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# STANDING COMMITTEE ON PUBLIC ACCOUNTS

## ONTARIO POWER GENERATION HUMAN RESOURCES

(Section 3.05, 2013 Annual Report of the Auditor General of Ontario)

1<sup>st</sup> Session, 41<sup>st</sup> Parliament  
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The Honourable Dave Levac, MPP  
Speaker of the Legislative Assembly

Sir,

Your Standing Committee on Public Accounts has the honour to present its Report and commends it to the House.

Ernie Hardeman, MPP  
Chair of the Committee

Queen's Park  
May 2015





# STANDING COMMITTEE ON PUBLIC ACCOUNTS

## MEMBERSHIP LIST

1<sup>st</sup> Session, 41<sup>st</sup> Parliament

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PETER TABUNS regularly served as a substitute member of the Committee.

JOHN YAKABUSKI regularly served as a substitute member of the Committee.

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William Short  
Clerk of the Committee

Ian Morris  
Research Officer





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## **CONTENTS**

PREAMBLE	1
Acknowledgments	1
OVERVIEW	1
Auditor's Objective	1
Background	1
ISSUES RAISED IN THE AUDIT AND BEFORE THE COMMITTEE	2
Staffing Levels and Recruitment	2
Compensation	4
Use of Non-Regular Staff and Contract Resources	5
Overtime	6
Absenteeism	7
Staff Training	8
CONSOLIDATED LIST OF COMMITTEE RECOMMENDATIONS	9



## **PREAMBLE**

On November 26, 2014, the Standing Committee on Public Accounts held public hearings on the Auditor General's 2013 audit of Ontario Power Generation Human Resources, Section 3.05 of the Auditor's *2013 Annual Report*. Senior officials from the Ministry of Energy and Ontario Power Generation (OPG) participated in the hearings. (For a transcript of the Committee proceedings, please see Committee *Hansard*, November 26, 2014.)

The Committee endorses the Auditor's findings and recommendations and presents its own findings, views, and recommendations in this report. The Committee requests that the OPG provide the Committee Clerk with written responses to the recommendations within 90 calendar days of the tabling of this report with the Speaker of the Legislative Assembly, unless otherwise specified in a recommendation.

## **Acknowledgments**

The Standing Committee on Public Accounts extends its appreciation to officials from the Ministry of Energy and Ontario Power Generation for their attendance at the hearings. The Committee also acknowledges the assistance provided during the hearings and report writing deliberations by the Office of the Auditor General of Ontario, the Clerk of the Committee, and staff in the Legislative Research Service.

## **OVERVIEW**

### **Auditor's Objective**

The Auditor's objective in conducting this value-for-money audit was to assess whether the OPG had adequate procedures and systems to:

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

### **Background**

The OPG was established in April 1999 as one of the five successor companies to Ontario Hydro and is a corporation wholly owned by the province of Ontario. As one of the largest power companies in North America, the OPG has a generating capacity of more than 16,000 megawatts (as of December 31, 2013). It produces about 50% of the province's power at its two nuclear stations (Pickering and Darlington), three thermal power stations<sup>1</sup>, and 65 hydroelectric

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<sup>1</sup> As of Dec. 31, 2013, the Nanticoke and Lambton coal-fired stations were removed from service in accordance with the Shareholder declaration to cease the use of coal by the end of 2014. The

power stations.<sup>2</sup> The amount of power that the OPG produces has decreased by 24% over the last decade (from 105 terawatt hours in 2004 to 80 terawatt hours in 2013), a drop attributed to less demand for electricity, the closure of coal-burning plants (e.g., Lambton and Nanticoke), and greater generation from private-sector sources.

A multi-year Business Transformation initiative was launched by the OPG in 2011 with the goal of saving \$700 million through organizational restructuring that would reduce its staffing levels from 11,640 in January 2011 to 9,640 by December 2015.

As of December 31, 2013 the OPG had approximately 11,070 employees (10,270 full-time and approximately 800 seasonal, casual construction, contract, and non-regular staff).

