

August 14, 2009

ONTARIO POWER GENERATION REPORTS 2009 SECOND QUARTER FINANCIAL RESULTS

[Toronto]: Ontario Power Generation Inc. (“OPG” or the “Company”) today reported its financial and operating results for the three and six months ended June 30, 2009. Net income for the second quarter of 2009 was \$306 million compared to net income of \$99 million for the same period in 2008. Net income for the six months ended June 30, 2009 was \$297 million compared to \$261 million for the same period in 2008.

Net income for the second quarter of 2009 was favourably impacted by the recognition of a regulatory asset related to a tax loss variance account authorized by the Ontario Energy Board (“OEB”) effective April 1, 2008, and higher earnings from the Nuclear Funds. The favourable net income impacts were \$141 million and \$193 million, respectively.

“In the second quarter, OPG’s operating and financial results continued to be affected by reduced electricity demand in Ontario and lower spot market electricity prices. In light of these conditions, we have intensified our efforts on prudent financial operations by instituting cost constraint measures and pursuing further cost reduction opportunities” said President and CEO Tom Mitchell.

Total electricity generated in the second quarter of 2009 of 20.9 terawatt hours (“TWh”) was 19 percent lower than second quarter 2008 production of 25.9 TWh, primarily a result of lower electricity production from the fossil-fuelled and nuclear stations. Fossil-fuelled generation decreased to 1.8 TWh from 5.5 TWh in the same quarter in 2008. This decrease was primarily due to lower electricity demand in Ontario and an increase in electricity production from other Ontario generators. Nuclear production decreased by 0.9 TWh primarily as a result of a successful planned vacuum building outage at the Darlington nuclear generating station which required a shutdown of all four units. This decrease in generation at the Darlington station was partially offset by an increase in production at the Pickering stations. For the six months ended June 30, 2009, total production from OPG’s generating stations was 46.5 TWh compared to 55.3 TWh for the same period in 2008. This decrease primarily reflects lower fossil production of 6.4 TWh.

Capability factors at the Pickering A and B stations improved significantly during the second quarter in comparison to the second quarter of 2008, while the Darlington station experienced a decrease in its capability factor as a result of the planned vacuum building outage. The reliability of the hydroelectric stations improved during the second quarter and on a year-to-date basis compared with 2008, primarily as a result of strong equipment performance, and deferral and re-scheduling of planned outages to increase availability during periods of high water levels. The reliability of

the fossil-fuelled stations also improved during the second quarter and on a year-to-date basis compared with 2008, consistent with OPG's operating strategy to limit the number of coal-fired units offered into the electricity market.

Segmented Financial Results

OPG's income before interest and income taxes was \$354 million in the second quarter of 2009 compared to \$130 million for the three months ended June 30, 2008.

Income before interest and income taxes from OPG's electricity generating segments was \$191 million in the second quarter of 2009 compared to \$172 million for the three months ended June 30, 2008. Gross margin increased primarily due to the recognition of a regulatory asset related to the tax loss variance account as a result of a 2009 OEB decision and the corresponding increase in revenue, and higher prices received for production from OPG's regulated stations. This increase was partially offset by lower prices received for production from OPG's unregulated stations, lower fossil-fuelled and nuclear generation, and higher fuel prices and fuel related costs. The unfavourable impact of lower generation, lower electricity sales prices, and higher fuel related costs at OPG's fossil-fuelled stations, was largely offset by revenues related to a contingency support agreement established with the Ontario Electricity Financial Corporation to provide for the continued reliability and availability of OPG's Nanticoke and Lambton generating stations.

Income before interest and income taxes from OPG's Regulated – Nuclear Waste Management segment was \$143 million in the second quarter of 2009 compared to a loss before interest and taxes of \$43 million for the three months ended June 30, 2008, an improvement of \$186 million. Earnings from the Nuclear Funds, before the impact of a variance account approved by the OEB to capture the differences between actual and forecast revenues and costs related to the nuclear generating stations on lease to Bruce Power, were \$451 million for the second quarter of 2009, compared to \$108 million in the same quarter of 2008, an increase of \$343 million. This increase in the earnings was primarily due to favourable returns from the Decommissioning Fund due to improvements in trading levels of global financial markets. The earnings from the Nuclear Funds were affected by the establishment of the Bruce variance account, effective April 1, 2008, for the portion of the earnings from the Nuclear Funds related to the nuclear generating stations on lease to Bruce Power. OPG recorded a reduction of \$150 million in this variance account related to the Nuclear Funds during the second quarter of 2009, which reduced the reported earnings from the Nuclear Funds.

OPG's income before interest and income taxes was \$463 million for the six months ended June 30, 2009 compared to \$324 million for the six months ended June 30, 2008.

Income before interest and income taxes from OPG's electricity generating segments was \$434 million for the six months ended June 30, 2009 compared to \$553 million for the same period in 2008. Gross margin decreased primarily as a result of lower prices received for production from OPG's unregulated stations, lower fossil and nuclear generation, and higher fuel prices and fuel related costs. These unfavourable impacts were partially offset by the recognition of a regulatory asset as a result of the OEB's decision and the corresponding increase in revenue, higher prices received for production from OPG's regulated stations, and revenues related to the contingency support agreement for the Nanticoke and Lambton generating stations.

Income before interest and income taxes for the six months ended June 30, 2009 also decreased compared to 2008 as a result of higher OM&A expenses due to an increase in planned outage and maintenance activities.

For the six months ended June 30, 2009, there was a loss before interest and income taxes of \$21 million in the Regulated – Nuclear Waste Management segment compared to a loss of \$228 million for the same period in 2008. This improvement was primarily due to favourable returns from the Decommissioning Fund due to improvements in trading levels of global financial markets.

Generation Development

OPG is undertaking a number of generation development projects aimed at significantly contributing to Ontario's long-term electricity supply requirements. The status of these projects is as follows:

Nuclear

- On June 29, 2009, the Government of Ontario suspended the competitive Request for Proposal ("RFP") process to procure two new nuclear reactors planned for the Darlington site. In the announcement, the Government indicated that the competitive RFP process did not provide Ontario with a suitable option at this time. OPG is continuing with two initiatives that were underway – the environmental assessment process and obtaining a site preparation licence.
- During the April 15 to May 25, 2009 period, all four units at the Darlington station were taken out of service for the planned vacuum building outage, which is a requirement every twelve years. Critical inspection and testing associated with key components in the vacuum building was performed to ensure its continued availability. During the outage, other work, including reactor feeder inspections and replacement, pressure tube inspections, turbine-generator maintenance, and valve and electrical maintenance was also completed. The inspections confirmed the excellent physical condition of the containment building. The vacuum building outage was successfully completed and three of the four units were returned to service in May. The fourth unit was returned to service in July as part of a scheduled outage.

Hydroelectric

- With respect to the Niagara tunnel project, at June 30, 2009, the tunnel boring machine had advanced to 4,568 metres, which represents 45 percent of the tunnel length. Progress of the tunnel boring machine has improved following realignment of the tunnel to reduce overbreak and minimize the remaining excavation in the Queenston shale formation. The installation of the tunnel concrete lining is progressing well and is ahead of the revised schedule. OPG and the contractor renegotiated the design-build contract with a revised target cost and schedule. The target cost and schedule take into account the difficult rock conditions encountered and the concurrent tunnel excavation and liner installation work required for completion of the tunnel. The contract includes incentives and disincentives related to achieving the target cost and schedule. The original project cost was estimated at \$985 million with a scheduled completion of

June 2010. The revised project cost estimate is \$1.6 billion and the revised schedule completion date is December 2013.

- OPG entered into a partnership agreement with the Lac Seul First Nation (“LSFN”) regarding the 12.5 MW Lac Seul generating station. In July 2009, OPG transferred ownership of the station to the partnership. OPG has a 75 percent interest in the partnership, while the LSFN have a 25 percent interest.
- Project financing was completed for the Upper Mattagami and Hound Chute development projects in May 2009. Senior Notes totaling \$200 million were issued by the UMH Energy Partnership, a general partnership between OPG and UMH Energy Inc., a wholly-owned subsidiary of OPG. In the second quarter of 2008, OPG entered into a \$100 million five-year revolving committed bank credit facility in support of this project. The total project cost is estimated to be \$300 million.
- The development plan to increase the generating capacity of four hydroelectric generating stations on the Lower Mattagami River from 483 MW to 933 MW is proceeding, and is expected to be finalized in the fourth quarter of 2009. A comprehensive study process must be followed under Canadian Environment Assessment Agency regulations. The Federal Environmental Assessment Comprehensive Study Report will be issued for comment in the third quarter of 2009. OPG engaged in consultation with Aboriginal communities regarding the project. A comprehensive agreement has been negotiated with a local First Nations that resolves grievances attributed to the construction and subsequent operation and maintenance of OPG facilities in the area. The new agreement will also provide the First Nation with an ability to purchase up to a 25 percent equity interest in the project.

Natural Gas

- The Portlands Energy Centre (“PEC”) is a 550 MW high-efficiency, combined cycle, natural gas generation plant designed to meet downtown Toronto’s need for electricity. PEC is a limited partnership between OPG and TransCanada Energy Ltd. PEC was declared in-service in a combined cycle mode in April 2009, earlier than the contractual in-service date of June 2009.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

<i>(millions of dollars – except where noted)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
<i>Earnings</i>				
Revenue after revenue limit rebate	1,397	1,385	2,878	2,948
Fuel expense	220	277	481	581
Gross margin	1,177	1,108	2,397	2,367
Operations, maintenance and administration expense	762	750	1,504	1,441
Depreciation and amortization	185	160	363	335
Accretion on fixed asset removal and nuclear waste management liabilities	159	152	318	287
Earnings on nuclear fixed asset removal and nuclear waste management funds	(301)	(108)	(295)	(57)
Other net expenses	18	24	44	37
Income before interest and income taxes	354	130	463	324
Net interest expense	43	39	82	79
Income tax expenses (recoveries)	5	(8)	84	(16)
Net income	306	99	297	261
<i>Cash flow</i>				
Cash flow (used in) provided by operating activities	(183)	151	(142)	396
<i>Income (loss) before interest and income taxes</i>				
Generating segments	191	172	434	553
Nuclear Waste Management segment	143	(43)	(21)	(228)
Other segment	20	1	50	(1)
Total income before interest and income taxes	354	130	463	324

FINANCIAL AND OPERATIONAL HIGHLIGHTS

<i>(millions of dollars – except where noted)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
<i>Electricity Generation (TWh)</i>				
Regulated – Nuclear	9.2	10.1	21.5	23.4
Regulated – Hydroelectric	4.9	4.9	9.6	9.5
Unregulated – Hydroelectric	5.0	5.4	9.3	9.9
Unregulated – Fossil-Fuelled	1.8	5.5	6.1	12.5
Total electricity generation	20.9	25.9	46.5	55.3
<i>Average electricity sales price (¢/kWh)</i>				
Regulated – Nuclear	5.5	4.9	5.5	4.9
Regulated – Hydroelectric	3.9	3.6	3.7	3.6
Unregulated – Hydroelectric	2.6	4.7	3.4	4.7
Unregulated – Fossil-Fuelled	3.2	5.0	4.3	4.9
OPG average sales price	4.2	4.6	4.6	4.7
<i>Nuclear unit capability factor (percent)</i>				
Darlington	52.5	80.7	76.1	89.8
Pickering A	72.2	63.3	57.4	70.5
Pickering B	81.4	57.3	83.2	71.9
<i>Equivalent forced outage rate (percent)</i>				
Unregulated – Fossil-Fuelled	8.4	10.4	10.4	13.1
<i>Availability (percent)</i>				
Regulated – Hydroelectric	93.7	93.2	94.0	93.4
Unregulated– Hydroelectric	97.5	97.6	96.5	96.6

Ontario Power Generation Inc. is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. Our focus is on the efficient production and sale of electricity from our generation assets, while operating in a safe, open and environmentally responsible manner.

Ontario Power Generation Inc.'s unaudited consolidated financial statements and Management's Discussion and Analysis as at and for the three and six months ended June 30, 2009, can be accessed on OPG's Web site (www.opg.com), the Canadian Securities Administrators' Web site (www.sedar.com), or can be requested from the Company.

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2009 SECOND QUARTER REPORT

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ONTARIO POWER GENERATION INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the three months and six months ended June 30, 2009. For a complete description of OPG's corporate strategies, risk management, corporate governance, related parties transactions and the effect of critical accounting policies and estimates on OPG's results of operations and financial condition, this MD&A should also be read in conjunction with OPG's audited consolidated financial statements, accompanying notes, and MD&A as at and for the year ended December 31, 2008. Certain of the 2008 comparative amounts have been reclassified to conform to the 2009 presentation. OPG's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This MD&A is dated August 13, 2009.

FORWARD-LOOKING STATEMENTS

The MD&A contains forward-looking statements that reflect OPG's current views regarding certain future events and circumstances. Any statement contained in this document that is not current or historical is a forward-looking statement. OPG generally uses words such as "anticipate", "believe", "foresee", "forecast", "estimate", "expect", "schedule", "intend", "plan", "project", "seek", "target", "goal", "strategy", "may", "will", "should", "could" and other similar words and expressions to indicate forward-looking statements. The absence of any such word or expression does not indicate that a statement is not forward-looking.

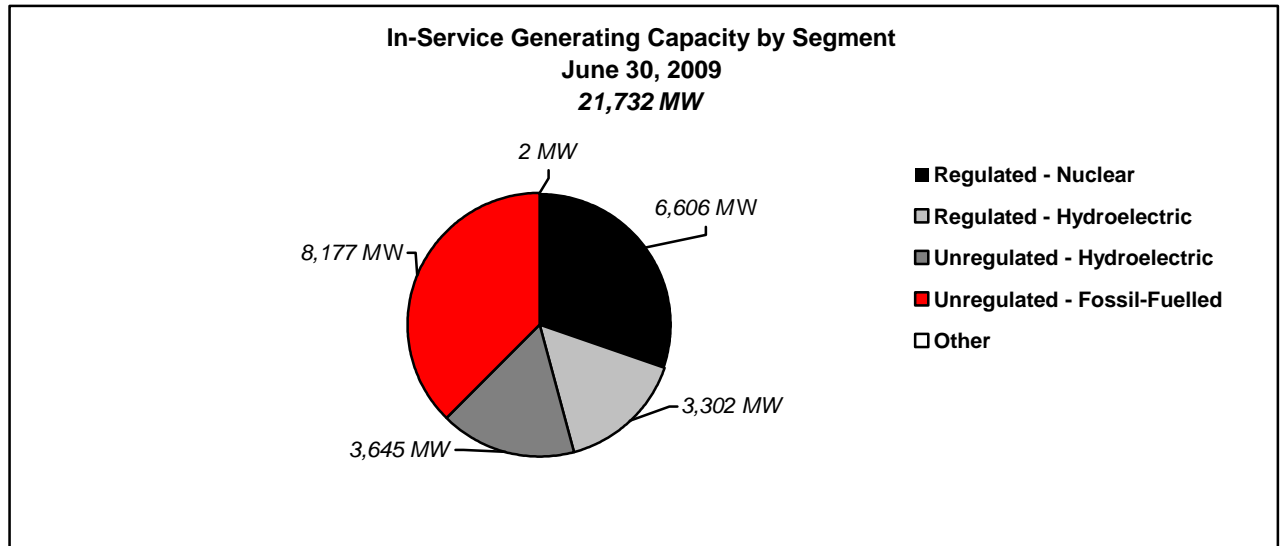
All forward-looking statements involve inherent assumptions, risks and uncertainties and, therefore, could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's fuel costs and availability, asset performance, nuclear decommissioning and waste management, closure of coal-fired generating stations, refurbishment of existing facilities, development and construction of new facilities, pension and other post employment benefit ("OPEB") obligations, income taxes, spot electricity market prices, proposed new legislation, the ongoing evolution of the Ontario electricity industry, environmental and other regulatory requirements, health, safety and environmental developments, business continuity events, the weather, and the impact of regulatory decisions by the Ontario Energy Board ("OEB"). Accordingly, undue reliance should not be placed on any forward-looking statement. The forward-looking statements included in this MD&A are made only as of the date of this MD&A. OPG does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise.

