

## INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30 2009	2008	September 30 2009	2008
<i>(millions of dollars except where noted)</i>				
<b>Revenue</b> (Note 15)				
Revenue before revenue limit rebate	1,345	1,628	4,250	4,698
Revenue limit rebate (Note 14)	-	(115)	(27)	(237)
	<b>1,345</b>	1,513	<b>4,223</b>	4,461
Fuel expense (Note 15)	249	334	730	915
<b>Gross margin</b> (Note 15)	<b>1,096</b>	1,179	<b>3,493</b>	3,546
<b>Expenses</b>				
Operations, maintenance and administration	653	689	2,157	2,130
Depreciation and amortization (Note 5)	187	162	550	497
Accretion on fixed asset removal and nuclear waste management liabilities (Note 9)	158	151	476	438
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds (Note 9)	(254)	190	(549)	133
Property and capital taxes	24	24	74	54
	<b>768</b>	1,216	<b>2,708</b>	3,252
<b>Income (loss) before the following:</b>	<b>328</b>	(37)	<b>785</b>	294
Other losses (gains) (Notes 15 and 17)	4	-	(2)	7
<b>Income (loss) before interest and income taxes</b>	<b>324</b>	(37)	<b>787</b>	287
Net interest expense	48	41	130	120
<b>Income (loss) before income taxes</b>	<b>276</b>	(78)	<b>657</b>	167
Income tax expense (recovery) (Note 10)				
Current	40	33	19	179
Future	(23)	31	82	(131)
	<b>17</b>	64	<b>101</b>	48
<b>Net income (loss)</b>	<b>259</b>	(142)	<b>556</b>	119
<b>Basic and diluted income per common share</b> (dollars)	<b>1.01</b>	(0.55)	<b>2.17</b>	0.46
<b>Common shares outstanding</b> (millions)	<b>256.3</b>	256.3	<b>256.3</b>	256.3

See accompanying notes to the interim consolidated financial statements

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>(millions of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
<b>Operating activities</b>				
Net income (loss)	259	(142)	556	119
Adjust for non-cash items:				
Depreciation and amortization <i>(Note 5)</i>	187	162	550	497
Accretion on fixed asset removal and nuclear waste management liabilities <i>(Note 9)</i>	158	151	476	438
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds <i>(Note 9)</i>	(254)	190	(549)	133
Pension and other post employment benefit costs <i>(Note 11)</i>	65	103	190	315
Future income taxes <i>(Note 10)</i>	(23)	31	82	(131)
Mark-to-market on derivative instruments	10	(28)	18	2
Provision for used nuclear fuel	7	7	25	24
Regulatory assets and liabilities <i>(Note 6)</i>	(30)	(2)	(220)	(12)
Other	8	4	10	11
	<b>387</b>	476	<b>1,138</b>	1,396
Contributions to nuclear fixed asset removal and nuclear waste management funds	(87)	(113)	(262)	(340)
Expenditures on fixed asset removal and nuclear waste management <i>(Note 9)</i>	(50)	(40)	(132)	(135)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	38	46	75	54
Contributions to Pension Fund	(72)	(66)	(204)	(198)
Expenditures on other post employment benefits and supplementary pension plans	(20)	(21)	(60)	(60)
Revenue limit rebate <i>(Note 14)</i>	-	(93)	(112)	(189)
Net changes to other long-term assets and liabilities	(4)	(13)	(28)	119
Net changes in non-cash working capital balances <i>(Note 16)</i>	11	258	(354)	183
<b>Cash flow provided by operating activities</b>	<b>203</b>	434	<b>61</b>	830
<b>Investing activities</b>				
Increase in regulatory assets <i>(Note 6)</i>	-	(2)	(1)	(7)
Investment in fixed and intangible assets	(196)	(172)	(519)	(434)
Net proceeds from sale of long-term investments	-	10	1	15
<b>Cash flow used in investing activities</b>	<b>(196)</b>	(164)	<b>(519)</b>	(426)
<b>Financing activities</b>				
Issuance of long-term debt <i>(Note 7)</i>	65	50	480	375
Repayment of long-term debt <i>(Note 7)</i>	(177)	(202)	(358)	(406)
Net increase in short-term notes <i>(Note 8)</i>	62	-	62	-
Capital contribution by non-controlling interest <i>(Note 18)</i>	4	-	4	-
<b>Cash flow (used in) provided by financing activities</b>	<b>(46)</b>	(152)	<b>188</b>	(31)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(39)</b>	118	<b>(270)</b>	373
<b>Cash and cash equivalents, beginning of period</b>	<b>84</b>	365	<b>315</b>	110
<b>Cash and cash equivalents, end of period</b>	<b>45</b>	483	<b>45</b>	483

See accompanying notes to the interim consolidated financial statements

## INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<b>As at</b> <i>(millions of dollars)</i>	<b>September 30</b> <b>2009</b>	<b>December 31</b> <b>2008</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents <i>(Note 9)</i>	45	315
Accounts receivable <i>(Note 4)</i>	366	525
Fuel inventory	838	736
Prepaid expenses	58	32
Income tax recoverable	62	-
Future income taxes <i>(Note 10)</i>	50	6
Materials and supplies	133	132
	<b>1,552</b>	<b>1,746</b>
<b>Fixed assets <i>(Note 15)</i></b>		
Property, plant and equipment	18,448	17,976
Less: accumulated depreciation	5,662	5,246
	<b>12,786</b>	<b>12,730</b>
<b>Intangible assets <i>(Notes 2 and 15)</i></b>		
Intangible assets	365	357
Less: accumulated amortization	313	300
	<b>52</b>	<b>57</b>
<b>Other long-term assets</b>		
Deferred pension asset	949	797
Nuclear fixed asset removal and nuclear waste management funds <i>(Note 9)</i>	10,071	9,209
Long-term investments <i>(Note 3)</i>	73	74
Long-term materials and supplies	366	338
Future income taxes <i>(Note 10)</i>	-	62
Regulatory assets <i>(Note 6)</i>	1,207	522
Long-term accounts receivable and other assets	49	44
	<b>12,715</b>	<b>11,046</b>
	<b>27,105</b>	<b>25,579</b>

