

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Ontario Power Generation Inc.'s ("OPG") management is responsible for the presentation and preparation of the annual consolidated financial statements and Management's Discussion and Analysis ("MD&A").

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the requirements of the Ontario Securities Commission ("OSC"), as applicable. The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators and its related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. Something is considered material if it is reasonably expected to have a significant impact on the Company's earnings, cash flow, value of an asset or liability, or reputation. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

In meeting our responsibility for the reliability of financial information, we maintain and rely on a comprehensive system of internal controls and internal audit, including organizational and procedural controls and internal controls over financial reporting. Our system of internal controls includes written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and sound and conservative accounting policies, which we regularly update. This structure ensures appropriate internal control over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements.

Management, including the President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICOFR"). DC&P is designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. ICOFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with GAAP.

An evaluation of the effectiveness of design and operation of OPG's DC&P and ICOFR was conducted as of December 31, 2010. Accordingly, we, as OPG's President and CEO and CFO, will certify OPG's annual disclosure documents filed with the OSC, which includes attesting to the design and effectiveness of OPG's disclosure controls and procedures and internal control over financial reporting.

The Board of Directors, based on recommendations from its Audit and Finance Committee, reviews and approves the consolidated financial statements and the MD&A, and oversees management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major risk areas and assessment of significant and related party transactions.

The consolidated financial statements have been audited by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The Auditors' Report outlines the auditors' responsibilities and the scope of their examination and their opinion on OPG's consolidated financial statements. The independent external auditors, as confirmed by the Audit and Finance Committee, had direct and full access to the Audit and Finance Committee, with and without the presence of management, to discuss their audit and their findings therefrom, as to the integrity of OPG's financial reporting and the effectiveness of the system of internal controls.

Tom Mitchell (signed)
President and Chief Executive Officer

Donn W. J. Hanbidge (signed)
Chief Financial Officer

March 4, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Ontario Power Generation Inc.

We have audited the accompanying consolidated financial statements of Ontario Power Generation Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income, cash flows, changes in shareholder's equity and comprehensive income for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ontario Power Generation Inc. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
March 4, 2011

ERNST & YOUNG LLP (signed)
Chartered Accountants,
Licensed Public Accountants

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31

(millions of dollars except where noted)

	2010	2009
Revenue (Note 19)		
Revenue before revenue limit rebate	5,375	5,640
Revenue limit rebate (Note 17)	-	(27)
	<u>5,375</u>	<u>5,613</u>
Fuel expense (Note 19)	908	991
Gross margin (Note 19)	<u>4,467</u>	<u>4,622</u>
Expenses (Note 19)		
Operations, maintenance and administration	2,903	2,882
Depreciation and amortization (Note 6)	698	760
Accretion on fixed asset removal and nuclear waste management liabilities (Note 10)	660	634
Earnings on nuclear fixed asset removal and nuclear waste management funds (Note 10)	(668)	(683)
Property and capital taxes	77	86
Restructuring (Note 26)	27	-
	<u>3,697</u>	<u>3,679</u>
Income before the following:	770	943
Other losses and (gains) (Notes 4 and 18)	5	(10)
Income before interest and income taxes	765	953
Net interest expense (Note 9)	176	185
Income before income taxes	589	768
Income tax (recovery) expense (Note 11)		
Current	(67)	51
Future	7	94
	<u>(60)</u>	<u>145</u>
Net income	649	623
Basic and diluted income per common share (dollars)	2.53	2.43
Common shares outstanding (millions)	256.3	256.3

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31

(millions of dollars)

	2010	2009
Operating activities		
Net income	649	623
Adjust for non-cash items:		
Depreciation and amortization (Note 6)	698	760
Accretion on fixed asset removal and nuclear waste management liabilities (Note 10)	660	634
Earnings on nuclear fixed asset removal and nuclear waste management funds (Notes 10 and 19)	(668)	(683)
Pension costs (Note 12)	125	69
Other post employment benefits and supplementary pension plans (Note 12)	202	180
Future income taxes and other accrued charges (Note 11)	(89)	88
Provision for other liabilities	20	-
Provision for restructuring (Note 26)	27	-
Mark-to-market on derivative instruments	41	16
Provision for used nuclear fuel	41	35
Regulatory assets and liabilities (Note 7)	(222)	(429)
Other losses and (gains) (Note 18)	5	(10)
Other	(2)	29
	1,487	1,312
Contributions to nuclear fixed asset removal and nuclear waste management funds (Note 10)	(264)	(339)
Expenditures on nuclear fixed asset removal and nuclear waste management (Note 10)	(181)	(189)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management (Note 10)	100	104
Contributions to pension fund (Note 12)	(272)	(271)
Expenditures on other post employment benefits and supplementary pension plans (Note 12)	(82)	(81)
Revenue limit rebate (Note 17)	-	(112)
Expenditures on restructuring (Note 26)	(12)	-
Net changes to other long-term assets and liabilities	(6)	111
Net changes in non-cash working capital balances (Note 24)	47	(236)
Cash flow provided by operating activities	817	299
Investing activities		
Increase in regulatory assets (Note 7)	-	(2)
Investment in fixed and intangible assets (Notes 6 and 19)	(978)	(752)
Net proceeds from sale of long-term investments (Note 4)	33	1
Cash flow used in investing activities	(945)	(753)
Financing activities		
Issuance of long-term debt (Note 8)	1,160	565
Repayment of long-term debt (Note 8)	(978)	(359)
Net increase in short-term notes (Note 9)	155	-
Capital contribution by non-controlling interest	-	4
Cash flow provided by financing activities	337	210
Net increase (decrease) in cash and cash equivalents	209	(244)
Cash and cash equivalents, beginning of year	71	315
Cash and cash equivalents, end of year	280	71

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31

(millions of dollars)

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	280	71
Accounts receivable (Note 5)	270	391
Fuel inventory	734	837
Prepaid expenses	42	47
Income and capital taxes recoverable	65	45
Future income taxes (Note 11)	73	51
Materials and supplies (Note 19)	85	132
	1,549	1,574
Fixed assets (Notes 6 and 19)		
Property, plant and equipment	19,654	18,695
Less: accumulated depreciation	6,099	5,859
	13,555	12,836
Intangible assets (Notes 6 and 19)		
Intangible assets	345	331
Less: accumulated amortization	297	279
	48	52
Other long-term assets		
Deferred pension asset (Note 12)	1,146	999
Nuclear fixed asset removal and nuclear waste management funds (Notes 10 and 19)	11,246	10,246
Long-term investments (Notes 4 and 22)	30	66
Long-term materials and supplies (Note 19)	400	388
Regulatory assets (Note 7)	1,559	1,396
Long-term accounts receivable and other assets	44	27
	14,425	13,122
	29,577	27,584

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31
(millions of dollars)

	2010	2009
Liabilities		
Current liabilities		
Accounts payable and accrued charges	762	933
Long-term debt due within one year (Note 8)	385	978
Short-term notes payable (Note 9)	155	-
Deferred revenue due within one year	12	12
	<u>1,314</u>	<u>1,923</u>
Long-term debt (Note 8)	3,843	3,068
Other long-term liabilities		
Fixed asset removal and nuclear waste management (Notes 10 and 19)	12,704	11,859
Other post employment benefits and supplementary pension plans (Note 12)	1,908	1,796
Long-term accounts payable and accrued charges	525	522
Deferred revenue	152	130
Future income taxes (Note 11)	798	633
Regulatory liabilities (Note 7)	248	172
	<u>16,335</u>	<u>15,112</u>
Non-controlling interest (Note 25)	4	4
Shareholder's equity		
Common shares (Note 15)	5,126	5,126
Retained earnings	3,024	2,375
Accumulated other comprehensive loss	(69)	(24)
	<u>8,081</u>	<u>7,477</u>
	<u>29,577</u>	<u>27,584</u>

Commitments and Contingencies (Notes 8, 12, 13, and 16)

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

Honourable Jake Epp (signed)
Chairman

M. George Lewis (signed)
Director

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

Years Ended December 31
(millions of dollars)

	2010	2009
Common shares (Note 15)	5,126	5,126
Retained earnings		
Balance at beginning of year	2,375	1,752
Net income	649	623
Balance at end of year	3,024	2,375
Accumulated other comprehensive loss, net of income taxes		
Balance at beginning of year	(24)	(49)
Other comprehensive (loss) income for the year	(45)	25
Balance at end of year	(69)	(24)
Total shareholder's equity at end of year	8,081	7,477

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31
(millions of dollars)

	2010	2009
Net income	649	623
Other comprehensive (loss) income, net of income taxes		
Net (loss) gain on derivatives designated as cash flow hedges ¹	(39)	32
Reclassification to income of gains on derivatives designated as cash flow hedges ²	(6)	(7)
Other comprehensive (loss) income for the year	(45)	25
Comprehensive income	604	648

¹ Net of income tax recoveries of \$1 million and tax expenses of \$2 million for the years ended December 31, 2010 and 2009, respectively.

² Net of income tax recoveries of \$4 million and \$3 million for the years ended December 31, 2010 and 2009, respectively.

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. DESCRIPTION OF BUSINESS

Ontario Power Generation Inc. (“OPG” or the “Company”) was incorporated on December 1, 1998 pursuant to the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the “Province”). OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG’s focus is on the efficient generation and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner.

2. BASIS OF PRESENTATION

These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and are presented in Canadian dollars. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of OPG and its subsidiaries. OPG accounts for its interests in jointly controlled entities using the proportionate consolidation method. In accordance with Accounting Guideline 15, *Consolidation of Variable Interest Entities*, the applicable amounts in the accounts of the Nuclear Waste Management Organization (“NWMO”) are included in OPG’s consolidated financial statements. All significant intercompany transactions have been eliminated on consolidation.

Certain of the 2009 comparative amounts have been reclassified from financial statements previously presented to conform to the 2010 consolidated financial statement presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash on deposit and money market securities with a maturity of less than 90 days on the date of purchase. All other money market securities with a maturity on the date of purchase that is 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.

Interest earned on cash and cash equivalents and short-term investments of \$2 million (2009 – \$1 million) at an average effective rate of 0.7 percent (2009 – 0.7 percent) is offset against interest expense in the consolidated statements of income.

Sales of Accounts Receivable

Asset securitization involves selling assets such as accounts receivable to independent entities or trusts, which buy the receivables and then issue interests in them to investors. These transactions are accounted for as sales, given that control has been surrendered over these assets in return for net cash consideration. For each transfer, the excess of the carrying value of the receivables transferred over the estimated fair value of the proceeds received is reflected as a loss on the date of the transfer, and is included in net interest expense. The carrying value of the interests transferred is allocated to accounts receivable sold or interests retained according to their relative fair values on the day the transfer is made. Fair value is determined based on the present value of future cash flows. Cash flows are projected using OPG’s best estimates of key assumptions, such as discount rates, weighted average life of accounts receivable and credit loss ratios.

As part of the sales of accounts receivable, certain financial assets are retained and consist of interests in the receivables transferred. Any retained interests held in the receivables are accounted for at cost. The receivables are transferred on a fully serviced basis and do not create a servicing asset or liability.

Inventories

Fuel inventory is valued at the lower of weighted average cost and net realizable value.

Materials and supplies are valued at the lower of average cost and net realizable value. The determination of net realizable value of materials and supplies takes into account various factors including the remaining useful life of the related facilities in which the materials and supplies are expected to be used.

Fixed and 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. Expenditures for replacements of major components are capitalized.

Depreciation 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 also charged to depreciation expense. Repairs and maintenance are expensed when incurred.

Fixed assets are depreciated on a straight-line basis except for computers, and transport and work equipment, which 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, 2010, the depreciation and amortization periods of fixed and intangible assets are as follows:

Nuclear generating stations and major components	15 to 59 years ¹
Thermal generating stations and major components	25 to 48 years ²
Hydroelectric generating stations and major components	25 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, 2010, the end of station life for depreciation purposes for the Darlington, Pickering A, Pickering B, Bruce A, and Bruce B nuclear generating stations ranges between 2014 and 2051. Major components are depreciated over the lesser of the station life and the life of the components. The Bruce A nuclear generating station was fully depreciated in 2003, however Bruce Power L.P. decided to refurbish the Bruce A generating station contributing to an increase in the asset retirement obligation and an increase in the carrying value of the Bruce A station. Changes to the end of station life for depreciation purposes are described under the heading *Changes in Accounting Policies and Estimates*.

² Lambton units 1 and 2 and Nanticoke units 2 and 3 were fully depreciated by September 30, 2010.

Impairment of Fixed Assets

OPG evaluates its property, plant and equipment for impairment whenever conditions indicate that estimated undiscounted future net cash flows may be less than the net carrying amount of assets. In cases where the undiscounted expected future cash flows are less than the carrying amount, an impairment loss is recognized equal to 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.

Rate Regulated Accounting

Ontario Regulation 53/05, a regulation pursuant to the *Ontario Energy Board Act, 1998*, provides that, effective April 1, 2005, regulated prices are received by OPG for electricity generated from the baseload hydroelectric facilities and all of the nuclear facilities that it operates. Beginning April 1, 2008, OPG's regulated prices for these regulated facilities are determined by the Ontario Energy Board ("OEB"). The OEB issued a decision in 2008 that determined the regulated prices effective April 1, 2008. The regulated prices were based on 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 fixed assets and an allowance for working capital.

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 through the Minister of Energy and Infrastructure. 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 OEB's decision issued in 2008 on the regulated prices, the OEB's decision issued in May 2009 on OPG's motion to review and vary a portion of the 2008 decision, and the OEB's decision issued in October 2009 on OPG's accounting order application authorized certain variance and deferral accounts, including those authorized pursuant to *Ontario Regulation 53/05*. The OEB's 2008 decision also ruled on the disposition of the balances previously recorded by OPG in variance and deferral accounts as at December 31, 2007 pursuant to *Ontario Regulation 53/05*. Variance accounts capture the difference between actual costs and revenues, and the corresponding forecast amounts approved in the setting of regulated prices.

In May 2010, OPG filed an application with the OEB for new regulated prices to be effective March 1, 2011 using a cost of service methodology. The application included OPG's request for the disposition of variance and deferral account balances as at December 31, 2010 as well as the establishment and continuation of variance and deferral accounts. The public hearing process on OPG's application concluded on December 21, 2010. As of the date of these consolidated financial statements, the OEB has not issued a decision on OPG's application. The OEB's decision is expected in March 2011.

The impact of the regulation and the OEB's decisions on OPG's revenue recognition policies is described under the heading, *Revenue Recognition*.

The balances in variance and deferral accounts are recognized as regulatory assets and liabilities as Canadian accounting standards recognize 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 a company assesses that there is sufficient assurance that incurred expenses will be recovered in the future, those expenses may be deferred and reported as a regulatory asset. When a regulator provides recovery through current rates for expenses that are not incurred, then a regulatory liability is reported. The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the regulation and the OEB's decisions. These estimates and assumptions are reviewed as part of the OEB's regulatory process.

Regulatory asset and liability balances approved by the regulator 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 regulator'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.

