DEPRECIATION AND AMORTIZATION

1.0 PURPOSE

This evidence describes OPG's depreciation and amortization policy and presents the depreciation and amortization expense for the regulated facilities.

2.0 OVERVIEW

OPG is seeking approval of a test period revenue requirement that includes depreciation and amortization expense of $130.6M for the regulated hydroelectric facilities and $491.8M for the nuclear facilities. Depreciation and amortization expense for the historical, bridge and test years are shown in Ex. F4-T1-S1, Tables 1 and 2.

Section 3 of this exhibit presents OPG's depreciation and amortization policy. Section 4 discusses the trend in depreciation and amortization expense over the 2007 – 2012 period.

The depreciation expense for the Bruce assets is presented in Ex. G2-T2-S1.

3.0 DEPRECIATION AND AMORTIZATION POLICY

Once a constructed or purchased asset is classified as in-service, the related capital expenditures are recorded as a fixed or intangible asset in the appropriate asset class with an established service life. OPG's classification of expenditures as capital or operating is set out in Ex. A2-T2-S1, section 5.1. Capital project expenditures are recorded as fixed assets in the construction-in-progress account until they are classified as in-service, and are not depreciated until such time. Similarly, intangible asset expenditures are recorded in a development-in-progress account until they are classified as in-service and are not amortized. Each asset is assigned a unique identifier, which assigns it to an asset class and physical location.

Approximately 90 per cent of OPG's in-service fixed and intangible assets are directly associated with specific generation facilities. The net book value of the nuclear facilities and the Bruce assets includes asset retirement costs ("ARC") relating to OPG's nuclear fixed

asset removal and nuclear waste management liability. Accordingly, the depreciation and amortization expense also includes the depreciation of ARC. The accounting and regulatory treatment of ARC and associated depreciation expense is discussed in greater detail in Ex. C2-T1-S2 section 3.0. Intangible assets primarily include computer software expenditures that are eligible for capitalization.

The remaining in-service fixed and intangible assets are either directly associated with a business unit, or are held centrally and are used by both regulated and unregulated generation business units. The assets held centrally are not allocated to regulated facilities; instead the business units (both regulated and unregulated) are charged an asset service fee for the use of these assets. This charge is reported as an OM&A cost. The explanation of the asset service fee methodology is provided in Ex. F3-T2-S1.

Depreciation or amortization of an asset commences once it is declared to be in-service. Each class of assets is depreciated or amortized at an established rate. Ordinarily when an asset within a class is retired, the gross asset value is removed from both the cost of the asset and the related accumulated depreciation. An exception to this treatment is applied if an asset is retired significantly in advance of the end of the life of its asset class, in which case the remaining net book value is charged to depreciation and amortization expense. The assumption underlying the above approach is that assets retired in the normal course are fully depreciated or amortized. In the asset class, some assets are retired before the end of their estimated service life, while others are retired after the end of their estimated service lives. Consequently, on average, the entire asset class is assumed to be fully depreciated or amortized at retirement.

The depreciation and amortization expense for regulated facilities also includes expenses relating to management of nuclear low-level and intermediate-level waste. These costs are described in greater detail in Ex. C2-T1-S2 sections 3.2 and 3.3. Further, any asset removal costs incurred as a result of replacing existing equipment that have not been previously provided for are included in depreciation and amortization expense for prescribed facilities in the period of removal. Removal costs include costs associated with disassembling a

component of an asset to gain access to a subcomponent to be repaired or replaced and the cost to reinstall the removed component.

Depreciation and amortization rates for the various classes of in-service fixed and intangible assets are based on their estimated service lives. Service lives for the assets of the regulated facilities are established by the technical and engineering personnel of the business unit that manage these assets, supplemented by the analysis of applicable external factors and economic viability considerations.

Fixed and intangible assets are depreciated or amortized on a straight-line basis except for computers and transport and work equipment, which are depreciated on a declining balance basis due to the nature of these assets. The service life of an asset class is limited by the service life of the station(s) to which it relates. The determination of these station end-of-life dates for depreciation purposes involves an assessment of the condition of and expected remaining life of certain key components (referred to as “life-limiting components”), in conjunction with an estimate of the expected operation of the station. For the nuclear stations, the life-limiting components are: steam generators, pressure tubes, feeders and reactor components. Based on the most recent assessments, pressure tubes have been assessed to be the most critical life-limiting component at all three nuclear facilities. For regulated hydroelectric stations, dams are considered to be the life-limiting component.

Since OPG does not operate the nuclear units that are on lease to Bruce Power, the assessment of end-of-life dates for depreciation purposes for the Bruce Nuclear Generating Stations are based on other factors. Key factors include: information relating to the operation and refurbishment of the Bruce stations made publicly available by Bruce Power, historical performance of the Bruce stations prior to their transfer via lease to Bruce Power, publicly available information on the Bruce stations’ performance since their lease to Bruce Power, the performance and equipment condition of similar stations that continue to be owned and operated by OPG, and information on plans for the Bruce stations inferred from publicly available reports from the IESO and the OPA.

