

August 28, 2001

ONTARIO POWER GENERATION REPORTS 2001 SECOND QUARTER EARNINGS

(Toronto) – Ontario Power Generation Inc. (OPG) today reported its financial and operating results for the second quarter and first six months ended June 30, 2001. Earnings for the three months ended June 30, 2001 were \$42 million or \$0.16 per share, as compared with second quarter earnings in 2000 of \$159 million or \$0.62 per share. For the six months ended June 30, 2001, earnings were \$165 million or \$0.64 per share compared to earnings of \$345 million or \$1.35 per share for the same period last year.

“Ontario Power Generation’s second quarter earnings primarily reflect increased activities and expenditures related to the return to service of the Pickering A nuclear generating station, higher pension and other benefit expenses primarily due to capital market conditions, higher coal, natural gas and oil prices and reduced earnings resulting from the decontrol of the Bruce nuclear generating stations,” said OPG President and CEO, Ron Osborne.

“Results for the third and fourth quarter of 2001 are forecast to be lower than that of 2000 as a result of: expenditures related to the return to service of the Pickering A nuclear generating station; the structure of lease payments in the first year of the lease transaction associated with the Bruce nuclear generating stations; higher cost resources employed to meet record peak demand as part of OPG’s obligation to supply, where, under the current fixed price regime, OPG is not able to fully recover these costs; and the continuing impact of higher pension costs,” said Osborne.

Subject to regulatory approval and completion of necessary refurbishment, OPG estimates restarting the first unit of the four-unit Pickering A nuclear generating station near the end of the first quarter of 2002, with the remaining three units forecast to return to service at six to nine month intervals thereafter. The Canadian Nuclear Safety Commission is expected to render its operating licence decision on the restart of the Pickering A nuclear generating station in the fourth quarter of 2001. The four Pickering A units represent 2,060 MW of low-cost, virtually emission-free capacity.

On May 11, 2001, OPG and Bruce Power L.P. (Bruce Power) closed the transaction for the lease of the Bruce A and Bruce B nuclear power stations by Bruce Power. The lease extends to 2018, with an option to extend it for up to an additional 25 years. The estimated fixed and variable lease payments over the life of the lease are in excess of \$3 billion. "The completion of this significant transaction allows OPG to meet a portion of its mandated decontrol requirements, focus on other decontrol initiatives and concentrate on accelerating the performance improvements at the Darlington and Pickering nuclear stations," said Osborne.

OPG implemented an increase in wholesale electricity rates of 0.7¢ /kWh effective June 1, 2001. All revenues associated with the rate increase are collected by OPG and remitted directly to the Ontario Electricity Financial Corporation to pay down its debts and other liabilities. As such, OPG's revenues do not reflect these amounts.

The Ontario electricity market is planned to open to competition by May 2002. As a condition of its Ontario Energy Board issued generation licence, OPG is required to decontrol 4,000 MW of price-setting capacity within 42 months of market opening. OPG initiated, in May 2001, the process to decontrol the 1,140 MW Lakeview and 2,140 MW Lennox fossil generating stations by seeking expressions of interest in operating or acquiring these stations. In July 2001, OPG announced its intention to also decontrol the 310 MW Thunder Bay and the 215 MW Atikokan fossil stations in Northern Ontario, as well as four hydroelectric stations, representing close to 500 MW of capacity, located along the Mississagi River. Both transaction processes are expected to be completed within the next six to nine months, subject to finalization of the related environmental emission regulations and the lifting of the moratorium on the sale of coal plants by the Provincial Government.

Ontario Power Generation is an Ontario based company, whose principal business is the generation and sale of electricity to customers in Ontario and to interconnected markets. OPG's goal is to be a premier North American energy company, while operating in a safe, open and environmentally responsible manner. Our focus is on producing reliable electricity from our competitive generation assets; power trading; and commercial energy sales activities.

