

INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended June 30		Six Months Ended June 30	
<i>(millions of dollars except where noted)</i>	2007	2006	2007	2006
Revenue				
Revenue before revenue limit rebate	1,393	1,374	3,013	2,942
Revenue limit rebate <i>(Note 13)</i>	(20)	(29)	(116)	(89)
	1,373	1,345	2,897	2,853
Fuel expense	298	243	626	521
Gross margin	1,075	1,102	2,271	2,332
Expenses				
Operations, maintenance and administration	776	678	1,470	1,318
Depreciation and amortization <i>(Note 4)</i>	169	185	351	371
Accretion on fixed asset removal and nuclear waste management liabilities	126	125	254	250
Earnings on nuclear fixed asset removal and nuclear waste management funds	(209)	(103)	(300)	(192)
Property and capital taxes	20	22	49	47
	882	907	1,824	1,794
Income before interest and income taxes	193	195	447	538
Net interest expense	39	49	65	98
Income before income taxes	154	146	382	440
Income tax expenses				
Current	29	26	77	46
Future <i>(Note 9)</i>	-	(23)	9	52
	29	3	86	98
Net income	125	143	296	342
Basic and diluted income per common share <i>(dollars)</i>	0.48	0.56	1.15	1.33
Common shares outstanding <i>(millions)</i>	256.3	256.3	256.3	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 June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Operating activities				
Net income	125	143	296	342
Adjust for non-cash items:				
Depreciation and amortization <i>(Note 4)</i>	169	185	351	371
Accretion on fixed asset removal and nuclear waste management liabilities	126	125	254	250
Earnings on nuclear fixed asset removal and nuclear waste management funds	(209)	(103)	(300)	(192)
Pension cost <i>(Note 10)</i>	60	55	121	109
Other post employment benefits and supplementary pension plans <i>(Note 10)</i>	61	63	122	127
Future income taxes <i>(Note 9)</i>	-	(23)	9	52
Transition rate option contracts	-	(4)	-	(13)
Mark-to-market on derivative instruments	9	(8)	11	(17)
Provision for used nuclear fuel	8	8	15	16
Regulatory assets and liabilities	(2)	7	3	4
Provision for other liabilities	42	5	46	7
Other	(3)	2	(11)	2
	386	455	917	1,058
Contributions to nuclear fixed asset removal and nuclear waste management funds	(113)	(113)	(227)	(227)
Expenditures on fixed asset removal and nuclear waste management	(47)	(42)	(100)	(70)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	74	4	86	11
Contributions to pension fund	(66)	(65)	(132)	(130)
Expenditures on other post employment benefits and supplementary pension plans	(17)	(16)	(34)	(31)
Revenue limit rebate	(26)	(739)	(48)	(739)
Expenditure on restructuring	-	(1)	(2)	(6)
Net changes to other long-term assets and liabilities	(15)	(31)	(19)	(64)
Changes in non-cash working capital balances <i>(Note 15)</i>	136	113	34	197
Cash flow provided by (used in) operating activities	312	(435)	475	(1)
Investing activities				
Increase in regulatory assets <i>(Note 5)</i>	(8)	(2)	(38)	(12)
Investment in fixed assets	(163)	(120)	(297)	(234)
Net proceeds from sale of long-term investments	-	-	-	2
Cash flow (used in) investing activities	(171)	(122)	(335)	(244)
Financing activities				
Issuance of long-term debt <i>(Note 7)</i>	160	-	210	-
Repayment of long-term debt <i>(Note 7)</i>	(1)	(2)	(203)	(303)
Net decrease in short-term notes <i>(Note 6)</i>	(177)	-	(15)	-
Cash flow (used in) financing activities	(18)	(2)	(8)	(303)
Net increase (decrease) in cash and cash equivalents	123	(559)	132	(548)
Cash and cash equivalents, beginning of period	15	919	6	908
Cash and cash equivalents, end of period	138	360	138	360

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at <i>(millions of dollars)</i>	June 30 2007	December 31 2006
Assets		
Current assets		
Cash and cash equivalents	138	6
Accounts receivable <i>(Note 3)</i>	329	256
Fuel inventory <i>(Note 14)</i>	558	669
Materials and supplies <i>(Note 14)</i>	116	112
	<u>1,141</u>	<u>1,043</u>
Fixed assets <i>(Note 14)</i>		
Property, plant and equipment	17,420	17,136
Less: accumulated depreciation	4,683	4,375
	<u>12,737</u>	<u>12,761</u>
Other long-term assets		
Deferred pension asset	717	706
Nuclear fixed asset removal and nuclear waste management funds <i>(Note 8)</i>	8,554	7,594
Long-term materials and supplies	338	326
Regulatory assets <i>(Note 5)</i>	299	251
Long-term accounts receivable and other assets	136	69
	<u>10,044</u>	<u>8,946</u>
	<u>23,922</u>	<u>22,750</u>

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at (millions of dollars)	June 30 2007	December 31 2006
Liabilities		
Current liabilities		
Accounts payable and accrued charges	862	989
Revenue limit rebate payable (Note 13)	108	40
Short-term notes payable (Note 6)	-	15
Long-term debt due within one year (Note 7)	406	406
Future income taxes (Note 9)	6	3
Deferred revenue due within one year	12	12
Income and capital taxes payable	147	128
	<u>1,541</u>	<u>1,593</u>
Long-term debt (Note 7)	2,960	2,953
Other long-term liabilities		
Fixed asset removal and nuclear waste management (Note 8)	10,729	10,520
Other post employment benefits and supplementary pension plans	1,484	1,396
Long-term accounts payable and accrued charges	192	150
Deferred revenue	126	132
Future income taxes (Note 9)	268	246
Regulatory liabilities (Note 5)	14	11
	<u>12,813</u>	<u>12,455</u>
Shareholder's equity		
Common shares	5,126	5,126
Retained earnings (Note 2)	1,432	623
Accumulated other comprehensive income	50	-
	<u>6,608</u>	<u>5,749</u>
	<u>23,922</u>	<u>22,750</u>

Commitments and Contingencies (Notes 1, 5, 6, 7, 8, 11 and 12)

See accompanying notes to the interim consolidated financial statements

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

Six Months Ended June 30

(millions of dollars)