The average service lives and depreciation/amortization rates of the fixed and intangible assets of OPG's regulated facilities and Bruce facilities used to determine the depreciation and amortization expense for the test period revenue requirement are:

Nuclear generating stations and major components	15 to 60 years
Hydroelectric generating stations and major components	25 to 100 years
Administration and service facilities	10 to 50 years
Computers, and transport and work equipment assets – declining balance	9% to 40% per year
Major application software	5 years
Service equipment	5 to 10 years

The end-of-life dates for depreciation purposes for the nuclear facilities and Bruce nuclear stations, effective January 1, 2010, are:

Darlington	December 31, 2051
Pickering A	December 31, 2021
Pickering B	September 30, 2014
Bruce A	December 31, 2035
Bruce B	December 31, 2014

A single end-of-life is established for depreciation purposes for all units at a particular station, which is typically based on an average estimated end-of-life dates for each of the units.

As part of its due diligence on the service lives of fixed assets and ultimately the calculation of depreciation and amortization expense, OPG convenes an internal Depreciation Review Committee ("DRC"). The DRC is accountable for providing a formal engineering, technical, and financial review of asset service lives. The DRC conducts a review of the service lives of generating stations, including Bruce stations, and a selection of asset classes every year, with the objective of reviewing all significant asset classes over a five-year cycle.

The DRC is comprised of representatives from each of the business units with operational expertise as well as staff from finance and regulatory affairs functions. The engineering and technical review of the service lives is based on a variety of sources (depending on the asset

class or facility in question), including operational experience of the business units, lifecycle planning and condition assessment data for major facilities, as well as benchmarking data (where available). In addition to the engineering and technical review of the assets, the DRC is also accountable for assessing the impact of financial viability considerations, refurbishment plans as well as external factors, such as the impact of government policy or legislation. The Committee's scope and recommendations are submitted for approval to the Chief Nuclear Officer, Executive Vice President - Hydroelectric, Senior Vice President - Thermal, Senior Vice President and Chief Financial Officer, Senior Vice President - Corporate Affairs, and, in 2008, the Executive Vice President and Chief Operating Officer (the "Approvals Committee") for approval. Approved DRC recommendations on depreciation and amortization are implemented on January 1 of the year following the year of review unless otherwise required based on accounting considerations under Canadian Generally Accepted Accounting Principles.

The recommendations of the 2009 DRC were accepted by the Approvals Committee. The 2009 DRC report is presented in Attachment 1 to this exhibit.

3.1 The 2009 Depreciation Review Committee Recommendations

Given the technical and economic assessments underway related to the refurbishment and continued operation of OPG's nuclear facilities, the 2009 DRC considered whether changes to nuclear station and specific nuclear and regulated hydroelectric asset class end-of-life dates should be made for depreciation purposes. The DRC also considered whether changes to the Bruce station's end-of-life dates should be made for depreciation purposes.

The DRC recommended the extension, effective January 1, 2010, of the estimated average service life of the Darlington units to December 31, 2051 based on three main considerations. First, the extension was based on the approval of management's recommendation to proceed with the definition phase of the refurbishment project for Darlington by the OPG Board in November 2009 and the concurrence by the Province during January 2010 and publicly announced in February 2010. Second, the technical assessments by Nuclear engineering staff as to the expected end-of-life dates of the four units following

refurbishment. Third, the DRC assessed the confidence level as sufficiently high that the refurbishment project would be executed as planned. This assessment was based on the extensive technical and economic analysis performed by OPG in arriving at the decision to proceed with the refurbishment, similar refurbishment projects already underway at Bruce A, actual experience in executing the return to service of Pickering A, Units 1 and 4, and the well-established technical and regulatory processes for refurbishment of CANDU units in Ontario and Canada. Refer to Ex. D2-T2-S1 for further discussion of the planned refurbishment of the Darlington units.

The Darlington refurbishment decision also required OPG to increase its asset retirement obligation ("ARO") and associated ARC for its nuclear facilities and the Bruce nuclear facilities by $293M as at January 1, 2010, as discussed in Ex. B1-T1-S1 and Ex. C2-T1-S2. The impact on Darlington ARC was an increase of $844M offset by a decrease in Pickering A and Pickering B ARC of $369M and a decrease in Bruce ARC of $182M. The impact of the Darlington refurbishment decision on the ARC and ARO balances is discussed in Ex. C2-T1-S2.

The extension to the estimated service life of Darlington, including the related impact on the lives of the related assets within the nuclear asset classes, is expected to decrease OPG's annual depreciation expense for the nuclear facilities by approximately $78M. This is a refinement to the estimate in the 2009 DRC report. DRC reports are drafted prior to finalization of year end asset information and thus certain information, such as the estimated depreciation impacts associated with service life changes, are subject to refinement. The net impact of the changes to nuclear facilities' ARC further decreases the annual depreciation expense by $36M, which represents a decrease of approximately $57M related to the lower Pickering ARC partially offset by an increase of $20M related to the higher Darlington ARC. The combined impact of the extension of the estimated service life of Darlington and the net impact of changes to the ARC of the prescribed facilities is $115M, disclosed as an estimate of $116M in the financial statements for the prescribed facilities for the year ended December 31, 2009 (Ex. A2-T1-S1, Attachment 3). The impact on depreciation expense for the Bruce facilities as a result of the change in the ARC is described in Ex. G2-T2-S1.

