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Wednesday 26 November 2014

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des débats
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Mercredi 26 novembre 2014

**Standing Committee on
Public Accounts**

2013 Annual Report,
Auditor General:

Ministry of Energy

Ontario Power Generation

**Comité permanent des
comptes publics**

Rapport annuel 2013,
vérificateur général :

Ministère de l'Énergie

Ontario Power Generation

Chair: Ernie Hardeman
Clerk: William Short

Président : Ernie Hardeman
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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

COMITÉ PERMANENT DES COMPTES PUBLICS

Wednesday 26 November 2014

Mercredi 26 novembre 2014

The committee met at 1231 in room 151 following a closed session.

2013 ANNUAL REPORT, AUDITOR GENERAL

Consideration of section 3.05, Ontario Power Generation Human Resources.

MINISTRY OF ENERGY ONTARIO POWER GENERATION

The Chair (Mr. Ernie Hardeman): We'll call to order the public accounts committee for the afternoon of the session. We have presentations this afternoon from the Ministry of Energy and Ontario Power Generation, the OPG.

We will start as we usually do, extending a warm welcome to our guests at the informative table, shall we call it. We will have 20 minutes for you to make a presentation, and then we will have questions from the committee. This round, I think we will start with the third party, and we'll have 20 minutes in rotation as we go around to ask questions about the report. We apologize; the Auditor General was busy elsewhere for a few moments, but as I speak, she's arriving.

With that, again, thank you very much for being here. We'll turn the floor over to you for your 20 minutes.

Mr. Serge Imbrogno: Good afternoon, and thank you for the opportunity—

The Chair (Mr. Ernie Hardeman): If I could stop you just for a moment—if each one of you would introduce yourself for Hansard as you start speaking so we can put it in the record.

Mr. Serge Imbrogno: Okay. I'm Serge Imbrogno. I'm the deputy minister, Ministry of Energy.

Good afternoon, and thank you for the opportunity to address the committee today. Also joining me today is Michael Reid, my assistant deputy minister, strategic network and agency policy division. Michael is right there.

Finding efficiencies in our agencies is a ministry priority, and this priority has been communicated clearly to our agencies' CEOs and boards. The government and the Ministry of Energy fully support Ontario Power Generation's commitment to continuous improvement, to meet or exceed the recommendations of the 2013 Auditor General's report on human resources. As is evident from

the progress report posted on OPG's website that highlights their achievements thus far, there is a long-term strategy in place to find efficiencies and it is proceeding as planned.

Today, let me first provide some context around the Ontario government's and the Ministry of Energy's relationship with OPG. OPG is a corporation, a commercial entity owned by the province of Ontario. The government and OPG have a memorandum of agreement that governs the relationship and the agency's mandate, setting out the government's expectations of OPG and OPG's agreement to meet these expectations. OPG works to meet these expectations through its board of directors, which provides independent supervision to management over areas that are critical to the company's success.

The Ministries of Energy and Finance annually review OPG's rolling, three-year business plans, submitting these plans to Treasury Board. In addition, regular meetings take place between myself, the Minister of Energy and senior management from OPG. Monthly staff-level meetings are also held between OPG and the Ministries of Energy and Finance.

As a reporting issuer under the Securities Act, OPG has continuous disclosure requirements related to its business and to publicly release its quarterly and annual reports. Because OPG is an Ontario Business Corporations Act company, it is subject to all of the governance requirements associated with the OBCA.

OPG is also subject to oversight by the Ontario Energy Board. The Ontario Energy Board is an independent regulator responsible for reviewing OPG's rate applications, with a mandate to protect Ontario's consumers as well as reviewing OPG's operations to ensure licence conditions are met.

In addition, OPG's nuclear reactors are licensed and regulated by the Canadian Nuclear Safety Commission. Under the Nuclear Safety and Control Act, the Canadian Nuclear Safety Commission is responsible for regulating all nuclear facilities and nuclear-related activities in Canada. The Canadian Nuclear Safety Commission grants station operating licences, which set out the requirements under which stations must operate.

So the province and a number of other bodies provide oversight, and OPG works to meet clear government expectations as a matter of course. But it is important to point out that OPG is a corporate entity, with specific roles and obligations of the board and management to

oversee day-to-day operations and the related decision-making.

We can assist by offering a wealth of advice—and we have—from the Drummond report to the Leech report to the work of the council on government assets, which has identified opportunities for operating savings at OPG.

As has already been announced, OPG has initiated an action plan to address the findings of the Auditor General's 2013 report regarding HR practices.

The Minister of Energy requested that Ministry of Finance internal audit support and review OPG's implementation plan by conducting spot audits and providing advice to the ministry. For a period, internal audit has been embedded in OPG, to oversee implementation of OPG's action plan in response to the findings and recommendations of the Auditor General. The team has provided my minister and the Ministry of Energy with an unbiased perspective, and we are satisfied that OPG is making good progress towards implementing improvements to its HR practices.

OPG presents its actions to the ministry and to internal audit on a regular basis. It also posts progress reports online on its website for public access, along with details on its response to the Auditor General's findings. OPG has posted the latest update this month.

In summary, as a ministry, we continue to work to ensure a reliable, clean and affordable system for Ontario ratepayers. The ministry expects that the principle of value for money that we follow will be fully adopted by our agencies to ensure that ratepayers in this sector see the efficiency and affordability they deserve. The ministry will continue explore to ways to increase system efficiencies and bring about ratepayer cost savings.

I'll pass it on to Bernard Lord, the chair.

Mr. Bernard Lord: Mr. Chair, members of the committee, my name is Bernard Lord. I am the board chair of OPG. Good afternoon, and thank you very much for inviting us to be here today and giving us the opportunity to speak with you. I have with me Tom Mitchell, who's president and CEO; Barb Keenan, senior VP of people and culture; and Beth Summers, our CFO, is here also. We look forward to outlining our progress on the Auditor General's 2013 report and welcome your questions.

As a former Premier of New Brunswick, I fully appreciate the importance of accountability for provincially owned utilities. So I come to this new role here at OPG with some previous experience in utility governance.

I understand Ontario electricity consumers and customers want affordability and reliability. As you probably know, our mission at OPG is to be Ontario's low-cost electricity generator of choice, and that's exactly what we had in mind when the board of OPG and the management of OPG acted quickly to respond and address the findings of the Auditor General's report last year.

Before I get to some of the details, I'd like to give you a brief overview of OPG and then lay out the actions that were taken by the board in response to the Auditor Gen-

eral's report. Tom will then outline some of the specific measures implemented or those that are under way.

As you probably know, OPG provides about half of the power produced in Ontario, and we do so at a price that is currently about 47% lower than our competitors. Even with our recent rate increase from the Ontario Energy Board, the first since 2008, OPG remains Ontario's lowest-cost generator. Given our size, this means we help to significantly moderate the price of electricity in Ontario.

OPG safely operates stations from Kenora to Cornwall and pretty much everywhere in between. Some of our assets have been generating power for more than 100 years. Our fleet includes 65 hydro stations, three nuclear sites, one of which is leased to a private company, and a recently completed biomass-fueled plant.

When the province asked OPG to help rebuild the power system to make it cleaner and more reliable, OPG responded by successfully closing down coal stations while minimizing the impact to employees. And we're helping grow the economy by building new projects like the \$2.6-billion Lower Mattagami hydroelectric redevelopment with our project partner, the Moose Cree First Nation. Directly employing 250 First Nation and Métis workers at its peak, it's the largest hydroelectric project the north has seen in over 40 years.

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We're also currently preparing for the Darlington refurbishment. Under Tom and the senior management's leadership, the company is continuing a successful business transformation, which will save over \$1 billion from 2011 to 2016, resulting in ongoing yearly savings of over \$400 million and a reduction of 2,300 employees.

When the Auditor General's 2013 report was released, the board acted swiftly by making some key personnel changes at the executive level. The board's compensation and human resources committee was mandated to monitor management's progress on implementing the recommendations, and still continues this role. The committee also commissioned independent advisers to review our compensation plan. This resulted in a new segmented approach to compensation.

I have to say, I'm new to this role, but clearly I can sense that within the organization people are proud of our operations, and we are proud of our people.

We would welcome this committee to visit any of our projects and plants. This is an offer to everyone here, and any members in your caucus. You're more than welcome to join us and visit our plant.

Also, I think you should visit the education centre that was just opened recently for the Darlington refurbishment project. It is impressive. This is world-leading technology, and a world-leading approach that is being implemented here in Ontario.

At this moment, I will it over to Tom Mitchell to outline more details about the company's response.

Mr. Tom Mitchell: Thank you, Bernard. Good afternoon, everyone, and thank you for this opportunity to share our progress on the Auditor General's recommendations.

I can report that all planned OPG management actions in response have been completed on schedule and future actions are on track. This includes continuous improvement initiatives that go beyond the recommendations. Our six-month key actions report, which we provided to the Clerk and which is posted on our website, includes our progress up to the end of June. We're currently working on the next report for the end of 2014. So today, when we speak, we may give you a bit more current numbers and information.

I'll provide a more detailed overview of our actions in a moment. First, I want to outline a broader transformational exercise that began in January 2011.

The Auditor General's review of OPG's human resource practices covered a period of 10 years. Over this period, and since our inception in 1999, the company has seen a lot of change. We have had our challenges, but we have also achieved significant performance improvement. We benchmarked against the best industry performers because, as a publicly owned company, we decided we wanted to be the safest operator in the world. We have attracted top talented people from a very competitive market, and we've transformed Darlington into a global industry leader, which was recognized as one of the best operators in the world for the second time in a row.

Pickering Nuclear recently had its best-ever peer evaluation, and the effective response by its operators last week is a testament to their knowledge and professionalism.

We worked closely with our site communities to make sure people are informed and engaged in our operations. We maintained their trust, along with the regulator's trust, after the nuclear accident in Japan.

Relations with First Nations and Métis groups saw a painful history give way to development partnerships.

We safely delivered North America's largest climate initiative by closing our coal stations. And in 2011, we launched a complete restructuring to ensure we continued to be Ontario's low-cost energy generator.

As our Chair has mentioned, we're proud to help moderate the price of electricity for ratepayers, and we want to keep that role. Our business transformation has been tough slogging, but effective. To date, we've implemented a new organizational model with fewer managers, streamlined our service delivery and improved our processes. Our total target savings, as mentioned, is \$1 billion and 2,300 fewer employees.

A government-commissioned review by KPMG conducted in 2012 indicated our transformation plan was very sound. By achieving these reductions in a careful, measured way, and largely through attrition, we are ensuring our focus on safety and performance remains sharp.

