TAXES

1.0 PURPOSE

This evidence addresses three matters related to taxes for the regulated facilities:

- It presents tax expense, including income tax, Ontario capital tax, commodity tax, and property tax for the regulated facilities for the historic, bridge and test years.
- It presents the regulatory tax losses (negative regulatory taxable income) for the regulated facilities for the period from April 1, 2005 to March 31, 2008, which are used in the determination of the balance in the Tax Loss Variance Account; and
- It presents the benchmark tax expense for the regulated facilities. The benchmark tax expense is the April 1, 2008 to December 31, 2009 income tax provision which results from the revenue requirement approved in EB-2007-0905. The benchmark tax expense is used in the determination of the balance in the Tax Loss Variance Account and the Income and Other Taxes Variance Account.

2.0 OVERVIEW

OPG seeks approval of the following test period tax expenses:

- Income tax expense of $58.0M and $129.8M for the regulated hydroelectric and nuclear facilities, respectively as presented in Ex. F4-T2-S1 Tables 1 and 3.
- Property tax expense of $32.6M for the nuclear facilities, as presented in Ex. F4-T2-S1 Table 3.

In Ex. H1-T2-S1, OPG seeks approval to recover the balance of $491.4M in the tax loss variance account. This balance is determined, in part, using the tax losses available as at March 31, 2008 of $110.9M as presented at Ex. F4-T2-S1 Table 7 and the benchmark regulatory income tax expense for the period April 1, 2008 to December 31, 2009 of $66.0M as presented in Ex. F4-T2-S1 Table 9. This evidence documents the tax calculations and methodologies used to determine the tax losses and benchmark tax expense. The variance account balance itself is determined in Ex. H1-T2-S1.

The benchmark tax expense is also utilized to determine the balance in the Income and Other Taxes Variance Account. OPG seeks approval for disposition of the balance ($43.8M) in the Income and Other Taxes Variance Account in Ex. H1-T2-S1.

Section 3 of this exhibit describes the methodology and principles that OPG applies to determine income tax expense for the regulated facilities.

Section 4 discusses the determination of regulatory tax losses for the period from April 1, 2005 to March 31, 2008 as required by the OEB's Decision in EB-2007-0905 (page 171).

Section 5 discusses the benchmark income tax expense for the period April 1, 2008 to December 31, 2009. Determination of the benchmark income tax expense is required by the OEB's Decision in EB-2007-0905 (page 128). It also discusses the actual income tax expense for the historical years 2008 and 2009.

Section 6 discusses the derivation of the forecast taxable income for 2010 - 2012.

Sections 7, 8, 9 and 10 review other tax matters, Ontario capital tax expense, commodity tax and property tax expense.

For all three tax matters addressed in this exhibit, that is, determination of the forecast income tax expense for the test period, calculation of the regulatory tax losses for the period April 1, 2005 to March 31, 2008 and determination of the benchmark tax expense for April 1, 2008 to December 31, 2009, OPG has applied the same principles and methodologies for the tax calculations. The methodology starts with determination of regulatory taxable income in accordance with requirements of the *Income tax Act* (Canada), *Taxation Act, 2007* (Ontario) and for taxation years ending prior to January 1, 2009, the *Corporations Tax Act* (Ontario), as modified by the *Electricity Act, 1998* and related regulations. This involves adjusting (through additions and deductions) regulatory earnings before tax to address differences between accounting and tax treatments. In most cases, these additions and deductions are commonly used by regulated utilities in their tax calculations, however, in

some cases they result from items unique to OPG. To evaluate the appropriate amounts attributable to ratepayers and the shareholder for regulatory tax or tax losses, OPG has applied the principles established in the EB-2007-0905 Decision. The principles established by the OEB in that decision are:

- The party that bears a cost should be entitled to any related tax savings or benefits; and
- Only the prescribed assets are to be considered in the evaluation.

3.0 INCOME TAX EXPENSE

3.1 General Requirements

Under the *Electricity Act, 1998,* OPG is required to make payments in lieu of corporate income and capital taxes to the Ontario Electricity Financial Corporation ("OEFC") and to file federal and provincial income tax returns with the Ontario Ministry of Finance. The tax payments are calculated in accordance with the *Income Tax Act* (Canada), the *Taxation Act, 2007* (Ontario) (the *Corporations Tax Act* (Ontario) for taxation years ending prior to January 1, 2009), as modified by the *Electricity Act, 1998* and related regulations. This effectively results in OPG paying taxes similar to what would be imposed under federal and Ontario tax legislation.

3.2 Regulatory Income Tax Expense for Prescribed Facilities

OPG uses the taxes payable method for determining regulatory income taxes for its prescribed assets, as it did in EB-2007-0905. Under the taxes payable method, only the current income tax expense is reflected in the revenue requirement.

Regulatory income taxes for the prescribed facilities are determined by applying the statutory tax rate to the regulatory taxable income of the combined prescribed nuclear and hydroelectric facilities. Changes to existing statutory tax rates are applied during the test period when the changes are considered to be enacted or substantively enacted. Corporate income tax rate reductions beginning July 1, 2010 were introduced in the 2009 Ontario Budget. The legislation incorporating this change received Royal Assent on December 15, 2009, and therefore the reduced rates have been used to calculate income taxes for the bridge and test periods. As reflected in Ex. H1-T1-S1, section 4.2, the impact of this change

on income taxes for the prescribed facilities during 2010 has been reflected in the Income and Other Taxes Variance Account.

For the purpose of determining payment amounts for the regulated hydroelectric and nuclear facilities, income taxes determined for OPG's prescribed facilities are allocated based on each business's regulatory taxable income. This approach is the same as that taken in EB-2007-0905. In a situation where there is a tax loss in the nuclear business, this approach reduces the total revenue requirement, as the loss in the nuclear business would reduce the tax expense for the regulated hydroelectric facilities. Income taxes allocated to regulated hydroelectric facilities are presented in Ex. F4-T2-S1 Table 1 and to nuclear facilities in Ex F4-T2-S1 Table 3.

Regulatory taxable income is computed by making additions and deductions to the regulatory earnings before tax for items affected by different regulatory accounting and tax treatment, applying the same principles used for the calculation of actual income taxes under applicable legislation as well as regulatory principles. These additions and deductions are detailed in the calculation of taxable income/loss in the following tables, contained in Ex F4-T2-S1:

- Table 5 – Calculation of forecast regulatory income taxes for years 2010 - 2012.
- Table 6 – Calculation of actual regulatory income taxes for years 2008 – 2009.
- Table 7 – Calculation of actual regulatory tax losses for the years 2005 - 2007 and the first quarter of 2008.
- Table 9 – Calculation of the benchmark forecast regulatory income taxes for the period April 1, 2008 to December 31, 2009.

