

INDEPENDENT AUDITORS' REPORT

To the management of **Ontario Power Generation Inc.**

We have audited the accompanying schedule of regulatory balances of **Ontario Power Generation Inc.** as at December 31, 2014 (the "Schedule"). The Schedule has been prepared by management to present the balances of the variance and deferral accounts of **Ontario Power Generation Inc.** authorized for **Ontario Power Generation Inc.** by the decisions and orders of the Ontario Energy Board, in accordance with United States generally accepted accounting principles, as modified to include a return on equity amount as part of cost of capital additions recorded in the accounts for recovery from, or refund to, ratepayers, as described in Note 1 to the Schedule.

Management's responsibility for the schedule of regulatory balances

Management is responsible for the preparation and the fair presentation of this Schedule in accordance with United States generally accepted accounting principles, as modified to include a return on equity amount as part of cost of capital additions recorded in the accounts for recovery from, or refund to, ratepayers, as described in Note 1 to the Schedule, and for such internal control as management determines is necessary to enable the preparation of the 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 the 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 risks 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 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 the variances and deferral accounts of **Ontario Power Generation Inc.** as at December 31, 2014 authorized for **Ontario Power Generation Inc.** by the decisions and orders of the Ontario Energy Board, in accordance with United States generally accepted accounting principles, as modified to include a return on equity amount as part of cost of capital additions recorded in the accounts for recovery from, or refund to, ratepayers, as described in Note 1 to the Schedule.

Basis of accounting and restriction on distribution

Without modifying our opinion, we draw attention to Note 1 to the Schedule, which describes the basis of accounting. The Schedule is prepared solely for the use of **Ontario Power Generation Inc.** and for filing with the Ontario Energy Board as part of the regulatory process. As a result, the Schedule may not be suitable for another purpose.

Our auditors' report is intended solely for **Ontario Power Generation Inc.** and for filing with the Ontario Energy Board as part of the regulatory process and should not be used for any other purpose.

[Original Signed by]

TORONTO, CANADA
February 18, 2015

ERNST & YOUNG LLP
Chartered Professional Accountants
Licensed Public Accountants

**SCHEDULE OF REGULATORY BALANCES
AS AT DECEMBER 31, 2014**

The *Ontario Energy Board Act, 1998* and *Ontario Regulation 53/05* provide that Ontario Power Generation Inc. (“OPG”) receives regulated prices for electricity generated from most of its hydroelectric generating facilities and all of the nuclear generating facilities that it operates. OPG’s regulated prices for the generation from these facilities are determined by the Ontario Energy Board (“OEB”). Forty-eight of the regulated hydroelectric facilities were prescribed for regulation effective in 2014, pursuant to a November 2013 amendment to *Ontario Regulation 53/05*.

The OEB’s decisions and orders have authorized OPG to establish certain variance and deferral accounts, including those authorized pursuant to *Ontario Regulation 53/05*. The balances in these accounts are calculated in accordance with the OEB’s decisions and orders and *Ontario Regulation 53/05*. In accordance with United States generally accepted accounting principles (“US GAAP”), OPG’s consolidated financial statements recognize regulatory assets and liabilities for balances in the variance and deferral accounts.

In its March 2013 decision approving a settlement agreement between OPG and intervenors on all aspects of OPG’s application under case number EB-2012-0002, the OEB approved the December 31, 2012 balances in most of OPG’s variance and deferral accounts. To effect the recovery of the approved balances, the OEB established rate riders for the period from January 1, 2013 to December 31, 2014. During 2013 and 2014, OPG recorded additions to the variance and deferral accounts and amortized the approved December 31, 2012 balances as authorized by the OEB. In December 2014, under case number EB-2014-0370, OPG filed an application requesting the OEB’s approval for disposition of the balances as at December 31, 2014 in most of the variance and deferral accounts, through new rate riders effective July 1, 2015. During 2013 and 2014, where authorized by the OEB, OPG recorded interest on the unamortized balances in the applicable variance and deferral accounts at the OEB-prescribed rate of 1.47 percent per annum.