	2007	2006
Common shares	5,126	5,126
Retained earnings		
Balance at beginning of period	623	261
Transition adjustment on adoption of financial instruments accounting standards <i>(Note 2)</i>	513	-
Net income	296	342
Balance at end of period	1,432	603
Accumulated other comprehensive income, net of income taxes		
Balance at beginning of period	-	
Transition adjustment on adoption of financial instruments accounting standards <i>(Note 2)</i>	21	
Other comprehensive income for the period	29	
Balance at end of period	50	
Total shareholder's equity at end of period	6,608	5,729

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(millions of dollars)

	Three Months Ended June 30 2007	Six Months Ended June 30 2007
Net income	125	296
Other comprehensive income, net of income tax		
Net gain on derivatives designated as cash flow hedges ¹	45	37
Reclassification to income of gains on derivatives designated as cash flow hedges ²	(5)	(8)
Other comprehensive income for the period	40	29
Comprehensive income	165	325

¹ Net of income tax of \$10 million and \$5 million for the three and six months ended June 30, 2007, respectively.

² Net of income tax of \$3 million and \$5 million for the three and six months ended June 30, 2007, respectively.

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (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 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, 2006.

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

Certain of the 2006 comparative amounts have been reclassified from financial statements previously presented to conform to the 2007 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rate Regulated Accounting

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

OPG's regulated prices were established by the Province based on a forecast of production volumes and total operating costs, and a return on rate base, which assumed an average five per cent rate of return on equity. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed assets and an allowance for working capital. The initial prices took effect April 1, 2005, and are expected to remain in effect until at least March 31, 2008, at which time it is anticipated that new regulated prices to be established by the Ontario Energy Board (the "OEB") will take effect. If there are changes to the fundamental assumptions on which the initial prices were developed, the Province may amend these initial prices.

The OEB is a self-funding crown corporation. Its mandate and authority come from the *Ontario Energy Board Act, 1998*, the *Electricity Act, 1998*, and a number of other provincial statutes. The OEB is an independent, quasi-judicial tribunal that reports to the Legislature of the Province through the Minister of Energy. It regulates all market participants in the Province's natural gas and electricity industries and carries out its regulatory functions through public hearings and other more informal processes such as consultations.

Accounting standards recognize that rate regulation can create economic benefits and obligations, which are reported in the interim consolidated financial statements as regulatory assets and liabilities. When the regulation provides assurance that incurred expenses will be recovered in the future, then OPG may defer those expenses and report them as a regulatory asset. If current recovery is provided for expenses expected to be incurred in the future, then OPG reports a regulatory liability. Also, if the regulation provides for lesser or greater than planned revenue to be received or returned by OPG through future regulated prices, then OPG recognizes a regulatory asset or liability, respectively. The measurement of such regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the regulation. See Notes 5 and 9 to the unaudited interim consolidated financial statements for additional disclosure related to rate regulated accounting.

Changes in Accounting Policies and Estimates

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

Comprehensive Income

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

Financial Instruments – Recognition and Measurement

Under the new standard, for accounting purposes, financial assets are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading or available-for-sale, and financial liabilities are classified as held-for-trading or other than held-for-trading. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and financial liabilities other than those held-for-trading, are measured at amortized cost. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established time frame, are recognized on a trade-date basis. All derivatives, including embedded derivatives that must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the interim consolidated balance sheets. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading.

The new standard permits designation of any financial instrument as held-for-trading (the fair value option) upon initial recognition. This designation by OPG requires that the financial instrument be reliably measurable, and eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities.

Hedges

The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting is to be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income. The ineffective portion is recognized in net income. The amounts recognized in accumulated other comprehensive income are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item.

Impact of Adoption

Upon adoption of the financial instruments accounting standards, the assets in the Used Fuel Segregated Fund ("Used Fuel Fund") and the Decommissioning Segregated Fund ("Decommissioning Fund") (together the "Nuclear Funds") that were carried at amortized cost until the end of 2006, were classified as held-for-trading and reported at fair value. The transition adjustment related to the change in accounting for the Nuclear Funds was recognized in the opening balance of retained earnings at January 1, 2007. The transition adjustment for embedded derivatives within long-term contracts was also recognized in the opening balance of retained earnings at January 1, 2007. Prior to January 1, 2007, OPG disclosed the fair value of securities in the Nuclear Funds based on the closing price of the securities. Starting January 1, 2007, OPG applied bid pricing to determine the fair value of the securities. As a result, the fair value of the Nuclear Funds based on bid pricing is lower than that reported as at December 31, 2006 in Note 9 of the audited consolidated financial statements. The change in pricing methodology does not have any impact to the overall balance on the interim consolidated balance sheets since the reduction in fair value is offset by the corresponding change in the due to Province balance.

The fair values of hedging instruments designated as cash flow hedges were recognized in the opening accumulated other comprehensive income on a net of tax basis. The fair values of these hedges are disclosed in Note 11 to the unaudited interim consolidated financial statements.

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

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

Future Changes in Accounting Policies

Capital Disclosures

The CICA issued an accounting standard, Section 1535, *Capital Disclosures*, which requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The standards also require companies to disclose if the company has complied with any capital requirements, and, if it has not complied, the consequences of such non-compliance. This new accounting standard will be effective for the Company beginning January 1, 2008. OPG is evaluating the impact of this new standard on its consolidated financial statements.

Financial Instruments – Disclosure and Presentation

OPG will be required to adopt Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These standards were issued in December 2006 and will replace Section 3861, *Financial Instruments – Disclosure and Presentation*. The new disclosure standard increases the emphasis on the risk associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements under the existing Section 3861. These new accounting standards will be effective for OPG beginning January 1, 2008. OPG is assessing the impact of the new standards on its consolidated financial statements.

Inventories

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

3. SALE OF ACCOUNTS RECEIVABLE

In October 2003, the Company signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the “receivables”) to an independent trust. The Company also retains an undivided co-ownership interest in the receivables sold to the trust. Under the agreement, OPG continues to service the receivables. The transfer provides the trust with ownership of a share of the payments generated by the receivables, computed on a monthly basis. The trust’s recourse to the Company is generally limited to its income earned on the receivables. In December 2005, the Company extended this agreement to August 2009.