See accompanying notes to the interim consolidated financial statements

## INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at (millions of dollars)	September 30 2009	December 31 2008
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued charges	796	1,015
Revenue limit rebate payable (Note 14)	-	85
Short-term notes payable (Note 8)	62	-
Long-term debt due within one year (Note 7)	977	357
Deferred revenue due within one year	12	12
Income and capital taxes payable	-	104
	<u>1,847</u>	<u>1,573</u>
<b>Long-term debt (Note 7)</b>	<u>2,985</u>	<u>3,483</u>
<b>Other long-term liabilities</b>		
Fixed asset removal and nuclear waste management (Note 9)	11,757	11,384
Other post employment benefits and supplementary pension plans	1,781	1,703
Long-term accounts payable and accrued charges	421	445
Deferred revenue	124	108
Future income taxes (Note 10)	655	-
Regulatory liabilities (Note 6)	132	54
	<u>14,870</u>	<u>13,694</u>
<b>Non-controlling interest (Note 18)</b>	<u>4</u>	<u>-</u>
<b>Shareholder's equity</b>		
Common shares	5,126	5,126
Retained earnings	2,308	1,752
Accumulated other comprehensive loss	(35)	(49)
	<u>7,399</u>	<u>6,829</u>
	<u>27,105</u>	<u>25,579</u>

Commitments and Contingencies (Notes 7, 12, and 13)

See accompanying notes to the interim consolidated financial statements

**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY  
(UNAUDITED)**

**Nine Months Ended September 30**

*(millions of dollars)*

	<b>2009</b>	<b>2008</b>
<b>Common shares</b>	<b>5,126</b>	5,126
<b>Retained earnings</b>		
Balance at beginning of period	<b>1,752</b>	1,664
Net income	<b>556</b>	119
Balance at end of period	<b>2,308</b>	1,783
<b>Accumulated other comprehensive (loss) income, net of income taxes</b>		
Balance at beginning of period	<b>(49)</b>	17
Other comprehensive income (loss) for the period	<b>14</b>	(27)
Balance at end of period	<b>(35)</b>	(10)
<b>Total shareholder's equity at end of period</b>	<b>7,399</b>	6,899

**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(UNAUDITED)**

<i>(millions of dollars)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>	<b>September 30</b>	<b>September 30</b>	<b>September 30</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Net income (loss)</b>	<b>259</b>	(142)	<b>556</b>	119
<b>Other comprehensive (loss) income, net of income taxes</b>				
Net (loss) gain on derivatives designated as cash flow hedges <sup>1</sup>	<b>(7)</b>	10	<b>21</b>	(20)
Reclassification to income of gains on derivatives designated as cash flow hedges <sup>2</sup>	-	(3)	<b>(7)</b>	(7)
Other comprehensive (loss) income for the period	<b>(7)</b>	7	<b>14</b>	(27)
<b>Comprehensive income (loss)</b>	<b>252</b>	(135)	<b>570</b>	92

<sup>1</sup> Net of income tax recoveries of \$1 million for the three months ended September 30, 2009 and tax recoveries of \$5 million for the three months ended September 30, 2008. For the nine months ended September 30, 2009 and 2008, net of income tax expenses of \$2 million and recoveries of \$2 million, respectively.

<sup>2</sup> Net of income tax recoveries of nil for the three months ended September 30, 2009 and tax expenses of \$2 million for the three months ended September 30, 2008. For the nine months ended September 30, 2009 and 2008, net of income tax recoveries of \$3 million and expenses of \$5 million, respectively.

*See accompanying notes to the interim consolidated financial statements*

## **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 (UNAUDITED)**

### **1. BASIS OF PRESENTATION**

These interim consolidated financial statements were prepared following the same accounting policies and methods as in the most recent annual consolidated financial statements, except as discussed in Note 2 to these interim consolidated financial statements. These interim consolidated financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles ("GAAP") for annual financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended December 31, 2008.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Certain of the 2008 comparative amounts have been reclassified from financial statements previously presented to conform to the 2009 financial statement presentation.

The interim consolidated financial statements include the accounts of Ontario Power Generation Inc. ("OPG" or the "Company") and its subsidiaries. OPG accounts for its interests in jointly controlled entities using the proportionate consolidation method. All significant intercompany transactions have been eliminated on consolidation.

### **2. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES**

#### **Changes Applicable to the Current Period**

##### *Accounting for Regulated Operations*

The Canadian Institute of Chartered Accountants ("CICA") revised its guidance on accounting for rate regulated operations, effective January 1, 2009, with amendments to Handbook Section 1100, *Generally Accepted Accounting Principles*, ("Section 1100"), Handbook Section 3465, *Income Taxes*, ("Section 3465"), and Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation*, ("AcG-19") as follows:

- to remove the temporary exemption pertaining to the application of Section 1100 to rate regulated operations, including the elimination of the opportunity to use industry practice as an acceptable basis for recognition and measurement of assets and liabilities arising from rate regulation;
- to amend Section 3465 to require the recognition of future income tax assets and liabilities as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers; and
- to amend AcG-19, as necessary, as a result of amendments to Sections 1100 and 3465.

As a result of the changes to Section 3465, OPG is required to recognize future income taxes associated with its rate regulated operations. OPG applied the changes prospectively to interim and annual consolidated financial statements beginning January 1, 2009. The impact of the change is disclosed in Note 10, *Income Taxes*.

In addition, effective January 1, 2009, with the removal of the temporary exemption in Section 1100, the Company must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Certain assets and liabilities arising from rate regulation continue to have specific guidance under a primary source of GAAP that applies only to the particular circumstances described therein,

including those arising under Handbook Section 1600, *Consolidated Financial Statements*, Handbook Section 3061, *Property, Plant and Equipment*, Section 3465, and Handbook Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*. Other assets and liabilities arising from rate regulation do not have specific guidance under a primary source of GAAP. Therefore, Section 1100 directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Handbook Section 1000, *Financial Statement Concepts*. In developing these accounting policies, the Company may consult other sources including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. Therefore, in accordance with Section 1100, the Company has determined that these assets and liabilities qualify for recognition under GAAP and this recognition is consistent with the Financial Accounting Standards Board Accounting Standards Codification Topic 980, *Accounting for the Effects of Certain Types of Regulation* (formerly Financial Accounting Standards No. 71). As a result, there is no effect on the Company's financial statements for the three and nine month periods ended September 30, 2009, with the exception of the impact of the amendment to Section 3465, as discussed above.