Analysis of Second Quarter 2001 Results

Highlights

(millions of dollars unless otherwise stated)

	Three Months Ended June 30		Six Months Ended June 30	
	2001	2000	2001	2000
Revenues	<u>1,507</u>	1,399	<u>3,046</u>	2,884
Operating expenses	<u>1,354</u>	1,092	<u>2,636</u>	2,209
Operating income	153	307	410	675
Interest expense	37	33	71	73
Income taxes	<u>74</u>	115	<u>174</u>	257
Net income	<u>42</u>	159	<u>165</u>	345
Earnings per common share (\$ per common share)	<u>0.16</u>	0.62	<u>0.64</u>	1.35
Total electricity sales volume (TWh)				
Ontario electricity sales	32.4	31.7	68.8	66.9
Interconnected electricity sales	<u>1.3</u>	1.0	<u>2.0</u>	1.6
Total	<u>33.7</u>	32.7	<u>70.8</u>	68.5
Total energy available (TWh)				
Total production	30.0	32.5	65.8	67.8
Purchased power	4.3	0.4	5.8	0.8
Other*	<u>(0.6)</u>	(0.2)	<u>(0.8)</u>	(0.1)
Total	<u>33.7</u>	32.7	<u>70.8</u>	68.5

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

Net Income

Net income for the three months ended June 30, 2001 was \$42 million compared with net income of \$159 million for the same period in 2000, a decrease of \$117 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 benefit expenses primarily due to capital market conditions, higher coal, natural gas and oil commodity prices and reduced earnings resulting from the decontrol of the Bruce nuclear generating stations.

Net income for the six months ended June 30, 2001 was \$165 million compared with net income of \$345 million for the same period last year, a decrease of \$180 million. In addition to the factors that contributed to lower earnings in the second quarter of 2001, an increase in both the volume and price of power purchased in the interconnected markets also contributed to the decrease in earnings for the six-month period in 2001 compared to the same period in 2000.

Results for the third and fourth quarter of 2001 are forecast to be lower than that of 2000 as a result of: expenditures related to the return to service of the Pickering A nuclear generating station; the structure of lease payments in the first year of the lease transaction associated with the Bruce nuclear generating stations; higher cost resources employed to meet record peak demand; and the continuing impact of higher pension costs.

Revenues

Total revenues of \$1,507 million for the three months ended June 30, 2001 increased by \$108 million or eight per cent compared to revenues of \$1,399 million for the same period in 2000. Total revenues of \$3,046 million for the six months ended June 30, 2001 increased by \$162 million or six per cent compared to revenues of \$2,884 million for the same period last year. Total revenues consist of Ontario energy revenues, interconnected sales and other non-energy based revenues.

Ontario energy revenues were \$1,377 million for the second quarter of 2001 compared with revenues of \$1,310 million for the same period in 2000, an increase of \$67 million or five per cent. The increase in Ontario energy revenues was mainly due to lower electricity generation from other Ontario generators and higher demand from municipal utility customers. The volume of electricity sold in Ontario increased by 0.7 TWh to 32.4 TWh for the second quarter of 2001 compared with the same period last year.

Ontario energy revenues were \$2,848 million for the first six months of 2001 compared with revenues of \$2,745 million for the same period in 2000, an increase of \$103 million or four per cent. This increase was primarily due to lower electricity generation from other Ontario generators and higher demand from municipal utility customers during the second quarter. The volume of electricity sold in Ontario for the first six months of 2001 increased by 1.9 TWh to 68.8 TWh compared with sales of 66.9 TWh for the same period last year.

Revenues from interconnected markets during the second quarter of 2001 were \$81 million compared with revenues of \$61 million in 2000, an increase of \$20 million or 33 per cent. The higher revenues were primarily due to an increase in sales volume to 1.3 TWh for the second quarter of 2001 compared to 1.0 TWh for the same period in 2000. Revenues from interconnected markets during the first six months of 2001 were \$120 million compared with revenues of \$89 million in 2000, an increase of \$31 million or 35 per cent. The increase in revenues was mainly due to an increase in sales volume to 2.0 TWh in 2001 from 1.6 TWh in 2000 and higher spot market prices.

