Ontario Power Generation Human Resources

Follow-up to VFM Section 3.05, *2013 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of Actions Recommended	Status of Actions Recommended			
		Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	3	2	1		
Recommendation 2	2		2		
Recommendation 3	3	2	1		
Recommendation 4	2	2			
Recommendation 5	2		2		
Recommendation 6	2	2			
Total	**14**	**8**	**6**	**0**	**0**
%	**100**	**57**	**43**	**0**	**0**

Background

Ontario Power Generation (OPG), a corporation owned by the province, is one of the largest power generators in North America. However, the amount of power OPG produces has decreased by 24% over the last decade because the demand for electricity has decreased, coal-fired plants have closed and there is more private-sector involvement in new power generation.

Despite the declining electricity demand, electricity prices have been rising in Ontario. Given that OPG generates about 60% of Ontario's electricity, its operating costs have a significant impact on the cost of electricity, particularly with respect to labour costs. In 2014, labour costs were about $1.6 billion (compared to $1.7 billion in 2012), or 63% (64% in 2012) of its total costs for operations, maintenance and administration.

OPG initiated its Business Transformation Project in 2010, with a target of reducing staffing levels by 2,000 employees through attrition by 2015. While OPG had made some progress in reducing its overall staffing levels at the time of our 2013 audit, we found several areas where its human resource management and compensation and benefit practices needed improvement. Many of our concerns were echoed by respondents to our anonymous survey of more than 800 OPG staff.

Some of the key observations in our 2013 audit were as follows:

- While OPG's overall staffing levels had gone down about 8.5% (to 11,100 in 2012 from 12,100 in 2005), the size of its executive and senior management group had increased by 58% (to 238 in 2012 from 152 in 2005).
- OPG had rehired some former employees, almost all of them shortly after they had left OPG, indicating ineffective knowledge transfer and succession planning. Some continued to receive significant allowances and Annual Incentive Plan (AIP) awards, and some had already drawn their pensions in lump sums after they initially left.
- Even after staff reductions at nuclear facilities starting in 2011, the area of maintenance, janitorial and custodial services was still staffed at a level 170% above the industry benchmark in 2013. Meanwhile, some operational functions were significantly understaffed, including nuclear plant operations, while their associated support functions were overstaffed.
- We found areas of non-compliance in OPG's recruitment and security clearance processes. About 700 pairs or groups of employees lived at the same address and appeared likely to be related. However, OPG had no documentation to show whether family members of staff had been hired through the normal recruitment process. As well, more than 50% of OPG staff in our sample, including senior staff with access to confidential nuclear information, had never obtained the required security clearances or had expired clearances.
- OPG gave Annual Incentive Plan awards to all non-unionized staff, ranging from $1,600 to $1.3 million, depending on the job level, base salary and Annual Incentive Plan score on a scale of 0 to 4. However, high scores were given much more frequently to staff in senior positions and there were a number of cases with limited documentation to support the score achieved.
- Earnings were significantly more generous at OPG than for comparable positions in the Ontario Public Service (OPS), and many of OPG's senior executives earned more than most deputy ministers. As well, since 2005, OPG's employer-employee pension contribution ratio has been around 4:1 to 5:1, significantly higher than the 1:1 ratio for the OPS. According to the actuarial valuation, OPG's pension deficit was about $555 million as of January 1, 2011.
- Some of OPG's employees received generous benefits that seemed questionable. For example, an employee received over $392,000 in relocation benefits 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 housing and moving allowances.
- The number of OPG staff earning more than $50,000 in overtime pay per year had doubled since 2003. Planned nuclear outages had resulted in high overtime pay, especially for inspection and maintenance technicians.

We made a number of recommendations for improvements and received commitments from OPG that it would take action to address our recommendations.

Standing Committee On Public Accounts

In November 2014, the Standing Committee on Public Accounts (Committee) held a public hearing on our 2013 OPG Human Resources audit. In May 2015, the Committee tabled a report in the Legislature resulting from this hearing. The Committee endorsed our findings and recommendations. The Committee made eight additional recommendations and asked the OPG to report back by the end of August 2015. The Committee's recommendations and follow-up on their recommendations are found in Chapter 7.

