 2013, the Ontario Court of Appeal found that the OEB had based its decision on information that had not been available to OPG when it was in collective bargaining, concluding that OPG could not unilaterally reduce staffing levels and compensation rates that had already been set by collective agreements.

Compensation Levels

Unionized and Non-unionized Staff

At the time of our audit, OPG had about 11,100 employees. Approximately 90% of them are unionized: 58% are skilled trades, such as electricians and technicians, represented by the Power Workers' Union (PWU); and 32% are professionals, such as engineers and scientists, represented by the Society of Energy Professionals (Society). The extent of unionization at OPG has generally remained constant over the years. As in any unionized environment, changes to compensation can be made only through collective bargaining, grievances or arbitration.

In response to the ballooning provincial deficit, the government passed the *Public Sector Compensation Restraint to Protect Public Services Act* in March 2010 to freeze compensation growth for non-unionized employees in the Ontario Public Service (OPS) and Broader Public Sector (BPS). Although the legislation did not apply to unionized staff, the 2010 Ontario Budget contained a policy statement with clear expectations that new collective agreements would provide no net increase in compensation for at least two years.

OPG's payroll data showed that the average total earnings increased by 7% since the 2010 pay freeze legislation, from about $102,000 in 2010 to about $109,000 in 2012 (see Figure 6). Specifically, the average total earnings for unionized staff went up by 6% (from about $118,000 in 2010 to about $125,000 in 2012) for Society staff, and by 7% (from about $99,000 in 2010 to about $106,000 in 2012) for PWU staff. Meanwhile, the average total earnings for non-unionized staff dropped slightly between 2008 and 2010, even before the 2010 pay freeze legislation, because OPG limited base pay increases and reduced incentive awards to some extent. Since 2010, the average total earnings for non-unionized staff has increased 3%, from about $134,000 in 2010 to about $138,000 in 2012.

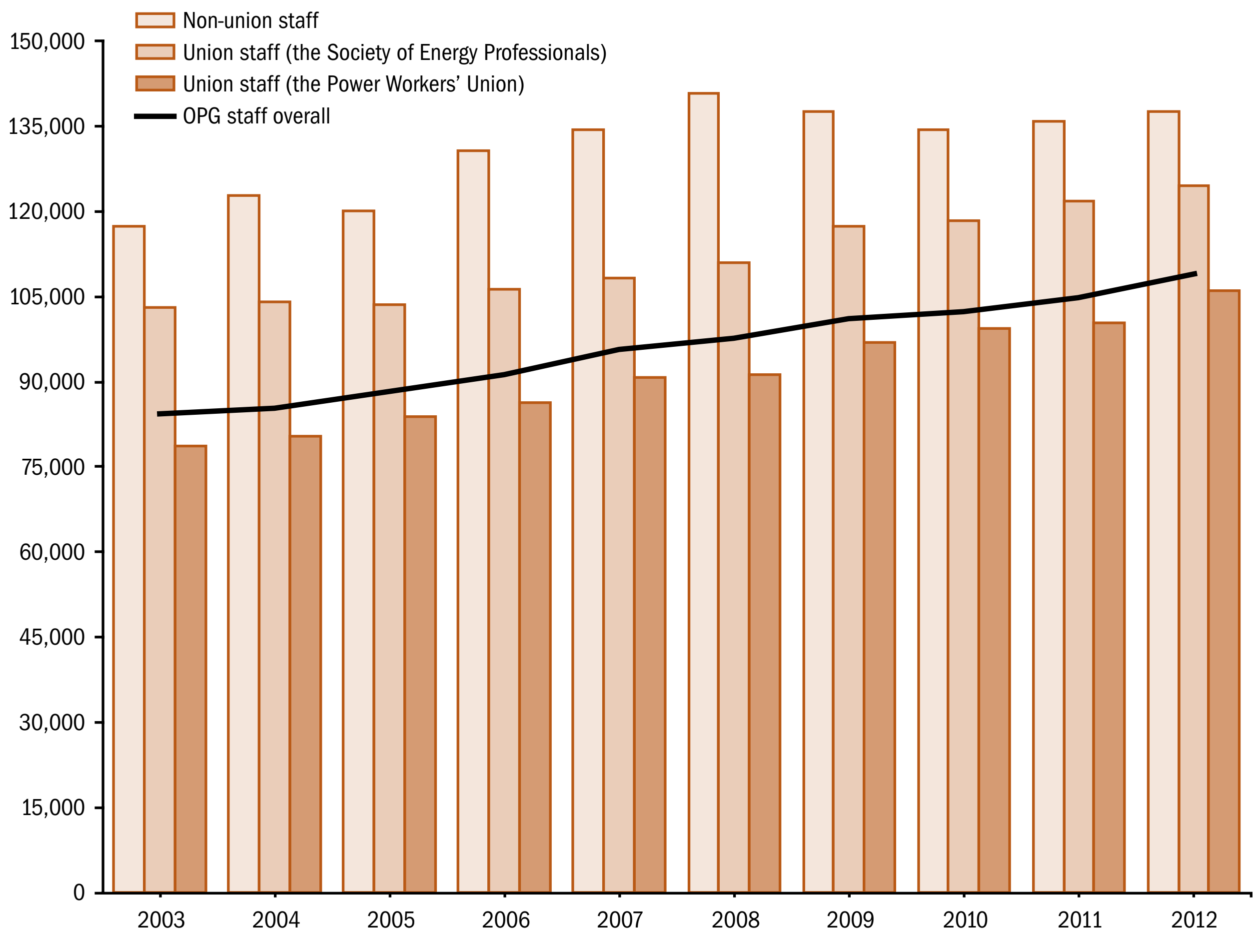
We found a number of reasons for the increase in average total earnings for OPG's staff over the last 10 years. Under collective bargaining, wage increases for unionized staff have been between 2% and 3% per year since 2003. This trend continued through to 2012 because unionized staff were not subject to the 2010 pay freeze legislation, making wage increases possible under their collective agreements so long as the increase could be offset by cost savings elsewhere. Specifically, with OPG's reduction in staffing levels in recent years, the savings gained from paying salaries to fewer staff were more than enough to raise wages for existing staff. This enabled PWU to negotiate wage increases of 2.75% in 2012, in 2013 and in 2014, and the Society to reach wage increases of 0.75% in 2013, 1.75% in 2014 and 1.75% in 2015 through an arbitration process. OPG indicated that these settlements were favourable in comparison with previous settlements and with settlements reached by other organizations in the electricity sector.

