ONTARIO POWER GENERATION

Recommendation for Submission to the Board of Directors

May 16, 2013

Board Approval of OPG's 2013-2015 Business Plan

EXECUTIVE SUMMARY:
OPG is seeking Board approval of its 2013-2015 Business Plan. The 2013 budget, approved by the Board, is reflected within this 3-year plan and will be used as the control base against which actual results will be measured and assessed.

In consultation with its Shareholder, OPG has developed strategies to improve its financial outlook while considering the impact on customers. There are two main components to the revenue strategy, intended to improve revenue and cash flow for the 2013-2015 period. Revenues from non-contracted, unregulated hydroelectric assets would be regulated effective January 1, 2014, facilitating the full recovery of operating costs and earning the approved OEB rate of return. OPG also plans to file a cost of service application with the OEB to increase base rates for its currently regulated facilities starting in 2014. Successful implementation of these two strategies is required to achieve sufficient income and cash flow, and improve credit metrics to threshold levels.

[redacted] OPG expects to record a one-time extraordinary gain of approximately $300 M in 2014, related to the recognition of a regulatory asset for income taxes upon implementation of price regulation for the currently unregulated hydroelectric stations.

The 2013-2015 Business Plan is subject to several significant risks, including the results of regulatory filings and the effective date of the revenue strategies. Should either of the key strategies not be achieved, mitigation measures will be required to address cash flow challenges.

The attached document provides details with respect to OPG's 2013-2015 Business Plan. The Business Plan incorporates the 2013-2015 OM&A expenses and capital expenditure plans provided to the Committees of the Board in November 2012 for Nuclear, Hydro Thermal, and Business and Administrative Services. This business plan information was updated to remove the planned Pickering Unit 7 outage from the business planning period.

RECOMMENDATION:
That the Board of Directors approves the 2013-2015 Business Plan. The 2013 budget reflected in the plan will be used as the control base against which actual results will be measured and assessed.

Recommended By:

"Original Signed By"
Donn Hanbidge
Chief Financial Officer

Approved for submission to the Board of Directors:

"Original Signed By"
Tom Mitchell
President and Chief Executive Officer

This Board memorandum was reviewed and approved for submission to the Board of Directors by the Audit and Finance Committee on May 15, 2013.

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OPG's 2013-2015 Business Plan

OPG Board of Directors

May 16, 2013

Donn Hanbidge, CFO

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Outline

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Executive Summary

- OPG's earnings and Funds From Operations continue to decline in 2013, reflecting low prices for unregulated generation, and no increase in regulated base rates since 2008. In the absence of strategies to address these revenue deficiencies, a credit rating downgrade and cash flow challenges would result.
- OPG has developed strategies to improve its financial outlook while considering the impact on customers
- OPG's 2013-2015 Business Plan assumes regulation of the currently unregulated non-contracted hydroelectric ("unregulated hydroelectric") assets, and submission of a 2014/2015 balanced rate application for new nuclear and hydroelectric regulated base rates and riders
- [redacted]
- OPG's net income before extraordinary gain is expected to [redacted] mainly as a result of:
  - Regulating the unregulated hydroelectric assets – OPG is the only entity that receives Ontario spot market electricity prices. Spot market prices have declined significantly over the past 5 years, resulting in revenues that are insufficient to recover the costs of operations and provide an adequate return for these assets. A strategy to address these losses is to regulate all unregulated hydroelectric operations.
  - New regulated base rates for nuclear and the currently regulated hydroelectric facilities – New rates will reflect cost recovery and a return for the Niagara Tunnel, and current cost and generation assumptions
  - Continuing to achieve efficiencies and headcount reductions – Headcount from ongoing operations will be reduced by 2,000 over the 2011-2015 period. Headcount reductions of 1,000 has been achieved over the 2011-2012 period.
- Net income in 2014 includes a one-time extraordinary gain of ~$300 M related to the recognition of a regulatory asset for income taxes, effective upon the implementation of price regulation for the currently unregulated hydroelectric stations
- To moderate the customer impact of resetting regulated base rates, OPG plans to defer the recovery of certain costs from 2014/2015 to subsequent years. OM&A expenses and income for 2014 and 2015 reflect cost deferrals of $465 M in 2014 and ~$60 M in 2015.
- Despite the planned increases in revenue, OPG will continue to moderate Ontario electricity prices, as the average revenue earned by OPG is forecast to be ~35 to 40% lower than revenues earned by all other generators in Ontario

