

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act 1998*,
Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application Ontario Power
Generation Inc. for an order or orders approving payment amounts
for prescribed generating facilities commencing January 1, 2014.

**SCHOOL ENERGY COALITION CROSS-EXAMINATION COMPENDIUM
(Panel 7 – Volume 1)**

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UNDERTAKING J3.3

Undertaking

WITH REFERENCE TO EXHIBIT L, TAB 1, SCHEDULE 2, AMPCO 1, TO UPDATE DRIVERS OF DEFICIENCY IN SECOND IMPACT STATEMENT.

Response

The requested updated charts follow. These charts update those provided in L-1.0-2 AMPCO 001, which reflected the first Impact Statement.

DRIVERS OF DEFICIENCY

Chart 1
Previously Regulated Hydroelectric, 2014-2015 Test Period
Updated to Reflect the Second Impact Statement (Ex. N2-1-1)

	(\$M)	Notes (changes vs. Ex. N1-1-1 in <i>Italic</i>)
EB-2010-0008 Approved Revenue Requirement	1,419.2	Ex. I1-1-1, Table 2 (<i>no change</i>)
Increase in Cost of Capital	156.1	Higher forecasted long-term debt costs and ROE due to increased rate base as a result of the Niagara Tunnel project coming into service (<i>increased due to increase in ROE rates</i>)
Increase in OM&A	31.0	Increases in Base OM&A (Ex. F1-2-1, Ex. F1-2-2) and Project OM&A (Ex. F1-3-2) (<i>decrease in the Allocation of Centrally Held Costs due to decreased Pension/OPEB Costs</i>)
Increase in Depreciation & Amortization	33.4	Primarily due to the Niagara Tunnel project coming into service (Ex. F4-1-1) (<i>no change</i>)
Decrease in Ancillary and Other Revenue	36.3	Lower operating reserve market prices and lower regulation service revenues (Ex. G1-1-1 and Ex. G1-1-2) (<i>no change</i>)
Increase in Income Taxes	60.6	Increased Regulatory Taxable Income, mainly due to higher rate base due to the Niagara Tunnel coming into service (Ex. F4-2-1, Table 5) (<i>increased due to increased ROE</i>)
Other	21.2	Includes differences in Property Taxes and Gross Revenue Charge (<i>no change</i>)
Total Change in Revenue Requirement	338.6	<i>Increase of \$18.1M</i>
Proposed Revenue Requirement for 2014 – 2015 Test Period	1,757.8	Ex. N2-1-1, Table 1 <i>(Increase of \$18.1M vs. Ex N1-1-1)</i>
Revenue at Current Rates	1,471.1	Using forecast production levels for the test period (<i>no change</i>)
Revenue Requirement Deficiency	286.8	Ex. N2-1-1, Table 4 <i>(Increase of \$18.1M vs. Ex N1-1-1)</i>

Chart 2

**Nuclear Deficiency, 2014-2015 Test Period
Updated to Reflect the Second Impact Statement (Ex. N2-1-1)**

	(\$M)	Notes (<i>changes vs. Ex. N1-1-1 in Italic</i>)
EB-2010-0008 Approved Revenue Requirement	5,251.5	Ex. I1-1-1, Table 3 (<i>no change</i>)
Decrease in Cost of Capital	(45.9)	Lower long-term debt costs and ROE (<i>increased due to increase in ROE rates</i>)
Increase in the Allocation of Centrally Held Costs	349.7	Primarily due to an increase in pension and OPEB costs (Ex. F4-4-1) (<i>decreased pension/OPEB Costs</i>)
Increase in Outage OM&A	177.5	Mainly due to the 2015 Vacuum Building Outage (Ex. F2-4-2) (<i>no change</i>)
Increase in the Allocation of Support Services Costs	349.8	Due to the transfer of nuclear functions to centre-led corporate groups as part of BT, offset by similar reduction in nuclear costs (Ex. F3-1-2) (<i>no change</i>)
Decrease in Base OM&A	(120.4)	Transfers of costs to corporate groups partially offset by labour cost escalation and higher pension and OPEB costs (Ex. F2-2-1) (<i>no change</i>)
Increase in Depreciation & Amortization	70.5	Increase in Asset Retirement Cost due to ONFA (Ex. F4-1-1) (<i>no change</i>)
Decrease in Bruce Lease Net Revenues	190.8	Increase in Bruce Costs is primarily due to ONFA (Ex. G2-2-1) (<i>no change</i>)
Increase in Income Taxes	26.5	Higher regulatory taxable income is primarily due to pension and OPEB costs (Ex. F4-2-1, Table 5) (<i>decrease primarily due to lower pension/OPEB costs</i>)
Other	145.5	Includes the EB-2010-0008 compensation disallowance of \$145M as well as differences in Fuel, Property Taxes, other OM&A Costs and Ancillary and Other Revenue (<i>decrease due to lower pension/OPEB, DRP OM&A and fuel cost</i>)
Total Change in Revenue Requirement	1,143.9	Decrease of \$253.4M vs. Ex. N1-1-1
Proposed Revenue Requirement for 2014 – 2015 Test Period	6,395.4	Ex. N2-1-1, Table 1 (Decrease of \$253.4M vs. Ex. N1-1-1)
Revenue at Current Rates	4,874.4	Using forecast production levels for the test period of 94.6 TWh. (<i>slightly lower forecast production</i>)
Revenue Requirement Deficiency	1,521.0	Ex. N2-1-1, Table 4 (Decrease of \$227.6M vs. Ex. N1-1-1)

Ontario Energy Board Act, 1998, S.O. 1998, CHAPTER 15, Schedule B

Consolidation Period: From December 31, 2012 to the e-Laws currency date.

Payments to prescribed generator

78.1 (1) The IESO shall make payments to a generator prescribed by the regulations, or to the OPA on behalf of a generator prescribed by the regulations, with respect to output that is generated by a unit at a generation facility prescribed by the regulations. 2004, c. 23, Sched. B, s. 15.

Payment amount

- (2) Each payment referred to in subsection (1) shall be the amount determined,
- (a) in accordance with the regulations to the extent the payment relates to a period that is on or after the day this section comes into force and before the later of,
 - (i) the day prescribed for the purposes of this subsection, and
 - (ii) the effective date of the Board's first order in respect of the generator; and
 - (b) in accordance with the order of the Board then in effect to the extent the payment relates to a period that is on or after the later of,
 - (i) the day prescribed for the purposes of this subsection, and
 - (ii) the effective date of the Board's first order under this section in respect of the generator. 2004, c. 23, Sched. B, s. 15.

OPA may act as settlement agent

(3) The OPA may act as a settlement agent to settle amounts payable to a generator under this section. 2004, c. 23, Sched. B, s. 15.

Board orders

(4) The Board shall make an order under this section in accordance with the rules prescribed by the regulations and may include in the order conditions, classifications or practices, including rules respecting the calculation of the amount of the payment. 2004, c. 23, Sched. B, s. 15.

Fixing other prices

- (5) The Board may fix such other payment amounts as it finds to be just and reasonable,
- (a) on an application for an order under this section, if the Board is not satisfied that the amount applied for is just and reasonable; or
 - (b) at any other time, if the Board is not satisfied that the current payment amount is just and reasonable. 2004, c. 23, Sched. B, s. 15.

Burden of proof

(6) Subject to subsection (7), the burden of proof is on the applicant in an application made under this section. 2004, c. 23, Sched. B, s. 15.

Order

(7) If the Board on its own motion or at the request of the Minister commences a proceeding to determine whether an amount that the Board may approve or fix under this section is just and reasonable,

- (a) the burden of establishing that the amount is just and reasonable is on the generator; and
- (b) the Board shall make an order approving or fixing an amount that is just and reasonable. 2004, c. 23, Sched. B, s. 15.

Application

(8) Subsections (4), (5) and (7) apply only on and after the day prescribed by the regulations for the purposes of subsection (2). 2004, c. 23, Sched. B, s. 15.

AMPCO Interrogatory #002

Ref: Exhibit A1, Tab 6, Schedule 1, Attachment 3 Proposed Amendment to O. Reg. 53/05

Issue Number: 1.0

Issue: General

Interrogatory

- a) Please provide the status of the proposed amendment to O. Reg.53/05.
- b) Please discuss OPG's stakeholder consultations regarding the proposed amendments.

Response

- a) O.Reg. 53/05 was amended by O. Reg. 312/13 on November 29, 2013 and published in the Ontario Gazette on December 14, 2013. The finalized version of O. Reg. 53/05 has been included as Attachment 1 to this response.
- b) The proposed amendments to O. Reg. 53/05 were posted for public comment by the Government on the Regulatory Registry from September 13, 2013 to October 28, 2013 (see Ex. A1-6-1, Attachment 3). OPG did not conduct any stakeholder consultations concerning the proposed amendments.

Ontario Energy Board Act, 1998
Loi de 1998 sur la Commission de l'énergie de l'Ontario

ONTARIO REGULATION 53/05
PAYMENTS UNDER SECTION 78.1 OF THE ACT

Consolidation Period: From November 29, 2013 to the [e-Laws currency date](#).

Last amendment: O. Reg. 312/13.

This Regulation is made in English only.

Definition

0.1 In this Regulation,

“approved reference plan” means a reference plan, as defined in the Ontario Nuclear Funds Agreement, that has been approved by Her Majesty the Queen in right of Ontario in accordance with that agreement;

“nuclear decommissioning liability” means the liability of Ontario Power Generation Inc. for decommissioning its nuclear generation facilities and the management of its nuclear waste and used fuel;

“Ontario Nuclear Funds Agreement” means the agreement entered into as of April 1, 1999 by Her Majesty the Queen in right of Ontario, Ontario Power Generation Inc. and certain subsidiaries of Ontario Power Generation Inc., including any amendments to the agreement. O. Reg. 23/07, s. 1.

Note: On July 1, 2014, section 0.1 is amended by adding the following subsection: (See: O. Reg. 312/13, ss. 1, 6)

(2) For the purposes of this Regulation, the output of a generation facility shall be measured at the facility's delivery points, as determined in accordance with the market rules. O. Reg. 312/13, s. 1.

Prescribed generator

1. Ontario Power Generation Inc. is prescribed as a generator for the purposes of section 78.1 of the Act. O. Reg. 53/05, s. 1.

Prescribed generation facilities

2. The following generation facilities of Ontario Power Generation Inc. are prescribed for the purposes of section 78.1 of the Act:

1. The following hydroelectric generating stations located in The Regional Municipality of Niagara:

- i. Sir Adam Beck I.
- ii. Sir Adam Beck II.
- iii. Sir Adam Beck Pump Generating Station.
- iv. De Cew Falls I.
- v. De Cew Falls II.

