

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Ontario Power Generation Inc.'s ("OPG") management is responsible for 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 and Chief Financial Officer, evaluated the effectiveness of OPG's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators) as of December 31, 2007. Management concluded that, as of December 31, 2007, OPG's disclosure controls and procedures were effective to provide reasonable assurance that material information relating to OPG and its consolidated subsidiaries and interests in jointly controlled entities would be made known to them by others within those entities, particularly during the period in which this report was being prepared.

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Accordingly, we, as OPG's Chief Executive Officer and Chief Financial Officer, 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 the design of internal control over financial reporting.

The Board of Directors, based on recommendations from its Audit/Risk 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 Risk Committee, had direct and full access to the Audit and Risk 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.

Jim Hankinson (signed)
President and Chief Executive Officer

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

February 27, 2008

AUDITORS' REPORT

To the Shareholder of Ontario Power Generation Inc.

We have audited the consolidated balance sheets of Ontario Power Generation Inc. as at December 31, 2007 and 2006 and the consolidated statements of income, changes in shareholder's equity, comprehensive income and cash flows for the years then ended. These consolidated financial statements are the responsibility of Ontario Power Generation Inc.'s management. 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 plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Ontario Power Generation Inc. as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

ERNST & YOUNG LLP (signed)
Chartered Accountants, Licensed Public Accountants
Toronto, Canada
February 27, 2008

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31

(millions of dollars except where noted)

	<u>2007</u>	<u>2006</u>
Revenue (Note 19)		
Revenue before revenue limit rebate	5,887	5,725
Revenue limit rebate (Note 16)	(227)	(161)
	<u>5,660</u>	<u>5,564</u>
Fuel expense	1,270	1,098
Gross margin	<u>4,390</u>	<u>4,466</u>
Expenses (Note 19)		
Operations, maintenance and administration	2,974	2,752
Depreciation and amortization (Note 5)	695	689
Accretion on fixed asset removal and nuclear waste management liabilities (Note 10)	507	499
Earnings on nuclear fixed asset removal and nuclear waste management funds (Note 10)	(481)	(371)
Property and capital taxes	85	106
	<u>610</u>	<u>791</u>
Income before the following:		
Other (gains) and losses (Note 17)	(10)	22
Income before interest and income taxes	<u>620</u>	<u>769</u>
Net interest expense	143	193
Income before income taxes	<u>477</u>	<u>576</u>
Income tax (recovery) expense (Note 11)		
Current	1	60
Future	(52)	26
	<u>(51)</u>	<u>86</u>
Net income	<u>528</u>	<u>490</u>
Basic and diluted income per common share (dollars)	<u>2.06</u>	<u>1.91</u>
Common shares outstanding (millions)	<u>256.3</u>	<u>256.3</u>

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31

(millions of dollars)

Operating activities

	2007	2006
Net income	528	490
Adjust for non-cash items:		
Depreciation and amortization (Note 5)	695	689
Accretion on fixed asset removal and nuclear waste management liabilities (Note 10)	507	499
Earnings on nuclear fixed asset removal and nuclear waste management funds (Note 10)	(481)	(371)
Pension cost (Note 12)	243	218
Other post employment benefits and supplementary pension plans (Note 12)	244	255
Future income taxes (Note 11)	(52)	26
Transition rate option contracts	-	(12)
Mark-to-market on derivative instruments	1	(29)
Provision for used nuclear fuel	30	33
Regulatory assets and liabilities (Note 7)	(11)	2
Other (gains) and losses (Note 17)	(10)	22
Provision for other liabilities	54	22
Other	25	(11)
	1,773	1,833
Contributions to nuclear fixed asset removal and nuclear waste management funds (Note 10)	(788)	(454)
Expenditures on fixed asset removal and nuclear waste management (Note 10)	(200)	(164)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management (Note 10)	119	19
Contributions to pension fund (Note 12)	(268)	(261)
Expenditures on other post employment benefits and supplementary pension plans (Note 12)	(73)	(69)
Revenue limit rebate (Note 16)	(167)	(860)
Expenditures on restructuring	(2)	(8)
Net changes to other long-term assets and liabilities	(56)	(116)
Changes in non-cash working capital balances (Note 23)	69	477
Cash flow provided by operating activities	407	397
Investing activities		
Increase in regulatory assets (Note 7)	(58)	(13)
Investment in fixed assets (Notes 5 and 18)	(666)	(637)
Cash and cash equivalents transferred to long-term investments (Note 6)	(58)	-
Cash flow used in investing activities	(782)	(650)
Financing activities		
Issuance of long-term debt (Note 9)	900	270
Repayment of long-term debt (Note 9)	(406)	(806)
Dividend paid	-	(128)
Net (decrease) increase in short-term notes (Note 8)	(15)	15
Cash flow provided by (used in) financing activities	479	(649)
Net increase (decrease) in cash and cash equivalents	104	(902)
Cash and cash equivalents, beginning of year	6	908
Cash and cash equivalents, end of year	110	6

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31
(millions of dollars)

	2007	2006
Assets		
Current assets		
Cash and cash equivalents	110	6
Accounts receivable (Notes 4 and 19)	315	230
Fuel inventory (Note 18)	604	669
Prepaid expenses	35	26
Future income taxes (Note 11)	12	-
Materials and supplies (Note 18)	125	112
	1,201	1,043
Fixed assets (Notes 5 and 18)		
Property, plant and equipment	17,772	17,136
Less: accumulated depreciation	4,995	4,375
	12,777	12,761
Other long-term assets		
Deferred pension asset (Note 12)	731	706
Nuclear fixed asset removal and nuclear waste management funds (Note 10)	9,263	7,594
Long-term investments (Notes 6 and 21)	93	32
Long-term materials and supplies (Note 18)	353	326
Regulatory assets (Note 7)	356	251
Long-term accounts receivable and other assets	65	37
	10,861	8,946
	24,839	22,750

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31
(millions of dollars)

	<u>2007</u>	<u>2006</u>
Liabilities		
Current liabilities		
Accounts payable and accrued charges (Notes 12 and 19)	953	989
Revenue limit rebate payable (Note 16)	100	40
Short-term notes payable (Note 8)	-	15
Long-term debt due within one year (Note 9)	407	406
Future income taxes (Note 11)	-	3
Deferred revenue due within one year	12	12
Income and capital taxes payable (Note 11)	66	128
	<u>1,538</u>	<u>1,593</u>
Long-term debt (Note 9)	<u>3,446</u>	<u>2,953</u>
Other long-term liabilities		
Fixed asset removal and nuclear waste management (Note 10)	10,957	10,520
Other post employment benefits and supplementary pension plans (Note 12)	1,556	1,396
Long-term accounts payable and accrued charges	184	150
Deferred revenue	120	132
Future income taxes (Note 11)	217	246
Regulatory liabilities (Note 7)	14	11
	<u>13,048</u>	<u>12,455</u>
Shareholder's equity		
Common shares (Note 14)	5,126	5,126
Retained earnings	1,664	623
Accumulated other comprehensive income	17	-
	<u>6,807</u>	<u>5,749</u>
	<u>24,839</u>	<u>22,750</u>

Commitments and Contingencies (Notes 2, 8, 9, 10, 11, 13, 15, and 18)

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)

	<u>2007</u>	<u>2006</u>
Common shares (Note 14)	<u>5,126</u>	5,126
Retained earnings		
Balance at beginning of year	623	261
Transition adjustment on adoption of financial instruments accounting standards (Note 3)	513	-
Net income	528	490
Dividends	-	(128)
Balance at end of year	<u>1,664</u>	<u>623</u>
Accumulated other comprehensive income, net of income taxes		
Balance at beginning of year	-	
Transition adjustment on adoption of financial instruments accounting standards (Note 3)	21	
Other comprehensive income for the year	<u>(4)</u>	
Balance at end of year	<u>17</u>	
Total shareholder's equity at end of year	<u>6,807</u>	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31, 2007

(millions of dollars)

Net income	528
Other comprehensive loss, net of income tax	
Net gain on derivatives designated as cash flow hedges ¹	11
Reclassification to income of gains on derivatives designated as cash flow hedges ²	(15)
Other comprehensive loss for the year	<u>(4)</u>
Comprehensive income	<u>524</u>

¹ Net of income tax of \$1 million for the year ended December 31, 2007.

² Net of income tax benefit of \$9 million for the year ended December 31, 2007.

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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). As part of the reorganization of Ontario Hydro, under the *Electricity Act, 1998* and the related restructuring of the electricity industry in Ontario, Ontario Power Generation Inc. and its subsidiaries (collectively "OPG" or the "Company") purchased and assumed certain assets, liabilities, employees, rights and obligations of the electricity generation business of Ontario Hydro on April 1, 1999 and commenced operations on that date. Ontario Hydro has continued as Ontario Electricity Financial Corporation ("OEFC"), responsible for managing and retiring Ontario Hydro's outstanding debt and other obligations.

2. BASIS OF PRESENTATION

These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues 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. All significant intercompany transactions have been eliminated on consolidation.

Certain of the 2006 comparative amounts have been reclassified from financial statements previously presented to conform to the 2007 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 or market.

Interest earned on cash and cash equivalents and short-term investments of \$5 million (2006 – \$21 million) at an average effective rate of 4.4 per cent (2006 – 4.0 per cent) 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 weighted average cost.

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 Assets and Depreciation

Property, plant and equipment are recorded at cost. Interest costs incurred during construction 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 depreciated on a declining balance basis as noted below:

Nuclear generating stations and major components	15 to 49 years ¹
Fossil generating stations and major components	25 to 40 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 The end of station life for depreciation purposes for the Darlington, Pickering A, Pickering B, and Bruce B nuclear generating stations ranges between 2012 and 2021. 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. Bruce Power decided to refurbish the Bruce A generating station contributing to an increase in the asset retirement obligation at December 31, 2006 and an increase in the carrying value of the Bruce A station. For the year ended December 31, 2007, the depreciation of the Bruce A station was calculated based on the end-of-life date of 2030.

² Commencing July 1, 2006, the end of station life for depreciation purposes for the coal-fired generating stations was changed to 2012, due to the expected shutdown of these stations by the end of 2012.

³ The end of station life for depreciation purposes disclosed above excludes the impact of life extensions commencing January 1, 2008, which are described under the heading, *Changes in Accounting Policies and Estimates*.

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

In December 2004, the *Electricity Restructuring Act, 2004* (Ontario) received Royal Assent. A regulation made pursuant to that statute by the Province of Ontario (the "Province") in February 2005 provides that OPG receives regulated prices beginning April 1, 2005 for electricity generated from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that it operates. This includes electricity generated from Sir Adam Beck 1, 2 and Pump generating stations, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering A and B, and Darlington nuclear facilities. The regulation was amended in February 2007. The amendment clarified certain aspects of the regulation and directed OPG to establish a deferral account related to certain changes in its liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management.

The amendment issued in February 2007 also clarified that the OEB must ensure that OPG recovers, through future regulated prices, all capital and non-capital costs incurred in order to increase the output of, refurbish or add operating capacity to a regulated facility. The amendment requires these costs be within budgets approved by OPG's Board of Directors prior to the OEB's first order establishing regulated prices or that the OEB is satisfied that these costs were prudently incurred.

In February 2008, a second amendment to the regulation was made by the Province. This amendment directs OPG to establish a deferral account to record, for the period up to the effective date of the OEB's first order, the costs incurred and firm financial commitments made on or after June 13, 2006, in the course of planning and preparation for the development of proposed new nuclear generation facilities. This amendment further directs OPG to establish a variance account to record, for the period on or after the effective date of the OEB's first order, the differences between actual non-capital costs incurred and firm financial commitments made, and the amounts included in the approved regulated price related to planning and preparation for the development of proposed new nuclear generation facilities. In addition, the amendment states that the OEB must ensure that OPG recovers these costs to the extent the OEB is satisfied that the costs were prudently incurred or commitments prudently made.

