ONTARIO POWER GENERATION

News
from Ontario Power Generation

700 University Avenue Toronto, Ontario M5G 1X6
Tel: 416-592-4008 or 1-877-592-4008 Fax: 416-592-2178
www.opg.com

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ONTARIO POWER GENERATION REPORTS 2005 FIRST QUARTER RESULTS

[Toronto]: Ontario Power Generation Inc. ("OPG" or the "Company") today reported a net loss for the three months ended March 31, 2005 of $38 million or $0.15 per share, which included an impairment loss on the Lennox generating station of $133 million after tax ($202 million before tax). Excluding the impact of the impairment loss on the Lennox generating station, after-tax income during the three months ended March 31, 2005 was $95 million. This compared with a net income of $64 million or $0.25 per share for the same period in 2004.

"The performance at all of the nuclear generating stations during the first quarter of 2005 improved significantly compared to the same period last year," said Acting President and CEO Richard Dicerni. "The increased unit capability factors at all three stations resulted in an improvement in nuclear production of 15 per cent from 10.4 terawatt hours (TWh) in the first quarter of 2004 to 12.0 TWh in the first quarter of 2005," he said.

The higher nuclear generation resulted in an increase in total electricity production during the first quarter of 2005 to 28.8 TWh compared to 28.2 TWh for the same period in 2004. Lower water levels resulted in hydroelectric production of 8.4 TWh compared to production of 8.8 TWh in the three months ended March 31, 2004. Fossil-fuelled generation declined in the first quarter of 2005 to 8.4 TWh from 9.0 TWh during the same period in 2004, primarily as a result of being displaced by increases in OPG's nuclear generation.

"Earnings continued to be impacted by the customer rebate program during the quarter," said Dicerni. "The Market Power Mitigation Agreement rebate reduced earnings before tax by $412 million during the first quarter of 2005 and has reduced the Company's earnings before tax by almost $4.0 billion since it was put in place in May 2002. OPG was the only generator required to make these rebates," he said. The Market Power Mitigation Agreement rebate program ended on March 31, 2005.

OPG recorded an impairment loss on the Lennox generating station of $202 million before tax, which represented the amount of the carrying value of the station. As a result of the Government's "Request for Information/Request for Proposal for 2,500 MW of New Clean Generation and Demand Side Management Projects" released in September 2004 and the related contractual arrangements, future revenue from the wholesale electricity market is expected to be lower than previously anticipated. As a relatively high variable cost plant, the Lennox generating station will not be able to recover its fixed operating costs and its carrying value from the wholesale electricity market in the future. Given these factors, OPG initiated discussions with the Province in 2004, with the expectation of entering into a contractual arrangement for the recovery of the annual fixed operating costs and the carrying value of the Lennox generating station. Recently, in 2005, OPG has been advised that the Province will continue to support the Company in negotiating an arrangement that would allow for the recovery of fixed operating costs, but would not support the recovery of costs related to the carrying value of the Lennox generating station. As a result of this change in circumstance, OPG has recorded the impairment loss.

Excluding the impact of the impairment loss on the Lennox generating station, income for the three months ended March 31, 2005 improved compared to the same period in 2004. Earnings in the first quarter of 2005 were favourably impacted by:

- an improvement in gross margin as a result of increased production from OPG's nuclear generating stations, which have a low marginal cost; and
- a decrease in operations, maintenance and administration expense related to the Pickering A return to service project due to deferral of these costs, beginning January 1, 2005, as required by regulation.

In addition to the impact of the Lennox generating station impairment loss, first quarter earnings were unfavourably impacted by:

- lower realized earnings from the nuclear fixed asset removal and nuclear waste management funds; and
- an increase in nuclear maintenance and repairs related to improvements in reliability.

Cash flow provided by operating activities for the three months ended March 31, 2005 was $300 million compared to $223 million during the same period in 2004. The favourable change was primarily due to lower payments under the Market Power Mitigation Agreement rebate, increases in earnings before depreciation expense and other non-cash items, partly offset by other changes in non-cash working capital balances.

OPG has made significant progress in returning Unit 1 at the Pickering A nuclear generating station to service. At the end of the first quarter, the major construction phase of the project was 88 per cent complete and remains on schedule for completion between June and mid-July, at which time the unit will undergo a three-month commissioning phase before being declared in commercial service. Total costs to complete the project are still expected to range between $975 million and $1 billion.

On May 2, 2005, OPG's Board of Directors announced the appointment of Jim Hankinson as President and CEO of Ontario Power Generation. Mr. Hankinson has been a Board member of OPG since December 2003. He will replace Acting President and CEO Richard Dicerni effective May 13, 2005. Mr. Hankinson was President and CEO of New Brunswick Power Corporation from 1996 to 2002 and President and Chief Operating Officer of Canadian Pacific Limited from 1990 to 1995.

HIGHLIGHTS

(millions of dollars)	Three Months Ended March 31 2005	 2004
Earnings		
Revenue before Market Power Mitigation Agreement rebate	1,770	1,791
Market Power Mitigation Agreement rebate (revenue reduction)	(412)	(441)
Fuel expense	310	338
Operations, maintenance and administration	587	624
Impairment of long-lived assets	202	-
Other expenses	309	280
Income tax (recoveries) expense	(12)	44
Net (loss) income	(38)	64
Cash flow		
Cash flow provided by operating activities	300	223
Electricity Generation (TWh)		
Nuclear	12.0	10.4
Fossil	8.4	9.0
Hydroelectric	8.4	8.8
Total electricity generation	28.8	28.2
Price (¢/kWh)		
Average spot market price before MPMA rebate	5.8	5.9
Average spot market price after MPMA rebate	4.4	4.4
Unit Capability Factors/Equivalent Forced Outage		
Nuclear unit capability factor (per cent)		
Darlington	93.9	85.7
Pickering A	99.8	93.7
Pickering B	84.3	71.4
Equivalent forced outage rate (per cent)		
Nanticoke	20.9	33.4
Fossil-fuelled generating stations excluding Nanticoke	11.0	12.0
Hydroelectric	0.9	1.2

As a result of a new electricity regulation, effective April 1, 2005, OPG will receive $33.00 per megawatt hour for baseload hydroelectric generation, and $49.50 per megawatt hour for nuclear generation. These initial regulated prices are expected to remain in effect until March 31, 2008, at which time it is anticipated that the Ontario Energy Board ("OEB") will have established new regulated prices. OPG's revenues on 85 per cent of the output from its unregulated assets (non-baseload hydroelectric and coal-fired stations), excluding generation from the Lennox generating station and volumes relating to existing contracts, is subject to a revenue limit based on an average price of $47.00 per megawatt hour for a 13 month period from April 1, 2005 to April 30, 2006. Revenues above this limit will be rebated to customers at the end of the period. The regulated pricing structure and the revenue limit replace the current Market Power Mitigation Agreement rebate arrangement.

In addition, as a result of a new electricity regulation, certain of OPG's assets will be regulated and subject to rate regulated accounting principles and practices. As a result, OPG is required to establish a deferral account in connection with non-capital costs incurred on or after January 1, 2005, that are associated with the return to service of units at the Pickering A station. Upon becoming regulated by the Ontario Energy Board in 2008, the OEB is directed by the regulation to ensure that OPG recovers, any balance in the deferral account through rates charged to future customers over a prescribed period. OPG is also required to establish a variance account for certain unforeseen costs incurred on or after April 1, 2005 associated with a number of predefined circumstances. Upon regulation by the OEB, OPG is expected to recover those costs through rates charged to future electricity users over a prescribed period.

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

Ontario Power Generation Inc.'s unaudited interim consolidated financial statements and Management's Discussion and Analysis of financial condition and results of operations as at and for the three months ended March 31, 2005 can be accessed on OPG's website (www.opg.com), the Canadian Securities Administrators' website (www.sedar.com), or can be requested from the Company.

For further information, please contact:	Investor Relations	416-592-6700
	Toll Free	1-866-592-6700
		investor.relations@opg.com
	Media Relations	416-592-4008
	Toll Free	1-877-592-4008

ONTARIOPOWER
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2005 FIRST QUARTER REPORT

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This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the three months ended March 31, 2005. It should also be read in conjunction with OPG's audited consolidated financial statements, accompanying notes, and Management's Discussion and Analysis as at and for the year ended December 31, 2004. OPG's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This MD&A is dated May 12, 2005.

FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis 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", "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 will not, however, mean that a statement is not a forward-looking statement.

All forward-looking statements involve inherent assumptions, risks and uncertainties and, therefore, could be wrong to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's return to service of units at the Pickering A nuclear generating station, fuel costs and availability, nuclear decommissioning and waste management, pension and other post employment benefit obligations, income taxes, spot market electricity prices, the ongoing evolution of the Ontario electricity industry, market power mitigation, environmental and other regulatory requirements, and the weather. Accordingly, undue reliance should not be placed on any forward-looking statement.

THE COMPANY

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario and to interconnected markets. OPG's focus is on the efficient production and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner. OPG was created under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the "Province"). As discussed in the section entitled Vision, Core Business and Strategy, OPG's future role and mandate are under review. The implications for OPG could be material.

As at March 31, 2005, OPG's electricity generating portfolio consisted of three nuclear stations, six fossil-fuelled generating stations, 64 hydroelectric generating stations and two wind generating stations. In addition, there is a wind generating facility, which is co-owned by OPG and Bruce Power L.P. ("Bruce Power") and a gas-fired generating station, which is co-owned by OPG, ATCO Power Canada Ltd. and ATCO Resources Ltd. The Pickering A nuclear generating station was laid up in 1997. During 2003, OPG completed the return to service of Unit 4 of this four-unit station. OPG is proceeding with the return to service of a second Pickering A generating station unit (Unit 1). In addition to its electricity generating portfolio, OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power.

HIGHLIGHTS/EXECUTIVE SUMMARY

This section provides an overview of OPG's operating results. A detailed review of OPG's performance by business segment is included in a later section.

	Three Months Ended March 31	
(millions of dollars)	**2005**	**2004**
Revenue		
Revenue before Market Power Mitigation Agreement rebate	**1,770**	1,791
Market Power Mitigation Agreement rebate	**(412)**	(441)
	1,358	1,350
Electricity Production (TWh)	**28.8**	28.2
Earnings		
Income before impairment loss and income taxes	**152**	108
Impairment loss	**(202)**	-
(Loss) income before income taxes	**(50)**	108
Income tax (recoveries) expense	**(12)**	44
Net (loss) income	**(38)**	64
Cash flow		
Cash flow provided by operating activities	**300**	223

Net loss for the three months ended March 31, 2005 was $38 million compared to a net income of $64 million during the same period in 2004. The 2005 first quarter results included an impairment loss on OPG's Lennox generating station of $202 million before tax ($133 million after tax). Excluding the impact of the impairment loss, before-tax income during the three months ended March 31, 2005 was $152 million compared to $108 million for the same period in 2004, an increase of $44 million. This increase in before-tax earnings was partly due to improved performance from all of OPG's nuclear generating stations, which have a low marginal cost and contributed to a higher sales volume and lower fuel expense, and improvements in performance from OPG's fossil-fuelled generating stations. The increase was also partly due to a decrease in operations, maintenance and administration ("OM&A") expenses due to the deferral of non-capital costs related to the Pickering A return to service project, commencing January 1, 2005, as required by a regulation pursuant to the *Electricity Restructuring Act, 2004.* The increase in earnings was partly offset by lower realized earnings on the nuclear fixed asset removal and nuclear waste management funds and higher nuclear maintenance and repairs related to continuing improvements in station reliability.