OPG reflected the initial transfer to the trust of the co-ownership interest, and subsequent transfers required by the revolving nature of the securitization, as sales in accordance with CICA Accounting Guideline 12, *Transfer of Receivables*. In accordance with this Guideline, the proceeds of each sale to the trust were deemed to be the cash received from the trust net of the undivided co-ownership interest retained by the Company. For the three months ended June 30, 2007, the Company has recognized pre-tax charges of \$4 million (three months ended June 30, 2006 – \$3 million) on such sales at an average cost of funds of 4.7 per cent (three months ended June 30, 2006 – 4.3 per cent). For the six months ended June 30, 2007, the Company has recognized pre-tax charges of \$7 million (six months ended June 30, 2006 – \$6 million) on such sales at an average cost of funds of 4.8 per cent (six months ended June 30, 2006 – 4.3 per cent). As at June 30, 2007, OPG had sold receivables of \$300 million (December 31, 2006 – \$300 million) from its total portfolio of \$456 million (December 31, 2006 – \$392 million).

4. FIXED ASSETS, DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for the three and six months ended June 30, 2007 and 2006 consists of the following:

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Depreciation	147	179	291	354
Amortization of deferred Pickering A return to service costs (Note 5)	20	5	56	15
Nuclear waste management costs	2	1	4	2
	169	185	351	371

Interest capitalized to construction in progress at six per cent during the three and six months ended June 30, 2007 (three and six months ended June 30, 2006 – six per cent) was \$10 million and \$18 million respectively (three and six months ended June 30, 2006 – \$4 million and \$8 million, respectively).

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

The regulatory assets and liabilities as at June 30, 2007 and December 31, 2006 are as follows:

<i>(millions of dollars)</i>	June 30 2007	December 31 2006
Regulatory assets		
Pickering A return to service costs	217	249
Nuclear liabilities deferral account	66	-
Nuclear generation development costs	14	-
Transmission outages and transmission restrictions variance	2	2
Total regulatory assets	299	251
Regulatory liabilities		
Hydroelectric production variance	5	4
Ancillary services revenue variance	-	-
Other	9	7
Total regulatory liabilities	14	11

The changes in the regulatory assets and liabilities for the six months ended June 30, 2007 and the year ended December 31, 2006 are as follows:

<i>(millions of dollars)</i>	Pickering A Return to Service Costs	Nuclear Liabilities Deferral Account	Nuclear Generation Development Costs	Transmission Outages and Transmission Restrictions Variance	Hydro- electric Production Variance	Ancillary Services Revenue Variance	Other
Regulatory assets (liabilities), January 1, 2006	261	-	-	-	(4)	5	(8)
Change during the year	13	-	-	2	-	(5)	1
Amortization during the year	(25)	-	-	-	-	-	-
Regulatory assets (liabilities), December 31, 2006	249	-	-	2	(4)	-	(7)
Change during the period	24	66	14	-	(1)	-	(2)
Amortization during the period	(56)	-	-	-	-	-	-
Regulatory assets (liabilities), June 30, 2007	217	66	14	2	(5)	-	(9)

Pickering A Return to Service Costs

Effective January 1, 2005, in accordance with a regulation made under the *Electricity Restructuring Act, 2004* (Ontario), OPG was required to establish a deferral account in connection with non-capital costs incurred on or after January 1, 2005 that were associated with the planned return to service of all units at the Pickering A nuclear generating station. The regulation, as amended in February 2007, also requires OPG to record interest at an annual rate of six per cent on the balance in the deferral account. As at June 30, 2007, the balance in the deferral account was \$217 million, consisting of non-capital costs of \$232 million relating to Unit 1 and \$19 million relating to Units 2 and 3, \$20 million of general return to service non-capital costs and interest of \$31 million, net of the accumulated amortization of \$85 million. As at December 31, 2006, the balance in the deferral account was \$249 million, consisting of non-capital costs of \$232 million relating to Unit 1 and \$19 million relating to Units 2 and 3, \$20 million of general return to service non-capital costs and interest of \$7 million, net of the accumulated amortization of \$29 million.

There were no operations, maintenance and administration (“OM&A”) costs charged to the deferral account during the three and six months ended June 30, 2007. During the three and six months ended June 30, 2006, OM&A expenses of \$2 million and \$12 million, respectively, were charged to the deferral account. Had OPG not charged these costs to the deferral account during the three and six months ended June 30, 2006, OM&A expenses for these periods would have increased by \$2 million and \$12 million, respectively.

During the three and six months ended June 30, 2007, OPG deferred additional interest related to the Pickering A return to service deferral account of \$3 million and \$24 million, respectively. Had OPG not applied interest to this account, the net interest expense would have increased by \$3 million and \$24 million for the three and six months ended June 30, 2007, respectively (three and six months ended June 30, 2006 – \$ nil).

The costs accumulated in the deferral account are charged to operations in accordance with the terms of the regulation. Under the regulation, the OEB is directed to ensure that OPG recovers any balance in the deferral account on a straight-line basis over a period not to exceed 15 years. Had OPG not amortized the costs in the deferral account, depreciation and amortization expense for the three and six months ended June 30, 2007 would have been reduced by \$20 million and \$56 million, respectively (three and six months ended June 30, 2006 – \$5 million and \$15 million, respectively).

Nuclear Liabilities Deferral Account

In February 2007, the Province amended a regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) that directed OPG to establish a deferral account in connection with certain changes to its liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management. The deferral account represents the revenue requirement impact associated with the changes in the nuclear liabilities arising from an approved reference plan, approved after April 1, 2005, as reflected in OPG's audited consolidated financial statements. Revenue requirement is a regulatory construct, which represents all allowed costs and a return on rate base at a rate of return that the regulator determines to be appropriate. The regulation also requires OPG to record interest at an annual rate of six per cent on the balance in the deferral account.

On December 31, 2006, OPG recorded an increase in its nuclear liabilities of \$1,386 million arising from the approved reference plan in accordance with the terms of the Ontario Nuclear Funds Agreement ("2006 Approved Reference Plan"). Commencing January 1, 2007 and up to the effective date of the OEB's first order establishing regulated prices, which is expected to be after March 31, 2008, OPG will record a regulatory asset associated with the increase in the nuclear liabilities arising from the 2006 Approved Reference Plan.

