

May 16, 2013

ONTARIO POWER GENERATION REPORTS 2013 FIRST QUARTER FINANCIAL RESULTS

[Toronto]: – Ontario Power Generation Inc. (OPG or Company) today reported its financial and operating results for the three months ended March 31, 2013. Net income for the first quarter of 2013 was \$28 million compared to \$154 million for the same quarter in 2012.

Tom Mitchell, President and CEO said, “While net income was lower than last year primarily due to lower earnings from the Nuclear Funds, Ontario Power Generation continues to moderate the overall prices paid by Ontarians for their electricity.

“Our production received an average price of 5.5 cents per kilowatt hour. The average price for all the other power generators in Ontario in the first quarter was 9.2 cents. For me, that shows the value of OPG as a publicly-owned generating company.”

Mr. Mitchell added, “In addition to moderating prices, OPG had other successes in the first quarter that will benefit consumers. First among these was the completion of the 10-kilometre Niagara Tunnel below the approved budget and nine months ahead of the approved project completion date.

“This tunnel will provide comparatively inexpensive, clean hydroelectric power for many decades, serving our children and grandchildren – just as the original Sir Adam Beck station still serves Ontario after operating for almost a century.”

Looking ahead, Mr. Mitchell said, “The success at the Niagara Tunnel has provided important experience in planning, assessing, developing and managing a major project.

The president noted OPG has a number of other projects currently underway across the province. Work is proceeding on the Lower Mattagami River project, which adds generating units at the three existing stations. OPG will also replace the existing Smoky Falls generating station (GS) with a new three-unit station. This project will add 438 megawatts of hydroelectric generating capacity to OPG’s fleet. The project is on schedule for completion in June 2015.

Mr. Mitchell added that the Atikokan Conversion project is also tracking on schedule. When complete, the Atikokan station will be the largest 100 per cent biomass fuel plant in North America, providing climate change mitigation.

He also pointed to progress at the Darlington GS, which provides about 20 per cent of Ontario’s electricity, essentially free of greenhouse gas emissions. In the first quarter of 2013, OPG received confirmation from the CNSC on its environmental assessment,

which concluded that refurbishment is not likely to cause significant effects on the environment. The mid-life refurbishment is a planned part of the operating life for all CANDU-designed nuclear plants and will allow 30 or more years of operation.

“The efforts of the many highly-skilled men and women working on these projects will help Ontario ensure it has many diverse sources of safe, clean, affordable electricity for generations to come,” Mr. Mitchell said.

Highlights

Net income for the first quarter of 2013 decreased by \$126 million compared to the same period in 2012. This decrease was primarily due to lower earnings from the nuclear fixed asset removal and nuclear waste management funds (Nuclear Funds). The decrease in net income is also a result of higher operations, maintenance, and administration (OM&A) expenses due to the establishment of a regulatory deferral account in 2012 which resulted in lower other post-employment benefit expenses last year. OPG’s net income for the first quarter of 2013 was also affected by higher nuclear OM&A expenses due to increased outage activities and a decrease in nuclear generation. The decrease was partially offset by higher generation revenue from the unregulated hydroelectric segment primarily due to higher electricity spot market prices.

OPG’s income before interest and income taxes from the electricity generation business segments was \$102 million in the first quarter of 2013, compared to \$157 million in the same period of 2012. This decrease of \$55 million was largely due to increased outage activities and the establishment of the regulatory deferral account in 2012, as described above.

The Regulated – Nuclear Waste Management business segment recorded a loss before interest and income taxes of \$63 million in the first quarter of 2013, compared to income before interest and income taxes of \$24 million for the same period in 2012. This decrease was primarily a result of lower earnings from the Decommissioning Segregated Fund as a result of the fund being in an overfunded position. When the Decommissioning Segregated Fund is overfunded, OPG limits the earnings it recognizes by recording a payable to the Province.

Total electricity generated during the three months ended March 31, 2013 was 21.1 terawatt hours (TWh) compared to 22.0 TWh for the same period in 2012. This decrease was mainly due to lower nuclear generation, partially offset by higher generation at OPG’s thermal generating stations.

The capability factor at the Darlington nuclear station was 84.1 per cent in the first quarter of 2013 compared to 95.6 per cent for the same quarter in 2012, and reflected an increase in planned outage days to execute scheduled maintenance activities on the facilities. The Pickering stations had a 79.0 per cent capability factor compared to 77.0 per cent in the first quarter of 2012, primarily as a result of excellent performance at Units 4 to 8, partially offset by the impact of an extension to an outage at Unit 1. The availability of OPG’s hydroelectric generating stations remained at high levels. The Start Guarantee rate at the thermal generating stations for the first quarter of 2013 was 97.9 per cent, compared to 94.1 per cent for the same period in 2012. The high Start Guarantee rate for the first quarter of 2013 and 2012 reflected the ability of the thermal generating stations to respond to market requirements when needed.

In March 2013, OPG reached a settlement agreement (Settlement Agreement) with intervenors on all aspects of the Ontario Energy Board (OEB) application submitted in 2012 requesting approval to recover balances in the authorized regulatory variance and deferral accounts as at December 31, 2012, and the adoption of United States generally accepted accounting principles (US GAAP) for regulatory purposes. On March 25, 2013, the OEB approved the Settlement Agreement. Under the Settlement Agreement, OPG will recover balances accumulated in a number of its variance and deferral accounts over an extended period. The Settlement Agreement provided for the continuation of variance and deferral accounts, including the Pension and OPEB Variance Account without a prescribed end date. The OEB also approved the adoption of US GAAP for regulatory purposes. Detailed discussion of the Settlement Agreement is included in OPG's 2013 first quarter Management's Discussion and Analysis.

Also, in March 2013, the Ministry of Energy issued a declaration mandating that OPG cease the use of coal at the Nanticoke and Lambton GS by the end of 2013. The Contingency Support Agreement with the Ontario Electricity Financial Corporation (OEFC) has also been amended. The amendment allows for OPG to continue to recover actual costs that cannot reasonably be avoided or mitigated during the period from the advanced shutdown date up to the end of 2014, consistent with the duration of the original contract. The amended agreement terms are expected to be triggered by the OEFC in 2013.

Generation Development

OPG is undertaking a number of generation development projects to support Ontario's long-term electricity supply requirements. Significant changes from year-end 2012 to the status of these capacity expansion or life extension projects are as follows:

Darlington Refurbishment

- In March 2013, the Canadian Nuclear Safety Commission (CNSC) issued a decision on the Environmental Assessment (EA) for the refurbishment of the Darlington GS. The CNSC confirmed that, taking into account identified mitigation measures, Darlington refurbishment and continued operations are not likely to cause significant environmental effect. The EA was subsequently challenged in April 2013 by way of judicial review in the Federal Court of Canada, on the grounds that the EA failed to comply with requirements of the Canadian Environmental Assessment Act, and that the hearing deprived the applicants certain procedural rights.
- In March 2013, the Turbine Generator contract for equipment supply and technical services was awarded to Alstom Power and Transport Canada Incorporated. The contract is valued at approximately \$350 million, and contains suspension and termination provisions.

Niagara Tunnel

- In March 2013, the Niagara Tunnel was completed and declared in-service, approximately nine months ahead of the approved project completion date of December 31, 2013. This additional water diversion capacity of approximately 500 cubic metres per second will increase annual generation from the Sir Adam

Beck GS by an average of approximately 1.5 TWh, depending on water flow. Total costs of the project are being finalized and are expected to be approximately \$1.5 billion, compared to the approved budget of \$1.6 billion.

Lower Mattagami

- In December 2012, there was a breach in one section of the recently installed cofferdam at the Kipling site. All other cofferdams on the project have been inspected and it has been determined that they are safe. OPG has finalized and executed a remediation plan regarding the cofferdam breach at the Kipling site and construction activity resumed at the Kipling site in May 2013. This remediation plan is not expected to impact the project schedule and budget. The project is still expected to be completed on plan by June 2015 within the approved budget of \$2.6 billion.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

<i>(millions of dollars – except where noted)</i>	Three Months Ended	
	2013	2012
March 31		
<i>Earnings</i>		
Revenue	1,255	1,199
Fuel expense	183	192
Gross margin	1,072	1,007
Operations, maintenance and administration	700	635
Depreciation and amortization	242	189
Accretion on fixed asset removal and nuclear waste management liabilities	189	187
Earnings on Nuclear Funds	(124)	(210)
Other net expenses	8	7
Income before interest and income taxes	57	199
Net interest expense	25	32
Income tax expense	4	13
Net income	28	154
<i>Income (loss) before interest and income taxes</i>		
Generating segments	102	157
Nuclear Waste Management segment	(63)	24
Other segment	18	18
Total income before interest and income taxes	57	199
<i>Cash flow</i>		
Cash flow provided by operating activities	245	111
<i>Electricity generation (TWh)</i>		
Regulated – Nuclear Generation	11.6	12.5
Regulated – Hydroelectric	4.7	4.9
Unregulated – Hydroelectric	3.6	3.6
Unregulated – Thermal	1.2	1.0
Total electricity generation	21.1	22.0
<i>Average sales prices and average revenue (\$/kWh)</i>		
Regulated – Nuclear Generation	5.7	5.5
Regulated – Hydroelectric	3.9	3.5
Unregulated – Hydroelectric	3.1	2.2
Unregulated – Thermal	2.9	2.0
Average revenue for all electricity generators, excluding OPG ¹	9.2	8.8
Average revenue for OPG ²	5.5	5.0
<i>Nuclear unit capability factor (per cent)</i>		
Darlington GS	84.1	95.6
Pickering GS	79.0	77.0
<i>Availability (per cent)</i>		
Regulated – Hydroelectric	89.9	92.2
Unregulated – Hydroelectric	94.5	92.0
<i>Start Guarantee rate (per cent)</i>		
Unregulated – Thermal	97.9	94.1
<i>Return on equity for the twelve months ended March 31, 2013 and December 31, 2012 (per cent)</i> ³	2.7	4.2
<i>Funds from operations interest coverage for the twelve months ended March 31, 2013 and December 31, 2012 (times)</i> ³	2.7	2.3

¹ Revenues for other electricity generators are computed as the sum of hourly Ontario demand multiplied by the hourly Ontario electricity price (HOEP) plus total global adjustment payments, plus the sum of hourly net exports multiplied by the HOEP, less OPG's generation revenue.

² Average revenue for OPG is comprised of regulated revenues, market based revenues, and other energy revenues primarily from cost recovery agreements, and revenue from Hydroelectric Energy Supply Agreements.

³ "Funds from operations interest coverage" and "Return on equity" are non-GAAP financial measures and do not have any standardized meaning prescribed by US GAAP. Additional information about these measures is provided in OPG's Management's Discussion and Analysis for the period ended March 31, 2013, under the heading, *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 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 consolidated financial statements and Management's Discussion and Analysis as at and for the three months ended March 31, 2013, 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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ONTARIO POWER GENERATION INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
2013 FIRST QUARTER REPORT

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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 Company) as at and for the three months ended March 31, 2013. For a complete description of OPG's corporate strategies, risk management, corporate governance, related party transactions 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, 2012.

As required by Ontario Regulation 395/11, as amended, a regulation under the *Financial Administration Act* (Ontario) (FAA), OPG adopted United States generally accepted accounting principles (US GAAP) for the presentation of its consolidated financial statements, effective January 1, 2012. The Ontario Securities Commission also approved OPG's adoption of US GAAP for financial years that begin on or after January 1, 2012, but before January 1, 2015. OPG's unaudited interim consolidated financial statements are prepared in accordance with US GAAP and are presented in Canadian dollars. This MD&A is dated May 15, 2013.

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, including those set out under the heading *Risk Management*, 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, fixed asset removal and nuclear waste management, closure or conversion of coal-fired generating stations, refurbishment of existing facilities, development and construction of new facilities, pension and other post-employment benefit (OPEB) obligations, income taxes, electricity spot market prices, proposed new legislation, the ongoing evolution of the Ontario electricity industry, environmental and other regulatory requirements, health, safety and environmental developments, business continuity events, the weather, and the impact of regulatory decisions by the Ontario Energy Board (OEB). 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. Except as required by applicable securities laws, 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 was established under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (Province).

As at March 31, 2013, OPG's electricity generating portfolio had an in-service capacity of 19,051 megawatts (MW). OPG operates three nuclear generating stations, five thermal generating stations, 65 hydroelectric generating stations, and two wind power turbines. In addition, OPG and TransCanada Energy Ltd. co-own the Portlands Energy Centre (PEC) gas-fired combined cycle generating station (GS). OPG and ATCO Power Canada Ltd. co-own the Brighton Beach gas-fired combined cycle GS. The income of the co-owned facilities is reflected in other income. OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power L.P. (Bruce Power). Income from these leased stations is included in revenue under the Regulated – Nuclear Generation segment. These co-owned facilities and leased stations are not included in the generation portfolio statistics set out in this report. A description of OPG's segments is provided in OPG's 2012 annual MD&A under the heading, *Business Segments*.

The in-service generating capacity by business segment as of March 31, 2013 and December 31, 2012 was as follows:

<i>(MW)</i>	As at	
	March 31 2013	December 31 2012
Regulated – Nuclear Generation	6,606	6,606
Regulated – Hydroelectric	3,312	3,312
Unregulated – Hydroelectric	3,684	3,684
Unregulated – Thermal ¹	5,447	5,447
Other	2	2
Total	19,051	19,051

¹ Includes the capacity of the Atikokan GS, which is being converted to use biomass commencing in 2014.

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 segment is included under the heading, *Discussion of Operating Results by Business Segment*.

<i>(millions of dollars – except where noted)</i>	Three Months Ended March 31	
	2013	2012
Revenue	1,255	1,199
Fuel expense	183	192
Gross margin	1,072	1,007
<i>Expenses</i>		
Operations, maintenance and administration	700	635
Depreciation and amortization	242	189
Accretion on fixed asset removal and nuclear waste management liabilities	189	187
Earnings on nuclear fixed asset removal and nuclear waste management funds	(124)	(210)
Restructuring	2	1
Property and capital taxes	15	14
	1,024	816
Income before other income, interest and income taxes	48	191
Other income	(9)	(8)
Net interest expense	25	32
Income tax expense	4	13
Net income	28	154
<i>Electricity production (TWh)</i>	21.1	22.0
<i>Cash flow</i>		
Cash flow provided by operating activities	245	111

Net income decreased by \$126 million in the first quarter of 2013. The following summarizes the significant items which affected net income for the first quarter of 2013 compared to the same quarter in 2012:

Gross Margin

Gross margin increased by \$65 million as a result of:

- Higher generation revenue of \$47 million in the unregulated hydroelectric and thermal segments primarily due to higher electricity spot market prices.
- Higher revenue of \$44 million in 2013 resulting from the new rate riders for nuclear and regulated hydroelectric production established by the OEB effective January 1, 2013. The increase in revenue was largely offset by higher amortization expense associated with the recovery of the variance and deferral account balances.
- Higher revenue from contracts for the thermal stations of \$21 million primarily due to the advancement of depreciation expense resulting from the advanced shutdown of the Lambton and Nanticoke GS by December 31, 2013.
- The increase was partially offset by the impact of lower nuclear generation primarily due to a higher number of outage days resulting in lower revenue of \$46 million from the nuclear segment.

