Insight beyond the rating.

Ontario Power Generation Inc.

Analysts
Andy Thi
+1 416 597 7337
athi@dbrs.com

Chenny Long
+1 416 597 7451
clong@dbrs.com

James Jung, CFA, FRM, CMA
+1 416 597 7577
jjung@dbrs.com

The Company
Ontario Power Generation Inc. is an electricity generating company with a diverse portfolio of over 19,000 megawatts of in-service generating capacity. The Company is wholly owned by the Province of Ontario.

Authorized Commercial Paper Limit
$1 Billion

Recent Actions
September 14, 2012
Assigned Issuer Rating

Rating

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

Rating Update

DBRS has confirmed the ratings of Ontario Power Generation Inc. (OPG or the Company) as listed above, all with Stable trends. The confirmations reflect (1) the relatively stable earnings contribution from OPG's regulated generation businesses, (2) a reasonable regulatory environment and (3) good financial flexibility.

OPG continues to benefit from its regulated operations, which accounted for approximately 81% of total generation output and approximately 65% of EBITDA in 2012. The regulated operations provide the Company with relatively stable earnings contribution. However, the non-regulated operations remain exposed to the challenging merchant power market environment in Ontario, which is a challenge due to its volatile effects on the Company's financial profile. In 2012, OPG's non-regulated segment was negatively affected by a lower electricity wholesale price in Ontario and a decrease in generation output. If a depressed electricity wholesale environment continues, it will have a negative impact on OPG's non-regulated power earnings. Over the medium term, volatility in earnings and cash flow could be offset by more capacity coming from regulated and contracted assets, with two major expansion projects (Niagara Tunnel and Lower Mattagami River) coming online between 2013 and 2015.

OPG is expected to generate free cash flow deficits over the medium term, driven by higher capital expenditure (capex) requirements to fund hydroelectric and refurbishment projects. This will likely lead to a rise in leverage to around 45% over the next few years, which is still in line with the current rating category. DBRS notes that 77% of its long-term debt is held by the Ontario Electricity Finance Corporation (OEFC; rated AA (low)), an agency of the Province of Ontario (the Province; rated AA (low)). The remaining 23% is non-recourse project finance debt issued by Lower Mattagami Energy Limited Partnership (rated A (high)) and UMH Energy Partnership. DBRS views the debt owed to the OEFC as related party debt since funding is provided by the Province, who is also the owner of OPG.

Rating Considerations

Strengths	Challenges
(1) Dominant market position in Ontario	(1) Significant capex program
(2) Support of shareholder (the Province)	(2) Nuclear generation risk
(3) Reasonable regulatory framework	(3) Political intervention
(4) Limited nuclear waste management liabilities	(4) Future nuclear liabilities

Financial Information

Ontario Power Generation Inc. (CA$ millions)	USGAAP **2012**	USGAAP **2011**	CGAAP **2010**	CGAAP **2009**
	For the year ended December 31			
EBIT gross interest coverage (times) (4)	0.37	0.02	0.65	1.08
EBITDA gross interest coverage (times) (4)	2.86	2.71	3.30	4.06
Total debt in capital structure (1)(2)	36.9%	36.8%	35.9%	35.9%
Cash flow/Total debt	21.2%	29.9%	27.7%	26.3%
(Cash flow - n.w.f.)/Total debt (3)	13.8%	21.1%	17.6%	13.2%
Net income before non-recurring items (4)	58	48	239	167
Cash flow from operations	1,084	1,435	1,215	1,063

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

Rating Considerations Details

Strengths

(1) **Dominant market position in Ontario.** OPG's importance in Ontario is demonstrated by the fact that it is the primary electricity generator in the Province, accounting for approximately 53% of Ontario's primary electricity supply.

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

(3) **Reasonable regulatory framework.** The reasonable regulatory framework has contributed to a generally stable financial profile.