Non-unionized staff also received salary adjustments that were exempt from the pay freeze legislation. One such adjustment was incentive awards. For example, the 50 highest earners at OPG saw their earnings increase by an average of about 11% in 2011 from the previous year. Another adjustment was pay increases resulting from promotions; as we have already noted in this report, many OPG employees were promoted to executive and senior management levels in 2012. A third adjustment was made to temporarily mitigate wage compression, where non-unionized supervisors earn less than their unionized subordinates. For example, 680 Society staff earned more than their non-unionized supervisors in 2012, so an adjustment was made to raise the salaries of 220 non-unionized supervisors 3% above their highest-paid unionized subordinates.

We also found in our review of OPG payroll data from 2005 to 2012 a number of non-unionized

Figure 6: Average Total Earnings* for OPG Staff, 2003–2012 ($)

Source of data: Ontario Power Generation



* Average total earnings include base salary, overtime, incentives and bonuses as well as various types of allowances.

staff whose annual base salaries exceeded the maximum amount set out in the base salary schedule by more than $100,000, and in one case in 2005 and 2006 by more than $200,000. OPG told us that before 2010 it had treated the maximum as a guideline rather than a limit, and had approved and implemented salary increases before the 2010 pay freeze legislation. OPG also informed us that since 2010, no salary increases had been provided to the employees whose base salaries already exceeded the maximum.

We found similar instances for about 1,200 unionized staff who had received more than the maximum set out by the base salary schedule in 2012. OPG explained that this was because of the implementation of new base salary schedules for PWU staff in 2002 and Society staff in 2006. Essentially, if an employee's old base salary exceeded the maximum set out in the new schedule, he or she was "green circled" to maintain the old level while still receiving annual wage increases.

Sunshine List

OPG is required by the *Public Sector Salary Disclosure Act, 1996* to disclose annually the names, positions, salaries and total taxable benefits of any employees who made $100,000 or more in a calendar year. (This disclosure is popularly known as the "Sunshine List.")

The number of OPG staff on the Sunshine List has grown steadily since the organization was created in 1999, albeit at a slower pace after the 2010 pay freeze legislation. Over the last 10 years, the number has doubled, from 3,980 employees in 2003 to 7,960 in 2012, representing about 62% of the employees on OPG's payroll; the corresponding increases in total salaries and taxable benefits paid to those on the list were $513 million for 2003 and $1.11 billion for 2012. The number of OPG top-earners (people who earned $200,000 or more) on the Sunshine List has increased at an even faster rate—in 2012 it was almost four times higher (448 employees) than it was in 2003 (117 employees).

Compensation and Pension Benchmarking

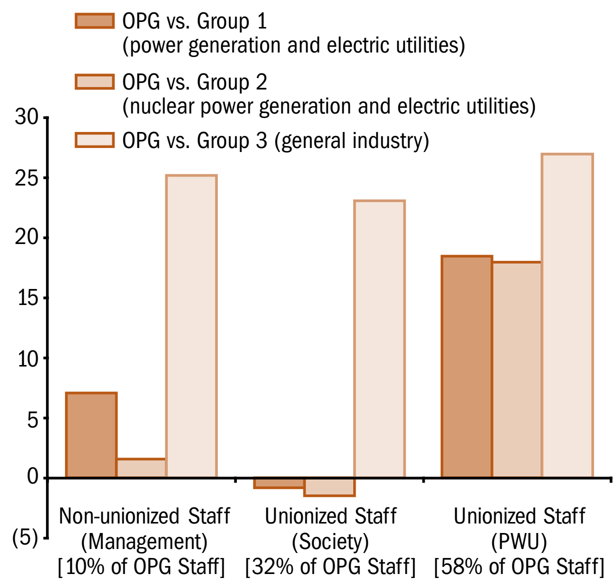
OPG vs. Similar Organizations

In its March 2011 decision, the OEB noted that OPG's compensation benchmarking analysis has not been comprehensive. It directed OPG to file a full, independent compensation study with its next application and recommended that the study cover "a significant proportion of OPG's positions" and that the benchmark should generally be set at the median (50th percentile).

OPG engaged a consulting firm to conduct a compensation benchmarking study in 2012. The study compared base salary levels and total cash compensation for about 50% of staff at OPG with similar organizations, including Bruce Power and utility companies in other Canadian jurisdictions. The study looked at three groups of positions (Power Generation & Electric Utilities, Nuclear Power Generation & Electric Utilities and General Industry) and found that compensation for a significant proportion of OPG's staff was well above the market median (see Figure 7). The study also found that OPG's annual pension and benefits (health, dental and life insurance as well as disability benefits) were higher than the market average, depending on base salary level. For example, the annual pension and benefits of an OPG employee earning a base salary of $60,000 would be about 19% ($2,400/year) higher than the market average; for an employee with a base salary of $220,000, they would be about 38% ($13,000/year) higher than the market average.

Figure 7: OPG's Total Cash Compensation Above/Below Canadian Market Median, 2012 (%)

Source of data: Ontario Power Generation



OPG vs. Ontario Public Service

In January 2007, the government established an Agency Review Panel to review specific issues at OPG and the other four provincial electricity-sector institutions (Hydro One, the Independent Electricity System Operator, the Ontario Power Authority and the Ontario Energy Board). Commenting on the organizations OPG chose to use as comparators for its compensation benchmarking, the Panel said there appeared to be "a bias in favour of utility/energy organizations in the private sector. To the extent public-sector organizations are used as comparators, it is almost exclusively Canadian utilities (for example, Hydro-Quebec, BC Hydro and Atomic Energy of Canada), and there is only very limited use of a broader public-sector group (for example, Ontario Public Service, provincial and federal Crown corporations or agencies and regulators)."

