

May 7, 2001

ONTARIO POWER GENERATION REPORTS 2001 FIRST QUARTER EARNINGS

(Toronto) – Ontario Power Generation Inc. (OPG) today reported its financial and operating results for the first quarter ended March 31, 2001. Earnings for the three months ended March 31, 2001 were \$123 million or \$0.48 per share, as compared with 2000 first quarter earnings of \$186 million or \$0.73 per share.

Major factors contributing to the lower earnings included an increase in operating expenses due to increased activity and expenditures related to the return to service of the Pickering A nuclear generating station, higher pension and other post employment benefit expenses, and an increase in power purchases. "Although first quarter 2001 earnings are lower than that of last year, they are consistent with our expectations," said OPG President and CEO, Ron Osborne.

Revenues for the first quarter of 2001 were \$1,539 million, an increase of \$54 million compared to the same quarter in 2000. Electricity sales volume of 37.1 TWh during the first quarter was 1.3 TWh higher than the first quarter of 2000. This increase was primarily due to lower electricity generation from other Ontario gas-fired generators, as well as colder winter weather in 2001.

"Earnings for 2001 are forecast to be lower than in 2000 due to increased activities and expenditures associated with the return to service of the Pickering A nuclear generating station, reduced earnings resulting from the decontrol of our Bruce nuclear generating station and higher pension expense," said Osborne.

On April 23, 2001, Ontario's Premier and the Minister of Energy, Science and Technology indicated that the government plans to introduce competition to the Ontario electricity market by May 2002. The government's plan is based on four guiding principles: protecting consumers and offering more choice; ensuring a strong business climate with a reliable supply of electricity; protecting the environment; and encouraging new ways of doing business and new sources of supply.

In February, the Canadian Nuclear Safety Commission (CNSC) accepted the results of the Pickering A nuclear generating station's environmental assessment. "This represents a significant milestone for OPG. We look forward to appearing before the Commission on June 28 at their first hearing associated with the station's return to service application. Subject to regulatory approval, we are scheduling to return the first unit of this station to service early in 2002. The four unit, 2,060 MW Pickering A nuclear generating station will represent additional capacity that will be both low-cost and virtually emission-free," said Osborne.

On March 26, the Ontario Government announced that, following a public consultation process, a number of initiatives to improve Ontario's air quality will be introduced. These initiatives include proposed new regulations to: lower nitrogen oxide and sulphur dioxide emission limits; introduce an emission reduction trading program; and direct the Lakeview generating station to cease burning coal by April 2005. "Although OPG's emissions represent a small portion of Ontario's smog, we are committed to environmental leadership and are supportive of initiatives to improve air quality. OPG will continue to meet all emission limits," said Osborne.

Following the public consultation process the government would be in a position to consider lifting the moratorium on the sale of coal-fired generating stations. On April 26, OPG announced it intends to decontrol two additional coal-fueled stations -- the 310 MW Thunder Bay and the 215 MW Atikokan stations in Northern Ontario, as well as four hydroelectric stations, representing close to 500 MW of capacity, along the Mississagi River.

On March 30, OPG announced a 0.7¢/kWh increase in wholesale electricity rates effective June 1, 2001. All revenues associated with the rate increase will be collected by OPG and remitted directly to the Ontario Electricity Financial Corporation (OEFC).

Ontario Power Generation is a major North American electricity generating company. OPG's principal business is the generation and sale of electricity to consumers in Ontario and into the interconnected markets. OPG's goal is to be a premier North American energy company, focused on low-cost power generation and wholesale energy sales, while operating in a safe, open and environmentally responsible manner.