#### *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*, and 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, with early adoption encouraged.

OPG adopted the Handbook Section on January 1, 2009 and reclassified prior period comparative amounts from property, plant and equipment to intangible assets. The adoption of this standard did not have a significant impact on the Company's financial position or results of operations. As at September 30, 2009 and December 31, 2008, OPG reported intangible assets of \$52 million and \$57 million, respectively. Intangible assets are amortized over a period of five years.

#### *Depreciation*

In September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations. As a result of the unit closures, effective September 2009, OPG revised the units' end of life, to October 2010 from December 2014. This change in estimate was accounted for on a prospective basis and will increase the depreciation expense by \$11 million and \$22 million in 2009 and 2010, respectively.

#### *Restructuring*

As a result of the decision to close two coal-fired units at each of the Lambton and Nanticoke generating stations, OPG has notified key stakeholders, including the Society of Energy Professionals and the Power Workers' Union, of the decision in accordance with their respective collective bargaining agreements. The termination costs are estimated to be approximately \$35 million and are expected to be recorded in mid to late-2010 when they are finalized.

### **Changes Applicable to Future Reporting Periods**

#### *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 values 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 annual 2009 financial statements.

### 3. INVESTMENTS IN ASSET-BACKED COMMERCIAL PAPER

Pursuant to the terms of a restructuring plan announced by the Pan-Canadian Investors Committee for third-party Asset-Backed Commercial Paper (“ABCP”), OPG's short-term commercial paper was exchanged for longer term notes of approximately \$58 million. 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.

OPG classified the new ABCP notes for the purposes of measurement, subsequent to their initial recognition and related income reporting, as held for trading. Fair value was determined based on the same methodology previously developed with updated credit spread and discount rate information.

In the third quarter of 2009, the fair value of the ABCP notes decreased by \$4 million. The decrease in fair value reflected the revised credit rating for one of the note holdings. For the nine months ended September 30, 2009, the fair value of the ABCP notes increased by \$2 million as a result of the improved market conditions partially offset by the impact of the revised credit rating. As at September 30, 2009, the ABCP holdings were valued at \$37 million (December 31, 2008 – \$35 million). OPG continues to monitor the development of a secondary market.

### 4. SALE OF ACCOUNTS RECEIVABLE

The Company has an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the “receivables”) to an independent trust. The Company also retains an undivided co-ownership interest in the receivables sold to the trust. Under the agreement, OPG continues to service the receivables.

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 Independent Electricity System Operator. During the third quarter of 2009, OPG renewed the agreement with a maturity date of August 31, 2010 and an amended commitment of \$250 million.

The accounts receivable reported and securitized by the Company are as follows:

<i>(millions of dollars)</i>	<b>Principal Amount of Receivables as at</b>	
	<b>September 30 2009</b>	<b>December 31 2008</b>
Total receivables portfolio <sup>1</sup>	364	507
Receivables sold	250	300
Receivables retained	114	207

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

The pre-tax charges and average cost of funds are as follows:

<i>(millions of dollars except where noted)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Pre-tax charges	<b>1</b>	<b>3</b>	<b>4</b>	<b>9</b>
Average cost of funds <i>(percent)</i>	<b>1.3</b>	<b>3.7</b>	<b>1.7</b>	<b>4.1</b>

## 5. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for the three and nine month periods ended September 30, 2009 and 2008 consists of the following:

<i>(millions of dollars)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Depreciation	<b>154</b>	152	<b>453</b>	441
Amortization of intangible assets	<b>5</b>	5	<b>16</b>	15
Amortization of regulatory assets and liabilities <i>(Note 6)</i>	<b>27</b>	3	<b>76</b>	36
Nuclear waste management costs	<b>1</b>	2	<b>5</b>	5
	<b>187</b>	162	<b>550</b>	497

Interest capitalized to construction in progress at an average rate of six percent during the three and nine month periods ended September 30, 2009 (three and nine month periods ended September 30, 2008 – six percent) was \$13 million and \$42 million, respectively (three and nine month periods ended September 30, 2008 – \$15 million and \$41 million, respectively).

## 6. REGULATORY ASSETS AND LIABILITIES

Pursuant to the Ontario Energy Board's ("OEB") decision issued in 2008 on OPG's application for regulated prices effective April 1, 2008, OPG recorded additions to variance and deferral accounts for the nine months ended September 30, 2009. OPG also continued to amortize regulatory balances approved for recovery by the OEB effective April 1, 2008, as well as to record interest on outstanding regulatory balances at the interest rate prescribed by the OEB.

During the second quarter of 2009, OPG established a tax loss variance account retroactive to April 1, 2008 pursuant to the OEB's decision and order 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 of regulated prices. OPG filed the motion with the OEB in January 2009. In accordance with the OEB's decision on the motion, the balance in this variance account is 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 regulated prices hearing. During the nine months ended September 30, 2009, OPG recorded a regulatory asset of \$242 million, including \$3 million of interest, related to the tax loss variance account and a corresponding \$239 million increase to revenue. The increase to revenue of \$239 million included an amount of \$119 million related to the period from April 1, 2008 to December 31, 2008.

Beginning on January 1, 2009, OPG also started recording a regulatory asset or liability related to the recognition of future income taxes for its rate regulated operations, as required by the CICA's amended guidance for accounting for rate regulated operations described in Notes 2 and 10.

Prior to April 1, 2008, OPG recorded additions to variance and deferral accounts prescribed by a regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario). OPG also amortized the Pickering A return to service deferral account prior to April 1, 2008 in accordance with the terms of the regulation. The regulation required OPG to record interest on its regulatory balances at the interest rate of six percent prior to April 1, 2008.

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.