The impairment loss on the Lennox generating station of $202 million before tax represents the amount of the carrying value of the station. As a result of the Government's "Request for Information/Request for Proposal for 2500 MW of New Clean Generation and Demand Side Management Projects" released in September 2004 and the related contractual arrangements, future revenue from the wholesale electricity market is expected to be lower than previously anticipated. As a relatively high variable cost plant, the Lennox generating station will not be able to recover its fixed operating costs and its carrying value from the wholesale electricity market in the future. Given these factors, OPG had initiated discussions with the Province, with the expectation of entering into a contractual arrangement for the recovery of the annual fixed operating costs and the carrying value of the Lennox generating station. Subsequently, OPG has been advised that the Province will continue to support OPG in negotiating an arrangement that would support the recovery of fixed operating costs, but would not support the recovery of costs related to the carrying value of the Lennox generating station. As a result of this change in circumstance, OPG has recorded the impairment loss of $202 million.

The following is a summary of the factors impacting OPG's results for the three months ended March 31, 2005 compared to the same period in 2004, on a before-tax basis:

(millions of dollars)	
Income before tax for the three months ended March 31, 2004	**108**
Changes in gross margin	
Change in generation mix – reduction in fuel costs due to higher nuclear generation and lower fossil generation	45
Marginal decrease in average energy prices after Market Power Mitigation Agreement rebate	(18)
Increase in electricity sales volume	21
Other changes in gross margin	(12)
	36
Lower realized earnings on nuclear fixed asset removal and nuclear waste management funds	(27)
Decrease in Pickering A return to service OM&A expense due to deferral of non-capital costs in 2005 as a rate regulated asset	59
Increase in pension and other post employment benefit costs	(10)
Increase in nuclear maintenance and repairs	(21)
Other net changes	7
Increase in income before impairment of long-lived assets and tax	44
Income before impairment of long-lived assets and tax	**152**
Impairment of Lennox generating station	(202)
(Loss) before tax for the three months ended March 31, 2005	**(50)**

Total production during the three months ended March 31, 2005 from OPG's generating stations was 28.8 TWh compared to 28.2 TWh during the same period in 2004. The increase in generation for the period was primarily a result of higher nuclear generation attributable to improved station performance due to fewer unplanned outage days in 2005, partially offset by a decrease in hydroelectric generation due to lower water levels. While performance at fossil-fuelled generating stations improved in 2005, fossil-fuelled generation decreased as it was displaced by increases in nuclear generation, which has a lower marginal cost.

Revenue was reduced by the Market Power Mitigation Agreement rebate of $412 million during the three months ended March 31, 2005 and $441 million for the same period in 2004. The decrease in the rebate was due to lower average energy prices during the first quarter of 2005 compared to the same period last year. Since its inception in May 2002, the Market Power Mitigation Agreement rebate has amounted to almost $4.0 billion and has had a significant negative impact on OPG's earnings and liquidity.

Cash flow provided by operating activities during the three months ended March 31, 2005 was $300 million compared to $223 million during the same period in 2004, an improvement of $77 million. The favourable change was primarily due to a decrease in Market Power Mitigation Agreement rebate payments of $94 million and an increase in earnings before depreciation expense and other non-cash items of $91 million. The favourable increase in cash flow was partially offset by a decrease in cash flow due to changes in other non-cash working capital balances of $138 million.

On May 2, 2005, OPG's Board of Directors announced the appointment of Jim Hankinson as President and CEO of Ontario Power Generation. Mr. Hankinson has been a Board member of OPG since December 2003. He will replace Acting President and CEO Richard Dicerni effective May 13, 2005. Mr. Hankinson was President and CEO of New Brunswick Power Corporation from 1996 to 2002 and President and Chief Operating Officer of Canadian Pacific Limited from 1990 to 1995.

VISION, CORE BUSINESS AND STRATEGY

OPG is concentrating its efforts on further improving generating asset performance through production efficiencies and increased reliability, contributing to new electricity supply in Ontario, effective cost management, and strengthening corporate governance.

Changing Marketplace and Role of OPG

Electricity Restructuring Act, 2004 and Rate Regulation

In December 2004, the *Electricity Restructuring Act, 2004* (Bill 100) received Royal Assent. A regulation made pursuant to that statute in February 2005 provides that OPG will receive regulated prices for its baseload hydroelectric and nuclear facilities. This includes electricity generated by Sir Adam Beck 1, 2 and Pump Generating Station, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering A and B, and Darlington nuclear generating stations.

The initial regulated price for the first 1,900 megawatt hours of production from the regulated hydroelectric facilities in any hour is $33.00/MWh (3.3¢/kWh). As an incentive to encourage maximum hydroelectric production during peak periods, any production from these regulated hydroelectric facilities above 1,900 megawatts per hour will receive the unregulated Ontario market price. The initial regulated price for production from the nuclear facilities is $49.50/MWh (4.95¢/kWh). These regulated prices were determined based on total projected production and costs of operation, plus the cost of capital including an average five per cent return on equity. These initial prices took effect April 1, 2005, and are expected to remain in effect until March 31, 2008, at which time it is anticipated that the Ontario Energy Board ("OEB") will have established new regulated prices. If there are changes to the fundamental assumptions on which these regulated prices were developed, the Province may amend these initial prices.

The regulation also directed OPG to establish a variance account for costs incurred on or after April 1, 2005 that are associated with differences in hydroelectric electricity production due to differences between forecast and actual water conditions, changes in nuclear electricity production due to unforeseen changes to the law or to unforeseen technological changes, changes to revenues assumed for ancillary revenues from the regulated facilities, Acts of God (including severe weather events), and transmission outages and transmission restrictions. In addition, the regulation directed OPG to establish a deferral account for Pickering A return to service non-capital costs incurred on or after January 1, 2005.

Eighty-five per cent of the generation output from OPG's other generation assets, excluding the Lennox generating station, Transition - Generation Corporation Designated Rate Options ("TRO") volumes and forward sales as of January 1, 2005, are subject to a revenue limit based on an average price of $47.00/MWh (4.7¢/kWh). This revenue limit will be in place for a period of 13 months ending April 30, 2006. Revenues above this limit will be rebated at the end of the period.

The revenue limit and implementation of regulated pricing for the generation from OPG's baseload hydroelectric and nuclear facilities replace the Market Power Mitigation Agreement rebate.

Improving the Performance of Generating Assets

OPG's portfolio of generation assets is diversified in terms of technology, fuel type and dispatch flexibility. Production costs are generally competitive with other generators in Ontario and the U.S. northeast and midwest, although higher than generators in Manitoba and Quebec which have a large supply of low cost hydroelectric generation.

OPG continues to make investments to increase the long-term reliability and performance of its nuclear and hydroelectric generating stations, while maintaining the productive capability of the coal-fired fossil generating stations until their closure.

Nuclear Generating Assets

Nuclear generating stations are designed to generate for long continuous periods and provide baseload electricity at low marginal operating costs. OPG is implementing initiatives to further improve the reliability and predictability of its nuclear assets, including steam generator inspection and rehabilitation programs, feeder tube integrity projects, pressure tube remediation programs such as Spacer Location and Relocation (SLAR), and significant efforts to reduce maintenance backlogs. OPG also has comprehensive inspection and testing programs in place in order to regularly ascertain the physical condition of its nuclear generation stations.

Hydroelectric Generating Assets

OPG's hydroelectric stations are utilized primarily for baseload purposes and provide a reliable, low-cost source of renewable energy that is air emission-free. Through significant capital reinvestment, station automation, efficiency improvements and effective plant maintenance, OPG has increased the productive capacity of its hydroelectric plants, extended their service lives and lowered their operating and maintenance costs. This reinvestment program is continuing, and includes an accelerated runner upgrade program aimed at increasing hydroelectric capacity by an additional 102 MW by 2009.

Fossil-Fuelled Generating Assets

Fossil-fuelled stations provide a flexible source of energy and operate as baseload, intermediate and peaking facilities depending on the characteristics of the particular stations. Fossil-fuelled plant production is determined by electricity demand, price and the availability of nuclear, hydroelectric, and other non-OPG generators. The Government has announced its intention to direct OPG to close its coal facilities. While capital investments required to maintain production and safety, and to meet environmental objectives will continue, no new major investments are planned for the coal operations. As well, the expenditure profile of coal plants is shifting from a 'replace' to a 'repair' strategy. In particular, maintenance programs have been modified to address the adverse impacts of increased unit starts and manoeuvring of units, in part due to the role that the fossil-fuelled plants are required to perform in the Ontario marketplace as intermediate and peaking facilities.

New Supply Initiatives

Pickering A Unit 1 Return to Service

Major construction for the return to service of Unit 1 at the Pickering A nuclear generating station commenced in July 2004. As of March 31, 2005, the fieldwork execution was approximately 88 per cent complete and had met all project milestones to date. Total cumulative expenditures to the end of March 31, 2005 were $839 million. These expenditures were related to the engineering, planning, estimating, assessing and project construction activities.

The project remains on schedule for completion of the major construction phase between June and mid-July 2005. The unit will then undergo a three-month commissioning phase before being declared in commercial service. As previously reported in 2004, projected total costs to complete the project are still in the range of $975 million and $1,000 million.

Costs and schedule to complete the project could be impacted by the discovery of additional repairs or refurbishment work that may be identified during the course of the final phases of the project and commissioning, and by productivity performance.

Niagara Tunnel

In June 2004, OPG announced and the Government of Ontario ("the Government") endorsed the decision to proceed with a new water diversion tunnel that will increase the amount of water flowing to existing turbines at the Sir Adam Beck generating stations in Niagara. This tunnel will allow the Beck generating facilities to more effectively utilize available water and is expected to increase annual generation on average by about 1.6 TWh. OPG is undertaking an open and competitive process to select a design-build contractor for the 10.5 km tunnel. Three pre-qualified companies are expected to submit detailed design-build proposals in May 2005. Construction activities are expected to start in the fall of 2005, subject to financing and final Board approval, with completion of the tunnel expected to take approximately 4 years.

Portlands Energy Centre

OPG entered into a partnership with TransCanada Energy Ltd. ("TransCanada"), called Portlands Energy Centre L.P. ("PEC"), to pursue the development of a 550 MW gas-fired, combined cycle station on the site of the former R.L. Hearn generating station, near downtown Toronto. The generating station would help to meet the growing energy needs of Toronto's downtown core.

PEC proceeded under the Environmental Screening Process pursuant to the *Guide to Environmental Assessment Requirements for Electricity Projects*. Further to that process, decisions in favour of the PEC project proceeding, subject to certain conditions, were made by both the Director of the Environmental Assessment and Approvals Branch, Ministry of Environment ("MOE") and the Minister of the Environment. Further to direction of the MOE, PEC issued a Statement of Completion pursuant to this process on April 1, 2005.

In September 2004, the Government issued a Request for Proposals for 2,500 MW of New Clean Generation and Demand Side Management Projects. PEC submitted a bid to the Government under this process. PEC was not among the four bids that were selected in April 2005 by the Province to supply 1,675 MW of the 2,500 MW of New Clean Generation and Demand Side Management Projects. PEC's bid to the Province under this process will remain in effect until June 2005.