The principles underlying the additions and deductions to regulatory earnings before tax are outlined in the next section.

3.3 Description of Additions and Deductions to Regulatory Earnings Before Tax

3.3.1 Depreciation and Amortization/Capital Cost Allowance

Accounting depreciation and amortization of fixed/intangible assets is not deductible for tax purposes; however, capital cost allowance ("CCA") is deductible. Therefore, depreciation and

amortization expense is an addition to earnings before tax, while CCA is deducted from earnings before tax. Accounting depreciation and amortization of fixed/intangible assets for prescribed facilities is determined in accordance with OPG's depreciation and amortization policy, as described in Ex. F4-T1-S1 section 3.0.

OPG's capital assets are classified into tax asset classes in accordance with Income Tax Regulations. CCA deductions are determined based on the undepreciated capital cost ("UCC"), tax depreciation rates and requirements defined by the Regulations for each asset class. The calculations of CCA deductions are detailed on an asset class basis on the Undepreciated Capital Cost and Capital Cost Allowance schedules T2S(8) filed as part of OPG's income tax returns at Ex. F4-T2-S1 Attachment 3. These schedules contain consolidated information for both OPG's regulated and unregulated assets. OPG also attaches UCC and CCA schedules for its prescribed assets only (Ex. F4-T2-S1 Tables 13 - 15 to this exhibit) to support its CCA deduction for the bridge and test period years.

3.3.2 Nuclear Waste Management Expenses

OPG is responsible for decommissioning its nuclear stations and managing nuclear used fuel and low-level and intermediate-level waste produced by these facilities (collectively, the "nuclear liabilities") as described in Ex. C2-T1-S1. Consistent with the provisions of the *Income Tax Act* (Canada)**,** accounting expenses accrued relating to these obligations are not deductible for tax purposes. The portion of these expenses relating to the prescribed assets has been added back to earnings before tax to determine the taxable income for OPG's prescribed assets. The portions pertaining to prescribed facilities are presented in Ex. C2-T1-S2 Table 1. These expenses consist of used fuel storage and disposal and variable waste management costs.

3.3.3 Cash Expenditures for Nuclear Waste and Decommissioning

Cash expenditures incurred and charged against the nuclear liabilities for waste management and decommissioning activities are deductible for tax purposes in accordance with the *Income Tax Act* (Canada). Cash expenditures relating to the prescribed assets have been deducted from earnings before tax to determine the taxable income for OPG's

prescribed assets. The expenditures for the prescribed facilities are presented in Ex. C2-T1-S2 Table 1.

3.3.4 Segregated Fund Contributions and Receipts

Under the Ontario Nuclear Funds Agreement ("ONFA"), OPG is required to make contributions to segregated funds to enable it to meet its obligations for the nuclear liabilities, as described in Ex. C2-T1-S1. The regulations under the *Electricity Act, 1998* allow OPG a tax deduction when the contributions are made. OPG's approved ONFA contribution schedule is used to determine OPG's forecast contributions to segregated funds. The contributions related to OPG's prescribed assets are presented in Ex C2-T1-S2 Table 1, and are deducted from earnings before tax.

When OPG receives disbursements from the funds for reimbursement of eligible expenditures, the amounts received are taxable as per section 14 of the Regulations under the *Electricity Act, 1998*. The amounts related to OPG's prescribed facilities are presented in Ex. C2-T1-S2 Table 1, and are added to earnings before tax.

3.3.5 Pension/Other Post-Employment Benefits

Pension and other post-employment benefits ("OPEB") expenses recorded by OPG for accounting purposes (as discussed in Ex. F4-T3-S1, section 6) are not deductible for tax purposes per the provisions of the *Income Tax Act* (Canada); therefore these expenses have been added back to earnings before tax. However, cash contributions to the registered pension plan, as well as the payments for OPEB and the supplementary pension plan are deductible for tax purposes, and are consequently reflected as deductions from earnings before tax.

3.3.6 Adjustment Related to Financing Cost for Nuclear Liabilities and Adjustment Related to Duplicate Interest Deduction

This adjustment is required as a result of the methodology for recovery of the revenue requirement impact of the nuclear liabilities, and the tax deductions taken for contributions to the nuclear segregated funds and cash expenditures for nuclear waste management and

decommissioning. The adjustment is different for the periods before and after April 1, 2008 because the methodology for recovery of the revenue requirement impact of the nuclear liabilities changed as a result of the OEB's Decision in EB-2007-0905.

Effective April 1, 2008, OPG adds back to the regulatory earnings before tax an adjustment in respect of the financing cost of the nuclear liabilities related to its prescribed facilities. At page 90 of the Decision in EB-2007-0905, the OEB determined that the weighted average accretion rate of 5.6 per cent for the test period should be applied to the lesser of the average unfunded nuclear liabilities and the average unamortized asset retirement costs for the prescribed facilities. This amount was reflected in OPG's approved revenue requirement. It is deducted as a cost in determining regulatory earnings before tax available to equity holders. For years 2009 - 2012, the derivation of this amount is presented in Ex. C1-T1-S1 Tables 1 - 4, line 7, respectively. For the period April 1, 2008 to December 31, 2008 the derivation of this amount is presented in Ex. C1-T1-S1 Table 5, line 7. The segregated fund contributions also include financing costs related to the nuclear liabilities, and are also deducted in determining taxable income for the prescribed facilities. Therefore, the Adjustment Related to Financing Cost for Nuclear Liabilities is included as an addition to regulatory earnings before tax to remove the duplicate deduction.

For the period prior to April 1, 2008, OPG added back to regulatory earnings before tax an adjustment related to the duplicate interest deduction. This adjustment represents a portion of interest that was included in both OPG's tax deduction for segregated fund contributions and in the deemed interest financing the asset retirement costs. The average unamortized asset retirement costs for the prescribed facilities were included in OPG's rate base and were partially financed by deemed debt in accordance with the approved capital structure. The adjustment was determined based on the debt ratio and the cost of debt as presented in EB-2007-0905, Ex. C1-T2-S1 Tables 4, 5 and 6 for 2007, 2006 and 2005 respectively. The 2007 debt ratio and cost of debt are also presented in Ex. C1-T1-S1 Table 6 in this Application. The debt ratio and cost of debt were applied to the average unamortized asset retirement costs presented in EB-2007-0905.

3.3.7 First Nations' Past Grievances Provision

Expenses recorded by OPG in 2007 for accounting purposes as provisions for anticipated future expenditures are not deductible for tax purposes consistent with the provisions of the *Income Tax Act* (Canada). Therefore, these expenses have been added back to earnings before taxes.