Non-energy revenues include engineering, technical services, isotope sales, lease revenue, ancillary service revenue and interest income related to the Bruce Power lease agreement. Non-energy revenues were \$49 million for the second quarter of 2001 compared with \$28 million in 2000. For the six months ended June 30, 2001, non-energy revenues were \$78 million compared with revenues of \$50 million for the same period in 2000. The increase in non-energy revenues was mainly due to the lease and ancillary revenue earned under the agreements with Bruce Power.

Operating Expenses

Operating, maintenance and administration (OM&A) expenses were \$607 million for the second quarter of 2001 compared with \$523 million for the same period in 2000, an increase of \$84 million. The increase in OM&A expenses was primarily due to increased activity and expenditures related to the return to service of the Pickering A nuclear generating station (\$49 million), higher pension and other benefit expenses primarily due to capital market conditions, in particular declining interest rates (\$36 million), and inflationary increases. The impact of these factors was partially offset by a reduction in operating costs resulting from the lease of the Bruce nuclear generating stations to Bruce Power.

OM&A expenses were \$1,207 million for the six months ended June 30, 2001 compared with \$1,025 million for the same period in 2000, an increase of \$182 million. The most significant factors contributing to the increase in OM&A expenses for the six-month period included higher expenditures related to the return to service of the Pickering A nuclear generating station (\$82 million), an increase in pension and other benefit expenses primarily due to capital market conditions as noted above (\$73 million), and inflationary increases.

Fuel expense for the second quarter of 2001 was \$300 million compared to a fuel expense of \$263 million for the same period in 2000, an increase of \$37 million or 14 per cent. Fuel expense for the first six months of 2001 was \$615 million compared to \$565 million for the same period in 2000, an increase of \$50 million or nine per cent. The increase in fuel expense for the second quarter and for the first six months of 2001 compared to the same periods last year was due primarily to higher coal, natural gas, and oil prices.

Production and Power Purchased (TWh)	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Nuclear	11.3	14.0	28.6	29.6
Fossil	9.7	9.2	20.0	19.8
Hydroelectric	9.0	9.3	17.2	18.4
Total Production	30.0	32.5	65.8	67.8
Total Power Purchased	4.3	0.4	5.8	0.8

Power purchased during the second quarter of 2001 was \$173 million compared with \$21 million for the same period in 2000, an increase of \$152 million. The increase in power purchases was primarily due to the agreement, in conjunction with the terms of the lease transaction with Bruce Power, to purchase all of Bruce Power's electricity generation up to the date of market opening.

Power purchased during the first six months of 2001 was \$275 million compared with \$44 million for the same period in 2000 based on purchases of 5.8 TWh in 2001 and 0.8 TWh in 2000. For the six-month period, the major factors that contributed to the increase in power purchased compared to last year included the agreement to purchase electricity from Bruce Power, the reduction in generation from other Ontario generators, a decrease in hydroelectric generation due to lower water levels, availability of coal supply and the optimization of fossil generation in light of supply constraints and environmental guidelines.

Property and capital taxes for the second quarter of 2001 were \$66 million compared with \$94 million for the same period in 2000, a decrease of \$28 million. Property and capital taxes during the first six months of 2001 were \$135 million compared with \$188 million for the same period last year, a decrease of \$53 million. The decrease for both the three-month and six-month periods was mainly due to the tax reform for property tax on hydroelectric facilities introduced by the Province of Ontario. This reform involves the implementation of a charge based on gross revenue. The gross revenue charge, unlike the former property tax regime, is dependent on both energy prices and production.

Income Tax Expense

For the six-month period ended June 30, 2001, the effective income tax rate increased to 51.3 per cent in 2001 from 42.7 per cent in 2000. The increase in the effective income tax rate was primarily due to changes in temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. These temporary differences gave rise to an increase in current income tax payable at a rate of 42 per cent, with a corresponding reduction to the future income tax liability at a rate of only 30 per cent, being the future income tax rate announced under the Federal and Provincial Budgets. These same factors contributed to the increase in the effective income tax rate for the second quarter of 2001 compared to the same period last year.