OPG's regulated prices were established by the Province based on a forecast of production volumes and total operating costs, and a return on rate base, which assumed an average five per cent rate of return on equity. 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 initial prices took effect April 1, 2005, and are expected to remain in effect until at least March 31, 2008, at which time the Ontario Energy Board (the "OEB") will assume responsibility for establishing new regulated prices.

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. It regulates all 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.

Accounting standards recognize that rate regulation can create economic benefits and obligations, which are reported in the consolidated financial statements as regulatory assets and liabilities. When the regulation provides assurance that incurred expenses will be recovered in the future, then OPG may defer those expenses and report them as a regulatory asset. If current recovery is provided for expenses expected to be incurred in the future, then OPG reports a regulatory liability. Also, if the regulation provides for lesser or greater than planned revenue to be received or returned by OPG through future regulated prices, then OPG recognizes a regulatory asset or liability, respectively. The measurement of such regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the regulation. See Notes 7 and 11 to the audited consolidated financial statements for additional disclosure related to 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 based on readily available market information or using estimation techniques based on historical performance.

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 waste are charged to depreciation and amortization expense. Expenses relating to the disposal 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 expense.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Pursuant to the Ontario Nuclear Funds Agreement (“ONFA”) between OPG and the Province of Ontario, 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 disposal 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 Nuclear Funds are invested in fixed income and equity securities. Prior to 2007, OPG recorded the investments in the Nuclear Funds as long-term investments and accounted for the investments at their amortized cost value. Therefore, gains and losses were recognized only upon the sale of an underlying security. As such, there may have been unrealized gains and losses associated with the investments in the Nuclear Funds, which OPG had not recognized in its consolidated financial statements.

Effective January 1, 2007, OPG adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3855, Financial Instruments – Recognition and Measurement. As a result of the adoption of this new section, 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. More details on the impact of the new accounting standards are provided in the Accounting Changes section.

Revenue Recognition

All of OPG’s electricity generation is sold into the real-time energy spot market administered by the Independent Electricity System Operator (“IESO”). Prior to April 1, 2005, revenue was recorded as electricity was generated and metered based on the spot market sales price, net of the Market Power Mitigation Agreement rebate and hedging activities. At each balance sheet date, OPG computed the average spot energy price that prevailed since the beginning of the current settlement period and recognized a Market Power Mitigation Agreement rebate if the average price exceeded 3.8¢/kilowatt hour (“kWh”), based on the amount of energy subject to the rebate.

Effective April 1, 2005, the generation from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that OPG operates became rate regulated. As a result, energy revenue generated from the nuclear facilities is recognized based on a regulated price of 4.95¢/kWh. The regulated price received by OPG for the first 1,900 megawatt hours ("MWh") of production from the regulated hydroelectric facilities in any hour is 3.3¢/kWh. Any production from these regulated hydroelectric facilities above 1,900 MWh in any hour receives the Ontario electricity spot market price.

The production from OPG's remaining hydroelectric, fossil-fuelled and wind generating stations remains unregulated and continues to be sold at the Ontario electricity spot market price. However, 85 per cent of the generation output from these other generating assets, excluding the Lennox generating station, stations whose generation output is subject to a Hydroelectric Energy Supply Agreement ("HESA") with the Ontario Power Authority ("OPA") pursuant to a ministerial directive, and forward sales as of January 1, 2005, is subject to a revenue limit. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets are also excluded from the output covered by the revenue limit. In addition, until the Transition – Generation Corporation Designated Rate Options ("TRO") expired on April 30, 2006, volumes sold under such options were also excluded from the revenue limit rebate. This revenue limit, which was originally established for a period of 13 months ending April 30, 2006, was subsequently extended for an additional three years. Starting May 1, 2006, the revenue limit decreased to 4.6¢/kWh from the previous limit of 4.7¢/kWh. On May 1, 2007, the revenue limit returned to 4.7¢/kWh and will increase to 4.8¢/kWh effective May 1, 2008. In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the OPA are subject to a revenue limit that is 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these two revenue limits are returned to the IESO for the benefit of consumers.

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 \$120 million in 2007 and \$163 million in 2006 were netted against revenue.

OPG derives non-energy revenue under the terms of a lease arrangement with Bruce Power L.P. ("Bruce Power") related to the Bruce nuclear generating stations. This includes lease revenues and revenues for engineering analysis and design, technical and ancillary services. 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 Coral Energy Canada Inc. ("Coral"). 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.

Derivatives

OPG 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 other revenue.

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 are held in inventory and charged to OPG's operations at average cost as part of fuel expense as required. Options to purchase ERCs are accounted for as derivatives and are recorded at estimated market value.

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 accumulated other comprehensive income ("AOCI") on a net of tax basis and changes to the fair value are recorded on the consolidated statement 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. 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. The obligations are affected by salary levels, inflation, and cost escalation. Pension and OPEB costs and obligations are determined annually by independent actuaries using management's best estimate assumptions. 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.

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 per cent 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 of the employees covered by the plan, since OPG will realize the economic benefit over that period. Due to the long-term nature of post-employment liabilities, the excess of the net cumulative unamortized gain or loss, over 10 per cent of the greater of the benefit obligation and the market-related value of the plan assets, is also amortized over the expected average remaining service life.

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 responsible for making 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 *Corporations Tax Act* (Ontario), and are modified by 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 of its unregulated operations. Under the liability method, future 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.

Commencing April 1, 2005, with the introduction of rate regulation, OPG accounts for income taxes relating to the rate regulated segments of its business using the taxes payable method. Under the taxes payable method, OPG does not recognize future income taxes relating to the rate regulated segments of its business to the extent those future income taxes are expected to be recovered or refunded in future regulated prices charged to customers.

OPG makes payments in lieu of property tax on its nuclear and fossil-fuelled 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, 2006, following the completion of a review of the life limiting components of the Pickering B nuclear generating station, OPG revised and extended, for the purpose of calculating depreciation, the estimated remaining service life of the Pickering B nuclear generating station to 2014 from 2009. The extension reduced depreciation expense by \$36 million in 2006 and in 2007.

The Province accepted the advice of the IESO in their June 2006 report that indicated a need for 2,500 to 3,000 MW of additional capacity to maintain system reliability. Therefore, further delays were necessary in the Province's plan to replace coal-fired generation by 2009. As a result of delays in the plan to replace coal-fired generation by 2009, effective July 1, 2006, OPG extended the life for all of the coal-fired generating stations, for purposes of calculating depreciation, to December 31, 2012. The extension reduced depreciation expense by \$64 million in 2006, \$126 million in 2007, and \$46 million in 2008. From 2009 to 2012, the depreciation expense will increase by \$59 million in each year. OPG will reassess the service life of the coal-fired generating stations upon release of the submitted Integrated Power System Plan, and as subsequently approved by the OEB. Any change to the estimated service life of the coal-fired generating stations, for purposes of calculating depreciation, could have a material impact on OPG's consolidated financial statements.

Effective January 1, 2008, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended by two years to 2019 after a review of the technical analysis for life limiting components. The life extension will reduce depreciation expense by \$18 million annually.

The Company has extended the service life of Bruce B nuclear generating station to 2014 for depreciation purposes effective January 1, 2008 after reviewing future capacity plans in the OPA's Integrated Power System Plan, which was filed with the OEB in August 2007, and historical information regarding the service lives of major life limiting components of the station. As a result of the extension, depreciation expense will be reduced by \$7 million annually. In addition, effective January 1, 2008, OPG extended the service life of Bruce A nuclear generating station to 2035 for depreciation purposes after the review of future capacity plans filed with the OPA and other publicly available information. The extension of the service life to the Bruce A nuclear generating station for depreciation purposes will decrease depreciation expense by \$8 million annually.

Financial Instruments

On January 1, 2007, OPG adopted three new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): Handbook Section 1530, *Comprehensive Income*; Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, and Handbook Section 3865, *Hedges*. Comparative amounts for prior periods have not been restated.

Comprehensive Income

As a result of adopting these standards, a new category, accumulated other comprehensive income, was added to shareholder's equity in the consolidated balance sheets. Comprehensive income consists of net income and other comprehensive income. This category includes changes in the fair value of the effective portion of cash flow hedging instruments. Amounts are recorded in other comprehensive income until the criteria for recognition in the consolidated statements of income are met.

Financial Instruments – Recognition and Measurement

Under the new standard, for accounting purposes, 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. 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 new 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.

Hedges

The new 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 income. The ineffective portion is recognized in net income. The amounts recognized in accumulated other comprehensive income 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.

Impact of Adoption

Upon adoption of the financial instruments accounting standards, the assets in the Nuclear Funds that were carried at amortized cost until the end of 2006 were classified as held-for-trading and reported at fair value. The transition adjustment related to the change in accounting for the Nuclear Funds was recognized in the opening balance of retained earnings at January 1, 2007. The transition adjustment for embedded derivatives within long-term contracts was also recognized in the opening balance of retained earnings at January 1, 2007. OPG elected January 1, 2004 as the transition date for embedded derivatives. Prior to January 1, 2007, OPG disclosed the fair value of securities in the Nuclear Funds based on the closing price of the securities. Starting January 1, 2007, OPG applied bid pricing to determine the fair value of the securities.

The fair value of the Nuclear Funds based on bid pricing is lower than that reported in the 2006 comparative period. The change in pricing methodology does not have any impact to the overall balance on the consolidated balance sheets since the reduction in fair value is offset by the corresponding change in the due to Province balance.

The fair values of hedging instruments designated as cash flow hedges were recognized in the opening accumulated other comprehensive income on a net of tax basis. The fair values of these hedges are disclosed in Note 13 to the audited consolidated financial statements.

The transition amounts that were recorded in the opening retained earnings or in the opening accumulated other comprehensive income balance on January 1, 2007 were as follows:

<i>(millions of dollars)</i>	At Cost	At Fair Value	Transition Amounts – January 1, 2007	
	December 31 2006	January 1 2007	Opening Retained Earnings	Opening Accumulated Other Comprehensive Income
Nuclear Funds balance	7,694	9,041	1,347	-
Due to Province	(100)	(928)	(828)	-
	7,594	8,113	519	-
Accounts receivable and other assets	325	372	-	47
Accounts payable and accrued charges	(989)	(1,005)	(6)	(10)
Net future income tax liability	(249)	(265)	-	(16)
Transition adjustments			513	21

Future Changes in Accounting Policies

Capital Disclosures and Financial Instruments

In December 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures ("Section 1535"), Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862"), and Handbook Section 3863, Financial Instruments – Presentation ("Section 3863"). These new standards are effective for the Company beginning January 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its

presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Inventories

The CICA issued a new accounting standard, Section 3031, Inventories, in March 2007, which is based on International Accounting Standard (“IAS”) 2. The new section replaced the existing Section 3030, Inventories. Under the new section, inventories are required to be measured at the “lower of cost and net realizable value”, which is different from the existing guidance of “lower of cost and market”. The new section also allows the reversal of any write-downs previously recognized. Further, due to the changes in the section and the consequential amendments, some of OPG’s critical spare parts currently reported as materials and supplies on OPG’s consolidated balance sheets will be accounted for as property, plant and equipment. The new accounting standard and the consequential amendments are effective for OPG beginning January 1, 2008. OPG reclassified significant critical spare parts of \$19 million, net of accumulated depreciation, to property, plant and equipment in 2008.