THE COMPANY

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG's focus is on the efficient production and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner. OPG was established under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the "Province").

At June 30, 2009, OPG's electricity generating portfolio had an in-service capacity of 21,732 megawatts ("MW"). OPG's electricity generating portfolio consists of three nuclear generating stations, five fossil-fuelled generating stations, 65 hydroelectric generating stations, of which four are being redeveloped, and two wind power turbines. In addition, OPG and TransCanada Energy Ltd. co-own the Portlands Energy Centre ("PEC") gas-fired combined cycle generating station. OPG, ATCO Power Canada Ltd. and ATCO Resources Ltd. co-own the Brighton Beach gas-fired combined cycle generating station. OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power L.P. ("Bruce Power").

The decrease in in-service capacity of regulated hydroelectric generation during the second quarter of 2009 compared to capacity at March 31, 2009 was primarily due to the shutdown of the remaining 25 Hertz (“Hz”) system at Units 1 and 2 of the Sir Adam Beck hydroelectric generating station which reduced the capacity by 92 MW. The decrease was partially offset by an increase in in-service capacity of regulated hydroelectric generation during the second quarter as a result of the unit conversion at Sir Adam Beck Unit 7 which added 62 MW of capacity to the Regulated – Hydroelectric segment.



OPG’s Reporting Structure

OPG receives a regulated price for electricity generated from most of its baseload hydroelectric facilities and all of the nuclear facilities that it operates. This comprises electricity generated from the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering A and B and Darlington nuclear facilities. OPG’s regulated prices were established by the OEB in an order issued on December 2, 2008, which was implemented effective April 1, 2008. Previously, the regulated prices were established pursuant to a regulation issued under the *Electricity Restructuring Act, 2004* (Ontario). The operating results from these regulated facilities are described under the Regulated – Nuclear and Regulated – Hydroelectric business segments. For the remainder of OPG’s hydroelectric facilities, the operating results are described under the Unregulated – Hydroelectric business segment. The results from the fossil-fuelled facilities are discussed in the Unregulated – Fossil-Fuelled business segment.

During the fourth quarter of 2008, OPG revised the composition of its reporting segments to correspond with OPG’s strategic business unit structure and changes to internal reporting. As part of the revised internal reporting structure and to improve the transparency of the information provided to stakeholders, a new business segment was created and classified under the caption Regulated – Nuclear Waste Management.

A description of all of OPG’s business segments is provided in OPG’s MD&A as at and for the year ended December 31, 2008 under the heading *Business Segments*. The preceding period figures, as at and for the three and six month periods ended June 30, 2008, have been reclassified to conform with this new presentation.

HIGHLIGHTS

Overview of Results

This section provides an overview of OPG's unaudited interim consolidated operating results. A detailed discussion of OPG's performance by reportable business segment is included under the heading, *Discussion of Operating Results by Business Segment*.

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
<i>Revenue</i>				
Revenue before revenue limit rebate	1,396	1,440	2,905	3,070
Revenue limit rebate	1	(55)	(27)	(122)
	1,397	1,385	2,878	2,948
Fuel expense	220	277	481	581
Gross margin	1,177	1,108	2,397	2,367
<i>Expenses</i>				
Operations, maintenance and administration	762	750	1,504	1,441
Depreciation and amortization	185	160	363	335
Accretion on fixed asset removal and nuclear waste management liabilities	159	152	318	287
Earnings on nuclear fixed asset removal and nuclear waste management funds	(301)	(108)	(295)	(57)
Other net expenses	24	24	50	30
Other (gains) losses	(6)	-	(6)	7
	823	978	1,934	2,043
Income before interest and income taxes	354	130	463	324
Net interest expense	43	39	82	79
Income tax expense (recovery)	5	(8)	84	(16)
Net income	306	99	297	261
<i>Electricity production (TWh)</i>	20.9	25.9	46.5	55.3
<i>Cash flow</i>				
Cash flow (used in) provided by operating activities	(183)	151	(142)	396

Net income for the three months ended June 30, 2009 was \$306 million compared to net income of \$99 million for the same period in 2008, an increase of \$207 million. Income before income taxes for the three months ended June 30, 2009 was \$311 million compared to \$91 million for the same period in 2008, an increase of \$220 million.

Income before interest and income taxes from OPG's electricity generation business segments was \$191 million for the three months ended June 30, 2009 compared to \$172 million for the same period in 2008. The Regulated – Nuclear Waste Management business segment earned income before interest and income taxes of \$143 million for the three months ended June 30, 2009 compared to a loss before interest and income taxes of \$43 million for the same period in 2008.

Net income for the six months ended June 30, 2009 was \$297 million compared to net income of \$261 million for the same period in 2008, an increase of \$36 million. Income before income taxes for the six months ended June 30, 2009 was \$381 million compared to \$245 million for the same period in 2008, an increase of \$136 million.

Income before interest and income taxes from OPG's electricity generation business segments was \$434 million for the six months ended June 30, 2009 compared to \$553 million for the same period in 2008. The Regulated – Nuclear Waste Management business segment incurred a loss before interest and income taxes of \$21 million for the six months ended June 30, 2009 compared to a loss before interest and income taxes of \$228 million for the same period in 2008.

Earnings for the Three Months Ended June 30, 2009

The following is a summary of the factors impacting OPG's results for the three months ended June 30, 2009 compared to results for the same period in 2008, on a before-tax basis:

<i>(millions of dollars – before tax)</i>	Electricity Generation Segments¹	Regulated Nuclear Waste Management Segment	Other²	Total
Income (loss) before income taxes for the three months ended June 30, 2008	172	(43)	(38)	91
Changes in gross margin:				
Change in electricity sales price after revenue limit rebate				
Regulated generation segments	61	-	-	61
Unregulated generation segments	(143)	-	-	(143)
Change in electricity generation by segment:				
Regulated – Nuclear Generation	(45)	-	-	(45)
Regulated – Hydroelectric	1	-	-	1
Unregulated – Hydroelectric	(18)	-	-	(18)
Unregulated – Fossil-Fuelled	(76)	-	-	(76)
Revenue related to contingency support agreement for the Nanticoke and Lambton generating stations	141	-	-	141
Impact of regulatory variance accounts	193	-	-	193
Increase in fuel price and other fuel-related costs	(46)	-	-	(46)
Other changes in gross margin	(15)	1	15	1
	53	1	15	69
Changes in operations, maintenance and administration expenses ("OM&A"):				
Higher expenditures related to increase in planned outage and maintenance activities at OPG's nuclear and fossil-fuelled generating stations	(34)	(1)	(2)	(37)
Impact of regulatory accounts and expenditures related to new nuclear generation development and capacity refurbishment	(10)	-	-	(10)
Decrease in pension and OPEB costs	44	-	-	44
Other changes in OM&A	(13)	-	4	(9)
	(13)	(1)	2	(12)
Increase in earnings from the Nuclear Funds	-	343	-	343
Decrease in regulatory asset related to earnings from the Nuclear Funds associated with stations on lease to Bruce Power	-	(150)	-	(150)
Increase in depreciation and amortization expenses	(21)	-	(4)	(25)
Other changes	-	(7)	2	(5)
Income (loss) before income taxes for the three months ended June 30, 2009	191	143	(23)	311

¹ Electricity generation segments include results of the Regulated – Nuclear Generation, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Fossil-Fuelled segments.

² Other includes results of the Other category in OPG's segmented statement of income, inter-segment eliminations, and net interest expense.

Earnings for the second quarter of 2009 were favourably impacted by an increase in gross margin of \$69 million compared to the same period in 2008. The increase in gross margin in the electricity generation business segments of \$53 million was primarily due to the recognition of a regulatory asset of \$199 million, excluding interest, related to the tax loss variance account authorized by the OEB effective April 1, 2008. The account was authorized by the OEB's decision and order issued in May 2009 on OPG's motion to review, and vary, a portion of the OEB's 2008 decision establishing current regulatory prices as it pertains to the treatment of tax losses and their use for mitigation. In accordance with the OEB's decision on the motion, the balance in this variance account was determined based on the difference between regulatory tax losses for the period from April 1, 2005 to March 31, 2008 calculated in accordance with the methodology specified in the OEB's 2008 decision and the revenue requirement

reduction reflected in current regulated prices. The balance in the variance account will be reviewed by the OEB as part of OPG's next hearing. The variance account resulted in an increase in regulatory assets and a corresponding increase in revenue. The increase in gross margin in the electricity generation business segments was also due to higher regulated prices for generation from OPG's regulated facilities following the OEB's 2008 decision to increase prices effective December 1, 2008, and applicable retrospectively to April 1, 2008.

The increase in gross margin during the three months ended June 30, 2009 compared to the same period in 2008 was partially offset by lower generation at OPG's fossil-fuelled and nuclear generating stations, a decrease in electricity sales prices in the unregulated generation segments, and higher fuel prices and fuel related costs at OPG's fossil-fuelled generating stations. The decrease in average electricity sales prices in the unregulated segments during the second quarter of 2009 compared to the same quarter in 2008 was primarily due to lower Ontario spot electricity market prices. The lower generation at OPG's fossil-fuelled stations was primarily due to lower primary demand, and higher electricity generation from other generators in Ontario. The lower generation at OPG's nuclear generating stations was primarily due to a planned Vacuum Building Outage ("VBO") at the Darlington nuclear generating station during the second quarter of 2009.

The unfavourable impact on gross margin from lower generation, lower electricity sales prices, and higher fuel prices and fuel-related costs at OPG's fossil-fuelled generating stations was largely offset by revenue related to a contingency support agreement established with the Ontario Electricity Financial Corporation ("OEF") to provide for the continued reliability and availability of OPG's Lambton and Nanticoke generating stations. The agreement was put in place in accordance with the Shareholder Resolution that an appropriate recovery mechanism be established to enable OPG to recover the costs of its coal-fired generating stations following implementation of OPG's carbon dioxide ("CO₂") emissions reduction strategy.

For the three months ended June 30, 2009, operations, maintenance and administration ("OM&A") expenses increased by \$12 million compared to the same quarter in 2008. This increase was primarily due to an increase in planned outage and maintenance activities at OPG's nuclear and fossil-fuelled generating stations, the recognition of regulatory liabilities associated with new nuclear generation development and capacity refurbishment, and higher expenditures incurred for these initiatives. The increase was partially offset by a decrease in pension and OPEB costs.

Earnings from the Used Fuel Segregated Fund ("Used Fuel Fund") and the Decommissioning Segregated Fund ("Decommissioning Fund") (together "Nuclear Funds") for the three months ended June 30, 2009 were \$301 million compared to \$108 million during the same period in 2008. The earnings from the Nuclear Funds, before the impact of a variance account approved by the OEB to capture the differences between actual and forecast revenues and costs related to the nuclear generating stations on lease to Bruce Power ("Bruce variance account"), were \$451 million for the second quarter of 2009, compared to \$108 million in the same quarter of 2008, an increase of \$343 million. The increase in the earnings from the Nuclear Funds during the three months ended June 30, 2009 compared to the same period in 2008 was primarily due to improvements in trading levels of global financial markets, which increased the current market value of the Decommissioning Fund. The increase was partially offset by reductions in the Ontario Consumer Price Index ("CPI") during the first half of 2009, which impacted the guaranteed return on the Used Fuel Fund.

The earnings from the Nuclear Funds were affected by the establishment of the Bruce variance account, effective April 1, 2008, for the portion of the earnings from the Nuclear Funds related to the nuclear generating stations on lease to Bruce Power. OPG recorded a reduction to the regulatory asset of \$150 million in this variance account related to the Nuclear Funds during the second quarter of 2009, which reduced the reported earnings from the Nuclear Funds.

The investments in the Nuclear Funds include a diversified portfolio of equities and fixed income securities that are invested across many geographic markets. The Nuclear Funds are invested to fund long-term liability requirements, and as such, the portfolio asset mix is structured to achieve the required return over a long-term investment horizon. While short-term fluctuations in market value will occur, managing the long-term return of the Nuclear Funds remains the primary goal. OPG's earnings on the

Used Fuel Fund are not subject to such capital market volatility since the rate of return on this fund is guaranteed by the Province for the first 2.23 million used fuel bundles.

Depreciation and amortization expenses for the three months ended June 30, 2009 was \$185 million compared to \$160 million for the same period in 2008, an increase of \$25 million. The increase in depreciation and amortization expenses was primarily due to higher amortization of regulatory balances as a result of the OEB's 2008 decision to allow for the recovery of regulatory balances effective December 1, 2008, and applicable retrospectively to April 1, 2008.

For the three months ended June 30, 2009, income tax expense was \$5 million compared to an income tax recovery of \$8 million for the same period in 2008. The increase in income tax expense was primarily due to higher income during the three months ended June 30, 2009 compared to the same period in 2008. The increase was partially offset by the income tax component of the Bruce variance account. Income tax expense for the three months ended June 30, 2008 was favourably impacted by a reduction in income tax liabilities as a result of the resolution of a number of tax uncertainties related to the audit of OPG's 1999 taxation year.

Earnings for the Six Months Ended June 30, 2009

<i>(millions of dollars – before tax)</i>	Electricity Generation Segments¹	Regulated Nuclear Waste Management Segment	Other²	Total
Income (loss) before income taxes for the six months ended June 30, 2008	553	(228)	(80)	245
Changes in gross margin:				
Change in electricity sales price after revenue limit rebate				
Regulated generation segments	131	-	-	131
Unregulated generation segments	(165)	-	-	(165)
Change in electricity generation by segment:				
Regulated – Nuclear Generation	(90)	-	-	(90)
Regulated – Hydroelectric	3	-	-	3
Unregulated – Hydroelectric	(24)	-	-	(24)
Unregulated – Fossil-Fuelled	(135)	-	-	(135)
Revenue related to contingency support agreement for the Nanticoke and Lambton generating stations	180	-	-	180
Impact of regulatory variance accounts	195	-	-	195
Increase in fuel price and other fuel-related costs	(78)	-	-	(78)
Increase in net trading revenue	-	-	21	21
(Decrease) increase in non-electricity generation revenue	(42)	2	18	(22)
Other changes in gross margin	14	-	-	14
	(11)	2	39	30
Changes in operations, maintenance and administration expenses (“OM&A”):				
Higher expenditures related to increase in planned outage and maintenance activities at OPG's nuclear and fossil-fuelled generating stations	(121)	(2)	(1)	(124)
Impact of regulatory accounts and expenditures related to new nuclear generation development and capacity refurbishment	(29)	-	-	(29)
Decrease in pension and OPEB costs	87	-	-	87
Other changes in OM&A	1	-	2	3
	(62)	(2)	1	(63)
Increase in accretion on fixed asset removal and nuclear waste management liabilities	-	(31)	-	(31)
Increase in earnings from the Nuclear Funds	-	258	-	258
Decrease in regulatory asset related to earnings from the Nuclear Funds associated with stations on lease to Bruce Power	-	(20)	-	(20)
Increase in property and capital taxes primarily due to property tax refunds in the first quarter of 2008, which did not recur in 2009	(19)	-	(1)	(20)
Increase in depreciation and amortization expenses	(25)	-	(3)	(28)
Other changes	(2)	-	12	10
Income (loss) before income taxes for the six months ended June 30, 2009	434	(21)	(32)	381

¹ Electricity generation segments include results of the Regulated – Nuclear Generation, Regulated – Hydroelectric, Unregulated – Hydroelectric and Unregulated – Fossil-Fuelled segments.

