ONTARIO POWER GENERATION

PRESCRIBED FACILITIES OF ONTARIO POWER GENERATION INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31 *(millions of dollars)*	**2012**	**2011** *(as adjusted – Note 18)*
Revenue *(Notes 3 and 14)*	**3,533**	3,535
Fuel expense *(Note 14)*	**501**	484
Gross margin *(Note 14)*	**3,032**	3,051
Expenses *(Note 14)*		
Operations, maintenance and administration *(Note 2)*	**2,044**	2,118
Depreciation and amortization *(Note 4)*	**479**	471
Accretion on nuclear fixed asset removal and nuclear waste management liabilities *(Note 8)*	**411**	400
Earnings on nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**(356)**	(221)
Property and capital taxes *(Note 2)*	**12**	9
	2,590	2,777
Income before other loss (income), interest and income taxes	**442**	274
Other loss (income) *(Notes 13 and 14)*	**3**	(22)
Income before interest and income taxes	**439**	296
Net interest expense *(Notes 6 and 7)*	**169**	164
Income before income taxes	**270**	132
Income tax expense *(Notes 2 and 9)*	**72**	1
Net income	**198**	131

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31 *(millions of dollars)*	**2012**	**2011** *(as adjusted – Note 18)*
Net income	**198**	131
Other comprehensive income (loss), net of income taxes		
Net loss on derivatives designated as cash flow hedges [1]	**(8)**	(40)
Reclassification to income of losses on derivatives designated as cash flow hedges [1]	**15**	6
Other comprehensive income (loss) for the year	**7**	(34)
Comprehensive income	**205**	97

[1] Net of income tax expense of nil for each of 2012 and 2011.

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 *(millions of dollars)*	**2012**	**2011** *(as adjusted – Note 18)*
Operating activities		
Net income	**198**	131
Adjust for non-cash items:		
Depreciation and amortization *(Note 4)*	**479**	471
Accretion on nuclear fixed asset removal and nuclear waste management liabilities *(Note 8)*	**411**	400
Earnings on nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**(356)**	(221)
Pension and other post-employment benefit costs *(Note 10)*	**279**	343
Deferred income taxes and other accrued charges	**27**	(29)
Provision for used nuclear fuel and low and intermediate level waste *(Note 8)*	**56**	27
Regulatory assets and liabilities *(Note 5)*	**(102)**	(25)
Provision for materials and supplies	**32**	9
Other	**7**	(16)
	1,031	1,090
Contributions to nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**(107)**	(145)
Expenditures on nuclear fixed asset removal and nuclear waste management *(Note 8)*	**(115)**	(104)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management *(Note 8)*	**41**	36
Contributions to pension funds and expenditures on other post-employment benefits and supplementary pension plans	**(381)**	(307)
Net changes to other long-term assets and liabilities	**(50)**	(18)
Net changes to non-cash working capital balances *(Note 17)*	**269**	181
Cash flow provided by operating activities	**688**	733
Investing activities		
Investment in property, plant and equipment and intangible assets *(Note 14)*	**(662)**	(553)
Net proceeds from sale of property, plant and equipment	**-**	7
Cash flow used in investing activities	**(662)**	(546)
Financing activities		
Net (decrease) increase in long-term debt *(Note 6)*	**(201)**	272
Net decrease in short-term debt *(Note 7)*	**(42)**	(150)
Cash flow (used in) provided by financing activities	**(243)**	122
Net (decrease) increase in cash and cash equivalents	**(217)**	309
Cash and cash equivalents, beginning of year	**528**	219
Cash and cash equivalents, end of year	**311**	528

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	**2012**	**2011** *(as adjusted – Note 18)*
Assets		
Current assets		
Cash and cash equivalents *(Notes 2 and 3)*	**311**	528
Receivables from related parties *(Notes 2 and 15)*	**289**	256
Other accounts receivable and prepaid expenses *(Note 2)*	**87**	65
Nuclear fixed asset removal and nuclear waste management funds *(Notes 8 and 14)*	**14**	10
Fuel inventory *(Notes 2 and 14)*	**328**	354
Materials and supplies *(Notes 2 and 14)*	**83**	68
Regulatory assets *(Note 5)*	**-**	299
Deferred income taxes *(Note 9)*	**56**	-
	1,168	1,580
Property, plant and equipment *(Notes 2, 4, and 14)*	**12,270**	11,935
Less: accumulated depreciation	**3,668**	3,304
	8,602	8,631
Intangible assets *(Notes 2, 4, and 14)*	**115**	107
Less: accumulated amortization	**92**	84
	23	23
Other assets		
Nuclear fixed asset removal and nuclear waste management funds *(Notes 8 and 14)*	**6,303**	5,885
Long-term materials and supplies *(Notes 2 and 14)*	**327**	348
Regulatory assets *(Note 5)*	**5,915**	4,215
Other long-term assets	**6**	6
	12,551	10,454
	22,344	20,688

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	**2012**	**2011** *(as adjusted – Note 18)*
Liabilities		
Current liabilities		
Accounts payable and accrued charges *(Notes 2 and 3)*	**528**	503
Short-term debt *(Note 7)*	**-**	42
Due to Ontario Power Generation Inc. *(Notes 2, 3, 5, and 14)*	**1,599**	1,066
Regulatory liabilities *(Note 5)*	**-**	130
Income taxes payable *(Notes 2 and 9)*	**43**	31
Deferred income taxes *(Note 9)*	**-**	1
	2,170	1,773
Long-term debt *(Note 6)*	**3,154**	3,355
Other liabilities		
Nuclear fixed asset removal and nuclear waste management liabilities *(Notes 8 and 14)*	**8,040**	7,941
Pension liabilities *(Note 10)*	**2,927**	2,237
Other post-employment benefit liabilities *(Note 10)*	**2,443**	2,061
Long-term accounts payable and accrued charges *(Note 2)*	**89**	147
Deferred income taxes *(Note 9)*	**443**	318
Regulatory liabilities *(Note 5)*	**41**	24
	13,983	12,728
Excess of assets over liabilities		
Net capital *(Note 2)*	**3,125**	2,927
Accumulated other comprehensive loss *(Note 2)*	**(88)**	(95)
	3,037	2,832
	22,344	20,688

Commitments and Contingencies (Notes 10, 11 and 13)

See accompanying notes to the consolidated financial statements

On behalf of Ontario Power Generation Inc.

[Original signed by]

Donn W. J. Hanbidge
Chief Financial Officer

CONSOLIDATED STATEMENTS OF CHANGES IN EXCESS OF ASSETS OVER LIABILITIES

Years Ended December 31 *(millions of dollars)*	**2012**	**2011** *(as adjusted – Note 18)*
Net capital		
Balance at beginning of year	**2,927**	2,796
Net income	**198**	131
Balance at end of year	**3,125**	2,927
Accumulated other comprehensive loss, net of income taxes		
Balance at beginning of year	**(95)**	(61)
Other comprehensive income (loss) for the year	**7**	(34)
Balance at end of year	**(88)**	(95)
	3,037	2,832

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

1. DESCRIPTION OF THE BUSINESS

Ontario Regulation 53/05, a regulation pursuant to the *Ontario Energy Board Act, 1998*, provides that, effective April 1, 2005, Ontario Power Generation Inc. (OPG) receives regulated prices for electricity generated from Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering and Darlington nuclear facilities (collectively, the Prescribed Facilities). These Prescribed Facilities comprise the business.

Effective April 1, 2008, the regulated prices for the Prescribed Facilities are determined by the Ontario Energy Board (OEB), currently using a forecast cost of service methodology. The OEB is a self-funding crown corporation. Its mandate and authority come from the *Ontario Energy Board Act, 1998*, the *Electricity Act, 1998*, and a number of other provincial statutes. The OEB is an independent, quasi-judicial tribunal that reports to the Legislature of the Province of Ontario (the Province) through the Minister of Energy. It regulates market participants in the Province's natural gas and electricity industries and carries out its regulatory functions through public hearings and other more informal processes such as consultations.

The Prescribed Facilities have no separate legal status and are a part of OPG. OPG was incorporated on December 1, 1998 pursuant to the *Business Corporations Act* (Ontario) and is wholly owned by the Province. OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity.

These consolidated financial statements do not include the financial results of additional OPG hydroelectric facilities for which the OEB is required to establish regulated prices effective July 1, 2014, pursuant to an amendment to *Ontario Regulation 53/05* made in November 2013. The amendment is discussed further in Note 19.

2. BASIS OF PRESENTATION

These consolidated financial statements were prepared in accordance with United States generally accepted accounting principles (US GAAP) reflecting the OEB's March 2013 decision, under case number EB-2012-0002, authorizing OPG's use of US GAAP for regulatory purposes. These consolidated financial statements have been prepared primarily through specific identification of assets, liabilities, accumulated other comprehensive income (AOCI), revenues, expenses, and other comprehensive income (OCI) of OPG and the Nuclear Waste Management Organization (NWMO) that relate to the Prescribed Facilities. Effective January 1, 2012, OPG's consolidated financial statements are prepared in accordance with US GAAP and the rules and regulations of the United States Securities and Exchange Commission for annual financial statements, as required by *Ontario Regulation 395/11*, as amended, a regulation under the *Financial Administration Act* (Ontario). All dollar amounts are presented in Canadian dollars.

For prior reporting periods up to and including the year ended December 31, 2011, the consolidated financial statements for the Prescribed Facilities were prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) as determined in Part V of the Canadian Institute of Chartered Accountants' Handbook – Accounting. Note 18 to these consolidated financial statements details the impact on the Prescribed Facilities' reported financial position and results of operations of transition from Canadian GAAP to US GAAP and related reconciliation information. In addition, certain of the 2011 comparative amounts have been reclassified from financial statements previously presented to conform to the 2012 consolidated financial statement presentation.

As OPG maintains pooled bank accounts for the use of all of its operations, OPG's cash balance cannot be assigned specifically to the Prescribed Facilities. OPG's cash balance was allocated to the Prescribed Facilities based on the cash receipts from the Independent Electricity System Operator (IESO) in the month of December of the reporting year. The NWMO's cash balance was directly assigned to the Prescribed Facilities.

Accounts receivable from related parties include the receivable balance from the IESO attributable to the Prescribed Facilities. The portion of OPG's receivable balance from the IESO was attributed to the Prescribed Facilities using direct assignment. The majority of other accounts receivable and prepaid expenses reported by the Prescribed Facilities represents a direct assignment of OPG's balances based on the nature of the underlying items. Fuel inventory, current and long-term materials and supplies, property, plant and equipment, intangible assets, and related fuel and depreciation and amortization expenses represent a direct assignment of OPG's respective balances to the Prescribed Facilities. The full balance of OPG's regulatory assets and regulatory liabilities, including the current portion, representing variance and deferral accounts authorized by the OEB and related amortization expense are reflected in the Prescribed Facilities' consolidated financial statements, as discussed in Note 5.

The liabilities for pension and other post employment benefits (OPEB) and related costs were determined using a combination of specific identification and allocation of the respective amounts in OPG's consolidated financial statements, as discussed in Note 10.

The nuclear fixed asset removal and nuclear waste management liabilities (Nuclear Liabilities) that relate to the Prescribed Facilities were determined using a combination of specific identification and allocation of the amounts in OPG's consolidated financial statements, as discussed in Note 8. The associated accretion expense was computed directly on the balance of the liabilities attributed to the Prescribed Facilities, as discussed in Note 8. The nuclear fixed asset removal and nuclear waste management funds (Nuclear Funds), including the current portion, and associated earnings were directly assigned to the Prescribed Facilities, as described in Note 8.

The Prescribed Facilities' short-term and long-term debt represent amounts owing to OPG. The derivation of debt was based on the methodology approved in the OEB's decision and order issued in March 2011 and April 2011, respectively, under case number EB-2010-0008 establishing regulated prices for the generation from the Prescribed Facilities effective March 1, 2011 (the OEB Decision), as discussed in Notes 6 and 7. For the purposes of determining long-term debt, this methodology considers the portion of OPG's project-specific long-term debt incurred to finance net property, plant and equipment and intangible assets of the Prescribed Facilities and an allocation of OPG's non-project specific long-term debt. This allocation is primarily based on the net property, plant and equipment and intangible asset balances of the Prescribed Facilities relative to those of OPG. The Prescribed Facilities' accrued interest payable represents the portion of OPG's accrued interest payable for project-specific and non-project-specific long-term debt attributed to the Prescribed Facilities. The accrued interest payable is included in accounts payable and accrued charges.

The short-term debt was derived based on the methodology approved in the OEB Decision that considers a portion of OPG's short-term borrowings, including those related to securitized receivables, attributed to the Prescribed Facilities on the basis of construction and development in progress and non-cash working capital amounts attributed to the Prescribed Facilities relative to those of OPG. OPG's project-specific short-term debt was directly assigned on the basis of the assets it was incurred to finance.

The net interest expense on the Prescribed Facilities' short-term and long-term debt was determined using the methodology approved by the OEB Decision, as discussed in Notes 6 and 7.

Amounts reported as due to Ontario Power Generation Inc. represent the impact of transactions between the Prescribed Facilities and OPG resulting from the methodologies and assumptions underlying the balances of assets, liabilities and AOCI and the amounts of revenues, expenses and OCI reported in these consolidated financial statements.

Income taxes payable, deferred income tax assets and liabilities, and income tax expense, discussed in Note 9, and the regulatory asset for deferred income taxes, discussed in Note 5, were determined as though the Prescribed Facilities were a separate taxable entity and were calculated based on the financial position and results of operations of the Prescribed Facilities reported in these consolidated financial statements. Capital tax expense or recovery is derived as an allocation of OPG's respective balances based on the net property, plant and equipment and intangible assets in service attributed to the Prescribed Facilities.

The majority of the long-term accounts payable and accrued charges balance reported by the Prescribed Facilities represents a direct assignment of OPG's balance based on the nature of the underlying items.

The components of AOCI and OCI include the portion of the financial impact of OPG's hedging instruments recorded in OPG's AOCI and OCI that are attributed to the Prescribed Facilities on the basis of the underlying hedged items. Net capital of the Prescribed Facilities represents the excess of assets over liabilities, excluding AOCI, as reported in these consolidated financial statements.

Operations, maintenance and administration (OM&A) expenses consist of expenses specific to the Prescribed Facilities and a portion of OPG's corporate support services and centrally held expenses. OPG's corporate support services and centrally held OM&A expenses were attributed to the Prescribed Facilities consistent with the methodology outlined in an independent cost allocation study undertaken by OPG and submitted to the OEB in OPG's application under case number EB-2010-0008, the results of which were reflected in the regulated prices established by the OEB Decision. According to this methodology, where possible, these expenses were directly assigned to the Prescribed Facilities based on specific identification. Where specific identification was not possible, the expenses were allocated based on cost drivers exhibiting a causal relationship.

Accounts payable and accrued charges associated with OPG's OM&A expenses specific to the Prescribed Facilities were directly assigned to the Prescribed Facilities. Accounts payable and accrued charges associated with OPG's corporate support services and centrally held OM&A expenses were attributed to the Prescribed Facilities on the same basis as the expenses.

The consolidated statements of cash flows were prepared using methodologies and assumptions that are consistent with those underlying the balances of assets, liabilities and AOCI and the amounts of revenues, expenses and OCI reported in these consolidated financial statements.

As a result of the above basis of presentation, the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of cash flows, consolidated balance sheets, and consolidated statements of changes in excess of assets over liabilities of the Prescribed Facilities will not be identical to the financial position and results of operations that would have resulted had the Prescribed Facilities historically operated on a stand-alone basis. These consolidated financial statements have been prepared solely for the use of OPG's management and for filing with the OEB, and are considered by management to be a reasonable representation of the financial results of the Prescribed Facilities for the purpose of filing with the OEB. The methodologies and assumptions used to attribute OPG's amounts to the Prescribed Facilities, as reflected in these consolidated financial statements, are considered by management to be reasonable and consistent with the above purpose.

The consolidated financial statements of OPG for the year ended December 31, 2012, including the 2011 comparative period, have been prepared in accordance with US GAAP and filed with the Ontario Securities Commission.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements of the Prescribed Facilities include amounts attributable to the Prescribed Facilities in the accounts of OPG and a variable interest entity (VIE), the NWMO, where OPG is the primary beneficiary. All significant intercompany transactions have been eliminated on consolidation.

Variable Interest Entities

OPG performs ongoing analysis to assess whether it holds any VIEs and consolidates VIEs of which it is deemed to be the primary beneficiary. Amounts attributable to the Prescribed Facilities in the accounts of OPG's VIEs are reflected in the consolidated financial statements of the Prescribed Facilities. The primary beneficiary of a VIE has both the power to direct the activities of the entity that most significantly impact its economic performance and the obligation to absorb losses of the entity that could potentially be significant to the entity. In circumstances where OPG is not deemed to be the primary beneficiary, the VIE is not recorded in OPG's and therefore not in the Prescribed Facilities' financial statements.

In 2002, OPG and other Canadian nuclear waste producers established the NWMO in accordance with the federal *Nuclear Fuel Waste Act* ("NFWA"). The primary long-term mandate of the NWMO is to implement an approach to address the long-term management of used nuclear fuel. In addition to the above mandate, the NWMO provides project management services for OPG's deep geologic repository (DGR) project for low and intermediate level waste (L&ILW) and other nuclear lifecycle liability management services. OPG has the majority of voting rights at the Board of Directors and members' level. In addition, the NFWA requires the nuclear fuel waste owners to establish and make payments into trust funds for the purpose of funding the implementation of the long-term management plan. OPG currently provides approximately 90 percent of NWMO's funding, primarily towards the Adaptive Phase Management plan for the long-term management of nuclear used fuel. As a result, OPG will absorb a majority of the NWMO's expected losses through future funding in the event of any shortfall. Therefore, OPG holds a variable interest in the NWMO, of which it is the primary beneficiary. Accordingly, the applicable amounts in the accounts of the NWMO, after elimination of all significant intercompany transactions, are consolidated by OPG and therefore the Prescribed Facilities.

Use of Management Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. OPG's management evaluates estimates related to the Prescribed Facilities on an ongoing basis based upon historical experience, current conditions, and assumptions believed to be reasonable at the time the assumption is made, with any adjustments recognized in the period incurred. Significant estimates are included in the determination of pension and OPEB, asset retirement obligations, income taxes (including deferred income taxes), contingencies, regulatory assets and liabilities, valuation of derivative instruments, depreciation and amortization expenses, and inventories. Actual results may differ significantly from these estimates.

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents include an allocated portion of OPG's cash on deposit and money market securities with a maturity of less than 90 days on the date of purchase. Money market securities with a maturity on the date of purchase of greater than 90 days, but less than one year, are recorded as short-term investments. These securities are valued at the lower of cost and market.

Inventories

Inventories, consisting of fuel and materials and supplies, are measured at the lower of cost and market. Cost is determined as weighted average cost for fuel inventory and average cost for materials and supplies.

Property, Plant and Equipment, Intangible Assets and Depreciation and Amortization

Property, plant and equipment and intangible assets are recorded at cost. Interest costs incurred during construction and development are capitalized as part of the cost of the asset based on the interest rate on OPG's long-term debt.

Depreciation and amortization rates for the various classes of assets are based on their estimated service lives. Any asset removal costs that have not been specifically provided for in current or previous periods are charged to OM&A expenses. Repairs and maintenance costs are also expensed when incurred.

