

## II. Role of OPG

In the Introduction, we envisioned OPG’s role to be that of a steward of Ontario’s publicly owned generating assets. We believe it is essential to provide clarity that OPG’s responsibility is to be a business that operates on commercial principles as a producer of electricity. Public policy or political objectives should be achieved through other means.

In this chapter we explain the basis for this recommendation and provide more detail about the role.

### **An unfocused past**

The roles of OPG and its predecessors have shifted between commercial entity and public policy instrument.

Since the establishment of Ontario’s government-owned electricity utility in 1906 – the first in the world – its role has often involved acting as an instrument of policy. There is strong evidence, for example, that the utility’s choices around nuclear generation, including reliance on CANDU reactors and rapid expansion in the early 1970s, reflected both a desire to promote home-grown technology and provincial industrial policy.

Efforts in the early 1990s, in contrast, had focused on orienting Ontario Hydro towards “sustainable development,” reflected in a restructuring of the utility and even a proposal to offset carbon-dioxide emissions by purchasing areas of tropical rain forest.

Most recently, deregulation of the Ontario market was supposed to allow OPG to enter the North American market as a major competitive player. In fact, it was actively pursuing power plant acquisitions outside Ontario.

At the same time, the decontrol of most of OPG’s assets, as explained in Chapter I, was an underlying principle of the new market design. The goal was to reduce OPG’s share of capacity to 35% of the market by the end of ten years. Before the process was stopped in 2002, OPG had decontrolled roughly 6,700 MW of operating or laid-up capacity. (OPG’s generating capacity is currently about 23,000 MW.)

If OPG is to function as an efficient company, and become a part of the solution to Ontario's supply needs, its role must be focused and free of interference.

## OPG as a publicly owned steward

OPG owns a set of core generating facilities built with the money of taxpayers and ratepayers that have been in public hands, some for close to a century. They deliver a service critical to the welfare of the province.

We believe that the appropriate stewardship role for OPG is to operate these core assets as efficiently as possible. This is key to ensuring that the province has a diverse and stable supply of electricity at a price that is competitive against other jurisdictions. We believe this can be done while OPG remains in public hands.

For OPG to be an effective steward, we believe that:

### 1. OPG should be rate-regulated on an effective, transparent and independent basis.

Before market restructuring, Ontario Hydro and later OPG either set its own rates based on direction from the Province, or had them set by the Province – in either case, a highly political process. The Ontario Energy Board had a review role only.

Our recommendation means that the Ontario Energy Board would regulate OPG by division, based on full access to OPG cost information that is assigned properly to each division. The rate would be based on the cost of production and a reasonable rate of return on capital. Regulation would be performance-based: that is, designed to drive better efficiency within each division and protect the interests of ratepayers.

There are several benefits to this approach:

- It increases the transparency of OPG's overall operations and specifically allows a much clearer view of the relative performance of the generating divisions. This is key, because the nuclear division has had a poor track record in controlling costs.
- Greater transparency will drive greater accountability. Results by division will be made public and benchmarked against similar businesses.
- A rate-regulated OPG will provide stability in electricity pricing for a large percentage of the generating output in the province.

- Finally, regulation will help to ensure that the impact of OPG inefficiencies is borne by the shareholder, not the ratepayer. This provides a strong impetus for the shareholder to allow OPG to run as efficiently as possible.

We are aware that setting up a new policy framework for the electricity sector, the Province may put in place an electricity sector model similar to the one recommended by the Task Force. In that model, the output of OPG’s existing “heritage generating assets” would be largely regulated, while other suppliers would operate in an open market. Regulating OPG avoids the potential risk of its dominating the market, but balancing this with other needs of the sector will call for a flexible approach. For example, to function efficiently, the market portion of the sector may need output from OPG to ensure liquidity. This needs to be done in a way that does not allow its supply dominance to influence prices.

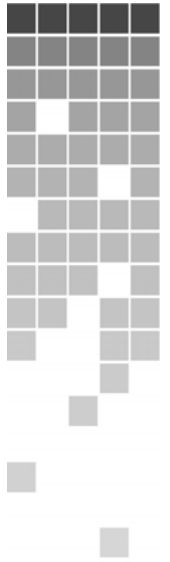
**2. OPG should actively pursue the best available means to operate** its assets efficiently. OPG should be encouraged to enter contractual arrangements on a case-by-case basis, following rigorous business analysis, to ensure the assets are put to their most productive use. For example, this could include joint ventures, partnerships, and long-term leases with other parties.