The DRC did not recommend any changes to the lives of Pickering A or Pickering B. In relation to Pickering B, a substantial body of technical work remains in order for OPG to be satisfied that there is a greater than 70 per cent confidence level associated with achieving extended lives for Pickering B's pressure tubes. The DRC will not recommend changing the lives of a nuclear station without at least this level of confidence. A technical work program involving additional maintenance work at the plants, laboratory tests, analysis of data, and submission of results to the Canadian Nuclear Safety Commission is currently scheduled to be completed by 2012, at which time sufficient evidence regarding the certainty of extension of the life of the pressure tubes at Pickering B is expected to be available. The DRC will continue to monitor the progress of this work program and its implications on both the Pickering A and Pickering B estimated end-of-life dates for depreciation purposes. Refer to Ex. F2-T2-S3 for further discussion of OPG's work program and analysis related to the Continued Operations initiative at Pickering B.

OPG has established that the ongoing operation of Pickering B has implications for the technical and economic feasibility of operating Pickering A. However, the DRC concluded that the uncertainty related to the estimated operating life of Pickering B and the uncertainty related to the potential for investment in modification work at Pickering A to allow it to operate without Pickering B do not provide a sufficiently high degree of confidence to establish a different end-of-life date for Pickering A at this time. This assessment is consistent with the DRC's considerations underlying its recommendation to not change the end-of-life date of Pickering B.

The DRC did not recommend any changes to the end-of-life dates for the Bruce A and B stations for depreciation purposes. There was no sufficiently conclusive new public information available regarding Bruce Power's plans to operate and/or refurbish units not already undergoing refurbishment since the previous DRC review in 2007. OPG also considered the applicability of its analysis of the potential to extend the operating life of Pickering B to the Bruce B station, in the context of Bruce Power's participation in a joint initiative to analyze the possibility of such an extension (see Ex. F2-T2-S3). Since OPG's analysis to date has not provided sufficient confidence for extending the estimated service

life of Pickering B, and OPG is aware that the pressure tubes are also the life limiting component for Bruce B, the 2009 DRC had no reason to conclude that sufficient confidence exists for extending the operating lives of the Bruce B units in the absence of such confidence for the Pickering B units.

The DRC's review of the individual nuclear and regulated hydroelectric asset classes (other than those related to Darlington) led the DRC to recommend no changes to the estimated service lives of these classes, with the exception of the regulated hydroelectric outdoor structures class. The annual impact on depreciation of the change to the estimates services life of the regulated hydroelectric outdoor structures class was determined to be approximately $0.1M per year. The change was implemented on January 1, 2010. Overall, the 2009 DRC reviewed asset classes, including those related to Darlington, representing approximately 20 per cent of the nuclear asset net book value as at January 1, 2009. To date, the DRC has reviewed asset classes representing approximately 74 per cent of the nuclear asset net book value as at January 1, 2009.

4.0 DEPRECIATION AND AMORTIZATION EXPENSE

The depreciation and amortization expense for the regulated hydroelectric facilities remains largely stable over the period 2007 - 2012. The depreciation and amortization expense for the nuclear facilities is generally consistent over the 2007 - 2009 period, with a significant decline forecast in 2010 as a result of the extension of the estimated service life of Darlington for depreciation purposes and the decrease in Pickering A and Pickering B ARC. The nuclear depreciation expense is expected to increase in 2011 and again in 2012 as compared to 2010 as a result of in-service additions primarily related to Darlington and the Nuclear Support Divisions.

Detailed year-over-year and budget-to-actual analysis of the depreciation and amortization expense for the regulated facilities for the period 2007 - 2012 is presented in Ex. F4-T1-S2 and accompanying tables.

LIST OF ATTACHMENTS

Attachment 1: 2009 Depreciation Review Committee Report

Filed: 2010-05-26
EB-2010-0008
Exhibit F4-1-1
Attachment 1

2009 DEPRECIATION REVIEW COMMITTEE REPORT

Regulated Business

January 2010

Regulated - Depreciation Review Committee Report

EXECUTIVE SUMMARY

Background

The Depreciation Review Committee (DRC) is convened annually to review the service lives for depreciation purposes of major facilities and a selection of asset classes with the objective of reviewing all significant asset classes over a five year period. The DRC's recommendations are documented in separate reports signed by senior executives each for regulated and unregulated business, which forms the basis for depreciation expense that is recorded in OPG's audited financial statements. As such, any DRC recommendations with respect to changes to asset and/or facility service lives for depreciation purposes require a high degree of confidence in order to meet accounting guidelines and to satisfy OPG's internal and external auditors.

Scope of 2009 Review

The 2009 scope of this DRC review and report continued with the five year cyclical review of regulated business asset classes (all stations for nuclear and Niagara Plant Group and R.H. Saunders for hydroelectric) as well as the review of the nuclear stations' end of service life dates for depreciation purposes.

Nuclear Review

For Darlington, in 2009 the OPG Board of Directors approved Management's recommendation to proceed to the definition phase of the refurbishment project. The Shareholder has concurred with this recommendation. This provided the DRC with high confidence that refurbishment will ultimately occur and as such, the focus of this year's review centered on the impact of refurbishment on both end-of-service life dates for depreciation purposes and asset class service lives.

For the Pickering and Bruce stations, the focus was primarily on the review of station end-of-service life dates for depreciation purposes. With regards to Pickering, consideration was given to continued operation plans at Pickering B, and any potential impacts of this decision on the end-of-service life date for depreciation purposes of Pickering A.