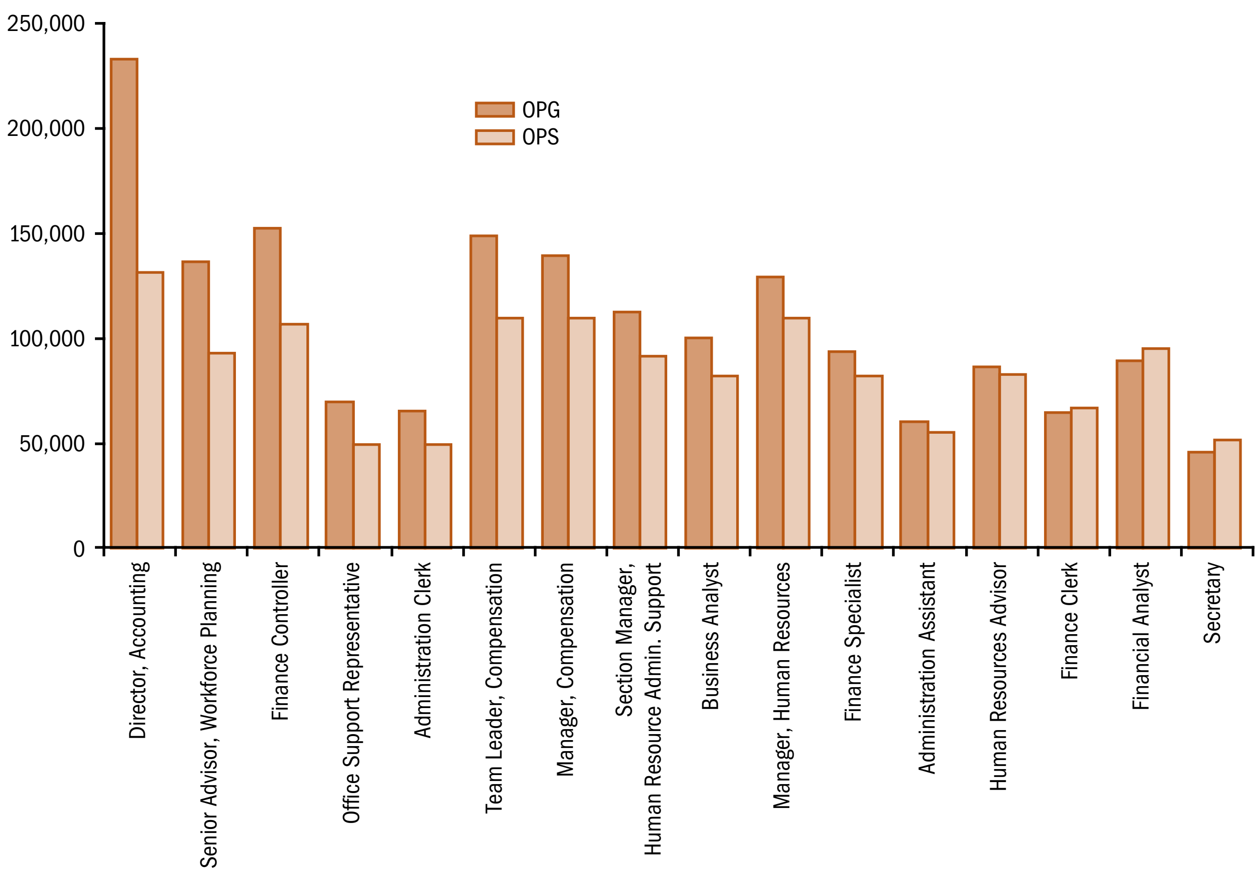
Given that the Province of Ontario is OPG's sole shareholder, we compared total earnings and pensions at OPG with those in the Ontario Public Service (OPS) for perspective. For total earnings, we selected 16 typical positions below the executive levels at OPG in areas such as administration, finance and human resources to benchmark against comparable positions in the OPS. For 13 of the 16 positions, the average total earnings at OPG were higher than the maximum total earnings in the OPS (see Figure 8). As for the executive levels, the total earnings for most OPG senior vice presidents significantly exceeded those for most deputy ministers in the OPS.

Pensions are a very significant part of total compensation at OPG. This is especially the case for executives, whose pensionable earnings can be greatly increased when bonuses or awards are added to their base salaries. Unlike the OPS, which has a 50–50 split between employer and employees for making pension contributions and funding pension shortfalls, OPG has unequal cost- and responsibility-sharing between employer and employees. We noted in particular:

- OPG's contributions to the pension plan have been disproportionately larger than those of its employees every year. Since 2005, the employer–employee contribution ratio at OPG has been around 4:1 to 5:1, significantly higher than the 1:1 ratio at OPS. For example, employees contributed $70 million to the pension fund in 2012 while OPG put in $370 million.
- Executives, who contribute only 7% of their earnings up to a maximum of $17,254 annually while OPG contributes 18.1%, are eligible for particularly generous pensions. For example, the top five executives at OPG will be eligible to receive annual pensions ranging from $180,000 to $760,000 when they reach age 65.
- OPG also bears the responsibility of financing any pension funding shortfalls. The most recent actuarial valuation, as at January 1, 2011, showed OPG's pension fund in a deficit position, with a shortfall of $555 million. This

Figure 8: Comparison of Average Total Earnings at OPG vs. Maximum Total Earnings at Ontario Public Service (OPS) ($)

Sources of data: Ontario Power Generation, Ministry of Government Services



was more than twice its projected shortfall of $239 million as at January 1, 2008. The next actuarial valuation will be prepared as at January 1, 2014.

- In July 2013, Dominion Bond Rating Service (DBRS), a Canadian-owned and globally recognized ratings agency, released its annual pension study reviewing 461 pension plan funds in Canada, the U.S., Japan and Europe. The report highlighted the 20 Canadian funds with the largest pension deficits. OPG was at the top of the list with a deficit of $3.3 billion. This amount, derived from the accounting valuation used for preparing OPG's financial statements, was different from the $555-million deficit amount from the most recent actuarial valuation, which is the valuation used for funding purposes.

Compensation and Staff Performance

Non-unionized Staff

In 2004, the OPG Review Committee established by the Ontario government noted that "accountability and compensation are closely linked. Providing the right incentives can help keep people accountable." However, the Committee found that there was "not a strong enough link between achievement and rewards" at OPG. We found that this was still the case.

Under OPG's Annual Incentive Plan (AIP), non-unionized employees are scored on their job performance on a scale of "0" (the lowest, with no award) to "4" (the highest), and receive an annual cash award for meeting key financial and operational objectives. As Figure 9 shows, awards can range from 4% of base pay (starting at $1,600) to 150% of base pay (as high as $1.3 million) depending on an employee's position, base salary level and AIP score. Therefore, a senior executive in job bands A, B or C, for example, would receive an award of 45% to 100% of his or her base salary for a score of "2," and 55% to 150% for a score of "3" or "4."

