

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Ontario Power Generation Inc.'s ("OPG") management is responsible for presentation and preparation of the annual consolidated financial statements and Management's Discussion and Analysis ("MD&A").

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the requirements of the Ontario Securities Commission ("OSC"), as applicable. The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators and its related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. Something is considered material if it is reasonably expected to have a significant impact on the Company's earnings, cash flow, value of an asset or liability, or reputation. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

In meeting our responsibility for the reliability of financial information, we maintain and rely on a comprehensive system of internal controls and internal audit, including organizational and procedural controls and internal controls over financial reporting. Our system of internal controls includes written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and sound and conservative accounting policies, which we regularly update. This structure ensures appropriate internal control over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements.

Management, including the President and CEO and Chief Financial Officer ("CFO"), are responsible for maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICOFR"). DC&P is designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. ICOFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with GAAP.

An evaluation of the effectiveness of design and operation of OPG's DC&P and ICOFR was conducted as of December 31, 2008. Accordingly, we, as OPG's Chief Executive Officer and Chief Financial Officer, will certify OPG's annual disclosure documents filed with the OSC, which includes attesting to the design and effectiveness of OPG's disclosure controls and procedures and internal control over financial reporting.

The Board of Directors, based on recommendations from its Audit/Risk Committee, reviews and approves the consolidated financial statements and the MD&A, and oversees management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major risk areas and assessment of significant and related party transactions.

The consolidated financial statements have been audited by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The Auditors' Report outlines the auditors' responsibilities

and the scope of their examination and their opinion on OPG's consolidated financial statements. The independent external auditors, as confirmed by the Audit/Risk Committee, had direct and full access to the Audit/Risk Committee, with and without the presence of management, to discuss their audit and their findings therefrom, as to the integrity of OPG's financial reporting and the effectiveness of the system of internal controls.

Jim Hankinson (signed)
President and Chief Executive Officer

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

February 11, 2009

AUDITORS' REPORT

To the Shareholder of Ontario Power Generation Inc.

We have audited the consolidated balance sheets of Ontario Power Generation Inc. as at December 31, 2008 and 2007 and the consolidated statements of income, changes in shareholder's equity, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of Ontario Power Generation Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Ontario Power Generation Inc. as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

ERNST & YOUNG LLP (signed)
Chartered Accountants, Licensed Public Accountants
Toronto, Canada
February 11, 2009

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31

(millions of dollars except where noted)

	2008	2007
Revenue (Note 19)		
Revenue before revenue limit rebate	6,359	5,887
Revenue limit rebate (Note 17)	(277)	(227)
	<u>6,082</u>	<u>5,660</u>
Fuel expense (Note 19)	1,191	1,270
Gross margin (Note 19)	<u>4,891</u>	<u>4,390</u>
Expenses (Note 19)		
Operations, maintenance and administration	2,967	2,974
Depreciation and amortization (Note 6)	743	695
Accretion on fixed asset removal and nuclear waste management liabilities (Note 10)	581	507
Losses (earnings) on nuclear fixed asset removal and nuclear waste management funds (Note 10)	93	(481)
Property and capital taxes	80	85
	<u>4,464</u>	<u>3,780</u>
Income before the following:	427	610
Other (gains) and losses (Notes 3 and 18)	(9)	(10)
	<u>436</u>	<u>620</u>
Income before interest and income taxes	436	620
Net interest expense (Note 9)	165	143
	<u>271</u>	<u>477</u>
Income before income taxes	271	477
Income tax expense (recovery) (Note 11)		
Current	255	1
Future	(72)	(52)
	<u>183</u>	<u>(51)</u>
Net income	<u>88</u>	<u>528</u>
Basic and diluted income per common share (dollars)	<u>0.34</u>	<u>2.06</u>
Common shares outstanding (millions)	<u>256.3</u>	<u>256.3</u>

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31

(millions of dollars)

	2008	2007
Operating activities		
Net income	88	528
Adjust for non-cash items:		
Depreciation and amortization (Note 6)	743	695
Accretion on fixed asset removal and nuclear waste management liabilities (Note 10)	581	507
Losses (earnings) on nuclear fixed asset removal and nuclear waste management funds (Notes 10 and 19)	93	(481)
Pension costs (Note 12)	187	243
Other post employment benefits and supplementary pension plans (Note 12)	226	244
Future income taxes (Note 11)	(72)	(52)
Mark-to-market on derivative instruments	(33)	1
Provision for used nuclear fuel	33	30
Regulatory assets and liabilities (Note 7)	44	(39)
Other (gains) and losses (Note 18)	(9)	(10)
Provision for other liabilities	-	54
Other	19	25
	<u>1,900</u>	<u>1,745</u>
Contributions to nuclear fixed asset removal and nuclear waste management funds (Note 10)	(454)	(788)
Expenditures on fixed asset removal and nuclear waste management (Note 10)	(195)	(200)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management (Note 10)	82	119
Contributions to Pension Fund (Note 12)	(253)	(268)
Expenditures on other post employment benefits and supplementary pension plans (Note 12)	(81)	(73)
Revenue limit rebate (Note 17)	(292)	(167)
Expenditures on restructuring	-	(2)
Net changes to other long-term assets and liabilities	90	(56)
Changes in non-cash working capital balances (Note 24)	73	69
Cash flow provided by operating activities	<u>870</u>	<u>379</u>
Investing activities		
Increase in regulatory assets (Note 7)	(6)	(30)
Investment in fixed assets (Notes 6 and 19)	(661)	(666)
Net proceeds from sale of long-term assets	15	-
Cash and cash equivalents transferred to long-term investments (Note 4)	-	(58)
Cash flow used in investing activities	<u>(652)</u>	<u>(754)</u>
Financing activities		
Issuance of long-term debt (Note 8)	395	900
Repayment of long-term debt (Note 8)	(408)	(406)
Net decrease in short-term notes (Note 9)	-	(15)
Cash flow (used in) provided by financing activities	<u>(13)</u>	<u>479</u>
Net increase in cash and cash equivalents	<u>205</u>	<u>104</u>
Cash and cash equivalents, beginning of year	<u>110</u>	<u>6</u>
Cash and cash equivalents, end of year	<u>315</u>	<u>110</u>

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31

(millions of dollars)

	2008	2007
Assets		
Current assets		
Cash and cash equivalents	315	110
Accounts receivable (Note 5)	525	315
Fuel inventory	736	604
Prepaid expenses	32	35
Future income taxes (Note 11)	6	12
Materials and supplies (Note 3)	132	125
	1,746	1,201
Fixed assets (Notes 6 and 19)		
Property, plant and equipment	18,333	17,772
Less: accumulated depreciation	5,546	4,995
	12,787	12,777
Other long-term assets		
Deferred pension asset (Note 12)	797	731
Nuclear fixed asset removal and nuclear waste management funds (Note 10)	9,209	9,263
Long-term investments (Note 4)	74	93
Long-term materials and supplies	338	353
Future income taxes (Note 11)	62	-
Regulatory assets (Note 7)	522	356
Long-term accounts receivable and other assets	44	65
	11,046	10,861
	25,579	24,839

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31

(millions of dollars)

	2008	2007
Liabilities		
Current liabilities		
Accounts payable and accrued charges	1,015	953
Revenue limit rebate payable (Note 17)	85	100
Long-term debt due within one year (Note 8)	357	407
Deferred revenue due within one year	12	12
Income and capital taxes payable	104	66
	1,573	1,538
Long-term debt (Note 8)	3,483	3,446
Other long-term liabilities		
Fixed asset removal and nuclear waste management (Note 10)	11,384	10,957
Other post employment benefits and supplementary pension plans (Note 12)	1,703	1,556
Long-term accounts payable and accrued charges	445	184
Deferred revenue	108	120
Future income taxes (Note 11)	-	217
Regulatory liabilities (Note 7)	54	14
	13,694	13,048
Shareholder's equity		
Common shares	5,126	5,126
Retained earnings	1,752	1,664
Accumulated other comprehensive (loss) income	(49)	17
	6,829	6,807
	25,579	24,839

Commitments and Contingencies (Notes 4, 8, 13, and 16)

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

Honourable Jake Epp (signed)
Chairman

M. George Lewis (signed)
Director

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

Years Ended December 31

(millions of dollars)

	2008	2007
Common shares (Note 15)	5,126	5,126
Retained earnings		
Balance at beginning of year	1,664	623
Transition adjustment on adoption of financial instruments accounting standards	-	513
Net income	88	528
Balance at end of year	1,752	1,664
Accumulated other comprehensive (loss) income, net of income taxes		
Balance at beginning of year	17	-
Transition adjustment on adoption of financial instruments accounting standards	-	21
Other comprehensive loss for the year	(66)	(4)
Balance at end of year	(49)	17
Total shareholder's equity at end of year	6,829	6,807

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31

(millions of dollars)

	2008	2007
Net income	88	528
Other comprehensive (loss) income, net of income taxes		
Net (loss) gain on derivatives designated as cash flow hedges ¹	(52)	11
Reclassification to income of gains on derivatives designated as cash flow hedges ²	(14)	(15)
Other comprehensive loss for the year	(66)	(4)
Comprehensive income	22	524

¹ Net of income tax expense of \$3 million and \$1 million for the years ended December 31, 2008 and 2007, respectively.

² Net of income tax recoveries of \$9 million for each of the years ended December 31, 2008 and 2007.

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. DESCRIPTION OF BUSINESS

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

2. BASIS OF PRESENTATION

These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and presented in Canadian dollars. 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.

The consolidated financial statements include the accounts of OPG and its subsidiaries. OPG accounts for its interests in jointly controlled entities using the proportionate consolidation method. All significant intercompany transactions have been eliminated on consolidation.

Certain of the 2007 comparative amounts have been reclassified from financial statements previously presented to conform to the 2008 financial statement presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash on deposit and money market securities with a maturity of less than 90 days on the date of purchase. All other money market securities with a maturity on the date of purchase that is greater than 90 days, but less than one year, are recorded as short-term investments. These securities are valued at the lower of cost or market.

Interest earned on cash and cash equivalents and short-term investments of \$13 million (2007 – \$5 million) at an average effective rate of 3.0 percent (2007 – 4.4 percent) is offset against interest expense in the consolidated statements of income.

Sales of Accounts Receivable

Asset securitization involves selling assets such as accounts receivable to independent entities or trusts, which buy the receivables and then issue interests in them to investors. These transactions are accounted for as sales, given that control has been surrendered over these assets in return for net cash consideration. For each transfer, the excess of the carrying value of the receivables transferred over the estimated fair value of the proceeds received is reflected as a loss on the date of the transfer, and is included in net interest expense. The carrying value of the interests transferred is allocated to accounts receivable sold or interests retained according to their relative fair values on the day the transfer is made. Fair value is determined based on the present value of future cash flows. Cash flows are projected using OPG's best estimates of key assumptions, such as discount rates, weighted average life of accounts receivable and credit loss ratios.

As part of the sales of accounts receivable, certain financial assets are retained and consist of interests in the receivables transferred. Any retained interests held in the receivables are accounted for at cost. The receivables are transferred on a fully serviced basis and do not create a servicing asset or liability.

Inventories

Fuel inventory is valued at weighted average cost.

Materials and supplies are valued at the lower of average cost and net realizable value. The determination of net realizable value of materials and supplies takes into account various factors including the remaining useful life of the related facilities in which the materials and supplies are expected to be used.

Fixed Assets and Depreciation

Property, plant and equipment are recorded at cost. Interest costs incurred during construction are capitalized as part of the cost of the asset based on the interest rate on OPG's long-term debt. Expenditures for replacements of major components are capitalized.

Depreciation rates for the various classes of assets are based on their estimated service lives. Any asset removal costs that have not been specifically provided for in current or previous periods are also charged to depreciation expense. Repairs and maintenance are expensed when incurred.

Fixed assets are depreciated on a straight-line basis except for computers, and transport and work equipment, which are depreciated on a declining balance basis as noted below:

Nuclear generating stations and major components	15 to 55 years ¹
Fossil generating stations and major components	25 to 40 years ²
Hydroelectric generating stations and major components	25 to 100 years
Administration and service facilities	10 to 50 years
Computers, and transport and work equipment assets – declining balance	9% to 40% per year
Major application software	5 years
Service equipment	5 to 10 years

¹ The end of station life for depreciation purposes for the Darlington, Pickering A, Pickering B, Bruce A, and Bruce B nuclear generating stations ranges between 2014 and 2035. Major components are depreciated over the lesser of the station life and the life of the components. The Bruce A nuclear generating station was fully depreciated in 2003, however Bruce Power L.P. decided to refurbish the Bruce A generating station contributing to an increase in the asset retirement obligation and an increase in the carrying value of the Bruce A station. Changes to the end of station life for depreciation purposes are described under the heading *Changes in Accounting Policies and Estimates*.

² The end of station life for depreciation purposes disclosed above excludes the impact of life extensions commencing January 1, 2008, which are described under the heading *Changes in Accounting Policies and Estimates*.

Impairment of Fixed Assets

OPG evaluates its property, plant and equipment for impairment whenever conditions indicate that estimated undiscounted future net cash flows may be less than the net carrying amount of assets. In cases where the undiscounted expected future cash flows are less than the carrying amount, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the fair value. Fair value is determined using expected discounted cash flows when quoted market prices are not available.

