ONTARIOPOWER GENERATION

News from Ontario Power Generation

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ONTARIO POWER GENERATION REPORTS 2002 FIRST QUARTER RESULTS

[Toronto]: Ontario Power Generation Inc. (OPG) today reported its financial and operating results for the first quarter ended March 31, 2002. The loss for the three months ended March 31, 2002 was $217 million or a loss of $0.85 per share compared with restated first quarter earnings in 2001 of $102 million or $0.40 per share.

"Ontario Power Generation's first quarter results were not comparable to last year due to a charge related to its 2002 corporate restructuring program, a loss on transition rate option contracts for industrial customers after market opening, higher expenditures related to the return to service of the Pickering A nuclear generating station, and reduced operating assets and related returns resulting from decontrol activities. As a result of these factors, earnings for the full year 2002 are forecast to be lower than 2001," said OPG President and CEO, Ron Osborne.

OPG's generating stations performed well during the first quarter, particularly the nuclear generating stations, which achieved a nuclear capability factor of 90.4 per cent.

"The opening of Ontario's electricity market to competition on May 1, marked a significant milestone in the industry's evolution to customer choice. OPG welcomes this event and is ready to compete in Ontario's electricity marketplace," said Osborne.

In February, the Company commenced its restructuring program, which is designed to reduce its workforce by approximately 2,000 employees over a two to three year period. Approximately 1,200 employees have opted to take voluntary separation.

In March, the Company announced the sale of four hydroelectric generating stations located on the Mississagi River to Brascan Corporation for cash proceeds of approximately $340 million. The financial close is expected to take place in May 2002. The four stations have a combined generating capacity of approximately 490 MW. This sale is the first step towards meeting OPG's mandated Market Power Mitigation requirements to decontrol 4,000 MW of price-setting generation within 42 months of market opening.

OPG continues to evaluate options associated with its other fossil-fueled stations that have been identified for decontrol, namely, the Thunder Bay, Atikokan, Lennox and Lakeview generating stations.

OPG obtained its FERC licence that allows the Company to market electricity directly to end-use customers in the U.S. effective May 1, 2002.

Ontario Power Generation is an Ontario based company, whose principal business is the generation and sale of electricity to customers in Ontario and to interconnected markets. OPG's goal is to be a premier North American energy company, while operating in a safe, open and environmentally responsible manner. Our focus is on producing reliable electricity from our competitive generation assets; power trading; and commercial energy sales activities.

Analysis of First Quarter 2002 Results

Highlights

Three Months Ended March 31
(millions of dollars unless otherwise stated)

	2002	**Restated 2001**
Revenues	**1,557**	1,539
Operating expenses	**1,846**	1,314
Operating (loss) income	**(289)**	225
Interest expense	**39**	34
Income taxes	**(111)**	89
Net (loss) income	**(217)**	102
(Loss) earnings per common share ($ per common share)	**(0.85)**	0.40
Total electricity sales volume (TWh)		
Ontario electricity sales	**34.9**	36.4
Interconnected electricity sales	**1.4**	0.7
Total	**36.3**	37.1
Total energy available (TWh)		
Total production	**30.8**	35.8
Purchased power	**5.7**	1.5
Other*	**(0.2)**	(0.2)
Total	**36.3**	37.1

*Represents deposits and withdrawals of electricity with utilities in neighbouring jurisdictions under energy banking arrangements

Operating Results

For the three months ended March 31, 2002, OPG had a net loss of $217 million compared with restated net income of $102 million for the same period in 2001, a decrease of $319 million. Significant factors impacting earnings in 2002 compared to 2001 included the following:

Change in Earnings ($ millions – after tax)	
Restructuring charge for costs related to a reduction in workforce	$134
Loss on Transition Rate Option contracts for industrial customers after market opening	137
Higher activity levels and expenditures related to the return to service of the Pickering A nuclear generating station	37
Impact of reduced operating assets and related returns resulting from decontrol activities	24
Other	(13)
Decrease in earnings	$319

Revenues

Total revenues of $1,557 million for the three months ended March 31, 2002 increased by $18 million compared to revenues of $1,539 million for the same period in 2001. Total revenues consist of Ontario energy revenues, interconnected sales and other non-energy based revenues.