Accounting for Regulatory Operations

In December 2007, the CICA revised its guidance on accounting for rate regulated operations. The revision resulted in amendments to Handbook Sections 1100, *Generally Accepted Accounting Principles*, and 3465, *Income Taxes*, and Accounting Guideline 19 (“AcG-19”), *Disclosures by Entities Subject to Rate Regulation*, as follows:

- to remove the temporary exemption pertaining to the application of Section 1100 to rate regulated operations, including the elimination of the opportunity to use industry practice as an acceptable basis for recognition and measurement of assets and liabilities arising from rate regulation;
- to amend Section 3465 to require the recognition of future income tax assets and liabilities as well as 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; and
- to amend AcG-19, as necessary, as a result of amendments to Sections 1100 and 3465.

As a result of the changes to Section 3465, OPG will be required to recognize future income taxes associated with its rate regulated operations in the same manner as it currently recognizes future income taxes for its unregulated operations. OPG will apply the changes prospectively to interim and annual consolidated financial statements beginning January 1, 2009. OPG is currently evaluating the impact of implementing these changes on its consolidated financial statements.

4. 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. In December 2005, the Company extended this agreement to August 2009.

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. For 2007, OPG has recognized pre-tax charges of \$15 million (2006 – \$13 million) on such sales at an average cost of funds of 5.1 per cent (2006 – 4.4 per cent). As at December 31, 2007, OPG had sold receivables of \$300 million from its total portfolio of \$479 million (2006 – \$392 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	
	2007	2006	2007	2006
Total receivables portfolio ¹	479	392	454	445
Receivables sold	300	300	300	300
Receivables retained	179	92	154	145
Average cost of funds			5.1%	4.4%

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

An immediate 10 per cent or 20 per cent 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, 2007 and 2006.

Details of cash flows from securitizations for the years ended December 31, 2007 and 2006 are as follows:

<i>(millions of dollars)</i>	2007	2006
Collections reinvested in revolving sales ¹	3,600	3,600
Cash flows from retained interest	1,759	2,020

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 initial cash amount of \$300 million. The amounts reflect the total of 12 monthly amounts.

5. DEPRECIATION AND AMORTIZATION AND FIXED ASSETS

Depreciation and amortization expense consists of the following:

<i>(millions of dollars)</i>	2007	2006
Depreciation and amortization	587	659
Amortization of deferred Pickering A return to service costs <i>(Note 7)</i>	96	25
Nuclear waste management costs	12	5
	695	689

Fixed assets consist of the following:

<i>(millions of dollars)</i>	2007	2006
Property, plant and equipment		
Nuclear generating stations	6,466	6,275
Regulated hydroelectric generating stations	4,411	4,384
Unregulated hydroelectric generating stations	3,525	3,481
Fossil-fuelled generating stations	1,553	1,465
Other fixed assets	867	854
Construction in progress	950	677
	17,772	17,136
Less: accumulated depreciation		
Generating stations	4,636	4,066
Other fixed assets	359	309
	4,995	4,375
	12,777	12,761

Interest capitalized to construction in progress at six per cent during the years ended December 31, 2007 and 2006 was \$42 million and \$21 million, respectively.

Impairment of Long-Lived Assets

The accounting estimates related to asset impairment require significant management judgment to identify factors such as short and long-term forecasts for future sales prices, the supply of electricity in Ontario, inflation, fuel prices, and station lives. The amount of the future cash flow that OPG will ultimately realize with respect to these assets could differ materially from the carrying values recorded in the consolidated financial statements.

Thunder Bay and Atikokan Generating Stations

OPG recognized an impairment loss on the Thunder Bay and Atikokan coal-fired generating stations in 2006 of \$22 million, which represented the carrying amount or net book value of these stations. OPG tested the recoverability of the carrying amounts of the coal-fired stations as a result of changes in circumstance, which included a decrease in forecast Ontario spot market prices and the extension of the lives of the coal-fired stations. The fair value of the coal-fired generating stations, which was determined using a discounted cash flow method, was compared to the carrying value of the generating assets to determine the impairment loss. It was determined that the Thunder Bay and Atikokan coal-fired generating stations would not be able to recover their operating and capital expenditures and carrying amount, over their remaining service lives.

6. INVESTMENTS IN ASSET-BACKED COMMERCIAL PAPER

In August 2007, a number of Canadian third-party Trusts, as issuers of asset-backed commercial paper ("ABCP"), experienced difficulty in accessing the liquidity required to repay maturing ABCP debt. OPG's original exposure to third-party ABCP notes was \$103 million. Of that total, \$45 million consisted of notes held with Skeena Capital Trust ("Skeena"). In December 2007, OPG received payment of approximately \$44 million against these notes and recognized an impairment loss of \$1 million. The settlement amount represented 98.65 per cent of the original investment including interest up to the maturity date.

Following the settlement of investments in Skeena, OPG's holdings of third-party ABCP was reduced to \$58 million. On December 23, 2007, a restructuring plan was announced for the remaining third-party ABCP Trusts. Documentation of the restructuring plan for these trusts is expected in March 2008.

Approval for any restructuring is required by note holders representing not less than 66 and two-thirds of the value of the Trusts.

OPG performed a valuation analysis as at December 31, 2007 to assess the amount of any impairment, taking into account the limited information available. The assessment considered the likelihood of achieving a successful restructuring based on the current proposal announced on December 23, 2007. OPG used a probability weighted cash flow model to determine the fair value of its third-party ABCP holdings. Since the majority of OPG's remaining ABCP is made up of combined traditional and synthetic assets such as Collateralized Debt Obligations ("CDO's"), the recoverability was estimated to be 85 per cent. An insignificant amount of OPG's remaining third-party ABCP is made up of ineligible assets, where the underlying assets or the collateral provided is supported by United States ("U.S.") sub-prime assets. The recoverability of these ineligible assets was estimated to be 70 per cent. OPG also considered alternative methods to assess the fair value of the investments. As a result of the analysis, OPG recorded an impairment loss of \$9 million against the remaining holdings of \$58 million, in addition to the \$1 million loss related to the Skeena investments. The impairment loss is included in other gains and losses.

OPG reviewed the classification of its third-party ABCP holdings and has determined that a long-term classification is appropriate, based on the restructuring information available. OPG will continue to monitor developments with respect to ABCP and will continue to assess its position.

OPG has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect any material adverse impact on its operations as a result of this current third-party ABCP liquidity issue.

7. REGULATORY ASSETS AND LIABILITIES AND SUMMARY OF RATE REGULATED ACCOUNTING

The regulatory assets and liabilities as at December 31, 2007 and 2006 are as follows:

<i>(millions of dollars)</i>	2007	2006
Regulatory assets		
Pickering A return to service costs	183	249
Nuclear liabilities deferral account	131	-
Nuclear generation development costs	28	-
Hydroelectric production variance	7	-
Ancillary service revenue variance	5	-
Transmission outages and transmission restrictions variance	2	2
Total regulatory assets	356	251
Regulatory liabilities		
Hydroelectric production variance	-	4
Other	14	7
Total regulatory liabilities	14	11

The changes in the regulatory assets and liabilities for 2007 and 2006 are as follows:

<i>(millions of dollars)</i>	Pickering A Return to Service Costs	Nuclear Liabilities Deferral Account	Nuclear Generation Development Costs	Transmission Outages and Transmission Restrictions Variance	Hydro- electric Production Variance	Ancillary Services Revenue Variance	Other
Regulatory assets (liabilities), January 1, 2006	261	-	-	-	(4)	5	(8)
Change during the year	13	-	-	2	-	(5)	1
Amortization during the year	(25)	-	-	-	-	-	-
Regulatory assets (liabilities), December 31, 2006	249	-	-	2	(4)	-	(7)
Change during the period	30	131	28	-	11	5	(7)
Amortization during the period	96	-	-	-	-	-	-
Regulatory assets (liabilities), December 31, 2007	183	131	28	2	7	5	(14)

Pickering A Return to Service Costs

Effective January 1, 2005, in accordance with a regulation made under the *Electricity Restructuring Act, 2004* (Ontario), 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. The regulation, as amended in February 2007, also requires OPG to record interest at an annual rate of six per cent on the balance in the deferral account. As at December 31, 2007, the balance in the deferral account was \$183 million, consisting of non-capital costs of \$232 million relating to Unit 1 and \$19 million relating to Units 2 and 3, \$20 million of general return to service non-capital costs and interest of \$37 million, net of the accumulated amortization of \$125 million. As at December 31, 2006, the balance in the deferral account was \$249 million, consisting of non-capital costs of \$232 million relating to Unit 1 and \$19 million relating to Units 2 and 3, \$20 million of general return to service non-capital costs and interest of \$7 million, net of the accumulated amortization of \$29 million.

There were no operations, maintenance and administration (“OM&A”) costs charged to the deferral account during 2007. During 2006, OM&A expenses of \$13 million were charged to the deferral account. Had OPG not charged these costs to the deferral account, OM&A expenses would have increased by \$13 million for 2006.

During 2007, OPG deferred applied interest related to the Pickering A return to service deferral account of \$30 million. Had OPG not applied interest to this account, the net interest expense would have increased by \$30 million for 2007 (2006 – nil).

The costs accumulated in the deferral account are charged to operations in accordance with the terms of the regulation. Under the regulation, the OEB is directed to ensure that OPG recovers any balance in the deferral account on a straight-line basis over a period not to exceed 15 years. Had OPG not amortized the costs in the deferral account, depreciation and amortization expense for 2007 would have been reduced by \$96 million (2006 – \$25 million).

Nuclear Liabilities Deferral Account

In February 2007, the Province amended a regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) to direct OPG to establish a deferral account in connection with certain changes to its liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management. 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, as reflected in OPG’s audited consolidated financial statements. Revenue requirement is a regulatory construct, which represents all allowed costs and a return on rate base at a rate of return that the regulator determines to be appropriate. The regulation also requires OPG to record interest at an annual rate of six per cent on the balance in the deferral account.

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 Ontario Nuclear Funds Agreement ("2006 Approved Reference Plan"). Commencing January 1, 2007 and up to the effective date of OEB's first order establishing regulated prices, which is expected to be after March 31, 2008, OPG records a regulatory asset associated with the increase in the nuclear liabilities arising from the 2006 Approved Reference Plan.

The OEB is directed by the regulation to ensure that OPG recovers the balance recorded in the deferral account on a straight-line basis over a period not to exceed three years, to the extent that the OEB is satisfied that the revenue requirement impacts are accurately recorded.

As at December 31, 2007, the following items have been recorded as components of the regulatory asset relating to the increase in the nuclear liabilities arising from the 2006 Approved Reference Plan:

<i>(millions of dollars)</i>	2007
Return on rate base	75
Depreciation expense	54
Fuel expense	(5)
Capital tax	3
Interest expense	4
	131

The return on rate base component of \$75 million was recorded as a reduction to the accretion expense on fixed asset removal and nuclear waste management expense for the year ended December 31, 2007.

For the year ended December 31, 2007, had OPG not established the deferral account as required by the regulation, accretion expense would have increased by \$75 million, depreciation expense would have increased by \$54 million, property and capital taxes expense would have been higher by \$3 million, net interest expense would have increased by \$4 million, and fuel expense would have been lower by \$5 million.

The regulation also provides for the recovery of an amount relating to additional income taxes that OPG will be subject to as a result of recovering the regulatory asset through future regulated prices charged to customers. Since OPG has not yet incurred a related income tax expense, no amounts related to income taxes have been recorded as part of the regulatory asset.