Analysis of First Quarter 2001 Results

Highlights

(millions of dollars unless otherwise stated)

	Three Months Ended March 31	
	2001	2000
Revenues	<u>1,539</u>	<u>1,485</u>
Operating expenses	<u>1,282</u>	<u>1,117</u>
Operating income	257	368
Interest expense	34	40
Income taxes	<u>100</u>	<u>142</u>
Net income	<u><u>123</u></u>	<u><u>186</u></u>
Earnings per common share (\$ per common share)	<u><u>0.48</u></u>	<u><u>0.73</u></u>
Total electricity sales volume (TWh)		
Ontario electricity sales	36.4	35.2
Interconnected electricity sales	<u>0.7</u>	<u>0.6</u>
Total	<u><u>37.1</u></u>	<u><u>35.8</u></u>
Total energy available (TWh)		
Total production	35.8	35.3
Purchased power	1.5	0.4
Other	<u>(0.2)</u>	<u>0.1</u>
Total	<u><u>37.1</u></u>	<u><u>35.8</u></u>

* Represents deposits and withdrawals of electricity with neighbouring jurisdictions under energy banking arrangements

Net Income

Net Income for the three months ended March 31, 2001 was \$123 million compared with net income of \$186 million for the same period in 2000, a decrease of \$63 million. Major factors contributing to the lower earnings included an increase in operating expenses due to increased activity and expenditures related to the return to service of the Pickering A nuclear generating station, higher pension and other post employment benefit expenses, and an increase in both the volume and price of power purchases.

Revenues

Total revenues of \$1,539 million for the three months ended March 31, 2001 increased by \$54 million or 4 per cent compared to revenues of \$1,485 million for the same period in 2000. Total revenues consist of Ontario energy revenues, interconnected sales and other non-energy based revenues.

Ontario energy revenues were \$1,471 million for the first three months of 2001 compared with revenues of \$1,435 million for the same period in 2000, an increase of \$36 million or three per cent. This increase was primarily due to lower electricity generation from other Ontario generators, as well as the impact of colder winter weather in 2001. The volume of electricity sold in Ontario for the first three months of 2001 increased by 1.2 TWh to 36.4 TWh compared with sales of 35.2 TWh for the same period last year. On a weather-normalized basis, electricity sales were 36.9 TWh in 2001 compared to 36.2 TWh in 2000. The average revenue rate during the first quarter 2001 was 3.97¢/kWh compared to 4.00¢/kWh for the same period in 2000.

Revenues from interconnected markets during the first three months of 2001 were \$39 million compared with revenues of \$28 million in 2000, an increase of \$11 million or 39 per cent. The increase in revenues was due to higher spot market prices and an increase in sales volume to 0.7 TWh in 2001 from 0.6 TWh in 2000. The average price per kWh in the first quarter 2001 was 5.57¢ compared to 4.67¢ for the same period in 2000.

Non-energy revenues, which include engineering, technical services and isotope sales, were \$29 million during the first three months of 2001 compared with revenues of \$22 million for the same period in 2000.

Operating Expenses

Operation, maintenance and administration (OM&A) expenses were \$600 million for the three months ended March 31, 2001 compared with \$502 million for the same period in 2000, an increase of \$98 million. The increase in OM&A expenses was due to increased activity and expenditures related to the return to service of the Pickering A nuclear generating station (\$33 million), higher pension and other post employment benefit expenses (\$37 million) primarily due to changes in discount rates and other economic factors, and other inflationary increases. OPG is planning to return the four Pickering A units to service, subject to obtaining the required operating licences, beginning with the first unit in early 2002.

Fuel expense for the first quarter of 2001 was \$315 million compared to a fuel expense of \$302 million for the same period in 2000, an increase of \$13 million or four per cent. Higher fuel expense was primarily due to increased coal, oil and natural gas prices, as compared to the same period in 2000.

Production (TWh)	Three months ended March 31	
	2001	2000
Nuclear	17.3	15.6
Fossil	10.3	10.6
Hydroelectric	8.2	9.1
Total Production	35.8	35.3

Power purchased during the first three months of 2001 was \$102 million compared with \$23 million for the same period in 2000, an increase of \$79 million. The higher expenditure was due to an increase in the volume of purchases to 1.5 TWh during the first quarter of 2001 from 0.4 TWh during the same period in 2000 and higher prices. The requirement for additional purchases during the first quarter of 2001 was a result of the reduction in generation from other Ontario generators, a decrease in hydroelectric generation due to lower water levels, the availability of coal supply and the optimization of fossil generation in light of supply constraints and environmental guidelines. Coal supply was impacted by colder winter weather that resulted in higher than expected demand and constrained shipping capability in the Great Lakes.