² Other includes results of the Other category in OPG's segmented statement of income, inter-segment eliminations, and net interest expense.

Earnings for the six months ended June 30, 2009 compared to the same period in 2008 were favourably impacted by an increase in gross margin of \$30 million compared to the same period in 2008. The increase in gross margin was largely due to the recognition of a regulatory asset of \$199 million, excluding interest, related to the tax loss variance account authorized by the OEB effective April 1, 2008. The gross margin for the six months ended June 30, 2009 compared to the same period in 2008 was also favourably impacted by higher regulated prices for generation from OPG's regulated facilities following the OEB's 2008 decision to increase prices effective December 1, 2008, and applicable retrospectively to April 1, 2008.

The increase in gross margin was partially offset by lower generation at OPG's fossil-fuelled and nuclear generating stations, and higher fuel prices and fuel-related costs at OPG's fossil-fuelled generating stations. The gross margin for the six months ended June 30, 2009 was also unfavourably impacted by lower average sales prices at OPG's unregulated generating stations. The unfavourable impact on gross margin at Lambton and Nanticoke generating stations was largely offset by the recognition of revenue of \$180 million related to the contingency support agreement with the OEFC. Also, non-electricity generation revenue decreased during the six months ended June 30, 2009 compared to the same period in 2008 primarily due to lower revenue from nuclear technical and engineering services provided to third parties. This decrease was partially offset by an increase in revenue from the Portlands Energy Centre, which was declared in-service in April 2009, and higher trading revenue.

For the six months ended June 30, 2009, OM&A expenses were \$1,504 million compared to \$1,441 million for the same period in 2008. This increase was primarily due to an increase in planned outage and maintenance activities at OPG's nuclear and fossil generating stations, partially offset by a decrease in pension and OPEB costs.

Earnings from the Nuclear Funds for the six months ended June 30, 2009 were \$295 million compared to \$57 million during the same period in 2008. The earnings from the Nuclear Funds, before the impact of the Bruce variance account, were \$315 million for the six months ended June 30, 2009, compared to \$57 million for the same period of 2008, an increase of \$258 million. The increase in the earnings from the Nuclear Funds during the six months ended June 30, 2009 compared to the same period in 2008 was primarily due to improvements in trading levels of global financial markets, which increased the current market value of the Decommissioning Fund. This increase was partially offset by reductions in the Ontario CPI during the first half of 2009, which impacted the guaranteed return on the Used Fuel Fund. During the six months ended June 30, 2009, OPG recorded a reduction to the regulatory asset of \$20 million in the Bruce variance account, which decreased the reported earnings from the Nuclear Funds.

Accretion expense increased during the six months ended June 30, 2009 by \$31 million compared to the same period in 2008. The increase was primarily due to the discontinuance, effective April 1, 2008, of the deferral account associated with the increases in OPG's liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management ("Nuclear Liabilities") arising from the 2006 Approved Reference Plan, and the increase in the present value of the liability due to the passage of time. Accretion expense was reduced in the first quarter of 2008, through the deferral account, by \$19 million.

Property and capital taxes for the six months ended June 30, 2009 were \$50 million compared to \$30 million for the same period in 2008. The increase in property and capital taxes was primarily due to a refund of property taxes in the amount of \$17 million during the first quarter of 2008.

Depreciation and amortization expenses for the six months ended June 30, 2009 were \$363 million compared to \$335 million, an increase of \$28 million. The increase in depreciation and amortization expenses was primarily due to higher amortization of regulatory balances resulting from their recovery through regulated prices.

For the six months ended June 30, 2009, income tax expense was \$84 million compared to an income tax recovery of \$16 million for the same period in 2008. The income tax expense in 2008 was favourably impacted by a reduction in income tax liabilities as a result of the resolution of a number of tax

uncertainties related to the audit of OPG's 1999 taxation year. In addition, the increase in income tax expense was also impacted by higher income during the six months ended June 30, 2009, compared to the same period in 2008.

Average Sales Prices

The weighted average Ontario spot electricity market price and OPG's average sales prices by reportable electricity generation business segment, net of the revenue limit rebate for the three and six month periods ended June 30, 2009 and 2008, were as follows:

<i>(¢/kWh)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Weighted average hourly Ontario spot electricity market price	2.5	5.0	3.6	5.1
Regulated – Nuclear Generation	5.5	4.9	5.5	4.9
Regulated – Hydroelectric	3.9	3.6	3.7	3.6
Unregulated – Hydroelectric	2.6	4.7	3.4	4.7
Unregulated – Fossil-Fuelled	3.2	5.0	4.3	4.9
OPG's average sales price	4.2	4.6	4.6	4.7

The weighted average hourly Ontario spot electricity market price was 2.5¢/kWh for the three months ended June 30, 2009 compared to 5.0¢/kWh for the same period in 2008. The weighted average hourly Ontario spot electricity market price was 3.6¢/kWh for the six months ended June 30, 2009 compared to 5.1¢/kWh for the same period in 2008. The significant decrease in the average Ontario spot electricity market price for the three and six month periods ended June 30, 2009 compared to the same periods in 2008 was primarily due to lower Ontario primary demand and lower natural gas and coal prices, partially offset by the impact of a weaker Canadian dollar.

The decrease in average sales prices for the unregulated segments during the three and six month periods ended June 30, 2009 compared to the same periods in 2008 was primarily due to the impact of lower Ontario spot electricity market prices.

The average sales price for the Regulated – Nuclear Generation and Regulated – Hydroelectric segments for the three and six month periods ended June 30, 2009 compared to the same periods in 2008 was primarily impacted by the increase in the regulated prices effective April 1, 2008, resulting from the OEB's decision in 2008.

The term of the revenue limit rebate ended April 30, 2009. Under the revenue limit rebate mechanism, 85 percent of the generation output from OPG's unregulated hydroelectric and unregulated fossil-fuelled generating stations, excluding the Lennox Generation Station, stations whose generation output is subject to a Hydroelectric Energy Supply Agreement ("HESA") with the Ontario Power Authority ("OPA"), and forward sales as of January 1, 2005, was subject to a revenue limit. The revenue limit was 4.7¢/kWh for the period May 1, 2007 to April 30, 2008, and increased to 4.8¢/kWh for the period May 1, 2008 to April 30, 2009.

Electricity Generation

OPG's electricity generation for the three and six month periods ended June 30, 2009 and 2008, was as follows:

(TWh)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Regulated – Nuclear Generation	9.2	10.1	21.5	23.4
Regulated – Hydroelectric	4.9	4.9	9.6	9.5
Unregulated – Hydroelectric	5.0	5.4	9.3	9.9
Unregulated – Fossil-Fuelled	1.8	5.5	6.1	12.5
Total electricity generation	20.9	25.9	46.5	55.3

Total electricity generated during the three months ended June 30, 2009 from OPG's generating stations was 20.9 TWh compared to 25.9 TWh for the second quarter of 2008. The decrease was primarily due to lower electricity generation from OPG's fossil-fuelled and nuclear generating stations.

The decrease in generation from the fossil-fuelled generating stations during the three and six month periods ended June 30, 2009 compared to the same periods in 2008 was primarily due to the impact of lower primary demand in Ontario and higher electricity generation from other generators in Ontario.

The decrease in generation from the nuclear generating stations during the second quarter of 2009 compared to the same period in 2008 was primarily due to a planned VBO at the Darlington nuclear generating station, which required a shutdown of all four units. The decrease in nuclear generation during the second quarter of 2009 compared to the same quarter of 2008 was partially offset by a decrease in unplanned outage days at OPG's Pickering A and B generating stations.

Total electricity generated during the six months ended June 30, 2009 from OPG's generating stations was 46.5 TWh compared to 55.3 TWh for the period in 2008. The decrease was primarily due to lower electricity generation from OPG's fossil-fuelled and nuclear generating stations.

In addition to factors that reduced OPG's generation for the three months ended June 30, 2009, the decrease in generation from the nuclear generating stations for the six months ended June 30, 2009 was also due to an increase in planned outage days during the first quarter of 2009 at the Pickering A nuclear generating station.

Ontario primary electricity demand was 32.2 TWh and 35.1 TWh for the three months ended June 30, 2009 and 2008 respectively. For the six months ended June 30, 2009 and 2008, Ontario primary electricity demand was 69.8 TWh and 74.6 TWh, respectively.

OPG's operating results are impacted by changes in demand resulting from variations in seasonal weather conditions. The following table provides a comparison of Heating and Cooling Degree Days for the three and six month periods ended June 30:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Heating Degree Days ¹				
Period	511	467	2,465	2,360
Ten-year average	507	497	2,357	2,355
Cooling Degree Days ²				
Period	42	75	42	75
Ten-year average	84	91	84	91

¹ Heating Degree Days are recorded on days with an average temperature below 18°C, and represent the aggregate of the differences between the average temperature and 18°C for each day during the period, as measured at Pearson International Airport in Toronto, Ontario.

² Cooling Degree Days are recorded on days with an average temperature above 18°C, and represent the aggregate of the differences between the average temperature and 18°C for each day during the period, as measured at Pearson International Airport in Toronto, Ontario.

Heating Degree Days for the three months ended June 30, 2009 approximated the ten-year average compared to milder than average weather during the second quarter of 2008. Heating Degree Days increased for the six months ended June 30, 2009 compared to the same period in 2008 due to colder than average temperatures in the first quarter of 2009.

Cooling Degree Days decreased for the three months ended June 30, 2009 compared to the same period in 2008 due to cooler weather temperatures.

Recent Developments

Suspension of New Nuclear Procurement

On June 29, 2009, the Government of Ontario suspended the competitive Request for Proposal ("RFP") process to procure two new nuclear reactors planned for the Darlington site. In the announcement, the Government indicated that the competitive RFP process did not provide Ontario with a suitable option at this time. OPG is continuing with two initiatives that were underway – the environmental assessment process and obtaining a site preparation licence.

Recent Electricity Market Conditions

Surplus Baseload Generation ("SBG") was a significant concern to OPG on a number of occasions during the first six months of 2009. In addition to low electricity demand, the output from hydroelectric and nuclear baseload generating stations combined with an increase in electricity generated from wind and gas generating stations has resulted in SBG conditions and extremely low market prices. Conditions were further exacerbated in March and April by an outage to the Ontario-New York intertie which significantly reduced Ontario's capability to export SBG to neighbouring markets. These SBG conditions have caused OPG to shut down fossil-fuelled units overnight, bypass/spill water from hydroelectric generating units to avoid additional generation, and reduce nuclear generation.

Green Energy and Green Economy Act

In May 2009, the *Green Energy and Green Economy Act, 2009* ("Green Energy Act") received Royal Assent. The Green Energy Act takes a two-pronged approach to creating a green economy: to bring more renewable energy sources to the Province; and the creation of more energy efficiency measures to help conserve energy. Under the Green Energy Act, the amount of non-dispatchable renewable resources that can be added is currently not limited, which during the off-peak periods may add to the SBG situation, by increasing the amount of water spilled at OPG's hydroelectric generating stations and the manoeuvring or shutdown of OPG's nuclear units. The IESO is working with stakeholders to determine how best to manage SBG conditions, given the limitations of the generating assets portfolio in the Ontario electricity market. The factors considered by the IESO include safety, regulation, environment, and potential equipment damage.

OEB Accounting Order Application

The OEB's 2008 decision established variance and deferral accounts. In light of OPG's decision not to file an application for new payment amounts in 2010, OPG filed an application in June for an accounting order to address the treatment of these accounts for the period after December 31, 2009. In the application for the accounting order, OPG is seeking the continuation of the rate rider of \$2.00/MWh included in the current nuclear regulated price of \$54.98/MWh for recovery of nuclear regulatory balances approved in the OEB's 2008 decision. OPG is also seeking to establish the basis for recording additions to existing variance and deferral accounts balances after 2009. The hearing on the application is expected to be completed in September 2009.

VISION, CORE BUSINESS AND STRATEGY

OPG's mandate is to cost-effectively produce electricity from its diversified generating assets, while operating in a safe, open, and environmentally responsible manner. OPG's goal is to be a leader in clean energy generation and to have a major role in leading Ontario's transition to a more sustainable energy future. OPG is focused on three corporate strategies: performance excellence; generation development; and developing and acquiring talent.

In the 2008 year end MD&A dated February 12, 2009, OPG reported details of progress toward accomplishing its business objectives by focusing on these strategies. OPG continued its progress in meeting its objectives during the second quarter of 2009. The more significant developments are described in the following sections.

Performance Excellence

Every business segment and corporate function exhibits OPG's commitment to generation, safety, the environment, and fiscal performance. It is through OPG's focus on performance excellence that OPG is able to efficiently and reliably provide electricity to the province and deliver value to its shareholder.

Generating Assets

During the April 15 to May 25, 2009 period, all four units at the Darlington nuclear generating station were taken out of service for the planned VBO. A VBO is required every twelve years at the Darlington nuclear generating station. Critical inspection and testing associated with key components in the vacuum building was performed to ensure its continued availability. During the outage, other work, including reactor feeder inspections and replacement, pressure tube inspections, turbine generator maintenance, and valve and electrical maintenance was also completed. The VBO was successfully completed, and three of the four units were returned to service in May. The fourth unit was returned to service in July as part of a further scheduled outage.

In addition to the completion of the VBO, several new initiatives were implemented by the Regulated – Nuclear business segment during the second quarter of 2009. A maintenance strategy initiative is in progress to develop and implement improvements in work management, supply chain and equipment

reliability. The initiative aims to improve the scheduling and execution of critical work orders and is expected to increase the reliability of generation and predictability of station equipment. Under this initiative, critical components have been identified and parts required for maintenance are being procured. Preventative maintenance work orders are being refined to optimize component replacement, schedule efficiency, and execution frequency. Preventative maintenance work is also scheduled and executed to minimize service failures. In addition, a number of equipment reliability initiatives are also developed to improve station performance, which include adopting the standard set of equipment reliability processes, making further improvements in the efficiency and effectiveness of maintenance on critical equipment, and addressing equipment obsolescence. These initiatives are expected to result in defined improvements in unit forced loss rates, capacity factors and the industry standard equipment reliability index. OPG continues to focus on reducing maintenance backlogs to improve plant reliability.

The performance of the hydroelectric generating stations was strong during the second quarter of 2009 with a combined availability of 95.7 percent for both the regulated and unregulated operations. OPG deferred and re-scheduled some planned outages to better utilize the higher water flows during the period. Major equipment overhauls and rehabilitation work was initiated at several stations during the second quarter of 2009 to sustain and enhance cost-effective hydroelectric generation. This included the unit conversion of Sir Adam Beck hydroelectric generating station Unit 7 from a 25 Hz system to a 60 Hz system, which added 62 MW of capacity. During the three months ended June 30, 2009, the remaining 25 Hz units at Sir Adam Beck hydroelectric generating station were taken out of service due to diminished demand, and deregistered with the IESO. This marks the end of the 25 Hz system in the Niagara area and resulted in a decrease of 92 MW in capacity to the regulated hydroelectric generating segment. The conversion of Sir Adam Beck Units 1 and 2 from the 25 Hz system to the 60 Hz system will be assessed after the scheduled completion of the Niagara Tunnel in 2013. An additional 2 MW was added as a result of a runner upgrade at the Cameron Falls hydroelectric generating station.

