

## Business Transformation

### 1.0 PURPOSE

This evidence discusses OPG's Business Transformation initiative ("BT"). Business Transformation supports the alignment of OPG's costs with its declining generation capacity and OPG's mission to be Ontario's low cost generator of choice.

In summary, under BT, OPG will use attrition to reduce its year-end 2015 staff level by 2,000 employees with the potential for further reductions in later years.<sup>1</sup> This decreased staff level is expected to reduce OPG's OM&A by \$700M between 2011 and 2015<sup>2</sup>.

To sustain these staff reductions, OPG has moved to a centre-led model to use resources more efficiently and avoid duplication of work. Each business unit has launched a number of initiatives to improve efficiencies and reduce work through process streamlining. These initiatives will drive sustainable change in the business, while ensuring that changes do not impact the safety, reliability and environmental sustainability of OPG's operations.

Attachment 1 to this evidence is a list of key BT Initiatives.

### 2.0 OVERVIEW

This evidence is organized as follows. Section 3 provides general information on BT, including background, objectives, and execution strategy. Section 4 describes how BT is integrated within OPG's Business Plan. Section 5 discusses, at a high level, the key organizational changes that result from executing BT. Section 6 covers BT costs.

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<sup>1</sup> This figure represents projected total OPG staff level reductions, not including the impact of hiring for Darlington Refurbishment and New Build.

<sup>2</sup> Approximately 1,300 staff and \$550M are attributable to regulated operations.

### **3.0 THE BUSINESS TRANSFORMATION INITIATIVE**

#### **3.1 Background**

OPG introduced BT in 2011 to develop approaches to reducing staff levels and modifying OPG's cost structure consistent with expected decreases in capacity and energy production in the coming years.

#### **3.2 Business Transformation Objectives**

Business Transformation is intended to transform OPG so that it can compete, grow and respond to changing market conditions without compromising continued safe and reliable operations. This transformation is being accomplished through:

- Reducing staff levels by 2,000 employees by the end of 2015. This reduction aligns with expected attrition that is factored into business plan assumptions, and better aligns OPG's staff levels with production and revenue expectations.
- Creating a scalable organization, which is more efficient and effective. This will give OPG flexibility to scale up or down areas of the organization based on changing needs to support various operational units.
- Moving to a centre-led organizational model that allows best practices to be better shared and integrated across the company.

In 2012, the Ministry of Energy announced an Efficiency Review of OPG and engaged KMPG to perform the review. As part of that process, KMPG was asked to identify organizational and structural opportunities for efficiency improvements. KMPG reviewed key aspects of the BT project and reached the following conclusion:

"Based on observations from management interviews, business plans and project plans, KPMG believe that OPG has employed a systematic and structured approach to developing a company-wide transformation plan. OPG has incorporated many leading practices for implementing a large business transformation such as assigning dedicated staff to implement the transformation, establishing a program management office, incorporating change management with a focus of cultural change and incorporating business transformation milestones into executive performance plans."

**3.3 Business Transformation Execution Strategy**

OPG's execution strategy for BT has four key elements.

**3.3.1 Move to an integrated, centre-led organizational model to help create a scalable organization capable of meeting changing market conditions.**

OPG has adopted an integrated, centre-led organizational model. Centre-led describes how a function is organized to deliver functional support. Under the new structure, there are two types of centre-led functional organizations: those accountable for delivering company-wide support; and those accountable for delivering business unit-wide support across Nuclear or Hydro-Thermal.

Company-wide functions establish one point of accountability (the functional leader) for an entire function, to deliver functional support across all business units. This new structure requires "integration" of a function and avoids duplication of work. Examples include People and Culture, Supply Chain, Finance, Law, and Corporate Relations and Communications. Previously, for some functions (e.g., Supply Chain) OPG had a separate department within each business unit.

There are still functional resources physically located at the operating plants, and day-to-day direction still comes from the local business unit manager, but there is strong accountability back to the "functional centre" to ensure consistency, integration and efficiency.

For example, the Corporate Relations and Communications group within the Corporate Office function provides communications, and community, government, and stakeholder relations support and services across the company, for all business units. It is a centre-led function, but it also has Corporate Relations and Communications employees embedded at local work sites. For instance, a Corporate Relations and Communications employee in Niagara provides communication support to the Niagara community and plant group employees. That employee receives daily direction from the Niagara plant manager, but is

1 part of the centre-led Corporate Relations and Communications team, to ensure those  
2 services in Niagara are consistent with support delivered in other locations.

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4 In contrast to this example of a centre-led function that supports the entire company, nuclear  
5 engineering is an example of a business unit-wide centre-led support organization. Rather  
6 than support the company, this function supports the Nuclear business unit.