Figure 10 shows that the distribution of high AIP scores ("3" or "4") has been skewed toward executives and senior management staff (directors, vice presidents and above). On average, 67% of

Figure 9: Annual Incentive Plan (AIP) Award Structure*

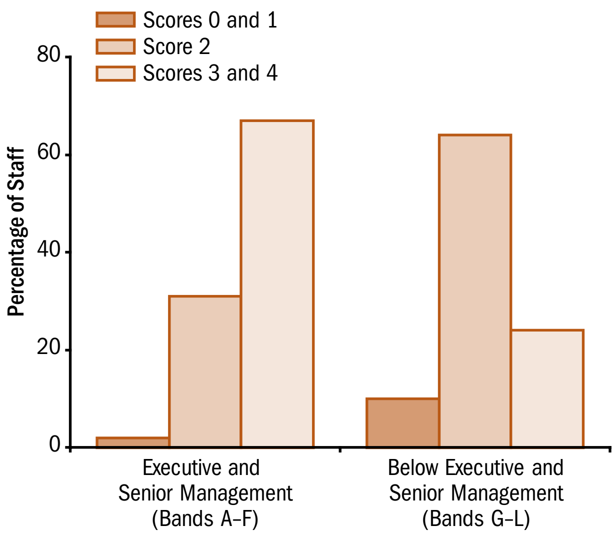
Source of data: Ontario Power Generation

			Base Salary Range ($)			AIP Score and Associated % Award			
Band	Position Group	Positions (Example)	Min	Mid	Max	1	2	3	4
A	Senior Executive	Chief Executive Officer	580,000	720,000	860,000	50	100	125	150
B		Executive Vice Presidents	315,000	390,000	465,000	22.5	45	55	67.5
C		Senior Vice Presidents	265,000	330,000	395,000	22.5	45	55	67.5
D	Executive	Chief Information Officer	195,000	260,000	325,000	12.5	25	30	37.5
E		Vice Presidents	160,000	200,000	240,000	12.5	25	30	37.5
F	Management	Directors	120,000	150,000	180,000	10	20	25	30
G		Managers	95,000	130,000	160,000	7.5	15	20	22.5
H		Section or First Line Managers	85,000	110,000	140,000	7.5	15	20	22.5
I	Professional	Analyst	65,000	85,000	105,000	5	10	12.5	15
J		Service Co-ordinator	55,000	70,000	90,000	4	8	10	12
K	Administrative	Administrative Assistant	45,000	55,000	65,000	4	8	10	12
L		Secretary	40,000	50,000	60,000	4	8	10	12

* Award amounts are calculated by multiplying the base salary by the percentage that corresponds with the AIP score. Both base salary ranges and AIP structure have remained unchanged since January 2008. There is no award for an AIP score of "0."

Figure 10: Distribution of Annual Incentive Program (AIP) Scores by Job Bands, 2010–2012

Source of data: Ontario Power Generation



executive and senior management staff received high AIP scores from 2010 to 2012. Only 24% of staff in lower job bands received high scores during the same period; the majority of them achieved a score of "2."

Some executives had incomplete or no performance evaluation documentation to support their high AIP scores. OPG explained that AIP scores are reviewed and validated in calibration meetings, but acknowledged that many performance evaluations were verbal and not documented in writing. We noted one case where an employee received a severance payment of $450,000 when terminated for ineffective performance and inappropriate behaviour. This employee had received a total of $760,000 in AIP awards in the previous four years. OPG informed us that the employee's behaviour had become an issue only in the last few months of his employment and was not related to his performance before then.

The majority of respondents to our survey indicated that they felt AIP was unfair and said they did not feel it encouraged them to be as productive as possible. In particular, respondents cited a lack of transparency in AIP scoring, which they felt had been to the benefit of senior management staff, and that scores were based on factors other than job performance and productivity.

Unionized Staff

We found that performance evaluations of unionized employees have not been done adequately and consistently. For example, the collective agreement for PWU staff stipulates that progression through steps in salary ranges will be time-based subject to satisfactory performance and successful completion of training, and that progression is to be withheld for six months if performance is not satisfactory. The usual method of determining whether staff performance has been satisfactory is a performance evaluation, but in our review of a sample of 15 PWU staff, we found that only two out of a possible 30 evaluations for 2010 and 2011 had been completed. OPG informed us that it does not have a requirement to prepare and document formal performance evaluations for PWU staff.

The majority of respondents to our survey felt that OPG did not have timely, effective and appropriate performance management in place for its unionized staff. They felt that collective agreements, grievances, arbitrations and automatic progression had created a perception that "nothing can be done" and a tendency to avoid dealing with poor performance.

At the time of our audit, there were 960 unionized employees in managerial and supervisory roles. In 2004, the government's OPG Review Committee also noted that "many staff members that OPG considers to be managerial belong to a bargaining unit, which may be an obstacle to accountability and effective pursuit of company goals. We strongly encourage all parties to make every effort to put in place a more rational arrangement." OPG informed us that two-thirds of its unionized staff with managerial or supervisory roles are represented by the Society, and a clause in their collective agreement allows them to perform those functions.

The majority of respondents to our survey also indicated that they felt unionized staff performing managerial or supervisory functions had a negative impact on accountability and performance management. They cited conflicts of interest and reluctance amongst unionized managers or supervisors to carry out performance reviews or deal with performance problems of their unionized subordinates.

Other Employee Benefits

In addition to base salary and incentive awards, OPG grants its employees various other types of benefits. Some were for significant amounts, which we found questionable in some cases.

Housing and Moving Allowances

When regular OPG employees change their work location, they are eligible for housing and moving allowances and relocation benefits that cover various expenses. These include legal fees and disbursements related to the sale and purchase of properties; real estate brokerage fees; upkeep costs on former residences that have not yet sold; interim living expenses before moving into a new residence; packing and shipping of household goods; temporary storage; house-hunting trips; home-inspection fees; and incidental out-of-pocket expenses. OPG indicated that all relocation benefits are subject to Canada Revenue Agency taxation requirements and employees are cautioned to retain receipts in case they are audited.

Payroll data from 2009 to 2012 showed that OPG spent on average about $1.4 million each year on housing and moving allowances. When we reviewed the files documenting the costs of moving individual employees, we found employees who had not only received housing and moving allowances granted by OPG through payroll but also received further benefits by claiming various other expenses. OPG was unable to locate the supporting documents for some of these claims. For example:

- An employee transferring to another office sold his former residence for about $354,000 and purchased a new property for $1.35 million. Payroll data showed that he had received more than $244,000 for housing assistance and moving expenses. However, when we added up the other expenses his file showed that he had claimed, we found the total amount that he received was actually over $392,000.
- Another employee chose to rent an apartment instead of buying a property in his new location. Payroll data showed that he had received $75,000 for rental assistance and moving expenses. However, with the other benefits his file showed that he received, the actual total was $140,000.
- A third employee, when transferring to another office, sold his old residence for $380,000 and bought a new property for $830,000. Payroll data showed that he had received about $43,000 for housing assistance and moving expenses. With the other benefits his file showed that he received, the actual total was $79,000.

OPG's policy is that employees must move a minimum of 40 kilometres closer to their new work location to qualify for housing and moving allowances. However, OPG informed us that staff who moved fewer than 40 kilometres closer could qualify if a move caused hardship. In one example of this, an employee who transferred from the Toronto office to Pickering received over $80,000; however, not only had he moved only 10 kilometres, but he moved further away from his new work location (the move was within the same city as his old residence, which was not Toronto or Pickering).