Certain assets and liabilities arising from rate regulation have specific guidance under a primary source of Canadian GAAP that applies only to the particular circumstances described therein, including those

arising under Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1600, *Consolidated Financial Statements*, Handbook Section 3061, *Property, Plant and Equipment*, Handbook Section 3465, *Income Taxes*, and Handbook Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*. Other assets and liabilities arising from rate regulation do not have specific guidance under a primary source of GAAP. Therefore, Handbook Section 1100, *Generally Accepted Accounting Principles* (“Section 1100”) directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Handbook Section 1000, *Financial Statement Concepts*. In developing these accounting policies, the Company may consult other sources including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. Therefore, in accordance with Section 1100, the Company has determined that these assets and liabilities qualify for recognition under Canadian GAAP and this recognition is consistent with the Financial Accounting Standards Board Accounting Standards Codification Topic 980, *Accounting for the Effects of Certain Types of Regulation* (formerly Financial Accounting Standards No. 71).

See Notes 7 and 11 to these consolidated financial statements for additional disclosure related to regulatory assets and liabilities and rate regulated accounting.

Investments in OPG Ventures

In accordance with Accounting Guideline 18, *Investment Companies* (“AcG-18”), investments owned by the Company’s wholly owned subsidiary OPG Ventures Inc. (“OPGV”) are recorded at fair value, and changes to the fair value of the investments are included in revenue in the period in which the change occurs. The fair values of these investments are estimated using a methodology that is appropriate in light of the nature, facts and circumstances of the respective investments and considers reasonable data and market inputs, assumptions and estimates. See Notes 13 and 22 to these consolidated financial statements for additional disclosure related to OPG’s investments in OPGV.

Fixed Asset Removal and Nuclear Waste Management Liability

OPG recognizes asset retirement obligations for 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 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 liability is increased by the present value of the variable cost portion of the nuclear waste generated each year, with the corresponding amounts charged to operating expenses. Expenses relating to low and intermediate level nuclear waste are charged to depreciation and amortization expense. Expenses relating to the management or storage of nuclear used fuel are charged to fuel expense. The liability may also be adjusted due to any changes in the estimated amount or timing of the underlying future cash flows. Upon settlement of the liability, a gain or loss would be recorded.

Accretion arises because liabilities for fixed asset removal and nuclear waste management 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 resulting expense is included in operating expenses.

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

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”) (together the “Nuclear Funds”). The Used Fuel Fund is intended to fund expenditures associated with the 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 investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading. Accordingly, the Nuclear Funds and the corresponding payables to the Province are measured at fair value based on the bid prices of the underlying securities with gains and losses recognized in net income.

Revenue Recognition

All of OPG's electricity generation is offered into the real-time energy spot market administered by the Independent Electricity System Operator ("IESO"). Energy revenue, generated from the nuclear facilities since April 1, 2008, is based on a regulated price of 5.50¢/kWh pursuant to the OEB's decision issued in 2008. This price includes a rate rider of 0.20¢/kWh for the recovery of approved nuclear variance and deferral account balances based on recovery periods authorized by the OEB. Effective April 1, 2008, regulated hydroelectric generation receives a regulated price of 3.67¢/kWh. In its 2008 decision, the OEB also approved a revised incentive mechanism for production from regulated hydroelectric facilities, which became effective December 1, 2008. Under this mechanism, OPG receives the approved regulated price of 3.67¢/kWh for the actual average hourly net energy production from these hydroelectric facilities in that month. In the hours when the actual net energy production in Ontario is greater or less than the average hourly net volume in the month, hydroelectric revenues are adjusted by the difference between the average hourly net volume and the actual net energy production multiplied by the spot market price. The regulated price of 3.67¢/kWh includes the recovery of approved hydroelectric regulatory balances based on recovery periods authorized by the OEB's 2008 decision.

During 2009, OPG filed an accounting order application. In the application, OPG sought the continuation of the rate rider of 0.20¢/kWh for recovery of nuclear regulatory balances approved in the OEB's 2008 decision. OPG also sought to establish the basis for recording additions to existing variance and deferral account balances after 2009. These requests were approved by the OEB in October 2009. In addition, the OEB directed that OPG establish a new variance account to record potential over collection of hydroelectric variance account balances through the hydroelectric regulated price after 2009.

As part of the May 2010 application for new regulated prices, OPG requested the OEB to declare the current regulated prices interim, effective March 1, 2011. On February 17, 2011, the OEB issued an order granting this request. This order preserves the opportunity for OPG to recover the difference between the final regulated prices as approved by the OEB and the current regulated prices for the period between March 1, 2011 and the implementation date of the OEB's final rate order. The decision regarding retrospective recovery is expected to be made by the OEB as part of its decision on OPG's application.

Electricity generated from OPG's other generating assets remains unregulated and continues to receive the Ontario electricity spot market price, except where an energy supply agreement is in place. Generation from the Lac Seul and Ear Falls generating stations, Healey Falls generating station, and the Sandy Falls, Wawaitin, Lower Sturgeon, and Hound Chute generating stations are all subject to a Hydroelectric Energy Supply Agreement ("HESA"). In 2010, OPG also finalized a HESA for the Lower Mattagami hydroelectric development project. The payments under the Lower Mattagami HESA commence when the first incremental unit comes into service.

The Lambton and Nanticoke generating stations are subject to a contingency support agreement with the Ontario Electricity Financial Corporation ("OEFC"). The agreement was put in place to enable OPG to recover the costs of those coal-fired generating stations following implementation of OPG's CO₂ emissions reduction strategy. Production from the Lennox generating station was subject to a reliability must run contract up to September 30, 2009. OPG finalized a Lennox Generating Station Agreement ("LGSA") with the Ontario Power Authority ("OPA") for the station for the period October 1, 2009 to December 31, 2010. The LGSA for 2011 was executed in the first quarter of 2011. In 2010, OPG and the OPA began negotiations of the Atikokan Biomass Energy Supply Agreement ("ABESA") for the supply

of biomass-fuelled electricity generation from the Atikokan generating station. The ABESA is expected to be executed in 2011.

For the period April 1, 2005 to April 30, 2009, the generation output from 85 percent of OPG's unregulated generating assets, excluding the Lennox generating station, stations whose generation output is subject to a HESA with the OPA pursuant to a ministerial directive, and forward sales as of January 1, 2005, was subject to a revenue limit. The output from a generating unit where there was a fuel conversion and the incremental output from a generating station where there was a refurbishment or expansion of these assets were also excluded from the output covered by the revenue limit.

The revenue limit was 4.8¢/kWh for the period May 1, 2008 to April 30, 2009. During this period, volumes sold under a Pilot Auction administered by the OPA were subject to a revenue limit that was 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these limits were returned to the IESO for the benefit of consumers. The term of the revenue limit rebate ended on April 30, 2009.

OPG also sells into, and purchases from, interconnected markets of other provinces and the U.S. northeast and midwest. All contracts that are not designated as hedges are recorded in the consolidated balance sheets at market value with gains or losses recorded in the consolidated statements of income. Gains and losses on energy trading contracts (including those to be physically settled) are recorded on a net basis in the consolidated statements of income. Accordingly, power purchases of \$69 million in 2010 and \$79 million in 2009 were netted against revenue.

OPG derives non-energy revenue under the terms of a lease arrangement and related agreements with Bruce Power L.P. related to the Bruce nuclear generating stations. This includes lease revenue and revenue for engineering analysis and design, technical and ancillary services. The lease payments are recognized in revenue on a straight-line basis over the term of the lease.

OPG also earns revenue from its joint venture share of the Brighton Beach Power Limited Partnership ("Brighton Beach") related to an energy conversion agreement between Brighton Beach and Shell Energy North America (Canada) Inc. It also earns revenue from its 50 percent share of the results of the Portlands Energy Centre ("PEC") gas-fired generating station, which is co-owned with TransCanada Energy Ltd. In addition, non-energy revenue includes isotope sales and real estate rentals. Revenues from these activities are recognized as services are provided or as products are delivered.

Financial Instruments

Financial assets are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, or available-for-sale, and financial liabilities are classified as held-for-trading or other than held-for-trading. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and financial liabilities other than those held-for-trading, are measured at amortized cost. Financial assets available-for-sale are measured at fair value with unrealized gains and losses due to fluctuations in fair value recognized in accumulated other comprehensive income (loss) ("AOCI"). Financial assets purchased and sold, where the contract requires the asset to be delivered within an established timeframe, are recognized on a trade-date basis. All derivatives, including embedded derivatives that must be separately accounted for, generally must be 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.

The standard permits designation of any financial instrument as held-for-trading (the fair value option) upon initial recognition. This designation by OPG requires that the financial instrument be reliably measurable, and eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities.

For the year ended December, 31, 2009, OPG adopted CICA Handbook Section 3862, *Financial Instruments – Disclosures* and categorized its fair value measurements using a fair value hierarchy that

reflects the significance of the inputs used in measuring the financial instruments. The fair value hierarchy has three levels. Fair value of assets and liabilities included in Level 1 is determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data.

Hedges

The standard specifies the criteria under which hedge accounting can be applied and how hedge accounting is to be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive loss. The ineffective portion is recognized in net income. The amounts recognized in AOCI are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item.

Derivatives

Some of OPG's unregulated generation is exposed to changes in electricity prices associated with a wholesale spot market for electricity in Ontario. To hedge the commodity price risk exposure associated with changes in the wholesale price of electricity, OPG enters into various energy and related sales contracts. These contracts are expected to be effective as hedges of the commodity price exposure on OPG's generation portfolio. Gains or losses on hedging instruments are recognized in unregulated revenue over the term of the contract when the underlying hedged transactions occur. All contracts not designated as hedges are recorded as assets or liabilities at fair value with changes in fair value recorded in the Other category revenue (refer to Note 19).

OPG also enters into derivative contracts with major financial institutions to manage the Company's exposure to foreign currency movements. Foreign exchange translation gains and losses on these foreign currency denominated derivative contracts are recognized as an adjustment to the purchase price of the commodity or goods received.

OPG is exposed to changes in market interest rates on debt expected to be issued in the future. OPG uses interest rate derivative contracts to hedge this exposure. Gains and losses on interest rate hedges are recorded as an adjustment to interest expense for the debt being hedged. Gains and losses that do not meet the effectiveness criteria are recorded through net income in the period incurred.

OPG utilizes emission reduction credits ("ERCs") and allowances to manage emissions within the prescribed regulatory limits. ERCs are purchased from trading partners in Canada and the United States. Emission allowances are obtained from the Province and purchased from trading partners in Ontario. The cost of ERCs and allowances is held in inventory and charged to OPG's operations at average cost as part of fuel expense, as required.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. The fair value of such derivative instrument is included in AOCI on a net of tax basis and changes to the fair value are recorded on the consolidated statements of comprehensive income. When a derivative hedging relationship is expired, the designation of a hedging relationship is terminated, or a portion of the hedging instrument is no longer effective, any associated gains or losses included in AOCI are recognized in the current period's consolidated statement of income.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at year-end exchange rates. 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 waste management liabilities, for which specific provisions have already been made, are charged to the related liability.

Pension and Other Post Employment Benefits

OPG's post employment benefit programs include a contributory defined benefit registered pension plan, a defined benefit supplementary pension plan, group life insurance, health care and long-term disability benefits. Effective January 1, 2009, similar post employment benefit programs were established by the NWMO. Information on the Company's post employment benefit programs is presented on a consolidated basis.

OPG accrues its obligations under pension and other post employment benefit ("OPEB") plans. The obligations for pension and other post retirement benefit costs are determined using the projected benefit method pro-rated on service. The obligation for long-term disability 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 pension and OPEB obligations and related effects on operations. Two critical assumptions—discount rate and inflation—are important elements of benefit costs and obligations. In addition, the expected return on assets is a critical assumption in the determination of pension 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 an independent actuary. During the evaluation process, the assumptions are updated to reflect actual experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors, and in accordance with Canadian GAAP, the impact of these differences is accumulated and amortized over future periods.

The discount rates used by OPG in determining projected benefit obligations and the costs for the Company's employee benefit plans are based on representative AA corporate bond yields. The respective discount rates enable OPG to calculate the present value of the expected future cash flows on the measurement date. A lower discount rate increases the present value of benefit obligations and increases benefit plan costs. The expected rate of return on plan assets is based on current and expected asset allocation, as well as the 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 and other investments which are managed by professional investment managers. The fund does not invest in equity or debt securities issued by OPG. Pension fund assets are valued using market-related values for purposes of determining 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 OPEB 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. Due to the long-term nature of post-employment 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, since OPG will realize the economic benefit over that 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

Under the *Electricity Act, 1998*, OPG is required to make payments in lieu of corporate income and capital taxes to the OEFC. These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario), as modified by regulations made under 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 follows the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period the change is substantively enacted. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is established. In accordance with the CICA Handbook Section 3465, *Income Taxes*, beginning January 1, 2009, OPG recognizes future income taxes associated with its rate regulated operations and records an offsetting regulatory asset or liability for the future income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

OPG makes payments in lieu of property tax on its nuclear and thermal generating assets to the OEFC, and also pays property taxes to municipalities.

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. GRC costs are included in fuel expense.

Changes in Accounting Policies and Estimates

Depreciation of Long-Lived Assets

The accounting estimates related to the depreciation of long-lived assets require significant management judgment to assess the appropriate useful lives of OPG's long-lived assets, including consideration of various technological and other factors.

Effective January 1, 2009, the service life of thermal stations, for the purpose of calculating depreciation, was extended by two years to 2014 based on the Province of Ontario's announcement to phase out coal generation by the end of 2014. The life extension reduced depreciation expense by \$31 million annually. Subsequently, in September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations. As a result of the unit closures, effective September 2009, OPG revised the end of life for these units to October 2010 from December 2014. This change in estimate was accounted for on a prospective basis and increased depreciation expense by \$29 million in 2010 and \$11 million in 2009.

Change in Estimate Related to Darlington Refurbishment

In February 2010, OPG announced its decision to commence the definition phase of the refurbishment of the Darlington nuclear generating station. Accordingly, the service life of the Darlington nuclear

generating station, for the purposes of calculating depreciation, was extended from 2019 to 2051. The approval and the extension of service life also impacted the assumptions for OPG's liabilities for fixed asset removal and nuclear waste management primarily due to cost increases related to additional used fuel bundles, partially offset by a decrease in the liability for decommissioning, resulting from the change in the service life assumptions. The net increase in the liabilities was \$293 million, using a discount rate of 4.8 percent. The increase in liabilities was reflected with a corresponding increase in the fixed asset balance in the first quarter of 2010. As a result of these changes, OPG's depreciation expense decreased by \$135 million on an annual basis beginning in 2010.

Restructuring

As a result of the decision to close two coal-fired units at each of the Lambton and Nanticoke generating stations, OPG recorded restructuring charges of \$27 million in 2010 related to severance costs. The severance costs were incurred in accordance with collective bargaining agreements for the Society of Energy Professionals and the Power Workers' Union.

Future Changes in Accounting Policy

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Publicly Accountable Enterprises will be required to transition from Canadian GAAP to International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for interim and annual financial reporting purposes of fiscal years beginning on or after January 1, 2011. As a result of recent changes to Part I of the CICA Handbook – Accounting, by the AcSB, certain rate-regulated entities can defer the adoption of IFRS by one year to January 1, 2012. OPG meets the AcSB's criteria for the deferral and has chosen to adopt IFRS effective January 1, 2012.