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

As at June 30, 2007, the following items have been recorded as components of the regulatory asset relating to the increase in the nuclear liabilities arising from the 2006 Approved Reference Plan:

<i>(millions of dollars)</i>	June 30 2007
Return on rate base	38
Depreciation expense	28
Fuel expense	(3)
Capital tax	2
Interest expense	1
	<hr/> 66 <hr/>

The return on rate base component of \$19 million and \$38 million was recorded as a reduction to the accretion on fixed asset removal and nuclear waste management liabilities expense for the three and six months ended June 30, 2007, respectively.

Had OPG not established the deferral account as required by the regulation, for the three months ended June 30, 2007, accretion expense would have increased by \$19 million, depreciation expense would have increased by \$14 million, property and capital taxes expense would have been higher by \$1 million, net interest expense would have increased by \$1 million, and fuel expense would have been lower by \$2 million. For the six months ended June 30, 2007, accretion expense would have increased by \$38 million, depreciation expense would have increased by \$28 million, property and capital taxes expense would have been higher by \$2 million, net interest expense would have increased by \$1 million, and fuel expense would have been lower by \$3 million.

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

Nuclear Generation Development Costs

The amendment to the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) made in February 2007 clarified that the OEB must ensure that OPG recovers, through future regulated prices, all capital and non-capital costs incurred in order to increase the output of, refurbish or add operating capacity to a regulated facility, if these costs are either within budgets approved by OPG's Board of Directors prior to the OEB's first order establishing regulated prices or if the OEB is satisfied that these costs were prudently incurred. As a result of the amendment, OPG has recorded a regulatory asset of \$5 million and \$14 million during the three and six months ended June 30, 2007, respectively, which represents non-capital costs incurred since April 1, 2005 for its nuclear generation development initiatives.

Had OPG not recorded the above costs as a regulatory asset, OM&A expenses would have increased by \$5 million and \$14 million for the three and six months ended June 30, 2007, respectively.

Variance Accounts and Other Regulatory Balances

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

OPG recorded an increase in revenue during the three months ended June 30, 2007 of \$1 million, reflecting ancillary services revenue that was unfavourable compared to the forecast provided to the Province for the purposes of establishing regulated prices. For the six months ended June 30, 2007, OPG did not record any change in revenue, reflecting ancillary services revenue that was comparable to the forecast. For the three months ended June 30, 2007, OPG did not record any change in revenue as a result of actual water conditions that were comparable to those forecasted. During the six months ended June 30, 2007, OPG recorded a reduction in revenue of \$1 million, as a result of higher actual water conditions compared to those forecasted.

OPG recorded a reduction in revenue during the three and six months ended June 30, 2006 of \$13 million and \$10 million, respectively, reflecting ancillary services revenue that was favourable compared to the forecast provided to the Province for the purposes of establishing regulated prices. For the three and six months ended June 30, 2006, OPG recorded an increase in revenue of \$6 million for each period as a result of lower actual water conditions compared to those forecasted.

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

The other regulatory liability consists of a portion of non-regulated revenue earned by OPG's regulated assets and interest on the account balance, which may result in a reduction of future regulated prices to be established by the OEB. OPG recorded an additional asset of \$1 million during the three months ended June 30, 2007 (three months ended June 30, 2006 – an asset of \$1 million). For six months ended June 30, 2007, OPG recorded an additional liability of \$2 million, including \$1 million of interest expense (six months ended June 30, 2006 – \$ nil).

Had OPG not accounted for the variance accounts and Other regulatory balances as regulatory assets and liabilities, revenue for the three months ended June 30, 2007 would have been lower by \$2 million (three months ended June 30, 2006 – higher by \$7 million). For the six months ended June 30, 2007, revenue would have been higher by \$3 million (six months ended June 30, 2006 – higher by \$4 million).

Had OPG not accounted for the variance accounts and other regulatory balances as regulatory assets and liabilities, interest expense for the three months ended June 30, 2007 would have been lower by \$1 million (three months ended June 30, 2006 – no change in interest expense). For the six months ended June 30, 2007, interest expense would have decreased by \$1 million (six months ended June 30, 2006 – no change in interest expense).

Summary of Rate Regulated Accounting

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

<i>(millions of dollars)</i>	Three Months Ended June 30, 2007			Three Months Ended June 30, 2006		
	As Stated	Impact of Rate Regulated Accounting	Financial Statements without Rate Regulated Accounting	As Stated	Impact of Rate Regulated Accounting	Financial Statements without Rate Regulated Accounting
Revenue	1,373	3	1,376	1,345	12	1,357
Fuel expense	298	(2)	296	243	-	243
Operations, maintenance, and administration	776	5	781	678	2	680
Depreciation and amortization	169	(6)	163	185	(5)	180
Accretion on fixed asset removal and nuclear waste management liabilities	126	19	145	125	-	125
Property and capital taxes	20	1	21	22	-	22
Net interest expense	39	4	43	49	-	49

<i>(millions of dollars)</i>	Six Months Ended June 30, 2007			Six Months Ended June 30, 2006		
	As Stated	Impact of Rate Regulated Accounting	Financial Statements without Rate Regulated Accounting	As Stated	Impact of Rate Regulated Accounting	Financial Statements without Rate Regulated Accounting
Revenue	2,897	12	2,909	2,853	14	2,867
Fuel expense	626	(3)	623	521	-	521
Operations, maintenance, and administration	1,470	14	1,484	1,318	12	1,330
Depreciation and amortization	351	(28)	323	371	(15)	356
Accretion on fixed asset removal and nuclear waste management liabilities	254	38	292	250	-	250
Property and capital taxes	49	2	51	47	-	47
Net interest expense	65	25	90	98	-	98

Accounting for Certain Leases

OPG accounts for certain lease revenues relating to the regulated business using the cash basis of accounting. Under the cash basis of accounting, OPG recognizes lease income as stipulated in the lease agreement to the extent that the lease payments are expected to be included in future regulated prices charged to customers. If OPG did not apply the cash basis of accounting for certain lease revenues related to the regulated business, revenue for the three and six months ended June 30, 2007 would have increased by \$5 million and \$10 million respectively (three and six months ended June 30, 2006 – \$5 million and \$10 million, respectively).