Ontario energy revenues were $1,417 million for the first quarter of 2002 compared with revenues of $1,471 million for the same period in 2001, a decrease of $54 million or four per cent. The decrease in Ontario energy revenues was primarily due to higher electricity generation from other Ontario generators as gas prices declined, and to the warmer winter weather which resulted in lower demand from municipal utility customers. OPG's electricity sales in Ontario were 34.9 TWh for the first quarter of 2002, a decrease of 1.5 TWh compared with the same period last year.

Revenues from interconnected markets during the first quarter of 2002 were $53 million compared with revenues of $39 million in 2001, an increase of $14 million. This reflected an increase in sales volume from 0.7 TWh in 2001 to 1.4 TWh in 2002, partially offset by lower average prices in 2002.

Non-energy revenues were $87 million for the first quarter of 2002 compared with $29 million in 2001, an increase of $58 million. Non-energy revenues include revenues from engineering analysis, design and related services, and lease revenue and interest income related to the lease agreement with Bruce Power L.P. ("Bruce Power") for the Bruce nuclear generating stations, which commenced in May 2001. Non-energy revenues also include isotope sales and other miscellaneous revenue items.

Operating Expenses

Operating, maintenance and administration ("OM&A") expenses were $592 million for the first quarter of 2002 compared with restated OM&A expenses of $632 million for the same period in 2001, a decrease of $40 million. This decrease was primarily due to a reduction in operating costs resulting from the decontrol of the Bruce nuclear generating stations in the second quarter of 2001 ($82 million) and other decreases in expenditures ($19 million), partially offset by increased activity and expenditures related to the return to service of the Pickering A nuclear generating station ($61 million).

Fuel expense for the first quarter of 2002 was $317 million compared to a fuel expense of $286 million for the same period in 2001, an increase of $31 million or 11 per cent. The increase in fuel expense for the first quarter was mainly due to increased production at OPG's fossil-fuelled generating stations and higher coal prices, partially offset by lower nuclear fuel expense due to the decontrol of the Bruce nuclear generating stations.

Total Energy Available (TWh)	**2002**	2001
Production		
Nuclear:		
Darlington & Pickering	**10.8**	11.0
Bruce [1]	**-**	6.3
Total Nuclear	**10.8**	17.3
Fossil	**10.7**	10.3
Hydroelectric	**9.3**	8.2
Total Production	**30.8**	35.8
Power Purchased [2]	**5.7**	1.5
Other [3]	**(0.2)**	(0.2)
Total Energy Available	**36.3**	37.1

(1) Represents generation from Bruce nuclear generating stations prior to decontrol.
(2) OPG had a commitment to purchase all of Bruce Power's electricity generation up to May 1, 2002, the date of market opening, as part of the lease agreement for the Bruce nuclear generating stations.
(3) Represents deposits and withdrawals of electricity with utilities in neighbouring jurisdictions under energy banking arrangements.

Power purchased during the first quarter of 2002 was $219 million compared with $102 million for the same period in 2001, an increase of $117 million. The increase in power purchased was primarily due to the agreement, in conjunction with the terms of the lease transaction with Bruce Power, to purchase all of Bruce Power's electricity generation up to the date of market opening. This increase was partially offset by lower purchases in 2002 due to increased production at OPG's hydroelectric and fossil-fuelled generating stations. For the three months ended March 31, 2002, OPG purchased 5.1 TWh of electricity from Bruce Power.

Property and capital taxes for the first quarter of 2002 were $113 million compared with $98 million for the same period in 2001, an increase of $15 million. The increase was mainly due to higher gross revenue charges, payable to the Province, resulting from increased hydroelectric generation volumes in 2002 compared to last year.

Loss on Transition Rate Options

Under a regulation known as Transition – Generation Corporation Rate Options ("TRO"), OPG is required to provide transitional price relief upon market opening to certain large power customers based on the consumption and average price paid by each customer during a reference period from July 1, 1999 to June 30, 2000. The maximum anticipated volume subject to the transitional price relief is approximately 5.4 TWh in the first year after market opening, 3.6 TWh in the second year and 1.8 TWh in each of the third and fourth years. The maximum length of the program is four years, with the possibility that it will expire after only two years if certain decontrol targets are met.