But we know there is more to transforming a business than reorganizing and downsizing. The mindset must change; the culture must change. Although we have made progress, the transformation of our culture as caretakers of public funds needed to move further. OPG's company-

wide transformation set the foundation for this change, and the Auditor General's recommendations provided a reminder that we still had a lot of work to do.

Our goal is a culture where small expenditures are contemplated with the same care as money spent on large things. I'm pleased to say OPG employees across the company are embracing this notion. Through an internal campaign called the Nickel Challenge, we have mobilized employee creativity and innovation to identify additional cost-saving initiatives. Most importantly, we started a conversation and a questioning attitude that has taken hold at all levels of the company.

Now I would like to quickly highlight some of the key actions. The staff levels: As a result of our multi-year business transformation to date, which includes 120 key initiatives to cut labour costs, we've reduced staff levels by over 2,000 and have saved roughly \$500 million. We're managing attrition carefully to ensure we have the right people in the right positions to meet our needs. We have reduced our senior management head count by 11% since 2013, and eliminated 22 senior management positions. We expect further reductions to continue as attrition occurs.

Nuclear staffing levels: Each year, we benchmark our nuclear staff numbers against others in the industry. We use the results as input for our business planning and make adjustments. We decreased our head count from 17% over benchmark in February 2012 to 4% over as of March 2014. At the same time, we've maintained the highest safety standards.

Strengthening and improving our recruitment process has been a big area of focus. This includes centralizing the recruitment function to improve efficiency, controls and documentation, in terms of compliance with hiring processes. We've embedded clear expectations for hiring in our code of conduct, with rules supported by discipline. While the majority of our hiring involves two or more interviewers, we are developing an implementation plan to implement hiring panels by the second quarter of 2015.

With respect to security, I am pleased to report that reviews by both the Canadian Nuclear Safety Commission and CSIS confirm OPG has an industry-leading nuclear security clearance program. We've ensured all employees requiring access to nuclear sites or sensitive nuclear information have the appropriate clearance, and all of our non-nuclear employees have been assessed for appropriate clearance levels. As part of a continuous improvement initiative, we implemented an automated enhanced monitoring tool for compliance.

In terms of pensions and benefits, OPG has been looking at options to ensure the financial sustainability of our pensions and benefits for a number of years. Earlier this year, our board approved phasing in pension reforms for management employees, including increasing contributions to 50-50.

OPG has frozen compensation for all senior management and complied with all government wage constraints going back to 2009. Total management base salary costs are down by 11% since 2010.

To supplement the board's review that Bernard mentioned, we retained independent advisers—that's Towers Watson—to examine our management compensation plans. Both concluded OPG's overall compensation principles are sound; however, improvements could be made via segmentation, which means looking at three groups: nuclear, utilities and corporate/administration.

Just a reminder that 90% of our employees are unionized, so we've made progress with management and now we are about to enter into new collective bargaining with both of our unions in 2015.

The other thing that we've done is, we have created stronger links between performance and awards; I would call that a direct line of sight between the boardroom and the control room. The aim is to build more accountability for measurable results directly tied to pay-at-risk compensation.

We've also strengthened our succession planning and knowledge transfer for critical roles. We've implemented rules for rehiring former OPG employees.

We've introduced a number of things to better manage contractor's hours, including audits. And we've also implemented caps, and enhanced approvals and controls on overtime in nuclear, which has the most overtime. As a result, in September 2014, it was 56% less than one year ago.

Again, thank you for the opportunity to give you a summary. We stand ready to answer questions.

The Chair (Mr. Ernie Hardeman): Thank you very much for your presentation—just a tad under your 20 minutes, so very well done.

We go to the third party. Mr. Tabuns?

Mr. Peter Tabuns: Good afternoon. It's good to have all of you here. I have to say, before I ask you a question, I would have been very happy, Chair, if we had the same process of review of Bruce Power and the ability to look into that operation and identify questions that would be of interest to Ontarians. So I appreciate that a publicly owned utility is actually here, and that we can look through the organization and hold people to account.

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You're aware of the recommendations by the Auditor General and her findings. One of the findings that she brought to our attention as a background challenge is that you're going to see a continuous drop in demand, that you're going to be losing the Pickering plant at some point. She estimated that you may be reducing your total workforce by about 50%. Is that in line with your understanding, and can you give us a sense of the timeline and mechanisms?

Mr. Tom Mitchell: Mr. Tabuns, yes. In relation to the Pickering Nuclear station, as I think you're aware, there is a timeline to close that operation. That will start in earnest near the end of this decade. The number of staff associated with that operation, when you include not just the people directly at the plant but the support staff, does range in the 3,500- to 4,000-person range, so that's a very significant reduction. I would tell you that we do have some experience with this, in terms of we did success-

fully close the coal-fired generation plants, but this is obviously a situation of a much larger magnitude.

Mr. Peter Tabuns: Yes.

Mr. Tom Mitchell: So our approach in this has been to be very careful and methodical, because obviously, as we go through these changes, we want to make sure that safety and reliability are top of mind.

I'll turn this over to Barb in just a second, but what I wanted to let you know is that what we've done is that we've put together an internal team to look at all of the different dimensions of this, including staffing levels and critical staff. There's been a lot of analysis and work done so that we understand the challenge in front of us.

I think we really want to make sure as we go through this that we approach this in a very fair and straightforward process. There are opportunities to look at re-training and redeployment. Maybe I could just have Barb—just as a more general view of how we're managing retention and selection, because in the type of complex business that we run, having the right people for the right job is absolutely essential.

Mr. Peter Tabuns: Yes, absolutely.

Ms. Barb Keenan: Thank you very much for the question. Obviously it's a topic, with the size of the impact on the organization that we have never seen before. We have learned a lot of lessons through coal closure, as Tom mentioned, and I might say that we also have a lot of transferrable lessons from the business transformation process we're also going through.

Given our demographic profile, and I think we have a lot of experience in terms of workforce modelling, we've been doing a lot of work to determine, by critical job family—whether it be operations, maintenance, any of the key job families, licensed operators, in particular—what we need and what we require as we wind down to the 2020 time frame. As we look at those, we look at different strategies to try to minimize the impact in terms of a business context, but obviously in terms of an employee perspective as well.

We have already engaged in some education discussions and open discussions with our represented organizations, both the Society of Energy Professionals and the Power Workers' Union, to dialogue on, I would say, some creative solutions for how we might handle this situation. It will be a focus of bargaining, I would say, as we move into 2015, because both of our contracts end during that time frame.

More specifically, as I think Tom alluded to, there's no cookie-cutter solution for this situation, so we are very much looking at it on a job-family basis as we look at our demographics over time, because we have a highly tenured workforce. The average age of our workforce right now is roughly 47, with 16 years of service. Right now, roughly 20% of our population is eligible for retirement as we speak, with roughly 40% of senior management being eligible. So there is a significant opportunity, if we handle this correctly over the course of the next five or six years, to leverage that attrition so that it is less impactful over time.

So as we look at opportunities and solutions, we think there are opportunities to discuss with our represented partners different staff categories that may allow us to have longer-term temporary roles versus hiring regular employees. Obviously, as Tom pointed out, safety and reliability of the system is paramount. So when it comes to licensed operators, which we're required to have a certain complement of to meet CNSC regulations, we will ensure that those individuals—that we find a way to retain them until the operation is safely closed.

What I would say is that a lot of thought has gone into this. There's no one-size-fits-all solution. We need to very much engage our labour partners to come up with something that will work for all parties, as well as engage the community, because they're a big stakeholder in this process as well, as it is a major employer in the area.

Mr. Peter Tabuns: Okay. I think you've addressed that question.

I want to go to the deputy minister. Mr. Imbrogno, you've told us that you have a team that is monitoring what's going on in OPG. You're satisfied with the direction they're taking and the actions they've taken. Can you tell me what the major benchmarks are that you've been relying on to indicate that things are going the way they need to go?

Mr. Serge Imbrogno: When we received the auditor's report, the minister asked the Ministry of Finance internal audit division to go into OPG and work with OPG to set out what the auditor expects in terms of response. The internal audit division worked with OPG to outline kind of the terms of reference of how to respond to the auditor and what kind of work would be expected.

I think internal audit went in and they were imbedded in OPG for a while. They would also do spot audits to make sure that they felt whatever OPG was reporting was accurate as well. That was our main, I guess, tool that we used to ensure that OPG was on track.

Ultimately, it will be the auditor's judgement, when she goes back to review OPG's findings, but we felt, with the experience of the internal audit division, that they could help OPG and also report in to the minister on a regular basis that things are tracking.

Mr. Peter Tabuns: So your people are saying that the information you're getting from OPG is accurate and reflects what's really happening?

Mr. Serge Imbrogno: It's accurate and they're moving forward. There's still more work to be done. We're not saying that OPG has met all the recommendations set out by the auditor, but they're tracking, and some will take more time to implement than others.

Mr. Peter Tabuns: Okay.

Mr. Bernard Lord: Can I just add something?

Mr. Peter Tabuns: Go ahead, Mr. Lord.

Mr. Bernard Lord: I just want to add as well that the minister and the department have asked us to report directly to the minister on a regular basis, which we have done. I attend—and Tom and Barb—we go and answer questions to make sure that we can provide all the

accountability that is necessary to the government, to our shareholders and ultimately to the people of Ontario.

Mr. Tom Mitchell: I would just like to add as well that, as Bernard mentioned in his opening comments, there's a compensation and human resources committee of the board, which is specifically mandated by the full board to monitor this. So we report at every single board meeting to that committee an update of our progress and get challenged and questioned by that committee.

Mr. Peter Tabuns: Okay. The next question—maybe, Mr. Mitchell, you're the best to address this: 66% of OPG's operating costs are human resource related. How much of the total cost of electricity that you sell is human resource related?

Mr. Tom Mitchell: Well, I think the total cost of our electricity would be very much driven by the labour costs. What we find is that there is a bit of segmentation, Mr. Tabuns, in that, in the sense that the staffing levels for hydroelectric are smaller and the fuel costs are lower. So part of the staffing numbers is driven by the size and complexity of our nuclear program. But, yes, I would say, in general, if you look at the cost that goes to the ratepayers, much of it is driven by human resource issues.

That is why, quite frankly, when I took this job in 2009 and looked at the trends in terms of increasing costs and increasing staffing, myself and the team realized that we needed to change that trend. So what we did is we benchmarked other multi-generating-fuel type companies in North America. It was important to do North America, because what we did need is to have companies that have different mixes of generation. With, I might add, minimal use of any contractors or external people, mostly just providing us information, and the team working on it, we looked at how to best restructure the company.