3.3.8 Scientific Research and Experimental Development ("SR&ED") Expenditures and Investment Tax Credits

The capital portion of SR&ED expenditures is deductible from earnings before tax. Additionally, OPG can claim a non-refundable investment tax credit ("ITC") equal to 20 per cent of the qualifying SR&ED expenditures incurred in the year that reduces the federal portion of corporate income taxes otherwise payable. The amount of ITCs recognized for accounting purposes is determined based on an assessment of the likelihood of their allowance, and is recorded as a reduction to OM&A expenses in the year the ITCs are recognized, resulting in an increase to earnings before tax. The reduction to OM&A expenses for recognized ITCs is presented in Ex. F4-T4-S1. ITCs utilized in a given year are taxable in the subsequent year and therefore there is a lag in the taxability of the ITCs. SR&ED ITCs are further discussed in section 7.1 below.

3.3.9 Other

This category includes other required additions or deduction to earnings before tax such as:

- Nuclear materials and supplies obsolescence expenses recorded for accounting purposes as part of nuclear base OM&A (as discussed in Ex. F2-T2-S1, section 2.2) that are not deductible for tax purposes as per the *Income Tax Act* (Canada).
- Computer equipment that is expensed for accounting purposes in accordance with OPG's capitalization policy but must be capitalized and is eligible for CCA deductions for tax purposes.
- Fifty per cent of OPG's nuclear fuel expense incurred in a given year is not deductible for tax purposes until the following year. Therefore, OPG adds back 50 per cent of the year's nuclear fuel expense and deducts 50 per cent of the prior year's nuclear fuel expense. The resulting net addition or net deduction adjusts earnings before tax.

- Meals and entertainment expenses that are subject to the 50 per cent tax deduction limitation.

3.4 Regulatory Tax Treatment of Regulatory Assets and Liabilities

Amounts recorded by OPG as regulatory assets or liabilities for accounting purposes may impact OPG's actual taxable income in different periods, depending on the nature of the regulatory asset or liability. In certain cases, amounts recognized for accounting purposes as regulatory assets or liabilities are also considered to be period revenues or expenses (or reductions thereto) for tax purposes and thus impact OPG's actual taxable income in the same period. In other cases, the timing of inclusion in OPG's actual taxable income differs from the timing of recognition for accounting purposes.

For regulatory purposes, any tax impact (i.e., tax benefits or costs) to ratepayers of the amounts recorded as regulatory assets or liabilities is reflected in the calculation of regulatory taxable income over the same period as these amounts are recovered from, or refunded to ratepayers. This regulatory approach results in the same total tax impact as the actual tax payable by OPG, considering the entire period from when the regulatory asset or liability is initially recorded to when the regulatory asset or liability is fully recovered or refunded. This regulatory treatment provides for a matching of costs and benefits in accordance with the principle that "the party who bears a cost should be entitled to any related tax savings or benefits" (EB-2007-0905 Decision with Reasons p. 170).

The amount of regulatory assets and liabilities that are recovered or refunded through rates in a period is reflected in both the regulated revenues and the amortization expense (or amortization credit) for that period. Since these would be equal and offsetting amounts, the net impact on earnings before tax for the period is zero. In calculating regulatory tax no adjustment to regulatory earnings before tax is necessary because the amount that would otherwise be added back to earnings before tax as amortization expense is the same as the amount that would also be deducted from earnings before tax to provide the benefit to rate payers. This approach results in the tax impact of the recovered amounts being reflected in the year of recovery.

To the extent that there is no tax benefit to be matched to the variance account or deferral account recovery, an adjustment to regulatory earnings before tax is required. This is the case for the Nuclear Liability Deferral Account, where the majority of the underlying costs recorded in the account are not deductible for tax purposes (e.g., depreciation). Therefore, while the amortization of this account is shown as an addition to regulatory earnings before tax for 2008 to 2009 and 2010 to 2012 in Ex. F4-T2-S1 Table 6, line 6 and Table 5, line 6, respectively, there is a minimal deduction from earnings before tax. The amounts deducted for 2008 to 2009 and 2010 to 2012 are shown in Ex. F4-T2-S1 Table 6, line 18 and Table 5, line 19, respectively.

Similarly, in the case of the Income and Other Taxes Variance Account, some of the underlying amounts recorded in the account are not taxable (e.g., variance from forecast income tax expenses due to changes in the income tax rates). Accordingly, the portion of the amortization of this account that relates to amounts that are non-taxable is added back to regulatory earnings before tax in 2011 and 2012 in Ex. F4-T2-S1 Table 5, line 8.

An adjustment to regulatory earnings before tax is also required to address the regulatory treatment of the Bruce Lease net revenues. The forecast net revenues (after tax) from the Bruce Lease reduces OPG's revenue requirement, and therefore the earnings before tax for the prescribed facilities as shown in Ex. F4-T2-S1 Table 5, note 1. To the extent that there is a difference between the forecast and actual net revenues from the Bruce Lease, there is a difference in the regulatory earnings before tax and therefore the taxes for the prescribed facilities. Hence, an adjustment to regulatory earnings before tax is required in the year of recovery of this variance to ensure that any shortfall in regulatory taxes is also recovered from the ratepayers. Accordingly, the amortization of the Bruce Lease Net Revenues Variance Account is added back to regulatory earnings before tax in 2011 and 2012 in Ex. F4-T2-S1 Table 5, line 7.

4.0 TAX LOSSES PRIOR TO APRIL 1, 2008

For the years 2005 to 2007, OPG's regulated business incurred tax losses (negative regulatory taxable income), which were available to be carried forward for utilization in later

years against regulatory taxable income of the regulated business. In its EB-2007-0905 Application, OPG presented the amount of tax losses available to be carried forward at the end of 2007 as $990.2M. The OEB subsequently directed OPG to recalculate the tax losses to reflect the OEB's findings in its Decision in EB-2007-0905. This recalculation resulted in the amount of the tax losses available to be carried forward at the end of 2007 to be $188.5M.

This section presents information with respect to the tax loss incurred in the years 2005 - 2007 and the first quarter of 2008. The tax loss calculation is supported in three ways:

- The actual regulatory tax losses are calculated starting from regulatory earnings before tax and applying the methodology and additions and deductions detailed in section 3 above. The calculations incorporate the directions of the OEB's Decision in EB-2007-0905, including the application of the principles that the party who bears a cost should be entitled to any related tax loss benefit and only the prescribed facilities are considered in the tax loss calculation. The calculation of these tax losses is presented in Ex. F4-T2-S1 Table 7 and discussed in section 4.1 below.