The regulatory assets and liabilities recorded as at September 30, 2009 and December 31, 2008 are as follows:

<i>(millions of dollars)</i>	<b>September 30 2009</b>	<b>December 31 2008</b>
<b>Regulatory assets</b>		
Future income taxes <i>(Note 10)</i>	<b>566</b>	-
Bruce revenues and costs variance account	<b>189</b>	260
Pickering A return to service deferral account	<b>93</b>	123
Tax loss variance account	<b>242</b>	-
Nuclear liabilities deferral account	<b>98</b>	132
Other	<b>19</b>	7
<b>Total regulatory assets</b>	<b>1,207</b>	522
<b>Regulatory liabilities</b>		
Nuclear generation development costs – Capacity refurbishment	<b>10</b>	6
Nuclear generation development costs – New nuclear development	<b>43</b>	21
Hydroelectric production variance	<b>51</b>	22
Other	<b>28</b>	5
<b>Total regulatory liabilities</b>	<b>132</b>	54

As at September 30, 2009, other regulatory assets included \$11 million related to the under-recovery of approved regulatory balances over the period from April 1, 2008 to September 30, 2009, and \$6 million related to the under-recovery of retroactive revenue for the period April 1, 2008 to November 30, 2008. As at December 31, 2008, other regulatory assets included \$5 million related to the under-recovery of approved regulatory balances over the period from April 1, 2008 to December 31, 2008.

As at September 30, 2009, other regulatory liabilities included \$18 million in the ancillary services revenue variance account and \$10 million in the nuclear fuel variance account. As at December 31, 2008, other regulatory liabilities included \$4 million in the ancillary services revenue variance account and \$1 million in the nuclear fuel variance account.

The changes in the regulatory assets and liabilities for the nine months ended September 30, 2009 and the year ended December 31, 2008 are as follows:

<i>(millions of dollars)</i>	Future Income Taxes	Bruce Revenues and Costs Variance	Tax Loss Variance	Pickering A Return to Service Deferral Account	Nuclear Liabilities Deferral Account	Nuclear Generation Develop- ment Costs – Capacity Refurbish- ment	Nuclear Generation Develop- ment Costs – New Nuclear Develop- ment	Hydro- electric Production Variance	Other (net)
Regulatory assets (liabilities), January 1, 2008	-	-	-	183	131	16	12	7	(7)
Increase (decrease) during the year	-	259	-	-	31	(6)	(30)	(25)	(2)
Interest	-	1	-	6	6	-	-	-	-
Amortization during the year	-	-	-	(66)	(36)	-	(3)	(4)	(2)
Other charges <sup>1</sup>	-	-	-	-	-	(16)	-	-	13
Regulatory assets (liabilities), December 31, 2008	-	260	-	123	132	(6)	(21)	(22)	2
Increase (decrease) during the period	566	(74)	239	-	-	(4)	(18)	(26)	(8)
Interest	-	3	3	1	1	-	-	-	-
Amortization during the period	-	-	-	(31)	(35)	-	(4)	(3)	(3)
<b>Regulatory assets (liabilities), September 30, 2009</b>	<b>566</b>	<b>189</b>	<b>242</b>	<b>93</b>	<b>98</b>	<b>(10)</b>	<b>(43)</b>	<b>(51)</b>	<b>(9)</b>

<sup>1</sup> Other charges for the year ended December 31, 2008 represent regulatory balances that were charged to operations based on the OEB's decision in 2008 that these amounts would not be refunded or charged to ratepayers.

The following table summarizes the income statement and other comprehensive income impacts of recognizing regulatory assets and liabilities:

<i>(millions of dollars)</i>	Three Months Ended September 30, 2009			Three Months Ended September 30, 2008		
	As Stated	Impact of Regulatory Assets and Liabilities	Financial Statements without the Impact of Regulatory Assets and Liabilities	As Stated	Impact of Regulatory Assets and Liabilities	Financial Statements without the Impact of Regulatory Assets and Liabilities
Revenue	1,345	(42)	1,303	1,513	-	1,513
Fuel expense	249	(4)	245	334	-	334
Operations, maintenance, and administration	653	(9)	644	689	-	689
Depreciation and amortization	187	(27)	160	162	(3)	159
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds	(254)	(106)	(360)	190	-	190
Accretion on fixed asset removal and nuclear waste management liabilities	158	(1)	157	151	-	151
Property and capital taxes	24	-	24	24	-	24
Net interest expense	48	1	49	41	3	44
Income tax expense <sup>1</sup>	17	89	106	64	-	64
Other comprehensive (loss) income <sup>1</sup>	(7)	2	(5)	7	-	7

<sup>1</sup> Effective January 1, 2009, OPG is required to recognize future income taxes and a corresponding regulatory asset or liability associated with its rate regulated operations in accordance with amendments to Section 3465 (see Notes 2 and 10). The impact of the regulatory asset or liability is reflected above for the three months ended September 30, 2009. Prior to January 1, 2009, OPG followed the taxes payable method of accounting for income taxes and therefore did not recognize these regulatory assets or liabilities. Accordingly, the impact of recognizing regulatory assets and liabilities for the three months ended September 30, 2008 shown above does not include the future income tax for the regulated operations and the associated regulatory asset or liability.

<i>(millions of dollars)</i>	Nine Months Ended September 30, 2009			Nine Months Ended September 30, 2008		
	As Stated	Impact of Regulatory Assets and Liabilities	Financial Statements without the Impact of Regulatory Assets and Liabilities	As Stated	Impact of Regulatory Assets and Liabilities	Financial Statements without the Impact of Regulatory Assets and Liabilities
Revenue	4,223	(241)	3,982	4,461	(1)	4,460
Fuel expense	730	(9)	721	915	(2)	913
Operations, maintenance, and administration	2,157	(22)	2,135	2,130	4	2,134
Depreciation and amortization	550	(78)	472	497	(23)	474
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds	(549)	(126)	(675)	133	-	133
Accretion on fixed asset removal and nuclear waste management liabilities	476	(2)	474	438	19	457
Property and capital taxes	74	(1)	73	54	1	55
Net interest expense	130	7	137	120	14	134
Income tax expense <sup>1</sup>	101	120	221	48	-	48
Other comprehensive income (loss) <sup>1</sup>	14	(6)	8	(27)	-	(27)

<sup>1</sup> Effective January 1, 2009, OPG is required to recognize future income taxes and a corresponding regulatory asset or liability associated with its rate regulated operations in accordance with amendments to Section 3465 (see Notes 2 and 10). The impact of the regulatory asset or liability is reflected above for the nine months ended September 30, 2009. Prior to January 1, 2009, OPG followed the taxes payable method of accounting for income taxes and therefore did not recognize these regulatory assets or liabilities. Accordingly, the impact of recognizing regulatory assets and liabilities for the nine months ended September 30, 2008 shown above does not include the future income tax for the regulated operations and the associated regulatory asset or liability.