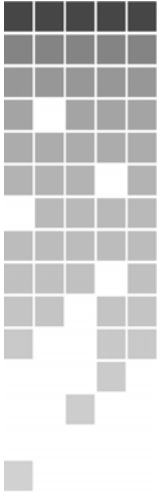
**3. OPG should focus on its major operating assets:** nuclear, major hydro-electric facilities, and its fossil fuel facilities. OPG currently has business units and activities that do not relate to these major operating assets. It should exit these businesses.

During our consultations, we heard that small entrepreneurial companies are in a much better position to provide renewable energy and other specialized solutions such as wind power, solar power, biomass energy and small hydro projects.

Less than one per cent of OPG’s current generating capacity comes from these sources. A company the size of OPG will not give the appropriate level of attention to a business that accounts for such a small part of its output.

We believe strongly, however, that those assets must continue to serve electricity consumers and that new ones must be built and run by those who can do it as efficiently as possible.





**4. OPG’s role as a builder of new capacity should not be exercised in a way that is a disincentive to new investors.** Financing the long-term commitments involved in providing major new generating assets involves risk. We believe that project proponents should bear that risk to the greatest extent possible. A competent authority, at arm’s length from government, should determine the future supply needs of the province and determine if and when OPG’s role as builder is required.

**5. OPG should focus on Ontario’s needs,** not OPG growth in the North American market. Ontario has a strong identified need for more supply. To be an effective part of the solution, OPG needs to focus on Ontario.

## Recommendations

### Recommendation II.1

*That OPG serve the people of Ontario as a steward of its core generating assets providing a diverse, cost competitive, stable supply of electricity at regulated prices.*

### Recommendation II.2

*That the government of Ontario remain the sole shareholder of OPG.*

### Recommendation II.3

*That OPG retain ownership of its nuclear, major hydro-electric, and fossil-fuel generating assets.*

### Recommendation II.4

*That OPG withdraw from non-core businesses (including wind-power, solar, biomass and small hydro projects) in an orderly fashion to allow room for others better suited to these businesses.*

### Recommendation II.5

*That OPG may, on its own or with partners, redevelop, enhance and/or expand existing facilities that are part of its core assets.*

**Recommendation II.6**

*That OPG be able to develop new facilities only when called upon to do so by the mechanism created to oversee supply planning for the electricity sector .*

**Recommendation II.7**

*That the Ontario Energy Board, acting as an independent body, approve the rate or rates at which the output of each OPG generating division is sold.*

**Recommendation II.8**

*That, for each generating division, the Ontario Energy Board base the rate or rates on cost of production plus a reasonable rate of return on capital that is comparable to the return earned by a regulated commercial company (or division of a company) with a similar business profile.*

**Recommendation II.9**

*That the Ontario Energy Board apply performance-based rate-making approaches to setting OPG's rates to drive better performance at OPG.*

**Recommendation II.10**

*That OPG explore joint ventures, partnerships and leases for the operation and maintenance of its core generating assets where it is in its commercial interests to do so.*

**Recommendation II.11**

*That, where appropriate, OPG make its land holdings available on commercial terms to other parties to develop new electricity generating facilities.*



### III. Structure of OPG

Given our view of the appropriate role for OPG, our next question was, what is the corporate structure that will allow it to make the most of its assets?

Under the existing structure of one company with many divisions, it is very hard to determine where corporate resources go and what is achieved with them. This is a significant issue. The problems returning Pickering A to service and in the nuclear division as a whole have absorbed huge cash flows, as well as management time and effort, over the years.

As a result, we felt that the cornerstone of a structure for OPG would be a clear separation of the nuclear generating business from hydro-electric and fossil fuel generating business. This separation would:

- make it very clear how each one performs;
- eliminate the risk of cross-subsidization between business lines, which can distort performance measurement;
- improve accountability, which will be key in turning around the performance of the generating assets;
- give workers the chance to show how well their particular business can perform; and
- let each senior management team focus more sharply on the performance of a smaller, more homogenous organization.

