ONTARIO POWER GENERATION

News
from Ontario Power Generation

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OPG REPORTS 2018 SECOND QUARTER FINANCIAL RESULTS

OPG receives ten-year operating license extension for the Pickering generating station - Agrees to acquire Eagle Creek Renewable Energy

Toronto: – Ontario Power Generation Inc. (OPG or Company) today reported net income attributable to the Shareholder of $121 million for the second quarter of 2018, compared to $303 million for the same quarter in 2017. Net income for the second quarter of 2017 included a one-time after-tax gain of $283 million on the sale of OPG's head office property.

"As Ontario's publicly-owned low-cost electricity generator, we are pleased to report our second quarter results that provided a strong return for our shareholder, the Province of Ontario. We remain focused on continuing to be Ontario's lowest cost electricity producer and driving value from our public assets for the benefit of our owners, the people of Ontario," said Jeff Lyash, OPG President and CEO. "We are also pleased that the Canadian Nuclear Safety Commission has granted OPG a ten-year operating license to allow the Pickering station to operate commercially until the end of 2024 and then conduct the work needed through to 2028 to place the station in a safe state as the initial part of the decommissioning process. This public asset provides a reliable supply of low-cost electricity for up to 1.5 million Ontario homes each day," Lyash added. "During his visit to the Pickering station in June, Premier Ford confirmed his ongoing support for Pickering's continued operation and the thousands of jobs across Ontario that depend on the station."

"We are also very pleased to announce that we have signed a deal to acquire Eagle Creek Renewable Energy, an operator of small hydropower facilities in the United States." Lyash continued, "By expanding our core business with this purchase, OPG is capitalizing on a new growth opportunity by making an investment in a strategic set of hydroelectric assets that will produce an attractive return for our shareholder, the Province of Ontario. This acquisition will be financed without the use of taxpayer funds and will have no impact on Ontario's electricity customers." Lyash added, "As Ontario's public electricity generator, we have been stewards of hydroelectric assets for more than a century and we are proud to continue that legacy with this acquisition."

"Also announced this quarter, the Darlington Nuclear Station is poised to become the world's first large-scale commercial supplier of molybdenum-99, a life-saving medical isotope that is used in over 30 million medical treatments worldwide each year," added Lyash. "Darlington's Canada Deuterium Uranium (CANDU) reactors will allow for a continuous supply of this medical isotope that hospitals and health providers have had to import from Europe, Africa and Australia since Canada's National Research Universal reactor ceased regular production in 2016."

The Company's net income for the second quarter of 2018 was favourably impacted by the new regulated prices for OPG's nuclear and most of its hydroelectric generation, resulting from the Ontario Energy Board's (OEB) decision on OPG's application for new regulated prices for the 2017-2021 period issued in December 2017. Partially offsetting the increase in earnings due to the new regulated prices, nuclear electricity generation in the second quarter of 2018 was lower compared to the same period in 2017, as expected, due to a higher concentration of the year's planned outage days at the Pickering Generating Station (GS) in the second quarter of 2018, compared to 2017, in line with the station's cyclical maintenance schedule.

Taking into account the impact of the new regulated prices, OPG continues to provide electricity at a price that is approximately 40 per cent less than the average of other generators. OPG is the only electricity generator in Ontario that has its prices set through a public hearing process by the OEB.

The Company successfully closed a $450 million green bond offering in June 2018, a first-of-its kind financing for the Canadian energy sector. The proceeds from the offering will be used to finance eligible hydroelectric projects as part of OPG's clean power generating fleet.

Acquisition of Eagle Creek Renewable Energy

OPG has signed a purchase and sale agreement to acquire 100 per cent of the equity of Eagle Creek Renewable Energy LLC (Eagle Creek), an operator of small hydropower facilities in the United States, for US$298 million, subject to customary working capital and other adjustments. The acquisition will have no impact on electricity customers in Ontario and will lead to higher returns for OPG's shareholder, the Province of Ontario.

Eagle Creek currently owns and operates 63 small hydropower facilities representing 216 megawatts (MW) of capacity primarily located in the U.S. Northeast and Midwest. Eagle Creek also has ownership interests in 13 other hydroelectric assets and two solar facilities in New England representing 10 MW of capacity.

Pending U.S. regulatory approvals and final closing, Eagle Creek will become a wholly-owned subsidiary of OPG. OPG's operations in Ontario will remain a separate business entity, primarily regulated by the OEB.

Generation and Operating Performance

Electricity generated during the three months ended June 30, 2018 was 17.2 terawatt hours (TWh), compared to 18.0 TWh for the same quarter in 2017. Total electricity generated during the six months ended June 30, 2018 decreased to 36.0 TWh from 36.6 TWh for the same period in 2017.

Regulated – Nuclear Generation Segment

Lower nuclear generation of 0.7 TWh and 0.3 TWh during the three and six month periods ended June 30, 2018, respectively, compared to the same periods in 2017, was primarily due to a higher number of planned outage days at the Pickering GS. The decrease was expected and partially offset by fewer planned outage days at the Darlington GS during the first quarter of 2018.