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure. In line with OPG's IFRS conversion project, an assessment has been completed to identify the key accounting differences from Canadian GAAP. OPG's assessment of the impact of IFRS will depend on the IFRS standards in effect at the time of conversion on January 1, 2012 and accounting elections made. Proposed changes to the IFRS accounting standards have the potential to introduce additional significant accounting differences. OPG's interim consolidated financial statements, as currently disclosed in accordance with Canadian GAAP, will be significantly different when presented in accordance with IFRS. OPG will publish its first consolidated financial statements prepared in accordance with IFRS for the three months ending and as at March 31, 2012, and for the corresponding comparative period. The opening balance sheet as at January 1, 2011 will be disclosed in the March 31, 2012 interim consolidated financial statements.

The IASB has deferred its work on its rate-regulated activities accounting project. The IASB has not provided interim guidance for the recognition and measurement of regulatory assets and liabilities. As a result, OPG is analyzing existing IFRS guidance and continues to determine the impact on its accounting for regulatory assets and liabilities upon its adoption of IFRS on January 1, 2012.

4. INVESTMENTS IN ASSET-BACKED COMMERCIAL PAPER

Pursuant to the terms of a restructuring plan announced by the Pan-Canadian Investors Committee for third-party Asset-Backed Commercial Paper ("ABCP"), OPG's commercial paper was exchanged for longer term notes of approximately \$58 million in January 2009. OPG received five classes of notes, which were supported by margin funding facilities from third-party asset providers, Canadian banks, and governments. OPG replaced existing ABCP notes that had a net book value of \$35 million (\$58 million book value less a provision of \$23 million) with new ABCP notes of \$35 million, which represented the fair value of the new ABCP notes.

In 2009, OPG classified the ABCP notes for the purposes of measurement as held-for-trading. Fair value was determined based on a discounted cash flow model, and OPG classified its investment in ABCP as Level 3 in the fair value hierarchy disclosures (Note 13).

As at December 31, 2009, the ABCP holdings were valued at \$36 million. During the fourth quarter of 2010, OPG sold its holdings of these notes for \$33 million and recognized a loss of \$3 million for the year in other losses and gains.

5. SALE OF ACCOUNTS RECEIVABLE

In October 2003, the Company signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the “receivables”) to an independent trust. The Company also retains an undivided co-ownership interest in the receivables sold to the trust. Under the agreement, OPG 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 the Company is generally limited to its income earned on the receivables.

OPG reflected the initial transfer to the trust of the co-ownership interest, and subsequent transfers required by the revolving nature of the securitization, as sales in accordance with CICA Accounting Guideline 12, *Transfer of Receivables*. In accordance with this Guideline, the proceeds of each sale to the trust were deemed to be the cash received from the trust, net of the undivided co-ownership interest retained by the Company. In accordance with the receivable purchase agreement, OPG reduced the securitized receivable balance by \$50 million, from \$300 million to \$250 million in May and June of 2009 primarily due to lower cash flows from the IESO. During the third quarter of 2009, OPG renewed the agreement with a maturity date of August 31, 2010 and an amended commitment of \$250 million. During the third quarter of 2010, OPG renewed the agreement with a maturity date of August 31, 2013 and a commitment of \$250 million.

For 2010, OPG has recognized interest expense of \$4 million (2009 – \$4 million) on such sales at an average cost of funds of 1.5 percent (2009 – 1.5 percent). As at December 31, 2010, OPG had sold receivables of \$250 million from its total portfolio of \$377 million (2009 – \$436 million).

The accounts receivable reported and securitized by the Company are as follows:

<i>(millions of dollars)</i>	Principal Amount of Receivables as at December 31		Average Balance of Receivables for the year ended December 31	
	2010	2009	2010	2009
Total receivables portfolio ¹	377	436	379	398
Receivables sold	250	250	250	267
Receivables retained	127	186	129	131
Average cost of funds			1.5%	1.5%

¹ Amount represents receivables outstanding, including receivables that have been securitized, which the Company continues to service.

An immediate 10 percent or 20 percent adverse change in the discount rate would not have a material effect on the current fair value of the retained interest. There were no credit losses for the years ended December 31, 2010 and 2009.

Details of cash flows from securitizations for the years ended December 31, 2010 and 2009 are as follows:

<i>(millions of dollars)</i>	2010	2009
Collections reinvested in revolving sales ¹	2,995	3,200
Cash flows from retained interest	1,548	1,577

¹ Given the revolving nature of the securitization, the cash collections received on the receivables securitized are immediately reinvested in additional receivables resulting in no further cash proceeds to the Company over and above the securitized amount. The amounts reflect the total of twelve monthly amounts.

6. FIXED AND INTANGIBLE ASSETS AND DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense consists of the following as at December 31, 2010 and 2009:

<i>(millions of dollars)</i>	2010	2009
Depreciation	579	629
Amortization of intangible assets	16	21
Amortization of regulatory assets and liabilities <i>(Note 7)</i>	101	103
Nuclear waste management costs	2	7
	698	760

Fixed assets consist of the following as at December 31, 2010 and 2009:

<i>(millions of dollars)</i>	2010	2009
Property, plant and equipment		
Nuclear generating stations	7,220	6,693
Regulated hydroelectric generating stations	4,474	4,454
Unregulated hydroelectric generating stations	4,020	3,607
Thermal generating stations	1,424	1,674
Other fixed assets	1,039	1,043
Construction in progress	1,477	1,224
	19,654	18,695
Less: accumulated depreciation		
Generating stations	5,819	5,625
Other fixed assets	280	234
	6,099	5,859
	13,555	12,836

Intangible assets consist of the following as at December 31, 2010 and 2009:

<i>(millions of dollars)</i>	2010	2009
Intangible assets		
Nuclear generating stations	93	89
Unregulated hydroelectric generating stations	3	2
Thermal generating stations	2	2
Other intangible assets	239	225
Development in progress	8	13
	345	331
Less: accumulated amortization		
Generating stations	77	69
Other intangible assets	220	210
	297	279
	48	52

Interest capitalized to construction and development in progress at an average rate of six percent during the years ended December 31, 2010 and 2009 was \$76 million and \$57 million, respectively.

7. REGULATORY ASSETS AND LIABILITIES

The OEB's decision issued in 2008 authorized certain variance and deferral accounts effective April 1, 2008, including those authorized pursuant to *Ontario Regulation 53/05*, a regulation under the *Ontario Energy Board Act, 1998*. In that decision the OEB also ruled on the disposition of the balances previously recorded by OPG in variance and deferral accounts as at December 31, 2007 pursuant to *Ontario Regulation 53/05*. During the year ended December 31, 2010, the Company recorded additions to the variance and deferral accounts authorized by the OEB in that decision, and amortized approved regulatory balances based on recovery periods established by the OEB.

During the year ended December 31, 2010, the Company also recorded additions to the Tax Loss Variance Account, which was established in 2009 in accordance with the OEB's decision and order issued during the second quarter of 2009. This decision was in response to a motion by OPG that asked the OEB to review and vary a portion of the 2008 decision establishing current regulated prices, as it pertains to the treatment of tax losses and their use for mitigation of the regulated prices.

During the fourth quarter of 2009, the OEB issued its decision on OPG's application for an accounting order to address the treatment of the variance and deferral accounts for the period after December 31, 2009. The OEB granted OPG's application to continue to recover the nuclear regulatory balances as at December 31, 2007, through the rate rider of 0.20¢/kWh originally authorized by the OEB in its 2008 decision. In addition, effective January 1, 2010, the OEB directed OPG to establish the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account to record any over collection of approved hydroelectric regulatory balances through the hydroelectric regulated price of 3.67¢/kWh that remains in effect after December 31, 2009. The OEB also approved OPG's proposed basis for recording additions to nuclear and hydroelectric variance and deferral accounts, for the period after December 31, 2009. As a result of this decision, during 2010, OPG continued to amortize nuclear variance and deferral account balances approved for recovery in the OEB's 2008 decision.

OPG recorded interest on outstanding regulatory balances at the interest rate prescribed by the OEB, which fluctuated in the range of 0.55 percent to 1.20 percent per annum during the year ended December 31, 2010. The interest rate fluctuated in the range of 0.55 percent to 2.45 percent per annum during the year ended December 31, 2009. Beginning on January 1, 2009, OPG also records a

regulatory asset or liability related to the recognition of future income taxes associated with its rate regulated operations, as required by the CICA's guidance for accounting for rate regulated operations described in Notes 3 and 11 to these consolidated financial statements.

On May 26, 2010, OPG filed an application with the OEB for new regulated prices to be effective March 1, 2011. As part of the application, OPG sought recovery of variance and deferral account balances as at December 31, 2010, including balances recorded during the three months ended March 31, 2008 pursuant to *Ontario Regulation 53/05*. The public hearing process on OPG's application concluded on December 21, 2010. As of the date of these consolidated financial statements, the OEB has not issued a decision on OPG's application.

The regulatory assets and liabilities recorded as at December 31, 2010 and 2009 were as follows:

<i>(millions of dollars)</i>	2010	2009
Regulatory assets		
Future Income Taxes (<i>Note 11</i>)	711	592
Bruce Lease Net Revenues Variance Account	250	328
Tax Loss Variance Account	492	295
Pickering A Return to Service Deferral Account	33	82
Nuclear Liabilities Deferral Account	39	86
Other	34	13
Total regulatory assets	1,559	1,396
Regulatory liabilities		
Nuclear Development Variance Account	111	55
Hydroelectric Water Conditions Variance Account	70	55
Income and Other Taxes Variance Account	40	21
Other	27	41
Total regulatory liabilities	248	172

The changes in the regulatory assets and liabilities during 2010 and 2009 were as follows:

<i>(millions of dollars)</i>	Future Income Taxes	Bruce Lease Net Revenues Variance	Tax Loss Variance	Pickering A Return to Service Deferral	Nuclear Liabilities Deferral	Nuclear Develop- ment Variance	Hydro- electric Water Conditions Variance	Income and Other Taxes Variance	Other (net)
Regulatory assets (liabilities), January 1, 2009	-	260	-	123	132	(21)	(22)	-	(4)
Change during the year	592	64	292	-	-	(29)	(29)	(21)	(18)
Interest	-	4	3	2	1	-	-	-	(2)
Amortization during the year	-	-	-	(43)	(47)	(5)	(4)	-	(4)
Regulatory assets (liabilities), December 31, 2009	592	328	295	82	86	(55)	(55)	(21)	(28)
Change during the year	119	(81)	194	-	-	(50)	(14)	(19)	34
Interest	-	3	3	-	1	(1)	(1)	-	-
Amortization during the year	-	-	-	(49)	(48)	(5)	-	-	1
Regulatory assets (liabilities), December 31, 2010	711	250	492	33	39	(111)	(70)	(40)	7

Future Income Taxes

Effective January 1, 2009, OPG is required to recognize future income taxes associated with its rate regulated operations, including future income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. In addition, OPG is required to recognize a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers. OPG recorded an additional \$119 million to the regulatory asset for future income taxes during the year ended December 31, 2010 (2009 – \$592 million).

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 regulated prices, this account records the difference between the amount of mitigation included in the approved regulated prices and the revenue requirement reduction available from tax loss carry forwards for the period April 1, 2005 to March 31, 2008 recalculated as per the OEB's 2008 decision. As such, during the year ended December 31, 2010, OPG recorded a regulatory asset of \$197 million, including \$3 million of interest, related to the Tax Loss Variance Account and a corresponding \$194 million increase to revenue. During the year ended December 31, 2009, OPG recorded a regulatory asset of \$295 million, including \$3 million of interest related to this variance account and a corresponding \$292 million increase to revenue. The increase to revenue of \$292 million in 2009 included an amount of \$125 million related to the period from April 1, 2008 to December 31, 2008.

Bruce Lease Net Revenues Variance Account

As per *Ontario Regulation 53/05*, OPG is required to include the difference between OPG's revenues and costs associated with its ownership of the two nuclear stations on lease to Bruce Power L. P. in the determination of the regulated prices for production from OPG's regulated nuclear facilities. In its 2008 decision, the OEB also established a variance account, effective April 1, 2008, that captures differences between the forecast revenues and costs associated with the Bruce generating stations that are included in the approved regulated nuclear prices, and the actual amounts. As at December 31, 2010, the variance account balance was \$250 million (2009 – \$328 million).

The regulatory asset as at December 31, 2010 includes \$353 million (2009 – \$259 million) of revenue variance related to the Bruce lease agreement (“Bruce Lease”) and related agreements, including the impact of the derivative embedded in the Bruce Lease (refer to Note 13), a variance of \$47 million (2009 – \$214 million) from forecast as a result of lower earnings from the Nuclear Funds related to the Bruce generating stations, partially offset by a related variance in income tax expense of \$109 million (2009 – \$131 million). The account also includes variances for accretion expense related to OPG’s liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management (“Nuclear Liabilities”) associated with the Bruce generating stations and for depreciation expense related to these stations.

Pickering A Return to Service Deferral Account

Effective January 1, 2005, in accordance with *Ontario Regulation 53/05*, OPG was required to establish a deferral account in connection with non-capital costs incurred on or after January 1, 2005 that were associated with the planned return to service of all units at the Pickering A nuclear generating station. OPG commenced amortization of the deferral account in accordance with the terms of the regulation when Unit 1 of the Pickering A nuclear generating station was returned to service in November 2005. In its 2008 decision, the OEB authorized the recovery of the unamortized balance in the account as at December 31, 2007 over a 45-month period ending December 31, 2011. Therefore, effective April 1, 2008, OPG amortizes the December 31, 2007 balance of the account on a straight-line basis over this period. Amortization expense of \$49 million was recorded in 2010 (2009 – \$43 million). As at December 31, 2010, the balance in the deferral account was \$33 million (2009 – \$82 million).

Nuclear Liabilities Deferral Account

Effective April 1, 2005, *Ontario Regulation 53/05* required OPG to establish a deferral account in connection with changes to the Nuclear Liabilities. The deferral account represents the revenue requirement impact associated with the changes in the Nuclear Liabilities arising from an approved reference plan, approved after April 1, 2005, in accordance with the terms of the ONFA.

On December 31, 2006, OPG recorded an increase in its Nuclear Liabilities of \$1,386 million arising from an update to the approved reference plan in accordance with the terms of the ONFA (the “2006 Approved Reference Plan”). Therefore, commencing January 1, 2007 and up to March 31, 2008, OPG recorded a regulatory asset associated with this increase in the Nuclear Liabilities arising from the approved reference plan. In its 2008 decision, the OEB authorized the recovery of the balance in this account as at December 31, 2007 over a 33-month period ended December 31, 2010. Therefore, effective April 1, 2008, OPG amortized the December 31, 2007 balance of the account on a straight-line basis over this period. In 2010, OPG recorded amortization of \$48 million (2009 – \$47 million). The balance of the regulatory asset was \$39 million as at December 31, 2010 (2009 – \$86 million).

