

## **BUSINESS PLANNING AND BUDGETING**

### **1.0 PURPOSE**

This evidence presents an overview of OPG's business planning and budgeting process.

### **2.0 OVERVIEW**

The revenue requirement requested for the regulated hydroelectric and nuclear facilities is based on OPG's 2013 - 2015 Business Plan. The 2013 - 2015 Business Plan is focused on the prudent management of OPG's costs, ensuring the efficient use of existing generation assets and improving the company's financial outlook. A copy OPG's 2013 - 2015 Business Plan is provided in Attachment 1. The business plans for the hydroelectric and nuclear business units are provided at Ex. F1-1-1 and Ex. F2-1-1, respectively.

Section 3 provides a description of the 2013 - 2015 Business Planning process. A more detailed overview of a typical planning process is provided in Attachment 3. An overview of the asset management and project review process is provided in Attachment 4. The processes described in these attachments are largely unchanged from those presented in EB-2010-0008.

### **3.0 2013 – 2015 BUSINESS PLANNING PROCESS**

#### **3.1 Planning Context**

In 2012, OPG began implementing a Business Transformation (BT) initiative to drive efficiencies in its operations to enable it to achieve and maintain staff reductions. Reducing staff levels, which represent a majority of OPG's OM&A costs, is key to managing OPG's costs. As a first step in the implementation process, OPG adopted a new organizational structure in May 2012. OPG has moved to a "centre-led" model which will allow it to use resources more efficiently and to avoid duplication of work. Most staff transfers to this new structure took place in 2012. The remaining transfers of staff to the new organizational structure will occur in 2013/2014 using the processes set out in OPG's collective agreements.

1 By the end of 2015, OPG projects to have achieved approximately 2,000<sup>1</sup> staff reductions  
2 since 2011.

3  
4 Business Transformation initiatives are integrated into the business plans of each operating  
5 business unit and corporate support service group (collectively the “business units”). As part  
6 of the business planning process, the business units review their plans for streamlining work  
7 to ensure that processes are optimized and work is being eliminated to support their staff level  
8 reductions.

9  
10 For additional information on Business Transformation, see Exhibit A4-1-1.

11  
12 OPG faces significant challenges in the next several years:

- 13 • OPG’s overall generation capacity will decline by 25 per cent between 2015 and 2020  
14 as the remaining coal units retire and the Pickering nuclear plant ceases operations  
15 around 2020.
- 16 • The planned 36 month outages for the Darlington Refurbishment project starting in  
17 2016 will reduce planned generation levels. However, a significant portion of the costs  
18 associated with the full time operation of these units will remain while the units are  
19 being refurbished.
- 20 • Primarily due to low discount rates, OPG’s pension and OPEB costs (and hence,  
21 annual operating costs) face upward pressure.
- 22 • Very low market prices result in OPG’s unregulated and non-contracted hydroelectric  
23 operations not achieving sufficient revenues to support their operating costs and to  
24 provide an adequate return on the invested capital.

25  
26 OPG continued its progress in managing its costs in the 2013-2015 Business Plan. OPG also  
27 recognizes the impact of its operations on ratepayers and takes into consideration such  
28 impacts when setting its business planning targets and guidelines.

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<sup>1</sup> Does not reflect Refurbishment or New Build staff. Approximately 1,300 of the 2,000 are attributable to regulated operations.

1 OPG employs leading practices in its business planning process. It expanded the use of top  
2 down target setting. It shortened the business planning horizon from 5 years to 3 years to  
3 provide a greater focus on short-term results. OPG also reviewed budgeting practices to  
4 ensure financial targets are held at an appropriate level of detail in the organization  
5

### 6 **3.2 Business Planning Guidelines**

7 In establishing guidelines for the 2013-2015 business planning process, OPG is primarily  
8 focused on finding efficiencies and managing its costs, consistent with Business  
9 Transformation principles.  
10

11 OPG is taking advantage of its demographic profile that includes an aging workforce that is  
12 nearing retirement age. With many staff approaching retirement age, there is an opportunity  
13 to use natural attrition, and to restrict any re-hiring to critical areas only, to reduce staff levels.  
14 The result will be a smaller organization without the need for corporate wide severance  
15 programs, and their associated costs. This approach was selected as the most cost effective  
16 method of restructuring the organization in a controlled manner to ensure the staff reductions  
17 were sustainable.  
18

