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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Ontario Power Authority

We have audited the accompanying financial statements of Ontario Power Authority, which comprise the statements of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011, the statements of operations, changes in net assets and cash flows for the years ended December 31, 2012 and December 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 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.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Power Authority as at December 31, 2012, December 31, 2011 and January 1, 2011, and its results of operations, its changes in net assets and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

February 20, 2013
Toronto, Canada

ONTARIO POWER AUTHORITY

Statement of Financial Position
(in thousands of dollars)

December 31, 2012, December 31, 2011 and January 1, 2011

Assets		December 31, 2012		December 31, 2011		January 1, 2011
Current assets:						
Cash and cash equivalents	$	315,631	$	229,827	$	97,263
Accounts receivable (note 3)	$	546,963	$	416,102		289,123
Prepaid expenses	$	564	$	300		86
	$	**863,158**	**$**	**646,229**		**386,472**
Capital assets (note 4)	$	6,628	$	10,378		11,236
Other financial assets (note 5)	$	-	$	-		15,689
Total Assets	**$**	**869,786**	**$**	**656,607**	**$**	**413,397**

Liabilities and Net Assets						
Current liabilities:						
Accounts payable and accrued liabilities (note 6)	$	474,839	$	321,995	$	296,254
Operating loan (note 13)	$	60,000	$	256,368		-
Contract deposits (note 7)	$	28,996	$	52,128		67,571
Other liabilities	$	105	$	83		68
	$	**563,940**	**$**	**630,574**		**363,893**
Deferred rent inducement, net (note 8)	$	403	$	547		691
Other financial liabilities (note 5)	$	289,918	$	25,788		49,966
Net assets:						
Internally Restricted Conservation and Technology Funds (note 9)	$	9,939	$	10,667		12,581
Invested in capital assets	$	6,628	$	10,378		11,236
Accumulated operating deficit	$	(1,042)	$	(21,347)		(24,970)
	$	**15,525**	**$**	**(302)**		**(1,153)**
Commitments (note 8)						
Contingencies and guarantees (note 14)						
Total Liabilities and Net Assets	**$**	**869,786**	**$**	**656,607**	**$**	**413,397**

See accompanying notes to financial statements

ONTARIO POWER AUTHORITY

Statement of Operations
(in thousands of dollars)

Years ended December 31, 2012 and 2011

		2012		2011
Revenue:				
Fees	$	76,298	$	62,121
Recovery of other financial accounts (note 5)	$	-	$	14,267
Registration fees (note 7)	$	(1,456)	$	254
Interest income	$	666	$	1,657
Other income	$	102	$	17
	$	**75,610**	**$**	**78,316**
Expenses:				
Compensation and benefits	$	32,034	$	31,610
Professional fees	$	10,852	$	14,903
Amortization of other financial accounts (note 5)	$	-	$	14,267
General operating costs (note 10)	$	11,272	$	10,595
Conservation and Technology Funds expenses (note 9)	$	728	$	1,914
Amortization of capital assets	$	4,427	$	3,155
	$	**59,313**	**$**	**76,444**
Excess of revenue over expenses before interest expense	$	16,297	$	1,872
Interest expense	$	470	$	1,021
Excess of revenue over expenses	**$**	**15,827**	**$**	**851**

See accompanying notes to financial statements

ONTARIO POWER AUTHORITY

Statement of Changes in Net Assets
(in thousands of dollars)

Years ended December 31, 2012 and 2011

December 31, 2012		Invested in Capital Assets		Internally Restricted (see note 9)		Accumulated Operating Deficit		Total Net Assets
Balance, beginning of the year	$	10,378	$	10,667	$	(21,347)	$	(302)
Excess of revenue over expenses	$	(4,427)	$	-	$	20,254	$	15,827
Conservation and Technology Funds expenses	$	-	$	(728)	$	728	$	-
Purchase of capital assets (net)	$	677	$	-	$	(677)	$	-
Balance, end of the period	**$**	**6,628**	**$**	**9,939**	**$**	**(1,042)**	**$**	**15,525**