In addition, the DRC reviewed the service lives of a number of nuclear asset classes. Asset classes reviewed in the current year are listed in Appendix C and asset classes reviewed for the years 2006 to 2009 are listed in Appendix E. Including this year, the DRC has now reviewed nuclear asset classes with a total net book value of approximately $1.9 billion, representing approximately 74% coverage of total nuclear asset net book value.

Regulated Hydroelectric Review

For the regulated hydroelectric line of business, asset classes reviewed in the current year are listed in Appendix D and asset classes reviewed for the years 2006 to 2009 are listed in Appendix F. Including this year, the DRC has now reviewed total regulated asset class net book value approximating $3.8 billion, and has now covered all major hydroelectric asset classes.

IFRS Requirements

The DRC continues to build in IFRS requirements its annual reviews, focusing on the assessment of whether components within each significant asset class have consistent lives.

Intangible Assets

Effective January 1, 2009, as a result of changes to financial reporting requirements, intangible assets are reported separately from fixed assets. These assets were not reviewed by the DRC in 2009, but remain within the scope of the DRC review for years going forward.

Recommendations from 2009 Review

1. Based on the 2009 review of average station-end-of service life dates for depreciation purposes and of the service lives of nuclear asset classes, the DRC recommends the following:

   - The end-of-service life date for depreciation purposes of the Darlington station be extended from December 31, 2019 to December 31, 2051 resulting in an estimated reduction of $64 million to annual depreciation expense.
   - Certain asset class service lives of Darlington and Pickering B be revised as outlined in Appendix C resulting in an estimated reduction of $6 million to annual depreciation expense.
   - The average service lives for depreciation purposes of the following stations remain unchanged as follows:

     - Pickering A – December 31, 2021
     - Pickering B – September 30, 2014
     - Bruce A – December 31, 2035
     - Bruce B – December 31, 2014

   The DRC is recommending that the above changes be implemented with an effective date of January 1, 2010 which would result in an estimated decrease to annual depreciation of $70 million for 2010 and years following.

2. Based on the 2009 review of regulated hydroelectric asset classes (see Appendix D for details), the DRC recommends the following:

   - The service life of Outdoor Structures asset class (#10205000) be reduced from 75 to 60 years, which will result in an insignificant change to annual depreciation.

   The DRC is recommending that the above change be implemented with an effective date of January 1, 2010.

TABLE OF CONTENTS

PAGE #

1.0 INTRODUCTION 7
1.1 Work of the Depreciation Review Committee 7
1.2 Scope of the Review for 2009 7
2.0 Review of Nuclear Assets 7
2.0.1 Pickering and Darlington 7-8
2.0.2 Bruce 8-9
2.1.0 DRC Recommendations - Nuclear 9
2.2.0 Summary of Nuclear End of Life Dates 9
3.0 Review of Station End of Life - Regulated - Hydroelectric Facilities 10
3.0.1 Overview 10
3.0.2 Niagara Plant Group and R.H. Saunders 10
3.1.0 DRC Recommendations - Hydroelectric Regulated 10

APPENDIX A - THE DEPRECIATION REVIEW COMMITTEE

APPENDIX B - ONTARIO POWER GENERATION FIXED ASSETS

APPENDIX C – NUCLEAR ASSETS REVIEWED FOR 2009 DRC

APPENDIX D – REGULATED HYDRO ASSETS REVIEWED FOR 2009 DRC

APPENDIX E – LISTING OF NUCLEAR ASSET CLASSES REVIEWED BY YEAR

APPENDIX F – LISTING OF REGULATED HYDRO ASSET CLASSES REVIEWED BY YEAR

1.0 INTRODUCTION

1.1 Work of the Depreciation Review Committee

The DRC convened annually to review the service lives for depreciation purposes of major facilities and a selection of asset classes with the objective of reviewing all significant asset classes over a five year period. The selection of asset classes to be reviewed and the approach to be taken to the review of the classes and major facilities are approved by OPG's senior executives (the Approval Committee). On completion of each annual review, the DRC documents its findings in a report, including the financial impact of any recommended changes to asset service lives for depreciation purposes and submits for approval to the Approval Committee. The approved recommendations from the DRC reviews are used to estimate the depreciation expense that is recorded in OPG's consolidated financial statements. The approved DRC report also impacts the depreciation expense for business planning purposes and is used in periodic payment amount applications to the Ontario Energy Board.

Since the main purpose of the DRC review is to support depreciation expense to be reported in OPG's consolidated financial statements, the DRC is led by staff members from Corporate Finance. In order to properly assess the service lives for depreciation purposes of major facilities and selected asset classes, the DRC seeks engineering and technical input when conducting its annual review. As such, it is important for the DRC to have the support of representatives from the various lines of business who have substantial knowledge and expertise in the operations of each of the various plants operated by OPG. This support is provided by senior management for each line of business who appoint the appropriate technical and engineering staff to assist the DRC in their review. Appendix A provides the listing of DRC members and supporting business unit representatives.

The move to International Financial Reporting Standards (IFRS) has added another dimension to the DRC review. For IFRS purposes, the objective is to provide assurance that components within each class have a relatively consistent service life. The 2009 DRC review addressed IFRS requirements and concluded that the components' lives within each asset class are consistent.