With those goals in mind, we identified three main approaches to OPG's structure:

- create separate stand-alone operating divisions within OPG, with greater accountability than at present;
- create two operating subsidiaries under OPG, which would then be a holding company with overall corporate responsibility for the results of its subsidiaries; and

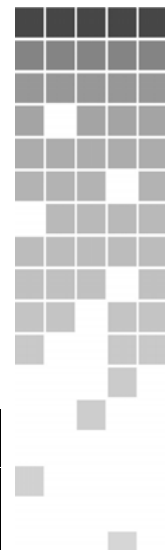
- divide OPG into two separate companies, each one directly owned by the Province.

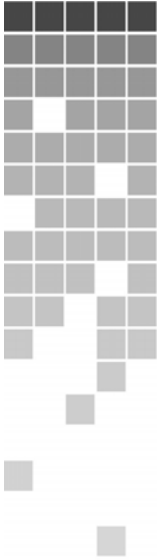
We reviewed each of the models. This table summarizes what we saw as the benefits and drawbacks of each approach:

In narrowing down the options, we looked first to the likely business outcomes of each:

	<b>Benefits</b>	<b>Drawbacks</b>
One company with divisions	<p>Company can focus fully on improved results, including Pickering</p> <p>One board, management team overseeing all generating assets</p> <p>Greater certainty for company and market</p>	<p>Requires careful design to ensure accountability, avoid cross-subsidization, and assess how well divisions perform</p>
Holding company	<p>Makes results of each subsidiary easier to assess</p> <p>Separates operational focus from broader strategy issues</p> <p>Lets workers better “own” the results of their business</p>	<p>Restructuring would distract leadership</p> <p>Needs appropriate controls over shared corporate resources</p> <p>“Real” authority would be in operating companies, leaving holding company role uncertain</p> <p>Additional overhead costs</p>
Two companies	<p>Makes results of each company easier to assess</p> <p>Strengthens focus by having fewer lines of business</p> <p>Lets workers better “own” the results of their business</p>	<p>Major upheaval for workers and company</p> <p>Maximum distraction for leadership</p> <p>Increased risk of inappropriate shareholder involvement</p> <p>Shareholder must recruit two boards, two sets of senior executives</p>

How much would it improve performance? What risks would it entail? We then tried to get a sense of whether the net gains of the option would outweigh the costs of creating it.





However, we saw substantial risks in a break up, in that it would:

- Force a huge restructuring onto a company already struggling and a sector in the midst of major change. OPG is finally rebuilding after the break-up of Ontario Hydro, which took almost three years to digest. A second round of de-merger at this point would cause major cultural and logistical upheaval.
- Divert senior management time and attention while the company also needs to:
  - prepare for a new regime for the electricity sector;
  - deal with the Pickering refurbishment; and
  - overhaul elements of the company's governance and accountability structures.
- Keep OPG from showing its true potential. The period from its creation in 1999 has been marked by so many abrupt changes, including market power mitigation conditions, starts and stops on decontrol, and the opening and partial closing of the market, that the company in its current corporate structure has not had the opportunity to operate in a clear policy environment.

We felt that from a business perspective the third option (separate companies) offered little, if any, net benefit over the second and involved much greater drawbacks. For those reasons, we took it off the table.

While we were drawn to the second model, we felt that the costs, in terms of distracting the company, the shareholder and other interested parties, were too great at this time. We believe that with the recommendations we have set out, OPG can gain virtually all of the benefits of the holding-company structure.

We therefore concluded that the first model, in which OPG remains as a single company with separate operating divisions, can best meet OPG's needs.

Our one-company model, however, is not the status quo. The people in divisions need to be able to point with pride to improved performance. Divisions also need to be accountable.

We are recommending a fundamental change in accountabilities. We suggest that each division have a separate management team led by a divisional Chief Executive Officer. These people will be accountable for the results of their division to the CEO of OPG.

We also want the OEB to regulate OPG by generating division, as described in the previous chapter. As well, we recommend that the company put internal systems in place to make divisional results fully transparent.

The divisions should absorb as much as possible of the typical corporate functions that go with operating a large complex business. Minimizing cross-subsidization, which leads to an obscuring of true costs, will enforce a high level of accountability.

To further strengthen accountability, we suggest that the board have competencies or committees to oversee and challenge the business and affairs of each division. This also will permit a small core group of directors to develop a better understanding of the business of that particular division and to bring that understanding to the full board.