Nuclear Development Variance Account

Up to April 1, 2008, in accordance with *Ontario Regulation 53/05*, OPG recorded a regulatory asset for deferred non-capital costs incurred in the course of planning and preparing for the development of proposed new nuclear facilities incurred on or after June 13, 2006 for recovery through future regulated prices. The OEB’s 2008 decision approved a variance account to record deviations in these non-capital costs from the forecast approved in setting nuclear regulated prices effective April 1, 2008 and established the regulatory asset balance recorded up to April 1, 2008 as the opening balance of this variance account. As at December 31, 2010, the variance account balance was a liability of \$111 million (2009 – \$55 million). OPG recorded additional operations, maintenance and administration (“OM&A”) expenses of \$50 million related to this variance account during the year ended December 31, 2010 (2009 – \$29 million).

The OEB’s 2008 decision also authorized the recovery of the costs deferred as at December 31, 2007 over a 33-month period ended December 31, 2010. Accordingly, effective April 1, 2008, OPG recorded

amortization of these deferred costs in the variance account on a straight-line basis over this period. Amortization expense of \$5 million was recorded in 2010 (2009 – \$5 million).

Hydroelectric Water Conditions Variance Account

The OEB's 2008 decision authorized the continuation of a variance account for the impact of the difference in hydroelectric electricity production due to differences between forecast and actual water conditions. Effective April 1, 2008, forecast water conditions refer to those underlying the hydroelectric production forecast approved by the OEB in setting hydroelectric regulated prices.

For the years ended December 31, 2010 and 2009, OPG recorded decreases in revenue of \$14 million and \$29 million, respectively, reflecting actual water conditions that were favourable compared to those approved by the OEB.

The OEB's 2008 decision authorized the recovery of the balance in this variance account as at December 31, 2007 over a 21-month period ended December 31, 2009. Accordingly, effective April 1, 2008, the amortization of this balance was recorded by OPG on a straight-line basis over this period. No amortization was recorded during the year ended December 31, 2010 (2009 – \$4 million). The balance of the regulatory liability was \$70 million as at December 31, 2010 (2009 – \$55 million).

Income and Other Taxes Variance Account

In its 2008 decision, the OEB authorized the establishment of a variance account effective April 1, 2008 to capture deviations in income, capital and certain other tax-related expenses for the regulated business from those approved by the OEB in setting regulated prices caused by changes in tax rates or rules under the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) (formerly the *Corporations Tax Act*), 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 for the periods after April 1, 2008 are included in the account. In addition, the variance account captures certain changes to the property tax expense.

During the year ended December 31, 2010, OPG recorded a regulatory liability of \$19 million in the variance account primarily related to the impact of investment tax credits on eligible scientific research and experimental development ("SR&ED") expenditures, reassessments of prior taxation years, and lower than forecast statutory corporate income and capital tax rates. As a result, OPG recorded additional capital tax expense of \$11 million, additional OM&A expenses of \$14 million and a reduction to income tax expense of \$6 million during 2010. During the year ended December 31, 2009, OPG recorded a regulatory liability of \$21 million primarily related to the impact of investment tax credits on eligible SR&ED expenditures, resulting in additional OM&A expenses of \$17 million and additional income tax expense of \$4 million.

Other Regulatory Assets and Liabilities

As at December 31, 2010, other regulatory assets included \$21 million related to the under-recovery of approved nuclear variance and deferral account balances since April 1, 2008 and \$7 million in the Nuclear Interim Period Shortfall Variance Account for the period April 1, 2008 to November 30, 2008. These under-recoveries are recorded in the respective variance accounts established by the OEB's 2008 decision and result from the collection of approved nuclear balances and retroactive revenue based on actual production, which varies from the forecast production approved by the OEB. Other regulatory assets also include \$6 million in the Nuclear Fuel Cost Variance Account authorized by the OEB effective April 1, 2008 for the difference between forecast and actual nuclear fuel costs per unit of production, and the unamortized balance of the variance account related to transmission outages and transmission restrictions.

As at December 31, 2009, other regulatory assets included \$8 million related to the under-recovery of approved nuclear variance and deferral account balances since April 1, 2008 and \$5 million in the

Nuclear Interim Period Shortfall Variance Account for the period April 1, 2008 to November 30, 2008, as well as the unamortized balance of the variance account related to the transmission outages and transmission restrictions.

As at December 31, 2010, other regulatory liabilities included \$9 million in the Ancillary Services Net Revenue Variance Account, \$8 million in the Capacity Refurbishment Variance Account, \$8 million in the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account and \$2 million in the Hydroelectric Interim Period Shortfall Variance Account. The continuation of the previously existing Ancillary Services Net Revenue Variance Account was authorized by the OEB's 2008 decision and captures differences between forecast and actual ancillary services net revenue. The Capacity Refurbishment Variance Account was approved by the OEB effective April 1, 2008 and includes differences from forecast costs related to the refurbishment of the Darlington nuclear generating station as well as life extension initiatives at the Pickering B nuclear generation station. Forecast ancillary services net revenue and capacity refurbishment costs relate to those approved by the OEB in setting regulated prices.

As at December 31, 2009, other regulatory liabilities included \$21 million in the Nuclear Fuel Cost Variance Account, \$17 million in the Ancillary Services Net Revenue Variance Account and \$3 million in the Capacity Refurbishment Variance Account.

Summary of the Impact of Regulatory Assets and Liabilities

The following table summarizes the income statement and other comprehensive income statement impacts of recognizing regulatory assets and liabilities:

<i>(millions of dollars)</i>	2010			2009		
	As Stated	Impact of Regulatory Assets and Liabilities	Financial Statements without the Impact of Regulatory Assets and Liabilities	As Stated	Impact of Regulatory Assets and Liabilities	Financial Statements without the Impact of Regulatory Assets and Liabilities
Revenue	5,375	(273)	5,102	5,613	(491)	5,122
Fuel expense	908	30	938	991	(19)	972
Operations, maintenance and administration	2,903	(69)	2,834	2,882	(43)	2,839
Depreciation and amortization	698	(120)	578	760	(106)	654
Accretion on fixed asset removal and nuclear waste management liabilities	660	13	673	634	(3)	631
Earnings on nuclear fixed asset removal and nuclear waste management funds	(668)	(168)	(836)	(683)	(119)	(802)
Property and capital taxes	77	(17)	60	86	(3)	83
Net interest expense	176	(1)	175	185	6	191
Income tax (recovery) expense	(60)	158	98	145	76	221
Other comprehensive (loss) income	(45)	12	(33)	25	(10)	15

8. LONG-TERM DEBT

Long-term debt consists of the following:

<i>(millions of dollars)</i>	2010	2009
Notes payable to the Ontario Electricity Financial Corporation	3,865	3,675
UMH Energy Partnership debt	198	197
Share of non-recourse limited partnership debt	165	174
	4,228	4,046
Less: due within one year		
Notes payable to the Ontario Electricity Financial Corporation	375	970
UMH Energy Partnership debt	2	-
Share of non-recourse limited partnership debt	8	8
	385	978
Long-term debt	3,843	3,068

Holders of the senior debt are entitled to receive, in full, amounts owing in respect of the senior debt before holders of the subordinated debt are entitled to receive any payments. The OEFC currently holds all of OPG's outstanding senior and subordinated notes.

The maturity dates as at December 31, 2010 for notes payable to the OEFC are as follows:

Year of Maturity	Interest Rate	Principal Outstanding (millions of dollars)		Total
		Senior Notes	Subordinated Notes	
2011	6.65%	-	375	375
2012	5.72%	400	-	400
2015	3.43%	500	-	500
2016	4.91%	270	-	270
2017	5.35%	900	-	900
2018	5.27%	395	-	395
2019	5.44%	365	-	365
2020	4.07%	660	-	660
		3,490	375	3,865

Debt financing for the Niagara Tunnel, the PEC and the Lac Seul hydroelectric generating station projects is provided by the OEFC. As at December 31, 2010, debt financing for these projects, which is included as part of the notes payable to the OEFC, consisted of the following:

<i>(millions of dollars)</i>	Niagara Tunnel	Portlands Energy Centre	Lac Seul Hydroelectric Generating Station
Debt financing, as at December 31, 2009	490	390	50
New borrowing	200	-	-
Debt financing, as at December 31, 2010	690	390	50

In September 2005, OPG reached an agreement with the OEFC to provide debt financing for the Niagara Tunnel project. The funding, which is up to \$1.6 billion over the duration of the project was amended in the third quarter of 2010 from \$1.0 billion and is in the form of 10-year notes, which will be issued quarterly to meet the project's obligations. Interest will be fixed for each note issued 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. As at December 31, 2010, OPG issued \$690 million against this facility, which included new borrowings of \$200 million under the facility in 2010.

In December 2006, OPG reached an agreement with the OEFC to provide debt financing for the Lac Seul Hydroelectric Generating Station and the PEC projects. There was up to \$50 million available for the Lac Seul project and up to \$400 million available for the PEC project under each credit facility. The credit facilities were drawn as needed to fund the respective projects over the construction period. The funding was in the form of 10-year notes with interest rates fixed for each note issued 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. Advances under these facilities were completed in 2009.

OPG reached an agreement with the OEFC in the first quarter of 2010 for a \$970 million credit facility to refinance notes as they mature over the period from January 2010 to December 2010. Refinancing under this agreement totalled \$960 million as at December 31, 2010, which included \$500 million of five-year notes at an average interest rate of 3.42 percent and \$460 million of 10-year notes at an average interest rate of 4.54 percent. No further advances are available under this facility.

Project financing was completed for the Upper Mattagami and Hound Chute project in May 2009. Senior notes totalling \$200 million were issued by the UMH Energy Partnership, a general partnership between OPG and UMH Energy Inc., a wholly owned subsidiary of OPG. Transaction costs that are directly attributable to the issuance of the senior notes are included in the amortized cost of the notes. The senior notes have an effective interest rate of 7.86 percent and will mature in 2041. These notes are secured by the assets of the Upper Mattagami and Hound Chute project. These notes are recourse to OPG until specified conditions have been satisfied following construction. The undiscounted contractual maturities are as follows:

<i>(millions of dollars)</i>	Principal
2011	2
2012	3
2013	3
2014	3
2015	3
2016 and thereafter	186

The non-recourse limited partnership debt is secured by a first charge on the assets of one of the joint venture limited partnerships, an assignment of the joint venture's bank accounts, and an assignment of the joint venture's project agreements. OPG's share of the total assets was \$236 million as at December 31, 2010 (2009 – \$251 million). The minimum principal repayments of the non-recourse limited partnership debt for the next five calendar years range from \$9 million to \$14 million annually. OPG's share of the non-recourse limited partnership debt included a note payable of \$119 million at an interest rate of 6.9 percent, with an effective interest rate of 7.0 percent. This note payable is repayable in quarterly payments commencing March 31, 2006 to March 31, 2024. The remaining non-recourse limited partnership debt is at various floating rates. The interest rates of the floating rate debt are referenced to various interest rate indices, such as the bankers' acceptance rate and the London Interbank Offered Rate, plus a margin. The joint venture has entered into floating-to-fixed interest rate hedges to manage the risks arising from fluctuation in interest rates.

Interest paid in 2010 was \$258 million (2009 – \$252 million), of which \$242 million (2009 – \$237 million) relates to interest paid on long-term corporate debt. Interest on the notes payable to the OEFC is paid semi-annually.

9. SHORT-TERM CREDIT FACILITIES AND NET INTEREST EXPENSE

OPG maintains a \$1 billion revolving committed bank credit facility, which is divided into two tranches – a \$500 million 364-day term tranche and a \$500 million multi-year term tranche. In April 2010, OPG renewed and extended the maturity date of the 364-day term tranche to May 18, 2011. The multi-year term tranche has a maturity date of May 20, 2013. The 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, 2010, no commercial paper was outstanding (2009 – nil), and OPG had no other outstanding borrowings under the bank credit facility.

In the second quarter of 2008, OPG entered into a \$100 million five-year revolving committed bank credit facility in support of the Upper Mattagami and Hound Chute project. As at December 31, 2010, there were no borrowings under this credit facility.

During the third quarter of 2010, the Lower Mattagami Energy Limited Partnership established a \$700 million bank credit facility to support the initial construction phase for the Lower Mattagami project and launched a commercial paper program. As at December 31, 2010, \$155 million of commercial paper was issued under this program. Long-term financing arrangements are being established to support the total requirements of the project.

OPG also maintains \$25 million (2009 – \$25 million) in short-term uncommitted overdraft facilities and \$319 million (2009 – \$275 million) of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other purposes. As at December 31, 2010, there was a total of \$281 million of Letters of Credit issued (2009 – \$231 million), which included \$254 million for the supplementary pension plans (2009 – \$210 million), \$20 million for general corporate purposes (2009 - \$14 million) and \$7 million related to the construction and operation of the PEC (2009 – \$7 million).

In addition, as at December 31, 2010, the NWMO issued a \$2 million Letter of Credit for its supplementary pension plan (2009 – \$1 million).

The following table summarizes the net interest expense for the year ended December 31, 2010 and 2009:

<i>(millions of dollars)</i>	2010	2009
Interest on long-term debt	244	240
Interest on short-term debt	16	15
Interest income	(3)	(5)
Capitalized interest	(76)	(57)
Interest applied to regulatory assets and liabilities	(5)	(8)
Net interest expense	176	185

10. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

The liability for fixed asset removal and nuclear waste management on a present value basis consists of the following for the years ended December 31, 2010 and 2009:

<i>(millions of dollars)</i>	2010	2009
Liability for nuclear used fuel management	7,534	6,525
Liability for nuclear decommissioning and low and intermediate level waste management	5,013	5,186
Liability for non-nuclear fixed asset removal	157	148
Fixed asset removal and nuclear waste management liabilities	12,704	11,859

The changes in the fixed asset removal and nuclear waste management liabilities for the years ended December 31, 2010 and 2009, are as follows:

<i>(millions of dollars)</i>	2010	2009
Liabilities, beginning of year	11,859	11,384
Increase in liabilities due to accretion	673	631
Increase in liabilities due to changes in assumptions related to the decision to commence the definition phase of the refurbishment of the Darlington nuclear generating station	293	-
Increase in liabilities due to nuclear used fuel, nuclear waste management variable expenses and other expenses	56	42
Liabilities settled by expenditures on fixed asset removal and waste management	(181)	(189)
Change in the liabilities for non-nuclear fixed asset removal	4	(9)
Liabilities, end of year	12,704	11,859

The cash and cash equivalents balance as at December 31, 2010 includes \$3 million of cash and cash equivalents that are for the use of nuclear waste management activities (2009 – \$11 million).

OPG's fixed asset removal and nuclear waste management liabilities are comprised of expected costs to be incurred up to and beyond termination of operations and the closure of nuclear, thermal generating plant facilities and other facilities. Costs will be incurred for activities such as 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 low and intermediate level waste material.

Nuclear station decommissioning consists of original placement of stations into a safe store condition followed by a nominal 30-year store period prior to station dismantling. Under the terms of the lease agreement with Bruce Power L.P., OPG continues to be responsible for the nuclear fixed asset removal and nuclear waste management liabilities associated with the Bruce nuclear generating stations.

The following costs are recognized as a liability:

- The present value of the costs of dismantling the nuclear and thermal production facilities and other facilities at the end of their useful lives;
- 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; and

- The present value of the variable cost portion of nuclear waste management programs taking into account actual waste volumes generated to date.