About 90% of the OPG's employees are represented by two unions:

- The **Power Workers' Union (PWU)** represents approximately 6,000 OPG employees. The current collective agreement between the OPG and the PWU has a three-year term, which expires on March 31, 2015.
- The **Society of Energy Professionals (The Society)** represents approximately 3,200 OPG employees. The current collective agreement between the OPG and The Society has a three-year term, which expires on December 31, 2015.

## **ISSUES RAISED IN THE AUDIT AND BEFORE THE COMMITTEE**

### **Staffing Levels and Recruitment**

The Auditor recommended that the OPG:

- evaluate and align its senior management and executive group with its overall staffing levels;
- address staffing imbalances at its nuclear facilities; and
- review and monitor processes involving recruitment and security clearance.

The audit report expressed concern that family members were hired outside of the normal recruitment process.

In response to the Auditor's recommendations, the OPG informed the Committee that since 2013, its senior management head count has been reduced by 11% with the elimination of 22 senior management positions. Also, the OPG indicated

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Lennox station is dual-fuelled by gas and oil, Atikokan has been converted to use bio-mass as fuel, and Thunder Bay is being converted to use "advanced biomass" as fuel.

<sup>2</sup>The OPG also owns two nuclear power stations that are leased to Bruce Power L.P., and co-owns the Portlands Energy Centre and the Brighton Beach gas-fired generating station.

in its Key Actions (or Status) Update that hiring of all director and above positions now requires CEO approval.

In regard to staffing imbalances at its nuclear facilities, the OPG acknowledged being below the benchmark in some areas but explained that this is a result of innovation in the company and industry, and stated that there are no safety concerns associated with the under-staffed areas. Reductions of staffing in areas that were above the benchmark that were accomplished in 2013 and continued in 2014 were detailed (from 17% above to 4% above in March 2014) as demonstration of what the OPG described as a “steady trend to get to the [industry] benchmark.”

For recruitment practices, the OPG indicated it had centralized the recruitment function, implemented standards to aid in the hiring of managers, embedded clear expectations for hiring in the Code of Conduct, and begun compliance reviews. The Committee was told that the OPG is developing an implementation plan and expects to “implement hiring panels by the second quarter of 2015.”

Concerning security clearances, the OPG noted that all employees requiring access to a nuclear site or sensitive nuclear information have appropriate security clearance, and that it is ensuring the same for new hires. All non-nuclear employees have been assessed for appropriate security clearance levels and notifications commenced March 21, 2014 for those employees who must obtain, renew, or upgrade a security clearance; a follow-up process is in place.

The Committee supports the recent actions taken by the OPG to align its senior management and executive group with its overall staffing levels, and the Committee believes that the OPG should continue to monitor its staffing imbalances at its nuclear facilities and ensure, where appropriate, that levels are brought into balance.

### **Committee Recommendation**

The Standing Committee on Public Accounts recommends that:

1. Ontario Power Generation shall report back to the Standing Committee on Public Accounts on its most recent benchmarking results for staff at the OPG’s nuclear facilities. These results must:
  - identify the areas that are either above, below, or equal to the benchmark according to the selected areas identified in Figure 5 of the Auditor’s *2013 Annual Report* (p. 160); and
  - include the rationale for any deviation from the benchmark and, if applicable, an expected date of return to balance.

## Compensation

The Auditor recommended that the OPG:

- improve the effectiveness of its Annual Incentive Plan by improving the connection of awards to staff performance based on documented evaluations; and
- review its salary levels and employee benefits, including pensions, to ensure that they are in line with those offered by similar organizations.

The Auditor expressed concern that OPG's contributions to the pension plan have been disproportionately larger than those of its employees by a ratio of between 4:1 to 5:1. In comparison, the ratio for the OPS is 1:1. As well, executives and senior management contribute only 7% of their earnings up to a maximum of \$17,254 annually, but could retire with a pension of up to \$760,000 annually.

The OPG highlighted recent changes to its Annual Incentive Plan, including the elimination of fleet (or group-specific) scorecards. This leaves individual and corporate metrics as the basis for what the OPG claims will be a stronger link between individual performance and OPG deliverables. Changes were made to individual and corporate scorecards, and management performance ratings were recalibrated to generate greater consistency and a broader distribution in scores.