Property and capital taxes during the first three months of 2001 were \$69 million compared with \$94 million for the same period in 2000, a decrease of \$25 million. The decrease was mainly due to lower property tax assessments for the current year and a recovery of property tax payments made in prior years.

Interest Expense

Net interest expense decreased by \$6 million or 15 per cent to \$34 million for the first three months of 2001 compared to net interest expense of \$40 million for the same period in 2000. This decrease was mainly due to higher interest income earned on cash and short-term investments.

Liquidity and Capital Resources

Cash flow from operating activities for the three months ended March 31, 2001 was \$83 million compared to \$738 million for the same period last year. The decrease was primarily due to a change in working capital requirements. Cash and cash equivalents decreased by \$33 million from \$565 million at December 31, 2000 to \$532 million at March 31, 2001. In addition, short term investments decreased from \$335 million at December 31, 2000 to \$110 million at March 31, 2001.

Capital expenditures for the three months ended March 31, 2001 were \$115 million compared to \$106 million for the same period in 2000. The Company continues to make capital expenditures to improve operating efficiencies and maintain and improve service, reliability, safety and environmental performance.

During the three months ended March 31, 2001, the fixed asset removal and nuclear waste management fund increased by a total of \$122 million compared with \$94 million for the same period in 2000. The balance in the fund at March 31, 2001 was \$903 million.

The Company repaid \$100 million of its long-term debt that matured in March 2001. During the first quarter of 2001, the Company also reduced its short-term notes issued from its commercial paper program by \$50 million. The outstanding short-term notes as at March 31, 2001 were \$100 million. The commercial paper program is supported by a \$600 million revolving short-term credit facility, which was re-negotiated in March 2001.

The Company paid dividends of \$86 million during the three months ended March 31, 2001 compared with \$79 million for the same period in 2000. First quarter dividends included an amount required to achieve a 35 per cent pay out of actual earnings for 2000.

New Developments

Wholesale Electricity Prices

In March, the Company announced that wholesale electricity rates would increase by 0.7¢/kWh effective June 1, 2001. This rate increase will be collected by the Company and remitted in its entirety to OEFC. As such, the Company's revenues will not reflect these amounts. This rate change will be effected by government regulation.

Environmental Regulations

In March, the Ontario Government announced its intention, following a public consultation process, to introduce a number of initiatives to improve Ontario's air quality. The initiatives include proposed new regulations that will require, by 2007, a reduction in nitrogen oxide emissions by over 50 per cent and a 25 per cent reduction in sulphur dioxide emissions. The proposed regulations also include the introduction of an emission reduction trading program and a directive that the Lakeview generating station cease burning coal by April 2005. Following the consultation period, the government would be in a position to lift the moratorium on the sale of coal-fired electricity stations that was announced in 2000.

Decontrol

OPG is mandated under a Market Power Mitigation framework to transfer effective control of 4,000 MW of price setting capacity within 42 months of open access. In addition to the Lakeview and Lennox fossil stations, on April 26, OPG announced that it also intends to decontrol two additional coal-fueled stations, the 310 MW Thunder Bay and the 215 MW Atikokan stations in Northern Ontario, as well as four hydroelectric stations - representing close to 500 MW of capacity - along the Mississagi River. These stations represent a total of 4,300 MW of capacity and their decontrol will satisfy, well in advance, the Company's mandated requirement.

The Company is continuing with its plans to finalize the long-term lease arrangement of its Bruce A and Bruce B nuclear generating stations to Bruce Power L.P. (Bruce Power). CNSC hearings were held in February and April 2001. Subject to Bruce Power obtaining the necessary regulatory licences, the transaction is expected to close in the second quarter of 2001.