2. The R. H. Saunders hydroelectric generating station on the St. Lawrence River.

3. Pickering A Nuclear Generating Station.

4. Pickering B Nuclear Generating Station.

5. Darlington Nuclear Generating Station. O. Reg. 53/05, s. 2; O. Reg. 23/07, s. 2.

Note: On July 1, 2014, section 2 is amended by adding the following paragraph: (See: O. Reg. 312/13, ss. 2, 6)

6. As of July 1, 2014, the generation facilities of Ontario Power Generation Inc. that are set out in the Schedule.

Prescribed date for s. 78.1 (2) of the Act

3. April 1, 2008 is prescribed for the purposes of subsection 78.1 (2) of the Act. O. Reg. 53/05, s. 3.

Payment amounts under s. 78.1 (2) (a) of the Act

4. (1) For the purpose of clause 78.1 (2) (a) of the Act, the amount of a payment that the IESO is required to make with respect to a unit at a generation facility prescribed under section 2 is,

- (a) for the hydroelectric generation facilities prescribed in paragraphs 1 and 2 of section 2, \$33.00 per megawatt hour with respect to output that is generated during the period from April 1, 2005 to the later of,
 - (i) March 31, 2008, and
 - (ii) the day before the effective date of the Board's first order in respect of Ontario Power Generation Inc.; and
- (b) for the nuclear generation facilities prescribed in paragraphs 3, 4 and 5 of section 2, \$49.50 per megawatt hour with respect to output that is generated during the period from April 1, 2005 to the later of,
 - (i) March 31, 2008, and
 - (ii) the day before the effective date of the Board's first order in respect of Ontario Power Generation Inc. O. Reg. 53/05, s. 4 (1).

(2) Despite subsection (1), for the purpose of clause 78.1 (2) (a) of the Act, if the total combined output of the hydroelectric generation facilities prescribed under paragraphs 1 and 2 of section 2 exceeds 1,900 megawatt hours in any hour, the total amount of the payment that the IESO is required to make with respect to the units at those generation facilities is, for that hour, the sum of the following amounts:

- 1. The total amount determined for those facilities under clause (1) (a), for the first 1,900 megawatt hours of output.
- 2. The product obtained by multiplying the market price determined under the market rules by the number of megawatt hours of output in excess of 1,900 megawatt hours. O. Reg. 53/05, s. 4 (2).

(2.1) The total amount of the payment under subsection (2) shall be allocated to the hydroelectric generation facilities prescribed under paragraphs 1 and 2 of section 2 on a proportionate basis equal to each facility's percentage share of the total combined output in that hour for those facilities. O. Reg. 269/05, s. 1.

(2.2) Subsection (2.1) applies in respect of amounts payable on and after April 1, 2005. O. Reg. 269/05, s. 1.

(3) For the purpose of this section, the output of a generation facility shall be measured at the facility's delivery points, as determined in accordance with the market rules. O. Reg. 53/05, s. 4 (3).

Note: On July 1, 2014, section 4 is revoked. (See: O. Reg. 312/13, ss. 3, 6)

Deferral and variance accounts

5. (1) Ontario Power Generation Inc. shall establish a variance account in connection with section 78.1 of the Act that records capital and non-capital costs incurred and revenues earned or foregone on or after April 1, 2005 due to deviations from the forecasts as set out in the document titled "Forecast Information (as of Q3/2004) for Facilities Prescribed under Ontario Regulation 53/05" posted and available on the Ontario Energy Board website, that are associated with,

- (a) differences in hydroelectric electricity production due to differences between forecast and actual water conditions;
- (b) unforeseen changes to nuclear regulatory requirements or unforeseen technological changes which directly affect the nuclear generation facilities, excluding revenue requirement impacts described in subsections 5.1 (1) and 5.2 (1);
- (c) changes to revenues for ancillary services from the generation facilities prescribed under section 2;
- (d) acts of God, including severe weather events; and
- (e) transmission outages and transmission restrictions that are not otherwise compensated for through congestion management settlement credits under the market rules. O. Reg. 23/07, s. 3.

(2) The calculation of revenues earned or foregone due to changes in electricity production associated with clauses (1) (a), (b), (d) and (e) shall be based on the following prices:

- 1. \$33.00 per megawatt hour from hydroelectric generation facilities prescribed in paragraphs 1 and 2 of section 2.
- 2. \$49.50 per megawatt hour from nuclear generation facilities prescribed in paragraphs 3, 4 and 5 of section 2. O. Reg. 23/07, s. 3.

(3) Ontario Power Generation Inc. shall record simple interest on the monthly opening balance of the account at an annual rate of 6 per cent applied to the monthly opening balance in the account, compounded annually. O. Reg. 23/07, s. 3.

(4) Ontario Power Generation Inc. shall establish a deferral account in connection with section 78.1 of the Act that records non-capital costs incurred on or after January 1, 2005 that are associated with the planned return to service of all units at the Pickering A Nuclear Generating Station, including those units which the board of directors of Ontario Power Generation Inc. has determined should be placed in safe storage. O. Reg. 23/07, s. 3.

(5) For the purposes of subsection (4), the non-capital costs include, but are not restricted to,

- (a) construction costs, assessment costs, pre-engineering costs, project completion costs and demobilization costs; and
- (b) interest costs, recorded as simple interest on the monthly opening balance of the account at an annual rate of 6 per cent applied to the monthly opening balance in the account, compounded annually. O. Reg. 23/07, s. 3.

Nuclear liability deferral account, transition

5.1 (1) Ontario Power Generation Inc. shall establish a deferral account in connection with section 78.1 of the Act that records for the period up to the effective date of the Board's first order under section 78.1 of the Act the revenue requirement impact of any change in its nuclear decommissioning liability arising from an approved reference plan, approved after April 1, 2005, as reflected in the audited financial statements approved by the board of directors of Ontario Power Generation Inc. O. Reg. 23/07, s. 3.

(2) Ontario Power Generation Inc. shall record simple interest on the monthly opening balance of the account at an annual rate of 6 per cent applied to the monthly opening balance in the account, compounded annually. O. Reg. 23/07, s. 3.

Note: On July 1, 2014, section 5.1 is revoked. (See: O. Reg. 312/13, ss. 3, 6)

Nuclear liability deferral account

5.2 (1) Ontario Power Generation Inc. shall establish a deferral account in connection with section 78.1 of the Act that records, on and after the effective date of the Board's first order under 78.1 of the Act, the revenue requirement impact of changes in its total nuclear decommissioning liability between,

- (a) the liability arising from the approved reference plan incorporated into the Board's most recent order under section 78.1 of the Act; and
- (b) the liability arising from the current approved reference plan. O. Reg. 23/07, s. 3.

(2) Ontario Power Generation Inc. shall record interest on the balance of the account as the Board may direct. O. Reg. 23/07, s. 3.

Nuclear development deferral account, transition

5.3 (1) Ontario Power Generation Inc. shall establish a deferral account in connection with section 78.1 of the Act that records, for the period up to the effective date of the Board's first order under section 78.1 of the Act, the costs incurred and firm financial commitments made on or after June 13, 2006, in the course of planning and preparation for the development of proposed new nuclear generation facilities that are associated with any one or more of the following activities:

1. Activities for carrying out an environmental assessment under the *Canadian Environmental Assessment Act*.
2. Activities for obtaining any governmental licence, authorization, permit or other approval.
3. Activities for carrying out a technology assessment or for defining all commercial and technical requirements to, or with, any third parties. O. Reg. 27/08, s. 1.

(2) Ontario Power Generation Inc. shall record simple interest on the monthly opening balance of the account at an annual rate of 6 per cent applied to the monthly opening balance in the account, compounded annually. O. Reg. 27/08, s. 1.

Note: On July 1, 2014, section 5.3 is revoked. (See: O. Reg. 312/13, ss. 3, 6)

Nuclear development variance account

5.4 (1) Ontario Power Generation Inc. shall establish a variance account in connection with section 78.1 of the Act that records, on and after the effective date of the Board's first order under section 78.1 of the Act, differences between actual non-capital costs incurred and firm financial commitments made and the amount included in payments made under that section for planning and preparation for the development of proposed new nuclear generation facilities. O. Reg. 27/08, s. 1.

(2) Ontario Power Generation Inc. shall record interest on the balance of the account as the Board may direct. O. Reg. 27/08, s. 1.

Rules governing determination of payment amounts by Board

6. (1) Subject to subsection (2), the Board may establish the form, methodology, assumptions and calculations used in making an order that determines payment amounts for the purpose of section 78.1 of the Act. O. Reg. 53/05, s. 6 (1).

(2) The following rules apply to the making of an order by the Board that determines payment amounts for the purpose of section 78.1 of the Act:

1. The Board shall ensure that Ontario Power Generation Inc. recovers the balance recorded in the variance account established under subsection 5 (1) over a period not to exceed three years, to the extent that the Board is satisfied that,
 - i. the revenues recorded in the account were earned or foregone and the costs were prudently incurred, and
 - ii. the revenues and costs are accurately recorded in the account.

2. In setting payment amounts for the assets prescribed under section 2, the Board shall not adopt any methodologies, assumptions or calculations that are based upon the contracting for all or any portion of the output of those assets.
3. The Board shall ensure that Ontario Power Generation Inc. recovers the balance recorded in the deferral account established under subsection 5 (4). The Board shall authorize recovery of the balance on a straight line basis over a period not to exceed 15 years.
4. The Board shall ensure that Ontario Power Generation Inc. recovers capital and non-capital costs, and firm financial commitments incurred to increase the output of, refurbish or add operating capacity to a generation facility referred to in section 2, including, but not limited to, assessment costs and pre-engineering costs and commitments,
 - i. if the costs and financial commitments were within the project budgets approved for that purpose by the board of directors of Ontario Power Generation Inc. before the making of the Board's first order under section 78.1 of the Act in respect of Ontario Power Generation Inc., or
 - ii. if the costs and financial commitments were not approved by the board of directors of Ontario Power Generation Inc. before the making of the Board's first order under section 78.1 of the Act in respect of Ontario Power Generation Inc., if the Board is satisfied that the costs were prudently incurred and that the financial commitments were prudently made.
- 4.1 The Board shall ensure that Ontario Power Generation Inc. recovers the costs incurred and firm financial commitments made in the course of planning and preparation for the development of proposed new nuclear generation facilities, to the extent the Board is satisfied that,
 - i. the costs were prudently incurred, and
 - ii. the financial commitments were prudently made.
5. In making its first order under section 78.1 of the Act in respect of Ontario Power Generation Inc., the Board shall accept the amounts for the following matters as set out in Ontario Power Generation Inc.'s most recently audited financial statements that were approved by the board of directors of Ontario Power Generation Inc. before the effective date of that order:
 - i. Ontario Power Generation Inc.'s assets and liabilities, other than the variance account referred to in subsection 5 (1), which shall be determined in accordance with paragraph 1.
 - ii. Ontario Power Generation Inc.'s revenues earned with respect to any lease of the Bruce Nuclear Generating Stations.
 - iii. Ontario Power Generation Inc.'s costs with respect to the Bruce Nuclear Generating Stations.
6. Without limiting the generality of paragraph 5, that paragraph applies to values relating to,
 - i. capital cost allowances,
 - ii. the revenue requirement impact of accounting and tax policy decisions, and
 - iii. capital and non-capital costs and firm financial commitments to increase the output of, refurbish or add operating capacity to a generation facility referred to in section 2.
7. The Board shall ensure that the balances recorded in the deferral accounts established under subsections 5.1 (1) and 5.2 (1) are recovered on a straight line basis over a period not to exceed three years, to the extent that the Board is satisfied that revenue requirement impacts are accurately recorded in the accounts, based on the following items, as reflected in the audited financial statements approved by the board of directors of Ontario Power Generation Inc.,

Note: On July 1, 2014, paragraph 7 is amended by striking out the portion before subparagraph i and substituting the following: (See: O. Reg. 312/13, ss. 4 (1), 6)

