CAPITALIZATION POLICY

1.0 PURPOSE

This evidence describes how OPG classifies expenditures and determines eligibility for capitalization.

2.0 CLASSIFICATION OF EXPENDITURES

OPG's expenditures on investments or projects are classified in accordance with US GAAP as capital, OM&A, or charges against a previously established liability. Previously established liabilities include the liability for nuclear waste management and decommissioning discussed in Ex. C2-1-1. The classification of OPG's expenditures, including capitalization of costs discussed below, is unchanged from EB-2016-0152.

Expenditures that are classified as capital are recorded as either fixed or intangible assets. Specifically, OPG capitalizes the following types of expenditures:

- Acquisition and construction of new assets: expenditures related to the purchase, design, development, site preparation, construction or commissioning of a new asset that will provide benefits beyond the current year and meet or exceed the defined materiality threshold are capitalized**.**
- Rehabilitation/improvement/maintenance of existing assets: expenditures related to existing assets must meet all of the following criteria to be capitalized:
    - The benefits must extend beyond the current year.
    - The level of expenditure must meet or exceed the materiality threshold.
    - The expenditure must either extend the life or increase the output of the asset.
    - For replacements, expenditures to replace a significant component/complete capital asset are capitalized when the expenditures are expected to provide benefits beyond the current year and exceed the materiality threshold.

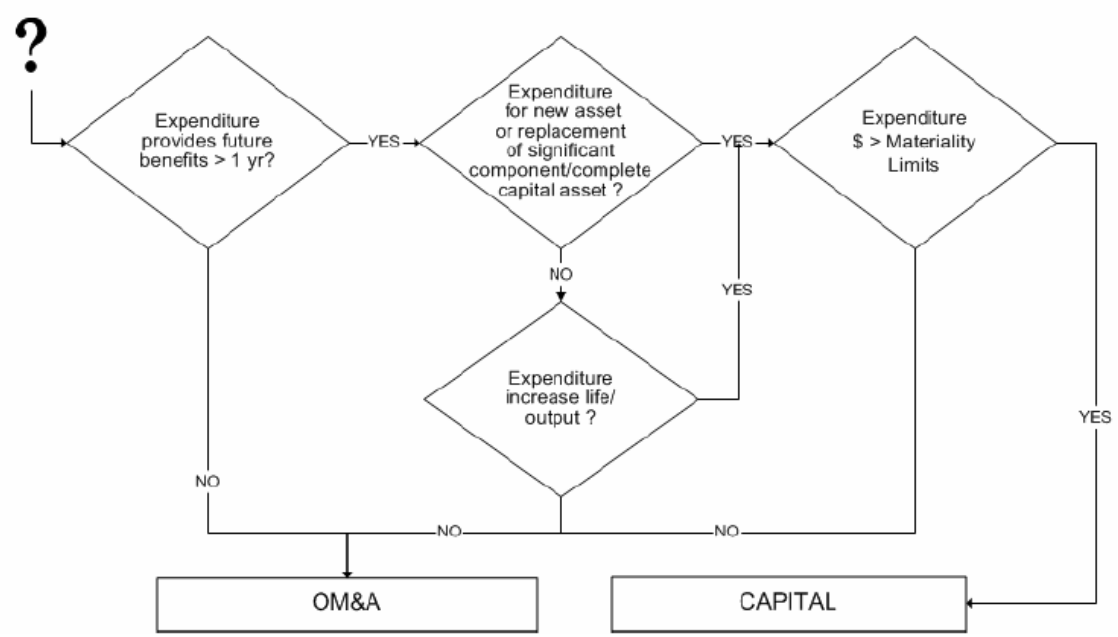
OPG capitalizes only those overhead costs that are directly attributable to the acquisition or construction of an asset.

Expenditures that relate to a previously established liability are applied against the liability as incurred. Removal costs for existing assets are charged to OM&A as incurred.

OM&A expenditures include general maintenance, repairs (up to and including major disassembly/overhaul), operating costs, and other expenditures that do not meet the criteria for capitalization and do not relate to previously established liabilities. In addition, project development costs incurred prior to the date that an alternative is selected for implementation are charged to OM&A. Subject to the capitalization criteria above, project development costs are capitalized once the preferred alternative for a new capital asset or capital improvement to an existing asset is selected, provided that there is sufficient confidence that the construction execution will be completed.

The application of OPG's capitalization eligibility criteria is illustrated in the decision tree below:

CAPITALIZATION DECISION TREE



OPG continues to apply the following thresholds for the materiality assessment:

- Generating Asset Classes — $200,000 per generating unit
- Administrative/Service Buildings — $25,000 per building
- Telecom Equipment — $25,000 per item
- Minor Fixed Assets — $25,000 per item
- Intangible Asset — $200,000 per application

Minor fixed assets include portable assets used in OPG's administrative, construction, transport or maintenance/service activities unless they are used directly for the generation of energy or form integral components of a building.

Materiality thresholds are applied to individual items rather than on an aggregated basis. Projects and/or work orders cannot be aggregated to qualify for capitalization. The exception to this principle applies to multiple identical items purchased for a single generating unit, or items that are part of a capital project where the project as a whole is evaluated against the materiality threshold.