6. SHORT-TERM CREDIT FACILITIES

OPG's \$1 billion revolving committed bank credit facility is divided into two tranches – a \$500 million 364-day term tranche maturing May 21, 2008, and a \$500 million five-year term tranche maturing May 22, 2012. The longer term tranche was extended from a three-year term to a five-year term, upon renewal of the bank credit facility in May 2007. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at June 30, 2007, there was no commercial paper outstanding (December 31, 2006 – \$15 million). OPG had no other outstanding borrowing under its bank credit facility as at June 30, 2007.

OPG also maintains \$26 million (December 31, 2006 – \$26 million) in short-term uncommitted overdraft facilities as well as \$240 million (December 31, 2006 – \$240 million) of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans, and for other purposes including the requirement to post Letters of Credit as collateral with Local Distribution Companies ("LDCs") as prescribed by the OEB's Retail Settlement Code. At June 30, 2007, there was a total of \$184 million (December 31, 2006 – \$185 million) of Letters of Credit issued, which included \$159 million (December 31, 2006 – \$159 million) relating to the supplementary pension plans and \$16 million (December 31, 2006 – \$16 million) relating to the construction of the Portlands Energy Centre.

7. LONG-TERM DEBT

Long-term debt consists of the following:

<i>(millions of dollars)</i>	June 30 2007	December 31 2006
Notes payable to the Ontario Electricity Financial Corporation	3,175	3,165
Share of non-recourse limited partnership debt	191	194
	3,366	3,359
Less: due within one year		
Notes payable to the Ontario Electricity Financial Corporation	400	400
Share of limited partnership debt	6	6
	406	406
Long-term debt	2,960	2,953

Holders of the senior debt are entitled to receive, in full, amounts owing in respect of the senior debt before holders of the subordinated debt are entitled to receive any payments. The Ontario Electricity Financial Corporation ("OEFC") currently holds all of OPG's outstanding senior and subordinated notes.

Interest paid during the three months ended June 30, 2007 was \$15 million (three months ended June 30, 2006 – \$7 million), of which \$11 million relates to interest paid on long-term debt (three months ended June 30, 2006 – \$3 million). Interest paid during the six months ended June 30, 2007 was

\$111 million (six months ended June 30, 2006 – \$126 million), of which \$101 million relates to interest paid on long-term debt (six months ended June 30, 2006 – \$117 million). Interest on the notes payable to the OEFC is paid semi-annually.

Debt financing for the Niagara Tunnel, the Portlands Energy Centre and the Lac Seul hydroelectric generating station projects are provided by the OEFC. As at June 30, 2007, OPG had issued under the credit facilities, \$240 million for the Niagara Tunnel, \$120 million for Portlands Energy Centre and \$20 million for the Lac Seul hydroelectric station. This included new borrowing of \$30 million for the Niagara Tunnel facility and \$30 million under the Portlands Energy Centre facility during the three months ended June 30, 2007. For the six months ended June 30, 2007, OPG borrowed \$80 million under the Niagara Tunnel facility and \$30 million under the Portlands Energy Centre facility. OPG did not obtain additional borrowing under the Lac Seul facility during the three and six months ended June 30, 2007. The interest rate of these debt financing amounts ranges from 4.8 per cent to 5.0 per cent.

During the second quarter of 2007, OPG reached an agreement with the OEFC for a \$500 million general corporate facility that is available for the period June 1, 2007 to March 31, 2008, and for a \$950 million credit agreement to refinance senior notes as they mature over the period September 22, 2007 to September 22, 2009. In June 2007, OPG borrowed \$100 million under its general corporate facility with the OEFC at 5.4 per cent. The note will mature in 2017. In March 2007, OPG met its debt retirement obligation by repaying \$200 million of maturing notes held by the OEFC.

8. 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>	June 30 2007	December 31 2006
Liability for nuclear used fuel management	5,800	5,669
Liability for nuclear decommissioning and low and intermediate level waste management	4,736	4,659
Liability for non-nuclear fixed asset removal	193	192
Fixed asset removal and nuclear waste management liability	10,729	10,520

The change in the fixed asset removal and nuclear waste management liability for the six months ended June 30, 2007 and the year ended December 31, 2006 are as follows:

<i>(millions of dollars)</i>	June 30 2007	December 31 2006
Liability, beginning of period	10,520	8,759
Increase in liability due to accretion	292	499
Increase in liability due to nuclear used fuel and nuclear waste management variable expenses	19	38
Liabilities settled by expenditures on waste management	(100)	(164)
(Decrease) Increase in the liability for non-nuclear fixed asset removal	(2)	2
Increase in the liability for nuclear used fuel management and the liability for nuclear decommissioning and low and intermediate level waste management to reflect the change in cost estimates	-	1,386
Liability, end of period	10,729	10,520

OPG recognizes asset retirement obligations for fixed asset removal and nuclear waste management, discounted for the time value of money. OPG has estimated both the amount and timing of future cash expenditures based on current plans for fixed asset removal and nuclear waste management. Net changes resulting from revisions to the timing or the amount of the initial estimate are recognized as a change in the carrying amount of the liabilities, and a corresponding adjustment is made to the carrying value of the related fixed assets.

Ontario Nuclear Funds Agreement

OPG sets aside and invests funds 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 as at June 30, 2007 and December 31, 2006 consist of the following:

<i>(millions of dollars)</i>	Fair Value		Cost
	June 30 2007	December 31 2006	December 31 2006
Decommissioning Fund	5,215	5,169	4,356
Due to Province – Decommissioning Fund	(243)	(294)	-
	4,972	4,875	4,356
Used Fuel Fund ¹	4,193	3,879	3,338
Due to Province – Used Fuel Fund	(611)	(641)	(100)
	3,582	3,238	3,238
	8,554	8,113	7,594

¹ The Ontario NFWA Trust represented \$1,195 million as at June 30, 2007 of the Used Fuel Fund on a fair value basis. The Ontario NFWA Trust represented \$1,102 million as at December 31, 2006 of the Used Fuel Fund on an amortized cost and fair value basis.