7. The Board shall ensure that the balance recorded in the deferral account established under subsection 5.2 (1) is recovered on a straight line basis over a period not to exceed three years, to the extent that the Board is satisfied that revenue requirement impacts are accurately recorded in the account, based on the following items, as reflected in the audited financial statements approved by the board of directors of Ontario Power Generation Inc.,
 - i. return on rate base,
 - ii. depreciation expense,
 - iii. income and capital taxes, and
 - iv. fuel expense.
- 7.1 The Board shall ensure the balances recorded in the deferral account established under subsection 5.3 (1) and the variance account established under subsection 5.4 (1) are recovered on a straight line basis over a period not to exceed three years, to the extent the Board is satisfied that,

Note: On July 1, 2014, paragraph 7.1 is amended by striking out the portion before subparagraph i and substituting the following: (See: O. Reg. 312/13, ss. 4 (2), 6)

- 7.1 The Board shall ensure the balance recorded in the variance account established under subsection 5.4 (1) is recovered on a straight line basis over a period not to exceed three years, to the extent the Board is satisfied that,
- i. the costs were prudently incurred, and
 - ii. the financial commitments were prudently made.
8. The Board shall ensure that Ontario Power Generation Inc. recovers the revenue requirement impact of its nuclear decommissioning liability arising from the current approved reference plan.
9. The Board shall ensure that Ontario Power Generation Inc. recovers all the costs it incurs with respect to the Bruce Nuclear Generating Stations.
10. If Ontario Power Generation Inc.'s revenues earned with respect to any lease of the Bruce Nuclear Generating Stations exceed the costs Ontario Power Generation Inc. incurs with respect to those Stations, the excess shall be applied to reduce the amount of the payments required under subsection 78.1 (1) of the Act with respect to output from the nuclear generation facilities referred to in paragraphs 3, 4 and 5 of section 2. O. Reg. 23/07, s. 4; O. Reg. 27/08, s. 2.

Note: On July 1, 2014, subsection (2) is amended by adding the following paragraph: (See: O. Reg. 312/13, ss. 4 (3), 6)

11. In making its first order under section 78.1 of the Act in respect of Ontario Power Generation Inc. that is effective on or after July 1, 2014, the following rules apply:
- i. The order shall provide for the payment of amounts with respect to output that is generated at a generation facility referred to in paragraph 6 of section 2 during the period from July 1, 2014 to the day before the effective date of the order.
 - ii. The Board shall accept the values for the assets and liabilities of the generation facilities referred to in paragraph 6 of section 2 as set out in Ontario Power Generation Inc.'s most recently audited financial statements that were approved by the board of directors before the making of that order. This includes values relating to the income tax effects of timing differences and the revenue requirement impact of accounting and tax policy decisions reflected in those financial statements.

7. OMITTED (PROVIDES FOR COMING INTO FORCE OF PROVISIONS OF THIS REGULATION). O. Reg. 53/05, s. 7.

Note: On July 1, 2014, the Regulation is amended by adding the following Schedule: (See: O. Reg. 312/13, ss. 5, 6)

SCHEDULE

1. Abitibi Canyon.
2. Alexander.
3. Aquasabon.
4. Arnprior.
5. Auburn.
6. Barrett Chute.
7. Big Chute.
8. Big Eddy.
9. Bingham Chute.
10. Calabogie.
11. Cameron Falls.
12. Caribou Falls.
13. Chats Falls.
14. Chenaux.
15. Coniston.
16. Crystal Falls.
17. Des Joachims.
18. Elliott Chute.

19. Eugenia Falls.
20. Frankford.
21. Hagues Reach.
22. Hanna Chute.
23. High Falls.
24. Indian Chute.
25. Kakabeka Falls.
26. Lakefield.
27. Lower Notch.
28. Manitou Falls.
29. Matabitchuan.
30. McVittie.
31. Merrickville.
32. Meyersberg.
33. Mountain Chute.
34. Nipissing.
35. Otter Rapid.
36. Otto Holden.
37. Pine Portage.
38. Ragged Rapids.
39. Ranney Falls.
40. Seymour.
41. Sidney.
42. Sills Island.
43. Silver Falls.
44. South Falls.
45. Stewartville.
46. Stinson.
47. Trethewey Falls.
48. Whitedog Falls.

O. Reg. 312/13, s. 5.

[Back to top](#)

**SCHEDULE OF SELECT ASSETS AND LIABILITIES OF
OPG'S NEWLY REGULATED HYDROELECTRIC FACILITIES
AS AT DECEMBER 31, 2013**

The *Ontario Energy Board Act, 1998* and *Ontario Regulation 53/05* provide that, effective April 1, 2008, Ontario Power Generation Inc. (OPG) receives regulated prices for electricity generated from the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and the Pickering and Darlington nuclear facilities (collectively, the Prescribed Facilities). The regulated prices are established by the Ontario Energy Board (OEB). In November 2013, *Ontario Regulation 53/05* was amended to prescribe 48 additional hydroelectric facilities owned and operated by OPG for rate regulation by the OEB effective July 1, 2014 (the Newly Regulated Hydroelectric Facilities). In its September 2013 application to the OEB for new regulated prices under case number EB-2013-0321, OPG submitted proposed regulated prices for the Newly Regulated Hydroelectric Facilities effective July 1, 2014.

Ontario Regulation 53/05 requires the OEB to accept the values for the assets and liabilities of the Newly Regulated Hydroelectric Facilities as set out in OPG's most recently audited financial statements that were approved by OPG's Board of Directors before the making of the OEB's first order establishing regulated prices for these facilities. This requirement includes values relating to the income tax effects of timing differences. As of the date of this schedule, the most recently audited financial statements of OPG approved by its Board of Directors are the audited consolidated financial statements as at and for the year ended December 31, 2013 prepared in accordance with United States generally accepted accounting principles (US GAAP).

In Exhibit L, Tab 2.1, Schedule 6 ED-003 under OEB case number EB-2013-0321, OPG identified certain assets and liabilities of the Newly Regulated Hydroelectric Facilities as at December 31, 2013, the values for which the OEB is required to accept pursuant to *Ontario Regulation 53/05*. These values, which were determined through specific identification and allocation of the corresponding assets and liabilities reported in OPG's audited consolidated financial statements as at and for the year ended December 31, 2013, are as follows:

As at December 31 <i>(millions of dollars)</i>	2013
Assets (Note 1)	
Property, plant and equipment in-service	3,264
Less: accumulated depreciation	739
Property, plant and equipment in-service, net	2,525
Construction in progress	57
Intangible assets in-service	2
Less: accumulated amortization	2
Intangible assets in-service, net	-
Development in progress	-
Materials and supplies:	
Short-term	-
Long-term	1
Liabilities (Note 1)	
Short-term debt (Note 2)	-
Long-term debt (including amount due within one year) (Note 2)	621
Pension liabilities (Note 3)	194
Other post-employment benefit liabilities (including current portion) (Note 3)	149
Long-term accrued charges	■
Deferred income taxes (Note 4)	181

See accompanying notes to the schedule

This schedule of select assets and liabilities of the Newly Regulated Hydroelectric Facilities has been prepared solely for the use of OPG's management and for filing with the OEB, and is considered by OPG's management to be a fair and reasonable representation of the values of the identified assets and liabilities of the Newly Regulated Hydroelectric Facilities, which were included in OPG's most recently audited financial statements approved by its Board of Directors, as of the date of this schedule, and are required to be accepted by the OEB in making its first order establishing regulated prices for these facilities. These asset and liability balances have been determined in accordance with the basis of accounting described in Note 1 to this schedule.

On behalf of Ontario Power Generation Inc.

[Original signed by]

Robin Heard
Interim Chief Financial Officer

May 20, 2014

See accompanying notes to the schedule

**NOTES TO THE SCHEDULE OF SELECT ASSETS AND LIABILITIES OF
OPG'S NEWLY REGULATED HYDROELECTRIC FACILITIES
AS AT DECEMBER 31, 2013**

1. BASIS OF ACCOUNTING AND PRESENTATION

The schedule of select assets and liabilities of OPG's Newly Regulated Hydroelectric Facilities and accompanying notes as at December 31, 2013 (the Schedule) present the assets and liabilities of OPG's hydroelectric facilities, prescribed for rate regulation by the OEB effective July 1, 2014 pursuant to the amended *Ontario Regulation 53/05*, that were identified by OPG in Exhibit L, Tab 2.1, Schedule 6 ED-003 under OEB case number EB-2013-0321 as those required by *Ontario Regulation 53/05* to be accepted by the OEB in making its first order establishing regulated prices for these facilities. These assets and liabilities were determined as at December 31, 2013 in accordance with US GAAP. All dollar amounts are presented in Canadian dollars.

The assets and liabilities presented in the Schedule were reflected in OPG's audited consolidated financial statements as at and for the year ended December 31, 2013. These asset and liability balances were determined using the methodology applied in determining the corresponding balances included in OPG's consolidated financial statements and reflect a specific identification and allocation of these corresponding balances to the Newly Regulated Hydroelectric Facilities. OPG's consolidated financial statements as at and for the year ended December 31, 2013 were prepared in accordance with US GAAP and the rules and regulations of the United States Securities and Exchange Commission for annual financial statements. Those consolidated financial statements have been filed with the OEB under case number EB-2013-0321 and the Ontario Securities Commission. A summary of significant accounting policies used in preparing those consolidated financial statements and therefore the applicable balances presented in the Schedule is found in Note 3 to those consolidated financial statements.

The assets and liabilities presented in the Schedule were derived using the same direct assignment and allocation methods as those used to derive the corresponding balances of the Prescribed Facilities presented in the audited consolidated financial statements of OPG's Prescribed Facilities as at and for the year ended December 31, 2012. The consolidated financial statements of OPG's Prescribed Facilities were prepared in accordance with US GAAP and filed with the OEB under case number EB-2013-0321.

The balances for property, plant and equipment, construction in progress, intangible assets, development in progress, and materials and supplies presented in the Schedule represent a direct assignment of OPG's respective balances to the Newly Regulated Hydroelectric Facilities. The majority of the long-term accrued charges balance also represents a direct assignment of OPG's corresponding balance to the Newly Regulated Hydroelectric Facilities, based on the nature of the underlying items. The long-term accrued charges attributed to the Newly Regulated Hydroelectric Facilities include liabilities for certain environmental and other obligations. OPG's environmental liabilities are discussed in Note 15 to its audited consolidated financial statements as at and for the year ended December 31, 2013. Disclosures related to OPG's commitments and contingencies are found in Notes 5, 6, 9, 11, 12, 13 and 15 to the audited consolidated financial statements of OPG as at and for the year ended December 31, 2013.

The long-term debt balance presented in the Schedule represents an allocation of OPG's non-project specific long-term debt as at December 31, 2013 using the methodology approved in the OEB's March 2011 decision and April 2011 order under case number EB-2010-0008 (the 2011 OEB Decision) and reflected in OPG's September 2013 application for new regulated prices under case number EB-2013-0321, as discussed in Note 2 of the Schedule.

The pension and other post employment benefits (OPEB) liabilities presented in the Schedule were determined as an allocation of the respective amounts in OPG's audited consolidated financial statements as at and for the year ended December 31, 2013, as discussed in Note 3 of the Schedule. The deferred income tax liabilities were determined on the basis of the timing differences between the accounting and tax bases of the assets and liabilities presented in the Schedule, as discussed in Note 4.