Outlook

OPG's Board of Directors and the Government are discussing the future role and mandate of OPG. As a result, the operating and financial position of OPG, as outlined in this Management's Discussion and Analysis, may not be indicative of the future ongoing operations, financial position and prospects of OPG.

BUSINESS SEGMENTS

Prior to the introduction of rate regulation, OPG continued to have two reportable business segments: Generation and Energy Marketing. A separate category, Non-Energy and Other, includes revenue and certain costs that are not allocated to the business segments. With the introduction of rate regulation, OPG will change the definition of business segments with effect from April 1, 2005, as discussed in the Critical Accounting Policies and Estimates section.

Generation Segment

OPG's principal business segment operates in Ontario, generating and selling electricity. All of OPG's electricity generation is sold into the Independent Electricity System Operator ("IESO") administered real-time energy spot market. Prior to April 1, 2005, the majority of OPG's revenue was derived from spot market sales. In addition to revenue earned from spot market sales, revenue is also earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control/reactive support, certified black start facilities and automatic generation control.

Key Generation Performance Indicators

OPG's revenue is primarily dependent upon the quantity of electricity produced by its generating stations and the price at which that electricity is sold. Electricity production is dependent on the availability of stations to deliver energy and on electricity demand. Nuclear stations and the majority of hydroelectric generating stations are used primarily to provide baseload capacity as they have low marginal operating costs. Other hydroelectric and fossil-fuelled stations provide the bulk of the intermediate and peaking capacity. OPG evaluates the performance of stations using a number of key performance indicators, which may vary depending on the generation technology. OPG has included the following two key indicators in the section entitled Discussion of Operating Results.

- Nuclear Unit Capability Factor - the amount of energy that the unit(s) generated over a period of time, adjusted for external energy losses such as transmission or demand limitations, as a percentage of the amount of energy that would have been produced over the same period had the unit(s) produced maximum generation.

- Fossil-fuelled and Hydroelectric Equivalent Forced Outage Rate (EFOR) - an index of the reliability of the generating unit measured by the ratio of time a generating unit is forced out of service, including any forced deratings, compared to the amount of time the generating unit was available to operate.

Energy Marketing Segment

The Energy Marketing segment derives revenue from various physical energy market and financial transactions with large and medium volume end-use consumers and intermediaries such as utilities, brokers, aggregators, traders and other power marketers and retailers. OPG purchases and sells electricity through the IESO spot market and the interconnected markets of other provinces and the U.S. northeast and midwest. Energy Marketing includes trading, sales of financial risk management products and sales of energy-related products and services to meet consumers' needs for energy solutions. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in Energy Marketing revenue as gains or losses.

Non-Energy and Other

OPG derives Non-Energy revenue under the terms of a lease arrangement with Bruce Power related to the Bruce nuclear generating stations. The arrangement includes lease revenue, interest income and revenue from engineering analysis and design, technical and other services. OPG also earns revenue from its joint venture share of the Brighton Beach Power Limited Partnership ("Brighton Beach") related to an energy conversion agreement between Brighton Beach and Coral Energy Canada Inc. ("Coral"). In addition, Non-Energy revenue includes isotope sales to the medical industry and real estate rentals.

DISCUSSION OF OPERATING RESULTS

Generation Segment

	Three Months Ended March 31	
(millions of dollars)	**2005**	**2004**
Revenue, net of Market Power Mitigation Agreement rebate	**1,260**	1,256
Fuel expense	**310**	338
Gross margin	**950**	918
Operations, maintenance and administration		
Expenses excluding Pickering A return to service	**575**	555
Pickering A return to service	**-**	59
Depreciation and amortization	**164**	169
Accretion on fixed asset removal and nuclear waste management liabilities	**119**	113
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(71)**	(98)
Property and capital taxes	**18**	23
Income before impairment of long-lived assets and income taxes	**145**	97
Impairment of long-lived assets	**(202)**	-
(Loss) income before income taxes	**(57)**	97

Impairment of Long-Lived Assets – Lennox Generating Station

The Lennox generating station has available generating capacity in excess of 2000 MW, is available to provide operating reserve, and has dual fuel capability with natural gas and oil. The Lennox generating station is a single cycle station and as such its fuel efficiency (approximately 10,000 to 11,000 BTUs/kWh) is much less than the fuel efficiency of new combined cycle gas turbine stations (approximately 7,000 BTUs/kWh). The Lennox station requires about 1.5 times the amount of natural gas that a combined cycle gas turbine station utilizes to generate the same amount of electricity. The Lennox generating station has annual fixed operating costs of about $50 million and depreciation of $17 million, and at December 31, 2004, had a carrying value of $205 million. Since the formation of OPG in 1999, revenue earned from electricity generated at the Lennox station has generally not been sufficient to cover the fixed operating costs and annual depreciation charge related to the station. However, up until 2004, OPG expected that in the future, demand for new electricity supply requirements in Ontario would require the development of a capacity market or higher market prices sufficient for new entrants to cover their costs and provide a return on investment. As a result, revenues associated with the Lennox station were expected to be sufficient to cover all costs, including a recovery of the carrying value.

In 2004, the Government issued a “Request for Information/Request for Proposal for 2500 MW of New Clean Generation and Demand Side Management Projects” under which new generators will be allowed to recover fixed costs and an agreed upon rate of return on investment through contractual arrangements. By recovering these costs through contractual arrangements with the Ontario Power Authority, new entrants will need to recover only fuel and other variable operating costs from the wholesale market. Wholesale electricity market prices are typically determined by the costs that market participants seek to recover as well as an appropriate return on their investment. These contracts are expected to result in lower than anticipated future revenue from the wholesale electricity market. The costs associated with the contractual arrangements will be recovered from electricity users through an adjustment to the energy charge on their electricity bills.

This development has a material impact on the Lennox generating station. As a relatively high cost plant, the Lennox generating station will not be able to recover its fixed operating costs and the carrying value from the wholesale market in the future. As required under Canadian accounting standards, property, plant and equipment are tested for recoverability whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Recoverability of property, plant and equipment is determined by comparing the carrying amount of an asset to the undiscounted future net cash flows expected to be generated from the asset over its estimated useful life. In cases where the undiscounted expected future cash flows are less than the carrying amounts, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the fair value, or discounted cash flows.

Given these factors, OPG had initiated discussions with the Province, with the intention of entering into a contractual arrangement for the recovery of the annual fixed operating costs of about $50 million and the carrying value of the Lennox station over its remaining estimated useful life of $17 million per year. In the absence of such an arrangement, it would not be commercially viable for OPG to continue operating the Lennox station and an impairment loss would be recorded.

OPG followed up on the discussions with the Province concerning the Lennox generating station situation by engaging in discussions with the IESO during the first quarter of 2005. OPG expected that it would be able to negotiate an arrangement that would provide for the recovery of all costs. Subsequently, OPG has been advised by the Province that it will continue to support OPG in the negotiations with the IESO regarding the recovery of fixed operating costs, but that the Province will not support an arrangement that would allow for the recovery of costs related to the carrying value of the Lennox station. As a result of the change in circumstance, OPG has recorded an impairment loss of $202 million, which is the amount of the carrying value of the generating station before the impairment loss. Once the discussions with the IESO are complete and an arrangement finalized, OPG will assess whether a provision for additional losses is required.

Revenue

	Three Months Ended March 31	
(millions of dollars)	**2005**	**2004**
Spot market sales, net of hedging instruments	**1,654**	1,666
Market Power Mitigation Agreement rebate	**(412)**	(441)
Other	**18**	31
Total generation revenue	**1,260**	1,256

Generation revenue was $1,260 million for the three months ended March 31, 2005 compared to $1,256 million during the same period in 2004. The increase in generation revenue was primarily related to higher electricity sales volumes, largely offset by marginally lower average electricity sales prices and lower ancillary revenues.

Electricity Prices

OPG's average spot market sales price for the three months ended March 31, 2005 was 5.8¢/kWh compared to 5.9¢/kWh for the same period in 2004. After taking into account the Market Power Mitigation Agreement rebate, OPG's average spot market sales price for the three months ended March 31, 2005 and 2004 was 4.4¢/kWh.

Since May 1, 2002, OPG had been required under its generation licence issued by the OEB to comply with prescribed market power mitigation measures, including a rebate mechanism. Under the Market Power Mitigation Agreement, OPG had been required to pay a rebate to the IESO equal to the excess, if any, of the average hourly spot energy price over 3.8¢/kWh for the amount of energy sales subject to the rebate mechanism for those generating stations that OPG continues to control. The IESO passed the rebate on to consumers. The amount of energy generated by OPG that has been subject to the rebate mechanism was approximately 80 TWh on an annual basis. OPG recorded a Market Power Mitigation Agreement rebate of $412 million during the three months ended March 31, 2005 compared to $441 million during the same period in 2004.

The Market Power Mitigation Agreement was replaced effective April 1, 2005 by the implementation of regulated pricing for OPG's generation from regulated assets and with the introduction of a transitional revenue limit for 13 months on eighty-five per cent of the generation output from certain unregulated assets. Generation from the Lennox generating station and volumes related to existing contracts are excluded. Changes in the liability are disclosed in Note 13 to the unaudited interim consolidated financial statements for the three months ended March 31, 2005 and 2004.

Volume

	Three Months Ended March 31	
	2005	**2004**
Electricity generation (TWh):		
Nuclear	**12.0**	10.4
Fossil	**8.4**	9.0
Hydroelectric	**8.4**	8.8
Total electricity generation	**28.8**	28.2

OPG's results are impacted by changes in demand resulting from variations in seasonal weather conditions. During the three months ended March 31, 2005, there were 1,977 Heating Degree Days[1] compared to 1,954 Heating Degree Days during the same period in 2004. The ten-year average for the three month period is 1,870 Heating Degree Days. While temperatures during the first quarter of 2005 and 2004 were comparable, total demand for electricity increased due to a greater volume of exports in 2005.

Electricity sales volume for the three months ended March 31, 2005 was 28.8 TWh compared to 28.2 TWh for the same period in 2004. Nuclear generation increased by 1.6 TWh during the three months ended March 31, 2005 compared to the same period in 2004. Performance at all nuclear generating stations improved during the first quarter of 2005 compared to the same period in 2004 due to fewer unplanned outages. Hydroelectric generation decreased by 0.4 TWh as a result of lower water levels. Fossil-fuelled generation decreased by 0.6 TWh as it was displaced by increases in OPG's nuclear generation, which has a lower marginal cost.

On April 2, 2005, Unit 4 of the Pickering A nuclear generating station was shut down for inspection of feeder pipes. The inspection and repair outage is anticipated to result in lower production at the Pickering A nuclear generating station during the second quarter of 2005.

The unit capability factors for nuclear generating stations and the equivalent forced outage rates for fossil-fuelled and hydroelectric generating stations are shown below:

	Three Months Ended March 31	
	2005	**2004**
Nuclear unit capability factor (per cent)[2]		
Darlington	**93.9**	85.7
Pickering A	**99.8**	93.7
Pickering B	**84.3**	71.4
Equivalent forced outage rate (per cent)		
Nanticoke	**20.9**	33.4
Fossil-fuelled generating stations excluding Nanticoke	**11.0**	12.0
Hydroelectric	**0.9**	1.2

[1] Heating Degree Days represent the aggregate of the average daily temperatures below 18^{0}C, as measured at Pearson International Airport in Toronto.

[2] Capability factors by industry definition exclude grid-related unavailability.