Status of Actions Taken on Recommendations

OPG provided us with information in the spring and summer of 2015 on the current status of our recommendations. According to this information, almost 60% of the recommendations we made in our *2013 Annual Report* have already been fully implemented. These recommendations relate to overtime, staff training and the outsourcing of information technology services. For example, OPG has implemented new policies to strengthen its overtime pre-approval process, ensure overtime approvals are carried out as per the approval authority and facilitate the monitoring and tracking of overtime worked so as to minimize overtime costs. To reduce overall staff training costs, OPG has eliminated redundant training, compacted its overly long nuclear qualification training programs to conform to industry standards, realigned training contents to job requirements, deactivated or converted some courses to computer-based training, and instituted management review of training attendance reports. OPG has followed an open and competitive process for its information technology services agreements to ensure fairness, accountability and value for money.

OPG has also made significant progress on all the remaining recommendations, concerning staffing, compensation, performance management, succession planning and recruitment practices. In particular, OPG has implemented a monthly reporting of key human resources metrics to closely monitor all staffing levels. New policies and systems were also implemented to document performance objectives, improve the linkage between performance and awards, align the ratio for pension contribution and employee relocation benefits with the Ontario Public Service, monitor compliance with security clearance and recruitment processes, and improve knowledge retention and transfer at OPG. Some work is still needed to address our recommendations in areas that affect unionized staff and are therefore subject to collective bargaining.

Subsequent to our *2013 Annual Report*, the Ministry of Energy requested the Ontario Internal Audit Division (OIAD) to monitor OPG's progress in implementing our recommendations. We have reviewed OIAD's report as part of our follow-up review. The OIAD concluded that, overall, OPG had made reasonable progress in implementing most of the recommendations, and this is in line with our assessment of OPG's progress to date.

The status of each of our recommendations is as follows.

Staffing Levels and Recruitment

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;*

  Status: Fully implemented.

Details

The OPG Business Transformation Project was initiated in 2010 to reduce staffing levels by 2,000 employees through attrition by 2015. In our 2013 audit, we found that OPG's overall staffing levels had decreased by 8.5% from 2005 to 2012, but that the size of its executive and senior management group had increased by 58%.

During our follow-up, we found that OPG reduced the number of its employees by 2,424, as of March, 2015. The size of its executive and senior management group also decreased by 8.7% from 2013 to 2015. In 2013, OPG implemented a monthly reporting of key human resources metrics to enable senior management and the board of directors to closely monitor all staffing levels. In December 2014, OPG and a consulting firm jointly conducted a staffing assessment and concluded that OPG compares well with industry benchmarks and that its senior management staffing level is appropriate for an organization of its scope and complexity. However, the report also raised a number of opportunities for improvements, such as consolidating the number of direct reports to the CEO, conducting an organizational review of the finance function and reducing the number of human resource vice presidents. A majority of these opportunities has already been addressed.

- *address the imbalances between overstaffed and understaffed areas in its nuclear operations; and*

  Status: In process of being implemented by December 2017.

Details

In our 2013 audit, we reported that OPG's nuclear staffing levels were 8% above the benchmark, with 23 overstaffed areas and 16 understaffed areas.

In 2014, a benchmarking study conducted by a consultant engaged by OPG indicated that nuclear staffing levels were now only 4% above the benchmark, rather than 8% above it. OPG has incorporated into its business plan targets to further adjust the staffing imbalances and it expects to eliminate the benchmark gap by 2017.

- *review and monitor compliance with its recruitment and security clearance processes.*

  Status: Fully implemented.

Details

In our 2013 audit, we identified about 10% of OPG employees who resided at the same address, indicating that they were most likely members of the same family. However, when we examined their files, OPG had no documentation to show whether they were hired through the normal recruitment process. We also found that more than 50% of 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.