2. SHORT-TERM AND LONG-TERM DEBT

All of OPG's short-term debt as at December 31, 2013 was project specific. None of this project specific debt was incurred to finance the assets of the Newly Regulated Hydroelectric Facilities and, as such, no short-term debt was attributed to these facilities.

The long-term debt balance presented in the Schedule represents the portion of OPG's total long-term debt allocated to the Newly Regulated Hydroelectric Facilities using the methodology approved for the Prescribed Facilities in the 2011 OEB Decision. Under this methodology, the non-project specific long-term debt is allocated primarily in proportion to the net property, plant and equipment and intangible asset balances, excluding those financed by project specific debt. The application of this methodology using OPG's 2013 actual financial information resulted in an allocation of 25.23% of OPG's non-project specific long-term debt as at December 31, 2013 to the Newly Regulated Hydroelectric Facilities. None of OPG's project specific long-term debt as at December 31, 2013 was attributable to the Newly Regulated Hydroelectric Facilities.

Disclosure related to OPG's short-term and long-term debt is found in Notes 6, 7 and 15 to OPG's audited consolidated financial statements as at and for the year ended December 31, 2013.

3. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

OPG does not maintain separate pension and OPEB plans for the Newly Regulated Hydroelectric Facilities. As a result, the liabilities for pensions and OPEB were determined using an allocation of the portion of the total pension and OPEB liabilities reported in OPG's audited consolidated financial statements as at and for the year ended December 31, 2013 that was attributed to OPG's unregulated hydroelectric operations inclusive of the Newly Regulated Hydroelectric Facilities. The allocation to the Newly Regulated Hydroelectric Facilities is a portion of amounts attributed to the unregulated hydroelectric operations and was performed primarily using a combination of the number of regular employees and labour costs associated with these facilities in relation to those of the total unregulated hydroelectric operations. The distribution of these labour costs is considered to be representative of an estimated distribution of full-time equivalent employees.

The portion of pension and OPEB liabilities attributed to OPG's unregulated hydroelectric operations inclusive of the Newly Regulated Hydroelectric Facilities as at December 31, 2013 was determined using a combination of specific identification and allocation of the respective amounts in OPG's audited consolidated financial statements as at and for the year ended December 31, 2013, as outlined below for each of the components of these liabilities.

A portion of accrued assets and liabilities for pensions and OPEB recognized in OPG's previous consolidated financial statements prepared in accordance with Canadian GAAP was allocated to the Prescribed Facilities and each of OPG's unregulated business segments as of April 1, 2005, the effective date of the regulated prices established by the Province of Ontario for the Prescribed Facilities generation. The unregulated business segments included a segment that reported the results of OPG's unregulated hydroelectric operations inclusive of the Newly Regulated Hydroelectric Facilities. The allocation of OPG's accrued assets and liabilities for pensions and OPEB as at April 1, 2005 was determined on the basis of the number of regular OPG employees associated with each of OPG's regulated and unregulated business segments.

The changes in the pension and OPEB liabilities for the unregulated hydroelectric operations subsequent to April 1, 2005 were determined by attributing to these operations a portion of OPG's recognized post employment benefit costs, pension fund contributions, and expenditures on OPEB and supplementary pension plans during each period. Post employment benefit plan costs recognized by OPG were attributed to the unregulated hydroelectric operations using direct assignment primarily on the basis of labour costs incurred by the employees associated with these operations inclusive of the Newly Regulated Hydroelectric Facilities. The post employment benefit plan costs associated with OPG's corporate support services were allocated to the unregulated hydroelectric operations as part of the allocation of corporate support services costs, consistent with the methodology outlined in an independent cost allocation study the results of which were reflected in the regulated prices established by the 2011 OEB Decision.

The allocation of OPG's pension fund contributions and expenditures on OPEB and supplementary pension plans to the unregulated hydroelectric operations inclusive of the Newly Regulated Hydroelectric Facilities was determined in proportion to the benefit costs for the respective periods since April 1, 2005.

Unamortized actuarial gains or losses and past service costs are also reported as part of OPG's pension and OPEB liabilities determined in accordance with US GAAP. The portion of OPG's liabilities representing these unamortized amounts as at December 31, 2013 was allocated to the unregulated hydroelectric operations inclusive of the Newly Regulated Hydroelectric Facilities in proportion to the respective benefit costs for the year then ended.

Separate assumptions are not made to derive pension and OPEB obligations for OPG's total unregulated hydroelectric operations inclusive of the Newly Regulated Hydroelectric Facilities or the Newly Regulated Hydroelectric Facilities themselves. The assumptions used to derive OPG's total pension and OPEB obligations as well as additional disclosures related to OPG's pension and OPEB plans are found in Note 11 to OPG's audited consolidated financial statements as at and for the year ended December 31, 2013.

4. DEFERRED INCOME TAXES

OPG follows the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities. Deferred amounts are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The deferred income tax liabilities of the Newly Regulated Hydroelectric Facilities were determined by comparing the accounting and tax bases of the assets and liabilities presented in the Schedule and applying an income tax rate of 25 per cent to the resulting timing differences. This income tax rate represents the enacted tax rate that will be in effect when these timing differences are expected to reverse.

The following table summarizes the components of the deferred income taxes for the Newly Regulated Hydroelectric Facilities as at December 31, 2013:

As at December 31, 2013				
(millions of dollars)	Accounting Basis	Tax Basis	Timing Difference	Deferred Income Tax Asset (Liability)
Assets				
Property, plant and equipment in-service, net	2,525	1,391	(1,123) ¹	(281)
Construction in progress	57	57	-	-
Intangible assets in-service, net	-	-	-	-
Development in progress	-	-	-	-
Materials and supplies	1	1	-	-
Liabilities				
Short-term debt	-	-	-	-
Long-term debt (including amount due within one year)	621	621	-	-
Pension liabilities	194	-	(194)	49
Other post-employment benefit liabilities (including current portion)	149	-	(149)	37
Long-term accrued charges				14
Net assets (liabilities)				(181)

¹Excludes net property, plant and equipment of \$11M not eligible for Capital Cost Allowance (i.e. land)

INDEPENDENT AUDITORS' REPORT

To the Management of
Ontario Power Generation Inc.

We have audited the accompanying schedule of select assets and liabilities of the hydroelectric facilities of **Ontario Power Generation Inc.** ["OPG"] prescribed for rate regulation by the Ontario Energy Board effective July 1, 2014 under *Ontario Regulation 53/05* [the "Newly Regulated Hydroelectric Facilities"] and any accompanying notes prepared by OPG as at December 31, 2013 [the "Schedule"].

Management's responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule in accordance with United States generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of a Schedule that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedule presents fairly, in all material respects, the balances of select assets and liabilities of the Newly Regulated Hydroelectric Facilities of **Ontario Power Generation Inc.** as at December 31, 2013 in accordance with United States generally accepted accounting principles.

Restriction on distribution and use

The Schedule is prepared solely for the use of management of **Ontario Power Generation Inc.** and for filing with the Ontario Energy Board. Our report is intended solely for the management of **Ontario Power Generation Inc.** and for filing with the Ontario Energy Board and should not be used for any other purpose.

Toronto, Canada,
May 20, 2014.

Ernst & Young LLP [signed]
Chartered Accountants
Licensed Public Accountants

Board Staff Interrogatory #171

Ref: Exh. F4-2-1 Table 9, Exh. A2-1-1 Attachment 1, Exh. B2-2-1 Table 1

Issue Number: 6.13

Issue: Are the amounts proposed to be included in the test period revenue requirement for income and property taxes appropriate?

Interrogatory

The 2012 Annual Report, Note 15 Business Segment (page 134), shows an amount of \$3,310M for the “unregulated hydroelectric” segment property, plant and equipment in-service, net.

- a) Please confirm whether the \$3,310M amount represents the equivalent of “newly” regulated hydroelectric facilities in 2012, and if not, please provide this amount.
- b) In March 2013, OPG would have released its 2013 financial results including its 2013 consolidated financial statements which will also provide the 2013 amount for the “unregulated hydroelectric” segment property, plant and equipment in-service, net. Please confirm whether the 2013 amount represents the equivalent of “newly” regulated hydroelectric facilities in 2013, and if not, please provide this amount.
- c) Table 9 (col. c) of Exh. F4-2-1 includes \$1,227.8M under Net Adjustment which represents the inclusion of the Undepreciated Capital Cost for the newly regulated hydroelectric facilities effective in 2014. Please provide a reconciliation of the \$3,310M for the 2012 “unregulated hydroelectric” segment reported, or as adjusted, and the \$1,227.8M for the 2014 Undepreciated Capital Cost. However, if the information requested in b) above is available, please provide a reconciliation of the 2013 “unregulated hydroelectric” segment reported, or as adjusted, and the \$1,227.8M for the 2014 Undepreciated Capital Cost, instead.
- d) Table 9 (col. c) of Exh. F4-2-1 shows \$1,227.8M under Net Adjustment as an inclusion to the Undepreciated Capital Cost (UCC) for the newly regulated hydroelectric facilities effective in 2014. Table 1 (col. g) of Exh B2-2-1 shows rate base of \$2,511.5M for the newly regulated hydroelectric. Please provide a reconciliation of the \$2,511.5M rate base for the newly regulated hydroelectric in 2014 and the \$1,227.8M UCC for 2014.

Response

- a) Not confirmed.

Net property, plant and equipment in-service of \$3,310M shown for the unregulated hydroelectric business segment in note 15 of OPG’s 2012 audited consolidated financial statements represents all of OPG’s unregulated hydroelectric facilities prior to 2014, including those facilities that will remain unregulated effective July 1, 2014. Ex. L-2.1-1 Staff-

008, Attachment 1, Table 1 provides a breakdown of the unregulated hydroelectric business segment information in OPG's 2012 audited consolidated financial statements and indicates that the amount of \$3,310M includes net property, plant and equipment ("PP&E") in-service of \$2,512M for the newly regulated facilities, as at December 31, 2012.

b) Not confirmed, for the same reasons as indicated in part (a) above.

Of the total net property, plant and equipment in-service of \$3,312M as at December 31, 2013 shown for the unregulated hydroelectric segment in note 16 to OPG's 2013 audited consolidated financial statements (Ex. L-2.1-6 ED-003, Attachment 1), \$2,525M represents in-serviced PP&E of the newly regulated hydroelectric facilities, as also noted in Ex. L-2.1-1 Staff-010(b) and Ex. L-2.1-6 ED-003 b).

c) & d)

Section 6(2)11 of O. Reg. 53/05 requires the OEB to accept the values for the assets and liabilities of the newly regulated hydroelectric facilities as set out in OPG's most recently audited financial statements approved by OPG's Board of Directors before the making of the OEB's first payment amounts order in respect of these facilities (which are OPG's audited financial statements as of December 31, 2013). That section applies to income tax effects of timing differences and the revenue requirement impact of accounting and tax policy decision reflected in the above noted financial statements. As the values of the fixed and intangible assets ("PP&E") of the newly regulated hydroelectric facilities and the associated timing differences with respect to the Undepreciated Capital Cost ("UCC") of these assets are reflected in OPG's 2013 audited financial statements, the OEB must accept these values. As noted Ex. L-2.1-6 ED-003t b), the net book value of in-service PP&E of the newly regulated hydroelectric facilities reflected in OPG's 2013 audited consolidated financial statements is \$2,525M and the associated UCC as at December 31, 2013 is \$1,391M, resulting in a PP&E timing difference of 1,123M¹.