OPG also provides a purchase guarantee in the event that a transferring employee's property is not sold within a 90-day listing period. It incurred losses for 95 of the 98 properties it purchased and resold on behalf of its employees from January 2006 to April 2013, for a total loss of about $2 million.

Travel and Miscellaneous Allowances

Payroll data for 2009 to 2012 shows that OPG incurred about $2.8 million each year on average for travel and miscellaneous allowances. Staff can request these allowances for a number of reasons, some of which we found questionable. For example:

- OPG assigned three employees to work on a rotational job and provided a $15,000/year allowance to one of them because she was unable to drive and needed to take a taxi to work. However, we noted that OPG had also paid $15,000 each to the other two employees, who did drive to work.
- OPG offered $1,500 per month for one year to an employee who had accepted a position in a new location, because he had to drive further to work until he could move into his new home. His letter of employment stated that the allowance was "to offset some of the hardships that he and his family may experience with this move." His file also noted that he could "live for free until the construction of his new home was completed." Although payroll data showed that he received about $17,000 in housing and moving allowances, the amount of total benefits he actually received was close to $115,000 when other expenses such as groceries, meals out, car rental and a car damage claim were included.
- Payroll data from 2009 to 2012 also showed that OPG spent about $1.4 million on average each year on "miscellaneous" allowances, mainly for annual, non-pensionable "executive allowances" of various amounts ($30,000, $24,000, $20,000 and $12,000) depending on the executive's income and length of service.

RECOMMENDATION 2

To ensure that employees receive appropriate and reasonable compensation in a fair and transparent manner, Ontario Power Generation should:

- make its Annual Incentive Plan (AIP) more effective by creating a stronger link between awards and staff performance based on documented annual evaluations; and
- review salary levels and employee benefits, including pensions, to ensure that they are reasonable in comparison to other similar and broader-public-sector organizations and that they are paid out in accordance with policy, adequately justified and clearly documented.

ONTARIO POWER GENERATION RESPONSE

Ontario Power Generation (OPG) recognizes the importance of strongly linking individual incentive awards with performance. Annual Incentive Plan (AIP) awards are based on individual, business unit and corporate performance. As recommended by the Auditor General, OPG will assess options to further reinforce this linkage.

OPG's management compensation is currently at the 50th percentile (i.e., median) relative to the benchmark based on data from Canadian organizations in both general and specific industries in sectors such as power generation/utilities, mining, petroleum/natural gas, and nuclear research, development and engineering. We have reduced total management compensation since 2008. Compensation for OPG's executives, including vice presidents, continues to be frozen. OPG has also reached collective agreements with its unions that reflect government direction regarding compensation constraints.

There are controls in place to ensure employee salaries, benefits and pensions are in accordance with OPG policy, Canada Revenue Agency taxation requirements, and other legislation. As with any pension plan, retiring employees are entitled by law to elect to receive the commuted value of their pension in a single lump-sum payment. As recommended by the Auditor General, OPG will continue to monitor and amend controls as needed to ensure compensation is justified and clearly documented.

We acknowledge that OPG pension and benefits are higher than market average. As a result, in 2011, we completed a review of pension and benefit plans to reduce costs and improve sustainability. OPG also participated in a 2012 pension reform committee established by the government, and will be participating in the electricity sector working group, consisting of employer and employee representatives, as announced in the 2013 Ontario Budget.

USE OF NON-REGULAR STAFF AND CONTRACT RESOURCES

Apart from regular employees, OPG's other human resources include non-regular staff (temporary and contract), outsourced information technology (IT) workers, and contractors from private-sector vendors. Of particular concern to us were OPG's practice of rehiring former employees, the IT outsourcing arrangement, and management of nuclear contractors.

Rehiring Former Employees as Temporary or Contract Staff

There were approximately 1,700 temporary staff and contract staff working for OPG in 2012. We noted that about 120 of them had formerly been regular employees. In our review of a sample of temporary and contract staff who were former employees we found that most had been rehired mainly for the purpose of identifying, grooming and training successors or meeting core business needs, suggesting that knowledge transfer and succession planning at OPG has not kept pace with attrition and retirement. We also found that almost all of them had been rehired shortly after leaving OPG. Some of them continued to receive significant amounts in allowances and Annual Incentive Plan (AIP) awards, and some had already drawn their pensions in single lump-sum payments upon leaving. We noted in particular:

- An employee who chose to receive his pension in a lump sum was rehired by OPG shortly after he retired and continued to work at OPG for about six years. His total earnings in his sixth year as a temporary employee were $331,000, which included an executive allowance of $12,000 and an AIP award of $98,200—double his annual amount as a regular employee.
- Another employee who chose to draw his pension in a significant lump sum returned to work at OPG a month after his retirement. His total earnings that year as a temporary employee working three days a week were $328,000, which included an AIP award of $147,000 for his performance before retirement.
- Shortly after leaving OPG, two nuclear employees who chose to receive their pensions in lump-sum payments were rehired as contract employees.

We also found that selection processes and decisions to rehire former employees were not always transparent:

- All the temporary staff in our sample had been selected and rehired by executive or senior management staff without job postings or competitions. OPG explained that these were unnecessary because only former employees would have been suitable for the positions. Most of their original contracts were extended beyond 12 months with only a one- or two-page document attached indicating the contract length and terms but without specifying why the contract needed to be extended.
- For the contract staff in our sample, justifications for extending contracts beyond 12 months had been documented, but no evaluations were kept on file. OPG explained that these were unnecessary because contract employees who did not perform satisfactorily could have their contracts terminated without any significant notice period or penalty payment.

Many of the respondents to our survey expressed concerns similar to ours. They felt that rehiring former employees on an ongoing basis was an indication of poor succession planning. They also felt that better processes should have been put into place to capture the knowledge and experience of retiring staff; to identify and train their successors with sufficient lead time for the transition; and to avoid "double-dipping" by former employees who had withdrawn their pensions in lump sums upon leaving OPG only to return and earn a salary again.

In response to the above concerns, OPG indicated that it was necessary to hire former employees and to pay them at higher rates because it was difficult to find people with the right skills to fill the positions right away, and that it could not influence employees who wished to draw their pensions in single lump sums before returning to work at OPG because this was a personal choice.

Outsourcing of Information Technology Services

OPG has been outsourcing its information technology (IT) function to the same private-sector vendor since February 2001, after it conducted a competitive process and signed a 10-year (February 1, 2001–January 31, 2011), $1-billion contract with the vendor. They formed a joint venture (ownership: 51% vendor and 49% OPG) for delivering IT services to OPG, and 684 OPG employees (about 400 unionized) were transferred to the joint venture. A little over a year later, in March 2002, OPG accepted the vendor's offer of purchasing OPG's share of joint venture ownership.