OM&A

OM&A increased by \$65 million as a result of:

- Higher OM&A expenses due to a decrease in OPEB expenses in 2012 of \$40 million resulting from the recognition of a regulatory asset for the Impact for USGAAP Deferral Account (US GAAP Deferral Account) established by the OEB in 2012.
- Higher nuclear OM&A expenses of \$26 million primarily due to increased outage activities.
- The increase was partially offset by lower thermal OM&A expenses of \$11 million primarily due to cost reduction measures, including headcount reductions, and reduced scope of work associated with changing operating profiles.

Depreciation and Amortization

Depreciation and amortization increased by \$53 million as a result of:

- Higher amortization expense of \$67 million related to regulatory variance and deferral accounts as a result of the OEB establishing new rate riders that recover December 31, 2012 balances in the accounts, effective January 1, 2013. This was largely offset by higher revenue from OPG's regulated facilities as a result of the new, higher rate riders.
- Higher depreciation expense of \$17 million for the Unregulated – Thermal segment due to the accelerated depreciation of the Lambton and Nanticoke GS resulting from the advanced shutdown of these stations by December 31, 2013. This was offset by an increase in gross margin as a result of higher payments under the Contingency Support Agreement.
- The increase was partially offset by lower depreciation expense as a result of the change in station lives at the Pickering GS and the Bruce GS, net of the impact of regulatory variance and deferral accounts.

Nuclear Funds Earnings

Earnings on the Used Fuel Segregated Fund (Used Fuel Fund) and a Decommissioning Segregated Fund (Decommissioning Fund) (together the Nuclear Funds) decreased by \$86 million as a result of:

- Lower Decommissioning Fund earnings as a result of the Decommissioning Fund being in an overfunded position. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes by recording a payable to the Province.

Segment Results

The following table summarizes OPG's income before interest and income taxes by segment for the three months ended March 31, 2013 and 2012.

<i>(millions of dollars)</i>	Three Months Ended	
	2013	2012
<i>Income (loss) before interest and income taxes</i>		
Regulated – Nuclear Generation	(13)	89
Regulated – Hydroelectric	90	96
Unregulated – Hydroelectric	35	4
Unregulated – Thermal	(10)	(32)
Total electricity generation business segments	102	157
Regulated – Nuclear Waste Management	(63)	24
Other	18	18
	57	199

OPG's income before interest and income taxes from the electricity generation business segments decreased by \$55 million for the first quarter of 2013. The decrease was primarily due to higher OM&A expenses and lower nuclear generation revenue. The decrease was partially offset by higher generation revenue from the unregulated hydroelectric segment, primarily due to higher electricity spot market prices.

The decrease in income before interest and income taxes of \$87 million for the Regulated – Nuclear Waste Management business segment was primarily a result of lower earnings from the Decommissioning Fund, as a result of being in an overfunded position.

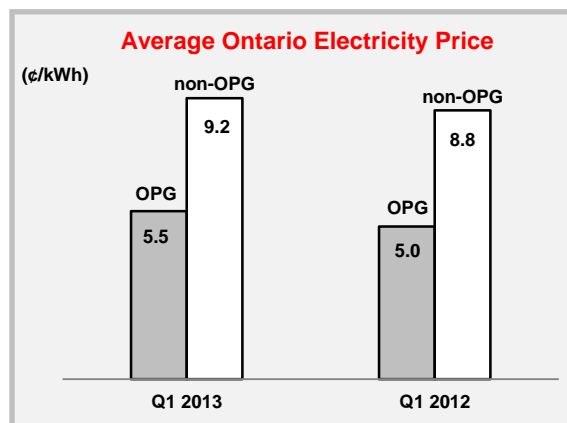
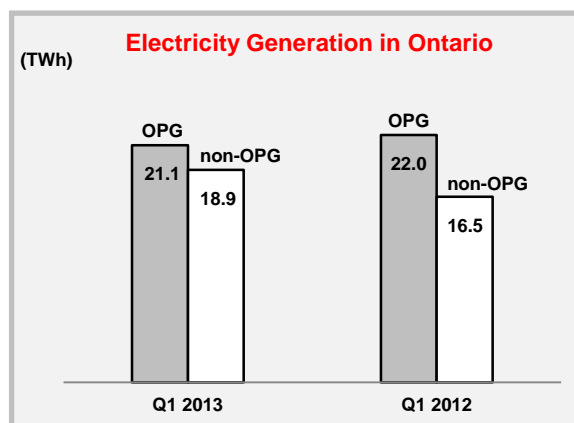
Electricity Generation

Electricity generation for the three months ended March 31, 2013 and 2012 was as follows:

(TWh)	Three Months Ended March 31	
	2013	2012
Regulated – Nuclear Generation	11.6	12.5
Regulated – Hydroelectric	4.7	4.9
Unregulated – Hydroelectric	3.6	3.6
Unregulated – Thermal	1.2	1.0
Total OPG electricity generation	21.1	22.0
Total electricity generation by all other generators in Ontario	18.9	16.5

The decrease in total OPG electricity generation of 0.9 TWh was primarily due to a decrease in electricity generation from the Regulated – Nuclear Generation and the Regulated – Hydroelectric segments, partially offset by higher electricity generation from the Unregulated – Thermal segment.

Electricity generation from the Regulated – Nuclear Generation segment decreased by 0.9 TWh during the first quarter of 2013 compared to the same quarter in 2012. The decrease was primarily a result of a higher number of planned outage days at the Darlington GS and an extension to the Unit 1 outage at the Pickering GS during the first quarter of 2013. The decrease was partially offset by excellent performance of the other Pickering GS units and strong performance at the Darlington GS as a result of a low number of unplanned outage days. The lower generation from the Regulated – Hydroelectric segment during the first quarter of 2013, compared to the same quarter in 2012, was primarily due to lower water levels on the Great Lakes. Higher generation from the Unregulated – Thermal segment during the first quarter of 2013, compared to the same quarter in 2012, was primarily due to lower nuclear and hydroelectric generation and the utilization of coal inventories prior to the shutdown of the coal-fired stations.



Average Sales Prices and Average Revenue

The average sales prices and average revenue were as follows:

(¢/kWh)	Three Months Ended March 31	
	2013	2012
Weighted average hourly Ontario electricity price (HOEP)	3.0	2.1
Regulated – Nuclear Generation	5.7	5.5
Regulated – Hydroelectric	3.9	3.5
Unregulated – Hydroelectric	3.1	2.2
Unregulated – Thermal	2.9	2.0
Average revenue for all electricity generators, excluding OPG ¹	9.2	8.8
Average revenue for OPG ²	5.5	5.0

¹ Revenues for other electricity generators are computed as the sum of hourly Ontario demand multiplied by the HOEP, plus total global adjustment payments, plus the sum of hourly net exports multiplied by the HOEP, less OPG's generation revenue.

² Average revenue for OPG is comprised of regulated revenues, market based revenues, and other energy revenues primarily from cost recovery agreements for the Nanticoke, Lambton and Lennox GS, and revenue from Hydroelectric Energy Supply Agreements (ESA).

The increase in the average sales prices for OPG's regulated segments for the three months ended March 31, 2013 compared to the same period in 2012 was a result of the OEB's approval of new rate riders, effective January 1, 2013. These rate riders were established to collect amounts previously recorded in variance and deferral accounts and, therefore, do not materially affect income. For additional information regarding the recent OEB's approval, refer to the *Recent Developments* section.

Average sales prices for OPG's unregulated segments increased for the three months ended March 31, 2013, compared to the same period in 2012. This was primarily due to the impact of higher Ontario electricity spot market prices. The increase in the HOEP for the first quarter of 2013 compared to the same quarter in 2012, was primarily due to higher natural gas prices and Ontario primary demand, offset slightly by the impact of higher non-OPG nuclear generation.

Cash Flow from Operations

Cash flow provided by operating activities for the three months ended March 31, 2013 was \$245 million, compared to \$111 million for the three months ended March 31, 2012. The increase in operating cash flow was primarily due to an additional voluntary contribution to the pension fund in the first quarter of 2012 and the impact of higher generation revenues.

Funds from Operations Interest Coverage

The Funds from Operations (FFO) Interest Coverage is an indicator of OPG's ability to meet interest obligations from operating cash flows. FFO Interest Coverage is measured over a 12-month period. FFO Interest Coverage for the twelve months ended March 31, 2013 was 2.7 times and 2.3 times for December 31, 2012. The FFO Interest Coverage increased primarily due to higher cash flows provided by operating activities.

Return on Equity

Return on Equity (ROE) is an indicator of OPG's performance consistent with its objectives to operate on a financially sustainable basis and to maintain value for the Shareholder. ROE is measured over a 12-month period.

ROE for the twelve months ended March 31, 2013 was 2.7 percent and 4.2 percent for December 31, 2012. ROE decreased for the period primarily due to lower net income and higher average shareholder's equity, excluding

accumulated other comprehensive income (AOCI). OPG's ROE reflects low levels of income primarily due to low electricity spot market prices and a relatively high equity component in OPG's capital structure.

FFO Interest Coverage and ROE are not measurements in accordance with US GAAP and should not be considered as an alternative measure to net income, cash flows from operating activities, or any other measure of performance under US GAAP. OPG believes that this non-GAAP financial measure is an effective indicator of performance and is consistent with the corporate strategy to operate on a financially sustainable basis. The definition and calculation of FFO Interest Coverage and ROE can be found under the heading, *Supplementary Non-GAAP Financial Measures*.

Recent Developments

OPG's OEB Application

In 2012, OPG filed an application with the OEB requesting approval to recover balances in the authorized regulatory variance and deferral accounts as at December 31, 2012, and for the adoption of US GAAP for regulatory purposes. As at December 31, 2012, the balances in all accounts authorized for OPG totalled \$1,275 million.

In March 2013, OPG reached a settlement agreement with intervenors on all aspects of its application (Settlement Agreement). In a decision by the OEB in March 2013, the Settlement Agreement was approved. Subsequently, the OEB issued an order establishing new rate riders effective January 1, 2013. This resulted in approval of \$1,234 million recorded in the authorized accounts as at December 31, 2012, deferral for future review of \$34 million recorded in certain accounts as at December 31, 2012, and a write-off of \$7 million of interest recorded in certain accounts as at December 31, 2012.

Pursuant to the OEB's order, the disposition of the approved balances in most accounts has been authorized to take place over periods ranging from two to 12 years beginning on January 1, 2013. Some of these periods are longer than originally requested by OPG in its application, resulting in an extended recovery of the approved balances. In particular, the authorized recovery period for the balance in the Pension and OPEB Cost Variance Account is 12 years, compared to four years proposed in OPG's application.

As part of the Settlement Agreement, OPG is also required to credit ratepayers with an additional \$94 million over the 2013 to 2014 period. The credit is related to a reduction in depreciation expense for the Pickering GS following the changes to the useful lives of the stations effective December 31, 2012. OPG is required to refund \$47 million per year until new nuclear regulated prices are established that reflect the revised service lives for the Pickering GS units.

As a result of the OEB's approval of the Settlement Agreement, OPG has been authorized to recover \$633 million over the period from March 1, 2013 to December 31, 2014. In its decision and order, the OEB established the following rate riders for production from the regulated facilities during the period:

(\$/MWh)	Nuclear	Hydroelectric
2013 rate riders	6.27	3.04
2013 interim period rate riders ¹	0.41	0.58
Rate riders for the period March 1, 2013 to December 31, 2013	6.68	3.62
Rate riders for 2014	4.18	2.02

¹ The interim period rate riders were authorized by the OEB to allow for the recovery of the retroactive increase in the riders to January 1, 2013, resulting in a revenue accrual during the first quarter for the period from January 1, 2013 to February 28, 2013.

As the riders are established to collect amounts previously recorded in variance and deferral accounts, the increase in revenue resulting from the implementation of the new riders is expected to be largely offset by an increase in amortization expense. Therefore, taking into consideration the impact of depreciation and amortization expenses, OPG's income is not expected to be materially affected.

The OEB's decision and order regarding the Settlement Agreement authorized the continuation of previously existing variance and deferral accounts, including the Pension and OPEB Cost Variance Account without a prescribed end date. The OEB also approved OPG's adoption of US GAAP for regulatory purposes.

OPG plans to file an application with the OEB for new regulated prices for production from OPG's regulated nuclear and hydroelectric facilities in 2013. These new prices would be effective in 2014. A discussion of the risks regarding future regulated prices is included in this MD&A under the heading, *Financial Sustainability*.

The Society of Energy Professionals' Collective Agreement

The Company's labour agreement with the Society of Energy Professionals (The Society) was renewed in the first quarter of 2013, following arbitration. The agreement is effective January 1, 2013, for a 3-year term.

CORE BUSINESS AND STRATEGY

OPG's mandate is to reliably and cost-effectively produce electricity from its diversified portfolio of generating assets, while operating in a safe, open, and environmentally responsible manner. OPG's goal is to be Ontario's low cost electricity generator of choice with a focus on three corporate strategies:

- Performance Excellence.
- Project Excellence.
- Financial Sustainability.

The following sections provide an update to OPG's disclosures related to performance excellence, project excellence, and financial sustainability, and should be read in conjunction with OPG's 2012 annual MD&A. Detailed discussion of OPG's commitment to its three corporate strategies is included in the 2012 annual MD&A under the headings *Performance Excellence*, *Project Excellence*, and *Financial Sustainability*.

Performance Excellence

OPG is committed to excellence in the areas of generation, the environment, and safety.

Nuclear Generating Assets

In the first quarter of 2013, OPG continued with improvements to the planning, execution, monitoring and reporting of outage work to reduce costs and increase generation. The planned outage programs at Pickering Units 5 to 8 over the next five years reflect OPG's objective of extending the operating lives of these units for approximately an additional four to six years. Pickering GS performed well during the first quarter of 2013 with the exception of Unit 1 which had an extended outage during the quarter. The unit was returned to service in April 2013. Darlington GS also performed well during the quarter.

Hydroelectric Generating Assets

With the consideration of current and future market conditions, OPG continues to evaluate and implement plans to increase capacity and maintain the hydroelectric generating assets. In March 2013, the Niagara Tunnel was completed and declared in-service which will increase annual generation from the Sir Adam Beck GS by providing an additional water diversion capacity of approximately 500 cubic metres per second. In addition, OPG completed a runner upgrade and generator rewind at Unit 1 of the Des Joachims GS during the first quarter of 2013.

Thermal Generating Assets

In March 2013, the Ministry of Energy issued a declaration mandating that OPG cease the use of coal at the Nanticoke and Lambton GS by the end of 2013. The Contingency Support Agreement with the Ontario Electricity Financial Corporation (OEFC) has also been amended. The amendment allows for OPG to continue to recover

actual costs that cannot reasonably be avoided or mitigated during the period from the advanced shutdown date up to the end of 2014, consistent with the duration of the original contract. The amended agreement terms are expected to be triggered by the OEFC in 2013.

During the first quarter of 2013, OPG and the Independent Electricity System Operator (IESO) executed the Reliability Must Run contract for one unit at the Thunder Bay GS, for January 1, 2013 to December 31, 2013. The contract is subject to the OEB's approval. Since the capacity from a second unit at the Thunder Bay GS is not required by the IESO, Unit 2 was removed from the IESO market on March 14, 2013. OPG has notified the Power Workers' Union (PWU) and The Society in accordance with their respective collective bargaining agreements regarding the shutdown of this unit.