December 31, 2011		Invested in Capital Assets		Internally Restricted (see note 9)		Accumulated Operating Deficit		Total Net Assets
Balance, beginning of the year	$	11,236	$	12,581	$	(24,970)	$	(1,153)
Excess of revenue over expenses	$	(3,155)	$	-	$	4,006	$	851
Conservation and Technology Funds expenses	$	-	$	(1,914)	$	1,914	$	-
Purchase of capital assets (net)	$	2,297	$	-	$	(2,297)	$	-
Balance, end of the period	**$**	**10,378**	**$**	**10,667**	**$**	**(21,347)**	**$**	**(302)**

See accompanying notes to financial statements

ONTARIO POWER AUTHORITY

Statement of Cash Flows
(in thousands of dollars)

Years ended December 31, 2012 and 2011

		2012		2011
Cash Flows from Operating Activities:				
Excess of revenue over expenses	$	15,827	$	851
Items not involving cash:				
Amortization of capital assets	$	4,427	$	3,155
Amortization of deferred rent inducement	$	(144)	$	(144)
Amortization of other financial accounts	$	-	$	14,267
Change in non-cash operating items (note 12)	$	(1,413)	$	(116,895)
	$	18,697	$	(98,766)
Cash Flows from Financing Activities:				
Increase in other liabilities	$	22	$	15
Increase (decrease) in operating loan	$	(196,368)	$	256,368
Increase in other financial assets	$	-	$	1,422
Increase/(decrease) in other financial liabilities	$	264,130	$	(24,178)
	$	67,784	$	233,627
Cash Flows from Capital Activities:				
Purchase of capital assets	$	(677)	$	(2,297)
	$	(677)	$	(2,297)
Increase in cash and cash equivalents	$	85,804	$	132,564
Cash and cash equivalents, beginning of year	$	229,827	$	97,263
Cash and cash equivalents, end of year	**$**	**315,631**	**$**	**229,827**

See accompanying notes to financial statements

ONTARIO POWER AUTHORITY

Notes to Financial Statements
(in thousands of dollars)

Years ended December 31, 2012 and 2011

1) Nature of operations:

The *Electricity Restructuring Act, 2004* (the Act), established the Ontario Power Authority (OPA) as a non-share corporation on December 20, 2004. The OPA is an independent non-profit, non-taxable corporation. The OPA is not a Crown agent and recovers its costs through fees approved by the Ontario Energy Board (OEB) and through charges to the electricity market through the global adjustment mechanism. In accordance with the Act, the OPA's main objectives are:

- to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the medium and long term;
- to conduct independent planning for electricity generation, demand management, conservation and transmission, and develop integrated power system plans for Ontario;
- to engage in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario;
- to engage in activities to faciliate the diversification of sources of electricity supply by promoting the use of cleaner energy sources and technologies, including alternative energy sources and renewable energy sources;
- to establish system-wide goals for electricity to be produced from alternative energy sources and renewable energy sources;
- to engage in activities that promote electricity conservation and the efficient use of electricity;
- to assist the OEB by facilitating stability in rates for certain types of customers; and
- to collect and provide to the public and the OEB information relating to medium and long-term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs.

The OPA's ability to continue as a going concern is dependent upon its ability to obtain financing to support operations. The OPA's creditworthiness is attested by the following:

- the ability of the OPA to meet its obligations is provided for in legislation;
- the OPA's minimal counterparty risk, given that its principal counterparty is the Independent Electricity System Operator (IESO), a creation of the province and a strong counterparty.

On January 1, 2011, the OPA adopted Canadian public sector accounting standards, ("PSAS"). The OPA has also elected to apply the 4200 standards for government not-for-profit organizations. These are the first financial statements prepared in accordance with PSAS.