In March 2007, OPG reviewed its existing outsourcing arrangement and decided to end the contract early in October 2009 and then renew it with the same vendor without competition for a term of six years and four months (October 1, 2009–January 31, 2016) at $635 million. Including the durations of the original and renewed contracts, the total contract length is 15 years.

Although OPG did not go through an open-competition process, its management did prepare a "single-source justification" form, which indicated that renewing the contract would avoid transition costs of $25 million and save $105 million from 2009 to 2015, and identified labour relations as a factor that would make switching to a new vendor unfavourable. OPG informed us that if it stopped using the current vendor, it would have an obligation to reimburse the vendor for severance costs associated with about 270 staff who are former OPG employees. We note, however, that OPG is still responsible for the severance costs whenever these staff leave the vendor's employ (for example, by being laid off or retiring)—staying with the current vendor simply means the severance payout will not be immediate.

OPG's management submitted its proposal to renegotiate and renew the contract with the current vendor to its Board on October 1, 2009, and received approval on the same day. However, only after it received this approval did OPG start looking for consultants to validate and endorse the proposal. Two consultants were engaged on October 6, 2009, and issued their final reports within a week.

There are good reasons for public-sector organizations to use open competition rather than non-competitive approaches. Through open competition, organizations can determine a fair market price for the goods and services they require when a variety of suppliers submit competitive bids, and this also helps demonstrate accountability and ensure value for money. In addition, competition eliminates risks associated with over-reliance on a single supplier and minimizes the perception of conflict of interest. By single-sourcing its IT services, OPG did not take full advantage of these benefits.

Time Reporting of Nuclear Contractors

OPG uses Oncore, a web-based time management system, to track the hours and costs of nuclear contractors. It uses a three-step process to do this:

1) Each vendor has "contractor time entry supervisors" who input contractors' paper timesheets into Oncore; 2) OPG "contract administrators" verify and approve the timesheets in Oncore; 3) OPG "contract owners" give final approval on the timesheets, which are then consolidated into an invoice to be automatically paid by OPG.

Oncore processed the hours reported by about 1,200 contractors in 2011 and 2,200 in 2012, with associated labour costs of about $56 million in 2011 and $88 million in 2012. Overtime pay has accounted for a significant percentage of the labour costs for contractors supplied by several large vendors, ranging from 19% to 43%. OPG indicated that overtime was often a result of outages and emergent (unplanned or unscheduled) work.

We selected a sample of contractors and reviewed their hours in Oncore for one week in 2012. The cost of labour for each contractor was high, ranging from about $8,000 to $12,000 per week. We noted that the hours in Oncore had not always been reconciled with supporting documents, which could lead to inaccurate time inputs and overpayment to vendors. In 2010, OPG's Internal Audit department identified a similar issue, which it ranked as high risk and flagged for "prompt management attention." However, we found that OPG has not fully addressed this issue:

- In 2010, Internal Audit recommended "more detailed information in the contract logbooks, including the start and end times of work activities, the contractor supervisors' names and titles, the applicable work orders and the contractor workers' names. This information should be reconciled to the time submitted in Oncore." We noted that the logbooks often did not contain these details. OPG informed us that the recommendation was never implemented and it had no standard practice for logging contractor activities.
- In 2011, in response to a 2010 Internal Audit recommendation, OPG implemented a system called "Job Clock" to track contractor attendance and time spent on site. The recommendation noted, "[T]his system has the capability to generate Job Clock reports that can be used by contract administrators to reconcile time entered into Oncore prior to approval." However, we found that contract administrators often did not do so. We reviewed about 2,600 hours reported by contractors at sites where Job Clock was in place and found that about half of them were not supported by Job Clock reports.
- Overtime hours reported in Oncore were often not supported with documentation showing requests and approvals. OPG contract administrators told us that they either could not locate the documents or had approved the overtime verbally. OPG also informed us it had no standard method for documenting approval of overtime.

RECOMMENDATION 3

To ensure that its non-regular and contract resources are used cost-efficiently, Ontario Power Generation should:

- improve its succession planning, knowledge retention and knowledge transfer processes to minimize the need to rehire retired employees for extended periods;
- conduct an open competitive process for outsourcing its information technology services before the current contract expires; and
- manage and monitor closely the hours reported by the contractors to avoid the risk of overpayment.

ONTARIO POWER GENERATION RESPONSE

Ontario Power Generation's (OPG) contracting practices are consistent with nuclear industry practices, which address both the need for specialized skills and demographic imbalances of its workforce. Using the short-term services of existing trained and skilled workers also mitigates the need to hire a permanent workforce during periods of transition or peak work, resulting in substantial cost savings. As recommended by the Auditor General, OPG will review its practices related to rehiring retired employees.

OPG conducted a competitive process when we outsourced our information technology services in 2001. Through an assessment of alternatives initiated in 2007, and through third-party validation, we concluded that renewal under a significantly restructured contract would provide the most significant value to both OPG and ratepayers. We plan to assess all potential options before the current contract expires, including an open competitive process that is consistent with the recommendation of the Auditor General.

OPG concurs with the Auditor General on the importance of accurate contractor payments and will investigate alternatives to manage and monitor contractor hours. In 2012, we enhanced controls by implementing new contracting strategies and will be assessing further control opportunities with regard to time-tracking tools and the time-approval process.

OVERTIME

In its March 2011 decision, the OEB expressed concerns about the "extensive use of overtime, particularly in the nuclear division" at OPG and said that it expected "OPG to demonstrate that it has optimized the mix of potential staffing resources." In our review of staffing records, we found that management of overtime at OPG still required significant improvement.

Ten-year Overtime Trend

Prior to the OEB's decision, OPG's overtime costs rose steadily from $133 million in 2003 to $169 million in 2010, and then dropped to $148 million in 2012. About three-quarters of OPG staff claimed overtime in each of these years, earning on average about $15,000 each in overtime pay. The nuclear unit accounts for about 80% of OPG's annual overtime costs; about half of these were related to planned outages at nuclear facilities, particularly Pickering.

OPG's overtime cost percentage (overtime costs divided by base salary) dropped from 16.2% in 2008 to 13% in 2011, but was slightly higher than the averages (14.3% in 2008 and 12.1% in 2011) of large utility companies in the U.S. According to OPG, planned outages have been the main driver of its overtime costs because its outage periods are generally much longer than those of its U.S. counterparts due to technical differences and different inspection requirements.

Although OPG's overtime costs have been decreasing in recent years, its number of high overtime earners has increased significantly. Over the last 10 years, the number of OPG employees who earned more than $50,000 in overtime pay has doubled, from about 260 in 2003 to 520 in 2012. The number of staff who earned more than $100,000 in overtime pay has also grown considerably—in 2003 there was only one such employee, but by 2012 there were 33.