Nuclear Generation Development Costs

The amendment to the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) made in February 2007 clarified that the OEB must ensure that OPG recovers, through future regulated prices, all capital and non-capital costs incurred in order to increase the output of, refurbish or add operating capacity to a regulated facility, if these costs are either within budgets approved by OPG's Board of Directors prior to the OEB's first order establishing regulated prices or if the OEB is satisfied that these costs were prudently incurred. A further amendment in February 2008, clarified that the OEB must ensure that OPG recovers the costs incurred and firm financial commitments made in the course of planning and preparing for the development of proposed new nuclear facilities. As a result of these amendments, OPG has recorded a regulatory asset of \$28 million for the year ended December 31, 2007, which represents non-capital costs incurred for its nuclear generation development initiatives. Non-capital costs are recorded as a regulatory asset to the extent that they were incurred after April 1, 2005 and were not included in the forecast information provided to the Province for the purposes of establishing regulated prices.

Had OPG not recorded the above costs as a regulatory asset, OM&A expenses would have increased by \$27 million and net interest expense would have increased by \$1 million for the year ended December 31, 2007.

Variance Accounts and Other Regulatory Balances

Effective April 1, 2005, in accordance with a regulation made under the *Electricity Restructuring Act, 2004* (Ontario), OPG was directed to establish variance accounts for capital and non-capital costs incurred and revenues earned or foregone on or after April 1, 2005 due to deviations from the forecast information provided to the Province for the purposes of establishing regulated prices. Variance accounts have been established for differences in hydroelectric electricity production due to differences between forecast and actual water conditions, unforeseen changes to nuclear regulatory requirements or unforeseen technological changes which directly affect the nuclear facilities, changes to revenues for ancillary services from the regulated facilities, acts of God (including severe weather events), and transmission outages and transmission restrictions.

OPG recorded an increase in revenue during the year ended December 31, 2007 of \$5 million reflecting ancillary services revenue that was unfavourable compared to the forecast provided to the Province for the purposes of establishing regulated prices. In addition, OPG recorded an increase in revenue of \$11 million in 2007 as a result of actual water conditions that were unfavourable to those forecast.

OPG recorded a decrease in revenue during the year ended December 31, 2006 of \$5 million reflecting ancillary services revenue that was favourable compared to the forecast provided to the Province for the purposes of establishing regulated prices.

The OEB is directed by the regulation to ensure recovery of amounts recorded in the variance accounts to the extent that the OEB is satisfied that revenues recorded in the accounts were earned or foregone, that costs recorded in the accounts were prudently incurred, and that both revenues and costs are accurately recorded. Any balances approved by the OEB will be amortized over a period not to exceed three years. The amortization will commence when OPG starts to recover or return the balances through new prices that will be set by the OEB. Any balances in the accounts disallowed by the OEB will be reflected in the results of operations in the period that the OEB decision occurs.

The other regulatory liability consists of a portion of non-regulated revenue earned by OPG's regulated assets and interest on the account balance, which OPG expects to apply as a reduction to future regulated prices to be established by the OEB. OPG recorded an additional regulatory liability of \$7 million in 2007 (2006 – an asset of \$1 million), including \$1 million of interest expense (2006 – nil).

Had OPG not accounted for the variance accounts and other regulatory balances as regulatory assets and liabilities, revenue for 2007 would have been lower by \$12 million (2006 – higher by \$2 million). Had OPG not accounted for the variance accounts and other regulatory balances as regulatory assets and liabilities, net interest expense for 2007 would have decreased by \$1 million (2006 – nil).

Summary of Rate Regulated Accounting

The following tables summarize the impact of applying rate regulated accounting for selected income statement information:

<i>Years Ended December 31</i>	2007			2006		
<i>(millions of dollars)</i>	As Stated	Impact of Rate Regulated Accounting	Financial Statements without Rate Regulated Accounting	As Stated	Impact of Rate Regulated Accounting	Financial Statements without Rate Regulated Accounting
Revenue	5,660	9	5,669	5,564	30	5,594
Fuel expense	1,270	(5)	1,265	1,098	-	1,098
Operations, maintenance and administration	2,974	27	3,001	2,752	13	2,765
Depreciation and amortization	695	(42)	653	689	(25)	664
Accretion on fixed asset removal and nuclear waste management liabilities	507	75	582	499	-	499
Property and capital taxes	85	3	88	106	-	106
Net interest expense	143	33	176	193	-	193

Accounting for Certain Leases

OPG accounts for certain lease revenues relating to the regulated business using the cash basis of accounting. Under the cash basis of accounting, OPG recognizes lease income as stipulated in the lease agreement to the extent that the lease payments are expected to be included in future regulated prices charged to customers. If OPG did not apply the cash basis of accounting for leases, the revenue would have increased by \$21 million (2006 – \$21 million). As at December 31, 2007, had OPG accounted for the leases related to the regulated business using a straight-line basis, OPG would have reported a deferred lease receivable of \$57 million (2006 – \$36 million).

8. SHORT-TERM CREDIT FACILITIES

OPG's \$1 billion revolving committed bank credit facility is divided into two tranches – a \$500 million 364-day term tranche maturing May 21, 2008, and a \$500 million five-year term tranche maturing May 22, 2012. The longer term tranche was extended from a three-year term to a five-year term, upon renewal of the bank credit facility in May 2007. 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, 2007, there was no commercial paper outstanding (2006 – \$15 million). OPG had no other outstanding borrowing under its bank credit facility as at December 31, 2007.

OPG also maintains \$25 million (2006 – \$26 million) in short-term uncommitted overdraft facilities as well as \$238 million (2006 – \$240 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. At December 31, 2007, there was a total of \$205 million (2006 – \$185 million) of Letters of Credit issued, which included \$175 million (2006 – \$159 million) relating to the supplementary pension plans and \$16 million (2006 – \$16 million) relating to the construction of the Portlands Energy Centre.

9. LONG-TERM DEBT

Long-term debt consists of the following:

<i>(millions of dollars)</i>	2007	2006
Notes payable to the OEFC	3,665	3,165
Share of non-recourse limited partnership debt	188	194
	3,853	3,359
Less: due within one year		
Notes payable to the OEFC	400	400
Share of limited partnership debt	7	6
	407	406
Long-term debt	3,446	2,953

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, 2007 for notes payable to the OEFC are as follows:

Year of Maturity	Interest Rate (%)	Principal Outstanding (millions of dollars)		Total
		Senior Notes	Subordinated Notes	
2008	5.90%	400	-	400
2009	6.01%	350	-	350
2010	6.00%	595	375	970
2011	6.65%	-	375	375
2012	5.72%	400	-	400
2016	4.91%	270	-	270
2017	5.35%	900	-	900
		2,915	750	3,665

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 billion over the duration of the project, will be 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, 2007, OPG issued \$240 million against this facility, which included new borrowing of \$80 million under the facility in 2007. In January 2008, \$40 million of new borrowing was issued under the facility.

In December 2006, OPG reached an agreement with the OEFC to provide debt financing for the Lac Seul Hydroelectric Generating Station and the Portlands Energy Centre projects. There will be up to \$50 million available for the Lac Seul project and up to \$400 million available for the Portlands Energy Centre project under each credit facility. The credit facilities will be drawn as needed to fund the respective projects over the construction period. The funding will be 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. As at December 31, 2007, OPG issued \$20 million against the Lac Seul project credit facility and \$210 million against the Portlands Energy Centre credit facility, which included new borrowing of \$120 million under the Portlands Energy Centre facility in 2007. In January 2008, \$35 million of new borrowing was issued under the Portlands Energy Centre facility.

In 2007, OPG reached an agreement with the OEFC for a \$500 million general corporate facility that is available for the period June 1, 2007 to March 31, 2008, and for a \$950 million credit agreement to refinance senior notes as they mature over the period September 22, 2007 to September 22, 2009. In 2007, OPG borrowed \$500 million under its general corporate facility and refinanced \$200 million senior notes under the \$950 million credit facility. These borrowings will mature in 2017.

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 \$284 million as at December 31, 2007. The minimum principal repayments of the non-recourse limited partnership debt for the next five calendar years range from \$7 million to \$9 million annually. OPG's share of the non-recourse limited partnership debt included a note payable of \$131 million at an interest rate of 6.9 per cent, with an effective interest rate of 7.0 per cent. 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. These hedges were described under note 13 of the audited consolidated financial statements.

Interest paid in 2007 was \$224 million (2006 – \$247 million), of which \$203 million relates to interest paid on long-term debt (2006 – \$230 million).

10. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

The liabilities for fixed asset removal and nuclear waste management on a present value basis consists of the following:

<i>(millions of dollars)</i>	2007	2006
Liability for nuclear used fuel management	5,938	5,669
Liability for nuclear decommissioning and low and intermediate level waste management	4,843	4,659
Liability for non-nuclear fixed asset removal	176	192
Fixed asset removal and nuclear waste management liabilities	10,957	10,520

The changes in the fixed asset removal and nuclear waste management liabilities for the years ended December 31, 2007 and 2006 are as follows:

<i>(millions of dollars)</i>	2007	2006
Liabilities, beginning of year	10,520	8,759
Increase in liabilities due to accretion	582	499
Increase in liabilities due to nuclear used fuel and nuclear waste management variable expenses	76	38
Liabilities settled by expenditures on waste management	(200)	(164)
(Increase) decrease in the liability for non-nuclear fixed asset removal	(21)	2
Increase in the liability for nuclear used fuel management and the liability for nuclear decommissioning and low and intermediate level waste management to reflect the change in cost estimates	-	1,386
Liabilities, end of year	10,957	10,520

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 and fossil-fuelled generating plant 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.

The following costs are recognized as a liability:

- The present value of the costs of dismantling the nuclear and fossil-fuelled production facilities at the end of their useful lives;
- The present value of the fixed cost portion of any 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 any nuclear waste management program 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. As at December 31, 2006, OPG updated the estimates for the nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management liabilities. The resulting updated Reference Plan, the 2006 Approved Reference Plan, was approved by the Province in accordance with the terms of the ONFA. The increase in cost estimates reflected in the 2006 Approved Reference Plan was mainly due to additional used fuel and waste quantities resulting from station life extensions, recent experience in decommissioning reactors, and changes in economic indices. The increase is partially offset by the impact of later end of life dates for some stations such as the Bruce A nuclear generating station and Units 1 and 4 at the Pickering nuclear generating station, which results in a later decommissioning dates and a reduced present value of decommissioning costs.

As a result of the approval of the 2006 Approved Reference Plan, OPG will recognize additional expenses including accretion on the fixed asset removal and nuclear waste management liabilities and depreciation of the carrying value of the related fixed assets. The impact of these additional expenses will be reduced by the recognition of a regulatory asset to be recovered through future prices charged to customers, as prescribed by the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario). This is discussed in Note 7 to the consolidated financial statements.

For the purposes of calculating OPG's fixed asset removal and nuclear management liabilities, nuclear and fossil-fuelled plant closures are projected to occur over the next five to 29 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 \$24 billion in December 31, 2007 dollars. The discount rate used to calculate the present value of the liabilities was 5.75 per cent 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 per cent. The cost escalation rates ranged from 1.8 per cent to 3.6 per cent. Under the terms of the lease agreement with Bruce Power, OPG continues to be responsible for the nuclear fixed asset removal and nuclear waste management liabilities associated with the Bruce nuclear generating stations.

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 required that Canada’s nuclear fuel waste owners form a Nuclear Waste Management Organization (“NWMO”) and that each waste owner establish a trust fund for used fuel management costs. The NWMO studied alternatives for used fuel management and submitted an options study to the federal government in November 2005. The submission included a proposal titled Adaptive Phased Management for used fuel with an end-point being a deep geologic repository. In June 2007, the Government of Canada announced its decision to accept the NWMO proposal. To estimate its liability for nuclear used fuel management costs, OPG has adopted a conservative approach consistent with the approved 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 year end 2017. 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 . OPG has initiated a federal environmental assessment process in respect of this proposed facility

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 fossil-fuelled generating stations at the end of their service lives. The estimated retirement date of these stations is between 2012 and 2034.