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8 Adopting this model allows OPG to use a uniform approach to functional practices and use  
9 resources more efficiently. Bringing functional units together as a centre-led group will also  
10 allow OPG to be more scalable. For OPG, being scalable means the ability to be flexible  
11 enough to adapt and respond to changing business needs. For example, if a large project  
12 suddenly demands increased focus, being scalable means that OPG can quickly direct  
13 resources to work on that project. A scalable organization will be able to maintain or increase  
14 its level of performance when required by fluctuating operational demands.

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16 Section 5.0 provides additional description of organizational changes that resulted from  
17 moving to a centre-led organization.

18  
19 3.3.2 Drive change initiatives that will ensure work has been streamlined or transformed

20 As part of the BT project, each Business Unit was challenged to identify work that could be  
21 streamlined or transformed to meet the BT objectives. The Business Units took this direction  
22 and developed an initial list of initiatives that described the proposed work changes, their  
23 anticipated benefits and high level milestones. These initiatives are fundamental to ensuring  
24 that the staff level reductions from attrition will be sustained over the long term.

25  
26 The initiatives that are implemented to reduce, eliminate or streamline work will allow the  
27 business to maintain the reduced staff level as employees leave. Business Unit leaders are  
28 accountable for managing their initiatives. They assess whether any changes to the initial  
29 initiatives or additional initiatives are needed to reach their staff level objectives.

30

1 Attachment 1 outlines a list of key business unit initiatives that are helping to drive the BT  
2 change.

3  
4 **3.3.3 Manage reductions through attrition and strong vacancy management**

5 OPG is using attrition to reduce staff levels. Reductions totalling approximately 1,000  
6 employees were achieved by the end of 2012, with the 2013 - 2015 Business Plan targeting  
7 the remaining reduction of 1,000 employees.

8  
9 To reduce staff levels through attrition, OPG needs the flexibility to change organization  
10 structures, realign work responsibilities and relocate staff to ensure that the employees  
11 required for ongoing work are available. Close to 90 per cent of OPG's workforce is unionized  
12 and organizational changes required as part of business transformation must be managed  
13 through specific processes in OPG's collective agreements. OPG has commenced a process  
14 of redeployment which will run into 2014 to get staff into the right jobs in the right business  
15 units without layoff or voluntary severance. This strategy allows OPG to continue  
16 implementing efficiency improvements over the next two years to ensure that the work is  
17 reduced or eliminated, making the attrition levels sustainable.

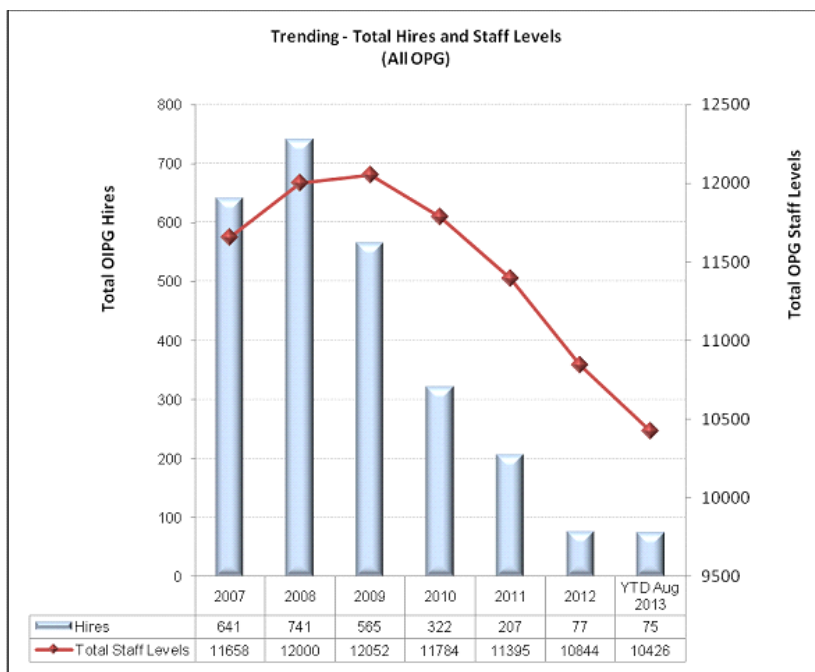
18  
19 Starting in 2010, OPG started to add additional controls to its resourcing processes to require  
20 explanation and justification of positions being filled externally. As part of BT, OPG expanded  
21 this vacancy management process corporate-wide so that internal staff across the company  
22 were targeted first to fill vacancies prior to looking externally.

