

November 21, 2008

ONTARIO POWER GENERATION REPORTS 2008 THIRD QUARTER FINANCIAL RESULTS

[Toronto]: Ontario Power Generation Inc. (“OPG” or the “Company”) today reported its financial and operating results for the three and nine months ended September 30, 2008. Net loss for the three months ended September 30, 2008 was \$142 million compared to net income of \$113 million for the same period in 2007. Net income for the nine months ended September 30, 2008 was \$119 million compared to \$409 million for the same period in 2007.

OPG’s operating results for the three and nine month periods ended September 30, 2008 improved compared to the same periods in 2007, with the exception of a significant reduction in the earnings from the investment funds that have been established for nuclear fixed asset removal and nuclear waste management (the “Nuclear Funds”). Operating results reflected higher generation from the nuclear and hydroelectric generating stations, partially offset by increases in fuel prices. Losses on the Nuclear Funds for the three months ended September 30, 2008 were \$190 million compared to earnings of \$92 million for the same period in 2007. For the nine months ended September 30, 2008, losses on the Nuclear Funds were \$133 million compared to earnings of \$392 million for the same period in 2007. The decrease in earnings from the Nuclear Funds, for the three and nine month periods of 2008 compared to the same periods in 2007, was primarily due to significant reductions in the trading levels of global financial markets, which reduced the current market value of the fund investments.

“While OPG’s third quarter operating results reflect higher electricity production and continuing improvements in the reliability of our generating stations, our earnings were significantly affected by losses in the market value of the Nuclear Funds,” said President and CEO Jim Hankinson.

On November 3, 2008, the Ontario Energy Board (the “OEB”) issued its decision on OPG’s application for new payment amounts for production from OPG’s regulated hydroelectric and nuclear facilities. In its decision, the OEB determined that the new payment amounts should apply retrospectively to production starting on April 1, 2008 and will be in effect until December 31, 2009. The OEB determined that the appropriate rate of return on equity for OPG’s regulated facilities for the purposes of determining the new payment amounts is 8.65%. This rate is higher than the five percent rate of return on equity, which was the basis for the initial regulated prices set by government regulation for the period up to March 31, 2008.

Total electricity generation of 27.3 terawatt hours (“TWh”) in the third quarter of 2008 exceeded production of 26.2 TWh in the third quarter of 2007. Hydroelectric production of 8.9 TWh was higher than production of 7.2 TWh during the third quarter

of 2007 mainly due to higher river flows across the province and high availability factors at OPG's hydroelectric stations. Nuclear production of 12.2 TWh during the third quarter of 2008 increased by 1.4 TWh over the third quarter of 2007 primarily as a result of a reduction in outage days at the Pickering A and Darlington nuclear stations. Electricity production from OPG's fossil stations decreased to 6.2 TWh in the third quarter of 2008 compared to 8.2 TWh in 2007, primarily as a result of higher hydroelectric and nuclear production. For the nine months ended September 30, 2008, total production from OPG's generating stations was 82.6 TWh compared to 80.4 TWh for the same period in 2007. This increase reflects higher hydroelectric and nuclear production.

The reliability of OPG's nuclear and fossil stations improved during the third quarter of 2008 in comparison to the third quarter of 2007, and availability factors at the hydroelectric stations remained at historically high levels. In the third quarter of 2008, the capability factors of the Darlington and Pickering A nuclear stations improved over the third quarter of 2007. The capability factor at the Pickering B nuclear generating station was lower than the third quarter of 2007 due to an increase in outage days caused by the shutdown of a unit since the second quarter of 2008 to replace a calandria tube.

OPG's progress on a number of new generation projects aimed at significantly contributing to Ontario's long-term electricity supply requirements is as follows:

- On June 16, 2008, the Province announced that OPG will operate two new nuclear reactors at the Darlington site. OPG is participating with Infrastructure Ontario in a process to select a nuclear reactor vendor in the spring of 2009. OPG is pursuing cost recovery mechanisms and exploring financing options for the new nuclear reactors. OPG is proceeding with initiatives associated with the Environmental Impact Statement, which is planned for completion in mid 2009.
- At September 30, 2008, the boring machine for the Niagara tunnel had advanced 3,124 metres. The contractor previously advised OPG that due to excavation difficulties under the St. David's gorge, the in-service date of the tunnel will be delayed. The contractor continues to pursue alternatives, including realignment of a portion of the tunnel. A dispute review hearing process was initiated to review, among other things, the actual subsurface conditions compared to those that were anticipated as part of the design build contract. OPG and the contractor are using the recommendations from the Dispute Review Board as a basis for negotiating revisions to the contract, which are expected to have a significant impact on project cost and schedule. The negotiations are expected to be completed in the first quarter of 2009.
- The Portlands Energy Centre ("PEC") is a 550 MW high-efficiency, combined cycle, natural gas generation plant designed to meet downtown Toronto's urgent need for electricity. PEC is a limited partnership between OPG and TransCanada Energy Ltd. The first phase was completed in a simple cycle mode, with a capacity of up to 340 MW on May 31, 2008. In September 2008, the station was taken out of service in order to complete construction of the combined cycle mode of operation. PEC is expected to be completed earlier than its contractual in-service date of June 1, 2009.

- OPG is replacing four hydroelectric stations. Three of the 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, and the rehabilitation of the existing dams and other civil structures to meet the current dam safety requirements. Upon completion of the project, the total installed capacity of the four stations will increase from 23 MW to 44 MW. The Sandy Falls and Lower Sturgeon stations are currently being demolished and site preparation is in progress at the Wawaitin and Hound Chute stations. Total project costs are expected to be \$300 million.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

<i>(millions of dollars – except where noted)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
<i>Earnings</i>				
Revenue after revenue limit rebate	1,513	1,421	4,461	4,318
Fuel expense	334	336	915	962
Gross margin	1,179	1,085	3,546	3,356
Operations, maintenance and administration	689	689	2,130	2,159
Loss (earnings) on nuclear fixed asset removal and nuclear waste management funds	190	(92)	133	(392)
Other net expenses	378	349	1,116	1,068
Income tax expenses	64	26	48	112
Net (loss) income	(142)	113	119	409
<i>Cash flow</i>				
Cash flow provided by operating activities	434	248	835	723
<i>Electricity Generation (TWh)</i>				
Regulated – Nuclear	12.2	10.8	35.6	33.5
Regulated – Hydroelectric	4.7	4.4	14.2	13.7
Unregulated – Hydroelectric	4.2	2.8	14.1	10.6
Unregulated – Fossil-Fuelled	6.2	8.2	18.7	22.6
Total electricity generation	27.3	26.2	82.6	80.4
<i>Average electricity sales price (¢/kWh)</i>				
Regulated – Nuclear	4.9	4.9	4.9	4.9
Regulated – Hydroelectric ¹	3.8	3.5	3.6	3.5
Unregulated – Hydroelectric ²	4.8	4.7	4.7	4.7
Unregulated – Fossil-Fuelled ²	5.1	4.9	5.0	4.9
OPG average sales price	4.8	4.7	4.7	4.6
<i>Nuclear unit capability factor (percent)</i>				
Darlington	99.1	96.3	92.9	91.4
Pickering A	84.3	-	75.1	41.5
Pickering B	64.2	82.0	69.3	74.7
<i>Equivalent forced outage rate (percent)</i>				
Unregulated– Fossil-Fuelled	7.4	10.5	11.1	11.2
<i>Availability (percent)</i>				
Regulated – Hydroelectric	93.9	97.4	93.4	94.2
Unregulated– Hydroelectric	93.5	92.2	95.6	94.2

¹ Electricity generated from stations in the Regulated – Hydroelectric segment received a fixed price of 3.3¢/kWh for the first 1,900 MWh of generation in any hour, and the Ontario spot electricity market price for generation above this level.

² Eighty-five percent of the electricity generated from unregulated stations, excluding the Lennox generating station, those stations where generation output is subject to a Hydroelectric Energy Supply Agreement with the Ontario Power Authority, and forward sales as of January 1, 2005, is subject to a revenue limit. During the period from May 1, 2006 to April 30, 2007, the revenue limit was set at 4.6¢/kWh. The revenue limit increased to 4.7¢/kWh effective May 1, 2007 and to 4.8 ¢/kWh effective May 1, 2008.

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

Ontario Power Generation Inc.'s unaudited interim consolidated financial statements and Management's Discussion and Analysis as at and for the three and nine months ended September 30, 2008, can be accessed on OPG's website (www.opg.com), the Canadian Securities Administrators' website (www.sedar.com), or can be requested from the Company.

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ONTARIO POWER GENERATION INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the three and nine months ended September 30, 2008. For a complete description of OPG's corporate and risk management strategies, and the effect of critical accounting policies and estimates on OPG's results of operations and financial condition, this MD&A should also be read in conjunction with OPG's audited consolidated financial statements, accompanying notes, and MD&A as at and for the year ended December 31, 2007. Certain of the 2007 comparative amounts have been reclassified to conform to the 2008 presentation. OPG's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This MD&A is dated November 20, 2008.

FORWARD-LOOKING STATEMENTS

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

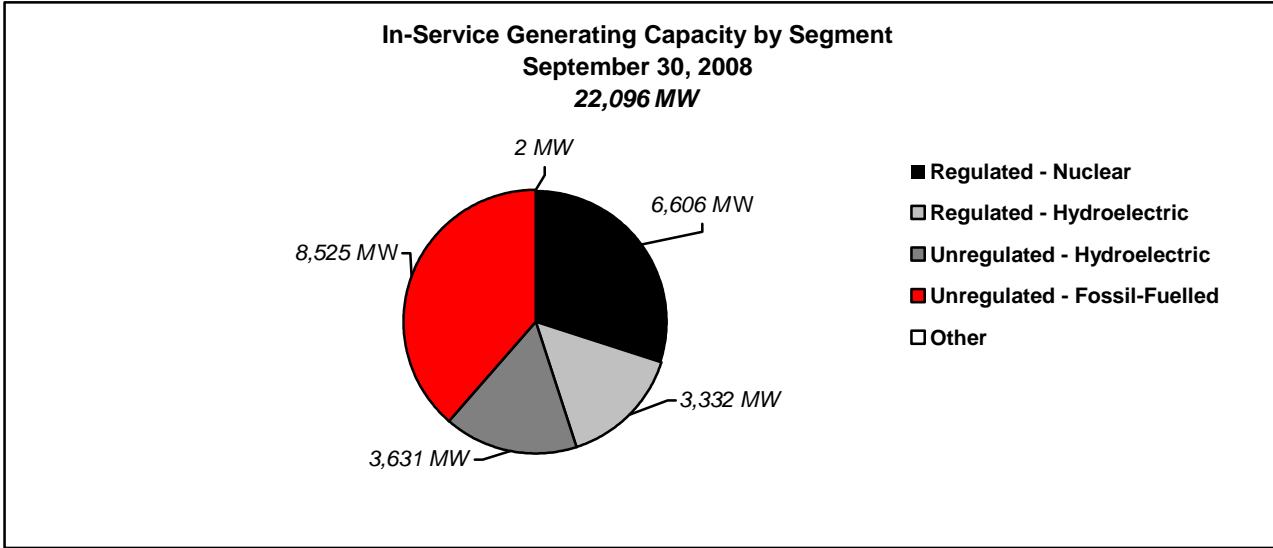
All forward-looking statements involve inherent assumptions, risks and uncertainties and, therefore, could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's fuel costs and availability, asset performance, nuclear decommissioning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

THE COMPANY

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

OPG's electricity generating portfolio consists of three nuclear generating stations, five fossil-fuelled generating stations, 64 hydroelectric generating stations and two wind generating stations. In addition, OPG and TransCanada Energy Ltd. co-own the Portlands Energy Centre gas-fired generating station. OPG, ATCO Power Canada Ltd. and ATCO Resources Ltd. co-own the Brighton Beach gas-fired generating station. OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power L.P. ("Bruce Power").

At September 30, 2008, OPG's electricity generating portfolio had an in-service capacity of 22,096 megawatts ("MW"). The maximum continuous rating of Units 3 and 4 at the Lambton fossil-fuelled generating station was reduced by 52 MW as at September 30, 2008 primarily to maintain the integrity of the units and to improve environmental performance.



RATE REGULATION

Since April 1, 2005 OPG has received a regulated price for electricity generated from most of its baseload hydroelectric facilities and all of the nuclear facilities that are operated by OPG. This comprises electricity generated from the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering A and B and Darlington nuclear facilities. The regulated prices were established pursuant to a regulation issued under the *Electricity Restructuring Act, 2004* (Ontario) for the three-year period that ended on April 1, 2008. The regulated price established for the first 1,900 megawatt hours (“MWh”) of production from the regulated hydroelectric facilities in any hour was \$33.00/MWh (3.3¢/kWh), and for generation above 1,900 MWh, the spot electricity market price, which was an incentive mechanism to optimize hydroelectric production. The regulated price established for production from OPG’s nuclear facilities was \$49.50/MWh (4.95¢/kWh). The production from OPG’s other generating assets remains unregulated and continues to be sold at the Ontario electricity spot market price, subject to a revenue limit on the majority of this output.

The regulation prescribed, subject to certain requirements, that the Ontario Energy Board (“OEB”) should determine OPG’s regulated payment amounts which would be effective no earlier than April 1, 2008. In November 2007, OPG filed an application with the OEB for new payment amounts for its regulated facilities effective April 1, 2008, for a 21-month period, using a forecast cost of service methodology. This methodology establishes regulated payment amounts 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.