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Key Planning Assumptions

Production

- Nuclear production ranges from 48 to 50 TWh/yr over the 2013-2015 period. The 3 year planned outage cycle for Darlington units results in two planned outages and lower production in 2013. The Darlington Vacuum Building Outage (VBO) in 2015 reduces production by ~3 TWh.
- Regulated hydroelectric production increases in 2014 and 2015, primarily due to the Niagara Tunnel

Production - TWh	Actual 2012	Budget 2013	Business Plan 2014	2015
Nuclear	49.0	48.0	49.7	48.0
Regulated Hydrelectric	18.5	18.0	18.5	19.3
Unregulated Hydroelectric (contracted and non-contracted)	[redacted]			
Thermal				
Total OPG Production				

- [redacted]
- [redacted]
- [redacted]

Pension and OPEB Costs

- Pension Fund investments are assumed to earn 6.25%/yr over the period
- Discount rates for valuing pension and other post retirement benefits range from 4.2% to 4.4%

Other

- Nuclear Funds investments are assumed to earn 5.15%/yr over the period
- The plan incorporates the impact of the ONFA update on accounting for nuclear waste obligations and depreciation, and changes to the accounting service lives of the Pickering units to reflect expected operation to ~2020, effective December 31, 2012

Key Planning Assumptions

Regulated Rates and Revenues

- Regulated base rates remain unchanged in 2013. Regulated rate riders increase by $1.94/MWh for nuclear and $4.69/MWh for hydroelectric in 2013, as a result of the OEB's decision on the recovery of variance and deferral account balances at December 31, 2012.
- OPG plans to file an application with the OEB to establish new nuclear and hydroelectric rates for 2014/2015
  - Nuclear base rate increases in 2014/2015 primarily reflect recovery of costs not currently included in rates, such as changes in pension and OPEB and nuclear waste liabilities, and the impact of the Darlington VBO
  - Hydroelectric base rate increases in 2014/2015 primarily reflect the in-service of the Niagara Tunnel
  - OPG's planned rate proposal defers the recovery of costs totalling $465 M in 2014 and ~$60 M in 2015 for subsequent recovery, in an effort to balance the impact of rate increases on ratepayers with the need to recover costs and earn an appropriate return

	Actual 2012	Budget 2013	Business Plan 2014	Business Plan 2015
Revenue Rates - $/MWh				
Nuclear Base Rate	52	52	57	67
Nuclear Rider	4	6	8	5
Regulated Nuclear Rate	56	58	64	73
Hydro Base Rate (current regulated assets)	36	36	45	43
Hydro Rider	(2)	3	7	5
Regulated Hydro Rate	34	39	52	48
OPG Unregulated Hydro Price	[redacted]	[redacted]	50	50
HOEP	[redacted]	[redacted]	[redacted]	[redacted]
Natural Gas - US$/mmBTU	[redacted]	[redacted]	[redacted]	[redacted]

- The plan assumes regulation of unregulated hydroelectric assets effective January 1, 2014, at a rate of ~$50/MWh, and the application of rate regulated accounting for these assets, effective January 1, 2014
- A longer-term rate smoothing mechanism is still required to address rate impacts of the Darlington refurbishment

Unregulated Revenues

[redacted]

Electricity Prices

- OPG's total average electricity price over the period is expected to remain ~35 to 40% below the average price received by all other Ontario generators