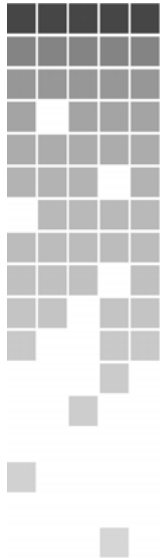
We are aware that transparency will be a key to success in the one-company model. The detailed costing and operational information required by the OEB to justify rates will help.

In addition, each division should be required to prepare a budget and business plan against which performance can be measured. Publishing financial statements for each division, with discussion of results against plans, will allow follow-up.

We also concluded that OPG should remain a reporting issuer under securities laws. This status requires it to disclose in a timely manner financial, operational and strategic information to securities regulators and the public.

So that OPG can be measured accurately on its performance against other commercial utilities and to recognize the full cost of producing power, OPG needs to have a financial structure similar to other similarly regulated utilities and earn a regulated rate of return on its capital. These are covered in our recommendations in this chapter.

We see no benefit in changing OPG from its current status as a business corporation under the *Business Corporations Act* (Ontario), which provides a well defined code for business activity. The alternative would be to make OPG an agent of the Crown. OPG



needs to stand on its own, not as a Crown agent, and be operated as a commercial enterprise. In line with that belief, the current arrangement – in which the Province does not guarantee OPG’s debt – should continue.

## Recommendations

### Recommendation III.1

*That OPG remain a single, commercially oriented company under the Business Corporations Act (Ontario); that the current arrangement in which the Province does not guarantee OPG’s debt continue; and that OPG be divided internally into two principal operating divisions, the nuclear division and the hydro/fossil division.*

### Recommendation III.2

*That a separate management team led by a divisional Chief Executive Officer, accountable to the CEO of OPG, operate each division.*

### Recommendation III.3

*That OPG be structured so that as many as possible of the operating functions necessary for the success of a division, including regulatory affairs, financial reporting and risk management, are located within the division, and that each division assume or absorb all corporate costs and head office costs reasonably associated with its share of the business revenues of OPG.*

### Recommendation III.4

*That the divisions each year produce detailed financial statements, and a management discussion and analysis of results, which are made public.*

### Recommendation III.5

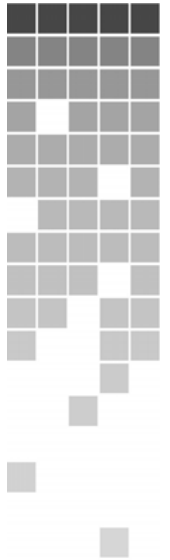
*That each of the divisions produce each year an annual five-year rolling business plan for the division, which will form the basis of the OPG business plan.*

**Recommendation III.6**

*That OPG as regulated company have a capital structure similar to other regulated commercial utilities.*

**Recommendation III.7**

*That as soon as practical the OPG Board present a plan, with timeframes, to the shareholder for reorganizing the company into two principal operating divisions and winding down non-core business units.*





## IV. Governance

The motivation to build an organization committed to excellence must begin at the top of a company. The Chair and Chief Executive Officer, working with the board, must spread this culture by example throughout management and the entire workforce. What is done at the top is critical, because culture and values in an organization – the foundations of good governance – are spread and learned by example. In the case of OPG, we believe workers want to have pride in their company, but they must feel they are part of a team that shares a common goal of excellence: running a first-order utility.

Achieving this will lead to a profound cultural change. It will, over time, break down the silo mentality of departments and the tendency to avoid taking responsibility that has marked the attitude of too many senior managers of OPG in recent years.

The starting point is that the government must mandate the leadership of OPG to build a competent, commercially-oriented company, free of political interference and subject to clear public oversight. From that will flow the stronger governance, greater accountability and more positive culture that OPG needs.

### What good governance means

The Organisation for Economic Cooperation and Development (OECD) has defined corporate governance as “the system by which business corporations are directed and controlled.”

Good governance depends on people as well as rules and structures. In discussing control, which is a component of governance, the Canadian Institute of Chartered Accountants notes that: “. . . control is as much a function of people’s ethical values and beliefs as it is of standards and compliance mechanisms.” We believe this to be true not just of control systems, but of governance as a whole.

Governance is very much tailor-made for every business and organization. A good governance plan puts in place the people, systems and controls that will enable the business to deliver on its unique mission, vision and objectives. The governance needs of an organization will also change over time. They need to be regularly reviewed.