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I could tell you that that's been very successful. I think one of the reasons, and it's part of this cultural change I referenced—what we did is, we took 90 middle-level managers. I sat down with them and I said, "Design the company you want to run when you're in these roles." And that's what they did: They sat down and they took all of this benchmarking information and they said, "This is how we should restructure this company." It's called a centre-led model, where we have central standards, which is part of what we've implemented as part of the Auditor General's report, to centralize the requirements, but we have a distributed staff. The staff, many of them, are still located at the facilities, at the sharp end, where they're needed to help support the work.

That whole process, I think, has been very effective from a change management point of view and driving the changes that you've seen. I'm very proud of the ability of this company, this team, with the support of our board and with the support of our shareholder, to reduce the overall staffing in the company by 20%.

The other thing I would also like to say on this—I think it's important because we talk about safety—I just want to let everyone know that safety is in the DNA of

this company. The focus in that staff reduction was not on people in the workforce; it was on support staff. Now, I'm not trying to make any comments about the value of support staff; it's very important to have very good support staff. But where we really tried to focus this effort was on improving the service delivery model inside of the company to be able to support the line and safely, reliably, effectively and efficiently operating the plant with fewer support staff.

One of the things I mentioned is that we've done some things that have never been done in our company. I just wanted Barb to quickly mention the call centre as just an example. We now have a call centre.

Mr. Peter Tabuns: I would actually appreciate it if you didn't go to that because I have a different question.

Mr. Tom Mitchell: I'm sorry. Certainly. Please, go ahead.

Mr. Peter Tabuns: You've satisfied that question.

Outsourcing of IT services: How critical are these IT services to OPG?

Mr. Tom Mitchell: I think what I would tell you is that, as in any modern corporation, information technology is very critical. What we've been doing in OPG is looking at how to become more efficient and effective in terms of our needs and how to best service those needs.

As part of business transformation, for example, we've gone from two enterprise systems to one, and that's dramatically reduced the amount of maintenance and other things that we need to do on the system. Many of those things are just being implemented, quite frankly, as we speak.

What we have found is that there are many competent providers of information technology services. I think what I would tell you is that OPG's information needs are—I hate to say this—pretty mundane, in the sense that there's nothing new and innovative, particularly for what's needed in terms of new delivery platforms or things like that. It's stable, and what we've been really focusing on is making sure that we have the right amount of work and then looking for a provider that can give us that technology.

Ms. Barb Keenan: If I might add to that, Mr. Tabuns, just so it's clear to all the members of the committee, our IT had been outsourced for the 10 years prior to the renewal of the agreement, and during that 10-year period part of the requirement was improvement in service delivery and improvement to the 99th percentile on our key systems, so there were very important metrics built into our contract with our provider in order to ensure the reliability to us as a customer, and they have met those targets.

Mr. Peter Tabuns: And I'm assuming that your IT security needs are pretty substantial?

Mr. Tom Mitchell: Yes. I would say that that is probably the one area that has, in terms of merging, issues, around cyber security. We've done extensive investigations of that. It's one of the reasons why I, quite frankly, am not enamoured with the cloud. I like to know where my data is.

Mr. Peter Tabuns: I'm in the same frame of mind.

Mr. Tom Mitchell: Then I can actually tell you where it is. But if I'd rather not, in the sense of—we always want to share with the committee, but I can tell you it's local and we know where it is.

The other thing I can tell you is, just in terms of cyber security, there are a lot of new requirements associated with that. Quite frankly, that has been the area where we've made some increased investments. The key thing for us, quite frankly, is separation, where we basically have physical separation between the outside world and anything that controls any of our plant's process systems.

Mr. Peter Tabuns: What would it take to bring the IT back in-house?

Mr. Tom Mitchell: Well, it would be, I think, in our view, a business decision: What would be the least-cost option that provides the service levels? We have done business cases—more than once, as I recall—looking at the various options. Quite frankly, so far, all the indications are that the outsourcing model is the correct answer from a business point of view, sir.

Mr. Peter Tabuns: Does it not pose security problems if your outsourcing of IT leads to your IT needs being met on the other side of the world?

Ms. Barb Keenan: All of our IT needs are being met, actually, within the province of Ontario right now. That is one of the issues that we deal with with our service providers, so nothing has gone across the pond.

Mr. Peter Tabuns: No, I understand nothing has gone so far. There have been discussions about that in the past.

So, for you, it's critical that it remain in Ontario, serviced by people who are resident here?

Mr. Tom Mitchell: Correct. We believe that it's best if it's Ontario-based and the data remains local.

Mr. Peter Tabuns: And do you have highly specialized IT functions around dealing with disruptions in service?

Mr. Tom Mitchell: Yes. Well, we have disaster recovery plans. We have backup systems. Yes, we have a full suite of those, and they're routinely tested. And, yes, we have very competent IT professionals who manage the operation of the system.

I will say that part of the IT service provider does provide some of the additional work when we want to modify a system or change it, because actually, it's those external resources that are more competent in the detail processes in terms of making software changes and the controls associated with that. Our internal resources are more focused on day-to-day operation.

The Chair (Mr. Ernie Hardeman): Thank you very much. That concludes the 20 minutes. To the government side: Mr. Potts.

Mr. Arthur Potts: Thank you, Mr. Chair, and thank you all for being here. This is a tremendous honour to be here and have an opportunity to review where we are now since the auditor's report.

I'm new to this game here, obviously. Coming in here, I wasn't sure when this was all happening, and I said to Mr. Tabuns earlier today—who happens to be my mem-

ber in Toronto–Danforth—“You’ve been here, Peter. How could you let this happen?” And, of course, I mean it facetiously, I’m not holding him in any way responsible, but—

Mr. Peter Tabuns: I did my best.

Mr. Arthur Potts: I’m hearing that very clearly.

But what I am sensing is the incredible value of this committee, that we have a chance to drill down into government agencies and government boards and such to get a better sense—and the AG’s work on this thing.

Mr. Tabuns referenced Bruce Power, and we may have a difference of opinion as to what extent some of this needs to be in public and in private hands. I like the mix. I think it’s important. So my first question to you is, what is your relationship with Bruce Power from the perspective of personnel and human resources compensation levels, and are you benchmarking against what they’re doing within their profit structure?

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Mr. Tom Mitchell: Maybe I’ll take the lead, but for the details, I’d like Barb to elucidate.

Let me be very clear about something in terms of our relationship with Bruce Power. I think our relationship with Bruce Power is very sound and very professional. We have, I think, the same focus on safety. I would never try to speak for Duncan Hawthorne, but I think, if he was here, he and I would agree that we do not compete on safety. In fact, what we do is we share a common approach, because safety is number one in the nuclear industry.

Having said that, they are a separate organization and have a separate team. I can tell you that relationships, at the working level, are very strong and that we share best practices, we share resources and we share common approaches.

What I’ll also say is, quite frankly, we feel we probably have been a bit more aggressive at looking at labour costs and achieving, I’d say, a different level of results on the plus side.

Perhaps, Barb, you could talk about the relative numbers, particularly with the represented staff.

Ms. Barb Keenan: Certainly, yes. Thank you, Mr. Potts. From a collective agreement perspective, just for some background, the collective agreements that Bruce Power acquired when they did take over that particular plant did stem from us under successor rights, so they took on those agreements. Since that time, obviously, they’ve bargained with the power workers and the society, as we do.

When you look at both of our organizations, what you will see is, over time, actually, from a power worker’s perspective—if you look on average at the salaries of power worker professionals at Bruce Power, there is roughly a 14% differential in terms of the salaries at Bruce Power versus ourselves.

Mr. Tom Mitchell: Higher.

Ms. Barb Keenan: Yes. That is higher at Bruce Power. Now, obviously, that doesn’t take into account all of the things associated with collective bargaining, but if

you’re strictly looking at it on a wage basis, the society is a little closer in terms of its parallel in terms of the wage levels.

But in any case, when we are in bargaining with either of the unions—in the case of the society, we do have our mediation arbitration as the form of dispute resolution. In that case, if we are not able to reach a two-party settlement, what an arbitrator will look at mainly is relativity to other large-scale utilities with similar unions, and in our case Bruce Power is the main comparator, as is Hydro One, but more so Bruce Power, because of the nuclear composition.

In the case of the power workers, we do have the strike lockout, as do they. But, for both parties, when you go into bargaining with them, clearly the main comparator that is referenced is Bruce Power, our neighbour to the north.

Mr. Arthur Potts: Great. I was thinking more in terms of executive compensation and senior management compensation outside of the unionized sector. Obviously, that is a far more public process; we can see a copy of a collective agreement. I was thinking more in terms of their executive compensation compared to yours. Maybe we could speak to that a bit.

Mr. Tom Mitchell: Mr. Potts, we’ll attempt to answer your question in the sense of, as far as we know, their executive compensation is not revealed publicly. They don’t have the same type of reporting requirements that we do.

I think what I can tell you, though, is that we have done an extensive amount of benchmarking of our executive and management compensation structures and believe that we pay at or below market and, actually, that deviation below market tends to increase as you get higher. I wouldn’t want to speculate on others’ compensation, but what I can tell you is that I believe that we would compare favourably.

Mr. Arthur Potts: I guess it goes to benchmarking and how you benchmark. It’s my understanding that we didn’t have really solid benchmarking on staffing complements up until 2011 and further, and certainly any complements that the Auditor General has identified and where you’re above and where you’re below—you have accepted those benchmarking criteria parameters. You’re working within that, so you would agree with findings. And as you said earlier, you’ve made significant headway in getting the overstaffed positions down and bringing some of the understaffed positions up.

Mr. Tom Mitchell: Correct. The other thing I would also tell you about benchmarking is that what we’ve found is that you do have to update those benchmarks, Mr. Potts, about every two or three years, because they actually change. So it’s very important that you update, because issues come up in the industry or different approaches need to be taken.

As you point out, in some areas we are significantly under. That’s because of a lot of the innovative things that we’ve done in the company and in the industry to achieve that. I can tell you, there are no safety concerns associated with that.

In the areas that we're over, what we've been doing is—as I pointed out in my remarks, we are on a steady trend to get to the benchmark. The way we do that is, when we do these benchmarks, we look at the delta and then we build right into our business plans what the specific actions are that we're going to take. So this isn't some kind of general—what are the specific things that we're going to do as part of that business plan? What I would say is that we've tracked in the right direction, and then we do another shoot of the chalk line, if you will, and we see where we are, and then we build that into the next plan.