OPG continues its strategy for its fossil-fuelled stations to ensure units are available when they are required, and to limit the number of coal-fired units it offers into the electricity market in order to reduce equipment damage from frequent starts and stops. In addition, OPG is extending the length of outages and reducing outage scope, where warranted, to reduce maintenance related expenditures, such as overtime, as OPG continues to experience low demand for fossil-fuelled generation.

Darlington Refurbishment Project

Planning work for the assessment of the feasibility of refurbishing the Darlington nuclear generating station began in early 2008. A number of technical studies are underway to evaluate the condition of critical plant components in order to finalize the project's scope. Work planning is also underway to undertake an Environmental Assessment and an Integrated Safety Review ("ISR") and submit both to the CNSC for review and acceptance in late 2011.

A preliminary feasibility assessment has been completed based on the anticipated Darlington station refurbishment project scope. In addition, the inspection work completed as part of the recent VBO at the Darlington station confirmed the excellent condition of the containment building. OPG is continuing to assess the feasibility of the refurbishment project in order to determine whether to proceed to the definition phase of the project.

Pickering Refurbishment Project

Planning work on the feasibility of refurbishing the Pickering B generating station is nearing completion. Technical studies have been completed, the project scope has been defined, and a plant condition assessment of critical plant components has been completed.

An ISR is nearing completion. OPG has submitted all required Safety Factor Reports to the CNSC and is preparing its Final ISR report for submission to the CNSC in September 2009. Management anticipates approval of this report by the CNSC in mid-2010. OPG is assessing a variety of options in relation to future operations at the Pickering stations to determine the preferred strategy for maximizing asset value.

Pickering A Units 2 and 3 Safe Storage

The Pickering A safe storage project includes isolating Units 2 and 3 from the rest of the generating station, redesigning the control room for the remaining two operating units, and de-watering and de-fuelling the units. De-fuelling of the units was completed in 2008. The bulk de-watering of the heat transport systems was complete with vacuum drying in progress. The project remains on schedule for completion in the fall of 2010 with a projected completion cost of \$349 million.

Environmental

In May 2008, the Province announced new annual targets and limits on CO₂ emissions from OPG's coal-fired generating stations to ensure that such emissions are reduced by two-thirds of the 2003 levels by 2011. For 2009, OPG has limited, on a forecast basis, the CO₂ emissions arising from its coal-fired generating stations to not more than 19.6 million metric tonnes. For the six months ended June 30, 2009, CO₂ emissions were 6.4 million metric tonnes compared to 12.4 million metric tonnes for the same period in 2008. Emissions were significantly reduced as a result of lower generation from OPG's coal-fired stations. OPG continues to employ its emission implementation strategy for 2009 to meet the emission target. It is expected that there will not be a need to utilize an emission adder to limit generation and manage coal-fired generation emissions.

Safety

OPG's safety culture is rooted in the belief that zero injuries can be a reality. OPG has received numerous recognitions for its safety performance, safety culture and safety management systems. Most recently, in June 2009, OPG was presented with the ZeroQuest Gold Award from the Electrical and Utilities Safety Association recognizing OPG's ability to maintain a high level of safety management and safety performance for four consecutive years. OPG is committed to further reducing the number of workplace injuries through targeted risk reduction programs. For example, working with its unions, a Musculoskeletal Disorder ("MSD") Prevention Program was developed to address the contribution of MSD events to safety performance.

Financial Sustainability

In response to the economic downturn, OPG has imposed restraints on certain discretionary expenditures and continues to focus on efficiency improvements. In addition, OPG is reviewing projects to consider deferring work or reducing the scope of work without impacting health and safety. OPG is also ensuring that sufficient funds are available to achieve its strategic objectives while continuing to seek opportunities to diversify its sources of funding and increase its access to cost-effective capital, as discussed under the heading Liquidity and Capital Resources.

Generation Development

OPG's major projects include nuclear plant refurbishment, new nuclear generation, new hydroelectric generation and plant upgrades, capitalizing on emerging biomass and gas generation opportunities. Significant progress was made during the second quarter of 2009 on a number of projects outlined below.

Niagara Tunnel

As of June 30, 2009, the tunnel boring machine had advanced 4,568 metres. Progress of the tunnel boring machine has improved following realignment of the tunnel to reduce overbreak and minimize the remaining excavation in the Queenston shale formation. The tunnel realignment reduces the tunnel length by 200 metres, to 10.2 kilometres. The installation of the tunnel concrete lining is progressing well and is ahead of the revised schedule.

In June 2009, OPG and the contractor signed an amended design-build contract. The target cost and schedule take into account the difficult rock conditions encountered and the concurrent tunnel excavation and liner installation work required for completion of the tunnel. The contract includes incentives and

disincentives related to achieving the target cost and schedule. OPG's Board of Directors has approved the revised project cost estimate of \$1.6 billion and the revised scheduled completion date of December 2013. Some uncertainty with respect to the cost and schedule for both the tunnel excavation and liner installation will continue.

The capital project expenditures for the three and six month periods ended June 30, 2009 were \$84 million and \$112 million, respectively. The life-to-date capital expenditures were \$547 million. The project is debt financed through the OEFC. OPG is in the process of pursuing an amendment to the Niagara Tunnel project credit facility with the OEFC, consistent with the revised cost estimate of \$1.6 billion, and the revised schedule.

Lac Seul

The Lac Seul hydroelectric generating station was declared in-service in February 2009. The station has a capacity of 12.5 MW. The total project expenditures were \$54 million. The project is debt financed through the OEFC.

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

Upper Mattagami and Hound Chute

Design and construction activities to replace three existing hydroelectric generating stations on the Upper Mattagami River and the Hound Chute generating station on the Montreal River continued during the second quarter of 2009. Upon completion of the project, the total installed capacity of the four stations will increase from 23 MW to 44 MW, and the annual energy will increase from 134 gigawatt hours ("GWh") to 223 GWh. During the second quarter of 2009, fabrication of supplied parts and systems was proceeding as planned and certain major Water-to-Wire equipment was delivered. The generating stations are expected to be in-service by April 2011.

Project financing was completed in May 2009, and senior notes totalling \$200 million were issued. Life-to-date expenditures as of June 30, 2009 were \$107 million. Total project costs are expected to be \$300 million.

Lower Mattagami

OPG is proceeding with a development plan to increase the generating capacity of four hydroelectric generating stations on the Lower Mattagami River from 483 MW to 933 MW, an increase of 450 MW. The development plan is expected to be finalized in the fourth quarter of 2009.

OPG engaged in consultation with Aboriginal communities regarding the project. A comprehensive agreement has been negotiated with the local First Nation that resolves grievances attributed to the construction and subsequent operation and maintenance of OPG facilities in the area. The new agreement will also provide the First Nation with an ability to purchase up to a 25 percent equity interest in the project.

Following discussion with the Canadian Environment Assessment Agency ("CEAA"), it was determined that a comprehensive study process must be followed under the CEAA regulations. The Federal Environmental Assessment ("EA") Comprehensive Study Report will be issued for comment in the third quarter of 2009.

Portlands Energy Centre

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

The PEC was declared in-service in a combined cycle mode in April 2009, earlier than its contractual in-service date of June 1, 2009.

OPG's share of capital expenditures for the six months ended June 30, 2009 was \$8 million, and life-to-date expenditures were \$368 million. Total project costs were within the \$730 million approved budget, excluding capitalized interest. OPG's share of the project is debt financed through the OEFC.

Developing and Acquiring Talent

OPG's workforce planning and strategy development processes are locally driven, with corporate level oversight and integration. OPG's ability to sustain on-going operations and the successful delivery of the portfolio of planned projects is dependent on developing and maintaining a talented and engaged workforce, and a strong leadership capability. During 2009, OPG continues its resource strategy to develop and acquire necessary talent focused on developing excellent leadership and the necessary resources to meet the demand that will be generated by retirements and forecast skilled labour shortages.

Labour Relations

The Company's collective agreement with the Power Workers' Union runs through March 31, 2012 and the labour agreement with The Society of Energy Professionals runs through December 31, 2010. As of June 30, 2009, the Company had approximately 90 percent of its regular labour force represented by collective bargaining agreements.

ONTARIO ELECTRICITY MARKET TRENDS

In its 18-Month Outlook published in May 2009, the IESO indicated that as of May 5, 2009, Ontario's installed electricity generating capacity was 34,056 MW. As of June 30, 2009, OPG's in-service electricity generating capacity was 21,732 MW or 64 percent of Ontario's capacity. The IESO reported that the outlook for the reliability of Ontario's electricity system is relatively positive over the next 18 months. Nearly 3,800 MW of new and refurbished supply is scheduled to come into service, including approximately 1,800 MW of gas-fired generation, 1,500 MW of refurbished nuclear generation, and approximately 460 MW of wind capacity. Ontario's import capability is planned to increase with the first stage of the new interconnection between Ontario and Quebec scheduled to be in service in the summer of 2009. The Outlook incorporates the implementation of emission reductions for coal-fired generation in Ontario, which commenced in 2009.

The IESO expects energy demand during 2009 to decrease by 4.0 percent to 142.9 TWh, with a further 0.3 percent decrease in 2010 to 142.5 TWh. The decrease in demand is primarily attributable to the economic downturn, embedded generation, and the growing impact of conservation initiatives. The expected peak electricity demand during the summer of 2009, under normal weather conditions, is forecasted by the IESO to be 24,351 MW. The IESO expects that the frequency of SBG will increase as more baseload generation is added to the system and minimum demands remain low due to the combined impacts of the current economic conditions and conservation. Periods of surplus SBG have very low, or even negative, spot market electricity prices. Low minimum demands and high availability of baseload generation are especially prevalent in summer 2009 and 2010.

Both the spot electricity market price and fuel prices can have a significant impact on OPG's revenue and gross margin. Uranium spot market prices began the year at U.S. \$53 per pound and declined to a low of U.S. \$40 per pound at the beginning of the second quarter. The spot market prices have since recovered

to U.S. \$52 per pound on June 30, 2009. Long-term uranium prices began the year at U.S. \$70 per pound and remained at that level through the first quarter. The long-term uranium prices decreased to U.S. \$65 in April and have remained at that level through the second quarter.

After peaking in June 2008 at U.S. \$12.68/mmBtu, natural gas prices at Henry Hub have been under strong downward pressure due to the economic recession, declining demand and strong U.S. production. Gas prices have continued to decline and averaged U.S. \$3.80/mmBtu in June 2009, a decline of 70 percent from June 2008. Eastern bituminous coal prices have experienced a similar trend, and after reaching an all time high during the third quarter of 2008, prices since then have declined by 66 percent, and averaged around U.S. \$48/ton in June 2009. Powder River Basin coal prices remained much more stable until January 2009, but have been under strong downward pressure, and since then have declined by 34 percent.

BUSINESS SEGMENTS

Prior to the fourth quarter of 2008, OPG had four reportable business segments. The business segments were Regulated – Nuclear Generation, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Fossil-Fuelled.

Commencing in the fourth quarter of 2008, OPG separated the Regulated – Nuclear segment into two reportable segments identified as the Regulated – Nuclear Generation segment and the Regulated – Nuclear Waste Management segment. The revised segment reporting is consistent with the manner in which performance is evaluated by management given the magnitude of significant growth in nuclear decommissioning and waste management activities, assets and liabilities. Results for the comparative periods have been reclassified to reflect the revised disclosure.

Descriptions of OPG's reportable business segments are included in the 2008 annual MD&A under the heading, *Business Segments*.

KEY GENERATION AND FINANCIAL PERFORMANCE INDICATORS

Key performance indicators that directly pertain to OPG's mandate and corporate strategies are measures of production efficiency, cost effectiveness, and environmental performance. OPG evaluates the performance of its generating stations using a number of key performance indicators, which vary depending on the generating technology. Except where noted below, these indicators are defined in the 2008 annual MD&A and are discussed in the *Discussion of Operating Results by Business Segment* section.

Performance Indicators for Fossil-Fuelled Generating Stations

OPG's fossil-fuelled stations provide a flexible source of energy and can operate as baseload, intermediate and peaking facilities, depending on demand and the operating characteristics of the particular station. A key measure of the reliability of fossil-fuelled stations is the proportion of time they are available to produce electricity when required. Equivalent forced outage rate ("EFOR") is an index of the reliability of the generating unit measured by the ratio of time a generating unit is forced out of service by unplanned events, including any forced deratings, compared to the amount of time the generating unit was available to operate.

OPG continues its strategy for its fossil-fuelled stations to ensure units are available when they are required, and to limit the number of coal-fired units offered into the electricity system, in order to reduce equipment damage from frequent starts and stops. In addition, OPG has extended the length of outages and reduced outage scope, where warranted, to reduce maintenance related expenditures, such as overtime, as OPG continues to experience low demand for fossil-fuelled generation. Fossil EFOR for the three and six month periods ended June 30, 2009 reflected this strategy.

Discussion of Operating Results by Business Segment

This section summarizes OPG's key results by segment for the three and six month periods ended June 30, 2009 and 2008. The following table provides a summary of revenue, earnings and key generation and financial performance indicators by business segment:

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
<i>Revenue, net of revenue limit rebate</i>				
Regulated – Nuclear	754	593	1,527	1,358
Regulated – Nuclear Waste Management	11	10	21	19
Regulated – Hydroelectric	219	191	398	369
Unregulated – Hydroelectric	152	279	358	499
Unregulated – Fossil-Fuelled	241	307	517	685
Other	31	15	78	37
Elimination	(11)	(10)	(21)	(19)
	1,397	1,385	2,878	2,948
<i>Income (loss) before interest and income taxes</i>				
Regulated – Nuclear	40	(89)	87	37
Regulated – Nuclear Waste Management	143	(43)	(21)	(228)
Regulated – Hydroelectric	107	81	190	167
Unregulated – Hydroelectric	58	182	180	314
Unregulated – Fossil-Fuelled	(14)	(2)	(23)	35
Other	20	1	50	(1)
	354	130	463	324
<i>Electricity Generation (TWh)</i>				
Regulated – Nuclear	9.2	10.1	21.5	23.4
Regulated – Hydroelectric	4.9	4.9	9.6	9.5
Unregulated – Hydroelectric	5.0	5.4	9.3	9.9
Unregulated – Fossil-Fuelled	1.8	5.5	6.1	12.5
Total electricity generation	20.9	25.9	46.5	55.3
<i>Nuclear unit capability factor (percent)</i>				
Darlington	52.5	80.7	76.1	89.8
Pickering A	72.2	63.3	57.4	70.5
Pickering B	81.4	57.3	83.2	71.9
<i>Equivalent forced outage rate (percent)</i>				
Regulated – Hydroelectric	1.0	1.1	1.0	1.4
Unregulated – Hydroelectric	0.8	0.7	0.8	0.6
Unregulated – Fossil-Fuelled	8.4	10.4	10.4	13.1
<i>Availability (percent)</i>				
Regulated – Hydroelectric	93.7	93.2	94.0	93.4
Unregulated – Hydroelectric	97.5	97.6	96.5	96.6
<i>Nuclear Production Unit Energy Cost ("PUEC") (\$/MWh)</i>	58.58	54.23	51.35	45.88
<i>Regulated – Hydroelectric OM&A expense per MWh (\$/MWh)</i>	5.31	4.90	5.10	5.05
<i>Unregulated – Hydroelectric OM&A expense per MWh (\$/MWh)</i>	9.60	8.33	9.68	9.09
<i>Unregulated – Fossil-Fuelled OM&A expense per MW (\$000/MW)</i>	70.4	63.0	64.8	59.7

Regulated – Nuclear Generation Segment

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Regulated generation sales	500	499	1,174	1,153
Variance accounts	178	-	191	-
Other	76	94	162	205
Total revenue	754	593	1,527	1,358
Fuel expense	41	36	90	77
Gross margin	713	557	1,437	1,281
Operations, maintenance and administration	542	541	1,094	1,040
Depreciation and amortization	120	95	234	201
Property and capital taxes	11	10	22	3
Income (loss) before interest and income taxes	40	(89)	87	37

Revenue

Regulated – Nuclear Generation revenue was \$754 million for the three months ended June 30, 2009 compared to \$593 million for the same quarter in 2008. The increase in revenue of \$161 million was primarily due to the recognition of a regulatory asset of \$167 million, excluding interest, related to the tax loss variance account authorized by the OEB effective April 1, 2008, and a higher regulated price approved by the OEB during the fourth quarter of 2008. The regulatory asset of \$167 million related to the tax loss variance account included retrospective revenue of \$100 million and \$33 million related to the periods from April 1, 2008 to December 31, 2008, and from January 1, 2009 to March 31, 2009, respectively. This increase in revenue was partially offset by the impact of lower generation and a decrease in non-electricity generation revenue. The decrease in non-electricity generation revenue was primarily due to lower revenue from nuclear technical services provided to third parties.