Within the terms of the respective collective agreements, OPG continues to estimate the restructuring costs related to the remaining units at the Lambton and Nanticoke GS and for the second unit at the Thunder Bay GS. This includes costs related to severance and relocation of employees to other OPG sites. OPG expects to accrue the severance costs in late 2013. Relocation costs will be recorded as incurred, primarily in 2014. OPG intends to maintain the assets such that they are preserved for potential future conversion to other fuels, if required.

Environmental Performance

During the first quarter of 2013, there were no significant changes to environmental legislation and environmental risks affecting the Company. For the three months ended March 31, 2013, CO₂ emissions from OPG's coal-fired stations were 1.34 million tonnes, compared to 1.14 million tonnes for the same period in 2012. Acid gas (SO₂ and NO_x) emissions were 4.9 gigagrams for the three months ended March 31, 2013 and 4.5 gigagrams for the three months ended March 31, 2012. CO₂ and acid gas emissions increased during the first three months of 2013 compared to the same period in 2012 as a result of increased generation from OPG's coal-fired generating stations.

Disclosures relating to environmental policies and procedures, and environmental risks are provided in the 2012 annual MD&A.

Project Excellence

OPG is pursuing a number of projects, including a number of significant generation development projects. The status updates for OPG's major projects as of March 31, 2013 are outlined below.

Project <i>(millions of dollars)</i>	Capital expenditures		Approved budget	Planned in-service date	Status
	Year-to-date	Life-to-date			
Darlington Refurbishment	57	419			This project is part of Ontario's Long-Term Energy Plan. A detailed cost and schedule estimate for the refurbishment of the four units is expected to be completed in 2015. See update below.
Niagara Tunnel	72	1,447	1,600	December 2013	Completed below the approved budget and ahead of the approved project completion date. See update below.
Lower Mattagami	182	1,535	2,600	June 2015	Construction continues. Project is on budget and on schedule. See update below.
Deep Geologic Repository for Low and Intermediate Level Waste ¹	4 ¹	150 ¹			Design activities suspended pending a licence from the Joint Review Panel. OPG continues to be involved in the federal review process.
Atikokan Biomass Conversion	21	80	170	August 2014	Construction continues. Project is on budget and on schedule.

¹ Expenditures are funded by nuclear fixed asset removal and nuclear waste management liabilities.

Darlington Refurbishment

The CNSC issued a decision on the Environmental Assessment (EA) for the refurbishment of the Darlington GS on March 14, 2013, confirming that, taking into account the identified mitigation measures, Darlington refurbishment and continued operations are not likely to cause significant environmental effect. The EA was subsequently challenged in April 2013 by way of judicial review in the Federal Court of Canada, on the grounds that the EA failed to comply with requirements of the Canadian Environmental Assessment Act, and that the hearing deprived the applicants certain procedural rights.

The Darlington Refurbishment project is currently in the definition phase. In March 2013, the Turbine Generator contract for equipment supply and technical services was awarded to Alstom Power and Transport Canada Incorporated. The contract is valued at approximately \$350 million and contains suspension and termination provisions.

Niagara Tunnel

In March 2013, the 10.2 kilometre tunnel was completed and declared in-service, approximately nine months ahead of the approved project completion date of December 2013. This additional water diversion capacity of approximately 500 cubic metres per second will increase annual generation from the Sir Adam Beck GS by an average of approximately 1.5 TWh, depending on water flow. Total costs of the project are being finalized and are expected to be approximately \$1.5 billion, compared to the approved budget of \$1.6 billion.

Lower Mattagami

In December 2012, there was a breach in one section of the recently installed cofferdam at the Kipling site. All other cofferdams on the project have been inspected and it has been determined that they are safe. OPG has finalized and executed a remediation plan regarding the cofferdam breach at the Kipling site and construction activity resumed at the Kipling site in May 2013. This remediation plan is not expected to impact the project schedule and budget. The project is still expected to be completed on plan by June 2015 within the approved budget of \$2.6 billion.

Financial Sustainability

OPG's financial priority, as a commercial enterprise, is to consistently achieve a level of financial performance that will ensure its long-term financial sustainability, and increase the value of its assets for its Shareholder – the Province of Ontario. Inherent in this priority are three objectives:

- Enhancing profitability by increasing revenue.
- Improving efficiency and reducing costs.
- Ensuring a strong financial position that enhances OPG's ability to finance its operations and projects.

Increasing Revenue

OPG's revenue strategy focuses on increasing revenues, while taking into account the impact on Ontario electricity ratepayers. OPG has multiple sources of revenue, including: regulated prices for the nuclear and most of OPG's baseload hydroelectric generating facilities operated by OPG (Prescribed Facilities); electricity spot market prices for certain unregulated facilities; energy supply and cost recovery agreements for its remaining unregulated facilities; and non-generation revenues.

Electricity produced from the Prescribed Facilities receives regulated prices. Under the current regulatory framework, OPG must show that its regulated costs are just and reasonable and should be fully recovered while earning an appropriate return.

The current regulated prices do not fully reflect the recovery of the costs of the regulated operations and do not allow these operations to earn an appropriate rate of return, thereby negatively impacting OPG's financial performance. OPG has made substantial investments in new generation capacity in the last decade, and significantly transformed its operations in the last few years to achieve higher efficiency. In order to generate an acceptable return on its assets and future investments, maintain its credit rating, and continue to be a positive influence on the Province's financial position, it is anticipated that an increase in regulated prices will be required. OPG's average revenue per unit of generation is expected to remain below the average revenue received by its competitors.

In March 2013, the OEB approved the Settlement Agreement as discussed in the *Recent Developments* section. The settlement allows OPG to recover \$633 million over the 2013/2014 period. The remaining balance in the variance and deferral accounts will be recovered over a number of years. The additional revenue from the Settlement Agreement reflects the collection of balances relating to the past. Notwithstanding the additional revenue from the Settlement Agreement, the average revenue that OPG received for the first quarter of 2013 was 5.5 ¢/kWh, compared to 9.2 ¢/kWh received by all other generators in Ontario.

In 2013, OPG plans to file an application with the OEB for new regulated prices for production from its Prescribed Facilities, effective in 2014. OPG is currently exploring long-term revenue options to recover its costs and earn an appropriate return, while moderating customer rate increases.

A comprehensive description of OPG's revenue sources is provided in OPG's 2012 annual MD&A under the heading, *Financial Sustainability*.

A portion of OPG's electricity production is unregulated and sold at the Ontario electricity spot market price. The average spot market price has declined significantly since 2008 due to factors such as low natural gas prices,

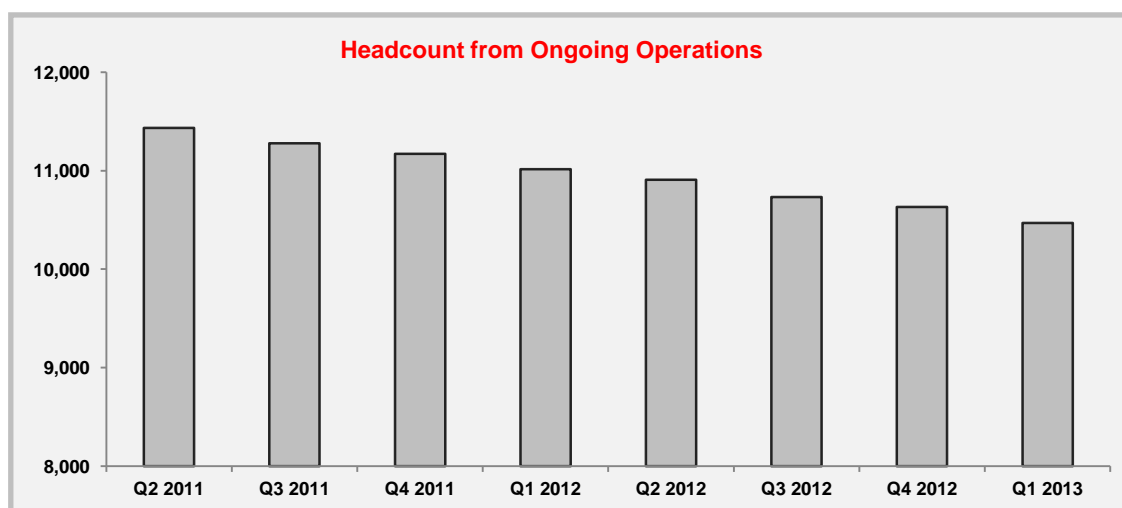
increased electricity supply, and lower primary demand. While the average spot market price increased during the first quarter of 2013, compared to the same quarter in 2012, based on current spot market prices, OPG's unregulated revenues are insufficient to fully recover costs and earn an appropriate return. OPG is exploring options aimed at recovering costs and earning an appropriate return from its unregulated assets.

OPG has negotiated energy supply and cost recovery agreements for certain of its unregulated hydroelectric and thermal assets. During the first quarter of 2013, OPG reached an agreement with the IESO on a Reliability Must Run contract related to one unit at the Thunder Bay GS. The agreement is subject to the OEB's approval.

Improving Efficiency and Reducing Costs

OPG is aggressively pursuing opportunities to implement efficiency and productivity improvements, while reducing costs. To accomplish this objective, OPG launched a multi-year business transformation initiative to streamline the company and implement a sustainable cost structure that will enable OPG to continue to moderate consumer electricity prices and attract new generation development opportunities in support of Ontario's Long-Term Energy Plan.

Business transformation initiatives continued in 2013 and resulted in further headcount reductions. During the first quarter of 2013, headcount from ongoing operations decreased by over 150, primarily through attrition.



Strengthening Financial Position

Successfully implementing initiatives to increase revenue, achieve efficiencies, and reduce costs will serve to strengthen OPG's financial position. To operate on a financially sustainable basis and maintain the value of its assets for its Shareholder, OPG's financial objectives are to: maintain an investment grade credit rating; ensure that capital is allocated in an economic and prudent manner; ensure sufficient liquidity; ensure that all major generation development projects are economic, provide for recovery of costs, and achieve an appropriate return; and continuously evaluate financial and operating performance.

OPG manages its capital structure by taking into consideration the financial metrics consistent with its current credit rating, regulated prices for the regulated operations, and unregulated revenues. OPG continuously evaluates its financial performance using indicators including: ROE and FFO Interest Coverage. For further details, refer to the ROE and FFO Interest Coverage disclosure under the heading, *Supplementary Non-GAAP Financial Measures*. A comprehensive description of OPG's other financial objectives is provided in OPG's 2012 annual MD&A under the heading, *Financial Sustainability*.

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

Regulated – Nuclear Generation Segment

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Regulated generation sales	664	692
Variance accounts	(74)	46
Other	149	35
Total revenue	739	773
Fuel expense	74	75
Variance and deferral accounts	(12)	(4)
Total fuel expense	62	71
Gross margin	677	702
Operations, maintenance and administration	527	462
Depreciation and amortization	156	144
Property and capital taxes	7	7
(Loss) income before interest and income taxes	(13)	89

The loss before interest and income taxes of \$13 million during the first quarter of 2013, compared to income of \$89 million in the same period in 2012, was due to higher OM&A expenses, a lower gross margin, and higher depreciation and amortization expenses.

The \$65 million increase in OM&A expenses was primarily due to lower OPEB expenses during the first quarter of 2012 as a result of the recognition of a regulatory asset for the US GAAP Deferral Account. In addition, higher OM&A expenditures resulted from an extension to an outage at Pickering GS during the first quarter of 2013. Lower discount rates also resulted in higher pension and OPEB costs in 2013. However, the increase was largely offset by amounts recorded in the Pension and OPEB Cost Variance Account.

Gross margin decreased by \$25 million primarily due to lower nuclear generation of 0.9 TWh. This decrease was partially offset by an increase in revenue of \$22 million primarily resulting from the new rate riders for nuclear generation, which are effective January 1, 2013. The revenue impact of the new rate riders was largely offset by a corresponding increase in amortization expense related to regulatory balances.

The increase in other revenue was due to the decrease in the fair value of the derivative liability, embedded in the terms of the Bruce Power lease agreement (Bruce Lease). The changes in the fair value of this derivative are recorded in other revenue, with a corresponding change in the regulatory asset related to the Bruce Lease Net Revenues Variance Account. As such, there was no income impact related to the change in the fair value of the derivative liability.

The unit capability factors for the Darlington GS and Pickering GS and the Production Unit Energy Cost (PUEC) for the three months ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31	
	2013	2012
Unit Capability Factor (%)		
Darlington GS	84.1	95.6
Pickering GS	79.0	77.0
Nuclear PUEC (\$/MWh)	50.01	41.09

The lower capability factor at the Darlington GS for the three months ended March 31, 2013, compared to the same period in 2012, was primarily due to an increase in planned outage days to execute scheduled maintenance activities

on the facilities. The increase in planned outage days reflects the first of two planned outages in 2013 which had an earlier start date compared to the 2012 outage at the Darlington GS. The Darlington GS continued to perform well during the quarter. The higher capability factor at the Pickering GS for the three months ended March 31, 2013, compared to the same period in 2012, was primarily as a result of the excellent performance of Pickering Units 4 to 8. This increase was partially offset by the impact of an extension to a planned outage at Pickering GS Unit 1 during the first quarter of 2013.

Nuclear PUEC increased during the first quarter of 2013, compared to the same period in 2012, primarily due to higher OM&A expenses and lower generation.

Regulated – Nuclear Waste Management Segment

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Revenue	25	24
Operations, maintenance and administration	27	26
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	185	184
Earnings on nuclear fixed asset removal and nuclear waste management funds	(124)	(210)
(Loss) income before interest and income taxes	(63)	24

The loss before interest and income taxes for the first quarter of 2013 was a result of lower earnings on the Nuclear Funds. This decrease was primarily a result of lower earnings from the Decommissioning Fund as a result of the fund being in an overfunded position. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes by recording a payable to the Province.

Regulated – Hydroelectric Segment

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Regulated generation sales ¹	183	169
Variance accounts	11	3
Other	7	6
Total revenue	201	178
Fuel expense	50	54
Variance accounts	2	(1)
Total fuel expense	52	53
Gross margin	149	125
Operations, maintenance and administration	26	21
Depreciation and amortization	32	8
Property and capital taxes	1	-
Income before interest and income taxes	90	96

¹ During the three months ended March 31, 2013 and 2012, the Regulated – Hydroelectric segment generation sales included revenue of \$2 million related to the hydroelectric incentive mechanism.

The decrease in income before interest and income taxes during the first quarter of 2013, compared to the same quarter in 2012, was primarily due to higher OM&A expenses. The increase in OM&A expenses was mainly a result of increased maintenance activities during the first quarter of 2013, and a decrease in OPEB expenses during the first quarter of 2012 due to the recognition of a regulatory asset for the US GAAP Deferral Account.

The increase in gross margin was primarily due to an increase in revenue of \$22 million. The increase was primarily due to the new rate riders, which are effective January 1, 2013. The revenue impact of the new rate riders was largely offset by a corresponding increase in amortization expense related to regulatory balances. In addition, the depreciation expense associated with the Niagara Tunnel being declared in-service in March 2013 was offset by a regulatory asset related to the Capacity Refurbishment Variance Account.

