CENTRALLY HELD COSTS

1.0 PURPOSE

This evidence presents OPG's centrally held costs. Centrally held costs primarily consist of:

- Certain pension and other post employment benefit ("OPEB") related costs
- Insurance
- Performance incentives
- IESO non-energy charges
- Scientific Research and Experimental Development ("SR&ED") investment tax credits
- Fiscal calendar adjustment
- Ontario Nuclear Funds Agreement ("ONFA") guarantee fee
- Provincial Sales Tax ("PST") self-assessment
- Vacation accrual
- Other (includes items such as business claims, environmental and legal costs)

2.0 OVERVIEW

This evidence supports the approval sought with respect to the centrally held costs that are included in the revenue requirement for the regulated facilities through direct assignment or allocation. The amounts for 2011 - 2012 test period are $48.4M for the regulated hydroelectric facilities and $433.3M for the nuclear facilities.

Exhibit F4-T4-S1 Tables 2 and 3 present the centrally held costs for the regulated facilities for the historical, bridge and test years, respectively. These costs are described separately below. OPG's centrally held costs are attributed to the regulated facilities through direct assignment or allocation. The attribution of these costs to the regulated facilities has been reviewed by Black & Veatch and found to be appropriate, as discussed in Ex. F3-T1-S1 (the report by Black & Veatch is found in Ex. F5-T2-S1). Centrally held costs are an integral part of the costs of operating the generation facilities, with over 95 per cent of these costs typically being directly assigned to the business units. Centrally held costs do not represent corporate support costs; they are company-wide costs that are recorded centrally for a

variety of reasons, such as to achieve record-keeping efficiency and to maintain proper oversight.

Centrally held costs decreased significantly over the period 2007 - 2009 primarily as a result of decreasing pension and OPEB related costs. The decrease was partially offset by an increase in IESO non-energy charges in 2009 mainly due to significantly higher costs associated with the Global Adjustment. Centrally held costs are forecast to increase over the 2010 - 2012 period mainly as a result of higher pension and OPEB related costs. The IESO non-energy charges are also expected to continue to increase over the 2010 - 2012 period as a result of higher forecast costs associated with the Global Adjustment. Other centrally held costs are forecast to be lower in 2012 than in 2011 mainly as a result of a fiscal calendar adjustment. The adjustment in 2012 is due to the fact that OPG's fiscal year for payroll purposes in 2012 is four days longer than the calendar year.

3.0 PENSION AND OPEB-RELATED COSTS

Certain components of pension and OPEB-related costs for all of OPG's employees and retirees are included in centrally held costs, as they are not included in the standard labour rates used by the business units. These components include interest on the obligations, the expected return on pension plan assets, the amortization of certain past service costs, the amortization of actuarial gains and losses, and variances to current service costs. The costs are directly assigned and allocated based on the proportion of current service costs associated with the production facilities. For a further discussion of pension and OPEB costs, refer to Ex. F4-T3-S1, section 6.

4.0 INSURANCE

These are the costs of OPG's company-wide insurance program and the additional nuclear-specific insurance program. The company-wide program covers commercial general liability, all risk property, boiler and machinery breakdown, including statutory boiler and pressure vessel inspections, and business interruption. The costs of this program are primarily directly assigned to the business units based on the applicability of each type of insurance coverage and the asset replacement cost of the generation facilities. The nuclear-specific insurance

program relates to liability insurance associated with nuclear operations and additional property insurance for damage to the nuclear portions of OPG's nuclear generating stations, which complements the conventional property insurance program. This portion of insurance costs is directly assigned to the nuclear facilities.

5.0 PERFORMANCE INCENTIVES

These costs include performance incentives for all of OPG's management employees, goalsharing for all of OPG's Power Workers' Union and Society of Energy Professionals ("Society") employees, and performance recognition for all of OPG's Society employees. A description of these incentive plans is provided in Ex. F4-T3-S1, section 5.4. These costs are attributed to the business units based on the distribution of performance incentive payments in the past.

6.0 IESO NON-ENERGY CHARGES

IESO non-energy costs are charges that are applied to withdrawals of energy from the IESO-controlled grid. The charges include transmission charges, the debt retirement charge, the rural or remote electricity rate protection charge, charges associated with IESO administration fees, OPA fees, uplift charges and the Global Adjustment. These charges are not discretionary and apply to all withdrawals from the IESO-controlled grid. These charges are directly assigned to the specific regulated facilities.