## 7. LONG-TERM DEBT

Long-term debt consists of the following:

<i>(millions of dollars)</i>	<b>September 30 2009</b>	<b>December 31 2008</b>
Notes payable to the Ontario Electricity Financial Corporation	<b>3,590</b>	3,660
Share of non-recourse limited partnership debt	<b>372</b>	180
	<b>3,962</b>	3,840
Less: due within one year		
Notes payable to the Ontario Electricity Financial Corporation	<b>970</b>	350
Share of limited partnership debt	<b>7</b>	7
	<b>977</b>	357
<b>Long-term debt</b>	<b>2,985</b>	3,483

Interest paid during the three months ended September 30, 2009 was \$96 million (three months ended September 30, 2008 – \$104 million), of which \$94 million relates to interest paid on long-term debt (three months ended September 30, 2008 – \$98 million). Interest paid during the nine months ended September 30, 2009 was \$217 million (nine months ended September 30, 2008 – \$218 million), of which \$207 million relates to interest paid on long-term debt (nine months ended September 30, 2008 – \$205 million). Interest on the notes payable to the Ontario Electricity Financial Corporation (“OEF”) is paid semi-annually.

Debt financing for the Niagara Tunnel, the Portlands Energy Centre and the Lac Seul hydroelectric generating station projects is provided by the OEF. As at September 30, 2009, debt financing for these projects, which is included as part of the notes payable to the OEF, consisted of the following:

<i>(millions of dollars)</i>	<b>Niagara Tunnel</b>	<b>Portlands Energy Centre</b>	<b>Lac Seul Hydroelectric Generating Station</b>
Debt financing, as at December 31, 2008	340	305	20
New borrowing	100	50	30
<b>Debt financing, as at September 30, 2009</b>	<b>440</b>	<b>355</b>	<b>50</b>

OPG reached an agreement with the OEF in 2007 for a \$950 million credit agreement to refinance senior notes as they mature over the period from September 2007 to September 2009. Refinancing under this agreement totalled \$500 million as at September 30, 2009, which included \$100 million of refinancing in the first quarter of 2009 at an interest rate of 5.65 percent.

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. Transaction costs that are directly attributable to the issuance of the senior notes are included in the amortized cost of the notes. 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.

## 8. SHORT-TERM CREDIT FACILITIES

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 September 30, 2009, \$62 million of 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 September 30, 2009, there was no borrowing under this credit facility.

## 9. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

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

<i>(millions of dollars)</i>	<b>September 30 2009</b>	<b>December 31 2008</b>
Liability for nuclear used fuel management	<b>6,451</b>	6,213
Liability for nuclear decommissioning and low and intermediate level waste management	<b>5,151</b>	5,020
Liability for non-nuclear fixed asset removal	<b>155</b>	151
<b>Fixed asset removal and nuclear waste management liabilities</b>	<b>11,757</b>	11,384

The change in the fixed asset removal and nuclear waste management liabilities for the nine months ended September 30, 2009 and the year ended December 31, 2008 are as follows:

<i>(millions of dollars)</i>	<b>September 30 2009</b>	<b>December 31 2008</b>
Liabilities, beginning of period	<b>11,384</b>	10,957
Increase in liabilities due to accretion	<b>474</b>	608
Increase in liabilities due to nuclear used fuel and nuclear waste management variable expenses	<b>31</b>	47
Liabilities settled by expenditures on waste management	<b>(132)</b>	(195)
Decrease in the liabilities for non-nuclear fixed asset removal	<b>-</b>	(33)
<b>Liabilities, end of period</b>	<b>11,757</b>	11,384

The cash and cash equivalents balance as at September 30, 2009 includes \$20 million of cash and cash equivalents that are for the use of nuclear waste management activities.

## Ontario Nuclear Funds Agreement

OPG sets aside and invests funds held in segregated custodian and trustee accounts specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities. The nuclear fixed asset removal and nuclear waste management funds ("Nuclear Funds") as at September 30, 2009 and December 31, 2008 consist of the following:

<i>(millions of dollars)</i>	Fair Value	
	September 30 2009	December 31 2008
Decommissioning Fund	4,821	4,325
Used Fuel Fund <sup>1</sup>	5,233	4,424
Due from Province – Used Fuel Fund	17	460
	<b>5,250</b>	4,884
	<b>10,071</b>	9,209

<sup>1</sup> The Ontario NFWA Trust represented \$1,688 million as at September 30, 2009 (December 31, 2008 – \$1,386 million) of the Used Fuel Fund on a fair value basis.

As required by the terms of the Ontario Nuclear Funds Agreement, 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 September 30, 2009, the value of this guarantee was \$760 million. It is expected that the CNSC will require the guarantee to be increased to approximately \$1.5 billion as a result of the market value losses experienced in the latter half of 2008.

The earnings from the Nuclear Funds during the three and nine month periods ended September 30, 2009 were partially reduced by the establishment of a variance account for revenues and costs associated with the Bruce nuclear stations, as a result of the OEB's decision in the fourth quarter of 2008. The earnings on the Nuclear Funds for the three and nine month periods ended September 30, 2009 and 2008 are as follows:

<i>(millions of dollars)</i>	Three Months Ended		Nine Months Ended	
	September 30 2009	September 30 2008	September 30 2009	September 30 2008
Decommissioning Fund	296	(328)	554	(400)
Used Fuel Fund	64	138	121	267
Bruce Revenues and Costs Variance (Note 6)	(106)	-	(126)	-
Total earnings (losses)	<b>254</b>	(190)	<b>549</b>	(133)

## 10. 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 recovery of \$78 million and a tax expense of \$38 million during the three and nine month periods ended September 30, 2008, respectively, which would have been recorded had OPG accounted for income taxes for the regulated segments using the liability method.

As discussed in Note 2, *Changes in Accounting Policies and Estimates*, effective January 1, 2009, OPG is required to recognize future income taxes associated with its rate regulated operations, including future income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. 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 income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

In addition to the transitional adjustment related to the amendments to Section 3465, for the three and nine month periods ended September 30, 2009, OPG recorded an increase to the future income tax liability of \$61 million and \$100 million, respectively, which is expected to be recovered through future regulated prices and recorded a corresponding increase to the regulatory asset for future income taxes. As a result, the future income tax expense for the three and nine month periods ended September 30, 2009 was not impacted. The increase in the future income tax liability for the three and nine month periods ended September 30, 2009 included \$18 million and \$28 million, respectively, related to the increase to the regulatory asset for future income taxes.