¹ Amounts represent income tax effects of temporary differences using 2013 tax rate of 25%, as shown in Ex. L-1.0-1 Staff 2, Table 29, line 28, col. (a). For this calculation, PPE excludes amounts related to land, which is not depreciable. These income tax impacts are as reflected in the calculation of OPG's total deferred (future) income tax liability reported in its 2013 audited consolidated financial statements.

SEC Interrogatory #138

Ref: H1-3-1/p.7

Issue Number: 9.7

Issue: Is OPG's proposal to make existing hydroelectric variance accounts applicable to the newly regulated hydroelectric generation facilities appropriate?

Interrogatory

Please provide details of past CCA taken on the newly regulated hydroelectric facilities, and for each such facility compare the CCA to date with the depreciation to date. Please calculate the future tax liability associated with the timing differences.

Response

As noted in Ex. L-6.13-1 Staff-171, O. Reg. 53/05 requires the OEB to accept the values for the assets and liabilities of the newly regulated hydroelectric facilities as set out in OPG's 2013 audited financial statements. This requirement includes income tax effects of timing differences reflected in the above noted financial statements. As the values of the fixed and intangible assets ("PP&E") of the newly regulated hydroelectric facilities and the impact of the associated timing differences with respect to the Undepreciated Capital Cost ("UCC") of these assets are reflected in OPG's 2013 audited financial statements, the OEB must accept these values.

Timing differences are measured by comparing accounting and tax values of assets and liabilities. Therefore, the PP&E net book value and the UCC are required to satisfy the O. Reg. 53/05 requirement. These balances as at December 31, 2013 for the newly regulated hydroelectric facilities are provided in Ex. L-2.1-6 ED-003 b). Below is their breakdown by plant group, as well as the associated future income tax liability:

**Newly Regulated Hydroelectric Net Book Value and Undepreciated Capital Cost
As at December 31, 2013**

\$M	Net Book Value of PP&E ¹	Undepreciated Capital Cost	Future Income Tax Liability @ 25% ²
Ottawa-St. Lawrence Plant Group	1,233.8	710.0	130.7
Central Hydro Plant Group	100.7	40.9	13.8
Northeast Plant Group	560.2	294.3	66.4
Northwest Plant Group	630.2	345.7	69.8
Total Newly Regulated Hydroelectric	2,524.9	1,390.9	280.7

¹Calculated as the difference between Ex. L-0-1 Staff-2, Att.1, Table 2, col. (e) and Table 3, col. (d)

²Excludes PP&E amount not eligible for CCA (i.e., land).

1 The regulatory income tax expense calculations for the prescribed facilities for the bridge
2 year and test period are shown in Ex F4-2-1 Table 5. The forecast income tax expense for
3 years 2013 - 2015 was computed using the approach described in section 3.

4
5 The forecast tax expense in the test period years of 2014 and 2015 is \$220.6M and \$152.3M
6 based on taxable incomes of \$924.1M and \$650.6M, respectively, and SR&ED ITCs of
7 \$10.4M per year. The forecast tax recovery for 2013 is \$24.6M based on a tax loss of
8 \$39.2M and SR&ED ITCs of \$14.8M. The annual tax expense for the test period is forecast
9 to be higher than in 2013 primarily due to higher revenue and earnings from operations, and
10 the inclusion of the newly regulated hydroelectric facilities. The forecast nuclear operational
11 loss in 2013 is also the primary reason for the tax recovery in 2013 as compared to a tax
12 expense in 2012.

13
14 The forecast income tax expense in 2015 is lower than in 2014 mainly due to higher forecast
15 pension plan contributions and OPEB and supplementary pension plan payments and a
16 higher forecast CCA deduction in 2015.

17 18 **5.0 COMMODITY TAX**

19 Pursuant to the *Excise Tax Act* (Canada), effective July 1, 2010, OPG is subject to the 13 per
20 cent Harmonized Sales Tax ("HST") on almost all of its purchases of goods and services.⁴
21 The recoverable portion of HST paid by OPG is claimed as input tax credits on returns filed
22 monthly. The recoverable portion of HST forecast to be paid is therefore not included in the
23 revenue requirement. The non-recoverable portion, which results from the restrictions
24 pursuant to the *Excise Tax Act* (Canada) (i.e., restricted input tax credits), forms part of the
25 cost of the underlying item (e.g., OM&A, capital, inventory, etc.) and is included either in the
26 test period forecasts for these items or other centrally held costs presented in Ex. F4-4-1.
27 OPG's purchases of energy (electricity, gas, steam, fuel) for non-production purposes are

⁴ Prior to July 1, 2010, OPG was subject to the 8 per cent retail sales (provincial sales tax or "PST") under the *Retail Sales Tax Act* (Ontario) and the 5 per cent goods and services tax ("GST") levied under Part IX of the *Excise Tax Act* (Canada). For expenditures subject to PST, the tax amount formed part of OPG's cost of the underlying item or was recorded as a centrally held cost. The GST paid was recoverable through input tax credits.

Table 5
Calculation of Regulatory Income Taxes for Prescribed Facilities (\$M)
Years Ending December 31, 2013, 2014 and 2015¹

Line No.	Particulars	Note	2013 Budget	2014 Plan	2015 Plan
			(a)	(b)	(c)
	Determination of Regulatory Taxable Income				
1	Regulatory Earnings Before Tax	2	88.4	613.5	519.8
	Additions for Regulatory Tax Purposes:				
2	Depreciation and Amortization		305.9	418.0	433.6
3	Nuclear Waste Management Expenses		28.8	59.3	62.2
4	Receipts from Nuclear Segregated Funds		53.3	62.6	116.5
5	Pension and OPEB/SPP Accrual		314.0	682.0	672.7
6	Regulatory Asset Amortization - Bruce Lease Net Revenues Variance		62.9	41.9	0.0
7	Regulatory Liability Amortization - Income and Other Taxes Variance		(18.7)	(12.4)	0.0
8	Adjustment Related to Financing Cost for Nuclear Liabilities		76.9	74.6	70.3
9	Taxable SR&ED Investment Tax Credits		21.4	14.8	10.4
10	Other		33.4	45.9	49.7
11	Total Additions		878.0	1,386.7	1,415.4
	Deductions for Regulatory Tax Purposes:				
12	CCA	3	316.7	419.0	467.0
13	Cash Expenditures for Nuclear Waste & Decommissioning		131.6	148.8	197.6
14	Contributions to Nuclear Segregated Funds		98.1	170.1	172.8
15	Pension Plan Contributions		305.7	238.0	340.2
16	OPEB/SPP Payments		85.4	99.7	106.5
17	Reversal of Return on Rate Base Recorded in Capacity Refurbishment Variance Account		53.3	0.0	0.0
18	SR&ED Qualifying Capital Expenditures		14.3	0.0	0.0
19	Other		0.5	0.5	0.5
20	Total Deductions		1,005.6	1,076.1	1,284.6
21	Regulatory Taxable Income (line 1 + line 11 - line 20)		(39.2)	924.1	650.6
22	Regulatory Income Taxes - Federal (line 21 x line 26)		(5.9)	138.6	97.6
23	Regulatory Income Taxes - Provincial (line 21 x (line 27 + line 28))		(3.9)	92.4	65.1
24	Regulatory Income Taxes - SR&ED Investment Tax Credits		(14.8)	(10.4)	(10.4)
25	Total Regulatory Income Taxes (line 22 + line 23 + line 24)		(24.6)	220.6	152.3
	Income Tax Rate:				
26	Federal Tax		15.00%	15.00%	15.00%
27	Provincial Tax		11.00%	11.00%	11.00%
28	Provincial Manufacturing & Processing Profits Deduction		-1.00%	-1.00%	-1.00%
29	Total Income Tax Rate		25.00%	25.00%	25.00%

Notes:

1 Newly Regulated Hydroelectric is included starting in 2014.

2 Regulatory Earnings Before Tax for 2013 is from Ex. I1-1-1 Table 5, col. (c), line 20. Regulatory Earnings Before Tax for 2014 and 2015 are calculated as follows:

Table to Note 2 - Calculation of Regulatory EBT for 2014 and 2015 (\$M)

Line No.	Item	Reference	2014	2015
			(a)	(b)
1a	Requested After Tax Return on Equity	Ex. C1-1-1 Tables 1 and 2, line 5	420.2	420.5
2a	Less: Bruce Lease Net Revenues	Ex. G2-2-1 Table 1, line 3	39.7	40.6
3a	Single Payment Amounts Adjustment		12.3	(12.3)
4a		line 1a - line 2a + line 3a	392.8	367.6
5a	Additions for Regulatory Tax Purposes	line 11	1,386.7	1,415.4
6a	Deductions for Regulatory Tax Purposes	line 20	1,076.1	1,284.6
7a		line 4a+ line 5a - line 6a	703.4	498.4
8a	Regulatory Income Taxes - Federal	(line 7a + line 24) x line 26 / (1 - line 29)	138.6	97.6
9a	Regulatory Income Taxes - Provincial	(line 7a + line 24) x (line 27 + line 28) / (1 - line 29)	92.4	65.1
10a	Regulatory Income Taxes - SR&ED Investment Tax Credits	line 24	(10.4)	(10.4)
11a	Total Regulatory Income Taxes	line 8a + line 9a + line 10a	220.6	152.3
12a	Requested After Tax Return on Equity	line 1a	420.2	420.5
13a	Less: Bruce Lease Net Revenues	line 2a	39.7	40.6
14a	Add: Total Regulatory Income Taxes	line 11a	220.6	152.3
15a	Single Payment Amounts Adjustment		12.3	(12.3)
16a	Regulatory Earnings Before Tax	line 12a - line 13a + line 14a + line 15a	613.5	519.8

3 Amount for 2013 is from Ex. F4-2-1 Table 8, line 16: col. (j) - col. (i); for 2014 from Ex. F4-2-1 Table 9, line 19: col. (j) - col. (i); and for 2015 from Ex. F4-2-1 Table 10, line 19: col. (j) - col. (i)

Table 6
 Reconciliation of Tax Return to Regulatory Tax Calculation (\$M)
 Year Ending December 31, 2012