A hearing on OPG’s application for new payment amounts was completed on August 5, 2008. The OEB’s decision on the application was issued on November 3, 2008. On November 13, 2008, OPG filed with the OEB a draft rate order to reflect adjustments required by the decision to the proposed revenue requirement and payment amounts. The OEB is expected to finalize the payment amounts before the end of November 2008. In its decision, the OEB determined that the new payment amounts should apply retrospectively to production starting on April 1, 2008. The OEB also directed that the payment amounts be adjusted through the use of a rate rider to allow for the recovery of the approved 21-month revenue requirement over the 13-month period from December 1, 2008 to December 31, 2009. It is expected that a new set of payment amounts would be determined by the OEB for a period commencing on January 1, 2010 based on OPG’s next rate application.

The OEB also approved a revised incentive mechanism to optimize hydroelectric production based on market signals. This new mechanism will apply to the period after December 1, 2008. Under this mechanism, OPG will receive the approved hydroelectric payment amount for the average hourly net

energy production from the prescribed hydroelectric facilities in that month. Net energy production in any hour that is over the average hourly volume will receive the market price. In hours when the net energy production is less than the average hourly volume, OPG's revenues will be adjusted by the difference between the average hourly volume and the actual net energy production times the market price.

Additional information regarding the recent OEB decision is discussed under the heading, *Recent Developments*.

HIGHLIGHTS

Overview of Results

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

<i>(millions of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
<i>Revenue</i>				
Revenue before revenue limit rebate	1,628	1,481	4,698	4,494
Revenue limit rebate	(115)	(60)	(237)	(176)
	1,513	1,421	4,461	4,318
Fuel Expense	334	336	915	962
Gross Margin	1,179	1,085	3,546	3,356
<i>Expenses</i>				
Operations, maintenance and administration	689	689	2,130	2,159
Losses (earnings) on nuclear fixed asset removal and nuclear waste management funds	190	(92)	133	(392)
Other net expenses	378	349	1,116	1,068
	1,257	946	3,379	2,835
(Loss) income before income taxes	(78)	139	167	521
Income tax expense	64	26	48	112
Net (loss) income	(142)	113	119	409
<i>Electricity production (TWh)</i>	27.3	26.2	82.6	80.4
<i>Cash flow</i>				
Cash flow provided by operating activities	434	248	835	723

OPG incurred a net loss for the three months ended September 30, 2008 of \$142 million compared to net income of \$113 million for the same period in 2007, a decrease of \$255 million. Loss before income taxes for the three months ended September 30, 2008 was \$78 million compared to income before income taxes during the same period in 2007 of \$139 million, a decrease of \$217 million.

Net income for the nine months ended September 30, 2008 was \$119 million compared to \$409 million for the same period in 2007, a decrease of \$290 million. Income before income taxes for the nine months ended September 30, 2008 was \$167 million compared to \$521 million during the same period in 2007, a decrease of \$354 million.

OPG's operating and financial results for the three and nine month periods ended September 30, 2008 improved compared to the same periods in 2007, with the exception of a significant reduction in the

earnings from the nuclear fixed asset removal and nuclear waste management funds (the "Nuclear Funds"). Earnings from the Nuclear Funds for the three and nine month periods ended September 30, 2008 decreased compared to the same periods in 2007 by \$282 million and \$525 million, respectively. This decrease in earnings was primarily due to lower returns on the Decommissioning Segregated Fund ("Decommissioning Fund") due to significant reductions in the trading levels of global financial markets, which reduced the current market value of the fund investments. 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.

For the three months ended September 30, 2008, income tax expenses were \$64 million compared to \$26 million for the same period in 2007. The increase in income tax expense for the three months ended September 30, 2008 was due to an increase in taxable income. OPG accounts for income taxes relating to the rate regulated segments of its business using the taxes payable method. Income tax expenses for the nine months ended September 30, 2008 were \$48 million compared to \$112 million for the same period in 2007. The decrease in the income tax expense for the nine months ended September 30, 2008 compared to the same period in 2007 was primarily due to the impact of a reduction in income tax liabilities as a result of the resolution of tax uncertainties related to the audit of OPG's 1999 taxation year during the first and second quarters of 2008.

The following is a summary of the factors impacting OPG's results for the three and nine months ended September 30, 2008 compared to results for the same periods in 2007, on a before-tax basis:

<i>(millions of dollars – before tax)</i>	Three Months	Nine Months
Income before income taxes for the periods ended September 30, 2007	139	521
Changes in gross margin		
Increase in electricity sales price after revenue limit rebate	29	52
Change in electricity generation by segment:		
Regulated – Nuclear	66	103
Regulated – Hydroelectric	7	11
Unregulated – Hydroelectric	54	145
Unregulated – Fossil-Fuelled	(36)	(73)
Increase in fuel price and other fuel-related costs	(53)	(59)
Increase in net trading revenue	26	8
Other changes in gross margin	1	3
	94	190
Changes in operations, maintenance and administration expenses:		
Increase in maintenance and outage activities at generating stations	(23)	(82)
Increase in pre-construction costs for new nuclear generating units	(5)	(13)
Decrease in pension and other post employment benefit costs	22	53
Decrease in expenses related to past grievances by First Nations	5	48
Other changes	1	23
	-	29
Increase in accretion on fixed asset removal and nuclear waste management liabilities	(24)	(57)
Decrease in earnings from the nuclear fixed asset removal and nuclear waste management funds	(282)	(525)
Decrease in amortization of regulatory assets	17	40
Other changes	(22)	(24)
Decrease in income before other gains and losses and income taxes	(217)	(347)
Other gains and (losses) recognized in 2008	-	(7)
(Loss) income before income taxes for the periods ended September 30, 2008	(78)	167

Earnings for the Three Months Ended September 30, 2008

Earnings for the third quarter of 2008 were favourably impacted by an increase in gross margin from electricity sales compared to the same period in 2007 primarily due to higher generation from OPG's nuclear and unregulated hydroelectric generating stations, and higher electricity sales prices. The impact of these factors was partially offset by lower generation from OPG's fossil-fuelled generating stations and higher fuel costs.

For the three months ended September 30, 2008 and 2007, operations, maintenance and administration ("OM&A") expenses were \$689 million. The OM&A expense during the third quarter of 2008 compared to the same period in 2007 reflected higher costs at OPG's generating stations for maintenance activities and outage expenditures, offset by lower pension and other post employment benefit costs.

Accretion expense increased during the three months ended September 30, 2008 compared to the same period in 2007. The increase was due to the discontinuance of the deferral of accretion expense associated with the increase in liabilities for nuclear fixed asset removal and nuclear waste management ("Nuclear Liabilities") arising from the update to the 2006 Approved Reference Plan, and higher Nuclear

Liabilities. An account was established to record the deferral of costs for the period January 1, 2007 to March 31, 2008, associated with increases in OPG's Nuclear Liabilities arising from the 2006 Approved Reference Plan.

Losses from the Nuclear Funds for the three months ended September 30, 2008 were \$190 million compared to earnings of \$92 million for the same quarter in 2007, a decrease of \$282 million. The decrease in the earnings was primarily due to lower returns on the Decommissioning Fund as a result of unfavourable market conditions that affected the fair value of the investments. OPG's earnings on the Used Fuel Segregated Fund ("Used Fuel Fund") are not subject to such capital market volatility since the rate of return on this fund is guaranteed by the Province, for the first 2.23 million used fuel bundles.

OPG continued to amortize the Pickering A return to service deferral account during the third quarter of 2008 as the balance in this account was being recovered through existing rates. OPG did not record any other amortization of existing regulatory asset and liability balances during the third quarter of 2008.

Earnings for the Nine Months Ended September 30, 2008

Earnings for the nine months ended September 30, 2008 compared to the same period in 2007 were favourably impacted by an increase in gross margin largely due to higher generation from OPG's unregulated hydroelectric and nuclear generating stations, and higher electricity prices. The impact of these increases was partially offset by lower generation from OPG's fossil-fuelled stations and higher fuel costs.

For the nine months ended September 30, 2008, OM&A expenses were \$2,130 million compared to \$2,159 million for the same period in 2007. The decrease was primarily due to lower pension and other post employment benefit costs, and a reduction in expenses related to the settlement of past grievances with First Nations during 2007, which did not recur in 2008. The decrease was partially offset by higher costs at OPG's nuclear generating stations for maintenance activities and outage expenditures.

Losses from the Nuclear Funds for the nine months ended September 30, 2008 were \$133 million compared to earnings of \$392 million for the same period in 2007, a decrease of \$525 million. The decrease was due to lower returns on the Decommissioning Fund as a result of unfavourable market conditions that impacted the fair value of the investments, and a reimbursement of \$46 million during the second quarter of 2007 for expenditures related to the safe storage of Units 2 and 3 at the Pickering A nuclear generating station which did not recur during 2008.

Average Sales Prices

The weighted average Ontario spot electricity market price and OPG's average sales prices by reportable business segment, net of the revenue limit rebate for the three and nine months ended September 30, 2008 and 2007, were as follows:

<i>(¢/kWh)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Weighted average hourly Ontario spot electricity market price	5.5	5.1	5.2	5.0
Regulated – Nuclear	4.9	4.9	4.9	4.9
Regulated – Hydroelectric ¹	3.8	3.5	3.6	3.5
Unregulated – Hydroelectric ²	4.8	4.7	4.7	4.7
Unregulated – Fossil-Fuelled ²	5.1	5.0	5.0	4.9
OPG's average sales price	4.8	4.7	4.7	4.6

¹ Electricity generated from stations in the Regulated – Hydroelectric segment received a fixed price of 3.3¢/kWh for the first 1,900 MWh of generation in any hour, and the Ontario spot electricity market price for generation above this level.

² 85 per cent of the electricity generated from unregulated stations, excluding the Lennox generating station, those stations where generation output is subject to a Hydroelectric Energy Supply Agreement ("HESA") with the Ontario Power Authority, and forward sales as of January 1, 2005, is subject to a revenue limit. During the period from May 1, 2006 to April 30, 2007, the revenue limit was set at 4.6¢/kWh. The revenue limit increased to 4.7¢/kWh effective May 1, 2007 and to 4.8 ¢/kWh effective May 1, 2008.

The weighted average hourly Ontario spot electricity market price was 5.5¢/kWh for the three months ended September 30, 2008 compared to 5.1¢/kWh for the same period in 2007. The weighted average hourly Ontario spot electricity market price was 5.2¢/kWh for the nine months ended September 30, 2008 compared to 5.0 ¢/kWh for the same period in 2007. The increase was primarily due to higher coal and natural gas market prices, partially offset by the impact of higher hydroelectric and nuclear generation and a stronger Canadian dollar, which contribute to lower spot market prices.

The increase in OPG's average sales price from the Unregulated – Hydroelectric and Unregulated – Fossil-Fuelled segments for the three months ended September 30, 2008 compared to the same period in 2007 reflected the impact of higher Ontario spot market prices and a higher revenue limit in 2008.

OPG's average sales price for the three and nine month periods ended September 30, 2008 and 2007 was lower than the weighted average hourly Ontario spot electricity market price as a result of regulated prices and the revenue limit rebate.

Electricity Generation

OPG's electricity generation for the three and nine months ended September 30, 2008 and 2007 was as follows:

<i>(TWh)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Regulated – Nuclear	12.2	10.8	35.6	33.5
Regulated – Hydroelectric	4.7	4.4	14.2	13.7
Unregulated – Hydroelectric	4.2	2.8	14.1	10.6
Unregulated – Fossil-Fuelled	6.2	8.2	18.7	22.6
Total electricity generation	27.3	26.2	82.6	80.4

Total electricity generated during the three months ended September 30, 2008 was 27.3 TWh compared to 26.2 TWh during the same period in 2007. The increase was primarily due to higher generation from OPG's nuclear and unregulated hydroelectric generating stations, partially offset by lower generation from the fossil-fuelled generating stations.

The increase in generation from the nuclear generating stations during the three months ended September 30, 2008 compared to the same quarter in 2007 was primarily due to a reduction in outage days. The Darlington station continued to perform with a high reliability, with a capability factor of 99.1 per cent for the three months ended September 30, 2008.

The increase in generation from the regulated and unregulated hydroelectric generating stations for the three months ended September 30, 2008 compared to the same period in 2007 was primarily due to higher river flows across the province as a result of significant rainfall during the third quarter of 2008.

Electricity generation from the fossil-fuelled generating stations was lower in the third quarter of 2008 compared to the third quarter of 2007 primarily due to higher generation from the nuclear and hydroelectric generating stations.

For the nine months ended September 30, 2008, total electricity generated was 82.6 TWh compared to 80.4 TWh for the same period in 2007. The increase was primarily due to higher generation from OPG's nuclear and unregulated hydroelectric generating stations, partially offset by lower generation from the fossil-fuelled generating stations.

For the nine months ended September 30, 2008, electricity generation from the nuclear generating stations increased compared to the same period in 2007 primarily due to a reduced number of outage days at the Pickering A nuclear generating station. In addition, there was continued strong performance at the Darlington nuclear generating station. The increase in generation at the Pickering A and Darlington nuclear generating stations was partially offset by the increase in outage days at the Pickering B nuclear generating station in 2008.

Electricity generation from the Regulated – Hydroelectric segment and the Unregulated – Hydroelectric segment for the nine months ended September 30, 2008 compared to the same period in 2007 was higher primarily due to higher river flows across the Province.