In addition to the \$107 million liability for active sites, OPG also has an asset retirement obligation liability of \$69 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. Also, 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 funds to be used specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities. In July 2003, OPG and the Province completed arrangements, pursuant to the ONFA. To comply with the ONFA, OPG established the Nuclear Funds. 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, 2007, the Decommissioning Fund was in an overfunded position. OPG bears the risk and liability for cost estimate increases and fund earnings in the Decommissioning Fund.

The Used Fuel Fund will be used 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 \$9.6 billion in December 31, 2007 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 2007 under the ONFA was \$454 million, including a contribution to The Ontario NFWA Trust (the "Trust") of \$100 million. In 2007, OPG also made a one-time contribution of approximately \$334 million to the Used Fuel Fund to satisfy the extraordinary payment specified within the ONFA and related to the Bruce Lease transaction with Bruce Power as discussed in Note 18 to the audited consolidated financial statements. This payment constitutes a Triggering Event under the ONFA which results in the need to further update the Amended Payment Schedule approved by the Province earlier in 2007 as part of the initial update to the 2006 Approved Reference Plan. The update to the payment schedule is currently in progress.

The NFWA was proclaimed into force in November 2002. In accordance with the NFWA, the Nuclear Waste Management Organization was formed. The NWMO prepared and reviewed alternatives, and provided recommendations to the federal government for long-term management of nuclear fuel waste in November 2005. The federal government selected the recommended option titled Adaptive Phased Management in June 2007. 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 also required OPG to make annual contributions of \$100 million to the Trust. These contributions are to be deposited into the Trust no later than the November anniversary of the NFWA. The deposit amounts will be adjusted when the Minister of Natural Resources approves the funding formula to be proposed by the NWMO in the first quarter of 2008. Given that the Trust forms part of the Used Fuel Fund, contributions to the Trust, as required by the NFWA, are applied towards the ONFA payment obligations.

As required by the *Nuclear Safety and Control Act* (Canada), and under the terms of the ONFA, the Province provided a Provincial Guarantee to the Canadian Nuclear Safety Commission ("CNSC") since 2003, on behalf of OPG. The Nuclear Safety and Control Act requires OPG to have sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The Provincial Guarantee will supplement the Used Fuel Fund and the Decommissioning Fund until they have accumulated sufficient funds to cover the accumulated liabilities for nuclear decommissioning and waste management. The current value of this guarantee is for \$760 million for years 2008 to 2010. Current plans indicate the Provincial Guarantee will not be required beyond 2010. The guarantee, taken together with the Used Fuel Fund and Decommissioning Fund, was in satisfaction of OPG's nuclear licensing requirements with the CNSC. OPG pays the Province an annual guarantee fee of 0.5 per cent of the amount guaranteed by the Province. In 2007, OPG paid the annual guarantee fee of \$8 million (2006 – \$8 million). These fees are associated with the Provincial Guarantee of \$1,510 million, which was required at that time.

Effective January 1, 2007, OPG adopted the CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. As a result of the adoption of this new section, 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.

At December 31, 2006, based on the estimate of costs to complete under the 2006 Approved Reference Plan, the Decommissioning Fund was overfunded on a fair value basis, and underfunded on an amortized cost basis. As a result of the adoption of the financial instruments accounting standards on January 1, 2007, OPG adjusted the investments and the related payables in the Decommissioning Fund to fair value, and recorded a transition adjustment of \$519 million to increase opening retained earnings. Subsequently, the investments and the related payables in the Decommissioning Fund are measured at fair value and any changes to the fair values are recognized in income.

Since the Decommissioning Fund was underfunded on an amortized cost basis, no excess adjustment was reported in the Decommissioning Fund as at December 31, 2006. If the investments in the Decommissioning Fund were accounted for at fair value in the consolidated financial statements as at December 31, 2006, and the Decommissioning Fund was terminated under the ONFA, there would have been an amount due to the Province of \$294 million.

After the adjustment to reflect the investments at fair value, on January 1, 2007 the value of the investments in the Decommissioning Fund exceeded the estimated completion costs under the 2006 Approved Reference Plan, and accordingly, the Decommissioning Fund balance was reduced by the amount of the excess funding through the recording of a payable to the Province. The Province's right to any excess funding in the Decommissioning Fund upon termination of the ONFA results in OPG capping its earnings at 5.15 per cent, 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. If the Decommissioning Fund were underfunded, the earnings for the Decommissioning Fund would reflect actual fund returns based on the market value of the assets.

At December 31, 2007, the Decommissioning Fund's asset value on a fair value basis was \$5,075 million, which continued to exceed the value of the liability as per the 2006 Approved Reference Plan. As a result of the overfunded status, OPG reported a payable to the Province of \$3 million reflecting an amount due to the Province if the Decommissioning Fund were terminated under ONFA. 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 per cent funded, OPG may direct up to 50 per cent of the surplus over 120 per cent to be treated as a contribution to the Used Fuel Fund, and the OEFC would be entitled to a distribution of an equal amount.

The assets in the Decommissioning Fund are invested primarily in publicly traded fixed income and equity investments. As a result, the value of these investments is subject to volatility in the capital markets. The volatility of the returns on these investments has increased over the past few months, which has resulted in a negative impact on the fair value and the funding status of the Decommissioning Fund. During the period January 1, 2008, to February 26, 2008, the fair value decreased by approximately 2 per cent, which resulted in a loss of approximately \$100 million. The Decommissioning Fund has been designed to meet long-term liability requirements, and, therefore, short-term market variations are inevitable.

Used Fuel Fund

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 per cent plus the change in the Ontario Consumer Price Index ("committed return") for funding related to the first 2.23 million used fuel bundles. 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.

Up until December 31, 2006, OPG accounted for the investments in the Used Fuel Fund on an amortized cost basis, with the amount due to or due from the Province being recorded in the consolidated financial statements as the difference between the committed return and the actual return based on realized returns. At December 31, 2006, the Used Fuel Fund included an amount due to the Province of \$100 million. The Used Fuel Fund's asset value, after taking into account the committed return and the amount due to the Province, was \$3,238 million at December 31, 2006.

In addition, under the ONFA, the Province is entitled to any surplus in the Used Fuel Fund, subject to a threshold funded ratio of 110 per cent compared to the value of the associated liabilities.

Commencing January 1, 2007, the value of the investments held in the Used Fuel Fund is measured at fair value. Accordingly, the Used Fuel Fund's balance increased to \$3,876 million to reflect the fair value measurement. The Province guarantees OPG's annual return in the Used Fuel Fund related to the initial 2.23 million used fuel bundles at the committed return, such that any difference between the committed return and the actual return based on fair value would be offset by the change in the related payable or receivable to the Province in the Used Fuel Fund. As a result, OPG did not record a transition adjustment to opening retained earnings for the Used Fuel Fund.

As at December 31, 2007, the Used Fuel Fund asset value on a fair value basis was \$4,702 million. The asset value was offset by a payable to the Province of \$511 million related to the committed return adjustment.

The nuclear fixed asset removal and nuclear waste management funds as at December 31, 2007 and 2006, consist of the following:

<i>(millions of dollars)</i>	Fair Value		Amortized Cost
	2007	2006	2006
Decommissioning Fund	5,075	5,169	4,356
Due to Province – Decommissioning Fund	(3)	(294)	-
	5,072	4,875	4,356
Used Fuel Fund ¹	4,702	3,879	3,338
Due to Province – Used Fuel Fund	(511)	(641)	(100)
	4,191	3,238	3,238
	9,263	8,113	7,594

¹ The Ontario NFWA Trust represented \$1,244 million as at December 31, 2007 of the Used Fuel Fund on a fair value basis. The Ontario NFWA Trust represented \$1,102 million as at December 31, 2006 of the Used Fuel Fund on an amortized cost and fair value basis.

The amortized cost and fair value of the securities invested in the Nuclear Funds, which include the Used Fuel Fund and Decommissioning Fund, as at December 31, 2007 and 2006 are as follows:

<i>(millions of dollars)</i>	Fair Value		Amortized Cost
	2007	2006	2006
Cash and cash equivalents and short-term investments	833	553	556
Marketable equity securities	5,391	5,608	4,250
Bonds and debentures	3,559	2,305	2,306
Receivable from the OEFC	-	588	588
Administrative expense payable	(6)	(6)	(6)
	9,777	9,048	7,694
Due to Province – Decommissioning Fund	(3)	(294)	-
Due to Province – Used Fuel Fund	(511)	(641)	(100)
Total	9,263	8,113	7,594

The bonds and debentures held in the Used Fuel Fund and the Decommissioning Fund as at December 31, 2007 and 2006 mature according to the following schedule:

<i>(millions of dollars)</i>	Fair Value	
	2007	2006
Less than 1 year	-	-
1 – 5 years	1,631	1,167
5 – 10 years	879	467
More than 10 years	1,049	671
Total maturities of debt securities	3,559	2,305
Average yield	4.9%	4.5%

The receivable of \$588 million in 2006 from the OEFC was repaid in 2007. The effective rate of interest on the OEFC receivable was 3.9 per cent in 2006.

The change in the Nuclear Funds for the years ended December 31, 2007 and 2006 are as follows:

<i>(millions of dollars)</i>	2007	Amortized Cost 2006
Decommissioning Fund at amortized cost, beginning of year	4,356	4,099
Transition adjustment to fund on adoption of financial instruments accounting standards	519	-
Increase in fund due to return on investments	5	256
Decrease in fund due to reimbursement of expenditures	(99)	(6)
Decrease in Due to Province	291	7
Decommissioning Fund, end of year	5,072	4,356
Used Fuel Fund, beginning of year	3,238	2,689
Increase in fund due to contributions made	788	454
Increase in fund due to return on investments	55	204
Decrease in fund due to reimbursement of expenditures	(20)	(13)
Decrease (increase) in Due to Province	130	(96)
Used Fuel Fund, end of year	4,191	3,238

11. INCOME TAXES

Commencing April 1, 2005, OPG accounts for income taxes related to the rate regulated segments of its business using the taxes payable method. Under the taxes payable method, OPG does not recognize future income taxes related to the rate regulated segments of its business to the extent that the future income taxes are expected to be recovered or refunded through future regulated prices charged to customers.

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

<i>(millions of dollars)</i>	2007	2006
Income before income taxes	477	576
Combined Canadian federal and provincial statutory income tax rates, including surtax	36.1%	36.1%
Statutory income tax rates applied to accounting income	172	208
Decrease in income taxes resulting from:		
Lower future tax rate on temporary differences	(10)	(4)
Non-taxable income items	(7)	(5)
Unrecorded future income tax related to regulated operations	(127)	(89)
Change in income tax positions	(13)	10
Changes in future tax rate	(66)	(34)
	(223)	(122)
Income tax (recovery) expense	(51)	86
Effective rate of income taxes	(10.7%)	14.9%

The Company has revised its future income tax assets and liabilities to reflect the lower federal income tax rates recently enacted.

In the third quarter of 2006, OPG received a preliminary communication from the Provincial Tax Auditors with respect to their initial findings from their audit of OPG's 1999 taxation year. Many of the issues raised through the audit are unique to OPG and relate either to start-up matters and positions taken on April 1, 1999 upon commencement of operations, or matters that were not adequately addressed through the *Electricity Act, 1998*. Although OPG has subsequently resolved some of these issues, there is uncertainty as to how the remaining issues will be resolved. OPG expects to receive a reassessment for its 1999 taxation year. The Company would defend its position through the tax appeals process.