Since our audit, OPG has centralized its recruiting function to improve process efficiency, and it has implemented new quarterly compliance reviews to monitor the compliance with hiring procedures. OPG has also made a number of changes to its hiring policies, including requiring a hiring panel of two or more people to conduct interviews, amending the code of conduct to include conflict of interest in hiring practices, and requiring that before a candidate is offered a job, the hiring is reviewed to make sure proper procedures were followed. In order to train managers about these new hiring policies and procedures, OPG has developed education and support materials, including a compliance checklist.

With respect to security clearance processes, in 2014, OPG implemented a new tiered risk-based security clearance structure to streamline security clearance requirements and processing times. OPG also developed and implemented a new security system in 2014 and it has many features that can enhance the compliance monitoring process. For example, the system can warn management if an employee's security status is something other than what is required. The system can also identify expired clearances so that security and emergency services staff can send notifications to employees and their respective managers.

In audit reports issued in the fall of 2015, OPG's internal audit assessed as generally effective the design and operational effectiveness of improvements made to recruitment, and to employee security processes and controls.

Compensation

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;*

  Status: In process of being implemented by April 2016.

Details

In 2013, we found that OPG gave AIP awards up to $1.3 million to all non-unionized employees based on job level, base salary level and performance score achieved. However, we found that a number of cases had limited documentation to support the score achieved. We also noted that distribution of performance scores had been skewed toward executives and senior management staff. On average, 67% of executive and senior management staff received high AIP scores from 2010 to 2012. However, only 24% of staff in lower job bands received high scores during the same period.

Since then, OPG has implemented several new policies and procedures to create a stronger link between awards and staff performance. According to these new policies, staff are required to document their performance objectives annually by March 31 of each year. Performance objectives are required to include both quantitative and qualitative metrics and be more specific, measurable, achievable, realistic and time-bound (SMART) so staff performance can be adequately assessed. With respect to staff evaluations, OPG has replaced the old four-point rating scale with a more detailed seven-point rating scale for better differentiation of performance levels. OPG has implemented a new calibration process for performance scores, which requires the executive leadership team to review and adjust performance scores of management employees to ensure ratings are relative to job performance across the organization and that scores are broadly distributed. OPG has also made improvements to its performance reports so that achievements can be more closely linked to performance metrics. All OPG employees have already completed and documented their performance objectives for 2015 in the Performance Planning and Review system. OPG informed us that its internal audit will conduct an assessment of performance objectives in April 2016 to determine if they adequately meet the SMART criteria.

- *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.*

  Status: In process of being implemented by December 2015.

Details

In 2013, we reported that total earnings of employees at OPG were significantly higher than those of comparable positions in the Ontario Public Service. We also found a number of cases where the annual base salaries of non-unionized staff exceeded the maximum set out in the OPG's base salary schedule by more than $100,000.

Subsequent to our 2013 audit, OPG engaged an independent consulting firm to review its compensation philosophy for the management group. The consultant concluded that while OPG's overall compensation principals are sound, its compensation structure is not tailored to each of the company's business segments. In response, OPG has implemented changes in 2015 so that compensation within business segment peer groups reflects their unique roles and responsibilities. The consulting firm also reviewed the effectiveness of the AIP and concluded that the range is generally in line with market practices. However, it asked OPG to consider reviewing the complexity of the balanced report card. In response, OPG implemented changes in 2014 to sharpen the focus on key performance metrics.

With respect to pensions, our 2013 audit reported that the employer-employee pension contribution ratio at OPG has been around 4:1 to 5:1, significantly higher than the 1:1 ratio for the Ontario Public Service.

At the time of our follow-up, OPG had reformed its pension plan for the management group to align with that of the Ontario Public Service. Under the new plan, management staff members have to contribute more to their pension and wait longer to retire with unreduced pension benefits. Management staff's pension contributions will increase starting in 2016, but a 1% increase has been phased in for new management staff as of 2014. OPG informed us that any pension changes affecting unionized staff are subject to collective bargaining. About 90% of OPG employees are represented by two unions: the Power Workers' Union (PWU) and the Society of Energy Professionals (Society).

At the time of our follow-up, OPG had completed negotiations with the PWU. As per the new collective agreement, employee contributions increased by 1% in 2015, and will reach 2.75% by 2017. PWU members will also have to wait longer to retire with unreduced pensions. As part of the negotiation, PWU members will also receive Hydro One shares.