- The tax losses for 2005 - 2007 are reconciled with the tax loss calculations presented in OPG's evidence in EB-2007-0905. This reconciliation shows the adjustments to regulatory tax losses resulting from the OEB's Decision in EB-2007-0905. The reconciliation is presented in Ex. F4-T2-S1 Table 8 and is discussed in section 4.2 below.

- The determination of the tax expense for the prescribed facilities for 2005 – 2007 is reconciled with OPG's corporate income tax returns. This reconciliation responds to the direction on page 171 of the OEB's decision in EB-2007-0905 that OPG file an analysis of its prior period tax returns identifying all items that should be taken into account in the tax expense for the prescribed facilities. The reconciliation is presented in Ex. F4-T2-S1 Tables 10 - 12 and discussed in section 4.3 below.

OPG also engaged Ernst & Young to perform and report on specified procedures on the schedules presented in Ex. F4-T2-S1 Tables 10 – 12 reconciling information in OPG's

corporate tax returns to the determination of prior period tax losses for the prescribed facilities for 2005, 2006 and 2007. These reports were prepared to assist the OEB and intervenors. The specified procedures tie the numbers on these schedules back to the underlying OPG source documentation. This source documentation includes OPG's tax returns, OPG's audited consolidated financial statements, general ledger accounts and certain internal reports and management prepared schedules and worksheets.

The specified procedures were applied by Ernst & Young in accordance with Canadian Institute of Chartered Accountants ("CICA") Handbook Section 9100. A copy of the Ernst & Young reports for 2005, 2006 and 2007 are filed as Attachment 1. By applying the specified procedures, Ernst & Young was able to tie the numbers on the schedules back to the source documents with no exceptions. As a result, Ernst & Young confirmed that the numbers shown in the schedules (Ex. F4-T2-S1 Tables 10-12) have been agreed to source documents including tax returns filed by OPG, audited financial statement and supporting general ledger accounts, or other reports and schedules as set out in the specified procedures reports.

4.1 Calculation of Actual Tax Losses for April 1, 2005 – March 31, 2008

The cumulative tax losses for the years 2005 to 2007 are $210.4M, (2005 – $87.4M; 2006 – $84.7M; 2007 – $38.3M). Excluding the tax loss of $21.9M related to the period prior to April 1, 2005, which was the effective date of payments amounts established pursuant to O. Reg. 53/05, the cumulative revised tax losses are $188.5M. The determination of the pre-April 1, 2005 tax loss of $21.9M is based on a straight-line pro-ration of the 2005 annual tax loss.

The resulting cumulative tax losses of $188.5M were used to reduce the taxable income of $77.6M for the period January 1, 2008 to March 31, 2008 to nil, resulting in remaining net cumulative tax losses of $110.9M, as presented in lines 20 – 29 of Ex. F4-T2-S1 Table 7 and reproduced in Chart 1 below.

Chart 1

Calculation and Utilization of Prior Period Regulatory Tax Losses ($M)
Years Ending December 31, 2005, 2006 and 2007 and Three Months Ending March 31, 2008

Line No.	Particulars	2005 Actual	2006 Actual	2007 Actual	January 1 to March 31, 2008 Actual
		(a)	(b)	(c)	(d)
20	**Regulatory Taxable Income / (Loss) Before Allocation to Period Prior to Regulation and Loss Carry-Over**	(87.4)	(84.7)	(38.3)	77.6
21	**Allocation to Period Prior to Regulation[1]**	21.9	N/A	N/A	N/A
22	**Regulatory Taxable Income / (Loss) Before Loss Carry Over**	(65.5)	(84.7)	(38.3)	77.6
23	**Tax Loss Carry-Over to Future Periods / (from Prior Periods)**	65.5	84.7	38.3	(77.6)
24	**Tax Loss Available for Mitigation in EB-2007-0905 as at March 31, 2008**				(110.9)
	Utilization of Prior Period Tax Losses				
25	**Taxable Income for Year Ending December 31, 2008[2]**				116.9
26	**Less: Tax Loss Utilized During Three Months Ending March 31, 2008**				(77.6)
27	**Tax Loss Utilized During Nine Months Ending December 31, 2008**				39.2
28	**Tax Loss Utilized During Year Ending December 31, 2009[2]**				71.6
29	**Total Tax Loss Utilized as at December 31, 2009** (line 27 + line 28)				110.9

Notes:
1 Allocation to Period Prior to Regulation refers to the portion of the 2005 tax loss attributable to the period January 1, 2005 to March 31, 2005, as discussed in Ex. F4-T2-S1.
2 The amounts are presented in Ex. F4-T2-S1 Table 6.

4.2 Reconciliation to Evidence in EB -2007-0905

The adjustments from the amount of tax losses of $990.2M at the end of 2007 presented in the evidence in EB-2007-0905 to the revised amount of $188.5M are presented in Ex. F4-T2-S1 Table 8 and are discussed below. Ex. F4-T2-S1 Table 8 is reproduced below as Chart 2 for ease of reference. The tax tables filed in EB-2007-0905 are provided at Ex. F4-T2-S1 Attachment 2 for reference.

Chart 2

Reconciliation of Prior Period Regulatory Tax Losses ($M)
Years Ending December 31, 2005, 2006, 2007 and Three Months Ending March 31, 2008

Line No.	Particulars	2005 Actual	2006 Actual	2007 Actual	Total
		(a)	(b)	(c)	(d)
	Per OPG's Original Filing EB-2007-0905[1]:				
1	**Loss for the Year**	(364.4)	(101.2)	(553.0)	(1,018.6)
2	**Allocation to Period Prior to Regulation[2]**	28.4	0.0	0.0	28.4
3	**Loss Available to be Carried Forward**	(336.0)	(101.2)	(553.0)	(990.2)
	Adjustments to Original Income / (Loss) for the Year:				
4	**Adjustment to Timing of PARTS Costs Deduction**	254.0	(12.0)	(95.0)	147.0
5	**Exclusion of Impact of Bruce Revenues and Costs[2]**	19.9	28.5	341.6	390.0
6	**Adjustment for Operating Losses Borne by OPG's Shareholder[3]**	3.1	0.0	231.1	234.2
7	**Update of Tax Information for 2007**	N/A	N/A	37.0	37.0
8	**Total Adjustments Before Allocation to Period Prior to Regulation**	277.0	16.5	514.7	808.2
9	**Allocation of Adjustments to Period Prior to Regulation[4]**	(6.5)	0.0	0.0	(6.5)
10	**Adjusted Loss for the Year** (Line 3 + Line 8 + Line 9)	(65.5)	(84.7)	(38.3)	(188.5)
11	**Income for Q1 2008**				77.6
12	**Adjusted Tax Loss as at March 31, 2008**				(110.9)

Notes:
1 As filed in OPG's application EB-2007-0905 in Ex. F3-T2-S1 Table 9 (see Attachment 2).
2 Calculation of impact of Bruce revenues and costs is presented in Ex. F4-T2-S1 Table 16.
3 Calculation of operating losses for prescribed assets borne by OPG's Shareholder is presented in Ex. F4-T2-S1 Table 17.
4 Allocation to Period Prior to Regulation refers to the portion of the 2005 tax loss / tax loss adjustments attributable to the period January 1 to March 31, 2005, as discussed in Ex. F4-T2-S1.