The Regulated – Hydroelectric availability, Equivalent Forced Outage Rate (EFOR) and OM&A expense per MWh for the three months ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31	
	2013	2012
Availability (%)	89.9	92.2
EFOR (%)	0.1	2.0
Regulated – Hydroelectric OM&A expense per MWh (\$/MWh)	5.53	4.29

The decrease in availability during the first quarter of 2013 compared to the same quarter in 2012 was primarily due to the continuing planned outage at the Sir Adam Beck 1 GS and the advancement of the planned station outage at the Sir Adam Beck Pump GS. The high availability and low EFOR reflects the continuing good performance of these regulated generating stations.

The increase in OM&A expense per MWh in the first quarter of 2013 compared to the same quarter in 2012 was due to higher OM&A expenses and lower generation.

Unregulated – Hydroelectric Segment

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Spot market sales	111	80
Other	21	18
Total revenue	132	98
Fuel expense	18	20
Gross margin	114	78
Operations, maintenance and administration	59	56
Depreciation and amortization	18	18
Income before other loss, interest and income taxes	37	4
Other loss	2	-
Income before interest and income taxes	35	4

Income before interest and income taxes increased by \$31 million for the three months ended March 31, 2013, compared to the same period in 2012. The increase was primarily due to a higher gross margin resulting from the higher weighted average HOEP during the first quarter of 2013, compared to the same quarter in 2012. The weighted average HOEP was 3.0 ¢/kWh in the first quarter of 2013, compared to 2.1 ¢/kWh for the first quarter of 2012.

The Unregulated – Hydroelectric availability, EFOR and OM&A expense per MWh for the three months ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31	
	2013	2012
Availability (%)	94.5	92.0
EFOR (%)	0.8	2.8
Unregulated – Hydroelectric OM&A expense per MWh (\$/MWh)	16.39	15.56

The increase in availability for the first quarter of 2013 compared to the same quarter in 2012 was primarily a result of a decrease in unplanned outage days during the first quarter of 2013. The decrease in EFOR during the first quarter of 2013 compared to the same quarter in 2012 was primarily due to a fewer number of unplanned outage days. The high availability reflected the continuing strong performance of the unregulated hydroelectric stations.

The increase in OM&A expense per MWh for the three months ended March 31, 2013 compared to the same period in 2012 was due to the impact of higher OM&A expenses.

Unregulated – Thermal Segment

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Spot market sales	35	19
Contingency support agreement	97	83
Other	34	30
Total revenue	166	132
Fuel expense	51	48
Gross margin	115	84
Operations, maintenance and administration	85	94
Depreciation and amortization	31	14
Accretion on fixed asset removal liabilities	4	3
Property and capital taxes	4	4
Restructuring	2	1
Loss before other income, interest and income taxes	(11)	(32)
Other income	(1)	-
Loss before interest and income taxes	(10)	(32)

The improvement in income before interest and income taxes of \$22 million for the three months ended March 31, 2013, compared to the same period in 2012, was primarily due to higher contract revenue from the Lambton, Nanticoke and Lennox GS, and higher electricity sales prices.

Contract revenue was higher during the first quarter of 2013 compared to the same quarter in 2012 primarily as a result of the recovery of higher depreciation expense, partially offset by lower OM&A expenses. The reduction in OM&A expenses of \$9 million for the three months ended March 31, 2013, compared to the same period in 2012, was primarily due to cost reduction measures, including headcount reductions and reduced scope of work associated with changing operating profiles.

The increase in depreciation and amortization expenses of \$17 million during the first quarter of 2013, compared to the first quarter of 2012, was primarily due to the recognition of accelerated depreciation during 2013 as a result of the shutdown of all remaining units at the Lambton and Nanticoke GS by the end of 2013.

The Unregulated – Thermal Start Guarantee rate, EFOR, and OM&A expense per MW for the three months ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31	
	2013	2012
Start Guarantee rate (%)	97.9	94.1
EFOR (%)	17.9	7.0
Unregulated – Thermal OM&A expense per MW (\$000/MW)	62.4	69.0

The increase in EFOR was primarily due to a higher number of unplanned outage days at the Nanticoke GS. The high Start Guarantee rate for the first quarter of 2013 and 2012 reflected the ability of the thermal generating stations to respond to market requirements when needed.

The decrease in OM&A expense per MW during the three months ended March 31, 2013 compared to the same period in 2012 was primarily due to lower OM&A expenses.

Other

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Revenue	16	18
Depreciation and amortization	5	5
Property and capital taxes	3	3
Income before other income, interest and income taxes	8	10
Other income	(10)	(8)
Income before interest and income taxes	18	18

In the first quarter of 2013, revenue in the Other category decreased as a result of lower net trading revenue. This decrease was offset by higher first quarter earnings in 2013 from OPG's investments in joint ventures.

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. For the three months ended March 31, 2013, if disclosed on a gross basis, revenue and power purchases would have increased by \$9 million (three months ended March 31, 2011 – \$13 million).

Income Taxes

Income tax expense for the three months ended March 31, 2013 was \$4 million compared to \$13 million for the same period in 2012. The decrease in income tax expense was primarily due to increases in regulatory variance and deferral account balances recorded in the first quarter of 2013 related to income taxes.

LIQUIDITY AND CAPITAL RESOURCES

OPG's primary sources of liquidity and capital are funds generated from operations, bank financing, credit facilities provided by the OEFC, and capital market financing. These sources are utilized for multiple purposes including: investments in plants and technologies; funding obligations such as contributions to the pension fund and the Nuclear Funds; and to service and repay long-term debt.

Changes in cash and cash equivalents for the three months ended March 31, 2013 and 2012 are as follows:

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Cash and cash equivalents, beginning of period	413	630
Cash flow provided by operating activities	245	111
Cash flow used in investing activities	(393)	(312)
Cash flow provided by financing activities	295	87
Net increase (decrease)	147	(114)
Cash and cash equivalents, end of period	560	516

For a discussion regarding cash flow provided by operating activities and FFO Interest Coverage, refer to the *Overview of Results* section.

Investing Activities

Cash flow used in investing activities during the three months ended March 31, 2013 increased by \$81 million compared to the same quarter in 2012. This increase was primarily due to higher expenditures for the Lower Mattagami River project.

OPG's forecast capital expenditures for 2013 are approximately \$1.7 billion, which includes amounts for hydroelectric development and nuclear refurbishment.

Financing Activities

OPG maintains a \$1 billion revolving committed bank credit facility, which is divided into two \$500 million multi-year term tranches. During the second quarter of 2013, OPG expects to renew and extend both tranches to May 2018. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at March 31, 2013, no commercial paper was outstanding under this program, and there were no outstanding borrowings under the bank credit facility as at March 31, 2013.

As at March 31, 2013, OPG maintained \$25 million of short-term, uncommitted overdraft facilities, and \$395 million of short-term uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans, and for other general corporate purposes. As at March 31, 2013, a total of \$350 million of Letters of Credit had been issued, including \$329 million for the supplementary pension plans, \$20 million for general corporate purposes and \$1 million related to the operation of the PEC.

The Company has an agreement, which expires November 30, 2014, to sell an undivided co-ownership interest of up to \$250 million in its current and future accounts receivable to an independent trust. As at March 31, 2013, of the \$329 million of Letters of Credit issued for the supplementary pension plans, \$55 million were issued under this agreement.

OPG also maintains a Niagara Tunnel project credit facility for an amount up to \$1.6 billion. As at March 31, 2013, advances under this facility were \$1,045 million, including \$20 million of new borrowing during the first quarter of 2013.

The Lower Mattagami Energy Limited Partnership (LME) maintains a \$700 million bank credit facility to support the initial construction phase for the Lower Mattagami River project and the commercial paper program. In August 2012, the facility was divided into two tranches. The first tranche of \$400 million has a maturity date of August 17, 2017 and the second tranche of \$300 million has a maturity date of August 17, 2015. As at March 31, 2013, no commercial paper was outstanding under this program. In 2011, OPG executed a \$700 million credit facility with the OEFC in

support of the Lower Mattagami River project. As at March 31, 2013, there were no outstanding borrowings under this credit facility. In February 2013, the LME issued senior notes totalling \$275 million with a maturity date of 2046. The effective interest rate for these notes was 4.3 percent and the coupon interest rate was 4.2 percent.

As at March 31, 2013, OPG's long-term debt outstanding was \$5,409 million.

In February 2013, Standard & Poor's re-affirmed OPG's commercial paper rating at A-1 (low), and long-term credit rating at A- with a negative outlook. In March 2013, DBRS re-affirmed the long-term credit rating on OPG's debt at A (low), and the commercial paper rating at R-1 (low). All ratings from DBRS have a stable outlook.

BALANCE SHEET HIGHLIGHTS

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

<i>(millions of dollars)</i>	As At	
	March 31 2013	December 31 2012
Property, plant and equipment - net	16,085	15,860
The increase was primarily due to fixed asset additions for the Lower Mattagami River project, the Niagara Tunnel, and the refurbishment of the Darlington GS. This was partially offset by an increase in depreciation expense.		
Nuclear fixed asset removal and nuclear waste management funds <i>(current and non-current portions)</i>	12,836	12,717
The increase was primarily due to earnings on the Nuclear Funds, contributions to the Used Fuel Fund, partially offset by reimbursements of expenditures on nuclear fixed asset removal and nuclear waste management.		
Fixed asset removal and nuclear waste management liabilities	15,707	15,522
The increase was primarily a result of accretion expense due to the passage of time, partially offset by expenditures on nuclear fixed asset removal and waste management activities.		
Long-term accounts payable and accrued charges	626	707
The decrease was primarily due to a decrease in the fair value of the derivative liability embedded in the Bruce Lease.		

Off-Balance Sheet Arrangements

In the normal course of operations, OPG engages in a variety of transactions that, under US GAAP, are either not recorded in the Company's interim consolidated financial statements or are recorded in the Company's interim consolidated financial statements using amounts that differ from the full contract amounts. Principal off-balance sheet activities that OPG undertakes include 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 AND ESTIMATES

OPG's significant accounting policies are outlined in Note 3 to the audited 2012 annual consolidated financial statements as at and for the year ended December 31, 2012.

Certain policies are recognized as critical accounting policies by virtue of the subjective and complex judgment and estimates required around matters that are inherently uncertain, and could result in materially different amounts being reported under different conditions or assumptions.

Comprehensive Income – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

Effective January 1, 2013, OPG adopted the updates to *Accounting Standards Codification Topic 220*, which add new disclosure requirements for items reclassified out of AOCI. The updates required OPG to present information about significant items reclassified out of AOCI by component in the financial statements. OPG has provided the required information in Note 9 of its consolidated financial statements and has applied the amendments for reporting periods beginning on January 1, 2013.

International Financial Reporting Standards (IFRS)

As a result of OPG's 2011 decision to adopt US GAAP, as required by the FAA regulation, OPG's plan to convert to IFRS, effective January 1, 2012, was discontinued. Prior to the adoption of US GAAP as the basis for OPG's financial reporting, the Company had planned to adopt IFRS effective January 1, 2012. OPG had substantively completed its IFRS conversion project, which included separate diagnostic, development, and implementation phases, when it suspended the project and began the evaluation of converting to US GAAP in the fourth quarter of 2011. OPG's IFRS conversion project involved, among other initiatives, a detailed assessment of the effects of IFRS on OPG's financial statements, an update of information systems to meet IFRS requirements as of January 1, 2011, an assessment of internal controls over financial reporting and disclosure controls and processes, as well as training of key finance and operational staff. If a future transition to IFRS is required, conversion work can effectively be restarted with sufficient lead time to evaluate and conclude on changes that occurred subsequent to the decision to suspend the project.

RISK MANAGEMENT

This risk management disclosure should be read in conjunction with the *Risk Management* section included in OPG's 2012 annual MD&A which provides a detailed discussion of OPG's governance structure, inherent risks and activities associated with identifying and managing risks. The following discussion provides an update of OPG's risk management activities.

Operational Risks

Darlington Refurbishment

As part of the project planning process, regulatory approvals, cost estimates and contracts continue to be developed to reduce risks associated with the refurbishment cost and schedule. OPG also requires a mechanism to ensure recovery of its costs and to earn a return. OPG continues to work with its Shareholder to determine an appropriate cost recovery mechanism in connection with the project, while considering the impact to electricity consumers.

Financial Risks

Commodity Markets

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 the risk of unpredictable increases in the price of fuels, the Company has fuel hedging programs, which include using fixed price and indexed contracts.

OPG's revenue from its unregulated assets is also affected by changes in the market or spot price of electricity.

The percentages hedged of OPG's expected generation, fuel requirements and emission requirements are shown in the following table. These amounts are based on yearly forecasts of generation and supply mix, and as such, are subject to change as these forecasts are updated.

	2013 ⁴	2014	2015
Estimated generation output hedged ¹	83%	82%	81%
Estimated fuel requirements hedged ²	76%	69%	57%
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 which is subject to regulated prices established by the OEB, agreements with the IESO, OEFC and Ontario Power Authority, or other electricity contracts which are used as hedges.

² Represents the approximate portion of megawatt-hours of expected generation production for which OPG has entered into contractual arrangements or obligations in order to secure the price of fuel. Excess fuel in inventories in a given year is attributed to the next year, if applicable, for the purpose of measuring hedge ratios.

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

⁴ Includes forecast for the remainder of the year.

Foreign Exchange and Interest Rate Markets

OPG's earnings and cash flows can be affected by movements in the United States (US) dollar relative to the Canadian dollar, and by prevailing interest rates on its borrowings and investment programs.

OPG's financial results are exposed to volatility in the Canadian/US foreign exchange rate as fuels and certain supplies and services purchased for generating stations are primarily denominated in US dollars. The market price of electricity in Ontario is influenced by the exchange rate due to the interaction between the Ontario and neighbouring US interconnected electricity markets. The Ontario electricity spot market is also influenced by US dollar denominated commodity prices such as for natural gas and coal which are used in electricity generation. To manage this risk, OPG employs various financial instruments such as forwards and other derivative contracts, in accordance with approved risk management policies. As at March 31, 2013, OPG had total foreign exchange contracts outstanding with a notional value of US \$84 million.

The majority of OPG's existing debt is at fixed interest rates. Interest rate risk arises with the need to refinance existing debt and/or undertake new financing. The management of these risks is undertaken by using derivatives to hedge the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated new financing. As at March 31, 2013, OPG had total interest rate swap contracts outstanding with a notional principal of \$120 million.

Trading

OPG's financial performance can be affected by its trading activities.

OPG's trading operations are closely monitored and total exposures are measured and reported to senior management on a daily basis. One of the metrics used to measure the financial risk of this trading activity is Value at Risk (VaR). VaR is defined as a probabilistic maximum potential future loss expressed in monetary terms for a portfolio based on normal market conditions over a set period of time. VaR is calculated on a daily basis based on a 95% confidence interval and one day time horizon. OPG manages the financial risk to its trading portfolio by monitoring VaR daily, against an approved VaR limit. For the first quarter of 2013, the utilization of VaR averaged \$0.2 million, compared to an average of \$0.1 million for the first quarter of 2012.

Credit

Deterioration in counterparty credit and non-performance by suppliers can adversely impact OPG's earnings and cash flow from operations.