The reason why I say that's important, again, just for everyone, is that once we get to the benchmark, what we may find out is that the industry got better. That's why you can't relax. Three years from now, we may shoot that benchmark again and find out that there's been a shift.

Mr. Arthur Potts: I appreciate that.

One of the big issues as a government is that when people in Tim Hortons see highly-paid senior executives expensing coffees, we hear about it. When they see highly-paid executives receiving large compensations, incentive plan-type compensations, and there is not a clear rationale for why, we hear about it, and we wear that as the stakeholders on a regular basis. I know you've addressed the incentive plan in some detail. Can you give us a better sense of where that's headed, what the criteria are and how you're doing incentive payments within the structure?

Mr. Tom Mitchell: Maybe I can talk about where I see it from the management perspective, and then maybe Mr. Lord would comment more on the board's perspective, because the board is a key driver in this.

What we have are very specific metric-driven performance results. There is a little bit of discretion, but it's mostly numbers. Maybe just to give everyone a sense of how this works, there's a long-term energy plan. That clearly outlines what we are supposed to deliver. That long-term energy plan gets translated into a business plan. That business plan then has a number of specific projects and performance results—quite frankly, numbers: safety, financial—that are implicit in it.

What we do is we build what's called a balanced scorecard. The reason for a balanced scorecard is what you don't want to do is incent people to have too much focus on production over safety. If you looked at our scorecard, it would have safety, it would have financial metrics for cost performance, it would have reliability, and then projects. What we do is we have very specific targets.

What we've done in response to the Auditor General's recommendations is simplified that. We had, I would say, a structure that was a bit complicated in how we delivered that in terms of having overall corporate metrics as well as fleet metrics and then individual, so we've taken the fleet out. So we have a corporate set of metrics and then individual.

The other thing that we've done, again, to drive this clear message from the boardroom to the control room—

literally, if I took you to Darlington today, outside of the main control room on the wall is a set of performance metrics by crew, by each of the crews. Those performance metrics roll up at Darlington to the Darlington scorecard, which rolls up to the nuclear scorecard, which rolls up to the OPG scorecard, which the board and this gentleman hold me accountable to deliver. There's a direct line of sight.

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The recommendations that were made about making sure that those objectives are smart—which is simple, measurable, achievable—I think we've taken that to heart. In particular, we've tried to simplify it so that there's more of that direct, crisp line of sight.

Bernard, I don't know if you wanted to add anything.

Mr. Bernard Lord: Yes, I'd be happy to add a few comments on this. Obviously, compensation for senior executives is a key function of our board. One of the main roles that we have as a board is to make sure that we hire the right people, pay them fair wages and make sure that they deliver.

We understand, as a board, that we have to answer to our shareholders. We also understand—and believe me, I understand this very well—in this context our shareholder also has millions of other shareholders.

That's why, as was mentioned earlier, this committee is so important. I want you to know I fully support the work that you're doing here. This is essential for the taxpayers and the citizens of Ontario to understand what is happening, where their tax dollars go, how electricity rates are set and where they get the value and the benefit. It's our obligation to make sure that we can provide you, and all Ontarians, frankly, with the details and the information required to provide those answers.

When we look at the compensation of our senior executives, there are different models out there. The model that we have in place is a model where there is base pay and there's also pay for performance. We believe that is the best model. This is the model where we can secure the right people but at the same time provide compensation that reflects the performance that they deliver and the goals that they meet.

As you know, our goals come from the long-term energy plan, so as a board, we have to drive towards those goals. I told you earlier that our mission is to be the low-cost electricity generator of choice in Ontario, and we are. We are meeting that mission.

My job, as the chair of the board, is to make sure that we continue to meet that mission, and I make sure that Tom and everybody else in the senior management does that as well.

There is one thing I'd like to highlight, because we talked about the segmentation that we've been working on. We talked about the three different groups in segmentation. We talked about nuclear, utility and business administration.

Barb, maybe you could describe it better than I could, but I think it's important to note that not everybody who works at a nuclear station is part of the nuclear

segmentation. It depends on what they do at the utility. It depends on what they do at the station. That's what will determine whether or not they are considered nuclear or considered business administration.

That work is helping us reduce the cost of the workforce and better understand where the costs go. Ultimately, the role of all this is to make sure that we have an efficient company, so we can continue to be a low-cost producer and make sure that the people of Ontario benefit from lower-cost energy.

Mr. Arthur Potts: Thank you.

The Chair (Mr. Ernie Hardeman): Mr. Fraser?

Mr. John Fraser: I'd like to direct my question to Mr. Lord, and it's in relation to governance. But I'd first like to say that I do understand that you are, with your experience, in some way uniquely positioned to be able to understand this committee's relationship, the government's relationship. It is an unusual business relationship, because our shareholders aren't looking for revenue; they're looking to control their costs. That's the lens that we need to see things through, as one of their representatives, as well as the ministry being that as well.

I understand that the board has established a human resource compensation committee. I have a couple of questions along this line, but the first one is this: The first recommendation by the Auditor General is around security, and staffing levels in that regard. In terms of the board's response to that recommendation, is that part of the human resource compensation, or have you established a separate audit/compliance lens to look at that?

Mr. Bernard Lord: Through the work of our board, we have more than one committee.

Mr. John Fraser: Yes.

Mr. Bernard Lord: Each committee has responsibility for different aspects. Of course, security and risk management in any corporation—and this is not the only board that I sit on. In any organization you need to look at risk management. Of course, in an organization like ours, it's even more important. That's why we have a general risk committee, but we also have a nuclear oversight committee to look at the risk associated with that.

In compliance with, and making sure that we fully provide the answers to the Auditor General's recommendations and comply with them and move ahead with our plan, that task—and correct me if I'm wrong, Barb—has been designated to the human resource committee, but there are some functions from time to time that can be fulfilled by the other committees of the board.

Do you want to add anything to that?

Ms. Barb Keenan: The only thing I would add is, on an annual basis there is a fulsome talent update provided to the comp and human resource committee. In fact, because it has been so important, what we have been doing is doing an update every board meeting. There's also a semi-annual succession planning update that includes workforce planning that's provided both to the comp and HR committee, with a specific slice of that provided the nuclear operations committee of the board

on a semi-annual basis on a deep dive but also at every board meeting.

Mr. John Fraser: That's great. Just to go back, for instance, to the security clearance measures and what measures you've taken in terms of—and you did, Mr. Mitchell, describe them—on an ongoing basis to ensure continued success.

Mr. Tom Mitchell: What we've done is, as I stated in my remarks, we have confirmation from our regulators that we have a very sound program—in fact, described as industry-leading—and our focus then is to make sure that we're complying with that. We do have processes in place to make sure that that's occurring, and then one of what we're calling improvement items is actually an IT-based system that will help us in making sure that we dot the i's and cross the t's in that.

Interjection: Very, very important.

Mr. John Fraser: Yes. Thank you very much.

The Chair (Mr. Ernie Hardeman): Another question? Do you have a question?

Interjections.

Mr. Lou Rinaldi: No, it's okay. Carry on. We're done.

The Chair (Mr. Ernie Hardeman): Mr. Yakabuski.

Mr. John Yakabuski: Thank you very much, Mr. Chair, and thank you, Auditor, for being here today and allowing me to be part of this. I thank the folks from OPG and the deputy minister as well.

Tom, I was the energy critic when you came on with OPG back in 2009, so I don't know which one of us has been around too long. I did get a respite, but they brought me back; I have no idea why, but I'm glad to be here today. I appreciate the invitation as well and I will be speaking to your folks to do a tour of the training centre for the Darlington refurb. I'm very interested in that. I've had the chance to visit a large number of your facilities over the years and I look forward to that as well.

On the subject of the day, which was the auditor's report—and you talked about some other things too, including pensions. I may get into them and I may not, but if I don't, my colleague will. On the Pickering site itself, for example—I mean, you were ordered to phase out of coal. That was a decision by the provincial government—ordered to phase out of coal—which I think you've done a masterful job of meeting that calendar requirement.

But at one time coal was producing, on average, about 25% of our power, and when I came here in 2003, probably on a capacity basis it was about 6,500 megawatts, approximately, I would think—and correct me if I'm wrong. I'm just trying to put that into perspective. You took 6,500 megawatts out of production. That's 6,500 megawatts that OPG is no longer contributing to our power system. It has been replaced by other generators, not OPG, other than of course our partners in some of the gas plants, like the Portlands project etc. But you're not contributing as much energy to the sector as you used to. Your percentage has gone down. That's going to change dramatically when we look at the Pickering shutdown as well.

But when I look at the number of employees versus the reduction in production—oh, I’m a poet now, too: “reduction in production”—I don’t see that it completely correlates. I understand the complexities. I was in business, running a retail business, and while I’m not going to say it was simple, I’m sure it was much more simple than running a utility like you are talking about, because I could put the “open” sign up or I could flip it and it said, “Sorry; we’re closed.” I know you can’t do that. It’s not as simple with a power plant. It’s certainly not going to be that simple with your nuclear power plants.

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But I think what people are looking for is a correlation between the number of employees at OPG and the amount of power that you’re contributing, or at least the percentage of power that you’re contributing to the system vis-à-vis where you were before those changes.

Just for the record, how many units are operating at Pickering today, or are operational today at Pickering? How many units are operational at Pickering today?

Mr. Tom Mitchell: Six.

Mr. John Yakabuski: Six. Six of eight?

Mr. Tom Mitchell: Six of eight; that’s correct.

Mr. John Yakabuski: Six of eight. And how many will be taken out of operation around 2020?

Mr. Tom Mitchell: Six.

Mr. John Yakabuski: All six?

Mr. Tom Mitchell: All six.

Mr. John Yakabuski: So there will be no more nuclear production from Pickering in approximately 2020, or they’ll be phasing them out. So that’s—

Mr. Tom Mitchell: I would say, just as a quick—we’ll obviously look at how the long-term energy plan evolves, but that is the current plan.

Mr. John Yakabuski: Right. They change quite frequently here, but that’s got nothing to do with you, Tom. You just have to take the orders.

So approximately 3,000 more megawatts of energy are going out of the system from OPG.

Mr. Tom Mitchell: Correct.

Mr. John Yakabuski: So you’ll be left with Darlington and your hydraulic fleet, and the gas fleet and biomass that you are either singular or partnered with. So you’re talking about, according to this, at the time of the auditor’s report, about 11,000 employees? What’s the employee number at OPG today?

Ms. Barb Keenan: It’s 9,700.

Mr. Tom Mitchell: It’s 9,700.