Fuel Expense

Fuel expense for the three months ended March 31, 2005 was $310 million compared to $338 million in 2004, a decrease of $28 million. The decrease during the 2005 period was primarily due to the change in generation mix related to higher production from OPG's nuclear generating stations and lower generation from higher cost fossil-fuelled generating stations.

Operations, Maintenance and Administration

OM&A expenses, excluding those related to the Pickering A return to service initiative, were $575 million for the three months ended March 31, 2005 compared to $555 million for the same period in 2004, an increase of $20 million. As part of OPG's objective to improve the performance of certain of its generating assets, the Company has committed additional resources for its nuclear generating stations in an effort to maximize the operating availability and reliability of those stations. OM&A expenses for nuclear maintenance and repairs increased by $21 million compared to the same period last year. The expenditures related to improvement projects and refurbishments to address plant condition, regulatory requirements and equipment replacement. Pension and other post employment benefit expenses increased by $10 million compared to the same period in 2004, primarily the result of changes in economic assumptions related to discount rates.

Pickering A Return to Service

Effective January 1, 2005, in accordance with a regulation pursuant to the *Electricity Restructuring Act, 2004*, OPG established a deferral account on the balance sheet for non-capital costs associated with the return to service of Pickering A nuclear generating station units. Consequently, non-capital costs related to the Pickering A return to service initiative were excluded from OM&A during the three months ended March 31, 2005. Had these expenditures not been deferred, an expense of $100 million would have been recognized in the first quarter of 2005 compared to $59 million during the same period in 2004. The expenditures in 2005 were primarily related to the major construction activities for the Unit 1 return to service.

The deferred costs will be charged to operations in periods subsequent to the units being returned to commercial service, in accordance with the recovery of these amounts through rates charged to future customers. This is consistent with the objective of rate regulation, which is to ensure that present customers are not burdened with costs incurred for the benefit of future customers, and with generally accepted accounting principles in that the financial effects of regulation can lead to assets and liabilities that would not otherwise be recognized by a non-rate-regulated entity.

Depreciation and Amortization

Depreciation and amortization expense for the 2005 period was $164 million compared to $169 million in the 2004 period, a decrease of $5 million.

Accretion

OPG records the present value of its future costs for fixed asset removal and nuclear waste management as a long-term liability. This liability is discussed in Note 7 to the unaudited interim consolidated financial statements as at and for the three months ended March 31, 2005. Accretion expense reflects the change in the present value of this liability since the end of the prior period. This expense is impacted by factors such as any changes in the estimate of the amount of the future liability for fixed asset removal and nuclear waste management, any changes to the discount rate used to determine the present value, and the change in the present value due to the passage of time.

Accretion expense for the 2005 period was $119 million compared with $113 million for 2004. The increase of $6 million for the 2005 period was due to the higher liability base compared to last year as a result of the increase in the present value of the liability due to the passage of time.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

OPG is responsible for the ongoing long-term management and disposal of radioactive wastes and used fuel resulting from operations and future decommissioning of its nuclear generating stations. OPG's obligations relate to the Pickering and Darlington nuclear plants that are operated by OPG, as well as the Bruce nuclear plant that is leased by OPG to Bruce Power.

Pursuant to the Ontario Nuclear Funds Agreement ("ONFA") between OPG and the Province of Ontario, OPG established the Used Fuel Fund and the Decommissioning Fund (together the "Nuclear Funds"). The Used Fuel Fund is intended to fund future liabilities associated with high-level nuclear waste disposal while the Decommissioning Fund was established to fund future liabilities associated with nuclear fixed asset removal and the disposal of low and intermediate level waste. OPG maintains the Nuclear Funds in third party custodial accounts that are segregated from the rest of OPG's assets.

OPG makes cash contributions to the Nuclear Funds on a quarterly basis consistent with approved cost estimates and payment schedules designated under ONFA. In the first quarter of 2005, OPG contributed $114 million to the Nuclear Funds. Assets in the Nuclear Funds are invested in fixed income and equity securities, which OPG records as long-term investments and accounts for at their amortized cost value. Therefore, gains and losses are recognized only upon the sale of an underlying security. As such, there may be unrealized gains and losses associated with the Nuclear Funds which OPG has not recognized. The balance of the Funds, on an amortized cost basis, as at March 31, 2005 was $6,155 million compared to $5,976 million as at December 31, 2004.

Under ONFA, the Province guarantees the annual rate of return in the Used Fuel Fund at 3.25 per cent plus the change in the Ontario Consumer Price Index ("committed return") over the long-term. OPG recognizes the committed return on the Used Fuel Fund in earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of the assets, which includes realized and unrealized returns, is due to or from the Province. Since OPG accounts for the investments in the Nuclear Funds on an amortized cost basis, the amount due to or due from the Province recorded in the consolidated financial statements is the difference between the committed return and the actual return based on realized returns only. At March 31, 2005, the Used Fuel Fund included an amount due to the Province of $15 million (December 31, 2004 - $4 million). If the investments in the Used Fuel Fund were accounted for at fair market value in the interim consolidated financial statements, at March 31, 2005, there would be an amount due to the Province of $181 million (December 31, 2004 - $156 million). In addition, the Province is entitled to any surplus in the Used Fuel Fund, subject to a threshold over-funded ratio of 110 per cent compared to the value of the associated liabilities.

Under ONFA, the Decommissioning Fund has a long-term target rate of return of 5.75 per cent per annum. OPG bears the risk and liability for cost estimate increases and fund earnings associated with the Decommissioning Fund. At March 31, 2005, based on the estimate of costs to complete decommissioning under the current approved ONFA Reference Plan (the 1999 Reference Plan), the Decommissioning Fund was fully funded on a market value basis and almost fully funded on an amortized cost basis. In the event that realized gains result in over funding of the Decommissioning Fund, the earnings recognized on the investments in the fund would be limited such that the amortized cost balance of the fund would equate to the cost estimate of the liability based on the 1999 Reference Plan. These realized gains may be recognized in subsequent periods provided the fund balance does not exceed that cost estimate.

At March 31, 2005, net unrealized gains in the Decommissioning Fund totalled approximately $305 million (fund assets at amortized cost of $3,911 million and market value of $4,216 million). Under the ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the approved ONFA Reference Plan, are at least 120 per cent funded, OPG may direct up to 50 per cent of the surplus over 120 per cent as a contribution to the Used Fuel Fund, and the Ontario Electricity Financial Corporation ("OEFC") is entitled to a distribution of an equal amount. Any overfunding of the liability is payable to the Province on termination of the fund. If the investments in the Decommissioning Fund were accounted for at fair market value in the interim consolidated financial statements at March 31, 2005, and the Decommissioning Fund was terminated under the ONFA, there would be an amount due to the Province of $280 million (December 31, 2004 - $249 million).

Earnings on the Nuclear Funds for the three months ended March 31, 2005 were $71 million compared to $98 million for the same period last year, a decrease of $27 million. The higher earnings in 2004 were a result of additional realized returns in the funds due to the sale of investments related to asset mix rebalancing.

Energy Marketing Segment

OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate primarily to physical energy that is purchased and sold at the Ontario border, sales of financial risk management products and sales of energy-related products and services to meet consumers' needs for energy solutions.

	Three Months Ended March 31	
(millions of dollars)	**2005**	**2004**
Revenue, net of power purchases	**2**	15
Operations, maintenance and administration	**2**	2
Income before income taxes	**-**	13

Revenue

Energy Marketing revenue for the three months ended March 31, 2005 was $2 million compared to $15 million during the same period in 2004. The decrease of $13 million compared to last year was primarily due to constrained liquidity in the Ontario electricity market which reduced opportunities for trading.

Interconnected purchases and sales (including those to be physically settled) and mark-to-market gains and losses (realized and unrealized) on energy trading contracts are disclosed on a net basis in the consolidated statements of income. On a gross basis, revenue and power purchases for the 2005 period would have increased by $55 million (three months ended March 31, 2004 - $39 million), with no impact on net income.

Non-Energy and Other

	Three Months Ended March 31	
(millions of dollars)	**2005**	**2004**
Revenue	**96**	79
Operations, maintenance and administration	**10**	8
Depreciation and amortization	**29**	23
Property and capital taxes	**3**	5
	54	43
Net interest expense	**47**	45
Income (loss) before income taxes	**7**	(2)

Revenue

Non-Energy revenue was $96 million during the three months ended March 31, 2005 compared to $79 million for the same period in 2004. The increase of $17 million in the 2005 period was mainly due to revenue earned from OPG's share of its 50 per cent partnership interest in Brighton Beach.

Income Tax

Income tax recovery for the three months ended March 31, 2005 was $12 million compared to income tax expense of $44 million during the same period in 2004. The decrease in income tax expense was due to lower earnings in 2005 primarily as a result of the impairment loss on the Lennox generating station.

STATEMENT OF CASH FLOWS

Three Months ended March 31	**2005**	2004	Explanation
Cash and cash equivalents, beginning of period	**2**	286	
Cash flow provided by (used in):			
Operating activities	**300**	223	Increase in cash flow due to lower payments of the Market Power Mitigation Agreement rebate of $94 million and an increase in earnings before depreciation expense and other non-cash items of $91 million, partly offset by other changes in non-cash working capital balances of $138 million.
Investing activities	**(235)**	(96)	Increase due to treatment of non-capital expenses related to the Pickering A return to service project as a regulatory asset in 2005 and an increase in investment of fixed assets in 2005.
Financing activities	**68**	6	Increase in financing activities in 2005 due to the issuance of long-term debt, partially offset by a net repayment of short-term notes.
Net increase	**133**	133	
Cash and cash equivalents, end of period	**135**	419	

LIQUIDITY AND CAPITAL RESOURCES

OPG is in a capital-intensive business that requires continued investment in plant and technologies to improve operating efficiencies, increase generating capacity of its existing stations and to maintain and improve service, reliability, safety and environmental performance. Capital expenditures during the three months ended March 31, 2005 were $134 million compared with $96 million during the same period in 2004. OPG's anticipated capital expenditures for 2005 are approximately $600 million. New potential supply initiatives would require additional capital expenditures and funding in 2005, if approved. The amount of the expenditures could vary significantly, depending on OPG's future role in the Ontario electricity market.

OPG made contributions of $39 million to the pension plan during the three months ended March 31, 2005 compared to $38 million during the same period in 2004.

As required under the ONFA, OPG made contributions to the nuclear fixed asset removal and nuclear waste management funds of $114 million during the three months ended March 31, 2005 and 2004.

OPG's current 364-day term $1,000 million revolving committed bank credit facility will mature on May 24, 2005. The Company obtained a commitment from its bank lending group in early April for renewal of the $1,000 million facility with certain modifications. The new facility will be divided into two tranches – a $500 million 364-day term tranche maturing May 23, 2006, and a $500 million three year term tranche maturing May 23, 2008. The total credit facility will continue to be used primarily as support for notes issued under OPG's commercial paper program. As at March 31, 2005, OPG had no borrowings outstanding under this commercial paper program (December 31, 2004 - $26 million). As at March 31, 2005, OPG had no other outstanding borrowing under this facility.

In addition, OPG maintains $26 million (December 31, 2004 - $26 million) in short-term uncommitted overdraft facilities as well as $213 million (December 31, 2004 - $200 million) of short-term uncommitted credit facilities, in the form of Letters of Credit. OPG is required to post the Letters of Credit as collateral with Local Distribution Companies ("LDCs") as prescribed by the OEB's Retail Settlement Code, and to support the supplementary pension plan. At March 31, 2005, there were approximately $172 million (December 31, 2004 - $155 million) of Letters of Credit issued for supplementary pension plan and collateral requirements to the LDC's.