OPG has previously recorded income tax charges related to certain income tax positions that the Company has taken in prior years that may be disallowed. Given the uncertainty as to how these income tax matters will be resolved, OPG has not adjusted its income tax liabilities. Should the ultimate outcome materially differ from OPG's recorded income tax liabilities, the Company's effective tax rate and its earnings could be affected positively or negatively in the period in which the matters are resolved.

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

<i>(millions of dollars)</i>	2007	2006
Current income tax expense	1	60
Future income tax expense (benefits):		
Change in temporary differences	(2)	-
Non-capital loss carry-forward	-	52
Changes in future tax rate	(30)	-
Other	(20)	(26)
	(52)	26
Income tax (recovery) expense	(51)	86

The income tax effects of temporary differences that give rise to future income tax assets and liabilities as at December 31, 2007 and 2006 are presented in the table below:

<i>(millions of dollars)</i>	2007	2006
Future income tax assets:		
Fixed asset removal and nuclear waste management liabilities	22	29
Other liabilities and assets	125	107
Non-capital loss carry-forward	-	28
Future recoverable Ontario minimum tax	87	64
	234	228
Future income tax liabilities:		
Fixed assets	263	332
Other liabilities and assets	176	145
	439	477
Net future income tax liabilities	205	249
Represented by:		
Current portion (asset) liability	(12)	3
Long-term portion	217	246
	205	249

The following table summarizes the difference in the consolidated statements of income and consolidated statements of comprehensive income under the taxes payable method used by the Company to account for income taxes for the regulated businesses compared to what would have been reported had OPG applied the liability method for the regulated businesses for 2007 and 2006:

<i>(millions of dollars)</i>	2007	2006
As stated:		
Future income tax expense	(52)	26
Future income tax: Other comprehensive income – upon transition	16	-
Future income tax: Other comprehensive income – for the period	(8)	-
Liability method ¹ :		
Future income tax expense	75	115
Future income tax: Other comprehensive income – upon transition	12	-
Future income tax: Other comprehensive income – for the period	(6)	-

¹ OPG accounts for certain lease revenues relating to the regulated businesses using the cash basis of accounting. The related future income tax impact is excluded from the above.

The following table summarizes the difference in the consolidated balance sheet amounts under the taxes payable method used by the Company to account for income taxes compared to what would have been reported had OPG applied the liability method for the regulated business as at December 31, 2007 and 2006:

<i>(millions of dollars)</i>	2007		2006	
	As Stated	Liability Method¹	As Stated	Liability Method¹
Current future income tax recoverable (liabilities)	12	39	(3)	(4)
Long-term future income tax liabilities	(217)	(680)	(246)	(417)

¹ OPG accounts for certain lease revenues relating to the regulated businesses using the cash basis of accounting. The related future income tax impact is excluded from the above.

The amount of cash income taxes paid for 2007 was \$64 million (2006 – \$24 million).

12. BENEFIT PLANS

The post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. The registered pension plan is a contributory defined benefit plan covering most employees and retirees. 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. The supplementary pension plans are defined benefit plans covering certain employees and retirees.

Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The pension and OPEB obligations, and the pension fund assets, are measured at December 31, 2007.

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2007	2006	2007	2006
<i>Weighted Average Assumptions – Benefit Obligation at Year End</i>				
Rate used to discount future benefits	5.60%	5.25%	5.59%	5.22%
Salary schedule escalation rate	3.25%	3.00%	-	-
Rate of cost of living increase to pensions	2.25%	2.00%	-	-
Initial health care trend rate	-	-	6.91%	7.34%
Ultimate health care trend rate	-	-	4.68%	4.68%
Year ultimate rate reached	-	-	2014	2014
Rate of increase in disability benefits	-	-	2.25%	2.00%

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2007	2006	2007	2006
<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	5.25%	5.00%	5.22%	4.97%
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	-	-	7.34%	7.76%
Ultimate health care trend rate	-	-	4.68%	4.68%
Year ultimate rate reached	-	-	2014	2014
Rate of increase in disability benefits	-	-	2.00%	2.00%
Average remaining service life for employees (years)	11	11	11	11

	Registered Pension Plan		Supplementary Pension Plans		Other Post Employment Benefits	
<i>(millions of dollars)</i>	2007	2006	2007	2006	2007	2006
<i>Changes in Plan Assets</i>						
Fair value of plan assets at beginning of year	8,829	7,921	-	-	-	-
Contributions by employer	268	261	7	7	66	62
Contributions by employees	66	61	-	-	-	-
Actual return on plan assets net of expenses	159	945	-	-	-	-
Benefit payments	(398)	(359)	(7)	(7)	(66)	(62)
Fair value of plan assets at end of year	8,924	8,829	-	-	-	-
<i>Changes in Projected Benefit Obligation</i>						
Projected benefit obligation at beginning of year	9,313	9,095	152	144	2,067	2,065
Employer current service costs	224	212	6	6	70	71
Contributions by employees	66	61	-	-	-	-
Interest on projected benefit obligation	493	459	8	7	109	104
Past service costs	-	-	-	-	-	13
Benefit payments	(398)	(359)	(7)	(7)	(66)	(62)
Net actuarial loss (gain)	(95)	(155)	3	2	(116)	(124)
Projected benefit obligation at end of year	9,603	9,313	162	152	2,064	2,067
Funded Status – Deficit at end of year	(679)	(484)	(162)	(152)	(2,064)	(2,067)

The assets of the OPG pension fund are allocated among three principal investment categories. Furthermore, equity investments are diversified across Canadian, U.S. and non-North American stocks. The fund also has a small real estate portfolio that is less than one per cent of plan assets.

	2007	2006
Registered pension plan fund asset investment categories		
Equities	60%	67%
Fixed income	35%	30%
Cash and short-term investments	5%	3%
Total	100%	100%

Based on the most recently 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, 2008, could be significantly different.

The supplementary pension plans are not funded, but are secured by Letters of Credit totalling \$175 million (2006 – \$159 million).

	Registered Pension Plan		Supplementary Pension Plans		Other Post Employment Benefits	
<i>(millions of dollars)</i>	2007	2006	2007	2006	2007	2006
<i>Reconciliation of Funded Status to Accrued Benefit Asset (Liability)</i>						
Funded status – deficit at end of year	(679)	(484)	(162)	(152)	(2,064)	(2,067)
Unamortized net actuarial loss	1,346	1,108	22	20	538	699
Unamortized past service costs	64	82	3	3	20	25
Accrued benefit asset (liability) at end of year	731	706	(137)	(129)	(1,506)	(1,343)
Short-term portion	-	-	(7)	(6)	(80)	(70)
Long-term portion	731	706	(130)	(123)	(1,426)	(1,273)

	Registered Pension Plan		Supplementary Pension Plans		Other Post Employment Benefits	
<i>(millions of dollars)</i>	2007	2006	2007	2006	2007	2006
<i>Components of Cost Recognized</i>						
Current service costs	224	212	6	6	70	71
Interest on projected benefit obligation	493	459	8	7	109	104
Expected return on plan assets net of expenses	(569)	(551)	-	-	-	-
Amortization of past service costs	18	18	-	1	5	4
Amortization of net actuarial loss	77	80	1	-	45	62
Cost recognized	243	218	15	14	229	241

	Registered Pension Plan		Supplementary Pension Plans		Other Post Employment Benefits	
<i>(millions of dollars)</i>	2007	2006	2007	2006	2007	2006
<i>Components of Cost Incurred and Recognized</i>						
Current service costs	224	212	6	6	70	71
Interest on projected benefit obligation	493	459	8	7	109	104
Actual return on plan assets net of expenses	(159)	(945)	-	-	-	-
Past service costs	-	-	-	-	-	13
Net actuarial (gain) loss	(95)	(155)	3	2	(116)	(124)
Cost incurred in year	463	(429)	17	15	63	64
Differences between costs incurred and recognized in respect of:						
Actual return on plan assets net of expenses	(410)	394	-	-	-	-
Past service costs	18	18	-	1	5	(9)
Net actuarial loss (gain)	172	235	(2)	(2)	161	186
Cost recognized	243	218	15	14	229	241

A one per cent increase or decrease in the health care trend rate would result in an increase in the service and interest components of the 2007 OPEB cost recognized of \$37 million (2006 – \$34 million) or a decrease in the service and interest components of the 2007 OPEB cost recognized of \$29 million (2006 – \$26 million), respectively. A one per cent increase or decrease in the health care trend rate would result in an increase in the projected OPEB obligation at December 31, 2007 of \$328 million (2006 – \$342 million) or a decrease in the projected OPEB obligation at December 31, 2007 of \$256 million (2006 – \$265 million).

13. FINANCIAL INSTRUMENTS

Risk Management and Hedging Activities

OPG 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 income when the underlying hedged transactions occur. These gains or losses are included in unregulated revenue and are recorded on the consolidated balance sheets. All contracts not designated as hedges are recorded as assets or liabilities at fair value with changes in fair value recorded in other revenue.

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 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 are held in inventory and charged to OPG's operations at average cost as part of fuel expense as required. Options to purchase ERCs are accounted for as derivatives and are recorded at estimated market value.

Equity price risk is the risk of loss due to volatility in the prices of individual equity instruments and equity indices. The holdings of OPG's Nuclear Funds and pension fund include publicly traded equity investments. As a result, the value of these investments is subject to capital market volatility. This risk can impact the value of the investments held by OPG's Nuclear Funds and pension fund.

To manage this risk, OPG's Nuclear Funds and pension fund have investment policies and procedures in place to set out the investment framework of the funds, including the investment assumptions, permitted investments, and various investment constraints. Such policies and procedures are approved annually by OPG's Investment Funds Oversight Committee of the Board of Directors. For the Nuclear Funds, such policies and procedures are also agreed to jointly with the Province, under ONFA.

Hedge Accounting

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 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 income in the current period's consolidated statement of income.

Determination of Fair Value

Fair values of derivative instruments have been estimated by reference to quoted market prices for actual or similar instruments where available. Where quoted market prices are not available, OPG considers various factors to estimate forward prices, including market prices and price volatility in neighbouring electricity markets, market prices for fuel, and other factors.

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.

Derivative Instruments Qualifying for Hedge Accounting

The following table provides the estimated fair value of derivative instruments designated as hedges. The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized in net income upon settlement when the underlying transactions occur. 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
		2007			2006	
Gain (loss)						
Electricity derivative instruments	1.8 TWh	1-3 yrs	35	4.3 TWh	1-4 yrs	51
Foreign exchange derivative instruments	U.S. \$48	Sep./08	(1)	U.S. \$2	Jan./07	-
Floating to fixed interest rate hedges	43	1-11 yrs	(2)	45	1-12 yrs	(3)
Forward start interest rate hedges	692	1-12 yrs	(6)	622	1-14 yrs	(9)

Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. The weighted average fixed exchange rate for contracts outstanding at December 31, 2007 was U.S. \$1.00 (2006 – U.S. \$0.87) for every Canadian dollar.

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 per cent. OPG's proportionate interest in the swap is 50 per cent and is accounted for as a hedge.

OPG entered into a number of forward start interest rate swap agreements to hedge against the effect of future interest rate movements based on the anticipated future borrowing requirement for the Niagara Tunnel and the Portlands Energy Centre projects, and OPG's general corporate facility. Although these transactions are ordinarily accounted for as hedges, a gain of approximately \$3 million was recorded to account for ineffectiveness in the hedges for 2006.

In 2007, OPG has de-designated a number of forward start interest rate hedges as the previously anticipated future borrowings associated with these instruments were no longer expected to occur. As a result of the de-designation, a gain of \$1 million was reclassified to net income in 2007.

