

FINANCIAL SUMMARY

1.0 PURPOSE

This evidence presents OPG's audited consolidated financial statements as well as the financial statements for OPG's prescribed facilities, and summarizes the impacts of adoption of USGAAP on OPG's regulatory accounting.

2.0 OPG'S CONSOLIDATED FINANCIAL STATEMENTS

OPG's consolidated financial statements are prepared in accordance with Generally Accepted Accounting Principles of the United States of America ("USGAAP"). OPG is a reporting issuer under the *Securities Act* and is subject to continuous disclosure obligations under this Act. This includes the requirement to file annual and interim financial statements and certifications on internal control over financial reporting with the Ontario Securities Commission.

OPG's 2012 Annual Report, which includes audited annual consolidated financial statements and Management's Discussion and Analysis ("MD&A"), is presented in Attachment 1. OPG's financial statements, MD&A, and annual reports are also available on OPG's website at the following URL: http://www.opg.com/investor/fin_reports/index.asp

The financial statements include the accounts of OPG and entities which OPG consolidates. They provide financial information for OPG's current reportable segments: Regulated – Nuclear Generation, Regulated – Nuclear Waste Management, Regulated – Hydroelectric, Unregulated – Hydroelectric, Unregulated – Thermal, as well as an "Other" category. In accordance with USGAAP, the Regulated – Nuclear Generation and Regulated – Nuclear Waste segments include assets, liabilities, revenues and costs related to the Bruce facilities. These are included for external financial reporting purposes by virtue of their inclusion in the setting of the payment amounts by the OEB. The Unregulated – Hydroelectric segment has been reporting the results of both the newly regulated hydroelectric facilities and those hydroelectric facilities which are expected to remain unregulated in the future.

1 In accordance with USGAAP, OPG's consolidated financial statements recognize regulatory
2 assets and liabilities, including those for deferral and variance accounts authorized by the
3 OEB.

4
5 The information provided in this Application reflects the application of regulatory constructs
6 (e.g., rate base) to the financial information for OPG's prescribed facilities. The application of
7 regulatory constructs is highlighted in the various sections of the Application. Historical
8 accounting income for the prescribed facilities for 2010 - 2012 has been reconciled with
9 historical regulatory earnings before tax and return on equity for the prescribed facilities and
10 was reported to the OEB six months after each year-end. Further details are provided in Ex.
11 C1-1-1 Section 4.2.

12
13 As required by the OEB's Decision with Reasons in EB-2007-0905, financial information
14 related to the Bruce assets is presented in this Application on an accounting basis without
15 the application of regulatory constructs.

16
17 Unless specifically stated otherwise, for the 2011 - 2015 period, this financial information is
18 prepared on a USGAAP basis, reflecting OPG's implementation of USGAAP for financial
19 accounting and regulatory purposes effective January 1, 2012. As part of the adoption of
20 USGAAP, OPG was required to re-state its 2011 comparative financial information on a
21 USGAAP basis and to prepare a USGAAP opening balance sheet as at January 1, 2011.
22 This USGAAP balance sheet was used as the reference point for determining the financial
23 impacts from the adoption of USGAAP. This revised financial information in 2011 also
24 formed the starting point for USGAAP reporting in OPG's 2012 financial statements.

25
26 For 2010, financial information for OPG's prescribed facilities is based on Canadian
27 Generally Accepted Accounting Principles ("CGAAP")¹. As noted in EB-2012-0002 with
28 respect to 2011 and 2012, amounts being recorded in approved deferral and variance

¹ References to CGAAP throughout this application are to Part V of the Canadian Institute of Chartered Accountants Handbook – Accounting

1 accounts in 2013 are also determined on a CGAAP basis, as this is the basis upon which
2 OPG's payment amounts were established in EB-2010-0008.

3
4 The OEB approved the use of USGAAP by OPG for regulatory accounting, reporting and
5 rate-making purposes in EB-2012-0002. The few differences impacting OPG's regulatory
6 accounting that exist between CGAAP and USGAAP requirements were discussed in EB-
7 2012-0002. The impact on the prescribed facilities is described in Section 4.0.

8
9
10 **3.0 FINANCIAL STATEMENTS FOR THE PRESCRIBED FACILITIES**

11 OPG is preparing a set of stand-alone annual consolidated financial statements for the
12 prescribed facilities in accordance with USGAAP for the year ended December 31, 2012,
13 with comparative information for the year ended December 31, 2011. At the time of filing, the
14 audit of these financial statements has not been completed. After the audit has been
15 completed, these financial statements will be filed as Attachment 2 to this exhibit. The
16 statements will exclude applicable assets, liabilities, revenues and costs related to the Bruce
17 assets, consistent with the OEB's previous decisions.