In accordance with the transitional provisions in Canadian PSAS, the OPA has adopted changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is January 1, 2011 and all comparative information provided has been presented by applying Canadian PSAS.

There are no adjustments to net assets as at January 1, 2011 or excess of revenue over expenses for the year ended December 31, 2011 as a result of the transition to Canadian PSAS.

During 2012 the Province of Ontario announced a plan to merge the OPA and the IESO. In October 2012, the Premier prorogued parliament thereby terminating the legislation to enact the merger. The likelihood of such a merger is indeterminable at this time.

Notes to Financial Statements
(in thousands of dollars)

Years ended December 31, 2012 and 2011

2) Significant accounting policies:

(a) Basis of presentation:

The financial statements have been prepared in accordance with Canadian PSAS including the 4200 standards for government not-for-profit organizations.

(b) Revenue recognition:

Amounts received in the current year that relate to services and programs to be determined in subsequent years are not recognized as revenue and are deferred.

Fees earned by the OPA are based upon OEB-approved rates for electricity withdrawn from the IESO-controlled grid by electricity consumers of Ontario. Such revenue is recognized in the year in which it is earned.

(c) Cash and cash equivalents:

Cash and cash equivalents are comprised of bank deposit balances, term deposits and other short-term investments with original maturity dates of up to 90 days.

(d) Capital assets:

Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated service lives, as follows:

Assets	Estimated Average Service life
Furniture and equipment	10 years
Computer hardware	4 years
Computer software	3 to 5 years
Audio-visual equipment	10 years
Telephone system	5 years
Leasehold improvements	Term of lease

Notes to Financial Statements
(in thousands of dollars)

Years ended December 31, 2012 and 2011

2) Significant accounting policies (continued):

(e) Employee pension benefits:

The OPA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the OPA does not have sufficient information to apply defined benefit plan accounting to this pension plan.

The OPA is not responsible for the cost of employee post-retirement, non-pension benefits. These costs are the responsibility of the Ontario Pension Board.

(f) Measurement uncertainty:

Uncertainty in determining the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurements of uncertainty in these financial statements exist in the valuation of the power purchase contracts and the estimated defeasance date for the OPA's obligations. Estimates are based on the best information available at the time of preparation of the financial statements and are updated annually to reflect new information as it becomes available.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

ONTARIO POWER AUTHORITY

Notes to Financial Statements
(in thousands of dollars)

Years ended December 31, 2012 and 2011

3) Accounts receivable:

	December 31, 2012	December 31, 2011	January 1, 2011
Market contracts			
Generation contracts	$ 474,424	$ 326,049	$ 187,789
Conservation contracts	54,382	87,077	98,059
Renewable energy contracts	12,555	2,156	1,126
	541,361	415,282	286,974
Other	262	820	1,232
HST/GST Receivable	5,340	-	917
	$ 546,963	**$ 416,102**	**$ 289,123**

ONTARIO POWER AUTHORITY

Notes to Financial Statements
(in thousands of dollars)

Years ended December 31, 2012 and 2011

4) Capital assets:

December 31, 2012		Cost		Accumulated amortization		Net book value
Furniture and equipment	$	3,372	$	1,870	$	1,502
Computer hardware		4,830		4,606		224
Computer software		7,440		4,982		2,458
Audio-visual equipment		229		150		79
Telephone system		382		350		32
Leasehold improvements		5,133		2,800		2,333
	$	**21,386**	**$**	**14,758**	**$**	**6,628**

December 31, 2011		Cost		Accumulated amortization		Net book value
Furniture and equipment		3,360		1,543		1,817
Computer hardware		4,697		4,076		621
Computer software		6,966		2,325	$	4,641
Audio-visual equipment		229		127		102
Telephone system		382		284		98
Leasehold improvements		5,075		1,976		3,099
	$	**20,709**	**$**	**10,331**	**$**	**10,378**