OPG manages its exposure to various suppliers or counterparties by evaluating their financial condition and ensuring that appropriate collateral, or other forms of security, are held by OPG. OPG's credit exposure relating to energy markets transactions as at March 31, 2013 was \$366 million, including \$339 million to the IESO. Over 95 percent of the remaining \$27 million exposure is related to investment grade counterparties.

Enterprise-Wide Risks

Information Technology

OPG's ability to operate effectively is in part dependent on effectively managing its Information Technology (IT) assets. IT system failures may have an adverse impact on OPG.

Failure to safeguard IT assets could result in future system failures, or an inability to align information technology systems to support the business. In addition, OPG could be exposed to operational risks, reputational damage, and/or financial losses in the event of information technology security breaches. To mitigate these risks, OPG closely monitors its information technology systems and services and complies with North American Electricity Reliability Corporation standards, where applicable. However, given the constantly evolving nature of cyber threats, there continues to be potential for information technology security breaches.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

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 controls 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

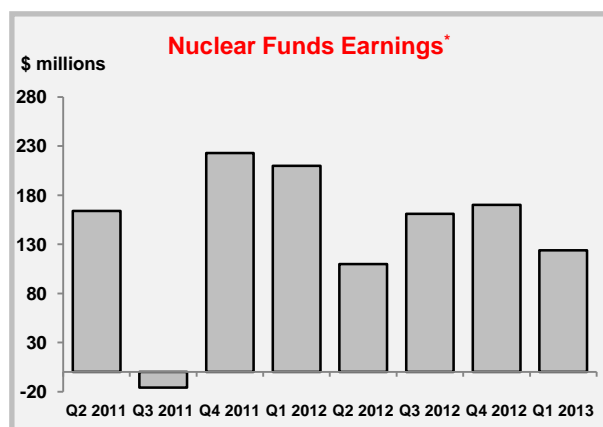
The following tables set out selected financial information from OPG's unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This financial information has been prepared in accordance with US GAAP.

<i>(millions of dollars – except where noted) (unaudited)</i>	March 31 2013	December 31 2012	September 30 2012	June 30 2012
Revenue	1,255	1,195	1,213	1,125
Net income	28	31	139	43
Net income per share (<i>dollars</i>)	\$0.11	\$0.12	\$0.54	\$0.17

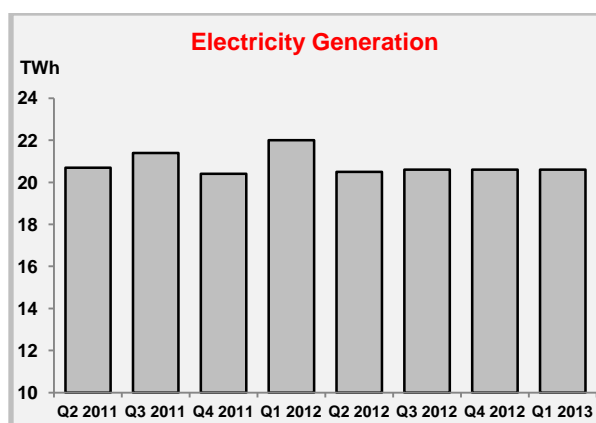
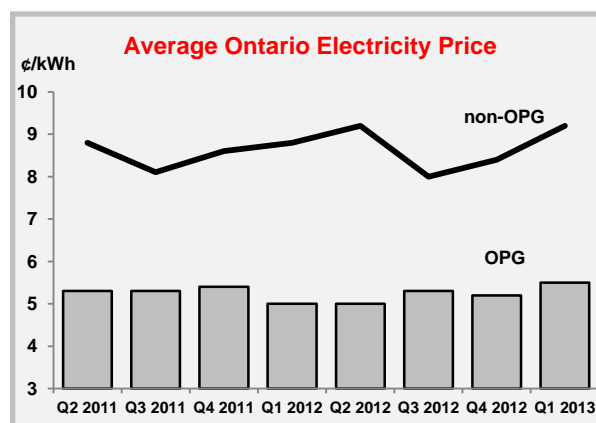
<i>(millions of dollars – except where noted) (unaudited)</i>	March 31 2012	December 31 2011	September 30 2011	June 30 2011
Revenue	1,199	1,228	1,250	1,202
Net income (loss)	154	230	(154)	109
Net income (loss) per share (<i>dollars</i>)	\$0.60	\$0.90	\$(0.61)	\$0.43

Trends

OPG's quarterly results are affected by changes in demand primarily resulting from variations in seasonal weather conditions. In addition to average revenue and generation volume, OPG's revenues are affected by earnings from the Nuclear Funds. Historically, OPG's revenues are higher in the first quarter of a fiscal year as a result of winter heating demands, and in the third quarter due to air conditioning and cooling demands.



*net of regulatory variance account



Additional items which affected net income (loss) in certain quarters above are described in OPG's 2012 annual MD&A under the heading, *Quarterly Financial Highlights*.

SUPPLEMENTARY NON-GAAP FINANCIAL MEASURES

In addition to providing net income in accordance with US GAAP, certain non-GAAP financial measures are also presented in OPG's MD&A and unaudited interim consolidated financial statements. These non-GAAP measures do not have any standardized meaning prescribed by US GAAP and, therefore, may not be comparable to similar measures presented by other issuers. OPG utilizes these measures to make operating decisions and assess performance. Readers of the MD&A, interim consolidated financial statements and the notes thereto utilize these measures in assessing the Company's financial performance from ongoing operations. The Company believes that these indicators are important since they provide additional information about OPG's performance, facilitate comparison of results over different periods, and present a measure consistent with the corporate strategy to operate on a financially sustainable basis. These non-GAAP financial measures have not been presented as an alternative to

net income in accordance with US GAAP, but as an indicator of operating performance. The definitions of the non-GAAP financial measures are as follows:

(1) **ROE** is defined as net income divided by average shareholder's equity excluding AOCI, for the period. ROE is measured over a 12-month period.

(2) **FFO Interest Coverage** is defined as FFO before interest divided by Adjusted Interest Expense. FFO before interest is defined as cash flow provided by operating activities adjusted for interest paid, interest capitalized to fixed and intangible assets, and changes to non-cash working capital balances for the period. Adjusted Interest Expense includes net interest expense plus interest income, interest capitalized to fixed and intangible assets, interest applied to regulatory assets and liabilities, and interest on pension and OPEB projected benefit obligations less expected return on plan assets for the period.

FFO Interest Coverage is measured over a period of twelve months and is calculated as follows:

<i>(millions of dollars – except where noted)</i>	For the twelve months ended	
	March 31 2013	December 31 2012
FFO before interest		
Cash flow provided by operating activities	1,010	876
Add: Interest paid	239	246
Less: Interest capitalized to fixed and intangible assets	(139)	(126)
Add: Changes to non-cash working capital balances	(155)	(172)
FFO before interest	955	824
Adjusted Interest Expense		
Net interest expense	110	117
Add: Interest income	6	7
Add: Interest capitalized to fixed and intangible assets	139	126
Add: Interest related to regulatory assets and liabilities	3	12
Add: Interest on pension and OPEB projected benefit obligation less expected return on plan assets	99	103
Adjusted Interest Expense	357	365
FFO Interest Coverage (times)	2.7	2.3

(3) **Gross margin** is defined as revenue less fuel expense.

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

Additional information about OPG, including its Annual Information Form, annual MD&A, and audited annual consolidated financial statements as at and for the year ended December 31, 2012 and notes thereto can be found on SEDAR at www.sedar.com.

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www.sedar.com

ONTARIO POWER GENERATION INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
MARCH 31, 2013

INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended March 31 <i>(millions of dollars except where noted)</i>	2013	2012
Revenue <i>(Note 14)</i>	1,255	1,199
Fuel expense <i>(Note 14)</i>	183	192
Gross margin <i>(Note 14)</i>	1,072	1,007
Expenses <i>(Note 14)</i>		
Operations, maintenance and administration	700	635
Depreciation and amortization <i>(Note 3)</i>	242	189
Accretion on fixed asset removal and nuclear waste management liabilities <i>(Note 7)</i>	189	187
Earnings on nuclear fixed asset removal and nuclear waste management funds <i>(Note 7)</i>	(124)	(210)
Property and capital taxes	15	14
Restructuring <i>(Note 19)</i>	2	1
	1,024	816
Income before other income, interest and income taxes	48	191
Other income <i>(Note 17)</i>	(9)	(8)
Income before interest and income taxes	57	199
Net interest expense <i>(Note 6)</i>	25	32
Income before income taxes	32	167
Income tax expense <i>(Note 8)</i>	4	13
Net income	28	154
Basic and diluted income per common share <i>(dollars)</i>	0.11	0.60
Common shares outstanding <i>(millions)</i>	256.3	256.3

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Three Months Ended March 31 <i>(millions of dollars)</i>	2013	2012
Net income	28	154
Other comprehensive income, net of income taxes <i>(Note 9)</i>		
Net gain on derivatives designated as cash flow hedges ¹	2	15
Reclassification to income of losses from cash flow hedges ²	7	2
Reclassification to income of amounts related to pension and other post-employment benefits ³	10	7
Other comprehensive income for the period	19	24
Comprehensive income	47	178

¹ Net of income tax expenses of \$1 million and \$3 million for the three months ended March 31, 2013 and 2012, respectively.

² Net of income tax expenses of nil for the three months ended March 31, 2013 and 2012.

³ Net of income tax expenses of \$4 million and \$2 million for the three months ended March 31, 2013 and 2012, respectively.

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended March 31 <i>(millions of dollars)</i>	2013	2012
Operating activities		
Net income	28	154
Adjust for non-cash items:		
Depreciation and amortization <i>(Note 3)</i>	242	189
Accretion on fixed asset removal and nuclear waste management liabilities <i>(Note 7)</i>	189	187
Earnings on nuclear fixed asset removal and nuclear waste management funds <i>(Note 7)</i>	(124)	(210)
Pension and other post-employment benefit costs <i>(Note 10)</i>	118	72
Deferred income taxes and other accrued charges	11	(7)
Mark-to-market on derivative instruments	(74)	40
Provision for used nuclear fuel and low and intermediate level waste	25	24
Regulatory assets and liabilities	25	(42)
Provision for materials and inventory	28	6
Other	(14)	12
	454	425
Contributions to nuclear fixed asset removal and nuclear waste management funds	(39)	(61)
Expenditures on fixed asset removal and nuclear waste management <i>(Note 7)</i>	(46)	(39)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	18	17
Contributions to pension funds and expenditures on other post-employment benefits and supplementary pension plans	(103)	(171)
Expenditures on restructuring <i>(Note 19)</i>	(1)	(4)
Net changes to other long-term assets and liabilities	31	(4)
Net changes to non-cash working capital balances <i>(Note 15)</i>	(69)	(52)
Cash flow provided by operating activities	245	111
Investing activities		
Proceeds from sale of long-term investments	-	21
Investment in property, plant and equipment and intangible assets	(393)	(333)
Cash flow used in investing activities	(393)	(312)
Financing activities		
Issuance of long-term debt <i>(Note 5)</i>	295	40
Net increase in short-term debt <i>(Note 6)</i>	-	47
Cash flow provided by financing activities	295	87
Net increase (decrease) in cash and cash equivalents	147	(114)
Cash and cash equivalents, beginning of period	413	630
Cash and cash equivalents, end of period	560	516

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at <i>(millions of dollars)</i>	March 31 2013	December 31 2012
Assets		
Current assets		
Cash and cash equivalents	560	413
Receivables from related parties <i>(Note 16)</i>	474	442
Other accounts receivable and prepaid expenses	133	125
Nuclear fixed asset removal and nuclear waste management funds <i>(Note 7)</i>	24	27
Fuel inventory	473	505
Materials and supplies	101	90
Regulatory assets <i>(Note 4)</i>	421	-
Income taxes recoverable	54	63
Deferred income taxes <i>(Note 8)</i>	-	68
	2,240	1,733
Property, plant and equipment	23,309	22,923
Less: accumulated depreciation	7,224	7,063
	16,085	15,860
Intangible assets	382	380
Less: accumulated amortization	332	328
	50	52
Other assets		
Nuclear fixed asset removal and nuclear waste management funds <i>(Note 7)</i>	12,812	12,690
Long-term materials and supplies	334	355
Regulatory assets <i>(Note 4)</i>	5,997	6,478
Investments subject to significant influence <i>(Note 18)</i>	365	373
Other long-term assets	58	60
	19,566	19,956
	37,941	37,601

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at <i>(millions of dollars)</i>	March 31 2013	December 31 2012
Liabilities		
Current liabilities		
Accounts payable and accrued charges <i>(Note 16)</i>	833	891
Deferred revenue due within one year	12	12
Long-term debt due within one year <i>(Note 5)</i>	5	5
Regulatory liabilities <i>(Note 4)</i>	22	-
Deferred income taxes <i>(Note 8)</i>	43	-
	915	908
Long-term debt <i>(Note 5)</i>	5,404	5,109
Other liabilities		
Fixed asset removal and nuclear waste management liabilities <i>(Note 7)</i>	15,707	15,522
Pension liabilities	3,603	3,621
Other post-employment benefit liabilities	3,116	3,076
Long-term accounts payable and accrued charges	626	707
Deferred revenue	157	150
Deferred income taxes <i>(Note 8)</i>	448	563
Regulatory liabilities <i>(Note 4)</i>	14	41
	23,671	23,680
Shareholder's equity		
Common shares ¹	5,126	5,126
Retained earnings	3,785	3,757
Accumulated other comprehensive loss <i>(Note 9)</i>	(960)	(979)
	7,951	7,904
	37,941	37,601

¹ 256,300,010 common shares outstanding at a stated value of \$5,126 million as at March 31, 2013 and December 31, 2012; unlimited authorized shares without nominal or par value.

Commitments and Contingencies *(Notes 5, 6, 10, 12 and 13)*

See accompanying notes to the interim consolidated financial statements

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

Three Months Ended March 31 <i>(millions of dollars)</i>	2013	2012
Common shares	5,126	5,126
Retained earnings		
Balance at beginning of period	3,757	3,390
Net income	28	154
Balance at end of period	3,785	3,544
Accumulated other comprehensive loss, net of income taxes (Note 9)		
Balance at beginning of period	(979)	(890)
Other comprehensive income for the period	19	24
Balance at end of period	(960)	(866)
Total shareholder's equity at end of period	7,951	7,804

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2013 and 2012

1. BASIS OF PRESENTATION

These interim consolidated financial statements for the three months ended March 31, 2013 have been prepared and presented in accordance with United States generally accepted accounting principles (US GAAP) and the rules and regulations of the United States Securities and Exchange Commission for interim financial statements. These interim consolidated financial statements do not contain all of the disclosures required by US GAAP for annual financial statements. Accordingly, they should be read in conjunction with the annual consolidated financial statements of Ontario Power Generation Inc. (OPG or Company) as at and for the year ended December 31, 2012. All dollar amounts are presented in Canadian dollars.

Certain of the 2012 comparative amounts have been reclassified from financial statements previously presented to conform to the 2013 consolidated financial statement presentation.

Use of Management Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the interim consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Management evaluates the Company's estimates on an ongoing basis based on historical experience, current conditions and assumptions believed to be reasonable at the time the assumption is made, with any adjustments recognized in income in the period incurred. Significant estimates are included in the determination of pension and other post-employment benefits (OPEB), asset retirement obligations, income taxes (including deferred income taxes), contingencies, regulatory assets and liabilities, valuation of derivative instruments, depreciation and amortization, and inventories. Actual results may differ significantly from these estimates.