Effective governance will:

- allocate responsibilities to parties such as the board of directors and the managers of the organization in such a way as to make them accountable in clear terms;
- provide the means for setting and pursuing company goals in a transparent and open way; and
- create the structures to manage risks and monitor performance.

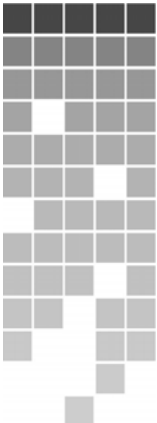
Poor governance presents huge risks including potential loss, misdirection or misuse of assets, missed opportunities, and the creation of a culture in which people can't do their jobs properly.

In the case of OPG, the starting point for a solid governance plan is a government prepared to clearly address and strengthen some of the governance considerations we identify in this chapter that involve the shareholder. The starting point is also the creation of a stable independent operating environment for OPG.

Accountability depends on a strong and well resourced OPG, a clear mission, vision and strategy and an incented work force. The long-term objective must be to mandate a board to build an efficient, proud utility operating in a transparent environment with the necessary independence from government to enable it to be held accountable for its actions.

Our review of a number of OPG's governance controls and systems indicated that significant time and effort was spent on governance. Many of the systems we saw were of very high quality. Our governance concerns are more directed at how OPG relates to its shareholder, the effectiveness of the board and issues around culture within the organization including how people are held accountable. We have therefore approached our additional governance recommendations contained in this chapter by looking at four sub-areas:

- Shareholder, board and management roles, accountability and transparency
- Setting and pursuing company goals

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- Structures to manage risks and monitor performance
  - Corporate culture.

Our recommendations are aimed at improving accountability, creating greater transparency, strengthening the role of the OPG Board and strengthening governance systems around expenditure approvals. Many of our most important recommendations on accountability and transparency are previously discussed in chapter III which deals with the Structure of OPG.



## **Shareholder, board and management roles, accountability and transparency**

In the commercial world:

- The owners appoint a board of directors with broad skills and experience to oversee the running of its business.
- The board assumes responsibility for oversight of the business – especially for delivering results – and is accountable to the owners for its successes and failures.
- Professional managers hired by the board take care of the day-to-day running of the company, within the strategy and policy framework set by the board, and are accountable to the board for results.

Although a minister typically represents the government in the role of shareholder in a Crown corporation, the ultimate beneficiaries of the efficient operation of OPG's assets are really the people of Ontario. Transparency is therefore very important. The people of Ontario reasonably expect to know what is going on at OPG.

There are special challenges where the sole shareholder is the government. Because the government sets electricity policy, the company must be operated transparently and have the independence it needs to ensure that OPG is no more subject to public policy direction than any other generator in Ontario. Special measures need to be in place.

We believe the best way to ensure that OPG is governed well is to start with ensuring its relationship to the government is purely a commercial one. We believe a strong, independent OPG Board is critical to achieving a commercial relationship. The Board

needs the right skills, resources and powers to oversee what is a complex business. To be effective, however, the board should consist of no more than 12 people.

As sole shareholder the government should continue to have the power to appoint all directors. However, the board should have input into this process and our recommendations reflect this. We have suggested other ways of strengthening the board while at the same time making it more accountable.

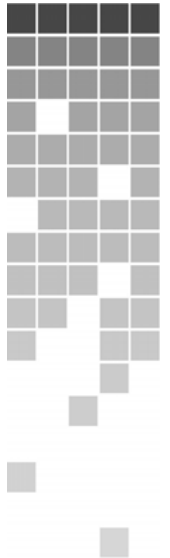
Governance requires that the organization itself be held accountable. We have discussed in Chapter III how to improve accountability at the operational level through structural change. Benchmarking is also important. Using the benchmarking systems widely available through industry groups such as the Institute of Nuclear Power Operations and the World Association of Nuclear Operators is already a priority for OPG. Benchmarking for the nuclear and non-nuclear businesses should be considered to be near the top of the list in assuring accountability. OPG should annually and publicly report on how its performance has been benchmarked.

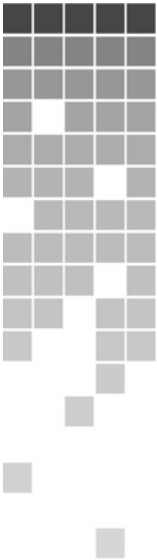
The people in any organization, if it is to be well-run, must be personally accountable. This is a key part of a strong governance culture. Personal accountability should grow out of a determination not to let the other team members down not out of a fear of punishment.