4.2.1 $147.0M Reduction Due to Timing of PARTS Costs Deduction

The cost recorded in the PARTS deferral account result in a tax benefit. OPG's EB-2007-0905 Application included a deduction for the full amount of the PARTS costs of $258.0M and $13.0M in 2005 and 2006, respectively, the same years in which these costs were incurred. This deduction was presented in Ex. F3-T2-S1 Table 8, line 18 in EB-2007-0905. This treatment did not match the timing of the tax benefit of these costs to their recovery from ratepayers through approved payment amounts. Consistent with the requirement of the OEB as set out on page 170 of the EB-2007-0905 Decision, OPG is providing the tax benefit related to the PARTS costs deduction to ratepayers to coincide with the timing of the recovery of costs, including interest on the deferral account, from ratepayers.

This adjustment ensures that the amount of the deduction equals the amortization (recovery) of the PARTS deferral account of $4.0M and $25.0M in 2005 and 2006, respectively (as presented in EB-2007-0905, Ex. F3-T2-S1 Table 8, line 7) and $95.0M in 2007 (as presented in EB-2007-0905, Ex. F3-T2-S1 Table 7, line 7). This adjustment resulted in a reduction to tax losses of $147.0M over the 2005 - 2007 period.

The regulatory tax calculations over the remaining recovery period for the PARTS balance, ending at December 31, 2011, include a deduction corresponding to the amount being recovered through payment amounts. Accordingly, this adjustment represents only a difference in the timing of the benefit being received by ratepayers and the total benefit remains the same. In EB-2007-0905, the entire benefit associated with the PARTS account was received in 2005 - 2007 whereas in this Application, the benefit is provided over the period of 2005 - 2011 consistent with the amortization period of the PARTS account.

4.2.2 $390.0M Reduction Resulting From Exclusion of Impact of Bruce Revenues and Costs

OPG's EB-2007-0905 Application presented regulatory earnings/(losses) before tax in Ex. F3-T2-S1 Tables 7 and 8, line 1 for 2005 - 2007 of $106.0M, $193.8M and ($84.0M) that included both prescribed facilities and Bruce assets. The OEB determined in EB-2007-0905 on page 169 that "any calculation of tax losses in respect of the prescribed facilities should exclude revenues and expenses related to the Bruce lease," and further noted on page 171 that "the income tax provision for the prescribed facilities in future applications should not include any income or loss in respect of the Bruce lease." Consequently, OPG removed earnings before tax related to Bruce assets and related additions and deductions to those earnings, resulting in the removal of tax losses of $19.9M, $28.5M, and $341.6M for 2005, 2006 and 2007, respectively. Accordingly, total losses for years 2005 – 2007 were reduced by $390.0M. The calculation of the impact of Bruce revenues and costs on prior period regulatory tax losses is presented in Ex. F4-T2-S1 Table 16.

4.2.3 $234.2M Reduction for Operating Losses Borne by OPG's Shareholder

After the exclusion of earnings before tax related to Bruce assets described above, the operating losses before tax related to prescribed facilities were $3.1M and $231.1M in 2005 and 2007, respectively. The reconciliation of the losses for the prescribed facilities for 2007 to OPG's annual audited consolidated financial statements is provided in Ex. F2-T4-S1 Table 17.

In its EB-2007-0905 Decision, the OEB made the following observations regarding OPG's operating losses on page 170:

> It would appear that the operating loss in 2007 was borne completely by OPG's shareholder. Consumers have not been required to absorb that loss because the payment amounts for 2007 were set in 2005 and did not change. Accordingly, in the Board's view, none of the tax benefit of that loss should accrue to consumers.

The losses in years 2005 and 2007 were borne by OPG's shareholder, and as such OPG excluded these losses by setting the earnings before tax in those years to nil. Comparison of the forecast versus actual nuclear production in 2007 verifies that the loss of $231.1M in 2007 was borne by OPG's shareholder. OPG's actual nuclear production for 2007 was 44.2 TWh as presented in Ex. E2-T1-S1 Table 1 which was 8.8 TWh lower than the forecast production of 53.0 TWh provided to the Province for the purposes of setting interim payment amounts for the period up to April 1, 2008. The forecast production is provided in the document titled "Forecast Information (as of Q3/2004) for Facilities Prescribed under Ontario Regulation 53/05" which is referenced in O. Reg. 53/05 and posted on the OEB's website at the following url:

http://www.oeb.gov.on.ca/documents/cases/EB-2006-0064/forecast_facilities_opg_20070213.pdf

Based on the nuclear payment amount of $49.50/MWh, the lower production resulted in lower revenues to OPG of approximately $435.6M. OPG's shareholder was not compensated by the ratepayers for these foregone revenues, and hence should retain the benefit of the associated tax losses. This treatment is consistent with the principle noted by

the OEB in its Decision on page 170 that "the party who bears a cost should be entitled to any related tax savings or benefits."

4.2.4 $37.0M Reduction Due to Update of Tax Information for 2007

The tax information provided in EB-2007-0905 for 2007 was based on OPG's 2007 year-end income tax provision, not its actual tax expense, because the final tax expense was not yet available. The tax information for 2005 and 2006 used the actual tax expense. The actual 2007 tax expense was determined when OPG filed its income tax returns for 2007 in June 2008. OPG's calculation of prior period tax losses for this Application reflects actual tax expense for 2005, 2006 and 2007 based on the information contained in its income tax returns, applying a consistent treatment for all years in the prior period. The difference between use of the 2007 income tax provision in EB-2007-0905 and the actual tax expense results in a reduction to the tax losses of $37.0M.

4.2.5 $6.5M Addition from Allocation of Adjustments to Period Prior to Regulation

The adjustment of $6.5M represents the difference in the amount of the 2005 tax loss attributable to the period prior to April 1, 2005 as a result of the redetermination of the loss. The original amount attributable to that period was $28.4M (Ex. F4-T2-S1 Table 8), and the revised amount is $21.9M (Ex. F4-T2-S1 Table 7).