Rate Regulated Accounting

A regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) provides that, effective April 1, 2005, OPG receives regulated prices for electricity generated from most of its 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 established regulated prices up to April 1, 2008. The Ontario Energy Board (“OEB”) determined the new prices in the fourth quarter of 2008 effective April 1, 2008 using a forecast cost of service methodology. This methodology establishes regulated prices based on a revenue requirement taking into account a forecast of production volumes and total operating costs, and a return on rate base. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed assets and an allowance for working capital. Regulated prices prior to April 1, 2008 were established by the Province of Ontario (the “Province”) using the forecast cost of service methodology. The impact of the regulation and the OEB’s decision on OPG’s revenue recognition policies is described under the heading, *Revenue Recognition*.

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 and Infrastructure. It regulates 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.

The regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) required OPG to establish certain variance and deferral accounts for the period up to April 1, 2008. In its decision on OPG’s new regulated prices, the OEB ruled on the disposition of the balances recorded in these accounts as at December 31, 2007. The OEB also authorized the continuation and establishment of certain existing and new variance and deferral accounts effective April 1, 2008.

The balances in variance and deferral accounts are recognized as regulatory assets and liabilities in OPG’s consolidated financial statements, as Canadian accounting standards recognize that rate regulation can create economic benefits and obligations that are required by the regulator to be obtained from, or settled, with the ratepayers. When the regulator 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. Similarly, if the regulator 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 regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the regulation and the OEB’s decisions.

Regulatory asset and liability balances approved by the regulator for inclusion in regulated prices are amortized based on approved recovery periods. Disallowed balances, including associated interest, are charged to operations in the period that the regulator’s decision is issued. OPG applies interest to regulatory balances as prescribed by the regulation or the OEB, in order to recognize the cost of financing amounts to be recovered from, or repaid to, ratepayers.

See Notes 7 and 11 to these consolidated financial statements for additional disclosure related to regulatory assets and liabilities and rate regulated accounting.

Investments in OPG Ventures

In accordance with Accounting Guideline 18, *Investment Companies* (“AcG-18”), investments owned by the Company’s wholly owned subsidiary OPG Ventures Inc. (“OPGV”) are recorded at fair value, and changes to the fair value of the investments are included in revenue in the period in which the change occurs. The fair values of these investments are estimated using a methodology that is appropriate in

light of the nature, facts and circumstances of the respective investments and considers reasonable data and market inputs, assumptions and estimates.

Fixed Asset Removal and Nuclear Waste Management Liability

OPG recognizes asset retirement obligations for fixed asset removal and nuclear waste management, discounted for the time value of money. OPG has estimated both the amount and timing of future cash expenditures based on current plans for fixed asset removal and nuclear waste management. The liabilities are initially recorded at their estimated fair value, which is based on a discounted value of the expected costs to be paid.

On an ongoing basis, the liability is increased by the present value of the variable cost portion of the nuclear waste generated each year, with the corresponding amounts charged to operating expenses. Expenses relating to low and intermediate level waste are charged to depreciation and amortization expense. Expenses relating to the disposal or storage of nuclear used fuel are charged to fuel expense. The liability may also be adjusted due to any changes in the estimated amount or timing of the underlying future cash flows. Upon settlement of the liability, a gain or loss would be recorded.

Accretion arises because liabilities for fixed asset removal and nuclear waste management are reported on a net present value basis. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time. The resulting expense is included in operating expenses.

The asset retirement cost is capitalized by increasing the carrying value of the related fixed assets. The capitalized cost is depreciated over the remaining useful life of the related fixed assets and is included in depreciation expense.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Pursuant to the Ontario Nuclear Funds Agreement (“ONFA”) between OPG and the Province of Ontario, OPG established a Used Fuel Segregated Fund (“Used Fuel Fund”) and a Decommissioning Segregated Fund (“Decommissioning Fund”) (together the “Nuclear Funds”). The Used Fuel Fund is intended to fund expenditures associated with the disposal of highly radioactive used nuclear fuel bundles, while the Decommissioning Fund was established to fund expenditures associated with nuclear fixed asset removal and the disposal of low and intermediate level nuclear waste materials. OPG maintains the Nuclear Funds in third-party custodial accounts that are segregated from the rest of OPG’s assets.

The Nuclear Funds are invested in fixed income and equity securities. Effective January 1, 2007, OPG adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. As a result of the adoption of this new section, the investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading. Accordingly, the Nuclear Funds and the corresponding payables to the Province are measured at fair value based on the bid prices of the underlying securities with gains and losses recognized in net income.

Revenue Recognition

All of OPG’s electricity generation is sold into the real-time energy spot market administered by the Independent Electricity System Operator (“IESO”). Effective April 1, 2005, the generation from most of OPG’s baseload hydroelectric facilities and all of the nuclear facilities that OPG operates became rate regulated. As a result, energy revenue generated from the nuclear facilities up to April 1, 2008 was recognized based on a regulated price of 4.95¢/kWh. The regulated prices for nuclear generation increased to 5.50¢/kWh retrospectively to April 1, 2008, based on the OEB’s decision issued in the fourth quarter of 2008. This price includes a rate rider of 0.20¢/kWh for recovery of approved nuclear variance and deferral account balances. The regulated price received by OPG up to April 1, 2008 for the first 1,900 megawatt hours (“MWh”) of production from the regulated hydroelectric facilities in any hour was 3.3¢/kWh. The OEB increased the price to 3.67¢/kWh for the first 1,900 MWh of regulated hydroelectric production for the period April 1, 2008 to November 30, 2008. Any production from these regulated

hydroelectric facilities above 1,900 MWh in any hour for the period April 1, 2005 to November 30, 2008 received the Ontario electricity spot market price. Following the OEB's decision, effective December 1, 2008, the threshold of 1,900 MWh no longer applies. Effective December 1, 2008, the actual average hourly net energy production from these hydroelectric facilities in the month receives the regulated price of 3.67¢/kWh. In the hours when the net actual energy production in Ontario is greater or less than the average hourly net volume in the month, OPG's revenues are adjusted by the difference between the average hourly net volume and the actual net energy production multiplied by spot market price. The retrospective increase in the regulated prices for production from regulated facilities for the period from April 1, 2008 to November 30, 2008 was recognized in the period that the OEB's decision was issued.

The production from OPG's remaining hydroelectric, fossil-fuelled and wind generating stations remains unregulated and continues to be sold at the Ontario electricity spot market price. However, 85 percent of the generation output from OPG's other generating assets, excluding the Lennox generating station, stations whose generation output is subject to a Hydroelectric Energy Supply Agreement ("HESA") with the Ontario Power Authority ("OPA") pursuant to a ministerial directive, and forward sales as of January 1, 2005, is subject to a revenue limit. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets are also excluded from the output covered by the revenue limit.

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 increased to 4.8¢/kWh effective May 1, 2008. In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the OPA are subject to a revenue limit that is 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these limits are returned to the IESO for the benefit of consumers. The term of the revenue limit rebate ends on May 1, 2009.

OPG also sells into, and purchases from, interconnected markets of other provinces and the U.S. northeast and midwest. All contracts that are not designated as hedges are recorded in the consolidated balance sheets at market value with gains or losses recorded in the consolidated statements of income. Gains and losses on energy trading contracts (including those to be physically settled) are recorded on a net basis in the consolidated statements of income. Accordingly, power purchases of \$177 million in 2008 and \$120 million in 2007 were netted against revenue.

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

Prior to April 1, 2008, OPG accounted for lease revenue from Bruce Power using the cash basis of accounting. Under the cash basis of accounting, OPG recognized lease income as stipulated in the lease agreement to the extent that the lease payments were expected to be included in future regulated prices charged to customers. Pursuant to the OEB's decision during the fourth quarter of 2008, certain lease payments from Bruce Power were included in the determination of regulated prices effective April 1, 2008 on a straight-line basis over the term of the lease. Accordingly, OPG recognized these lease payments on a straight-line basis over the term of the lease effective April 1, 2008.

OPG also earns revenue from its joint venture share of the Brighton Beach Power Limited Partnership ("Brighton Beach") related to an energy conversion agreement between Brighton Beach and Coral Energy Canada Inc. ("Coral"). In addition, non-energy revenue includes isotope sales and real estate rentals. Revenues from these activities are recognized as services are provided or as products are delivered.

Financial Instruments

On January 1, 2007, OPG adopted three new accounting standards that were issued by the CICA: Handbook Section 1530, *Comprehensive Income*; Handbook Section 3855, *Financial Instruments – Recognition and Measurement*; and Handbook Section 3865, *Hedges*.

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

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

Hedges

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

Derivatives

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

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

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

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

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. The fair value of such derivative instrument is included in accumulated other comprehensive income ("AOCI") on a net of tax basis and changes to the fair value are recorded on the consolidated statements of comprehensive income. When a derivative hedging relationship is expired, the designation of a hedging relationship is terminated, or a portion of the hedging instrument is no longer effective, any associated gains or losses included in AOCI are recognized in the current period's consolidated statement of income.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at year-end exchange rates. Any resulting gain or loss is reflected in revenue.

Research and Development

Research and development costs are charged to operations in the year incurred. Research and development costs incurred to discharge long-term obligations such as the nuclear waste management liabilities, for which specific provisions have already been made, are charged to the related liability.

Pension and Other Post Employment Benefits

OPG's post employment benefit programs include a contributory defined benefit registered pension plan, a defined benefit supplementary pension plan, group life insurance, health care and long-term disability benefits. OPG accrues its obligations under pension and other post employment benefit ("OPEB") plans. The obligations for pension and OPEB costs are determined using the projected benefit method pro-rated on service. The obligation for long-term disability benefits is determined using the projected benefit method on a terminal basis. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions, experience gains or losses, salary levels, inflation, and cost escalation. Pension and OPEB costs and obligations are determined annually by independent actuaries using management's best estimate assumptions.

Assumptions are significant inputs to actuarial models that measure pension and OPEB obligations and related effects on operations. Two critical assumptions—discount rate and inflation—are important elements of benefit costs and obligations. In addition, the expected return on assets is a critical assumption in the determination of pension costs. These assumptions, as well as other assumptions involving demographic factors such as retirement age, mortality and employee turnover are evaluated periodically by management in consultation with an independent actuary. During the evaluation process, the assumptions are updated to reflect actual experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors, and in accordance with Canadian GAAP, the impact of these differences are accumulated and amortized over future periods.

The discount rates used by OPG in determining projected benefit obligations and the costs for the Company's employee benefit plans are based on representative AA corporate bond yields. The respective discount rates enable OPG to calculate the present value of the expected future cash flows on the measurement date. A lower discount rate increases the present value of benefit obligations and increases benefit plan costs. The expected rate of return on plan assets is based on current and expected asset allocation, as well as the long-term historical risks and returns associated with each asset class within the plan portfolio. A lower expected rate of return on plan assets increases pension cost.

Pension fund assets include equity securities and corporate and government debt securities, real estate and other investments which are managed by professional investment managers. The fund does not invest in equity or debt securities issued by OPG. Pension fund assets are valued using market-related values for purposes of determining actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six percent assumed real return over a five-year period.

Pension and OPEB costs include current service costs, interest costs on the obligations, the expected return on pension plan assets, adjustments for plan amendments and adjustments for actuarial gains or losses, which result from changes in assumptions and experience gains and losses. Past service costs arising from pension and OPEB plan amendments are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plan, since OPG will realize the economic benefit over that period. Due to the long-term nature of post-employment liabilities, the excess of the net cumulative unamortized gain or loss, over 10 percent of the greater of the benefit obligation and the market-related value of the plan assets, is also amortized over the expected average remaining service life.

When the recognition of the transfer of employees and employee-related benefits gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's liability.

Taxes

Under the *Electricity Act, 1998*, OPG is responsible for making payments in lieu of corporate income and capital taxes to the OEFC. These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), and are modified by the *Electricity Act, 1998* and related regulations. This effectively results in OPG paying taxes similar to what would be imposed under the federal and Ontario tax acts.

OPG follows the liability method of accounting for income taxes of its unregulated operations. Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period the change is substantively enacted. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is established.

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

OPG makes payments in lieu of property tax on its nuclear and fossil-fuelled generating assets to the OEFC, and also pays property taxes to municipalities.

OPG pays charges on gross revenue derived from the annual generation of electricity from its hydroelectric generating assets. The gross revenue charge ("GRC") includes a fixed percentage charge applied to the annual hydroelectric generation derived from stations located on provincial Crown lands, in addition to graduated rate charges applicable to all hydroelectric stations. GRC costs are included in fuel expense.

Changes in Accounting Policies and Estimates

Depreciation of Long-Lived Assets

The accounting estimates related to the depreciation of long-lived assets require significant management judgment to assess the appropriate useful lives of OPG's long-lived assets, including consideration of various technological and other factors.

Effective January 1, 2008, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended by two years to 2019 after a review of the technical analysis of the

station's life limiting components. The life extension reduced depreciation expense by \$18 million annually.

Effective January 1, 2009, the service life of fossil-fuelled stations, for the purpose of calculating depreciation, was extended by two years to 2014 based on the Province of Ontario's announcement to phase out coal generation by 2014. The life extension will reduce depreciation expense by \$31 million annually.

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

Financial Instruments and Capital Disclosures – Disclosure and Presentation

On January 1, 2008, OPG adopted three new presentation and disclosure standards that were issued by the CICA: Handbook Section 3862, *Financial Instruments – Disclosures*, Handbook Section 3863, *Financial Instruments – Presentation*, and Handbook Section 1535, *Capital Disclosures*.

Handbook Section 3862, *Financial Instruments – Disclosures*, outlines disclosure requirements for financial instruments and places increased emphasis on disclosure about the risks associated with recognized and unrecognized financial instruments and how these risks are managed.

Handbook Section 3863, *Financial Instruments – Presentation*, carries forward the presentation requirements from Section 3861, *Financial Instruments – Disclosure and Presentation*.