The following table summarizes the future income tax liabilities recorded as a result of the changes to Section 3465:

<i>(millions of dollars)</i>	
<b>Transition – January 1, 2009:</b>	
Future income tax liabilities on temporary differences related to regulated operations	<b>340</b>
Future income tax liabilities resulting from the regulatory asset for future income taxes	<b>126</b>
	<b>466</b>
<b>Changes during the period:</b>	
Increase in future income tax liabilities on temporary differences related to regulated operations	<b>72</b>
Increase in future income tax liabilities resulting from the regulatory asset for future income taxes	<b>28</b>
	<b>566</b>
<b>Balance at September 30, 2009</b>	<b>566</b>

The amount of cash income taxes paid during the three months ended September 30, 2009 was nil (three months ended September 30, 2008 – \$14 million). For the nine months ended September 30, 2009, cash income taxes paid were \$192 million (nine months ended September 30, 2008 – \$44 million).

## 11. PENSION AND OTHER POST EMPLOYMENT BENEFIT COSTS

Total benefit costs for the three and nine month periods ended September 30, 2009 and 2008 are as follows:

<i>(millions of dollars)</i>	Three Months Ended		Nine Months Ended	
	September 30 2009	2008	September 30 2009	2008
Registered pension plan	17	47	52	141
Supplementary pension plans	4	4	12	12
Other post employment benefits	44	52	126	162
Pension and other post employment benefit costs	65	103	190	315

## 12. FINANCIAL INSTRUMENTS

OPG's Board of Directors has approved, and management has implemented, a risk management governance structure designed to effectively identify, measure, monitor and report on key risks across the Company. Risk management activities are coordinated through a centralized risk management group, separate and independent from operational management. Risk information from the business units is independently assessed and aggregated by the Risk Services Group, and is reported by the Chief Risk Officer to the Executive Risk Committee and to the Audit/Risk Committee of the Board of Directors. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

OPG is exposed to risks related to changes in electricity prices associated with a wholesale spot market for electricity in Ontario, changes in interest rates, and movements in foreign currency that affect its assets, liabilities, and forecast transactions. Select derivative instruments are used to limit such risks. Derivatives are used as hedging instruments, as well as for trading purposes.

### Derivatives and Hedging

At the inception of a hedging relationship, OPG documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. OPG also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. When such a derivative instrument hedge ceases to exist or be effective as a hedge, or when designation of a hedging relationship is terminated, any associated deferred gains or losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the interim consolidated statement of income (loss).

#### *Derivative Instruments Qualifying for Hedge Accounting*

The following table provides the estimated fair value of derivative instruments designated as hedges. The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized in net income (loss) upon settlement when the underlying transactions occur.

OPG holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity.

<i>(millions of dollars except where noted)</i>	<b>Notional Quantity</b> <b>September 30, 2009</b>	<b>Terms</b>	<b>Fair Value</b>	<b>Notional Quantity</b> <b>December 31, 2008</b>	<b>Terms</b>	<b>Fair Value</b>
Electricity derivative instruments	<b>0.5 TWh</b>	<b>1.5 yrs</b>	<b>23</b>	0.9TWh	1 yr	20
Foreign exchange derivative instruments	<b>U.S. \$35</b>	<b>Dec/09</b>	<b>(4)</b>	U.S. \$35	July/09	6
Floating-to-fixed interest rate hedges	<b>38</b>	<b>1-10 yrs</b>	<b>(5)</b>	40	1-11 yrs	(8)
Forward start interest rate hedges	<b>155</b>	<b>1-11 yrs</b>	<b>(15)</b>	272	1-12 yrs	(50)

Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. The weighted average fixed exchange rate for contracts outstanding at September 30, 2009 and December 31, 2008 was U.S. \$0.85 and U.S. \$0.95, respectively, for every Canadian dollar.

One of the Company's joint ventures is exposed to changes in interest rates. The joint venture entered into an interest rate swap to manage the risk arising from fluctuations in interest rates by swapping the short-term floating interest rate with a fixed rate of 5.33 percent. OPG's proportionate interest in the swap is 50 percent and is accounted for as a hedge.

Net gains of \$7 million related to derivative instruments qualifying for hedge accounting were recognized in net income during the nine months ended September 30, 2009. This amount was previously recorded in other comprehensive income (loss). Existing net gains of \$10 million deferred in accumulated other comprehensive loss at September 30, 2009 are expected to be reclassified to net income (loss) within the next 12 months.

#### *Derivative Instruments Not Qualifying for Hedge Accounting*

The carrying amount (fair value) of derivative instruments not designated for hedging purposes is as follows:

<i>(millions of dollars except where noted)</i>	<b>Notional Quantity</b> <b>September 30, 2009</b>	<b>Fair Value</b>	<b>Notional Quantity</b> <b>December 31, 2008</b>	<b>Fair Value</b>
Commodity derivative instruments				
Assets	<b>5.6 TWh</b>	<b>30</b>	6.9 TWh	49
Liabilities	<b>1.4 TWh</b>	<b>(20)</b>	2.2 TWh	(19)
		<b>10</b>		30
Market liquidity reserve		<b>(1)</b>		(4)
<b>Total</b>		<b>9</b>		<b>26</b>

#### **Fair Value**

Fair value is the value at which a financial instrument can be closed out or sold, in a transaction with a willing and knowledgeable counterparty. The fair value of financial assets and liabilities, including exchange traded derivatives and other financial instruments for which quoted prices are available in an active market, are determined directly from those quoted market prices.

For financial instruments which do not have quoted market prices directly available, fair values are estimated using forward price curves developed from observable market prices or rates which may

include the use of valuation techniques or models, based, wherever possible, on assumptions supported by observable market prices or rates prevailing at the dates of the interim consolidated balance sheets. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and ABCP issued by third-party trusts. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate.

### **13. COMMITMENTS AND CONTINGENCIES**

#### **Litigation**

Various legal proceedings are pending against OPG or its subsidiaries covering a wide range of matters that arise in the ordinary course of its business activities.

On August 9, 2006, a Notice of Action and Statement of Claim in the amount of \$500 million was served on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited ("British Energy").