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

Challenges

(1) **Significant capital expenditure program.** OPG has a significant capex program underway (approximately $1.7 billion in 2013). It is expected that OPG will not undertake any major capex without having its financing and a cost-recovery mechanism in place, thus minimizing the financial risks.

(2) **Nuclear generation risks.** Nuclear generation faces higher operating risks than other types of generation due to its complex technology (approximately 59% of OPG's production in 2012). Financial implications of forced outages, especially with older units (e.g., Pickering Nuclear Generating Station), are greater given the high fixed-cost nature of these plants, as well as the fact that lost revenues resulting from outages are not recoverable through rates.

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

(4) **Future nuclear liabilities.** OPG is responsible for the incremental costs related to the management of used fuel bundles in excess of 2.23 million bundles.

DBRS

Ontario Power Generation Inc.

Report Date:
March 27, 2013

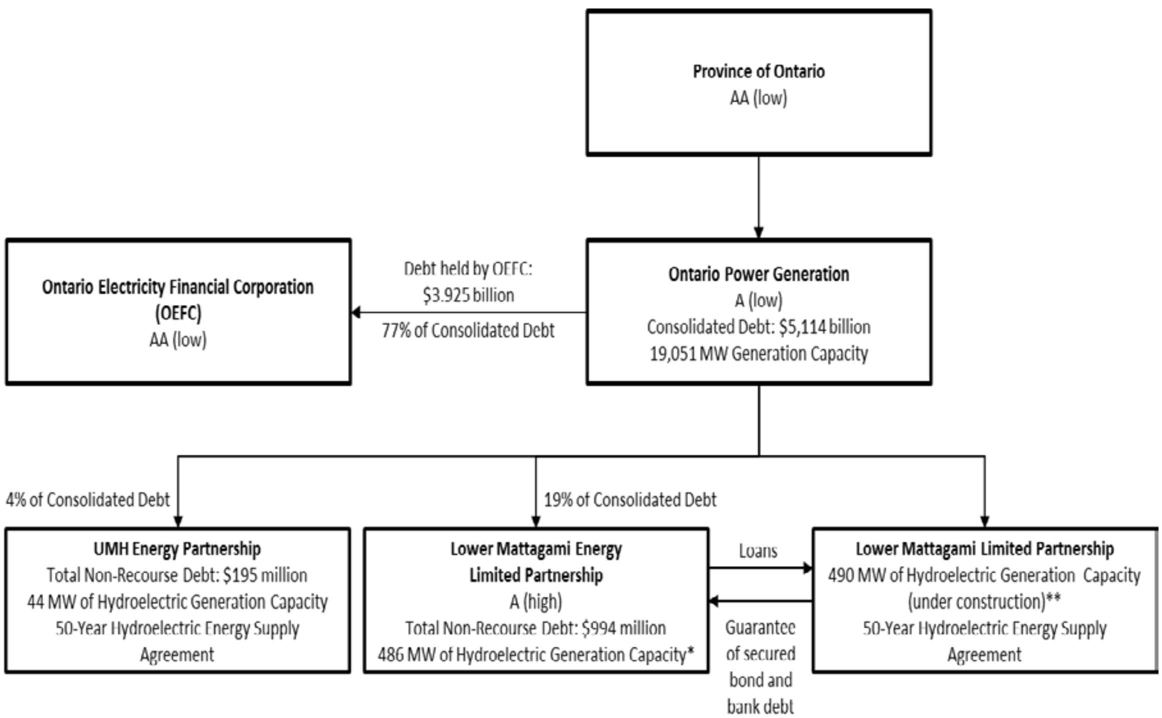
Major Projects

- **Niagara Tunnel:** The 10.2-kilometre Niagara Tunnel is expected to contribute to an increase of about 1.5 terawatt hours (TWh) of annual generation from the Sir Adam Beck generating stations. The project is now in-service as of March 21, 2013.
- **Lower Mattagami River Project (LMRP):** The LMRP will increase capacity by 438 megawatts (MW) for the four generating stations on the Lower Mattagami River. The project has a 50-year Hydroelectric Energy Supply Agreement with the Ontario Power Authority (rated A (high)), which provides a utility-like cost-of-service revenue requirement for energy produced. In addition, OPG guarantees LMRP's debt until the Recourse Release Date (see DBRS's Lower Mattagami Energy Limited Partnership report, dated February 11, 2013, for more details).