4.3 Analysis of Prior Period Tax Returns

In the OEB's Decision in EB-2007-0905, the OEB stated that it expected OPG to file an analysis of its prior period tax returns. The analysis for each of the years 2005, 2006 and 2007 is presented in Ex. F4-T2-S1 Tables 10, 11 and 12, respectively. This analysis reconciles the calculation of OPG's consolidated taxable income to the calculation of the regulatory taxable income for the prescribed facilities.

Since OPG's regulated and unregulated businesses operate within several number of legal entities, the analysis includes a reconciliation to exclude amounts related to OPG's unregulated operations. Below is a detailed explanation of the columns in the reconciliation tables:

- The amounts in Column 1 are as per the OPG Inc. legal entity tax return for the applicable year. The copies of the tax returns for 2005 - 2007 are provided at Ex. F4-T2-S1 Attachment 3. The amounts in Column 2 are as per OPG Inc. subsidiaries' tax returns for that year, which are provided at Ex. F4-T2-S1 Attachment 3.
- Column 3 represents the consolidated amounts for OPG Inc. and its subsidiaries (total of the amounts in Columns 1 and 2). The total earnings before tax ("EBT") in this column represents the EBT as reported in OPG's consolidated audited financial statements for the applicable years.
- Amounts relating to OPG's unregulated operations, excluding the Bruce assets, (e.g., fossil, unregulated hydroelectric) are reported in Column 4.
- The balances reported in Column 5, which represents the subtraction of Column 4 from Column 3, are the amounts that relate to what OPG reports on its consolidated financial statements as its "regulated" business segment. For financial reporting purposes, this segment includes the prescribed facilities and the Bruce assets.
- Column 6 represents the removal of items relating to Bruce assets as required by the OEB in it Decision in EB-2007-0905
- Certain items of income and expenses are not refundable or recoverable from ratepayers as they do not form part of the revenue requirement calculation. Certain other items are refunded or recovered over a period of time. Accordingly, certain amounts in Column 6 are adjusted or eliminated in Column 7 for the purposes of the regulatory tax calculation. Some of the more significant adjusting items in Column 7 are:
    - Accretion expense for the nuclear liabilities for 2005 - 2007: this item does not form part of regulatory earnings before tax based on the OEB-approved methodology of recovering nuclear liabilities for the prescribed facilities.
    - One-time adjustment with respect to the write-off of Pickering A Units 2 and 3 inventory and CIP in 2005: OPG did not recover these costs from ratepayers and therefore the associated tax benefit is not included in the calculation of regulatory taxable income.
    - Investment income earned by the nuclear segregated funds for 2005 - 2007: this item does not form part of regulatory earnings before tax based on the OEB-approved methodology of only recovering nuclear liabilities for the prescribed facilities.

- Adjustments to the timing of PARTS costs deduction taken by OPG in 2005 and 2006 to match the recovery of these costs from ratepayers over time, as explained above in section 4.0 under the heading "Adjustment to Timing of PARTS Costs Deduction".
- Changes in the CCA amounts for 2005 - 2007 due to the resolution of the 1999 income tax audit, which resulted in changes to the undepreciated capital cost balances for the prescribed facilities. The impact of the changes in the CCA resulting from the resolution of the 1999 income tax audit were reflected in OPG's EB-2007-0905 Application. These changes were not reflected in OPG's tax returns as filed, resulting in the need for the reconciling item in this table.
- Construction in Progress ("CIP") interest for 2005 - 2007: the amount of OPG's actual interest is replaced by deemed interest for regulatory purposes.
- Adjustment related to duplicate interest deduction, which is described in section 3.3.6 above.

- The result of the above adjustments to amounts in Column 6 is presented in Column 8, which represents the regulatory tax calculation for 2005 – 2007 as presented in Ex. F4-T2-S1 Table 7.

5.0 INCOME TAX EXPENSE 2008-2009

5.1 Benchmark Income Tax Expense April 1, 2008 to December 31, 2009

In its EB-2007-0905 Decision, the Board directed OPG to provide a benchmark of income tax expense for the prescribed facilities, without consideration of tax losses prior to April 1, 2008, for the test period April 1, 2008 to December 31, 2009. It has been computed using the OEB-approved revenue requirement for that period in a manner consistent with the Board's Direction. The computation of the expense, which totals $66.0M for the period ($37.5 for the period April 1 to December 31, 2008 and $28.5M for the period January 1 to December 31, 2009), is presented in Ex. F4-T2-S1 Table 9. The expense is computed in the same manner as the regulatory income tax expense for the historic, bridge and test period years, applying the principles described in section 3 and the OEB's direction in EB-2007-0905 outlined in section 4. The application of the OEB's direction includes the exclusion of the tax impact of revenues and costs related to the Bruce assets and the adjustment to the timing of the deduction for PARTS costs.

The tax expense of $37.5M for the period April 1, 2008 to December 31, 2008 is higher than the tax expense of $28.5M for the full year 2009 primarily due to lower annualized contributions to segregated funds for the prescribed nuclear facilities in 2008. The total benchmark tax expense of $66.0M is consistent with the tax expense included in OPG's Submission re: Notice of Motion to Vary, EB-2009-0038, page 15, Table 1, line 11.

5.2 Actual Income Tax Expense 2008 - 2009

The actual annual income tax expense for the prescribed facilities for years 2008 and 2009 has been computed using the same approach as described in section 3 and the OEB's direction in EB-2007-0905 outlined in section 4. The computation of taxable income, before consideration of the utilization of prior period tax losses, totals $116.9M for 2008 and $305.6M for 2009, as presented in Ex F4-T2-S1 Table 6. The taxable income for 2008 was offset by the utilization of prior period tax losses presented in Ex. F4-T2-S1 Table 7, resulting in an actual tax expense of nil. The 2009 taxable income was partially offset by the utilization of the balance of the prior period losses, resulting in actual income tax expense of $68.0M.

6.0 INCOME TAX EXPENSE FOR 2010 - 2012

The regulatory income tax expense calculations for the prescribed facilities for the bridge year and test period are shown in Ex F4-T2-S1 Table 5. The forecast income tax expense for years 2010 - 2012 has been computed using the same approach as described in section 3 and the OEB's direction in EB-2007-0905 outlined in section 4. The additions and deductions to regulatory earnings before tax for the bridge and test periods are consistent with those in the period 2005 to 2007, apart from one-time adjustments in those years and adjustments for SR&ED ITCs discussed in section 7.1 below.