Handbook Section 1535, *Capital Disclosures*, requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate a company's objectives, policies and processes for managing capital.

Reportable Segments

Commencing in the fourth quarter of 2008, OPG separated the Regulated – Nuclear segment into two reportable segments identified as Regulated – Nuclear Generation segment and Regulated – Nuclear Waste Management segment. The revised segment reporting is consistent with OPG's strategic business unit and reporting structure, and reflects the manner in which operating decisions are made and performance is assessed, given the magnitude and significant growth in nuclear decommissioning and waste management activities, assets and liabilities. Results for the comparative periods have been reclassified to reflect the revised disclosure.

Inventories

The CICA issued Handbook Section 3031, *Inventories*, in March 2007, which is based on International Accounting Standard ("IAS") 2. The section replaced the existing Handbook Section 3030, *Inventories*. Under this section, inventories are required to be measured at the lower of cost and net realizable value, which is different from the previous guidance of lower of cost and market. This 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, which were previously reported as materials and supplies on OPG's consolidated balance sheets, are now accounted for as property, plant and equipment. The accounting standard and the consequential amendments were effective for OPG beginning January 1, 2008. OPG reclassified significant critical spare parts of \$19 million, net of accumulated depreciation, to property, plant and equipment in 2008. This accounting standard and the

consequential amendments did not have a significant impact on OPG's financial position or results of operations for the year ended December 31, 2008.

Future Changes in Accounting Policies

Accounting for Regulated Operations

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

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

As a result of the changes to Section 3465, OPG is required to recognize future income taxes associated with its rate regulated operations in the same manner as it currently recognizes future income taxes for its unregulated operations. OPG applied the changes prospectively to interim and annual consolidated financial statements beginning January 1, 2009. Accordingly, on January 1, 2009, OPG recorded a future income tax liability of \$466 million and a corresponding regulatory asset. The future income tax liability of \$466 million includes future income taxes resulting from regulatory assets and liabilities of \$126 million that are required to be recorded due to amendments to Section 3465.

Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces 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. The adoption of this standard resulted in a reclassification of \$42 million from fixed assets to intangible assets on January 1, 2009.

4. INVESTMENTS IN ASSET-BACKED COMMERCIAL PAPER

In August 2007, the Asset-Backed Commercial Paper ("ABCP") market experienced a liquidity event when paper sponsored by third-party non-bank conduits could not be refinanced as it matured. At that time, OPG's total ABCP investment was \$103 million. Of that amount, \$45 million was restructured, with OPG receiving payment of approximately 98.7 percent of the face value of the notes in December 2007, which resulted in a loss of \$1 million. Of the remaining \$58 million, OPG recorded an impairment loss of \$9 million as at December 31, 2007, plus an additional \$14 million impairment loss during 2008. The impairment loss was recorded in other gains and losses. OPG's remaining holdings of third-party ABCP are recorded as long-term investments.

On January 21, 2009 the Pan-Canadian Investors Committee for third-party ABCP announced the restructuring Plan (the "Plan") affecting \$32 billion of third-party ABCP had been fully implemented. Pursuant to the terms of the Plan, OPG's short-term commercial paper has been exchanged for longer term notes equal to 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 also received a partial payment of the accrued interest totaling \$2 million for its short-term commercial paper held over the past 17 months.

During the fourth quarter of 2008, as a result of the continuing deterioration in credit conditions, OPG concluded that an additional impairment loss of \$5 million was required. The loss was determined using the previously developed valuation methodology updated for credit spread and discount rate information.

The restructured notes are expected to have a maturity of eight to nine years. The exact maturity will be impacted by the release of collateral as underlying swap trades mature. The stated maturity of the notes is 2056. OPG continues to monitor the development of a secondary market to assess the fair value of its remaining holdings.

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

5. 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 2008, OPG has recognized pre-tax charges of \$12 million (2007 – \$15 million) on such sales at an average cost of funds of 3.9 percent (2007 – 5.1 percent). As at December 31, 2008, OPG had sold receivables of \$300 million from its total portfolio of \$507 million (as at December 31, 2007 – \$479 million).

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

<i>(millions of dollars)</i>	Principal amount of receivables as at December 31		Average balance of receivables for the year ended December 31	
	2008	2007	2008	2007
Total receivables portfolio ¹	507	479	471	454
Receivables sold	300	300	300	300
Receivables retained	207	179	171	154
Average cost of funds			3.9%	5.1%

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

An immediate 10 percent or 20 percent adverse change in the discount rate would not have a material effect on the current fair value of the retained interest. There were no credit losses for the years ended December 31, 2008 and 2007.

Details of cash flows from securitizations for the years ended December 31, 2008 and 2007 are as follows:

<i>(millions of dollars)</i>	2008	2007
Collections reinvested in revolving sales ¹	3,600	3,600
Cash flows from retained interest	2,020	1,759

¹ Given the revolving nature of the securitization, the cash collections received on the receivables securitized are immediately reinvested in additional receivables resulting in no further cash proceeds to the Company over and above the initial cash amount of \$300 million. The amounts reflect the total of 12 monthly amounts.

6. FIXED ASSETS, DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense consists of the following as at December 31, 2008 and 2007:

<i>(millions of dollars)</i>	2008	2007
Depreciation and amortization	626	587
Amortization of regulatory assets and liabilities <i>(Note 7)</i>	111	96
Nuclear waste management costs	6	12
	743	695

Fixed assets consist of the following as at December 31, 2008 and 2007:

<i>(millions of dollars)</i>	2008	2007
Property, plant and equipment		
Nuclear generating stations	6,615	6,466
Regulated hydroelectric generating stations	4,425	4,411
Unregulated hydroelectric generating stations	3,559	3,525
Fossil-fuelled generating stations	1,618	1,553
Other fixed assets	844	867
Construction in progress	1,272	950
	18,333	17,772
Less: accumulated depreciation		
Generating stations	5,182	4,636
Other fixed assets	364	359
	5,546	4,995
	12,787	12,777

Interest capitalized to construction in progress at six percent during the years ended December 31, 2008 and 2007 was \$56 million and \$42 million, respectively.

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

Under a regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario), OPG was required to establish certain variance and deferral accounts for the period April 1, 2005 to March 31, 2008. The OEB's determination of new regulated prices effective April 1, 2008 included the disposition of OPG's regulatory asset and liability balances as at December 31, 2007 as well as the authorization of certain variance and deferral accounts effective subsequent to March 31, 2008. During 2008, OPG recorded additions to its regulatory balances up to March 31, 2008 pursuant to the regulation and in accordance with the OEB's decision subsequent to that date. OPG also began amortizing regulatory balances approved for recovery effective April 1, 2008. Regulatory balances disallowed by the OEB were charged to operations upon the issuance of its decision in the fourth quarter of 2008. OPG also recorded interest on its regulatory balances at the interest rate of six percent for the period up to March 31, 2008 as per the regulation, and starting on April 1, 2008, at the interest rate prescribed by the OEB from time to time for variance and deferral accounts of entities it regulates. This interest rate fluctuated in the range of three to four percent during the nine months ended December 31, 2008. OPG will apply for recovery of regulatory balances recorded subsequent to December 31, 2007 in its next application to the OEB.

The regulatory assets and liabilities recorded as at December 31, 2008 and 2007 are as follows:

<i>(millions of dollars)</i>	2008	2007
Regulatory assets		
Bruce revenues and costs variance	260	-
Pickering A return to service costs	123	183
Nuclear liabilities deferral account	132	131
Nuclear generation development costs – Capacity refurbishment	-	16
Nuclear generation development costs – New nuclear development	-	12
Hydroelectric production variance	-	7
Ancillary services revenue variance	-	5
Other	7	2
Total regulatory assets	522	356
Regulatory liabilities		
Nuclear generation development costs – Capacity refurbishment	6	-
Nuclear generation development costs – New nuclear development	21	-
Hydroelectric production variance	22	-
Ancillary services revenue variance	4	-
Other	1	14
Total regulatory liabilities	54	14

The changes in the regulatory assets and liabilities for 2008 and 2007 are as follows:

<i>(millions of dollars)</i>	Bruce Revenues and Costs Variance	Pickering A Return to Service Costs	Nuclear Liabilities Deferral Account	Nuclear Generation Development Costs – Capacity Refurbishment	Nuclear Generation Development Costs – New Nuclear Development	Hydro-electric Production Variance	Ancillary Services Revenue Variance	Other (net)
Regulatory assets (liabilities), January 1, 2007	-	249	-	-	-	(4)	-	(5)
Increase (decrease) during the year	-	-	127	15	12	10	5	(6)
Interest	-	30	4	1	-	1	-	(1)
Amortization during the year	-	(96)	-	-	-	-	-	-
Regulatory assets (liabilities), December 31, 2007	-	183	131	16	12	7	5	(12)
Increase (decrease) during the year	259	-	31	(6)	(30)	(25)	(7)	5
Interest	1	6	6	-	-	-	-	-
Amortization during the year	-	(66)	(36)	-	(3)	(4)	(2)	-
Other charges	-	-	-	(16)	-	-	-	13
Regulatory assets (liabilities), December 31, 2008	260	123	132	(6)	(21)	(22)	(4)	6

Bruce Revenues and Costs Variance

As per the requirements of the regulation, the OEB required OPG to include the difference between OPG's revenues and costs associated with its ownership of the two nuclear stations on lease to Bruce Power in the determination of the regulated prices for production from OPG's regulated nuclear facilities. The OEB also established a variance account, effective April 1, 2008, that captures differences between the forecast revenues and costs associated with the Bruce generating stations that are included in the approved regulated nuclear prices, and the actual amounts. In 2008, OPG recorded a regulatory asset of \$260 million in this variance account, including \$1 million of interest on the balance. The regulatory asset includes a \$333 million variance from forecast as a result of losses from the Nuclear Funds related to the Bruce generating stations since April 1, 2008, partially offset by a related variance in income tax expense of \$95 million. The remaining net variance of \$21 million includes variances for lease revenues, and accretion expense related to Nuclear Liabilities associated with the Bruce generating stations.

Pickering A Return to Service Costs

Effective January 1, 2005, in accordance with the regulation, 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. As at December 31, 2008, the balance in the deferral account was \$123 million, including interest of \$43 million and net of accumulated amortization of \$191 million. As at December 31, 2007, the balance in the deferral account was \$183 million, including interest of \$37 million and net of accumulated amortization of \$125 million. No additional costs were deferred in the account in the years ended December 31, 2008 and 2007. OPG commenced amortization of the deferral account balance for the period November 2005, when Unit 1 of the Pickering A nuclear generating station was returned to service, to March 31, 2008 in accordance with the terms of the regulation. In its decision, the OEB authorized the recovery of the unamortized balance in the account as at December 31, 2007 over a 45-month period ending December 31, 2011. Therefore, effective retrospectively to April 1, 2008, OPG amortizes the balance of the account on a straight-line basis over this period.

Nuclear Liabilities Deferral Account

In February 2007, the Province amended the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) to direct OPG to establish a deferral account in connection with 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, in accordance with the terms of the ONFA.

On December 31, 2006, OPG recorded an increase in its nuclear liabilities of \$1,386 million arising from an update to the approved reference plan in accordance with the terms of the ONFA. Therefore, commencing January 1, 2007 and up to March 31, 2008, OPG recorded a regulatory asset associated with this increase in the nuclear fixed assets removal and nuclear waste management liabilities ("Nuclear Liabilities") arising from the approved reference plan. During the year ended December 31, 2008, OPG recorded additions to the deferral account of \$37 million, including \$6 million of interest. During the year ended December 31, 2007, OPG recorded additions to the account of \$131 million, including \$4 million of interest. In its decision in 2008, the OEB authorized the recovery of the balance recorded in the account as at December 31, 2007 over a 33-month period ending December 31, 2010. Accordingly, OPG began amortizing the approved balance retrospective to April 1, 2008 in the fourth quarter of 2008 on a straight-line basis over the 33-month period.

Nuclear Generation Development Costs

In accordance with its interpretation of the regulation, OPG recorded regulatory assets related to non-capital costs for nuclear generation development initiatives up to March 31, 2008. Specifically, the costs recorded were those made in the course of planning and preparing for the development of proposed new nuclear facilities incurred on or after June 13, 2006, as well as those related to the potential refurbishment of the Pickering B and Darlington nuclear stations to the extent that they had not been previously included in the forecast provided to the Province for the purposes of establishing regulated prices for the period up to March 31, 2008.

OPG deferred costs totalling \$4 million related to new nuclear generation development initiatives during the three months ended March 31, 2008 and \$12 million during the year ended December 31, 2007. OPG did not record any costs related to the potential refurbishment of existing stations during the three months ended March 31, 2008 and recorded \$16 million, including \$1 million of interest, during the year ended December 31, 2007. The OEB's decision authorized the recovery of the costs recorded up to December 31, 2007 related to new nuclear development over a 33-month period ending December 31, 2010. Accordingly, OPG began amortizing the approved balance retrospective to April 1, 2008 in the fourth quarter on a straight-line basis over this period. The OEB determined that it did not have jurisdiction to approve the recovery of the costs recorded prior to April 1, 2008 for capacity refurbishment. Therefore, the associated regulatory asset in the amount of \$16 million was charged to operations in the fourth quarter of 2008.

The OEB also established variance accounts effective April 1, 2008 for new nuclear generation development and capacity refurbishment costs for deviations from the forecast costs approved by the OEB in setting the new regulated prices. Accordingly, OPG recorded additional operations, maintenance and administration ("OM&A") expenses of \$34 million for new nuclear generation development costs and \$6 million for capacity refurbishment costs during the nine months ended December 31, 2008.