Regulated – Nuclear revenue for the six months ended June 30, 2009 and 2008, was \$1,527 million and \$1,358 million, respectively. The increase in revenue for the six months ended June 30, 2009 compared to the same period in 2008 was primarily due to the recognition of the regulatory asset related to the tax loss variance account and a higher regulated price, partially offset by lower generation volume and a decrease in revenue from nuclear technical services provided to third parties.

Electricity Prices

Electricity generation from stations in the Regulated – Nuclear segment received a fixed price of 5.50¢/kWh during the three and six month periods ended June 30, 2009 due to the establishment of a new regulated price by the OEB, effective April 1, 2008, in the fourth quarter of 2008. During the three and six month periods ended June 30, 2008 the regulated price was 4.95¢/kWh for nuclear generation.

Volume

Electricity generation from OPG's nuclear stations was 9.2 TWh for the three months ended June 30, 2009 compared to 10.1 TWh in the same period in 2008. The decrease of 0.9 TWh was primarily due to the planned VBO at the Darlington nuclear generating station which required a shutdown of all four units, partially offset by a decrease in unplanned outage days at OPG's Pickering A and B generating stations.

Nuclear generation during the six month period ended June 30, 2009 was 21.5 TWh compared to 23.4 TWh for the same period in 2008. The decrease in nuclear generation was primarily due to the planned VBO at the Darlington nuclear generating station and an increase in planned outage days at the Pickering A nuclear generating station.

The Darlington nuclear generating station's unit capability factor for the three months ended June 30, 2009 was 52.5 percent compared to 80.7 percent for the same period in 2008. The decrease in capability factor was a result of the planned VBO during the second quarter of 2009.

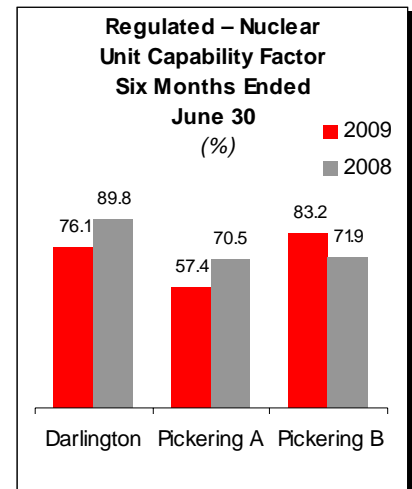
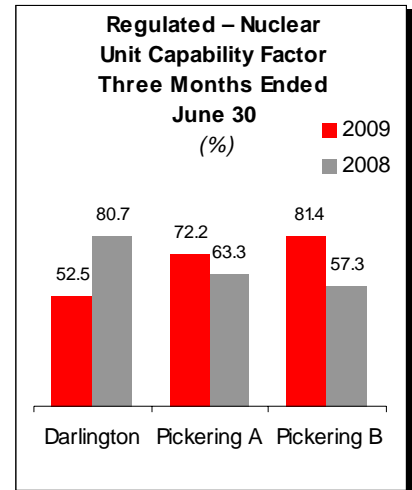
The unit capability factor for the Pickering A nuclear generating station for the three months ended June 30, 2009 was 72.2 percent compared to 63.3 percent for the same period in 2008. The unit capability factor for the three months ended June 30, 2009 was impacted by an extension to a planned outage and an unplanned outage to repair a main output transformer. The unit capability factor for the three months ended June 30, 2008 was impacted by an unplanned outage to conduct repairs on a fuel handling machine.

The unit capability factor for the Pickering B nuclear generating station was 81.4 percent during the three months ended June 30, 2009, compared to 57.3 percent for the same period in 2008. The unit capability factor for the three months ended June 2008 reflected the shutdown of a unit to replace a calandria tube and an extension to a planned outage.

The Darlington nuclear generating station's unit capability factor for the six months ended June 30, 2009 was 76.1 percent compared to 89.8 percent for the same period in 2008. The decrease in capability factors was a result of the planned VBO during the second quarter of 2009.

For the six months ended June 30, 2009, the unit capability factor for the Pickering A nuclear generating station was 57.4 percent compared to 70.5 percent for the same period in 2008. The decrease in capability factor reflects higher planned outage days during the first quarter of 2009.

For the six months ended June 30, 2009, the Pickering B nuclear generating station unit capability factor was 83.2 percent compared to 71.9 percent during the same period in 2008. The unit capability factor for the six months ended June 30, 2008 primarily reflects the shutdown of a unit to replace a calandria tube and an extension to a planned outage.



Fuel Expense

Fuel expense for the three months ended June 30, 2009 was \$41 million compared to \$36 million during the same period in 2008. For the six months ended June 30, 2009, fuel expense was \$90 million compared to \$77 million during the same period in 2008. The increase in fuel expense for the three and six month periods ended June 30, 2009 compared to the same periods in 2008 was primarily due to an increase in uranium prices, partly offset by a lower generation volume.

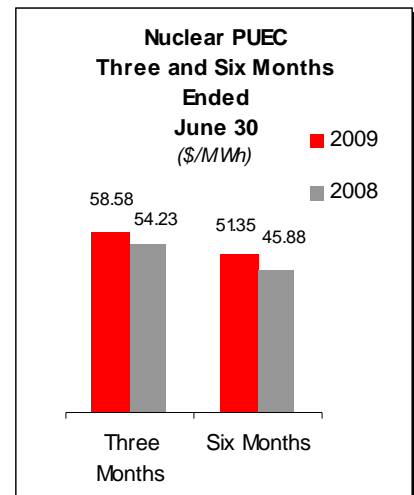
Operations, Maintenance and Administration

OM&A expenses for the three months ended June 30, 2009 were \$542 million compared to \$541 million during the same period in 2008. OM&A expenses were \$1,094 million for the six months ended June 30, 2009 compared to \$1,040 million during the same period in 2008. The increase in OM&A expense during the three and six month periods ended June 30, 2009 compared to the same periods in 2008 was primarily due to an increase in work activities related to the Darlington VBO. The increase in OM&A expenses during the six months ended June 30, 2009 was also due to higher planned outage expenditures at Unit 4 of the Pickering A nuclear generating station.

OM&A expenses during the three and six month periods ended June 30, 2009 were also impacted by the recognition of regulatory liabilities related to new nuclear generation development and capacity refurbishment activities, and higher expenditures incurred for these initiatives. Although expenditures on these activities were higher during the three and six month periods ended June 30, 2009 compared to the same periods in 2008, they were lower than the forecast approved by the OEB in setting the regulated nuclear prices. Therefore, OPG was required to record a regulatory liability. The increase in OM&A expenses was partially offset by lower pension and OPEB costs.

Nuclear PUEC for the three months ended June 30, 2009 was \$58.58/MWh compared to \$54.23/MWh during the same period in 2008.

Nuclear PUEC for the six months ended June 30, 2009 was \$51.35/MWh compared to \$45.88/MWh during the same period in 2008. The increase during the three and six month periods ended June 30, 2009 compared to the same periods in 2008 was primarily due to higher OM&A expenses and lower generation



Depreciation and Amortization

Depreciation and amortization expense for the three months ended June 30, 2009 was \$120 million compared to \$95 million in the same quarter of 2008. The increase in depreciation and amortization expense was primarily due to a higher amortization of regulatory balances as a result of the OEB's 2008 decision to allow for the recovery of regulatory balances effective December 1, 2008, and applicable retrospectively to April 1, 2008.

For the six months ended June 30, 2009, depreciation and amortization expense was \$234 million compared to \$201 million during the same period in 2008. The increase in depreciation and amortization expense during the six months ended June 30, 2009 compared to the same period in 2008 was primarily due to the discontinuance on April 1, 2008 of additions to the deferral account associated with the increase in the Nuclear Liabilities arising from the 2006 Approved Reference Plan in accordance with the Ontario Nuclear Funds Agreement ("ONFA"). The discontinuance of the deferral account, which was effective for the period January 1, 2007 to March 31, 2008 as per the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario), resulted in a higher depreciation expense of \$13 million during the six months ended June 30, 2009. This increase in depreciation and amortization expense was also due to higher amortization of regulatory balances resulting from the OEB's 2008 decision.

Regulated – Nuclear Waste Management Segment

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Revenue	11	10	21	19
Operations, maintenance and administration	12	11	23	21
Accretion on fixed asset removal and nuclear waste management liabilities	157	150	314	283
Earnings on nuclear fixed asset removal and nuclear waste management funds	(301)	(108)	(295)	(57)
Income (loss) before interest and income taxes	143	(43)	(21)	(228)

Accretion

Accretion expense for the three months ended June 30, 2009 was \$157 million compared to \$150 million for the same period in 2008. The increase was primarily due to the increase in the present value of the Nuclear liabilities due to the passage of time.

For the six month period ended June 30, 2009 and 2008, accretion expense was \$314 million and \$283 million, respectively. The increase was primarily due to the discontinuance on April 1, 2008 of additions to the deferral account associated with the increase in the Nuclear Liabilities arising from the 2006 Approved Reference Plan. In addition, accretion expense also increased as a result of the increase in the present value of the Nuclear liabilities due to the passage of time.

Earnings on the Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Earnings from the Nuclear Funds for the three months ended June 30, 2009 were \$301 million compared to \$108 million during the second quarter of 2008. During the second quarter of 2009, before the impact of the Bruce variance account, earnings from the Nuclear Funds were \$451 million compared to \$108 million during the same period in 2008, an increase of \$343 million. The increase in the earnings from the Nuclear Funds, before the impact of the variance account, was primarily due to improvements in trading levels of global financial markets, which increased the current market value of the Decommissioning Fund, partially offset by reductions in the CPI, which impacted the guaranteed return on the Used Fuel Fund.

Earnings from the Nuclear Funds for the six months ended June 30, 2009, were \$295 million compared to \$57 million during the same period in 2008. During the six months ended June 30, 2009, before the impact of the Bruce variance account, earnings from the Nuclear Funds were \$315 million compared to \$57 million during the same period in 2008, an increase of \$258 million. The increase in the earnings from the Nuclear Funds, before the impact of the variance account, was primarily due to improvements in trading levels of global financial markets, which increased the current market value of the Decommissioning Fund, partially offset by reductions in the CPI, which impacted the guaranteed return on the Used Fuel Fund.

A portion of the Nuclear Funds relates to OPG's obligations with respect to decommissioning the nuclear generating stations on lease to Bruce Power, as well as managing nuclear used fuel and waste produced by these stations. As a result of the OEB's decision, OPG established the Bruce variance account to capture the differences between actual and forecast revenues and costs associated with the Bruce nuclear generating stations. During the three and six month periods ended June 30, 2009, OPG recorded a reduction to the regulatory asset of \$150 million and \$20 million, respectively, which decreased the reported earnings from the Nuclear Funds.

Regulated – Hydroelectric Segment

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Regulated generation sales	190	177	360	341
Variance accounts	16	-	8	1
Other	13	14	30	27
Revenue	219	191	398	369
Fuel expense	63	67	115	116
Gross margin	156	124	283	253
Operations, maintenance and administration	26	24	49	48
Depreciation and amortization	20	16	38	32
Property and capital taxes	3	3	6	6
Income before interest and income taxes	107	81	190	167

Revenue

Regulated – Hydroelectric revenue was \$219 million for the three months ended June 30, 2009 compared to \$191 million during the same period in 2008. During the six months ended June 30, 2009, Regulated – Hydroelectric revenue was \$398 million compared to \$369 million during the same period in 2008.

The increase in revenue of \$28 million for the three months ended June 30, 2009 was primarily due to the recognition of a regulatory asset of \$32 million, excluding interest, related to the tax loss variance account authorized by the OEB effective April 1, 2008, and a higher regulated price approved by the OEB during the fourth quarter of 2008. The regulatory asset of \$32 million related to the tax loss variance account included retrospective revenue of \$19 million and \$7 million related to the periods from April 1, 2008 to December 31, 2008, and from January 1, 2009 to March 31, 2009, respectively.

Electricity Prices

For the three and six month periods ended June 30, 2009, electricity generation received a fixed price of 3.67¢/kWh, subject to a revised incentive mechanism. The OEB approved a revised incentive mechanism effective December 1, 2008. Under this mechanism, OPG receives the approved hydroelectric payment amount for the actual average hourly net energy production from the prescribed hydroelectric facilities in that month. In the hours when the net actual energy production in Ontario is greater or less than the average hourly net volume, OPG's revenues are adjusted by the difference between the average hourly net volume in the month and the actual net energy production multiplied by the market price. For the three and six month periods ended June 30, 2008, electricity generation up to 1,900 MWh in any hour from stations in the Regulated – Hydroelectric segment, received a fixed price of 3.3¢/kWh, and the spot electricity market price for generation above this level. The revised incentive mechanism resulted in net revenue of \$9 million and \$13 million for the three and six month periods ending June 30, 2009. The regulated generation sales for the three and six month periods ended June 30, 2008 included revenue of \$55 million and \$96 million, respectively at the spot electricity market price.

The average electricity sales price for the three months ended June 30, 2009 and 2008 was 3.9¢/kWh and 3.6¢/kWh respectively. The average electricity sales price for the six months ended June 30, 2009 and 2008 was 3.7¢/kWh and 3.6¢/kWh, respectively.

Volume

Electricity generation volume for second quarter of 2009 and 2008 was 4.9 TWh. For the six months ended June 30, 2009, electricity generation volume was 9.6 TWh compared to 9.5 TWh for the same period in 2008. The increase in volume was primarily due to higher availability and an increase in water flows.