January 1, 2011		Cost		Accumulated amortization		Net book value
Furniture and equipment		3,277		1,218		2,059
Computer hardware		4,405		3,075		1,330
Computer software		4,623		537		4,086
Audio-visual equipment		229		104		125
Telephone system		338		195		143
Leasehold improvements		5,047		1,554		3,493
	$	**17,919**	**$**	**6,683**	**$**	**11,236**

ONTARIO POWER AUTHORITY

Notes to Financial Statements
(in thousands of dollars)

Years ended December 31, 2012 and 2011

5) Other financial assets and liabilities:

Other financial assets, liabilities and deferrals arise as a result of the *Electricity Act, 1998* and the regulations thereunder and are reflected by the balances in the Regulated Price Plan (RPP), retailer contract settlement deferral accounts, government procurement deferral account and the global adjustment account. In the absence of rate-regulated accounting, these amounts would have flowed through the statement of operations when incurred.

	December 31, 2012	December 31, 2011	January 1, 2011
Other financial assets	$ -	$ -	$ 15,689
Other financial liabilities	(289,918)	(25,788)	(49,966)

RPP variance accounts

While prices for RPP consumers are set every six months by the OEB based upon a forecast of the cost of power over the next year, it is likely that there will be a difference between the actual and forecast cost of supplying electricity to all RPP consumers. When the hourly Ontario energy price (HOEP) is greater than the RPP, the OPA pays the excess amount and records a financial asset as the electricity market funds paid are receivable from the market. When the HOEP is less than the RPP, the OPA receives the difference and records a financial liability as the funds received will be returned to the market. The OPA tracks this variance in the RPP variance account. The Ontario Power Generation (OPG) rebate is equivalent to the difference between the revenue limit for specific OPG generating facilities and the revenue OPG actually received in the IESO wholesale spot market for that generation.

	2012	2011
OPG rebate contribution	$ (602,736)	$ (602,750)
Total RPP variance before interest	299,896	562,467
Interest earned	12,922	14,495
	$ (289,918)	**$ (25,788)**

Notes to Financial Statements
(in thousands of dollars)

Years ended December 31, 2012 and 2011

5) Other financial assets and liabilities (continued):

Retailer contract settlement deferral accounts

The retailer contract discount settlement account captures the funds related to the retailer incentives existing at the creation of the RPP. The retailer incentives captured were held in a separate deferral account for settlement concurrent with the retailer settlement deferral accounts.

The contracts to which the retailer settlement accounts relate have expired. The balances in these accounts have been recovered over a three-year period from 2009 - 2011. The OPA finished amortizing the accumulated balance in 2011. The amortization expense for 2012 is $nil (2011 - $14,267)

As at December 31, 2012, the balance in the retailer contract settlement and retailer contract discount settlement accounts was nil (December 31, 2011 - nil; January 1, 2011 - $15,689). As at January 1, 2011, the balance was $15,689 which was comprised of amounts related to retailer contract settlement accounts for 2005 – 2009 - $17,014, 2010 - $359 and 2011 – NIL. There was also a retailer contract discount settlement amount as at Jan 1, 2011 amounting to $1,684

Global adjustment account

The OPA has a legislated responsibility to record the transactions flowing through the global adjustment mechanism. The global adjustment and settlement accounts have been created for this purpose. The nature of the global adjustment transactions result in a zero balance in the account on a monthly basis. The information and explanation below provide transparency for the transactions flowing through the global adjustment mechanism.

The global adjustment and settlement accounts record charges that flow between the OPA and the IESO. The account flows include the amounts paid and received for: Demand Response 2, Demand Response 3, non-utility generation, regulated nuclear generation balancing amount and regulated hydro electric generation balancing amount. These accounts are settled simultaneously by the IESO. The account also records the amounts paid and received for OPA contracts (standard offer, generation and conservation/demand management, Feed-In Tariff and hydroelectric contract initiatives) which the OPA settles on a monthly basis with the IESO.