The British Energy claim against OPG pertains to corrosion in the Bruce Unit 8 Steam Generators, in particular erosion of the support plates through which the boiler tubes pass. The claim amount includes \$65 million due to an extended outage to repair some of the alleged damage. The balance of the amount claimed is based on an increased probability the steam generators will have to be replaced or the unit taken out of service prematurely. OPG leased the Bruce nuclear generating stations to Bruce Power L.P. in 2001.

British Energy is involved in arbitration with the current owners of Bruce Power L.P. regarding an alleged breach of British Energy's representations and warranties to the current owners when they purchased British Energy's interest in Bruce Power L.P. (the "Arbitration"). If British energy is successful in defending against the arbitration claim they will not have suffered any damages to attempt to recoup from OPG. This Arbitration is scheduled to be heard between November 30 and December 18, 2009. The arbitrator may take some time to come to a decision following the conclusion of the Arbitration.

British Energy previously indicated that they did not require OPG or Bruce Power L.P. to actively defend the court action until the conclusion of the Arbitration. Although the Arbitration has not been heard, British energy has now requested that OPG file a Statement of Defence. OPG and Bruce Power L.P. have advised British Energy that if British Energy wishes the court action to proceed prior to the conclusion of the Arbitration, the defendants will bring a motion for a Stay of proceedings until the conclusion of the Arbitration, a Dismissal of the current action or, in the alternative, a motion to extend the time for service of the Statement of Defence.

In September 2008, a certain First Nation has served a Notice of Action against Canada, Ontario, OPG and the OEFC claiming damages in the amount of \$200 million arising from breach of contract, fiduciary duty, trespass to property, negligence, nuisance, misrepresentation, breach of riparian rights and unlawful and unjustifiable infringement of the aboriginal and treaty rights and \$0.5 million in special damages. A Notice of Arbitration was served at the same time upon OPG pursuant to an agreement between OPG and the said First Nation to address OPG's role in the sharing of benefits related to hydro development. While OPG continues to assess the merits of the litigation, neither the arbitration nor the claim is expected to have any material impact on the Company's financial position, and therefore, OPG has minimal exposure with respect to this claim.

Certain First Nations have commenced actions for interference with reserve and traditional land rights. The claims by some of these First Nations total \$45 million and claims by others are for unspecified amounts.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably with respect to OPG and could have a significant effect on OPG's financial position. Management has provided for contingencies that are determined to be likely and are reasonably measurable.

### **Environmental**

OPG was required to assume certain environmental obligations from Ontario Hydro. A provision of \$76 million was established as at April 1, 1999 for such obligations. As at September 30, 2009, the remaining provision was \$40 million (December 31, 2008 - \$41 million).

Current operations are subject to regulation with respect to emissions to air, water and land as well as other environmental matters by federal, provincial and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in its interim consolidated financial statements to meet OPG's current environmental obligations.

### **14. REVENUE LIMIT REBATE**

Eighty-five percent of the generation output from OPG's unregulated generation assets, excluding the Lennox generating station and forward sales as of January 1, 2005, was subject to a revenue limit. The term of the revenue limit rebate ended on April 30, 2009.

The revenue limit rebate liability for the nine months ended September 30, 2009 and the year ended December 31, 2008 is as follows:

<i>(millions of dollars)</i>	<b>September 30 2009</b>	<b>December 31 2008</b>
Liability, beginning of period	<b>85</b>	100
Increase to provision during the period	<b>27</b>	277
Payments made during the period	<b>(112)</b>	(292)
Liability, end of period	<b>-</b>	85

## 15. BUSINESS SEGMENTS

Segment Income (Loss) for the Three Months Ended September 30, 2009	Nuclear	Regulated Nuclear Waste Manage- ment	Hydro- electric	Unregulated Hydro- electric	Fossil- Fuelled	Other	Elimination	Total
<i>(millions of dollars)</i>								
Revenue	840	11	187	103	180	35	(11)	1,345
Revenue limit rebate	-	-	-	-	-	-	-	-
	<b>840</b>	<b>11</b>	<b>187</b>	<b>103</b>	<b>180</b>	<b>35</b>	<b>(11)</b>	<b>1,345</b>
Fuel expense	59	-	76	25	89	-	-	249
Gross margin	<b>781</b>	<b>11</b>	<b>111</b>	<b>78</b>	<b>91</b>	<b>35</b>	<b>(11)</b>	<b>1,096</b>
Operations, maintenance and administration	<b>445</b>	<b>12</b>	<b>28</b>	<b>65</b>	<b>108</b>	<b>6</b>	<b>(11)</b>	<b>653</b>
Depreciation and amortization	<b>123</b>	-	17	16	19	12	-	187
Accretion on fixed asset removal and nuclear waste management liabilities	-	<b>157</b>	-	-	1	-	-	158
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	<b>(254)</b>	-	-	-	-	-	<b>(254)</b>
Property and capital taxes	<b>10</b>	-	2	3	5	4	-	24
Other losses	-	-	-	-	-	4	-	4
Income (loss) before interest and income taxes	<b>203</b>	<b>96</b>	<b>64</b>	<b>(6)</b>	<b>(42)</b>	<b>9</b>	-	<b>324</b>

<b>Segment Income (Loss) for the Three Months Ended September 30, 2008</b>	<b>Nuclear</b>	<b>Regulated Nuclear Waste Manage- ment</b>	<b>Hydro- electric</b>	<b>Unregulated Hydro- electric</b>	<b>Fossil- Fuelled</b>	<b>Other</b>	<b>Elimination</b>	<b>Total</b>
<i>(millions of dollars)</i>								
Revenue	697	15	187	250	437	57	(15)	1,628
Revenue limit rebate	-	-	-	(30)	(85)	-	-	(115)
	697	15	187	220	352	57	(15)	1,513
Fuel expense	43	-	69	31	191	-	-	334
Gross margin	654	15	118	189	161	57	(15)	1,179
Operations, maintenance and administration	484	16	22	49	131	2	(15)	689
Depreciation and amortization	94	-	16	19	22	11	-	162
Accretion on fixed asset removal and nuclear waste management liabilities	-	149	-	-	2	-	-	151
Losses on nuclear fixed asset removal and nuclear waste management funds	-	190	-	-	-	-	-	190
Property and capital taxes	11	-	2	3	5	3	-	24
Income (loss) before interest and income taxes	65	(340)	78	118	1	41	-	(37)