Pickering A Return to Service

In February, the CNSC accepted the conclusions and recommendations of the Environmental Assessment for the return to service of the Pickering A nuclear generating station. The Company continues with its plans to return the four units at Pickering A back to service beginning in early 2002. As part of the licencing process, the Company will be required to address a licencing hearing with the CNSC, commencing on June 28, 2001.

Market Readiness

The Company continues to prepare its systems, processes and organization for the deregulation of the wholesale and retail electricity market. This involves consultation with the Independent Electricity Market Operator (IEMO) and the Province of Ontario, to ensure a smooth and successful transition. Structured market tests are underway to provide assurance that systems and processes will be ready for the new energy marketplace. Ontario's Premier and the Minister of Energy, Science and Technology indicated that the government plans to introduce competition to the Ontario electricity market by May 2002.

Investments and Partnerships

In March, the Company formed a new subsidiary called OPG Ventures Inc. with the purpose of investing up to \$100 million over the next three years in emerging and energy related technology companies. This initiative will provide the Company with both financial returns and an increase in its investments in energy research and development opportunities.

In addition, the Company entered into a renewable energy joint venture, known as Huron Wind, with British Energy (Canada) Limited. Huron Wind will develop a wind energy farm that will provide up to 10 MW on 100 acres of land located close to the Bruce nuclear generating stations near Kincardine. The Company and its partner will invest a total of \$15 million into the venture, with plans to have the site in service early in 2002 subject to regulatory approvals. This investment is consistent with the Company's goal of expanding its electricity generation through 'green energy' sources.

In February, the Company finalized its ten-year agreement with Business Transformation Services Inc., a wholly owned subsidiary of Cap Gemini Ernst & Young, to form New Horizon System Solutions (New Horizon) joint venture. Approximately 600 employees have transferred to New Horizon, which has also acquired OPG's processing and system services. OPG expects to achieve efficiencies and advanced technical services from this arrangement. The venture also provides future growth opportunities for information technology staff to work in a state-of-the-art company offering technical services to organizations in the energy sector.

Forward-looking Statements

Certain statements contained in this press release are forward-looking and reflect the Company's views with respect to future events. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Forward-looking statements are not guarantees of the Company's future performance or results and are subject to various factors, including, but not limited to, assumptions regarding the nuclear recovery plan, nuclear waste management and decommissioning, fuel procurement, fuel costs, Ontario electricity industry restructuring, market power mitigation, environmental regulations, spot market electricity prices, and effects of weather. Although the Company believes that assumptions inherent in forward-looking statements are reasonable, undue reliance should not be placed on these statements, which apply only as of their dates. The Company is not obligated to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(millions of dollars except where noted)

	Three Months Ended March 31	
	2001	2000
Revenues	<u>1,539</u>	<u>1,485</u>
Operating expenses		
Operation, maintenance and administration	600	502
Fuel	315	302
Power purchased	102	23
Depreciation and amortization	196	196
Property and capital taxes	69	94
	<u>1,282</u>	<u>1,117</u>
Operating income	257	368
Interest expense	<u>34</u>	<u>40</u>
Income before income taxes	223	328
Income taxes (note 2)		
Current	34	73
Future	66	69
	<u>100</u>	<u>142</u>
Net income	<u>123</u>	<u>186</u>
Earnings per common share	<u>0.48</u>	<u>0.73</u>
Common shares outstanding (millions)	<u>256.3</u>	<u>256.3</u>

Consolidated Statement of Retained Earnings (unaudited)

(millions of dollars)

	Three Months Ended March 31	
	2001	2000
Retained earnings , beginning of period	<u>691</u>	<u>291</u>
Net income	123	186
Dividends	<u>(86)</u>	<u>(79)</u>
Retained earnings , end of period	<u>728</u>	<u>398</u>

see accompanying notes to financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(millions of dollars)