Variable Interest Entities

In 2002, OPG and other Canadian nuclear waste producers established the Nuclear Waste Management Organization (NWMO) in accordance with the *Nuclear Fuel Waste Act* (Canada) (NFWA). The primary long-term mandate of the NWMO is to implement an approach to address the long-term management of used nuclear fuel. In addition to the above mandate, the NWMO provides project management services for OPG's Deep Geologic Repository Project for Low and Intermediate Level Waste and other nuclear lifecycle liability management services. OPG has the majority of voting rights at the Board of Directors and members' level. In addition, the NFWA also requires the nuclear fuel waste owners to establish and make payments into trust funds for the purpose of funding the implementation of the long-term management plan. OPG currently provides funding for approximately 90 percent of the NWMO's management approach to the long-term management of nuclear used fuel. As a result, OPG will absorb a majority of the NWMO's expected losses in the event of any shortfall through future funding. Therefore, OPG holds a variable interest in the NWMO of which it is the primary beneficiary. Accordingly, the applicable amounts in the accounts of the NWMO, after elimination of all significant intercompany transactions, are consolidated.

Seasonal Operations

OPG's quarterly results are affected by changes in demand primarily resulting from variations in seasonal weather conditions. Historically, OPG's revenues are higher in the first quarter of a fiscal year as a result of winter heating demands, and in the third quarter due to air conditioning and cooling demands. Regulated prices for most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that OPG operates, cost recovery contracts and energy

supply agreements, and OPG's hedging strategies significantly reduce the impact of seasonal price fluctuations on the results of operations.

2. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Recent Accounting Pronouncements

Comprehensive Income – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

Effective January 1, 2013, OPG adopted the updates to Accounting Standards Codification Topic 220, which add new disclosure requirements for items reclassified out of accumulated other comprehensive income (AOCI). The updates required OPG to present information about significant items reclassified out of AOCI by component in the financial statements. OPG has provided the required information in Note 9 of these consolidated financial statements and has applied the amendments for reporting periods beginning on January 1, 2013.

3. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses consist of the following:

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Depreciation	129	143
Amortization of intangible assets	4	4
Amortization of regulatory assets and liabilities <i>(Note 4)</i>	109	42
	242	189

Interest capitalized to construction and development in progress at an average rate of five percent during the three months ended March 31, 2013 (three months ended March 31, 2012 – five percent) was \$40 million (three months ended March 31, 2012 – \$27 million).

4. REGULATORY ASSETS AND LIABILITIES

In 2012, OPG filed an application with the Ontario Energy Board (OEB) requesting approval to recover balances in the authorized regulatory variance and deferral accounts as at December 31, 2012, and for the adoption of US GAAP for regulatory purposes. As at December 31, 2012, the balances in all accounts authorized for OPG totalled \$1,275 million.

In March 2013, OPG reached a settlement agreement with intervenors on all aspects of its application (Settlement Agreement). In a decision by the OEB in March 2013, the Settlement Agreement was approved. Subsequently, in April 2013, the OEB issued an order establishing new rate riders effective January 1, 2013. This resulted in approval of \$1,234 million recorded in the authorized accounts as at December 31, 2012, deferral for future review of \$34 million recorded in certain accounts as at December 31, 2012, and a write-off of \$7 million of interest recorded in certain accounts as at December 31, 2012. The interest write-off was recorded in net interest expense during the first quarter of 2013. In addition, during the first quarter of 2013, the Company recorded additions to the variance and deferral accounts and amortized regulatory balances as at December 31, 2012, as authorized by the OEB in its March 2013 decision and April 2013 order.

Pursuant to the Settlement Agreement, the disposition of the approved balances has been authorized over periods ranging from two to 12 years beginning on January 1, 2013. Specifically, the balance in the Pension and OPEB Cost Variance Account is to be recovered over a period of 12 years commencing January 1, 2013. The portion of the balance in the Bruce Lease Net Revenues Variance Account related to the impact of the derivative liability embedded in the Bruce Power lease agreement (Bruce Lease) is to be recovered on the basis of OPG's expected rent rebate payments to Bruce Power, including associated income tax impacts. The remaining portion of the balance in the Bruce Lease Net Revenues Variance Account is to be recovered over a 48-month period commencing January 1, 2013. The disposition of all remaining approved balances was authorized over a 24-month period commencing January 1, 2013.

As a result of the OEB's approval of the Settlement Agreement, OPG has been authorized to recover \$633 million over the period from March 1, 2013 to December 31, 2014. In its decision and order, the OEB established the following rate riders for production from the regulated facilities during the period:

(\$/MWh)	Nuclear	Hydroelectric
2013 rate riders	6.27	3.04
2013 interim period rate riders ¹	0.41	0.58
Rate riders for the period March 1, 2013 to December 31, 2013	6.68	3.62
Rate riders for 2014	4.18	2.02

¹ The interim period rate riders were authorized by the OEB to allow for the recovery of the retroactive increase in the riders to January 1, 2013, resulting in a revenue accrual during the first quarter for the period from January 1, 2013 to February 28, 2013.

Any shortfall or over-recovery of the approved balances due to differences between actual and forecast production are recorded in the authorized Nuclear Deferral and Variance Over/Under Recovery Variance Account and Hydroelectric Deferral and Variance Over/Under Recovery Variance Account to be collected from, or refunded to, ratepayers in the future.

The OEB's decision and order regarding the Settlement Agreement also authorized the continuation of previously existing variance and deferral accounts, including the Pension and OPEB Cost Variance Account without a prescribed end date. The OEB also approved OPG's adoption of US GAAP for regulatory purposes and, pursuant to the Settlement Agreement, ordered that only interest and amortization be recorded in the Impact for USGAAP Deferral Account effective January 1, 2013.

Effective January 1, 2013, as part of the approved Settlement Agreement, OPG ceased recording interest on the balance of the Nuclear Liability Deferral Account. For the period from January 1, 2013 to December 31, 2014, as part of the agreement, OPG will not record interest on the balances of the Bruce Lease Net Revenues Variance Account and the majority of the balance of the Pension and OPEB Cost Variance Account. OPG continues to record interest on all other variance and deferral accounts using the interest rate prescribed by the OEB. For the period from January 1, 2012 to March 31, 2013, the prescribed interest rate was 1.47 percent per annum.

The regulatory assets and liabilities recorded as at March 31, 2013 and December 31, 2012 are as follows:

<i>(millions of dollars)</i>	March 31 2013	December 31 2012
Regulatory assets		
<i>Variance and deferral accounts as authorized by the OEB</i>		
Pension and OPEB Cost Variance Account	416	324
Bruce Lease Net Revenues Variance Account	281	311
Tax Loss Variance Account	258	302
Nuclear Liability Deferral Account	244	208
Impact for USGAAP Deferral Account	54	63
Nuclear Development Variance Account	41	30
Other variance and deferral accounts	84	78
	1,378	1,316
Pension and OPEB Regulatory Asset <i>(Note 10)</i>	4,433	4,494
Deferred Income Taxes <i>(Note 8)</i>	607	668
Total regulatory assets	6,418	6,478
Less: current portion	421	-
Non-current regulatory assets	5,997	6,478
Regulatory liabilities		
<i>Variance and deferral accounts as authorized by the OEB</i>		
Other variance and deferral accounts	36	41
Total regulatory liabilities	36	41
Less: current portion	22	-
Non-current regulatory liabilities	14	41

As at March 31, 2013 and December 31, 2012, regulatory assets for other variance and deferral accounts included the Ancillary Services Net Revenue Variance Account, the Hydroelectric Water Conditions Variance Account, the Capacity Refurbishment Variance Account, and other variance accounts authorized by the OEB. As at March 31, 2013 and December 31, 2012, regulatory liabilities for other variance and deferral accounts included the Income and Other Taxes Variance Account and other variance accounts authorized by the OEB.

Regulatory assets and liabilities representing variance and deferral account balances approved for disposition by the OEB are classified as current if they are expected to be recovered from, or refunded to, ratepayers within 12-months after each reporting period, based on recovery periods and amounts established by the OEB. All other regulatory asset and liability balances are classified as non-current on the interim consolidated balance sheets.

The changes in the regulatory assets and liabilities during the three months ended March 31, 2013 and the year ended December 31, 2012 are as follows:

<i>(millions of dollars)</i>	Pension and OPEB Cost Variance	Bruce Lease Net Revenues Variance	Tax Loss Variance	Nuclear Liability Deferral	Impact for USGAAP Deferral	Nuclear Development Variance	Pension and OPEB Regulatory Asset	Deferred Income Taxes	Other Variance and Deferral (net)
Regulatory assets (liabilities), January 1, 2012	96	196	425	22	-	(55)	3,553	699	(73)
Change during the year	225	248	-	206	62	25	941	(31)	55
Interest	3	3	5	1	1	-	-	-	(1)
Amortization during the year	-	(136)	(128)	(21)	-	60	-	-	56
Regulatory assets (liabilities), December 31, 2012	324	311	302	208	63	30	4,494	668	37
Change during the period	107	(9)	-	57	-	11	(61)	(61)	16
Interest	-	(5)	1	(2)	-	-	-	-	-
Amortization during the period	(15)	(16)	(45)	(19)	(9)	-	-	-	(5)
Regulatory assets (liabilities), March 31, 2013	416	281	258	244	54	41	4,433	607	48

5. LONG-TERM DEBT

Long-term debt consists of the following:

<i>(millions of dollars)</i>	March 31 2013	December 31 2012
Notes payable to the Ontario Electricity Financial Corporation	3,945	3,925
UMH Energy Partnership debt	195	195
Lower Mattagami Energy Limited Partnership debt	1,269	994
	5,409	5,114
Less: due within one year	5	5
Long-term debt	5,404	5,109

OPG maintains a Niagara Tunnel project credit facility for an amount up to \$1.6 billion. As at March 31, 2013, advances under this facility were \$1,045 million, including \$20 million of new borrowing during the first quarter of 2013.

In February 2013, the Lower Mattagami Energy Limited Partnership (LME) issued senior notes totalling \$275 million with a maturity date of 2046. The effective interest rate of these notes was 4.3 percent and the coupon interest rate was 4.2 percent.

6. SHORT-TERM DEBT AND NET INTEREST EXPENSE

OPG maintains a \$1 billion revolving committed bank credit facility, which is divided into two \$500 million multi-year term tranches that expire in May 2017. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at March 31, 2013, no commercial paper was outstanding under this program (December 31, 2012 – nil) and there were no outstanding borrowings under the bank credit facility as at March 31, 2013 (December 31, 2012 – nil).

The LME maintains a \$700 million bank credit facility to support the initial construction phase for the Lower Mattagami River project and the commercial paper program. In August 2012, the facility was divided into two tranches. The first tranche of \$400 million has a maturity date of August 17, 2017 and the second tranche of \$300 million has a maturity date of August 17, 2015. As at March 31, 2013, no commercial paper was outstanding under this program (December 31, 2012 – nil). In 2011, OPG executed a \$700 million credit facility with the Ontario Electricity Financial Corporation (OEFC) in support of the Lower Mattagami River project. As at March 31, 2013, there were no outstanding borrowings under this credit facility (December 31, 2012 – nil).

The Company has an agreement, which expires November 30, 2014, to sell an undivided co-ownership interest up to \$250 million in its current and future accounts receivable to an independent trust. As at March 31, 2013, there were Letters of Credit outstanding under this agreement of \$55 million (December 31, 2012 – \$55 million), which were issued in support of OPG's supplementary pension plans.

As at March 31, 2013, OPG maintained \$25 million of short-term, uncommitted overdraft facilities, and \$395 million of short-term uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other general corporate purposes.

As at March 31, 2013, there was a total of \$350 million of Letters of Credit issued. This included \$329 million for the supplementary pension plans, of which \$55 million related to accounts receivable sold to an independent trust, as discussed above; \$20 million for general corporate purposes; and \$1 million related to the operation of the Portlands Energy Centre (PEC).

In addition, as at March 31, 2013, the NWMO has issued a Letter of Credit of \$3 million for its supplementary pension plan.

The following table summarizes the net interest expense for the three months ended March 31, 2013 and 2012:

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Interest on long-term debt	66	64
Interest on short-term debt	1	2
Interest income	(2)	(3)
Interest capitalized to property, plant and equipment and intangible assets	(40)	(27)
Interest related to regulatory assets and liabilities	6	(3)
Other	(6)	(1)
Net interest expense	25	32

7. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT LIABILITIES

The liabilities for fixed asset removal and nuclear waste management on a present value basis as at March 31, 2013 and December 31, 2012 consist of the following:

<i>(millions of dollars)</i>	March 31 2013	December 31 2012
Liability for nuclear used fuel management	9,588	9,469
Liability for nuclear decommissioning and low and intermediate level waste management	5,770	5,708
Liability for non-nuclear fixed asset removal	349	345
Fixed asset removal and nuclear waste management liabilities	15,707	15,522

The changes in the fixed asset removal and nuclear waste management liabilities for the three months ended March 31, 2013 and the year ended December 31, 2012 are as follows:

<i>(millions of dollars)</i>	March 31 2013	December 31 2012
Liabilities, beginning of period	15,522	14,392
Increase in liabilities due to accretion	206	774
Increase in liabilities reflecting a change to the useful lives of the Pickering and Bruce generating stations	-	451
Increase in liabilities due to nuclear used fuel, nuclear waste management variable expenses and other expenses	25	103
Liabilities settled by expenditures on fixed asset removal and nuclear waste management	(46)	(198)
Liabilities, end of period	15,707	15,522

For the three months ended March 31, 2013, expenditures on fixed asset removal and nuclear waste management include \$12 million in funding to the NWMO related to OPG's nuclear fixed asset removal and nuclear waste management liabilities (December 31, 2012 – \$57 million). OPG's cash and cash equivalents balance as at March 31, 2013 includes \$5 million of cash and cash equivalents that are for the use of nuclear waste management activities (December 31, 2012 – \$5 million).

Ontario Nuclear Funds Agreement

OPG sets aside and invests funds held in segregated custodian and trustee accounts specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities in accordance with the Ontario Nuclear Funds Agreement (ONFA) and the federal NFWA.

The nuclear fixed asset removal and nuclear waste management funds (Nuclear Funds) as at March 31, 2013 and December 31, 2012 consist of the following:

<i>(millions of dollars)</i>	Fair Value	
	March 31 2013	December 31 2012
Decommissioning Segregated Fund	6,017	5,771
Due to Province of Ontario (Province) – Decommissioning Segregated Fund	(248)	(64)
	5,769	5,707
Used Fuel Segregated Fund ¹	7,608	7,245
Due to Province – Used Fuel Segregated Fund	(541)	(235)
	7,067	7,010
Total Nuclear Funds	12,836	12,717
Less: current portion	24	27
Non-current Nuclear Funds	12,812	12,690

¹ The Ontario NFWA Trust represented \$2,577 million as at March 31, 2013 (December 31, 2012 – \$2,559 million) of the Used Fuel Segregated Fund on a fair value basis.