Project	Estimated Cost ($ millions)	Spent as of Dec. 31, 2012 ($ millions)	In-Service Target Date
Niagara Tunnel	1,500	1,400	Mar. 2013*
Lower Mattagami River Project	2,600	1,400	Jun. 2015

*In-service as of March 21, 2013

Simplified Organizational Chart



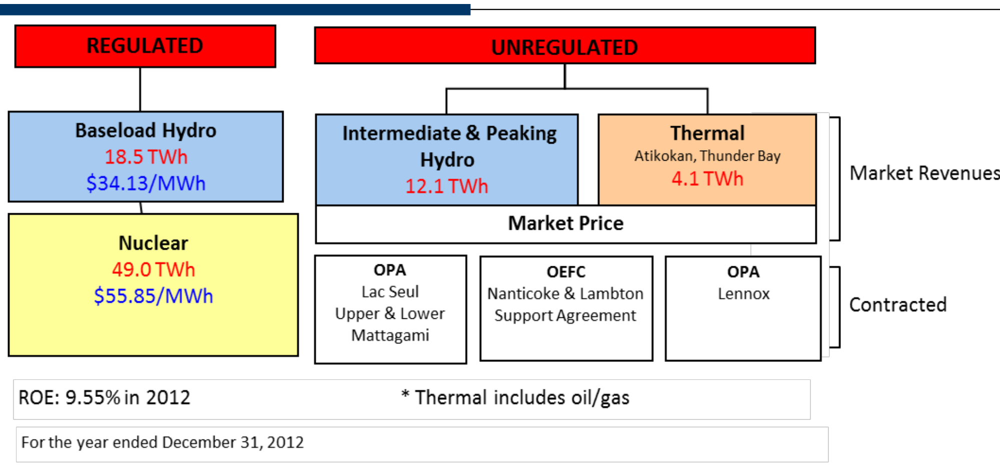
* Capacity includes the 52 MW Smoky Falls Generating Station, which will be replaced under the Lower Mattagami Project
** Capacity includes the new station that will replace the Smoky Falls Generating Station

As of December 31, 2012

Regulation

- OPG benefits from a reasonably regulated environment. Fifty-two percent of its installed in-service capacity is regulated, as of December 31, 2012, adding stability to its credit profile.
- OPG, regulated by the OEB under the *Electricity Restructuring Act, 2004* (Ontario), is allowed to receive regulated prices for all electricity generated from its nuclear facilities (6,606 MW) as well as most of its baseload hydroelectric power facilities.
- In January 2013, the Court of Appeal for Ontario heard OPG's appeal of an OEB decision to disallow a portion of OPG's nuclear compensation costs. A court decision is still pending. DBRS believes that the inability to fully recover its nuclear compensation in future regulated prices will likely have a negative impact on earnings.
- In September 2012, the Company filed for the recovery of OEB-authorized regulatory variance and deferral accounts through new rate riders. The new rate riders would apply to production from OPG's regulated nuclear and hydroelectric facilities beginning in 2013.
- The application also requested for the continuation of the existing $4.33/megawatt hour (MWh) rate rider applicable to OPG's nuclear production and for approval of an extension of the Pension and OPEB Cost Variance Account, both on an interim basis effective January 1, 2013. The Pension and OPEB Cost Variance Account, established by the OEB, records the difference between actual and forecasted pension and other post-employment benefit costs and related tax impacts.
- In November 2012, the OEB granted these requests and also determined that the current negative hydroelectric rate rider of $1.65/MWh would be allowed to expire on December 31, 2012.
- In March 2013, OPG reached a settlement agreement regarding the deferral and variance accounts. The settlement agreement approved the extension of the Pension and OPEB Cost Variance Account, nuclear rate riders of $6.27/MWh and $4.18/MWh in 2013 and 2014, respectively, and hydroelectric rate riders of $3.04/MWh and $2.02/MWh in 2013 and 2014, respectively.
- The settlement agreement also approved the recovery of the differences between the interim rate riders in 2013 and the rate riders outlined in the settlement agreement. The recovery will be collected from the implementation date of March 1, 2013, to December 31, 2013.
- The OEB is expected to issue a formal rate order in April, with new rate riders effective from March 1, 2013.
- The Company has a deemed capital structure of 53% debt and return on equity of 9.55% on regulated base rates for 2013.
- OPG is expected to file an application with the OEB in 2013 for new regulated prices for the regulated hydroelectric and nuclear facilities, effective in 2014.