The determination of the accrual for fixed asset removal and nuclear waste management costs requires significant assumptions, since these programs run for many years. The most recent update of the estimates for the nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management liabilities was performed as at December 31, 2006. The update resulted in an increased estimate of costs mainly due to additional used fuel and waste quantities resulting from station life extensions, experience in decommissioning reactors, and changes in economic indices. The increase was partially offset by the impact of later end of life dates for some stations, which results in later decommissioning dates and a reduced present value of decommissioning costs. The change in the cost estimate resulted in an updated reference plan, the 2006 Approved Reference Plan, which was approved by the Province in accordance with the terms of the ONFA. The next update to the nuclear fixed asset removal and nuclear waste management obligation is being conducted throughout 2011 and will form the basis of the nuclear asset retirement obligation for December 31, 2011.

For the purposes of calculating OPG's fixed asset removal and nuclear waste management liabilities, as at December 31, 2010 consistent with the current accounting end of life assumptions, nuclear and thermal plant closures are projected to occur over the next four to 43 years. End of life dates may change as decisions on life extensions are made. The 2006 Approved Reference Plan includes cash flow estimates for decommissioning nuclear stations for approximately 40 years after station shutdown and to 2065 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 the liabilities is approximately \$27 billion in 2010 dollars. The discount rate used to calculate the present value of the liabilities was 5.75 percent for liabilities established prior to December 31, 2006. The increase in cost estimates related to the 2006 Approved Reference Plan and subsequent increases to the value of the undiscounted estimated cash flows for OPG's liability for nuclear waste management and decommissioning are discounted at 4.6 percent. The cost escalation rates ranged from 1.8 percent to 3.6 percent.

In February 2010, OPG announced its decision to commence the definition phase of the refurbishment of the Darlington nuclear generating station. Accordingly, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended from 2019 to 2051. The approval and the extension of service life also impacted the assumptions for OPG's liabilities for fixed asset removal and nuclear waste management primarily due to cost increases related to additional used fuel bundles, partially offset by a decrease in the liability for decommissioning, resulting from the change in the service life assumptions. The net increase in the liabilities was \$293 million, using a discount rate of 4.8 percent.

The significant assumptions underlying operational and technical factors used in the calculation of the accrued liabilities are subject to periodic review. Changes to these assumptions, including changes to assumptions on the timing of the programs, 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 accuracy 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 federal Nuclear Fuel Waste Act ("NFWA") released in 2002 requires that Canada's nuclear fuel waste owners form a nuclear waste management organization and that each waste owner establishes 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 deep geologic repository in-service date in 2035.

Liability for Nuclear Decommissioning and Low and Intermediate Level Waste Management Costs

The liability for nuclear decommissioning and low and intermediate level waste 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 30-year period prior to a 10-year dismantlement period.

The life cycle costs of low and intermediate level waste 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 low and intermediate level waste management costs include a disposal facility for low and intermediate level waste with a targeted in-service date of 2018. Agreement has been reached with local municipalities for OPG to develop a deep geologic repository for the long-term management of low and intermediate level waste adjacent to the Western Waste Management Facility. A federal environmental assessment in respect of this proposed facility is in progress.

Liability for Non-Nuclear Fixed Asset Removal Costs

The liability for non-nuclear fixed asset removal is based on third-party cost estimates after an in-depth review of active plant sites and an assessment of required clean-up and restoration activities. This liability represents the estimated costs of decommissioning thermal generating stations at the end of their service lives. As at December 31, 2010, the estimated retirement date of these stations is between 2014 and 2033.

In addition to the \$99 million liability for active sites, OPG also has an asset retirement obligation liability of \$58 million for decommissioning and restoration costs associated with plant sites that have been divested or are no longer in use.

OPG has no legal obligation associated with the decommissioning of its hydroelectric generating facilities and the costs cannot be reasonably estimated because of the long service life of these assets. With either maintenance efforts or rebuilding, the water control structures are assumed to be used for the foreseeable future. Accordingly, OPG has not recognized a liability for the decommissioning of its hydroelectric generating facilities.

Ontario Nuclear Funds Agreement

OPG sets aside and invests funds held in segregated custodian and trustee accounts specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities in accordance with the ONFA and the NFWA. 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 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. As at December 31, 2010 and 2009, the Decommissioning Fund was in an underfunded position. OPG bears the risk and liability for cost estimate increases and fund earnings in the Decommissioning Fund.

The Used Fuel Fund was established to fund future costs of long-term nuclear used fuel waste management. OPG is responsible for the risk and liability for 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 \$11.2 billion in December 31, 2010 dollars based on used fuel bundle projections of 2.23 million bundles, consistent with the station lives included within the initial financial

reference plan. The graduated liability thresholds do not apply to additional used fuel bundles beyond 2.23 million as projected in the 2006 Approved Reference Plan.

OPG makes quarterly payments to the Used Fuel Fund over the life of its nuclear generating stations, as specified in the ONFA. Required funding for 2010 under the ONFA was \$264 million, including a contribution to The Ontario NFWA Trust (the "Trust") of \$136 million. Included in the 2010 funding was a \$147 million contribution related to future bundles over the 2.23 million threshold. Based on the current ONFA Reference Plan, OPG is required to contribute annual amounts to the Used Fuel Fund, ranging from \$94 million to \$250 million annually over the years 2011 to 2015 (Note 16).

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 the NWMO proposed funding formula to address the future financial costs of implementing the Adapted Phase Management approach was approved by the Minister of Natural Resources. In 2009, this funding formula was approved, requiring OPG to make a 2008 contribution true-up of \$25 million in addition to a contribution amount of \$128 million for 2009. The contribution for 2011 is \$139 million. The Trust forms part of the Used Fuel Fund, and contributions to the Trust, as required by the NFWA, are 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. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount of the Provincial Guarantee provided by the Province. In December 2009, the CNSC approved an increase in the amount of the Provincial Guarantee to \$1,545 million effective on March 1, 2010. The value of this Provincial Guarantee will be in effect through to the end of 2012, when the next reference plan for the CNSC is required to be submitted. The increase was primarily a result of the market value losses experienced by the Nuclear Funds in 2008. In 2010, OPG paid a guarantee fee of \$7 million based on a Provincial Guarantee amount of \$760 million and \$1,545 million, for the period January 1, 2010 to February 28, 2010 and March 1, 2010 to December 31, 2010, respectively.

In accordance with CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement* ("Section 3855"), the investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading and are measured at fair value with realized and unrealized gains and losses recognized in OPG's consolidated financial statements.

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 limits the earnings it recognizes in its consolidated financial statements, through a charge to the Decommissioning Fund with a corresponding 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. 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 capping its annual earnings at 5.15 percent, 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 on a fair value basis was \$5,267 million as at December 31, 2010, which was less than the liability per the 2006 Approved Reference Plan. At December 31, 2009, the Decommissioning Fund's asset value on a fair value basis was \$4,876 million, which was less than the liability per the 2006 Approved Reference Plan. Under the ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the most recently approved ONFA Reference Plan, are 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. 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 used fuel bundles ("committed return"). OPG recognizes the committed return on the Used Fuel Fund and includes it in the earnings on the nuclear fixed asset removal and nuclear waste management 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 OPG would pay to or receive from the Province if the committed return were to be settled as of the balance sheet date. As part of its regular contributions to the Used Fuel Fund, OPG was required to allocate \$147 million of its 2010 contribution towards its liability associated with future fuel bundles that exceed the 2.23 million threshold. As prescribed under the ONFA, earnings related to OPG's contributions for incremental fuel bundles do not grow at the Province's guaranteed rate of return, but rather earn the return of the Used Fuel Fund based on changes in the market value of the assets.

As at December 31, 2010, the Used Fuel Fund asset value on a fair value basis was \$5,979 million. The Used Fuel Fund value included a payable to the Province of \$219 million related to the committed return adjustment. As at December 31, 2009, the Used Fuel Fund asset value on a fair value basis was \$5,370 million, including a payable to the Province of \$33 million 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.

The nuclear fixed asset removal and nuclear waste management funds as at December 31, 2010 and 2009 consist of the following:

<i>(millions of dollars)</i>	Fair Value	
	2010	2009
Decommissioning Fund	5,267	4,876
Used Fuel Fund ¹	6,198	5,403
Due to Province – Used Fuel Fund	(219)	(33)
	5,979	5,370
	11,246	10,246

¹ The Ontario NFWA Trust represented \$1,949 million as at December 31, 2010 (2009 – \$1,693 million) of the Used Fuel Fund on a fair value basis.

The fair value of the securities invested in the Nuclear Funds, which include the Used Fuel Fund and the Decommissioning Fund, as at December 31, 2010 and 2009, is as follows:

<i>(millions of dollars)</i>	Fair Value	
	2010	2009
Cash and cash equivalents and short-term investments	581	463
Alternative investments	61	-
Pooled funds	1,835	1,497
Marketable equity securities	5,226	4,699
Fixed income securities	3,735	3,596
Derivatives	3	-
Net receivables/payables	29	30
Administrative expense payable	(5)	(6)
	11,465	10,279
Due to Province – Used Fuel Fund	(219)	(33)
	11,246	10,246

The bonds and debentures held in the Used Fuel Fund and the Decommissioning Fund as at December 31, 2010 and 2009 mature according to the following schedule:

<i>(millions of dollars)</i>	Fair Value	
	2010	2009
1 – 5 years	1,135	1,276
5 – 10 years	1,092	857
More than 10 years	1,508	1,463
Total maturities of debt securities	3,735	3,596
Average yield	3.4%	3.7%

The change in the Nuclear Funds for the years ended December 31, 2010 and 2009, is as follows:

<i>(millions of dollars)</i>	Fair Value	
	2010	2009
Decommissioning Fund, beginning of year	4,876	4,325
Increase in fund due to return on investments	465	631
Decrease in fund due to reimbursement of expenditures	(74)	(80)
Decommissioning Fund, end of year	5,267	4,876
Used Fuel Fund, beginning of year	5,370	4,884
Increase in fund due to contributions made	264	339
Increase in fund due to return on investments	557	664
Decrease in fund due to reimbursement of expenditures	(26)	(24)
Increase in due to Province	(186)	(493)
Used Fuel Fund, end of year	5,979	5,370

The earnings from the Nuclear Funds during 2010 and 2009 were partially reduced by the impact of the Bruce Lease Net Revenues Variance Account established by the OEB's 2008 decision. The earnings on the Nuclear Funds for 2010 and 2009 are as follows:

<i>(millions of dollars)</i>	2010	2009
Decommissioning Fund	465	631
Used Fuel Fund	371	171
Bruce Lease Net Revenues Variance Account <i>(Note 7)</i>	(168)	(119)
Total earnings	668	683

11. INCOME TAXES

OPG follows the liability method of tax accounting for all its business segments and records an offsetting regulatory asset or liability for the future income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

During the year ended December 31, 2010, OPG recorded an increase to the future income tax liability for the future taxes that are expected to be recovered or refunded through regulated prices charged to customers of \$119 million. Since these future income taxes are expected to be recovered through future regulated prices, OPG has recorded a corresponding increase to the regulatory asset for future income taxes. As a result, the future income taxes for the year ended December 31, 2010 were not impacted. The increase in the future income tax liability of \$119 million for the rate regulated operations for the year ended December 31, 2010 included \$24 million related to the increase to the regulatory asset for future income taxes.

The following table summarizes the future income tax liabilities recorded for the rate regulated operations:

<i>(millions of dollars)</i>	2010	2009
January 1:		
Future income tax liabilities on temporary differences related to regulated operations	452	340
Future income tax liabilities resulting from the regulatory asset for future income taxes	140	126
	592	466
Changes during the year:		
Increase in future income tax liabilities on temporary differences related to regulated operations	95	112
Increase in future income tax liabilities resulting from the regulatory asset for future income taxes	24	14
Balance at December 31	711	592

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

<i>(millions of dollars)</i>	2010	2009
Income before income taxes	589	768
Combined Canadian federal and provincial statutory income tax rates, including surtax	31.0%	33.0%
Statutory income tax rates applied to accounting income	183	253
(Decrease) increase in income taxes resulting from:		
Income tax component of the Bruce Lease Net Revenues Variance Account	(21)	36
Higher (lower) future tax rate on temporary differences	17	(16)
Non-taxable income items	(6)	1
Change in income tax positions	(96)	(6)
Changes in future tax rate	-	3
Income and Other Taxes Variance Account	(6)	4
Regulatory asset for future income taxes	(131)	(130)
	(243)	(108)
Income tax (recovery) expense	(60)	145
Effective rate of income taxes	(10.2%)	18.9%

In the second quarter of 2010, all outstanding tax matters relating to a tax audit of certain previous years were resolved. As a result, OPG reduced its income tax liability by \$102 million. Of the total reduction to the liability, \$96 million reduced income tax expense and the remaining \$6 million reduced OM&A.

The Bruce Lease Net Revenues Variance Account and Income and Other Taxes Variance Account authorized by the OEB effective April 1, 2008, are discussed in Note 7 to these consolidated financial statements.

Significant components of the income tax (recovery) expense are presented in the table below:

<i>(millions of dollars)</i>	2010	2009
Current income tax (recovery) expense:		
Current payable	35	53
Change to income tax position	(96)	(6)
Income and Other Taxes Variance Account	(6)	4
	(67)	51
Future income tax expense:		
Change in temporary differences	159	185
Changes in future income tax rate	-	3
Income tax component of the Bruce Lease Net Revenues Variance Account	(21)	36
Regulatory asset for future income taxes	(131)	(130)
	7	94
Income tax (recovery) expense	(60)	145

The income tax effects of temporary differences that give rise to future income tax assets and liabilities as at December 31, 2010 and 2009 are presented in the table below:

<i>(millions of dollars)</i>	2010	2009
Future income tax assets:		
Fixed asset removal and nuclear waste management liabilities	3,169	2,968
Other liabilities and assets	777	656
Future recoverable Ontario minimum tax	30	12
	3,976	3,636
Future income tax liabilities:		
Fixed assets	(1,160)	(1,078)
Nuclear fixed asset removal and nuclear waste management funds	(2,813)	(2,567)
Other liabilities and assets	(728)	(573)
	(4,701)	(4,218)
Net future income tax liabilities	(725)	(582)
Represented by:		
Current portion – asset	73	51
Long-term portion – liability	(798)	(633)
	(725)	(582)

The amount of cash income taxes paid for 2010 was \$44 million (2009 – \$192 million).

12. PENSION AND OTHER POST EMPLOYMENT BENEFIT COSTS

The pension and OPEB obligations, and the pension fund assets, are measured as at December 31, 2010. Details of OPG's pension and OPEB obligations, pension fund assets and costs are presented in the following tables.