1.2 Review Scope

In order to achieve sufficient support for recorded depreciation in OPG's consolidated financial statements, the DRC focuses on the review of both station end-of-service life dates and asset classes for Nuclear and on asset classes for Hydroelectric. Station service lives for Hydroelectric are not typically reviewed by the DRC as such facilities tend to have long service lives that exceed asset class life. Nuclear facilities on the other hand have shorter service lives that could potentially be less than asset class lives. As such, nuclear depreciation is calculated based on the lower of station service life and asset class service life. Each year's DRC review scope is approved by the Approval Committee.

2.0 Review of Nuclear Assets

Principles for Changing Asset Service Lives

For financial accounting purposes, recommended changes to existing station end-of-life dates and asset class service lives require a high degree of confidence (at least 70%) in order for any changes to be considered for recommendation by the DRC. OPG's senior management and internal and external auditors must be satisfied with the underlying support for the recommendations for any such changes.

Scope

The DRC's deliberations for 2009 continued with its focus both on the review of station service life for depreciation purposes and asset class service life.

For the current year review of station service life for depreciation purposes, the DRC continued with the approach of prior years and looked at all nuclear stations.

Given the OPG Board's approval of management's recommendation to proceed to the definition phase of the Darlington refurbishment project, the asset class review focused primarily on Darlington assets. As well, a review of the service lives of Pickering B assets was completed (see Appendix C for details).

2.0.1 Pickering and Darlington

Pickering B

The primary determinant of end-of-service life date for depreciation purposes of the Pickering B units is the expected lives of the pressure tubes. The current nominal life expectation on the pressure tubes at Pickering B results in an average station end-of-service life for depreciation purposes of September 30, 2014.

OPG has embarked on a work program (including physical work in the plant, laboratory tests, analytical work and discussions with the nuclear safety regulator) to demonstrate high confidence in extended service lives of the Pickering B pressure tubes. This program of work is expected to come to fruition in late 2012. If successful, OPG would expect to be able to operate the Pickering B units until 2018 to 2020. This scenario is known as the "Continued Operations" scenario.

OPG cannot currently claim high confidence, for accounting purposes, in achieving continued operations, but expects to be able to claim that high confidence by approximately the end of 2012. Successful completion of the work to gain high confidence faces challenges on several fronts, and OPG is working to resolve and mitigate the risks on all of these fronts. Another operator of CANDU units in Ontario, as well as the technology

sponsor for CANDU units worldwide, have joined with OPG and are sharing the costs of the project to achieve higher confidence in longer pressure tube lives. OPG also recognizes that ultimate achievement of high confidence for accounting purposes must be informed by any potential risks associated with market conditions and their implications on the economic viability of the continued operations scenario.

Given these considerations, the DRC recommends that the average end-of-service life date for depreciation purposes of Pickering B should remain unchanged at September 30, 2014, until there is a higher degree of confidence associated with the achievement of continued operations.

The asset class review for Pickering B was primarily based on OPG's condition assessment of the plant. Details of the changes to the service lives specific asset classes are included in Appendix C.

Pickering A

The DRC recommends that the average service-life-date for depreciation purposes for the two units at Pickering A remain unchanged at December 31, 2021.

The DRC recognizes that there are significant technical and regulatory risks that would make it difficult to operate Pickering A Units 1 and 4 as stand alone units after the last two units of Pickering B have reached their end of life. Moreover, should the Pickering B units be permanently shut down, there is a high probability that Pickering A would prove uneconomical to operate without the Pickering B units in operation.

The DRC deliberated on this question and has concluded that given:

(i) that OPG has embarked on achievement of continued operations at Pickering B;
(ii) that there are other life management scenarios for Pickering B which are being explored and which can result in a longer Pickering B calendar life; and
(iii) that there is the potential to invest in modification work to overcome the technical hurdles to operation of Pickering A without Pickering B,

OPG cannot claim high confidence to support a change in the Pickering A service life date for depreciation purposes to align with the Pickering B date, until there is greater certainty around the Pickering B service lives.

Darlington

The DRC recommends that the average service life for depreciation purposes of the four units at Darlington be changed to December 31, 2051, consistent with OPG's Board of Directors approval of management's recommendation to proceed to the definition phase of the Darlington refurbishment project. The Shareholder has concurred with this recommendation. The high confidence, for accounting purposes, for this recommendation is based on:

a) High confidence that the Darlington refurbishment project will be executed and the units returned to service.
b) The current expectation that the post-refurbishment service life of each unit will be nominally 30 years.
c) OPG's assessment that there is low risk, based on similar refurbishment projects already underway and well-established technical and regulatory processes for refurbishment, that the execution of the refurbishment would not be completed.

The asset class review for Darlington covered all major assets (see Appendix C for details) with a focus on which classes would need to be replaced before the new end of life and which asset could reach a new end of life at Darlington. Sources of information used in this review included OPG condition assessments, life cycle management plans for major components, operational experience, the expected scope for Darlington refurbishment, and benchmark results for small motors and generator components. Details of the changes to the service lives of specific asset classes are included in Appendix C.

2.0.2 Bruce

Bruce A

In 2007, the DRC changed the expected service lives of the Bruce A units, based on: i) an agreement between Bruce Power L.P and the Ontario Power Authority signed in October 2005 that Bruce A Units 1, 2 & 3 will be refurbished to extend their lives; and ii) an amendment to that agreement in August 2007 that Bruce Unit 4 will also be refurbished. The refurbishment of Bruce A Units 1 & 2 is well underway with expected return to service of those units in 2011, followed by operation for nominally 25 years. Planning work for the refurbishment of Bruce Units 3 & 4 has commenced. However, to OPG's knowledge, the refurbishment dates for these units have not yet been finalized.