Accountability and compensation are closely linked. Providing the right incentives can help keep people accountable. We believe that a substantial portion of compensation for senior management at OPG should be performance based and should very much be tied to those things for which individual senior managers are held accountable.

The Pickering A Review Panel cited work by external consultants that pointed to a serious lack of accountability throughout OPG. Many people do not appear willing to take responsibility for their poor performance.

On the other hand, some observers have noted that the company appears to have failed at times in its responsibility to give staff the training and systems needed to prevent mistakes. This may understandably have led to a culture in which avoiding blame is more important than admitting errors.





As accountability starts at the top, the board must be able to hold senior executives accountable in terms of running the business on a commercially efficient basis. This means settling with senior executives on an annual basis the priorities and objectives for them as understood by the board.

The following recommendations relate to shareholder, board and management roles, accountabilities and transparency, and the effectiveness of the board. We recognize that some transition may be necessary in relation to our recommendations, for example recommendation IV.2.

**Recommendation IV.1**

*That the OPG board consist of up to 12 directors appointed by the Province and that the directors bring to the board skills and experience in areas such as nuclear electricity generation, finance, environmental matters and human resource management.*

**Recommendation IV.2**

*That the Chair serve part-time and have no executive powers.*

**Recommendation IV.3**

*That Board members be remunerated in line with remuneration paid to members of boards of comparable private sector entities.*

**Recommendation IV.4**

*That when new directors are needed, a committee of the board of OPG develop, for shareholder consideration, a list of board needs and skills that is made public and is used by the committee to develop a roster of director nominees for shareholder consideration.*

**Recommendation IV.5**

*That instructions or similar directives, when given by the shareholder to OPG, be in writing and be given as a matter of public record.*

**Recommendation IV.6**

*That OPG each year certify and disclose senior officer employment terms, compensation, benefits and expenses.*

**Recommendation IV.7**

*That the Board issue a report each year on its priorities and progress and its conclusions as to how effectively the company was governed during the prior year.*

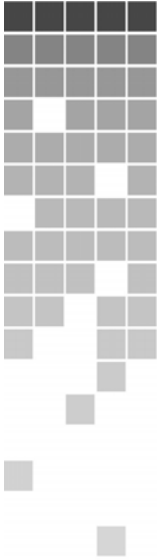
**Setting, pursuing and achieving company goals**

A well-run company knows where it is going and why. It is also set up to pursue its goals effectively.

OPG has been assigned a wide range of goals in the recent past, some of them conflicting. In addition to that problem, we found other problems at OPG in the area of setting and pursuing goals:

- Employees do not have a sense of what the company's overall mission and vision are.
- Constant change at the senior management level has disrupted continuity and resulted in employees looking at senior managers as short term players.
- The problems at Pickering came to overwhelm other goals in the recent past.
- There is not a strong enough link between achievement and rewards.
- Many staff members that OPG considers to be managerial belong to a bargaining unit, which may be an obstacle to accountability and effective pursuit of company goals.

OPG currently has a vision – “to be a premier North American energy company” – that is so broad as to be almost meaningless. Given its many roles and the changes in the market, this is understandable.



What OPG needs, going forward, is a mission and vision that reflect a more focused role in a more stable environment. Mission and vision, at a high level, set out the big picture of where the company wants to go and how. The vision should focus on what future success will look like. All of this helps to align the company's resources and business planning.

To act on its mission and vision, a company needs a strategic plan. This typically covers a specific period into the future, as opposed to the ideal end-state of the vision. A business plan – explaining in more detail how corporate resources will be used to pursue the strategy – follows from the strategic plan.

Currently, OPG undertakes an annual planning exercise that results in a business plan approved by the Minister of Energy. It is not clear how actively the shareholder takes part in the planning exercise. To create independence for OPG as well as accountability for results, we believe OPG should use a five-year rolling strategic business planning system. Each year the plan would be reviewed, renewed and approved by the OPG Board and by the shareholder. The approval should be through a clearly understood approval process. Once approved, OPG has the authority to operate within the plan with the clear support of the shareholder. These arrangements we believe will work in favour of greater independence for OPG, subject to it being clearly accountable for performance.