The decrease in generation from the fossil-fuelled generating stations for the nine months ended September 30, 2008 compared to the same period in 2007 was primarily due to higher generation from OPG's hydroelectric and nuclear generating stations.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Cooling Degree Days ¹				
Period	204	306	279	433
Ten-year average	288	294	379	389
Heating Degree Days ²				
Period	71	42	2,431	2,462
Ten-year average	59	57	2,414	2,377

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

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

Cooling Degree Days decreased for the three months ended September 30, 2008 compared to the same period in 2007 due to cooler weather conditions. Ontario primary electricity demand was 37.5 TWh and 38.2 TWh for the three months ended September 30, 2008 and 2007, respectively.

Cooling Degree Days decreased for the nine months ended September 30, 2008 compared to the same period in 2007. Heating Degree Days for the nine months ended September 30, 2008 were comparable to the Heating Degree Days for the same period in 2007 and the ten-year average. Ontario primary electricity demand was 112.1 TWh and 114.5 TWh for the nine months ended September 30, 2008 and 2007, respectively.

Recent Developments

OEB's Decision on Payment Amounts for Prescribed Facilities

The OEB's decision on OPG's application for new payment amounts for its regulated hydroelectric and nuclear facilities was issued on November 3, 2008. OPG had applied for a total revenue requirement of approximately \$6.2 billion for the 21-month period ending December 31, 2009. In its decision, the OEB indicated that while it does not yet have all of the data necessary to establish the final revenue requirement, it estimated the approved revenue requirement will be approximately \$6 billion. In order to finalize the revenue requirement and issue the necessary order establishing the new payment amounts, OPG was directed to file additional information that will allow the OEB to determine the new payment amounts. The OEB is expected to finalize the new payment amounts before the end of November, after it has considered the additional information from OPG and the comments of interested parties on that information.

The new payment amounts will include recovery of the retrospective increase in the payment amounts to April 1, 2008, and will be collected in the form of a rate rider on production from the regulated assets from December 1, 2008 to December 31, 2009. The retrospective amount is expected to be equal to the difference between the new payment amounts approved by the OEB and the existing payment amounts, multiplied by OPG's monthly forecast production for the period April 1, 2008 to November 30, 2008, which was included in the original application to the OEB.

In its decision on OPG's application, the OEB determined that the appropriate rate of return on equity for OPG's regulated facilities for the purposes of determining the new payment amounts is 8.65 per cent.

This rate is higher than the five per cent rate of return on equity which was the basis for the initial regulated prices set by government regulation for the period up to March 31, 2008. The OEB determined that the appropriate deemed capital structure, for the purposes of determining the new payment amounts, is 47 per cent equity and 53 per cent debt. The OEB also approved OPG's application for an adjustment formula for the return on equity for years after 2009 that would result in a 75 basis point change in the rate of return on equity for every one hundred basis point change in the 30-year Long Canada Bond forecast.

The OEB also requires OPG to continue 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 payment amounts for production from prescribed nuclear facilities. Revenues to OPG reduce the payment amounts and costs are recovered through payment amounts.

As part of the decision, the OEB also established the amounts, methodology, and period of recovery for OPG's regulatory assets, and repayment of regulatory liabilities, which will be incorporated into the new payment amounts. The OEB approved OPG's application for the disposition of regulatory balances recorded as at December 31, 2007, without significant adjustments. OPG will apply for the disposition of regulatory asset and liability balances recorded for the period January 1, 2008 to March 31, 2008 in its next application to the OEB.

The OEB decreased the recovery period for the Pickering A return to service deferral account balance from a proposed period of 15 years to 45 months ending December 31, 2011. The OEB also confirmed that the appropriate period of recovery for the nuclear deferral and variance accounts shall be the 33-month period ending December 31, 2010 and the recovery period for hydroelectric accounts shall be the 21-month period ending December 31, 2009. The resulting increase in revenue will be offset by the amortization expense related to the deferral and variance accounts.

The OEB approved the continuation of variance accounts associated with the impact of water conditions on hydroelectric production and ancillary services revenue as well as established variance accounts for nuclear fuel costs, new nuclear generation development costs, capacity refurbishment costs, revenues and costs associated with the stations on lease to Bruce Power, and income and other taxes, all of which are retrospective to April 1, 2008. The variance accounts capture differences between actual costs and revenues, and the corresponding forecast amounts approved by the OEB in the setting of the new payment amounts.

OPG's revenue for the fourth quarter of 2008 will reflect new payment amounts for production from its regulated facilities, including the impact of the retrospective increase in the payment amounts to April 1, 2008 as a result of the OEB's decision once the payments are finalized. In addition, during the fourth quarter of 2008, OPG will record the impact of the OEB's decision regarding regulatory assets and liabilities.

Mohawk Council of Akwesasne Past Grievances

On October 2, 2008, OPG and the Mohawk Council of Akwesasne signed a settlement agreement to resolve a long-standing claim associated with the construction of the R.H. Saunders Generating Station and associated facilities. The agreement also provides a framework for co-operation going forward.

VISION, CORE BUSINESS AND STRATEGY

OPG's mandate is to cost-effectively produce electricity from its diversified generating assets, while operating in a safe, open, and environmentally responsible manner. To achieve its mandate, OPG is focused on four corporate strategies: improving the performance of its generating assets; increasing its generating capacity; achieving financial sustainability; and achieving excellence in corporate governance, safety, social responsibility, corporate citizenship and environmental stewardship.

A detailed discussion of OPG's strategies is outlined in the 2007 annual MD&A under the heading, *Vision, Core Business and Strategy*. The following section provides an update to the year end discussion.

Improving the Performance of Generating Assets

Nuclear Generating Assets

Refurbishment Projects

Work is proceeding on the feasibility study to refurbish the Pickering B nuclear generating station. This includes an assessment of the station's condition, an Environmental Assessment ("EA"), and an Integrated Safety Review ("ISR"), which is designed to ensure safe and secure operations of the station for the proposed future period. OPG submitted a draft EIS report to the Canadian Nuclear Safety Commission ("CNSC") in December 2007. The CNSC staff accepted the EA Study Report in June 2008 and held open houses on their draft EA Screening Report, which was issued in July 2008. The CNSC finalized their Screening Report in October 2008. The CNSC will hold a public hearing on the EA during December 2008, with a decision expected in early 2009.

Planning work for the assessment of the feasibility of refurbishing the Darlington nuclear generating station began in early 2008. The preliminary scope and a reference schedule have been developed for planning purposes. Planning for the plant condition assessment commenced in the second quarter of 2008 and will continue throughout 2009. In addition, a number of technical studies are underway to evaluate the condition of critical plant components in order to finalize the project's scope. An ISR will be performed and is expected to be completed for submission to the CNSC by mid 2011.

Pickering A Units 2 and 3 Safe Storage Project

The Pickering A safe storage project includes isolating Units 2 and 3 from the rest of the generating station, redesigning the control room for the remaining two operating units, and de-watering and de-fuelling the units. Defuelling of the units was completed in October 2008.

In the third quarter of 2007, the CNSC concluded that an EA was necessary for certain aspects of the safe storage project, and therefore, certain planned work was suspended pending the completion of the EA, which is targeted for December 2008. As a result of the EA requirement, the completion of the project is now scheduled for the fall of 2010 and total project costs are estimated to be \$350 million.

During the third quarter of 2008, work continued in areas not constrained by the EA, including the removal of a main output transformer at Unit 3, and modifications and upgrades to fire protection systems. In addition, an assessment of the Pickering A operating margins is underway to confirm the scope of work involved in isolating Units 2 and 3 from the balance of the station.

Increasing OPG's Generating Capacity

New Nuclear Generating Units

As directed by the Minister of Energy in June 2006, OPG initiated a federal approvals process by filing an Application for a Site Preparation Licence with the CNSC for new nuclear generating units at the Darlington nuclear generating site. In January 2008, the CNSC recommended to the Federal Minister of Environment that the project be referred to a review panel, which is the highest level of review under current legislation. In March 2008, the recommendation was accepted and the project EA was referred to a review panel. Work continues on the Environmental Impact Statement ("EIS"), which is planned for completion in mid-2009. In addition, draft EIS guidelines and a Joint Review Panel Terms of Reference were issued in September 2008 for a 90-day public comment period.

In March 2008, the Minister of Energy announced a two-phase competitive Request For Proposal ("RFP") process to select a nuclear reactor vendor for two units of baseload generation to provide 2,000 to 3,500 MW of generating capacity to the Ontario electricity grid. The target in-service date, as stated by Infrastructure Ontario, is mid-2018 for the first unit, and mid-2019 for the second unit. A commercial team, directed by Infrastructure Ontario, and supported by OPG, Bruce Power, and the Ministries of

Energy and Infrastructure and Finance, is managing the procurement process to select a nuclear reactor vendor. It is expected that the preferred vendor will be announced in the spring of 2009.

Phase one of the RFP process was aimed at assessing the ability of the invited vendors to support a successful construction licence application in compliance with Canadian regulatory requirements and to successfully deliver the overall project, as well as to ascertain their financial strength and legal position. Phase one was completed in June 2008 with Areva NP, Atomic Energy of Canada Limited, and Westinghouse Electric Company advancing to phase two.

Phase two of the competitive RFP process was launched in June 2008 to select a nuclear reactor vendor. The competitive process is to select a vendor to develop, construct, and provide licensing, commissioning and engineering, operations and maintenance support, fuel supply, and possibly financing, of a stand-alone two-unit nuclear power plant at the Darlington site. Respondents will be evaluated in three key areas: lifetime cost of power, ability to meet Ontario's timetable to bring new supply on line in 2018, and the level of investment in Ontario. The deadline for respondents to submit final bid proposals is early 2009. The extension allows respondents more time to assess appropriate risk sharing and pricing terms, and additional information.

Niagara Tunnel

At September 30, 2008, the tunnel boring machine had advanced 3,124 metres. The progress of the tunnel boring machine by the design-build contractor was much slower than expected through rock conditions encountered under the St. David's gorge, and continues to be much slower than expected.

The contractor previously advised OPG that the in-service date of the tunnel would be delayed. The contractor is continuing to pursue alternatives for the realignment of a portion of the tunnel. Regardless of the approach and realignment pursued by the contractor, considerable uncertainty remains with respect to the schedule until the tunnel boring machine establishes consistent tunneling performance.

The project cost estimate of \$985 million will be reviewed in conjunction with any changes to the project completion schedule and the results of a dispute review board hearing. The dispute review hearing process was initiated to review, among other things, the actual subsurface conditions compared to those that were anticipated as part of the design build contract. The Dispute Review Board issued its recommendations in late August 2008. OPG and the contractor are using the recommendations as a basis for negotiating revisions to the contract, which are expected to have a significant impact on project cost and schedule. The negotiations are expected to be completed in the first quarter of 2009.

The capital project expenditures for the three months ended September 30, 2008 were \$31 million and life-to-date capital expenditures were \$376 million. The project is debt financed through the Ontario Electricity Financial Corporation ("OEFC").

Lac Seul

The Lac Seul generating station was expected to be in-service by the end of the third quarter of 2007 in accordance with the original schedule set out in the design-build contract between OPG and the contractor. However, the project has been delayed as a result of various contractor difficulties, including the replacement by the contractor of its major civil subcontractor on two occasions, as well as delays related to intake construction, and cofferdam construction and removal of the cofferdam. The contractor has advised OPG that the expected in-service date for the new station will now be early in 2009.

The design-build contract includes liquidated damages terms to mitigate, among other things, the impact of a schedule delay to OPG. OPG is deducting applicable liquidated damages from amounts otherwise payable to the contractor for the late in-service date. There is a possibility that the contractor may file a claim against OPG seeking recovery of certain additional costs related to the schedule delays.

OPG's costs life-to-date were \$45 million. Total project cost is expected to be \$47 million, net of the recovery of liquidated damages, which is subject to change in the event the contractor successfully

validates its right to additional costs related to schedule delays. 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, and the rehabilitation of the existing dams and other civil structures to meet the current dam safety requirements. 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.

Sandy Falls and Lower Sturgeon are being demolished to make way for construction of the new stations. Their shutdown reduced the unregulated hydroelectric capacity by 9 MW. Site preparation is also in progress at Wawaitin and Hound Chute.

Life-to-date expenditures were \$43 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.

Lower Mattagami

OPG is proceeding with a development plan to increase the generating capacity of four hydroelectric generating stations on the Lower Mattagami River from 483 MW to 933 MW, an increase of 450 MW. In September 2008, the Minister of Environment for Canada approved the decision that a comprehensive study is the most appropriate type of EA. Fisheries and Oceans Canada will now continue the comprehensive study and submit its report to the Minister of the Environment and to the Canadian Environmental Assessment Agency. The public will have an opportunity to comment on the findings and recommendations of the report before a final decision is rendered by the Minister. OPG is in the process of identifying contractors to whom they will issue requests for proposals for a design build contract.

OPG is also engaged in consultations with First Nation stakeholders in regard to an agreement to address past grievances and to establish a new commercial relationship.

Hydroelectric Projects Directive

In December 2007, the Minister of Energy issued a directive to the Ontario Power Authority ("OPA") to negotiate a hydroelectric energy supply agreement ("HESA") for the Lac Seul, Upper Mattagami, Hound Chute, Healey Falls and Lower Mattagami projects. The Lac Seul, Upper Mattagami and Hound Chute agreements have been executed. The negotiations for the HESA for the Healey Falls project are in progress. The negotiations for the HESA for Lower Mattagami will begin in the fourth quarter of 2008.

Portlands Energy Centre

In May 2008, the construction for the simple cycle mode of operations for the Portlands Energy Centre ("PEC") was completed. The station was available to operate in a simple cycle mode as needed during the summer, and was taken out of service in September 2008 to complete the construction for a combined cycle mode of operation.

