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MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

161 Bay Street
P.O. Box 501
Toronto, Ontario M5J 2S5
+1 416 868 2000
Fax +1 416 868 0322
www.mercer.ca

Private & Confidential
Nathan Reeve
Vice President, Financial Services
Ontario Power Generation Inc.
700 University Avenue, H7 F25
Toronto, Ontario M5G 1X6
Canada

08 October 2010

Subject: Projected Pension and Non-Pension Benefit Expense for Fiscal Years 2011 and 2012

Dear Nathan:

The purpose of this letter is to provide updated projections of pension and non-pension benefit expense for 2011 and 2012 requested by Ontario Power Generation Inc. ("OPG").

The projected employee benefit expense for 2011 and 2012 for the registered pension plan (RPP) and the other plans (i.e. the supplementary pension plans (SPP), non-pension post retirement plans, and post employment (i.e., long term disability) benefit plans) sponsored by OPG are summarized below. Further details are provided in Appendices A1 through A4 respectively.

Projected Benefit Expense

($millions)	2011	2012
Registered Pension Plan	$284.7	$331.9
Other Plans[1]	265.2	271.8
Total	**$549.9**	**$603.7**

As requested, for each plan we are providing projected benefit expense under Section 3461 of the Canadian Institute of Chartered Accountants Handbook ("CICA 3461") only, assuming CICA 3461 continues unchanged for fiscal 2011 and beyond. The projections do not take into account the transition to International Financial Reporting Standards in 2011 or 2012.

[1] The sum of the projected benefit expense for the SPP, the non-pension post retirement plans and post employment benefit plans. The breakdown by plan is shown in the enclosed appendices.

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A summary of the assumptions and methods used in these projections is provided in Appendix B.

Projected benefit expense for 2011 and 2012 has increased substantially from the estimated 2010 benefit expense. This increase is largely as a result of the decrease in accounting discount rates since December 31, 2009, which results in a projected increase in employer service costs as well as projected actuarial losses at December 31, 2010 that would be amortized into expense over the projection period. Actual discount rates and market conditions as at January 1, 2011 and January 1, 2012 may result in the 2011 and 2012 benefit expense being different than projected.

Should you have any questions or concerns, please call us.

Sincerely,

Michael Reid, FSA, FCIA
Principal
(in respect of pension arrangements)

Darryl Leach, FSA, FCIA
Partner
(in respect of non-pension arrangements)

Copy:
Ms Ann Edwards, Ontario Power Generation Inc.
Ms Colleen Sidford, Ontario Power Generation Inc.
Mr. Malcolm Hamilton, Mercer
Mr. Hrvoje Lakota, Mercer
Ms Cheryl Ibbotson, Mercer
Ms Winnie Guo, Mercer

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Appendix A1:

Ontario Power Generation Inc.
Registered Pension Plan
($millions)

	2011	2012
Summary of Accounting Position at end of Previous Year		
Accrued benefit obligation	10,546.9	11,051.6
Market value of assets	8,345.3	9,083.7
Surplus (deficit)	(2,201.6)	(1,967.9)
Unamortized past service costs	9.6	-
Actuarial losses/(gains) not subject to amortization due to asset smoothing	1,047.6	521.3
Actuarial losses/(gains) not subject to amortization due to corridor	1,054.7	1,105.2
Actuarial losses/(gains) subject to amortization	1,226.9	1,673.9
Accrued benefit asset (liability)	1,137.2	1,332.5
Components of Expense for the Year		
Current service cost	230.7	237.6
Interest cost	604.9	633.9
Expected return on plan assets	(662.7)	(679.1)
Amortization of past service costs	9.6	-
Amortization of net actuarial loss (gain)	102.2	139.5
Total	284.7	331.9

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Appendix A2:

Ontario Power Generation Inc.
Supplementary Pension Plans
($millions)