Management of Overtime

OPG informed us that all overtime must be pre-approved by a supervisor, who has the discretion to do so as long as his or her overtime budget has not been exceeded. We looked at a sample of employees with high overtime pay and noted that 20% of them had no supporting documents for overtime pre-approvals. We also noted that about one-third of the departments covered in our sample had exceeded their overtime budgets every year since 2009. In addition, each department used different methods of pre-approving overtime—some departments required paper overtime request forms to be submitted and approved before any overtime hours could be worked, but in most departments verbal approvals were sufficient.

We performed an analysis of overtime pay and noted that OPG could improve its deployment of staff, especially for inspection and maintenance (I&M) technicians, who conduct regular inspections and work on outages at nuclear stations. In our review of payroll data, we noted that I&M technicians consistently earned high overtime each year. For example, in 2012 the average overtime pay for OPG's 180 I&M technicians was more than $66,000 each, representing more than half of their annual base salaries.

OPG acknowledged that planned outages have resulted in high overtime pay, especially for I&M technicians who are regular daytime employees but who are placed on schedules different from their normal hours during outages. Every hour they work that is not one of their normal working hours is considered overtime—even if they work none of their normal hours. Their compensation for those hours is one-and-a-half to twice their basic pay, depending on the days and times they worked. For example, we noted that the highest overtime earner at OPG in 2012 received $211,000 in overtime pay, but his annual base salary had been reduced from $135,000 to $58,000 because when he was put on an outage schedule he no longer followed his normal schedule. His normal base hours therefore showed up as unpaid leaves and all the hours he worked outside his normal schedule were paid at the overtime rate.

The collective agreement stipulates that OPG is responsible for preparing and administering outage schedules. According to OPG, there were about four or five planned outages each year at Pickering and it developed outage plans two years in advance to calculate the number of months each year in which I&M technicians would be required to provide 24/7 coverage.

Many of the respondents to our survey felt that the most common contributor to inappropriate and inefficient uses of overtime was poor planning and scheduling. They also felt that outages could have been planned better by moving around shift schedules instead of using overtime, and that unionized staff sometimes treated overtime as an avenue to increase their pay.

RECOMMENDATION 4

To ensure that overtime hours and costs are minimized and monitored, Ontario Power Generation should:

- decrease overtime costs for outages by planning outages and arranging staff schedules in a more cost-beneficial way; and
- review other ways to minimize overtime.

ONTARIO POWER GENERATION RESPONSE

Nuclear outages are extremely complex projects that are planned and resourced two years in advance. The scope of work may be affected by emerging issues, unforeseen equipment conditions and changes in regulatory requirements. The majority of overtime costs are associated with activities relating to these outages. Ontario Power Generation (OPG) continuously balances the use of overtime versus contractors and considers the related amount of lost generation and revenue caused by extending the duration of the outage. Our overtime cost percentage is comparable to large utility companies in the United States.

OPG will conduct a cost-benefit analysis to explore various ways, including scheduling and hiring staff and/or contractors, to minimize overtime cost.

ABSENTEEISM

Sick Leave Trend

OPG's sick leave plans are relatively generous compared to those of the Ontario Public Service (see Figure 11). In particular, unionized staff who began working for OPG before 2001 are entitled not only to carry over unused sick days from one year to the next, but also to restore their used sick days every five years. For example, an employee who took four sick days in Year 1 will receive these four sick day credits back after five years of service in addition to the normal number of sick leave credits he or she is entitled to for the year. As of December 31, 2012, about 5,200 employees—or almost half of OPG's staff—were still under the old plan. On average, each of them has restored and accumulated 162 sick leave credits with full pay and 191 sick leave credits with 75% pay. Unused credits are not paid out on termination or retirement.

The average number of sick days taken per OPG employee, including both short-term absences and major medical absences, has gone up 14% (from 9.2 days in 2003 to 10.5 days in 2012). Direct costs associated with sick days have grown significantly, by 41% (from $29 million in 2003 to $41 million in 2012). OPG informed us that sick days and their associated costs have gone up because of the 12-hour shift arrangement that is followed by most of OPG's nuclear staff—if a 12-hour shift worker misses a shift because of illness, it is counted as 1.5 sick days. Compared to other sectors, the average number of sick days taken per employee at OPG was fewer than the public sector's 12.9 days but more than both the private (8.2 days) and utility (7.3 days) sectors.

Management of Sick Leave

We noted that some of OPG's key sick leave management programs were not being used as effectively as they could be. While we noted no abuses of sick leave credits in our sample testing, a significant accumulation of sick leave credits is possible, leading to a higher risk of abuse if these programs are not used effectively.

The Short-Term Absence Management Program is in place to identify the medical reasons for an employee's absence pattern. Supervisors are expected to regularly examine their staff's attendance records; if an employee's sick leave usage is above the business unit's standard, they are to meet with the employee to discuss the right course of action and document the outcomes. We reviewed the files of a sample of employees whose sick leaves were above the business unit average from 2009 to 2012 and found no documents indicating whether their supervisors had met with them and what the outcomes had been. OPG explained that it had no formal requirements

Figure 11: Sick Leave Plans at OPG vs. Ontario Public Service (OPS)

Sources of data: Ontario Power Generation, Ministry of Government Services

		OPG		
		Unionized Staff		Non-unionized Staff
	OPS	Old Plan (Staff hired before 2001)	New Plan (Staff hired in or after 2001)	
Annual entitlement (100% pay)	6 days	8 days	8 days	130 days
Annual entitlement (75%)	6 months	15 days	6 months	No
Accumulation of unused sick days (100% pay)	No	Indefinitely with no limit[1]	Indefinitely with no limit[1]	No
Accumulation of unused sick days (75% pay)	No	Indefinitely with a limit of 200 days[1]	No	No
Restoration of used sick days	No	Yes[2]	No	Yes[3]

1. Unused sick day credits are not paid out on termination or retirement.
2. After five years of service, sick day credits used in the first year are restored. From the sixth through fourteenth years, sick day credits used in the five previous years are restored. On the fifteenth year, sick day credits used before the second-last year of service are restored. After that, sick day credits used in the second-last year are restored annually. Unused sick day credits are not paid out on termination or retirement.
3. After one month back to work, the number of sick day credits will increase back to 130 days.

for this documentation to be retained as official records. After we completed our audit fieldwork, OPG informed us that it was implementing a new program with more stringent requirements.