Property, plant and equipment are depreciated on a straight-line basis, except for computers and transport and work equipment. These are mostly depreciated on a declining balance basis. Intangible assets, which consist of major application software, are amortized on a straight-line basis.

As at December 31, 2012, the depreciation and amortization periods of property, plant and equipment and intangible assets are as follows:

Nuclear generating stations and major components	15 to 59 years[1]
Hydroelectric generating stations and major components	10 to 100 years
Administration and service facilities	10 to 50 years
Computers, and transport and work equipment assets – declining balance	9% to 40% per year
Major application software	5 years
Service equipment	5 to 10 years

[1] As at December 31, 2012, the end of station life for depreciation purposes for the Darlington and Pickering nuclear generating stations ranges between 2020 and 2051. Major components are depreciated over the lesser of the station life and the life of the components. Changes to the end of station life for depreciation purposes are described under the heading *Changes in Accounting Policies and Estimates.*

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The review is based on the presence of impairment indicators such as the future economic benefit of the assets and external market conditions. The net carrying amount of assets is considered impaired if it exceeds the sum of the estimated undiscounted cash flows expected to result from the asset's use and eventual disposition. In cases where the sum of the undiscounted expected future cash flows is less than the carrying amount, an impairment loss is recognized. This loss equals the amount by which the carrying amount exceeds the fair value. Fair value is determined using expected discounted cash flows when quoted market prices are not available. The impairment is recognized in income in the period in which it is identified.

Rate Regulated Accounting

US GAAP recognizes that rate regulation can create economic benefits and obligations that are required by the regulator to be obtained from, or settled with, the ratepayers. When OPG assesses that there is sufficient assurance that costs incurred in respect of the Prescribed Facilities will be recovered in the future, those costs are deferred and reported as a regulatory asset in the consolidated financial statements of OPG and, as applicable, the Prescribed Facilities. When OPG is required to refund amounts to ratepayers in the future in respect of the Prescribed Facilities, including amounts related to costs that have not been incurred and for which the OEB has provided recovery through current regulated prices, a regulatory liability is recorded.

Certain of the regulatory assets and liabilities reported in the Prescribed Facilities' consolidated financial statements relate to variance and deferral accounts authorized by the OEB, including those authorized pursuant to *Ontario Regulation 53/05.* Variance accounts capture differences between actual costs and revenues, and the corresponding forecast amounts approved in the setting of regulated prices. 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 *Ontario Regulation 53/05* and the OEB's decisions are reviewed as part of the OEB's regulatory process.

Regulatory asset and liability balances for variance and deferral accounts approved by the OEB for inclusion in regulated prices are amortized based on approved recovery periods. Disallowed balances, including associated interest, are charged to operations in the period that the OEB's decision is issued. Interest is applied to regulatory balances as prescribed by the OEB, in order to recognize the cost of financing amounts to be recovered from, or repaid to, ratepayers.

Regulatory asset and liability balances approved by the OEB are classified as current if they are expected to be recovered from, or refunded to, ratepayers within 12 months of the end of the reporting period, based on recovery periods established by the OEB. All other regulatory asset and liability balances are classified as long-term on the consolidated balance sheets.

See Notes 5, 9, 10, 18 and 19 to these consolidated financial statements for additional disclosures related to the OEB's decisions, regulatory assets and liabilities, and rate regulated accounting.

Nuclear Fixed Asset Removal and Nuclear Waste Management Liabilities

The Prescribed Facilities recognize asset retirement obligations for nuclear fixed asset removal and nuclear waste management, discounted for the time value of money. OPG has estimated both the amount and timing of future cash expenditures based on current plans for nuclear fixed asset removal and nuclear waste management. The liabilities are initially recorded at their estimated fair value, which is based on a discounted value of the expected costs to be paid.

On an ongoing basis, the Nuclear Liabilities are increased by the present value of the variable cost portion for the nuclear waste generated each year, with the corresponding amounts charged to operating expenses. Variable expenses relating to low and intermediate level nuclear waste are charged to OM&A expenses. Variable expenses relating to the management and storage of nuclear used fuel are charged to fuel expense. The liabilities may also be adjusted due to changes in the estimated amount or timing of the underlying future cash flows. Upon settlement of the liabilities, a gain or loss would be recorded.

Accretion arises because the Nuclear Liabilities are reported on a net present value basis. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time.

The asset retirement cost is capitalized by increasing the carrying value of the related fixed assets. The capitalized cost is depreciated over the remaining service life of the related fixed assets and is included in depreciation and amortization expenses.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Pursuant to the Ontario Nuclear Funds Agreement (ONFA) between OPG and the Province, OPG established a Used Fuel Segregated Fund (Used Fuel Fund) and a Decommissioning Segregated Fund (Decommissioning Fund). The Used Fuel Fund is intended to fund expenditures associated with the long-term management of highly radioactive used nuclear fuel bundles, while the Decommissioning Fund was established to fund expenditures associated with nuclear fixed asset removal and the disposal of low and intermediate level nuclear waste materials. OPG maintains the Nuclear Funds in third-party custodial accounts that are segregated from the rest of OPG's assets. The segregated funds include amounts associated with the Prescribed Facilities. Separate segregated funds are not maintained for the Prescribed Facilities.

The investments in the Nuclear Funds and the corresponding payables/receivables to/from the Province are classified as held-for-trading. The Nuclear Funds are measured at fair value based on the bid prices of the underlying equity and fixed income securities and, in the case of the alternative investment portfolio, using appropriate valuation techniques as outlined in Note 12 to these consolidated financial statements, with gains and losses recognized in net income.

Revenue Recognition

Revenues for electricity generated by the Prescribed Facilities are collected by OPG based on the OEB approved regulated prices. Electricity generation from the Prescribed Facilities is offered into the real-time energy spot market administered by the IESO. Revenue is recognized as electricity is generated and metered to the IESO, and is directly assigned to the Prescribed Facilities on the basis of the underlying generation of the nuclear and regulated hydroelectric facilities.

Since March 1, 2011, energy revenue generated from the prescribed nuclear facilities has been based on a regulated price of 5.59¢/kWh pursuant to the OEB Decision. This nuclear regulated price includes a rate rider of 0.43¢/kWh for the recovery of the approved nuclear variance and deferral account balances based on recovery periods authorized by the OEB. Also pursuant to the OEB Decision, effective March 1, 2011, energy revenue generated from the prescribed hydroelectric facilities has received a regulated price of 3.41¢/kWh. This regulated price is net of a negative rate rider of -0.17¢/kWh, reflecting the repayment of the approved hydroelectric variance account balances. The OEB also determined that the nuclear and hydroelectric rate riders would expire on December 31, 2012.

The OEB Decision also approved the continuation of the existing hydroelectric incentive mechanism (HIM) but determined that, effective March 1, 2011, a portion of the resulting net revenues should be shared with ratepayers. As a result, the OEB established the Hydroelectric Incentive Mechanism Variance Account. Under the mechanism, OPG continues to receive the approved regulated price for the actual monthly average net energy production per hour from the regulated hydroelectric facilities, and in the hours where OPG's actual net energy production in Ontario is greater or less than the average net volume in the month, the hydroelectric revenues of the Prescribed Facilities are adjusted by the difference between the average hourly net volume and OPG's actual net energy production from the regulated hydroelectric facilities multiplied by the spot market price. The Hydroelectric Incentive Mechanism Variance Account captures the net revenues from the HIM that are required to be returned to ratepayers.

For the period from April 1, 2008 to February 28, 2011, energy revenue generated from the prescribed nuclear facilities was based on a regulated price of 5.50¢/kWh, including a rate rider of 0.20¢/kWh for the recovery of the approved nuclear variance and deferral account balances, pursuant to the OEB's 2008 decision and order. Pursuant to that decision and order, effective April 1, 2008, the revenue from the hydroelectric generation was based on a regulated price of 3.67¢/kWh, which included the recovery of the approved hydroelectric variance accounts and, effective December 1, 2008, was subject to the HIM.

The regulated prices established by the OEB in effect prior to, and effective March 1, 2011 were determined using a forecast cost of service methodology. This methodology establishes regulated prices based on a revenue requirement, taking into account a forecast of production volumes and total operating costs, and a return on rate base. Rate base is a regulatory construct that represents the average net level of investment in regulated property, plant and equipment and intangible assets and an allowance for working capital.

In September 2012, OPG filed an application with the OEB requesting new riders beginning in 2013 to recover balances in nuclear and hydroelectric variance and deferral accounts as at December 31, 2012. In its March 2013 decision, the OEB approved a settlement agreement reached by OPG with the intervenors on all aspects of this application (Settlement Agreement). Subsequently, in its April 2013 order, the OEB established new rate riders applicable to nuclear and hydroelectric electricity generation of the Prescribed Facilities effective January 1, 2013. Further details on these rate riders and the Settlement Agreement are found in Note 19.

The Prescribed Facilities' revenue also includes revenue from isotope sales and ancillary services. Revenues from these activities are recognized as services are provided, or as products are delivered, and are directly assigned to the Prescribed Facilities based on the underlying nature of these activities.

Derivatives

All derivatives, including embedded derivatives that must be separately accounted for, generally are classified as held-for-trading and recorded at fair value in the consolidated balance sheets. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading.

Derivatives qualify for hedge accounting if they meet stringent documentation requirements and the derivative instrument that is designated as a hedge is expected to effectively hedge the identified risk throughout the life of the hedged item. At the inception of a hedging relationship, OPG documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. A documented assessment is made, both at the inception of a hedge and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Specifically for cash flow hedges, the portion of the derivative gain or loss that is effective in offsetting the change in the cost or value of the underlying exposure is deferred in AOCI and later reclassified into net income when the underlying transaction occurs. A portion of applicable gains and losses on OPG's interest rate hedges is reflected in the net interest expense of the Prescribed Facilities using the methodology approved in the OEB Decision for the determination of interest expense. When a derivative instrument hedge ceases to be effective as a hedge or a hedged item ceases to exist, any associated deferred gains or losses are derecognized from the consolidated statements of comprehensive income of the Prescribed Facilities and are charged to OPG through the due to/from account with OPG.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly arm's-length transaction between market participants at the measurement date. Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy is used to group financial assets and liabilities into three levels based on the relative objectivity of the inputs used to measure fair value, with Level 1 representing the highest. Refer to Note 12 for a discussion of fair value measurements and the fair value hierarchy.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at exchange rates prevailing at the balance sheet date. Any resulting gain or loss is reflected in revenue.

Research and Development

Research and development costs are charged to operations in the year incurred. Research and development costs incurred to discharge long-term obligations, such as the Nuclear Liabilities, for which specific provisions have already been made, are charged to the related liability.

Leases

Leases are evaluated and classified as either operating or capital leases for financial reporting purposes. Capital leases, which transfer substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Capital leases are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits incidental to ownership of the asset are classified as operating leases. Operating lease payments, other than contingent rentals, are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term. Where the amount of rent expense recognized is less than the actual rental payments, the excess payment amount is recorded as deferred revenue and included in liabilities on the consolidated balance sheets.

Pension and Other Post Employment Benefits

OPG's post employment benefit programs consist of a contributory defined benefit registered pension plan, a defined benefit supplementary pension plan, and other post retirement benefits (OPRB) including group life insurance and health care benefits, and long-term disability (LTD) benefits. Post employment benefit programs are also provided by the NWMO. Unless specifically noted, information on post employment benefit programs is presented in these consolidated financial statements on a consolidated basis. OPG does not maintain separate pension and OPEB plans for the employees and pensioners associated with the Prescribed Facilities.

OPG accrues its obligations under pension and OPEB plans in accordance with US GAAP. The obligations for pension and OPRB are determined using the projected benefit method pro-rated on service. The obligation for LTD benefits is determined using the projected benefit method on a terminal basis. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions, experience gains or losses, salary levels, inflation, and cost escalation. Pension and OPEB costs and obligations are determined annually by independent actuaries using management's best estimate assumptions.

Assumptions are significant inputs to actuarial models that measure OPG's pension and OPEB obligations and related effects on OPG's operations. Two critical assumptions – discount rate and inflation – are important elements in the determination of OPG's benefit costs and obligations. In addition, the expected return on plan assets is a critical assumption in the determination of registered pension plan costs. These assumptions, as well as other assumptions involving demographic factors such as retirement age, mortality and employee turnover, are evaluated periodically by management in consultation with independent actuaries. During the evaluation process, the assumptions are updated to reflect past experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors. In accordance with US GAAP, for pension and OPRB, the impact of these updates and differences on the respective benefit obligations is accumulated and amortized over future periods; for LTD benefits, the impact of these updates and differences is immediately recognized as OPEB costs in the period incurred.

The discount rates, which are representative of AA corporate bond yields, are used to calculate the present value of the expected future cash flows on the measurement date to determine the projected benefit obligation for OPG's employee benefit plans. A lower discount rate increases the benefit obligations, thereby increasing benefit costs. The expected rate of return on plan assets is based on current and expected asset allocation, as well as the expected return considering long-term historical risks and returns associated with each asset class within the plan portfolio. A lower expected rate of return on plan assets increases pension cost.

Pension fund assets include equity securities and corporate and government debt securities, real estate, infrastructure and other investments. These assets are managed by professional investment managers. The funds do not invest in equity or debt securities issued by OPG. Pension fund assets are valued using market-related values for purposes of determining the amortization of actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six percent assumed real return over a five-year period.

Pension and OPEB costs include current service costs, interest costs on the obligations, the expected return on pension plan assets, adjustments for plan amendments and adjustments for actuarial gains or losses, which result from changes in assumptions and experience gains and losses. Past service costs arising from pension and OPRB plan amendments are amortized on a straight-line basis over the expected average remaining service life to full eligibility of the employees covered by the plan, and the resulting amortization is included as a component of recognized pension and OPEB costs. Past service costs arising from amendments to LTD benefits are immediately recognized as OPEB costs in the period incurred. Due to the long-term nature of pension and OPRB liabilities, the excess of the net cumulative unamortized gain or loss, over 10 percent of the greater of the benefit obligation and the market-related value of the plan assets, is amortized over the expected average remaining service life of the employees covered by the plan, since OPG expects to realize the associated economic benefit over that period. The resulting amortization is included as a component of the recognized costs for the pension and OPEB plans. Actuarial gains or losses for LTD benefits are immediately recognized as OPEB costs in the period incurred.

OPG and therefore the Prescribed Facilities recognize on their balance sheets the funded status of the defined benefit plans. The funded status is measured on a plan-by-plan basis as the difference between the fair value of plan assets and the benefit obligation.

Actuarial gains or losses and past service costs or credits that arise during the year that are not recognized immediately as components of benefit costs are recognized as increases or decreases in OCI, net of income taxes. These unamortized amounts in AOCI are subsequently reclassified and recognized as components of pension and OPRB costs as discussed above.

OPG and therefore the Prescribed Facilities record an offsetting regulatory asset for the portion of the adjustments to AOCI that is attributable to the Prescribed Facilities in order to reflect the expected recovery of these amounts through future regulated prices charged to customers. A corresponding change is recorded in this regulatory asset for the amount of the increases or decreases in OCI for actuarial gains or losses and past service costs during the period, and for the reclassification of unamortized amounts in AOCI into benefit costs during the period.

When the recognition of the transfer of employees and employee-related benefits gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's liability.

Taxes

OPG is exempt from income tax under the *Income Tax Act* (Canada). However, under the *Electricity Act, 1998*, OPG is required to make payments in lieu of corporate income to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario), as modified by the *Electricity Act, 1998* and related regulations. This effectively results in OPG paying taxes similar to what would be imposed under the federal and Ontario tax acts. OPG's payments in lieu of corporate income taxes are made on an aggregate basis for all of its operations. Income taxes payable, deferred income tax assets and liabilities and income tax expense reflected in these consolidated financial statements are calculated as though the Prescribed Facilities are a stand-alone taxable entity.

The Prescribed Facilities follow 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 effect of a change in tax rates on deferred income tax assets and liabilities is included in income in the period the change is enacted.

If it is determined that it is more likely than not that some, or all, of a deferred income tax asset will not be realized, a valuation allowance is recorded to report the balance at the amount expected to be realized.

The Prescribed Facilities record regulatory asset or liability for the deferred income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

Tax benefits associated with income tax positions taken, or expected to be taken, by OPG in a tax return and investment tax credits are recorded only when the more likely than not recognition threshold is satisfied. Tax benefits and investment tax credits recognized are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement.

Investment tax credits are recorded as a reduction to income tax expense and are primarily attributed to the Prescribed Facilities on the basis of the underlying expenditures giving rise to the credit. Interest and penalties associated with unrecognized tax benefits are classified as income tax expense.

OPG makes payments in lieu of property tax on certain of its generating assets to the OEFC, and also pays property taxes to municipalities. These payments are determined on an individual facility basis, and those pertaining to the Prescribed Facilities are reflected in these consolidated financial statements.

OPG pays charges on gross revenue derived from the annual generation of electricity from its hydroelectric generating assets. The gross revenue charge (GRC) includes a fixed percentage charge applied to the annual hydroelectric generation derived from stations located on provincial Crown lands, in addition to graduated rate charges applicable to all hydroelectric stations. The GRC costs and the associated assets and liabilities reflected in these consolidated financial statements represent amounts directly attributed to the generation derived from the regulated hydroelectric stations. GRC costs are reported in fuel expense. GRC prepayments or liabilities are included in prepaid expenses or accounts payable and accrued charges, respectively.

Changes in Accounting Policies and Estimates

Presentation of Comprehensive Income

Effective January 1, 2012, OPG adopted the amendments to Accounting Standards Codification (ASC) Topic 220, *Comprehensive Income.* The amended standard requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. OPG continues to report the components of comprehensive income in a separate but consecutive statement. The same presentation is used for the purposes of these consolidated financial statements.

Fair Value Measurements

Effective January 1, 2012, OPG adopted the amendments to ASC Topic 820, *Fair Value Measurements and Disclosures.* The amendment does not change the items measured at fair value but establishes common requirements for measuring fair value and for disclosing information about fair value measurements. The adoption did not have an impact on OPG's and therefore the Prescribed Facilities' results of operations or financial position.

Useful Lives of Long-Lived Assets

OPG reviews estimated station useful lives for its generating assets on a regular basis. As part of its Pickering Continued Operations initiative, during the fourth quarter of 2012, OPG confirmed its plans for the continued operation of the Pickering stations. This confirmation resulted in a change to the useful lives for the Pickering generating stations, for the purposes of calculating depreciation, effective December 31, 2012. Consistent with the results of the Pickering Continued Operations initiative and other considerations, the useful lives, for accounting purposes, for the Bruce generating stations were also extended by OPG effective December 31, 2012. These stations are currently on lease to Bruce Power L.P. (Bruce Power). Effective December 31, 2012, the changes to the estimated service lives of the Pickering and Bruce generating stations have been reflected in a decrease to the estimate of the Nuclear Liabilities of the Prescribed Facilities of $275 million, which resulted in a decrease in the fixed assets balance of the Prescribed Facilities of $276 million related to the asset retirement cost and an increase of $1 million in OM&A expenses reported by the Prescribed Facilities. Changes in the estimated service lives of the Bruce generating stations impact the Nuclear Liabilities for the Prescribed Facilities because the total cost of certain nuclear waste management programs is attributed to each of OPG's nuclear generating stations on the basis of total expected waste volume for all of the stations, including those on lease to Bruce Power. The methodologies for attributing costs of nuclear waste management programs to the Prescribed Facilities are discussed in Note 8.

