

**Building a new company with an old history**

**Remarks to Canadian Centre for Ethics**

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## **Introduction**

- Thank you for the kind introduction. I am honoured to be here with you today.
- Hydro One has been through a tremendous transformation over the last year. It was just 12 months ago that the old Ontario Hydro was broken up into largely three main successor companies.
- There is Ontario Power Generation, responsible for the generation of electricity; the Independent Market Operator, responsible for directing the operation of the electricity market in Ontario, and of course Hydro One, formerly named Ontario Hydro Services Company. We're the 'wires' part of the province, responsible for the operation of the high voltage transmission system in Ontario. We also operate a lower-voltage distribution system serving smaller municipal utilities and almost a million customers right across Ontario.
- After 93 years as the Ontario Hydro organization, the breakup last year had quite an impact on the 22 thousand employees.
- But I believe Hydro One and its 4100 employees have successfully made that transition and we are evolving into a new entity – one that I am very excited to be leading into this new era of competition in the Ontario electricity market.

## **Key Messages**

- Today, I want to focus on the cultural journey that was necessary to make this transition, and the changes that are still ongoing in our organization.
- I'd like to outline the high standards we set out for ourselves when we launched the new company and how those standards affected relationships with our employees, our unions and our actions as we looked -- and continue to search -- for new and efficient ways of doing things.
- Those same high standards also serve as a compass that continually guide us. While many things have changed since we launched OHSC, our commitment to business ethics remains strong. I'll give you some background about Hydro One's Code of Business Conduct and show how that code comes to life at Hydro One.
- But first, I would like to talk to you about Hydro One's vision for the future and the values that are fundamental to our future success.

## **Hydro One Structure**

- With the breakup of Ontario Hydro, Hydro One was created as a holding company. We operate a portfolio of subsidiaries including:
- Hydro One Networks – which is Hydro One's major wires subsidiary responsible for over 90 per cent of Hydro One total revenues. In this subsidiary we have our 113,400

kilometre rural distribution system, a 29,000 kilometre high voltage transmission system and almost one million customers.

- Hydro One Remote Communities brings electricity to remote communities not connected to the electricity grid, primarily in the north.
- Hydro One Markets, is responsible for obtaining energy for our standard supply customers at regulated prices.
- Our fourth subsidiary is Hydro One Telecom. Telecom will lease excess dark and lit fibre-optic capacity from our Networks subsidiary and rent it to telecommunications service providers.
- The fifth subsidiary is Ontario Hydro Energy – our competitive retail energy services subsidiary. Although this business is a wholly owned subsidiary of Hydro One, it will be physically and financially separate from Hydro One Networks, in compliance with the OEB affiliate relationships code. Simply put, OH Energy’s purpose will be to help customers—residential, farm, commercial or industrial—to take advantage of the best energy and energy service opportunities in the new, more complicated marketplace.

### **The Hydro One Way**

- One of our primary responsibilities is to transmit and distribute electricity to our customers in urban and rural communities throughout Ontario. In doing so we play a vital role in making those communities work.
- Our performance is determined by our operational excellence in transmission and distribution and in solving the problems that we encounter in meeting our responsibilities to our customers. We will be the best transmission and distribution utility, carrying out all of our activities with integrity and always working to be the best in everything we do.
- Our front line workers and managers are key to our success in achieving those goals. All of our actions should be in support of our front line staff.
- As a result we must:
  - Treat everyone with respect;
  - Provide a safe work environment;
  - Provide a clear statement of responsibilities and accountabilities and hold people accountable for results;
  - Provide the training and coaching required to be a top performer;
  - Communicate in all directions throughout the company, sharing as much information as possible;
  - And recognize, celebrate and reward success.

- These actions will create a work environment that underpins the profitability and growth that we require to be the best.