For the three months ended June 30, 2018, the unit capability factor for the operating units at the Darlington GS was 67.4 per cent, compared to 64.6 per cent for the same quarter in 2017. For the six months ended June 30, 2018, the unit capability factor for the operating units at the Darlington GS was 81.9 per cent, compared to 74.9 per cent for the same period in 2017. The increase for the three months ended June 30, 2018 was primarily due to fewer unplanned outage days at the station. For the six months ended June 30, 2018, the increase was due to fewer planned outage days at the station during the first quarter of 2018.

At the Pickering GS, the unit capability factor decreased to 71.3 per cent and 72.9 per cent for the three and six month periods ended June 30, 2018, respectively, compared to 84.2 per cent and 81.4 per cent for the same periods in 2017. The decrease was expected and primarily due to a higher number of planned outage days in the station's cyclical maintenance schedule in the first half of 2018.

Fewer outage days are planned for the Regulated – Nuclear Generation in the second half of the year in 2018, compared to the same period in 2017.

Regulated – Hydroelectric Segment

Lower generation from the regulated hydroelectric stations of 0.6 TWh and 0.9 TWh during the three and six month periods ended June 30, 2018, respectively, compared to the same periods in 2017, was primarily due to lower water flows on most river systems in eastern and northern Ontario.

The availability of 88.6 per cent at these stations in the second quarter of 2018 was lower than 90.1 per cent for the same quarter in 2017. For the six months ended June 30, 2018, the availability of the stations decreased to 87.9 per cent, from 89.8 per cent for the same period in 2017. The decrease in the availability was primarily due to a higher number of unplanned outage days at the eastern and northeastern Ontario regions' regulated hydroelectric stations.

Contracted Generation Portfolio Segment

Higher generation from the Contracted Generation Portfolio of 0.5 TWh and 0.6 TWh during the three and six month periods ended June 30, 2018, respectively, compared to the same periods in 2017, was primarily due to lower electricity generation forgone as a result of surplus baseload generation conditions.

The availability of these hydroelectric stations for the three months ended June 30, 2018 was 86.5 per cent, compared to 81.4 per cent for the same period in 2017. The stations' availability for the six months ended June 30, 2018 was 83.3 per cent, compared to 82.5 per cent for the same period in 2017. The increase was primarily due to a lower number of unplanned outage days at the northeastern Ontario regions' contracted hydroelectric stations.

In 2014, OPG converted one generating unit at the Thunder Bay GS from coal-fired generation to advanced biomass fuelled generation, under an Energy Supply Agreement (ESA) with the Independent Electricity System Operator (IESO). In July 2018, OPG and the IESO reached an agreement to terminate the ESA for the Thunder Bay GS, effective June 30, 2018. The termination agreement was determined to be the most cost effective alternative for electricity consumers, and allowed OPG to avoid additional repair costs that would have been necessary to continue to operate the Thunder Bay GS for the remainder of the ESA term to January 2020. OPG will work with affected employees and other stakeholders to ensure that all parties are treated fairly and respectfully as part of the station's closure. The station's closure is not expected to have a material impact on OPG's financial results.

Total Generating Cost

The Enterprise Total Generating Cost per megawatt hour (MWh) for the three months ended June 30, 2018 was $55.78, compared to $48.72 for the same period in 2017. The Enterprise Total Generating Cost per MWh for the six months ended June 30, 2018 was $52.71, compared to $48.35 for the same period in 2017. The increase in 2018 was mainly due to the favourable impact of higher water flows on hydroelectric electricity generation adjusted for surplus baseload conditions in 2017.

Generation Development

OPG is undertaking a number of generation development and life extension projects in support of Ontario's electricity planning initiatives. Significant developments during the second quarter of 2018 included the following:

Darlington Refurbishment

The Darlington Refurbishment project is expected to extend the operating life of the four-unit Darlington GS by approximately 30 years. In early May 2018, OPG completed the second major segment of the Unit 2 refurbishment, the removal of existing reactor components, and transitioned into the third major segment, the installation and reassembly of reactor components. Following the completion of inspections and cleaning on the reactor face, OPG commenced the reassembly of Unit 2 in July 2018. The Darlington Refurbishment, the execution of which began in 2016, project continues to track on schedule and to the $12.8 billion budget.

In addition to the execution of refurbishment activities on Unit 2, OPG continues to progress with the planning and prerequisite activities for the refurbishment of Unit 3, incorporating the experience learned to date on Unit 2's execution, and is continuing to enter into commitments to procure major components that require long lead times. The Unit 3 refurbishment is expected to commence upon the return to service of Unit 2. As of June 30, 2018, $169 million has been invested in planning and prerequisite activities related to the refurbishment of Unit 3.

Total life-to-date capital expenditures on the project were approximately $4.9 billion as at June 30, 2018.