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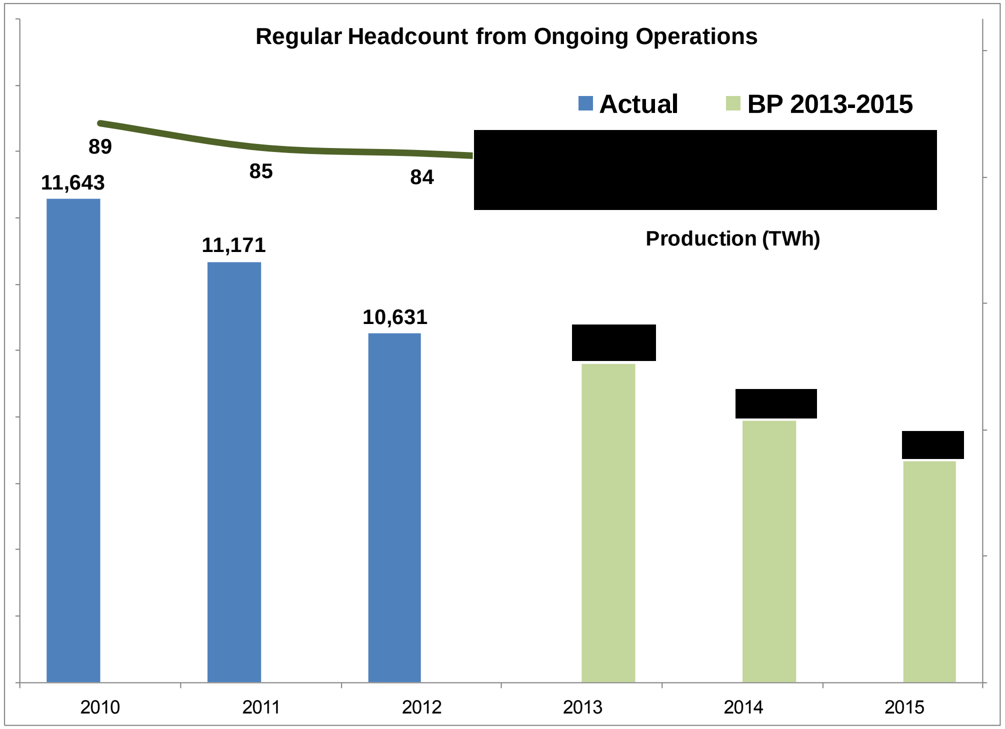
Headcount Reductions and Efficiencies

OPG has achieved headcount reductions from ongoing operations of 1,000 over the 2011-2012 period. Through Business Transformation, headcount will be further reduced by 1,000 over the 2013-2015 period.

- Through implementation of Business Transformation initiatives, total headcount from ongoing operations will be reduced by ~2,000 over the 2011-2015 period, [redacted]
- Headcount reductions of ~1,000 has been achieved over the 2011-2012 period
- OPG's productivity, as measured by GWh/headcount, improves by 14% (normalizing for the Darlington VBO) over the 2012-2015 period, as Business Transformation impacts more than offset the impact of lower generation



- OM&A savings from headcount reductions accumulate to $700 M over the 2011-2015 period

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Headcount Reductions

The additional reduction in headcount from ongoing operations of 1,000 over the 2013-2015 period will be achieved by aggressively pursuing efficiencies and restructuring

- Nuclear headcount decreases by ~425 or 8% over the 2013-2015 period through various efficiency initiatives, including the amalgamation of the Pickering A and B stations

[redacted]

- Support Services headcount decreases by ~275 or 12%, over the 2013-2015 period through Business Transformation initiatives. Under a centre-led organizational structure, Support Services now includes certain operational functions such as: Business and Administrative Services includes Supply Chain and warehousing operations; Finance includes Nuclear Oversight; and People and Culture includes the Nuclear Training division.

	Actual	Budget *	Business Plan *	
	2012	2013	2014	2015
Nuclear Operations	5,510	5,325	5,195	5,083
Nuclear Projects	728	713	701	698
Hydro/Thermal Operations	[redacted]			
CO&E	176	176	165	153
Total Operations	[redacted]			
BAS	1,083	1,039	980	924
Finance	382	361	335	308
People & Culture	598	623	596	573
Corporate Office	158	156	149	144
Total Support Services	2,221	2,179	2,060	1,949
Ongoing Operations	[redacted]			
Darlington Refurb	180	247	266	276
Nuclear New Build	33	23	21	21
Total OPG	[redacted]			

*Headcount numbers are adjusted for organizational changes

- Darlington refurbishment headcount increases over the period as engineering, operations and oversight staff join the project organization during the detailed planning stage

- Nuclear new build headcount remains steady until such time as a decision is made on the future of the project. The plan currently does not assume execution of this project, hence there is no increase in headcount.