Major commissioning activities for the combined cycle mode of operation began in late October 2008. PEC is expected to be fully operational in the combined cycle configuration earlier than its contractual in-service date of June 1, 2009. It will provide up to 550 MW of electricity.

OPG's share of capital expenditures for the three months ended September 30, 2008 was \$25 million, and life-to-date was \$344 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.

Lakeview Site

In July 2008, the Ontario government announced that the Lakeview site will not be used for a new gas-fired generating station.

Environmental Stewardship

Climate Change Plan

In April 2007, the Federal Government announced targets for reducing both greenhouse gas ("GHG") emissions and air pollutants from 2006 levels. Under the Federal proposal, OPG would be required to reduce its intensity levels of GHG emissions from its corporate fleet from 2006 levels by 18 per cent in 2010, with an eventual reduction of 26 per cent by 2015. The Federal Government confirmed these GHG targets in March 2008. The Federal Government also confirmed that the GHG intensity for the electricity sector would be calculated at the corporate level, rather than at the station or fleet levels. The Federal Government plans to release the draft GHG regulations as well as a regulatory framework for air pollutants in December 2008.

In May 2008, the Province announced new annual limits on CO₂ emissions from OPG's coal-fired generating stations to ensure that such emissions are reduced by two-thirds of the 2003 levels by 2011. A draft regulation under the Environmental Protection Act requires a reduction in CO₂ emissions to an annual limit of 11.5 million tonnes beginning on January 1, 2011, one third of the 34.5 million tonnes of CO₂ emissions produced in 2003. In accordance with the May 15, 2008 Shareholder Declaration and the May 16, 2008 Shareholder Resolution, OPG is required to stage the reduction measures to meet on a forecast basis the interim CO₂ emission targets of 19.6 million tonnes in 2009 and 15.6 million tonnes in 2010. OPG is required to submit a strategy outlining how it will achieve these objectives to the Minister of Energy by November 30, 2008, for the 2009 calendar year, and within one year thereafter for 2010. These strategies may result in a reduction to OPG's revenues. The Shareholder Resolution stated that the Province will ensure that an appropriate cost recovery mechanism is established to enable OPG to recover the costs of its coal-fired generating stations following the implementation of the CO₂ reductions.

In July 2008, the Province of Ontario joined the Western Climate Initiative ("WCI"). WCI is an intergovernmental organization, which was created to identify, evaluate and implement collective and cooperative ways to reduce GHGs in the region, focusing on a market-based cap-and-trade system. It is expected that a cap and trade system impacting OPG will be operating in 2012. The financial impact on OPG of the Province's involvement in WCI is uncertain at this time.

ONTARIO ELECTRICITY MARKET TRENDS

In its 18-Month Outlook published in September 2008, the Independent Electricity System Operator (the "IESO") indicated that Ontario's installed electricity generating capacity was 31,668 MW, an increase from the previously reported capacity on June 15, 2008 of 31,642 MW. The capacity increase includes an addition of 33 MW from the Melancthon II Wind Project. OPG's in-service electricity generating capacity as at September 30, 2008 was 22,096 MW or 70 per cent of Ontario's capacity. The IESO reported that the supply picture is expected to change significantly over the next 18 months. More than 5,000 MW of new and refurbished supply is scheduled to come into service, including approximately 2,800 MW of gas fired generation, 1,500 MW of refurbished nuclear generation, 100 MW of hydroelectric generation and about 600 MW of wind capacity. Ontario's import capability will increase by up to 750 MW with the first stage of the new 1,250 MW interconnection between Ontario and Quebec, scheduled to be completed by spring 2009.

The IESO expects energy demand in 2008 to decrease by 1.3 per cent to 150.0 TWh, with a further 1.1 per cent decrease in 2009 to 148.0 TWh. The decrease in demand is primarily attributable to lower demand from energy intensive industrial sectors and the impact of conservation initiatives. The expected

peak electricity demand in the summer of 2009, under normal weather conditions, is forecast by the IESO to be 24,987 MW. The IESO reported that over the next 18 months, the outlook for Ontario's supply/demand balance remains positive, so that electricity demand should be met under normal weather conditions.

Both the spot electricity market price and fuel prices can have a significant impact on OPG's revenue and gross margin. Uranium market prices increased significantly beginning in 2003. Spot prices peaked in May 2007 and have since declined to levels which are still significantly above pre-2003 levels. The impact on OPG's nuclear fuel costs has been mitigated by existing lower priced long-term supply agreements, the consumption of low-cost inventory, and the recently established nuclear fuel variance account. Fuel costs for nuclear operations are expected to be significantly higher in the future. Average market prices for natural gas have increased by approximately 40 per cent and coal prices have increased approximately 100 per cent compared to average prices over the same period in 2007. Adequate working-gas storage levels and robust production in the US are expected to provide ample supply in preparation for the winter heating season. Gas prices have fallen back to 2007 levels in the last month and could remain in this range in the near future. Eastern US coal prices have started to decline, but are still well above the price levels from the previous year. The depreciation of the Canadian dollar relative to the US dollar could offset a significant portion of the decline in OPG's US dollar denominated fuel costs.

KEY GENERATION AND FINANCIAL PERFORMANCE INDICATORS

Key performance indicators that directly pertain to OPG's mandate and corporate strategies are measures of production efficiency, cost effectiveness, and environmental performance. OPG evaluates the performance of its generating stations using a number of key performance indicators, which vary depending on the generating technology. These indicators are defined in the 2007 annual MD&A and are discussed in the *Discussion of Operating Results by Business Segment* section.

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

This section summarizes OPG's key results by segment for the three and nine months ended September 30, 2008 and 2007. The following table provides a summary of revenue, earnings and key generation and financial performance indicators by business segment:

<i>(millions of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
<i>Revenue, net of revenue limit rebate</i>				
Regulated – Nuclear	697	629	2,055	1,943
Regulated – Hydroelectric	187	171	556	526
Unregulated – Hydroelectric	220	146	719	533
Unregulated – Fossil-Fuelled	352	439	1,037	1,213
Other	57	36	94	103
	1,513	1,421	4,461	4,318
<i>(Loss) income before interest and income taxes</i>				
Regulated – Nuclear	(275)	(30)	(466)	24
Regulated – Hydroelectric	78	69	245	190
Unregulated – Hydroelectric	118	65	432	271
Unregulated – Fossil-Fuelled	1	57	36	90
Other	41	15	40	48
	(37)	176	287	623
<i>Electricity Generation (TWh)</i>				
Regulated – Nuclear	12.2	10.8	35.6	33.5
Regulated – Hydroelectric	4.7	4.4	14.2	13.7
Unregulated – Hydroelectric	4.2	2.8	14.1	10.6
Unregulated – Fossil-Fuelled	6.2	8.2	18.7	22.6
Total electricity generation	27.3	26.2	82.6	80.4
<i>Nuclear unit capability factor (per cent)</i>				
Darlington	99.1	96.3	92.9	91.4
Pickering A	84.3	-	75.1	41.5
Pickering B	64.2	82.0	69.3	74.7
<i>Equivalent forced outage rate (per cent)</i>				
Regulated – Hydroelectric	2.6	1.1	1.8	1.1
Unregulated – Hydroelectric	1.4	2.5	0.9	1.7
Unregulated – Fossil-Fuelled	7.4	10.5	11.1	11.2
<i>Availability (per cent)</i>				
Regulated – Hydroelectric	93.9	97.4	93.4	94.2
Unregulated – Hydroelectric	93.5	92.2	95.6	94.2
<i>Nuclear PUEC (\$/MWh)</i>	41.09	45.76	44.23	45.56
<i>Regulated – Hydroelectric OM&A expense per MWh (\$/MWh)</i>	5.74	5.23	5.28	5.11
<i>Unregulated – Hydroelectric OM&A expense per MWh (\$/MWh)</i>	11.67	15.71	9.86	12.08
<i>Unregulated – Fossil-Fuelled OM&A expense per MW (\$000/MW)</i>	61.50	60.70	60.30	64.40

Regulated – Nuclear Segment

<i>(millions of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Regulated generation sales	605	536	1,758	1,650
Other	92	93	297	293
Total revenue	697	629	2,055	1,943
Fuel expense	43	33	120	98
Gross margin	654	596	1,935	1,845
Operations, maintenance and administration	485	487	1,527	1,496
Depreciation and amortization	94	104	295	320
Accretion on fixed asset removal and nuclear waste management liabilities	149	124	432	374
Loss (earnings) on nuclear fixed asset removal and nuclear waste management funds	190	(92)	133	(392)
Property and capital taxes	11	3	14	23
(Loss) income before interest and income taxes	(275)	(30)	(466)	24

Revenue

Regulated – Nuclear revenue was \$697 million for the three months ended September 30, 2008 compared to \$629 million for the same quarter in 2007. The increase in revenue of \$68 million was primarily due to higher generation of 1.4 TWh during the third quarter of 2008 compared to the same period last year.

Regulated – Nuclear revenue for the nine months ended September 30, 2008 and 2007 was \$2,055 million and \$1,943 million, respectively. The increase in revenue of \$112 million was primarily due to higher generation of 2.1 TWh during the first nine months of 2008 compared to the same period in 2007.

During the fourth quarter of 2008, OPG will record the impact of the retrospective increase in the payment amounts effective April 1, 2008, as a result of the OEB's decision.

Electricity Prices

Electricity generation from stations in the Regulated – Nuclear segment received a fixed price of 4.95¢/kWh since the introduction of rate regulation effective April 1, 2005.

Volume

Electricity generation from OPG's nuclear stations was 12.2 TWh for the third quarter of 2008 compared to 10.8 TWh for the same period in 2007. The increase of 1.4 TWh was primarily due to a reduction in outage days at the Pickering A and Darlington nuclear generating stations. Generation at the Pickering A station during the third quarter of 2007 was impacted by a shutdown of Units 1 and 4 to perform modifications on a backup electrical system. The increase in generation during the three months ended September 30, 2008 at the Pickering A and Darlington stations was partially offset by an increase in outage days at the Pickering B nuclear generating station to replace a calandria tube.

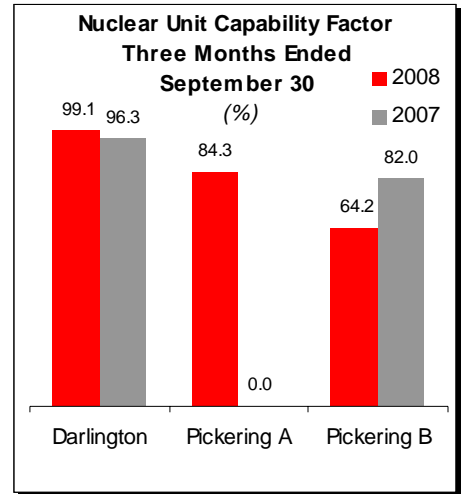
Nuclear generation for the nine month period ended September 30, 2008 was 35.6 TWh compared to 33.5 TWh for the same period in 2007. The increase of 2.1 TWh was primarily due to a reduced number of outage days at the Pickering A nuclear generating station and a higher unit capability factor at the Darlington nuclear generating station, partly offset by an increase in outage days at the Pickering B nuclear generating station. Generation during 2007 was impacted by an extension to a planned outage at

the Pickering A nuclear generating station for significant additional repair work required as a result of a component failure during inspection, and the shutdown of the station to perform modifications to a backup electrical system. Furthermore, the generation in 2007 was impacted by an unplanned outage at the Pickering B generating station caused by an inadvertent release of resin by a third-party contractor from the water treatment plant into the station's demineralized water system, and the requirement for maintenance related to the recovery of resin.

The Darlington nuclear generating station's unit capability factor for the three months ended September 30, 2008 was 99.1 per cent compared to 96.3 per cent for the same period in 2007. The high capability factors reflect the continuing high performance of the generating station.

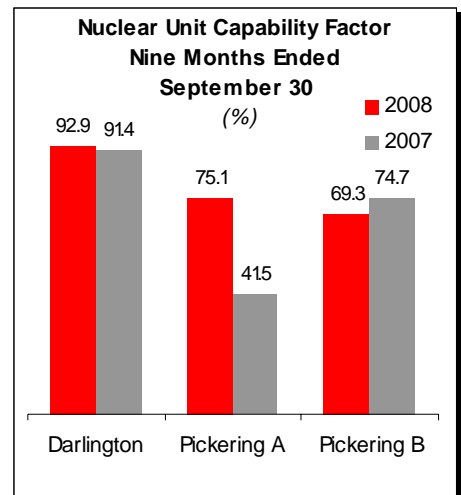
The unit capability factor for the Pickering A nuclear generating station for the three months ended September 30, 2008 was 84.3 per cent. In 2007, Pickering A Units 1 and 4 were shut down from early June through September to perform modifications on a backup electrical system.

The unit capability factor for the Pickering B nuclear generating station was 64.2 per cent for the three months ended September 30, 2008 compared to 82.0 per cent for same quarter in 2007. The decrease reflects an increase in the outage days at the Pickering B nuclear generating station due to the continuing shutdown of a unit to replace a calandria tube that started in April 2008.



For the nine months ended September 30, 2008, the unit capability factor of the Darlington nuclear generating station was 92.9 per cent compared to 91.4 per cent for the same period in 2007. The increase in capability factor was due to a lower number of planned outage days at the Darlington nuclear generating station in 2008 compared to the same period in 2007.