A provision of $210 million on the TRO contracts was recorded in the first quarter of 2002 related to the future loss on these contracts. The provision was determined using management's best estimates of the forward price curve for electricity, wholesale electricity market fees, impact of decontrol on the contracts, interruptions of volume, and the recovery of market power mitigation rebates. These estimates are subject to measurement uncertainty.

Restructuring Costs

In 2001, OPG approved a restructuring plan designed to improve OPG's future cost competitiveness. Completion of significant decontrol activities and completion of other major initiatives over the next two years requires the restructuring of areas within OPG that support these operations. Restructuring charges are related to an anticipated reduction in the workforce of approximately 2,000 employees over a two to three year period. During the first quarter of 2002, voluntary severance packages for approximately 1,200 employees were accepted.

Restructuring charges include severance costs and related pension and other post employment benefit expenses. The provision for restructuring costs recorded in the first quarter of 2002 was $210 million. This amount is in addition to a restructuring charge of $67 million recorded in the fourth quarter of 2001. The total cost of the restructuring plan is expected to be approximately $400 million.

Income Tax

For the first quarter ended March 31, 2002, the effective income tax rate decreased to 33.8 per cent from an effective income tax rate of 46.6 per cent in 2001. The decrease in the effective income tax rate is primarily due to the impact of Large Corporations Tax, which reduces the amount of the income tax recoverable.

Restatement of First Quarter 2001 for Pensions and Other Post Employment Benefits (OPEB)

In 2001, OPG changed its policy of accounting for changes in the net actuarial gain or loss for pension and OPEB. This change in accounting policy results in amortization of the net cumulative unamortized gain or loss in excess of 10 per cent of the greater of the benefit obligation and the market-related value of the plan assets. Previously, the entire change in the net actuarial gain or loss was amortized over the employee average remaining service life and plan assets were valued at market for purposes of determining actuarial gains and losses. The change in accounting policy for pensions and OPEB was applied retroactively to April 1, 1999. As a result of this change, the operating results for the first quarter 2001 have been restated to reflect an increase in employee benefit expenses of $32 million and a decrease in net income of $21 million.

Liquidity and Capital Resources

Cash flow provided from operating activities for the first quarter of 2002 was $127 million compared to cash flow provided from operating activities of $83 million for the same period in 2001. The increase in cash flows was mainly due to a decrease in cash contributions made to the fixed asset removal and nuclear waste management fund as a result of excess contributions in a prior year, and changes in working capital requirements.

During the three months ended March 31, 2002, the fixed asset removal and nuclear waste management fund increased by a total of $51 million compared with $122 million for the same period in 2001. The balance in the fund at March 31, 2002 was $1,259 million.

Capital expenditures for the first quarter of 2002 were $156 million compared to $115 million for the same period in 2001. The increase was primarily due to higher activity related to the return to service of the Pickering A nuclear generating station and expenditures related to the installation of selective catalytic reduction equipment associated with emission reductions at OPG's Lambton and Nanticoke fossil generating stations.

OPG is progressing with the safety and environmental upgrades and other refurbishment work which is required prior to the return to service of the four units at the Pickering A nuclear generating station. To date, expenditures on the return to service initiative total approximately $730 million, the majority of which has been expensed. OPG expects to begin commissioning the first of the four units at the Pickering A nuclear generating station towards the end of 2002. The estimated additional cost to complete the first unit is $230 million. The remaining three units are estimated to be returned to service at an additional cost of approximately $300 million to $400 million per unit. The cost estimate for the three remaining units will be further refined based upon completion of the detailed engineering and related assessments, and the results of inspections of these units. Pickering A will add 2,060 MW of reliable, low cost electricity and will make a significant contribution towards improving environmental performance within the Ontario electricity sector.

In March 2002, OPG renewed its revolving short-term committed credit facility. The amount of the credit facility was increased from $600 million to $1,000 million. The credit facility can be extended for a two-year term. Notes issued under the Company's Commercial Paper ("CP") program are supported by this credit facility. During the first quarter of 2002, OPG issued $200 million of short-term notes from its CP program.