OPG's Price Structure



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

Earnings and Outlook

	USGAAP	USGAAP	CGAAP	CGAAP
	For the year ended December 31			
(CA$ millions)	**2012**	**2011**	**2010**	**2009**
Revenues	4,732	4,964	5,367	5,613
EBITDA (1)	763	699	858	1,036
EBIT (1)	99	5	170	276
Gross interest expense	267	258	260	255
Earning before taxes (1)	8	(114)	(6)	92
Net income before non-recurring items (1)	58	48	239	167
Reported net income	367	338	649	623
Return on equity	0.8%	0.6%	3.1%	2.3%

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

2012 Summary

- Earnings remain low due primarily to lower earnings from the non-regulated hydroelectric segment.
- The non-regulated generation segment is exposed to pricing volatilities when selling electricity at market spot prices. The lower earnings for the segment were mainly driven by lower electricity generation and depressed electricity spot market prices in Ontario (2012 weighted-average hourly Ontario energy price was 2.4¢/ kilowatt hour (kWh) versus 3.1¢/kWh in 2011).
- The Company's earnings benefit from a reasonably regulated environment and a large generating asset base. Approximately 81% of generation output is produced from the regulated assets.

2013 Outlook

- Earnings volatility going forward will come from (1) non-regulated operating segments, which are used to meet intermediate and peaking demand; (2) adjustments to rate base determined by the OEB; and (3) other macro factors, such as weather, unexpected outages and Ontario's economic conditions.
- In the medium term, a depressed electricity wholesale environment, which is driven by low natural gas prices, could have a negative impact on OPG's non-regulated power earnings.
- The Company is expected to continue to generate the vast majority of its EBITDA through stable regulated operating segments (approximately 65% in 2012).
- The Lambton and Nanticoke coal plants are expected to be mothballed by December 31, 2013, and by December 31, 2014, OPG expects to mothball the remaining coal plants. The coal plants may be converted to biomass and natural gas facilities. In addition, two capital projects (Niagara Tunnel and LMRP) will be coming on line between 2013 and 2015. This should be moderately positive as earnings will likely improve with new capacity coming from regulated and contracted assets, leading to reduced earnings volatility.

DBRS

Ontario Power Generation Inc.