As required by the terms of the ONFA, the Province has provided a Provincial Guarantee to the Canadian Nuclear Safety Commission since 2003, on behalf of OPG. The *Nuclear Safety and Control Act* (Canada) requires OPG to have sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The Provincial Guarantee provides for any shortfall between the nuclear decommissioning and waste management liabilities and the current market value of the Used Fuel Segregated Fund and the Decommissioning Segregated Fund, up to the value of the Provincial Guarantee. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount of the Provincial Guarantee provided by the Province. The current value of the Provincial Guarantee of \$1,551 million is in effect through to the end of 2017. In January 2013, OPG paid a guarantee fee of \$8 million for 2013 based on a Provincial Guarantee amount of \$1,551 million.

OPG's investments in the Nuclear Funds are classified as held-for-trading and are measured at fair value with realized and unrealized gains and losses recognized in OPG's interim consolidated financial statements.

The earnings on the Nuclear Funds are as follows:

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Decommissioning Segregated Fund	72	215
Used Fuel Segregated Fund	26	43
Bruce Lease Net Revenues Variance Account (Note 4)	26	(48)
Total earnings	124	210

8. INCOME TAXES

OPG follows the liability method of tax accounting for all its business segments and records an offsetting regulatory asset or liability for the deferred income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

During the three months ended March 31, 2013, OPG recorded a decrease to the deferred income tax liability for the deferred income taxes that are expected to be recovered or refunded through regulated prices charged to customers

of \$61 million. Since these deferred income taxes are expected to be refunded through future regulated prices, OPG has recorded a corresponding decrease to the regulatory asset for deferred income taxes. As a result, the deferred income taxes for the three months ended March 31, 2013 were not impacted.

The amount of cash income taxes paid during the three months ended March 31, 2013 was \$3 million (three months ended March 31, 2012 – \$24 million).

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in the balance of each component of accumulated other comprehensive loss (AOCL), net of income taxes, during the three months ended March 31, 2013 and 2012 are as follows:

<i>(millions of dollars)</i>	Three Months Ended March 31, 2013		
	Unrealized Gains and Losses on Cash Flow Hedges ¹	Pension and Other Post-Employment Benefits ¹	Total ¹
AOCL, beginning of period	(156)	(823)	(979)
Other comprehensive income before reclassifications	2	-	2
Amounts reclassified from AOCL	7	10	17
Other comprehensive income for the period	9	10	19
AOCL, end of period	(147)	(813)	(960)

¹ All amounts are net of income taxes.

<i>(millions of dollars)</i>	Three Months Ended March 31, 2012		
	Unrealized Gains and Losses on Cash Flow Hedges ¹	Pension and Other Post-Employment Benefits ¹	Total ¹
AOCL, beginning of period	(163)	(727)	(890)
Other comprehensive income before reclassifications	15	-	15
Amounts reclassified from AOCL	2	7	9
Other comprehensive income for the period	17	7	24
AOCL, end of period	(146)	(720)	(866)

¹ All amounts are net of income taxes.

The significant amounts reclassified out of each component of AOCL, net of income taxes, during the three months ended March 31, 2013 and 2012 are as follows:

<i>(millions of dollars)</i>	Three Months Ended March 31, 2013	
	Amount Reclassified from AOCL	Statement of Income Line Item
Amortization of losses from cash flow hedges	7	Net interest expense
Amortization of amounts related to pension and other post-employment benefits	14	See (1) below
Actuarial losses	(4)	Income tax expense
	10	
Total reclassifications for the period	17	

¹ These AOCL components are included in the computation of pension and OPEB costs (see Note 10 for additional details).

<i>(millions of dollars)</i>	Three Months Ended March 31, 2012	
	Amount Reclassified from AOCL	Statement of Income Line Item
Amortization of losses from cash flow hedges	2	Net interest expense
Amortization of amounts related to pension and other post-employment benefits	9	See (1) below
Actuarial losses	(2)	Income tax expense
	7	
Total reclassifications for the period	9	

¹ These AOCL components are included in the computation of pension and OPEB costs (see Note 10 for additional details).

10. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

OPG's total benefit costs for the three month periods ended March 31, 2013 and 2012 are as follows:

<i>(millions of dollars)</i>	For the three months ended March 31					
	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
	2013	2012	2013	2012	2013	2012
<i>Components of Cost Recognized</i>						
Current service costs	73	66	2	2	26	21
Interest on projected benefit obligation	147	157	3	3	36	35
Expected return on plan assets, net of expenses	(162)	(167)	-	-	-	-
Amortization of net actuarial loss ¹	61	39	2	1	12	8
Cost recognized ²	119	95	7	6	74	64

¹ The amortization of net actuarial loss is recognized as an increase to other comprehensive income. This increase in the first quarter of 2013 was partially offset by a decrease in the Pension and OPEB Regulatory Asset of \$61 million (three months ended March 31, 2012 – \$39 million).

² These pension and OPEB costs for the three months ended March 31, 2013 exclude the reduction of costs resulting from the recognition of additions to the regulatory assets for the Pension and OPEB Cost Variance Account and the Impact for USGAAP Deferral Account of \$82 million and nil (three months ended March 31, 2012 - \$53 million and \$40 million, respectively).

An actuarial valuation of the OPG registered pension plan was completed as of January 1, 2011. The next actuarial valuation for funding purposes must have an effective date no later than January 1, 2014.

11. DERIVATIVES

OPG is exposed to risks related to changes in electricity prices associated with a wholesale spot market for electricity in Ontario, changes in market interest rates on debt expected to be issued in the future, and movements in foreign currency that affect its assets, liabilities, and forecasted transactions. Select derivative instruments are used to manage such risks. Derivatives are used as hedging instruments, as well as for trading purposes.

Interest rate risk is the risk that the value of assets and liabilities can change due to movements in related interest rates. Interest rate risk at OPG arises with the need to refinance existing debt and/or undertake new financing. The management of these risks is undertaken by using derivatives to hedge the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated financing.

OPG has entered into a number of forward start interest rate swap agreements to hedge against the effect of changes in interest rates for long-term debt for the Niagara Tunnel project. The LME has entered into forward start interest rate swaps to hedge against the effect of future changes in interest rates for long-term debt for the Lower Mattagami River project.

Electricity price risk for the Company is the potential for adverse movements in the market price of electricity. Exposure to electricity price risk is reduced as a result of regulated prices and other contractual arrangements for a significant portion of OPG's business.

The conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, is treated as a derivative. Assumptions related to future electricity prices impact the valuation of the derivative liability embedded in the Bruce Lease.

OPG's foreign exchange exposure is attributable to two primary factors: United States dollar (U.S. dollar) denominated transactions such as the purchase of fuels; and the influence of U.S. dollar denominated commodity prices on Ontario electricity market prices. OPG enters into foreign exchange derivatives and agreements with major financial institutions, when necessary, in order to manage the Company's exposure to foreign currency movements.

The majority of OPG's revenues are derived from sales through the Independent Electricity System Operator (IESO) administered spot market. Although the credit exposure to the IESO represents a significant portion of OPG's accounts receivable, the Company's management accepts this risk due to the IESO's primary role in the Ontario electricity market. The remaining receivables exposure is to a diverse group of generally high quality counterparties. OPG's allowance for doubtful accounts as at March 31, 2013 was less than \$1 million.

The following is a summary of OPG's derivative instruments:

<i>(millions of dollars except where noted)</i>	Notional Quantity	Terms	Fair Value	Balance Sheet Line Item
As at March 31, 2013				
Commodity derivative instruments	5.1 TWh	1 - 2 years	14	Other accounts receivable and prepaid expenses
Foreign exchange derivative instruments	85	within 1 year	1	Other accounts receivable and prepaid expenses
Commodity derivative instruments	1.7 TWh	1 - 2 years	(9)	Accounts payable and accrued charges
Cash flow hedges – Forward start interest rate swaps	120	1 - 12 years	(19)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	n/a	7 years	(318)	Long-term accounts payable and accrued charges
Total derivatives			(331)	
As at December 31, 2012				
Commodity derivative instruments	4.3 TWh	1 - 2 years	7	Other accounts receivable and prepaid expenses
Foreign exchange derivative instruments	63	within 1 year	(1)	Accounts payable and accrued charges
Commodity derivative instruments	2.0 TWh	1 - 2 years	(4)	Accounts payable and accrued charges
Cash flow hedges – Forward start interest rate swaps	410	1 - 12 years	(66)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	n/a	7 years	(392)	Long-term accounts payable and accrued charges
Total derivatives			(456)	

The following table shows the amount related to derivatives recorded in AOCI and income for the three months ended March 31:

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Cash flow hedges		
Gain in other comprehensive income	3	18
Reclassification of losses to net interest expense	7	2
Commodity derivatives		
Realized losses in revenue	(1)	(1)
Unrealized gains in revenue	-	1
Embedded derivative		
Unrealized gains (losses) in revenue ¹	74	(40)

¹ Excludes the impact of the Bruce Lease Net Revenues Variance Account.

Existing net losses of \$18 million deferred in AOCL as at March 31, 2013 are expected to be reclassified to net income within the next 12 months.

12. FAIR VALUE MEASUREMENTS

Fair value is the value that a financial instrument can be closed out or sold, in an arm's length transaction with a willing and knowledgeable counterparty.

OPG is required to classify fair value measurements using a fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The level within which the financial asset or liability is classified is determined based on the attribute of significance to the inputs to the fair value measurement. The fair value hierarchy has the following levels:

- Level 1: Valuation of inputs is based on unadjusted quoted market prices observed in active markets for identical assets or liabilities.
- Level 2: Valuation is based on inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Valuation is based on inputs for the asset or liability that are not based on observable market data.

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated balance sheet dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by OPG is the current bid price. These instruments are included in Level 1 and are comprised primarily of equity investments and fund investments.

For financial instruments which do not have quoted market prices directly available, fair values are estimated using forward price curves developed from observable market prices or rates. The estimation of fair value may include the use of valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing at the dates of the consolidated balance sheets. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and fund investments. Pooled fund investments are valued at the unit values supplied by the pooled fund administrators. The unit values represent the underlying net assets at fair values, determined using closing market prices. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques were used to value these instruments. Significant Level 3 inputs include recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors.

Transfers into, out of, or between levels are deemed to have occurred on the date of the event or change in circumstances that caused the transfer to occur.

The Company is required to determine the fair value of all its financial instruments. The following is a summary of OPG's financial instruments as at March 31, 2013 and December 31, 2012:

<i>(millions of dollars except where noted)</i>	Fair Value	Carrying Value¹	Balance Sheet Line Item
As at March 31, 2013			
Commodity derivative instruments	14	14	Other accounts receivable and prepaid expenses
Investments in OPG Ventures Inc.	10	10	Other long-term assets
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	12,836	12,836	Nuclear fixed asset removal and nuclear waste management funds
Foreign exchange derivative instruments	1	1	Other accounts receivable and prepaid expenses
Commodity derivative instruments	(9)	(9)	Accounts payable and accrued charges
Cash flow hedges - Forward start interest rate swaps	(19)	(19)	Long-term accounts payable and accrued charges
Payable related to cash flow hedges	(61)	(61)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	(318)	(318)	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	(6,060)	(5,409)	Long-term debt
As at December 31, 2012			
Commodity derivative instruments	7	7	Other accounts receivable and prepaid expenses
Investments in OPG Ventures Inc.	10	10	Other long-term assets
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	12,717	12,717	Nuclear fixed asset removal and nuclear waste management funds
Foreign exchange derivative instruments	(1)	(1)	Accounts payable and accrued charges
Commodity derivative instruments	(4)	(4)	Accounts payable and accrued charges
Cash flow hedges - Forward start interest rate swaps	(66)	(66)	Long-term accounts payable and accrued charges
Payable related to cash flow hedges	(24)	(24)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	(392)	(392)	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	(5,751)	(5,114)	Long-term debt

¹ The carrying values of other financial instruments included in cash and cash equivalents, receivables from related parties, other accounts receivable and accounts payable and accrued charges approximate their fair value due to the immediate or short-term maturity of these financial instruments.

The fair value of long-term debt instruments is determined based on a conventional pricing model, which is a function of future cash flows, the current market yield curve and term to maturity. These inputs are considered Level 2 inputs.

The following tables present financial assets and liabilities measured at fair value in accordance with the fair value hierarchy as at March 31, 2013 and December 31, 2012:

<i>(millions of dollars)</i>	March 31, 2013			Total
	Level 1	Level 2	Level 3	
Assets				
Used Fuel Segregated Fund	413	6,629	25	7,067
Decommissioning Segregated Fund	2,677	2,927	165	5,769
Commodity derivative instruments	4	5	5	14
Investment in OPG Ventures Inc.	-	-	10	10
Foreign exchange derivative instruments	-	1	-	1
Total	3,094	9,562	205	12,861
Liabilities				
Derivative embedded in the Bruce Lease	-	-	(318)	(318)
Forward start interest rate swaps	-	(19)	-	(19)
Commodity derivative instruments	(5)	(3)	(1)	(9)
Total	(5)	(22)	(319)	(346)
Net assets (liabilities)	3,089	9,540	(114)	12,515

<i>(millions of dollars)</i>	December 31, 2012			Total
	Level 1	Level 2	Level 3	
Assets				
Decommissioning Segregated Fund	2,596	2,948	163	5,707
Used Fuel Segregated Fund	212	6,785	13	7,010
Commodity derivative instruments	2	2	3	7
Investment in OPG Ventures Inc.	-	-	10	10
Total	2,810	9,735	189	12,734
Liabilities				
Derivative embedded in the Bruce Lease	-	-	(392)	(392)
Forward start interest rate swaps	-	(66)	-	(66)
Commodity derivative instruments	(3)	(1)	-	(4)
Foreign exchange derivative instruments	-	(1)	-	(1)
Total	(3)	(68)	(392)	(463)
Net assets (liabilities)	2,807	9,667	(203)	12,271

During the three months ended March 31, 2013, there were no transfers between Level 1 and Level 2. In addition there were no transfers into and out of Level 3.

The following tables present the changes in OPG's assets and liabilities measured at fair value based on Level 3:

<i>(millions of dollars)</i>	For the three months ended March 31, 2013				
	Decom-missioning Segregated Fund	Used Fuel Segregated Fund	Investment in OPG Ventures Inc.	Derivative Embedded in the Bruce Lease ¹	Commodity Derivative Instruments
Opening balance, January 1, 2013	163	13	10	(392)	3
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds ¹	2	-	-	-	-
Unrealized gains (losses) included in revenue	-	-	-	74	(1)
Realized losses included in revenue	(1)	-	-	-	(1)
Purchases	6	1	-	-	3
Sales	(1)	-	-	-	-
Settlements	(4)	11	-	-	-
Closing balance, March 31, 2013	165	25	10	(318)	4

¹ Total gains (losses) exclude the impact of regulatory assets and liabilities.

<i>(millions of dollars)</i>	For the three months ended March 31, 2012				
	Decom-missioning Segregated Fund	Used Fuel Segregated Fund	Investment in OPG Ventures Inc.	Derivative Embedded in the Bruce Lease ¹	Commodity Derivative Instruments
Opening balance, January 1, 2012	98	6	16	(186)	2
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds ¹	4	-	-	-	-
Unrealized losses included in revenue	-	-	(3)	(40)	-
Realized losses included in revenue	-	-	-	-	(1)
Purchases	22	2	-	-	-
Closing balance, March 31, 2012	124	8	13	(226)	1

¹ Total gains (losses) exclude the impact of regulatory assets and liabilities.