For the 2009 DRC review, there has been no additional information issued by Bruce Power L.P. or other sources that would suggest a change to the current end-of-life dates for depreciation purposes; hence, the DRC recommends retaining the average service life for depreciation purposes of Bruce A at December 31, 2035, as had been established by the 2007 DRC.

Bruce B

The service lives of the Bruce B units are limited by the expected service lives of the pressure tubes. The current expectation of the service lives of the pressure tubes results in OPG's prediction of December 31, 2014 as the average end-of-life date for depreciation purposes for Bruce B. Bruce Power has indicated a desire to operate the Bruce B

units longer, and has signed on to the project with OPG, aimed at increasing the confidence in predictions of longer service lives of the pressure tubes by 2012. At this time, OPG's assessment (similar to the assessment for Pickering B) is that the confidence level in achieving additional service life from the Bruce B units is not sufficiently high to allow a change in the average end-of-service life date, for depreciation purposes.

In addition, although there are indications in documents published by the Ontario Power Authority that refurbishment of the Bruce B units may be part of Ontario's Integrated Power System Plan in the future, there have been no formally announced plans by Bruce Power to refurbish the Bruce B units.

Based on above considerations, the DRC recommends that the average end-of-life date of the four units at Bruce B should remain unchanged at December 31, 2014.

2.1.0 DRC Recommendations – Nuclear

Based on the 2009 review of average station-end-of service life dates for depreciation purposes and of the service lives of nuclear asset classes, the DRC recommends the following:

- The end-of-service life date for depreciation purposes of the Darlington station be extended from December 31, 2019 to December 31, 2051 resulting in an estimated reduction of $64 million to annual depreciation expense.
- Certain asset class service lives of Darlington and Pickering B be revised as outlined in Appendix C resulting in an estimated reduction of $6 million to annual depreciation expense.
- The average service lives for depreciation purposes of the following stations remain unchanged as follows:
    - Pickering A – December 31, 2021
    - Pickering B – September 30, 2014
    - Bruce A – December 31, 2035
    - Bruce B – December 31, 2014

The DRC is recommending that the above changes be implemented with an effective date of January 1, 2010, which would result in an estimated total decrease to annual depreciation of $70 million in 2010 and years following.

2.2.0 Summary of Nuclear Stations' Average End of Service Life Dates for Depreciation Purposes

Station	Current End of Life Date (Dec. 31, unless otherwise stated)
Pickering A Unit 1	2021
Pickering A Units 2 & 3*	n/a
Pickering A Unit 4	2021
Pickering B	2014***
Darlington	**Revised from 2019 to 2051**
Bruce A**	2035
Bruce B**	2014

* Assets written off in 2005 as a result of the decision not to proceed with the return to service of the units.
** Assets are on lease to Bruce Power for an initial term of approximately 17 years (commenced May 1, 2001).
***End of life occurs on September 30, 2014.

3.0 Review of Regulated Hydroelectric Assets

3.0.1 Overview

Hydroelectric facilities have six regulated stations within two plant groups (Sir Adam Beck One, Sir Adam Beck Two, Sir Adam Beck Pump Generating Station, DeCew Falls One, and DeCew Falls Two, within the Niagara Plant Group, and R.H. Saunders within the Ottawa-St. Lawrence Plant Group). OPG has 27 dams that are associated with the Niagara Plant Group stations and three dams that are associated with the R.H. Saunders Generating Station.

In conducting its 2009 review of the Niagara Plant Group and R.H. Saunders stations' assets, the DRC has relied extensively on recent technical assessments and comparative utility data obtained by site technical staff and approved by hydroelectric management. Comparative data was obtained from the following utilities for the majority of the asset classes: BC Hydro, TranAlta Utilities Corporation, Manitoba Hydro and Saskatchewan Power Corporation.

Total net book value of hydroelectric assets reviewed in 2009 was approximately $500 million (as at January 1, 2009). Appendix D, lists the asset classes that were reviewed.

3.0.2 Regulated Hydroelectric Asset Class Review

Asset classes selected for review in 2009 are indicated in Appendix D. The assets and the associated values included in Appendix D, are only those for Regulated Hydroelectric facilities.

The review of the selected assets for Niagara Plant Group and R.H. Saunders GS sites was conducted by senior hydroelectric engineering personnel. This review was based on technical engineering assessments and comparative data obtained from the utilities listed above. Except as noted below, hydroelectric engineering staff has concluded that there is no evidence to support a change to the service lives for any of these assets.

The following hydroelectric class has been recommended for a change in service life:

Asset Class #10205000 Outdoor Structures – This class includes steel, timber and concrete footings and foundations, structures erected at powerhouses, control works, intake works, headworks, gatehouses, transformation, switching, etc. A review of the assets within this class indicated that the current life of 75 years is likely too high. This has been supported by benchmarking other utilities where BC Hydro structures' lives range from 55 to 60 years, Manitoba Hydro's range from 55 to 60 years, TransAlta's are at 70 years and Saskatchewan Power's range from 40 to 50 years. Therefore, it is recommended that a revised service life of 60 years for OPG's structures is more appropriate than the current life of 75 years.