For the three months ended June 30, 2009 and 2008, the EFOR for the Regulated – Hydroelectric stations was 1.0 percent and 1.1 percent, respectively. During the six months ended June 30, 2009 and 2008, the EFOR for the Regulated – Hydroelectric stations was 1.0 percent and 1.4 percent, respectively. The availability for the Regulated – Hydroelectric stations was 93.7 percent for the second quarter of 2009 compared to 93.2 percent for the same quarter in 2008. Availability for the six month period ended June 30, 2009 was 94.0 percent compared to 93.4 percent for the same period in 2008. The increase in availability and lower EFOR reflected the continuing strong performance of the hydroelectric stations.

Fuel Expense

Fuel expense was \$63 million for the three months ended June 30, 2009 compared to \$67 million in the same period during 2008. For the six months ended June 30, 2009, fuel expense was \$115 million compared to \$116 million in the same period during 2008.

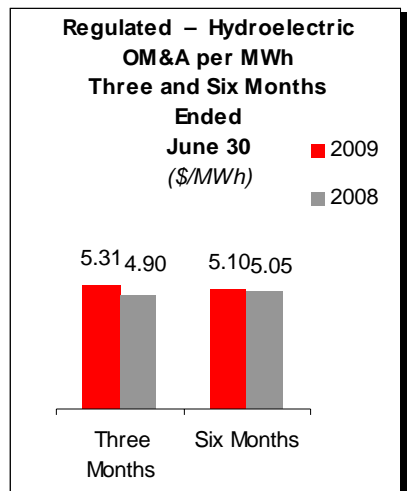
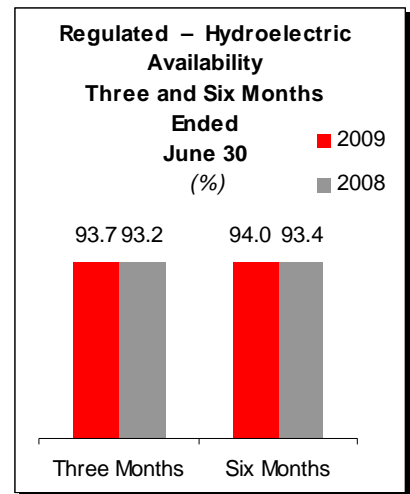
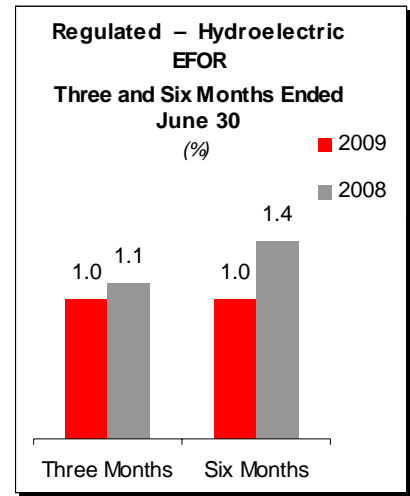
Variance Accounts

In addition to the impact of the tax loss variance account established during the second quarter of 2009, OPG recorded a decrease in revenue of \$16 million and \$24 million during the three and six months ended June 30, 2009, respectively, due to regulatory variance accounts that reflect the impact of differences between forecast and actual water conditions on hydroelectric production, and differences between forecast and actual ancillary services revenue.

Operations, Maintenance and Administration

OM&A expenses for the three months ended June 30, 2009 were \$26 million compared to \$24 million for the same period in 2008. For the six months ended June 30, 2009, OM&A expenses were \$49 million compared to \$48 million during the same period in 2008.

OM&A expense per MWh for the regulated hydroelectric generating stations was \$5.31/MWh during the three months ended June 30, 2009 compared to \$4.90/MWh for the same period in 2008. For the six month periods ended June 30, 2009 and 2008, OM&A expense per MWh for the regulated hydroelectric stations was \$5.10/MWh and \$5.05/MWh, respectively. The increase in OM&A expense per MWh in the second quarter of 2009 compared to the second quarter of 2008 was primarily due to a marginally higher OM&A expense.



Unregulated – Hydroelectric Segment

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Spot market sales, net of hedging instruments	135	262	339	501
Revenue limit rebate	1	(3)	(10)	(27)
Other	16	20	29	25
Revenue net of revenue limit rebate	152	279	358	499
Fuel expense	28	30	50	53
Gross margin	124	249	308	446
Operations, maintenance and administration	48	47	90	92
Depreciation and amortization	16	16	34	36
Property and capital taxes	2	4	4	4
Income before interest and income taxes	58	182	180	314

Revenue

Unregulated – Hydroelectric revenue was \$152 million for the three months ended June 30, 2009 compared to \$279 million during the same period in 2008. For the six months ended June 30, 2009, unregulated – Hydroelectric revenue was \$358 million compared to \$499 million during the same period in 2008. The decrease in revenue for the three and six month periods ended June 30, 2009 was primarily due to lower electricity prices and lower generation volume compared to the same periods in 2008.

Electricity Prices

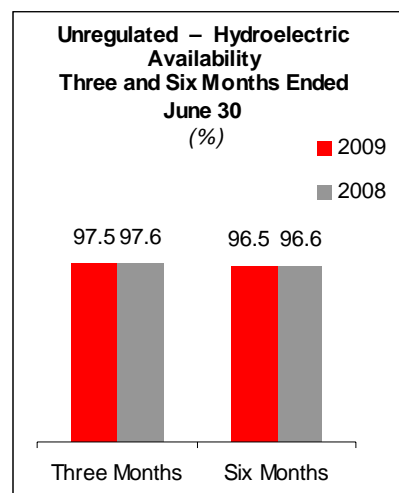
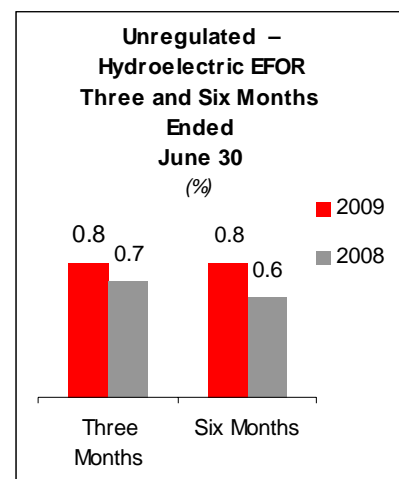
After taking into account the revenue limit rebate, OPG's average sales price for its unregulated hydroelectric generation for the three months ended June 30, 2009 and 2008 was 2.6¢/kWh and 4.7¢/kWh, respectively. OPG's average sales price for its unregulated hydroelectric generation for the six months ended June 30, 2009 and 2008 was 3.4¢/kWh and 4.7¢/kWh, respectively. The decrease in electricity prices was primarily due to the impact of lower Ontario spot market prices.

Volume

For the three months ended June 30, 2009 and 2008, electricity generation volume was 5.0 TWh and 5.4 TWh, respectively. Electricity sales volume for the six months ended June 30, 2009 was 9.3 TWh compared to 9.9 TWh during the same period in 2008. The decrease in volume during the three and six month periods ended June 30, 2009 compared to the same periods in 2008 was primarily due to lower flows in most of the river systems.

The EFOR for the Unregulated – Hydroelectric generating stations was 0.8 percent in the second quarter of 2009 compared to 0.7 percent during the same period in 2008. For the six months ended June 30, 2009, EFOR was 0.8 percent compared to 0.6 percent for the six months ended June 30, 2008.

The availability for the Unregulated – Hydroelectric stations was 97.5 percent for the three months ended June 30, 2009 compared to 97.6 percent in the same period in 2008. The availability for the Unregulated – Hydroelectric stations was 96.5 percent for the six



months ended June 30, 2009 compared to 96.6 percent during the same period in 2008. The low EFOR and high availability reflected the continuing strong performance of the Unregulated – Hydroelectric stations.

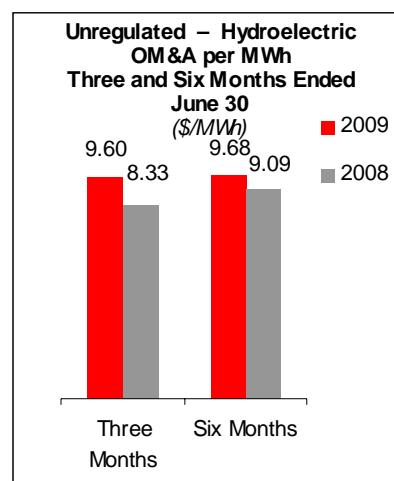
Fuel Expense

Fuel expense was \$28 million for the three months ended June 30, 2009 compared to \$30 million for the same period in 2008. For the six months ended June 30, 2009, fuel expense was \$50 million compared to \$53 million during the same period in 2008.

Operations, Maintenance and Administration

For the three months ended June 30 2009, OM&A expenses were \$48 million compared to \$47 million for the same period in 2008. During the six months ended June 30, 2009, OM&A expenses were \$90 million compared to \$92 million for the same period in 2008.

OM&A expense per MWh for the unregulated hydroelectric stations for the quarters ended June 30, 2009 and 2008 was \$9.60/MWh and \$8.33/MWh, respectively. During the six months ended June 30, 2009, OM&A expense per MWh for the unregulated hydroelectric stations was \$9.68/MWh compared to \$9.09/MWh for the same period in 2008. The increase in OM&A expense per MWh for the three and six month periods ending June 30, 2009 compared to the same periods in 2008 was primarily due to lower generation and higher OM&A expense.



Unregulated – Fossil-Fuelled Segment

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Spot market sales, net of hedging instruments	59	327	279	714
Revenue limit rebate	-	(52)	(17)	(95)
Other	182	32	255	66
Revenue, net of revenue limit rebate	241	307	517	685
Fuel expense	88	144	226	335
Gross margin	153	163	291	350
Operations, maintenance and administration	144	135	265	256
Depreciation and amortization	16	24	34	46
Accretion on fixed asset removal liabilities	2	2	4	4
Property and capital taxes	5	4	11	11
(Loss) income before other gains, interest and income taxes	(14)	(2)	(23)	33
Other gains	-	-	-	(2)
(Loss) income before interest and income taxes	(14)	(2)	(23)	35

Revenue

Unregulated – Fossil-Fuelled revenue was \$241 million for the three months ended June 30, 2009 compared to \$307 million during the same period in 2008, a decrease of \$66 million. The decrease in revenue was primarily due to a significant reduction in electricity generation during the second quarter of 2009 compared to the same period in 2008.

Unregulated – Fossil Fuelled revenue was \$517 million for the six months ended June 30, 2009 compared to \$685 million for the same period in 2008. The decrease in revenue of \$168 million during 2009 compared to the same period in 2008 was primarily due to lower electricity generation volumes and lower average sales prices.

Electricity Prices

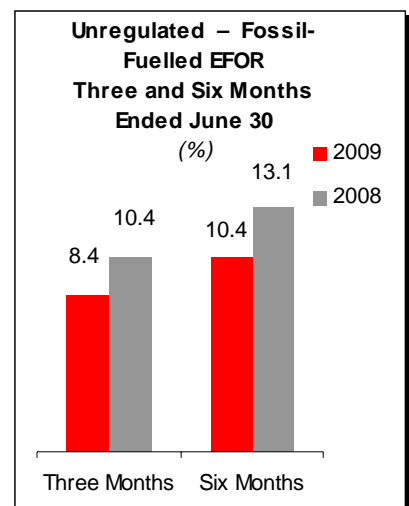
OPG's average sales price, for its unregulated fossil-fuelled generation, net of the revenue limit rebate, for the three months ended June 30, 2009 and 2008 was 3.2¢/kWh and 5.0¢/kWh, respectively. For the six months ended June 30, 2009 and 2008, OPG's average sales price net of the revenue limit rebate for its unregulated fossil-fuelled generation was 4.3¢/kWh and 4.9¢/kWh, respectively.

Volume

Electricity generation volume for the three months ended June 30, 2009 was 1.8 TWh compared to 5.5 TWh during 2008. The decrease in generation from the fossil-fuelled generating stations during the second quarter of 2009 compared to the same quarter in 2008 was primarily due to the impact of lower Ontario primary demand and an increase in electricity generation from other baseload generators in Ontario.

Electricity generation volume for the six months ended June 30, 2009 was 6.1 TWh compared to 12.5 TWh during the same period in 2008. The decrease was primarily due to the impact of lower Ontario primary demand and an increase in electricity generation from other baseload generators in Ontario.

The EFOR for the Unregulated – Fossil-Fuelled stations during the three months ended June 30, 2009 was 8.4 percent compared to 10.4 percent during the same period in 2008. During the six months ended June 30, 2009 and 2008, the EFOR for the Unregulated – Fossil-Fuelled stations was 10.4 percent and 13.1 percent, respectively. The improvement in EFOR for the three and six month periods ended June 30, 2009 compared to the same periods in 2008 reflects improved reliability of the fossil-fuelled generating fleet consistent with the change in operating strategy, one component of which is to limit the number of coal-fired units offered into the electricity market.



Fuel Expense

During the three months ended June 30, 2009, fuel expense was \$88 million compared to \$144 million for the same period in 2008. The decrease of \$56 million in 2009 compared to 2008 was primarily due to a decrease in generation, partially offset by higher coal prices and costs incurred for coal contract adjustments.

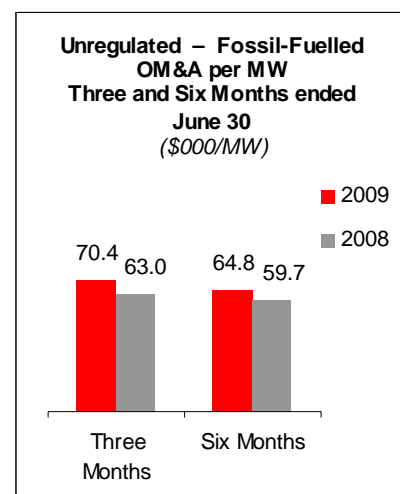
During the six months ended June 30, 2009, fuel expense was \$226 million compared to \$335 million during the six months ended June 30, 2008. The decrease of \$109 million compared to 2008 was primarily due to lower electricity generation.

The reduced demand for coal-fired generation during the six months ended June 30, 2009 has resulted in excess coal supplies. This has resulted in OPG negotiating reductions to coal supply contracts, which includes cancellations and deferral of shipments. Costs associated with the cancellations and deferrals are recorded as incurred. The costs incurred for coal contract adjustments were offset by the recovery from the contingency support agreement with the OEFC.

Operations, Maintenance and Administration

OM&A expenses for the three months ended June 30, 2009 and 2008 were \$144 million and \$135 million, respectively. OM&A expenses for the six months ended June 30, 2009 were \$265 million compared to \$256 million during the six months ended June 30, 2008. The increase in OM&A expenses compared to the same period in 2008 was primarily due to an increase in maintenance related to planned and forced outages, partially offset by lower pension and OPEB costs.

Annualized OM&A expense per MW (\$/MW) for the unregulated fossil-fuelled stations was \$70,400/MW for the three months ended June 30, 2009 compared to \$63,000/MW for the same period in 2008. During the six months ended June 30, 2009, annualized OM&A expense per MW was \$64,800/MW compared to \$59,700/MW for the same period in 2008. The change in OM&A expense per MW during 2009 compared to 2008 were due to higher OM&A expenses and a decrease in capacity.