Mr. John Yakabuski: It’s 9,700? So about 1,400 less. I think it was about 11,100 or so.

Mr. Tom Mitchell: I think the actual number that we’re down now is about 2,000 or 2,100.

Mr. John Yakabuski: So a significant drop from the time of this report.

Mr. Tom Mitchell: Yes.

Mr. John Yakabuski: I congratulate you on that. I guess my question is: Where do you expect the number of employees of OPG to be in 2020?

Mr. Tom Mitchell: What I would say in terms of the current plan and what we have in front of us is that we would be a significantly smaller organization after that. One thing I do want to be careful of here is that, when we cease operations at Pickering, it does not mean that we are done. We have a significant amount of work to do what we describe as to “safe-store” the units. They need to be defueled, dewatered and put into a safe condition. There are significant resources associated with that, at least for some period of time. That’s part of this planning process that was referred to earlier: trying to map out all of that.

I would say that we will be probably roughly half of where we are today, just in broad terms. In terms of some of the benchmarking that we’ve talked about, I tend to talk about energy, Mr. Yakabuski, not necessarily capacity, but when we were in coal production we were at about 105 terawatts a year, and now we’re generating about 85 terawatts a year.

On the good side on that ledger is that we’re bringing online the Lower Mattagami project, which is 500 megawatts. It’s that project I referred to. By the way, one of the very exciting things about that is that we’re bringing on this new capacity in our hydro fleet with very few additional staff, because we already have a presence, so it’s really like adding generation to existing assets. It’s quite efficient in that respect.

There are some things, I would say, on the uptick side on that, but what we will do is that we will make sure that our staff correlates with the work going forward.

Mr. John Yakabuski: Good, good, because the reality is—and Mr. Potts alluded to it—that we talk to people in the coffee shops and on the street, and, rightly or wrongly—that’s not my judgment to make—some of them will make comments about “the job that’s cash for life” and whatever. “How many people are lucky enough to get a job with”—they still call it Ontario Hydro. That’s just the way it is.

I recognize that, but I think I’m always pretty reasonable in my response to those comments. But at the same time, we cannot deny that those interactions with constituents exist.

I want to talk a little bit about the executive compensation side of it, which, in the auditor’s report, clearly showed that even while there was a reduction of overall employees, there was an increase in the number of people at the executive level. Also in the report, it showed that from 2010, the 50 highest earners were averaging about an 11% increase in their earnings in 2011.

I know that Mr. Lord explained a little bit about how you operate the incentive program, but those same people on the street are of the opinion that if someone is doing their job, they’re earning their pay. If someone is being incented or being paid significantly more than that level, then they must be doing something extraordinary. I think it’s reasonable on the part of the average person to understand that, because they go to work, they do what they believe is a good job, they work hard for their employer, whether it’s private or public sector, and they get paid. They would expect the same in any other organization.

I would be interested in hearing a little bit more about how you arrive at those numbers so that those increases happen in that way.

The other thing that happened was a lot of people were receiving—part of that number was promotions. I've seen this happen primarily in public sector situations—I've seen it in this government, I've seen it in the military, I've seen it in others—where someone is nearing retirement time, and voilà, they're in receipt of promotions just in time to have impact on their pensionable years. I guess I would be asking, is that part of that consideration or practice, and how much impact is that having on the operational cost of the utility to satisfy that? Is it the golden handshake before the golden handshake sort of thing? If you could comment on that as well.

Mr. Tom Mitchell: Thank you, Mr. Yakabuski. There are a number of issues in there, and so if I miss one—

Mr. John Yakabuski: I should get you notes.

Mr. Tom Mitchell:—you can maybe remind me.

First off, let me say that the significant reduction that we've achieved in the company size, which, I would offer, is a very large reduction for a publicly owned operation—

Mr. John Yakabuski: I'm impressed.

Mr. Tom Mitchell:—was done with attrition, and we had very favourable demographics. The significance of that is that other than some specific staff directly associated with coal plant operations, it was done without any packages. So I don't view their being golden handshakes or anything along those lines, to use that term.

What we saw as we went through this change was that various populations moved at different times based on that attrition profile. We did have a bit of a delay in the turn on the management side relative to others, but I would say that now it's tracking.

What we're undertaking right now, and it's mentioned in our response, is we are doing a study to look at the size of our executive team and management team relative to a company of the size and workload that we have to make sure that that is in tune. I think the initial results that we've seen from that is that where we are now is close to the right place, and when we establish what I'll call the target management structure relative to the size of the organization, we will set targets and meet any changes that are required.

To go back to your questions about compensation—and I know this question comes up often—all I can tell you is that I believe, in my almost 40 years of experience in the utility business, that pay for performance drives the right behaviours on management.

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Mr. John Yakabuski: You'll get no argument from me on that.

Mr. Tom Mitchell: But there is a caveat on that: It has to be a balanced scorecard, not one that's driven by production over other things. I believe that if you have the right metrics—and I can tell you that we go over these metrics every month with my senior team—what it

does is bring focus to those areas that are critical to delivering the results that you—the owners of our company and people of Ontario—want. I guess all I can tell you is that in my experience it does drive that correct behaviour and provides value. Certainly, if we didn't think it provided value, management would—

Mr. John Yakabuski: Change the policy.

Mr. Tom Mitchell:—change it.

The other thing I would say is that since I've had this job, we have done a significant amount of evolution on this, some prior to the Auditor General's comments and much since. Again, we're trying to drive that line of sight from the boardroom to the control room. Quite frankly, I'd like to drive that line of sight to the shop floor. That's probably the next vista, sir.

Mr. John Yakabuski: Maybe we'll get there in my next questions.

Mr. Tom Mitchell: Is there anything that you would like to add, Bernard?

Mr. Bernard Lord: If you allow me, I'll be—

Mr. John Yakabuski: Be brief, yes.

Mr. Bernard Lord: I know you want to ask other questions, and I understand the timing. I've been in this forum so many times. I appreciate it. I don't want to take your time.

I just want to reinforce, from the board's perspective, and certainly from my perspective as chair, that it is important to drive the right behaviour, as senior management, so we can get the right results we need to continue to be the low-cost producer for Ontarians. That's my goal.

Mr. John Yakabuski: We expect and hope you continue to do exactly that, because I think that's important for a publicly owned utility.

Tom, I think you talked about one of the next challenges, opportunities—whatever—ahead of you is the collective bargaining process with the unionized staff at OPG, which is a significant 90% of your employees, as you said. You're going into negotiations with the Power Workers' Union and the Society of Energy Professionals, which makes up mostly all of those people. Clearly, through attrition you've been able to meet many of the goals you hope to—I'm not sure if you've met the goals, but you've done very well at a reduction of 2,100 employees. I think it's impressive, and anyone would have to accept that.

I think the next few years are going to be a little more difficult. The first reduction is always easiest, from the point of view of reaching a numerical goal. After that—although Barbara did talk about the age of your staff, which, from the point of view of lowering that number, is probably a positive thing—there will be other obligations involved. I'm going to let my colleague talk about those later.

The negotiations with the two main unions: Give me some idea of how aware they are that these are things that are going to have to happen at OPG, also recognizing—and I will touch a little bit on it—that part of the negotiations over the years has been a very, very generous

pension system. What most people argue—we even hear it from people working here in the Ministry of Energy—is that they all envy the benefit package that people have at our publicly owned utilities such as Hydro One and OPG; one that carries on in perpetuity. I know all kinds of people who are retirees, and they are very, very well taken care of, from a health benefits point of view.

If we're going to get a good handle on the ability to run this utility, and as Mr. Lord says, keep it our low-cost power producer, there are going to have to be changes.

I'm going to give you an example, and I'm only going as a recipient of third-party information. But a gentleman I know in Pembroke, his brother worked at one of the nuclear plants. The numbers—I'm only going to give you them; I don't know how accurate they are. But he retired making \$180,000, took his pension, and three months later was hired back at \$220,000 on a contractual basis. The average guy on the street is going to ask the question: How can that be? The guy is now collecting his pension and has gone back to work on a contract at a salary higher, because of course the contract wouldn't carry—all of the benefits are out of it, I guess; he's a contract worker, then, I guess, or he has just made a really good deal. But those kinds of things—and I realize there is talk in the auditor's report about people being hired back because you need to bring that expertise to train new people. How—

The Chair (Mr. Ernie Hardeman): If you want to give them a chance to answer, they've got a minute left.

Mr. John Yakabuski: How are we going to be able to maintain that kind of practice if we're trying to reduce and keep you as the low-cost generator?

My God, that clock goes quick. I think he's got a fast clock when I'm talking.

Mr. Tom Mitchell: I'm going to try to give you, in a very short period—the most simple and direct answer, Mr. Yakabuski, to your question is, management has to set the pace. The board of directors, after a lot of consultation with management last year, and I'll just talk about pension for a minute, said, "All employees are going to move to 50-50 contribution. We're going to look at retirement age. We're going to look at a number of factors." So what we've done is, we've given proper notice to management and we are now implementing a phase-in of that approach.

We realize, as management, we've got to step up to the plate and show leadership. I would say we have similar things that we're putting into place. Looking at benefit programs and those types of things, and the segmentation that has been mentioned in terms of compensation, is another thing where we've done the work, we've outlined what we're going to do in management, and we're putting that in place. The approach here is to be able to then demonstrate that management understands the need to step up and that what we need to do is work collectively, through collective bargaining.

The other thing I would also tell you is the business transformation—in particular there's this Nickel Challenge that I talked about—was an education process of what does drive the cost structure of the company.

The Chair (Mr. Ernie Hardeman): We'll hope the rest will fit in to the next question, and we'll go to Mr. Tabuns.

Mr. Tom Mitchell: I tried to answer your question.

The Chair (Mr. Ernie Hardeman): This round will be 18 minutes.

Mr. Peter Tabuns: Okay. Thank you, Chair.

I want to go back to a statement that was made earlier, and I think, Barbara, it was you who made it, that there were lessons that you learned from the coal phase-out in the management of human relations personnel. Can you tell us what those main lessons were?

Ms. Barb Keenan: I would say the main lessons were that we reached a decision at the outset of knowing coal closure was going to happen, and when we made the agreement with both unions at that time, it was based on what we knew at the time, obviously. But coal closure took a number of years to occur, so some of the factors changed during the course of those eight to 10 years. Had we to do it differently, we would look for a lot more flexible solution so we weren't locked in from the beginning to a solution.

I think I would say things evolve, and you have to make sure that you leave yourself flexible opportunities to change the way you deal with things.