Managers are the people who turn a company's strategy and plans into results. They can best achieve this by building and mobilizing the skills and knowledge of a workforce that understands the strategy and sees the benefits of success. Being clear about vision and strategy is important to the workforce in an organization like OPG.

The goal of our recommendations in this area is to help managers at OPG – not just senior managers, but the entire team – do their jobs better and contribute to the company's success.

The following recommendations relate to OPG's **strategy and goals**:

#### **Recommendation IV.8**

*That OPG clearly define a mission and vision for the company, based on its role as steward of core generating assets and also reflecting such elements as:*

- *Environmental sustainability;*

- *Due regard to health, safety and community needs;*
- *Relative performance among peers; and*
- *Achieving its goals through a workforce committed to embracing the public trust around Ontario's publicly owned generating assets.*

**Recommendation IV.9**

*That every year OPG prepare for Board and shareholder approval a rolling five-year business plan and that a summary of such plan be made public;*

*That each operating division prepare a similar plan on which the OPG business plan can be based; and*

*That OPG submit to the shareholder for approval any material capital expenditures not included in the approved OPG business plan.*

The following recommendations relate to **pursuing and achieving its strategy and goals:**

**Recommendation IV.10**

*That the Board hold management accountable for pursuing and achieving company goals by:*

- *establishing annual objectives for the CEO reflecting the company-approved business plan;*
- *ensuring that a significant portion of compensation is performance based;*
- *aligning performance based compensation with such annual objectives; and*
- *requiring the CEO to establish similar arrangements for the divisional Chief Executive Officers and the other senior officers of the divisions.*



**Recommendation IV.11**

*That OPG hire and compensate managers in line with market conditions for comparable utilities.*

**Recommendation IV.12**

*That throughout the organization, where possible, compensation be tied to individual, divisional and company performance*



**Structures to manage risks and monitor performance**

Failure to identify and manage risks and to monitor progress effectively was a central feature of the problems in the Pickering A Unit 4 project. Cost controls in the nuclear division are a particular issue.

We have observed or seen evidence of problems in these and other areas within OPG relating to:

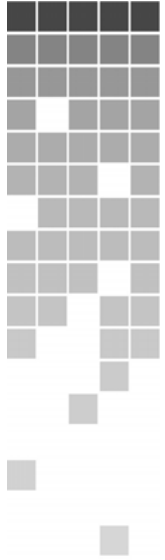
- Project scoping and feasibility
- Processes and systems for individual reviews and evaluations
- Labour relations risks

We recognize that the company has made significant progress in many of these areas as they apply to the Pickering project. We discuss those in considerable detail in Chapter V.

We are concerned that many of the problems manifested at the board level – cost overruns, inadequate or confusing information for decision-making – may arise from long-standing problems in the area of controls at the operating level. We feel the evidence of problems is serious enough to warrant investment in finding and correcting them.

Of immediate need is for OPG and its board to look carefully at its processes and procedures around planning major expenditures.

The following recommendations relate to OPG's structures to **manage risks and monitor performance**:



**Recommendation IV.13**

*That OPG develop control systems around major capital expenditure and/or O&M programs including:*

- *robust controls and metrics to measure project value as expenditures are made;*
- *conditions for making major capital expenditure decisions around the degree of completeness of project scoping and engineering;*
- *the means by which the board can be assured that all alternatives have been appropriately challenged before go-ahead authorizations are given for major expenditure programs; and*
- *the process by which follow-up reviews will be conducted in an independent manner to establish how actual performance compares to projected performance as estimated at the time of project approval.*

**Recommendation IV.14**

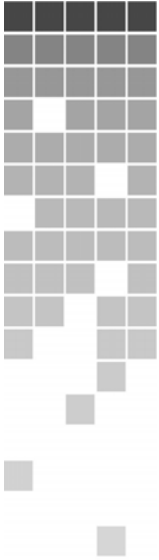
*That OPG examine its approach to information provided to the board with respect to major projects and programs to ensure that the information provided by OPG to its board includes a full assessment of risks associated with the decision and the timing of the decision.*

**Recommendation IV.15**

*That a Chief Governance Officer be designated to assist OPG in managing governance related matters.*

**Corporate culture**

Our work on governance was carried out against the backdrop of OPG’s corporate culture. The culture of the workplace is critical to whether governance systems can achieve their potential. Workers and managers need to work in an environment of trust and teamwork.



We make these observations because the most pervasive problems at OPG and its predecessor seem to relate to corporate culture.