Other

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Revenue	31	15	78	37
Operations, maintenance and administration	1	2	4	3
Depreciation and amortization	13	9	23	20
Property and capital taxes	3	3	7	6
Income before other gains and losses, interest and income taxes	14	1	44	8
Other (gains) and losses	(6)	-	(6)	9
Income (loss) before interest and income taxes	20	1	50	(1)

Other revenue was \$31 million for the three months ended June 30, 2009 compared to \$15 million for the same period in 2008. The increase in other revenue during the second quarter of 2009 compared to the same quarter in 2008 was primarily due to an increase in revenue from the PEC, which was declared in-service in April 2009, and higher net trading revenue resulting from favourable mark to market adjustments. Other revenue for the six months ended June 30, 2009 was \$78 million compared to \$37 million in the same period in 2008. The increase in other revenue during the six months ended June 30, 2009 compared to the same period in 2008 was primarily due to higher net trading revenue resulting from favourable mark to market adjustments and an increase in revenue from OPG's equity investments.

OM&A expenses of the generation business segments include an inter-segment service fee for the use of certain property, plant and equipment held within the Other category. The total service fee is recorded as a reduction to the Other category's OM&A expense. For the three months ended June 30, 2009, the service fee was \$8 million for Regulated – Nuclear Generation, \$1 million for Regulated – Hydroelectric, \$1 million for Unregulated – Hydroelectric and \$2 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expense of \$12 million for the Other category. For the three months ended June 30, 2008, the service fee was \$7 million for Regulated – Nuclear Generation, and \$3 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expense of \$10 million for the Other category.

For the six months ended June 30, 2009, the service fee was \$14 million for Regulated – Nuclear, \$1 million for Regulated – Hydroelectric, \$2 million for Unregulated – Hydroelectric, \$4 million for Unregulated – Fossil-fuelled, with a corresponding reduction in OM&A expenses of \$21 million for the Other category. For the six months ended June 30, 2008, the service fee was \$14 million for Regulated – Nuclear, \$1 million for Regulated – Hydroelectric, \$2 million for Unregulated – Hydroelectric, \$4 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$21 million for the Other category.

Interconnected purchases and sales, including those to be physically settled, and unrealized mark-to-market gains and losses on energy trading contracts, are disclosed on a net basis in the consolidated statements of income. If disclosed on a gross basis, revenue and power purchases for the three months ended June 30, 2009 would have increased by \$17 million (June 30, 2008 – \$52 million). For the six months ended June 30, 2009, if disclosed on a gross basis, revenue and power purchases would have increased by \$40 million (six months ended June 30, 2008 – \$103 million).

The changes in the fair value of derivative instruments not qualifying for hedge accounting are recorded in Other revenue, and the fair value of derivative instruments are carried on the consolidated balance sheets as assets or liabilities at fair value. The carrying amounts and notional quantities of the derivative instruments are disclosed in Note 12 in the unaudited interim consolidated financial statements as at and for the three and six month periods ended June 30, 2009.

Net Interest Expense

Net interest expense for the three months ended June 30, 2009 was \$43 million compared to \$39 million for the same quarter in 2008. The net interest expense for the six months ended June 30, 2009 and 2008 was \$82 million and \$79 million, respectively.

Income Taxes

From April 1, 2005 to December 31, 2008, OPG followed the liability method of tax accounting for its unregulated operations and the taxes payable method for the rate regulated segments of its business. 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. 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 through future regulated prices charged to customers. Accordingly, OPG did not record a future tax expense of \$13 million during the three months ended June 30, 2008 which would have been recorded had OPG accounted for income taxes for the regulated segments using the liability method. During the six months ended June 30, 2008, OPG did not record a future tax expense of \$115 million for the regulated segments.

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

- to amend Section 3465 to require, effective January 1, 2009, the recognition of future income tax liabilities and assets 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 the amendment to Section 3465.

Accordingly, on January 1, 2009, OPG recorded a future income tax liability of \$340 million, being the cumulative future income tax liability on January 1, 2009 related to differences between the accounting and tax bases of assets and liabilities, measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse and recorded a corresponding regulatory asset. OPG also recorded an additional future income tax liability and a corresponding regulatory asset of \$126 million for future income taxes resulting from regulatory assets that were recorded due to

amendments to Section 3465. Effective January 1, 2009, OPG follows the liability method of tax accounting for all its business segments and records a corresponding regulatory asset or liability for the future taxes relating to its rate regulated segment.

For the three months ended June 30, 2009, income tax expense was \$5 million compared to an income tax recovery of \$8 million for the same period in 2008. For the three months ended June 30, 2009, the increase in income tax expense was primarily due to higher income compared to the same period in 2008. This increase was partially offset by the income tax component of the Bruce variance account. The income tax expense for the three months ended June 30, 2008 was also favourably impacted by a reduction in income tax liabilities as a result of the resolution of a number of tax uncertainties related to the audit of OPG's 1999 taxation year.

For the six months ended June 30, 2009, income tax expense was \$84 million compared to an income tax recovery of \$16 million for the same period in 2008. For the six months ended June 30, 2009, the increase in income tax expense was primarily due to a reduction in income tax liabilities during the same period in 2008 as a result of the resolution of a number of tax uncertainties related to the audit of OPG's 1999 taxation year. The increase during the six months ended June 30, 2009 was also impacted by higher income compared to the same period in 2008. This increase was partially offset by the income tax component of the Bruce variance account.

The audit of OPG's taxation years subsequent to 1999 has commenced in 2009. Should the outcome of the audit for subsequent years differ from OPG's recorded income tax liabilities, the Company's effective tax rate and its net income could be materially affected either negatively or positively in the period in which the matters are resolved.

LIQUIDITY AND CAPITAL RESOURCES

OPG's primary sources of liquidity and capital are funds generated from operations, bank financing and credit facilities provided by the OEFC. These sources are utilized for multiple purposes including: investments in plants and technologies; funding obligations such as contributions to the Pension Fund and the Used Fuel and Decommissioning Funds; to service and repay long-term debt; and to meet revenue limit rebate obligations.

Changes in cash and cash equivalents for the three and six month periods ended June 30, 2009, and 2008 are as follows:

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Cash and cash equivalents, beginning of the period	197	303	315	110
Cash flow (used in) provided by operating activities	(183)	151	(142)	396
Cash flow (used in) investing activities	(201)	(138)	(323)	(262)
Cash flow provided by financing activities	271	49	234	121
Net (decrease) increase	(113)	62	(231)	255
Cash and cash equivalents, end of the period	84	365	84	365

Operating Activities

Cash flow used in operating activities for the three months ended June 30, 2009 was \$183 million compared to cash flow provided by operating activities of \$151 million for the three months ended June 30, 2008. The decrease in cash flow was primarily due to lower cash receipts as a result of lower fossil-fuelled generation revenue.

Cash flow used in operating activities for the six months ended June 30, 2009 was \$142 million compared to cash flow provided by operating activities of \$396 million for the same period in 2008. The decrease in cash flow was primarily due to lower cash receipts as a result of lower fossil-fuelled generation revenue and higher tax instalments.

Investing Activities

Investments in fixed and intangible assets during the quarter ended June 30, 2009 were \$202 million compared with \$134 million for same quarter in 2008. For the six months ended June 30, 2009, investments in fixed and intangible assets were \$323 million compared with \$262 million for the six months ended June 30, 2008. The increase in capital expenditures was primarily due to higher spending for the Niagara Tunnel project compared to the same quarters in 2008.

OPG's forecasted capital expenditures for 2009 are approximately \$900 million, which includes amounts for the Niagara Tunnel project, the Upper Mattagami hydroelectric development, other hydroelectric development projects and Nuclear projects.

Investment in Asset-Backed Commercial Paper

Pursuant to the terms of a restructuring plan announced by the Pan-Canadian Investors Committee for third-party ABCP, OPG's short-term commercial paper was exchanged for longer term notes of approximately \$58 million in January 2009. OPG received five classes of notes, which are supported by margin funding facilities from third-party asset providers, Canadian banks, and governments. OPG replaced existing ABCP notes that had a net book value of \$35 million (\$58 million book value less a provision of \$23 million) with new ABCP notes of \$35 million, which represented the fair value of the new ABCP notes. The restructured notes are expected to have a maturity of eight to nine years. The exact maturity will be determined by the release of collateral as underlying swap trades mature. The stated maturity of the notes is 2056.

In the second quarter of 2009, the fair value of the ABCP notes increased by \$6 million as a result of improved market conditions. As at June 30, 2009, the ABCP holdings were valued at \$41 million (December 31, 2008 – \$35 million). OPG continues to monitor the development of a secondary market to assess the fair value of its holdings.

Financing Activities

OPG maintains a \$1 billion revolving committed bank credit facility, which is divided into two tranches – a \$500 million 364-day term tranche, and a \$500 million five-year term tranche. During the first quarter of 2009, OPG renewed and extended the maturity date of the 364-day term tranche to May 19, 2010. The renewal became effective in the second quarter of 2009. The five-year term tranche was not extended, and therefore, has four years remaining, with a maturity date of May 20, 2013. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at June 30, 2009, no commercial paper was outstanding (December 31, 2008 – nil), and OPG had no other outstanding borrowings under the bank credit facility.

In the second quarter of 2008, OPG entered into a \$100 million five-year revolving committed bank credit facility in support of the Upper Mattagami and Hound Chute project. As at June 30, 2009, there was no borrowings under this credit facility. In addition, project financing was completed for the Upper Mattagami and Hound Chute project in May 2009. Senior Notes totalling \$200 million were issued by the UMH Energy Partnership, a general partnership between OPG and UMH Energy Inc., a wholly-owned subsidiary of OPG. The senior notes have an effective interest rate of 7.86 percent and will mature in 2041. These notes are secured by the assets of the Upper Mattagami and Hound Chute project.

As at June 30, 2009, OPG maintained \$25 million (December 31, 2008 – \$25 million) of short-term, uncommitted overdraft facilities, and \$276 million (December 31, 2008 – \$238 million) of short-term, uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans, and for other purposes. At June 30, 2009, there was a

total of \$234 million of Letters of Credit issued (December 31, 2008 – \$243 million), which included \$212 million for the supplementary pension plans (December 31, 2008 – \$212 million), and \$7 million related to the construction and operation of the PEC (December 31, 2008 – \$16 million).

In accordance with the receivable purchase agreement, OPG reduced the securitized receivable balance by \$50 million, from \$300 million to \$250 million in May and June of 2009 primarily due to lower cash flows from the IESO. The current agreement expires in August 2009. An amendment to the program is currently under review.

OPG has an agreement with the OEFC to finance the Niagara Tunnel project for up to \$1 billion over the duration of the project. The funding is advanced in the form of 10-year notes, on commercial terms and conditions. Advances under this facility commenced in October 2006 and amounted to \$405 million as at June 30, 2009, which included \$35 million of new borrowing during the second quarter of 2009. OPG is in the process of pursuing an amendment to the Niagara Tunnel project credit facility, consistent with the revised cost estimate of \$1.6 billion, and the revised schedule.

Debt financing has been negotiated with the OEFC for OPG's interest in the PEC and the Lac Seul project for up to \$400 million and \$50 million, respectively. Advances under these facilities commenced in December 2006, and totalled \$325 million for the PEC and \$50 million for the Lac Seul project as at June 30, 2009. This included \$10 million of new borrowing under the PEC facility and \$30 million under the Lac Seul facility in the second quarter of 2009.

As at June 30, 2009, OPG's long-term debt outstanding with the OEFC was \$3.7 billion. Although the new borrowings added in 2008 and in the second quarter of 2009 have extended the maturity profile, approximately \$1.9 billion of long-term debt must be repaid or refinanced within the next three years. To ensure that adequate financing resources are available beyond its \$1 billion commercial paper program backed by the bank credit facility, OPG entered into a \$950 million credit facility with the OEFC in 2007 to refinance senior notes maturing between September 2007 and September 2009. To date, \$500 million has been advanced under this facility. OPG is currently in discussion with the OEFC to replace the current facility with a new facility to support OPG's refinancing through to June 30, 2010.

Maintaining an investment grade credit rating is essential for corporate liquidity and future capital market access. As at June 30, 2009, the following are OPG's credit ratings:

	Dominion Bond Rating Service	Standard & Poor's
Long-Term Credit Rating	A (low)	A-
Commercial Paper Rating	R1 (low)	A-2 ¹ A-1(Low) ²

¹ Global scale

² Canada scale

BALANCE SHEET HIGHLIGHTS

The following section provides highlights of OPG's unaudited interim consolidated financial position using selected balance sheet data:

Selected balance sheet data (millions of dollars)	As At	
	June 30 2009	December 31 2008
Assets		
Nuclear fixed asset removal and nuclear waste management funds	9,662	9,209
Regulatory assets	1,196	522
Future income taxes	49	68
Liabilities		
Fixed asset removal and nuclear waste management	11,640	11,384
Future income taxes	592	-

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Decommissioning Fund

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. For additional information regarding the Decommissioning Fund, refer to the 2008 annual MD&A under the heading, *Balance Sheet Highlights*.

The Decommissioning Fund's fair value was \$4,553 million as at June 30, 2009 compared to \$4,325 million as at December 31, 2008. The increase in asset value of \$228 million was primarily due to favourable returns in the capital markets during the three months ended June 30, 2009.

Used Fuel Fund

Under the ONFA, the Province guarantees OPG's annual return from the Used Fuel Fund at 3.25 percent plus the change in the Ontario Consumer Price Index ("committed return") for funding related to the first 2.23 million used fuel bundles. For additional information regarding the Used Fuel Fund, refer to the 2008 annual MD&A under the heading, *Balance Sheet Highlights*.

The Used Fuel Fund's fair value was \$5,109 million as at June 30, 2009 compared to \$4,884 million as at December 31, 2008. The increase in asset value in the Used Fuel Fund during the six month ended June 30, 2009 of \$225 million was due to new contributions to the fund and the committed return. The asset values as at June 30, 2009 and December 31, 2008, included a receivable from the Province of \$267 million and \$460 million, respectively.

As required by the terms of the ONFA, the Province provides a Provincial Guarantee to the Canadian Nuclear Safety Commission ("CNSC") on behalf of OPG. The *Nuclear Safety and Control Act (Canada)* requires OPG to have sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The Provincial Guarantee provides for any shortfall between the long term liabilities and the current market value of the Used Fuel Fund and the Decommissioning Fund. As of June 30, 2009, the value of this guarantee was \$760 million. It is expected that that the CNSC will require the guarantee to be increased to approximately \$1.5 billion as a result of the market value losses experienced primarily during the latter half of 2008.

Regulatory Assets

As at June 30, 2009, regulatory assets were \$1,196 million compared to \$522 million as at December 31, 2008. The increase in regulatory assets was primarily due to the recognition of a

regulatory asset as a result of adopting the liability method of accounting for income taxes for the rate regulated operations, effective January 1, 2009, as discussed under the heading, *Income Taxes*, and the recording of a regulatory asset of \$202 million for the tax loss variance account established by the OEB in May 2009, and effective retrospectively to April 1, 2008. The increase in regulatory assets was partly offset by amortization expense of \$49 million, resulting from the recovery of regulatory assets through current regulated prices.

Fixed Asset Removal and Nuclear Waste Management

The liability for fixed asset removal of nuclear and fossil-fuelled generating stations and nuclear waste management as at June 30, 2009 was \$11,640 million compared to \$11,384 million as at December 31, 2008. The increase was primarily due to accretion of \$317 million due to the passage of time, partially offset by expenditures of \$82 million on nuclear waste management activities.