Report Date:
March 27, 2013

Financial Profile

(CA$ millions)	USGAAP 2012	USGAAP 2011	CGAAP 2010	CGAAP 2009
	For the year ended December 31			
Net income before non-recurring items (4)	58	48	239	167
Depreciation & amortization	664	694	688	760
Deferred income taxes and other	362	693	288	136
Cash flow (bef. working cap. changes)	1,084	1,435	1,215	1,063
Nuclear waste funding	(380)	(422)	(445)	(528)
Dividends paid	0	0	0	0
Capital expenditures	(1,427)	(1,145)	(978)	(752)
Free cash flow (bef. working cap. changes)	(723)	(132)	(208)	(217)
Changes in non-cash work. cap. items	172	166	47	(236)
Net Free Cash Flow	(551)	34	(161)	(453)
Long-term investments	24	0	33	1
Proceeds on asset sales	0	7	0	0
Net equity change	0	0	0	0
Net debt change	310	334	337	206
Other	0	(14)	0	2
Change in cash	(217)	361	209	(244)
Total debt	5,114	4,804	4,383	4,046
Cash and equivalents	413	630	280	71
Total debt in capital structure	39.3%	38.6%	35.2%	35.1%
Total debt in capital structure (1)(2)	36.9%	36.8%	35.9%	35.9%
Cash flow/Total debt	21.2%	29.9%	27.7%	26.3%
Cash flow/Total debt (1)	20.8%	28.9%	26.7%	25.3%
EBIT gross interest coverage (times) (4)	0.37	0.02	0.65	1.08
EBIT gross interest coverage (times) (1) (4)	0.42	0.12	0.74	1.14
(Cash flow - n.w.f.)/Total debt (3)	14%	21%	18%	13%
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%

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

2012 Summary

- Debt-to-capital and cash flow-to-debt ratios remained in line with the current rating category, albeit declined, despite the ongoing high level of capex. However, EBIT-interest coverage remained low due to the continually weak non-regulated segment and rising debt levels.
- Cash flow from operations declined moderately in 2012 as a result of lower earnings from the non-regulated hydroelectric generation segment and higher pension contributions.
- The Company's free cash flow deficit increased significantly as a result of higher capex for new hydroelectric and refurbishment projects. The free cash flow deficit was primarily funded with debt and cash on hand, leading to a modest increase in OPG's debt-to-capital ratio and a moderate decline in the cash flow-to-debt ratio.
- No dividend payments were made to the Province during this period of high capex requirements.

2013 Outlook

- As the Company continues to execute its capex program, DBRS expects OPG to generate a free cash flow deficit in 2013. The free cash flow deficit is expected to be financed with debt and cash on hand. As a result, leverage is expected to increase to nearly 45% over the next few years.
- DBRS expects the Province to continue to forgo dividends during the Company's large capex program.
- Operating cash flow is expected to be relatively stable, but funding requirements from the growing pension deficit could increase.
- Capex for 2013 is expected to be approximately $1.7 billion, which includes amounts for hydroelectric development and nuclear refurbishment.

Ontario Power Generation Inc.

Report Date:
March 27, 2013

Long-Term Debt Maturities and Credit Facilities

Long-term Debt
As at December 31, 2012

(CA$ millions)	2013	2014	2015	2016	2017	Thereafter	Total
Long-term Debt	5	5	593	273	1,103	3,135	5,114
	0%	0%	12%	5%	22%	61%	100%

Maturity Profile

- The majority of the long-term debt issued at the parent level (approximately $3.925 billion) is held by OEFC, wholly owned by the Ontario government. As a result, DBRS does not expect any material refinancing risk.
- The Company's maturity profile is fairly spread out over the next four years; a modest maturity is expected in three years.
- OPG has approximately 22% of its total debt outstanding maturing in 2017 (including $900 million held by OEFC); however, refinancing risk is expected to be manageable.
- In April 2012, LME issued senior notes totalling $225 million with a maturity date of 2052 and an effective interest rate of 4.3%.
- In February 2013, LME also issued senior notes totalling $275 with a maturity date of 2046 and an effective interest rate of 4.3%.

Credit Facilities as at December 31, 2012 (CA$ millions)

Bank facilities	Maturity	Amount	Outstanding	Available
Committed credit facility - Tranche 1	20-May-17	500	0	500
Committed credit facility - Tranche 2	20-May-17	500	0	500
Short-term uncommitted credit facilities	Demand	395	350	45
Short-term uncommitted overdraft facilities	Demand	25	0	25
Total		**1,420**	**350**	**1,070**
OEFC facilities				
Niagara Tunnel project Facility	30-Nov-13	1,600	1,025	575
Portlands Energy Centre project Facility		390	390	0
Lac Seul project Facility		50	50	0
Lower Mattagami River Project - Tranche 1	17-Aug-17	400	0	400
Lower Mattagami River Project - Tranche 2	17-Aug-15	300	0	300
General corporate Facility		200	200	0
General corporate Facility		500	500	0
Debt Refinancing Facility		500	500	0
Debt Refinancing Facility		960	960	0
Debt Refinancing Facility		300	300	0
Total		**5,200**	**3,925**	**1,275**