23  
24 The chart below<sup>3</sup> shows hiring and staff levels for OPG as a whole from 2007 to August 2013  
25 and illustrates the success the resourcing process has had on reducing the number of new  
26 hires in the company and the decline in the total OPG staff level.

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<sup>3</sup> Includes Darlington Refurbishment and New Build.



### 3.3.4 Align the culture to new behaviours to support change

OPG recognizes that sustainable change requires a culture shift. Based on this recognition, OPG has worked to define the culture required to meet the objectives of business transformation. Under the direction of the CEO and Executive Leadership Team, five new behaviours were defined as the culture shifts that OPG must accomplish in order to sustain change. In addition, the OPG Values were updated to reflect OPG's strengths, or the key differentiators, that must be preserved through the change. Both the values and behaviours were vetted across a broad leadership population, and detailed descriptions have been created to make them meaningful for all employees.

Recognizing that culture change requires focus and ongoing reinforcement, the values and behaviours are being incorporated into HR processes and OPG business practices. Examples include processes associated with selection criteria, performance assessment, and succession planning that all take better account of OPG's values and behaviours; leadership and employee forums that incorporate the values and behaviours; and business process and work program changes that reflect expectations outlined in the behaviours.

**4.0 BUSINESS TRANSFORMATION INTEGRATION WITH OPG BUSINESS PLAN**

As discussed in Ex. A2-2-1, each business unit is required to integrate the implementation and management of its initiatives into its business plan. Business units must work within their business plan to cover the cost of implementing initiatives.

As part of the business planning cycle each year, the business units review their plans for streamlining work and ensure that sufficient work is being reduced or eliminated to support their attrition expectations.

**5.0 RESULTING ORGANIZATIONAL CHANGES**

Business Transformation will produce a number of organizational changes. Below is a list of the major changes to move to the centre-led structure:

- Supply Chain – Hydro-Thermal, Nuclear, Nuclear Projects, and Corporate Supply Chains merge under one centre-led organization in Business Administrative Services.
- Training – One centre-led training organization formed, including Hydro-Thermal, Nuclear, Leadership Training in People and Culture.
- Corporate Relations and Communications – All stakeholder groups across the company move to one centre-led Corporate Relations and Communications organization in the Corporate Office.
- Facilities – A centre-led Facilities group formed, transitioning Nuclear East Facilities to Business and Administrative Services.
- Finance - Pickering and Darlington Business Support groups and HR Business Planning integrated into the centre-led Finance organization.
- Records - Administrative Support and Records/Controlled Documents within Nuclear Programs and Training transition to Business and Administrative Services.
- Risk – Project Risk and Enterprise Risk move to the Corporate Office.
- Business Development - Hydro and Thermal Business Development and a subset of Long Term Hydro Projects and Technology Programming move to Business Development in the Corporate Office.

- 1       • Security and Emergency Services - Corporate Security and Emergency Management  
2       join Security and Emergency Services in Nuclear.
- 3       • Labour and Employment Law, as well as Human Rights, combine with Labour  
4       Relations to form the Employee and Labour Relations function in People and Culture.
- 5       • Environment – Thermal Environment, Hydro Environment, Nuclear Environment  
6       Programs, Nuclear Projects Environmental Compliance and Sustainable  
7       Development form a centre-led Environment organization in Commercial Operations  
8       and Environment.
- 9       • Engineering in Nuclear - Engineering within individual Nuclear departments transition  
10      to a centre-led Nuclear engineering organization.
- 11      • Nuclear Oversight – move to Assurance to form a centre-led Assurance function.

12  
13   In addition to the formation of centre-led functional organizations, Hydro and Thermal have  
14   merged their two organizations to form a single business unit, Hydro-Thermal Operations.  
15   As part of this change, Projects, Business Support and Service Delivery functions will each  
16   have a single leader.

## 17 18   **6.0   BUSINESS TRANSFORMATION COST**

19   Business Transformation has been undertaken primarily by internal staff with some  
20   consulting assistance for organizational design and change management. The historical  
21   external services costs for BT were approximately \$4M total for 2011 and 2012. OPG  
22   expects total BT related costs of \$6.0M in 2013, \$3.7M in 2014, and \$1.4M in 2015 which  
23   include internal staffing costs supplemented by some external assistance. Of these amounts,  
24   the costs allocated to the regulated business are \$5.4M in 2013, \$3.3M in 2014 and \$1.3M in  
25   2015. The BT team's primary objectives in the test period will include support to the back  
26   office data requirements of the deployment processes, change management support to the  
27   Business Units and project management support to put the new organization in place.



1 **LIST OF ATTACHMENTS**

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3 Attachment 1: Key Business Transformation Initiatives