The Company paid dividends of $134 million during the three months ended March 31, 2002 compared with $86 million for the same period in 2001. The increase in dividends reflected a dividend related to proceeds received from the decontrol of the Bruce generating stations and other dividends to achieve a 35 per cent pay out of actual 2001 earnings.

Risk Management

Ontario's electricity market opened to competition on May 1, 2002. With market opening, OPG will be subject to increased risk, including market and credit risk inherent in a deregulated market. The Board of Directors has approved governance policies and structures to facilitate the management of the increased risk. A Risk Oversight Committee, which consists of senior officers of OPG, has been established to approve products, monitor policies and compliance issues, and ensure the continuing effectiveness of overall corporate governance under the direction of the Board of Directors.

In anticipation of increased levels of risk and complexity of market activities, OPG implemented a comprehensive trade capture and risk management system with related processes and controls. OPG's commercial activities are separated into portfolios to capture the risks inherent in each transaction for each portfolio. This process facilitates the effective identification and measurement of risks, and the application of appropriate position and risk limits for performance and risk management purposes. The methodology used to measure these risks includes the use of consistent and recognized risk measures for monitoring trading activities and the generation portfolio. Open positions will be subject to measurement against value at risk ("VaR") limits, which measure the potential loss in a portfolio's market value due to market volatility over a one day holding period, with a 95 per cent confidence interval.

Electricity Price Risk

Electricity price risk is the risk that changes in the market price of electricity will adversely impact OPG's earnings and cash flow from operations. OPG will face price risk directly related both to the demand and supply of generation in the open market and transmission constraints. OPG's production will be exposed to spot market prices. However, derivative instruments and related risk management products may be used to mitigate OPG's exposure to volatile electricity prices.

Credit Risk

Credit risk is the risk of non-performance by contractual counterparties. With an open market, substantially all of OPG's revenues will be derived from sales through the Independent Electricity Market Operator ("IMO") administered spot market. Participants in the IMO spot market must meet IMO-mandated standards for creditworthiness. Other revenues will be derived from several sources, including the sale of financial risk management products to third parties.

OPG actively manages credit risk through an established counterparty credit policy, and has implemented credit evaluation and collection procedures to monitor its credit exposures. OPG manages counterparty credit risk by monitoring and limiting its exposure to counterparties with lower credit ratings, evaluating its counterparty credit exposure on an integrated basis, and by performing periodic reviews of the credit-worthiness of all counterparties, including obtaining credit security for all transactions beyond approved limits.

Generation Risk

OPG is exposed to the market impacts of uncertain output from its generating units or generation risk. The amount of electricity generated by OPG is affected by such risks as fuel supply, equipment malfunction, maintenance requirements, and regulatory and environmental constraints. To mitigate earnings volatility due to generation risk, OPG enters into multiple short-term and long-term fuel supply agreements and long-term water use agreements, manages fuel supply inventories, and follows industry practices for maintenance and outage scheduling. In addition, OPG ensures regulatory requirements are met, particularly with respect to licencing of its nuclear facilities, and manages environmental constraints utilizing programs such as emission reduction credits to manage the supply of generation.

Liquidity Risk

OPG operates in a capital-intensive business and its initiative to return its Pickering A station back to service requires significant financial resources. Furthermore, any acquisition or development projects may require access to capital from outside sources on acceptable terms. OPG may also require external financing to fund capital expenditures necessary to comply with air emission or other regulatory requirements.

OPG's ability to arrange debt financing and the costs of debt capital are dependent on a number of factors including: general economic and capital market conditions; credit availability from banks and other financial institutions; maintenance of acceptable credit ratings; the relationship with the Province as the sole shareholder of OPG; and the status of electricity market deregulation in Ontario.

Foreign Exchange and Interest Rate Risk

OPG's foreign exchange risk exposure is attributable primarily to U.S. dollar-denominated transactions such as the purchase of fossil fuel and the purchase and sale of electricity in U.S. markets. OPG currently manages its exposure by periodically hedging portions of its U.S. dollar cash flows according to approved risk management policies.