The DRC has reviewed the assessments made by engineering personnel, including that of comparative data, and has accepted the above recommendations.

3.1.0 DRC Recommendations

Based on the evidence submitted by hydroelectric engineering staff concerning the asset classes reviewed, the DRC recommends the following with respect to the average asset service lives:

1. The average service life of asset class 10205000 Outdoor Structures should be reduced from 75 to 60 years. The impact of this change is immaterial (i.e., approximately $0.1 million annually).

2. There should be no change to the average service lives for the following asset classes:

    - 10315000 Steel Racks
    - 10400 Turbines and Governors
    - 10405 Turbine Runners
    - 10500000 Windings
    - 10504000 Control & Switchboards
    - 105031 Rev Metering (HV)

APPENDIX A

THE DEPRECIATION REVIEW COMMITTEE

The DRC includes representatives from each operating business unit, as nominated by the business unit representatives of the Approval Committee, as well as representatives having experience in finance, investment planning and rate regulation.

Representatives on the DRC are listed below.

DRC members

Nathan Reeve - Vice President, Financial Services
Dave Bell – Manager, Corporate Accounting
John Tipold - Senior Financial Analyst, Corporate Accounting
Randy Leavitt - Vice President, Nuclear Finance
Lubna Ladak - Director, Regulatory Finance
Sandra Radcliffe – Manager, Corporate Bus & Inv. Planning
Randy Pugh – Manager, Regulatory Affairs & Corporate Strategy Accounting
Eleen Louie – Manager, Financial Services
Stephen Rogers – Director, Asset Planning & Integration, Corp. Bus. & Inv. Planning

Business Unit Representatives:

Hydroelectric
Don Brazier – Director of Finance, Hydro
Mark Del Frari – Senior Advisor, Finance, Hydro
Gord Haines – Manager, Power Equipment, Engineering
Ian Munro – Manager, Power Equipment
Pius Ko – Manager, Civil Engineering

Nuclear
Jamie Lawrie – Director, Investment Management, Nuclear Finance
Terry Karaim – Director of Engineering, PLEP
Terry Doran – Director, Commercial Projects & Facilities, Nuclear Refurbishment, Projects & Support
Rick Hohendorf – Manager, Computers & Control Design, Engineering

APPENDIX B

ONTARIO POWER GENERATION'S FIXED ASSETS

Ontario Power Generation categorizes its fixed assets as follows:

- major fixed assets under construction;
- major fixed assets in service; and
- minor fixed assets

Major fixed assets under construction are comprised of land, buildings, plant, and equipment in the process of being acquired or constructed. The ultimate economic benefit of acquiring and constructing these assets is considered to relate to future periods.

Major fixed assets in-service consist of land, buildings, plant and equipment that have been declared in-service.

Minor fixed assets are comprised of transport and work equipment, service equipment, office furniture and equipment, computers other than those directly supporting the bulk electricity system and railway equipment. These assets are accounted for on a more detailed unit basis for control reasons.

OPG maintains accounting records of the costs of its fixed assets. Their accumulated depreciation and retirements provide a history of the assets constructed or acquired by OPG. Consistent with the other major electrical utilities in North America, OPG maintains its fixed asset accounting records on the basis of asset classes.

For depreciation purposes, plant components having compatible service lives are aggregated into the standardized asset class accounts established for each of the following major fixed asset classifications:

- generation facilities
  - Nuclear
  - Hydroelectric
  - Fossil
- communications and system control facilities
- administration and service facilities

Aggregates of the values recorded in the asset classes form a property record for accounting purposes. A property record establishes a physical entity such as a generating station.

APPENDIX C - NUCLEAR ASSETS REVIEWED IN 2009

Class #	Description	Y/E 2008 NBV ($M)	Life (Years)	Prior Reviews	Revised Life	Est. $M on Annual Dep for Revised Life
15120000	Yard Facilities	28	50		No change	
15121000	Electrical Site Sec	40	15		No change	
15200000	Buildings & Structures	266	50	Yes	55	-0.7
15300000	Reactor Vessels	13	40		55	-0.2
15310000	Fuel Channel Assembly	13	25		28	-0.5
15320000	Calandria Tubing	2	40		28	0.0
15330000	Reactivity Control	15	40		No change	
15340000	Process Systems	118	40	Yes	55	-1.5
15351100	Steam Generators	20	30		No change	
15352100	Shutdown Cooling System Heat Exchangers	9	30		No change	
15360000	Irradiated Fuel Bays	45	40		65	-0.2
15370000	Tritium Removal Facility	3	40		30	0.0
15400000	Turbine Auxiliary Equipment	62	40		55	-0.9
15412000	Turbine Buildings	7	30		No change	
15420000	Generator Rotors Stators Auxiliary Systems	37	40		55	-0.4
15430000	Exciters	3	30		No change	
15433000	Generator Stator Windings	4	40		No change	
15460000	Auxiliary Systems	31	40	Yes	55	-0.3
15500000	Main Power Output System	13	35		No change	
15501000	Main Power Output and Instrumentation & Control	3	30		No change	
15510000	Station Services AC Transformer	13	40		55	-0.2
15530000	Building Electrical Services	6	40		55	-0.1
15540000	Electrical Auxiliary System	34	40		55	-0.5
15550000	Reactor Building Cabling	9	40	Yes	55	-0.1
15560000	AC Standby Power	97	40		55	-0.2
15600000	Instrumentation and Control	95	30	Yes	No change	
15701000	Water and Fire Protection	75	25	Yes	No change	
15700000	Circulating Water	10	40		55	-0.1
15710000	Water Treatment Plant	4	20		No change	
15720000	Common Service Systems	64	35	Yes		
15341100	Pickering Moderator Heat Exchangers***	34	25		No change	
	Totals	**1,173**				**-5.9**