Line No.	Particulars	2012 Tax Return					Adjustments		(5) - (6) - (7) Regulatory Tax Calc'n ¹
		OPG Parent	Subsidiaries	(1) + (2) Total	Unregulated	(3) - (4) Regulated	Bruce Lease	Other Adjustments	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Determination of Taxable Income								
1	Earnings Before Tax	486.1	(51.9)	434.2	140.6	574.8	164.0	(543.6)	195.2
	Additions for Tax Purposes:								
2	Depreciation and Amortization	540.7	81.1	621.8	(135.0)	486.8	(78.9)	(94.3)	313.6
3	Nuclear Waste Management Expenses (incl Accretion Expense)	864.9	0.0	864.9	0.0	864.9	(375.3)	(458.9)	30.7
4	Receipts from Nuclear Segregated Funds	69.7	0.0	69.7	0.0	69.7	(28.1)	0.0	41.6
5	Pension and OPEB/SPP Accrual	640.4	0.0	640.4	(126.2)	514.2	0.0	(238.5)	275.7
6	Regulatory Asset Amortization - Nuclear Development and Capacity Refurbishment Variance Accounts	(65.0)	0.0	(65.0)	0.0	(65.0)	0.0	65.0	0.0
7	Regulatory Asset Amortization - Nuclear Liability Deferral Account	21.4	0.0	21.4	0.0	21.4	0.0	0.0	21.4
8	Regulatory Asset and Liability Amortization - Other Variance Accounts	(33.6)	0.0	(33.6)	0.0	(33.6)	0.0	33.6	0.0
9	Regulatory Liability Amortization - Income and Other Taxes Variance Account	(21.7)	0.0	(21.7)	0.0	(21.7)	0.0	6.3	(15.4)
10	Regulatory Asset Amortization - Bruce Lease Net Revenues Variance Account	136.1	0.0	136.1	0.0	136.1	0.0	(0.1)	136.0
11	Regulatory Asset Amortization - Tax Loss Variance Account	128.5	0.0	128.5	0.0	128.5	0.0	(128.5)	0.0
12	Reversal of Bruce Lease Net Revenues Variance Account Additions	(336.2)	0.0	(336.2)	0.0	(336.2)	0.0	333.8	(2.4)
13	Adjustment Related to Financing Cost for Nuclear Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	78.7	78.7
14	Taxable SR&ED Investment Tax Credits	32.0	0.0	32.0	(4.2)	27.8	0.0	21.7	49.5
15	Materials and Supplies Inventory Obsolescence	50.7	0.0	50.7	(10.5)	40.2	0.0	0.0	40.2
16	Other	309.6	0.0	309.6	(34.1)	275.5	(249.0)	(7.6)	18.9
17	Total Additions	2,337.5	81.1	2,418.6	(310.0)	2,108.6	(731.3)	(388.8)	988.5
	Deductions for Tax Purposes:								
18	CCA	477.7	6.0	483.7	(175.0)	308.7	(6.1)	0.1	302.7
19	Cash Expenditures for Nuclear Waste & Decommissioning	199.6	0.0	199.6	(0.4)	199.2	(83.7)	0.0	115.5
20	Contributions to, and Earnings on Nuclear Segregated Funds	888.5	0.0	888.5	0.0	888.5	(425.8)	(355.6)	107.1
21	Pension Plan Contributions	370.0	0.0	370.0	(72.9)	297.1	0.0	0.0	297.1
22	OPEB/SPP Payments	98.5	0.0	98.5	(19.4)	79.1	0.0	0.0	79.1
23	Reversal of Nuclear Liability Deferral Account Additions	147.7	0.0	147.7	0.0	147.7	0.0	(143.1)	4.6
24	Reversal of Pension and OPEB Cost Variance Account Additions	194.7	0.0	194.7	0.0	194.7	0.0	(194.7)	0.0
25	Reversal of Impact fo USGAAP Deferral Account Additions	47.5	0.0	47.5	0.0	47.5	0.0	(47.5)	0.0
26	Reversal of Other Variance Account Additions	50.9	0.0	50.9	0.0	50.9	0.0	(50.9)	0.0
27	Reversal of Nuclear Development and Capacity Refurbishment Variance Account Additions	34.0	0.0	34.0	0.0	34.0	0.0	(34.0)	0.0
28	SR&ED Qualifying Capital Expenditures	24.9	0.0	24.9	(4.3)	20.6	0.0	0.0	20.6
29	Construction In Progress Interest Capitalized	81.7	0.0	81.7	(5.4)	76.3	0.0	(76.3)	0.0
30	Other	173.8	0.0	173.8	(129.6)	44.2	(14.2)	(25.3)	4.7
31	Total Deductions	2,789.5	6.0	2,795.5	(407.0)	2,388.5	(529.8)	(927.3)	931.4
32	Taxable Income (line 1 + line 17 - line 31)	34.1	23.2	57.3	237.6	294.9	(37.5)	(5.1)	252.3

Notes:

¹ Amounts are as shown in Ex. F4-2-1 Table 4, col. (c).

UNDERTAKING J10.1

Undertaking

OPG to file updated versions of the Standard & Poors and Dominion Bond Rating Service reports.

Response

See Attachment 1 for S&P.

See Attachment 2 for DBRS.

Rating Report

Report Date:

March 25, 2014

Previous Report:

March 27, 2013



Ontario Power Generation Inc.

Insight beyond the rating.

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The Company

Ontario Power Generation Inc. is an electricity generating company with a diverse portfolio of over 16,000 megawatts of in-service generating capacity. The Company is wholly owned by the Province of Ontario.

Authorized Commercial Paper Limit

\$1 Billion

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A (low)	Confirmed	Stable
Unsecured Debt	A (low)	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

DBRS has confirmed the Issuer Rating and Unsecured Debt rating of Ontario Power Generation Inc. (OPG or the Company) at A (low) and the Commercial Paper rating at R-1 (low), all with Stable trends. The confirmation is largely based on the financial support provided by the owner, the Province of Ontario (the Province; rated AA (low)), through its agent the Ontario Electricity Finance Corporation (OEFC; rated AA (low)). DBRS views the debt owed to the OEFC (approximately 70% of total debt) as quasi-equity as both OPG and the OEFC are wholly owned by the Province. The confirmation is also based on OPG's dominant market position in Ontario and the reasonable regulatory framework in the Province.

The continuation of the Province's support is critical as the Company's financial performance has been challenged by below-average profitability in its non-regulated sector and continued high capital expenditure (capex). OPG's return on equity has been poor, ranging from -3% to 3% over the past five years, significantly below the level its regulated peers are typically allowed to earn in Ontario (8% to 10%). The Company is expected to continue to generate free cash flow deficits as it undertakes capital-intensive projects, such as the refurbishment at the Darlington Nuclear Generating Station. DBRS expects the deficits to persist and to continue to be funded through incremental debt, which will likely lead to further deterioration in its credit metrics. However, this will not likely affect the Company's overall credit profile as long as the additional debt is provided by the OEFC, or is in the form of non-recourse project finance debt (approximately 30% of total debt). The Company and the Province have also developed a number of strategies to improve financial performance, including: (1) prescribing all of OPG's currently non-regulated and non-contracted stations to be regulated in order to fully cover all operating and capital costs, as well as to generate reasonable profitability; (2) reducing headcount to lower cost base; and (3) increasing regulated rates. Should the Company successfully execute these initiatives, operating cash flow could improve and return on equity could become more comparable to that of its peers.

OPG's business risk profile is reflective of the A (low) range, largely reflecting its dominant market position in Ontario. The Company's financial risk profile is in the BBB range, with strong debt metrics undermined by a weak coverage ratio. However, the overall credit profile is reinforced by the financial support DBRS expects the Province to continue to provide over the medium term.

Rating Considerations

Strengths

- (1) Support of shareholder (the Province)
- (2) Dominant market position in Ontario
- (3) Reasonable regulatory framework

Challenges

- (1) Significant capex programs
- (2) Nuclear generation risk
- (3) Political intervention

Financial Information

Ontario Power Generation Inc. (CA\$ millions)	USGAAP	USGAAP	USGAAP	CGAAP	CGAAP
	2013	2012	2011	2010	2009
EBIT gross interest coverage (times) (4)	(1.12)	0.66	0.02	0.65	1.08
EBITDA gross interest coverage (times) (4)	2.21	3.15	2.71	3.30	4.06
Total debt in capital structure (1)(2)	38.9%	36.9%	36.8%	35.9%	35.9%
Cash flow/Total debt	23.3%	21.2%	29.9%	27.7%	26.3%
(Cash flow - n.w.f.)/Total debt (3)	16.5%	13.8%	21.1%	17.6%	13.2%
(1) Including operating leases. (2) Adjusted for Accumulated Other Comprehensive Income. (3) Included nuclear waste funding (n.w.f.) payments as they are not discretionary. (4) Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.					

Rating Considerations Details

Strengths

(1) **Support of shareholder (the Province).** The Province indirectly provides OPG with the majority of its long-term funding requirements through the OEFC, a government financing arm for the provincial power companies. However, this debt is not directly guaranteed by the Province. DBRS believes the Province will continue to support its investment since OPG is a creation of the Province and is integral to fulfilling Ontario's energy needs.

(2) **Dominant market position in Ontario.** OPG's importance in Ontario is demonstrated by the fact that it is the primary electricity generator in the Province, accounting for approximately 52% of electricity produced in Ontario in 2013.

(3) **Reasonable regulatory framework.** The reasonable regulatory framework has allowed the Company to recover prudently incurred costs. However, there is uncertainty regarding the Company's ability to fully recover its nuclear cost through future regulated prices, which could negatively impact earnings. (Refer to Regulation for details on page 4.)

(4) **Limited nuclear waste management liabilities.** As a result of the Ontario Nuclear Funds Agreement (ONFA) with the Province, OPG's exposure relating to nuclear waste management liabilities has been capped at \$5.94 billion (in 1999 dollar terms) for the initial 2.23 million used fuel bundles produced.

Challenges

(1) **Significant capital expenditure program.** OPG has a significant capex program underway (approximately \$1.6 billion planned for 2014). It is expected that OPG will not undertake any major capex without having financing and a cost-recovery mechanism in place, thus minimizing the financial risks.

(2) **Nuclear generation risks.** Nuclear generation faces higher operating risks than other types of generation due to its complex technology (approximately 56% of OPG's production in 2013). Financial implications of forced outages, especially with older units (e.g., Pickering Nuclear Generating Station), are greater given the high fixed-cost nature of these plants, as well as the fact that lost revenues resulting from outages are not recoverable through rates.

(3) **Political intervention.** OPG is subject to political intervention, largely due to changes in government mandates and policies, as well as limits that restrict revenues and earnings should the price of electricity rise quickly. DBRS notes that the Province has committed to having OPG run more autonomously; however, the risk of further government intervention still exists.

(4) **Future nuclear liabilities.** OPG is responsible for the incremental costs related to the management of used fuel bundles in excess of 2.23 million bundles. The Company has currently produced 2.28 million bundles of used fuel waste.

Ontario Power Generation Inc.