The income statement impacts associated with the above changes to the Nuclear Liabilities were largely offset by the Nuclear Liability Deferral Account (NLDA) authorized by the OEB. The NLDA does not record the depreciation impact relating to the fixed asset balances attributable to the tangible components for nuclear generating stations. For the fixed asset balance attributable to the tangible components, the life changes are estimated to decrease depreciation expense related to existing assets for the Pickering generating stations at December 31, 2012 by $35 million in 2013. As discussed in Note 19, the new rate rider for nuclear production established by the OEB effective January 1, 2013 includes a refund to ratepayers of the impact of this decrease in depreciation expense.

Recent Accounting Pronouncements

Comprehensive Income – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board issued an update to ASC Topic 220, which adds new disclosure requirements for items reclassified out of AOCI. Entities must present information about significant items reclassified out of AOCI by component, either on the consolidated statements of income or as a separate disclosure in the notes to the financial statements, with reference to the affected line item in the consolidated statements of income. OPG will apply the amendments for reporting periods beginning on or after January 1, 2013.

Investment Companies

For reporting periods beginning January 1, 2014, OPG will adopt the updates to ASC Topic 946, for *Financial Services - Investment Companies*. Based on the amended scope of the standard, OPG concluded that the Decommissioning Fund, the Used Fuel Fund and the Ontario NFWA Trust, which forms part of the Used Fuel Fund as discussed in Note 8, should be accounted for as investment entities. As the investments of these entities are already recorded at fair value, there will be no measurement differences in the consolidated financial statements upon adoption of this update. However, additional disclosures will be required in the consolidated financial statements.

4. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses for the years ended December 31 consist of the following:

(millions of dollars)	**2012**	**2011**
Depreciation	**302**	289
Amortization of intangible assets	**8**	8
Amortization of regulatory assets and liabilities *(Note 5)*	**169**	174
	479	471

Property, plant and equipment as at December 31 consist of the following:

(millions of dollars)	**2012**	**2011**
Property, plant and equipment		
Nuclear generating stations	**5,772**	5,943
Hydroelectric generating stations	**4,548**	4,538
Construction in progress	**1,950**	1,454
	12,270	11,935
Less: accumulated depreciation		
Nuclear generating stations	**2,815**	2,515
Hydroelectric generating stations	**853**	789
	3,668	3,304
	8,602	8,631

Construction in progress as at December 31 consists of the following:

(millions of dollars)	**2012**	**2011**
Niagara Tunnel	**1,353**	1,122
Darlington Refurbishment	**354**	127
Other	**243**	205
	1,950	1,454

Intangible assets as at December 31 consist of the following:

(millions of dollars)	**2012**	**2011**
Intangible assets		
Nuclear generating stations	**112**	101
Hydroelectric generating stations	**1**	-
Development in progress	**2**	6
	115	107
Less: accumulated amortization		
Nuclear generating stations	**91**	84
Hydroelectric generating stations	**1**	-
	92	84
	23	23

The estimated aggregate amortization expense for each of the five succeeding years for in-service intangible assets recognized as at December 31, 2012 is as follows:

(millions of dollars)	**2013**	**2014**	**2015**	**2016**	**2017**
Amortization expense	7	6	4	3	1

Interest capitalized to construction and development in progress at an average rate of five percent during 2012 (2011 – five percent) was $79 million (2011 – $62 million).

5. REGULATORY ASSETS AND LIABILITIES

The OEB Decision approved, without adjustments, OPG's request for the disposition of balances as at December 31, 2010 in variance and deferral accounts previously authorized by the OEB's decisions and orders since April 1, 2008, including those authorized pursuant to *Ontario Regulation 53/05*. During the period from March 1, 2011 to December 31, 2012, these approved balances were amortized based on recovery periods authorized by the OEB Decision. Any shortfall or over-recovery of the approved balances due to differences between actual and forecast production was recorded in the authorized Nuclear and Hydroelectric Deferral and Variance Over/Under Recovery Variance Accounts to be collected from, or refunded to, ratepayers in the future.

In addition, the OEB Decision authorized the continuation of the previously existing variance and deferral accounts effective March 1, 2011, with the exception of the Nuclear Fuel Cost Variance Account, which was discontinued as of that date. Effective March 1, 2011, the OEB also established the Hydroelectric Surplus Baseload Generation Variance Account and, as discussed in Note 3 to these consolidated financial statements, the Hydroelectric Incentive Mechanism Variance Account.

During the period from January 1, 2011 to February 28, 2011, OPG and therefore the Prescribed Facilities recorded additions to variance and deferral accounts as authorized by the OEB's decisions issued since April 1, 2008 and, pursuant to the OEB's 2008 decision on OPG's regulated prices, amortized account balances as at December 31, 2007, which were recorded pursuant to *Ontario Regulation 53/05*.

During 2012 and 2011, OPG and therefore the Prescribed Facilities recorded interest on outstanding variance and deferral account balances at the interest rate of 1.47 percent per annum prescribed by the OEB.

The regulatory assets and liabilities recorded as at December 31 are as follows:

(millions of dollars)	**2012**	**2011** *(as adjusted – Note 18)*
Regulatory assets		
Variance and deferral accounts as authorized by the OEB		
Pension and OPEB Cost Variance Account	**324**	96
Bruce Lease Net Revenues Variance Account	**311**	196
Tax Loss Variance Account	**302**	425
Nuclear Liability Deferral Account	**208**	22
Impact for USGAAP Deferral Account	**63**	-
Other variance and deferral accounts	**108**	26
	1,316	765
Pension and OPEB Regulatory Asset *(Note 10)*	**4,494**	3,553
Deferred Income Taxes *(Note 9)*	**105**	196
Total regulatory assets	**5,915**	4,514
Less: current portion	**-**	299
Non-current regulatory assets	**5,915**	4,215
Regulatory liabilities		
Variance and deferral accounts as authorized by the OEB		
Income and Other Taxes Variance Account	**35**	49
Other variance and deferral accounts	**6**	105
Total regulatory liabilities	**41**	154
Less: current portion	**-**	130
Non-current regulatory liabilities	**41**	24

The changes in the regulatory assets and liabilities during 2012 and 2011 are as follows:

(millions of dollars)	**Pension and OPEB Cost Variance**	**Bruce Lease Net Revenues Variance**	**Tax Loss Variance**	**Nuclear Liability Deferral**	**Impact for USGAAP Deferral**	**Pension and OPEB Regulatory Asset**	**Deferred Income Taxes**	**Income and Other Taxes Variance**	**Other Variance and Deferral (net)**
Net regulatory assets (liabilities), January 1, 2011 *(as adjusted – Note 18)*	-	250	492	39	-	2,254	223	(40)	(141)
Change during the year	95	56	33	-	-	1,299	(27)	(26)	18
Interest	1	3	7	1	-	-	-	(1)	(2)
Amortization during the year	-	(113)	(107)	(18)	-	-	-	18	46
Net regulatory assets (liabilities), December 31, 2011 *(as adjusted – Note 18)*	96	196	425	22	-	3,553	196	(49)	(79)
Change during the year	225	248	-	206	62	941	(91)	(7)	87
Interest	3	3	5	1	1	-	-	(1)	-
Amortization during the year	-	(136)	(128)	(21)	-	-	-	22	94
Net regulatory assets (liabilities), December 31, 2012	**324**	**311**	**302**	**208**	**63**	**4,494**	**105**	**(35)**	**102**

Pension and OPEB Cost Variance Account

The OEB established the Pension and OPEB Cost Variance Account in its June 2011 decision and order, granting OPG's motion to review and vary the OEB Decision, as it related to updated pension and OPEB costs. The variance account records the difference between actual pension and OPEB costs for the Prescribed Facilities and related tax impacts, and the corresponding amounts reflected in the current regulated prices. The OEB's June 2011 decision and order established the account for the period from March 1, 2011 to December 31, 2012.

In its March 2013 decision and April 2013 order approving the Settlement Agreement for OPG's application for new rate riders, the OEB authorized, effective January 1, 2013, the continuation of previously existing variance and deferral accounts, including the Pension and OPEB Cost Variance Account without a prescribed end date. Further details on the Settlement Agreement are found in Notes 3 and 19.

Bruce Lease Net Revenues Variance Account

As per *Ontario Regulation 53/05*, OPG is required to include the difference between its revenues and costs associated with its ownership of the two nuclear stations on lease to Bruce Power in the determination of the regulated prices for production from OPG's regulated nuclear facilities. The OEB established a variance account that captures differences between actual and forecast revenues and costs related to the nuclear generating stations on lease to Bruce Power that are included in the approved nuclear regulated prices.

The above variances, which are recognized by the Prescribed Facilities as increases or decreases to the regulatory asset for the Bruce Lease Net Revenues Variance Account, are not recognized in the consolidated statements of income of the Prescribed Facilities and are charged to OPG through the due to/from account with OPG. OPG reports the impact of these variances in its consolidated statements of income as part of the revenues and expenses to which they relate.

The derivative embedded in OPG's lease agreement with Bruce Power (Bruce Lease) is recognized as a liability in OPG's consolidated financial statements. The derivative arises from the conditional reduction of lease revenue to OPG in the future, embedded in the terms of the agreement, in each calendar year where the annual arithmetic average of the Hourly Ontario Electricity Price falls below $30/MWh and certain other conditions are met. The term of the derivative embedded in the Bruce Lease is based on the remaining estimated service lives, for accounting purposes, for certain units of the Bruce generating stations. As discussed in Note 3, effective December 31, 2012, the service lives of the Bruce stations were extended by OPG. The service life extension accounted for $249 million of the total increase in the derivative liability recognized by OPG during 2012. Correspondingly, an increase of $249 million was recorded in the regulatory asset for the Bruce Lease Net Revenues Variance Account reported in these consolidated financial statements, with a corresponding increase in the amount due to OPG by the Prescribed Facilities.

The OEB authorized the recovery of the balance in the Bruce Lease Net Revenues Variance Account as at December 31, 2010 over a 22-month period ending December 31, 2012. Accordingly, effective March 1, 2011, the Prescribed Facilities recorded amortization of the regulatory asset for this account on a straight-line basis over this period.

Tax Loss Variance Account

The Tax Loss Variance Account, authorized by the OEB in May 2009 and effective April 1, 2008, pertains to the treatment of tax losses and their use for mitigation. In accordance with the OEB's May 2009 decision on OPG's motion to review and vary the OEB's 2008 decision on OPG's regulated prices, this account recorded, up to March 1, 2011, the difference between the amount of mitigation included in the approved regulated prices established by the OEB's 2008 decision and the revenue requirement reduction available from carried forward prior period tax losses, as recalculated per the OEB's 2008 decision. Only interest and amortization are recorded in this account effective March 1, 2011.

The OEB Decision approved the recovery of the balance in the account as at December 31, 2010 over a 46-month period ending December 31, 2014. Accordingly, effective March 1, 2011, the Prescribed Facilities record amortization for this account on a straight-line basis over this period.

Nuclear Liability Deferral Account

As per *Ontario Regulation 53/05*, the OEB has authorized the NLDA in connection with changes to OPG's liabilities for nuclear used fuel management and nuclear decommissioning and L&ILW management associated with the nuclear facilities owned and operated by OPG, which are comprised of the Pickering and Darlington prescribed nuclear generating stations. The deferral account records the revenue requirement impact associated with the changes in these liabilities arising from an approved reference plan, in accordance with the terms of the ONFA.

As discussed in Note 8, in 2011, the estimate for OPG's Nuclear Liabilities as at December 31, 2011 was updated as a result of the ONFA Reference Plan update process. During 2012, the Province approved the 2012 ONFA Reference Plan, covering the period from 2012 to 2016, with an effective date of January 1, 2012. As a result, the Prescribed Facilities recorded an increase to the regulatory asset for the NLDA during 2012. The regulatory asset represents the revenue requirement impact associated with the increase in the Nuclear Liabilities for the Pickering and Darlington stations arising from the approved 2012 ONFA Reference Plan for the period beginning on January 1, 2012.

During the year ended December 31, 2012, the following items have been recorded as components of the regulatory asset for the NLDA relating to the above increase in the liabilities, with reductions to applicable corresponding expenses reported in these consolidated financial statements:

(millions of dollars)	**2012**
Fuel expense	**25**
Low and intermediate level waste management variable expenses [1]	**1**
Depreciation expense	**98**
Return on rate base [2]	**22**
Interest	**1**
Income taxes	**60**
	207

[1] Amount was recorded as a reduction to OM&A expenses.
[2] Amount was recorded as a reduction to accretion on nuclear fixed asset removal and nuclear waste management liabilities.

Prior to April 1, 2008, the Prescribed Facilities recorded a regulatory asset for the NLDA associated with the increase in the Nuclear Liabilities recognized as at December 31, 2006, following the 2006 ONFA Reference Plan update process. The OEB Decision authorized a 22-month recovery period, ending December 31, 2012, for the remaining balance in the NLDA as at December 31, 2010 related to this increase in the liabilities. Accordingly, effective March 1, 2011, the Prescribed Facilities recorded amortization of the regulatory asset for the NLDA on a straight-line basis over this period.

Impact for USGAAP Deferral Account

In December 2011, OPG filed an application with the OEB for an accounting order, establishing a deferral account to record the financial impacts resulting from the transition to and implementation of US GAAP. The OEB granted OPG's request, authorizing the Impact for USGAAP Deferral Account in its decision and order issued on March 2, 2012. In the decision and order, the OEB stated that the disposition of the account would be subject to the OEB's approval of OPG's use of US GAAP for regulatory purposes. The OEB granted this approval in its March 2013 decision approving the Settlement Agreement discussed in Notes 3 and 19.

During 2012, the Impact for USGAAP Deferral Account recorded the increase in the liability for certain OPEB costs, as a result of the transition to US GAAP, recognized by the Prescribed Facilities as of January 1, 2011 and for the period from January 1, 2011 to December 31, 2012, and associated tax impacts. Pursuant to the approved Settlement Agreement, only interest and amortization will be recorded in this account effective January 1, 2013.

Pension and OPEB Regulatory Asset

The regulated prices established by the OEB for generation from the Prescribed Facilities using a forecast cost of service methodology reflect amounts for pension and OPEB costs attributable to these facilities. These amounts are determined on the basis of the manner in which these costs are recognized in OPG's consolidated financial statements and therefore the consolidated financial statements of the Prescribed Facilities. Unamortized amounts attributed to the Prescribed Facilities in respect of OPG's pension and OPEB plans that are recognized in AOCI are not generally reflected in the regulated prices until these amounts are reclassified from AOCI and recognized as amortization components of the benefit costs in respect of these plans. As such, the consolidated financial statements of OPG and the Prescribed Facilities report an offsetting regulatory asset for the unamortized amounts that have not yet been reclassified from AOCI to benefit costs. The regulatory asset is reversed as underlying unamortized balances are amortized as components of the benefit costs.

The recognition of previously unamortized actuarial net losses and past service costs on transition to US GAAP is discussed in Note 18. The AOCI amounts related to pension and OPEB plans are presented in Note 10.

Deferred Income Taxes

The Prescribed Facilities are required to recognize deferred income taxes, including deferred income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. In addition, the Prescribed Facilities are required to recognize a separate regulatory asset or liability for the amount of deferred income taxes expected to be included in future regulated prices and recovered from, or paid to, customers.

Income and Other Taxes Variance Account

The OEB authorized a variance account to record deviations in income, capital and certain other tax-related expenses for the regulated business, from those approved by the OEB in setting regulated prices for the Prescribed Facilities, caused by changes in tax rates or rules under the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario), as modified by regulations made under the *Electricity Act, 1998*, as well as variances caused by reassessments. Variances resulting from reassessments of prior taxation years that have an impact on taxes payable related to the Prescribed Facilities for the periods after March 31, 2008 are included in the account. In addition, the variance account captures certain changes to the property tax expense for the Prescribed Facilities.

The OEB Decision authorized the repayment of the balance in this variance account, as at December 31, 2010, over a 22-month period ending December 31, 2012. Accordingly, effective March 1, 2011, the amortization of this balance was recorded by the Prescribed Facilities on a straight-line basis over this period.

Other Variance and Deferral Accounts

As at December 31, 2012, regulatory assets for other variance and deferral accounts included amounts for the Ancillary Services Net Revenue Variance Account, the Nuclear Development Variance Account, the Hydroelectric Water Conditions Variance Account and the Capacity Refurbishment Variance Account.

The Ancillary Services Net Revenue Variance Account was authorized by the OEB to capture differences between actual nuclear and regulated hydroelectric ancillary services net revenue and the forecast amounts of such revenue approved by the OEB in setting regulated prices.

The Nuclear Development Variance Account was established pursuant to *Ontario Regulation 53/05* and records differences between actual non-capital costs incurred by OPG in the course of planning and preparing for the development of proposed new nuclear facilities, and the forecast amount of these costs included in the current nuclear regulated prices.

The Hydroelectric Water Conditions Variance Account captures the impact of differences in regulated hydroelectric electricity production due to differences between forecast water conditions underlying the hydroelectric production forecast approved by the OEB in setting regulated hydroelectric regulated prices and the actual water conditions.

The Capacity Refurbishment Variance Account was authorized by the OEB effective April 1, 2008 pursuant to *Ontario Regulation 53/05* and includes variances from forecast costs reflected in the regulated prices related to the refurbishment of the Darlington nuclear generating station, life extension initiatives at the Pickering nuclear generating stations, the Niagara Tunnel project, and other projects related to the Prescribed Facilities.

Regulatory assets for other variance and deferral accounts as at December 31, 2012 also included amounts for the Nuclear Deferral and Variance Over/Under Recovery Variance Account and the Hydroelectric Surplus Baseload Generation Variance Account. The unamortized balance related to the Nuclear Fuel Cost Variance Account which, up to March 1, 2011, captured differences between actual nuclear fuel costs per unit of production and the forecast of these costs approved by the OEB in setting regulated price, was also included in these regulatory assets.

The regulatory assets for other variance and deferral accounts as at December 31, 2011 included amounts for the Ancillary Services Net Revenue Variance Account, the Nuclear Deferral and Variance Over/Under Recovery Variance Account, the Hydroelectric Surplus Baseload Generation Variance Account, the Nuclear Fuel Cost Variance Account, the Nuclear Interim Period Shortfall Variance Account, and the unamortized balance of the variance account related to transmission outages and transmission restrictions. The OEB-approved balances in the Nuclear Interim Period Shortfall Variance Account and the variance account related to transmission outages and transmission restrictions, as well as that in the Hydroelectric Interim Period Shortfall Variance Account, were amortized by December 31, 2012, with residual unamortized amounts transferred to the Nuclear and Hydroelectric Deferral and Variance Over/Under Recovery Variance accounts, as applicable.

As at December 31, 2012 and December 31, 2011, regulatory liabilities for other variance and deferral accounts included amounts for the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account and for the Hydroelectric Incentive Mechanism Variance Account. In addition, as at December 31, 2011, these regulatory liabilities also included amounts for the Nuclear Development Variance Account, the Hydroelectric Water Conditions Variance Account, the Capacity Refurbishment Variance Account, and the Hydroelectric Interim Period Shortfall Variance Account.

The OEB Decision authorized the recovery or repayment of the other variance and deferral account balances as at December 31, 2010, with the exception of the Pickering A Return to Service (PARTS) Deferral Account, over the 22-month period ending December 31, 2012. Accordingly, effective March 1, 2011, the amortization of these balances was recorded by the Prescribed Facilities on a straight-line basis over this period. The PARTS Deferral Account was authorized to be amortized over a period of 10 months ending December 31, 2011.