Hydroelectric Production and Ancillary Services Revenue Variances

The OEB's decision authorized the continuation of previously existing variance accounts effective April 1, 2008 for the difference in hydroelectric electricity production due to differences between forecast and actual water conditions, as well as the difference between forecast and actual ancillary services revenue. Forecast water conditions and ancillary services revenues refer to those approved by the OEB in setting the new regulated prices. Prior to April 1, 2008, variances were determined by reference to the forecast

information previously provided to the Province for the purposes of establishing regulated prices. OPG recorded a decrease in revenue during the year ended December 31, 2008 of \$32 million reflecting actual water conditions and ancillary services revenue that were favourable compared to those approved by the OEB, or included in the forecast provided to the Province for the purposes of establishing regulated prices, as appropriate. OPG recorded an increase in revenue during the year ended December 31, 2007 of \$15 million reflecting actual water conditions and ancillary services revenue that were unfavourable compared to the forecast provided to the Province for the purposes of establishing regulated prices.

The OEB's decision authorized the recovery of balances in these variance accounts related to regulated hydroelectric operations recorded up to December 31, 2007 over a 21-month period ending December 31, 2009. Accordingly, OPG began amortizing the approved balances in the fourth quarter on a straight-line basis retrospective to April 1, 2008.

Other Regulatory Assets and Liabilities

Other regulatory assets include \$5 million recorded in the fourth quarter of 2008 for the under-recovery of approved regulatory balances during the period April 1, 2008 to December 31, 2008. The under-recovery results from the collection of approved balances based on actual production, which varies from the forecast production approved by the OEB. The OEB's decision stated that OPG is entitled to recover and is obligated to repay through future regulated prices any under or over-recovery of approved regulatory balances resulting from variances from the forecast production. Other regulatory assets also include the variance account related to transmission outages and transmission restrictions recorded prior to April 1, 2008.

The other regulatory liability of \$1 million, as at December 31, 2008, represents the balance in the nuclear fuel variance account approved by the OEB effective April 1, 2008. The other regulatory liability as at December 31, 2007 includes a portion of segregated mode of operations and water transactions net revenues and related interest, which the OEB determined OPG should not refund to ratepayers in its decision. As such, OPG reversed a regulatory liability of \$13 million to income in the fourth quarter of 2008 when the OEB's decision was issued.

Summary of Rate Regulated Accounting

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

<i>Years Ended December 31</i>	2008			2007		
<i>(millions of dollars)</i>	As Stated	Impact of Rate Regulated Accounting	Financial Statements without Rate Regulated Accounting	As Stated	Impact of Rate Regulated Accounting	Financial Statements without Rate Regulated Accounting
Revenue	6,082	(4)	6,078	5,660	9	5,669
Fuel expense	1,191	(3)	1,188	1,270	(5)	1,265
Operations, maintenance and administration	2,967	(52)	2,915	2,974	27	3,001
Depreciation and amortization	743	(102)	641	695	(42)	653
Losses (earnings) on segregated funds	93	333	426	(481)	-	(481)
Accretion on fixed asset removal and nuclear waste management liabilities	581	28	609	507	75	582
Property and capital taxes	79	1	80	85	3	88
Net interest expense	165	11	176	143	33	176
Income taxes	183	(95)	88	(51)	-	(51)

8. LONG-TERM DEBT

Long-term debt consists of the following:

<i>(millions of dollars)</i>	2008	2007
Notes payable to the Ontario Electricity Financial Corporation	3,660	3,665
Share of non-recourse limited partnership debt	180	188
	3,840	3,853
Less: due within one year		
Notes payable to the Ontario Electricity Financial Corporation	350	400
Share of limited partnership debt	7	7
	357	407
Long-term debt	3,483	3,446

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

The maturity dates as at December 31, 2008 for notes payable to the OEFC are as follows:

Year of Maturity	Interest Rate (%)	Principal Outstanding (<i>millions of dollars</i>)		Total
		Senior Notes	Subordinated Notes	
2009	6.01%	350	-	350
2010	6.00%	595	375	970
2011	6.65%	-	375	375
2012	5.72%	400	-	400
2016	4.91%	270	-	270
2017	5.35%	900	-	900
2018	5.27%	395	-	395
		2,910	750	3,660

Debt financing for the Niagara Tunnel, the Portlands Energy Centre ("PEC") and the Lac Seul hydroelectric generating station projects is provided by the OEFC. As at December 31, 2008, debt financing for these projects consists of the following:

<i>(millions of dollars)</i>	Lac Seul Hydroelectric Generating Station		
	Niagara Tunnel	Portlands Energy Centre	Lac Seul Hydroelectric Generating Station
Debt financing, as at December 31, 2007	240	210	20
New borrowing	100	95	-
Debt financing, as at December 31, 2008	340	305	20

In September 2005, OPG reached an agreement with the OEFC to provide debt financing for the Niagara Tunnel project. The funding, which is up to \$1 billion over the duration of the project, will be in the form of 10-year notes, which will be issued quarterly to meet the project's obligations. Interest will be fixed for each note issued at the time of advance at a rate equal to the prevailing Benchmark Government of Canada 10-Year Bond, plus a credit spread determined by the OEFC based on a survey of market rates. As at December 31, 2008, OPG issued \$340 million against this facility, which included new borrowing of \$100 million under the facility in 2008.

In December 2006, OPG reached an agreement with the OEFC to provide debt financing for the Lac Seul Hydroelectric Generating Station and the PEC projects. There will be up to \$50 million available for the Lac Seul project and up to \$400 million available for the PEC project under each credit facility. The credit facilities will be drawn as needed to fund the respective projects over the construction period. The funding will be in the form of 10-year notes with interest rates fixed for each note issued at the time of advance at a rate equal to the prevailing Benchmark Government of Canada 10-Year Bond, plus a credit spread determined by the OEFC based on a survey of market rates. As at December 31, 2008, OPG issued \$20 million against the Lac Seul project credit facility and \$305 million against the PEC credit facility, which included new borrowing of \$95 million under the PEC facility in 2008.

In 2007, OPG reached an agreement with the OEFC for a \$500 million general corporate facility and for a \$950 million credit agreement to refinance senior notes as they mature over the period September 22, 2007 to September 22, 2009. As of December 31, 2008, OPG borrowed \$500 million under its general corporate facility and refinanced \$400 million senior notes under the \$950 million credit facility, which included new refinancing of \$200 million in 2008.

The non-recourse limited partnership debt is secured by a first charge on the assets of one of the joint venture limited partnerships, an assignment of the joint venture's bank accounts, and an assignment of the joint venture's project agreements. OPG's share of the total assets was \$275 million as at December 31, 2008 (December 31, 2007 – \$284 million). The minimum principal repayments of the non-recourse limited partnership debt for the next five calendar years range from \$14 million to \$19 million annually. OPG's share of the non-recourse limited partnership debt included a note payable of \$127 million at an interest rate of 6.9 percent, with an effective interest rate of 7.0 percent. This note payable is repayable in quarterly payments commencing March 31, 2006 to March 31, 2024. The remaining non-recourse limited partnership debt is at various floating rates. The interest rates of the floating rate debt are referenced to various interest rate indices, such as the bankers' acceptance rate and the London Interbank Offered Rate, plus a margin. The joint venture has entered into floating-to-fixed interest rate hedges to manage the risks arising from fluctuation in interest rates.

Interest paid in 2008 was \$242 million (2007 – \$224 million), of which \$225 million (2007 – \$203 million) relates to interest paid on long-term corporate debt. Interest on the notes payable to the OEFC is paid semi-annually.

9. SHORT-TERM CREDIT FACILITIES AND NET INTEREST EXPENSE

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. OPG renewed and extended the maturity date of the 364-day term tranche to May 20, 2009 and the five-year term tranche to 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 December 31, 2008, no commercial paper was outstanding, 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 Project. As at December 31, 2008, there was no borrowing under this credit facility.

OPG also maintains \$25 million (2007 – \$25 million) in short-term uncommitted overdraft facilities and \$276 million (December 31, 2007 – \$238 million) of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other purposes. At December 31, 2008, there was a total of \$243 million of Letters of Credit issued (December 31, 2007 – \$205 million), which included \$212 million for the supplementary pension plans (December 31, 2007 – \$175 million) and \$16 million related to the construction and operation of the PEC (December 31, 2007 – \$16 million).

The following table summarizes the net interest expense for the year ended December 31, 2008 and 2007:

<i>(millions of dollars)</i>	2008	2007
Interest on long-term debt	231	205
Interest on short-term debt	18	19
Interest income	(13)	(6)
Capitalized interest	(56)	(42)
Interest applied to regulatory assets and liabilities	(13)	(33)
Other	(2)	-
Net interest expense	165	143

10. 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 for the years ended December 31:

<i>(millions of dollars)</i>	2008	2007
Liability for nuclear used fuel management	6,213	5,938
Liability for nuclear decommissioning and low and intermediate level waste management	5,020	4,843
Liability for non-nuclear fixed asset removal	151	176
Fixed asset removal and nuclear waste management liabilities	11,384	10,957

The changes in the fixed asset removal and nuclear waste management liabilities for the years ended December 31, 2008 and 2007, are as follows:

<i>(millions of dollars)</i>	2008	2007
Liabilities, beginning of year	10,957	10,520
Increase in liabilities due to accretion	608	582
Increase in liabilities due to nuclear used fuel and nuclear waste management variable expenses	47	76
Liabilities settled by expenditures on waste management	(195)	(200)
Decrease in the liabilities for non-nuclear fixed asset removal	(33)	(21)
Liabilities, end of year	11,384	10,957

OPG's fixed asset removal and nuclear waste management liabilities are comprised of expected costs to be incurred up to and beyond termination of operations and the closure of nuclear and fossil-fuelled generating plant facilities. Costs will be incurred for activities such as dismantling, demolition and disposal of facilities and equipment, remediation and restoration of sites and the ongoing and long-term management of nuclear used fuel and low and intermediate level waste material. Nuclear station decommissioning consists of original placement of stations into a safe store condition followed by a nominal 30-year store period prior to station dismantling.

The following costs are recognized as a liability:

- The present value of the costs of dismantling the nuclear and fossil-fuelled production facilities at the end of their useful lives;
- The present value of the fixed cost portion of any nuclear waste management programs that are required based on the total volume of waste expected to be generated over the assumed life of the stations; and
- The present value of the variable cost portion of any nuclear waste management program taking into account actual waste volumes generated to date.

The determination of the accrual for fixed asset removal and nuclear waste management costs requires significant assumptions, since these programs run for many years. The most recent update of the estimates for the nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management liabilities was performed as at December 31, 2006. The update resulted in an increased estimate of costs mainly due to additional used fuel and waste quantities resulting from station life extensions, experience in decommissioning reactors, and changes in economic indices. The increase

was partially offset by the impact of later end of life dates for some stations, which results in later decommissioning dates and a reduced present value of decommissioning costs. The change in the cost estimate resulted in an updated Reference Plan, the 2006 Approved Reference Plan, which was approved by the Province in accordance with the terms of the ONFA.

As a result of the approval of the 2006 Approved Reference Plan, OPG recognized additional expenses including accretion on the fixed asset removal and nuclear waste management liabilities and depreciation of the carrying value of the related fixed assets starting on January 1, 2007. The impact of these additional expenses for the period up to March 31, 2008 was reduced by the recognition of a regulatory asset, as prescribed by the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario). OPG began recovering this regulatory asset through regulated prices effective April 1, 2008, as per the OEB's decision. This is discussed in Note 7 to the consolidated financial statements.

For the purposes of calculating OPG's fixed asset removal and nuclear waste management liabilities, nuclear and fossil-fuelled plant closures are projected to occur over the next 6 to 28 years. End of life dates may change as decisions on life extensions are made. The 2006 Approved Reference Plan includes cash flow estimates for decommissioning nuclear stations for approximately 40 years after station shutdown and to 2065 for placement of used fuel into the long-term disposal repository followed by extended monitoring. The undiscounted amount of estimated future cash flows associated with the liabilities is approximately \$24 billion in 2008 dollars. The discount rate used to calculate the present value of the liabilities was 5.75 percent for liabilities established prior to December 31, 2006. The increase in cost estimates related to the 2006 Approved Reference Plan and subsequent increases to the value of the undiscounted estimated cash flows for OPG's liability for nuclear waste management and decommissioning are discounted at 4.6 percent. The cost escalation rates ranged from 1.8 percent to 3.6 percent. Under the terms of the lease agreement with Bruce Power, OPG continues to be responsible for the nuclear fixed asset removal and nuclear waste management liabilities associated with the Bruce nuclear generating stations.

The significant assumptions underlying operational and technical factors used in the calculation of the accrued liabilities are subject to periodic review. Changes to these assumptions, including changes to assumptions on the timing of the programs, financial indicators or the technology employed may result in significant changes to the value of the accrued liabilities. With programs of this duration and the evolving technology to handle the nuclear waste, there is a significant degree of uncertainty surrounding the measurement accuracy of the costs for these programs, which may increase or decrease over time.

Liability for Nuclear Used Fuel Management Costs

The liability for nuclear used fuel management represents the cost of managing the highly radioactive used nuclear fuel bundles. The federal Nuclear Fuel Waste Act ("NFWA") released in 2002 required that Canada's nuclear fuel waste owners form a Nuclear Waste Management Organization ("NWMO") and that each waste owner establish a trust fund for used fuel management costs. To estimate its liability for nuclear used fuel management costs, OPG has adopted a conservative approach consistent with the Adaptive Phased Management concept approved by the Government of Canada, which assumes a deep geologic repository in-service date in 2035.