Report Date:
March 25, 2014

Major Projects

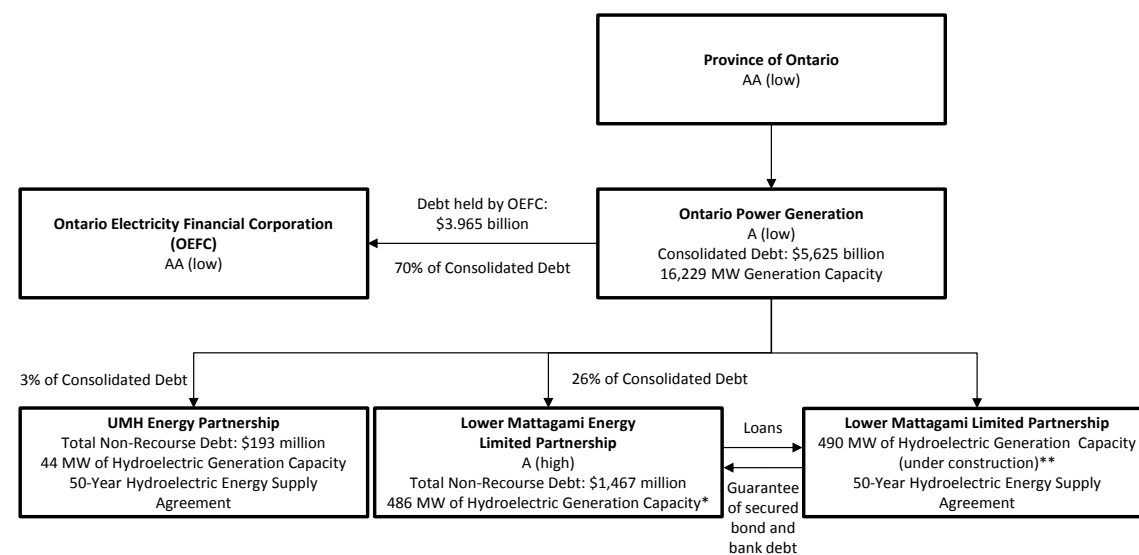
- **Niagara Tunnel:** The 10.2-kilometre Niagara Tunnel is expected to contribute to an increase of about 1.5 terawatt hours (TWh) of annual generation from the Sir Adam Beck generating stations. The project has been in-service since March 21, 2013.
- **Atikokan Biomass Conversion:** The Atikokan Generating Station stopped using coal on September 2012 and is currently in the process of converting to use biomass pellets as fuel. The facility will have a capacity of 200 MW and is expected to be in-service by August 2014.
- **Lower Mattagami River Project (LMRP):** The LMRP will increase the capacity of four generating stations on the Lower Mattagami River by 438 megawatts (MW). This project has a 50-year Hydroelectric Energy Supply Agreement with the Ontario Power Authority (rated A (high)), which provides a utility-like cost-of-service revenue requirement for energy produced. In addition, OPG guarantees LMRP's debt until the Recourse Release Date (see DBRS's Lower Mattagami Energy Limited Partnership report, dated March 7, 2014, for more details). The first of the four stations began generating on January 19, 2014, and a second unit is expected to be in-service during Q2 2014.
- **Darlington Refurbishment:** The Darlington Refurbishment will extend the operating life of the Darlington Nuclear Generating Station by approximately 30 years. A more detailed estimate of the cost and schedule of the refurbishment is expected to be available in 2015.

Project	Estimated Cost (\$ millions)	Spent as of Dec. 31, 2013 (\$ millions)	In-Service Target Date
Niagara Tunnel	1,600	1,459	Mar. 2013*
Atikokan Biomass Conversion	170	144	Aug. 2014
Lower Mattagami River Project	2,600	1,982	Jun. 2015
Darlington Refurbishment	< 10,000**	793	2025

*In-service as of March 21, 2013.

**In 2013 dollars, excluding capitalized interest and escalation.

Simplified Organizational Chart



* Capacity includes the 52 MW Smoky Falls Generating Station, which will be replaced under the Lower Mattagami Project.

** Capacity includes the new station that will replace the Smoky Falls Generating Station.

As of December 31, 2013.

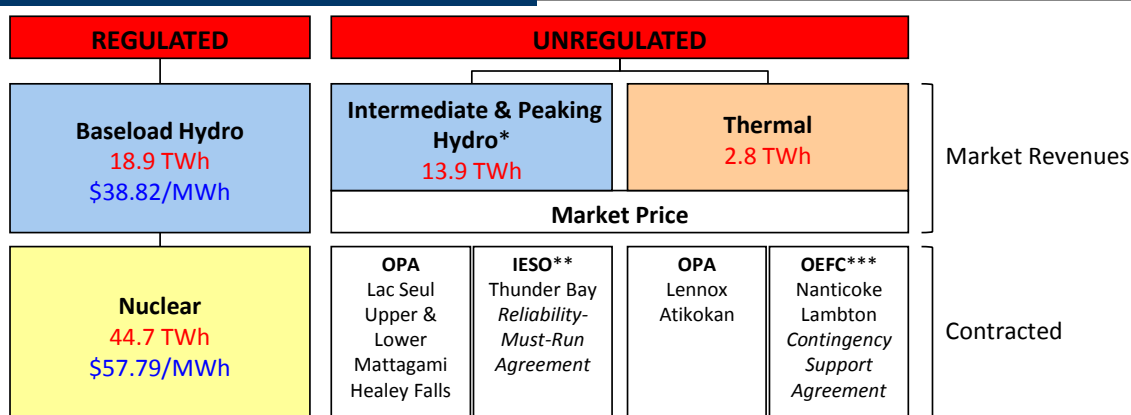
Ontario Power Generation Inc.

Report Date:
March 25, 2014

Regulation

- OPG benefits from a reasonable regulated environment. Sixty-one percent of its installed in-service capacity is regulated as of December 31, 2013.
- OPG, regulated by the Ontario Energy Board (OEB) under the *Electricity Restructuring Act, 2004* (Ontario), is allowed to receive regulated prices for all electricity generated from its nuclear facilities (6,606 MW) as well as most of its baseload hydroelectric power facilities.
- An amendment to Ontario Regulation 53/05 (O. Reg. 53/05) by the Ministry of Energy will bring all of OPG's non-regulated hydroelectric facilities currently not under an energy supply agreement with the Ontario Power Authority to be subject to the OEB's regulation. This amendment will add further stability to the Company's credit profile as a large majority of installed in-service capacity will be regulated.
- In June 2013, the Court of Appeal for Ontario decided in favour of OPG on its appeal of an OEB decision to disallow a portion of the Company's nuclear compensation costs. The OEB has sought for a leave to appeal the decision to the Supreme Court of Canada, and the leave is expected to be granted or denied in early 2014. DBRS believes that the inability for OPG to fully recover its nuclear compensation in future regulated prices will likely have a negative impact on earnings.
- In September 2013, the Company filed an application with the OEB for new regulated prices, effective in 2014, for its regulated hydroelectric and nuclear facilities (the Application). The Application is also for the recovery of OEB-authorized regulatory variance and deferral accounts through the establishment of new rate riders. The new rate riders would apply to production from OPG's regulated hydroelectric and nuclear facilities as of December 31, 2013.
- The Application also requested regulated prices for those currently non-regulated hydroelectric facilities to be prescribed under the amended O. Reg. 53/05, effective for July 1, 2014.
- The Company had a deemed capital structure of 53% debt and return on equity of 9.55% on regulated base rates for 2013. The Application is seeking approval of the current deemed capital structure to continue and a forecasted return on equity of 8.98%.
- The OEB issued an order in December 2013 allowing OPG to use its current rates for the interim period until a final decision is released.

OPG's Price Structure



*Will become regulated as of July 1, 2014.

**Agreement expired as of the end of 2013, will cease coal fired generation by the end of 2014.

***Ceased coal fired generation as of the end of 2013.

For the year ended December 31, 2013.

- OPG sells electricity to consumers through the Independent Electricity System Operator (IESO).
- Regulated operating divisions sell at rates set by the OEB, which include rate riders used for the recovery of nuclear deferral and hydroelectric variance account balances.
- Non-regulated operating divisions sell electricity at market spot prices that are subject to price volatility.

**Ontario Power
Generation Inc.**

Report Date:
March 25, 2014

Earnings and Outlook

	USGAAP	USGAAP	USGAAP	CGAAP	CGAAP
	For the year ended December 31				
(CA\$ millions)	2013	2012	2011	2010	2009
Revenues	4,863	4,732	4,964	5,367	5,613
EBITDA (1)	638	841	699	858	1,036
EBIT (1)	(325)	177	5	170	276
Gross interest expense	289	267	258	260	255
Earning before taxes (1)	(376)	86	(114)	(6)	92
Net income before non-recurring items (1)	(264)	115	48	239	167
Reported net income	135	367	338	649	623
Return on equity	-3.3%	1.5%	0.6%	3.1%	2.3%

(1) Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.

2013 Summary

- Revenue for 2013 remained below historical levels due primarily to lower nuclear generation as a result of planned and unplanned outages.
- The slight improvement in revenues compared to 2012 was largely because of riders approved for 2013 that increased the average sales price for the regulated segments and higher natural gas prices that increased the average sales price for the non-regulated segments. The in-service of the Niagara Tunnel also helped increase hydroelectric generation output.
- Earnings fell primarily due to 1) lower nuclear production and higher nuclear operating, maintenance and administration (OM&A) expenses due to an increase in outage activities and 2) higher OM&A expenses due to severance costs for Lambton and Nanticoke.
- Reported net income was also negatively affected by a restructuring charge of \$50 million.
- The non-regulated segments are exposed to pricing volatilities when selling electricity at market spot prices. Income from this segment improved as a result of marginally higher electricity spot market prices in Ontario in 2013 (2013 weighted-average hourly Ontario energy price was 2.8¢/ kilowatt hour (kWh) versus 2.4¢/kWh in 2012).

2014 Outlook

- Earnings are expected to improve modestly in 2014 as the amendment to O. Reg. 53/05 will allow 48 currently non-regulated hydroelectric stations to receive higher average sales prices than the depressed Ontario electricity spot market price in recent years. This will also provide more stability to the Company's earnings.
- The shutdown of the non-regulated Lambton and Nanticoke in 2013, combined with new capacity expected from the LMRP, should modestly improve earnings while reducing volatility.
- Earnings volatility going forward will come from: (1) adjustments to rate base determined by the OEB; (2) macro factors, such as weather, unexpected outages and Ontario's economic conditions; and (3) the non-regulated operating segments, which are used to meet intermediate and peaking demand.

**Ontario Power
Generation Inc.**

Report Date:
March 25, 2014

Financial Profile

	USGAAP	USGAAP	USGAAP	CGAAP	CGAAP
	For the year ended December 31				
(CA\$ millions)	2013	2012	2011	2010	2009
Net income before non-recurring items (4)	(264)	115	48	239	167
Depreciation & amortization	963	664	694	688	760
Deferred income taxes and other	619	305	693	288	136
Cash flow (bef. working cap. changes)	1,318	1,084	1,435	1,215	1,063
Nuclear waste funding	(383)	(380)	(422)	(445)	(528)
Dividends paid	0	0	0	0	0
Capital expenditures	(1,568)	(1,427)	(1,145)	(978)	(752)
Free cash flow (bef. working cap. changes)	(633)	(723)	(132)	(208)	(217)
Changes in non-cash working cap. items	239	172	166	47	(236)
Net free cash flow	(394)	(551)	34	(161)	(453)
Long-term investments	0	24	0	33	1
Proceeds on asset sales	0	0	7	0	0
Net equity change	0	0	0	0	0
Net debt change	543	310	334	337	206
Other	0	0	(14)	0	2
Change in cash	149	(217)	361	209	(244)
Total debt	5,657	5,114	4,804	4,383	4,046
Cash & equivalents	562	413	630	280	71
Total debt in capital structure	40.4%	39.3%	38.6%	35.2%	35.1%
Total debt in capital structure (1)(2)	38.9%	36.9%	36.8%	35.9%	35.9%
Cash flow/Total debt	23.3%	21.2%	29.9%	27.7%	26.3%
Cash flow/Total debt (1)	22.9%	20.8%	28.9%	26.7%	25.3%
EBIT gross interest coverage (times) (4)	(1.12)	0.66	0.02	0.65	1.08
EBIT gross interest coverage (times) (1) (4)	(1.05)	0.71	0.12	0.74	1.14
(Cash flow - n.w.f.)/Total debt (3)	16.5%	13.8%	21.1%	17.6%	13.2%
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%

(1) Including operating leases. (2) Adjusted for Accumulated Other Comprehensive Income. (3) Included nuclear waste funding (n.w.f.) payments as they are not discretionary. (4) Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.