Non-energy charges are levied to wholesale load customers on a per unit consumption basis. As a result, total non-energy charges vary as consumption varies. In addition, some individual charges are subject to hour-to-hour or month-to-month fluctuations while others are fixed for longer time periods. For example, some charges - such as the Debt Retirement Charge, OPA and IESO administration fees and Rural Rate Assistance - are in the form of a rate fixed for a predetermined period of time. Other charges - such as uplifts - are dependent on the configuration of the power system at any point in time, can change each hour and are difficult to forecast. Finally, the Global Adjustment - typically the largest of all non-energy charges - exhibits substantial variability month over month. It represents the difference between the total payments made to certain contracted or regulated generators and to

conservation and demand management projects, and any offsetting market revenues. Generators include OPG's nuclear and regulated hydroelectric facilities, non-utility generators under contract with the OEFC, and those under contract with the OPA (including generation under the Feed in Tariff initiative).

A significant quantity of new supply has been placed in-service over the last few years with even more expected to be deployed over the next several years. As the cost of this new generation is almost always in excess of prevailing market prices, the Global Adjustment has been increasing due to both the increasing quantity of new generation and declining market prices. Both of these factors were experienced in 2009. In 2007 the cost of the Global Adjustment was approximately $4/MWh; by 2008 the cost had risen to approximately $6/MWh, and to approximately $31/MWh in 2009. Because of the increasing size and impact of this non-energy cost item, OPG began to forecast the Global Adjustment explicitly for the 2008 budget. Forecast Global Adjustment expenditures are based on forecasts of capacity additions, expected production and production costs/prices as well as the impact and cost of conservation and demand management initiatives.

The various constituents that make up the IESO non-energy charge can be difficult to accurately forecast. As a result, the aggregate total of these charges is extremely difficult to accurately forecast. Accordingly, OPG is seeking approval of a new variance account to protect both itself and ratepayers from over or under collection of IESO non-energy charges. See Ex. H1-T3-S1, section 4.1 for additional details.

7.0 SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT ("SR&ED") INVESTMENT TAX CREDITS

Canadian taxpayers that incur qualifying expenditures related to SR&ED activities, as defined by the *Income Tax Act* (Canada), can claim a non-refundable investment tax credit ("ITC") equal to 20 per cent of these qualifying expenditures on their income tax returns. SR&ED ITCs are recognized for accounting purposes as a reduction of OM&A expenses in accordance with GAAP. SR&ED expenditures and ITCs, including the determination of actual and forecast amounts of SR&ED ITCs recognized for accounting purposes and the timing of

the recognition, are discussed in Ex. F4-T2-S1 section 7.1. The amounts recognized as reductions to OM&A are primarily directly attributable to the business units based on underlying SR&ED expenditures that give rise to the ITCs. The projected amount of ITCs to be recorded in each of the years 2010 - 2012 is primarily directly assigned to business units based on a historical distribution of the underlying expenditures.

8.0 FISCAL CALENDAR ADJUSTMENT

The fiscal calendar adjustment is a wage adjustment covering all business units that reflects the difference in the number of days between the 52 or 53 week fiscal calendar used for payroll accounting and OPG's financial year ending on December 31. The adjustment is temporary, and fluctuates from year to year, as the starting and ending days of the fiscal calendar vary from year to year. Costs are directly assigned to business units on the basis of each unit's payroll.

9.0 ONTARIO NUCLEAR FUNDS AGREEMENT ("ONFA") GUARANTEE FEE

The ONFA guarantee fee is an amount payable to the Province pursuant to the Ontario Nuclear Funds Agreement. In exchange for the fee, the Province supports financial guarantees to the Canadian Nuclear Safety Commission by providing a guarantee relating to OPG's nuclear segregated funds pursuant to the ONFA. The fee is calculated as 0.5 per cent of the amount guaranteed, which is expected to be $1,545M for each of the years during the 2010 - 2012 period. The guarantee fee is discussed in Ex. C2-T1-S1. The fee is directly assigned to the nuclear facilities.

10.0 PROVINCIAL SALES TAX ("PST") SELF-ASSESSMENT

This cost represents the amount of provincial sales tax ("PST") that OPG is required to self-assess and remit to the Province for certain items, as described in Ex. F4-T2-S1. The self-assessment cost for the PST ends July 1, 2010 when this tax will be harmonized with the federal goods and services tax (see Ex. F4-T2-S1).

11.0 VACATION ACCRUAL

The vacation accrual represents the cost to OPG of the estimated outstanding vacation entitlement for all of OPG's employees. The 2010 - 2012 expenses are based on an estimated actual vacation accrual expense for 2009, escalated by 2 per cent annually.