Interest rate exposure for OPG is limited by the fixed rates on its long-term debt. Interest rate risk arises with the need to undertake new financing and with the potential addition of variable rate debt. Interest rate risk may be hedged using derivative instruments. The management of these risks is undertaken by selectively hedging in accordance with corporate risk management policies.

Forward-looking Statements

Certain statements contained in this press release are forward-looking and reflect the Company's views with respect to future events. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Forward-looking statements are not guarantees of the Company's future performance or results and are subject to various factors, including, but not limited to, assumptions regarding the nuclear recovery plan, nuclear waste management and decommissioning, fuel procurement, fuel costs, Ontario electricity industry restructuring, market power mitigation, environmental regulations, spot market electricity prices, and effects of weather. Although the Company believes that assumptions inherent in forward-looking statements are reasonable, undue reliance should not be placed on these statements, which apply only as of their dates. The Company is not obligated to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three months Ended March 31
(millions of dollars except where noted)

	2002	**Restated *(note 5)* 2001**
Revenues	**1,557**	1,539
Operating expenses		
Operating, maintenance and administration	**592**	632
Fuel	**317**	286
Power purchased	**219**	102
Depreciation and amortization	**185**	196
Property and capital tax (note 2)	**113**	98
Restructuring costs (note 6)	**210**	-
Loss on transition rate option contracts (note 3)	**210**	-
	1,846	1,314
Operating (loss) income	**(289)**	225
Net interest expense	**39**	34
(Loss) income before income taxes	**(328)**	191
Income taxes (recoveries) (note 2)		
Current	**(68)**	34
Future	**(43)**	55
	(111)	89
Net (loss) income	**(217)**	102
Basic and fully diluted (loss) earnings per common share	**(0.85)**	0.40
Common shares outstanding (millions)	**256.3**	256.3

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (UNAUDITED)

Three months Ended March 31
(millions of dollars)

	2002	**Restated *(note 5)* 2001**
Retained earnings, beginning of period as previously reported	**344**	691
Adjustment (note 5)	**-**	(124)
Retained earnings, beginning of period as restated	**344**	567
Net (loss) income	**(217)**	102
Dividends	**(134)**	(86)
(Deficit) retained earnings, end of period	**(7)**	583

see accompanying notes to financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Three months Ended March 31
(millions of dollars)

	2002	**Restated *(note 5)* 2001**
Operating activities		
Net (loss) income	**(217)**	102
Adjust for non-cash items:		
Depreciation and amortization	**185**	196
Deferred pension asset	**22**	28
Other post employment benefits	**16**	34
Future income taxes	**(43)**	55
Provision for restructuring	**210**	-
Loss on transition rate option contracts	**210**	-
Gain on sale of investments	**(7)**	-
Other	**30**	12
	406	427
Fixed asset removal and nuclear waste management fund	**(51)**	(122)
Expenditures on nuclear waste management provisions	**(31)**	(10)
Changes to other long-term assets and liabilities	**8**	(37)
Deferred revenue	**(6)**	-
Non-cash working capital changes:		
Accounts receivable	**18**	119
Income tax recoverable	**(87)**	-
Fuel	**16**	41
Materials and supplies	**(3)**	(3)
Accounts payable and accrued charges	**(143)**	(332)
Cash flow provided by operating activities	**127**	83
Investing activities		
Net proceeds from short-term investments	**39**	225
Proceeds on sale of fixed assets	**1**	10
Proceeds from sale of investments and subsidiaries	**13**	-
Expenditures for fixed assets	**(156)**	(115)
Cash flow (used in) provided by investing activities	**(103)**	120
Financing activities		
Repayment of long-term debt to OEFC	**-**	(100)
Dividends on common shares	**(134)**	(86)
Short-term notes issued (repaid)	**200**	(50)
Cash flow provided by (used in) financing activities	**66**	(236)
Increase (decrease) in cash and cash equivalents during Period	**90**	(33)
Cash and cash equivalents, beginning of period	**-**	565
Cash and cash equivalents, end of period	**90**	532