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OM&A Expenses

OM&A expenses from ongoing operations, excluding nuclear outage and pension/OPEB costs, decline over the 2013-2015 period, as efficiencies and cost reductions more than offset the impacts of inflation and other factors

- Total OM&A expense savings related to headcount reductions through Business Transformation are $700 M over the 2011-2015 period, [redacted] The advancement of headcount reductions compared to the 2012-2014 Business Plan results in additional savings of ~$90 M in 2013/2014.
- Nuclear operations OM&A expenses fluctuate based on outage activity. A second Darlington outage in 2013 increases overall expenses by ~$100 M, and the VBO and other outage work increase expenses by ~$75 M in 2015. Expenses for nuclear also increase compared to 2012, due to higher pension and OPEB costs of $35-$60 M/yr.
- [redacted]
- Support Services groups continue to reduce headcount and costs, and increase efficiency over the planning horizon. The increase in OM&A expenses in 2013 compared to 2012 is primarily due to higher pension and OPEB costs.

	Actual	Budget*	Business Plan*	
$ millions	**2012**	**2013**	**2014**	**2015**
Nuclear	1,411	1,555	1,527	1,591
Hydro/Thermal Operations	[redacted]			
CO&E	36	43	42	39
Total Operations	[redacted]			
BAS	316	310	305	291
Finance	66	66	62	59
Insurance	27	28	32	34
People & Culture	113	120	117	113
Corporate Office	31	41	39	38
Law	7	8	7	7
Executive Office	6	16	13	10
Total Support Services	566	590	575	551
Total Business Unit Expenditures	[redacted]			
Centrally Held Pension/OPEB	345	475	385	379
[redacted]				
Total Ongoing Operations	[redacted]			
OEB Variance Account Offsets	(273)	(418)	(10)	(10)
Deferral of Cost Recovery			(465)	(57)
Darlington Refurbishment	3	18	20	18
Nuclear New Build	25	39	10	10
Total OM&A	[redacted]			

*OM&A numbers are adjusted for organizational changes

- Pension/OPEB costs, including centrally held costs and costs allocated to Operations and Support Services groups, increase compared to 2012, due primarily to a lower discount rate by: ~$240 M in 2013, ~$125 M in 2014, and ~$115 M in 2015
- The increase in OEB variance account offsets in 2013 is primarily due to higher pension/OPEB costs, and the continuation of the Pension/OPEB variance account for the currently regulated segments
- OPG's planned rate proposal is expected to impact OM&A expenses by deferring costs of $465 M in 2014, and $57 M in 2015 for subsequent recovery. This proposal is subject to OEB acceptance.

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Year-Over-Year OM&A Changes

OM&A expense changes reflect additional outage activities in nuclear in 2013 and 2015, coal closure activities, and headcount reductions. Regulatory variance accounts and the proposal to defer recovery of certain costs also impact OM&A expenses each year.

- OM&A expense savings related to headcount reductions increase by a further $50 M to $60 M each year over the planning period compared to 2012. In total, OM&A expense savings related to headcount reductions are $700 M over the 2011-2015 period, net of termination and relocation costs.
- OM&A expenses do not include any salary escalation beyond the increases in the collective agreement for PWU represented employees
- Nuclear outage costs increase by $103 M in 2013 compared to 2012, mainly due to a second Darlington outage in 2013. The VBO and other outage work increase expenses by $73 M in 2015.
- [redacted]
- Pension/OPEB costs increase by $241 M in 2013 as a result of a 1% reduction in discount rates from 2012. Pension/OPEB costs decrease in 2014 compared to the 2013 budget due to an increase in discount rates and changes in other assumptions

$ millions	Budget	Business Plan	
	2013	2014	2015
Previous Year OM&A	[redacted]		
Cost Factors - Increase/(decrease)			
Headcount reductions	(60)	(51)	(57)
Impact of PWU Settlement	16	12	11
Workforce Changes	**(44)**	**(39)**	**(46)**
Nuclear outage costs	103	(46)	73
Early Coal closure	[redacted]		
Operational Changes	[redacted]		
Pension/OPEB	241	(114)	(15)
Pension/OPEB Variance Account	(201)	393	
Deferral of Cost Recovery		(465)	408
Other Variance Accounts	59	15	
Darlington Refurb & Nuclear New Build	29	(27)	(2)
Inflation and Other	52	61	27
[redacted]			
Total Change	[redacted]		
Total OM&A	[redacted]		