6. LONG-TERM DEBT AND NET INTEREST EXPENSE

The Prescribed Facilities' long-term debt is due to OPG and is derived based on the methodology approved in the OEB Decision. This debt is reflected as long-term debt in these consolidated financial statements, as the methodology approved in the OEB Decision takes into account OPG's long-term debt. The methodology establishes the total amount of short and long-term debt based on a deemed capital structure for the Prescribed Facilities, determined as 53 percent debt and 47 percent equity by the OEB Decision. The long-term debt portion of the total debt established using the deemed capital structure includes a portion of OPG's project specific long-term debt incurred to finance net property, plant and equipment and intangible assets of the Prescribed Facilities and an allocation of OPG's non-project specific long-term debt. The allocation is primarily based on the net property, plant and equipment and intangible asset balances, excluding those financed by project specific debt, of the Prescribed Facilities relative to those of OPG. The Other component of the Prescribed Facilities' long-term debt is derived as the difference between the total debt per the deemed capital structure established by the OEB Decision, and the total of the short-term debt of the Prescribed Facilities and the portion of OPG's actual long-term debt attributed to the Prescribed Facilities.

The following table summarizes the components of the long-term debt of the Prescribed Facilities as at December 31:

(millions of dollars)	**2012**	**2011**
OPG's project-specific debt for the Prescribed Facilities	**1,025**	875
Allocated portion of OPG's non-project-specific debt	**1,279**	1,494
Other	**850**	986
Total long-term debt	**3,154**	3,355

OPG's project-specific long-term debt included in the derivation of the Prescribed Facilities' long-term debt as at December 31, 2012 consists of outstanding debt financing for the Niagara Tunnel project provided by the OEFC of $1,025 million (December 31, 2011 – $875 million). This debt was issued by OPG against a Niagara Tunnel project credit facility with the OEFC for an amount up to $1.6 billion. Interest payable by OPG is fixed for each note issued against the facility at the time of advance at a rate equal to the prevailing Benchmark Government of Canada 10-Year Bond, plus a credit spread determined by the OEFC based on a survey of market rates. An additional $40 million of new borrowing has been issued under the facility during 2013.

As at December 31, 2012, OPG's total non-project specific long-term debt, a portion of which was allocated to the Prescribed Facilities in the derivation of their long-term debt, consisted of senior and subordinated notes payable to the OEFC totalling $2,460 million (2011 – $2,660 million). Approximately 52 percent of OPG's non-project specific notes payable to the OEFC was allocated to the Prescribed Facilities as at December 31, 2012 (2011 – 56%) based on the methodology per the OEB Decision.

In April 2012, OPG entered into an agreement with the OEFC for a $400 million refinancing credit facility to refinance notes as they mature, and refinanced $200 million of notes under this facility in the second quarter. This facility expired in the second quarter of 2012.

The net interest expense on the Prescribed Facilities' long-term debt for the years ended December 31, 2012 and 2011 at effective rates of 5.13 and 5.23 percent per annum, respectively, was calculated pursuant to the methodology established by the OEB Decision. The calculation of the effective rates is based on the actual interest cost of the weighted average amount of applicable OPG debt issues outstanding during the year and attributed to the Prescribed Facilities, taking into account the impact of related effective interest rate hedging instruments entered into by OPG.

The following table summarizes the net interest expense on the Prescribed Facilities' long-term debt for the years ended December 31:

(millions of dollars)	**2012**	**2011**
OPG's project specific debt for the Prescribed Facilities	**55**	43
Allocated portion of OPG's non-project specific debt	**63**	76
Other	**47**	39
Net interest expense on long-term debt	**165**	158

7. SHORT-TERM DEBT AND NET INTEREST EXPENSE

The Prescribed Facilities' short-term debt is due to OPG and is derived based on the methodology approved in the OEB Decision that considers the following:

- a portion of OPG's short-term borrowings, excluding securitized borrowings and project specific short-term debt directly assigned on the basis of the assets it is incurred to finance; and
- a portion of securitized borrowings allocated to the Prescribed Facilities on the basis of construction and development in progress, fuel inventory, and materials and supplies balances attributed to the Prescribed Facilities relative to those of OPG.

Based on this methodology, none of OPG's short-term borrowings, excluding securitized borrowings, were included in the derivation of the Prescribed Facilities' short-term debt as at December 31, 2012 and December 31, 2011.

OPG has an agreement to sell an undivided co-ownership interest of up to $250 million in its current and future accounts receivable to an independent trust. OPG also retains an undivided co-ownership interest in the receivables sold to the trust, and, under the agreement, continues to service the receivables. The transfer provides the trust with ownership of a share of the payments generated by the receivables, computed on a monthly basis. The trust's recourse to OPG is generally limited to its income earned on the receivables. In the fourth quarter of 2012, OPG renegotiated the agreement to include the issuance of Letters of Credit, and extended the agreement from August 31, 2013 to November 30, 2014. As at December 31, 2012, with the exception of $55 million in Letters of Credit, there were no amounts outstanding under this agreement and, therefore, none were reflected in the Prescribed Facilities' short-term debt. As at December 31, 2011, OPG's total short-term debt included $50 million outstanding under this agreement. Approximately 83 percent of this amount was allocated to the Prescribed Facilities using the methodology established by the OEB. This resulted in the Prescribed Facilities' short-term debt of $42 million as at December 31, 2011.

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two $500 million multi-year term tranches. In May 2012, OPG renewed and extended both tranches to May 2017. OPG's total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at December 31, 2012 and December 31, 2011, no commercial paper was outstanding under this program. There were no other outstanding borrowings under this credit facility as at December 31, 2012 and December 31, 2011. During the second quarter of 2013, OPG renewed and extended both tranches of the credit facility to May 2018.

The net interest expense on the Prescribed Facilities' short-term debt for the year ended December 31, 2012 was calculated pursuant to the methodology established by the OEB Decision at an effective rate of 1.79 percent per annum (2011 – 1.78 percent) plus the portion of the cost of maintaining OPG's commercial bank credit facility attributed to the Prescribed Facilities. The calculation of the effective rate is based on the cost of funds associated with OPG's securitized receivables during the year, excluding Letters of Credit, and the interest cost of the weighted average amount of OPG's commercial paper outstanding during the year, as allocated to the Prescribed Facilities.

The following table summarizes the net interest expense on the Prescribed Facilities' short-term debt for the years ended December 31:

(millions of dollars)	**2012**	**2011**
Securitized receivables' cost of funds	**-**	3
Bank credit facility cost	**4**	3
Net interest expense on short-term debt	**4**	6

8. NUCLEAR FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

The portion of OPG's liabilities for nuclear fixed asset removal and nuclear waste management on a present value basis attributed to the Prescribed Facilities consists of the following as at December 31:

(millions of dollars)	**2012**	**2011**
Liability for nuclear used fuel management	**4,804**	4,643
Liability for nuclear decommissioning and low and intermediate level waste management	**3,236**	3,298
Nuclear fixed asset removal and nuclear waste management liabilities	**8,040**	7,941

The changes in the portion of OPG's Nuclear Liabilities attributed to the Prescribed Facilities for the years ended December 31 are as follows:

(millions of dollars)	2012	2011
Liabilities, beginning of year	**7,941**	7,179
Increase in liabilities due to accretion[1]	**433**	400
Increase in liabilities resulting from the ONFA Reference Plan update process	**-**	439
Decrease in liabilities reflecting a change to the useful lives of the Pickering and Bruce generating stations *(Note 3)*	**(275)**	-
Increase in liabilities due to nuclear used fuel and waste management variable expenses and other expenses	**56**	27
Liabilities settled by expenditures on nuclear fixed asset removal and nuclear waste management	**(115)**	(104)
Liabilities, end of year	**8,040**	7,941

[1] The increase in liabilities due to accretion for 2012 excludes the reduction to accretion expense due to the impact of the NLDA of $22 million (2011 – nil).

During 2012, OPG's total expenditures on nuclear fixed asset removal and nuclear waste management included $57 million in funding to the NWMO (2011 – $53 million). The cash and cash equivalents balance reported by the Prescribed Facilities as at December 31, 2012 includes $5 million of cash and cash equivalents that are for the use of nuclear waste management activities (2011 – $10 million).

OPG's Nuclear Liabilities are comprised of expected costs to be incurred by OPG up to and beyond termination of operations and the closure of its nuclear plant facilities. Costs will be incurred by OPG for activities such as preparation for safe storage, safe storage, dismantling, demolition and disposal of facilities and equipment, remediation and restoration of sites, and the ongoing and long-term management of nuclear used fuel and L&ILW material.

Nuclear station decommissioning consists of preparation and placement of stations into a safe store condition followed by a nominal 30-year safe store period prior to station dismantling and site restoration. Under the terms of the Bruce Lease, OPG continues to be primarily responsible for the Nuclear Liabilities associated with the Bruce nuclear generating stations.

The costs that are recognized as a liability by OPG and the method of attributing these costs for the purposes of determining the liabilities of the Prescribed Facilities are as follows:

- The present value of the costs of decommissioning the nuclear generating facilities after the end of their useful lives, with the costs being determined on an individual facility basis and directly assigned to the nuclear stations of the Prescribed Facilities;
- The present value of the fixed cost portion of nuclear waste management programs that are required, based on the total volume of waste expected to be generated over the assumed life of the stations, with the costs being attributed to the Prescribed Facilities either on the basis of direct assignment or total expected waste volumes over the assumed lives of all of OPG's nuclear stations, depending on the nature of the waste management program; and

- The present value of the variable cost portion of nuclear waste management programs taking into account waste volumes generated to date by each of OPG's nuclear generating stations, with the underlying variable cost rates being calculated using either the total waste volumes expected to be generated over the assumed life of each of the nuclear generating stations of the Prescribed Facilities or the total waste volumes expected to be generated over the assumed lives of all of OPG's nuclear stations, depending on the nature of the waste management program.

Changes in the portion of OPG's Nuclear Liabilities attributed to the Prescribed Facilities during the years ended December 31, 2012 and 2011 were determined as follows:

- Accretion was computed directly on the balance of the liabilities attributed to the Prescribed Facilities using the discount rates applicable to OPG's total liabilities;
- Nuclear used fuel and nuclear waste management variable expenses for the Prescribed Facilities were computed using applicable waste management program cost rates applied to waste volumes generated by each of the nuclear stations of the Prescribed Facilities; and
- With the exception of expenditures incurred in relation to the safe storage of Pickering Units 2 and 3, which were directly assigned to the Prescribed Facilities, expenditures on nuclear fixed asset removal and nuclear waste management were primarily allocated to the Prescribed Facilities in proportion to the total expected waste volumes for each of the nuclear stations over their assumed lives.

The determination of the accrual for nuclear fixed asset removal and nuclear waste management costs requires significant assumptions, since these programs run for many years. Many of these assumptions are made by OPG on an aggregate basis for all of its nuclear stations, including the Bruce A and Bruce B nuclear generating stations, based on the nature of these programs. These assumptions are described on this basis for the purposes of these consolidated financial statements.

The most recent update of the cost estimates for the nuclear waste management and decommissioning liabilities is contained in the approved 2012 ONFA Reference Plan. The update resulted in an increased estimate of costs mainly due to higher costs for the construction of the L&ILW DGR, higher costs for handling and storing of used fuel and L&ILW during station operations, and changes in economic indices. The increase was partially offset by lower expected costs to decommission reactors. The 2012 ONFA Reference Plan update process resulted in an increase in Nuclear Liabilities for the Prescribed Facilities of $439 million, which was recognized on December 31, 2011. The cost escalation rates used to determine the increase in the cost estimates ranged from 1.9 percent to 3.7 percent.

For the purposes of calculating OPG's Nuclear Liabilities and the portion of the liabilities attributed to the Prescribed Facilities, as at December 31, 2012, consistent with the current accounting end of life assumptions, nuclear plant closures are projected to occur over the next seven to 41 years. As discussed in Note 3, changes in the estimated service lives of the Pickering and Bruce generating stations, effective December 31, 2012, were reflected in a decrease to the estimate of the Nuclear Liabilities for the Prescribed Facilities of $275 million recognized on December 31, 2012.

The estimates for the Nuclear Liabilities included cash flow estimates for decommissioning all of OPG's nuclear stations for approximately 40 years after station shut down and to 2071 for placement of used fuel into the long-term disposal repository, followed by extended monitoring. The undiscounted amount of estimated future cash flows associated with OPG's total liabilities is approximately $33 billion in 2012 dollars. The weighted average discount rate used to calculate the present value of the total liabilities at December 31, 2012 was 5.4 percent. The increase in OPG's total liabilities recorded as at December 31, 2012, which reflects the change in the estimated service lives of the Pickering and Bruce stations and is consistent with the approved 2012 ONFA Reference Plan, was determined by discounting the net incremental future cash flows at 3.5 percent.

The significant assumptions underlying operational and technical factors used in the calculation of the accrued Nuclear Liabilities are subject to periodic review. Changes to these assumptions, including changes to assumptions on the timing of the programs, end of life dates, financial indicators, or the technology employed, may result in significant changes to the value of the accrued liabilities. With programs of this duration and the evolving technology to handle the nuclear waste, there is a significant degree of uncertainty surrounding the measurement of the costs for these programs, which may increase or decrease over time.

Liability for Nuclear Used Fuel Management Costs

The liability for nuclear used fuel management represents the cost of managing the highly radioactive used nuclear fuel bundles. The NFWA requires that Canada's nuclear fuel waste owners form a nuclear waste management organization and that each waste owner establish a trust fund for used fuel management costs. To estimate its liability for nuclear used fuel management costs, OPG has adopted a conservative approach consistent with the Adaptive Phased Management concept approved by the Government of Canada, which assumes a DGR in-service date of 2035.

Liability for Nuclear Decommissioning and L&ILW Management Costs

The liability for nuclear decommissioning and L&ILW management represents the estimated costs of decommissioning nuclear generating stations after the end of their service lives, as well as the cost of managing low and intermediate level radioactive wastes generated by the nuclear stations. The significant assumptions used in estimating future nuclear fixed asset removal costs include decommissioning of nuclear generating stations on a deferred dismantlement basis, where the reactors will remain in a safe storage state for a nominal 30-year period prior to an approximate 10-year dismantlement period.

The life cycle costs of L&ILW management include the costs of processing and storage of such radioactive wastes during and following the operation of the nuclear stations, as well as the costs of ultimate long-term management of these wastes. The current assumptions used to establish the accrued L&ILW management costs include the L&ILW DGR. Agreement has been reached with local municipalities for OPG to develop a DGR for the long-term management of L&ILW adjacent to the Western Waste Management Facility. The scheduled public hearing of the Joint Review Panel (JRP) in respect of the proposed L&ILW DGR was completed on October 30, 2013. Subsequent to the conclusion of the scheduled public hearing, OPG received additional information requests from the JRP, which are required to be addressed prior to the close of the public hearing record for the proceeding. The JRP then is required within 90 days to forward a report with recommendations on the environmental assessment (EA) to the federal Minister of Environment. A decision from the Minister is to be made within 120 days of the submission of the JRP report. Subject to the approval of the EA by the Minister, the JRP would proceed to deliberate on issuing a site preparation and construction licence for the L&ILW DGR and issue a decision within 90 days. OPG has suspended design activities on the L&ILW DGR pending the JRP's decision on the licence. The in-service date of the DGR is expected to be approximately six to seven years from the start of construction.

Ontario Nuclear Funds Agreement

OPG sets aside and invests funds held in segregated custodian and trustee accounts specifically for discharging its obligation for nuclear decommissioning and long-term nuclear waste management. In accordance with the ONFA between OPG and the Province, OPG established the Nuclear Funds. OPG jointly oversees the investment management of the Nuclear Funds with the Province. The assets of the Nuclear Funds are maintained in third-party custodian accounts that are segregated from the rest of OPG's assets. The segregated funds include amounts associated with the nuclear stations of the Prescribed Facilities. Separate segregated funds are not maintained for the nuclear stations of the Prescribed Facilities.

The Decommissioning Fund was established to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level nuclear waste management and a portion of used fuel storage costs after station life for all of OPG's nuclear stations, including the Bruce A and Bruce B nuclear generating facilities. OPG and therefore the Prescribed Facilities bear the risk and liability for cost estimate increases and fund earnings in the Decommissioning Fund. As at December 31, 2012, the Decommissioning Fund was in an overfunded position.

The Used Fuel Fund was established to fund future costs of long-term nuclear used fuel waste management for all of OPG's nuclear stations. OPG and therefore the Prescribed Facilities are responsible for the risk and liability of cost increases for used fuel waste management, subject to graduated liability thresholds specified in the ONFA, which limit OPG's total financial exposure at approximately $12.4 billion in December 31, 2012 dollars based on used fuel bundle projections of 2.23 million bundles for all of OPG's nuclear stations, consistent with the station life assumptions included within the initial financial reference plan. The graduated liability thresholds do not apply to used fuel bundles beyond 2.23 million.

The balances of and earnings on OPG's Decommissioning Fund and Used Fuel Fund were attributed to the Prescribed Facilities primarily using direct assignment on the basis of the station-level opening balances of, and specified station-level contributions to, the respective funds prescribed by the approved ONFA Reference Plan in effect. Disbursements from the funds were allocated on the basis of the cost estimates underlying the approved ONFA Reference Plan in effect.

OPG makes quarterly payments to the Used Fuel Fund over the life of its nuclear generating stations, as specified in the ONFA. Total required funding for 2012 under the ONFA was $182 million (2011 – $250 million), including a contribution to The Ontario NFWA Trust (the Trust) of $149 million (2011 – $139 million). Included in the total 2012 funding was a $94 million contribution related to future bundles over the 2.23 million threshold (2011 – $133 million), of which $46 million related to the Prescribed Facilities (2011 – $63 million). The portion of the total required funding for the years ended December 31, 2012 and 2011 related to the nuclear stations of the Prescribed Facilities, as determined in accordance with the ONFA, was $107 million and $145 million, respectively. Based on the 2012 ONFA Reference Plan, OPG is required to contribute annual amounts to the Used Fuel Fund ranging from $139 million to $184 million over the years 2013 to 2017, of which $98 million to $177 million is assigned to the nuclear stations of the Prescribed Facilities (refer to Note 13).

The NFWA was proclaimed into force in November 2002. As required under the NFWA, OPG established the Trust in November 2002 and made an initial deposit of $500 million into the Trust. The NFWA required OPG to make annual contributions of $100 million to the Trust, until such time that the NWMO proposed funding formula, designed to address the future financial costs of implementing the Adapted Phase Management approach, was approved by the Federal Minister of Natural Resources. In 2009, this funding formula was approved. The Trust forms part of the Used Fuel Fund, and contributions to the Trust, as required by the NFWA, may be applied towards OPG's ONFA payment obligations.

As required by the terms of the ONFA, the Province has provided a Provincial Guarantee to the Canadian Nuclear Safety Commission ("CNSC') since 2003, on behalf of OPG. The *Nuclear Safety and Control Act* (Canada) requires OPG to have sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The Provincial Guarantee provides for any shortfall between the long-term liabilities and the current market value of the Used Fuel Fund and the Decommissioning Fund, up to the value of the Provincial Guarantee. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount of the Provincial Guarantee provided by the Province. The Provincial Guarantee of $1,545 million was in effect through to the end of 2012. In January 2012, OPG paid a guarantee fee of $8 million, for the period from January 1, 2012 to December 31, 2012. The full amount of the guarantee fee is reflected in these consolidated financial statements. In December 2012, the CNSC approved OPG's proposed 2013 – 2017 CNSC Financial Guarantee requirement resulting in a Provincial Guarantee amount of $1,551 million for the 2013 – 2017 period.