Ranney Falls Hydroelectric GS

In the second quarter of 2018, OPG continued construction work for a 10 MW single-unit powerhouse on the existing Ranney Falls GS site. The new unit will replace an existing unit that reached its end of life in 2014. Construction continues with concrete placement of the expanded forebay, powerhouse and spillway. Sectional gates and head gates installation, substation construction, and turbine and generator unit fabrication are in progress. The project's expected in-service date is in the fourth quarter of 2019, with a budget of $77 million. The project is tracking on schedule and on budget. The Ranney Falls GS is included in the Regulated – Hydroelectric segment.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(millions of dollars – except where noted)	Three Months Ended June 30 2018	Three Months Ended June 30 2017	Six Months Ended June 30 2018	Six Months Ended June 30 2017
Revenue	**1,282**	1,146	**2,689**	2,322
Fuel expense	**166**	178	**321**	333
Operations, maintenance and administration	**743**	711	**1,465**	1,419
Depreciation and amortization	**198**	172	**384**	339
Other expenses (gains), net [1]	**31**	(335)	**(196)**	(288)
Income before interest and income taxes	**144**	420	**715**	519
Net interest expense	**18**	16	**37**	35
Income tax expense	**-**	97	**13**	109
Net income	**126**	307	**665**	375
Net income attributable to the Shareholder	**121**	303	**656**	367
Net income attributable to non-controlling interest [2]	**5**	4	**9**	8
Income before interest and income taxes				
Electricity generating business segments	**172**	80	**496**	219
Regulated – Nuclear Waste Management	**(32)**	(40)	**(65)**	(87)
Fair Hydro Trust	**8**	-	**12**	-
Other	**(4)**	380	**272**	387
Total income before interest and income taxes	**144**	420	**715**	519
Cash flow				
Cash flow provided by operating activities	**413**	89	**639**	257
Electricity generation (TWh)				
Regulated – Nuclear Generation	**8.6**	9.3	**19.0**	19.3
Regulated – Hydroelectric	**7.6**	8.2	**15.3**	16.2
Contracted Generation Portfolio [3]	**1.0**	0.5	**1.7**	1.1
Total electricity generation	**17.2**	18.0	**36.0**	36.6
Nuclear unit capability factor (per cent) [4]				
Darlington Nuclear GS	**67.4**	64.6	**81.9**	74.9
Pickering Nuclear GS	**71.3**	84.2	**72.9**	81.4
Availability (per cent)				
Regulated – Hydroelectric	**88.6**	90.1	**87.9**	89.8
Contracted Generation Portfolio – hydroelectric stations	**86.5**	81.4	**83.3**	82.5
Equivalent forced outage rate				
Contracted Generation Portfolio – thermal stations	**1.4**	2.7	**0.8**	7.8
Enterprise Total Generating Cost (TGC) per MWh ($/MWh) for the three and six months ended June 30, 2018 and June 30, 2017 ($/MWh) [5]	**55.78**	48.72	**52.71**	48.35
Return on Equity Excluding Accumulated Other Comprehensive Income (ROE Excluding AOCI) for the twelve months ended June 30, 2018 and December 31, 2017 (%) [5]			**9.7**	7.6

[1] For the six months ended June 30, 2018, includes the pre-tax gain on the sale of the former Lakeview GS site. For the three and six month periods ended June 30, 2017, includes the pre-tax gain on the sale of OPG's head office property.

[2] Relates to the 25 per cent interest of the Amisk-oo-Skow Finance Corporation, a corporation wholly owned by the Moose Cree First Nation in the Lower Mattagami Limited Partnership, the 33 per cent interest of Coral Rapids Power Corporation, a corporation wholly owned by the Taykwa Tagamou Nation, in the PSS Generating Station Limited Partnership, and the 10 per cent interest of a corporation wholly owned by the Six Nations of Grand River Development Corporation in the Nanticoke Solar LP.

[3] Includes OPG's share of generation volume from its 50 per cent ownership interests in the Portlands Energy Centre and Brighton Beach GS.

[4] Nuclear unit capability factor excludes unit(s) during the period in which they are undergoing refurbishment. Unit 2 of the Darlington GS is excluded from the measure effective October 15, 2016, when the unit was taken offline for refurbishment.

[5] Enterprise TGC per MWh and ROE Excluding AOCI are non-GAAP financial measures and do not have any standardized meaning prescribed by US GAAP. Additional information about the non-GAAP measures is provided in OPG's Management's Discussion and Analysis for the three and six month periods ended June 30, 2018, in the sections *Highlights – Return on Equity Excluding Accumulated Other Comprehensive Income*, *Highlights – Enterprise Total Generating Cost per MWh*, and *Supplementary Non-GAAP Financial Measures.*

Ontario Power Generation Inc. is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. Our mission is providing low cost power in a safe, clean, reliable and sustainable manner for the benefit of our customers and shareholder.

Ontario Power Generation Inc.'s unaudited interim consolidated financial statements and Management's Discussion and Analysis as at and for the three and six month periods ended June 30, 2018 can be accessed on OPG's web site (www.opg.com), the Canadian Securities Administrators' web site (www.sedar.com), or can be requested from the Company.

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