see accompanying notes to financial statements

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(millions of dollars)	**March 31 2002**	**December 31 2001**
ASSETS		
Current assets		
Cash and cash equivalents	**90**	-
Short-term investments	**-**	39
Accounts receivable	**992**	1,010
Income tax recoverable	**164**	77
Fuel	**521**	537
Materials and supplies	**45**	35
	1,812	1,698
Fixed assets		
Property, plant and equipment	**14,569**	14,460
Less: accumulated depreciation	**1,613**	1,479
	12,956	12,981
Other assets		
Deferred pension asset	**284**	330
Fixed asset removal and nuclear waste management fund (note 8)	**1,259**	1,208
Long-term note receivable (note 9)	**225**	225
Materials and supplies	**179**	179
Long-term accounts receivable and other assets	**78**	65
	2,025	2,007
	16,793	16,686
LIABILITIES		
Current liabilities		
Accounts payable and accrued charges (note 3)	**1,684**	1,505
Short-term notes payable	**200**	-
Deferred revenue due within one year	**13**	13
Long-term debt due within one year (note 7)	**105**	205
	2,002	1,723
Long-term debt (note 7)	**3,115**	3,015
Other liabilities		
Fixed asset removal and nuclear waste management (note 8)	**4,773**	4,724
Other post employment benefits	**911**	924
Long-term accounts payable and accrued charges (notes 3, 9)	**428**	336
Deferred revenue	**209**	215
Future income taxes liability	**236**	279
	6,557	6,478
Shareholder's equity		
Common shares	**5,126**	5,126
(Deficit) retained earnings	**(7)**	344
	5,119	5,470
	16,793	16,686

see accompanying notes to financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2002 (UNAUDITED)

1. Basis of Preparation

These interim consolidated financial statements do not contain all disclosures required by Canadian generally accepted accounting principles for annual financial statements, and accordingly, the consolidated financial statements should be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended December 31, 2001.

2. Payment in Lieu of Taxes

Under the *Electricity Act, 1998,* OPG is responsible for making payments in lieu of taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the *Income Tax Act* (Canada*)* and the *Corporations Tax Act* (Ontario), and are modified by regulations made under the *Electricity Act*, *1998.*

The Company is also required to make payments in lieu of property taxes on its generating assets to the OEFC. These payments, together with property taxes and a Gross Revenue Charge ("GRC"), are intended to approximate the total property tax paid by privately owned companies.

3. Transition Rate Options

Under a regulation known as Transition – Generation Corporation Rate Options ("TRO"), OPG is required to provide transitional price relief upon market opening to certain large power customers based on the consumption and average price paid by each customer during a reference period from July 1, 1999 to June 30, 2000. The maximum anticipated volume subject to the transitional price relief is approximately 5.4 TWh in the first year after market opening, 3.6 TWh in the second year and 1.8 TWh in each of the third and fourth years. The maximum length of the program is four years, with the possibility that it will expire after only two years if certain decontrol targets are met.

A provision of $210 million on the TRO contracts was recorded in the first quarter of 2002 related to the future loss on these contracts. The current portion of the provision for loss on these contracts is $110 million and is included in Accounts Payable and Accrued Charges. The long-term portion of the provision is $100 million and is included in Long-Term Accounts Payable and Accrued Charges. The provision was determined using management's best estimates of the forward price curve for electricity, wholesale electricity market fees, impact of decontrol on the contracts, interruptions of volume, and the recovery of market power mitigation rebates. These estimates are subject to measurement uncertainty. As a result, it is reasonably possible that actual results experienced may differ materially from the estimated amounts. The provision will be reduced over the term of the contracts based on volume.

4. Other Accounting Policies Related to Open Market

Market Power Mitigation Rebate

OPG is required under its generating licence to comply with prescribed market power mitigation measures to address the potential for OPG to exercise market power in Ontario. The most significant market power mitigation measures include a rebate mechanism and the requirement to decontrol generating capacity. Under the rebate mechanism, for the first four years after market opening, a significant majority of OPG's expected energy sales in Ontario will be subject to an average annual revenue cap of 3.8¢/kWh. OPG will be required to pay a rebate to the IMO equal to the excess, if any, of the average spot price over 3.8¢/kWh for the amount of energy sales subject to the rebate mechanism. A liability and the related adjustment to revenue will be recorded to the extent that actual average spot market prices exceed 3.8¢/kWh for each reporting period.