Liability for Nuclear Decommissioning and Low and Intermediate Level Waste Management Costs

The liability for nuclear decommissioning and low and intermediate level waste management represents the estimated costs of decommissioning nuclear generating stations after the end of their service lives, as well as the cost of managing low and intermediate level radioactive wastes generated by the nuclear stations. The significant assumptions used in estimating future nuclear fixed asset removal costs include decommissioning of nuclear generating stations on a deferred dismantlement basis where the reactors will remain in a safe storage state for a 30-year period prior to a 10-year dismantlement period.

The life cycle costs of low and intermediate level waste management include the costs of processing and storage of such radioactive wastes during and following the operation of the nuclear stations, as well as

the costs of ultimate long-term management of these wastes. The current assumptions used to establish the accrued low and intermediate level waste management costs include a disposal facility for low and intermediate level waste with a targeted in-service date of year end 2017. Agreement has been reached with local municipalities for OPG to develop a deep geologic repository for the long-term management of low and intermediate level waste adjacent to the Western Waste Management Facility. A federal environmental assessment in respect of this proposed facility is in progress.

Liability for Non-Nuclear Fixed Asset Removal Costs

The liability for non-nuclear fixed asset removal is based on third-party cost estimates after an in-depth review of active plant sites and an assessment of required clean-up and restoration activities. This liability represents the estimated costs of decommissioning fossil-fuelled generating stations at the end of their service lives. The estimated retirement date of these stations is between 2014 and 2034.

In addition to the \$87 million liability for active sites, OPG also has an asset retirement obligation liability of \$64 million for decommissioning and restoration costs associated with plant sites that have been divested or are no longer in use.

OPG has no legal obligation associated with the decommissioning of its hydroelectric generating facilities. Also, the costs cannot be reasonably estimated because of the long service life of these assets. With either maintenance efforts or rebuilding, the water control structures are assumed to be used for the foreseeable future. Accordingly, OPG has not recognized a liability for the decommissioning of its hydroelectric generating facilities.

Ontario Nuclear Funds Agreement

OPG sets aside funds to be used specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities. In July 2003, OPG and the Province completed arrangements, pursuant to the ONFA. To comply with the ONFA, OPG established the Nuclear Funds. OPG jointly oversees the investment management of the Nuclear Funds with the Province. The assets of the Nuclear Funds are maintained in third-party custodian accounts that are segregated from the rest of OPG's assets.

The Decommissioning Fund was established to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level nuclear waste management and a portion of used fuel storage costs after station life. As at December 31, 2008, the Decommissioning Fund was in an underfunded position. The Decommissioning Fund was in an overfunded position as at December 31, 2007. OPG bears the risk and liability for cost estimate increases and fund earnings in the Decommissioning Fund.

The Used Fuel Fund will be used to fund future costs of long-term nuclear used fuel waste management. OPG is responsible for the risk and liability for cost increases for used fuel waste management, subject to graduated liability thresholds specified in the ONFA, which limit OPG's total financial exposure at approximately \$10.1 billion in December 31, 2008 dollars based on used fuel bundle projections of 2.23 million bundles consistent with the station lives included within the initial financial reference plan. The graduated liability thresholds do not apply to additional used fuel bundles beyond 2.23 million as projected in the 2006 Approved Reference Plan.

OPG makes quarterly payments to the Used Fuel Fund over the life of its nuclear generating stations, as specified in the ONFA. Required funding for 2008 under the ONFA was \$454 million, including a contribution to The Ontario NFWA Trust (the "Trust") of \$100 million.

In 2007, OPG made a one-time contribution of approximately \$334 million to the Used Fuel Fund to satisfy the extraordinary payment specified within the ONFA and related to the Bruce Lease transaction with Bruce Power as discussed in Note 19. This payment constituted a Triggering Event under the ONFA, which has subsequently resulted in an Amended Payment Schedule. The Amended Payment Schedule was approved by the Ontario Financing Authority in March 2008. The Amended Payment

Schedule requires contribution amounts of \$454 million in 2008 and from \$339 million to \$240 million over the years 2009 to 2012 (Note 16).

The NFWA was proclaimed into force in November 2002. As required under the NFWA, OPG established the Trust in November 2002 and made an initial deposit of \$500 million into the Trust. The NFWA requires OPG to make annual contributions of \$100 million to the Trust. These contributions are to be deposited into the Trust no later than the November anniversary of the NFWA. In accordance with the NFWA, the NWMO proposed a funding formula to address the future financial costs of implementing the Adaptive Phased Management approach in its 2007 Annual Report. The proposed funding formula is under review by the Federal Government. The NFWA specifies that contributions to the Trust are to continue at the present rate of \$100 million until the funding formula is approved by the Minister of Natural Resources. The Trust forms part of the Used Fuel Fund, and contributions to the Trust as required by the NFWA are applied towards the ONFA payment obligations.

As required by the terms of the ONFA, the Province has provided a Provincial Guarantee to the Canadian Nuclear Safety Commission ("CNSC") since 2003, 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 will supplement the Used Fuel Fund and the Decommissioning Fund until they have accumulated sufficient funds to cover the accumulated liabilities for nuclear decommissioning and waste management. The value of this guarantee is for \$1,545 million for years 2009 to 2012. The guarantee, taken together with the Used Fuel Fund and Decommissioning Fund, are in satisfaction of OPG's nuclear licensing requirements with the CNSC. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount guaranteed by the Province. In 2008, OPG paid the annual guarantee fee of \$3.8 million based on a Provincial Guarantee amount of \$760 million. (2007 – \$8 million on a Provincial Guarantee amount of \$1,510 million).

Effective January 1, 2007, OPG adopted the CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. As a result of the adoption of this new section, the investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading and are measured at fair value with realized and unrealized gains and losses recognized in OPG's consolidated financial statements.

Decommissioning Fund

Upon termination of the ONFA, the Province has a right to any excess funding in the Decommissioning Fund, which is the excess of the fair market value of the Decommissioning Fund over the estimated completion costs as per the most recently approved ONFA Reference Plan. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes in its consolidated financial statements, through a charge to the Decommissioning Fund with a corresponding payable to the Province, such that the balance of the Decommissioning Fund would equal the cost estimate of the liability based on the most recently approved ONFA Reference Plan. The payable to the Province could be reduced in subsequent periods in the event that the Decommissioning Fund earns less than its target rate of return or in the event that a new ONFA Reference Plan is approved with a higher estimated decommissioning liability. When the Decommissioning Fund is underfunded, the earnings on the Decommissioning Fund reflect actual fund returns based on the market value of the assets.

The Province's right to any excess funding in the Decommissioning Fund upon termination of the ONFA results in OPG capping its earnings at 5.15 percent, which is the rate of growth in the liability for the estimated completion cost, as long as the Decommissioning Fund is in an overfunded status. If the Decommissioning Fund were underfunded, the earnings for the Decommissioning Fund would reflect actual fund returns based on the market value of the assets.

The Decommissioning Fund's asset value on a fair value basis was \$4,325 million at December 31, 2008, which was less than the liability per the approved 2006 Approved ONFA Reference Plan. At December 31, 2007, the Decommissioning Fund's asset value on a fair value basis was \$5,075 million, which exceeded the value of the liability as per the 2006 Approved Reference Plan. As a result of the

overfunded status, OPG reported a payable to the Province of \$3 million, reflecting an amount due to the Province if the Decommissioning Fund were terminated under the ONFA. Under the ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the most recently approved ONFA Reference Plan, are at least 120 percent funded, OPG may direct up to 50 percent of the surplus over 120 percent to be treated as a contribution to the Used Fuel Fund, and the OEFC would be entitled to a distribution of an equal amount.

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

Used Fuel Fund

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 percent plus the change in the Ontario Consumer Price Index ("committed return") for funding related to the first 2.23 million used fuel bundles. OPG recognizes the committed return on the Used Fuel Fund and includes it in the earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of the Used Fuel Fund's assets, which includes realized and unrealized returns, is recorded as due to or due from the Province.

As at December 31, 2008, the Used Fuel Fund asset value on a fair value basis was \$4,424 million. The asset value included a receivable from the Province of \$460 million related to the committed return adjustment. As at December 31, 2007, the Used Fuel Fund asset value on a fair value basis was \$4,702 million. The asset value was offset by a payable to the Province of \$511 million related to the committed return adjustment.

Under the ONFA, the Province is entitled to any surplus in the Used Fuel Fund, subject to a threshold funded ratio of 110 percent compared to the value of the associated liabilities.

The nuclear fixed asset removal and nuclear waste management funds as at December 31, 2008 and 2007 consist of the following:

<i>(millions of dollars)</i>	Fair Value	
	2008	2007
Decommissioning Fund	4,325	5,075
Due to Province – Decommissioning Fund	-	(3)
	4,325	5,072
Used Fuel Fund ¹	4,424	4,702
Due from (to) Province – Used Fuel Fund	460	(511)
	4,884	4,191
	9,209	9,263

¹ The Ontario NFWA Trust represented \$1,386 million as at December 31, 2008 (December 31, 2007 – \$1,244 million) of the Used Fuel Fund on a fair value basis.

The fair value of the securities invested in the Nuclear Funds, which include the Used Fuel Fund and Decommissioning Fund, as at December 31, 2008 and 2007, are as follows:

<i>(millions of dollars)</i>	Fair Value	
	2008	2007
Cash and cash equivalents and short-term investments	503	833
Marketable equity securities	4,451	5,391
Bonds and debentures	3,805	3,559
Administrative expense payable	(10)	(6)
	8,749	9,777
Due to Province – Decommissioning Fund	-	(3)
Due from (to) Province – Used Fuel Fund	460	(511)
	9,209	9,263

The bonds and debentures held in the Used Fuel Fund and the Decommissioning Fund as at December 31, 2008 and 2007 mature according to the following schedule:

<i>(millions of dollars)</i>	Fair Value	
	2008	2007
1 – 5 years	1,618	1,631
5 – 10 years	962	879
More than 10 years	1,225	1,049
	3,805	3,559
Total maturities of debt securities	3,805	3,559
	4.6%	4.9%
Average yield	4.6%	4.9%

The change in the Nuclear Funds for the years ended December 31, 2008 and 2007, are as follows:

<i>(millions of dollars)</i>	Fair Value	
	2008 ¹	2007
Decommissioning Fund at beginning of year	5,072	4,875
(Decrease) increase in fund due to return on investments	(681)	5
Decrease in fund due to reimbursement of expenditures	(69)	(99)
Decrease in Due to Province	3	291
Decommissioning Fund, end of year	4,325	5,072
Used Fuel Fund, beginning of year	4,191	3,238
Increase in fund due to contributions made	454	788
(Decrease) increase in fund due to return on investments	(719)	55
Decrease in fund due to reimbursement of expenditures	(13)	(20)
Decrease in Due to Province	511	130
Increase in Due from Province	460	-
Used Fuel Fund, end of year	4,884	4,191

The earnings (losses) from the Nuclear Funds during 2008 were partially mitigated 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. The earnings on the Nuclear Funds for 2008 and 2007 are as follows:

<i>(millions of dollars)</i>	2008	2007
Decommissioning Fund	(678)	296
Used Fuel Fund	252	185
Bruce Variance Account	333	-
Total earnings (losses)	(93)	481

11. INCOME TAXES

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

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

<i>(millions of dollars)</i>	2008	2007
Income before income taxes	271	477
Combined Canadian federal and provincial statutory income tax rates, including surtax	33.5%	36.1%
Statutory income tax rates applied to accounting income	91	172
Increase in income taxes resulting from:		
Income tax component of the Bruce variance account	95	-
Lower future tax rate on temporary differences	(33)	(10)
Non-taxable income items	(15)	(7)
Unrecorded future income tax related to regulated operations	151	(127)
Change in income tax positions	(106)	(13)
Changes in future tax rate	-	(66)
	92	(223)
Income tax expense (recovery)	183	(51)
Effective rate of income taxes	67.5%	(10.7%)

In the third quarter of 2006, OPG received a preliminary communication from the Provincial Tax Auditors ("Tax Auditors") with respect to their initial findings from their audit of OPG's 1999 taxation year. Many of the issues raised through the audit were unique to OPG and related either to start-up matters and positions taken on April 1, 1999 upon commencement of operations, or matters that were not adequately addressed through the *Electricity Act, 1998*. In 2008, all outstanding tax matters related to the 1999 tax audit were resolved. As a result, OPG reduced its income tax liability by \$106 million.

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

The Bruce variance account authorized by the OEB in its decision on OPG's application for new regulated prices for its regulated production effective April 1, 2008 is discussed in Note 7 to these consolidated financial statements. In its decision, the OEB also approved a taxation variance account effective April 1, 2008. The scope of the account with respect to income taxes includes variances in the income tax expense for the Company's rate regulated segments caused by changes in tax rates or rules under the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), as modified by the *Electricity Act, 1998*, as well as variances caused by reassessments due to audits of OPG's taxation years subsequent to 1999. Variances are to be determined with respect to the forecast to be approved by the OEB. OPG did not record any amounts in the account for the year ended December 31, 2008.