The forecast tax expense in the test period years of 2011 and 2012 is $84.4M and $103.3M, respectively.

The forecast expense in the bridge year of 2010 is $16.5M. The tax expense for 2010 is forecast to be lower that the tax expense for the test years primarily due to lower earnings before tax.

7.0 OTHER TAX MATTERS

7.1 SR&ED Investment Tax Credits

As noted in section 3.3.8, the amount of SR&ED ITCs recognized for accounting purposes is determined based on an assessment of the likelihood of their recoverability, and is recorded as an increase to earnings before tax through a reduction to OM&A expenses. This reduction to OM&A expenses is presented in Ex. F4-T4-S1. ITCs utilized in a given year are taxable in the subsequent year.

OPG has qualifying SR&ED expenditures and files annual ITC claims. Until mid 2008, OPG had no history of whether the taxation authorities would allow its claims and, consequently, it could not assess the likelihood that the claims it filed would be allowed. Therefore, OPG could not recognize any of the ITCs for accounting purposes. During 2008, OPG resolved the audit of its first taxation year, 1999. In completing this audit, the tax authorities allowed OPG's ITC claim. Subsequent to the resolution of the audit, OPG determined that it was acceptable to recognize 50 per cent of the claims filed to date for accounting purposes. Therefore, as part of the process of finalizing its financial results for the year ended December 31, 2008, OPG recorded a reduction in OM&A for 50 per cent of the ITCs claimed from 2000 to 2007. In 2009, OPG recognized 50 per cent of the claim filed for 2008 and 50 per cent of the estimated claim for 2009. This accounting change was accepted by OPG's auditors in their review of the audited financial statements for 2008 and 2009.

The recognized benefit of SR&ED expenditures incurred after April 1, 2008 forms part of the balance in Income and Other Taxes Variance Account (discussed in Ex. H1-T1-S1 section 4.2) established by the OEB in EB-2007-0905 effective April 1, 2008. This variance account entry arises because no amounts for SR&ED ITCs were included in the approved revenue requirement for the April 1, 2008 to December 31, 2009 test period, and the actual recognition of SR&ED ITCs in that period primarily resulted from the resolution of the 1999 audit. To the extent that the ultimate amount of SR&ED ITCs related to 2008 or 2009 recognized for accounting purposes in any subsequent year differs from the amounts previously recognized, OPG will record this difference in the Income and Other Taxes Variance Account.

For business planning purposes for years 2010 - 2012, OPG forecasts recognition of 50 per cent of its estimated SR&ED ITCs for those years. For 2010, the benefit of the forecast amount is incorporated in the Income and Other Taxes Variance Account discussed in Exhibit H. For 2011-2012, the benefit of the forecast amount of SR&ED ITCs to be recognized is included in the test period revenue requirement as a reduction to centrally-held OM&A costs in Ex. F4-T4-S1. To the extent that the ultimate amount of SR&ED ITCs related to any of the years from 2010 - 2012 actually recognized for accounting purposes in any subsequent year differs from this forecast, OPG will record this difference in the Income Tax and Other Taxes Variance Account.

7.2 Ontario Corporate Minimum Tax

Ontario corporate minimum tax ("OCMT") is designed to impose a minimum tax based on financial statement income calculated without most tax adjustments. The OCMT paid in a year can be applied to reduce taxes payable in future years. Consistent with the treatment in EB-2007-0905, OPG does not propose to recover OCMT and did not apply any credits resulting from OCMT in previous years to reduce the revenue requirement.

8.0 ONTARIO CAPITAL TAX EXPENSE

OPG is subject to the Ontario capital tax at the applicable rate on its taxable capital subject to the general capital tax deduction. For regulatory purposes, the rate base in excess of the general capital tax deduction is used as a proxy for the taxable capital used as the base for calculating Ontario capital tax for the prescribed facilities. The full capital tax deduction is attributed to prescribed facilities to the benefit of ratepayers. OPG's treatment of Ontario capital tax is consistent with that accepted by the OEB in EB-2007-0905. The applicable Ontario capital tax rates are 0.225 per cent in 2007, 2008 and 2009, and 0.15 per cent thereafter up to June 30, 2010. The Ontario capital tax is currently scheduled to be eliminated effective July 1, 2010. As such, there is no Ontario capital tax expense included in the test period revenue requirement.

The calculation of Ontario capital tax associated with the regulated hydroelectric and nuclear facilities for years 2007 - 2010 is presented in Ex. F4-T2-S1 Tables 2 and 4, respectively. Ontario capital tax associated with the Bruce facilities is discussed in Ex. G2-T2-S1.

9.0 COMMODITY TAX

Under the *Retail Sales Tax Act* (Ontario), OPG qualifies as a manufacturer who produces goods, i.e. electricity, for sale. As a manufacturer, OPG purchases machinery and equipment used directly in the generation of electricity which is exempt from the 8 per cent retail sales tax (provincial sales tax or "PST"). For expenditures that are subject to PST, OPG can either have the vendor charge OPG directly or OPG can self-assess and remit the tax due. The amount of PST paid either forms part of the expenditures of the underlying item (OM&A, capital, inventory, etc.), or is recorded as a centrally held cost, as discussed in Ex. F4-T4-S1.

OPG is also subject to the 5 per cent goods and services tax ("GST") levied under Part IX of the *Excise Tax Act* (Canada) on all goods and services purchased. Although the GST is recoverable by claiming input tax credits on returns filed monthly, the GST is included in the cash working capital component of the rate base, as noted in Ex. B1-T1-S2. This approach was approved by the OEB in EB-2007-0905.

Effective July 1, 2010, Ontario is harmonizing its retail sales tax with the GST. As a result, instead of the 5 per cent GST and the 8 per cent PST, there will be a single 13 per cent Harmonized Sales Tax ("HST") in Ontario. OPG will be subject to the 13 per cent HST on almost all of its purchases of goods and services, including those that were previously exempt from PST. OPG will, however, be able to recover, as input tax credits, the HST paid with certain restrictions.

For purchases that are currently subject to PST, there is a potential for cost savings to OPG. For purchases that are currently PST exempt, such as machinery and equipment used directly in the generation of electricity, there will be no incremental savings for OPG upon implementation of the HST. For purchases of energy (electricity, gas, steam, fuel) for non-

production purposes, which are currently exempt from PST but which will be subject to restrictions with regard to claims for HST input tax credits, OPG will incur an additional cost.

The recoverable portion of HST paid on purchases of goods and services, including applicable energy purchases, can be claimed as input tax credits on returns filed monthly. The non-recoverable portion will form part of the expenditure of the underlying item (e.g., OM&A, capital inventory, etc.).