2013 Summary

- The debt-to-capital and cash flow-to-debt ratios remained in line with the current rating category despite the ongoing high level of capex. However, EBIT-interest coverage was negative due to weak earnings from the regulated nuclear generation segment.
- Cash flow before working capital changes improved moderately for 2013 as a result of stronger earnings from the regulated and non-regulated hydroelectric generation segments.
- The Company generated a free cash flow deficit as a result of high capex for new hydroelectric and refurbishment projects. The free cash flow deficit was primarily funded with debt, leading to a modest increase in OPG's debt-to-capital ratio.
- No dividend payments were made to the Province during this period of high capex requirements.
- Incremental debt was funded by the OEFC.

2014 Outlook

- As the Company continues to execute its large capex program, DBRS expects OPG to generate a free cash flow deficit in 2014. The free cash flow deficit is expected to be financed with debt and cash on hand. As a result, leverage is expected to increase to nearly 45% over the next few years. Incremental debt is expected to be funded by the OEFC.
- DBRS expects the Province to continue to forgo dividends during the Company's large capex program.
- Funding requirements from pension deficits will likely ease due to rising discount rates.

**Ontario Power
Generation Inc.**

Report Date:
March 25, 2014

Long-Term Debt Maturities and Credit Facilities
Long-term Debt

As at December 31, 2013

(CA\$ millions)	2014	2015	2016	2017	2018	Thereafter	Total
Long-term Debt	5	593	273	1,103	398	3,253	5,625
	0%	11%	5%	20%	7%	58%	100%

Maturity Profile

- The majority of the long-term debt issued at the parent level (approximately \$3.966 billion) is held by the OEFC, which is wholly owned by the Ontario government. As a result, DBRS does not expect any material refinancing risk.
- The Company's maturity profile is fairly spread out over the next three years; a modest maturity is expected in 2015.
- OPG has approximately 20% of its total debt outstanding maturing in 2017 (including \$900 million held by the OEFC); however, refinancing risk is expected to be manageable.
- In February 2013, the Lower Mattagami Energy Limited Partnership (LME) issued senior notes totalling \$275 million with a maturity date of 2046 and an effective interest rate of 4.3%.
- In September 2013, LME also issued senior notes totalling \$200 million with a maturity date of 2043 and an effective interest rate of 5.1%.

Credit Facilities as at December 31, 2013 (CA\$ millions)

Bank facilities	Maturity	Amount	Outstanding	Available
Committed credit facility - Tranche 1	20-May-18	500	0	500
Committed credit facility - Tranche 2	20-May-18	500	0	500
Short-term uncommitted credit facilities	Demand	374	327	47
Short-term uncommitted overdraft facilities	Demand	25	0	25
Lower Mattagami River Project - Tranche 1	17-Aug-18	300	32	268
Lower Mattagami River Project - Tranche 2	17-Aug-15	300	0	300
Total		1,999	359	1,640
OEFC facilities				
Niagara Tunnel project Facility	31-Dec-14	1,600	1,065	535
Portlands Energy Centre project Facility		390	390	0
Lac Seul project Facility		50	50	0
General corporate Facility	31-Dec-14	500	0	500
General corporate Facility		500	500	0
Debt Refinancing Facility		200	200	0
Debt Refinancing Facility		500	500	0
Debt Refinancing Facility		960	960	0
Debt Refinancing Facility		300	300	0
Lower Mattagami River Project Credit Facility	30-Jun-16	700	0	700
Total		5,700	3,965	1,735

Liquidity

- OPG has a reasonable liquidity profile.
- The Company has a \$1 billion commercial paper program backed by two tranches of bank facilities (extended due dates of May 20, 2018). All committed bank facilities are unused as at December 31, 2013.
- As at December 31, 2013, OPG had issued \$327 million of letters of credit. Of this total, about \$302 million was attributed to its supplementary pension plan.
- The Company has separate credit facilities, provided by the OEFC, for project financing, which DBRS views as adequate for working capital purposes.

**Ontario Power
Generation Inc.**

Report Date:
March 25, 2014

Company Profile

As at December 31, 2013

Generation Portfolio

	Percent %	Capacity (MW)
Nuclear		
Darlington	22%	3,512
Pickering A	6%	1,030
Pickering B	13%	2,064
	41%	6,606
Thermal		
Atikokan (Coal) ⁽¹⁾	1%	211
Thunder Bay (Coal) ⁽¹⁾	2%	306
Lennox (Dual oil & gas)	13%	2,100
	16%	2,617
Hydroelectric		
Non-regulated ⁽²⁾	23%	3,683
Regulated ⁽²⁾	20%	3,321
	43%	7,004
Other (Wind) ⁽³⁾	0%	2
Total Capacity	100%	16,229

(1) Converting to biomass. Atikokan stopped using coal as fuel in 2012.

(2) Total hydroelectric portfolio comprises 65 stations.

(3) Includes 2 wind-power turbines.

- OPG is the largest generator of electricity in Ontario.
- In 2013, OPG generated 80.3 TWh of electricity with total in-service capacity of 16,299 MW on December 31, 2013. The in-service capacity decreased by 2,822 MW from 2012 due to Nanticoke and Lambton being taken out of service, slightly offset by the major refurbishment of a unit at Sir Adam Beck 1 Generation Station.
- OPG expects to remove its remaining coal station (Thunder Bay) from service by December 31, 2014. The unit is expected to then be converted to use biomass as fuel.
- OPG partnerships consist of the following:
 - OPG and ATCO Power Canada Ltd. co-own the Brighton Beach Power Station, a 580 MW natural gas-fired generating station.
 - OPG and TransCanada Energy Ltd. jointly own the Portlands Energy Centre, a 550 MW natural gas-fired generating station.
 - OPG owns the Bruce A and Bruce B nuclear generating stations, which are leased on a long-term basis to Bruce Power Limited Partnership.
 - OPG and the Lac Seul First Nation (LSFN) jointly own the Lac Seul Generating Station, with LSFN owning 25% of the facility.

Ontario Power Generation Inc.

Report Date:
March 25, 2014

Ontario Power Generation Inc.							
Balance Sheet (CA\$ millions)	USGAAP	USGAAP	USGAAP		USGAAP	USGAAP	USGAAP
	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	2013	2012	2011	Liabilities & Equity	2013	2012	2011
Cash & equivalents	562	413	630	S.T. borrowings	32	0	60
Accounts receivable	402	442	426	Accounts payable	1,026	891	825
Inventories	485	595	737	Current portion L.T.D.	5	5	403
Regulatory assets	306	0	299	Regulatory liabilities	16	0	130
Prepaid expenses & other	224	283	220	Deferred revenue & other	26	12	12
Total Current Assets	1,979	1,733	2,312	Total Current Liab.	1,105	908	1,430
Net fixed assets	16,738	15,860	14,633	Long-term debt	5,620	5,109	4,341
Intangibles	59	52	50	Deferred income taxes	565	563	501
Nuclear removal/waste mgmt. funds	13,471	12,690	11,878	Pension & post-retirement benefits	5,369	6,697	5,463
Regulatory assets	5,094	6,478	4,718	Nuclear removal/waste mgmt. funds	16,257	15,522	14,392
Investments, materials & other	750	788	852	Regulatory liabilities	8	41	24
				Payables & other L.T. liab.	833	857	666
				Shareholders' equity	8,334	7,904	7,626
Total Assets	38,091	37,601	34,443	Total Liab. & SE	38,091	37,601	34,443

Balance Sheet & Liquidity & Capital Ratios	USGAAP	USGAAP	USGAAP	CGAAP	CGAAP
	For the year ended December 31				
	2013	2012	2011	2010	2009
Current ratio	1.79	1.91	1.62	1.18	0.82
Total debt in capital structure	40.4%	39.3%	38.6%	35.2%	35.1%
Total debt in capital structure (1)(2)	38.9%	36.9%	36.8%	35.9%	35.9%
Cash flow/Total debt	23.3%	21.2%	29.9%	27.7%	26.3%
Cash flow/Total debt (1)	22.9%	20.8%	28.9%	26.7%	25.3%
(Cash flow - dividends)/Capex(times)	0.84	0.76	1.25	1.24	1.41
(Cash flow - n.w.f.)/Total debt (3)	16.5%	13.8%	21.1%	17.6%	13.2%
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Coverage Ratios (times)					
EBIT gross interest coverage (4)	(1.12)	0.66	0.02	0.65	1.08
EBIT gross interest coverage (1)(4)	(1.05)	0.71	0.12	0.74	1.14
EBITDA gross interest coverage (4)	2.21	3.15	2.71	3.30	4.06
Fixed-charges coverage (4)	(0.74)	0.85	0.22	0.68	1.14
Profitability Ratios					
EBITDA margin (4)	13.1%	17.8%	14.1%	16.0%	18.5%
EBIT margin (4)	-6.7%	3.7%	0.1%	3.2%	4.9%
Profit margin (4)	-5.4%	2.4%	1.0%	4.5%	3.0%
Return on equity (4)	-3.3%	1.5%	0.6%	3.1%	2.3%
Return on capital (1)(2)(4)	-1.0%	1.6%	1.3%	3.0%	2.7%

(1) Including operating leases. (2) Adjusted for Accumulated Other Comprehensive Income. (3) Included nuclear waste funding (n.w.f.) payments as they are not discretionary. (4) Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.

Ontario Power Generation Inc.

Report Date:
March 25, 2014

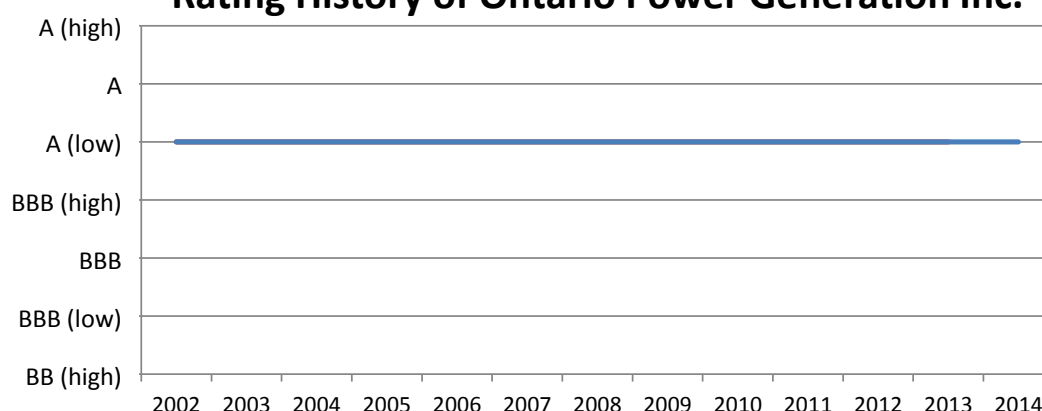
Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A (low)	Confirmed	Stable
Unsecured Debt	A (low)	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating History

	Current	2013	2012	2011	2010	2009
Issuer Rating	A (low)	A (low)	A (low)	NR	NR	NR
Unsecured Debt	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Rating History of Ontario Power Generation Inc.



Note:

All figures are in Canadian dollars, unless otherwise noted.

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