The investments in the Nuclear Funds and the corresponding payables/receivables to/from the Province are classified as held-for-trading and are measured at fair value with realized and unrealized gains and losses recognized in the consolidated statements of income and consolidated balance sheets.

Decommissioning Fund

Upon termination of the ONFA, the Province has a right to any excess funding in the Decommissioning Fund, which is the excess of the fair market value of the Decommissioning Fund over the estimated completion costs as per the most recently approved ONFA Reference Plan. When the Decommissioning Fund is overfunded, OPG, and therefore the Prescribed Facilities, limit the earnings recognized in the consolidated financial statements by recording a payable to the Province, such that the balance of the Decommissioning Fund would equal the cost estimate of the liability based on the most recently approved ONFA Reference Plan in effect. The payable to the Province could be reduced in subsequent periods in the event that the Decommissioning Fund earns less than its target rate of return or in the event that a new ONFA Reference Plan is approved with a higher estimated decommissioning liability. When the Decommissioning Fund is underfunded, the earnings on the Decommissioning Fund reflect actual fund returns based on the market value of the assets.

The Province's right to any excess funding in the Decommissioning Fund upon termination of the ONFA results in OPG, and therefore the Prescribed Facilities, capping its annual earnings at 3.25 percent plus long-term Ontario Consumer Price Index, which is the rate of growth in the liability for the estimated completion cost, as long as the Decommissioning Fund is in an overfunded status.

The Decommissioning Fund's asset value for all of OPG's nuclear stations and the nuclear stations of the Prescribed Facilities on a fair value basis was $5,707 million and $3,029 million, respectively as at December 31, 2012, both of which were net of a payable to the Province of $64 million and $34 million, respectively, as the value of the fund on an OPG total basis was higher than the corresponding liability per the approved 2012 ONFA Reference Plan. As at December 31, 2011, the Decommissioning Fund's asset value for all of OPG's nuclear stations and the nuclear stations of the Prescribed Facilities on a fair value basis was $5,342 million and $2,840 million, respectively. As at December 31, 2011, the fair value of the fund on a total OPG basis was less than the corresponding liability per the 2006 ONFA Reference Plan.

Under the ONFA, if there is a surplus in the Decommissioning Fund such that the liability, as defined by the most recently approved ONFA Reference Plan, is at least 120 percent funded, OPG may direct up to 50 percent of the surplus over 120 percent to be treated as a contribution to the Used Fuel Fund and the OEFC would be entitled to a distribution of an equal amount. Since OPG is responsible for the risks associated with liability cost increases and investment returns in the Decommissioning Fund, future contributions to the Decommissioning Fund may be required should the fund be in an underfunded position at the time of the next liability reference plan review.

The investments in the Decommissioning Fund include a diversified portfolio of equities and fixed-income securities that are invested across geographic markets as well as investments in infrastructure and Canadian real estate. The Nuclear Funds are invested to fund long-term liability requirements, and as such, the portfolio asset mix is structured to achieve the required return over a long-term horizon. While short-term fluctuations in market value will occur, managing the long-term return of the Nuclear Funds remains the primary goal.

Used Fuel Fund

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 percent plus the change in the Ontario Consumer Price Index for funding related to the first 2.23 million of used fuel bundles generated by all of OPG's nuclear facilities (committed return). OPG, and therefore the Prescribed Facilities, recognize the committed return on the Used Fuel Fund and include it in the earnings on the Nuclear Funds. The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of the Used Fuel Fund's assets, which includes realized and unrealized returns, is recorded as due to or due from the Province. The due to or due from the Province represents the amount the fund would pay to or receive from the Province if the committed return were to be settled as of the consolidated balance sheet date. As part of its regular contributions to the Used Fuel Fund, OPG was required to allocate $94 million, which included $46 million related to the Prescribed Facilities, of its 2012 contribution towards its liability associated with future fuel bundles that exceed the 2.23 million threshold (2011 – $133 million, which included $63 million related to the Prescribed Facilities). As prescribed under the ONFA, OPG's contributions for incremental fuel bundles are not subject to the Province's guaranteed rate of return, but rather earn a return based on changes in the market value of the assets of the Used Fuel Fund.

As at December 31, 2012, the Used Fuel Fund asset value for all of OPG's nuclear stations and the nuclear stations of the Prescribed Facilities, on a fair value basis, was $7,010 million and $3,288 million, respectively. The Used Fuel Fund value for all of OPG's nuclear stations and the nuclear stations of the Prescribed Facilities included a due to the Province of $235 million and $110 million, respectively, related to the committed return adjustment. As at December 31, 2011, the Used Fuel Fund asset value for all of OPG's nuclear stations and the nuclear stations of the Prescribed Facilities, on a fair value basis, was $6,556 million and $3,055 million, respectively. The Used Fuel Fund value for all of OPG's nuclear stations and the nuclear stations of the Prescribed Facilities included a receivable from the Province of $47 million and $22 million, respectively, related to the committed return adjustment.

Under the ONFA, the Province is entitled to any surplus in the Used Fuel Fund, subject to a threshold funded ratio of 110 percent compared to the value of the associated liabilities on a total OPG basis.

The portion of OPG's nuclear fixed asset removal and nuclear waste management funds as at December 31 assigned to the Prescribed Facilities consists of the following:

	Fair Value	
(millions of dollars)	**2012**	**2011**
Decommissioning Fund	**3,063**	2,840
Due to Province – Decommissioning Fund	**(34)**	-
	3,029	2,840
Used Fuel Fund[1]	**3,398**	3,033
Due (to) from Province – Used Fuel Fund	**(110)**	22
	3,288	3,055
Total Nuclear Funds	**6,317**	5,895
Less: current portion	**14**	10
Non-current Nuclear Funds	**6,303**	5,885

[1] The Trust is estimated to represent $1,200 million as at December 31, 2012 (2011 – $1,070 million) of the Used Fuel Fund on a fair value basis. The portion of OPG's amounts related to the Trust attributed to the Prescribed Facilities was estimated on the same basis as the attribution of OPG's total balance of the Used Fuel Fund to the Prescribed Facilities, as the NFWA does not provide a basis to attribute OPG's contributions to the Trust at the station level.

The total fair value of the securities invested by OPG in the Nuclear Funds as at December 31 is provided below. This information is not available for the Prescribed Facilities as the Nuclear Funds are not managed on a station-level basis.

	Fair Value	
(millions of dollars)	**2012**	**2011**
Cash and cash equivalents and short-term investments	**335**	555
Alternative investments	**362**	212
Pooled funds	**2,093**	1,842
Marketable equity securities	**5,670**	4,863
Fixed income securities	**4,523**	4,345
Derivatives	**-**	2
Net receivables/payables	**41**	38
Administrative expense payable	**(8)**	(6)
	13,016	11,851
Due (to) from Province – Used Fuel Fund	**(299)**	47
Total	**12,717**	11,898

The bonds and debentures held in the Used Fuel Fund and the Decommissioning Fund as at December 31 mature according to the schedule provided below. This information is not available for the Prescribed Facilities as the Nuclear Funds are not managed on a station-level basis.

	Fair Value	
(millions of dollars)	**2012**	**2011**
1 – 5 years	**1,151**	1,153
5 – 10 years	**631**	594
More than 10 years	**2,741**	2,598
Total maturities of debt securities	**4,523**	4,345
Average yield	**2.7%**	2.8%

The change in the Nuclear Funds attributed to the Prescribed Facilities for the years ended December 31 is as follows:

	Fair Value	
(millions of dollars)	**2012**	**2011**
Decommissioning Fund, beginning of year	**2,840**	2,806
Increase in fund due to return on investments	**249**	58
Decrease in fund due to reimbursement of expenditures	**(26)**	(24)
Increase in due to Province	**(34)**	-
Decommissioning Fund, end of year	**3,029**	2,840
Used Fuel Fund, beginning of year	**3,055**	2,759
Increase in fund due to contributions made	**107**	145
Increase in fund due to return on investments	**273**	40
Decrease in fund due to reimbursement of expenditures	**(15)**	(12)
Increase in due (to) from Province	**(132)**	123
Used Fuel Fund, end of year	**3,288**	3,055

The earnings on the Nuclear Funds attributed to the Prescribed Facilities for the years ended December 31 are as follows**:**

(millions of dollars)	**2012**	**2011**
Decommissioning Fund	**215**	58
Used Fuel Fund	**141**	163
Total earnings	**356**	221

9. INCOME TAXES

The Prescribed Facilities follow the liability method of accounting for income taxes for all business segments and record an offsetting regulatory asset or liability for the deferred income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

During 2012, the Prescribed Facilities recorded a decrease to the deferred income tax liability for the deferred income taxes that are expected to be recovered or refunded through regulated prices charged to customers of $91 million (2011 – decrease of $27 million). Since these deferred income taxes are expected to be refunded through future regulated prices, the Prescribed Facilities have recorded a corresponding change to the regulatory asset for deferred income taxes. As a result, the deferred income taxes for 2012 and 2011 were not impacted.

Cash income taxes are paid and tax refunds are received by OPG for all of its operations, including the Prescribed Facilities, on an aggregate basis. The amount of tax refund received by OPG, net of taxes paid, during 2012 was $7 million (2011 – $23 million).

The following table summarizes the deferred income tax liabilities recorded by the Prescribed Facilities that are expected to be recovered through future regulated prices:

(millions of dollars)	**2012**	**2011** *(as adjusted – Note 18)*
January 1:		
Deferred income tax liabilities on temporary differences related to regulated operations	**146**	166
Deferred income tax liabilities resulting from the regulatory asset for deferred income taxes	**50**	57
	196	223
Changes during the year:		
Decrease in deferred income tax liabilities on temporary differences related to regulated operations	**(68)**	(20)
Decrease in deferred income tax liabilities resulting from the regulatory asset for deferred income taxes	**(23)**	(7)
Balance at December 31	**105**	196

A reconciliation between the statutory and the effective rate of income taxes for the Prescribed Facilities is as follows:

(millions of dollars)	**2012**	**2011** *(as adjusted – Note 18)*
Income before income taxes	**270**	132
Combined Canadian federal and provincial statutory enacted income tax rates	**26.5%**	28.0%
Statutory income tax rates applied to accounting income	**72**	37
(Decrease) increase in income taxes resulting from:		
Income tax components of the regulatory variance and deferral accounts	**(102)**	3
Non-taxable income items	**36**	25
Change in income tax positions	**(11)**	(60)
Regulatory asset for deferred income taxes	**74**	41
Scientific Research and Experimental Development investment tax credits	**(24)**	(50)
Other	**27**	5
	-	(36)
Income tax expense	**72**	1
Effective rate of income taxes	**26.7%**	0.8%

Significant components of the income tax expense of the Prescribed Facilities are presented in the table below:

(millions of dollars)	**2012**	**2011** *(as adjusted – Note 18)*
Current income tax expense:		
Current payable	**40**	52
Change in income tax positions	**(11)**	(60)
Income tax components of the regulatory variance and deferral accounts	**19**	30
Scientific Research and Experimental Development investment tax credits	**(24)**	(50)
Other	**10**	(2)
	34	(30)
Deferred income tax expense:		
Change in temporary differences	**85**	17
Income tax components of the regulatory variance and deferral accounts	**(121)**	(27)
Regulatory asset for deferred income taxes	**74**	41
	38	31
Income tax expense	**72**	1

The income tax effects of temporary differences that give rise to deferred income tax assets and liabilities of the Prescribed Facilities as at December 31 are as follows:

(millions of dollars)	**2012**	**2011** *(as adjusted – Note 18)*
Deferred income tax assets:		
Nuclear fixed asset removal and nuclear waste management liabilities	**2,010**	1,985
Other liabilities and assets	**1,491**	1,232
Future recoverable Ontario minimum tax	**9**	9
	3,510	3,226
Deferred income tax liabilities:		
Property, plant and equipment and intangible assets	**(918)**	(989)
Nuclear fixed asset removal and nuclear waste management funds	**(1,579)**	(1,474)
Other liabilities and assets	**(1,400)**	(1,082)
	(3,897)	(3,545)
Net deferred income tax liabilities	**(387)**	(319)
Represented by:		
Current portion – asset (liability)	**56**	(1)
Long-term portion – liability	**(443)**	(318)
	(387)	(319)

The tax benefit associated with an income tax position is recognized only when it is more likely than not that such a position will be sustained by the taxing authorities based on the technical merits of the position. The current and deferred income tax impact is equal to the largest amount, considering possible settlement outcomes, that is greater than 50 percent likely of being realized upon settlement with the taxing authorities.

As OPG files income tax returns and pays income taxes on an aggregate basis for all of its operations, information on unrecognized tax benefits is provided on a total OPG basis. A reconciliation of the beginning and ending amount of OPG's total unrecognized tax benefits is provided in the table below.

(millions of dollars)	**2012**	**2011**
Opening balance, January 1	**68**	130
Additions based on tax positions related to the current year	**29**	5
Additions for tax positions of prior years	**-**	11
Reductions for tax positions of prior years	**(15)**	(26)
Decreases due to lapse of statute of limitations	**-**	(40)
Settlements	**-**	(4)
Other	**-**	(8)
Closing balance, December 31	**82**	68

As at December 31, 2012, OPG's total unrecognized tax benefits were $82 million (2011 – $68 million), excluding interest and penalties, all of which, if recognized, would affect OPG's and Prescribed Facilities' effective tax rates. Changes in unrecognized tax benefits over the next 12 months cannot be predicted with certainty.

Interest and penalties related to unrecognized tax benefits are recorded as income tax expense. As at December 31, 2012, OPG recorded interest on total unrecognized tax benefits of $7 million (2011 – $31 million). OPG considers its significant tax jurisdiction to be Canada. As at December 31, 2012, OPG remained subject to income tax examination for years after 2005.

10. PENSION AND OTHER POST EMPLOYMENT BENEFITS

Fund Assets

There is no separate registered pension fund for the Prescribed Facilities. The OPG registered pension fund is managed on an aggregate basis for all of OPG's operations and the information on fund assets is presented below on this basis.

The OPG registered pension plan investment guidelines are stated in an approved Statement of Investment Policies and Procedures (SIPP). The SIPP is reviewed and approved by OPG's Audit and Finance Committee at least annually and includes a discussion regarding investment objectives and expectations, asset mix and rebalancing, and the basis for measuring the performance of the pension fund assets.

In accordance with the SIPP, investment allocation decisions are made with a view to achieve OPG's objective to meet obligations of the plan as they come due. The pension fund assets are invested in two categories of asset classes. The first category is liability hedging assets, which are intended, over the long run, to hedge the inflation and interest rate sensitivity of the plan liabilities. The second category is return enhancing assets, which are intended, over the long run, to obtain higher investment returns compared to the returns expected for liability hedging assets.

To achieve the above objective, OPG has adopted the following long-term asset mix and allowable ranges:

	Minimum	Target	Maximum
Asset Class			
Fixed income securities	26%	34%	46%
Equity securities	44%	54%	64%
Alternative investments	0%	12%	20%

The plan may enter into derivative securities, such as interest rate swaps and forward foreign exchange contracts, for risk management purposes, where such activity is consistent with its investment objective.

Significant Concentrations of Risk in Fund Assets

The assets of the pension fund are diversified to limit the impact of any individual investment. The pension fund is diversified across multiple asset classes. Fixed income securities are diversified among Canadian structured, real return, and corporate bonds, and an interest rate overlay hedging program. Equity securities are diversified across Canadian, US, and non-North American stocks. There are also real estate and infrastructure portfolios that are less than three percent of the total pension fund assets as at December 31, 2012. Investments in the above asset classes are further diversified across funds, investment managers, strategies, vintages, sectors and geographies, depending on the specific characteristics of each asset class.

Credit risk with respect to the pension fund's fixed income securities is governed by the SIPP, which requires that fixed income securities comply with various investment constraints that ensure prudent diversification and prescribed minimum required credit rating quality. Credit risk, as it relates to the pension fund's derivatives, is managed through the use of International Swap and Derivatives Association documentation and counterparty management performed by the fund's investment managers.

Risk Management

Risk management oversight with respect to the pension fund includes but is not limited to the following activities:

- Periodic asset/liability management and strategic asset allocation studies;
- Monitoring of funding levels and funding ratios;
- Monitoring compliance with asset allocation guidelines and investment management agreements;
- Monitoring asset class performance against asset class benchmarks; and
- Monitoring investment manager performance against benchmarks.

Expected Rate of Return on Plan Assets

The expected rate of return on plan assets is based on the current and expected asset allocation, as well as the expected return considering long-term historical risks and returns associated with each asset class within the plan portfolio. The asset management decisions consider the economic liabilities of the plan.

Fair Value Measurements

Fair value measurements are required to be classified using a fair value hierarchy. This hierarchy groups financial instruments into three levels, based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. Refer to Note 12 for a detailed discussion of fair value measurements and the fair value hierarchy.

The tables below present registered pension plan assets for all of OPG's operations measured at fair value in accordance with the fair value hierarchy. This information is not available separately for the Prescribed Facilities, as the OPG registered pension fund is managed on an aggregate basis for all of OPG's operations.

	December 31, 2012			
(millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total [1]**
Cash and cash equivalents	**81**	**116**	**-**	**197**
Short-term investments	**-**	**5**	**-**	**5**
Fixed income				
Corporate debt securities	**-**	**308**	**-**	**308**
Non-US government bonds	**-**	**1,601**	**-**	**1,601**
Equities				
Canadian	**1,988**	**-**	**-**	**1,988**
US	**1,664**	**-**	**-**	**1,664**
Foreign	**1,907**	**-**	**-**	**1,907**
Pooled funds	**8**	**2,396**	**8**	**2,412**
Infrastructure	**-**	**-**	**160**	**160**
Real estate	**-**	**-**	**72**	**72**
Other	**-**	**5**	**-**	**5**
	5,648	**4,431**	**240**	**10,319**

[1] The table excludes pension fund receivables and payables.

	December 31, 2011			
(millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total [1]**
Cash and cash equivalents	132	92	-	224
Short-term investments	-	6	-	6
Fixed income				
Corporate debt securities	-	277	-	277
Non-US government bonds	-	2,301	-	2,301
Equities				
Canadian	1,841	-	-	1,841
US	1,552	-	-	1,552
Foreign	1,572	-	-	1,572
Pooled funds	3	1,664	7	1,674
Infrastructure	-	-	86	86
Real estate	-	-	52	52
Other	-	3	-	3
	5,100	4,343	145	9,588

[1] The table excludes pension fund receivables and payables.

The following tables present the changes in the fair value of financial instruments classified as Level 3:

	For the year ended December 31, 2012			
(millions of dollars)	**Pooled Funds**	**Infrastructure**	**Real Estate**	**Total**
Opening balance, January 1, 2012	**7**	**86**	**52**	**145**
Total realized and unrealized gains	**1**	**74**	**7**	**82**
Purchases, sales, and settlements	**-**	**-**	**13**	**13**
Closing balance, December 31, 2012	**8**	**160**	**72**	**240**

	For the year ended December 31, 2011			
(millions of dollars)	**Pooled Funds**	**Infrastructure**	**Real Estate**	**Total**
Opening balance, January 1, 2011	-	39	3	42
Total realized and unrealized gains	-	6	-	6
Purchases, sales, and settlements	7	41	49	97
Closing balance, December 31, 2011	7	86	52	145

During the years ended December 31, 2012 and 2011, there were no transfers between Level 1 and Level 2. During 2011, a $9 million transfer occurred from Level 1 to Level 3 as an investment was no longer actively traded.