OPG's forecast for the test period incorporates a net reduction to costs as a result of OPG becoming subject to HST. Since OPG is currently exempt from PST on most machinery and equipment purchases and will be subject to the restriction on input tax credits for energy purchases for non-production purposes, the net cost reductions related to HST are forecast to be relatively small, at less than approximately $5M annually. The impact of HST has also been incorporated into the computation of the cash working capital component of rate base effective July 1, 2010, as discussed in Ex. B1-T1-S2.

Where applicable, OPG pays duty under the *Customs Act (*Canada) on goods imported into Canada; however, currently most of these imports are either exempt or have duty free status through the North American Free Trade Agreement. For supply and installation contracts, the contractor's price includes duty, if applicable, on the goods imported to perform the work. Any duty paid forms part of the expenditure on the underlying item (e.g., OM&A, capital, inventory, etc.).

10.0 PROPERTY TAX EXPENSE

OPG is responsible for both the payment of municipal property taxes and a payment in lieu of property tax to the Province of Ontario. The total of these two payments is intended to represent what a commercial generating company would pay as property tax on OPG's assets based on full Current Value Assessment ("CVA"), and represents OPG's property tax expense. OPG's property tax expense for the regulated hydroelectric and nuclear facilities is presented in Ex. F4-T2-S1 Tables 1 and 3, respectively. The treatment of municipal property taxes and payment in lieu of property tax is consistent with that approved by the OEB in EB-

2007-0905. The forecast nuclear property tax expense in this Application also includes a forecast Water Taking Charge, as described below.

10.1 Municipal Property Taxes

Municipal property taxes are regulated under the *Assessment Act, R.S.O. 1990* (the "Act") and are levied on OPG-owned generation lands and buildings. For certain generating assets the Act prescribes the basis for assessment of the property. Municipal property tax payments are made to about 100 municipalities each year by OPG. This Application presents municipal property taxes for nuclear and regulated hydroelectric lands and buildings owned and operated by OPG.

The Municipal Property Assessment Corporation ("MPAC") issues notices of assessments annually, which are reviewed by OPG staff for accurate valuation and tax classification issues. Any incorrect classes and under/overvaluations are appealed through MPAC and the Assessment Review Board.

OPG pays municipal property tax related to certain properties, which are not directly associated with specific generation business units and are held centrally. These properties primarily include OPG's Head Office and certain other properties located in the vicinity of Toronto, Ontario. Regulated generation business units are allocated a portion of the service fee for the use of assets that are centrally held. As approved by the OEB in EB-2007-0905, municipal property taxes incurred by OPG for the centrally-held properties form part of that fee as discussed in Ex. F3-T2-S1.

10.2 Payment in Lieu of Property Tax

Payment in lieu of property tax is regulated through O. Reg. 224/00 under the *Electricity Act, 1998* and is paid to the Province of Ontario through the OEFC. According to O. Reg. 224/00 the payment in lieu of property tax represents taxes based on the difference between current value assessment ("CVA") and the prescribed municipal assessment for certain generating assets.

The assessment basis under O. Reg. 224/00 has not been updated since 1999. Consequently, the CVA used for payment in lieu of property tax calculations and the payments in lieu of tax amounts themselves are out of date. The Province has indicated that it intends at some point to update the assessment values in O. Reg. 224/00 and make it retroactive to April 1, 1999. This would result in retroactive increases in the payments of property tax for OPG.

10.3 Property Taxes on Nuclear and Bruce Assets

For property assessment and taxation purposes, prescribed nuclear generating stations and Bruce facilities' lands contain buildings that are classified as "generating" (e.g., buildings that are used in, or auxiliary to, the generating process, such as power house, water treatment plant, pump houses, etc.) and "non-generating" (e.g., administration/office buildings). Municipal property tax payments to municipalities are paid based on a statutory assessment rate of $86.11 per square meter, per the Act for "generating" buildings, and at CVA, which is the valuation method used for other property owners in Ontario, for "non-generating" buildings. For "generating" buildings, OPG is also subject to making payments in lieu of property tax, as described above, based on the difference between CVA and the prescribed municipal assessment rate of $86.11 per square meter.

In establishing budgets for 2008 - 2010 and the plan for 2011 - 2012 for prescribed facilities and Bruce assets, OPG did not assume that O. Reg. 224/00 will be updated during these years. In EB-2007-0905, OEB accepted OPG's proposal to record the financial impact of property tax changes for OPG's prescribed facilities resulting from an update to O. Reg. 224/00 or related regulations in the Income and Other Taxes Variance Account. In the budget for historical year 2007 (including Bruce assets), OPG assumed that the update to the regulation would occur in that year, resulting in the budgeting of higher payments of property tax than have actually occurred.

Property taxes associated with the Bruce assets are presented separately in Ex. G2-T2-S1.

10.4 Property Taxes on Hydroelectric Assets

OPG does not make payments in lieu of property tax on hydroelectric facility stations, dams and upstream/downstream properties; instead, OPG pays a gross revenue charge ("GRC") under section 92.1 of the *Electricity Act, 1998*. Refer to Ex. F1-T4-S1 for discussion of the GRC. For those hydroelectric properties that are not associated with a generating station or dam site, OPG pays municipal property tax under the Act at CVA. For the regulated hydroelectric facilities, municipal property taxes are only payable for its district office at DeCew. DeCew municipal property taxes are expected to be approximately $24,000/year during the test period.

10.5 Water Taking Charge

OPG's forecast nuclear property tax expense for 2011 and 2012 includes a water taking charge payable to the Province effective January 1, 2011. The charge is expected to apply to all thermal generating stations, including OPG's nuclear facilities, which are located on the Great Lakes Basin. The charge is intended to cover a portion of the Province's water management costs. The charge will be volumetric in nature, based on the actual volume of water taken by the facilities located on the Great Lakes Basin in the preceding calendar year. OPG is currently classified as a Low Consumptive user and, as such, is expected to be subject to a charge at a rate of $0.06 per m^3 of water used. Therefore, the forecast charge for 2011 and 2012 is based on the expected volumes of water that will be taken by the prescribed nuclear facilities in 2010 and 2011, respectively. The total forecast amount is expected to be in the order of approximately $0.5M per year in each of the two years.

All hydroelectric generating stations are currently expected to be exempt from this charge.

LIST OF ATTACHMENTS

Attachment 1: Ernst & Young 2005, 2006 and 2007 Reports on Agreed-Upon Procedures

Attachment 2: Tax Tables Filed in EB-2007-0905

Attachment 3: Tax Returns for 2005 – 2007 (Filed separately requesting treatment as confidential material)