Mr. Peter Tabuns: Where were you locked in and what flexibility would you have looked for had you known how things were playing out?

Ms. Barb Keenan: That's a really great question, Mr. Tabuns. What we locked into early is the severance arrangements for individuals who would be exiting the organization. If you think about the approach we're trying to take with Pickering end of commercial operations, what we're trying to do is establish some very flexible options of how to deal with it and deal with it far ahead of time to get ahead of the curve, rather than dealing with it at the time of the closure. That's another lesson we learned.

Mr. Peter Tabuns: I need you to be a bit more specific. Are you saying—and I'll give you an example. You look at a workforce of 1,000 people. You look at different options for redeploying them so that you aren't paying large severance packages. You look at the whole of the organization from the beginning, with the idea that you will move people around the board so that they can continue working—they don't have to be let go—but also so that you don't, or we don't, carry a severance package. Do I understand you correctly?

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Ms. Barb Keenan: Yes, but I want to clarify—

Mr. Peter Tabuns: Yes, please.

Ms. Barb Keenan: In the case of coal closure, we did strongly leverage the opportunity to redeploy staff throughout the organization. In fact, that was a key point in our agreement. Our first preference is always re-deploying and retraining people if there are other opportunities to appropriately employ them.

Mr. Tom Mitchell: Maybe I could just add to that—

Mr. Peter Tabuns: Yes.

Mr. Tom Mitchell: —in the sense that what we're looking at is making sure that we take advantage of attrition and other opportunities.

What I would say is that it's very difficult, looking ahead, to accurately predict exactly what you're going to need to do. I think her comment about locking in would be—what we would rather have is a forum for discussion with our unions that says, “Moving forward as things evolve, this is where we're over and under; here are the redeployment opportunities,” or perhaps retraining opportunities or whatever they are, so that we have a more measured landing.

The one thing that's different about Pickering, since we've had a discussion about it today, is that—just remember, as member Yakabuski has talked about, this is a lot of people. It's not feasible to be thinking about redeploying hundreds or thousands of people. That's a very different kettle of fish than coal closure.

Mr. Peter Tabuns: Okay. The second question I have relates to commentary by the Auditor General on staff training. She was concerned that the course completion rates for control room shift supervisors were below industry standard; and concerned that the nuclear operators weren't always as well trained as she thought they should be. You had some problems with the hydro and thermal staff training as well. What have you put in place to ensure that people are adequately trained?

Mr. Tom Mitchell: This is a responsibility of Ms. Keenan, so I'll let her describe this.

Mr. Peter Tabuns: That's fine.

Ms. Barb Keenan: Yes, absolutely. I'm very pleased to answer this question. In fact, the Auditor General's report raised a number of items that we actually had on the go, but also put a spotlight on some other areas we really had to focus on, so it was very helpful.

Once again, going back to the centre-led model, one of the things that we had under way is we put eight separate training organizations under one person, which allowed us to really make sure we were looking at consistency of training, trying to ensure that there was no duplication and we were streamlining efforts. That was step one.

Step two is we, did a significant amount of industry benchmarking to look at best practices both in the nuclear industry and in the hydro/thermal industry in terms of training. So if I could provide you with a couple of specific examples—

Mr. Peter Tabuns: Yes.

Ms. Barb Keenan: With reference to the nuclear training program, I wouldn't mind providing a little bit of good information. We had had the World Association of Nuclear Operators in to evaluate our training over the course of the last year. In fact, when they did audit our training program, there were no opportunities identified for improvement this year. That's because we had moved to put a lot of new things into place, including, when it came to the nuclear non-licensed training program, which is the feeder program, we're reducing the duration of that program from 36 months to 24 months, and increasing the throughput of that particular program from what was

below industry average—a percentage in the 60s—to a higher rate of 70%.

What we also looked at in terms of the licensed training program is once again reducing the duration of that program and doing more hands-on training in the plant, which has proved to be beneficial.

You mentioned the hydro/thermal organization. What we looked at there is really streamlining the training, looking at opportunities to ensure that we were not only looking at the frequency rate at which people were refreshing their qualifications, but doing a fulsome look at what qualifications were truly needed for each job classification—really, with a laser focus, pinpointing what requirements were needed and identifying that.

In terms of hydro/thermal attendance, which was something that the Auditor General definitely identified—that attendance was not adequate. We agree with them. In terms of the hydro/thermal management team—at their monthly management team meetings, they actually look now at attendance at that program. They had set a 3% requirement in terms of people who didn't make the program, cancelled out at the last minute. Right now, we're at 1.5%, and, in any of those cases, what we have to do is, the individuals have to identify why and go up to their managers so that it's a legitimate last-minute cancellation to the program.

Does that provide some useful—

Mr. Tom Mitchell: I just wanted to add, Mr. Tabuns, because we've talked about centre-led function—what does that mean? What that means is, we've gone from eight training organizations to one. We've gone from seven supply chains to one. So what we've done is much more efficient service delivery, much more consistency: centre standards and then delivery at the facilities to a common standard.

Mr. Peter Tabuns: To the deputy: Are you satisfied that the concerns identified by the AG around training have been addressed fully?

Mr. Serge Imbrogno: I think it's an evolution. I don't think OPG is saying that at this point they have addressed all of the auditor's concerns. I think we'll leave it up to the auditor when she reports back after reviewing OPG's progress. We're satisfied that they're making good progress. I don't want to say we agree that OPG has met all the conditions and recommendations of the auditor.

Mr. Peter Tabuns: Okay. One of the items that was surprising to me was the whole question of security clearance and the fact that there didn't seem to be any systematic approach to security clearance in the past. Can you explain why there wasn't and what has been done?

Ms. Barb Keenan: Sure. There was a process in place to ensure that clearances were in place—

Mr. Peter Tabuns: In the past.

Ms. Barb Keenan: In the past. However, it was a manual system. So one of the things that we have done is, we have implemented an automated system. As well as doing that, what we did is we went back to square one, because we thought it was warranted, certainly based on the Auditor General's findings. We have done a fulsome

review of all employees in the company to look at, for each one of those individuals, what's the security clearance level that's required in our organization? That would depend upon their business unit, their location, their level and their role. For every employee, we have that now. We did that assessment.

What can I tell you is: All employees in nuclear—their clearance is in place. For all of our board members, their security clearance is in place. For our non-nuclear employees, we have assessed what level of clearance they require, and the majority of them have them in place. If not, it is in progress.

There is a renewal period for our nuclear employees. On a five-year period, they have to get it redone. So we have put, as part of the automated system, that into the system so it triggers a notice to individuals and their supervisors to make sure that occurs. For all new hires, it's a requirement before they can actually be put into our system and be paid.

What we have done is, we've really tightened up the monitoring and the control system and framework around that.

Mr. Peter Tabuns: At this point, if the Auditor General went in, she would not find a situation even vaguely like what existed previously. Is that correct?

Ms. Barb Keenan: I believe that to be true. Yes, that's correct.

Mr. Serge Imbrogno: Mr. Tabuns, can I just—

Mr. Peter Tabuns: Yes, Mr. Imbrogno.

Mr. Serge Imbrogno: When we saw the draft of the auditor's report on the security issue, the minister was concerned; we were concerned. We did contact the CNSC directly and ask them, "These issues were raised. Can you just verify that OPG is following all of the protocols?" So we did receive confirmation at the time that OPG was, from the CNSC's view, following all of the protocols.

I think what my understanding was that at the actual site of the nuclear plants, the personnel all had their—everything was verified. It was more at head office, where some people were involved in the nuclear side but not directly.

I just wanted to make you aware that we were concerned with that, and we've taken direct action to make sure that they're in full compliance. But at no time did the CNSC raise any concerns with us that we were not in compliance.

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Mr. Peter Tabuns: So with regard to those who were working in the nuclear plants, everyone had their security clearance. Did everyone who was working on IT have their security clearances as well?

Mr. Tom Mitchell: Yes, to the best of our knowledge. In my view, Mr. Tabuns, the issue here was, there are approximately 7,000 people in the nuclear organization. In an organization that size, you have turnover. So I would say it's those people moving in and out or people in a supporting role. I wanted to make sure to clarify it. I can tell you that the Canadian Nuclear Safety Commis-

sion and CSIS are a very strong regulator, and if we were out of bounds, they would tell us right away. We believe we're in compliance. We do our own checks. I can give you assurance that we believe this is in hand.

Mr. Peter Tabuns: And the Auditor General will be coming back and doing a follow-up study?

Mr. Tom Mitchell: Yes.

Mr. Peter Tabuns: Okay.

Going to the next item for me, and that was a graph presented by the Auditor General showing staffing levels at the executive and senior management level; it's showing from 2005 to 2012 a very sharp growth. Now, I gather from 2011 you've been doing some reductions. Why did we have such a sharp growth in senior management and execs from 2005 to 2012? What drove that?

Ms. Barb Keenan: There were a couple of things that drove that. Thanks for the question. One was, we were having a significant focus on improving performance, so we did bring in more senior people at the plant level to provide that oversight. From a business transformation perspective, when we embarked on that in early 2011, one of the first things we did, actually, was populate the senior management level and then the next level down in order to drive the transformation.

One of the things we did as part of that was, we wanted to ensure we had the right behaviours and those people who were willing and wanted to drive the change that we were looking for, so when we populated some of those roles, we added a few positions. As Tom mentioned earlier, we were relying on attrition to have people leave the organization. In some cases, what that meant was that we did put individuals into more senior roles, and with other individuals, what we leveraged is, we had a number of key initiatives that we had to drive through that required additional senior oversight in order to ensure there was sustainable change, so to get some of the work out of the system and to leverage the economies of scale, which meant at the senior level we were introducing some additional senior people. Those people have since—as you can see from our numbers, actually, at the senior management level we have gone down by a further 11% since 2013. So you will see that attrition has taken place and those numbers have come out of the system.

One of the other things that did drive some of the changes is that we did have some significant projects that were under way at the time, whether it be Lower Mattagami or the Niagara tunnel, and refurbishment was coming online. All of those three key capital projects also required additional senior-level oversight. So it was a combination of factors and timing.

What you will see now, if you look at our numbers—we have a dashboard, and on a monthly basis we monitor those numbers. They are coming down. As I said, it's down by 11% since 2013. Any band—this won't mean anything to you. But anything from director and above—I was going to use "bands," and that would have been a foreign language—

Mr. Peter Tabuns: "Director and above" helps.

Ms. Barb Keenan: Any director-level positions and above do require Tom's approval in order to proceed. So also putting tightly monitored—

Mr. Peter Tabuns: So when do you expect to hit your 2005 level of senior management and executive positions?