<b>Segment Income (Loss) for the Nine Months Ended September 30, 2009</b>	<b>Nuclear</b>	<b>Regulated Nuclear Waste Manage- ment</b>	<b>Hydro- electric</b>	<b>Unregulated</b>		<b>Other</b>	<b>Elimination</b>	<b>Total</b>
				<b>Hydro- electric</b>	<b>Fossil- Fuelled</b>			
<i>(millions of dollars)</i>								
Revenue	<b>2,367</b>	<b>32</b>	<b>585</b>	<b>471</b>	<b>714</b>	<b>113</b>	<b>(32)</b>	<b>4,250</b>
Revenue limit rebate	-	-	-	<b>(10)</b>	<b>(17)</b>	-	-	<b>(27)</b>
	<b>2,367</b>	<b>32</b>	<b>585</b>	<b>461</b>	<b>697</b>	<b>113</b>	<b>(32)</b>	<b>4,223</b>
Fuel expense	<b>149</b>	-	<b>191</b>	<b>75</b>	<b>315</b>	-	-	<b>730</b>
Gross margin	<b>2,218</b>	<b>32</b>	<b>394</b>	<b>386</b>	<b>382</b>	<b>113</b>	<b>(32)</b>	<b>3,493</b>
Operations, maintenance and administration	<b>1,539</b>	<b>35</b>	<b>77</b>	<b>155</b>	<b>373</b>	<b>10</b>	<b>(32)</b>	<b>2,157</b>
Depreciation and amortization	<b>357</b>	-	<b>55</b>	<b>50</b>	<b>53</b>	<b>35</b>	-	<b>550</b>
Accretion on fixed asset removal and nuclear waste management liabilities	-	<b>471</b>	-	-	<b>5</b>	-	-	<b>476</b>
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	<b>(549)</b>	-	-	-	-	-	<b>(549)</b>
Property and capital taxes	<b>32</b>	-	<b>8</b>	<b>7</b>	<b>16</b>	<b>11</b>	-	<b>74</b>
Other gains	-	-	-	-	-	<b>(2)</b>	-	<b>(2)</b>
Income (loss) before interest and income taxes	<b>290</b>	<b>75</b>	<b>254</b>	<b>174</b>	<b>(65)</b>	<b>59</b>	-	<b>787</b>

<b>Segment Income (Loss) for the Nine Months Ended September 30, 2008</b>	<b>Nuclear</b>	<b>Regulated Nuclear Waste Manage- ment</b>	<b>Hydro- electric</b>	<b>Unregulated Hydro- electric</b>	<b>Fossil- Fuelled</b>	<b>Other</b>	<b>Elimination</b>	<b>Total</b>
<i>(millions of dollars)</i>								
Revenue	2,055	34	556	776	1,217	94	(34)	4,698
Revenue limit rebate	-	-	-	(57)	(180)	-	-	(237)
	2,055	34	556	719	1,037	94	(34)	4,461
Fuel expense	120	-	185	84	526	-	-	915
Gross margin	1,935	34	371	635	511	94	(34)	3,546
Operations, maintenance and administration	1,524	37	70	141	387	5	(34)	2,130
Depreciation and amortization	295	-	48	55	68	31	-	497
Accretion on fixed asset removal and nuclear waste management liabilities	-	432	-	-	6	-	-	438
Losses on nuclear fixed asset removal and nuclear waste management funds	-	133	-	-	-	-	-	133
Property and capital taxes	14	-	8	7	16	9	-	54
Other (gains) losses	-	-	-	-	(2)	9	-	7
Income (loss) before interest and income taxes	102	(568)	245	432	36	40	-	287

<i>(millions of dollars)</i>	Regulated		Unregulated			Total
	Nuclear	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	
<b>Selected Balance Sheet Information</b>						
As at September 30, 2009						
Segment fixed assets in service, net	3,716	3,803	2,969	400	818	11,706
Segment construction in progress	204	590	250	30	6	1,080
Segment property, plant and equipment, net	3,920	4,393	3,219	430	824	12,786
As at September 30, 2009						
Segment intangible assets in service, net	16	-	2	-	18	36
Segment development in progress	12	-	1	1	2	16
Segment intangible assets, net	28	-	3	1	20	52
As at December 31, 2008						
Segment fixed assets in service, net	3,822	3,823	2,970	396	456	11,467
Segment construction in progress	230	445	190	29	369	1,263
Segment property, plant and equipment, net	4,052	4,268	3,160	425	825	12,730
As at December 31, 2008						
Segment intangible assets in service, net	23	-	1	-	24	48
Segment development in progress	3	2	-	-	4	9
Segment intangible assets, net	26	2	1	-	28	57

#### 16. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

<i>(millions of dollars)</i>	Three Months Ended		Nine Months Ended	
	September 30 2009	September 30 2008	September 30 2009	September 30 2008
Accounts receivable	84	145	135	105
Prepaid expenses	(7)	(14)	(26)	(4)
Fuel inventory	(56)	11	(102)	24
Materials and supplies	5	-	(1)	(3)
Revenue limit rebate	-	115	27	237
Accounts payable and accrued charges	(64)	(17)	(221)	(169)
Income and capital taxes payable (recoverable)	49	18	(166)	(7)
	11	258	(354)	183

## 17. OTHER (GAINS) AND LOSSES

<i>(millions of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
ABCP valuation adjustment <i>(Note 3)</i>	4	-	(2)	9
Other	-	-	-	(2)
	4	-	(2)	7

## 18. NON-CONTROLLING INTEREST

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.

OPG consolidates the results of the Lac Seul LP and the non-controlling interest represents the Lac Seul First Nation’s 25 percent ownership interest in the partnership.

## 19. SEASONAL OPERATIONS

OPG’s quarterly results are impacted by changes in demand resulting from variations in seasonal weather conditions. Historically, OPG’s revenues are higher in the first and third quarters of a fiscal year as a result of winter heating demands in the first quarter and air conditioning/cooling demands in the third quarter. Regulated prices for most of OPG’s baseload hydroelectric facilities and all of the nuclear facilities that OPG operates, the revenue limit related to the generation from OPG’s other generating assets up to April 30, 2009, and OPG’s hedging strategies significantly reduced the impact of seasonal price fluctuations on the results of operations.