### **Commitment to High Standards**

- When we were faced with the prospect of launching Hydro One, the Board of Directors and Senior Management were determined to build a company with exceptionally high standards. Our Chairman Sir Graham Day has been a leader in promoting and practising effective corporate governance throughout his career.
- From the outset, Graham and I and the rest of the Board of Directors wanted to ensure that our governance practices reflected best practices of private sector companies. This is reflected in all our Board processes and practices.
- These high standards we have set for ourselves have guided us in our relationships with our stakeholders, our customers and our employees.
- We knew our relationship with our employees would have to change if we were to achieve the cultural and behavioural changes necessary for a competitive marketplace. I believe we have begun changing that relationship for the better.

### **Employee relationships**

- One of the things we inherited from the old Ontario Hydro organization was an often acrimonious and an almost always adversarial approach to collective bargaining with our unions. In fact, a number of recent bargaining sessions had gone right down to the wire with both sides pointing and threatening actions if agreements weren't reached.
- The recent agreement with our largest union -- the Power Workers Union is a testament to how that has changed.
- The tentative agreement was reached well in advance of the March 31<sup>st</sup> expiration of the current collective agreement. In fact, it is the earliest that I -- or anyone I have asked -- can remember both sides coming to an agreement.
- The agreement was reached without the involvement of external parties and without the assistance of a mediator/arbitrator. I agree with John Murphy, the President of the PWU who is in the audience -- the reason this happened is because of the approach the two sides took to bargaining. We agreed to take a "problem solving" or "mutual interests" approach to bargaining instead of the traditional adversarial approach.
- We had a number of other challenges to address as well -- not the least of which was an entrenched philosophy of entitlement.
- This was a crucial mindset for us to get past. Not only has the company changed significantly over the past year, but we are about to head into an era of competition. If

we want to compete effectively, we must realize that we have to work just as hard as others to maintain the business we enjoy today. We can't take that for granted.

- Change has been constant for our employees and we are under tremendous pressure to reduce costs while improving productivity. We have been honest with our employees, telling them that work that may have previously been done was no longer necessary in this new competitive environment.

### **Need for efficiencies**

- We have embarked on an aggressive program to eliminate work that is not essential to our core operations. We are eliminating duplication in services. We are looking at ways to better utilize field staff and assets without impacting service. All of this will help us reduce our costs of doing work.
- But this means that we have more employees than we need at the moment.
- While we needed to address the need for a reduced workforce, we also wanted to be fair to our employees, many of whom had been with us for many years. The average age of a Hydro One employee is 44 years and average length of service is 19 years.
- Earlier this year, we introduced a very ambitious and attractive early retirement program. Approximately 1,400 people have elected to opt for early retirement. We recognize we are losing valuable knowledge and skills with the retirement of these workers. However, we still have our core of highly skilled and knowledgeable employees who will in turn, be able to mentor the younger people we can now bring onto our workforce.

### **Code of Business Conduct**

- Although there have been and will continue to be a number of changes in our organization, one thing that hasn't changed is our commitment to business ethics. Ethical business practices are extremely important to us.
- Two years ago Ontario Hydro developed a Code of Business Conduct to help employees understand the expectations for ethical behaviour. The Code of Business Conduct that was developed in 1998 was one of the things we made sure we took to Hydro One. In fact, the Code was adopted at the first Hydro One Board meeting. We are currently working on making that Code more specific to our new company and our new environment and reflecting recent experiences with the Code.
- It currently includes guidelines that deal with issues like conflict of interest, confidentiality, workplace harassment, outside business activities and acceptance of gifts from suppliers. In doing so, it helps define the kind of behaviour that will help Hydro One succeed.

### **Chief Ethics Officer**

- Everyone knows my title of CEO really stands for Chief Executive Officer. But at Hydro One, we also like to remind ourselves frequently that the “E” could just as well stand for Ethics.
- As the Chief Ethics Officer, I am accountable to the Board for preparing a code of ethics for the Board’s approval. I am also accountable for the development of the policies and procedures to implement the Code and most importantly, the company’s compliance with the code. That’s how committed we are to the concept – and we expect our employees to be just as vigilant.