It would hardly be surprising to see cultural and organizational problems in a company that only got started in 1999 and that has lived through changes as dramatic as those outlined in this and the previous chapters.

While the Committee did not carry out any new detailed work in this area, we did benefit from the views of many OPG stakeholders, including current and past employees and board members. We also relied on the work of the Pickering A Review Panel, whose report summarized previous studies carried out by impartial observers. The Review Panel report contained a useful chart, which we have included at Appendix G.

The picture painted for us was one of an organization in which many people work hard to do their jobs well, but face an environment that harms morale and hinders performance. The reasons arise to some extent from external forces, but also seem to reflect long-standing problems dating back to Ontario Hydro days as well as recent failures.

In particular:

- For decades, Ontario Hydro operated as an unregulated monopoly supplier to most of the market, engendering a mixture of arrogance, corporate intransigence and bureaucracy.
- Because of its key role in the economy and direct government ownership, it has operated in a highly politicized environment.
- OPG has not focused strongly enough on developing its leadership from within, as the Review Panel report noted.
- As noted, in recent years the company has been whipsawed by changes, including restructurings and massive layoffs.
- Layoffs have left in place a workforce skewed towards seniority. The average worker age is 45. Out of a permanent workforce of close to 11,000, only 700 employees are under 30. Almost one-third are over 50.
- The Pickering A Unit 4 failure has had a hugely demoralizing impact.

## Labour Relations

On a broad corporate level, we believe that the labour relations environment is a significant obstacle to the culture change needed to improve OPG's performance.

We do not intend this as a negative reflection on unions generally or on the union or management leadership at OPG. Experience in Canada and elsewhere shows that large organizations in the public and private sectors can operate efficiently and with productive union-management relationships. At OPG, it appears that both management and its unions have made progress in recent years towards a better relationship.

Yet, in a recent survey on worker engagement, OPG ranked far below the average of similar-sized unionized organizations. We believe this reflects systemic problems at OPG stemming in part from a long legacy of labour relations challenges at Ontario Hydro.

At present two unions, the Power Workers Union and the Society of Energy Professionals, represent roughly 90% of the OPG workforce. Unionized workers at OPG and Ontario Hydro have always held the right to strike. Other public sector workers in Ontario who provide critical services, such as hospital workers, fire fighters and police officers, are subject to arbitration for resolving disputes.

Because a strike by electricity workers would cause enormous harm to Ontario, management's bargaining power was weakened through successive rounds of bargaining. Over time, provisions have been built into collective agreements that will make it difficult to achieve many of the changes that are needed at OPG.

One issue in particular is the number of supervisors and managers who are members of the Society. Currently, Society members include more than 200 employees whom OPG considers to be performing management functions. This arrangement is a result of a voluntary agreement that Ontario Hydro and the Society reached in 1991.

It will be very hard to ensure the accountability of this layer of management without removing these managers from the bargaining unit or making other substantial changes to the collective agreement. We strongly encourage all parties to make every effort to put in place a more rational arrangement.



## 700 University Avenue

We have made several recommendations to address shareholder influence which has been a clear factor affecting morale and engagement. We also suggest very strongly that the company and the shareholder look at the impact – both symbolic and real – of the location of OPG headquarters. The current site, directly across Queen’s Park Crescent from the Legislature, emphasizes the close ties that have always existed between the electrical utility and the Province. Other Ontario Hydro successor entities, such as Hydro One Inc. and the IMO, have left the neighbourhood.

From a practical perspective, neither the location nor the size of the building may make sense any longer. Downsizing and the de-merger have reduced the number of employees. Beyond that, we believe that as many functions as possible need to be moved into the generating divisions. It would be better for the management teams running the divisions and related services on which they rely to be close to their operations.

This is a decision for the new board and management of OPG, based on financial costs and benefits, but we believe a move – possibly resulting in a much smaller head office – would be good for the company.

We also believe our recommendations on building two strong distinct accountable businesses within OPG will materially contribute to improved culture. Employees will have a better sense of who they work for and how they can make a difference.

### **Recommendation IV.17**

*That management of divisions be based in the field at or near the assets for which the division is responsible.*

### **Recommendation IV.18**

*That the head office of OPG be reduced in size as much as possible as functions are moved to the two key operating divisions and, subject to cost-benefit analysis, be moved away from 700 University Avenue in Toronto.*