	2011	2012
Summary of Accounting Position at end of Previous Year		
Accrued benefit obligation	218.3	231.3
Market value of assets	-	-
Surplus (deficit)	(218.3)	(231.3)
Unamortized past service costs	0.5	-
Actuarial losses/(gains) not subject to amortization due to asset smoothing	-	-
Actuarial losses/(gains) not subject to amortization due to corridor	21.8	23.1
Actuarial losses/(gains) subject to amortization	31.4	27.5
Accrued benefit asset (liability)	(164.6)	(180.7)
Components of Expense for the Year		
Current service cost	7.7	8.0
Interest cost	12.7	13.4
Expected return on plan assets	-	-
Amortization of past service costs	0.5	-
Amortization of net actuarial loss (gain)	2.6	2.3
Total	23.5	23.7

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Appendix A3:

Ontario Power Generation Inc.
Non-Pension Post Retirement Plans
($millions)

	2011	2012
Summary of Accounting Position at end of Previous Year		
Accrued benefit obligation	2,113.4	2,228.6
Market value of assets	-	-
Surplus (deficit)	(2,113.4)	(2,228.6)
Unamortized past service costs	13.7	12.0
Actuarial losses/(gains) not subject to amortization due to asset smoothing	-	-
Actuarial losses/(gains) not subject to amortization due to corridor	211.4	222.8
Actuarial losses/(gains) subject to amortization	287.5	249.9
Accrued benefit asset (liability)	(1,600.8)	(1,743.9)
Components of Expense for the Year		
Current service cost	57.3	59.9
Interest cost	121.9	128.5
Expected return on plan assets	-	-
Amortization of past service costs	1.8	1.8
Amortization of net actuarial loss (gain)	26.1	22.7
Total	207.1	212.9

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Appendix A4:

Ontario Power Generation Inc.

Post Employment Plans
($millions)

	2011	2012
Summary of Accounting Position at end of Previous Year		
Accrued benefit obligation	278.9	284.4
Market value of assets	-	-
Surplus (deficit)	(278.9)	(284.4)
Unamortized past service costs	2.0	1.6
Actuarial losses/(gains) not subject to amortization due to asset smoothing	-	-
Actuarial losses/(gains) not subject to amortization due to corridor	27.9	28.5
Actuarial losses/(gains) subject to amortization	14.9	12.9
Accrued benefit asset (liability)	(234.1)	(241.4)
Components of Expense for the Year		
Current service cost	21.0	21.6
Interest cost	11.8	12.0
Expected return on plan assets	-	-
Amortization of past service costs	0.4	0.4
Amortization of net actuarial loss (gain)	1.4	1.2
Total	34.6	35.2

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Appendix B: Assumptions and Methods

In our projection of the benefit expense for 2011 and 2012, we have assumed that the 2010 benefit expense for the supplementary pension plans, non-pension post retirement plans, and post employment plans, are the same as those provided in our Report on Pension Expense and Disclosure for the Fiscal Year Ending December 31, 2009 and in our Report on Non-Pension Post Retirement and Post Employment Benefit Expense and Disclosure for the Fiscal Year Ending December 31, 2009 respectively (both dated January 2010) (the "December 31, 2009 Disclosure Reports"). The 2010 benefit expense for the registered pension plan has been revised slightly from that shown in the December 31, 2009 Disclosure Reports to reflect that the employee contribution rate for members represented by PWU was increased part way through 2009.

With the exception of the changes outlined below, assumptions, data and methods for projecting the 2011 and 2012 expense are the same as those described in the December 31, 2009 Disclosure Reports.

In producing the projected benefit expense for 2011 and 2012 in respect of each of the benefit plans, we have made the following assumptions:

- The liability discount rate used in determining the estimated year-end liabilities for fiscal years ending December 31, 2010 and December 31, 2011 as well as the estimated benefit expense for fiscal years 2011 and 2012 will be 5.70% per annum for the pension and non-pension post retirement plans and 4.40% per annum for the post employment plan. The actual discount rates for the 2011 and 2012 expense will not be known until December 31, 2010 and December 31, 2011 respectively. These discount rates have been determined using the same model as was used to determine the discount rates at December 31, 2009. With respect to the discount rates, we note that the Canadian Institute of Actuaries ("CIA") is scheduled to release an educational note on methods for determining discount rates used for reporting under CICA 3461 in the latter part of 2010 which may result in a change to the method used to determine OPG's discount rates under CICA 3461. As instructed, we have not made any allowance for any possible changes to discount rates as a result of the CIA educational note.

- There will be no decontrol activities, plan changes, or any other significant events between January 1, 2010 and December 31, 2012 that would have an impact on pension and non-pension expense.