Liquidity

- OPG has a good liquidity profile.
- OPG has a $1 billion commercial paper program backed by two tranches of bank facilities (extended due dates of May 20, 2017). All committed bank facilities are unused as at December 31, 2012.
- As at December 31, 2012, OPG had issued $350 million of letters of credit. Of this total, about $329 million was attributed to its supplementary pension plan.
- The Company has separate credit facilities, provided by OEFC, for project financing, which DBRS views as adequate for working capital purposes.
- OPG reached an agreement with OEFC in April 2012 for a $400 million credit facility and refinanced $200 million of notes under this facility in Q2 2012. The remaining $200 million is no longer available.

Company Profile

As at December 31, 2012
Generation Portfolio

		Percent %	Capacity (MW)
Nuclear			
	Darlington	*18%*	3,512
	Pickering A	*5%*	1,030
	Pickering B	*11%*	2,064
		35%	6,606
Thermal			
	Nanticoke (Coal)	*10%*	1,880
	Lambton (Coal)	*5%*	950
	Atikokan (Coal)	*1%*	211
	Thunder Bay (Coal)	*2%*	306
	Lennox (Duel oil & gas)	*11%*	2,100
		29%	5,447
Hydroelectric			
Non-regulated (1)		*19%*	3,684
Regulated (1)		*17%*	3,312
		37%	6,996
Other (Wind) (2)		*0%*	2
Total Capacity		100%	19,051

(1) Total hydroelectric portfolio comprises 65 stations.
(2) Include 2 wind-power turbines.

- OPG is the largest generator of electricity in Ontario.
- In 2012, OPG had a total in-service capacity of 19,051 MW and generated 83.7 TWh of electricity during that time.
- The Lambton and Nanticoke generating stations are expected to cease coal-fired operations by December 31, 2013, and by December 31, 2014, OPG expects to remove its remaining coal stations from service.
- OPG has a 50% proportional interest in the Portlands Energy Centre. OPG partnerships consist of the following:
  - OPG and ATCO Power Canada Ltd. co-own the Brighton Beach Power Station, a 580 MW natural gas-fired generating station.
  - OPG and TransCanada Energy Ltd. jointly own the Portlands Energy Centre, a 550 MW natural gas-fired generating station.
  - OPG owns the Bruce A and Bruce B nuclear generating stations, which are leased on a long-term basis to Bruce Power Limited Partnership.
  - OPG and the Lac Seul First Nation (LSFN) jointly own the Lac Seul Generating Station, with LSFN owning 25% of the facility.

Ontario Power Generation Inc.

Report Date:
March 27, 2013

Ontario Power Generation Inc.

Balance Sheet	USGAAP	USGAAP	CGAAP		USGAAP	USGAAP	CGAAP
(CA$ millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	2012	2011	2010	**Liabilities & Equity**	2012	2011	2010
Cash & equivalents	413	630	280	S.T. borrowings	0	60	155
Accounts receivable	442	426	270	Accounts payable	891	825	762
Inventories	595	737	819	Current portion L.T.D.	5	403	385
Regulatory assets	0	299	0	Regulatory liabilities	0	130	0
Prepaid expenses & other	283	220	180	Deferred revenue & other	12	12	12
Total Current Assets	1,733	2,312	1,549	**Total Current Liab.**	908	1,430	1,314
Net fixed assets	15,860	14,633	13,555	Long-term debt	5,109	4,341	3,843
Intangibles	52	50	48	Deferred income taxes	563	501	798
Nuclear removal/waste mgmt. funds	12,690	11,878	11,246	Pension & post-retirement benefits	6,697	5,463	1,908
Regulatory assets	6,478	4,718	1,559	Nuclear removal/waste mgmt. funds	15,522	14,392	12,704
Investments, materials & other	788	852	1,620	Regulatory liabilities	41	24	248
				Payables & other L.T. liab.	857	666	677
				Shareholders' equity	7,904	7,626	8,085
Total Assets	37,601	34,443	29,577	**Total Liab. & SE**	37,601	34,443	29,577