Ms. Barb Keenan: If I look across at the graph we have in place right now, in 2005 we were at 205 people from the A to F levels. I'm pleased to report that currently we're at 195, so we're below that level now.

Mr. Tom Mitchell: If I just might elaborate, Mr. Tabuns, it was a temporary condition. I describe attrition as sort of like a symphony orchestra: As you attrit, you can end up with more violinists and tuba players than you need, because it's not a precise process. So there need to be some readjustments.

What we did with this additional staff we had that had not moved through the system yet—the business transformation required 120 initiatives to make it happen. There was real work to make this happen. For example, I've talked about going to a single enterprise IT system. There was work involved in that. What we did was deploy those people into those projects, and as those projects wound down, we followed the attrition curve.

The Chair (Mr. Ernie Hardeman): Thank you very much. Now to Mr. Rinaldi.

Mr. Lou Rinaldi: Thank you for being here today. I'm going to start by following some of the previous questions, and then I'll get a little bit softer. Coming from rural Ontario, when I visit Tim Hortons, energy costs are a big issue because of the lack of other energy supply options in our communities.

When the auditor did this particular report that we're talking about today, there were some pretty obvious issues that you've identified. Congratulations for that and how well you quickly tackled them. I guess my question is: How did we get there in the first place? Some of these things are somewhat fairly obvious. That's the challenge. If I'm going to do the job I do, and as I'm sure Mr. Lord did back in New Brunswick, you have to respond to the citizens who put you here, and I enjoy every minute that I'm here. But those are the types of questions I'm faced with every day.

But I am delighted—and I mean that with sincerity—by how quickly you reacted and how far you've come. If you could just highlight a little bit of that, and then I'll get to softer questions.

Mr. Bernard Lord: If I could just start with a broad comment, the questions that you and other members of the committee are asking are totally legitimate questions, and your constituents want those answers. I came in—I think my first board meeting was the day after the Auditor General tabled the report.

Mr. Lou Rinaldi: Welcome.

Mr. Bernard Lord: It was too late; I had already said yes.

What I saw, from the board's perspective—I can assure you and provide some level of assurance and confidence that the board took this very seriously. We

saw this as a sign that we had to do something, and we decided to act very quickly, because we know the standard we have to meet. Beyond any other company, any business where you have to meet the standards of your shareholders, our shareholders are not only the government of Ontario; they are the people of Ontario. As I know you can appreciate, I understand that very well, and that's why I was pleased by the reaction and the determination of the board to deal with this quickly. What I sense from senior management is that they understood that we had to act quickly and deal with this.

The one thing I would say, and I'm sure Tom will give you more background on this: The Auditor General went back 10 years, and the report covered a 10-year period. You're right to ask how these things happen. But some of the corrective measures were already in place or undertaken by senior management before the report came in.

I think this is a good illustration of how this type of process works, and how what we're doing today works. That's why we welcome the opportunity to be here to reassure you, and to reassure the people of Ontario. And I want to go back, because to me, everything has to start with a goal and a clear mission. Our mission is to be the low-cost producer in Ontario. We are the low-cost producer in Ontario, we want to remain the low-cost producer in Ontario, and we know that means we need to do certain things more efficiently. We need to look at our costs. We've talked about pensions. Those are things we want to address, and we're not done yet. I want to provide you with that level of assurance from the board level. I'll let Tom speak on behalf of senior management.

Mr. Tom Mitchell: Maybe I can try to address your question this way, because I raised the issue in my remarks about culture. To be honest with you, we can have a rule book as big as we'd like, and believe me, we run a nuclear power business, so paper is our friend. We have a lot, and it's important to have that. But really what we are trying to do is change the mindset here.

What I can tell you is that we had identified a number of issues and had been taking action on those. I viewed the Auditor General's report as an accelerant on that change. The report caused a lot of soul-searching and pain in the organization. Some of that was vented in sort of, I would say, a defensive way. I told people, "Don't be defensive. This is like a mirror being held up to our organization. This is what people externally see when they look at OPG." Sometimes if you don't like what you see, the first place to look is in the mirror. What I would tell you is that it was a wake-up call to accelerate that process, to continue to educate people on the importance of being a wise manager of the public purse; that we needed to change, and it needed to be a step change.

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Now, I would never declare victory on culture; I think culture is a bit of a journey. But what I would say is that prior to the Auditor General's report and following the Auditor General's report, it was a lot of top-down driven change. I did talk to you about the organizational change being driven by middle management, which I think was a

very healthy process. Having been involved in two or three different major reorganizations, I think this was actually a good case study of how to do organizational change.

What we've done now is, we're starting a bottom-up approach. Part of that was an education about, when we collect a dollar, where does that dollar go? I think it was a real eye opener for everybody in the company of where that dollar goes. How much of it goes to pensions? How much of it goes to operational? How much of it goes to fuel? What are the input costs?

That process, which is still under way, has generated a phenomenal number of ideas, and let me just give you one. In the north, we had a lot of satellite phones because we need to communicate, but wireless technology has evolved and the wireless network has evolved, and we don't need those satellite phones any more. Most of our staff now have wireless communication, so we're able to eliminate that. Now, that may sound small, but every nickel counts.

What we need is—I mean, it would be nice if the CEO could ask all of those questions. What I need is 9,700 people asking those questions and identifying—so that was a relatively small idea. Let me give you a big one. Atikokan station, the station we just converted to biomass—on budget and on schedule, I might add—has the same turbine as Darlington; just one of them instead of three of them. It's a much smaller plant. It turns out that at Darlington we need spare parts. What we found out is that the spare parts that we have at Atikokan fit at Darlington. So the estimate of that in terms of cost savings is something in the order of \$1.5 million just through pooled inventory. That's one of the advantages of going to a single supply chain instead of having a fossil fuel supply chain and a nuclear supply chain.

What I'm starting to see is that cultural shift. What we're doing right now—I don't have the results yet; we just started—is a survey of our employees to gauge their level of understanding of some of the things I've talked about, and I think that will be very important for the management team. We'll share that with the board in terms of what has been the degree of penetration on some of these issues because, as I said in my remarks, and it was alluded to earlier, we have to have the same focus on small expenditures as we do on the big things.

The other thing I would also tell you is that a big part of the culture change has been the Ontario Energy Board process, because that is the voice of the ratepayer to us. We go through a very elaborate process of presenting to them, and we get feedback. We share that feedback with the staff because that's the ratepayer. The people who are paying the bills, that's their feedback to us on what needs to change. As I said, I would never declare victory, but I think we're making solid progress on those changes.

Mr. Lou Rinaldi: I still have time, Chair?

The Chair (Mr. Ernie Hardeman): You've got about six minutes left.

Mr. Lou Rinaldi: Okay. So, following on that thought—and I appreciate your answers; I think, from

what we've seen happening over the last year or so, your answers today do make some sense. I'm going to stick to the theme of the end user, because those are the people who call our constituency offices. They call me; they see me at church; they see me in the grocery store, and that's the thing they talk about: their hydro bill.

You talked about some initiatives that you're already starting to turn the curve on, to help us message that. You mentioned a couple of them. Maybe they don't have to be that specific, but, of the things you've already done and things that are in progress of being done, can you help me with some more messaging to say that we're making things happening?

Yes, we've been there, and I like your words being honest. There was a culture, and that became very evident out there. I like to talk to people in a fairly straight manner and say, "Don't fight it. Accept that there was a culture, but here's the road we're going on." You mentioned a couple of things, but can you elaborate a little bit on things that I could add to my list that I could say to these folks, to help you and to help us as elected folks here?

Mr. Tom Mitchell: Well, Member, I've tried to give you a couple of specifics. I hope I've helped to give you a range.

Mr. Lou Rinaldi: Yes; very helpful.

Mr. Tom Mitchell: What I would say is that there are many of those. What we're trying to do is to encourage people. I think the other thing that I would just say, in general, is that we have a very high degree of respect for the ratepayer in the sense of understanding the impact. The fact that we are, right now, about 47% lower than our competition in terms of our price impact, I think, is something that is very important, as Bernard has said, and the board. When we talk about initiatives and talk about changes, ratepayer impact is a prime consideration.

I can also tell you that, when we visit our colleagues at the Ministry of Energy, I would say that that is probably, if not the first question, generally in the top three or four questions that get asked: "What is the impact of this on the ratepayer?" The idea is to have a positive impact. I think it has very much come to mind.

What I can tell you is that the whole premise of the business transformation process that I've outlined is—at a macroscopic level, to give you a sense of the change that we've been through—again, most of it, top-down-driven. One of the things that we're actually interested in cataloguing, and that we're capturing on things like websites, is all of these examples that have come up of savings.

Let me just give you another one. MTO, the Ministry of Transportation, has a fleet of cars that are positioned around the province. We now have a co-operative arrangement with MTO to actually have those cars available at our sites. They are a much more efficient and effective way than a car rental; you basically book it online, you pick it up, you drive it and you bring it back. That's a cost savings. It's an efficiency saving for the government, because it increases the utilization of that resource.

That's just another. There are many of those types of examples where I think we're trying to drive into the mindset that our actions impact the ratepayer. Large or small, we want to know what it is, and we want to fix it.

Mr. Lou Rinaldi: On the same line, if I have a minute: We're all guilty. We've become so accustomed. We just flip the switch when we go in any place, our businesses or homes, and whammo. It's magic, right? I guess we forget—I think we all do—how that happens. It's magic.

I think that's one of the things. Although there are some challenges from all different sectors of the electricity business, having the opportunity to flip the switch and have the lights come on has a huge value attached to it.

From your lens, from your side of the road, can you talk a little bit about the value that we as Ontarians—and other jurisdictions, frankly; but we have a fairly reliable sense. Can you maybe enlighten us?

Do you have a question, too?

Mr. John Fraser: After you're done.

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Mr. Tom Mitchell: I'll give you a very short answer, because I know there are other questions. Let me just tell you: Our number 1 focus is safety, (2) is reliability, (3) is green and clean, and (4) is cost efficiency and effectiveness. That drives everything we do. That's the lens, I can give you assurance: everything we do, every day, 24/7.

I absolutely agree with you: I think that people, perhaps, don't realize everything that's behind that switch. Actually, I think that's a good thing, in some respects, because people become accustomed to having it there.

I can just tell you that whether it was during the ice storm or other periods of weather, our number one goal, after safety, is to make sure that system is there to support—

Mr. Lou Rinaldi: Thank you. I think my colleague has a question.

The Chair (Mr. Ernie Hardeman): Mr. Fraser.