Plan Costs and Liabilities

OPG does not maintain separate pension and OPEB plans for the Prescribed Facilities. 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 as of April 1, 2005, the effective date of the regulated prices established by the Province for the Prescribed Facilities' nuclear and hydroelectric generation. This allocation was determined on the basis of the number of regular OPG employees associated with the Prescribed Facilities. Subsequent to April 1, 2005, the majority of OPG's recognized post employment benefit plan costs attributed to the Prescribed Facilities have been determined using direct assignment primarily on the basis of labour costs incurred by those employees associated with the Prescribed Facilities. The post-employment benefit plan costs associated with OPG's corporate support services were allocated to the Prescribed Facilities 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 OEB Decision.

Unamortized actuarial gains or losses and past service costs are reported on the consolidated balance sheet as part of pension and OPEB liabilities for the funded status of pension and OPRB plans and are recognized in AOCI. The portion of OPG's liabilities representing these unamortized amounts as of the consolidated balance sheet date was primarily allocated to the Prescribed Facilities in proportion to the respective benefit costs attributed to the Prescribed Facilities for that year. The corresponding impact on the Prescribed Facilities' OCI for the year represents the change during the year in the unamortized amounts reported by the Prescribed Facilities as part of the pension and OPRB liabilities.

Pension fund contributions and expenditures on OPEB and supplementary pension plans were primarily allocated to the Prescribed Facilities in proportion to the respective benefit costs.

Separate actuarial assumptions are not made to derive pension and OPEB costs and obligations for the Prescribed Facilities. The assumptions used to derive OPG's total pension and OPEB obligations and costs, and therefore such amounts attributed to the Prescribed Facilities, are presented in the table below. These assumptions include those relating to post employment benefit plans of the NWMO.

	Registered and Supplementary Pension Plans		Other Post-Employment Benefits	
	2012	**2011**	**2012**	**2011**
Weighted Average Assumptions – Benefit Obligations at Year-End				
Rate used to discount future benefits	**4.30%**	5.10%	**4.32%**	5.07%
Salary schedule escalation rate	**2.50%**	3.00%	**-**	-
Rate of cost of living increase to pensions	**2.00%**	2.00%	**-**	-
Initial health care trend rate	**-**	-	**6.38%**	6.48%
Ultimate health care trend rate	**-**	-	**4.38%**	4.38%
Year ultimate health care trend rate reached	**-**	-	**2030**	2030
Rate of increase in disability benefits	**-**	-	**2.00%**	2.00%

	Registered and Supplementary Pension Plans		Other Post-Employment Benefits	
	2012	**2011**	**2012**	**2011**
Weighted Average Assumptions – Costs for the Year				
Expected return on plan assets, net of expenses	**6.50%**	6.50%	**-**	-
Rate used to discount future benefits	**5.10%**	5.80%	**5.07%**	5.67%
Salary schedule escalation rate	**3.00%**	3.00%	**-**	-
Rate of cost of living increase to pensions	**2.00%**	2.00%	**-**	-
Initial health care trend rate	**-**	-	**6.48%**	6.53%
Ultimate health care trend rate	**-**	-	**4.38%**	4.69%
Year ultimate health care trend rate reached	**-**	-	**2030**	2030
Rate of increase in disability benefits	**-**	-	**2.00%**	2.00%
Expected average remaining service life for employees (years)	**12**	12	**13**	11

The components of OPG's post employment benefit plan costs recognized by the Prescribed Facilities, including those related to the post employment benefits of the NWMO, for the years ended December 31 are provided below. The costs were attributed to the Prescribed Facilities using the methodology reflected in the regulated prices established by the OEB Decision.

	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
(millions of dollars)	**2012**	**2011**	**2012**	**2011**	**2012**	**2011** *(adjusted)*
Components of Cost Recognized						
Current service costs	**212**	165	**7**	7	**63**	59
Interest on projected benefit obligation	**497**	474	**12**	10	**110**	105
Expected return on plan assets, net of expenses	**(537)**	(494)	**-**	-	**-**	-
Amortization of past service costs [1]	**-**	8	**-**	-	**2**	1
Amortization of net actuarial loss [1]	**116**	52	**3**	2	**25**	17
Recognition of LTD net actuarial loss	**-**	-	**-**	-	**8**	11
Costs recognized [2]	**288**	205	**22**	19	**208**	193

[1] The amortization of past service costs and net actuarial loss for the years ended December 31, 2012 and 2011 was recognized as an increase to OCI. For both years, this increase was fully offset by the corresponding impact of the Pension and OPEB Regulatory Asset discussed in Note 5.

[2] These pension and OPEB costs exclude the reduction of costs resulting from the recognition of additions to the regulatory assets for the Pension and OPEB Cost Variance Account and the Impact for USGAAP Deferral Account of $192 million and $47 million, respectively, for the year ended December 31, 2012 (2011 – $74 million and nil, respectively). The Pension and OPEB Cost Variance Account and the Impact for USGAAP Deferral Account are discussed in Note 5.

The following table provides the pension and OPEB liabilities reported by the Prescribed Facilities and their classification on the consolidated balance sheets as at December 31:

	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
(millions of dollars)	**2012**	**2011** *(adjusted)*	**2012**	**2011** *(adjusted)*	**2012**	**2011** *(adjusted)*
Current liabilities	**-**	-	**(7)**	(6)	**(77)**	(72)
Non-current liabilities	**(2,698)**	(2,037)	**(229)**	(200)	**(2,443)**	(2,061)
Total liabilities	**(2,698)**	(2,037)	**(236)**	(206)	**(2,520)**	(2,133)

OPG's total accumulated benefit obligations for the registered pension plans and supplementary pension plans as at December 31, 2012 are $12,366 million and $242 million, respectively (2011 – $11,029 million and $216 million, respectively). The accumulated benefit obligation differs from the projected benefit obligation in that the accumulated benefit obligation includes no assumption about future compensation levels.

The following table provides the components of the Prescribed Facilities' OCI related to pension and OPEB plans and the offsetting changes in the Pension and OPEB Regulatory Asset, as discussed in Note 5, for the years ended December 31:

(millions of dollars)	**Registered Pension Plans 2012**	**Registered Pension Plans 2011**	**Supplementary Pension Plans 2012**	**Supplementary Pension Plans 2011**	**Other Post - Employment Benefits 2012**	**Other Post - Employment Benefits 2011**
Changes in plan assets and benefit obligations recognized in OCI						
Current year past service (credits) costs	**-**	-	**-**	-	**(5)**	1
Current year net actuarial loss	**791**	1,174	**24**	23	**277**	181
Amortization of past service costs	**-**	(8)	**-**	-	**(2)**	(1)
Amortization of net actuarial loss	**(116)**	(52)	**(3)**	(2)	**(25)**	(17)
Total decrease in OCI	**675**	1,114	**21**	21	**245**	164
Less: Increase in Pension and OPEB Regulatory Asset *(Note 5)*	**675**	1,114	**21**	21	**245**	164
Net decrease in OCI	**-**	-	**-**	-	**-**	-

The following table provides the components of the Prescribed Facilities' AOCI related to pension and OPEB plans and the offsetting Pension and OPEB Regulatory Asset that have not yet been recognized as components of benefit costs as at December 31:

(millions of dollars)	**Registered Pension Plans 2012**	**Registered Pension Plans 2011**	**Supplementary Pension Plans 2012**	**Supplementary Pension Plans 2011**	**Other Post - Employment Benefits 2012**	**Other Post - Employment Benefits 2011**
Unamortized amounts recognized in AOCI						
Past service costs	**-**	-	**-**	-	**3**	10
Net actuarial loss	**3,645**	2,970	**82**	61	**764**	512
Total recognized in AOCI	**3,645**	2,970	**82**	61	**767**	522
Less: Pension and OPEB Regulatory Asset *(Note 5)*	**3,645**	2,970	**82**	61	**767**	522
Net recognized in AOCI	**-**	-	**-**	-	**-**	-

The following table provides the components of the Prescribed Facilities' AOCI and the offsetting Pension and OPEB Regulatory Asset as at December 31 (included in the table above) that are expected to be amortized as components of benefit costs and recognized as offsetting increases to OCI and reductions in the Pension and OPEB Regulatory Asset in 2013:

(millions of dollars)	**Registered Pension Plans**	**Supplementary Pension Plans**	**Other Post - Employment Benefits**
Past service costs	**-**	**-**	**1**
Net actuarial loss	**196**	**5**	**39**
Total increase in AOCI	**196**	**5**	**40**
Less: Estimated decrease in Pension and OPEB Regulatory Asset	**196**	**5**	**40**
Net increase in AOCI	**-**	**-**	**-**

Based on the most recently filed actuarial valuation of the OPG registered pension plan, as at January 1, 2011, there was a total unfunded liability on a going-concern basis of $555 million and a deficiency on a wind-up basis of $5,663 million. In the previously filed actuarial valuation, as at January 1, 2008, there was an unfunded liability on a going-concern basis of $239 million and a deficiency on a wind-up basis of $2,846 million. The funded status to be determined in the next filed funding valuation, which must have an effective date no later than January 1, 2014, could be significantly different. This information is not available for the Prescribed Facilities, as separate actuarial valuations for funding purposes are not performed for the Prescribed Facilities.

For 2013, OPG's total contribution to its registered pension plan is expected to be $300 million, of which $241 million is attributed to the Prescribed Facilities. The amount of OPG's additional, voluntary contribution, if any, is revisited from time to time. OPG continues to assess the requirements for contributions to the pension plan.

Based on the most recently filed actuarial valuation of the NWMO registered pension plan, as at January 1, 2012, there was a surplus on a going-concern basis of $8 million and a deficiency on a wind-up basis of $15 million. In the previously filed actuarial valuation, as at January 1, 2011, there was a surplus on a going-concern basis of $6 million and a deficiency on a wind-up basis of $5 million. The next filed funding valuation must have an effective date no later than January 1, 2013.

The supplementary pension plans are not funded, but are secured by Letters of Credit totalling $332 million on a total OPG basis as at December 31, 2012 (2011 – $290 million).

Estimated future benefit payments to all participants in the pension and OPEB plans on an OPG-wide basis based on the assumptions used to measure the benefit obligations as at December 31, 2012 are presented in the table below. This information is not available separately for the Prescribed Facilities, as the benefit plans are managed on an aggregate basis for all of OPG's operations.

(millions of dollars)	**Registered Pension Plans**	**Supplementary Pension Plans**	**Other Post - Employment Benefits**
2013	587	8	98
2014	590	8	103
2015	599	9	108
2016	625	10	113
2017	672	11	119
2018 through 2021	3,788	73	687

A one percent increase or decrease in OPG's health care trend rate assumption would result in an increase in the current service and interest components of the 2012 OPEB cost recognized by the Prescribed Facilities of $39 million (2011 – $32 million) or a decrease in the service and interest components of the 2012 OPEB cost recognized by the Prescribed Facilities of $29 million (2011 – $24 million).

A one percent increase or decrease in the health care trend rate assumption would result in an increase in OPG's total projected OPEB obligation at December 31, 2012 of $604 million (2011 – $478 million) or a decrease in OPG's total projected OPEB obligation at December 31, 2012 of $456 million (2011 – $369 million).

11. DERIVATIVES

The Prescribed Facilities are exposed to risks related to changes in market interest rates through the debt owed to OPG, and movements in foreign currency that affect their reported assets and liabilities, and forecasted transactions. Select derivative instruments are used by OPG to manage its risks related to these exposures, and a portion of the financial impacts of these instruments is attributed to the Prescribed Facilities. OPG's derivatives attributed in whole or in part to the Prescribed Facilities are used as hedging instruments only.

Interest rate risk is the risk that the value of assets and liabilities can change due to movements in related interest rates. Interest rate risk for OPG, and therefore the Prescribed Facilities through the debt and net interest expense derivation methodologies established by the OEB Decision, arises with the need to undertake new financing and with the addition of variable rate debt. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated financing. The management of interest rate risk is undertaken by OPG by using derivatives, a portion of the financial impact of which is included in the derivation of the Prescribed Facilities' net interest expense on the long-term debt, to hedge the exposure in accordance with corporate risk management policies. Therefore, a portion of applicable gains and losses on OPG's interest rate hedges that are effective is reflected in the net interest expense of the Prescribed Facilities, using the methodology approved in the OEB Decision for the determination of interest expense.

OPG has entered into a number of forward start interest rate swap agreements to hedge against the effect of changes in interest rates for long-term debt for the Niagara Tunnel project, the impact of which is reflected in these consolidated financial statements.

The Prescribed Facilities' foreign exchange exposure is attributable to US dollar denominated transactions such as the purchase of fuels. OPG enters into foreign exchange derivatives and agreements with major financial institutions, when necessary, in order to manage the exposure to foreign currency movements. The financial impacts of hedging derivative instruments related to movements in foreign currency are attributed to the Prescribed Facilities on the basis of the underlying assets, liabilities, or forecast transactions.

The majority of OPG's and the Prescribed Facilities' revenues are derived from sales through the IESO-administered spot market. Although the credit exposure to the IESO represents a significant portion of both OPG's and the Prescribed Facilities' accounts receivable, OPG's management accepts this risk due to the IESO's primary role in the Ontario electricity market. The remaining receivables exposure is to a diverse group of generally high quality counterparties. The portion of OPG's allowance for doubtful debts attributed to the Prescribed Facilities and reported in these consolidated financial statements at December 31, 2012 was less than $1 million.

The table below provides a summary of OPG's derivative instruments that were attributed to the Prescribed Facilities. These derivative instruments were directly assigned to the Prescribed Facilities.

(millions of dollars except where noted)	**Notional Quantity**	**Terms**	**Fair Value**	**Balance Sheet Line Item**
As at December 31, 2012				
Foreign exchange derivative instruments	**57**	**within 1 year**	**(1)**	Accounts payable and accrued charges
Cash flow hedges – Forward start interest rate swaps	**40**	**1 - 10 years**	**(9)**	Long-term accounts payable and accrued charges
Total derivatives			**(10)**	

(millions of dollars except where noted)	**Notional Quantity**	**Terms**	**Fair Value**	**Balance Sheet Line Item**
As at December 31, 2011				
Cash flow hedges – Forward start interest rate swaps	190	1 - 11 years	(40)	Long-term accounts payable and accrued charges
Total derivatives			(40)	

The following table shows amounts related to derivatives recorded in and reclassified from AOCI for the years ended December 31:

(millions of dollars)	**2012**	**2011**
Cash flow hedges		
Loss in OCI	**(8)**	(40)
Reclassification of losses from AOCI	**15**	6

Existing net losses of $10 million deferred in AOCI as at December 31, 2012 are expected to be reclassified from AOCI within the next 12 months.

12. FAIR VALUE MEASUREMENTS

The fair value measurements are required to be classified using a fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels, based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The level within which the financial asset or liability is classified is determined based on the attribute of significance to the inputs to the fair value measurement. The fair value hierarchy has the following levels:

- Level 1: Valuation of inputs is based on unadjusted quoted market prices observed in active markets for identical assets or liabilities.
- Level 2: Valuation is based on inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Valuation is based on inputs for the asset or liability that are not based on observable market data.

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated balance sheet dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets attributed to the Prescribed Facilities is the current bid price. These instruments are included in Level 1 and are comprised primarily of equity investments and fund investments.

For financial instruments for which quoted market prices are not directly available, fair values are estimated using forward price curves developed from observable market prices or rates. The estimation of fair value may include the use of valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing at the consolidated balance sheet dates. This is the case for over-the-counter derivatives and securities, which include foreign exchange derivatives, interest rate swap derivatives, and fund investments. Pooled fund investments are valued at the unit values supplied by the pooled fund administrators. The unit values represent the underlying net assets at fair values, determined using closing market prices. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques are used to value these instruments. Significant Level 3 inputs include: recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors.

Transfers into, out of, or between levels are deemed to have occurred on the date of the event or change in circumstances that caused the transfer to occur.

OPG is required to determine the fair value of all its financial instruments. The following is a summary of OPG's financial instruments attributed to the Prescribed Facilities as at December 31, the impact of which is reported in these consolidated financial statements:

(millions of dollars except where noted)	**Fair Value**	**Carrying Value** [1]	**Balance Sheet Line Item**
As at December 31, 2012			
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	**6,317**	**6,317**	Nuclear fixed asset removal and nuclear waste management funds
Foreign exchange derivative instruments	**(1)**	**(1)**	Accounts payable and accrued charges
Cash flow hedges – Forward start interest rate swaps	**(9)**	**(9)**	Long-term accounts payable and accrued charges
Long-term debt	**(3,154)**	**(3,154)**	Long-term debt
As at December 31, 2011			
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	5,895	5,895	Nuclear fixed asset removal and nuclear waste management funds
Cash flow hedges – Forward start interest rate swaps	(40)	(40)	Long-term accounts payable and accrued charges
Short-term debt	(42)	(42)	Short-term debt
Long-term debt	(3,355)	(3,355)	Long-term debt

[1] The carrying values of other financial instruments included in cash and cash equivalents, receivables from related parties, other accounts receivable and prepaid expenses, accounts payable and accrued charges, and due to Ontario Power Generation Inc. approximate their fair value due to the immediate or short-term maturity of these financial instruments.

The following tables present financial assets and liabilities of the Prescribed Facilities measured at fair value in accordance with the fair value hierarchy. The amounts in the hierarchy related to the Nuclear Funds and therefore the net change therein during the respective years were estimated in proportion to the Prescribed Facilities' portion of OPG's total balance of the Nuclear Funds.

	December 31, 2012			
(millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Decommissioning Fund	**1,378**	**1,564**	**87**	**3,029**
Used Fuel Fund	**99**	**3,183**	**6**	**3,288**
Total	**1,477**	**4,747**	**93**	**6,317**
Liabilities				
Forward start interest rate swaps	**-**	**(9)**	**-**	**(9)**
Foreign exchange derivative instruments	**-**	**(1)**	**-**	**(1)**
Total	**-**	**(10)**	**-**	**(10)**
Net assets	**1,477**	**4,737**	**93**	**6,307**

	December 31, 2011			
(millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Decommissioning Fund	1,220	1,568	52	2,840
Used Fuel Fund	61	2,991	3	3,055
Total	1,281	4,559	55	5,895
Liabilities				
Forward start interest rate swaps	-	(40)	-	(40)
Total	-	(40)	-	(40)
Net assets	1,281	4,519	55	5,855

During the year ended December 31, 2012, there were no transfers between Level 1 and Level 2. In addition, there were no transfers into and out of Level 3 during the year ended December 31, 2012.

The following tables present the changes in assets and liabilities of the Prescribed Facilities measured at fair value based on Level 3 for the years ended December 31:

(millions of dollars)	**Decom-missioning Fund**	**Used Fuel Fund**
Opening balance, January 1, 2012	**52**	**3**
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds	**6**	**-**
Purchases	**31**	**3**
Sales	**(1)**	**-**
Settlements	**(1)**	**-**
Closing balance, December 31, 2012	**87**	**6**

(millions of dollars)	**Decom-missioning Fund**	**Used Fuel Fund**
Opening balance, January 1, 2011	15	-
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds	1	-
Purchases	39	3
Settlements	(4)	-
Transfers into Level 3	1	-
Closing balance, December 31, 2011	52	3

Decommissioning Fund and Used Fuel Fund

OPG's Nuclear Funds investments classified as Level 3 consist of real estate and infrastructure investments within the alternative investment portfolio. The fair value of the investments within the Nuclear Funds' alternative investment portfolio is determined using appropriate valuation techniques, such as recent arm's length market transactions, reference to current fair values of other instruments that are substantially the same, discounted cash flow analyses, third party independent appraisals, valuation multiples, or other valuation methods. Any control, size, liquidity, or other discount premiums on the investments are considered in the determination of fair value.