- Regulatory variance accounts and the assumed rate strategy impact OM&A expenses over the period
  - Pension/OPEB variance account offsets pension/OPEB costs by an additional $201 M in 2013
  - While the plan does not reflect continued deferral of pension/OPEB costs in 2014/2015 due to the establishment of new base rates, the planned rate proposal defers the recovery of certain costs to moderate the impact on customer rates

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Capital Expenditures

OPG's capital investment program is focused on ensuring the continued utilization of existing assets in an effective manner through sustaining and refurbishment activities, and development of new investment opportunities

- Sustaining capital expenditures aimed at ensuring strong performance of existing assets range from [redacted] consistent with the 2012-2014 Business Plan

Long-Term Energy Plan projects

- Hydroelectric development project expenditures primarily relate to the Niagara Tunnel and [redacted] projects
- Darlington refurbishment expenditures include Campus Plan expenditures to ensure readiness for a 2016 project start date, and an infrastructure upgrade to support the additional 30 years of station life
- [redacted]
- [redacted]
- Due to uncertainties regarding the approval, scope, and timing of the Darlington nuclear new build project, it has not been included in planned capital expenditures

	Actual	Budget	Business Plan	
$ millions	2012	2013	2014	2015
Sustaining Capital Expenditures				
Nuclear	161	170	197	144
Hydroelectric- Regulated	30	31	35	38
Hydroelectric- Unregulated	[redacted]			
Thermal				
Other				
Generation Development				
Hydroelectric Development				
Niagara Tunnel	231	184		
[redacted]				
Darlington Refurbishment	232	530	837	632
Thermal [redacted]				
Total Generation Development	[redacted]			
Total Capital Expenditures				

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Financial Outlook

[redacted]

- OPG is focused on improving income and cash flow from operations
  - OPG will seek increases in nuclear and hydroelectric regulated rates for 2014/2015. The regulated rate increases primarily relate to costs not currently included in rates such as changes in pension/OPEB and nuclear waste liabilities, the impact of the Darlington VBO, and the in-service of the Niagara Tunnel
  - As a result of low spot market prices, the plan assumes regulation of the unregulated hydroelectric assets effective January 1, 2014
  - OPG's Business Transformation initiative is focused on delivering significant cost savings from headcount reductions and efficiency improvements
- [redacted]
- Net income in 2014 includes an extraordinary one-time gain related to the recognition of a regulatory asset for income taxes effective upon the implementation of price regulation for the currently unregulated hydroelectric stations
- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

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2013-2015 Net Income

[redacted]

- [redacted]
  - Higher nuclear outage costs and lower generation due to a second planned Darlington outage, with no change in nuclear base rates
  - [redacted]
- OPG is now forecasting net income of [redacted] in 2013. This reflects the impact of the settlement agreement on the deferral and variance account application, [redacted] and OM&A expense savings.
- In 2014/2015, net income improves primarily due to regulation of the unregulated hydroelectric assets and increases in base rates. Net income improves in 2014 as a result of:
  - Obtaining a price of ~$50/MWh for unregulated hydroelectric generation that is consistent with the OEB approved rate of return
  - An increase in regulated base rates to reflect the completion of the Niagara Tunnel, and updated hydroelectric and nuclear generation forecasts
  - A one-time extraordinary gain related to the recognition of a regulatory asset for income taxes effective upon the implementation of price regulation for the currently unregulated hydroelectric stations
- [redacted]

2013-2015 Segmented Results

Earnings before interest and taxes (EBIT) from the Generation segments improve in 2014/2015 due to the increase in base rates for the current regulated assets, the implementation of price regulation for the unregulated hydroelectric stations, [redacted]

- EBIT for the Nuclear segment is budgeted to decline by $310 M in 2013 compared to 201,2 primarily due to higher outage costs and lower generation as a result of a second planned Darlington outage in 2013, with no change to base nuclear rates. Earnings increase by ~$330 M to $360 M in 2014/2015 as a result of the forecast increase in regulated rates and assumed deferral of recovery of certain costs.