Interjection.

Mr. Bernard Lord: Sorry. Just 30 seconds. I just want to go back to your previous questions. I think there are three key things you can mention to constituents: We have reduced senior management by 11% in the last 18 months; we've reduced the total number of employees by over 2,000, close to 2,300; and we're working our way to a 50-50 pension plan. We've already put that in place with management, and we'll be working and negotiating to achieve that with all employees. Those are three key elements. The journey has started, and we're not at our destination yet. But those are three key messages that show the trends are going in the right direction.

The Chair (Mr. Ernie Hardeman): Mr. Fraser.

Mr. John Fraser: Just a quick question in terms of the latest OEB ruling. There was a ruling in terms of compensation. I think it was \$100 million to be disallowed this year and \$100 million next year. As it relates to what we're discussing today, can you provide some comment on that?

Mr. Tom Mitchell: I'd like to ask my CFO to come up and talk briefly about the rate case and what was driving it.

Ms. Beth Summers: Thank you for the question.

The Chair (Mr. Ernie Hardeman): Could we have your name first, before you speak?

Ms. Beth Summers: It's Beth Summers, CFO.

The Chair (Mr. Ernie Hardeman): Thank you very much.

Ms. Beth Summers: The Ontario Energy Board, after having gone through the public hearing process, did identify in their executive summary that the rate increase is roughly 10%. While we're still working on that, the key piece of that, I think, to put some context, is that there has been no rate increase for Ontario Power Generation since 2008. That actual increase is less than what inflation has been over the same period of time. From OPG's perspective, we're actually very proud of the company, that it has been able to identify efficiencies, through time, that allow us to deliver all the energy and the generation, in the context of that increase, especially in light of the fact that it's much more emission-free generation, proportionately, over that period of time.

The Chair (Mr. Ernie Hardeman): Okay. Your time is up. We now go to the official opposition. Ms. Munro.

Mrs. Julia Munro: Thank you very much. Actually, you made a couple of comments a moment ago that were a perfect segue for me. I want to talk a bit about the pension issue. You mentioned that there were 2,300 fewer employees, but I lost my number that says how many you have, in round numbers.

Ms. Barb Keenan: We have about 9,700 right now.

Mrs. Julia Munro: Okay. Thank you very much. I realize that was in the margins of the paper somewhere.

In looking at the information the Auditor General has provided us with, it seems that when the Dominion Bond Rating Service looked at Canadian pensions, you were at the top of the list, but that meant you were the worst. I wanted to know: With a \$3.3-billion deficit, you mentioned the lower number of employees you have, and obviously that would have some bearing on the pension plans.

But a couple of other things: When you talk about going to a 50-50 contribution, where it had been closer to 4 to 1 or 5 to 1, as I understand it, that means the taxpayer is paying for that shift, does it not? Because if OPG paid for part of this, the one part, then that was money that came from the public purse. Is that fair to say?

Ms. Beth Summers: Let me try to address the question. With respect to the contributions, as the contributions move towards 50-50, that ratio will change, such that it's the employee that picks up the larger portion, versus the ratepayer through Ontario Power Generation.

When you look at the pension fund historically, or the historic cost of the pension fund, it would be the ratepayer that would have been making the higher contributions, not the taxpayer per se, if I understand your question correctly.

Mrs. Julia Munro: All right. If we take the ratepayer—because there is only one taxpayer—I guess my

question is, in going to that one-to-one balance, does that mean that the individual is seeing an increase of their contribution?

Ms. Beth Summers: Yes.

Mrs. Julia Munro: In most cases, we see almost a tsunami of people reaching a certain age where they start retiring. Is it fair to say that the same kind of thing is true with OPG?

Ms. Barb Keenan: Yes. Part of our business transformation was to actually capitalize on that demographic profile, where we do have a significant number of our employees who are eligible or will be eligible to retire in the next few years.

Mrs. Julia Munro: When they look at how many workers there are to how many retirees—I know, for instance, teachers did an analysis 30 years ago or something, and there were four people working for every one retired. What kind of number can you put forward that would be the similar kind of analysis? What would the ratio be between those who are working and those who are retired?

Ms. Barb Keenan: Currently, we're at that tipping point, where it's actually 1 to 1.

Mr. Tom Mitchell: It's 1 to 1.

Ms. Barb Keenan: One active for one pensioner.

Mrs. Julia Munro: Do you see that number potentially changing as your workforce ages?

Ms. Barb Keenan: Yes, not only with our workforce aging, but also, with the closure of Pickering and us lowering our numbers because of transformation and trying to lower that, you will see an increase in pensioner ratio to actives over time. Yes.

Mrs. Julia Munro: What is the average age of retirement for someone at OPG?

Ms. Barb Keenan: It's roughly 58.5.

Mrs. Julia Munro: Do you anticipate that there might be pressure to increase that average age?

Ms. Barb Keenan: The average age—one of the things we did with management is—right now, there is something called the undiscounted rule, which is the sum of—

Mrs. Julia Munro: I'm sorry, I didn't hear it.

Ms. Barb Keenan: There is something called the undiscounted rule, which is the sum of age and years of service, that allows you an undiscounted pension. For management, it was 84. We recently gave notice to management that we are increasing that age to 90.

Now, what I will say, to put this a little bit in perspective as well, is that although there had been a rule of 84 for management and 82 for represented employees, on average, people don't leave until the rule of 89. In fact, that has been our history, and we quite scrupulously look at those numbers and keep track of them.

Mrs. Julia Munro: And it's more likely to be closer to 89, is it?

Ms. Barb Keenan: Actually, since around 2010-11, we have seen that number go up versus down, so people tend to be staying a little longer than they did previously.

Mrs. Julia Munro: What is the percentage—I'm sure it varies, so I would only be looking for a ballpark figure—of your retirement earnings vis-à-vis the length of time that you've been there? Maybe that's—

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Ms. Beth Summers: Yes. It's a formulaic calculation. The way that it is calculated is that for every year of service 2% of your highest three years of pay.

Mrs. Julia Munro: The highest three years, okay.

Ms. Beth Summers: And it maxes at—

Ms. Barb Keenan: At 35, so 70% at your highest.

Mrs. Julia Munro: And would that vary from the kind of job you held—

Ms. Beth Summers: No.

Ms. Barb Keenan: No.

Mrs. Julia Munro: —or is it just strictly on the money? Okay.

The other question that I had with regard to this was with the deficit that the bond rating identified. What kind of response have you given to that?

Ms. Beth Summers: With respect to the deficit, that is highly impacted or relates to how the assets have performed through time, so at any given point in time that does change. The last valuation would have had—I don't have the number right at my fingertips, but the deficit had decreased with respect to what it was previously. That will move around through time depending on how the assets are performing, which is generally driven by general market conditions.

Mrs. Julia Munro: There are times when you're going to have to have a number, as they did here. How does that number get translated in terms of financial obligation? Whose financial obligation is it? Where is it attached? Is it attached to just OPG? Is it attached to the provincial debt? Where does it go?

Ms. Beth Summers: The way that it will work is a valuation is done; it's calculated. Based on that valuation, there's a determination of what the pension contributions are. They're split into two pieces: current service and for past service. With respect to the deficit, depending on the size of the past service deficit, there will be contributions that are made by the company in order to address that. In a period of time where a pension fund could be in a surplus position, that there would be no contributions, and a period of time when there's a deficit, there is a calculation which is done through actuarial means. There will be external actuaries that help calculate those numbers, but those contributions then will be made by the company.

Mr. Bernard Lord: If I can add, you mentioned earlier the ratio that we're trying to get to, the 1 to 1. You mentioned before it was closer to 5 or 6 to 1, and correct me if I'm wrong. With the additional payments, that means the ratio is actually more than—let's say it was started at 6 to 1. If we make additional special payments then it becomes 6 or 7 to 1.

Ms. Barb Keenan: If I could just—the going concern—the ongoing is a 3-to-1 ratio currently. Any special payment is what increases that. Right now, it's at four.

Now, the most recent valuation we did—as Beth mentioned, our solvency ratio improved considerably. In fact, I believe—and I’ll have to come back to the record later and go back to my office and verify this—the solvency ratio was at 99%. So it went up considerably, and the going concern was around 93%. It was a considerable improvement largely driven by the discount rate, as well as investment returns.

Mr. Tom Mitchell: If I could also add to some of the numerics that you’ve heard here, which are very important and, as you can tell, we track very closely, we were a strong supporter of the review that was done by Mr. Leech to look at the overall structure of these programs and the sustainability of them, which I think many of your questions are driving at. We are, as we’ve mentioned, taking real steps with management to move in terms of contribution ratios and retirement age, if I could use that, or the formula.

But the ultimate goal, which we are very supportive of, as outlined in the Leech report, is a funding management plan. Now, I’m not a pension expert, but my description of that would be that at any given time, say, annually or biannually, you would look at the assets and the liabilities—assets generally being market-driven—liabilities as a longer-term calculation, so there’s always a bit of variability in this—and that the financial condition at any given time would be built into contributions or benefit changes or things, very similar to what has been put in place with teachers. Those are things that I think have been put on the table strategically, and we’re very interested, and have been for quite some time, in moving past the steps we’ve already outlined into that broader discussion.

True sustainability, in my view, would look at those assets and liabilities periodically and make changes to either funding status, in the sense of contributions, or looking at benefits so that it remains in balance. The value for everyone in that is that it assures all of the participants in the plan that the plan will be there when it’s needed.

Mrs. Julia Munro: Yes, I would certainly agree that there’s the need to sort of have a bit of a float flexibility kind of thing that will respond.

On a totally different note, I just wondered how many of the senior people received merit pay the first time after the auditor’s report. Was there any change?

Ms. Barb Keenan: As a result of the impact of the Auditor General report, there was a 10% reduction that was attributed to the incentive payout that year, or the pay-for-risk payout, to recognize the impact.

Mrs. Julia Munro: Thank you very much. Just one final question on reaching the 50-50: How long do you anticipate that to take?

Ms. Barb Keenan: We did obviously engage appropriate advisors in this on the proper way to do it, but in order to get to our going concern requirement in terms of a percentage, it would take us roughly five to six years if we moved at a percent a year of increase. Right now, employees pay 7%; we would be moving up to 12% or 13%.

Mrs. Julia Munro: Okay. Thank you very much.

The Chair (Mr. Ernie Hardeman): Okay, if everybody is done, thank you very much for your time this afternoon. If we could, we’ll ask the committee to just wait for a moment as we clear and we will go into report-writing mode and close the doors.

The committee continued in closed session at 1437.

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