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

<i>(millions of dollars)</i>	2008	2007
Current income tax expense (recovery):		
Current payable	169	1
Change to income tax position	86	-
	255	1
Future income tax expense (recovery):		
Change in temporary differences	25	(2)
Change to income tax position	(192)	-
Changes in future tax rate	-	(30)
Income tax component of the Bruce variance account	95	-
Other	-	(20)
	(72)	(52)
Income tax expense (recovery)	183	(51)

The income tax effects of temporary differences that give rise to future income tax assets and liabilities as at December 31, 2008 and 2007 are presented in the table below:

<i>(millions of dollars)</i>	2008	2007
Future income tax assets:		
Fixed asset removal and nuclear waste management liabilities	30	22
Other liabilities and assets	163	125
Future recoverable Ontario minimum tax	-	87
	193	234
Future income tax liabilities:		
Fixed assets	(56)	(263)
Other liabilities and assets	(69)	(176)
	(125)	(439)
Net future income tax assets (liabilities)	68	(205)
Represented by:		
Current portion – asset	6	12
Long-term portion – asset (liability)	62	(217)
	68	(205)

The following table summarizes the difference in the consolidated statements of income and consolidated statements of comprehensive income under the taxes payable method used by the Company to account for income taxes for the regulated businesses compared to what would have been reported had OPG applied the liability method for the regulated businesses for 2008 and 2007:

<i>(millions of dollars)</i>	2008	2007
As stated:		
Future income tax expense	(72)	(52)
Future income tax: Other comprehensive income – upon transition	-	16
Future income tax: Other comprehensive income – for the year	(6)	(8)
Liability method ¹ :		
Future income tax expense	(50)	75
Future income tax: Other comprehensive income – upon transition	-	12
Future income tax: Other comprehensive income – for the year	(19)	(6)

¹ OPG accounted for certain lease revenues relating to the regulated businesses for the three months ended March 31, 2008 and for the year ended December 31, 2007 using the cash basis of accounting. The related future income tax impact is excluded from the above.

The following table summarizes the difference in the consolidated balance sheet amounts under the taxes payable method used by the Company to account for income taxes compared to what would have been reported had OPG applied the liability method for the regulated business as at December 31, 2008 and 2007. The amounts of future income taxes not recorded do not include the future income taxes resulting from regulatory assets and liabilities that are required to be recorded effective January 1, 2009 due to amendments to the CICA Handbook Section 3465, *Income Taxes*.

<i>(millions of dollars)</i>	2008		2007	
	As Stated¹	Liability Method^{1,2}	As Stated	Liability Method²
Current future income tax recoverable (liabilities)	6	47	12	39
Long-term future income tax liabilities	62	(319)	(217)	(680)

¹ The future income tax asset and liability balances above include adjustments during 2008 related to changes in income tax positions resulted from the resolution of the 1999 income tax audit. In addition, the income tax component of the Bruce variance account was reflected in the Bruce Regulatory Asset account and not in the future income tax asset (liability) balance above.

² OPG accounted for certain lease revenues relating to the regulated businesses for the three months ended March 31, 2008 and for the year ended December 31, 2007 using the cash basis of accounting. The related future income tax impact is excluded from the above.

The amount of cash income taxes paid for 2008 was \$49 million (2007 – \$64 million).

12. PENSION AND OTHER POST EMPLOYMENT BENEFIT PLANS

The pension and OPEB obligations, and the pension fund assets, are measured at December 31, 2008. Details of OPG's pension and OPEB obligations, pension fund assets and costs are presented in the following tables.

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2008	2007	2008	2007
<i>Weighted Average Assumptions – Benefit Obligation at Year End</i>				
Rate used to discount future benefits	7.50%	5.60%	7.46%	5.59%
Salary schedule escalation rate	3.00%	3.25%	-	-
Rate of cost of living increase to pensions	2.00%	2.25%	-	-
Initial health care trend rate	-	-	6.58%	6.91%
Ultimate health care trend rate	-	-	4.69%	4.68%
Year ultimate rate reached	-	-	2018	2014
Rate of increase in disability benefits	-	-	2.00%	2.25%

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2008	2007	2008	2007
<i>Weighted Average Assumptions – Cost for the Year</i>				
Expected return on plan assets net of expenses	7.00%	7.00%	-	-
Rate used to discount future benefits	5.60%	5.25%	5.59%	5.22%
Salary schedule escalation rate	3.25%	3.00%	-	-
Rate of cost of living increase to pensions	2.25%	2.00%	-	-
Initial health care trend rate	-	-	6.91%	7.34%
Ultimate health care trend rate	-	-	4.68%	4.68%
Year ultimate rate reached	-	-	2014	2014
Rate of increase in disability benefits	-	-	2.25%	2.00%
Average remaining service life for employees (years)	11	11	11	11

	Registered Pension Plan		Supplementary Pension Plans		Other Post Employment Benefits	
<i>(millions of dollars)</i>	2008	2007	2008	2007	2008	2007
<i>Changes in Plan Assets</i>						
Fair value of plan assets at beginning of year	8,924	8,829	-	-	-	-
Contributions by employer	253	268	10	7	71	66
Contributions by employees	75	66	-	-	-	-
Actual return on plan assets net of expenses	(1,566)	159	-	-	-	-
Benefit payments	(432)	(398)	(10)	(7)	(71)	(66)
Fair value of plan assets at end of year	7,254	8,924	-	-	-	-
<i>Changes in Projected Benefit Obligation</i>						
Projected benefit obligation at beginning of year	9,603	9,313	162	152	2,064	2,067
Employer current service costs	217	224	6	6	59	70
Contributions by employees	75	66	-	-	-	-
Interest on projected benefit obligation	540	493	9	8	116	109
Benefit payments	(432)	(398)	(10)	(7)	(71)	(66)
Net actuarial (gain) loss	(2,563)	(95)	(25)	3	(577)	(116)
Projected benefit obligation at end of year	7,440	9,603	142	162	1,591	2,064
Funded Status – Deficit at end of year	(186)	(679)	(142)	(162)	(1,591)	(2,064)

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

	2008	2007
Registered pension plan fund asset investment categories		
Equities	60%	60%
Fixed income	37%	35%
Cash and short-term investments	3%	5%
Total	100%	100%

Based on the most recently filed actuarial valuation, as at January 1, 2008, there was an unfunded liability on a going-concern basis of \$239 million and a deficiency on a wind-up basis of \$2,846 million. In the previously filed actuarial valuation, as at January 1, 2005, there was an unfunded liability on a going-concern basis of \$465 million and a deficiency on a wind-up basis of \$1,979 million. The deficit disclosed in the next filed funding valuation, which must have an effective date no later than January 1, 2011, could be significantly different.

The supplementary pension plans are not funded, but are secured by Letters of Credit totalling \$212 million (2007 – \$175 million).

	Registered Pension Plan		Supplementary Pension Plans		Other Post Employment Benefits	
<i>(millions of dollars)</i>	2008	2007	2008	2007	2008	2007
<i>Reconciliation of Funded Status to Accrued Benefit Asset (Liability)</i>						
Funded status – deficit at end of year	(186)	(679)	(142)	(162)	(1,591)	(2,064)
Unamortized net actuarial loss (gain)	937	1,346	(3)	22	(70)	538
Unamortized past service costs	46	64	2	3	16	20
Accrued benefit asset (liability) at end of year	797	731	(143)	(137)	(1,645)	(1,506)
Short-term portion	-	-	(6)	(7)	(79)	(80)
Long-term portion	797	731	(137)	(130)	(1,566)	(1,426)

	Registered Pension Plan		Supplementary Pension Plans		Other Post Employment Benefits	
<i>(millions of dollars)</i>	2008	2007	2008	2007	2008	2007
<i>Components of Cost Recognized</i>						
Current service costs	217	224	6	6	59	70
Interest on projected benefit obligation	540	493	9	8	116	109
Expected return on plan assets net of expenses	(623)	(569)	-	-	-	-
Amortization of past service costs	18	18	1	-	4	5
Amortization of net actuarial loss	35	77	-	1	31	45
Cost recognized	187	243	16	15	210	229

	Registered Pension Plan		Supplementary Pension Plans		Other Post Employment Benefits	
<i>(millions of dollars)</i>	2008	2007	2008	2007	2008	2007
<i>Components of Cost Incurred and Recognized</i>						
Current service costs	217	224	6	6	59	70
Interest on projected benefit obligation	540	493	9	8	116	109
Actual return on plan assets net of expenses	1,566	(159)	-	-	-	-
Net actuarial (gain) loss	(2,563)	(95)	(25)	3	(577)	(116)
Cost incurred in year	(240)	463	(10)	17	(402)	63
Differences between costs incurred and recognized in respect of:						
Actual return on plan assets net of expenses	(2,189)	(410)	-	-	-	-
Past service costs	18	18	1	-	4	5
Net actuarial loss (gain)	2,598	172	25	(2)	608	161
Cost recognized	187	243	16	15	210	229

A one percent increase or decrease in the health care trend rate would result in an increase in the service and interest components of the 2008 OPEB cost recognized of \$33 million (2007 – \$37 million) or a decrease in the service and interest components of the 2008 OPEB cost recognized of \$24 million (2007 – \$29 million), respectively. A one percent increase or decrease in the health care trend rate would result in an increase in the projected OPEB obligation at December 31, 2008 of \$213 million (2007 – \$328 million) or a decrease in the projected OPEB obligation at December 31, 2008 of \$170 million (2007 – \$256 million).

13. 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. 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.

The following is a summary of OPG's financial instruments as at December 31, 2008:

Financial Instruments ¹ <i>(millions of dollars)</i>	Designated Category	Fair Value
Cash and cash equivalents	Held-to-maturity	315
Long-term investments ²	Held-to-maturity	35
Nuclear fixed asset removal and nuclear waste management funds	Held-for-trading	9,209
Long-term debt (including current portion)	Other liabilities	3,828
Other commodity derivative instruments included in current and long-term accounts receivable ³	Held-for-trading	49
Other commodity derivative instruments included in current and long-term accounts payable ³	Held-for-trading	(19)

¹ The carrying value of other financial instruments included in accounts receivable and accounts payable and accrued charges approximates their fair value due to the immediate or short-term maturity of these financial instruments.

² Excludes investments of \$39 million owned by the Company's wholly-owned subsidiary, OPGV, that are recorded at fair value in accordance with AcG-18.

³ Derivative instruments not qualifying for hedge accounting.

Risks Associated with Financial Instruments

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument might fail to meet its obligation under the terms of a financial instrument. To manage credit risk, the Company enters into transactions with creditworthy counterparties, limits the amount of exposure to each counterparty where possible, and monitors the financial condition of counterparties.

The following table provides information on credit risk from energy trading activities (excluding fuels) as at December 31, 2008:

Credit Rating ¹	Number of Counterparties ²	Potential Exposure for Largest Counterparties		
		Potential Exposure ³ <i>(millions of dollars)</i>	Number of Counterparties	Counterparty Exposure <i>(millions of dollars)</i>
Investment grade	28	118	4	84

¹ Credit ratings are based on OPG's own analysis, taking into consideration external rating agency analysis where available, as well as recognizing explicit credit support provided through guarantees and Letters of Credit or other security.

² OPG's counterparties are defined by each master agreement.

³ Potential exposure is OPG's assessment of maximum exposure over the life of each transaction at a 95 percent confidence interval.

The majority of OPG's revenues are derived from sales through the IESO administered spot market. Net credit exposure to the IESO at December 31, 2008 was \$207 million (Note 5). Although the credit exposure to the IESO represents a significant portion of OPG's accounts receivable, the Company's management accepts this risk due to the IESO's primary role in the Ontario electricity market. The remaining receivables exposure was a diverse group of generally high quality counterparties. OPG's allowance for doubtful debts at December 31, 2008 was less than \$1 million.

OPG also enters into financial transactions with highly rated financial institutions in order to hedge interest rate and currency exposures. The potential credit exposure with these counterparties was less than \$10 million at December 31, 2008. Other credit exposures include the investing of excess cash.

Investments

The Company limits its exposure to credit risk by investing in reasonably liquid (i.e., in normal circumstances, capable of liquidation within one month) securities that are rated by a recognized credit rating agency in accordance with a minimum investment quality standards. In regard to derivative contracts, the Company limits its exposure to credit risk by engaging with high credit-quality counterparties.

Current exposure to credit risk has changed due to the Company's exposure to the restructuring of the ABCP market in Canada. Additional details with respect to OPG's exposure to the restructuring program are described in Note 4.

Guarantees

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

Liquidity Risk

Liquidity risk arises through excess financial obligations over available financial assets, due at any point in time. The Company's approach to managing liquidity is to continuously monitor its ability to maintain sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

The table below summarizes the maturity profile of the Company's long-term debt at December 31, 2008:

<i>(millions of dollars)</i>	2009	2010	2011	2012	2013 and Thereafter
Long-term debt	357	978	383	409	1,713
Interest on long-term debt	215	183	134	106	465

Non-recourse limited partnership debt is secured by a first charge on the assets of one of the joint venture limited partnerships, an assignment of the joint venture's bank accounts, and an assignment of the joint venture's project agreements.

Market Risk

Market risk is the risk that changes to market prices, such as foreign exchange rates, interest rates, electricity prices and equities, will affect OPG's income or the value of the Company's holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Company manages its exposure to market risks using forwards and various derivative products in the ordinary course of business. All such transactions are carried out within the guidelines set by the Executive Risk Committee.

Foreign Exchange Risk

OPG's foreign exchange exposure is attributable to two primary factors: United States dollar ("USD") denominated transactions such as the purchase of fossil fuels; and the influence of USD denominated commodity prices on Ontario electricity spot market prices. OPG enters into derivative contracts with major financial institutions to manage the Company's exposure to foreign currency movements.

Interest Rate Risk

Interest rate risk is the risk that the value of OPG's assets and liabilities can decrease and increase respectively because of a change in the related interest rates. OPG considers interest rate risk related to cash and cash equivalents and short-term borrowings to be low because of their short-term nature. Changes in interest rates do not currently have a significant impact on the Company's interest expense, since long-term borrowings are on a fixed rate basis.