As at December 31, 2014, the balances to be recovered from (refunded to) ratepayers in the variance and deferral accounts authorized for OPG were as follows:

<i>(millions of dollars)</i>	2014
Regulated Hydroelectric	
Capacity Refurbishment Variance Account – Hydroelectric	233
Hydroelectric Surplus Baseload Generation Variance Account	67
Pension and OPEB Cost Variance Account – Hydroelectric – Future Recovery Component	10
Pension and OPEB Cost Variance Account – Hydroelectric – Post 2012 Additions	35
Pension & OPEB Cash Versus Accrual Differential Deferral Account – Hydroelectric	5
Hydroelectric Deferral and Variance Over/Under Recovery Variance Account	5
Pension & OPEB Cash Payment Variance Account – Hydroelectric ¹	-
Income and Other Taxes Variance Account – Hydroelectric ¹	-
Hydroelectric Incentive Mechanism Variance Account	(7)
Hydroelectric Water Conditions Variance Account	(8)
Ancillary Services Net Revenue Variance Account – Hydroelectric	(17)
Total – Regulated Hydroelectric	323
Nuclear	
Pension and OPEB Cost Variance Account – Nuclear – Future Recovery Component	215
Pension and OPEB Cost Variance Account – Nuclear – Post 2012 Additions	679
Nuclear Liability Deferral Account	286
Bruce Lease Net Revenues Variance Account – Derivative Sub-Account	154
Bruce Lease Net Revenues Variance Account – Non-Derivative Sub-Account – EB-2012-0002 Approved	37
Bruce Lease Net Revenues Variance Account – Non-Derivative Sub-Account – Post 2012 Additions	124
Nuclear Development Variance Account	59
Nuclear Deferral and Variance Over/Under Recovery Variance Account	56
Pension & OPEB Cash Versus Accrual Differential Deferral Account – Nuclear	31
Capacity Refurbishment Variance Account – Nuclear – Capital Portion	13
Capacity Refurbishment Variance Account – Nuclear – Non-Capital Portion	1
Pickering Life Extension Depreciation Variance Account	8
Pension & OPEB Cash Payment Variance Account – Nuclear	6
Ancillary Services Net Revenue Variance Account – Nuclear	2
Income and Other Taxes Variance Account – Nuclear	(13)
Total – Nuclear	1,658

¹The account balance is less than \$0.5 million, which rounds to nil million.

This schedule of regulatory balances 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 balances in the authorized variance and deferral accounts as at December 31, 2014. These 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]

Beth Summers
 Chief Financial Officer
 February 18, 2015

See accompanying note to the schedule

**NOTE TO THE SCHEDULE OF REGULATORY BALANCES
AS AT DECEMBER 31, 2014**

1. BASIS OF ACCOUNTING

The schedule of the regulatory balances presents the balances as at December 31, 2014 in all variance and deferral accounts authorized for OPG. These balances represent the regulatory assets and liabilities for these accounts recorded by OPG in accordance with US GAAP for the purposes of its consolidated financial statements, as modified to include a return on equity amount as part of cost of capital additions recorded in the accounts for recovery from, or refund to, ratepayers. For the purposes of its consolidated financial statements prepared in accordance with US GAAP, as required by FASB Accounting Standards Codification Topic 980, *Regulated Operations*, OPG limits the portion of cost of capital additions recognized as a regulatory asset to the amount calculated using the average rate of capitalized interest applied by OPG to construction and development in progress. All dollar amounts are presented in Canadian dollars.

US GAAP recognizes that rate regulation can create economic benefits and obligations that are required to be obtained from, or settled with, the ratepayers. When OPG assesses that there is sufficient assurance that incurred costs in respect of regulated facilities will be recovered in the future, those costs are deferred and reported as a regulatory asset in its consolidated financial statements. When OPG is required to refund amounts in respect of regulated facilities to ratepayers in the future, including amounts related to costs that have not been incurred and for which the OEB has provided recovery through regulated prices, OPG records a regulatory liability in its consolidated financial statements. The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of *Ontario Regulation 53/05* and the OEB's decisions. The estimates and assumptions made in the interpretation of the regulation and the OEB's decisions are reviewed as part of the OEB's regulatory process.

OPG's most recent annual consolidated financial statements filed with the Ontario Securities Commission ("OSC") are as at and for the year ended December 31, 2013. OPG's most recent interim consolidated financial statements are as at and for the nine months ended September 30, 2014 and have been filed with the OSC.