As a result of the adoption of the new financial instrument accounting standards, assets in the Nuclear Funds are classified as held-for-trading, and therefore measured at fair value. At December 31, 2006, these assets were carried and reported at amortized cost.

As a result of adoption of the new financial instrument accounting standards, the Due to Province payable within each of the Nuclear Funds is measured at fair value with changes in fair value reported in net income.

9. INCOME TAXES

The following table summarizes the difference in the income statement amounts under the taxes payable method used by the Company to account for income taxes for the regulated business compared to what would have been reported had OPG applied the liability method for the regulated business for the three and six months ended June 30, 2007 and 2006:

<i>(millions of dollars)</i>	Three Months Ended		Six Months Ended	
	June 30 2007	June 30 2006	June 30 2007	June 30 2006
As Stated:				
Future income tax expense (recovery)	-	(23)	9	52
Future income tax: Other comprehensive income – Upon transition	-	-	16	-
Future income tax: Other comprehensive income – for the period	7	-	-	-
Liability method ¹ :				
Future income tax expense (recovery)	24	(15)	51	70
Future income tax: Other comprehensive income – Upon transition	-	-	12	-
Future income tax: Other comprehensive income – for the period	13	-	8	-

¹ As disclosed in note 5, OPG accounts for certain lease revenues relating to the regulated business using the cash basis of accounting. The related future income tax impact is excluded from the above.

The following table summarizes the difference in the balance sheet amounts under the taxes payable method used by the Company to account for income taxes compared to what would have been reported had OPG applied the liability method for the regulated business as at June 30, 2007 and December 31, 2006:

<i>(millions of dollars)</i>	June 30, 2007		December 31, 2006	
	As Stated	Liability Method ¹	As Stated	Liability Method ¹
Current future income tax liabilities	(6)	(7)	(3)	(4)
Long-term future income tax liabilities	(268)	(485)	(246)	(417)

¹ As disclosed in note 5, OPG accounts for certain lease revenues relating to the regulated business using the cash basis of accounting. The related future income tax impact is excluded from the above.

The amount of cash income taxes paid during the three months ended June 30, 2007 was \$15 million (three months ended June 30, 2006 – \$6 million). For the six months ended June 30, 2007, cash income taxes paid were \$52 million (six months ended June 30, 2006 - \$14 million).

10. BENEFIT PLANS

The post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. Pension and other post employment benefit ("OPEB") obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The 2007 costs are based on a measurement of the pension and OPEB obligations and the pension fund assets as at December 31, 2006.

Total benefit costs for the three and six months ended June 30, 2007 and 2006 are as follows:

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Registered pension plan	60	55	121	109
Supplementary pension plans	3	3	7	7
OPEB	58	60	115	120

11. FINANCIAL INSTRUMENTS

Risk Management and Hedging Activities

OPG is exposed to changes in electricity prices associated with a wholesale spot market for electricity in Ontario. To hedge the commodity price risk exposure associated with changes in the wholesale price of electricity, OPG enters into various energy and related sales contracts. These contracts are expected to be effective as hedges of the commodity price exposure on OPG's generation portfolio. Gains or losses on hedging instruments are recognized in income when the underlying hedged transactions occur. These gains or losses are included in unregulated revenue and are recorded on the consolidated balance sheets. All contracts not designated as hedges are recorded as assets or liabilities at fair value with changes in fair value recorded in other revenue.

OPG also enters into derivative contracts with major financial institutions to manage the Company's exposure to foreign currency movements. Foreign exchange translation gains and losses on these foreign currency denominated derivative contracts are recognized as an adjustment to the purchase price of the commodity or goods received.

OPG is exposed to changes in market interest rates on debt expected to be issued in the future. OPG uses interest rate derivative contracts to hedge this exposure. Gains and losses on interest rate hedges are recorded as an adjustment to interest expense for the debt being hedged. Gains and losses that do not meet the effectiveness criteria are recorded through net income in the period incurred.

OPG utilizes emission reduction credits ("ERCs") and allowances to manage emissions within the prescribed regulatory limits. ERCs are purchased from trading partners in Canada and the United States. Emission allowances are obtained from the Province and purchased from trading partners in Ontario. The cost of ERCs and allowances are held in inventory and charged to OPG's operations at average cost as part of fuel expense as required. Options to purchase ERCs are accounted for as derivatives and are recorded at estimated market value.

Hedge Accounting

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 derivative instrument 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 current period's consolidated statement of income.

Determination of Fair Value

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

Forward pricing information is inherently uncertain so that fair values of derivative instruments may not accurately represent the cost to enter into these positions. To address the impact of some of this uncertainty on trading positions, OPG established liquidity reserves against the mark-to-market gains or losses of these positions. These reserves increased trading revenue by \$1 million during the three months ended June 30, 2007 (three months ended June 30, 2006 – increased by \$4 million). During the six months ended June 30, 2007, the reserves did not impact trading revenue (six months ended June 30, 2006 – decreased trading revenue by \$5 million).

Derivative Instruments Qualifying for Hedge Accounting

The following table provides the estimated fair value of derivative instruments designated as hedges. The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized in net income upon settlement when the underlying transactions occur. OPG holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity.

<i>(millions of dollars except where noted)</i>	Notional Quantity	Terms	Fair Value	Notional Quantity	Terms	Fair Value
	June 30, 2007			December 31, 2006		
Gain (loss)						
Electricity derivative instruments	2.8TWh	1-4 yrs	46	4.3 TWh	1-4 yrs	51
Foreign exchange derivative instruments	U.S.\$ 45	Dec./07	(3)	U.S. \$2	Jan./07	-
Floating to fixed interest rate hedges	44	1-12 yrs	(1)	45	1-12 yrs	(3)
Forward start interest rate hedges	907	1-13 yrs	27	622	1-14 yrs	(9)

Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. The weighted average fixed exchange rate for contracts outstanding at June 30, 2007 was U.S. \$0.88 (December 31, 2006 – U.S. \$0.87) for every Canadian dollar.