The Pickering A nuclear generating station's unit capability factor was 75.1 per cent for the nine months ended September 30, 2008 compared to 41.5 per cent during the same period in 2007. The increase was primarily due to the shutdown of Units 1 and 4 in June 2007 to perform modifications on a backup electrical system, and an extension to a planned outage for significant additional repair work required as a result of a component failure during inspection in the first quarter of 2007.



For the nine months ended September 30, 2008, the Pickering B nuclear generating station unit capability factor was 69.3 per cent compared to 74.7 per cent during the same period in 2007. The unit capability factor for the nine months ended September 30, 2008 was impacted by the shutdown of a unit since April 2008 to replace a calandria tube and an extension to a planned outage. The impact of the shutdown was partly offset by strong performance from the other units at the Pickering B nuclear generating station for the nine months ended September 30, 2008. During the nine months ended September 30, 2007, the unit capability factor for the Pickering B generating station was impacted by an unplanned outage related to a release of resin into the demineralized water system.

Fuel Expense

Fuel expense for the three months ended September 30, 2008 was \$43 million compared to \$33 million during the same period in 2007. For the nine months ended September 30, 2008, fuel expense was \$120 million compared to \$98 million during the same period in 2007. The increase in fuel expense for the three and nine month periods ended September 30, 2008 compared to the same periods in 2007 was primarily due to an increase in uranium prices and a higher generation volume.

Operations, Maintenance and Administration

OM&A expenses for the three months ended September 30, 2008 were \$485 million compared to \$487 million during the same period in 2007. The decrease in OM&A expenses during the third quarter of 2008 compared to the same period in 2007 was primarily due to a reduction in pension and other post employment benefit costs, partly offset by pre-construction expenditures associated with new nuclear generating units.

OM&A expenses were \$1,527 million for the nine months ended September 30, 2008 compared to \$1,496 million during the same period in 2007. The increase in OM&A expenses was primarily due to higher costs for maintenance activities and outage expenditures, and pre-construction expenditures associated with new nuclear generating units, partially offset by a reduction in pension and other post employment benefit costs.

Based on amendments to the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) made in February 2007 and February 2008, OPG recorded a regulatory asset related to non-capital costs for nuclear generation development initiatives up to March 31, 2008. The deferred costs related to potential nuclear capacity refurbishment at the Pickering B and Darlington nuclear stations as well as new nuclear development. During the three months ended September 30, 2007, OPG recorded, as a regulatory asset, \$6 million of non-capital costs for these initiatives. For the nine months ended September 30, 2008, OPG deferred costs totalling \$4 million, all of which was recorded in the first quarter of 2008. During the nine months ended September 30, 2007, OPG recorded \$20 million as a regulatory asset.

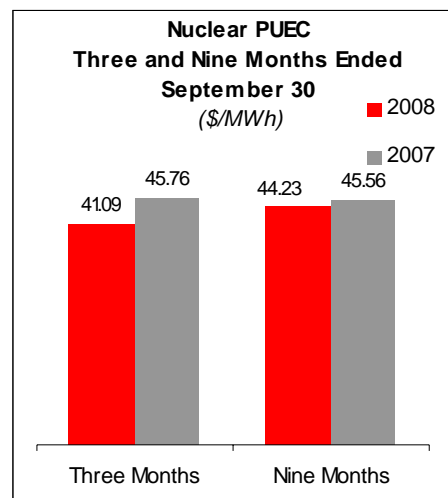
In its decision on November 3, 2008, the OEB approved a variance accounts for new nuclear generation development and capacity refurbishment retrospective to April 1, 2008. OPG will reflect the impact of the OEB's decision with respect to these accounts during the fourth quarter of 2008 including the write-off of a \$16 million regulatory asset relating to capacity refurbishment costs incurred prior to April 1, 2008.

Nuclear PUEC for the three months ended September 30, 2008 was \$41.09/MWh compared to \$45.76/MWh during the same period in 2007. The decrease was primarily due to higher generation.

Nuclear PUEC for the nine months ended September 30, 2008 was \$44.23/MWh compared to \$45.56/MWh during the same period in 2007. The decrease was primarily due to higher generation in 2008, partly offset by higher OM&A expenses.

Depreciation and Amortization

Depreciation and amortization expense for the three months ended September 30, 2008 was \$94 million compared to \$104 million for the same period in 2007. For the nine months ended September 30, 2008, depreciation and amortization expense was \$295 million compared to \$320 million during the same period in 2007. The decrease in depreciation and amortization expense was primarily due to lower amortization of the Pickering A return to service deferral account.



Amortization of the Pickering A return to service deferral account for the three months ended September 30, 2008 was \$3 million compared to \$20 million during the three months ended September 30, 2007, and was based on a recovery period of 15 years as proposed in OPG's application for new payment amount to the OEB. For the nine months ended September 30, 2008 and 2007, amortization was \$36 million and \$76 million, respectively. As part of its decision on OPG's application, the OEB established the recovery period for the balance of the account to be 45 months ending December 31, 2011. This will result in an increase in the amortization expense in the fourth quarter of 2008.

Accretion

Accretion expense for the three months ended September 30, 2008 was \$149 million compared to \$124 million for the same period in 2007. For the nine month period ended September 30, 2008 and 2007, accretion expense was \$432 million and \$374 million, respectively. The increase during the periods was primarily due to the discontinuance, effective April 1, 2008, of the deferral account associated with the increase in the Nuclear Liabilities arising from the 2006 Approved Reference Plan.

(Losses) Earnings on the Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Losses on the Nuclear Funds for the three months ended September 30, 2008 were \$190 million compared to earnings on the Nuclear Funds of \$92 million for the same period in 2007. Losses in the Nuclear Funds for the nine months ended September 30, 2008 were \$133 million compared to earnings of \$392 million for the same period in 2007. The decrease in earnings during the three and nine month periods in 2008 compared to the same periods in 2007 was primarily due to lower returns on the Decommissioning Fund as a result of significant reductions in the trading levels of global financial markets, which reduced the current market value of the fund investments. In addition, during the nine months ended September 30, 2007, the earnings on the Nuclear Funds were favourably impacted due to a \$46 million reimbursement for expenditures related to the safe storage of Unit 2 and 3 at the Pickering A nuclear generating station.

OPG's earnings from the Used Fuel Fund are not subject to the volatility of the capital markets, since the Province guarantees the rate of return on the Used Fuel Fund for the first 2.23 million used fuel bundles at 3.25 per cent per annum plus the change in the Ontario Consumer Price Index. As of September 2008, there were approximately 1.9 million used fuel bundles. The current projection indicates that the 2.23 million used fuel bundle threshold will be reached in 2012.

A portion of the Nuclear Funds relates to OPG's obligations with respect to decommissioning the nuclear stations on lease to Bruce Power, as well as managing nuclear used fuel and waste produced by these stations. As a result of the OEB's decision, OPG will establish a variance account for the revenues and costs associated with the Bruce nuclear generating stations. During the fourth quarter of 2008, OPG expects to record a regulatory asset for the period April 1, 2008 to September 30, 2008. A significant component of the regulatory asset is expected to relate to the losses on the Nuclear Funds in regard to the Bruce nuclear generating stations.

Regulated – Hydroelectric Segment

<i>(millions of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Regulated generation sales ¹	175	151	516	483
Variance accounts	-	9	1	8
Other	12	11	39	35
Revenue	187	171	556	526
Fuel expense	69	60	185	179
Gross margin	118	111	371	347
Operations, maintenance and administration	22	23	70	97
Depreciation and amortization	16	16	48	50
Property and capital taxes	2	3	8	10
Income before interest and income taxes	78	69	245	190

¹ Regulated generation sales included revenue of \$54 million and \$37 million that OPG received at the Ontario electricity spot market price for generation over 1,900 MWh in any hour during the three months ended September 30, 2008 and 2007, respectively. Regulated generation sales included revenue of \$150 million and \$127 million that OPG received at the Ontario electricity spot market price for generation over 1,900 MWh in any hour during the nine months ended September 30, 2008 and 2007, respectively.

Revenue

Regulated – Hydroelectric revenue was \$187 million for the three months ended September 30, 2008 compared to \$171 million during the same period in 2007. During the nine months ended September 30, 2008, Regulated – Hydroelectric revenue was \$556 million compared to \$526 million during the same period in 2007. The increase in revenue was primarily due to higher prices for electricity sales over 1,900 MWh in any hour and higher generation.

During the fourth quarter of 2008, OPG will record the impact of the retrospective increase in the payment amounts effective April 1, 2008 as a result of the OEB's decision.

Electricity Prices

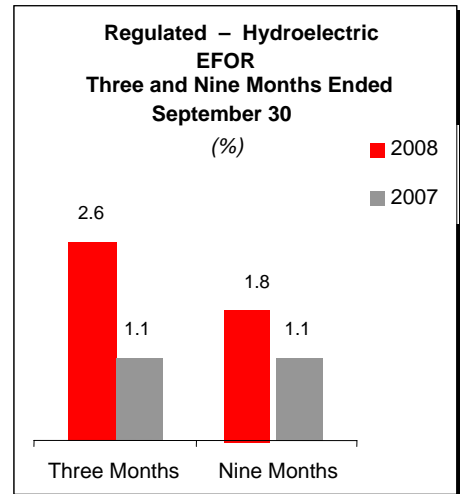
During the three months ended September 30, 2008 and 2007, the average electricity sales price for the Regulated – Hydroelectric segment was 3.8¢/kWh and 3.5¢/kWh, respectively. The average electricity sales price for the nine months ended September 30, 2008 was 3.6¢/kWh compared to 3.5¢/kWh during the same period in 2007. The average sales price is based on the fixed price of 3.3¢/kWh for generation up to 1,900 MWh in any hour, and the spot electricity market price for generation above this level.

Volume

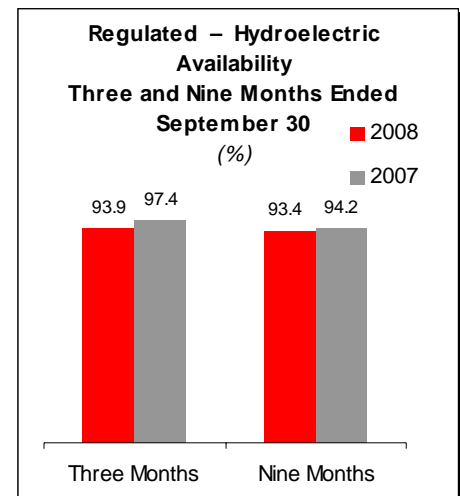
Electricity generation volume for the three months ended September 30, 2008 and 2007 was 4.7 TWh and 4.4 TWh, respectively. During the nine months ended September 30, 2008, electricity generation volume was 14.2 TWh compared to 13.7 TWh during the nine months ended September 30, 2007. The increase in volume in 2008 was primarily due to higher water flows compared to the same periods in 2007.

Volume related to production levels above 1,900 MWh in any hour was 0.9 TWh during the third quarter of 2008 compared to 0.8 TWh for the same period in 2007. During the nine months ended September 30, 2008 and 2007, electricity generation related to production levels above 1,900 MWh in any hour was 2.8 TWh and 2.6 TWh, respectively.

The EFOR for the Regulated – Hydroelectric stations during the three months ended September 30, 2008 was 2.6 per cent compared to 1.1 per cent during the same period in 2007. During the nine months ended September 30, 2008 and 2007, the EFOR for the Regulated – Hydroelectric stations was 1.8 per cent and 1.1 per cent, respectively. The higher EFOR during the three and nine months ended September 30, 2008 compared to the same period in 2007 was due to a planned outage to repair a generator rotor at one of the units of the R. H. Saunders generating station and an outage at the Sir Adam Beck 1 generating station to repair the turbine shaft housing.



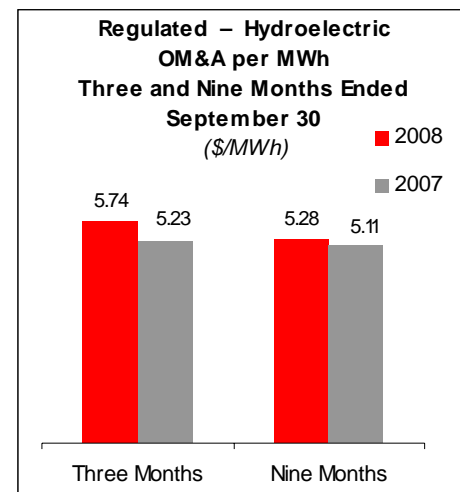
The availability of the Regulated – Hydroelectric stations was 93.9 per cent and 97.4 per cent for the three month periods ended September 30, 2008 and 2007, respectively. During the nine months ended September 30, 2008, availability for the Regulated – Hydroelectric stations was 93.4 per cent compared to 94.2 per cent in the same period in 2007. The availability of the Regulated – Hydroelectric stations was impacted by the planned outages during the third quarter of 2008 at the R.H. Saunders and the Sir Adam Beck generating stations. While the availability was lower than 2007 levels, the availability in the 2008 periods continued to reflect the strong performance of the hydroelectric generating stations.



Operations, Maintenance and Administration

OM&A expenses for the third quarter of 2008 were \$22 million compared to \$23 million for the same period in 2007, a decrease of \$1 million. For the nine months ended September 30, 2008, OM&A expenses were \$70 million compared to \$97 million during the same period in 2007. The lower OM&A expenses for the nine months ended September 30, 2008 compared to the same period in 2007 was primarily due to additional expenses in 2007 related to past grievances by First Nations.