ONTARIO POWER AUTHORITY

Notes to Financial Statements
(in thousands of dollars)

Years ended December 31, 2012 and 2011

6) Accounts payable and accrued liabilities:

	December 31, 2012	December 31, 2011	January 1, 2011
Accrued contract settlements	$ 211,522	12,942	189,002
HST/GST payable	-	128	-
Other accrued liabilities	263,317	308,925	107,252
	474,839	**321,995**	**296,254**

ONTARIO POWER AUTHORITY

Notes to Financial Statements
(in thousands of dollars)

Years ended December 31, 2012 and 2011

7) Contract deposits:

Program Deposits:
The OPA receives performance security in the form of deposit amounts received from renewable energy supply, Feed-In Tarrif (FIT) Program and demand response suppliers. For suppliers engaged in a contract which involves the construction of a new supply facility, the deposits are larger during the construction phase and are reduced once a project commences commercial operations. Deposits related to the FIT Program are submitted to the OPA with the supplier application and can be returned if one of the following occurs: (a) the supplier withdraws their application from the Program; (b) the supplier obtains a contract with the OPA; or (c) the supplier's application is rejected by the OPA.

The deposits are classified as current liabilities as they can be replaced by a letter of credit by the supplier on request.

Program Registration Fees:
The OPA also requires a non-refundable registration fee from applicants to some renewable energy programs. Changes to FIT Program rules in 2012 affected the existing applicants to this program. As a result, the registration fees were made available for refund. Refunds were recorded as debits to the registration fee income account resulting in a negative balance.

8) Deferred rent inducement and operating lease commitments:

The OPA has entered into various long-term lease commitments for office space, which include lease inducements. Deferred rent inducement represents the benefit of operating lease inducements amortized on a straight-line basis over the term of the lease. The OPA obtained an allowance for leasehold improvements of $1,430. As at December 31, 2012, the deferred rent inducement, net of amortization, was $403 (December 31, 2011 - $547 and January 1, 2011 - $691).

The OPA reports an average rental cost for premises over the term of the lease agreement and amortizes the benefit of the lease inducements over the same period. As at December 31, 2012, the accrued liability was $189 (December 31, 2011 - $250 and January 1, 2011 - $321).

Lease commitments are set to terminate by October 2015. Lease commitments include amounts for leased computer hardware. Computer hardware commitments terminate between 2012-2013. The minimum annual payments under the operating lease are approximated as follows:

Lease Commitments		
2013		1,652
2014		1,650
2015		1,294
	$	**4,596**

ONTARIO POWER AUTHORITY

Notes to Financial Statements
(in thousands of dollars)

Years ended December 31, 2012 and 2011

9) Internally restricted conservation and technology funds:

The OPA established the Conservation Fund to support electricity conservation projects. The Technology Development Fund was established to aid the development of new technology to improve electricity supply or conservation. To date, 12 funds have been set up as depicted in the table below. These funds were set up prior to April 2010. After that, per the April 2010 Directive, all recoveries are through the Global Adjustment Mechanism.

December 31, 2012	Restricted Fund	Expensed 2012	Expensed Prior Years	Balance 2012
2005 - 2008 Conservation Fund	$ 8,600	$ 71	$ 7,938	$ 591
2009 Conservation Fund	3,000	124	2,422	454
2010 Conservation Fund	5,000	1	175	4,824
2005 - 2008 Technology Development F	3,500	89	2,827	584
2009 Technology Development Fund	1,500	162	1,253	85
2010 Technology Development Fund	4,500	281	818	3,401
	$ 26,100	**$ 728**	**$ 15,433**	**$ 9,939**

December 31, 2011	Restricted Fund	Expensed 2011	Expensed Prior Years	Balance 2011
2005 - 2008 Conservation Fund	$ 8,600	$ 277	$ 7,661	$ 662
2009 Conservation Fund	3,000	747	1,675	578
2010 Conservation Fund	5,000	44	131	4,825
2005 - 2008 Technology Development F	3,500	153	2,674	673
2009 Technology Development Fund	1,500	139	1,114	247
2010 Technology Development Fund	4,500	554	264	3,682
	$ 26,100	**$ 1,914**	**$ 13,519**	**$ 10,667**