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

OPG entered into a number of forward start interest rate swap agreements to hedge against the effect of future interest rate movement based on the anticipated future borrowing requirement for the Niagara Tunnel and the Portlands Energy Centre projects, and OPG's general corporate facility. Although these transactions are ordinarily accounted for as hedges, a gain of approximately \$3 million was recorded to account for ineffectiveness in the hedges for the six months ended June 30, 2006.

For the three and six month periods ended June 30, 2007, OPG has de-designated a number of forward start interest rate hedges as the previously anticipated future borrowings associated with these instruments no longer being expected to occur. As a result of the de-designation, a gain of \$1 million was reclassified to net income for the three and six month periods ended June 30, 2007.

Net gains of \$12 million and \$17 million related to electricity derivative instruments qualifying for hedge accounting were recognized in net income during the three and six months ended June 30, 2007 respectively. These amounts were previously recorded in other comprehensive income.

Existing net gains of \$26 million deferred in accumulated other comprehensive income at June 30, 2007 are expected to be reclassified to net income within the next 12 months.

Derivative Instruments Not Qualifying for Hedge Accounting

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

<i>(millions of dollars except where noted)</i>	Notional Quantity June 30, 2007	Fair Value	Notional Quantity December 31, 2006	Fair Value
Foreign exchange derivative instruments	U.S.\$ 14	(1)	-	-
Commodity derivative instruments				
Assets	9.2 TWh	16	3.9 TWh	25
Liabilities	1.0 TWh	(14)	2.6 TWh	(25)
Ontario market liquidity reserve		2		-
		(2)		(2)
Total		-		(2)

Foreign exchange derivative instruments that are not designated as hedges have a weighted average exchange rate of U.S. \$0.86 at June 30, 2007.

Fair Value of Other Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued charges, and short-term notes payable approximate their fair values due to the immediate or short-term maturity of these financial instruments. Fair values for other financial instruments have been estimated by reference to quoted market prices for actual or similar instruments where available.

The carrying values and fair values of these other financial instruments as at June 30, 2007 and December 31, 2006 are as follows:

<i>(millions of dollars)</i>	Carrying Value June 30, 2007	Fair Value	Carrying Value December 31, 2006	Fair Value
Financial Assets				
Nuclear fixed asset removal and nuclear waste management funds	8,554	8,554	7,594	8,113
Long-term accounts receivable and other assets	136	136	69	69
Financial Liabilities				
Long-term debt due within one year	406	409	406	409
Long-term debt	2,960	3,007	2,953	3,082
Long-term accounts payable and accrued charges	192	192	150	150

Credit Risk

Credit risk is the financial risk of non-performance by contractual counterparties. Credit risk excludes any operational risk resulting from a third party failing to deliver a product or service as expected. The majority of OPG revenues are derived from sales through the Independent Electricity System Operator ("IESO") administered spot market. However, OPG also derives revenue from several other sources including the sale of energy products and financial risk management products to third parties.

Credit exposure to the IESO fluctuates based on spot prices and the volume of rate regulated and unregulated generation, and is reduced each month upon settlement of the accounts. Credit exposure to the IESO peaked at \$883 million during the six months ended June 30, 2007 (\$1,029 million during the year ended December 31, 2006).

12. COMMITMENTS AND CONTINGENCIES

Litigation

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

On August 9, 2006, a Notice of Action and Statement of Claim in the amount of \$500 million (the "Claim") was served on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited ("British Energy"), claiming that OPG is liable to them for breach of contract and negligence. OPG leased the Bruce nuclear generating stations to Bruce Power L.P. in 2001. British Energy was an investor in Bruce Power L.P. In 2003, British Energy sold its interest in Bruce Power L.P. to a group of investors (the "Purchasers"). The Purchasers are claiming that British Energy is liable to them with respect to this purchase transaction. Their claim is currently the subject of an arbitration proceeding (the "Arbitration"). British Energy is therefore suing OPG in order to preserve any similar claim it may have against OPG pursuant to the 2001 lease transaction. British Energy has indicated that it does not require OPG to actively defend the Claim at this point in time as British Energy is defending the Arbitration commenced by the Purchasers. The Arbitration may narrow or eliminate the claims or damages British Energy has, so as to narrow or eliminate the need to continue the Claim against OPG. British Energy has reserved the right to require OPG to defend the Claim prior to the conclusion of the Arbitration should British Energy at some point believe there is some advantage in doing so.

Certain First Nations have commenced actions for interference with reserve and traditional land rights. The claims by some of these First Nations total approximately \$50 million and claims by others are for unspecified amounts. For the six months ended June 30, 2007, OPG recorded additional expenses associated with past grievances by First Nations.

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

Environmental

OPG was required to assume certain environmental obligations from Ontario Hydro. A provision of \$76 million was established as at April 1, 1999 for such obligations. During the three months ended June 30, 2007, expenditures of \$ nil (three months ended June 30, 2006 – \$1 million) were recorded against the provision. During the six months ended June 30, 2007, OPG recorded expenditures of \$1 million (six months ended June 30, 2006 – \$2 million). As at June 30, 2007, the remaining provision was \$51 million (December 31, 2006 – \$52 million).

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

Guarantees

As part of normal business, OPG and certain of its subsidiaries and joint ventures enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees, standby Letters of Credit and surety bonds.

13. REVENUE LIMIT REBATE

Eighty-five per cent of the generation output from OPG's unregulated generation assets, excluding the Lennox generating station and forward sales as of January 1, 2005, is subject to a revenue limit. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets is also excluded from the output covered by the revenue limit. In addition, until the Transition – Generation Corporation Designated Rate Options ("TRO") expired on April 30, 2006, volumes sold under such options were also excluded from the revenue limit rebate.

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

The change in the revenue limit rebate liability for the six months ended June 30, 2007 and the year ended December 31, 2006 are as follows:

<i>(millions of dollars)</i>	June 30 2007	December 31 2006
Liability, beginning of the period	40	739
Increase to provision during the period	116	161
Payments made during the period	(48)	(860)
Liability, end of period	108	40

14. BUSINESS SEGMENTS

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

OM&A expenses of the generation business segments include an inter-segment service fee for the use of certain property, plant and equipment of the Other category. The total service fee is recorded as a reduction to the Other category's OM&A expenses. For the three months ended June 30, 2007, the service fee was \$6 million for Regulated – Nuclear, \$1 million for Regulated – Hydroelectric, \$1 million for Unregulated – Hydroelectric and \$2 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$10 million for the Other category. For the three months ended June 30, 2006, the service fee was \$10 million for Regulated – Nuclear, \$1 million for Regulated – Hydroelectric, \$2 million for Unregulated – Hydroelectric and \$3 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$16 million for the Other category.