OM&A expense per MWh for the regulated hydroelectric stations was \$5.74/MWh during the three months ended September 30, 2008 compared to \$5.23/MWh during the same period in 2007. For the nine month periods ended September 30, 2008 and 2007, OM&A expense per MWh for the regulated hydroelectric stations was \$5.28/MWh and \$5.11/MWh respectively. OM&A expense per MWh excludes expenses related to past grievances by First Nations. The increase in OM&A expense per MWh for the three and nine month periods ended September 30, 2008 compared to the same periods in 2007 was primarily due to increased repairs and maintenance costs, partially offset by higher generation, in 2008 compared to 2007.



Variance Accounts

As at March 31, 2008, the net regulatory asset balance associated with the regulated hydroelectric operations was \$1 million. This consisted of a \$14 million regulatory asset related to the variance accounts which reflect the impact of differences in regulated hydroelectric production due to differences between forecast and actual water conditions, and differences between forecast and actual ancillary service revenue; and a \$13 million regulatory liability related to the segregated mode of operations and water transactions.

OPG ceased recording additions to these variance accounts on April 1, 2008 pending the OEB's decision regarding their continuation as part of its approval of OPG's application for new payment amounts. The OEB approved the continuation of the hydroelectric production and ancillary services variance accounts retrospective to April 1, 2008. As a result, starting in the fourth quarter of 2008, OPG will record adjustments to revenue due to differences between actual water conditions and ancillary services revenue and forecasts approved by the OEB in establishing the new payment amounts. The differences relating to the period from April 1, 2008 to September 30, 2008, will be recorded in the fourth quarter.

The OEB's decision eliminated OPG's regulatory liability of \$13 million associated with the segregated mode of operations and water transactions net revenue for the period from April 1, 2005 to March 31, 2008. OPG will reverse the regulatory liability of \$13 million in the fourth quarter of 2008.

Unregulated – Hydroelectric Segment

<i>(millions of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Spot market sales, net of hedging instruments	234	155	735	554
Revenue limit rebate	(30)	(16)	(57)	(48)
Other	16	7	41	27
Revenue net of revenue limit rebate	220	146	719	533
Fuel expense	31	19	84	58
Gross margin	189	127	635	475
Operations, maintenance and administration	49	44	141	146
Depreciation and amortization	19	15	55	50
Property and capital taxes	3	3	7	8
Income before interest and income taxes	118	65	432	271

Revenue

Unregulated – Hydroelectric revenue was \$220 million for the three months ended September 30, 2008 compared to \$146 million for the same period in 2007. Unregulated – Hydroelectric revenue was \$719 million for the nine months ended September 30, 2008 compared to \$533 million during the same period in 2007. The increase in revenue during the three and nine months ended September 30, 2008 compared to the same periods in 2007 was due to significantly higher generation volume.

Electricity Prices

After taking into account the revenue limit rebate, OPG's average sales price for its unregulated hydroelectric generation for the three months ended September 30, 2008 and 2007 was 4.8¢/kWh and 4.7¢/kWh, respectively. OPG's average sales price for its unregulated hydroelectric generation for the nine months ended September 30, 2008 and 2007 was 4.7¢/kWh.

Volume

During the three months ended September 30, 2008, electricity generation volume was 4.2 TWh compared to 2.8 TWh for the three months ended September 30, 2007. Electricity generation volume for the nine months ended September 30, 2008 was 14.1 TWh compared to 10.6 TWh during the same period in 2007. The increase in volume during the periods was primarily due to higher water flows in the Northwestern, Northeastern, and Eastern part of the Province.

The EFOR for the Unregulated – Hydroelectric generating stations was 1.4 per cent in the third quarter of 2008 compared to 2.5 per cent during the same quarter in 2007. For the nine months ended September 30, 2008, EFOR was 0.9 per cent compared to 1.7 per cent for the nine months ended September 30, 2007.

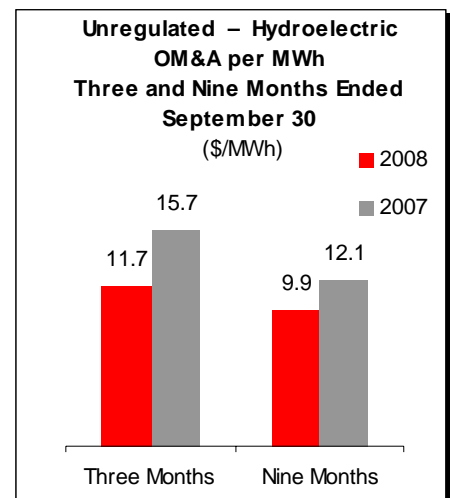
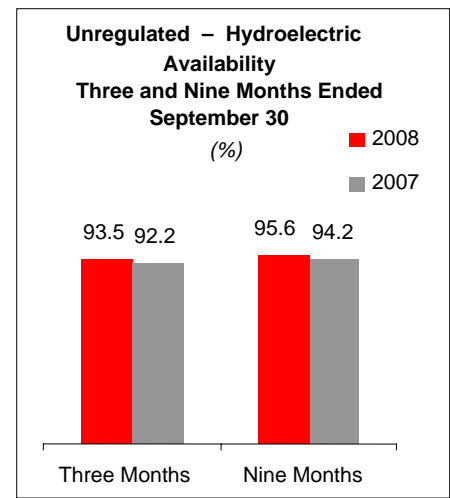
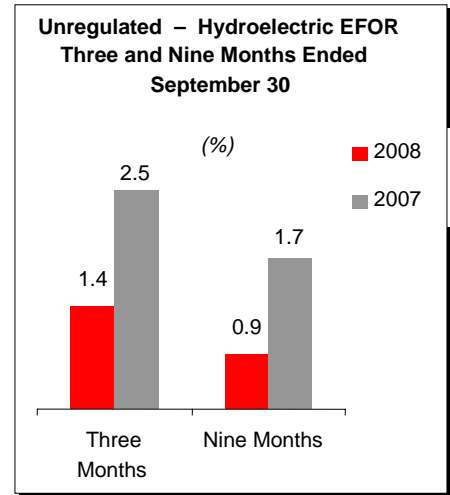
The availability for the Unregulated – Hydroelectric stations was 93.5 per cent for the three month period ended September 30, 2008 compared to 92.2 per cent for the same period in 2007. The availability for the Unregulated – Hydroelectric stations was 95.6 per cent for the nine months ended September 30, 2008 compared to 94.2 per cent for the nine months ended September 30, 2007. The increase in availability was due to the deferral of certain planned outages to take advantage of the higher water flows. The low EFOR and high availability reflected the continuing strong performance of the Unregulated – Hydroelectric stations.

Operations, Maintenance and Administration

OM&A expenses for the three months ended September 30, 2008 were \$49 million compared to \$44 million for the same period in 2007. The increase in OM&A expenses was primarily due to additional maintenance and repairs during 2008.

During the nine months ended September 30, 2008, OM&A expenses were \$141 million compared to \$146 million for the same period last year. The decrease in OM&A expenses for the nine months ended September 30, 2008 compared to the same periods in 2007 was primarily due to additional expenses in 2007 related to past grievances by First Nations, which did not recur in 2008.

OM&A expense per MWh for the unregulated hydroelectric stations was \$11.67/MWh in the third quarter of 2008 compared to \$15.71/MWh for the same quarter in 2007. During the nine months ended September 30, 2008, OM&A expense per MWh for the unregulated hydroelectric stations was \$9.86/MWh compared to \$12.08/MWh for the same period in 2007. The lower OM&A expense per MWh for the three and nine month periods ended September 30, 2008 was primarily due to higher generation. OM&A expense per MWh excludes expense related to past grievances by First Nations.



Unregulated – Fossil-Fuelled Segment

<i>(millions of dollars)</i>	Three Months Ended		Nine Months Ended	
	September 30 2008	2007	September 30 2008	2007
Spot market sales, net of hedging instruments	406	455	1,120	1,242
Revenue limit rebate	(85)	(44)	(180)	(128)
Other	31	28	97	99
Revenue, net of revenue limit rebate	352	439	1,037	1,213
Fuel expense	191	224	526	627
Gross margin	161	215	511	586
Operations, maintenance and administration	131	130	387	414
Depreciation and amortization	22	20	68	59
Accretion on fixed asset removal	2	3	6	7
Property and capital taxes	5	5	16	16
Other (gains) and losses	-	-	(2)	-
Income before interest and income taxes	1	57	36	90

Revenue

Unregulated – Fossil-Fuelled revenue was \$352 million for the three months ended September 30, 2008 compared to \$439 million for the same period in 2007, a decrease of \$87 million. Revenue for the nine months ended September 30, 2008 was \$1,037 million compared to \$1,213 million for the same period in 2007, a decrease of \$176 million. The decrease in revenue during the three and nine month periods ended September 30, 2008 compared to the same periods in 2007 was primarily due to lower electricity generation, partly offset by higher electricity prices.

Electricity Prices

OPG's average sales price net of the revenue limit rebate for its unregulated fossil-fuelled generation was 5.1¢/kWh for the three months ended September 30, 2008 compared to 5.0¢/kWh for the three months ended September 30, 2007. During the nine months ended September 30, 2008 and 2007, OPG's average sales price net of the revenue limit rebate for its unregulated fossil-fuelled generation was 5.0¢/kWh and 4.9¢/kWh, respectively.

Volume

Electricity generation volume for the three months ended September 30, 2008 was 6.2 TWh compared to 8.2 TWh during the same period in 2007. Electricity generation volume for the nine months ended September 30, 2008 was 18.7 TWh compared to 22.6 TWh during the same period in 2007. The decrease in generation for the three and nine month periods ended September 30, 2008 compared to the same periods in 2007 was primarily due to higher generation from OPG's hydroelectric and nuclear generating stations, which resulted in lower generation being required from OPG's fossil-fuelled generating stations.

The EFOR for the Unregulated – Fossil-Fuelled stations during the three months ended September 30, 2008 was 7.4 per cent compared to 10.5 per cent during the same period in 2007. The decrease in EFOR during the third quarter of 2008 compared to the same quarter in 2007 was primarily due to improved performance of the coal-fired generating stations, particularly at the Nanticoke generating station.

During the nine months ended September 30, 2008 and 2007, the EFOR for the Unregulated – Fossil-Fuelled stations was 11.1 per cent and 11.2 per cent, respectively.

Fuel Expense

Fuel expense was \$191 million for the three months ended September 30, 2008 compared to \$224 million for the same period in 2007. The decrease of \$33 million was primarily due to lower electricity generation partially offset by higher fuel prices and a favourable inventory adjustment in the third quarter of 2007 resulting from the annual fuel survey.

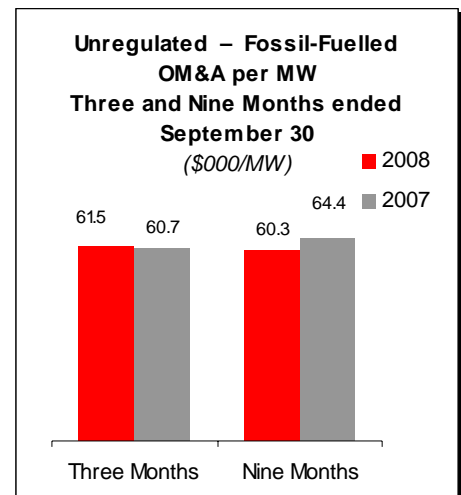
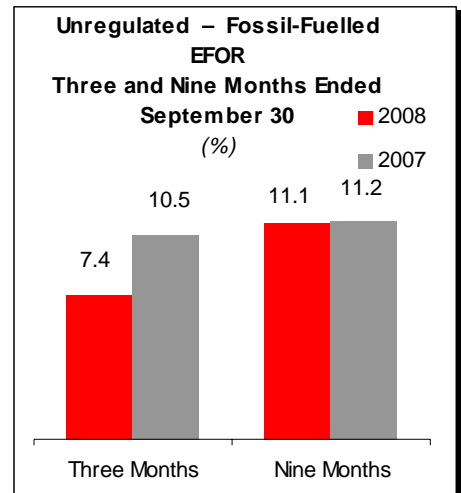
During the nine months ended September 30, 2008, fuel expense was \$526 million compared to \$627 million during the nine months ended September 30, 2007. The decrease of \$101 million in 2008 compared to 2007 was primarily due to lower electricity generation, partly offset by higher coal contract prices and rail transportation costs, combined with higher market costs for ignition fuels.

Operations, Maintenance and Administration

OM&A expenses for the three months ended September 30, 2008 and 2007 were \$131 million and \$130 million, respectively.

OM&A expenses for the nine months ended September 30, 2008 were \$387 million compared to \$414 million during the nine months ended September 30, 2007. The decrease in OM&A expense for the nine month period ended September 30, 2008 compared to the same period last year was primarily due to the completion during 2007 of non-recurring project work, and the impact of lower generation during 2008.

Annualized OM&A expense per MW (\$/MW) for the unregulated fossil-fuelled stations was \$61,500/MW for the three months ended September 30, 2008 compared to \$60,700/MW for the three months ended September 30, 2007. During the nine months ended September 30, 2008, annualized OM&A expense per MW was \$60,300/MW compared to \$64,400/MW for the same period in 2007. The decrease in OM&A expense per MW during the nine months ended September 30, 2008 compared to the same period in 2007 was primarily due to lower OM&A expenses.



Other

<i>(millions of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Revenue	57	36	94	103
Operations, maintenance and administration	2	5	5	6
Depreciation and amortization	11	13	31	40
Property and capital taxes	3	3	9	9
Other (gains) and losses	-		9	
Income before interest and income taxes	41	15	40	48

Other revenue was \$57 million for the three months ended September 30, 2008 compared to \$36 million for the same period in 2007. The increase in other revenue during the third quarter of 2008 compared to the same period in 2007 was primarily due to higher mark to market gain on interconnected market sales. Other revenue for the nine months ended September 30, 2008 was \$94 million compared to \$103 million in the same period in 2007. The decrease in other revenue during the first nine months of 2008 compared to the same period in 2007 was primarily due lower investment income from OPG's equity investments.