	Three Months Ended March 31	
	2001	2000
Operating activities		
Net income	123	186
Adjust for non-cash items:		
Depreciation and amortization	196	196
Deferred pension asset	(3)	(31)
Other post employment benefits	23	17
Future income taxes	66	69
Other	22	(6)
	<u>427</u>	<u>431</u>
Fixed asset removal and nuclear waste management fund	(122)	(94)
Expenditures on nuclear waste management provisions	(10)	(7)
Changes to other long-term assets and liabilities	(36)	(12)
Non-cash working capital changes:		
Accounts receivable	119	133
Fuel	41	64
Materials and supplies	(4)	(2)
Accounts payable and accrued charges	(332)	225
	<u>83</u>	<u>738</u>
Cash flow from operating activities		
Investing activities		
Proceeds on sale of fixed assets	10	-
Net Proceeds from short-term investments	225	-
Expenditures for fixed assets	(115)	(106)
	<u>203</u>	<u>632</u>
Cash flow before financing activities		
Financing activities		
Repayment of Long-term debt to OEFC	(100)	-
Dividends on common shares	(86)	(79)
Repayment of short-term notes	(50)	-
	<u>(33)</u>	<u>553</u>
(Decrease)Increase in cash and cash equivalents during period	(33)	553
Cash and cash equivalents, beginning of period	565	243
	<u>532</u>	<u>796</u>
Cash and cash equivalents, end of period	532	796

see accompanying notes to financial statements

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(millions of dollars)

	<u>March 31 2001</u>	<u>December 31 2000</u>
ASSETS		
Current assets		
Cash and cash equivalents	532	565
Short-term investments	110	335
Accounts receivable	849	968
Fuel	247	288
Materials and supplies	233	229
	<u>1,971</u>	<u>2,385</u>
Fixed assets		
Property, plant and equipment	13,973	13,842
Less: accumulated depreciation	1,076	910
	<u>12,897</u>	<u>12,932</u>
Other assets		
Deferred pension asset	644	641
Fixed asset removal and nuclear waste management fund	903	781
Long-term accounts receivable and other assets	68	52
	<u>1,615</u>	<u>1,474</u>
	<u>16,483</u>	<u>16,791</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued charges	1,074	1,406
Short-term notes payable	100	150
Long-term debt due within one year	204	204
	<u>1,378</u>	<u>1,760</u>
Long-term debt	<u>3,118</u>	<u>3,219</u>
Other liabilities		
Fixed asset removal and nuclear waste management	4,550	4,482
Other post employment benefits	1,020	997
Long-term accounts payable and accrued charges	279	298
Future income taxes liability (note 2)	284	218
	<u>6,133</u>	<u>5,995</u>
Shareholder's equity		
Common shares	5,126	5,126
Retained earnings	728	691
	<u>5,854</u>	<u>5,817</u>
	<u>16,483</u>	<u>16,791</u>

see accompanying notes to financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2001 (UNAUDITED)

1. Basis of Preparation

The Company's unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies and methods of computation as were used for the consolidated financial statements for the year ended December 31, 2000. These statements should be read in conjunction with the Company's December 31, 2000 audited consolidated financial statements.

2. Payment in Lieu of Taxes

The Company is responsible under the *Electricity Act, 1998* for making payments in lieu of taxes to Ontario Electricity Financial Corporation. These payments are calculated in accordance with the *Income Tax Act (Canada)* and the *Corporations Tax Act (Ontario)*, and are modified by regulations made under the *Electricity Act, 1998*.

The Company is also required to make payments in lieu of property and school taxes on its generating assets. The amount is equal to the difference between the amount it would be required to pay if the assets were privately owned and the amount of such taxes that the Company actually pays on those assets.

3. Seasonal Operations

The Company's quarterly results are impacted by changes in demand resulting from variations in seasonal weather conditions. Historically, the Company's revenues are higher in the first and third quarters of a fiscal year as a result of winter heating demands in the first quarter and air conditioning/cooling demands in the third quarter.

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