- Regulated hydroelectric earnings are forecast to decrease in 2013 due to an increase in OM&A expenses and changes in forecast energy production. Earnings increase in 2014/2015 as regulated rates are reset to reflect the completion and in-service of the Niagara Tunnel.

Earnings Before Interest and Taxes (EBIT)				
	Actual	Budget	Business Plan	
$ millions	**2012**	**2013**	**2014**	**2015**
Nuclear	364	54	415	382
Regulated Hydro	324	292	418	411
Unregulated Hydro	[redacted]			
Thermal				
Generation Segments				
Nuclear Waste Segment	(68)	(126)	(150)	(148)
Other Business	[redacted]			
Total OPG EBIT				

- Unregulated hydroelectric earnings [redacted] Earnings improve in 2014 as unregulated hydroelectric is assumed to be regulated effective January 1, 2014, [redacted]

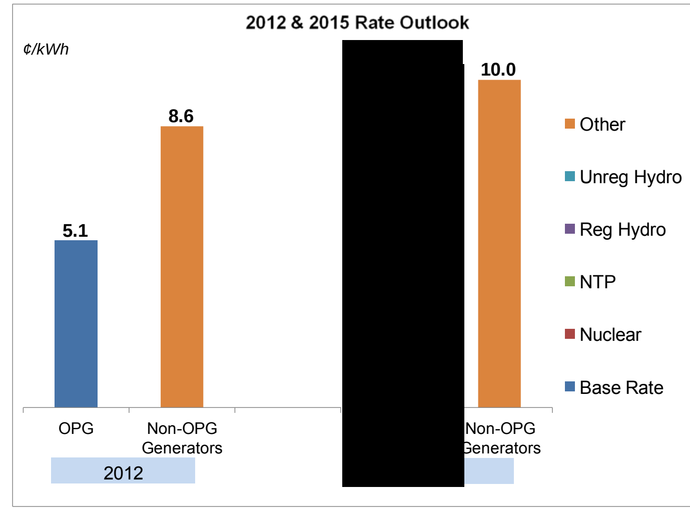
- [redacted]

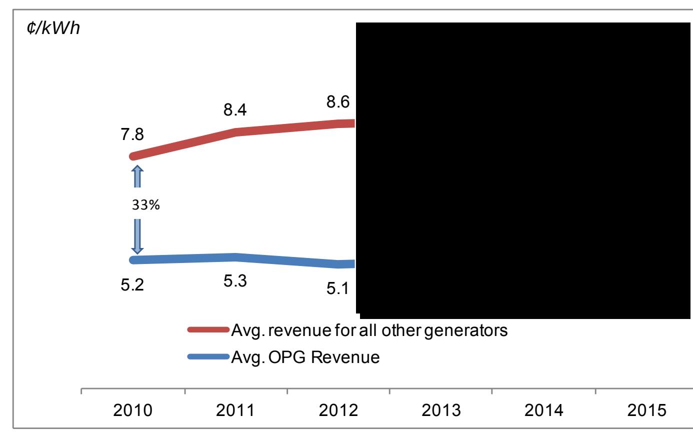
- [redacted]

OPG Will Remain Ontario’s Low-Cost Generator

OPG’s strategy to increase revenue from its regulated facilities and unregulated hydroelectric operations enables OPG to continue to moderate Ontario’s electricity prices

- OPG moderates electricity prices in Ontario, and will continue to do so after resetting of base rates and addressing unregulated hydroelectric pricing
- Since OPG has not received a rate increase on its regulated base rates since 2008, those rates have not kept pace with inflation
- In 2012, OPG’s average price of 5.1 ¢/kWh for generation was 40% lower than the average price received by other Ontario electricity generators of 8.6 ¢/kWh
- OPG’s average price is expected to be [redacted] in 2015, after incorporating the impacts of the 2013 settlement agreement for the deferral and variance accounts, approval of the proposed 2014/2015 rate application, and establishment of a price for unregulated hydroelectric that will recover costs and earn an appropriate return
- The expected average price paid to other Ontario based generators in 2015 is 10 ¢/kWh. OPG’s expected average price of [redacted] less than that received by other Ontario electricity generators.