Energy Contracts for Open Market

OPG will be exposed to changes in electricity prices associated with an open spot market for electricity in Ontario. To hedge this commodity price exposure associated with changes in the price of electricity, OPG has entered into various energy sales contracts with counterparties that take effect May 1, 2002.

At March 31, 2002, OPG had energy sales contracts with an aggregate notional contract volume of 19 TWh and with terms ranging from 1 to 5 years. These contracts are expected to be effective as hedges of the commodity price exposure on OPG's generation portfolio. The gain or loss on hedging instruments is recognized over the term of the contract, based on the timing of the underlying transactions. All contracts that are not designated as a hedge will be valued at market value with changes in fair value being recorded as trading gains or losses.

Emission Reduction Credits

OPG utilizes emission reduction credits ("ERCs") to manage emission levels of nitric oxide (NO) and CO_2 within the prescribed regulatory limits and voluntary caps. ERCs are purchased and sold with trading partners in Canada and the United States. The cost of the ERCs are charged to OPG's operations in the year emissions are produced.

Transmission Rights

Transmission rights (“TRs”) are option contracts that provide protection for market participants against price volatility from the Ontario market clearing price and the intertie clearing price as a result of capacity demand/supply imbalances. Capacity constraints can occur due to limits on transmission capacity between Ontario and the interconnected markets at a specific intertie when the IMO receives more bids to buy than offers to sell electricity. OPG intends to purchase TRs in the Ontario market. TRs will generally be accounted for as derivatives used for trading purposes and will be valued at market value with changes in fair value recorded as trading gains or losses.

5. Restatement of 2001 Quarterly Results for Pension and Other Post Employment Benefits

In 2001, OPG changed its policy of accounting for changes in the net actuarial gain or loss for pension and OPEB. This change in accounting policy results in the amortization of the net cumulative unamortized gain or loss in excess of 10 per cent of the greater of the benefit obligation and the market-related value of the plan assets. Previously, the entire change in the net actuarial gain or loss was amortized over employee average remaining service life and plan assets were valued at market for purposes of determining actuarial gains and losses. The change in accounting policy for pensions and OPEB was applied retroactively to April 1, 1999. As a result of this change, the operating results for the first quarter 2001 have been restated to reflect an increase in employee benefit expenses of $32 million and a decrease in net income of $21 million.

Opening retained earnings at January 1, 2001 were reduced by $124 million due to the change in accounting policy for pension and OPEB ($104 million), as well as a revision to OPEB resulting from an assessment of OPG's claims history for 2000 ($20 million).

6. Restructuring Costs

Restructuring charges are related to a reduction in the workforce of approximately 2,000 employees and include severance costs and related pension and OPEB expenses. During the first quarter of 2002, OPG approved voluntary severance packages for approximately 1,200 employees. Involuntary terminations will be required to meet the remaining workforce reductions over the next two to three years. The provision for restructuring costs recorded in the first quarter of 2002 was $210 million. This amount is in addition to a restructuring charge of $67 million recorded in the fourth quarter of 2001. The total payments that were made in relation to this restructuring provision during the first quarter of 2002 were not material.

7. Long-term Debt

The Company chose to refinance $200 million of long-term debt notes maturing in 2002, by reaching an agreement with the OEFC, to defer the maturity date associated with these notes. Both the $100 million principal note that was due in March 2002 and the principal note due in September 2002 were deferred for payment in December 2004.

8. Fixed Asset Removal and Nuclear Waste Management Liabilities

Nuclear Funds Agreement

In March 2002, the Province of Ontario ("the Province") and OPG signed the Ontario Nuclear Funds Agreement. This agreement establishes criteria for the management of segregated funds and limits OPG's financial exposure to the risk of cost increases for used fuel liabilities, subject to graduated liability thresholds. Under the terms of the Agreement, OPG will establish two custodial funds that will be held separate from OPG's operations. A Used Fuel Fund will be used to fund future costs of nuclear used fuel waste management. A Decommissioning Fund will be established to fund the future cost of nuclear fixed asset removal and low and intermediate level waste management.