The Company is exposed to interest rate risk on its long-term borrowings expected to be issued in the future. The Company manages the exposure to changes in market interest rates on anticipated issuance of long-term borrowings by entering into forward start interest rate contracts and floating-to-fixed interest rate swap contracts.

Electricity Price Risk

Electricity price risk for the Company is the potential for adverse movements in the market price of electricity. Exposure to electricity price risk is reduced as a result of regulated prices for a significant portion of OPG's business, and is also affected by the revenue limit rebate mechanism that applies to generation from OPG's unregulated generating stations. To manage this risk, the Company seeks to maintain a balance between the commodity price risk inherent in its electricity production and electricity forward sales contracts to the extent that trading liquidity in the electricity commodity market provides the economic opportunity to do so.

The table below summarizes a sensitivity analysis for significant unsettled market risk exposures with respect to the Company's financial instruments as at December 31, 2008, with all other variables held

constant. It shows how net income and other comprehensive income before tax would have been affected by changes in the relevant risk variable that were reasonably possible, at that date, over the year.

<i>(millions of dollars except where noted)</i>	A Change of:	Impact on Net Income Before Tax	Impact on Other Comprehensive Income Before Tax
Foreign exchange – USD	+/- 0.04	-	1
Interest rate ¹	+/- 35 basis points	-	7
Electricity price – Hedge ²		n/a	7
Electricity price – Trading ²		1	n/a

¹ The interest rate sensitivity analysis was determined based on the exposure to interest rates for derivative instruments designated as hedges at the date of the consolidated balance sheets.

² The sensitivity analysis around electricity prices was constructed using forward price volatilities that were based on historical daily forward electricity contract prices. The analysis considered contracts of varying time frames, traded in Ontario and neighbouring electricity markets.

Nuclear Funds Equity Price Risk

Equity price risk is the risk of loss or unexpected volatility due to a decline in the values of individual equities and/or equity indices. The Company is exposed to equity price risk primarily related to equity investments held in the Nuclear Funds that are classified on the consolidated balance sheets as held-for-trading and measured at fair value. To manage this risk, OPG has established investment policies and procedures that set out an investment framework for the funds, including the investment assumptions, permitted investments, and various investment constraints for the Nuclear Funds. Such policies and procedures are approved annually by OPG and the Province in the case of the Decommissioning Fund, and by the Province in the case of the Used Fuel Fund.

Under the ONFA, the annual return in the Used Fuel Fund is guaranteed by the Province for funding related to the first 2.23 million used fuel bundles. Therefore, OPG is not currently exposed to equity price risk in the Used Fuel Fund. OPG is, however, exposed to equity price risk in the Decommissioning Fund. Due to the long-term nature of the Decommissioning Fund's liabilities, the target asset mix of the fund was established with the goal of meeting the long-term liabilities. As such, the Company is prepared to accept shorter term market fluctuations with the expectation that equity securities will provide adequate returns over the long term.

The table below approximates the potential dollar impact on OPG's pre-tax profit, associated with a one percent change in the specified equity indices. This analysis is based on the market values of the Decommissioning Fund's equity holdings at December 31, 2008, as well as on the assumption that when one equity index changes by one percent, all other equity indices are held constant.

<i>(millions of dollars)</i>	December 31 2008
S&P/TSX Capped Composite Index	9
S&P 500	4
MSCI EAFE Index	4
MSCI World Index	5

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 current period's consolidated statement of income.

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
	December 31, 2008			December 31, 2007		
Electricity derivative instruments	0.9 TWh	1 year	20	1.8 TWh	1-3 yrs	35
Foreign exchange derivative instruments	USD \$35	July/09	6	USD \$48	Sep./08	(1)
Floating-to-fixed interest rate hedges	40	1-11yrs	8	43	1-11 yrs	(2)
Forward start interest rate hedges	272	1-12yrs	(50)	692	1-12 yrs	(6)

Foreign exchange derivative instruments are used to hedge the exposure to anticipated USD denominated purchases. The weighted average fixed exchange rate for contracts outstanding at December 31, 2008 and December 31, 2007 was USD \$0.95 and \$0.99, 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 losses of \$14 million and \$15 million related to derivative instruments qualifying for hedge accounting were recognized in net income during the years ended December 31, 2008 and 2007, respectively. This amount was previously recorded in other comprehensive income. Existing net gains of \$8 million deferred in accumulated other comprehensive income at December 31, 2008 are expected to be reclassified to net income within the next 12 months.

In the third quarter of 2008, OPG de-designated certain forward start interest rate hedges as the previously anticipated future borrowings associated with these instruments were no longer expected to occur. As a result of the de-designation, a net loss of \$3 million was reclassified to net income in the third quarter of 2008.

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 December 31, 2008	Fair Value	Notional Quantity December 31, 2007	Fair Value
Foreign exchange derivative instruments	-	-	USD \$14	(2)
Commodity derivative instruments				
Assets	6.9 TWh	49	9.9 TWh	14
Liabilities	2.2 TWh	(19)	1.2 TWh	(10)
		30		2
Market liquidity reserve		(4)		(2)
Total		26		-

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

Fair Value

Fair value is the value that 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 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.

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 decreased trading revenue by \$2 million during the year ended December 31, 2008 (December 31, 2007 – no change).

14. CAPITAL MANAGEMENT

The Board of Directors' objectives when managing capital are to safeguard the Company's assets and its ability to operate on a commercial basis, while undertaking future development projects that provide an adequate return to the shareholder, and benefits to other stakeholders. The Company attempts to maintain an optimal capital structure and minimize the cost of capital.

The Company is owned 100 percent by the Province. To minimize its cost of capital, the Company targets financial metrics consistent with an investment grade credit rating. This provides the Company with access to capital markets in the future, while targeting a low cost of debt financing.

The Company monitors capital on the basis of the ratio of total debt to total capitalization. Debt is calculated as total borrowings, including long-term debt due within one year, long-term debt and the amount of the Letters of Credit. Total capitalization is calculated as total debt plus total shareholder's equity as shown in the consolidated balance sheets. A financial covenant in OPG's \$1 billion revolving committed bank credit facility requires OPG to maintain, on a fully consolidated basis, a ratio of debt to total capitalization of not greater than 0.65:1.0 at any time.

As per the OEB's decision in November 2008, the deemed capital structure for the regulated business is 53 percent debt and 47 percent equity.

The table below summarizes OPG's debt to total capitalization position as at December 31, 2008 and 2007:

<i>(millions of dollars)</i>	2008	2007
Long-term debt due within one year	357	407
Long-term debt	3,483	3,446
Letters of Credit	243	205
Total debt	4,083	4,058
Total shareholder's equity	6,829	6,807
Total capitalization	10,912	10,865
Total debt to total capitalization	37%	37%

There were no changes in the Company's approach to capital management during the year ended December 31, 2008.

15. COMMON SHARES

As at December 31, 2008 and 2007, OPG had 256,300,010 common shares issued and outstanding at a stated value of \$5,126 million. OPG is authorized to issue an unlimited number of common shares without nominal or par value. Any issue of new shares is subject to the consent of all of OPG's shareholders.

16. 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 is scheduled to proceed in

September 2009. It 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.

On September 2, 2008, a certain First Nation served a Notice of Action against the Government of Canada, the Province of 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 Nations to address OPG's role in the sharing of benefits related to hydro development. OPG assessed the merits of the litigation, and neither the arbitration nor the claim is likely 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 involve joint and several liabilities with other parties and total approximately \$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 December 31, 2008, the remaining provision was \$41 million (December 31, 2007 – \$45 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 consolidated financial statements to meet OPG's current environmental obligations.

Guarantees

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

Contractual and Commercial Commitments

The Company's contractual obligations and other significant commercial commitments as at December 31, 2008, are as follows:

<i>(millions of dollars)</i>	2009	2010	2011	2012	2013	Thereafter	Total
Contractual obligations:							
Fuel supply agreements	743	626	265	217	157	309	2,317
Contributions under the ONFA	339	264	250	240	157	852	2,102
Long-term debt repayment	350	970	375	400	-	1,565	3,660
Interest on long-term debt	204	172	124	96	82	323	1,001
Unconditional purchase obligations	17	16	12	13	12	156	226
Long-term accounts payable	-	-	-	-	-	-	-
Operating lease obligations	23	25	25	26	27	1	127
Operating licence	30	30	33	36	39	-	168
Pension contributions ¹	260	270	-	-	-	-	530
Other	47	35	30	22	15	84	233
Significant commercial commitments:							
Niagara Tunnel	113	260	-	-	-	-	373
Other hydroelectric projects	140	58	-	-	-	-	198
Total	2,266	2,726	1,114	1,050	489	3,290	10,935

¹ The pension contributions include additional funding requirements towards the deficit and ongoing funding requirements in accordance with the actuarial valuation as at January 1, 2008. The contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, and the timing of funding valuations. Funding requirements after 2010 are excluded due to significant variability in the assumptions required to project the timing of future cash flows.

Niagara Tunnel

As of December 31, 2008, the tunnel boring machine had advanced 3,306 metres. The progress of the tunnel boring machine continues to be slower than anticipated under the original contractor schedule primarily due to excess overbreak of the Queenston shale in the tunnel crown. To minimize further excavation in the Queenston shale, a change in the vertical alignment has been initiated.

A dispute review hearing process was initiated earlier in 2008 to assess, among other things, whether the actual subsurface conditions encountered are materially different from those that were anticipated as part of the design-build contract. The Dispute Review Board issued its non-binding recommendations in late August 2008. OPG and the contractor are using the Dispute Review Board recommendations as a basis for negotiating revisions to the design build-contract. These revisions are expected to have significant impacts on the project completion schedule and the cost estimate of the project. The negotiations are underway and are targeted for completion in the first quarter of 2009. Uncertainties will continue with respect to cost and schedule.

The capital project expenditures for the year ended December 31, 2008 were \$132 million and life-to-date capital expenditures were \$435 million. The project is debt financed through the OEFC.

Lac Seul

The Lac Seul hydroelectric generating station is expected to be declared in-service in February 2009. The station has a capacity of 12.5 MW. The project was originally expected to be in-service by the end of the third quarter of 2007. However, it was delayed as a result of various contractor difficulties. A

settlement in principle has been negotiated to compensate the contractor for recovery of certain additional costs.

At December 31, 2008, life-to-date expenditures were \$54 million. The final project cost is expected to be \$55 million. The project is debt financed through the OEFC.

OPG has entered into a partnership agreement with the Lac Seul First Nations ("LSFN"). The partnership is a first for OPG and the LSFN, who will own 25 percent of the new facility.

Portlands Energy Centre

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

In May 2008, the construction for the simple cycle mode of operations for the PEC was completed. The station was available to operate in a simple cycle mode as needed during the summer of 2008.

In September 2008, the simple cycle mode of operations for the PEC ended and the plant was returned to the custody of the contractor for completion of the combined cycle plant. Final system commissioning and preparation for the guarantee performance testing and the demonstration runs were conducted during the last two months of 2008. The PEC is expected to be in-service in a combined cycle mode in the first quarter of 2009, earlier than its contractual in-service date of June 1, 2009.

OPG's share of capital expenditures for the year ended December 31, 2008 was \$87 million, and life-to-date expenditures were \$360 million. Total project costs continue to be within the \$730 million approved budget, excluding capitalized interest. A significant proportion of the capital cost relates to an engineer-procure-construct contract to construct the facility. OPG's share of the project is debt financed through the OEFC.

Upper Mattagami and Hound Chute

In December 2007, OPG's Board of Directors approved the replacement of four existing hydroelectric generating stations. Three of the generating stations are on the Upper Mattagami River (Wawaitin, Sandy Falls and Lower Sturgeon) and the fourth (Hound Chute) is located on the Montreal River. The project includes the demolition and decommissioning of the four existing powerhouses that are at the end of their useful lives. Upon completion of the project, the total installed capacity of the four stations will increase from 23 MW to 44 MW, and the annual energy will increase from 134 gigawatt hours ("GWh") to 223 GWh.

Design and construction activities are in progress at all four sites. Sandy Falls and Lower Sturgeon have been demolished to make way for construction of the new stations.

Life-to-date expenditures as of December 31, 2008 were \$62 million and total project costs are expected to be \$300 million. A significant proportion of this capital cost relates to a design-build contract to construct the facilities.

Other Commitments

In addition to the above commitments, the Company has the following commitments:

The Company maintains labour agreements with the Power Workers' Union and The Society of Energy Professionals; the agreements are effective until March 31, 2009 and December 31, 2010, respectively. As at December 31, 2008, OPG had approximately 12,000 regular employees and approximately 90 percent of its regular labour force is covered by the collective bargaining agreements.

Contractual and commercial commitments above exclude certain purchase orders as they represent purchase authorizations rather than legally binding contracts and are subject to change without significant penalties.

Proxy Property Taxes

In November 2005, OPG received a letter from the Ministry of Finance indicating its intent to recommend to the Minister of Finance that an Ontario regulation covering proxy property taxes be updated retroactive to April 1, 1999 to reflect reassessments and appeal settlements of certain OPG properties since that date. OPG continues to monitor resolution to this issue with the Ministry of Finance as updates to the regulation may not occur for several years. OPG has not recorded any amounts relating to this anticipated regulation change.

17. REVENUE LIMIT REBATE

Eighty-five percent of the generation output from OPG's unregulated generating assets, excluding the Lennox generating station, stations whose generation output is subject to a HESA with the OPA pursuant to a ministerial directive, and forward sales as of January 1, 2005, is subject to a revenue limit. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets are also excluded from the output covered by the revenue limit.