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2010	2009	2010	2009
<i>Weighted Average Assumptions – Benefit Obligation at Year End</i>				
Rate used to discount future benefits	5.80%	6.80%	5.67%	6.69%
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	-	-	6.53%	6.61%
Ultimate health care trend rate	-	-	4.69%	4.70%
Year ultimate rate reached	-	-	2030	2030
Rate of increase in disability benefits	-	-	2.00%	2.00%

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2010	2009	2010	2009
<i>Weighted Average Assumptions – Cost for the Year</i>				
Expected return on plan assets net of expenses	7.00%	7.00%	-	-
Rate used to discount future benefits	6.80%	7.50%	6.69%	7.46%
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	-	-	6.62%	6.58%
Ultimate health care trend rate	-	-	4.69%	4.70%
Year ultimate rate reached	-	-	2030	2018
Rate of increase in disability benefits	-	-	2.00%	2.00%
Average remaining service life for employees (years)	12	12	11	11

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
	2010	2009	2010	2009	2010	2009
<i>(millions of dollars)</i>						
<i>Changes in Plan Assets</i>						
Fair value of plan assets at beginning of year	8,216	7,254	-	-	-	-
Contributions by employer	272	271	5	7	77	74
Contributions by employees	80	86	-	-	-	-
Actual return on plan assets net of expenses	973	1,051	-	-	-	-
Settlement	(10)	-	-	-	-	-
Benefit payments	(413)	(446)	(5)	(7)	(77)	(74)
Fair value of plan assets at end of year	9,118	8,216	-	-	-	-
<i>Changes in Projected Benefit Obligation</i>						
Projected benefit obligation at beginning of year	8,610	7,440	179	142	1,910	1,591
Employer current service costs	160	120	6	5	52	40
Contributions by employees	80	86	-	-	-	-
Interest on projected benefit obligation	583	554	12	11	128	118
Benefit payments	(413)	(446)	(5)	(7)	(77)	(74)
Settlement	(10)	-	-	-	(2)	-
Past service costs	-	-	-	-	-	8
Net actuarial loss	1,365	856	27	28	330	227
Projected benefit obligation at end of year	10,375	8,610	219	179	2,341	1,910
Funded Status – Deficit at end of year	(1,257)	(394)	(219)	(179)	(2,341)	(1,910)

Pension fund assets are allocated among three principal investment categories. Furthermore, equity investments are diversified across Canadian, U.S. and non-North American stocks. There is also a small real estate portfolio that is less than one percent of pension fund assets.

	2010	2009
Registered pension plan fund asset investment categories		
Equities	60%	62%
Fixed income	35%	34%
Cash and short-term investments	5%	4%
Total	100%	100%

Based on the most recently filed actuarial valuation of the OPG registered pension plan, 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. In the previously filed actuarial valuation, as at January 1, 2005, there was an unfunded liability on a going-concern basis of \$465 million and a deficiency on a wind-up basis of \$1,979 million. The deficit disclosed in the next filed funding valuation, which must have an effective date no later than January 1, 2011, could be significantly different.

Based on the most recently filed actuarial valuation of the NWMO registered pension plan, as at January 1, 2010, there was a surplus on a going-concern basis of \$4 million and a deficiency on a wind-

up basis of \$5 million. Based on the filed initial actuarial valuation of the NWMO registered pension plan, as at January 1, 2009, there was a surplus on a going-concern basis of \$2 million and a deficiency on a wind-up basis of \$4 million. The next filed funding valuation must have an effective date no later than January 1, 2011.

The supplementary pension plans are not funded, but are secured by Letters of Credit totalling \$256 million (2009 – \$211 million).

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
	2010	2009	2010	2009	2010	2009
<i>(millions of dollars)</i>						
<i>Reconciliation of Funded Status to Accrued Benefit Asset (Liability)</i>						
Funded status – deficit at end of year	(1,257)	(394)	(219)	(179)	(2,341)	(1,910)
Unamortized net actuarial loss	2,393	1,365	51	25	487	157
Unamortized past service costs	10	28	-	1	17	19
Accrued benefit asset (liability) at end of year	1,146	999	(168)	(153)	(1,837)	(1,734)
Short-term portion	-	-	(8)	(7)	(89)	(84)
Long-term portion	1,146	999	(160)	(146)	(1,748)	(1,650)

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
	2010	2009	2010	2009	2010	2009
<i>(millions of dollars)</i>						
<i>Components of Cost Recognized</i>						
Current service costs	160	120	6	5	52	40
Interest on projected benefit obligation	583	554	12	11	128	118
Expected return on plan assets net of expenses	(636)	(623)	-	-	-	-
Settlement	-	-	-	-	(2)	-
Amortization of past service costs	18	18	1	1	2	5
Amortization of net actuarial loss	-	-	1	-	-	-
Cost recognized	125	69	20	17	180	163

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
	2010	2009	2010	2009	2010	2009
<i>(millions of dollars)</i>						
<i>Components of Cost Incurred and Recognized</i>						
Current service costs	160	120	6	5	52	40
Interest on projected benefit obligation	583	554	12	11	128	118
Actual return on plan assets net of expenses	(973)	(1,051)	-	-	-	-
Settlement gain	-	-	-	-	(2)	-
Past service costs	-	-	-	-	-	8
Net actuarial loss	1,365	856	27	28	330	227
Cost incurred in year	1,135	479	45	44	508	393
Differences between costs incurred and recognized in respect of:						
Actual return on plan assets net of expenses	337	428	-	-	-	-
Past service costs	18	18	1	1	2	(3)
Net actuarial loss	(1,365)	(856)	(26)	(28)	(330)	(227)
Cost recognized	125	69	20	17	180	163

A one percent increase or decrease in the health care trend rate would result in an increase in the service and interest components of the 2010 OPEB cost recognized of \$30 million (2009 – \$24 million) or a decrease in the service and interest components of the 2010 OPEB cost recognized of \$23 million (2009 – \$19 million), respectively. A one percent increase or decrease in the health care trend rate would result in an increase in the projected OPEB obligation at December 31, 2010 of \$394 million (2009 – \$270 million) or a decrease in the projected OPEB obligation at December 31, 2010 of \$307 million (2009 – \$217 million).

13. FINANCIAL INSTRUMENTS

The Risk Oversight Committee (“ROC”) assists the Board of Directors to fulfill its oversight responsibilities for matters relating to identification and management of the Company’s key business risks. Risk management activities are coordinated by a centralized Corporate Risk Management group led by the Chief Risk Officer (“CRO”). Risks that would prevent business units from achieving business plan objectives are identified at the business unit level. Senior management sets risk limits for the financing, procurement, and trading activities of the Company and ensures that effective risk management policies and processes are in place to ensure compliance with such limits in order to maintain an appropriate balance between risk and return. OPG’s risk management process aims to continually evaluate the effectiveness of risk mitigation activities for identified key risks. The findings from this evaluation process are reported quarterly to the ROC.

OPG is exposed to risks related to changes in electricity prices associated with a wholesale spot market for electricity in Ontario, changes in interest rates, and movements in foreign currency that affect its assets, liabilities, and forecast transactions. Select derivative instruments are used to limit such risks. Derivatives are used as hedging instruments, as well as for trading purposes.

The following is a summary of OPG's financial instruments as at December 31, 2010:

Financial Instruments ¹ <i>(millions of dollars)</i>	Designated Category	Fair Value	
		2010	2009
Cash and cash equivalents	Held-to-maturity	280	71
Long-term investments ²	Held-for-trading	-	36
Nuclear fixed asset removal and nuclear waste management funds	Held-for-trading	11,246	10,246
Long-term debt (including current portion)	Other than Held-for-trading	(4,256)	(4,021)
Derivative Embedded in the Bruce Lease agreement	Held-for-trading	(163)	(118)
Other commodity derivative instruments included in current and long-term account: receivable ³	Held-for-trading	3	7
Other commodity derivative instruments included in current and long-term account: payable ³	Held-for-trading	-	(6)

¹ The carrying value of other financial instruments included in accounts receivable and accounts payable and accrued charges approximates their fair value due to the immediate or short-term maturity of these financial instruments.

² Excludes investments of \$30 million owned by the Company's wholly owned subsidiary, OPGV, that are recorded at fair value in accordance with AcG-18.

³ Derivative instruments not qualifying for hedge accounting.

Risks Associated with Financial Instruments

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument might fail to meet its obligation under the terms of a financial instrument. To manage credit risk, the Company enters into transactions with creditworthy counterparties, limits the amount of exposure to each counterparty where possible, and monitors the financial condition of counterparties.

The following table provides information on credit risk from electricity transactions and trading activities as at December 31, 2010:

Credit Rating ¹	Number of Counterparties ²	Potential Exposure for Largest Counterparties		
		Potential Exposure ³ <i>(millions of dollars)</i>	Number of Counterparties	Counterparty Exposure <i>(millions of dollars)</i>
Investment grade	24	26	4	18

¹ Credit ratings are based on OPG's own analysis, taking into consideration external rating agency analysis where available, as well as recognizing explicit credit support provided through guarantees and Letters of Credit or other security.

² OPG's counterparties are defined by each master agreement.

³ Potential exposure is OPG's assessment of maximum exposure over the life of each transaction at a 95 percent confidence interval.

The majority of OPG's revenues are derived from sales through the IESO administered spot market. Net credit exposure to the IESO of the securitized receivables retained at December 31, 2010 was \$127 million (Note 5). Although the credit exposure to the IESO represents a significant portion of OPG's accounts receivable, the Company's management accepts this risk due to the IESO's primary role in the Ontario electricity market. The remaining receivables exposure was a diverse group of generally high quality counterparties. OPG's allowance for doubtful debts at December 31, 2010 was less than \$1 million.

OPG also enters into financial transactions with highly rated financial institutions in order to hedge interest rate and currency exposures. The potential credit exposure with these counterparties was less than approximately \$10 million at December 31, 2010. Other credit exposures include the investing of excess cash.

Investments

The Company limits its exposure to credit risk by investing in reasonably liquid (i.e., in normal circumstances, capable of liquidation within one month) securities that are rated by a recognized credit rating agency in accordance with minimum investment quality standards. In regard to derivative contracts, the Company limits its exposure to credit risk by engaging with high credit-quality counterparties.

Guarantees

As part of normal business, OPG and certain of its subsidiaries and joint ventures enter into various agreements providing financial guarantees to third-parties on behalf of certain subsidiaries and joint ventures. Such agreements include guarantees, standby Letters of Credit and surety bonds.

Market Risk

Market risk is the risk that changes to market prices, such as foreign exchange rates, interest rates, electricity prices, and equities, will affect OPG's income or the value of the Company's holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Company manages its exposure to market risks using forwards and various derivative products in the ordinary course of business. All such transactions are carried out within the guidelines set by the Executive Risk Committee.

Foreign Exchange Risk

OPG's foreign exchange exposure is attributable to two primary factors: United States dollar ("U.S. dollar") denominated transactions such as the purchase of fuels; and the influence of U.S. dollar denominated commodity prices on Ontario electricity spot market prices. OPG enters into foreign exchange spot and/or forward contracts with major financial institutions to manage the Company's exposure to foreign currency movements.

Interest Rate Risk

Interest rate risk is the risk that the value of OPG's assets and liabilities can decrease and increase, respectively, because of a change in the related interest rates. OPG considers interest rate risk related to cash and cash equivalents and short-term borrowings to be low because of their short-term nature. Changes in interest rates do not currently have a significant impact on the Company's interest expense, since long-term borrowings are on a fixed rate basis.

The Company is exposed to interest rate risk on its long-term borrowings expected to be issued in the future. The Company manages the exposure to changes in market interest rates on anticipated issuance of long-term borrowings by entering into forward start interest rate contracts and floating-to-fixed interest rate swap contracts.

Electricity Price Risk

Electricity price risk for the Company is the potential for adverse movements in the market price of electricity. Exposure to electricity price risk is reduced as a result of regulated prices and other contractual arrangements for a significant portion of OPG's business. To manage this risk, the Company

seeks to maintain a balance between the commodity price risk inherent in its electricity production and electricity forward sales contracts to the extent that trading liquidity in the electricity commodity market provides the economic opportunity to do so.

The table below summarizes a sensitivity analysis for significant unsettled market risk exposures with respect to the Company's financial instruments as at December 31, 2010, with all other variables held constant. It shows how net income and other comprehensive income before tax would have been affected by changes in the relevant risk variable that were reasonably possible, at that date, over the year.

<i>(millions of dollars except where noted)</i>	A Change of:	Impact on Net Income Before Tax	Impact on Other Comprehensive Income Before Tax
Foreign exchange – U.S. dollar	+/- 0.18 %	-	n/a
Interest rate ¹	+/- 43 basis points	-	+43/-50
Electricity price – Trading ²		+/-0.25	n/a

¹ The interest rate sensitivity analysis was determined based on the exposure to interest rates for derivative instruments designated as hedges at the date of the consolidated balance sheets.

² The sensitivity analysis around electricity prices was constructed using forward price volatilities that were based on historical daily forward electricity contract prices. The analysis considered contracts of varying time frames, traded in Ontario and neighbouring electricity markets.

Nuclear Funds Equity Price Risk

Equity price risk is the risk of loss or unexpected volatility due to a decline in the values of individual equities and/or equity indices. The Company is exposed to equity price risk primarily related to equity investments held in the Nuclear Funds that are classified on the consolidated balance sheets as held-for-trading and measured at fair value. To manage this risk, OPG has established investment policies and procedures that set out an investment framework for the funds, including the investment assumptions, permitted investments, and various investment constraints for the Nuclear Funds. Such policies and procedures are approved annually by OPG and the Province in the case of the Decommissioning Fund, and by the Province in the case of the Used Fuel Fund.

Under the ONFA, the annual return in the Used Fuel Fund is guaranteed by the Province for funding related to the first 2.23 million used fuel bundles. As at December 31, 2010, OPG had made contributions of approximately \$177 million towards incremental fuel bundles in excess of the 2.23 million threshold prescribed in the ONFA. As prescribed under the ONFA, earnings related to OPG's contributions for incremental fuel bundles will be exposed to equity price risk. OPG is exposed to equity price risk in the Decommissioning Fund. Due to the long-term nature of the Decommissioning Fund's liabilities, the target asset mix of the fund was established with the goal of meeting the long-term liabilities. As such, the Company is prepared to accept shorter term market fluctuations with the expectation that equity securities will provide adequate returns over the long term.

The table below approximates the potential dollar impact on OPG's pre-tax profit, associated with a one percent change in the specified equity indices. This analysis is based on the market values of the Decommissioning Fund's equity holdings at December 31, 2010, as well as on the assumption that when one equity index changes by one percent, all other equity indices are held constant.

<i>(millions of dollars)</i>	December 31 2010
S&P/TSX Capped Composite Index	13
S&P 500	4
MSCI EAFE Index	5
MSCI World Index	6

Risk Associated with Leases and Partnership Arrangements

OPG has leased its Bruce nuclear generating stations to Bruce Power L.P. and is also a party to a number of partnerships which operate generating stations such as Brighton Beach and the PEC. Each of these generating stations are subject to numerous operational, financial, regulatory, and environmental risk factors. Although OPG may not be involved in the day to day operations of these stations, counterparty claims, defaults, or other risk factors could materially adversely affect the Company.

In addition, under the Bruce Lease, lease revenue is reduced in each calendar year where the annual arithmetic average of the Hourly Ontario Electricity Price ("Average HOEP") falls below \$30/MWh and certain other conditions are met. The conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, is treated as a derivative according to CICA Section 3855, *Financial Instruments – Recognition and Measurement*. Derivatives are measured at fair value and changes in fair value are recognized in the consolidated statements of income. As a result of a decrease in expected future Average HOEP during 2010, the fair value of the derivative liability increased to \$163 million at December 31, 2010. The exposure will continue until the Bruce units that are subject to this mechanism are no longer in operation, specific units are refurbished, or when the lease agreement is terminated. This exposure is mitigated as part of the OEB regulatory process, since the revenue from the lease of the Bruce generating stations is included in the determination of regulated prices.