The process of valuing investments for which no published market price exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. The values may also differ from the prices at which the investments may be sold.

The table below presents the classes of investments within OPG's total Nuclear Funds that are reported on the basis of net asset value as at December 31, 2012. This information is not available separately for the Prescribed Facilities as the Nuclear Funds are a managed on a total basis for all of OPG's nuclear stations.

(millions of dollars except where noted)	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice**
Infrastructure	240	118	n/a	n/a
Real Estate	122	525	n/a	n/a
Pooled Funds				
Short-term Investments	24	-	Daily	1 - 5 days
Fixed Income	772	-	Daily	1 - 5 days
Equity	1,297	-	Daily	1 - 5 days
Total	2,455	643		

The fair value of the above investments is classified as either Level 2 or Level 3.

Infrastructure

This class includes investments in funds whose investment objective is to generate a combination of long-term capital appreciation and current income, generally through investments in infrastructure such as energy, transportation, and utilities.

The fair values of investments in this class have been estimated using the Nuclear Funds' ownership interest in partners' capital and/or underlying investments held by subsidiaries of an infrastructure fund.

The investments in the respective infrastructure funds are not redeemable. However, the Nuclear Funds may transfer any of its partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each infrastructure fund will be received based on the operations of the underlying investments and/or as the underlying investments of the infrastructure funds are liquidated. It is not possible to estimate when the underlying assets of the infrastructure funds will be liquidated, however, the infrastructure funds have a maturity end period ranging from 2019 to 2023.

Real Estate

This class includes investments in institutional-grade real estate property located in Canada. The investment objective is to provide a stable level of income with the opportunity for long-term capital appreciation.

The fair values of the investments in this class have been estimated using the net asset value of the Nuclear Funds' ownership interest in these investments.

The partnership investments are not redeemable. However, the Nuclear Funds may transfer any of its partnership interests to another party, as stipulated in the partnership agreement, with prior written consent of the other limited partners. For investments in private real estate corporations, shares may be redeemed through a pre-established redemption process. It is not possible to estimate when the underlying assets in this class will be liquidated.

Pooled Funds

This class represents investments in pooled funds, which primarily include a diversified portfolio of fixed income securities, issued mainly by Canadian corporations and diversified portfolios of US and Emerging Market listed equity and fixed income securities. The investment objective of the pooled funds is to achieve capital appreciation and income through professionally managed portfolios.

The fair value of the investments in this class has been estimated using the net asset value per share of the investments.

There are no significant restrictions on the ability to sell investments in this class.

13. COMMITMENTS AND CONTINGENCIES

Litigation

Various legal proceedings are pending against OPG and its subsidiaries covering a wide range of matters that arise in the ordinary course of their business activities and which may impact the Prescribed Facilities. These matters are subject to various uncertainties. Some of these matters may be resolved unfavourably with respect to OPG and the Prescribed Facilities. While it is not possible to determine the ultimate outcome of the various pending actions, it is OPG's belief that their resolution is not likely to have a material adverse effect on the financial position of OPG or the Prescribed Facilities.

Environmental

OPG's current operations are subject to regulation with respect to emissions to air, water, and land as well as other environmental matters by federal, provincial, and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in the Prescribed Facilities' consolidated financial statements to meet certain other environmental obligations of OPG related to the Prescribed Facilities. As at December 31, 2012, the portion of OPG's environmental liabilities attributed to the Prescribed Facilities was $8 million (2011 – $10 million). During 2011, a reduction of $19 million to the environmental liabilities related to the Hydroelectric segment was recognized by the Prescribed Facilities with a corresponding gain of $19 million recognized in other loss (income).

Contractual and Commercial Commitments

The portions of OPG's contractual obligations and other significant commercial commitments related to the Prescribed Facilities as at December 31, 2012 were determined primarily using specific identification, and are as follows:

(millions of dollars)	**2013**	**2014**	**2015**	**2016**	**2017**	**Thereafter**	**Total**
Contractual obligations:							
Fuel supply agreements	182	154	155	104	95	180	870
Contributions under the ONFA [1]	98	170	172	177	156	1,638	2,411
Unconditional purchase obligations	77	73	72	6	-	-	228
Operating lease obligations	14	15	15	16	16	-	76
Operating licence	38	41	41	6	-	-	126
Pension contributions [2]	241	-	-	-	-	-	241
Other	28	26	30	30	32	31	177
	678	479	485	339	299	1,849	4,129
Significant commercial commitments:							
Niagara Tunnel	44	-	-	-	-	-	44
Total	722	479	485	339	299	1,849	4,173

[1] Contributions under the ONFA are based on the 2012 ONFA Reference Plan contribution schedule approved in 2012.

[2] The portion of OPG's pension contributions attributed to the Prescribed Facilities includes ongoing funding requirements, and additional funding requirements towards the deficit, in accordance with the actuarial valuations of the OPG registered pension plan as at January 1, 2011 and the NWMO registered pension plan as at January 1, 2012. The next actuarial valuations of the OPG and NWMO plan must have effective dates no later than January 1, 2014 and 2013, respectively. The pension contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, changes in the pension regulatory environment, and the timing of funding valuations. Funding requirements after 2013 for the OPG registered pension plan are excluded due to significant variability in the assumption required to project the timing of future cash flows. Funding requirements for 2013 for the NWMO registered pension plan are also excluded. The amount of OPG's additional, voluntary contribution, if any, is revisited from time to time.

Niagara Tunnel

In March 2013, the 10.2 kilometre Niagara Tunnel was completed and declared in-service, with a total project cost of approximately $1.5 billion, compared to the approved budget of $1.6 billion. The project was completed approximately nine months ahead of the approved project completion date of December 2013. The capital project expenditures for the year ended December 31, 2012 were $231 million and the life-to-date capital expenditures as at December 31, 2012 were $1.4 billion. The project is debt financed through the OEFC. The project is fully attributed to the Prescribed Facilities. The determination of the Prescribed Facilities' long-term debt owing to OPG considers OPG's OEFC debt related to the project based on the methodology approved in the OEB Decision (Note 6).

Darlington Refurbishment

In March 2012, OPG awarded a Retube and Feeder Replacement contract. The contract will be completed in two phases – a definition phase which includes the planning, design and testing of tooling, design and construction of a full scale reactor mock-up facility for testing and training, and an execution phase including the removal and replacement of major reactor components of the four reactors at the Darlington generating station. The contract value during the definition phase, for the period to 2015, is estimated at over $600 million. The execution phase work, which is still to be estimated and valued, includes removal and replacement of the 480 pressure tubes and calandria tubes, and 960 feeder pipes for each of the station's four reactors. In March 2013, OPG awarded the Turbine Generator contract for equipment supply and technical services, valued at approximately $350 million. Contracts awarded contain suspension and termination provisions.

Capital project expenditures for 2012 were $232 million and the life-to-date capital expenditures as at December 31, 2012 were $362 million. A detailed scope, cost and schedule estimate for the refurbishment is expected to be completed in 2015.

Lease Commitments

OPG is party to various leases for real estate and equipment under operating lease arrangements. The portion of OPG's real estate and transport equipment base rent expense attributed to the Prescribed Facilities for the year ended December 31, 2012 was $10 million (2011 – $10 million). The amount was determined using specific identification of OPG's lease arrangements.

Other Commitments

OPG maintains labour agreements with the Power Workers' Union (PWU) and the Society of Energy Professionals (The Society). As at December 31, 2012, OPG had approximately 10,840 regular employees and about 89 percent of its regular labour force was covered by the collective bargaining agreements. The current collective agreement between OPG and the PWU has a three-year term, which expires on March 31, 2015. The collective agreement with The Society expired on December 31, 2012 and was renewed in the first quarter of 2013, following arbitration. The agreement is effective January 1, 2013, for a three-year term.

Approximately 80 percent of OPG's regular labour force is estimated to relate to the Prescribed Facilities.

Contractual and commercial commitments as noted exclude certain purchase orders, as they represent purchase authorizations rather than legally binding contracts, and are subject to change without significant penalties.

Proxy Property Taxes

In November 2005, OPG received a letter from the Ministry of Finance (MOF) indicating its intent to recommend to the Minister of Finance that an Ontario regulation covering proxy property taxes be updated retroactive to April 1, 1999, to reflect reassessments and appeal settlements of certain OPG properties, including the nuclear properties of the Prescribed Facilities, since that date. OPG continues to monitor the resolution to this issue with the MOF, as updates to the regulation may not occur for several years. Neither OPG nor the Prescribed Facilities have recorded any amounts relating to this anticipated regulation change.

14. BUSINESS SEGMENTS

The Prescribed Facilities have three reportable business segments. The business segments are Nuclear Generation, Nuclear Waste Management, and Hydroelectric. As a result of the basis of presentation of these consolidated financial statements described in Note 2, the financial position and results of operations of the business segments will not be identical to the financial position and results of operations that would have resulted had the Prescribed Facilities historically operated on a stand-alone basis, and may differ from the financial position and results of operations of the business segments reported in OPG's consolidated financial statements.

OM&A expenses of the Prescribed Facilities' generation business segments include a service fee for the use of certain property, plant and equipment and intangible assets held by OPG. The service fee is recorded in OM&A expenses with a corresponding payable in the due to/from account with OPG. For the year ended December 31, 2012, the service fee was $23 million for the Nuclear Generation segment and $2 million for the Hydroelectric segment. For the year ended December 31, 2011, the service fee was $22 million for the Nuclear Generation segment and $2 million for the Hydroelectric segment.

Nuclear Generation Segment

The Nuclear Generation business segment operates in Ontario, generating and selling electricity from the Pickering and Darlington nuclear generating stations operated by OPG. This business segment also includes revenue earned from heavy water sales, detritiation services, isotope sales and ancillary services. Ancillary services revenue is earned through voltage control and reactive support.

Nuclear Waste Management

The Nuclear Waste Management segment engages in the management of used nuclear fuel and L&ILW produced by the Darlington and Pickering nuclear generating stations, the decommissioning of the Darlington and Pickering nuclear stations, the management of the portion of OPG's Nuclear Funds attributable to the Prescribed Facilities, and related activities including the inspection and maintenance of the waste storage facilities. Accordingly, the accretion expense on the Prescribed Facilities' portion of the Nuclear Liabilities and the earnings from the Prescribed Facilities' portion of the Nuclear Funds are reported under this segment.

As the nuclear generating stations operate over time, the Prescribed Facilities incur variable costs related to nuclear used fuel and L&ILW generated. These costs increase the Nuclear Liabilities through the generation of additional used nuclear fuel bundles and other waste. These variable costs are charged to current operations in the Nuclear Generation segment in order to appropriately reflect the cost of producing energy. Since variable costs increase the Nuclear Liabilities in the Nuclear Waste Management segment, the Prescribed Facilities record an inter-segment charge between the Nuclear Generation and the Nuclear Waste Management segments. The impact of the inter-segment charge between these segments is eliminated on the consolidated statements of income and balance sheets of the Prescribed Facilities.

Hydroelectric Segment

The Hydroelectric business segment operates in Ontario, generating and selling electricity from the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and the R.H. Saunders hydroelectric facilities operated by OPG. The Hydroelectric business segment also includes ancillary services revenue related to these stations earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control and reactive support, certified black start facilities, regulation service (formerly known as automatic generation control), and other services.

Segment Income (Loss) for the Year Ended December 31, 2012 *(millions of dollars)*	**Nuclear Generation**	**Nuclear Waste Management**	**Hydroelectric**	**Elimination**	**Total**
Revenue	**2,806**	**64**	**724**	**(61)**	**3,533**
Fuel expense	**240**	**-**	**261**	**-**	**501**
Gross margin	**2,566**	**64**	**463**	**(61)**	**3,032**
Operations, maintenance and administration	**1,930**	**72**	**103**	**(61)**	**2,044**
Depreciation and amortization	**446**	**-**	**33**	**-**	**479**
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	**-**	**411**	**-**	**-**	**411**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**-**	**(356)**	**-**	**-**	**(356)**
Property and capital taxes	**13**	**-**	**(1)**	**-**	**12**
Other (income) loss	**(1)**	**-**	**4**	**-**	**3**
Income (loss) before interest and income taxes	**178**	**(63)**	**324**	**-**	**439**

Segment Income (Loss) for the Year Ended December 31, 2011 *(millions of dollars)* *(as adjusted – Note 18)*	**Nuclear Generation**	**Nuclear Waste Management**	**Hydroelectric**	**Elimination**	**Total**
Revenue	2,804	32	729	(30)	3,535
Fuel expense	223	-	261	-	484
Gross margin	2,581	32	468	(30)	3,051
Operations, maintenance and administration	2,000	40	108	(30)	2,118
Depreciation and amortization	433	-	38	-	471
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	-	400	-	-	400
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(221)	-	-	(221)
Property and capital taxes	11	-	(2)	-	9
Other income	(3)	-	(19)	-	(22)
Income (loss) before interest and income taxes	140	(187)	343	-	296

Selected Consolidated Balance Sheet Information as at December 31, 2012 *(millions of dollars)*	**Nuclear Generation**	**Nuclear Waste Management**	**Hydroelectric**	**Total**
Segment property, plant and equipment in-service, net	**2,957**	**-**	**3,695**	**6,652**
Segment construction in progress	**554**	**-**	**1,396**	**1,950**
Segment property, plant and equipment, net	**3,511**	**-**	**5,091**	**8,602**
Segment intangible assets in-service, net	**21**	**-**	**-**	**21**
Segment development in progress	**2**	**-**	**-**	**2**
Segment intangible assets, net	**23**	**-**	**-**	**23**
Segment materials and supplies inventory, net:				
Short-term	**83**	**-**	**-**	**83**
Long-term	**327**	**-**	**-**	**327**
Segment fuel inventory	**328**	**-**	**-**	**328**
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	**-**	**6,317**	**-**	**6,317**
Nuclear fixed asset removal and nuclear waste management liabilities	**-**	**(8,040)**	**-**	**(8,040)**

Selected Consolidated Balance Sheet Information as at December 31, 2011 *(millions of dollars)*	**Nuclear Generation**	**Nuclear Waste Management**	**Hydroelectric**	**Total**
Segment property, plant and equipment in-service, net	3,428	-	3,749	7,177
Segment construction in progress	305	-	1,149	1,454
Segment property, plant and equipment, net	3,733	-	4,898	8,631
Segment intangible assets in-service, net	17	-	-	17
Segment development in progress	6	-	-	6
Segment intangible assets, net	23	-	-	23
Segment materials and supplies inventory, net:				
Short-term	68	-	-	68
Long-term	348	-	-	348
Segment fuel inventory	354	-	-	354
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	-	5,895	-	5,895
Nuclear fixed asset removal and nuclear waste management liabilities	-	(7,941)	-	(7,941)

Selected Consolidated Cash Flow Information *(millions of dollars)*	**Nuclear Generation**	**Nuclear Waste Management**	**Hydroelectric**	**Total**
Year ended December 31, 2012				
Investment in property, plant and equipment and intangible assets	**400**	**-**	**262**	**662**
Year ended December 31, 2011				
Investment in property, plant and equipment and intangible assets	253	-	300	553

15. RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, the related parties of OPG, and therefore the Prescribed Facilities, include the Province, Infrastructure Ontario and the successor entities of Ontario Hydro, including Hydro One Inc. (Hydro One), the IESO, and the OEFC. The transactions between OPG, and therefore the Prescribed Facilities, and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

OPG's related party transactions were attributed to the Prescribed Facilities primarily using direct assignment of OPG's respective amounts as applicable, and are summarized below for the years ended December 31:

(millions of dollars)	Revenue 2012	Expenses 2012	Revenue 2011 (adjusted)	Expenses 2011 (adjusted)
Hydro One				
Services	**-**	**11**	-	7
Province of Ontario				
GRC, water rentals and land tax	**-**	**68**	-	71
Guarantee fee	**-**	**8**	-	8
Used Fuel Fund rate of return guarantee	**-**	**132**	-	(123)
Decommissioning Fund excess funding	**-**	**34**	-	-
Pension benefits guarantee fund	**-**	**1**	-	-
OEFC				
GRC and proxy property tax	**-**	**166**	-	180
Capital tax	**-**	**(2)**	-	(7)
Income taxes, net of investment tax credits	**-**	**82**	-	(18)
Infrastructure Ontario				
Reimbursement of expenses incurred during the procurement process for new nuclear units	**-**	**(1)**	-	(2)
IESO				
Electricity sales	**3,363**	**-**	3,365	-
Ancillary services	**23**	**-**	25	-
	3,386	**499**	3,390	116

As at December 31, 2012, the Prescribed Facilities' reported accounts receivable included a specifically identified amount of $289 million (2011 – $256 million) of the total OPG amount due from the IESO. The Prescribed Facilities' reported accounts payable and accrued charges as at December 31, 2012 included an estimated amount of $2 million (2011 – $2 million) of the total OPG amount due to Hydro One, and the full OPG amount of nil (2011 – $1 million) due to Infrastructure Ontario.

16. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2012, research and development expenses of $121 million (2011 – $110 million) were charged to operations by the Prescribed Facilities. The amount of expenses attributed to the Prescribed Facilities was primarily determined by direct assignment of OPG's total research and development expenses.

17. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	**2012**	**2011** *(as adjusted – Note 18)*
Receivables from related parties	**(33)**	55
Other accounts receivable and prepaid expenses	**(22)**	(23)
Fuel inventory	**26**	(17)
Materials and supplies	**(15)**	(3)
Accounts payable and accrued charges	**19**	49
Due to Ontario Power Generation Inc.	**282**	142
Income taxes payable	**12**	(22)
	269	181

18. US GAAP TRANSITION

The Prescribed Facilities are required to report under US GAAP beginning January 1, 2012. Financial information derived from the consolidated financial statements for the 2011 comparative period has been adjusted to be in accordance with US GAAP. These adjustments are presented in this note.

US GAAP Reconciliation

The consolidated financial statements of the Prescribed Facilities were previously prepared under Canadian GAAP. Material differences between US GAAP and Canadian GAAP impacting the Prescribed Facilities' consolidated financial statements are discussed in this note. Refer to Note 3 of the Prescribed Facilities' accounting policies under US GAAP.

As reflected in this note, the adoption of US GAAP is on a retrospective basis, with a restatement of prior period financial statements. Reconciliations are provided for the consolidated balance sheets and the consolidated statements of changes in excess of assets over liabilities as of January 1, 2011, the date of transition to US GAAP, and December 31, 2011. Reconciliations for the consolidated statement of income and comprehensive income, and the consolidated statement of cash flows for the year ended December 31, 2011 are also provided. The effects of transition from Canadian GAAP to US GAAP are identified in the statements below, with references to descriptions of transition impacts provided in the *Notes to Transitional Adjustments* section.