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Financing Outlook

Long-term debt is forecast to [redacted] from [redacted] during the 2013-2015 period to support development projects

- [redacted] It is critical that OPG achieve significant revenue increases commencing in 2014 to improve cash flow.
- OPG will continue to maintain adequate sources of liquidity in 2013. Liquidity resources are [redacted]
- OPG's long-term debt is expected to [redacted] from [redacted] during the 2013-2015 period
  - Net cash from operations ranges from [redacted]
  - Net cash required for investment [redacted] from [redacted] in 2014, due primarily to [redacted] in expenditures for the Darlington refurbishment
  - The [redacted] in long-term debt includes financing for: [redacted] Niagara Tunnel – $100 M; and [redacted] in general corporate debt, primarily due to financing requirements for the Darlington refurbishment
  - An OEFC facility of [redacted] is being pursued to support 2013 corporate requirements, including the Darlington refurbishment
  - The financing outlook is dependant on achievement of the current regulatory rate forecast
- OPG will continue to finance non-nuclear development projects from capital markets as appropriate. New debt and refinancing of debt held by OEFC can also be sourced from external markets, subject to Shareholder consent.

Liquidity Forecast

		Actual	Budget	Business Plan	
$millions		2012	2013	2014	2015
Opening Cash Balance*		[redacted]			
Net Operating Cash Inflows					
Interest					
Nuclear Funds Contribution					
Pension Fund Contribution					
Net Cash from Operations					
Capital Investments:					
Capital Expenditures (sustaining)					
Niagara Tunnel (NTP)					
Darlington Refurbishment					
[redacted]					
Thermal [redacted]					
Other Hydro					
Net Cash from Investment					
Financing Activities					
General Corp Debt	- Debt Retirement				
	- Debt Refinancing				
	- Darlington				
Project Specific OEFC Financing	- Niagara Tunnel				
Project Financing LM	- LT Financing				
	- ST Financing				
	- Debt Retirement				
Securitization Repayment					
Net Cash from Financing					
Net Cash Flow for Period					
Ending Cash Position					
Long Term Debt*					

* Opening cash and debt balances for 2014 reflect the actual 2012 year-end balances and the current 2013 year-end forecast balances

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[redacted]

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Risks and Uncertainties

OPG's 2013-2015 Business Plan is based on several strategic, operational, and financial assumptions, and as such, is subject to the following significant risks:

- OPG's ability to achieve its forecast regulated revenue levels could impact income, cash flow, and borrowing requirements. While OPG has attempted to moderate its impact on 2014/2015 customer rates, significant risk and uncertainty remain with respect to the acceptance of OPG's rate proposal.
- OPG's metrics that support its current credit ratings remain weak. In order to avoid a credit rating downgrade, it is critical for OPG to achieve increases in revenue from its current regulated facilities and the unregulated hydroelectric operations in 2014/2015
  - The credit rating agencies will assess the risk and likelihood of OPG achieving increases in revenue and cash flow for 2014/2015 that are adequate to support OPG's current credit rating. There remains a risk of a credit rating downgrade in 2013.
- If the revenue strategies do not materialize, OPG will have to implement mitigation measures to address its cash flow requirements. This could include a significant reduction in project expenditures, and additional OEFC financing for key development projects.
- The ability to execute key operational initiatives
  - Planning and execution of work in support of the first Darlington refurbishment outage in 2016, and recovery of all costs
  - [redacted]
- Financial market performance
  - Changes in long-term interest rates have a significant impact on OPG's pension/OPEB costs. A 0.25% change in the discount rate would result in a change in pension/OPEB costs of ~$60 M/yr.
  - Achieving projected returns on the Nuclear Funds
- Compensation and wage constraints may adversely affect OPG's ability to retain and attract qualified executives and employees, and as a result, may affect OPG's operations and ability to successfully implement Business Transformation initiatives
- OPG's headcount reductions [redacted] are based primarily on attrition. Reductions in attrition levels could impact planned cost savings for the 2013-2015 period.