Derivatives and Hedging

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. OPG also requires a documented assessment, both at hedge inception 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.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. When such a derivative instrument hedge ceases to exist or to be effective as a hedge, or when designation of a hedging relationship is terminated, any associated deferred gains or losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period's consolidated statement of income.

Derivative Instruments Qualifying for Hedge Accounting

The following table provides the estimated fair value of derivative instruments designated as hedges.

OPG holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity.

<i>(millions of dollars except where noted)</i>	Notional Quantity	Terms	Fair Value	Notional Quantity	Terms	Fair Value
	December 31, 2010			December 31, 2009		
Electricity derivative instruments	-	-	-	0.4TWh	1 year	16
Floating-to-fixed interest rate hedges	35	1-9 years	(4)	38	1-10 years	(4)
Forward start interest rate hedges	375	1-12 years	21	490	1-13 years	3

One of the Company's joint ventures is exposed to changes in interest rates. The joint venture entered into an interest rate swap to manage the risk arising from fluctuations in interest rates by swapping the short-term floating interest rate with a fixed rate of 5.33 percent. OPG's proportionate interest in the swap is 50 percent and is accounted for as a hedge.

Net losses of \$6 million and \$7 million, respectively, which includes the impact of income taxes, related to derivative instruments qualifying for hedge accounting were recognized in net income during the years ended December 31, 2010 and 2009, respectively. Existing net losses of \$5 million deferred in accumulated other comprehensive loss at December 31, 2010 are expected to be reclassified to net income within the next 12 months.

Derivative Instruments Not Qualifying for Hedge Accounting

The carrying amount (fair value) of commodity derivative instruments not designated for hedging purposes is as follows:

<i>(millions of dollars except where noted)</i>	Notional Quantity	Fair Value	Notional Quantity	Fair Value
	December 31, 2010		December 31, 2009	
Commodity derivative instruments				
Assets	1.7 TWh	3	3.6 TWh	7
Liabilities	0.07 TWh	-	1.3 TWh	(6)
		3		1
Market liquidity reserve		-		(1)
Total		3		-

Forward pricing information is inherently uncertain so that fair values of derivative instruments may not accurately represent the cost to enter into these positions. To address the impact of some of this uncertainty on trading positions, OPG established liquidity reserves against the mark-to-market gains or losses of these positions. These reserves increased trading revenue by \$1 million during the year ended December 31, 2010 (2009 – increase in trading revenue by \$3 million).

Under the Bruce Lease, lease revenue is reduced in each calendar year where the Average HOEP falls below \$30/MWh, and if certain other conditions are met. The conditional reduction to revenue included in the lease agreement is treated as a derivative according to Section 3855. OPG reported a liability of \$163 million as at December 31, 2010 (2009 – \$118 million), which reflected the fair value of a derivative embedded in the Bruce Power lease agreement. This increase in the fair value of the derivative liability was primarily due to reductions in the expected future Average HOEP since the beginning of 2010. Under reasonably possible alternative assumptions, the effect of changing expected future electricity prices ranged from a decrease to long-term accounts payable of \$83 million to an increase of \$86 million. This sensitivity analysis is determined based on the existing assessment of market conditions with consideration of historical changes in electricity prices. The income statement impact as a result of changes to the liability is offset by the income statement impact of the Bruce Lease Net Revenues Variance Account.

Fair Value Hierarchy

OPG is required to classify fair value measurements 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 following table presents financial assets and liabilities measured at fair value in accordance with the fair value hierarchy:

<i>(millions of dollars)</i>	December 31, 2010			Total
	Level 1	Level 2	Level 3	
Decommissioning Fund	2,540	2,698	29	5,267
Used Fuel Fund	2,722	3,225	32	5,979
Forward start interest rate hedges	-	(21)	-	(21)
Commodity derivative instruments	-	-	-	-
Investments in OPGV	13	-	17	30
Floating-to-fixed interest rate hedges	-	(4)	-	(4)
Derivative embedded in the Bruce Lease	-	-	(163)	(163)
Total assets and liabilities	5,275	5,898	(85)	11,088

<i>(millions of dollars)</i>	December 31, 2009			Total
	Level 1	Level 2	Level 3	
Asset-Backed Commercial Paper	-	-	36	36
Decommissioning Fund	2,302	2,574	-	4,876
Used Fuel Fund	-	5,370	-	5,370
Forward start interest rate hedges	-	3	-	3
Commodity derivative instruments	-	14	-	14
Investments in OPGV	13	-	17	30
Floating-to-fixed interest rate hedges	-	(4)	-	(4)
Derivative embedded in the Bruce Lease	-	-	(118)	(118)
Total assets and liabilities	2,315	7,957	(65)	10,207

During the year ended December 31, 2010, there were no transfers between level 1 and level 2, and no transfers into and out of level 3 fair value measurements.

Fair value is the value that a financial instrument can be closed out or sold, in a transaction with a willing and knowledgeable counterparty. 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 held by OPG is the current bid price. These instruments are included in level 1 and are comprised primarily of electricity contracts, equity investments, and fund investments.

For financial instruments which do not have quoted market prices directly available, fair values are estimated using forward price curves developed from observable market prices or rates which may include the use of valuation techniques or models based, wherever possible, on assumptions supported by observable market prices or rates prevailing at the dates of the consolidated balance sheets. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and fund investments. 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 were 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.

The following table presents the changes in OPG's assets and liabilities measured at fair value based on level 3 for the year ended December 31, 2010.

<i>(millions of dollars)</i>	Decom- missioning Fund	Used Fuel Fund	Investments in OPGV	Asset- Back Commer- cial Paper	Derivative Embedded in the Bruce Lease
Opening balance	-	-	17	36	(118)
Total losses included in net income ¹	(1)	(1)	-	(3)	(45)
Purchases	34	36	-	-	-
Settlements	(4)	(3)	-	(33)	-
Closing balance	29	32	17	-	(163)

¹Total losses exclude the impact of regulatory assets and liabilities.

Sensitivity Analysis

The valuation of the derivative embedded in the Bruce lease required assumptions related to future electricity prices. The effect of changing inputs to reasonably possible alternative assumptions is as follows:

<i>(millions of dollars)</i>	Long-term Accounts Payable	Net Income Before Tax¹
Favourable change in assumptions related to electricity prices	(83)	83
Unfavourable change in assumptions related to electricity prices	86	(86)

¹ Net Income Before Tax excludes the impact of regulatory assets and liabilities.

The volatilities of OPG's investments in OPGV that were classified as level 3 were not considered significant. As such, a sensitivity analysis on these investments resulted in a negligible change in the fair value.

Liquidity Risk

OPG's derivative and non-derivative liabilities include current accounts payable, floating-to-fixed interest rate hedges, and long-term debt. The contractual maturity of long-term debt is disclosed in Notes 8 and 16.

Liquidity risk arises through excess financial obligations over available financial assets, due at any point in time. The Company's approach to managing liquidity is to continuously monitor its ability to maintain sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

14. CAPITAL MANAGEMENT

The Board of Directors' objectives when managing capital are to safeguard the Company's assets and its ability to operate on a commercial basis, while undertaking future development projects that provide an adequate return to the shareholder, and benefits to other stakeholders. The Company attempts to maintain an optimal capital structure and minimize the cost of capital.

The Company is owned 100 percent by the Province. To minimize its cost of capital, the Company targets financial metrics consistent with an investment grade credit rating. This provides the Company with access to capital markets in the future, while targeting a low cost of debt financing.

The Company monitors capital on the basis of the ratio of total debt to total capitalization. Debt is calculated as total borrowings, including long-term debt due within one year, long-term debt and the amount of the Letters of Credit. Total capitalization is calculated as total debt plus total shareholder's equity as shown in the consolidated balance sheets. A financial covenant in OPG's \$1 billion revolving committed bank credit facility requires OPG to maintain, on a fully consolidated basis, a ratio of debt to total capitalization of not greater than 0.65:1.0 at any time.

As per the OEB's 2008 decision on OPG's regulated prices, the deemed capital structure for the regulated business is 53 percent debt and 47 percent equity.

The table below summarizes OPG's debt to total capitalization position as at December 31, 2010 and 2009:

<i>(millions of dollars)</i>	2010	2009
Long-term debt due within one year	385	978
Long-term debt	3,843	3,068
Letters of Credit ¹	281	231
Total debt	4,509	4,277
Total shareholder's equity	8,081	7,477
Total capitalization	12,590	11,754
Total debt to total capitalization	36%	36%

¹ The NWMO Letter of Credit of \$2 million has not been included above.

There were no changes in the Company's approach to capital management during the year ended December 31, 2010.

15. COMMON SHARES

As at December 31, 2010 and 2009, OPG had 256,300,010 common shares issued and outstanding at a stated value of \$5,126 million. OPG is authorized to issue an unlimited number of common shares without nominal or par value. Any issue of new shares is subject to the consent of OPG's shareholder.

16. COMMITMENTS AND CONTINGENCIES

Litigation

Various legal proceedings are pending against OPG or its subsidiaries covering a wide range of matters that arise in the ordinary course of its business activities.

On August 9, 2006, a Notice of Action and Statement of Claim filed with the Ontario Superior Court of Justice in the amount of \$500 million was served on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited (together "British Energy"). The British Energy claim against OPG pertains to corrosion in the Bruce Unit 8 Steam Generators, in particular, erosion of the support plates through which the boiler tubes pass. The claim amount includes \$65 million due to an extended outage to repair some of the alleged damage. The balance of the amount claimed is based on an increased probability the steam generators will have to be replaced or the unit taken out of service prematurely. OPG leased the Bruce nuclear generating stations to Bruce Power L.P. in 2001.

British Energy is involved in arbitration with the current owners of Bruce Power L.P. regarding an alleged breach of British Energy's representations and warranties to the current owners when they purchased British Energy's interest in Bruce Power L.P. (the "Arbitration"). If British Energy is successful in defending against the Arbitration claim, they will not have suffered any damages to attempt to recoup from OPG. This Arbitration commenced on April 5, 2010. The Arbitration closing arguments have been rescheduled and are anticipated to occur in the second quarter of 2011. It may take some time for the arbitrator to come to a decision after the closing arguments have been completed.

British Energy previously indicated that they did not require OPG or Bruce Power L.P. to actively defend the court action until the conclusion of the Arbitration. Although the Arbitration had not concluded, British Energy requested that OPG file a Statement of Defence. OPG and Bruce Power L.P. advised British Energy that if British Energy wishes the court action to proceed prior to the conclusion of the Arbitration, the defendants would bring a motion for a Stay of proceedings, a Dismissal of the current action or, in the

alternative, a motion to extend the time for service of the Statement of Defence until the conclusion of the Arbitration. That motion was scheduled to be heard March 5, 2010 but was adjourned at the request of British Energy. The return date of that motion is yet to be set.

In September 2008, a certain First Nation served a Notice of Action against the Government of Canada, the Province of Ontario, OPG, and the OEFC claiming damages in the amount of \$200 million arising from breach of contract, fiduciary duty, trespass to property, negligence, nuisance, misrepresentation, breach of riparian rights and unlawful and unjustifiable infringement of the Aboriginal and treaty rights and \$0.5 million in special damages. This Notice of Action was followed by service of the formal Statement of Claim in June 2010 upon the same parties seeking the same relief. OPG continues to assess the merits of the litigation.

A Notice of Arbitration was served upon OPG and the OEFC by a First Nation. The OEFC was subsequently released from the arbitration proceedings. The arbitration concerns whether OPG breached an Agreement to use its "best efforts" to engage the Province in discussion with the First Nation concerning the sharing of benefits related to hydroelectric development. The arbitration to determine whether there is any liability for damages continues. The arbitration is not expected to have any material impact on the Company's financial position.

Certain First Nations have commenced actions for interference with reserve and traditional land rights. OPG has been brought into certain actions by a First Nation against other parties as a third party defendant. The claims relating to some of these First Nations matters against OPG total \$97 million and the other claims are for unspecified amounts.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably with respect to OPG and could have a significant effect on OPG's financial position. Management has provided for contingencies that are determined to be likely and are reasonably measurable.

Environmental

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 its consolidated financial statements to meet certain other environmental obligations. As at December 31, 2010, OPG has recorded a provision for environmental obligations of \$39 million (2009 – \$40 million).

Guarantees

As part of normal business, OPG and certain of its subsidiaries and joint ventures enter into various agreements providing financial or performance assurance to third-parties on behalf of certain subsidiaries. Such agreements include guarantees, standby Letters of Credit and surety bonds.

Contractual and Commercial Commitments

The Company's contractual obligations and other significant commercial commitments as at December 31, 2010, are as follows:

<i>(millions of dollars)</i>	2011	2012	2013	2014	2015	Thereafter	Total
Contractual obligations:							
Fuel supply agreements	341	201	139	76	73	107	937
Contributions under the ONFA	250	240	157	94	96	662	1,499
Long-term debt repayment	384	412	12	13	515	2,895	4,231
Interest on long-term debt	216	188	173	173	166	721	1,637
Unconditional purchase obligations	22	22	22	22	25	15	128
Operating lease obligations	29	31	32	33	35	-	160
Operating licence	33	38	40	50	50	-	211
Pension contributions ¹	280	-	-	-	-	-	280
Other	48	44	39	93	16	55	295
	1,603	1,176	614	554	976	4,455	9,378
Significant commercial commitments:							
Niagara Tunnel	231	143	44	1	-	-	419
Lower Mattagami	361	434	508	194	182	-	1,679
Total	2,195	1,753	1,166	749	1,158	4,455	11,476

¹ The pension contributions include additional funding requirements towards the deficit and ongoing funding requirements in accordance with the actuarial valuations of the OPG registered pension plan as at January 1, 2008 and the NWMO registered pension plan as at January 1, 2010. The contributions are subject to material change as a result of actuarial valuations as at January 1, 2011 which must be filed by September 30, 2011 in the case of the OPG plan and by June 30, 2011 in the case of the NWMO plan. The 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 2011 are excluded due to significant variability in the assumptions required to project the timing of future cash flows.

Niagara Tunnel

As of December 31, 2010, the Tunnel Boring Machine ("TBM") had progressed 9,152 metres, which is 90 percent of the tunnel length. Some uncertainty with respect to the cost and schedule for both the tunnel excavation and liner installation will continue. Notwithstanding the uncertainty, the Niagara Tunnel is expected to be completed within the revised approved budget of \$1.6 billion and the revised approved project completion date of December 2013.

The capital project expenditures for the year ended December 31, 2010 were \$231 million and the life-to-date capital expenditures were \$880 million. The project is debt financed through the OEFC. OPG has executed an amendment to the Niagara Tunnel project credit facility with the OEFC to finance the project for up to \$1.6 billion.

Lower Mattagami

Construction activities on the Lower Mattagami River commenced in June 2010 to add one additional generating unit at each of the existing Little Long, Harmon and Kipling stations. In addition, OPG will replace the existing Smoky Falls generating station with a new three-unit station. Upon completion in June 2015, the project is expected to increase the capacity of the four stations on the Lower Mattagami River by 438 MW.