OPG made Market Power Mitigation Agreement rebate payments of $220 million during the three months ended March 31, 2005 and $314 million during the same period in 2004. Since the Ontario market opened to competition on May 1, 2002, OPG has paid rebates totalling $3,352 million up to March 31, 2005, resulting in a significant unfavourable impact on OPG's financing requirements.

In December 2004, the Company reached an agreement with the OEFC to defer payment on $500 million principal amount of senior notes maturing in March and September 2005 by extending the maturity dates by five years. The interest rates remain unchanged. The Company also reached an agreement in December 2004 with the OEFC to satisfy, via an additional senior note of $95 million to mature in 2010, its $95 million interest obligation due in March 2005 related to the debt owing to the OEFC of $3.2 billion. In addition, the OEFC has agreed that the interest payment of $98 million due in September 2005 will be satisfied via an additional senior note of $98 million.

The recently announced rate regulations resulted in an estimated operating cash shortfall of approximately $600 million during the 13 month period of April 1, 2005 through April 30, 2006. In March 2005, the Company reached an agreement with the OEFC to obtain additional financing up to $600 million which is available until March 31, 2006. In April 2005, $400 million was drawn down under this facility with a seven year term. OPG intends to draw the remaining $200 million during early 2006, subject to its funding needs.

At March 31, 2005, OPG's long-term credit rating was established as BBB+ by Standard & Poor's and A (low) by Dominion Bond Rating Service. Maintaining an investment grade credit rating is essential for corporate liquidity, future capital market access, and to facilitate energy and financial product sales and trading activities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

OPG's significant accounting policies, including the impact of future accounting pronouncements, are outlined in Note 3 to the consolidated financial statements as at and for the year ended December 31, 2004. Certain of these policies are recognized as critical accounting policies by virtue of the subjective and complex judgments and estimates required around matters that are inherently uncertain and could result in materially different amounts being reported under different conditions or assumptions. The critical accounting policies and estimates that affect OPG's consolidated financial statements, the likelihood that materially different amounts would be reported under varied conditions and estimates and the impact of changes in certain conditions or assumptions, are highlighted on pages 19 to 22 of the Management's Discussion and Analysis for the year ended December 31, 2004. With the exception of rate regulated accounting, there have not been any significant changes in OPG's critical accounting policies during the three months ended March 31, 2005. With the commencement of regulated prices for its baseload hydroelectric and nuclear facilities on April 1, 2005, OPG will record an adjustment for future income taxes and revise its definition of business segments.

Rate Regulated Accounting

A regulation made pursuant to the *Electricity Restructuring Act, 2004* prescribes that OPG's nuclear and baseload hydroelectric facilities will receive regulated prices for their output. Under this regulation, OPG is required to establish a deferral account in connection with non-capital costs incurred on or after January 1, 2005 that are associated with the return to service of units at the Pickering A nuclear generating station. As at March 31, 2005, the deferral account was $101 million, consisting of non-capital costs of $98 million relating to Unit 1 and $2 million relating to Units 2 and 3, and interest accreted at the average cost of debt of 5.75 per cent of $1 million. Upon OPG becoming regulated by the OEB in 2008, the OEB is directed by the regulation to ensure that OPG recovers any balance in the deferral account through rates charged to future customers on a straight-line basis, over a period not to exceed 15 years. OPG expects that it will commence the amortization of the deferral account associated with Unit 1 of the Pickering A nuclear generating station when the unit enters commercial service later in 2005.

In addition, under the regulation, OPG is required to establish a variance account for certain unforeseen costs incurred on or after April 1, 2005 associated with a number of predefined circumstances. Under the terms of the regulation, the OEB is directed to ensure that OPG recovers those costs prudently incurred and accurately recorded through rates charged to future customers over a period not to exceed three years.

Business Segments

As at March 31, 2005, OPG had two reportable business segments: Generation and Energy Marketing. A separate category, Non-Energy and Other, includes revenue and certain expenses that are not allocated to the business segments. With the passage of recent legislation and the introduction of rate regulation, OPG will change the definition of its reportable business segments in order to remain compliant with the CICA's handbook section 1701 – Segment Disclosure. OPG will report its results on the basis of these new segments beginning April 1, 2005.

Income Taxes

Commencing April 1, 2005, OPG will account for income taxes related to the rate regulated segments of the business in accordance with paragraphs 102 to 104 inclusive of the Canadian Institute of Chartered Accountants ("CICA") handbook section 3465, Income Taxes. Accordingly, OPG will not be recognizing future income taxes related to the rate regulated segments of the business to the extent that these income taxes will be recovered in the regulated rates charged to future customers. As a result, on April 1, 2005, OPG will reverse the future income tax balance relating to the rate regulated segments of the business and will recognize the amount as an extraordinary item in determining net income.

RISK MANAGEMENT

OPG's portfolio of generation assets and its electricity trading and marketing operations are subject to inherent risks, including financial, operational, and strategic risks as discussed on page 23 to 27 of the Management's Discussion and Analysis for the year ended December 31, 2004. To manage these risks, OPG's Board of Directors and management have implemented an integrated enterprise-wide risk management framework for the governance, identification, measurement, monitoring and reporting of risk across all of OPG and its business operations. Implementation and coordination of corporate-wide risk management activities are undertaken through a centralized risk management group, separate and independent from operational management. Risk information from the business units is independently assessed and aggregated by the risk management group, and is reported by the Chief Risk Officer to the Audit and Risk Committee of the Board of Directors on a quarterly basis. Risk based processes are incorporated into strategic and financial planning to ensure the Company's sustainability and achievement of its stated objectives.

While OPG believes it is pursuing appropriate risk management strategies, there can be no assurance that one or more of the risks outlined or other risk factors will not have a material adverse impact on OPG. In particular, the *Electricity Restructuring Act, 2004* and related regulations, the imposition of a revenue limit on the non-regulated assets excluding the Lennox generating station and volumes related to existing contracts, and changes in the future role and mandate of OPG in the Ontario electricity marketplace could have a material impact on OPG.

Financial Risk

Commodity Price Risk

Commodity price risk is the risk that changes in the market price of electricity or of the fuels used to produce electricity will adversely impact OPG's earnings and cash flow from operations. To manage this risk, the Company seeks to maintain a balance between the commodity price risk inherent in its electricity production and plant fuel portfolios to the extent that trading liquidity in the relevant commodities markets provides the opportunity to do so in an economically justified manner. To manage the input risk, OPG has a fuel hedging program. In addition to fixed price contracts for fossil and nuclear fuels, OPG periodically employs derivative instruments to hedge its fuel price risk.

Given the recent implementation of reforms to the Ontario electricity market and OPG, the amount of expected electricity production that OPG had previously hedged through regulatory commitments and forward electricity transactions has changed materially. The Market Power Mitigation Agreement has been replaced with a regulated price for baseload hydroelectric and nuclear generation. Eighty-five per cent of the remaining unregulated OPG electricity generation, excluding generation from the Lennox generating station and volumes relating to existing contracts, is subject to a revenue limit of $47.00/MWh, in place from April 1, 2005 to April 30, 2006. OPG is assessing its risk management strategy in light of the recent regulatory changes.

The percentages of OPG's expected generation, emission requirements and fuel requirements hedged are shown below. The percentage of fuel requirements hedged is based on a forecast of how much fuel would be burned to generate electricity in the real-time spot market.

	2005	2006	2007
Estimated generation output hedged [1]	89%	70%	60%
Estimated fuel requirements hedged [2]	95%	88%	80%
Estimated Nitric Oxide (NO) emission requirement hedged [3]	100%	84%	62%
Estimated Sulphur Dioxide (SO_2) emission requirement hedged [3]	100%	100%	100%

[1] Represents the portion of megawatt-hours of expected future generation production, including power purchases, for which the Company has sales commitments and contracts including the obligations under the transition rate option contracts, regulated price for baseload hydroelectric and nuclear generation, and revenue limit for non-prescribed assets.

[2] Represents the approximate portion of megawatt hours of expected generation production (and fossil year-end inventory target) from all types of facilities (fossil, nuclear and hydroelectric) for which OPG has entered into some form of contractual arrangements or obligations in order to secure either the expected availability and/or price of fuel and/or fuel related services. Excess fuel in inventories in a given year is attributed to the next year for the purpose of measuring hedge ratios. Since production from hydroelectric facilities is primarily influenced by expected weather and weather patterns, fuel hedge ratios for hydroelectric facilities are assumed to be 100%. The percentage hedged by fuel type varies considerably and therefore a change in circumstances could have a significant impact on OPG's overall position.

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

Open trading positions are subject to measurement against Value at Risk (VaR) limits. VaR utilization ranged between $1.2 million and $1.8 million during the three months ended March 31, 2005, compared to $0.7 million and $1.0 million during the three months ended March 31, 2004. VaR utilization is within the risk tolerance of the Company, under approved VaR limits.

Trading liquidity continues to be constrained in Ontario and interconnected markets due to broader energy market fundamentals. In addition, the revenue limit of $47.00/MWh limits customer exposure to electricity spot market prices and further limits trading liquidity in the period to April 30, 2006.

Credit Risk

Credit risk is the financial risk of non-performance by contractual counterparties. Credit risk excludes any operational risk resulting from a third party failing to deliver a product or service as expected. OPG derives revenue from several other sources including the sale of energy products and financial risk management products to third parties. However, the majority of revenues are derived from sales through the IESO administered spot market.

Credit exposure to the IESO fluctuates based on electricity spot prices and generated volume and is reduced each month upon settlement of the accounts. Credit exposure to the IESO peaked at $812 million during the three months ended March 31, 2005 and at $901 million during the three months ended March 31, 2004.

Management believes that the IESO is an acceptable credit risk due to its primary role in the Ontario market. The IESO manages its own credit risk and its ability to pay generators by mandating that all registered IESO spot market participants meet specific IESO standards for creditworthiness and collateralization. Additionally, in the event of an IESO participant default, each market participant shares the exposure pro rata. Given OPG's position in the marketplace, the Company would bear approximately 35 per cent of the exposure, residual of collateral and recovery.

OPG also monitors and reports its credit exposure with counterparties. OPG's management believes these are within acceptable limits and does not anticipate any material effect on its results of operations or cash flows arising from potential defaults.

The following table provides information on credit risk from energy sales and trading activities as at March 31, 2005:

			Potential Exposure for Largest Counterparties	
Credit Rating [1]	Number of Counterparties [2]	Potential Exposure [3]	Number of Counterparties	Counterparty Exposure
		(millions of dollars)		*(millions of dollars)*
AAA to AA-	39	35	1	21
A+ to A-	48	51	4	36
BBB+ to BBB-	90	49	1	6
BB+ to BB-	29	142	4	127
Below BB-	35	7	-	-
Subtotal	241	284	10	190
IESO	1	576	1	576
Total	242	860	11	766

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

[2] OPG counterparties are defined by each Master Agreement.

[3] Potential exposure is OPG's assessment of the maximum exposure over the life of each transaction at 95 per cent confidence.

For all counterparties, OPG's contracts allow for active collateral management to mitigate credit exposures. The contracts provide for a counterparty to post performance guarantees in excess of the established threshold. OPG may employ such guarantees as a result of market price changes or upon the occurrence of credit-related events. The threshold amount represents credit limits established in accordance with the corporate credit policy. Inability to post collateral is sufficient cause to terminate a contract and liquidate all positions.

