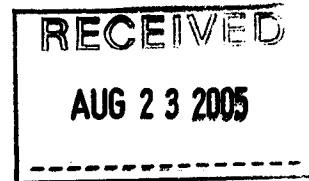


August, 19, 2005



Mr. Emad Elsayed *EE*
Vice President
Niagara Tunnel Project
Ontario Power Generation

cc: J.R. Burpee E. Over
D. Hanbidge K. Hammond
F. Long P. Symmonds
R. Wong D. Eden
H. Charalambu
R. Everdell For info.

Re Niagara Tunnel Project Financial Model Review

Dear Mr. Elsayed,

I am pleased to provide you with the final report of the review conducted by Access Capital ("Access") of your financial model. This review was consistent with the Terms of Reference dated June 2, 2005 (attached).

The following is a summary of results of the review conducted by Access on the Niagara Tunnel Project financial model:

1. OPG's project team is proficient and knows how to analyze, evaluate and compare different financial alternatives.
2. The model is dynamic and produces an accurate base case. Access independently verified the base case results. This model should produce meaningful sensitivities.
3. Access confirmed that the method of calculation of revenues, operating costs (O & M and GRC), income taxes, capital costs and interest during construction is correct. The capital costs reflect the proposed contract costs of the preferred bidder and non-contract cost estimates provided by Hatch and OPG. The proposed cost and schedule contingencies are based on risk analysis, including Monte Carlo simulation, conducted by URS and OPG.
4. The capital cost components are supported by documentation contained in the Niagara Tunnel Project Model Support Documentation binder.
5. OPG's model is consistent with other financial models in the power industry except that the term of 90 years is longer than usual because of the technical life of the tunnel lining. Access has confirmed that OPG has prepared sensitivities with a shorter life consistent with terms usually used to evaluate projects in the private sector.

6. It is our understanding that the project will be financed by a corporate loan arrangement with OFA. As such, a number of items are treated differently than they would be under a stand alone project financing. For example, interest during construction is calculated according to OPG's accounting policies (i.e. interest only during construction and 55%/45% debt to equity thereafter. Debt is charged at a rate of 6% per year). Also, for tax purposes the interest during construction is deducted as incurred.
7. Even though the project has a technical life of 90 years the repayment of the project could be accelerated or reduced based on the actual energy output versus the expected output. The depreciation could be linked to the actual MWh produced over its expected life (i.e. % of tunnel lining life) versus the straight line method of depreciation. More of the depreciation could also be repaid during the GRC holiday (first 10 years of the project operation).

Sincerely,

A handwritten signature in black ink, appearing to read "R.S. Mcleese". The signature is fluid and cursive, with the first name "R.S." and the last name "Mcleese" clearly distinguishable.

Robert S. Mcleese
President
Access Capital Corp.

OPG: Niagara Tunnel Project Financial Model

Terms of Reference for the Model Review

Objectives:

The model review is to confirm that:

- Financial, commercial, technical, accounting and tax assumptions are reasonable and inputted correctly in the model.
- There is integrity in the model such that it produces meaningful base case and sensitivity results with high degree of confidence.
- The measurements of Levelized Unit Energy Cost (LUEC) etc. are appropriate for this type of project

Two components of the model are to be reviewed:

- Proposal evaluation component (for design/build proposal comparison purposes, taking into account specific factors as specified in the design/build proposal invitation).
- Project evaluation component (for assessing project economics and revenue requirements).

Detailed scope:

1. Ensure that the model is logically constructed, internally consistent and that the formulae and calculations are accurate.
2. Ensure that all relevant cost items are reflected in the model, and that the model inputs are sufficiently disaggregated and that the input sources are clearly shown and explained in the model support document.
3. Ensure that the model logic correctly performs/calculates/reflects/presents:
 - a. Economic analysis (e.g. LUEC),
 - b. Cost comparisons of design/build proposals
 - c. Accounting information (financial statements and ratios) generally consistent with Canadian GAAP and industry practice
 - d. Revenue Requirements calculations generally consistent with regulatory practices in Ontario
 - e. Tax calculations generally consistent with tax regulations (Canada Revenue Agency/Ministry of Finance)
4. Ensure that the model has appropriate logic to perform both the standard and presented array of sensitivity analyses and "what if?" scenario analyses to test the robustness of the project.
5. Ensure the reasonableness of key financial assumptions and comment on the reasonableness of any of the other assumptions used, if such assumptions are not supported by appropriate documentation.
6. Ensure that assumptions have been appropriately built into the model (and are not hard-coded).
7. Ensure that appropriate graphs, charts and reports provided, reflect the model and comment on/ recommend any other reports that might be of use for decision-makers.
8. While reviewing the model, identify shortcomings and potential improvements and assist in incorporating these into the model, if requested, by the OPG modeling team.
9. Provide a summary presentation to OPG on the suggested changes resulting from the model review incorporated into the model and attest to the model's integrity for the tasks assigned to it.
10. Following selection of the successful proponent, there may be a need for a final review of the model parameters prior to seeking project approval from OPG's Board of Directors.

Timeline

- Model review and "hands-on" interaction with the OPG modeling team: June 13 – 23, 2005
- Draft report: June 24, 2005
- Presentation to the Major Projects Committee: June 28, 2005
- Possible (one day) final review of model parameters: mid to late July, 2005