OPG's Disability Management Program is in place to ensure that employees are fit to do their job after longer periods of sick leave (four or more consecutive days for PWU staff and five or more for Society and non-unionized staff). Supervisors are expected to notify OPG's staff nurse about the absences and employees must submit a Medical Absence Report completed by a physician within 14 days of their first day off sick. We reviewed the files of a sample of employees with longer sick leave absences since 2010 and noted that 55% of the employees in our sample should have filed Medical Absence Reports, but almost half of them had not done so on at least one occasion. OPG informed us that the requirement might be waived for recurrent absences caused by chronic disease.

OPG has an automated employee absence calendar to help managers identify unusual sick leave patterns. However, more than half of the respondents to our survey said they were not aware of the calendar or did not use it, and another quarter of them said they used the calendar only infrequently (annually or quarterly). OPG informed us that some managers used the calendar more frequently than others, depending on the types of absences and the size of the department or group.

RECOMMENDATION 5

To minimize the cost of sick leaves and avoid potential misuses or abuses of sick leave entitlements, Ontario Power Generation should:

- review its sick leave plan for staff who joined prior to 2001; and
- monitor the results of sick leave management programs to identify and manage unusual sick leave patterns.

ONTARIO POWER GENERATION RESPONSE

Ontario Power Generation (OPG) is committed to having a healthy and productive workforce while minimizing sick leave costs. The average number of days lost through short-term absences in 2012 was approximately five days per employee, excluding major medical absences. As recommended by the Auditor General, OPG will review its sick leave plans and assess the costs and benefits of any changes that are required through collective bargaining. OPG will continue the Business Transformation efforts already under way to minimize the costs associated with sick leave by proactively supporting employees in improving and maintaining their health, while implementing processes and tools such as the automated employee absence calendar to assist managers in effectively managing sick leave issues.

STAFF TRAINING

In 2012, OPG centralized its staff training into a single business unit called Learning and Development (L&D). Before then, staff training had been managed separately by each functional area: nuclear, hydro/thermal and corporate support. At the time of our audit, OPG had about 290 L&D employees and its training costs for 2012 were $127 million. About half of this amount was for developing training materials, delivering courses, paying trainers, managing training records, administering tests, and maintaining training simulators and equipment; the other half was for paying workers' salaries while they attended training.

Nuclear Training

OPG provides training to about 7,000 nuclear staff at two learning centres, Pickering and Darlington. OPG's Nuclear Oversight and Performance

Improvement Department oversees the training along with two external organizations, the Canadian Nuclear Safety Commission (CNSC) and the World Association of Nuclear Operators (WANO), who both routinely send out inspection teams to review OPG's nuclear training programs. Both internal and external reviews help OPG's management identify areas for improvement and report on whether OPG's nuclear training programs adhere to applicable standards and requirements.

The majority of OPG's nuclear staff are nuclear operators who fall into two main categories: non-licensed operators (NLOs) and authorized nuclear operators (ANOs). NLO candidates must undergo a 24-month training period. To become an ANO, a candidate must be a fully qualified NLO for at least one year and then complete a 36-month training period. At the time of our audit, OPG had about 950 NLOs and 160 ANOs. The minimum education required to become a nuclear operator in Ontario is completion of Grade 12 with university-preparation course credits in math, physics and chemistry. Accordingly, the training that OPG provides is necessary to ensure that nuclear operators are sufficiently prepared for the job. In 2012, the average annual earnings at OPG for NLOs and ANOs were $112,000 and $207,000, respectively.

To identify best practices and opportunities for improvement, OPG benchmarked its NLO and ANO training programs against those at the Pilgrim Nuclear Station in Massachusetts (Pilgrim) in September 2012. OPG informed us that it has prepared improvement plans to address the following issues identified in the benchmarking study:

- OPG's NLO training program was not well-structured, class sizes were larger and training material was not as comprehensive.
- OPG's NLO trainers had varying levels of qualifications, experience and ability.
- OPG's NLO trainees generally lacked hands-on experience in any industry and lacked discipline.
- OPG's ANO training program was lengthy (32 months versus 16 months at Pilgrim), which OPG believed was preventing it from attracting good candidates.
- The completion rate for the ANO training program at OPG has been around 56%, which was below both its own workforce planning goal (70%) and Pilgrim's completion rate (75%).

We noted some additional areas to address in our review of OPG's nuclear training:

- Only one of OPG's 19 NLO trainers was a Supervisory Nuclear Operator, considered by OPG to be the ideal position for an NLO trainer. Two other trainers had worked as nuclear operators for only one year.
- An ANO can go through additional training to become a Control Room Shift Supervisor (CRSS). The completion rates for CRSS training programs in 2012 at Darlington and Pickering were 0% and 57%, lower than the industry completion rate of 60–65%. OPG informed us that the length of the CRSS training program (32 months) has contributed to low completion rates.

Hydro/Thermal Training

OPG delivers training to about 2,000 hydro/thermal staff at the Etobicoke learning centre and at hydro and thermal stations across Ontario. Unlike the nuclear sector, there is no regulatory oversight of hydro/thermal training, and OPG's training in this area has never been evaluated by itself or third parties. We identified the following issues related to staff training requirements and course attendance in our review of hydro/thermal training:

- In 2012, 30% of the courses OPG requires had not been completed. OPG informed us that even if a training course was recorded as required in the database, supervisors might not send their staff to training if they felt there was no immediate need for them to learn a specific skill set.
- In June 2010, OPG's Hydro/Thermal Training Decision Making Committee raised a concern about last-minute cancellations of scheduled

courses and recommended that plant managers should try to reduce them to optimize the use of training resources. This was still an issue at the time of our audit. In 2012, about 4,500 of 21,000 scheduled courses for trainees had been cancelled. No reasons were given for about 1,400 of the cancellations; the remaining had been cancelled for reasons such as employee no-show, illness, or pre-approved vacation day, among others. We also noted similar course cancellation patterns for 2011.

RECOMMENDATION 6

To ensure that its employees are adequately trained for their jobs, Ontario Power Generation should:

- continue to review and monitor the adequacy, quality and completion rates of its nuclear training programs in order to identify areas for improvement, and address the areas that have already been identified; and
- review the nature and timing of its mandatory training requirements as well as its delivery methods for hydro/thermal staff to ensure they are meeting business needs cost-effectively.

ONTARIO POWER GENERATION RESPONSE

Ontario Power Generation's (OPG) nuclear training programs are extensively benchmarked against industry best practices and are routinely audited by the Canadian Nuclear Safety Commission and the World Association of Nuclear Operators. OPG is in the process of implementing enhancements to its nuclear training programs where there are opportunities for improvement while continuing to build on identified strengths. As recommended by the Auditor General, OPG will continue with its review of the nature, timing and delivery methods of mandatory training requirements for hydro/thermal staff.