Liquidity and Capital Resources

Cash flow from operating activities for the second quarter was \$118 million compared to \$68 million for the same period in 2000. The increase was mainly due to a change in working capital requirements, partially offset by lower earnings and a decrease in future income tax liabilities. Cash flow from operating activities for the six months ended June 30, 2001 was \$201 million compared to \$806 million for the same period last year. The decrease was primarily due to lower earnings, a decrease in future income tax liabilities and changes in working capital requirements. Cash and cash equivalents increased by \$288 million from \$565 million at December 31, 2000 to \$853 million at June 30, 2001. Short-term investments decreased by \$226 million from \$335 million at December 31, 2000 to \$109 million at June 30, 2001.

Capital expenditures for the second quarter were \$154 million compared to \$128 million for the same period in 2000. For the six-month period ended June 30, 2001, capital expenditures were \$269 million compared to \$234 million for the same period last year. The increase in capital expenditures was primarily due to higher activity related to the return to service of the Pickering A nuclear generating station and the purchase of emission control equipment for the fossil generating stations. The Company continues to make capital expenditures to improve operating efficiencies and maintain and improve service, reliability, safety and environmental performance.

During the six months ended June 30, 2001, the fixed asset removal and nuclear waste management fund increased by a total of \$217 million compared with \$190 million for the same period in 2000. The balance in the fund at June 30, 2001 was \$998 million.

During the first quarter of 2001, the Company reduced its short-term notes issued from its commercial paper program by \$50 million. The outstanding short-term notes as at June 30, 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. During the first quarter, the Company also repaid \$100 million of its long-term debt that matured in March 2001.

The Company paid dividends of \$100 million during the six months ended June 30, 2001 compared with \$121 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.

Pickering A Return to Service

OPG estimates restarting the first unit of the Pickering A nuclear generating station near the end of the first quarter of 2002, with the remaining three units forecast to return to service at six to nine month intervals thereafter. The estimated cost of the project, the majority of which is being expensed, is approximately \$1.5 billion. This represents an increase of approximately \$400 million from OPG's previous estimate due to scope changes as a result of discovery of new work requirements related to plant condition, costs incurred to ensure environmental compliance and a delay in the project schedule. Pickering A represents a profitable undertaking for OPG and will make a significant contribution towards improving environmental performance within the Ontario electricity sector.

Bruce Decontrol

In May 2001, the Canadian Nuclear Safety Commission approved the issuance of licences to Bruce Power for the Bruce A and Bruce B nuclear generating stations. Subsequently, on May 11, 2001, the Company completed the close of the agreement to lease its Bruce A and Bruce B nuclear generating stations to Bruce Power. Through the lease agreement, the Company has transferred control of the generating capacity of the Bruce nuclear generating stations to Bruce Power. This transfer represents a portion of its mandated decontrol requirements under its generation licence.

Upon closing, the Company received as part of an initial payment, \$370 million in cash proceeds after accounting for closing adjustments related to the timing of the transaction. The Company will also receive, as part of the initial payment, \$225 million payable in two installments of \$112.5 million no later than four and six years from the date the transaction was completed. Interest is currently charged on the amount receivable at a rate of 10.5 per cent, escalating over time to 18 per cent annually.

Under the terms of the lease, the Company transferred to Bruce Power certain fuel and material inventory, in addition to certain fixed assets. The total book value of the assets transferred was \$185 million. The Company will also transfer pension assets and liabilities related to approximately 3,000 employees who transferred from the Company to Bruce Power.

As part of the lease agreement, the Company will receive annual lease payments. The lease payments include monthly fixed payments and periodic variable payments. The variable payments include a net revenue-sharing arrangement commencing in January 2002 and supplementary payments for the management of used fuel. In total, fixed and variable payments are estimated to be approximately \$68 million in 2001 and \$150 million in 2002.

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.