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Credit Rating Outlook and Implications

- Standard & Poor's "A-" rating with "negative outlook" (Feb. 2013)
  - Weak cash flow metrics, and exposure to regulatory delay and cost overruns related to new construction and refurbishment of existing facilities, were identified as key negative rating factors
  - OPG's rating could face a downgrade if:
    - Adjusted FFO to total debt stays below 8%-10%
    - Adjusted FFO interest coverage weakens to below 3.0x
- Dominion Bond rating Service: "A (low)" rating with "stable trend" (Mar. 2013)
  - Significant capital expenditure program, nuclear generation risk, political intervention, and future nuclear liabilities, were cited as major credit rating challenges
  - Increasing concern about political risk on cost recovery through potential rate freeze or extended cost recovery period, were identified as possible negative outcomes
- S&P and DBRS are expected to closely monitor OPG's financial outlook going forward for improvement in cash flow metrics and financial risk profile

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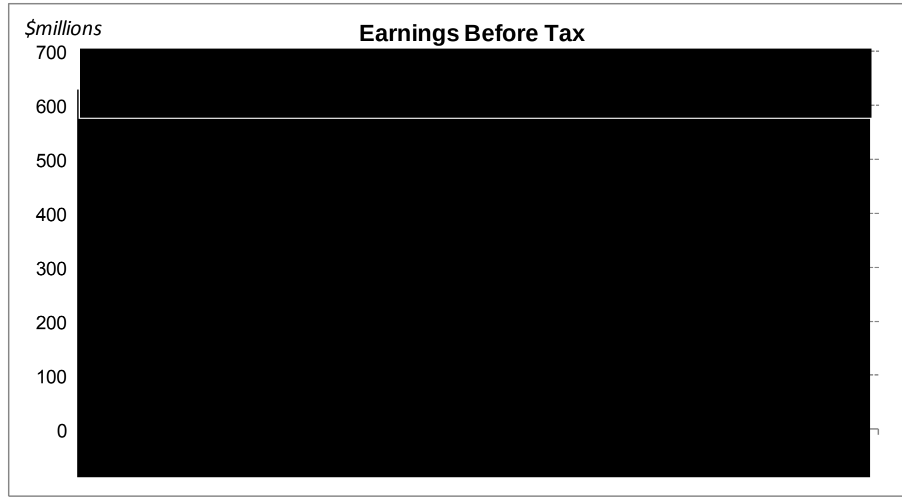
OPG's EBT on the Province's Fiscal Basis

- For 2012/2013, OPG's earnings before tax of [redacted] the amount budgeted by the Province by [redacted]
- OPG's forecast of earnings before tax on the Province's fiscal basis is highly dependant on the assumption of timing of OEB decisions
  - The forecast assumes that the OEB decision to change the nuclear and hydroelectric rates, and establish a rate for the unregulated hydroelectric assets, is issued in Q2 2014
  - It is further assumed that the new rates are retroactive to January 1, 2014. As a result, any increase in revenue effective at the start of the year will be recognized after March 31, 2014, and therefore impact the 2014/2015 fiscal year of the Province.



[redacted]

- Taking into account the expected timing of the OEB decision, OPG's forecast earnings before tax in 2013/2014 [redacted] the Province's budget of [redacted] For 2014/2015, OPG's forecast earnings before tax is [redacted] compared to the Province's budgeted amount of [redacted]
- In its 2014 fiscal year, OPG also expects to recognize an extraordinary accounting gain of ~$300 M (related to income taxes) upon regulation of the currently unregulated hydroelectric assets
  - If an effective date of January 1, 2014 for regulating these assets is set by the Province, the gain will be recognized in Q1 2014, and in the Province's 2013/2014 fiscal year
  - If the effective date is established by the OEB, the gain is expected to be recognized in the Province's 2014/2015 year, consistent with the assumed timing of the OEB's decision of Q2 2014

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Operating Statement

$ millions	[redacted]
Electricity Revenues	
Less: Fuel & GRC	
Gross Margin Generation Sales	
Net Trading Revenue	
Gross Margin Electricity Sales	
Non-Electricity Revenues	
Total Gross Margin	
OM&A Expenses	
Accretion on Nuclear Liabilities	
Earnings on Nuclear Funds	
Depreciation & Amortization	
Other Costs	
Financing Charges	
Income (Loss) Before Tax	
Income Tax	
Net Income (Loss) Before Extraordinary Gain	
Extraordinary Gain	
Net Income (Loss)	

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Balance Sheet

[redacted]

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