Operational Risk

Generation Risk

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

OPG is exposed to considerable technology risk around the aging of the nuclear fleet. Technology risks that could lead to significant impacts on the production capability or operating life of these assets are not fully predictable and OPG attempts to identify and mitigate these risks through ongoing management review and assessments, internal audits and from experience of nuclear units around the world. OPG has undertaken an ongoing life cycle management program to assess the condition of major components of the nuclear units, including steam generators, fuel channels and feeder pipes, and address the active degradation mechanisms associated with these major components. Current predictions for unit end of life are based on the end of life predictions for the fuel channels.

Thinning of feeder pipes occurs to varying degrees at all of OPG's reactors. While this condition affects all of OPG's nuclear generating stations, it is most significant at the Darlington nuclear generating station. Mitigation options are under development by OPG which may extend feeder pipe life, reduce the thinning rate, and improve the capability to replace feeders, where required. Recent wall thickness measurements of feeders removed from Pickering A Unit 1 and inspections in Units 1 and 4 have indicated that the location of the thinning may be different, and the degree of thinning may be greater than originally expected for some of the feeders at the Pickering A generating station. Further inspections are underway to confirm the situation and to determine the need for feeder replacements. Pickering B feeders have been found to be less affected by thinning than those at Darlington and Pickering A.

Cracking of feeder pipes has been experienced at two CANDU plants located outside Ontario. At those plants, the affected sections of pipe were replaced and the units were returned to service. OPG has not experienced any feeder pipe cracking at any of its nuclear facilities but is carrying out inspections during regularly planned outages. The scale of these inspections has been increased in response to these external events to address the concern that the risk of cracking may be increasing in OPG's units. Recent results from one of the external plants indicate a worsening of the cracking situation, which may require a further increase in the scale of inspections at OPG's plants to determine whether the experience elsewhere will also impact OPG's plant condition. OPG is also participating in research and development with other CANDU operators to better understand the degradation mechanisms.

Late in 2004, as a result of steam generator inspection activities, OPG noted the existence of a new degradation mechanism on one of the Pickering A steam generators. This mechanism, intergranular attack, previously has not been seen in OPG's Pickering and Darlington nuclear generating stations. In combination with other degradation mechanisms, this mechanism could impact the life of the steam generator. The scope of upcoming inspections on Pickering A steam generators has been expanded to determine the extent of this degradation mechanism. Inspections at Unit 1 of the Pickering A nuclear generating station have been completed and those tubes at significant risk of intergranular attack have been removed from service. The inspection of the Pickering A Units 2 and 3 continues.

CONTINUOUS DISCLOSURE

Summary of Quarterly Results

The following tables set out certain unaudited interim consolidated financial statement information for each of the eight most recent quarters ended March 31, 2005. The information has been derived from OPG's unaudited interim consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements. These operating results are not necessarily indicative of results for any future period.

	2004/5 Quarters Ended			
(millions of dollars)	**June 30**	**September 30**	**December 31**	**March 31**
Revenue after Market Power Mitigation Agreement rebate	**1,141**	**1,212**	**1,215**	**1,358**
Net (loss) income	**(41)**	**(15)**	**34**	**(38)**
Net (loss) income per share	**$(0.16)**	**$(0.06)**	**$0.13**	**$(0.15)**

	2003/4 Quarters Ended			
(millions of dollars)	June 30	September 30	December 31	March 31
Revenue after Market Power Mitigation Agreement rebate	1,246	1,224	1,228	1,350
Net income (loss)	8	34	(606)[1]	64
Net income (loss) per share	$0.03	$0.13	$(2.36)	$0.25

[1] OPG recorded an impairment loss on the coal-fired generating stations of $473 million after tax ($576 million before tax) due to the expected early shutdown of the coal-fired generating stations by 2007.

Off-Balance Sheet Arrangements

Securitization

In October 2003, OPG completed a revolving securitization agreement with an independent trust. Under the securitization agreement, OPG sold an undivided co-ownership interest in certain current and future accounts receivable generated in the normal course of business. The amount of the co-ownership interest sold is removed from the balance sheet with each revolving securitization. OPG also retains an undivided co-ownership interest in the receivables sold to the trust. This retained interest is accounted for at cost on OPG's balance sheet. The independent trust is not controlled by OPG, nor is OPG the primary beneficiary of the trust's expected losses. As such, the results of the trust are not consolidated.

The securitization provides OPG with an opportunity to obtain an alternative source of cost-effective funding. For the three months ended March 31, 2005, the average all-in cost of funds was 2.9 per cent and the pre-tax charges on sales to the trust were $2 million. The initial net cash proceeds from this transaction of $300 million were used by OPG in the operation of its business. Termination of the arrangement, which in the absence of early termination, occurs in August 2006, would likely require OPG to pursue alternative liquidity arrangements to meet the ongoing operations of the business.

Guarantees

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

OPG has provided limited guarantees in connection with its share of the Brighton Beach financing, whereby it is responsible for contributing its share of equity related to cost overruns associated with the construction of the generating station. As at March 31, 2005, OPG met its obligations for contributing its share of equity related to cost overruns. As Brighton Beach commenced commercial operation in July

2004, any cost overruns are now primarily limited to settlement of construction liens registered by some contractors associated with the construction project. Brighton Beach arranged an independent third party review of the claims and is now actively negotiating final settlement of these liens.

Derivative Instruments

The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized upon settlement when the underlying transactions occur. OPG holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity. Foreign exchange derivative instruments are used to hedge the exposure to anticipated US dollar denominated purchases. When such a derivative instrument ceases to exist or when designation of a hedging relationship is terminated, any associated deferred gains or losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period's consolidated statement of income. The deferred loss on electricity derivative instruments treated as hedges was $92 million as at March 31, 2005, compared to a deferred loss of $71 million as at December 31, 2004. See Note 9 to the unaudited interim consolidated financial statements for more information.

All contracts not designated as hedges are recorded as assets or liabilities at fair value with changes in fair value recorded in Energy Marketing revenue.

SUPPLEMENTAL EARNINGS MEASURES

In addition to providing earnings measures in accordance with Canadian generally accepted accounting principles, OPG presents gross margin as a supplemental earnings measure. This measure does not have any standardized meaning prescribed by Canadian generally accepted accounting principles and is, therefore, unlikely to be comparable to similar measures presented by other companies. This measure is provided to assist readers of the consolidated financial statements in assessing income performance from ongoing operations, and has been consistently applied as in prior years and throughout these interim consolidated financial statements and Management's Discussion and Analysis.

For further information, please contact:	Investor Relations	416-592-6700 1-866-592-6700 investor.relations@opg.com
	Media Relations	416-592-4008 1-877-592-4008

www.opg.com
www.sedar.com

CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

Three Months Ended March 31 *(millions of dollars except where noted)*	**2005**	**2004**
Revenue		
Revenue before Market Power Mitigation Agreement rebate	**1,770**	1,791
Market Power Mitigation Agreement rebate *(note 13)*	**(412)**	(441)
	1,358	1,350
Fuel expense	**310**	338
Gross margin	**1,048**	1,012
Expenses		
Operations, maintenance and administration	**587**	624
Depreciation and amortization *(note 4)*	**193**	192
Accretion on fixed asset removal and nuclear waste management liabilities	**119**	113
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(71)**	(98)
Property and capital taxes	**21**	28
	849	859
Income before the following	**199**	153
Impairment of long-lived assets *(note 4)*	**202**	-
Net interest expense	**47**	45
(Loss) income before income taxes	**(50)**	108
Income tax (recoveries) expenses		
Current	**7**	8
Future	**(19)**	36
	(12)	44
Net (loss) income	**(38)**	64
Basic and diluted (loss) income per common share *(dollars)*	**(0.15)**	0.25
Common shares outstanding *(millions)*	**256.3**	256.3

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2005**	**2004**
(Deficit) retained earnings, beginning of period	**(105)**	(147)
Net (loss) income	**(38)**	64
(Deficit), end of period	**(143)**	(83)

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2005**	**2004**
Operating activities		
Net (loss) income	**(38)**	64
Adjust for non-cash items:		
Depreciation and amortization	**193**	192
Accretion on fixed asset removal and nuclear waste management liabilities	**119**	113
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(71)**	(98)
Pension cost	**28**	23
Other post employment benefits and supplementary pension	**45**	40
Future income taxes	**(19)**	36
Transition rate option contracts	**(9)**	(17)
Mark-to-market on energy contracts *(note 9)*	**2**	1
Provision for used nuclear fuel	**7**	9
Impairment of long-lived assets	**202**	-
Other	**(1)**	4
	458	367
Contributions to nuclear fixed asset removal and nuclear waste management funds	**(114)**	(114)
Expenditures on fixed asset removal and nuclear waste management	**(14)**	(13)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	**6**	-
Contributions to pension fund	**(39)**	(38)
Expenditures on other post employment benefits and supplementary pension	**(16)**	(14)
Expenditures on restructuring *(note 11)*	**(5)**	(42)
Net changes to other long-term assets and liabilities	**(9)**	-
Changes in non-cash working capital balances *(note 15)*	**33**	77
Cash flow provided by operating activities	**300**	223
Investing activities		
Investment in regulatory asset *(note 2)*	**(101)**	-
Investment in fixed assets	**(134)**	(96)
Cash flow (used in) investing activities	**(235)**	(96)
Financing activities		
Issuance of long-term debt *(note 6)*	**95**	8
Repayment of long-term debt *(note 6)*	**(1)**	(2)
Net increase (decrease) in short-term notes *(note 5)*	**(26)**	-
Cash flow provided by financing activities	**68**	6
Net increase in cash and cash equivalents	**133**	133
Cash and cash equivalents, beginning of period	**2**	286
Cash and cash equivalents, end of period	**135**	419

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**March 31** **2005**	**December 31** **2004**
Assets		
Current assets		
Cash and cash equivalents	**135**	2
Accounts receivable *(note 3)*	**434**	346
Future income taxes	**44**	44
Fuel inventory	**470**	569
Materials and supplies	**106**	92
	1,189	1,053
Fixed assets *(note 4)*		
Property, plant and equipment	**14,986**	15,114
Less: accumulated depreciation	**3,306**	3,174
	11,680	11,940
Other long-term assets		
Deferred pension asset	**535**	524
Nuclear fixed asset removal and nuclear waste management funds *(note 7*)	**6,155**	5,976
Long-term materials and supplies	**273**	281
Regulatory asset *(note 2)*	**101**	-
Long-term accounts receivable and other assets	**65**	56
	7,129	6,837
	19,998	19,830

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**March 31** **2005**	**December 31** **2004**
Liabilities		
Current liabilities		
Accounts payable and accrued charges *(notes 11 and 12)*	**782**	949
Market Power Mitigation Agreement rebate payable *(note 13)*	**631**	439
Short-term notes payable *(note 5)*	**-**	26
Long-term debt due within one year *(note 6)*	**305**	5
Deferred revenue due within one year	**12**	12
Income and capital taxes payable	**20**	12
	1,750	1,443
Long-term debt *(note 6)*	**3,193**	3,399
Other long-term liabilities		
Fixed asset removal and nuclear waste management *(note 7)*	**8,452**	8,339
Other post employment benefits and supplementary pension	**1,134**	1,105
Long-term accounts payable and accrued charges	**197**	212
Deferred revenue	**153**	156
Future income taxes	**136**	155
	10,072	9,967
Shareholder's equity		
Common shares	**5,126**	5,126
Deficit	**(143)**	(105)
	4,983	5,021
	19,998	19,830

Commitments and Contingencies *(notes 1, 4, 5, 9, and 10)*

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (UNAUDITED)

1. BASIS OF PRESENTATION

These interim consolidated financial statements were prepared following the same accounting policies and methods as in the most recent annual consolidated financial statements. However, these interim financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles for annual financial statements. Accordingly, the interim consolidated financial statements should be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended December 31, 2004.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of Ontario Power Generation Inc. and its subsidiaries. OPG accounts for its interests in jointly controlled entities using the proportionate consolidation method. All significant inter-company transactions have been eliminated on consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Impairment of Fixed Assets

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

Changes in Accounting Policies

Rate Regulated Accounting

In December 2004, the *Electricity Restructuring Act, 2004 (Bill 100)* received Royal Assent. A regulation made pursuant to that statute prescribes that OPG's nuclear and baseload hydroelectric facilities will receive regulated prices for their output. Accounting standards recognize that rate regulation can create economic benefits and obligations, which are reported in the consolidated financial statements as regulatory assets and liabilities. If regulation provides assurance that incurred costs will be recovered in the future, then a regulated entity may defer those costs and report them as a regulatory asset. If current recovery is provided for costs expected to be incurred in the future, then a regulated entity reports a regulatory liability.