OM&A expenses of the generation business segments include an inter-segment service fee for the use of certain property, plant and equipment held within the Other category. The total service fee is recorded as a reduction to the Other category's OM&A expenses. For the three months ended September 30, 2008, the service fee was \$7 million for Regulated – Nuclear, \$1 million for Regulated – Hydroelectric, \$1 million for Unregulated – Hydroelectric and \$2 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$11 million for the Other category. For the three months ended September 30, 2007, the service fee was \$11 million for Regulated – Nuclear, \$1 million for Regulated – Hydroelectric, \$1 million for Unregulated – Hydroelectric, \$4 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$17 million for the Other category.

For the nine months ended September 30, 2008, the service fee was \$21 million for Regulated – Nuclear, \$2 million for Regulated – Hydroelectric, \$3 million for Unregulated – Hydroelectric, \$6 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$32 million for the Other category. For the nine months ended September 30, 2007, the service fee was \$25 million for Regulated – Nuclear, \$2 million for Regulated – Hydroelectric, \$3 million for Unregulated – Hydroelectric, \$8 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$38 million for the Other category.

Interconnected purchases and sales, including those to be physically settled, and unrealized mark-to-market gains and losses on energy trading contracts are disclosed on a net basis in the consolidated statements of income. If disclosed on a gross basis, revenue and power purchases for the three months ended September 30, 2008 would have increased by \$34 million (three months ended September 30, 2007 – \$26 million). For the nine months ended September 30, 2008, if disclosed on a gross basis, revenue and power purchases would have increased by \$135 million (nine months ended September 30, 2007 – \$90 million).

The changes in the fair value of derivative instruments not qualifying for hedge accounting are recorded in Other revenue, and are carried on the consolidated balance sheets as assets or liabilities at fair value. The carrying amounts and notional quantities of the derivative instruments are disclosed in Note 12 in the unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2008.

Net Interest Expense

The net interest expense for the three months ended September 30, 2008 and 2007 was \$41 million compared to \$37 million for the same period in 2007. The net interest expense for the nine months ended September 30, 2008 and 2007 was \$120 million and \$102 million, respectively. The increase in net interest expense for the nine months ended September 30, 2008 was primarily due to issuance of long-term debt combined with the deferral of additional interest in 2007 related to the Pickering A return to service deferral account. Interest was deferred in accordance with the requirements of the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario).

Income Taxes

OPG follows the liability method of tax accounting for 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. Following the introduction of rate regulation on April 1, 2005, OPG has accounted 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 through future regulated prices charged to customers. As a result, OPG did not record a future tax recovery of \$78 million and a future tax expense of \$20 million for the rate regulated segments during the three months ended September 30, 2008 and 2007, respectively, which would have been recorded had OPG accounted for income taxes for the regulated segments using the liability method. During the nine months ended September 30, 2008 and 2007, OPG did not record a future tax expense of \$38 million and \$61 million for the regulated segments, respectively. 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 CICA Handbook Section 3465, *Income Taxes*.

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 and as a result, OPG reduced its income tax liability by \$106 million.

For the three and nine months ended September 30, 2008, there was a net income tax expense of \$64 million and \$48 million compared to an income tax expense of \$26 million and \$112 million for the same periods in 2007. The increase in income tax expense for the three months ended September 30, 2008 was due to higher earnings before losses on the Nuclear Funds. OPG has accounted for income taxes relating to the rate regulated segments of its business using the taxes payable method. Since earnings and losses on the Nuclear Funds are not taxable or deductible for tax purposes until reimbursements are obtained by OPG for the Nuclear Funds, the losses on the Nuclear Funds did not impact the income tax expense for the three and nine month periods ended September 30, 2008. The decrease in the income tax expense for the nine months ended September 30, 2008 compared to the same period in 2007 was primarily due to the impact of the reduction in 2008 of income tax liabilities as a result of the resolution of tax uncertainties related to the audit of OPG's 1999 taxation year.

The audit of OPG's taxation years subsequent to 1999 is expected to commence in late 2008. Should the outcome of the audit for subsequent years differ from OPG's recorded income tax liabilities, the Company's effective tax rate and its net income could be materially affected either negatively or positively in the period in which the matters are resolved.

The OEB's decision on OPG's new payment amounts issued on November 3, 2008 established a taxation variance account retrospective to April 1, 2008. The scope of the account with respect to income tax includes variances in the income tax expense for the regulated business 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 the audit of taxation years subsequent to 1999.

LIQUIDITY AND CAPITAL RESOURCES

OPG's primary sources of liquidity and capital are funds generated from operations, bank financing and credit facilities provided by the OEFC. These sources are utilized for continued investment in plant and technologies, and to meet other significant funding obligations including contributions to the Pension Fund, the Used Fuel and Decommissioning Funds, and to service and repay long-term debt and revenue limit rebate obligations.

<i>(millions of dollars)</i>	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2008	2007	2008	2007
Cash and cash equivalents, beginning of the period	365	138	110	6
Cash flow provided by operating activities	434	248	835	723
Cash flow used in investing activities	(164)	(292)	(431)	(627)
Cash flow provided by (used in) financing activities	(152)	38	(31)	30
Net increase (decrease)	118	(6)	373	126
Cash and cash equivalents, end of the period	483	132	483	132

Operating Activities

Cash flow provided by operating activities for the three months ended September 30, 2008 was \$434 million compared to cash flow provided by operating activities of \$248 million for the same period in 2007. The increase was primarily due to higher receipts from generation sales.

Cash flow provided by operating activities for the nine months ended September 30, 2008 was \$835 million compared to cash flow provided by operating activities of \$723 million for the same period in 2007. The increase was primarily due to higher receipts from generation activities, partially offset by an increase in nuclear fuel expenditures as a result of higher prices.

Investing Activities

OPG is in a capital-intensive business that requires continued investment in plant and technologies to improve operating performance, increase generating capacity of its existing stations, invest in new generating stations and to maintain and improve service, reliability, safety and environmental performance.

Investment in fixed assets during the three months ended September 30, 2008 was \$172 million compared with \$179 million for the third quarter of 2007. For the nine months ended September 30, 2008, investment in fixed assets was \$434 million compared with \$476 million for the nine months ended September 30, 2007. The decrease was primarily due to lower capital expenditures for the Portlands Energy Centre during the 2008 period, partially offset by higher spending on the Niagara Tunnel and other hydroelectric initiatives.

OPG's forecast capital expenditures for 2008 are approximately \$690 million, which include amounts for the Niagara Tunnel, Portlands Energy Centre and other nuclear and hydroelectric development projects.

Cash flow from investing activities for the three months ended September 30, 2008 included an increase in regulatory assets of \$2 million. The increase in regulatory asset was primarily due to interest recorded on the Pickering A return to service deferral account and interest on non-capital costs incurred for nuclear

generation development initiatives. For the nine months ended September 30, 2008, cash flow from investing activities included an increase in regulatory assets of \$12 million primarily for the same reasons.

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 per cent of the face value of the notes in December 2007. Of the remaining \$58 million, OPG recorded an impairment loss of \$9 million as at December 31, 2007, plus an additional \$9 million impairment loss during the first quarter of 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.

OPG's remaining investment in ABCP is subject to a restructuring proposal put forward by a Committee of large noteholders (the “Plan”). The Plan provides that most of the assets in existing conduits be transferred into new conduits against which new long-term notes will be issued. OPG expects to receive the new notes in the fourth quarter of 2008. The new notes will mature in approximately eight years. OPG will 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.

Financing Activities

OPG maintains a \$1 billion revolving committed bank credit facility which is divided into two tranches – a \$500 million 364-day term tranche and a \$500 million five-year term tranche. OPG has 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 September 30, 2008, no commercial paper was outstanding (December 31, 2007 – nil), and OPG had no other outstanding borrowings under the bank credit facility.

In the second quarter of 2008, OPG entered into a \$100 million five-year revolving committed bank credit facility in support of the Upper Mattagami and Hound Chute project. As at September 30, 2008, there was no borrowing under this credit facility. OPG is also pursuing external project financing for up to \$200 million for this project.

OPG also maintains \$25 million (December 31, 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 September 30, 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 Portlands Energy Centre (December 31, 2007 – \$16 million).

OPG has an agreement with the OEFC to finance the Niagara Tunnel project for up to \$1 billion over the duration of the project. The funding is advanced in the form of 10-year notes, on commercial terms and conditions. Advances under this facility commenced in October 2006, and amounted to \$340 million as at September 30, 2008, including \$30 million of new borrowing during the third quarter of 2008. Similarly, debt financing has been negotiated with the OEFC for OPG's interest in the Portlands Energy Centre and the Lac Seul project for up to \$400 million and \$50 million, respectively. Advances under these facilities commenced in December 2006, and totalled \$285 million for the Portlands Energy Centre and \$20 million for the Lac Seul project as at September 30, 2008. This included \$20 million of new borrowing under the Portlands Energy Centre facility in the third quarter of 2008.

As at September 30, 2008, OPG's long-term debt outstanding with the OEFC was \$3.6 billion. Although the new borrowings added in 2008 has extended the maturity profile, approximately \$2.1 billion of long-

term debt must be repaid or refinanced within the next five years. To ensure that adequate financing resources are available beyond its \$1 billion commercial paper program backed by the bank credit facility, OPG reached an agreement with the OEFC in 2007 for a \$950 million credit agreement to refinance senior notes as they mature over the period from September 2007 to September 2009.

Long-Term Credit Rating

In August 2008, Standard & Poor's (S&P) raised OPG's long-term credit rating to "A-" with a stable outlook from "BBB+" with a positive outlook. At the same time, S&P affirmed OPG's "A-2" global scale and "A-1(Low)" Canada scale commercial paper rating. S&P stated that the upgrade in the long-term rating reflects a closer relationship between the company and its higher-rated owner, the Province, and a slightly stronger stand-alone credit profile, given the regulatory support and an expected improvement in cash flow metrics. S&P added that regulatory oversight of the Company's baseload nuclear and hydroelectric assets, a diverse generation portfolio, and a cost-competitive position, support OPG's strong business risk profile.

BALANCE SHEET HIGHLIGHTS

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

Selected balance sheet data	As at	
	September 30 2008	December 31 2007
<i>(millions of dollars)</i>		
Assets		
Accounts receivable	227	315
Property, plant and equipment – net	12,744	12,777
Nuclear fixed asset removal and nuclear waste management funds	9,416	9,263
Regulatory assets	370	356
Future income taxes	24	-
Liabilities		
Accounts payable and accrued charges	794	953
Long-term debt (including debt due within one year)	3,822	3,853
Fixed asset removal and nuclear waste management	11,313	10,957
Long-term accounts payable and accrued charges	433	184
Future income taxes	-	217

Accounts Receivable

As at September 30, 2008, accounts receivable were \$227 million compared to \$315 million as at December 31, 2007. The decrease of \$88 million was primarily due to lower electricity generation volumes in September 2008 compared to December 2007.

Property, Plant and Equipment – Net

Net property, plant and equipment as at September 30, 2008 was \$12,744 million compared to \$12,777 million as at December 31, 2007. The decrease was primarily due to depreciation expense, partially offset by additions to fixed assets, which included expenditures for the Niagara Tunnel, Upper Mattagami and Hound Chute projects.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Decommissioning Fund

The Decommissioning Fund was established to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level nuclear waste management and a portion of used fuel storage costs after station life. Upon termination of the Ontario Nuclear Funds Agreement (“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 assets 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 Decommissioning Fund's asset value on a fair value basis was \$4,624 million at September 30, 2008 compared to \$5,072 million as at December 31, 2007. The decrease in asset value in the Decommissioning Fund of \$448 million was primarily due to unfavourable returns in the capital markets during the nine months ended September 30, 2008. As at December 31, 2007, the Decommissioning Fund was overfunded by \$3 million when compared to the 2006 ONFA reference plan cost to complete, and the fund balance was reduced by a payable to the Province. The Decommissioning Fund was underfunded at September 30, 2008. As a result, the payable to the Province was nil at September 30, 2008.

Used Fuel Fund

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 per cent plus the change in the Ontario Consumer Price Index (“committed return”) for funding related to the first 2.23 million used fuel bundles. OPG recognizes the committed return on the Used Fuel Fund and includes it in the earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of the Used Fuel Fund's assets, which includes realized and unrealized returns, is recorded as due to or due from the Province. The asset value as at September 30, 2008 included a receivable from the Province of \$196 million. The asset value as at December 31, 2007 was reduced by a payable to the Province of \$511 million. The receivable and payable relates to the committed return adjustment. At September 30, 2008, the Used Fuel Fund asset value on a fair value basis was \$4,792 million compared to \$4,191 million as at December 31, 2007. The increase in the value of the Used Fuel Fund assets was due to the committed return and new contributions to the fund.

The market volatility during the nine months of 2008 did not have an impact on the Used Fuel Fund balance as a result of the Province's rate of return guarantee.

Regulatory Assets

As at September 30, 2008, regulatory assets were \$370 million compared to \$356 million as at December 31, 2007. The increase in regulatory assets was primarily due to additions to the nuclear liabilities deferral account, which were recorded in the first quarter of 2008.