Reconciliation of the Consolidated Balance Sheet from Canadian GAAP to US GAAP as at January 1, 2011, the date of transition to US GAAP

As at January 1, 2011 *(millions of dollars)*	**Notes**	**Canadian GAAP**	**Effect of Transition to US GAAP**	**US GAAP**
Assets				
Current assets				
Cash and cash equivalents		219	-	219
Accounts receivable	D	116	(116)	-
Prepaid expenses	D	28	(28)	-
Receivables from related parties	C,D	-	311	311
Other accounts receivable and prepaid expenses	D	-	42	42
Nuclear fixed asset removal and nuclear waste management funds	D	-	6	6
Fuel inventory		337	-	337
Materials and supplies		65	-	65
Regulatory assets	D	-	28	28
Deferred income taxes [1]	B	49	(8)	41
		814	235	1,049
Property, plant and equipment		10,966	-	10,966
Less: accumulated depreciation		3,021	-	3,021
		7,945	-	7,945
Intangible assets		96	-	96
Less: accumulated amortization		75	-	75
		21	-	21
Other assets				
Deferred pension asset	A	900	(900)	-
Nuclear fixed asset removal and nuclear waste management funds	D	5,565	(6)	5,559
Long-term materials and supplies		364	-	364
Regulatory assets	A,B,D	1,075	2,222	3,297
Other long-term assets [2]		6	-	6
		7,910	1,316	9,226
		16,690	1,551	18,241

[1] Presented as future income taxes under Canadian GAAP.
[2] Presented as long-term accounts receivable and other assets under Canadian GAAP.

As at January 1, 2011 *(millions of dollars)*	**Notes**	**Canadian GAAP**	**Effect of Transition to US GAAP**	**US GAAP**
Liabilities				
Current liabilities				
Accounts payable and accrued charges		448	-	448
Short-term debt		192	-	192
Due to Ontario Power Generation Inc.	C	656	209	865
Income and capital taxes payable		53	-	53
		1,349	209	1,558
Long-term debt		3,083	-	3,083
Other liabilities				
Nuclear fixed asset removal and nuclear waste management liabilities		7,179	-	7,179
Pension liabilities	A	126	996	1,122
Other post employment benefit liabilities	A	1,380	389	1,769
Long-term accounts payable and accrued charges	B	229	(12)	217
Deferred income taxes [1]	B	342	(12)	330
Regulatory liabilities		248	-	248
		9,504	1,361	10,865
Excess of assets over liabilities				
Net capital	A,B	2,815	(19)	2,796
Accumulated other comprehensive loss		(61)	-	(61)
		2,754	(19)	2,735
		16,690	1,551	18,241

[1] Presented as future income taxes under Canadian GAAP.

Reconciliation of the Consolidated Balance Sheet from Canadian GAAP to US GAAP as at December 31, 2011

As at December 31, 2011 *(millions of dollars)*	**Notes**	**Canadian GAAP**	**Effect of Transition to US GAAP**	**US GAAP**
Assets				
Current assets				
Cash and cash equivalents		528	-	528
Accounts receivable	D	293	(293)	-
Prepaid expenses	D	18	(18)	-
Receivables from related parties	C,D	-	256	256
Other accounts receivable and prepaid expenses	D	-	65	65
Nuclear fixed asset removal and nuclear waste management funds	D	-	10	10
Fuel inventory		354	-	354
Materials and supplies		68	-	68
Regulatory assets	D	-	299	299
Deferred income taxes [1]	B	44	(44)	-
		1,305	275	1,580
Property, plant and equipment		11,935	-	11,935
Less: accumulated depreciation		3,304	-	3,304
		8,631	-	8,631
Intangible assets		107	-	107
Less: accumulated amortization		84	-	84
		23	-	23
Other assets				
Deferred pension asset	A	933	(933)	-
Nuclear fixed asset removal and nuclear waste management funds	D	5,895	(10)	5,885
Long-term materials and supplies		348	-	348
Regulatory assets	A,B,D	973	3,242	4,215
Other long-term assets [2]		6	-	6
		8,155	2,299	10,454
		18,114	2,574	20,688

[1] Presented as future income taxes under Canadian GAAP.
[2] Presented as long-term accounts receivable and other assets under Canadian GAAP.

As at December 31, 2011 *(millions of dollars)*	**Notes**	**Canadian GAAP**	**Effect of Transition to US GAAP**	**US GAAP**
Liabilities				
Current liabilities				
Accounts payable and accrued charges		503	-	503
Short-term debt		42	-	42
Due to Ontario Power Generation Inc.	C	1,056	10	1,066
Regulatory liabilities	D	-	130	130
Income taxes payable		34	(3)	31
Deferred income taxes [1]	B	-	1	1
		1,635	138	1,773
Long-term debt		3,355	-	3,355
Other liabilities				
Nuclear fixed asset removal and nuclear waste management liabilities		7,941	-	7,941
Pension liabilities	A	139	2,098	2,237
Other post employment benefit liabilities	A	1,499	562	2,061
Long-term accounts payable and accrued charges	B	144	3	147
Deferred income taxes [1]	B	372	(54)	318
Regulatory liabilities	D	154	(130)	24
		10,249	2,479	12,728
Excess of assets over liabilities				
Net capital	A,B	2,970	(43)	2,927
Accumulated other comprehensive loss		(95)	-	(95)
		2,875	(43)	2,832
		18,114	2,574	20,688

[1] Presented as future income taxes under Canadian GAAP.

Reconciliation of the Consolidated Statement of Income from Canadian GAAP to US GAAP for the year ended December 31, 2011

(millions of dollars)	**Notes**	**Canadian GAAP**	**Effect of Transition to US GAAP**	**US GAAP**
Revenue		3,535	-	3,535
Fuel expense		484	-	484
Gross margin		3,051	-	3,051
Expenses				
Operations, maintenance and administration	A,B	2,081	37	2,118
Depreciation and amortization		471	-	471
Accretion on nuclear fixed asset removal and nuclear waste management liabilities		400	-	400
Earnings on nuclear fixed asset removal and nuclear waste management funds		(221)	-	(221)
Property and capital taxes		9	-	9
		2,740	37	2,777
Income before other income, interest and income taxes		311	(37)	274
Other income		(22)	-	(22)
Income before interest and income taxes		333	(37)	296
Net interest expense		164	-	164
Income before income taxes		169	(37)	132
Income tax expense	B	14	(13)	1
Net income		155	(24)	131

Reconciliation of the Consolidated Statement of Cash Flows from Canadian GAAP to US GAAP for the year ended December 31, 2011

(millions of dollars)	**Notes**	**Canadian GAAP**	**Effect of Transition to US GAAP**	**US GAAP**
Cash flow provided by operating activities	A,B,C	733	-	733
Cash flow used in investing activities		(546)	-	(546)
Cash flow provided by financing activities		122	-	122
Net increase in cash and cash equivalents		309	-	309
Cash and cash equivalents, beginning of year		219	-	219
Cash and cash equivalents, end of year		528	-	528

Reconciliation of the Consolidated Statement of Comprehensive Income from Canadian GAAP to US GAAP for the year ended December 31, 2011

(millions of dollars)	Notes	Canadian GAAP	Effect of Transition to US GAAP	US GAAP
Net income		155	(24)	131
Other comprehensive loss, net of income taxes				
Net loss on derivatives designated as cash flow hedges [1]		(40)	-	(40)
Reclassification to income of losses on derivatives designated as cash flow hedges [1]		6	-	6
Other comprehensive loss for the year		(34)	-	(34)
Comprehensive income		121	(24)	97

[1] Net of income tax expense of nil under Canadian GAAP and US GAAP.

Reconciliation of Excess of Assets Over Liabilities as Previously Reported under Canadian GAAP to US GAAP

As at January 1, 2011 *(millions of dollars)*	Net Capital	AOCI	Excess of Assets over Liabilities
Excess of assets over liabilities as reported under **Canadian GAAP**	2,815	(61)	2,754
US GAAP adjustments (decrease) increase:			
Note A – Pension and OPEB	(31)	-	(31)
Note B – Income taxes	12	-	12
Excess of assets over liabilities as reported under **US GAAP**	2,796	(61)	2,735

As at December 31, 2011 *(millions of dollars)*	Net Capital	AOCI	Excess of Assets over Liabilities
Excess of assets over liabilities as reported under **Canadian GAAP**	2,970	(95)	2,875
US GAAP adjustments decrease:			
Note A – Pension and OPEB	(40)	-	(40)
Note B – Income taxes	(3)	-	(3)
Excess of assets over liabilities as reported under **US GAAP**	2,927	(95)	2,832

Notes to Transitional Adjustments

Adjustments Which Affect Net Capital

(A) Pension and OPEB

Under Canadian GAAP, defined benefit pension and OPEB assets or liabilities were presented in the consolidated balance sheet of OPG and the Prescribed Facilities as the cumulative difference between the recognized benefit costs and pension contributions and benefit payments. The unamortized actuarial gains or losses and unamortized past service costs were presented in the notes to the consolidated financial statements.

Upon transition to US GAAP, OPG recognized on its January 1, 2011 balance sheet the funded status of its defined benefit plans. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation on a plan-by-plan basis. The difference between the total OPG funded status for the plans and the total accrued assets and liabilities previously recognized by OPG under Canadian GAAP was attributed to the Prescribed Facilities in proportion to the respective benefit costs attributed to the Prescribed Facilities for the year ended December 31, 2010.

Previously unamortized actuarial losses and past service costs in respect of pension and OPRB were recognized at the date of transition in AOCI, net of income taxes. After transition, gains or losses and past service costs or credits that arise during the period and are not recognized immediately as components of benefit costs are recognized as increases or decreases in OCI in the period incurred. These unamortized amounts in AOCI are subsequently reclassified and recognized as components of benefit costs. An offsetting regulatory asset was recorded for the portion of OPG's transition adjustments to AOCI attributable to the Prescribed Facilities, in order to reflect the expected recovery of these amounts through future regulated prices charged to customers. Accordingly, there was no net effect on AOCI for the Prescribed Facilities as of the date of transition. After transition, a corresponding change in the regulatory asset is recorded for the amount of the increases or decreases in OCI and for the reclassification of the AOCI into benefit costs during the period, resulting in OCI reported in the Prescribed Facilities' consolidated financial statements not being affected. As a result, at transition, the deferred pension asset reported by the Prescribed Facilities decreased by $900 million, the pension and OPEB liabilities reported by the Prescribed Facilities increased by $1,354 million, and regulatory assets reported by the Prescribed Facilities increased by $2,254 million. As at December 31, 2011, the deferred pension asset reported by the Prescribed Facilities decreased by $933 million, the pension and OPEB liabilities reported by the Prescribed Facilities increased by $2,620 million, and regulatory assets reported by the Prescribed Facilities increased by $3,553 million. There was no net impact on the AOCI reported by the Prescribed Facilities as at December 31, 2011.

Under Canadian GAAP, the net cumulative unamortized actuarial gain or loss for the LTD benefits in excess of 10 percent of the benefit obligation was amortized over the expected average remaining service life of the employees. Past service costs for the LTD benefits were recognized over the expected average remaining service life of the affected employee groups. Under US GAAP, all actuarial gains and losses and past service costs related to the LTD benefits must be recognized immediately. As a result, on January 1, 2011, OPG's reported OPEB liabilities increased and retained earnings decreased by a corresponding amount. Of this adjustment, $31 million is related to and was reported by the Prescribed Facilities. As at December 31, 2011, the Prescribed Facilities' portion of the amount by which OPG increased reported OPEB liabilities and decreased retained earnings was $40 million. For the year ended December 31, 2011, the resulting increase to OM&A expenses reported by the Prescribed Facilities was $9 million. The amount of the transition adjustment and the increase in 2011 expenses for the Prescribed Facilities was determined through direct assignment of OPG's total previously unamortized actuarial losses and past service costs for the LTD benefit plan, using the methodology for attribution of OPG's Canadian GAAP OPEB liabilities and costs prior to and during 2011, as described in Note 10.

The amount of the increases in OPEB liabilities attributable to the Prescribed Facilities on transition and for the year ended December 31, 2011 was recorded in 2012 as a regulatory asset for the Impact for USGAAP Deferral Account authorized by the OEB, as discussed in Note 5. Refer to Note 10 for additional disclosures regarding pension and OPEB plans.

(B) Income Taxes

The transitional income tax adjustments include the tax impacts related to Prescribed Facilities' other transitional adjustments, a reclassification of Scientific Research and Experimental Development (SR&ED) investment tax credits from OM&A expenses to income tax expense, and an adjustment for unrecognized tax benefits. Certain of the income tax adjustments resulted in offsetting adjustments to the regulatory asset for deferred income taxes recognized by the Prescribed Facilities for the deferred income taxes expected to be recovered or refunded through future regulated prices charged to customers.

Under Canadian GAAP, future income tax assets were evaluated and if realization was not considered more likely than not, a valuation allowance was established. Under US GAAP, tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the more likely than not recognition threshold is satisfied and are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement.

For the year ended December 31, 2011, the reclassification adjustment related to SR&ED investment tax credits increased OM&A expenses and decreased income tax expense reported by the Prescribed Facilities by $28 million, which was net of a decrease to OM&A expenses and corresponding increase to income tax expense of $22 million related to the regulatory liability for the Income and Other Taxes Variance Account authorized by the OEB. The portion of OPG's total SR&ED investment tax credits attributable to the Prescribed Facilities was determined primarily using direct assignment based on the underlying expenditures giving rise to the credits. Refer to Note 9 to these consolidated financial statements for disclosures related to income taxes under US GAAP.

Other Adjustments

Upon transition to US GAAP, OPG made the following adjustments that resulted in reclassification changes on the consolidated balance sheets of the Prescribed Facilities.

(C) Accounts Receivable

Under Canadian GAAP, OPG derecognized accounts receivable on the sale of securitized receivables to an independent trust. Correspondingly, the Prescribed Facilities derecognized their portion of OPG's transfers to the independent trust. Under US GAAP, OPG and therefore the Prescribed Facilities no longer derecognize the securitized receivables but present the arrangement as a securitized borrowing. Therefore, upon transition on January 1, 2011, the Prescribed Facilities increased receivables from related parties by $209 million. This amount was determined using direct assignment of OPG's corresponding receivables.

As the methodology approved in the OEB Decision for deriving the Prescribed Facilities' short-term debt, discussed in Note 6, reflects a portion of OPG's securitized borrowings, the short-term debt reported by the Prescribed Facilities was not affected on transition to US GAAP. Instead, a corresponding increase on transition was recorded by the Prescribed Facilities in the liability for the due to/from account with OPG. As at December 31, 2011, the Prescribed Facilities increased receivables from related parties and the liability for the due to/from account with OPG by $10 million.

(D) Other

Significant other changes include a change in the presentation of the Nuclear Funds and regulatory assets and liabilities to disclose the current and long-term portions separately. In addition, OPG and therefore the Prescribed Facilities have separately presented on the consolidated balance sheets receivables due from related parties, which were previously included with other accounts receivable. Amounts recorded in the Prescribed Facilities' due to/from account with OPG continue to be reported separately on the consolidated balance sheets.

19. SUBSEQUENT EVENTS

In 2012, under case number EB-2012-0002, OPG filed an application with the OEB requesting approval to recover balances in the authorized regulatory variance and deferral accounts as at December 31, 2012 through new rate riders beginning in 2013, and for the adoption of US GAAP for regulatory purposes. As at December 31, 2012, the balances in all accounts authorized for the Prescribed Facilities totalled $1,275 million.

In March 2013, OPG reached a settlement agreement with intervenors on all aspects of its application. In a decision by the OEB in March 2013, the Settlement Agreement was approved. Subsequently, in April 2013, the OEB issued an order establishing new rate riders applicable to nuclear and hydroelectric electricity generation of the Prescribed Facilities effective January 1, 2013. This resulted in approval of $1,234 million recorded in the authorized accounts as at December 31, 2012, deferral for future review of $34 million recorded in certain accounts as at December 31, 2012, and a write-off of $7 million of interest recorded in certain accounts as at December 31, 2012. The interest write-off was recorded by OPG during the first quarter of 2013.

Pursuant to the Settlement Agreement, the disposition of the approved balances has been authorized over periods ranging from two to 12 years beginning on January 1, 2013. Specifically, the balance in the Pension and OPEB Cost Variance Account is to be recovered over a period of 12 years commencing January 1, 2013. The portion of the balance in the Bruce Lease Net Revenues Variance Account related to the impact of the derivative liability embedded in the Bruce Lease is to be recovered on the basis of OPG's expected rent rebate payments to Bruce Power, including associated income tax impacts. The remaining portion of the balance in the Bruce Lease Net Revenues Variance Account is to be recovered over a 48-month period commencing January 1, 2013. The disposition of all remaining balances approved for recovery was authorized over a 24-month period commencing January 1, 2013.

As a result of the OEB's approval of the Settlement Agreement, OPG has been authorized to recover $633 million over the period from March 1, 2013 to December 31, 2014. In its decision and order, the OEB established the following rate riders for production from the Prescribed Facilities during the period:

($/MWh)	**Nuclear**	**Hydroelectric**
2013 rate riders	6.27	3.04
2013 interim period rate riders [1]	0.41	0.58
Rate riders for the period from March 1, 2013 to December 31, 2013	6.68	3.62
Rate riders for 2014	4.18	2.02

[1] The interim period rate riders were authorized by the OEB to allow for the recovery of the retroactive increase in the riders to January 1, 2013

The rate riders include a refund to ratepayers for the impact of the lower depreciation expense for the fixed asset balance attributable to the tangible components of the Pickering generating stations related to the changes in the estimated useful lives of these stations effective December 31, 2012 (Note 3).

Any shortfall or over-recovery of the approved balances due to differences between actual and forecast production are recorded in the authorized Nuclear Deferral and Variance Over/Under Recovery Variance Account and Hydroelectric Deferral and Variance Over/Under Recovery Variance Account to be collected from, or refunded to, ratepayers in the future.

The OEB's decision and order regarding the Settlement Agreement also authorized the continuation of previously existing variance and deferral accounts, including this Pension and OPEB Cost Variance Account without a prescribed end date. The OEB also approved OPG adoption of US GAAP for regulatory purposes and, pursuant to the Settlement Agreement, ordered that only interest and amortization be recorded in the Impact for USGAAP Deferral Account effective January 1, 2013.

Effective January 1, 2013, as part of the approved Settlement Agreement, the Prescribed Facilities also ceased recording interest on the balance of the Nuclear Liability Deferral Account. For the period from January 1, 2013 to December 31, 2014, as part of the agreement, the Prescribed Facilities will not record interest on the balance of the Bruce Lease Net Revenues Variance Account and the majority of the balance of the Pension and OPEB Cost Variance Account. Interest continues to be recorded on all other variance and deferral accounts using the interest rate prescribed by the OEB. For the period from January 1, 2011 to December 31, 2013, the prescribed interest rate is 1.47 percent per annum.

In September 2013, OPG filed an application with the OEB for new regulated prices for production from the Prescribed Facilities. The application includes OPG's request for new rate riders beginning in 2015, in order to recover balances as at December 31, 2013 in the variance and deferral accounts the review of which was deferred pursuant to the OEB's approval of the Settlement Agreement.

In November 2013, the Province amended *Ontario Regulation 53/05* to prescribe 48 of OPG's unregulated hydroelectric generating facilities effective July 1, 2014. The amended regulation requires the OEB to establish the prices received for the production from these facilities, in addition to the Prescribed Facilities. These consolidated financial statements do not include the financial results for the 48 hydroelectric facilities that will be regulated as of July 1, 2014.