19 With a cost management focus from Business Transformation and the explicit goals of  
20 reducing staff levels, business planning guidelines (in the areas of capital, OM&A and staff  
21 levels) were developed that drive staff reductions. The 2013 - 2015 guidelines also  
22 challenged the business units to absorb inflationary cost pressures, particularly on labour.  
23 Other than existing Collective Agreement impacts, budget guidelines did not include additional  
24 inflationary assumptions on labour.  
25

### 26 **3.3 Review Process And Approvals**

27 At a high level, the corporate guidelines associated with capital, OM&A and staff set the  
28 context within which the business units crafted their own business plans. Once the guidelines  
29 were issued, each business unit identified objectives, performance targets, resources, key  
30 initiatives and risk mitigation strategies. Each business unit determined the work programs  
31 and projects specific to their business objectives, within the guidelines issued. Trade offs to

1 deal with emerging issues were undertaken within each business unit so that the resulting  
2 plan reflects the highest priority work needed to meet the operational milestones set within  
3 each business unit. High level performance targets are set by each business unit taking into  
4 account key initiatives. For support services organizations, budget targets were set based on  
5 the improvement initiatives being undertaken in support of Business Transformation  
6 objectives. Reductions that were previously planned for 2015 were advanced to 2013, thus  
7 helping to manage costs for the 2013 and 2014 period.

8  
9 Draft plans were submitted in late summer for consolidation into the corporate plan. A series  
10 of review meetings were held within each business unit during the summer months and a  
11 briefing of the detailed business unit plans was presented to the CEO and CFO for discussion  
12 and review in late September. Typically, final plans are submitted in late October for  
13 corporate consolidation. A final, consolidated OPG business plan is presented to the OPG  
14 Board of Directors for approval, typically at the November or December Board meeting. Final  
15 concurrence with the OPG Board-approved plan is required from the Province in accordance  
16 with our Memorandum of Agreement.

17  
18 As the business unit plans are being developed, they are subject to a variety of reviews and  
19 challenges at several levels within OPG, including by management within the business units,  
20 local controllership, OPG senior management, the central business planning group in finance,  
21 and finally the Board of Directors. This ensures that a rigorous process of work identification  
22 and prioritization has occurred within each business unit and that the plans achieve the  
23 corporate cost and production targets and the strategic objectives of the company. Risks are  
24 also identified at several stages and are tracked through risk registers. Risk mitigation plans  
25 are specified and monitored regularly to ensure risks are either managed or changes to risks  
26 are flagged for management action as required.

27  
28 OPG has developed a plan that meets its operational, financial and staff level targets. OPG  
29 plans to maintain total business unit OM&A expenses at a relatively stable value in this plan.  
30 The total corporate savings associated with staff reductions that began in 2011 accumulate to

1 approximately \$700M by 2015<sup>2</sup>. The savings help offset inflation, station-related regulatory  
2 and safety work programs and higher pension/OPEB costs. The plan also reflects the  
3 required maintenance on the regulated facilities, including nuclear outages that are required  
4 under CNSC regulation. Generation assumptions reflect operating history and expected  
5 improvements in outage planning.

6  
7 The plan also reflects the treatment of OPG's previously unregulated and non-contracted  
8 hydroelectric facilities as newly regulated through amendments to O.Reg. 53/05.

### 9 10 **3.4 Customer Impacts**

11 As set out in the OEB's Decision with Reasons in EB-2010-0008 (pp 13), in respect of  
12 business planning, OPG's "...obligation is to plan taking account of the requirements of its  
13 business and to propose payment amounts which represent recovery of an efficient and  
14 reasonable level of costs". OPG agrees with this approach and as such, has employed this  
15 perspective in developing its 2013 - 2015 Business Plan. As it has done in the past, OPG  
16 also considers the economic climate, including trends in electricity costs and consumers'  
17 ability to pay, in its business planning activities.

18  
19 Under the 2013 - 2015 Business Plan, OPG continues to be the low cost generator of  
20 electricity in the Province.

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<sup>2</sup> Approximately \$550M is attributable to regulated operations.

## **LIST OF ATTACHMENTS**

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|---|---------------|--|
| 3 | Attachment 1: | 2013 - 2015 Business Plan                          |
| 4 | Attachment 2: | 2013 - 2015 Business Planning Instructions         |
| 5 | Attachment 3: | Business Planning and Budgeting – Process Overview |
| 6 | Attachment 4: | Asset Management and Project Review Processes      |

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