Accounts Payable and Accrued Charges

Accounts payable and accrued charges as at September 30, 2008 were \$794 million compared to \$953 million as at December 31, 2007. The decrease of \$159 million was primarily due to lower payables related to uranium and fossil fuel purchases, and lower interest accruals due to the timing of interest

payments. The decrease was partially offset by an increase in accruals for Gross Revenue Charge and Water Rentals which resulted from an increase in Hydroelectric generation.

Long-Term Debt (including debt due within one year)

Long-term debt as at September 30, 2008 was \$3,822 million compared to \$3,853 million as at December 31, 2007. The decrease was due to the repayment of long-term debt of \$406 million during the nine months ended September 30, 2008. This decrease was largely offset due to the issuance of long-term debt of \$200 million under the \$950 million credit agreement to refinance maturing notes, \$100 million under the Niagara Tunnel facility, and \$75 million under the Portlands Energy Centre facility.

Fixed Asset Removal and Nuclear Waste Management

The liability for fixed asset removal for nuclear and fossil-fuelled generating stations and nuclear waste management as at September 30, 2008 was \$11,313 million compared to \$10,957 million as at December 31, 2007. The increase was primarily due to accretion of \$457 million due to the passage of time, partially offset by expenditures on nuclear waste management activities.

Long-term Accounts Payable and Accrued Charges and Future Income Tax Asset and Liability

As at September 30, 2008, long-term accounts payable and accrued charges included various contingent liabilities and unrealized mark-to-market losses. The resolution of tax uncertainties related to the 1999 taxation year also impacted the future income tax liability as at September 30, 2008.

Accumulated Other Comprehensive (Loss) Income

Accumulated other comprehensive loss as at September 30, 2008 was \$10 million and accumulated other comprehensive income as at December 31, 2007 was \$17 million. Accumulated other comprehensive (loss) income reflects the balances related to derivative instruments and amounts that are designated for hedging purposes net of income taxes.

Off-Balance Sheet Arrangements

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

CHANGES IN ACCOUNTING POLICIES

Capital Disclosures and Financial Instruments

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

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

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing the disclosure requirements, and carrying forward unchanged the presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Inventories

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

Accounting for Regulatory Operations

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

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

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

Intangible Assets

In February 2008, the CICA adopted Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces CICA Handbook Section 3062, *Goodwill and other Intangible Assets*, and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008, with early adoption encouraged. The adoption of this standard is not expected to have a significant impact on the Company’s financial position or results of operation.

Conversion to International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that Publicly Accountable Enterprises will be required to transition from Canadian GAAP to International Financial Reporting Standards (“IFRS”) for interim and annual financial reporting purposes for fiscal years beginning on or after January 1, 2011. OPG is required to present its first set of published IFRS statements in the first quarter of 2011, with comparative information. In May 2008, the Canadian Securities Administrators issued Staff Notice 52-320, which provides guidance on the disclosure of changes in expected accounting policies related to the change over to IFRS. In accordance with the notice, OPG is required to provide an update of the Company’s IFRS conversion plan in each financial reporting period prior to conversion on January 1, 2011.

OPG commenced its IFRS conversion project in 2007 and has established a formal project governance structure. This structure includes a steering committee consisting of senior levels of management from finance, representatives from all business units, and information technology. There is regular reporting

to executive management and to the Audit/Risk Committee of the Board of Directors. OPG has also engaged an external expert advisor.

OPG's conversion project consists of three phases: diagnostic, development, and implementation. During the fourth quarter of 2007, OPG completed the diagnostic phase which involved a high level review of the major differences between current Canadian GAAP and IFRS. Currently, OPG has determined that the differences with the highest potential to impact OPG's accounting include rate regulated accounting, accounting for fixed assets, asset retirement obligation accounting, as well as initial adoption of IFRS under the provision of IFRS 1, *First-time Adoption of IFRS*.

During 2008, OPG has completed a number of milestones as part of the development stage of its IFRS conversion project, which requires a more detailed consideration of those issues identified by the diagnostic exercise as well as a more thorough review of all of the accounting differences, and related system and process impacts. These milestones include training for all components and the completion of the majority of OPG's component evaluations. OPG has begun the process of determining the systems impact of the IFRS conversion.

RISK MANAGEMENT

A detailed discussion of OPG's governance structure and inherent risks is included in the 2007 annual MD&A under the heading, *Risk Management*. The following discussion updates the annual disclosure.

Market and Credit Risks

Commodities

Changes in the market price of electricity or of the fuels used to produce electricity can adversely impact OPG's earnings and cash flow from operations. To manage this risk, the Company seeks to maintain a balance between the commodity price risk inherent in its electricity production and plant fuel portfolios to the extent that trading liquidity in the relevant commodities markets provides the economic opportunity to do so. To manage fuel price risk, OPG has a fuel hedging program, which includes using fixed price and indexed contracts, as well as approved derivative products. Since the beginning of the year, coal prices have escalated significantly. The impact of the escalation has not, however, affected fuel costs significantly due to the long-term nature of the hedge program.

The rise in prices has increased the Company's potential credit exposure to coal suppliers from \$62 million at the end of 2007 to \$384 million at September 30, 2008, given the increase in value of the existing contracts. Potential credit exposure is OPG's assessment using both qualitative and quantitative methods to estimate the exposure over the life of each transaction at a 95 per cent confidence interval. In order to mitigate this risk, OPG executes a wide range of credit policies and practices, including ongoing evaluation of the financial condition of its counterparties. As well, to diversify this risk, OPG sources its coal requirements from over 15 different suppliers.

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

	2008	2009	2010
Estimated generation output hedged ¹	93%	73%	66%
Estimated fuel requirements hedged ²	100%	99%	86%
Estimated nitric oxide ("NO") emission requirement hedged ³	100%	100%	100%
Estimated SO ₂ emission requirement hedged ³	100%	100%	100%

¹ Represents the portion of megawatt hours of expected future generation production, including power purchases, for which the Company has sales commitments and contracts including the obligations under regulated pricing commitments, agreements with the IESO, OPA auction sales and the revenue limit on OPG's non-prescribed assets (which ends on April 30, 2009). This ratio reflects only contractual commitments which have been executed by September 30, 2008.

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

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

Interest Rates

OPG periodically uses interest rate swap agreements to mitigate interest rate risk exposure associated with anticipated new financing. As of September 30, 2008, OPG had total forward start interest rate swap contracts outstanding with a notional principal of \$322 million and a maturity schedule of one to 12 years.

Trading

Open trading positions are subject to measurement against Value at Risk ("VaR") limits. For a given portfolio, VaR measures the possible future loss in terms of market value, which under normal market conditions will not be exceeded, within a defined confidence interval and time period. Currently, VaR limits for trading are \$5 million, and VaR utilization ranged between \$2.6 million and \$4.2 million during the three months ended September 30, 2008, compared to \$0.5 million and \$1.0 million during the three months ended September 30, 2007. VaR utilization is closely monitored in order to ensure compliance with approved limits.

Nuclear Funds Market Risk

The weak performance of the global financial markets has negatively affected the market value of the investments held in the Decommissioning Fund. Although the Decommissioning Fund is underfunded at the end of the period, under the terms of the Ontario Nuclear Funds Agreement between OPG and the Province, OPG is not required to increase the contributions to the Decommissioning Fund prior to the approval of a new ONFA Reference Plan, which is expected in 2011.

For the Used Fuel Fund, the Province guarantees the annual rate of return at 3.25 per cent plus the change in the Ontario Consumer Price Index for the first 2.23 million fuel bundles. By providing this rate of return guarantee to the Used Fuel Fund, the Province assumes the Used Fuel Fund's entire rate of return risk. Therefore, the market volatility in the global financial markets did not impact OPG's earnings from the Used Fuel Fund.

Pension and Other Post Employment Benefit Costs

OPG's post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. The Company's registered pension plan is a contributory defined benefit plan that is indexed to inflation and covers most employees and retirees.

Market conditions during 2008 have been volatile, with a significant decrease in investment returns on pension plan assets, and increases in discount rates related to yields on bonds.

Contributions to OPG's pension plan are established by actuarial valuations, which are filed with the Financial Services Commission of Ontario at least every three years. The most recently filed valuation was prepared as at January 1, 2008 and was filed in September 2008. OPG's annual pension contributions for 2009 and 2010 are estimated to be approximately \$260 million and \$270 million, respectively. The next valuation is required to be prepared as at a date no later than January 1, 2011. The required level of contributions effective January 1, 2011 will depend on future investment returns, changes in benefits and changes in actuarial assumptions.

The costs of and obligations for pension and other post employment benefits are calculated based on assumptions including the long-term rate of return on pension assets, discount rates for pension and other post employment benefit obligations, expected service period of employees, wage or salary increases, inflation and health care cost trend rates. These assumptions are subject to significant changes as they require judgment and involve inherent uncertainties. The most significant assumptions used to calculate the net periodic cost of pension and other post employment benefits are the discount rates for pension and other post employment benefits, the expected return on pension fund assets, and the expected inflation rate for pension benefits.

The Company's future plan assets, accrued benefit obligations, pension and other post employment benefit expenses, and pension contributions could be materially affected by: significant changes in assumptions driven by changes in financial markets; experience gains and losses; changes in the pension plan or regulatory environment; divestitures; and the measurement uncertainty incorporated into the actuarial valuation process.

Regulatory Risks

Addressing nuclear regulatory requirements adds to the cost of operations and in some instances, may result in a reduction in the productive capacity of a nuclear generating station. This is currently the case at the Pickering A nuclear generating station, where the units are derated to 96 per cent of full capacity. OPG is expecting that the derating could be extended through part of 2009.

The issuance of the OEB's decision on OPG's application for payment amounts on November 3, 2008 reduced the uncertainty associated with the OEB regulatory process. However, the new payment amounts for the prescribed assets have not been finalized at this time and, therefore, the impact on the revenues generated by OPG's regulated businesses remains uncertain.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

QUARTERLY FINANCIAL HIGHLIGHTS

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

<i>(millions of dollars)</i>	September 30 2008	June 30 2008	March 31 2008	December 31 2007
Revenue after revenue limit rebate	1,513	1,385	1,563	1,342
Net (loss) income	(142)	99	162	119
Net (loss) income per share	\$(0.55)	\$0.39	\$0.63	\$0.46

<i>(millions of dollars)</i>	September 30 2007	June 30 2007	March 31 2007	December 31 2006
Revenue after revenue limit rebate	1,421	1,373	1,524	1,276
Net income (loss)	113	125	171	(19)
Net income (loss) per share	\$0.44	\$0.49	\$0.67	\$(0.08)

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

Additional items which impacted net income (loss) in certain quarters above include the following:

- Impairment loss on the Thunder Bay and Atikokan coal-fired generating stations of \$22 million, reflecting the carrying value of the stations, during the fourth quarter of 2006;
- Higher OM&A expense in 2007 primarily due to higher outage and other maintenance expenditures at OPG's nuclear and fossil-fuelled generating stations, and expenses related to past grievances by First Nations;
- Decrease in gross margin from electricity sales during the first quarter of 2007 primarily due to lower generation from OPG's nuclear generating stations as a result of an unplanned outage during the first quarter of 2007 at the Pickering B nuclear generation station caused by an inadvertent release of resin by a third-party contractor from the water treatment plant into the demineralized water system, and the requirement for maintenance related to the recovery of the resin. In addition, nuclear generation was also impacted by an extension to a planned outage during the first quarter of 2007 at the Pickering A nuclear generating station for significant additional repair work required as a result of a component failure during inspection;
- Higher earnings from the Nuclear Funds during the second quarter of 2007 primarily due to a higher Ontario CPI during the second quarter of 2007, which impacted the guaranteed return on the Used Fuel Fund. In addition, the increase in earnings also reflected a reimbursement from the Nuclear Funds for expenditures related to the safe storage of Pickering A Units 2 and 3;
- Lower gross margin primarily due to lower nuclear generation during the three months ended September 30, 2007 as a result of the shutdown of the Pickering A nuclear generating station Units 1 and 4 to perform modifications on a backup electrical system;
- Higher earnings due to a recovery of \$20 million related to the re-estimation of costs to complete the remaining work to remediate the Lakeview site during the fourth quarter of 2007;
- Impairment losses of \$10 million reflecting the fair market value of OPG's third-party ABCP holdings during the fourth quarter of 2007;
- Lower income tax expense during the fourth quarter of 2007 largely due to an additional contribution of \$334 million to the Nuclear Funds. Contributions are deductible for tax purposes and no offsetting future tax expense is recognized by OPG due to the use of the taxes payable method to account for income taxes in the regulated segment;

- Decrease in income tax expense of \$85 million and \$21 million during the first and second quarters of 2008, respectively, was due to the resolution of the tax uncertainties related to the audit of OPG's 1999 taxation year; and
- Decrease in earnings due to lower returns on the Decommissioning Fund, as a result of significant volatility and unfavourable returns in the capital markets during the first nine months of 2008.

SUPPLEMENTAL EARNINGS MEASURES

In addition to providing net income in accordance with Canadian GAAP, OPG's MD&A, unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2008 and 2007 and the notes thereto, present certain non-GAAP financial measures. These financial measures do not have standard definitions prescribed by Canadian GAAP and therefore may not be comparable to similar measures disclosed by other companies. OPG utilizes these measures in making operating decisions and assessing its performance. Readers of the MD&A, consolidated financial statements and notes thereto utilize these measures in assessing the Company's financial performance from ongoing operations. These non-GAAP financial measures have not been presented as an alternative to net income in accordance with Canadian GAAP as an indicator of operating performance. The definitions of the non-GAAP financial measures are as follows:

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

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

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