Net gains of \$15 million related to derivative instruments qualifying for hedge accounting were recognized in net income in 2007. These amounts were previously recorded in other comprehensive income.

Existing net gains of \$20 million deferred in accumulated other comprehensive income as at December 31, 2007 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 derivative instruments not designated for hedging purposes is as follows:

<i>(millions of dollars except where noted)</i>	Notional Quantity 2007	Fair Value	Notional Quantity 2006	Fair Value
Foreign exchange derivative instruments	U.S.\$14	(2)	-	-
Commodity derivative instruments				
Assets	9.9 TWh	14	3.9 TWh	25
Liabilities	1.2 TWh	(10)	2.6 TWh	(25)
		2		-
Market liquidity reserve		(2)		(2)
Total		-		(2)

Foreign exchange derivative instruments that are not designated as hedges have a weighted average exchange rate of U.S. \$0.86 at December 31, 2007.

Fair Value of Other Financial Instruments

The carrying values of financial instruments such as in cash and cash equivalents, accounts receivable, long-term accounts receivable and other assets, accounts payable and accrued charges, and long-term accounts payable and accrued charges approximate their fair values. Fair values for other financial instruments have been estimated by reference to quoted market prices for actual or similar instruments where available.

The carrying values and fair values of these other financial instruments as at December 31, 2007 and 2006 are as follows:

<i>(millions of dollars)</i>	Carrying Value 2007	Fair Value	Carrying Value 2006	Fair Value
Financial Assets				
Nuclear fixed asset removal and nuclear waste management funds	9,263	9,263	7,594	8,113
Financial Liabilities				
Long-term debt due within one year	407	409	406	409
Long-term debt	3,446	3,502	2,953	3,082

Credit Risk

Credit risk is the financial risk of non-performance by contractual counterparties. Credit risk excludes any operational risk resulting from a third party failing to deliver a product or service as expected. As the majority of OPG's sales are through the IESO administered spot market, OPG management accepts this credit risk due to the IESO's primary role in the Ontario electricity market. This confidence is based on the IESO's own credit risk management policies and practices, which require all spot market participants to meet specific standards for creditworthiness. Additionally, in the event of a participant default, the loss is shared on a pro-rata basis among all participants thus reducing the specific exposure to OPG.

Credit exposure to the IESO fluctuates based on spot prices and the volume of rate regulated and unregulated generation, and is reduced each month upon settlement of the accounts. Credit exposure to the IESO peaked at \$883 million in 2007 (2006 – \$1,029 million).

OPG's second element of credit risk relates to the exposures created by companies ("counterparties") who are contracted to provide services or products. OPG manages this risk using a comprehensive credit risk management function that independently evaluates all major counterparties and provides continuous input to business units who acquire these services.

14. COMMON SHARES

As at December 31, 2007 and 2006, 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.

15. 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 in the amount of \$500 million (the "Claim") was served on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited ("British Energy"), claiming that OPG is liable to them for breach of contract and negligence. OPG leased the Bruce nuclear generating stations to Bruce Power L.P. in 2001. British Energy was an investor in Bruce Power L.P. In 2003, British Energy sold its interest in Bruce Power L.P. to a group of investors (the "Purchasers"). The Purchasers are claiming that British Energy is liable to them with respect to this purchase transaction. Their claim is currently the subject of an arbitration proceeding (the "Arbitration"). British Energy is therefore suing OPG in order to preserve any similar claim it may have against OPG pursuant to the 2001 lease transaction. British Energy has indicated that it does not require OPG to actively defend the Claim at this point in time as British Energy is defending the Arbitration commenced by the Purchasers. The Arbitration may narrow or eliminate the claims or damages British Energy has, so as to narrow or eliminate the need to continue the Claim against OPG. British Energy has reserved the right to require OPG to defend the Claim prior to the conclusion of the Arbitration should British Energy at some point believe there is some advantage in doing so.

Certain First Nations have commenced actions for interference with reserve and traditional land rights. The claims by some of these First Nations total approximately \$163 million and claims by others are for unspecified amounts. In 2007, OPG recorded additional expenses associated with past grievances by First Nations.

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

OPG was required to assume certain environmental obligations from Ontario Hydro. A provision of \$76 million was established as at April 1, 1999 for such obligations. During 2007, OPG recorded expenditures of \$2 million (2006 – \$4 million). As at December 31, 2007, the remaining provision was \$45 million (2006 – \$52 million).

Current operations are subject to regulation with respect to air, soil and water quality and 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 interim consolidated financial statements to meet OPG's current environmental obligations.

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, 2007 are as follows:

<i>(millions of dollars)</i>	2008	2009	2010	2011	2012	Thereafter	Total
Contractual obligations:							
Fuel supply agreements	694	417	325	258	219	374	2,287
Contributions under the ONFA ¹	454	350	350	317	308	1,239	3,018
Long-term debt repayment	400	350	970	375	400	1,170	3,665
Interest on long-term debt	201	183	152	103	75	288	1,002
Unconditional purchase obligations	18	17	16	12	13	174	250
Long-term accounts payable	9	-	-	-	-	-	9
Operating lease obligations	12	12	13	13	13	2	65
Operating licence	20	19	21	22	22	-	104
Pension contributions ²	260	-	-	-	-	-	260
Other	33	31	34	32	18	42	190
	2,101	1,379	1,881	1,132	1,068	3,289	10,850
Significant commercial commitments:							
Niagara Tunnel	146	258	34	-	-	-	438
Other hydroelectric projects	48	8	1	-	-	-	57
Portlands Energy Centre	59	5	3	3	3	46	119
Total	2,354	1,650	1,919	1,135	1,071	3,335	11,464

¹ Contributions under the ONFA are subject to adjustment due to the 2006 Approved Reference Plan.

² The pension contributions include additional funding requirements towards the deficit and ongoing funding requirements in accordance with the actuarial valuation as at January 1, 2005. The contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, and the timing of funding valuations. Funding requirements after 2008 are excluded due to significant variability in the assumptions required to project the timing of future cash flows. The pension contributions are subject to change as a result of the filing of the actuarial valuation in 2008.

Niagara Tunnel

The Niagara Tunnel project will increase the amount of water flowing to existing turbines at OPG's Sir Adam Beck generating stations in Niagara Falls, allowing the stations to more effectively utilize available water. At December 31, 2007, the tunnel boring machine had advanced 1,609 metres. The progress of the tunnel boring machine by the design-build contractor through a fractured rock formation has been slower than expected. Considerable uncertainty remains with respect to the schedule until the

tunnel boring machine advances sufficiently beyond the St. David's gorge to approximately 2,300 metres, and establishes consistent tunneling performance.

The contract structure places the onus on the contractor to mitigate schedule delays, and includes liquidated damages provisions for failure to meet the contractual in-service date.

Based on the information provided by the contractor, the in-service date of the tunnel will be delayed. To mitigate the impact of the schedule delay, the contractor is investigating alternatives, including the realignment of the tunnel. The estimated in-service date will be dependent on the alternative selected by the contractor. Considerable uncertainty remains with respect to the schedule for any of the contractor's alternatives until the tunnel boring machine has advanced beyond the St. David's gorge.

There is a potential that the schedule delay could impact the project cost. The project cost estimate of \$985 million will be reviewed in conjunction with the changes to the project completion schedule and a review of actual subsurface rock conditions compared to those that were anticipated as part of the design-build contract.

The capital project expenditures for the year ended December 31, 2007 were \$60 million and life-to-date capital expenditures were \$303 million. The project is debt financed through the OEFC.

Lac Seul

OPG is constructing a new 12.5 MW hydroelectric generating station on the English River. The new Lac Seul generating station will utilize a majority of the spill currently passing the existing Ear Falls generating station, thus increasing the overall efficiency, capacity and energy generated from this location. A design-build contract was awarded and construction started during the first quarter of 2006. In accordance with the contractor's original schedule, the project was expected to be in-service in the fourth quarter of 2007. However, the contractor has advised OPG that the project is now expected to be in-service in the third quarter of 2008.

Life-to-date expenditures are \$41 million. Total project costs are expected to be \$47 million. The project is debt financed through the OEFC.

On December 20, 2007, the Ontario Government issued a directive to the Ontario Power Authority ("OPA") instructing the OPA to negotiate and execute a Hydroelectric Energy Supply Agreement for Lac Seul by January 31, 2008. The Lac Seul Hydroelectric Energy Supply Agreement was executed in January 2008.

Portlands Energy Centre

OPG entered into a partnership with TransCanada Energy Ltd., through the Portlands Energy Centre L.P. ("PEC"), to pursue the development of a 550 MW gas-fired, combined cycle station on the site of the former R.L. Hearn generating station, near downtown Toronto. OPG has a 50 per cent ownership interest in the joint venture.

Construction of the generating station started in 2006 and it is expected to be operational in a simple cycle mode with a capacity of up to 340 MW by June 1, 2008. The simple cycle mode will only operate as needed during the summer of 2008, after which the generating station will be taken out of service to enable construction to be completed on the combined cycle mode.

The plant is expected to be completed and fully operational in the second quarter of 2009, providing up to 550 MW of power in a combined cycle mode. Project costs are expected to be within the approved budget of \$730 million excluding capitalized interest. A significant proportion of this capital cost relates to an engineer-procure-construct contract to construct the facility.

OPG's share of capital project expenditures for the year ended December 31, 2007 was \$176 million. OPG's share of the life-to-date capital expenditures was \$273 million. OPG's share of the project is debt financed through the OEFC.

Other Commitments

In addition to the above 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, 2009 and December 31, 2010, respectively. As at December 31, 2007, OPG had approximately 11,700 regular employees and approximately 90 per cent of its regular labour force is covered by the collective bargaining agreements.

Contractual and commercial commitments above 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 discuss 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.

16. REVENUE LIMIT REBATE

Eighty-five per cent of the generation output from OPG's unregulated generation assets, excluding the Lennox generating station, stations whose generation output is subject to a HESA with the OPA pursuant to a ministerial direction, and forward sales as of January 1, 2005, is subject to a revenue limit. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets is also excluded from the output covered by the revenue limit. In addition, until the TRO expired on April 30, 2006, volumes sold under such options were also excluded from the revenue limit rebate.

The revenue limit, which was originally established for a period of 13 months ending April 30, 2006, was subsequently extended for an additional three years. Starting May 1, 2006, the revenue limit decreased to 4.6¢/kWh from the previous limit of 4.7¢/kWh. On May 1, 2007, the revenue limit returned to 4.7¢/kWh and it will increase to 4.8¢/kWh effective May 1, 2008. In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the OPA are subject to a revenue limit that is 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these limits are returned to the IESO for the benefit of consumers.

The changes in the revenue limit rebate liability are as follows:

<i>(millions of dollars)</i>	2007	2006
Liability, beginning of the year	40	739
Increase to provision during the year	227	161
Payments made during the year	(167)	(860)
Liability, end of year	100	40

17. OTHER GAINS AND LOSSES

<i>(millions of dollars)</i>	2007	2006
Impairment loss on the Thunder Bay and Atikokan coal-fired generating stations <i>(Note 5)</i>	-	22
Change in estimated cost required to decommission the Lakeview generating station	(20)	-
Impairment loss on investments in ABCP <i>(Note 6)</i>	10	-
Other (gains) and losses	(10)	22

The demolition of the former Lakeview coal-fired generating station was substantially completed during 2007. During the fourth quarter of 2007, the Company re-estimated the costs to complete the remaining work to remediate the site in 2008. As a result, OPG recorded a recovery of \$20 million in other gains and losses to reflect a change in the estimated costs.