The OPG noted that its board of directors' (board) compensation and human resources committee was mandated to monitor management's progress in implementing the Auditor's recommendations and still continues this role. The board's committee also commissioned independent advisers to review its compensation plan. This resulted in a new segmented approach to management compensation.

The OPG detailed a number of steps taken since 2009 to ensure that management compensation is consistent with provincial wage restraint legislation, achieving base salary cost reductions for management of 3% in 2013 over 2012 and 11% since 2010. According to the OPG, compensation for unionized staff reflects government compensation restraints. Also, the OPG indicated that its board has approved phasing-in pension reforms for management employees, which includes reducing costs by adjusting contributions to 50/50 cost sharing.

The Committee believes OPG employees should receive reasonable compensation in a fair and transparent manner. The Committee welcomes the introduction of pension reforms for management employees at the OPG and expects fiscal prudence and responsibility to be sustained with respect to compensation and pensions.

## **Committee Recommendations**

The Standing Committee on Public Accounts recommends that:

2. Ontario Power Generation shall report back to the Standing Committee on Public Accounts details of its revised Annual Incentive Plan. This response must:
  - include the criteria used to assess performance;
  - highlight areas of the Plan that are either new or have been revised from the old Plan; and
  - provide details concerning expected outcomes resulting from these revisions.
3. Ontario Power Generation shall report back to the Standing Committee on Public Accounts an outline of its plan to reduce its pension deficit. This outline must:
  - include the most recent figures for its pension deficit;
  - include details about the long-term impact that its Business Transformation plan has on its pension deficit;
  - provide details on the feasibility of implementing reforms to its pension contribution caps of executives and senior management;
  - include the key assumptions used; and
  - provide any actuarial assurances—once current collective bargaining processes are completed—that the OPG has obtained for its plan and assumptions.

## **Use of Non-Regular Staff and Contract Resources**

The Auditor recommended that the OPG:

- improve its succession planning processes to ensure non-regular and contract resources are used “cost-efficiently”;
- manage and monitor hours reported by contractors to avoid the risk of overpayment; and
- conduct an open competitive process for outsourcing its information technology (IT) services before the current contract expires.

The OPG indicated that succession planning and knowledge transfer plans for critical/at-risk roles have been strengthened and implemented. Succession plans,

which must be updated semi-annually, are reviewed and approved by both senior management and the board in May and November. With respect to re-hiring former OPG employees, a new policy is in place that includes a 12-month waiting period before a former employee may return to work at the OPG and a 12-month limit on their return to work. For nuclear refurbishment, there is a six-month waiting period and a three-year term limit.

The OPG noted that an IT Outsourcing Agreement was put out to competitive bidding in May 2014.

The OPG indicated that new contracting strategies were implemented in 2012 to control vendor terms and conditions; contractor audits have commenced to verify hours reported. In addition, the OPG has fully implemented a new technically-advanced time tracking system for contractors at nuclear sites. In order to identify areas of possible improvement, the OPG noted that it is conducting a comprehensive assessment of contractor controls such as time capture and approval processes.

### **Committee Recommendations**

The Standing Committee on Public Accounts recommends that:

4. Ontario Power Generation shall report back to the Standing Committee on Public Accounts on its plan going forward for its policy on rehiring former employees as temporary or contract staff. This plan must include details on how its succession plans are affected by this policy.
5. Ontario Power Generation shall report back to the Standing Committee on Public Accounts on the results of its IT outsourcing agreement put out to competitive bidding, once agreement is finalized.

### **Overtime**

The Auditor recommended that, in addition to exploring other ways to minimize overtime, the OPG should plan outages and arrange staff schedules in a more “cost-beneficial way” in order to reduce overtime costs.

The OPG indicated that cost-benefit analysis of specific outages has been conducted to find ways to reduce overtime within the collective bargaining framework, and crew shift changes have been implemented to reduce overtime during outages. Management processes that could limit overtime in the nuclear fleet have been enhanced, and a tool for automatic work-flow pre-approval processes will be developed in the future to facilitate managing and monitoring overtime usage.

### **Committee Recommendation**

The Standing Committee on Public Accounts recommends that:

6. Ontario Power Generation shall report back to the Standing Committee on Public Accounts on the results of its plan to reduce overtime costs and the financial impact of this plan.