Effective January 1, 2005, in accordance with regulations pursuant to the *Electricity Restructuring Act, 2004*, OPG is required to establish a deferral account in connection with non-capital costs that are associated with the return to service of units at the Pickering A nuclear generating station. Since the regulation became effective January 1, 2005, the change in accounting was prospectively adopted on that date, with no basis for retroactive adoption. As at March 31, 2005, the deferral account was $101 million, consisting of non-capital costs of $98 million relating to Unit 1 and $2 million relating to Units 2 and 3, and interest accreted at the average cost of debt of 5.75 per cent of $1 million. Upon OPG becoming regulated by the Ontario Energy Board ("OEB") in 2008, the OEB is directed by the regulation to ensure that OPG recovers any balance in the deferral account on a straight-line basis over a period not to exceed 15 years.

New Accounting Recommendations

Consolidation of Variable Interest Entities

In September 2004, the CICA amended Accounting Guideline 15, *Consolidation of Variable Interest Entities*, originally issued in June 2003, to harmonize with the revised Financial Accounting Standards Board ("FASB") Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46R"). The new guideline requires the consolidation of variable interest entities ("VIEs") by the primary beneficiary. A VIE is an entity where (a) its equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others and/or where certain essential characteristics of a controlling financial interest are not met, and (b) it does not meet specified exemption criteria. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIEs' expected losses, expected residual returns, or both.

OPG is involved with various joint venture and other arrangements and has sold trade receivables under an asset securitization arrangement. The Company assessed these arrangements in advance of the guideline becoming effective January 1, 2005. OPG concluded that the joint venture arrangements with which it is involved are not VIEs, and that it is not the primary beneficiary of, nor does it have a significant variable interest in, the trust to which it sold trade receivables. OPG has completed the review of its other arrangements and determined that there is no impact on OPG's existing accounting for these arrangements.

3. SALE OF ACCOUNTS RECEIVABLE

On October 1, 2003, the Company signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the "receivables") to an independent trust. The Company also retains an undivided co-ownership interest in the receivables sold to the trust. Under the agreement, OPG continues to service the receivables. The transfer provides the trust with ownership of a share of the payments generated by the receivables, computed on a monthly basis. The trust's recourse to the Company is generally limited to its income earned on the receivables.

OPG reflected the initial transfer to the trust of the co-ownership interest, and subsequent transfers required by the revolving nature of the securitization, as sales in accordance with CICA Accounting Guideline 12, *Transfer of Receivables*. In accordance with this Guideline, the proceeds of each sale to the trust were deemed to be the cash received from the trust net of the undivided co-ownership interest retained by the Company. For the three months ended March 31, 2005, the Company has recognized pre-tax charges of $2 million (three months ended March 31, 2004 - $2 million) on such sales at an average cost of funds of 2.9 per cent (three months ended March 31, 2004 – 2.7 per cent). As at March 31, 2005, OPG had sold receivables of $300 million from its total portfolio of $582 million.

4. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for the three months ended March 31, 2005 and 2004 consists of the following:

(millions of dollars)	**2005**	**2004**
Depreciation and amortization	**192**	190
Nuclear waste management costs	**1**	2
	193	192

Interest capitalized to construction in progress at 6.0 per cent (three months ended March 31, 2004 - 6.0 per cent) during the three months ended March 31, 2005 was $8 million (three months ended March 31, 2004 - $8 million).

Impairment of Long-Lived Assets

The accounting estimates related to asset impairment require significant management judgement to identify factors such as short and long-term forecasts for future sales prices, the supply of electricity in Ontario, the return to service dates of laid-up generating stations, inflation, fuel prices and station lives. The amount of the future cash flow that OPG will ultimately realize with respect to these assets could differ materially from the carrying values recorded in the consolidated financial statements.

Lennox Generating Station

As a result of the Government's "Request for Information/Request for Proposal for 2500 MW of New Clean Generation and Demand Side Management Projects" released in September 2004 and the related contractual arrangements, future wholesale electricity market revenue is expected to be lower. As a relatively high variable cost plant, the Lennox generating station will not be able to recover its fixed operating costs and its carrying value from the wholesale electricity market in the future. Given these factors, OPG had initiated discussions with the Province, with the expectation of entering into a contractual arrangement for the recovery of the annual fixed operating costs and the carrying value of the Lennox generating station. Subsequently, OPG has been advised that the Province will continue to support OPG in negotiating an arrangement that would allow for the recovery of fixed operating costs, but would not support the recovery of costs related to the carrying value of the Lennox generating station. As a result of this change in circumstance, OPG has recorded the impairment loss of $202 million.

Pickering A Nuclear Generation Station

In July 2004, the Government endorsed the recommendation of OPG's Board of Directors to return to service Unit 1 of the Pickering A nuclear generating station. Plans to return Units 2 and 3 to service have been deferred, until such time as OPG has conducted a full assessment of the cost and schedule to return these units to service. The carrying amount of fixed assets in service and construction in progress for Units 2 and 3 was $61 million at March 31, 2005 ($61 million at December 31, 2004).

Under legislation passed in February 2005, OPG is required to establish a deferral account in connection with non-capital costs incurred on or after January 1, 2005 that are associated with the return to service of units at the Pickering A station. As at March 31, 2005, the deferral account relating to Units 2 and 3 was $2 million, consisting of OM&A costs relating to these units.

If OPG discontinues the refurbishment work required to place Units 2 and 3 in service, an impairment loss equal to the carrying amount of these units and the amount of the deferral account would be recognized, including any expenditures incurred subsequent to March 31, 2005. In such an event, OPG would also have to assess the prospect of providing for additional charges, including the costs associated with preparing the units for safe storage.

5. SHORT-TERM CREDIT FACILITIES

OPG's current 364-day term $1,000 million revolving committed bank credit facility will mature May 24, 2005. The Company obtained a commitment from its bank lending group in early April for renewal of the $1,000 million facility with certain modifications. The new facility will be divided into two tranches – a $500 million 364-day term tranche maturing May 23, 2006, and a $500 million three year term tranche maturing May 23, 2008. The total credit facility will continue to be used primarily as support for notes issued under OPG's commercial paper program. As at March 31, 2005, OPG had no borrowings outstanding under this commercial paper program (December 31, 2004 - $26 million). As at March 31, 2005 and December 31, 2004, OPG had no other outstanding borrowing under this facility.

OPG also maintains $26 million (December 31, 2004 - $26 million) in short-term uncommitted overdraft facilities as well as $213 million (December 31, 2004 - $200 million) of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG is required to post the Letters of Credit as collateral with Local Distribution Companies ("LDCs") as prescribed by the Ontario Energy Board's ("OEB") Retail Settlement Code, and to support the supplementary pension plan. At March 31, 2005, there were approximately $172 million (December 31, 2004 - $155 million) of Letters of Credit issued for supplementary pension plan and collateral requirements to the LDC's.

6. Long-Term Debt

Long-term debt consists of the following:

(millions of dollars)	**March 31 2005**	**December 31 2004**
Notes payable to the OEFC	**3,295**	3,200
Capital lease obligations	**2**	3
Share of non-recourse limited partnership debt	**201**	201
	3,498	3,404
Less: due within one year		
Notes payable to the OEFC	**300**	-
Capital lease obligations	**2**	3
Share of limited partnership debt	**3**	2
	305	5
Long-term debt	**3,193**	3,399

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

In December 2004, OPG reached an agreement with the OEFC to defer payment on $500 million principal amount of senior notes maturing in March and September 2005 by extending the maturity dates by five years. The interest rates remain unchanged. In March 2005, the Company reached an agreement with the OEFC to obtain additional financing up to $600 million, which is available until March 31, 2006. In April 2005, $400 million was drawn down under this facility with a seven year term.

The Company also reached an agreement with the OEFC to satisfy, via additional senior notes of $95 million and $98 million respectively, to mature in 2010, its $95 million interest obligation due in March 2005 and $98 million interest obligation due in September 2005 related to the debt owing to the OEFC of $3.2 billion.

Interest paid during the three months ended March 31, 2005 was $103 million (three months ended March 31, 2004 - $104 million), of which $100 million relates to interest paid on long-term debt (three months ended March 31, 2004 - $101 million). Interest on the notes payable to the OEFC is paid in the first and third quarters of the year.

7. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

The liability for fixed asset removal and nuclear waste management on a present value basis consists of the following:

(millions of dollars)	**March 31 2005**	**December 31 2004**
Liability for nuclear used fuel management	**4,760**	4,693
Liability for nuclear decommissioning and low and intermediate level waste management	**3,502**	3,457
Liability for non-nuclear fixed asset removal	**190**	189
Fixed asset removal and nuclear waste management liability	**8,452**	8,339

The change in the fixed asset removal and nuclear waste management liability for the three months ended March 31, 2005 and year ended December 31, 2004, is as follows:

(millions of dollars)	**March 31 2005**	**December 31 2004**
Liability, beginning of period	**8,339**	7,921
Increase in liability due to accretion	**119**	453
Increase in liability due to nuclear used fuel and nuclear waste management variable expenses	**8**	35
Fixed asset removal of partnership interests	**-**	1
Liabilities settled by expenditures on waste management	**(14)**	(71)
Liability, end of period	**8,452**	8,339

Ontario Nuclear Funds Agreement

OPG sets aside funds to be used specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities. The nuclear fixed asset removal and nuclear waste management funds as at March 31, 2005 and December 31, 2004, consist of the following:

(millions of dollars)	**Amortized Cost Basis**		**Fair Value**	
	March 31 2005	**December 31 2004**	**March 31 2005**	**December 31 2004**
Decommissioning Fund	**3,911**	3,858	**4,216**	4,131
Used Fuel Fund[1]	**2,244**	2,118	**2,244**	2,118
	6,155	5,976	**6,460**	6,249

[1] The Ontario NFWA Trust represents $807 million as at March 31, 2005 (December 31, 2004 - $794 million) of the Used Fuel Fund on an amortized cost basis.