Future Income Taxes

As at June 30, 2009, net future income tax liabilities were \$543 million compared to net future income tax assets of \$68 million as at December 31, 2008. The increase in future income tax liabilities was primarily due to the recognition of future income tax liabilities of \$482 million as a result of adopting an amendment to Section 3465, *Income Taxes*, of the CICA Handbook. The impact of adopting the amended handbook section is described under the heading, *Income Taxes*, in the *Discussion of Operating Results by Business Segment* section.

Off-Balance Sheet Arrangements

In the normal course of operations, OPG engages in a variety of transactions that, under Canadian GAAP, are either not recorded in the Company's consolidated financial statements or are recorded in the Company's consolidated financial statements using amounts that differ from the full contract amounts. Principal off-balance sheet activities that OPG undertakes include securitization of certain accounts receivable agreements, guarantees, which provide financial or performance assurance to third parties on behalf of certain subsidiaries, and long-term fixed price contracts.

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 and joint ventures. Such agreements include guarantees, stand-by Letters of Credit and surety bonds.

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

OPG's significant accounting policies, including the impact of future accounting pronouncements, are outlined in Note 3 to the audited annual consolidated financial statements as at and for the year ended December 31, 2008. Certain of these policies are recognized as critical accounting policies by virtue of the subjective and complex judgments and estimates required around matters that are inherently uncertain, and could result in materially different amounts being reported under different conditions or assumptions.

Accounting for Regulated Operations

As a result of prospectively adopting changes to Section 3465, *Income Taxes*, on January 1, 2009, OPG recognized a future income tax liability of \$466 million relating to its rate regulated operations for future income taxes expected to be recovered through future regulated prices, and also recognized a corresponding regulatory asset. The future income tax liability of \$466 million includes future income taxes of \$126 million resulting from the additional regulatory asset for future income taxes recognized as a result of the amendments to Section 3465.

In addition to the transitional adjustment related to the amendments to Section 3465, for the three and six month periods ended June 30, 2009, OPG recorded an increase to the future income tax liability of \$75 million and \$39 million, respectively, which is expected to be recovered through future regulated prices, and recorded a corresponding increase to the regulatory asset. As a result, the future income tax expense for the three and six month periods ended June 30, 2009 was not impacted. The increase in the future income tax liability for the three and six month periods ended June 30, 2009 included \$20 million and \$10 million, respectively, related to the increase to the regulatory asset for future income taxes. The regulatory asset was also increased by \$75 million and \$39 million, respectively, during the three and six month periods ended June 30, 2009.

Intangible Assets

In February 2008, the CICA adopted Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces CICA Handbook Section 3062, *Goodwill and Other Intangible Assets*. The new guidance establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

This section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. OPG adopted the Handbook section effective January 1, 2009. The adoption of this standard did not have a significant impact on the Company's financial position or results of operations. As at June 30, 2009 and December 31, 2008, OPG reported intangible assets of \$55 million and \$57 million, respectively.

FUTURE CHANGES IN ACCOUNTING POLICIES

Conversion to International Financial Reporting Standards

At the end of the second quarter of 2009, OPG's project to convert to International Financial Reporting Standards ("IFRS") continued on schedule. During the second quarter of 2009, OPG progressed on many areas including building and testing the system and process changes to convert to IFRS, and developing significant accounting policies.

For the remainder of 2009, OPG will continue to consider the options available under IFRS 1, and identify the financial statement structure and disclosure requirements under IFRS. A training plan has been developed and will be executed throughout 2009 and 2010 to ensure that OPG is well positioned to embed IFRS requirements. As a number of the IFRS standards are changing, OPG will continue to assess the impact on its opening balance sheet on transition date and the ongoing impact on financial statements and disclosures, as additional information becomes available.

Financial Instruments – Disclosures

In June 2009, the CICA amended Handbook Section 3862, *Financial Instruments – Disclosures*, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require entities to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has three levels. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. These amendments will be applicable to OPG effective for its financial statements for the year ended December 31, 2009, but not for interim financial statements during this period. OPG is in the process of assessing the impact of these requirements.

RISK MANAGEMENT

A detailed discussion of OPG's governance structure and inherent risks is included in the 2008 annual MD&A under the heading, *Risk Management*. The following discussion updates the annual disclosure.

Risk Governance Structure

Given the numerous major development projects OPG is undertaking, a revised project risk management procedure was issued in the second quarter of 2009, designed to facilitate a consistent approach to risk management within major projects. The approach for projects greater than \$25 million mandates risk identification, mitigation, remediation and monitoring activities.

Risk Management Activities

The following discussion provides an update of OPG's risk management activities that were disclosed in the 2008 annual MD&A under the heading *Risk Management Activities*.

Enterprise-Wide Perspective

The Company has designed a comprehensive framework that identifies and evaluates threats or risks on the basis of their potential impact on the Company's capacity to achieve specific business plan objectives. The framework provides both senior management and the Board of Directors with detailed descriptions of various activities designed to mitigate the threats to the extent possible.

For the purpose of this report, a number of key risks are presented in four main categories namely, operational, financial, regulatory and environmental. For each category, a number of key threats or risks are briefly described.

Operational Risks

Fossil-Fuelled Generating Stations

The IESO has indicated that the need for a reliability must run contract with the Lennox generating station ceases after the current contract period ends September 30, 2009. The OPA will not be in a position to sign a new contract until its Integrated Power System Plan is approved by the OEB. OPG is seeking a Directive from the shareholder guiding the OPA to contract with OPG for the Lennox generating capacity for the period beyond October 1, 2009.

Major Development Projects

OPG is undertaking numerous projects designed to enhance and expand its electricity generating portfolio. The risks associated with these projects could adversely impact the Company's financial performance. Major projects include potential refurbishment of existing nuclear generating stations, the Niagara Tunnel project, and other hydroelectric and fossil-fuelled projects.

New Nuclear Units

On June 29, 2009, the Government of Ontario suspended the competitive RFP process to procure two new nuclear reactors planned for the Darlington site. In the announcement, the Government indicated that the competitive RFP process did not provide Ontario with a suitable option at this time. OPG is continuing with two initiatives that were underway – the environmental assessment process and obtaining a site preparation licence.

Niagara Tunnel Project

OPG and the contractor signed an amended design-build contract in June 2009 with a revised target schedule and target cost for the completion of the project. The new contract includes incentives and disincentives related to achieving the target cost and schedule. The revised project cost is estimated at

\$1.6 billion, and the revised schedule targets completion by December 2013. Some uncertainty with respect to the cost and schedule for both the tunnel excavation and liner installation will continue. As the new contract is not a fixed price contract, OPG will exercise additional oversight.

Other

During periods in March, April and June 2009, very low Ontario primary demand for electricity, together with high availability and output of baseload generation from hydroelectric and nuclear generating stations, resulted in units idled or operating at less than capacity, and receiving payments at extremely low market prices. During periods in March and April 2009, the very low electricity prices have also resulted in negative gross margin at OPG's baseload hydroelectric generating stations.

Under the Green Energy Act, there is no limit on the amount of non-dispatchable renewable resources that can be added to Ontario's electricity system. This will significantly impact OPG's future hydroelectric and nuclear operations.

The reduction in primary demand resulting from the economic downturn, combined with implications of non-dispatchable renewable resources permitted by the Green Energy Act, may cause OPG to spill water from hydroelectric generating units and reduce generation output of nuclear units. Low electricity prices and surplus baseload generation are expected to continue into the near future. The new interconnection between Ontario and Quebec, expected to be operational in the summer of 2009, may also result in increased electricity imports and therefore, may further displace generation from Ontario. One or more of these conditions would result in a significant decline in OPG's revenue and net income, and potentially result in increased costs.

Financial Risks

OPG is exposed to a number of capital market-related risks that could adversely impact its financial and operating performance. Many of these risks arise due to OPG's exposure to volatility in commodity, equity, foreign exchange, and interest rate markets. OPG manages this complex array of risks to reduce the uncertainty or mitigate the potential unfavourable impact on the Company's financial results. Despite OPG's risk management measures, residual risk to financial results still remains due to volatility in the markets.

Commodity markets

Changes in the market price of electricity, or in the price of the fuels used to produce electricity, can adversely impact OPG's earnings and cash flows from operations. To manage this risk, OPG seeks to maintain a balance between the commodity price risk inherent in its electricity production and generating station fuel portfolios by renegotiating fuel supply contracts and taking advantage of relevant commodities markets to the extent trading liquidity exists. To manage fuel price risk, OPG has a fuel hedging program, which includes using fixed price and indexed contracts.

In 2008, the Province announced new annual targets and limits on CO₂ emissions from the use of coal at fossil-fuelled generating stations for the period from 2009 to 2014. As a result, the OEFC and OPG have entered into an agreement, effective January 1, 2009, to provide for the continued reliability and availability of OPG's Lambton and Nanticoke generating stations, consistent with the Shareholder Resolution that an appropriate cost recovery mechanism be established to enable OPG to recover the costs of its coal-fired generating stations following the implementation of OPG's CO₂ reduction strategy. This agreement largely removes the exposure to fuel and electricity market prices.

The percentages of OPG's expected generation, emission requirements, and fuel requirements hedged are shown below:

	2009	2010	2011
Estimated generation output hedged ¹	86%	85%	85%
Estimated fuel requirements hedged ²	100%	99%	84%
Estimated nitric oxide ("NO") emission requirement hedged ³	100%	100%	100%
Estimated SO ₂ emission requirement hedged ³	100%	100%	100%

¹ Represents the portion of megawatt-hours of expected future generation production, including power purchases, for which the Company has sales commitments and contracts including the obligations under regulated pricing commitments, agreements with the IESO and OPA auction sales.

² Represents the approximate portion of megawatt hours of expected generation production (and fossil year end inventory targets) from each type of facility (fossil, nuclear and hydroelectric) for which OPG has entered into contractual arrangements or obligations in order to secure either the expected availability and/or price of fuel. Excess fuel in inventories in a given year is attributed to the next year for the purpose of measuring hedge ratios. Since production from hydroelectric facilities is primarily influenced by expected weather and weather patterns, fuel hedge ratios for hydroelectric facilities are assumed to be 100%.

³ Represents the approximate portion of megawatt hours of expected fossil production for which OPG has purchased, been allocated or granted emission allowances and Emission Reduction Credits to meet OPG's obligations under Ontario Environmental Regulations 397/01.

Foreign exchange and interest rate markets

In order to manage foreign exchange risk, OPG employs various financial instruments such as forwards and various forms of derivative contracts in accordance with approved risk management policies. As of June 30, 2009, OPG had total foreign exchange swap contracts outstanding with a notional principal of \$80 million, with settlement between July 2009 and December 2009.

OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated new financing. As of June 30, 2009, OPG had total forward start interest rate swap contracts outstanding with a notional principal of \$190 million and a maturity schedule of ten to eleven years.

Trading

OPG's trading operations are closely monitored, and total exposures are measured and reported to senior management on a daily basis. The metric used to measure the risk of this trading activity is known as "value at risk" or "VaR", which is defined as the potential future loss, expressed in monetary terms, for a portfolio based on normal market conditions for a set period of time. The VaR limit for trading was \$5 million, and VaR utilization ranged between \$0.7 million and \$1.2 million during the three months ended June 30, 2009, compared to \$0.5 million and \$2.5 million during the three months ended March 31, 2009.

Credit

OPG manages its exposure to various suppliers or "counterparties" by evaluating the financial condition of all counterparties and ensuring that appropriate collateral or other forms of security are held by OPG. OPG's credit exposure as at June 30, 2009 was \$489 million, including \$378 million to the IESO. Over 80 percent of the remaining \$111 million exposure was to investment grade counterparties.

Regulatory Risks

OPG is subject to regulation by entities including the OEB and the CNSC. The risks that arise from being a regulated entity include the potential inability to recover costs, reductions in revenue, increases in the cost of operations, and unexpected outages. These unfavourable impacts are mitigated by maintaining close contact with the regulators, and issuers of standards and codes, to ensure early identification and discussion of issues.

The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's decisions and the regulation. These estimates and assumptions will be reviewed as part of the OEB's regulatory process.

Environmental Risks

Changes to environmental laws, or delays in implementing the current timetable of the Province's coal-fired generating station closure policy, could create compliance risks that may be addressed by the installation of additional equipment or control technologies, the purchase of additional emission reduction credits, or by constraining production from the fossil-fuelled generating stations. In addition, a failure to comply with applicable environmental laws may result in enforcement actions, including the potential for orders or charges. Further, some of OPG's activities have the potential to cause contamination to land or water that may require remediation. The potential liability associated with any of these events could have a material adverse effect on the business.

Other Enterprise-Wide Risks

Human Resources

The risk associated with the availability of skilled and experienced resources continues to exist for OPG. In order to mitigate the impact of this risk, OPG implemented a "Resourcing Strategy Initiative", which includes aggressive recruitment strategies, workforce planning, and ongoing analysis of potential shortfalls. Short-term impacts of the recession would indicate improved ability to attract and retain employees; however, the longer term impacts on knowledge transfer and future availability of skilled resources represent an ongoing strategic risk.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

During the most recent interim period, there have been no changes in the Company's policies and procedures and other processes that comprise its internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

QUARTERLY FINANCIAL HIGHLIGHTS

The following tables set out selected financial information from OPG's unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This financial information has been prepared in accordance with Canadian GAAP.

<i>(millions of dollars)</i>	June 30 2009	March 31 2009	December 31 2008	September 30 2008
Revenue after revenue limit rebate	1,397	1,481	1,621	1,513
Net income (loss)	306	(9)	(31)	(142)
Net income (loss) per share	\$1.20	\$(0.04)	\$(0.12)	\$(0.55)

<i>(millions of dollars)</i>	June 30 2008	March 31 2008	December 31 2007	September 30 2007
Revenue after revenue limit rebate	1,385	1,563	1,342	1,421
Net income	99	162	119	113
Net income per share	\$0.39	\$0.63	\$0.46	\$0.44

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

Additional items which impacted net income (loss) in certain quarters above are described below and in OPG's 2008 annual MD&A under the heading, Quarterly Financial Highlights:

- A decrease in gross margin during the first quarter of 2009 primarily due to lower generation and higher fuel prices at OPG's fossil-fuelled generating stations, largely offset by the recognition of revenue related to a contingency support agreement established with the OEFC.
- A decrease in income resulting from losses in the Nuclear Funds during the first quarter of 2009 primarily due to reductions in the Ontario Consumer Price index. Losses from the Nuclear Funds were partially mitigated by the establishment of the Bruce variance account for the portion of the losses from the Nuclear Funds related to the nuclear generating stations on lease to Bruce Power.
- A decrease in income in the first quarter of 2009 related to higher OM&A expenses primarily due to an increase in planned outage and maintenance activities, new nuclear generation development, and capacity refurbishment activities at OPG's nuclear generating stations.

SUPPLEMENTAL EARNINGS MEASURES

In addition to providing net income in accordance with Canadian GAAP, OPG's MD&A, unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2009 and 2008 and the notes thereto, present certain non-GAAP financial measures. These financial measures do not have standard definitions prescribed by Canadian GAAP, and therefore, may not be comparable to similar measures disclosed by other companies. OPG utilizes these measures in making operating decisions and assessing its performance. Readers of the MD&A, consolidated financial statements, and notes thereto, utilize these measures in assessing the Company's financial performance from ongoing operations. These non-GAAP financial measures have not been presented as an alternative to net income in accordance with Canadian GAAP as an indicator of operating performance. The definitions of the non-GAAP financial measures are as follows:

(1) **Gross margin** is defined as revenue less revenue limit rebate and fuel expense.

(2) **Earnings** are defined as net income.

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