OPG and the OPA finalized and executed a HESA during the year. A comprehensive agreement was executed with the local First Nation that resolves grievances attributed to the construction and subsequent operation and maintenance of OPG facilities in the area. The agreement provides the First Nation with a right to purchase up to a 25 percent equity interest in the project. Life-to-date expenditures

as of December 31, 2010 were \$292 million. The project budget of \$2.6 billion includes the design build contract as well as contingencies, interest and other OPG costs, including project management, contract management, impact agreements with First Nations, and transmission connection costs.

Other Commitments

In addition to the previously disclosed commitments, the Company has the following commitments:

The Company maintains labour agreements with the Power Workers' Union and The Society of Energy Professionals; the agreements are effective until March 31, 2012 and December 31, 2012, respectively. As at December 31, 2010, OPG had approximately 11,800 regular employees and approximately 89 percent of its regular labour force is covered by the collective bargaining agreements.

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 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 since that date. OPG continues to monitor resolution to this issue with the Ministry of Finance as updates to the regulation may not occur for several years. OPG has not recorded any amounts relating to this anticipated regulation change.

17. REVENUE LIMIT REBATE

Eighty-five percent of the generation output from OPG's unregulated generation assets, excluding the Lennox generating station, and forward sales as of January 1, 2005, was subject to a revenue limit. The term of the revenue limit rebate ended on April 30, 2009.

The revenue limit rebate liability for the year ended December 31, 2009 is as follows:

<i>(millions of dollars)</i>	2009
Liability, beginning of year	85
Increase to provision during the year	27
Payments made during the year	(112)
Liability, end of year	-

18. OTHER LOSSES AND (GAINS)

<i>(millions of dollars)</i>	2010	2009
Change in estimated cost required to decommission thermal generating stations	-	(9)
ABCP (Notes 4 and 13)	3	(1)
Other	2	-
Other losses and (gains)	5	(10)

During the fourth quarter of 2009, the Company re-estimated the costs to complete the remaining work to remediate the Lakeview coal-fired generating station site. As a result, OPG recorded a recovery of \$9 million in other losses and gains to reflect a change in the estimated costs.

19. BUSINESS SEGMENTS

OPG has five reportable business segments. The business segments are Regulated – Nuclear Generation, Regulated – Nuclear Waste Management, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Thermal.

Regulated – Nuclear Generation Segment

OPG's Regulated – Nuclear Generation business segment operates in Ontario, generating and selling electricity from the nuclear generating stations that it owns and operates. The business segment includes electricity generated by the Pickering A and B, and Darlington nuclear generating stations. This business segment also includes revenue under the terms of a lease arrangement and related agreements with Bruce Power L.P. related to the Bruce nuclear generating stations. This revenue includes lease revenue and revenue from engineering analysis and design, technical and other services. Revenue is also earned from isotope sales and ancillary services. Ancillary revenues are earned through voltage control and reactive support. Revenues from isotope sales and ancillary services are included in the computation of the regulated prices for OPG's nuclear facilities by the OEB.

Bruce Nuclear Generating Stations

In May 2001, the Company leased its Bruce A and Bruce B nuclear generating stations to Bruce Power L. P. until 2018, with options to renew for up to 25 years.

During 2010, OPG recorded lease revenue related to the Bruce generating stations of \$232 million (2009 – \$160 million). The net book value of fixed assets on lease to Bruce Power L.P. at December 31, 2010 was \$855 million (2009 – \$1,073 million).

Regulated – Nuclear Waste Management

OPG's Regulated – Nuclear Waste Management segment engages in the management of used nuclear fuel and low and intermediate level waste, the decommissioning of OPG's nuclear generating stations (including the stations on lease to Bruce Power L.P.), the management of the Nuclear Funds, and related activities including the inspection and maintenance of the waste storage facilities. Accordingly, accretion expense on the Nuclear Liabilities and earnings from the Nuclear Funds is reported under this segment.

As the nuclear generating stations operate over time, OPG incurs variable costs related to nuclear used fuel and low and intermediate level waste 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 Regulated – Nuclear Generation segment in order to reflect the cost of producing energy and the earning of revenue under the Bruce Power lease arrangement and related agreements. Since variable costs increase the Nuclear Liabilities in the Regulated – Nuclear Waste Management segment, OPG records an inter-segment charge between the Regulated – Nuclear Generation and the Regulated – Nuclear Waste Management segments. The impact of the inter-segment charge between these segments is eliminated on OPG's consolidated statements of income and balance sheets.

The Regulated – Nuclear Waste Management segment is considered regulated because the costs associated with the Nuclear Liabilities are included in determination of regulated prices for production from OPG's regulated nuclear facilities by the OEB.

Regulated – Hydroelectric Segment

OPG's Regulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from most of the Company's baseload hydroelectric generating stations. The business segment is comprised of electricity generated by the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and the R.H. Saunders hydroelectric facilities. Ancillary revenues related to these stations are 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 and automatic generation control. These ancillary revenues are included in the computation of the regulated prices for these facilities by the OEB.

Unregulated – Hydroelectric Segment

The Unregulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from its hydroelectric generating stations that are not subject to rate regulation. Ancillary revenues 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, automatic generation control, and other services.

Unregulated – Thermal Segment

The Unregulated – Thermal business segment operates in Ontario, generating and selling electricity from its thermal generating stations, which are not subject to rate regulation. Ancillary revenues are earned through offering available generating capacity as operating reserve, and the supply of other ancillary services including voltage control and reactive support, automatic generation control, and other services.

Other

The Other category includes revenue that OPG earns from its 50 percent joint venture share of Brighton Beach related to an energy conversion agreement between Brighton Beach and Shell Energy North America (Canada) Inc. This category also includes OPG's share of joint venture revenues and expenses from the PEC gas-fired generating station, which is co-owned with TransCanada Energy Ltd. In addition, the Other category includes revenue from real estate rentals.

The revenue and expenses related to OPG's trading and other non-hedging activities are also included in the Other category. As part of these activities, OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate primarily to physical energy that is purchased and sold at the Ontario border, sales of financial risk management products and sales of energy-related products. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in other revenue as gains or losses.

OM&A expenses of the generation segments include an inter-segment service fee for the use of certain property, plant and equipment, and intangible assets held within the Other category. The total service fee

is recorded as a reduction to the Other category's OM&A expenses. The service fee included in OM&A expenses by segment for the years ended December 31, 2010 and 2009 is as follows:

<i>(millions of dollars)</i>	2010	2009
Regulated – Nuclear Generation	25	27
Regulated – Hydroelectric	2	3
Unregulated – Hydroelectric	3	4
Unregulated – Thermal	8	9
Other	(38)	(43)

Segment Income (Loss) for the Year Ended December 31, 2010 <i>(millions of dollars)</i>	Regulated Nuclear Generation	Regulated Nuclear Waste Manage- ment	Hydro- electric	Unregulated Hydro- electric	Unregulated Thermal	Other	Elimination	Total
Revenue	3,030	45	742	497	936	168	(43)	5,375
Fuel expense	185	-	254	64	405	-	-	908
Gross margin	2,845	45	488	433	531	168	(43)	4,467
Operations, maintenance and administration	2,101	52	99	227	449	18	(43)	2,903
Depreciation and amortization	401	-	62	73	103	59	-	698
Accretion on fixed asset removal and nuclear waste management liabilities	-	653	-	-	7	-	-	660
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(668)	-	-	-	-	-	(668)
Property and capital taxes	39	-	11	4	13	10	-	77
Restructuring	-	-	-	-	27	-	-	27
Other losses	2	-	-	-	-	3	-	5
Income (loss) before interest and income taxes	302	8	316	129	(68)	78	-	765

Segment Income (Loss) for the Year Ended December 31, 2009 <i>(millions of dollars)</i>	Regulated			Unregulated			Elimination	Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Thermal	Other		
Revenue	3,179	44	782	615	918	143	(41)	5,640
Revenue limit rebate	-	-	-	(10)	(17)	-	-	(27)
	3,179	44	782	605	901	143	(41)	5,613
Fuel expense	210	-	264	104	413	-	-	991
Gross margin	2,969	44	518	501	488	143	(41)	4,622
Operations, maintenance and administration	2,057	48	106	210	492	10	(41)	2,882
Depreciation and amortization	481	-	75	73	79	52	-	760
Accretion on fixed asset removal and nuclear waste management liabilities	-	627	-	-	7	-	-	634
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(683)	-	-	-	-	-	(683)
Property and capital taxes	41	-	10	9	18	8	-	86
Other gains	-	-	-	-	(9)	(1)	-	(10)
Income (loss) before interest and income taxes	390	52	327	209	(99)	74	-	953

Selected Consolidated Balance Sheet Information as at December 31, 2010 <i>(millions of dollars)</i>	Regulated		Unregulated			Other	Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Thermal		
Segment fixed assets in service, net	3,963	-	3,750	3,324	282	759	12,078
Segment construction in progress	174	-	913	367	20	3	1,477
Segment property, plant and equipment, net	4,137	-	4,663	3,691	302	762	13,555
Segment intangible assets in service, net	18	-	-	2	1	19	40
Segment development in progress	3	-	-	-	-	5	8
Segment intangible assets, net	21	-	-	2	1	24	48
Segment materials and supplies inventory, net:							
Short-term	65	-	-	-	19	1	85
Long-term	364	-	-	1	35	-	400
Segment fuel inventory	337	-	-	-	397	-	734
Fixed asset removal and nuclear waste management liabilities	-	(12,547)	-	-	(151)	(6)	(12,704)
Nuclear fixed asset removal and nuclear waste management funds	-	11,246	-	-	-	-	11,246

Selected Consolidated Balance Sheet Information as at December 31, 2009 <i>(millions of dollars)</i>	Regulated			Unregulated			Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Thermal	Other	
Segment fixed assets in service, net	3,661	-	3,791	2,968	384	808	11,612
Segment construction in progress	217	-	663	308	32	4	1,224
Segment property, plant and equipment, net	3,878	-	4,454	3,276	416	812	12,836
Segment intangible assets in service, net	22	-	-	2	-	15	39
Segment development in progress	8	-	-	1	1	3	13
Segment intangible assets, net	30	-	-	3	1	18	52
Segment materials and supplies inventory, net:							
Short-term	70	-	-	-	60	2	132
Long-term	386	-	-	1	1	-	388
Segment fuel inventory	333	-	-	-	504	-	837
Fixed asset removal and nuclear waste management liabilities	-	(11,711)	-	-	(146)	(2)	(11,859)
Nuclear fixed asset removal and nuclear waste management funds	-	10,246	-	-	-	-	10,246

Selected Consolidated Cash Flow Information <i>(millions of dollars)</i>	Regulated			Unregulated			Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Thermal	Other	
Year ended December 31, 2010							
Investment in fixed and intangible assets	211	-	272	442	23	30	978
Year ended December 31, 2009							
Investment in fixed and intangible assets	200	-	254	239	32	27	752

20. RELATED PARTY TRANSACTIONS

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

These transactions are summarized below:

<i>(millions of dollars)</i>	Revenue	Expenses	Revenue	Expenses
	2010	2010	2009	2009
Hydro One				
Electricity sales	18	-	20	-
Services	-	16	-	13
Province of Ontario				
GRC, water rentals and land tax	-	116	-	146
Guarantee fee	-	7	-	4
Used Fuel Fund rate of return guarantee	-	186	-	493
OEFC				
GRC and proxy property tax	-	208	-	224
Interest expense on long-term notes	-	203	-	210
Capital tax	-	11	-	31
Income taxes, net of investment tax credits	-	77	-	199
Contingency support agreement	258	-	412	-
Infrastructure Ontario				
Reimbursement of expenses incurred during the procurement of new nuclear units	-	3	-	21
IESO				
Electricity sales	4,215	27	4,434	31
Revenue limit rebate	-	-	(27)	-
Ancillary services	61	-	153	-
OPA	142	-	45	-
	4,694	854	5,037	1,372

As at December 31, 2010, accounts receivable included \$3 million (2009 – \$2 million) due from Hydro One, \$129 million (2009 – \$189 million) due from the IESO, and \$22 million (2009 – \$6 million) due from the OPA. Accounts payable and accrued charges at December 31, 2010 included \$2 million (2009 – \$3 million) due to Hydro One and \$3 million (2009 – \$21 million) due to Infrastructure Ontario.

21. JOINT VENTURES

Significant joint ventures include Brighton Beach and the PEC, which are 50 percent owned by OPG.

The following condensed information from the consolidated statements of income, cash flows and balance sheets details the Company's share of its investments in joint ventures and partnerships that has been proportionately consolidated:

<i>(millions of dollars)</i>	2010	2009
Proportionate joint venture operations		
Revenue	97	76
Expenses	(62)	(49)
Net income	35	27
Proportionate joint venture cash flows		
Operating activities	74	34
Investing activities	(3)	(17)
Financing activities	(76)	(25)
Share of changes in cash	(5)	(8)
Proportionate joint venture balance sheets		
Current assets	25	31
Long-term assets	553	583
Current liabilities	(15)	(14)
Long-term liabilities	(167)	(172)
Share of net assets	396	428

22. INVESTMENT COMPANY

The Company applied AcG-18 for all investments owned by OPGV. OPGV is a wholly owned subsidiary of the Company and its results are included in the Company's consolidated financial statements. The carrying amount of OPGV's investments was \$30 million (2009 – \$30 million) and the amount was included as long-term investments on the consolidated balance sheets.

As a result of the application of this policy, the Company's net income and other assets for 2010 decreased by \$1 million (2009 – \$11 million). The net realized gains for OPGV were nil in 2010 (2009 – \$7 million).

The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2010 were \$11 million and \$25 million, respectively. The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2009 were \$11 million and \$24 million, respectively.

23. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2010, research and development expenses of \$127 million (2009 – \$112 million) were charged to operations.

24. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

<i>(millions of dollars)</i>	2010	2009
Accounts receivable	101	105
Prepaid expenses	5	(15)
Fuel inventory	103	(101)
Materials and supplies	47	-
Revenue limit rebate	-	27
Accounts payable and accrued charges	(189)	(103)
Income and capital taxes recoverable	(20)	(149)
	47	(236)

25. NON-CONTROLLING INTEREST

OPG has entered into a partnership agreement with the Lac Seul First Nation (“LSFN”) regarding the 12.5 MW Lac Seul generating station. In July 2009, OPG transferred ownership of the station to the Lac Seul LP partnership. OPG has a 75 percent ownership interest in the partnership, while the LSFN has a 25 percent interest.

OPG consolidates the results of the Lac Seul LP and the non-controlling interest represents the LSFN’s 25 percent ownership interest in the partnership.

26. RESTRUCTURING

In September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations. The closures occurred on October 1, 2010. OPG conducted discussions with key stakeholders, including the Society of Energy Professionals and the Power Workers’ Union, in accordance with their respective collective bargaining agreements. As determined by the collective bargaining agreements, restructuring costs of \$27 million were recorded during 2010 for those employees who have elected to leave. The change in the restructuring liability for severance costs for the year ended December 31, 2010 is as follows:

<i>(millions of dollars)</i>	2010
Liability, beginning of year	-
Restructuring charges during the period	27
Payments during the period	(12)
Liability, end of year	15