January 1, 2011	Restricted Fund	Expensed 2010	Expensed Prior Years	Balance 2010
2005 - 2008 Conservation Fund	$ 8,600	$ 966	$ 6,695	$ 939
2009 Conservation Fund	3,000	1,242	433	1,325
2010 Conservation Fund	5,000	131	-	4,869
2005 - 2008 Technology Development F	3,500	478	2,196	826
2009 Technology Development Fund	1,500	509	605	386
2010 Technology Development Fund	4,500	264	-	4,236
	$ 26,100	**$ 3,590**	**$ 9,929**	**$ 12,581**

Notes to Financial Statements
(in thousands of dollars)

Years ended December 31, 2012 and 2011

10) General operating costs:

		2012		2011
General program costs	$	3,744	$	4,118
Premises		3,631		3,616
Information technology		3,253		1,839
Office and administration		644		1,022
	$	**11,272**	**$**	**10,595**

11) Pension plan:

The OPA makes contributions to the Public Service Pension Plan, a multi-employer plan, on behalf of staff. The plan is a contributory defined pension plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contribution rates by employers are made at a rate of approximately eight percent of earnings. As at December 31, 2012, the OPA paid or accrued contributions totalling $2,096 (December 31, 2011 - $1,937 and January 1, 2011 - $1,916) during the year.

12) Change in non-cash operating items:

		2012		2011
Increase in accounts receivable	$	(130,861)	$	(126,979)
Increase in prepaid expenses		(264)		(214)
Increase in accounts payable and accrued liabilities		152,844		25,741
Decrease in contract deposits		(23,132)		(15,443)
	$	**(1,413)**	**$**	**(116,895)**

13) Related party transactions:

The Province of Ontario is a related party as it is the controlling entity of the OPA. The OEB, Hydro One, the IESO, OPG, the Ontario Financing Authority (OFA) and the Ministry of Energy are related parties of the OPA, through the common control of the Province of Ontario. Transactions between these parties and the OPA were as follows:

Notes to Financial Statements
(in thousands of dollars)

Years ended December 31, 2012 and 2011

13) Related party transactions (continued):

Under the Ontario Energy Board Act, 1998, the OPA incurs registration and licence fees. Consistent with other registrants, in 2012 the OPA was allocated a portion of the operating costs of the OEB. The total of the OPA's transactions with the OEB were $1,041 in 2012 (2011 - $1,129).

The OPA procures conservation and demand management from Hydro One. The procurement costs include payments for electricity conservation, program operating costs and management fees. In 2012, the OPA procured $34,653 in conservation demand management (2011 - $39,860), from Hydro One and its wholly owned subsidiaries. Amounts receivable from Hydro One in 2012 were $nil (December 31, 2011 - $742 and January 1, 2011 - $742).

The OPA receives its fee revenue from the IESO. The fee revenue is approved by the OEB and collected each month by the IESO from ratepayers through a usage rate applied to Ontario domestic electricity consumption. Fee revenue for 2012 was $76,298 (2011 - $76,388). In addition, the OPA and the IESO have agreements set up for the settlement of amounts paid and received for the global adjustment account, RPP on behalf of various market participants (see note 5). At December 31, 2012, the OPA had a net receivable of $264,304 (December 31, 2011 - $326,049 and January 1, 2011 - $187,789). The OPA also incurred $388 in 2012 (2011 - $844) for IESO professional services.