- The demographics of the plan population would remain stable and that the Expected Average Remaining Service Lifetime (EARSL) would remain at the current level of 12 years for the pension plans and 11 years for the non-pension plans as determined in the December 31, 2009 Disclosure Reports.

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The projected benefit expense in respect of the RPP also reflects the following:

- The projected market value of assets as at December 31, 2010 is based on the actual market value of assets at August 31, 2010 projected assuming that the fund will earn a rate of return, net of expenses, on a market value basis, of 0.0% during the last four months in 2010. From January 1, 2011 to December 31, 2012 the fund is assumed to earn, on a market value basis, 7.0% per annum net of expenses.

- In the calculation of the market-related value of assets at the end of 2010, we have taken into account the market conditions up to August 31, 2010 and assumed the market return on equities would be 0.0% during the last four months in 2010.

- The 2011 and 2012 employer contributions to the RPP were assumed to be $480 million and $530 million respectively. The increase from OPG's current funding level of approximately $270 million per annum is largely a result of declines in discount rates on both a going concern and solvency bases relative to those in the Report on the Actuarial Valuation for Funding Purposes as at January 1, 2008, dated September 2008 (the "2008 Funding Report") and asset returns being lower than assumed in that report.

- The employer contributions for 2011 are based on a projected financial position at January 1, 2011 under both a going concern and a solvency basis (i.e. the bases on which OPG's minimum contribution requirements are determined). Actual experience to January 1, 2011 and market conditions as at January 1, 2011 may result in the 2011 minimum contribution requirements being more or less than the $480 million assumed.

- Based on the estimated financial position of the RPP at January 1, 2011, it is likely that OPG will be required to file valuation reports for the RPP on an annual basis. Thus it is assumed that another valuation would be required as at January 1, 2012. Actual experience to, and market conditions at, that date may result in the 2012 minimum contribution requirements being more or less than the $530 million assumed.

- Going concern and solvency liabilities have been projected based on membership as at January 1, 2009 as summarized in the December 31, 2009 Disclosure Reports.

- For purposes of determining the financial position on a going concern basis, the assumptions and methods are the same as those described in the 2008 Funding Report except it is assumed that the discount rate will be 5.30%. The going concern real discount rate reflects market conditions as at August 31, 2010 using an assumed future rate of inflation of 2.0% per annum. This discount rate has been determined using the same methodology as was used in determining the discount rate for the 2008 Funding Report including the determination of any margins for adverse experience. The basis used to determine the discount rate is reviewed at each funding valuation date, thus the methodology used in determining the discount rate for future valuations may change.

- For purposes of determining the solvency liabilities, the same methods have been used as outlined in the 2008 Funding Report with assumptions updated to reflect market conditions and guidance from the CIA on the cost of purchasing annuities as at August 31, 2010. Comments with respect to estimating the cost of purchasing annuities outlined in the 2008 Funding Report continue to apply.

- For purposes of determining the financial position on a solvency basis, it has been assumed that OPG will elect to smooth assets and liabilities, as currently permitted under Ontario regulations. It is our understanding that OPG will evaluate this option when the January 1, 2011 funding valuation is being prepared and will decide at that time whether to make such an election.

- For purposes of determining the solvency liabilities, is has been assumed that OPG will continue to elect to exclude the value of future indexing, as currently permitted under Ontario regulations.

- For purposed of determining the minimum required contributions, it has been assumed that OPG will not utilize any funding relief options, as currently permitted under Ontario regulations, when determining the minimum required special payments.

The estimated 2010 expense and the projected 2011 and 2012 expense for the post employment plan is based on a valuation as at December 31, 2009. The change in liabilities due to a change in the economic basis is deferred and amortized and the balance of the change is accounted for immediately in the year, therefore the annual expense for the post employment plan can only be finalized when a valuation using the year-end data has been completed (e.g., at the end of 2010 for the 2010 expense). To develop the projection of the post employment benefits expense for 2011 and 2012, we assumed service cost and benefit payments would both increase with inflation. As noted, due to the nature of the terminal accounting approach and the sensitivity of results to changes in demographic data it is difficult to project the post employment benefits expense and actual results will likely vary from those presented.