For the six months ended June 30, 2007, the service fee was \$14 million for Regulated – Nuclear, \$1 million for Regulated – Hydroelectric, \$2 million for Unregulated – Hydroelectric and \$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, 2006, the service fee was \$14 million for Regulated – Nuclear, \$1 million for Regulated – Hydroelectric, \$2 million for Unregulated – Hydroelectric and \$5 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$22 million for the Other category. Results for the three months ended March 31, 2006 have been reclassified to reflect the service fee.

Segment Income (Loss) for Three Months Ended June 30, 2007 <i>(millions of dollars)</i>	Regulated		Unregulated			Total
	Nuclear	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	
Revenue	632	179	197	345	40	1,393
Revenue limit rebate	-	-	(1)	(19)	-	(20)
	632	179	196	326	40	1,373
Fuel expense	33	67	20	178	-	298
Gross margin	599	112	176	148	40	1,075
Operations, maintenance and administration	510	51	60	154	1	776
Depreciation and amortization	100	18	17	21	13	169
Accretion on fixed asset removal and nuclear waste management liabilities	124	-	-	2	-	126
Earnings on nuclear fixed asset removal and nuclear waste management funds	(209)	-	-	-	-	(209)
Property and capital taxes	9	2	1	5	3	20
Income (loss) before interest and income taxes	65	41	98	(34)	23	193

Segment Income (Loss) for Three Months Ended June 30, 2006 <i>(millions of dollars)</i>	Regulated		Unregulated			Total
	Nuclear	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	
Revenue	636	164	230	307	37	1,374
Revenue limit rebate	-	-	(6)	(23)	-	(29)
	636	164	224	284	37	1,345
Fuel expense	28	60	25	130	-	243
Gross margin	608	104	199	154	37	1,102
Operations, maintenance and administration	473	23	45	143	(6)	678
Depreciation and amortization	89	17	16	47	16	185
Accretion on fixed asset removal and nuclear waste management liabilities	122	-	-	3	-	125
Earnings on nuclear fixed asset removal and nuclear waste management funds	(103)	-	-	-	-	(103)
Property and capital taxes	9	3	3	4	3	22
Income (loss) before interest and income taxes	18	61	135	(43)	24	195

Segment Income for Six Months Ended June 30, 2007 <i>(millions of dollars)</i>	Regulated		Unregulated			Total
	Nuclear	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	
Revenue	1,314	355	419	858	67	3,013
Revenue limit rebate	-	-	(32)	(84)	-	(116)
	1,314	355	387	774	67	2,897
Fuel expense	65	119	39	403	-	626
Gross margin	1,249	236	348	371	67	2,271
Operations, maintenance and administration	1,009	74	102	284	1	1,470
Depreciation and amortization	216	34	35	39	27	351
Accretion on fixed asset removal and nuclear waste management liabilities	250	-	-	4	-	254
Earnings on nuclear fixed asset removal and nuclear waste management funds	(300)	-	-	-	-	(300)
Property and capital taxes	20	7	5	11	6	49
Income before interest and income taxes	54	121	206	33	33	447

Segment Income (Loss) for Six Months Ended June 30, 2006 <i>(millions of dollars)</i>	Regulated		Unregulated			Total
	Nuclear	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	
Revenue	1,345	339	454	728	76	2,942
Revenue limit rebate	-	-	(26)	(63)	-	(89)
	1,345	339	428	665	76	2,853
Fuel expense	59	112	45	305	-	521
Gross margin	1,286	227	383	360	76	2,332
Operations, maintenance and administration	938	44	81	260	(5)	1,318
Depreciation and amortization	184	33	32	96	26	371
Accretion on fixed asset removal and nuclear waste management liabilities	245	-	-	5	-	250
Earnings on nuclear fixed asset removal and nuclear waste management funds	(192)	-	-	-	-	(192)
Property and capital taxes	19	8	7	8	5	47
Income (loss) before interest and income taxes	92	142	263	(9)	50	538

<i>(millions of dollars)</i>	Regulated		Unregulated			Total
	Nuclear	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	
Selected Balance Sheet Information						
As at June 30, 2007						
Segment fixed assets in service, net	4,076	3,884	3,010	404	525	11,899
Segment construction work in progress	226	277	70	44	221	838
Segment property, plant and equipment, net	4,302	4,161	3,080	448	746	12,737
Segment materials and supplies inventory, net:						
Short-term	64	1	-	51	-	116
Long-term	331	-	3	4	-	338
Segment fuel inventory	166	-	-	392	-	558
As at December 31, 2006						
Segment fixed assets in service, net	4,213	3,907	3,012	408	544	12,084
Segment construction work in progress	165	252	78	49	133	677
Segment property, plant and equipment, net	4,378	4,159	3,090	457	677	12,761
Segment materials and supplies inventory, net:						
Short-term	63	1	-	48	-	112
Long-term	320	-	3	3	-	326
Segment fuel inventory	183	-	-	486	-	669
Selected Cash Flow Information						
Three months ended June 30, 2007						
Investment in fixed assets	50	20	13	15	65	163
Three months ended June 30, 2006						
Investment in fixed assets	37	36	15	14	18	120
Six months ended June 30, 2007						
Investment in fixed assets	91	37	25	28	116	297
Six months ended June 30, 2006						
Investment in fixed assets	78	70	26	28	32	234

15. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Accounts receivable	77	74	(70)	271
Fuel inventory	8	(59)	111	(48)
Materials and supplies	(4)	-	(4)	5
Revenue limit rebate	20	29	116	89
Accounts payable and accrued charges	25	48	(138)	(156)
Income and capital taxes payable	10	21	19	36
	136	113	34	197

16. 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 and OPG's hedging strategies significantly reduced the impact of seasonal price fluctuations on the results of operations.