The OPA has available a revolving operating facility in the amount of $975,000, provided by the OFA to fund its general operating expenses and support the RPP variance account. The line of credit was renewed in 2010 for a three-year term from January 1, 2011 to December 31, 2013. On December 31, 2012 the OPA has a $60,000 (December 31, 2011 - $256,368 and January 1, 2011 - nil) outstanding balance from the OFA. In 2012, the OPA incurred $470 (2011 - $1,021) in interest expenses for the loan. This is net of interest expense that was allocated to the market.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Notes to Financial Statements
(in thousands of dollars)

Years ended December 31, 2012 and 2011

14) Contingencies and guarantees:

Contingencies:

In the normal course of its operations, the OPA becomes involved in various legally binding agreements. Some of these agreements contain potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that a future event becomes likely to occur or fails to occur, and a reasonable estimate of the loss can be made, an estimated liability will be accrued and the expense recorded on the OPA's financial statements. As at December 31, 2012 in the opinion of management, no such liabilities exist.

Contract conditions related to the construction of a new clean energy facility stipulate that the OPA is contingently liable to repay upgrade costs, up to a maximum of $1,000, as incurred by the energy supplier. While none of these costs have been incurred to date, the OPA is liable to cover such costs over a 20-year period ending in 2025. As at December 31, 2012 management is not aware of any information to suggest that these upgrade costs will be incurred by the supplier.

Guarantees:

The OPA is contingently liable under a loan guarantee provision in a contract with a maximum potential exposure of $8,600. The outstanding loan balance under this contract which the OPA has guaranteed, is $nil as at December 31, 2012 and is not presently in default. This program ended in September 2012 and no obligations resulted from the guarantee.

The OPA enters into contracts with suppliers of electricity as part of its normal business operations. In some cases, these contracts require the OPA to support obligations with these entities. In 2012, the OPA entered into a letter of credit amounting to $1,349 in support of a contracted obligation. As at December 31, 2012, no amounts have been drawn on the balance.

ONTARIO POWER AUTHORITY

Notes to Financial Statements
(in thousands of dollars)

Years ended December 31, 2012 and 2011

15) Fair value of financial assets and financial liabilities

The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

The carrying values of the operating loan approximate their fair values as the terms and conditions for similar types of loan arrangements are comparable to current market conditions for similar items.

The fair values of other financial assets and other financial liabilities are not provided because it would not provide additional useful information as they would be offset and/or would not be practical to determine.

16) Capital disclosures:

Due to the OPA's primary objectives (note 1), the OPA plans for revenues to fund expenses. Any variances that occur are addressed in the following year's revenue requirement submission. As of December 31, 2012, the Minister has not provided formal approval of the OPA's business plan or the OPA's proposed usage fee for 2013.

Notes to Financial Statements
(in thousands of dollars)

Years ended December 31, 2012 and 2011

17) Financial risk management:

The OPA is exposed to financial risks in the normal course of its business operations, including market risks resulting from credit risk, liquidity risk and interest rate risk. The nature of the financial risks and the OPA's strategy for managing these risks has not changed significantly from the prior year.

(a) Credit risk:

Credit risk refers to the risk that one party to a financial instrument may cause a financial loss for the other party by failing to meet its obligations under the terms of the financial instrument. The OPA is exposed directly to credit risk related from accounts receivable and bank deposits held at the chartered bank. Direct exposure to credit risk is limited to the carrying amount presented for these assets on the statement of financial position. Accounts receivable as of December 31, 2012 included no material items past due.

(b) Liquidity risk:

Liquidity risk refers to the risk that the OPA will encounter financial difficulty in meeting obligations associated with its financial liabilities. The OPA manages liquidity risk by forecasting cash flows to identify financing requirements. Cash flows from operations and maintaining appropriate credit facilities reduce liquidity risk.

(c) Interest rate risk:

The OPA's operating loan has a variable interest rate based on the Province of Ontario's cost of funds for borrowing, with a similar term as determined by the OFA plus a margin. As a result, the OPA is exposed to interest rate risk due to fluctuations in the Province of Ontario's cost of funds for borrowing with a similar term rate.