Since April 1, 1999, OPG has contributed $1,259 million to the nuclear fixed asset removal and nuclear waste management fund. The Decommissioning Fund will be funded through the receivable due from the OEFC, with the balance funded through OPG's existing segregated funds. The remaining segregated funds will be applied to the Used Fuel Fund. OPG will make annual contributions to the Used Fuel Fund of approximately $450 million to 2008, and a reduced amount over the remaining life of the nuclear generating stations. The Agreement will be effective April 1, 1999, upon the establishment of the two custodial funds, expected some time in the current year.

OPG will continue to be responsible for the risk of liability and cost increases with respect to fixed asset removal and low and intermediate level waste. OPG will also continue to be responsible for the risk of liability and cost increases for used fuel waste management, subject, however, to limits in OPG’s financial exposure through the Agreement.

In addition, the Province will provide to the Canadian Nuclear Safety Commission ("CNSC"), as required by the *Nuclear Safety and Control Act* (Canada), a guarantee that there will be funds available to discharge the nuclear decommissioning and waste liabilities. This guarantee is expected to relate to the portion of the nuclear liabilities not funded by the Decommissioning and Used Fuel Fund, or by the OEFC receivable, and will be determined based on CNSC requirements. In return, OPG will pay to the Province a fee of 0.5 per cent of the value of that financial guarantee. It is expected that this fee will become effective during the third quarter of 2002.

Cost Estimate Changes Made in 2002

OPG reviewed the significant assumptions that underlie the calculation of the accrued liabilities for fixed asset removal and nuclear waste management liabilities. As a result of this review, a number of assumptions were changed to reflect changes in the timing of certain programs and in the evolving technology used to handle the nuclear waste. These changes included a delay in the in-service date for used nuclear fuel disposal facilities from 2025 to 2035, the recognition of certain costs associated with dry storage of used nuclear fuel during station operating life, and recognition of additional costs related to nuclear waste management programs. In aggregate, these cost estimate changes would result in a net reduction to the nuclear waste management and decommissioning liability of $215 million. In accordance with Canadian generally accepted accounting principles, the change in liability is being amortized over the average remaining service life of the nuclear generating stations. As a result, the accrued liabilities as at March 31, 2002 were reduced by $4 million.

9. Decontrol of Bruce Nuclear Generating Stations

In May 2001, the Company completed the close of the operating lease agreement to lease its Bruce A and Bruce B nuclear generating stations to Bruce Power L.P. ("Bruce Power"). As part of the initial payment, OPG received $370 million in cash proceeds and a $225 million note receivable.

Under the terms of the lease, OPG transferred certain fuel and material inventory to Bruce Power, in addition to certain fixed assets. OPG will transfer pension assets and liabilities related to the approximately 3000 employees who transferred from OPG to Bruce Power. Bruce Power has also assumed the liability for OPEB for these employees. OPG will pay Bruce Power in respect of OPEB benefits over a 72-month period. The impact to the deferred pension asset and the value of the OPEB obligation will be finalized through actuarial processes, which are expected to be completed during the second quarter of 2002.

10. Other Initiatives

In February 2002, OPG sold its remaining ownership interest in Kinectrics Inc. to AEA Technology plc for approximately $12 million in cash proceeds.

In March 2002, OPG divested its 49 per cent joint venture interest in New Horizon System Solutions ("New Horizon") to Business Transformation Services Inc., a wholly owned subsidiary of Cap Gemini Ernst & Young. OPG entered into a nine-year information technology outsourcing agreement with New Horizon in order to continue to gain access to a broad spectrum of IT services in infrastructure and operations management.

In March 2002, OPG announced the sale of four hydroelectric generating stations located on the Mississagi River, to Brascan Corporation. OPG will receive cash proceeds of approximately $340 million from the sale. The transaction is expected to close in May 2002, subject to regulatory approvals.

11. Seasonal Operations

The Company's quarterly results are impacted by changes in demand resulting from variations in seasonal weather conditions. Historically, the Company'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.

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