18
19 In EB-2012-0002 (Ex. A3-1-1, Attachment 2), OPG filed the audited consolidated financial
20 statements for the prescribed facilities for the year ended December 31, 2011, with
21 comparative information for the year ended December 31, 2010. Those financial statements
22 were prepared in accordance with CGAAP. The accounting policies, allocation
23 methodologies and assumptions being applied in preparing the prescribed facilities'
24 consolidated financial statements for 2012 and 2011 are consistent with those used in
25 preparing the financial statements filed in EB-2012-0002. They are also consistent with those
26 used to prepare similar financial statements for 2009 and 2008, which were filed in EB-2010-
27 0008.

28
29 The accounting policies used to prepare the prescribed facilities' financial statements
30 continue to be consistent with those used to prepare OPG's audited consolidated financial
31 statements, with the exception of those related to the determination of debt and interest

1 expense. As previously reported for 2008 - 2011, the debt balances and interest expense for
2 the purposes of the prescribed facilities' financial statements are computed in a manner
3 consistent with the deemed debt and interest methodologies previously approved by the
4 OEB.

5
6 **4.0 REGULATORY ACCOUNTING DIFFERENCES BETWEEN USGAAP AND CGAAP**

7 As detailed in EB-2012-0002, the adoption of USGAAP affected OPG's regulatory
8 accounting in the following three areas:

9
10 1) Long-term disability benefit ("LTD") plan costs, which are part of pension and other post-
11 employment benefits: Under USGAAP, all actuarial gains and losses and past service
12 costs related to the LTD plan must be recognized immediately on the statement of
13 income. In contrast, under CGAAP, the net cumulative unamortized actuarial gain or loss
14 for the LTD plan in excess of ten per cent of the benefit obligation is amortized over the
15 expected average remaining service life of the employees. In addition, past service costs
16 related to the LTD plan are recognized over the expected average remaining service
17 period of the affected employee groups under CGAAP.

18
19 2) Bruce Lease base rent revenues and costs: USGAAP requires the amount of base rent
20 revenue to be recognized on a straight-line basis from the start of the Bruce Lease in
21 2001. Under CGAAP, the amount of rent revenue recognized is calculated on a straight-
22 line basis effective April 1, 2008, following the OEB's direction that "Bruce lease revenue
23 be calculated in accordance with GAAP for non-regulated businesses" (EB-2007-0905
24 Decision With Reasons, page 110). The earlier effective date under USGAAP results in a
25 \$2.2M annual reduction in revenue being recognized over the expected lease term, with
26 a corresponding reduction in deferred taxes of \$0.6M and an overall annual reduction of
27 \$1.6M in Bruce Lease net revenues. This impact is reflected in the proposed nuclear
28 payment amounts for the 2014 - 2015 test period.

29
30 3) Scientific Research and Experimental Development ("SR&ED") Investment Tax Credits
31 ("ITCs"): While the amount of SR&ED ITCs recognized is the same under USGAAP and

1 CGAAP, there is a change in the way the credits are presented. The presentation of ITCs
2 changes from a reduction to OM&A expenses under CGAAP to a reduction to the income
3 tax expense under USGAAP. As the change solely involves presentation, there is no
4 financial impact associated with this USGAAP requirement. SR&ED ITCs are discussed
5 in Ex. F4-2-1 Section 3.5.

6
7 As discussed in EB-2012-0002, Ex. A3-1-2 Section 2.0, the difference in the accounting
8 treatment of LTD costs was the only difference between CGAAP and USGAAP that had a
9 financial impact on OPG's regulated operations effective January 1, 2012. The financial
10 impact of this change was supported by actuarial reports, and the portion of the impact
11 attributable to the regulated operations was recorded in the Impact for USGAAP Deferral
12 Account. The December 31, 2012 balance in the account was approved for recovery by the
13 OEB in EB-2012-0002. As this was the only financial impact on the prescribed facilities
14 associated with OPG's adoption of USGAAP and as the impact was previously reported to
15 and accepted by the OEB, no reconciliation between CGAAP and USGAAP is provided in
16 this Application.

1 **LIST OF ATTACHMENTS**

2

3 Attachment 1: OPG's 2012 Annual Report

4

5 Attachment 2: 2012 and 2011 Audited Annual Consolidated Financial Statements for
6 the Prescribed Facilities

7

8 Attachment 3: OPG's 2010 Annual Report

9

10 Attachment 4: OPG's 2011 Annual Report

11

12 Attachment 5: OPG's 2013 Third Quarter Results

13

14 Attachment 6: Schedule of Assets and Liabilities of OPG's Newly Regulated
15 Hydroelectric Facilities as at December 31, 2013 including Auditors'
16 Report