### **Absenteeism**

The Auditor recommended that the OPG:

- review its policies concerning sick leave for staff that joined prior to 2001; and
- monitor unusual sick leave patterns.

The OPG stated that it has targeted work groups with high absenteeism, provided training and support for managers to address absenteeism, tightened the rules regarding Medical Absentee Reports from members of the PWU, and is currently enhancing the sick leave management process through the use of metrics and reports that will help identify unusual sick leave patterns.

The Committee believes that it is important for the OPG to manage and identify any potential abuses of sick leave entitlements and ensure that the proper procedures and processes are in place for managers to identify any potential issues.

### **Committee Recommendations**

The Standing Committee on Public Accounts recommends that:

7. Ontario Power Generation shall report back to the Standing Committee on Public Accounts on details of its sick leave plan applicable to staff that joined the OPG prior to 2001.
8. Ontario Power Generation shall report back to the Standing Committee on Public Accounts on the status of its “enhanced sick leave management” process. This response must:
  - provide details on an expected implementation date;
  - include goals for the enhanced sick leave management process in terms of metrics and cost savings; and
  - include a training plan for managers about the new system.

## Staff Training

The Auditor recommended that the OPG:

- review and monitor its nuclear training programs in order to identify areas needing improvement and address the areas already identified as needing improvement; and
- review its mandatory training programs for hydro/thermal staff to ensure that business needs are being met “cost-effectively.”

The OPG noted that nuclear training programs are benchmarked against industry best practices and are routinely audited by Canadian Nuclear Safety Commission (CNSC) and the World Association of Nuclear Operators (WANO). According to the OPG, audits conducted in 2014 identified no opportunities for improvement.

Changes were made to discontinue certain training programs identified as not required, at a savings of over \$7 million annually.

In terms of training for hydro/thermal staff, the OPG acknowledged to the Committee that “attendance [in training courses] was not adequate.” In response to this, the OPG indicated that targets have been developed aimed at improving training attendance and are being monitored by the senior leadership team. Moreover, the OPG indicated that it has implemented a 3% cap on course cancellations. In situations where there is a last-minute cancellation, the individual requesting the cancellation must explain the circumstances surrounding the cancellation to their manager to ensure the legitimacy of the request. Also, the OPG noted that it has completed a review of mandatory training requirements for hydro/thermal staff and is implementing recommendations to ensure a consistent approach to role-based training.

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## CONSOLIDATED LIST OF COMMITTEE RECOMMENDATIONS

1. Ontario Power Generation shall report back to the Standing Committee on Public Accounts on its most recent benchmarking results for staff at the OPG's nuclear facilities. These results must:
  - identify the areas that are either above, below, or equal to the benchmark according to the selected areas identified in Figure 5 of the Auditor's *2013 Annual Report* (p. 160); and
  - include the rationale for any deviation from the benchmark and, if applicable, an expected date of return to balance.
2. Ontario Power Generation shall report back to the Standing Committee on Public Accounts details of its revised Annual Incentive Plan. This response must:
  - include the criteria used to assess performance;
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  - provide details on the feasibility of implementing reforms to its pension contribution caps of executives and senior management;
  - include the key assumptions used; and
  - provide any actuarial assurances—once current collective bargaining processes are completed—that the OPG has obtained for its plan and assumptions.
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5. Ontario Power Generation shall report back to the Standing Committee on Public Accounts on the results of its IT outsourcing agreement put out to competitive bidding, once agreement is finalized.
6. Ontario Power Generation shall report back to the Standing Committee on Public Accounts on the results of its plan to reduce overtime costs and the financial impact of this plan.
7. Ontario Power Generation shall report back to the Standing Committee on Public Accounts on details of its sick leave plan applicable to staff that joined the OPG prior to 2001.
8. Ontario Power Generation shall report back to the Standing Committee on Public Accounts on the status of its “enhanced sick leave management” process. This response must:
  - provide details on an expected implementation date;
  - include goals for the enhanced sick leave management process in terms of metrics and cost savings; and include a training plan for managers about the new system.