8. BENEFIT PLANS

The post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The 2005 costs are based on a measurement of the pension and other post employment benefits obligations and the pension fund assets, at December 31, 2004.

Total benefit costs for the three months ended March 31, 2005 and 2004, are as follows:

(millions of dollars)	**2005**	**2004**
Registered pension plan	**28**	23
Supplementary pension plan	**4**	4
Other post employment benefits	**41**	36

9. FINANCIAL INSTRUMENTS

Fair values of derivative instruments have been estimated by reference to quoted market prices for actual or similar instruments where available. Where quoted market prices are not available, OPG considers various factors to estimate forward prices, including market prices and price volatility in neighbouring electricity markets, market prices for fuel, and other factors.

Trading activities and liquidity in the Ontario electricity market have been limited as companies are generally entering only into short-term contracts. As a result, forward pricing information for contracts may not accurately represent the cost to enter into these contracts. For Ontario-based contracts that are not entered into for hedging purposes, OPG established liquidity reserves against the fair market value of the assets and liabilities equal to the gain or loss on these contracts. These reserves increased Energy Marketing revenue by $5 million during the three months ended March 31, 2005 (three months ended March 31, 2004 - decreased by $3 million). Contracts for transactions outside of Ontario continue to be carried on the consolidated balance sheets as assets or liabilities at fair value, with changes in fair value recorded in Energy Marketing revenue as gains or losses.

Derivative Instruments Used for Hedging Purposes

The following table provides the estimated fair value of derivative instruments designated as hedges. The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized upon settlement when the underlying transactions occur. OPG holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity.

(millions of dollars except where noted)	**Notional Quantity**	**Terms**	**Fair Value**	**Notional Quantity**	**Terms**	**Fair Value**
	March 31, 2005			**December 31, 2004**		
(Loss)/gain						
Electricity derivative instruments	**8.2 TWh**	**1-3 yrs**	**(92)**	10.4 TWh	1-3 yrs	(71)
Foreign exchange derivative instruments	**US $10**	**Apr/05**	**-**	US $10	Jan/05	-

Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. The weighted average fixed exchange rate for contracts outstanding at March 31, 2005 was US $0.82 (December 31, 2004 - US $0.81) for every Canadian dollar.

Derivative Instruments Not Used for Hedging Purposes

The carrying amount (fair value) of derivative instruments not designated for hedging purposes is as follows:

(millions of dollars except where noted)	**Notional Quantity**	**Fair Value**	**Notional Quantity**	**Fair Value**
	March 31, 2005		**December 31, 2004**	
Commodity derivative instruments				
Assets	**8.4 TWh**	**6**	7.9 TWh	12
Liabilities	**2.0 TWh**	**(13)**	1.3 TWh	(12)
		(7)		-
Ontario market liquidity reserve		**(2)**		(7)
Total		**(9)**		(7)

10. COMMITMENTS AND CONTINGENCIES

Litigation and Claims

Various lawsuits are pending against OPG or its subsidiaries covering a wide range of matters that arise in the ordinary course of its business activities. In July 2004, OPG was charged with criminal negligence causing death and criminal negligence causing bodily harm in relation to a 2002 accident at Barrett Chute. Also, certain First Nations have commenced actions for interference with reserve and traditional land rights. The claims by some of these First Nations total approximately $50 million and claims by others are for unspecified amounts. Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably with respect to OPG. These contingencies are provided for when they are likely to occur and are reasonably estimable. Management believes that the ultimate resolution of these matters will not have a material effect on OPG's financial position.

Guarantees

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

OPG has provided limited guarantees in connection with its share of the Brighton Beach financing, whereby it is responsible for contributing its share of equity related to cost overruns associated with the construction of the generating station. As at March 31, 2005, OPG met its obligations for contributing its share of equity related to cost overruns. As Brighton Beach commenced commercial operation in July 2004, any cost overruns are now primarily limited to settlement of construction liens registered by some contractors associated with the construction project. Brighton Beach arranged an independent third party review of the claims and is now actively negotiating final settlement of these liens.

11. RESTRUCTURING

The change in the restructuring liability for termination benefits for the three months ended March 31, 2005 and year ended December 31, 2004 is as follows:

(millions of dollars)	**2005**	**2004**
Liability, beginning of period	**20**	52
Restructuring charges	**-**	19
Payments	**(5)**	(51)
Liability, end of period	**15**	20

OPG recorded restructuring charges of $16 million, which consisted of $15 million for termination benefits and $1 million in related pension and other post employment benefits expenses associated with its Lakeview generating station during 2004. OPG also recorded restructuring charges of $4 million related to its Energy Marketing segment during 2004.

12. TRANSITION RATE OPTION CONTRACTS

Under regulation known as Transition - Generation Corporation Designated Rate Options ("TRO"), OPG has been required to provide transitional price relief since market opening to certain power customers for up to four years based on the consumption and average price paid by each customer during a reference period of July 1, 1999 to June 30, 2000. The TRO is treated as a hedge of generation revenue. The maximum anticipated volume subject to the transitional price relief was approximately 5.4 TWh in the first year after market opening and 3.6 TWh in the second year. The maximum anticipated volume in each of the third and fourth years is 1.8 TWh. The maximum length of the program is four years.

A provision of $210 million on the TRO contracts was recorded in the first quarter of 2002 based on the estimated future loss on these contracts. The provision was determined at that time using management's best estimates of the forward price curve for electricity, wholesale electricity market fees, impact of decontrol on these contracts, interruptions of volume, and the recovery of Market Power Mitigation Agreement rebates. The provision for the TRO contracts was established based on meeting decontrol targets within three years of market opening. An additional charge of $30 million related to the fourth year of the TRO contracts was recorded in 2003, based on OPG's expectation that the Company would not meet the decontrol targets necessary for TRO contracts to expire after three years.

During the three months ended March 31, 2005 - $9 million (three months ended March 31, 2004 - $17 million) was charged against the provision and included in Generation revenue.

13. MARKET POWER MITIGATION AGREEMENT REBATE

Until April 1, 2005, OPG was required under its generating licence to comply with prescribed market power mitigation measures to address the potential for OPG to exercise market power in Ontario. The market power mitigation measures included both a rebate mechanism and the requirement to decontrol generating capacity. Under the rebate mechanism, a majority of OPG's expected energy sales in Ontario were subject to an average annual revenue cap of 3.8¢/kWh. During the term of the MPMA, OPG was required to pay a rebate to the Independent Electricity System Operator equal to the excess, if any, of the average hourly spot energy price over 3.8¢/kWh for a 12-month settlement period, multiplied by the amount of energy subject to the rebate mechanism. The Market Power Mitigation Agreement was replaced effective April 1, 2005 by a regulated price for baseload hydroelectric and nuclear generation. In addition, eighty-five per cent of unregulated OPG electricity generation, excluding generation from the Lennox generating station and volumes relating to existing contracts, is subject to a revenue limit based on an average price of 4.7¢/kWh. This revenue limit will be in place for a period of 13 months.

In accordance with the Market Power Mitigation Agreement, the rebate is calculated after taking into account the amount of energy sales subject to the rebate mechanism for only those generating stations that OPG continues to control. Since the average hourly spot price during the three months ended March 31, 2005 exceeded the 3.8¢/kWh revenue cap, OPG provided $412 million (three months ended March 31, 2004 - $441 million) as a Market Power Mitigation Agreement rebate.

The change in the Market Power Mitigation Agreement rebate liability for the three months ended March 31, 2005 and year ended December 31, 2004 is as follows:

(millions of dollars)	**2005**	**2004**
Liability, beginning of period	**439**	409
Increase to provision during the year	**412**	1,154
Payments	**(220)**	(1,124)
Liability, end of period	**631**	439

14. Business Segments

Segment Income for three months ended March 31, 2005	**Generation**	**Energy Marketing**	**Non-Energy and Other**	**Total**
(millions of dollars)				
Revenues				
Revenue before Market Power Mitigation Agreement rebate	**1,672**	**2**	**96**	**1,770**
Market Power Mitigation Agreement rebate	**(412)**	**-**	**-**	**(412)**
	1,260	**2**	**96**	**1,358**
Fuel expense	**310**	**-**	**-**	**310**
Gross margin	**950**	**2**	**96**	**1,048**
Operations, maintenance and administration	**575**	**2**	**10**	**587**
Depreciation and amortization	**164**	**-**	**29**	**193**
Accretion on fixed asset removal and nuclear waste management liabilities	**119**	**-**	**-**	**119**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(71)**	**-**	**-**	**(71)**
Property and capital taxes	**18**	**-**	**3**	**21**
Income before the following:	**145**	**-**	**54**	**199**
Impairment of long-lived assets	**202**	**-**	**-**	**202**
Net interest expense	**-**	**-**	**47**	**47**
(Loss) income before income taxes	**(57)**	**-**	**7**	**(50)**

Segment Income for three months ended March 31, 2004	**Generation**	**Energy Marketing**	**Non-Energy and Other**	**Total**
(millions of dollars)				
Revenues				
Revenue before Market Power Mitigation Agreement rebate	1,697	15	79	1,791
Market Power Mitigation Agreement rebate	(441)	-	-	(441)
	1,256	15	79	1,350
Fuel expense	338	-	-	338
Gross margin	918	15	79	1,012
Operations, maintenance and administration excluding Pickering A return to service	555	2	8	565
Pickering A return to service	59	-	-	59
Depreciation and amortization	169	-	23	192
Accretion on fixed asset removal and nuclear waste management liabilities	113	-	-	113
Earnings on nuclear fixed asset removal and nuclear waste management funds	(98)	-	-	(98)
Property and capital taxes	23	-	5	28
Income before the following:	97	13	43	153
Net interest expense	-	-	45	45
Income (loss) before income taxes	97	13	(2)	108

Selected Balance Sheet Information	**Generation**	**Energy Marketing**	**Non-Energy and Other**	**Total**
(millions of dollars)				
March 31, 2005				
Segment property, plant and equipment, net	**10,808**	**-**	**872**	**11,680**
December 31, 2004				
Segment property, plant and equipment, net	11,065	-	875	11,940
Selected Cash Flow Information				
(millions of dollars)				
Three months ended March 31, 2005				
Capital expenditures	**134**	**-**	**-**	**134**
Three months ended March 31, 2004				
Capital expenditures	81	-	15	96

15. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

For the three months ended March 31 *(millions of dollars)*	**2005**	**2004**
Accounts receivable	**(89)**	20
Income taxes recoverable	**-**	12
Fuel inventory	**99**	116
Materials and supplies	**(14)**	(16)
Market Power Mitigation Agreement rebate payable	**192**	127
Accounts payable and accrued charges	**(163)**	(182)
Income and capital taxes payable	**8**	-
	33	77

The amount of cash income taxes paid in the three months ended March 31, 2005 was $4 million (three months ended March 31, 2004 - $2 million).

16. SEASONAL OPERATIONS

OPG's quarterly results are impacted by changes in demand resulting from variations in seasonal weather conditions. Historically, OPG's revenues are higher in the first and third quarters of a fiscal year as a result of winter heating demands in the first quarter and air conditioning/cooling demands in the third quarter. The Market Power Mitigation Agreement rebate and OPG's hedging strategies significantly reduced the impact of seasonal price fluctuations on the results of operations. Commencing April 1, 2005, regulated prices for the baseload hydroelectric and nuclear facilities and the revenue limit related to the generation from OPG's other generating assets will further reduce the impact of seasonal price fluctuations on operating results.