### **Corporate Ethics Officer**

- We also have a Corporate Ethics Officer – most of you know Chris Chorlton – he is also a Vice Chair of the Centre. Unfortunately Chris could not be here today.
- We specifically designed Chris’ assignment as Corporate Ethics Officer to be a part-time responsibility – an addition to his day job which we don’t want him to give up – because we don’t want ethics to be off in a corner. It needs to be integrated into the everyday conduct of business for all our employees.
- The Corporate Ethics Officer has ready access to our Chairman, the Board of Directors and to me. He has advisory and compliance powers and works with other groups such as Human Resources, Internal Audit and Security, as required.
- The Human Resources and Public Policy Committee of the Board receives regular reports on any activity associated with our Code of Business Conduct.
- Complaints are handled in a confidential manner wherever possible. Additionally, the Corporate Ethics Officer must be satisfied with the management resolution of any complaint. Depending on the nature of the violation, we have handled the situation with anything from process reviews and adjustments to discipline, right through to termination.
- *Current*, our employee magazine, also reports to employees regularly on ethics and details how we’re handling incidents that are reported to us. It’s important that we not only deal with ethics issues, but that our employees see us doing so as well. Ethics are also prominently featured on the Hydro One website.

### **Example – ethics come to life**

- Now, it’s all very well to have an ethics policy, but in many organizations, that policy sits on a shelf in a binder with other policies, collecting dust. That’s not the case with us.
- At Hydro One, we continually remind employees about the three principles of our Code – integrity, excellence and citizenship. Let me give you a specific example that helps show how this policy has been implemented.

- You may remember last year, reading in the paper about a controversy in the federal government where some employees were alleged to have been pocketing cash rebates from gasoline retailers in Ontario in return for filling up their cars and trucks.
- Employees in our Vankleek Hill office in eastern Ontario were also filling up company trucks at a retailer that offered a cash rebate. The linemen involved realized this was not appropriate under our Code of Conduct and brought it to the attention of local management. When Hydro One couldn't negotiate a better gas price for the benefit of the company, our employees suggested they collect the cash rebates and donate them in the company's name instead to a local charity which assists the homeless.
- Integrity, Excellence, Citizenship. These are the three principles we use to guide us to sound business decisions and to the right answers to ethical and social questions. By acting ethically, we will earn the trust and confidence of our employees, customers, and other stakeholders.

#### **External activities**

- Hydro One is also actively involved in ethics beyond the borders of the company. As you've probably figured out during the course of this speech, it's also something I feel very passionate about.
- Hydro One is a member of the Canadian Centre for Ethics and Corporate Policy, and I was a founding Director of the Centre back in 1988. Ethics continue to be just as important to me as they were then. That's why I actively support Hydro One's commitment here, as well as to the Corporate Responsibility and Ethics Council of the Conference Board. Our Vice-President of Human Resources is also on the Board of Transparency International Canada. All this helps us stay abreast of external developments and industry trends in the field of business ethics. I feel this is extremely important – we need to continually look at ways to ensure we are operating with the highest possible standards.

#### **Summary**

- Hydro One is going through some exciting and challenging times. As I have said, change seems to be one constant at our company and there will continue to be changes. I see the past 12 months as a transitional period for Hydro One. The demerger from Ontario Hydro occurred one year and we have spent the past 12 months moving away from the old Ontario Hydro organization.
- We are a new company that will be able to operate successfully in the new electricity market which will introduce competition in November of this year. As competition approaches, you will see more changes from us.
- But I strongly believe that our commitment to high standards and business ethics will stand us in good stead as we work to become the leading energy services company in North America.

- By holding these two basic tenets side by side, I think we have done an admirable job of making the kind of changes that have been necessary in our new environment. Because of our success to date, we can be confident that following the same blueprint will ensure that our customers and our employees are treated fairly and honourably. We can ensure that our business practises are appropriate for all parties involved. And we can ensure that not only are we acting ethically, but that others see that we are doing so as well.
- Thank you for your time. I'd be happy to answer any questions you have.