Derivative Embedded in the Bruce Lease

Due to a significant unobservable input used in the pricing model of the Bruce Lease embedded derivative, the measurement of the liability is classified within Level 3.

The following table presents the quantitative information about the Level 3 fair value measurement of the Bruce Lease embedded derivative as at March 31, 2013:

<i>(millions of dollars except where noted)</i>	Fair Value	Valuation Technique	Unobservable Input	Range
Derivative embedded in the Bruce Lease	(318)	Option model	Risk premium ¹	0% - 30%

¹ Represents the range of premiums used in the valuation analysis that OPG has determined market participants would use when pricing the derivative.

The term related to the derivative embedded in the Bruce Lease is based on the remaining service lives, for accounting purposes, for certain units of the Bruce generating station (GS) and may be revised at such time when the

units' service lives are modified. OPG's exposure to changes in the fair value of the Bruce Lease embedded derivative is mitigated as part of the OEB regulatory process since the revenue from the lease of the Bruce GS is included in the determination of regulated prices and is subject to the Bruce Lease Net Revenues Variance Account. As such, the pre-tax income statement impact as a result of changes in the liability is offset by the pre-tax income statement impact of the Bruce Lease Net Revenues Variance Account.

Decommissioning Segregated Fund and Used Fuel Segregated Fund

Nuclear Funds investments classified as Level 3 consist of real estate and infrastructure investments within the alternative investment portfolio. The fair value of the investments within the Nuclear Funds' alternative investment portfolio is determined using appropriate valuation techniques, such as recent arm's length market transactions, reference to current fair values of other instruments that are substantially the same, discounted cash flow analyses, third-party independent appraisals, valuation multiples, or other valuation methods. Any control, size, liquidity or other discount premiums on the investments are considered in the determination of fair value.

The process of valuing investments for which no published market price exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. The values may also differ from the prices at which the investments may be sold.

The following are the classes of investments within the Nuclear Funds that are reported on the basis of net asset value as at March 31, 2013:

<i>(millions of dollars)</i>	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Infrastructure	249	116	n/a	n/a
Real Estate	130	519	n/a	n/a
Pooled Funds				
Short-term Investments	15	-	Daily	1 - 5 days
Fixed Income	793	-	Daily	1 - 5 days
Equity	1,405	-	Daily	1 - 5 days
Total	2,592	635		

Infrastructure

This class includes investments in infrastructure funds whose investment objective is to generate a combination of long-term capital appreciation and current income generally through investments in energy, transportation and utilities.

The fair values of investments in this class have been estimated using the Nuclear Funds' ownership interest in partners' capital and/or underlying investments held by subsidiaries of an infrastructure fund.

The investments can never be redeemed with the respective infrastructure funds. However, the Nuclear Funds may transfer any of its partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each infrastructure fund will be received based on the operations of the underlying investments and/or as the underlying investments of the infrastructure funds are liquidated. It is not possible to estimate when the underlying assets of the infrastructure funds will be liquidated, however, the infrastructure funds have a maturity end period ranging from 2019 to 2023.

Real Estate

This class includes investment in institutional-grade real estate property located in Canada. The investment objective is to provide a stable level of income with the opportunity for long-term capital appreciation.

The fair values of the investments in this class have been estimated using the net asset value of the Nuclear Funds' ownership interest in partners' capital.

The partnership investments can never be redeemed. However, the Nuclear Funds may transfer any of their partnership interest to another party, as stipulated in the partnership agreement, with prior written consent of the other limited partners. For investments in private real estate corporations, shares may be redeemed through a pre-established redemption process. It is not possible to estimate when the underlying assets in this class will be liquidated.

Pooled Funds

This class represents investments in pooled funds, which primarily include a diversified portfolio of fixed income securities, issued mainly by Canadian corporations and diversified portfolios of US and Emerging Market listed equity and fixed income securities. The investment objective of the pooled funds is to achieve capital appreciation and income through professionally managed portfolios.

The fair value of the investments in this class has been estimated using the net asset value per share of the investments.

There are no significant restrictions on the ability to sell investments in this class.

Investments in OPG Ventures Inc.

Significant Level 3 inputs used in the fair value measurement of the investments in OPG Ventures Inc. include recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors. Changes in any of those inputs in isolation would result in a corresponding change in the fair value measurement.

13. COMMITMENTS AND CONTINGENCIES

Litigation

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

On August 9, 2006, a Notice of Action and Statement of Claim filed with the Ontario Superior Court of Justice in the amount of \$500 million was served on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited (together British Energy). The British Energy claim against OPG pertains to corrosion in the Bruce Unit 8 Steam Generators, in particular, erosion of the support plates through which the boiler tubes pass. The claim amount includes \$65 million due to an extended outage to repair some of the alleged damage. The balance of the amount claimed is based on an increased probability the steam generators will have to be replaced or the unit taken out of service prematurely. OPG leased the Bruce nuclear GS to Bruce Power L.P. in 2001.

British Energy is defending an arbitration commenced by some of the current owners of Bruce Power L.P. regarding an alleged breach of British Energy's representations and warranties to the claimants when they purchased British Energy's interest in Bruce Power L.P. (the Arbitration). In the second quarter of 2012, the arbitrator released an interim award. The arbitrator found that British Energy was liable to the claimants for some of the damages they claimed. The arbitrator determined what elements of the claim British Energy was liable for, but did not award a specific amount in damages as it was found that further evidence from the parties is necessary to quantify the exact amount of the damages. If the parties to the Arbitration cannot agree on the quantum of damages, there will be further proceedings before the arbitrator to determine the amount. British Energy counsel has indicated that the damages payable to the claimants will likely be less than \$70 million.

British Energy previously indicated that they did not require OPG or Bruce Power L.P. to actively defend the court action until the conclusion of the Arbitration. Although the Arbitration had not concluded, British Energy requested that OPG file a Statement of Defense. OPG and Bruce Power L.P. advised British Energy that if British Energy wishes the court action to proceed prior to the conclusion of the Arbitration, the defendants would bring a motion for a Stay of proceedings, a Dismissal of the current action or, in the alternative, a motion to extend the time for service of the Statement of Defense until the conclusion of the Arbitration. That motion was scheduled to be heard on March 5, 2010 but was adjourned at the request of British Energy. The return date of that motion is yet to be set.

Certain First Nations have commenced actions against OPG for interference with their respective reserve and traditional land rights. As well, OPG has been brought into certain actions by the First Nations against other parties as a third-party defendant. Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably.

While it is not possible to determine the ultimate outcome of the various pending actions, it is the Company's belief that their resolution is not likely to have a material adverse impact on its financial position.

Environmental

Current operations are subject to regulation with respect to emissions to air, water, and land as well as other environmental matters by federal, provincial, and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in its interim consolidated financial statements to meet certain other environmental obligations. As at March 31, 2013, OPG's environmental liabilities were \$16 million (December 31, 2012 – \$17 million).

Guarantees

The Company and one of its joint venture partners have jointly guaranteed the financial performance of a jointly owned entity related primarily to the payment of liabilities. As at March 31, 2013, OPG's share of the potential exposure under these guarantees is estimated to be \$73 million. OPG may terminate some of these guarantees within a short time frame by providing written notice to the counterparties at any time; others have terms ending between 2016 and 2018. The fair value of these guarantees has been estimated as at March 31, 2013 to be negligible. As at March 31, 2013, OPG does not expect to make any payments associated with these guarantees.

Contractual and Commercial Commitments

The Company's contractual obligations and other significant commercial commitments as at March 31, 2013 are as follows:

<i>(millions of dollars)</i>	2013	2014	2015	2016	2017	Thereafter	Total
Contractual obligations:							
Fuel supply agreements	134	178	186	136	114	257	1,005
Contributions under the ONFA ¹	146	139	143	150	163	2,899	3,640
Long-term debt repayment	5	5	593	273	1,103	3,431	5,410
Interest on long-term debt	177	252	246	232	213	2,009	3,129
Unconditional purchase obligations	78	98	97	8	-	-	281
Operating lease obligations	11	16	16	16	18	1	78
Operating licence	29	40	40	-	-	-	109
Pension contributions ²	225	-	-	-	-	-	225
Other	24	81	32	33	35	95	300
	829	809	1,353	848	1,646	8,692	14,177
Significant commercial commitments:							
Niagara Tunnel	43	-	-	-	-	-	43
Lower Mattagami	397	252	110	-	-	-	759
Atikokan	62	10	-	-	-	-	72
Total	1,331	1,071	1,463	848	1,646	8,692	15,051

¹ Contributions under the ONFA are based on the 2012 ONFA Reference Plan approved in 2012.

² The pension contributions include ongoing funding requirements, and additional funding requirements towards the deficit, in accordance with the actuarial valuations of the OPG registered pension plan as at January 1, 2011 and NWMO registered pension plan as at January 1, 2012. The next actuarial valuations of the OPG and NWMO plans must have effective dates no later than January 1, 2014 and 2013, respectively. The pension contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, changes in the pension regulatory environment, and the timing of funding valuations. Funding requirements after 2013 for the OPG registered pension plan are excluded due to significant variability in the assumption required to project the timing of future cash flows. Funding requirements for 2013 for the NWMO registered pension plan are also excluded. The amount of OPG's additional voluntary contribution, if any, is revisited from time to time.

14. BUSINESS SEGMENTS

Segment (Loss) Income for the Three Months Ended March 31, 2013 <i>(millions of dollars)</i>	Regulated			Unregulated				Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Thermal	Other	Elimination	
Revenue	739	25	201	132	166	16	(24)	1,255
Fuel expense	62	-	52	18	51	-	-	183
Gross margin	677	25	149	114	115	16	(24)	1,072
Operations, maintenance and administration	527	27	26	59	85	-	(24)	700
Depreciation and amortization	156	-	32	18	31	5	-	242
Accretion on fixed asset removal and nuclear waste management liabilities	-	185	-	-	4	-	-	189
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(124)	-	-	-	-	-	(124)
Property and capital taxes	7	-	1	-	4	3	-	15
Restructuring	-	-	-	-	2	-	-	2
Other loss (income)	-	-	-	2	(1)	(10)	-	(9)
(Loss) income before interest and income taxes	(13)	(63)	90	35	(10)	18	-	57

Segment Income (Loss) for the Three Months Ended March 31, 2012 <i>(millions of dollars)</i>	Regulated			Unregulated				Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Thermal	Other	Elimination	
Revenue	773	24	178	98	132	18	(24)	1,199
Fuel expense	71	-	53	20	48	-	-	192
Gross margin	702	24	125	78	84	18	(24)	1,007
Operations, maintenance and administration	462	26	21	56	94	-	(24)	635
Depreciation and amortization	144	-	8	18	14	5	-	189
Accretion on fixed asset removal and nuclear waste management liabilities	-	184	-	-	3	-	-	187
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(210)	-	-	-	-	-	(210)
Property and capital taxes	7	-	-	-	4	3	-	14
Restructuring	-	-	-	-	1	-	-	1
Other income	-	-	-	-	-	(8)	-	(8)
Income (loss) before interest and income taxes	89	24	96	4	(32)	18	-	199

15. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Receivables from related parties	(32)	72
Other accounts receivable and prepaid expenses	(4)	(78)
Fuel inventory	32	52
Income taxes payable/recoverable	9	(23)
Materials and supplies	(11)	7
Accounts payable and accrued charges	(63)	(82)
	(69)	(52)

16. RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province, the Ontario Power Authority (OPA) and the other successor entities of Ontario Hydro, including Hydro One Inc. (Hydro One), the IESO, and the OEFEC, and jointly controlled entities. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As at March 31, 2013, receivables from related parties included \$4 million (December 31, 2012 – \$3 million) due from Hydro One, \$341 million (December 31, 2012 – \$337 million) due from the IESO, \$106 million (December 31, 2012 –

\$84 million) due from the OEFC, \$21 million (December 31, 2012 – \$16 million) due from the OPA, and \$2 million (December 31, 2012 – \$2 million) due from the PEC. Accounts payable and accrued charges at March 31, 2013 included \$2 million (December 31, 2012 – \$2 million) due to Hydro One, \$28 million (December 31, 2012 – \$51 million) due to the OEFC, and \$3 million (December 31, 2012 – \$3 million) due to the Province.

17. OTHER INCOME

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2013	2012
Income from investments subject to significant influence	10	8
Other loss	(1)	-
Other income	9	8

18. INVESTMENTS SUBJECT TO SIGNIFICANT INFLUENCE

Investments subject to significant influence consist of OPG's 50 percent ownership interest in the jointly controlled entities of PEC and Brighton Beach, which are accounted for using the equity method. Details of the balances as at March 31, 2013 and December 31, 2012 are as follows:

<i>(millions of dollars)</i>	March 31 2013	December 31 2012
PEC		
Current assets	16	8
Long-term assets	312	315
Current liabilities	(16)	(8)
Long-term liabilities	(4)	(3)
Brighton Beach		
Current assets	6	11
Long-term assets	203	209
Current liabilities	(11)	(11)
Long-term liabilities	(4)	(9)
Long-term debt	(137)	(139)
Investments subject to significant influence	365	373

19. RESTRUCTURING

In 2011, OPG announced its decision to close two additional coal-fired units at the Nanticoke GS, consistent with Ontario's Long-Term Energy Plan and Supply Mix Directive. Total restructuring costs, primarily severance costs, expected to be incurred related to these closures are \$23 million. Restructuring costs of \$21 million have been recognized to date in the consolidated financial statements and OPG expects to recognize \$2 million in 2013. During 2012, restructuring charges associated with staff relocation of \$3 million were recorded to expense.

In March 2013, the Ministry of Energy issued a declaration mandating that OPG cease the use of coal at the Nanticoke and Lambton GS by the end of 2013. Since the capacity from one unit at the Thunder Bay GS is not required by the IESO and not included in the terms of the Reliability Must Run contract, Unit 2 was removed from the

IESO market on March 14, 2013. OPG has notified the Power Workers' Union (PWU) and the Society of Energy Professionals (The Society) in accordance with their respective collective bargaining agreements regarding the shutdown of this unit. OPG is estimating the restructuring costs, including severance and relocation to other OPG sites. The amount of restructuring costs cannot be reasonably estimated at this time, but OPG expects to accrue the severance costs in late 2013. Relocation costs will be recorded as incurred, primarily in 2014.

OPG has ceased using coal at the Atikokan GS, which has an impact on staff requirements. The total restructuring costs, exclusively severance costs, are estimated to be \$2 million and were recorded during March 2013.

OPG conducted discussions with key stakeholders, including The Society and the PWU, in accordance with their respective collective bargaining agreements, at all plants impacted to date by the regulation requiring the cessation of burning coal for electricity generation. Given collective agreement provisions allowing deferral of severance payout to future periods, the restructuring liability is expected to be fully drawn down by 2015.

The change in the restructuring liability for severance costs for the three months ended March 31, 2013 and for the year ended December 31, 2012 is as follows:

(millions of dollars)

Liability, January 1, 2012	23
Payments during the year	(20)
Liability, December 31, 2012	3
Restructuring charges during the period	2
Payments during the period	(1)
Liability, March 31, 2013	4