OPG conducted an analysis to determine the fair market value of its third-party ABCP holdings as at December 31, 2007. After reviewing this matter in detail, OPG recorded a write-down of \$10 million. Further details on OPG's investments in third-party ABCP are disclosed in Note 6 of the consolidated annual financial statements.

18. BUSINESS SEGMENTS

Effective April 1, 2005, the output from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that it operates became rate regulated. With the introduction of rate regulation, OPG revised its reportable business segments to separately reflect the regulated and unregulated aspects of its business. Commencing in the first quarter of 2006, OPG separated the Unregulated Generation business segment into two reportable segments identified as Unregulated – Fossil-Fuelled and Unregulated – Hydroelectric, as a result of changes in the management structure of these segments.

Regulated – Nuclear Segment

OPG's Regulated – Nuclear business segment operates in Ontario, generating and selling electricity from the nuclear generating stations that OPG owns and operates. The business segment includes electricity generated by the Pickering A and B, and Darlington nuclear generating stations.

OPG's Regulated – Nuclear business segment includes revenue under the terms of a lease arrangement with Bruce Power related to the Bruce nuclear generating stations. The arrangement includes lease revenue, interest income and revenue from engineering analysis and design, technical and other services. The Regulated – Nuclear business segment also includes revenue earned from isotope sales and ancillary services. Ancillary revenues are earned through voltage control/reactive support. These revenues are included in the Regulated – Nuclear business segment since they were included in determining the regulated price for production from the nuclear facilities operated by OPG.

Bruce Nuclear Generating Stations

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

Under the terms of the lease, OPG agreed to transfer certain fuel and material inventory to Bruce Power, in addition to certain fixed assets. Pension assets and liabilities related to the approximately 3,000 employees were transferred to Bruce Power. Bruce Power assumed the liability for other post employment benefits for these employees. OPG makes payments to Bruce Power in respect of other post employment benefits of approximately \$2.3 million per month over a 72-month period, ending in 2008.

As part of the closing, OPG recorded deferred revenue to reflect the initial payments of \$595 million less net assets transferred to Bruce Power under the lease agreement. The deferred revenue is being amortized over the initial lease term of approximately 18 years and is recorded as revenue.

In December 2002, British Energy plc. entered into an agreement to dispose of its entire 82.4 per cent interest in Bruce Power. The transaction was completed in February 2003 and a consortium of Canadian companies assumed the lease of the Bruce A and Bruce B nuclear generating stations that was formerly held by British Energy plc. The Bruce facilities will continue to be operated by Bruce Power. Upon closing of the transaction, a \$225 million note receivable was paid to OPG, and lease payments commenced to be paid monthly. Proceeds from the note and applicable interest were to be applied by March 2008 against OPG's funding requirements with respect to the nuclear fixed asset removal and nuclear waste management liabilities. OPG made an extraordinary contribution of \$334 million to the Used Fuel Fund in December 2007.

As part of the agreement reached in October 2005 between the Province and Bruce Power, OPG received a Shareholder Declaration from the Province instructing OPG's Board of Directors to accept certain amendments to the lease agreement. These amendments included a change to the provisions regarding the transfer of Bruce Power's interest in the site and included a reduction of the annual lease payment for three of the four refurbished Bruce A units to \$5.5 million per unit (in 2002 dollars, escalated at Consumer Price Index, that will affect the three Bruce A units to be refurbished, once the planned future refurbishments are completed. These changes to the lease agreement will affect OPG when Units 1 and 2 of the Bruce A nuclear generating station are returned to service, and when Unit 3 is refurbished at the end of its current operational life. Other changes to the existing arrangements were made to address Cameco Corporation's decision not to participate in the refurbishment of the Bruce A nuclear generating station.

For 2004 through 2008, minimum payments under the lease are \$190 million annually, subject to limited exceptions. The lease revenue of \$253 million (2006 – \$251 million) was recorded in revenue. The remaining terms of the operating lease agreement will remain substantially unchanged until the planned future refurbishments are completed.

The net book value of fixed assets on lease to Bruce Power at December 31, 2007 was \$1,201 million (2006 – \$1,273 million). The net book value at December 31, 2006 includes the impact of the increase in the nuclear fixed asset removal and nuclear waste management liabilities relating to the Bruce units as a result of the 2006 Approved Reference Plan described in Note 10 to the audited consolidated financial statements.

Regulated – Hydroelectric Segment

OPG's Regulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from most of OPG'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. The Regulated – Hydroelectric business segment also includes ancillary revenues related to these stations earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control/reactive support, certified black start facilities and automatic generation control.

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. The Unregulated – Hydroelectric business segment also includes ancillary revenues earned through offering available generating capacity as operating reserve, and through the supply of other ancillary services including voltage control/reactive support, certified black start facilities and automatic generation control, and revenues from other services.

Unregulated – Fossil-Fuelled Segment

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

Other

OPG earns revenue from its joint venture share of Brighton Beach related to an energy conversion agreement between Brighton Beach and Coral. 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 business segments include an inter-segment service fee for the use of certain property, plant and equipment of the Other category. The total service fee is recorded as a reduction to the Other category's OM&A expenses. For the year ended December 31, 2007, the service fee was \$33 million for Regulated – Nuclear, \$2 million for Regulated – Hydroelectric, \$4 million for Unregulated – Hydroelectric and \$11 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$50 million for the Other category. For the year ended December 31, 2006, the service fee was \$30 million for Regulated – Nuclear, \$3 million for Regulated – Hydroelectric, \$4 million for Unregulated – Hydroelectric and \$11 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$48 million for the Other category.

Segment (Loss) Income for the Year Ended December 31, 2007 <i>(millions of dollars)</i>	Regulated		Unregulated			Total
	Nuclear	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	
Revenue	2,581	695	763	1,713	135	5,887
Revenue limit rebate	-	-	(64)	(163)	-	(227)
	2,581	695	699	1,550	135	5,660
Fuel expense	133	244	81	812	-	1,270
Gross margin	2,448	451	618	738	135	4,390
Operations, maintenance and administration	2,061	123	207	573	10	2,974
Depreciation and amortization	426	68	68	82	51	695
Accretion on fixed asset removal and nuclear waste management liabilities	499	-	-	8	-	507
Earnings on nuclear fixed asset removal and nuclear waste management funds	(481)	-	-	-	-	(481)
Property and capital taxes	31	11	10	21	12	85
(Loss) income before other gains and losses	(88)	249	333	54	62	610
Other (gains) and losses <i>(Note 17)</i>	(4)	-	4	(20)	10	(10)
(Loss) income before interest and income taxes	(84)	249	329	74	52	620

Segment Income (Loss) for the Year Ended December 31, 2006 <i>(millions of dollars)</i>	Regulated		Unregulated			Total
	Nuclear	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	
Revenue	2,665	685	780	1,430	165	5,725
Revenue limit rebate	-	-	(44)	(117)	-	(161)
	2,665	685	736	1,313	165	5,564
Fuel expense	122	245	88	643	-	1,098
Gross margin	2,543	440	648	670	165	4,466
Operations, maintenance and administration	1,942	92	189	524	5	2,752
Depreciation and amortization	368	66	69	133	53	689
Accretion on fixed asset removal and nuclear waste management liabilities	490	-	-	9	-	499
Earnings on nuclear fixed asset removal and nuclear waste management funds	(371)	-	-	-	-	(371)
Property and capital taxes	44	18	15	19	10	106
Income (loss) before other gains and losses	70	264	375	(15)	97	791
Other (gains) and losses <i>(Note 17)</i>	-	-	-	22	-	22
Income (loss) before interest and income taxes	70	264	375	(37)	97	769

<i>(millions of dollars)</i>	Regulated		Unregulated			Total
	Nuclear	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	
Selected Balance Sheet Information						
As at December 31, 2007						
Segment fixed assets in service, net	4,030	3,871	2,996	422	508	11,827
Segment construction work in progress	210	299	88	322	31	950
Segment property, plant and equipment, net	4,240	4,170	3,084	744	539	12,777
Segment materials and supplies inventory, net:						
Short-term	73	1	-	51	-	125
Long-term	346	-	3	4	-	353
Segment fuel inventory	231	-	-	373	-	604
As at December 31, 2006						
Segment fixed assets in service, net	4,213	3,907	3,012	408	544	12,084
Segment construction work in progress	165	252	78	145	37	677
Segment property, plant and equipment, net	4,378	4,159	3,090	553	581	12,761
Segment materials and supplies inventory, net:						
Short-term	63	1	-	48	-	112
Long-term	320	-	3	3	-	326
Segment fuel inventory	183	-	-	486	-	669
Selected Cash Flow Information						
Year ended December 31, 2007						
Investment in fixed assets	207	80	66	270	43	666
Year ended December 31, 2006						
Investment in fixed assets	173	171	81	71	141	637

19. RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province, the other successor entities of Ontario Hydro, including Hydro One Inc. ("Hydro One"), the IESO, and the OEFC. OPG also enters into related party transactions with its joint ventures. 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
	2007	2007	2006	2006
Hydro One				
Electricity sales	28	-	34	-
Services	-	12	-	13
Province of Ontario				
GRC water rentals and land tax	-	129	-	132
Guarantee fee	-	8	-	8
Used Fuel Fund rate of return guarantee	-	(130)	-	96
Decommissioning Fund excess funding	-	(291)	-	(7)
OEFC				
GRC and proxy property tax	-	199	-	205
Interest income on receivable	-	(6)	-	(29)
Interest expense on long-term notes	-	187	-	203
Capital tax	-	32	-	51
Income taxes	-	(51)	-	86
Indemnity fees	-	-	-	2
IESO				
Electricity sales	5,094	104	5,029	146
Revenue limit rebate	(227)	-	(161)	-
Ancillary services	145	-	132	-
Other	-	1	1	1
	5,040	194	5,035	907

During 2006, OPG's Board of Directors approved the payment of a dividend to its shareholder, the Province. The declared dividend of \$128 million represents 35 per cent of OPG's 2005 net income and was paid in November 2006.

At December 31, 2007, accounts receivable included \$2 million (2006 – \$8 million) due from Hydro One and \$211 million (2006 – \$71 million) due from the IESO. Accounts payable and accrued charges at December 31, 2007 included \$2 million (2006 – \$2 million) due to Hydro One.

20. JOINT VENTURES

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

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

<i>(millions of dollars)</i>	2007	2006
Proportionate joint venture operations		
Operating revenue	43	39
Operating expenses	(24)	(19)
Net income	19	20
Proportionate joint venture cash flows		
Operating activities	1	17
Investing activities	(165)	(109)
Financing activities	164	(6)
Share of changes in cash	-	(98)
Proportionate joint venture balance sheets		
Current assets	38	25
Long-term assets	533	379
Current liabilities	(24)	(25)
Long-term liabilities	(185)	(191)
Share of net assets	362	188

21. 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 into the Company's consolidated financial statements. The carrying amount of OPGV's investments was \$45 million (2006 – \$32 million) and the amount was included as long-term accounts receivable and other assets on the consolidated balance sheets.

As a result of the application of this policy, the Company's net income and other assets for 2007 increased by \$13 million (2006 – \$2 million). The net realized gains and losses for OPGV was nil in 2007 (2006 – \$1 million).

The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2007 were \$19 million and \$15 million, respectively. The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2006 were \$5 million and \$14 million, respectively.

22. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2007, \$88 million (2006 – \$66 million) of research and development expenses were charged to operations.

23. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

<i>(millions of dollars)</i>	2007	2006
Accounts receivable	(97)	303
Prepaid expenses	(9)	-
Fuel inventory	65	(88)
Materials and supplies	(13)	-
Revenue limit rebate payable	227	161
Accounts payable and accrued charges	(42)	54
Income and capital taxes payable	(62)	47
	69	477