	USGAAP	USGAAP	CGAAP	CGAAP
Balance Sheet &	**For the year ended December 31**			
Liquidity & Capital Ratios	**2012**	**2011**	**2010**	**2009**
Current ratio	1.91	1.62	1.18	0.82
Total debt in capital structure	39.3%	38.6%	35.2%	35.1%
Total debt in capital structure (1)(2)	36.9%	36.8%	35.9%	35.9%
Cash flow/Total debt	21.2%	29.9%	27.7%	26.3%
Cash flow/Total debt (1)	20.8%	28.9%	26.7%	25.3%
(Cash flow-dividends)/Capex (times)	0.76	1.25	1.24	1.41
(Cash flow - n.w.f.)/Total debt (3)	13.8%	21.1%	17.6%	13.2%
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%
Coverage Ratios (times)				
EBIT gross interest coverage (4)	0.37	0.02	0.65	1.08
EBITDA gross interest coverage (4)	2.86	2.71	3.30	4.06
Fixed-charges coverage (4)	0.56	0.22	0.68	1.14
EBIT gross interest coverage (1) (4)	0.42	0.12	0.74	1.14
Profitability Ratios				
EBITDA margin (4)	16.1%	14.1%	16.0%	18.5%
EBIT margin (4)	2.1%	0.1%	3.2%	4.9%
Profit margin (4)	1.2%	1.0%	4.5%	3.0%
Return on equity (4)	0.8%	0.6%	3.1%	2.3%
Return on capital (1)(2)(4)	1.2%	1.3%	3.0%	2.7%

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

Ontario Power Generation Inc.

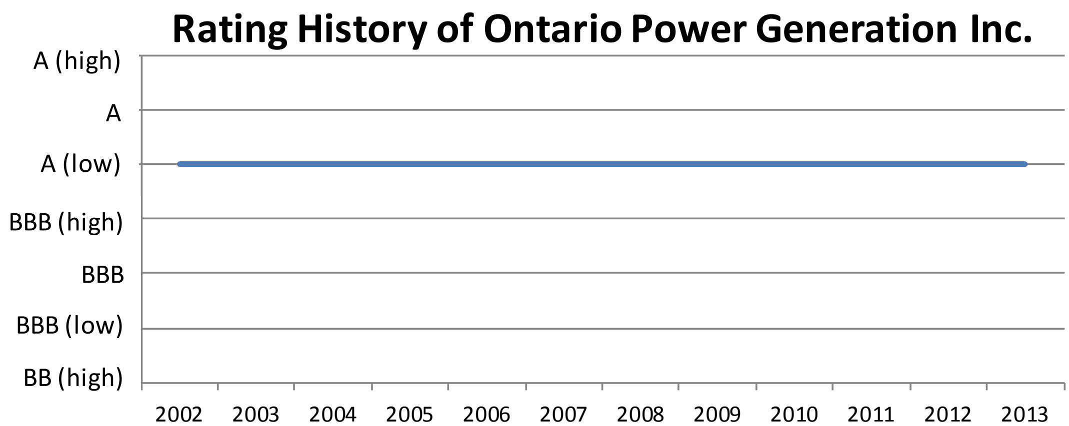
Report Date:
March 27, 2013

Rating

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

Rating History

	Current	2012	2011	2010	2009	2008
Issuer Rating	A (low)	A (low)	NR	NR	NR	NR
Unsecured Debt	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)



Note:
All figures are in Canadian dollars, unless otherwise noted.