Notes:

- All items and $M values represent Darlington and Pickering B assets only, except as noted with***
- Prior reviews indicates that assets were reviewed since 2006

APPENDIX D – REGULATED HYDROELECTRIC ASSETS REVIEWED IN 2009

Class #	Description	Y/E 2008 NBV ($M)	Life (Years)	Prior Reviews	Revised Life	Est. $M on Annual Dep for Revised Life
10205000	Outdoor Structures	8	75		60	0.1
10315000	Steel Racks	2	40		No change	
10400000	Turbines & Governors	115	75		No change	
10405000	Turbine Runners	54	40		No change	
10500000	Windings	46	40		No change	
10504000	Control & Switchboards	17	25	Yes	No change	
10503100	Rev Metering (HV)	5	30		No change	
	Totals	**247**				**0.1**

Notes:

- All items and $M values represent Regulated Hydroelectric assets
- Prior reviews indicates that assets were reviewed since 2006

APPENDIX E

LISTING OF NUCLEAR ASSET CLASSES REVIEWED BY YEAR

$Million NBV as at January 1, 2009

Asset Class #	Description	2006	2007 (Note 1)	2008	2009 (Note 2)	Total
15120000	Yard Facilities				28	28
15121000	Electrical Site Sec				40	40
15200000	Buildings & Structures	391				391
15300000	Reactor Vessels				13	13
15310000	Fuel Channel Assembly				13	13
15320000	Calandria Tubing				2	2
15330000	Reactivity Control				15	15
15340000	Process Systems	338				338
15351100	Steam Generators				20	20
15352100	Shutdown Cooling System Heat Exchangers				9	9
15360000	Irradiated Fuel Bays				45	45
15370000	Tritium Removal Facility				3	3
15400000	Turbine Auxiliary Equipment				62	62
15412000	Turbine Buildings				7	7
15420000	Generator Rotors Stators Auxiliary Systems				37	37
15430000	Exciters				3	3
15433000	Generator Stator Windings				4	4
15460000	Auxiliary Systems			59		59
15500000	Main Power Output System				13	13
15501000	Main Power Output and Instrumentation & Control				3	3
15510000	Station Services AC Transformer				13	13
15530000	Building Electrical Services				6	6
15540000	Electrical Auxiliary System				34	34
15550000	Reactor Building Cabling			61		61
15560000	AC Standby Power				97	97
15600000	Instrumentation and Control	302				302
15701000	Water and Fire Protection			183		183
15720000	Common Service Systems			112		112
15341100	Pickering Moderator Heat Exchangers				34	34
	Total	**1,031**	**0**	**415**	**501**	**1,947**

Note 1
There were no specific nuclear asset classes reviewed in 2007 as the focus of the DRC was primarily on station end of life dates.

Note 2
The asset class review for 2009 focused primarily on Darlington and Pickering B assets.

Note 3
Certain asset classes have been reviewed in more than one year, but are only included above in the year that they were first reviewed.

*******Represents DRC review coverage of approximately 74% of total nuclear assets

APPENDIX F

LISTING OF REGULATED HYDROELECTRIC ASSET CLASSES REVIEWED BY YEAR

$Million NBV as at January 1, 2009

Asset Class #	Description	2006	2007	2008	2009	Total
10100000	Land			22		22
10101000	Excavating, Dredging		1,272			1,272
10200000	Substructures and Superstructures	819				819
10205000	Outdoor Structures				8	8
10210000	Service and Equipment Buildings			53		53
10300000	Canal Linings			63		63
10301000	Tunnel Linings and Permanent Shafts	234				234
10302000	Spillways, Sluices, Flumes	10				10
10306000	Surgetank, Pipeline, Conduit, Penstock			90		90
10311000	Dams – Earth and Rockfill		74			74
10312000	Dams - Concrete		352			352
10318000	Gates, Stoplogs and Operating Mechanisms	156				156
10400000	Turbines & Governors				115	115
10405000	Turbine Runners				54	54
10500000	Windings				46	46
10501000	Main Rotor Electrical Plate	117				117
10502000	Switching and Power Cable	47				47
10503000	High Voltage Switching	5				5
10503100	Rev Metering (HV)				5	5
10504000	Control Boards and Switchboards	17				17
10505000	Station Service Electrical Equipment	22				22
10510000	Main Power and Station Service Transformers	82				82
10601000	Mechanical Equipment – Cranes and Followers			21		21
10700000	Auxiliary Systems	69				69
10709000	Bridges			56		56
	Totals	**1,578**	**1,698**	**305**	**228**	**3,809**

Note 1
Certain asset classes have been reviewed in more than one year, but are only included above in the year that they were first reviewed.

***Total coverage represents approximately 100% of total Regulated Hydro's assets, as all asset classes have been reviewed by the DRC.