Pension changes for employees represented by the Society were to be discussed in the collective bargaining process expected to begin in the fourth quarter of 2015.

With respect to employee benefits, our 2013 audit reported that OPG spent on average about $1.4 million each year on housing and moving allowances from 2009 to 2012.

Since then, OPG has revised its relocation policy for the management group to align with Ontario Public Service policy. As a result of the changes made to the management group's relocation policy, OPG was able to reduce the housing and moving allowance to $1.1 million in 2014 from $1.5 million in 2012. Relocation policy changes for members of the Society are to be discussed in the upcoming collective bargaining.

Use Of Non-Regular Staff And Contract Resources

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;*

  Status: Fully implemented.

Details

In our 2013 audit, we found that OPG had rehired some of its former employees as temporary or contract staff mainly for the purpose of identifying, grooming and training successors. Some of them continued to receive significant amounts in allowances and AIP awards, and some had already drawn their pensions in single lump-sum payments upon leaving.

At the time of our follow-up, OPG had expanded succession plan programs for its management positions to improve its succession planning. OPG also introduced a formal process to identify critical at-risk roles so management can develop appropriate mitigation strategies and knowledge transfer plans. OPG also implemented a new procedure for rehiring of retirees that requires a minimum waiting period of one year between the time an employee retires and when that employee can be rehired, and then only with a maximum contract length of one year. Any such hire must also receive senior management approval. Exceptions may be made to accommodate employees in the nuclear field because of the limited availability of highly skilled workers. As a result of the revised policies and new controls, the number of retirees rehired has decreased since 2013. OPG's internal audit conducted an examination to determine the operating effectiveness of improvements made to the recruitment process, including adherence to the new policies on rehiring retired employees, and it concluded in its October 2015 audit report that the controls were generally effective.

- *conduct an open competitive process for outsourcing its information technology services before the current contract expires;*
  Status: Fully implemented.

Details

Our 2013 audit reported that OPG had signed a 10-year $1 billion contract with a private-sector vendor in 2001 to outsource its IT services. In 2009, OPG ended the contract early and renewed it for an additional six years at $635 million without going through an open competitive process.

Subsequent to our audit, OPG followed an open and competitive process for outsourcing its information technology services agreement. OPG put out a request for proposal in May 2014. Based on its evaluation, OPG selected the incumbent vendor to manage its IT services as of January 2016.

- *manage and monitor closely the hours reported by the contractors to avoid the risk of overpayment.*
  Status: In process of being implemented by December 2015.

Details

In 2013, we noted that the system that recorded contractor hours had not always been reconciled with supporting documents, something that could lead to inaccurate time inputs and overpayment to vendors. In response to our recommendation, OPG hired independent contract auditors in 2015 to review contractor hours and rates, and compliance with other contractual terms and conditions. The audit findings indentified potential overpayments to its vendors totalling $9.2 million. In response to these two reviews, OPG informed us that it will negotiate with its vendors for recoveries by fall 2015 and implement enhanced contractor payment controls in the fourth quarter of 2015.

Overtime

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*
  Status: Fully implemented.

Details

Our 2013 audit reported that planned outages had resulted in high overtime pay, especially for inspection and maintenance (I&M) technicians, who are regular daytime employees that get overtime pay for being placed on schedules different from their normal working hours during outages.

Subsequent to our audit, OPG performed an economic assessment to determine whether overtime costs could be minimized by scheduling staff in a more cost-beneficial manner, including regular work shifts that cover 24 hours. OPG concluded that the overall overtime cost could be reduced by creating shift schedules for I&M technicians to be used specifically during outages, and it started implementing such shift schedules in mid 2014. OPG has also imposed overtime limits for the I&M work group. As a result, 265 of 280 unionized staff in the I&M work group were placed on shift schedules that reduced the overtime cost of the group to $11.1 million in 2014 from $21.6 million in 2013.

- *review other ways to minimize overtime.*
  Status: Fully implemented.