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 increased to 4.8¢/kWh effective May 1, 2008. In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the OPA are subject to a revenue limit that is 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these limits are returned to the IESO for the benefit of consumers. The revenue limit rebate is expected to terminate effective May 1, 2009.

The changes in the revenue limit rebate liability for 2008 and 2007 are as follows:

<i>(millions of dollars)</i>	2008	2007
Liability, beginning of year	100	40
Increase to provision during the year	277	227
Payments made during the year	(292)	(167)
Liability, end of year	85	100

18. OTHER GAINS AND LOSSES

<i>(millions of dollars)</i>	2008	2007
Change in estimated cost required to decommission fossil-fuelled generating stations	(21)	(20)
Impairment loss on investments in ABCP (Note 4)	14	10
Other	(2)	-
Other gains and losses	(9)	(10)

In 2007, OPG recorded a recovery of \$20 million to reflect a change in the estimated costs required to complete decommissioning of the Lakeview generating station. The demolition of the Lakeview generating station was substantially completed during 2007.

Other gains and losses of \$21 million were recognized in 2008 to reflect a change in estimated costs to decommission the other fossil-fuelled generating stations, including the expected costs associated with environmental and site remediation work.

19. BUSINESS SEGMENTS

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

Commencing in the fourth quarter of 2008, OPG separated the Regulated – Nuclear segment into two reportable segments identified as Regulated – Nuclear Generation segment and Regulated – Nuclear Waste Management segment. Results for the comparative periods have been reclassified to reflect the revised disclosure.

Regulated – Nuclear Generation Segment

OPG's Regulated – Nuclear Generation business segment operates in Ontario, generating and selling electricity from the nuclear generating stations that it owns and operates. The business segment includes electricity generated by the Pickering A and B, and Darlington nuclear generating stations. This business segment also includes revenue under the terms of a lease arrangement with Bruce Power related to the Bruce nuclear generating stations. This arrangement includes lease revenue and revenue from engineering analysis and design, technical and other services. Revenue is also earned from isotope sales and ancillary services. Ancillary revenues are earned through voltage control and reactive support.

Bruce Nuclear Generating Stations

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

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

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

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

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

During 2008, OPG recorded lease revenue related to the Bruce generating stations of \$258 million (2007 – \$253 million). In late 2008, OPG re-evaluated the Bruce lease for accounting purposes due to a modification to the lease. As a result of the re-evaluation, the timing in which certain of the lease revenues are recognized for accounting purposes has been revised. The revision will result in reductions to the lease revenue for accounting purposes during initial years of the remaining lease term, and increases in lease revenue for accounting purposes during the later years of the remaining lease term. The impact of these timing changes on the amount of lease revenue recognized during 2008 was offset by the impact of the Bruce variance account described in Note 7 to these consolidated financial statements. The net book value of fixed assets on lease to Bruce Power at December 31, 2008 was \$1,140 million (2007 – \$1,201 million).

Regulated – Nuclear Waste Management

OPG's Regulated – Nuclear Waste Management segment engages in the management of used nuclear fuel and low and intermediate level waste, the decommissioning of OPG's nuclear generating stations (including the stations on lease to Bruce Power), the management of the Nuclear Funds, and related activities including the inspection and maintenance of the waste storage facilities. Accordingly, accretion expense on the Nuclear Liabilities and losses (earnings) from the Nuclear Funds are reported under this segment.

As the nuclear generating stations operate over time, OPG incurs variable costs related to nuclear used fuel and low and intermediate level waste generated. These costs increase the Nuclear Liabilities through the generation of additional used nuclear fuel bundles and other waste. These variable costs are charged to current operations in the Regulated – Nuclear Generation segment in order to appropriately reflect the cost of producing energy and the earning of revenues under the lease arrangement with Bruce Power that are recorded in this segment. Since variable costs increase the Nuclear Liabilities in the Regulated – Nuclear Waste Management segment, OPG records an inter-segment charge between the Regulated – Nuclear Generation and the Regulated – Nuclear Waste Management segments. The impact of the inter-segment charge between these segments is eliminated on OPG's consolidated statements of income and balance sheets.

The Regulated – Nuclear Waste Management Segment is considered regulated because the costs associated with the Nuclear Liabilities are included in the OEB's determination of regulated prices for production from OPG's regulated nuclear facilities by the OEB.

Regulated – Hydroelectric Segment

OPG's Regulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from most of OPG's baseload hydroelectric generating stations. The business segment is comprised of electricity generated by the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and the R.H. Saunders hydroelectric facilities. The Regulated – Hydroelectric business segment also includes ancillary revenues related to these stations earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control and reactive support, certified black start facilities and automatic generation control.

Unregulated – Hydroelectric Segment

The Unregulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from its hydroelectric generating stations that are not subject to rate regulation. The Unregulated – Hydroelectric business segment also includes ancillary revenues earned through offering available generating capacity as operating reserve, and through the supply of other ancillary services including voltage control and reactive support, certified black start facilities and automatic generation control, and revenues from other services.

Unregulated – Fossil-Fuelled Segment

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

Other

OPG earns revenue from its joint venture share of Brighton Beach related to an energy conversion agreement between Brighton Beach and Coral. The Other category also includes OPG's share of joint venture revenues and expenses from the PEC gas-fired generating station. In addition, the Other category includes revenue from real estate rentals.

The revenue and expenses related to OPG's trading and other non-hedging activities are also included in the Other category. As part of these activities, OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate primarily to physical energy that is purchased and sold at the Ontario border, sales of financial risk management products and sales of energy-related products. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in other revenue as gains or losses.

OM&A expenses of the generation business segments include an inter-segment service fee for the use of certain property, plant and equipment of the Other category. The total service fee is recorded as a reduction to the Other category's OM&A expenses. For the year ended December 31, 2008, the service fee was \$29 million for Regulated – Nuclear Generation, \$3 million for Regulated – Hydroelectric, \$4 million for Unregulated – Hydroelectric and \$9 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$45 million for the Other category. For the year ended December 31, 2007, the service fee was \$33 million for Regulated – Nuclear Generation, nil for Regulated – Nuclear Waste Management, \$2 million for Regulated – Hydroelectric, \$4 million for

Unregulated – Hydroelectric and \$11 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$50 million for the Other category.

Segment Income (Loss) for the Year Ended December 31, 2008	Regulated			Unregulated			Elimination	Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Fossil- Fuelled	Other		
<i>(millions of dollars)</i>								
Revenue	2,987	46	754	974	1,491	153	(46)	6,359
Revenue limit rebate	-	-	-	(72)	(205)	-	-	(277)
	2,987	46	754	902	1,286	153	(46)	6,082
Fuel expense	167	-	254	111	659	-	-	1,191
Gross margin	2,820	46	500	791	627	153	(46)	4,891
Operations, maintenance and administration	2,098	50	108	198	552	7	(46)	2,967
Depreciation and amortization	462	-	70	76	94	41	-	743
Accretion on fixed asset removal and nuclear waste management liabilities	-	573	-	-	8	-	-	581
Losses on nuclear fixed asset removal and nuclear waste management funds	-	93	-	-	-	-	-	93
Property and capital taxes	25	-	12	9	21	13	-	80
Income (loss) before other gains and losses	235	(670)	310	508	(48)	92	-	427
Other (gains) and losses	-	-	-	-	(23)	14	-	(9)
Income (loss) before interest and income taxes	235	(670)	310	508	(25)	78	-	436

Segment (Loss) Income for the Year Ended December 31, 2007	Regulated			Unregulated				Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Fossil- Fuelled	Other	Elimination	
<i>(millions of dollars)</i>								
Revenue	2,581	76	695	763	1,713	135	(76)	5,887
Revenue limit rebate	-	-	-	(64)	(163)	-	-	(227)
	2,581	76	695	699	1,550	135	(76)	5,660
Fuel expense	133	-	244	81	812	-	-	1,270
Gross margin	2,448	76	451	618	738	135	(76)	4,390
Operations, maintenance and administration	2,053	84	123	207	573	10	(76)	2,974
Depreciation and amortization	426	-	68	68	82	51	-	695
Accretion on fixed asset removal and nuclear waste management liabilities	-	499	-	-	8	-	-	507
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(481)	-	-	-	-	-	(481)
Property and capital taxes	31	-	11	10	21	12	-	85
(Loss) income before other gains and losses	(62)	(26)	249	333	54	62	-	610
Other (gains) and losses	(4)	-	-	4	(20)	10	-	(10)
(Loss) income before interest and income taxes	(58)	(26)	249	329	74	52	-	620

Selected Consolidated Balance Sheet Information As at December 31, 2008 (millions of dollars)	Regulated		Unregulated				Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Fossil- Fuelled	Other	
Segment fixed assets in service, net	3,845	-	3,823	2,971	396	480	11,515
Segment construction work in progress	227	-	444	190	29	382	1,272
Segment property, plant and equipment, net	4,072	-	4,267	3,161	425	862	12,787
Segment materials and supplies inventory, net:							
Short-term	77	-	-	-	55	-	132
Long-term	336	-	-	1	1	-	338
Segment fuel inventory	301	-	-	-	435	-	736
Fixed asset removal and nuclear waste management liabilities	-	(11,233)	-	-	(117)	(34)	(11,384)
Nuclear fixed asset removal and nuclear waste management funds	-	9,209	-	-	-	-	9,209

Selected Consolidated Balance Sheet Information As at December 31, 2007 <i>(millions of dollars)</i>	Regulated			Unregulated			Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Fossil- Fuelled	Other	
Segment fixed assets in service, net	4,030	-	3,871	2,996	422	508	11,827
Segment construction work in progress	210	-	299	88	49	304	950
Segment property, plant and equipment, net	4,240	-	4,170	3,084	471	812	12,777
Segment materials and supplies inventory, net:							
Short-term	73	-	1	-	51	-	125
Long-term	346	-	-	3	4	-	353
Segment fuel inventory	231	-	-	-	373	-	604
Fixed asset removal and nuclear waste management liabilities	-	(10,781)	-	-	(141)	(35)	(10,957)
Nuclear fixed asset removal and nuclear waste management funds	-	9,263	-	-	-	-	9,263

Selected Consolidated Cash Flow Information <i>(millions of dollars)</i>	Regulated			Unregulated			Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Fossil- Fuelled	Other	
Year ended December 31, 2008							
Investment in fixed assets	184	-	160	149	59	109	661
Year ended December 31, 2007							
Investment in fixed assets	206	1	80	66	94	219	666

20. RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province, the other successor entities of Ontario Hydro, including Hydro One Inc. ("Hydro One"), the IESO, and the OEFC. OPG also enters into related party transactions with its joint ventures. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

These transactions are summarized below:

<i>(millions of dollars)</i>	Revenue	Expenses	Revenue	Expenses
	2008	2008	2007	2007
Hydro One				
Electricity sales	35	-	28	-
Services	-	7	-	12
Province of Ontario				
GRC, water rentals and land tax	-	151	-	129
Guarantee fee	-	4	-	8
Used Fuel Fund rate of return guarantee	-	(971)	-	(130)
Decommissioning Fund excess funding	-	(3)	-	(291)
OEFC				
GRC and proxy property tax	-	215	-	199
Interest income on receivable	-	-	-	(6)
Interest expense on long-term notes	-	215	-	187
Capital tax	-	36	-	35
Income taxes	-	88	-	(51)
Indemnity fees	-	-	-	-
IESO				
Electricity sales	5,330	127	5,094	104
Revenue limit rebate	(277)	-	(227)	-
Ancillary services	155	-	145	-
Other	-	-	-	1
	5,243	(131)	5,040	197

At December 31, 2008, accounts receivable included nil (2007 – \$2 million) due from Hydro One and \$207 million (2007 – \$179 million) due from the IESO. Accounts payable and accrued charges at December 31, 2008 included \$1 million (2007 – \$2 million) due to Hydro One.

21. JOINT VENTURES

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

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

<i>(millions of dollars)</i>	2008	2007
Proportionate joint venture operations		
Revenue	41	43
Expenses	(31)	(36)
Net income	10	7
Proportionate joint venture cash flows		
Operating activities	33	1
Investing activities	(76)	(165)
Financing activities	50	164
Share of changes in cash	7	-
Proportionate joint venture balance sheets		
Current assets	31	38
Long-term assets	585	533
Current liabilities	(18)	(24)
Long-term liabilities	(183)	(185)
Share of net assets	415	362

22. INVESTMENT COMPANY

The Company applied AcG-18 for all investments owned by OPGV. OPGV is a wholly owned subsidiary of the Company and its results are included in the Company's consolidated financial statements. The carrying amount of OPGV's investments was \$39 million (2007 – \$45 million) and the amount was included as long-term accounts receivable and other assets on the consolidated balance sheets.

As a result of the application of this policy, the Company's net income and other assets for 2008 decreased by \$6 million (2007 – \$13 million). The net realized gains and losses for OPGV was \$3 million in 2008 (2007 – nil).

The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2008 were \$17 million and \$19 million, respectively. The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2007 were \$19 million and \$15 million, respectively.

23. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2008, \$75 million (2007 – \$93 million) of research and development expenses were charged to operations.

24. Changes in Non-Cash Working Capital Balances

<i>(millions of dollars)</i>	2008	2007
Accounts receivable	(171)	(97)
Prepaid expenses	3	(9)
Fuel inventory	(132)	65
Materials and supplies	(7)	(13)
Revenue limit rebate payable	277	227
Accounts payable and accrued charges	65	(42)
Income and capital taxes payable	38	(62)
	73	69