Details

Our 2013 audit reported that total overtime costs were about $148 million in 2012, and the number of employees earning more than $50,000 in overtime pay had doubled since 2003. We also found that each department used different methods for pre-approving overtime, and in most departments verbal approvals were sufficient.

OPG has implemented a number of additional controls to minimize the overtime cost and the risk that overtime pay would be abused. To strengthen the pre–approval process, OPG now requires documented pre-approval prior to overtime being worked, and line managers are required to keep records of these pre-approvals. The Finance Department is required to provide weekly reports of employees' overtime to department managers so they can track the hours employees work and take action to limit excessive overtime. The Finance Department is also responsible for reviewing overtime to ensure approvals are given only by those authorized. As well, senior managers receive reports that show variances from approved overtime budgets. As a result of these enhanced controls, including improvements in scheduling staff for planned outage maintenance, OPG's total overtime costs decreased to $127.5 million in 2014 from $148 million in 2012. The number of employees who earn more than $50,000 in overtime pay decreased to 230 in 2014 from 520 in 2012.

Absenteeism

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;*

  Status: In the process of being implemented by December 2015.

Details

In our *2013 Annual Report*, we reported that OPG's sick leave plans were relatively generous compared to those of the Ontario Public Service. In particular, unionized staff that began working for OPG prior to 2001 were entitled to not only 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, almost half of OPG's staff were still under the old plan and each of them had, on average, restored and accumulated about 162 sick leave credits with full pay and 191 sick leave credits with 75% pay.

During our follow-up, OPG indicated that it did review and assess the sick leave plans for staff who joined prior to 2001 in the context of overall benefits and compensation. However, OPG was unable to make any changes to the sick leave provisions in the current round of collective bargaining with the PWU, which represents a majority of OPG's workforce. OPG is expected to begin the negotiation process with the Society in the fourth quarter of 2015.

- *monitor the results of sick leave management programs to identify and manage unusual sick leave patterns.*

  Status: In process of being implemented by December 2015.

Details

In 2013, 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, there was a risk of significant accumulation and abuse of sick leave credits.

Since then, OPG has designed an enhanced sick leave management program that requires supervisors to speak to employees who do not meet attendance expectations to correct attendance concerns. This new program was to be implemented in December 2015. As part of the sick leave management program, OPG will also have an automated email notification tool to identify and manage unusual sick leave patterns. This tool was implemented for management staff in 2014, and OPG is planning to implement it for unionized staff in the fourth quarter of 2015.

With respect to long-term disability, OPG has contracted a third-party service provider to manage the disability management program to ensure that a centralized, standardized and rigorous process is followed to ensure employees' timely return to work when possible.

Staff Training

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;*

  Status: Fully implemented.

Details

In our 2013 audit report, we noted that the completion rate for the authorized nuclear operator training program at OPG had been around 56%, which was below both its own workforce planning goal (70%) and the completion rate (75%) of the U.S. organization OPG chose to use as a benchmark for itself.

Subsequent to our audit, OPG implemented a number of changes to its nuclear training programs to increase completion rates and reduce overall program cost. These changes include streamlining training programs and eliminating redundant training courses to optimize the qualification process for nuclear operators and authorized nuclear operators. As a result of these initiatives, the completion rates for these programs have increased to 65% in 2014 from 56% in 2011. OPG has also saved $2.8 million annually by eliminating redundant refresher training.

- *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.*

  Status: Fully implemented.

Details

At the time of our audit, we found that 30% of the courses that OPG required had not been completed by employees in 2012. As well, 4,500 (21%) of the 21,000 scheduled courses for trainees were cancelled, 1,400 (31%) of which without any reason.

In response to our recommendations, mandatory training requirements have been streamlined and attendance monitoring is in place. OPG has also reviewed its training program to realign the contents to job requirements. One hundred and sixty courses were either deactivated or converted to computer-based training. Reports on training attendance are now reviewed by the senior vice president of Hydro Thermal Operations with his management team. As a result, the number of cancellations has decreased to 919 (10%) of the 9,133 total scheduled courses. Of the 919 cancelled courses, the number cancelled without any justification decreased to 104 (11%) since 2012.