ONTARIOPOWER GENERATION

News
from Ontario Power Generation

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ONTARIO POWER GENERATION REPORTS 2001 THIRD QUARTER EARNINGS

(Toronto) – Ontario Power Generation Inc. (OPG) today reported its financial and operating results for the third quarter and first nine months ended September 30, 2001. Earnings for the three months ended September 30, 2001 were $63 million or $0.25 per share compared with third quarter earnings in 2000 of $198 million or $0.77 per share. For the nine months ended September 30, 2001, earnings were $228 million or $0.89 per share compared to earnings of $543 million or $2.12 per share for the same period last year.

"Ontario Power Generation's third quarter operating results primarily reflect increased activities and expenditures related to the return to service of the Pickering A nuclear generating station, reduced earnings resulting from the decontrol of the Bruce nuclear generating stations, and higher pension and other post employment benefit expenses primarily due to capital market conditions. In addition, the results reflect increased power purchased and higher cost resources required to meet the record peak demand in August, where, under the current fixed price regime, OPG is not able to fully recover these costs," said OPG President and CEO, Ron Osborne.

"Fourth quarter results will be impacted by factors similar to those of the third quarter," said Osborne.

In November, the Canadian Nuclear Safety Commission announced its decision to permit the Pickering A nuclear generating station to return to service. Prior to the start up of each unit, OPG is required to satisfy the Commission's staff that it has completed the safety and environmental upgrades and other refurbishment work as specified in the decision.

In light of the events that took place on September 11, 2001, OPG's nuclear sites immediately implemented heightened security measures to ensure that additional steps towards maintaining sufficient security measures for OPG employees and the general public are in place. OPG continues to work with Federal, Provincial and Municipal agencies to ensure that appropriate security plans remain in place at all facilities.

In August, OPG continued its commitment to build its green power portfolio by placing into service a 1.8 MW wind turbine, the largest in North

America. In addition, OPG also announced plans to construct a 12 MW small hydro generating station near Ear Falls, Ontario that is expected to be in-service in 2003.

In October, OPG obtained an investment grade credit rating of "BBB$^+$" on its long-term debt from Standard and Poor's. Also in October, OPG's long-term debt rating of "A" from Dominion Bond Rating Agency was confirmed.

Also in October, the Ontario Ministry of the Environment announced the completion of its environmental protection framework for the electricity industry and lifted the moratorium on the sale of coal-fired plants in Ontario, which has been in effect for over a year. This announcement enables OPG to proceed with the program of installing four selective catalytic reduction units at the Lambton and Nanticoke stations and to proceed with the decontrol of Lakeview, Lennox, Thunder Bay, Atikokan and the Mississagi River generating stations.

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

Analysis of Third Quarter 2001 Results

Highlights

(millions of dollars unless otherwise stated)	Three Months Ended September 30 2001	Three Months Ended September 30 2000	Nine Months Ended September 30 2001	Nine Months Ended September 30 2000
Revenues	**1,635**	1,568	**4,681**	4,452
Operating expenses	**1,600**	1,188	**4,236**	3,397
Operating income	**35**	380	**445**	1,055
Interest expense	**31**	34	**102**	107
Income taxes	**(59)**	148	**115**	405
Net income	**63**	198	**228**	543
Earnings per common share ($ per common share)	**0.25**	0.77	**0.89**	2.12
Total electricity sales volume (TWh)				
Ontario electricity sales	**35.0**	33.9	**103.8**	100.8
Interconnected electricity sales	**0.8**	1.3	**2.8**	2.9
Total	**35.8**	35.2	**106.6**	103.7
Total energy available (TWh)				
Total production	**27.8**	34.4	**93.6**	102.2
Purchased power	**7.9**	0.7	**13.7**	1.6
Other*	**0.1**	0.1	**(0.7)**	(0.1)
Total	**35.8**	35.2	**106.6**	103.7

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

Net Income

Net income for the three months ended September 30, 2001 was $63 million compared with net income of $198 million for the same period in 2000, a decrease of $135 million. Major factors contributing to the lower earnings included increased activity and expenditures related to the return to service of the Pickering A nuclear generating station, reduced earnings resulting from the decontrol of the Bruce nuclear generating stations mainly due to the structure of the lease payments in the first year of the lease transaction, higher pension and other post employment benefit expenses primarily due to capital market conditions, and increased power purchased and higher cost resources employed to meet the record peak demand in August.

Net income for the nine months ended September 30, 2001 was $228 million compared with net income of $543 million for the same period last year, a decrease of $315 million. In addition to the factors that contributed to the decrease in earnings in the third quarter of 2001, an increase in both the volume and price of power purchased in the interconnected markets during the first six months of the year contributed to lower year to date earnings compared to the same nine-month period last year.

Results for the fourth quarter of 2001 are anticipated to be lower than those of 2000 as a result of: expenditures related to the return to service of the Pickering A nuclear generating station; reduced earnings from the decontrol of the Bruce nuclear generating stations; and the continuing impact of higher pension and other post employment benefit costs.

Revenues

Total revenues of $1,635 million for the three months ended September 30, 2001 increased by $67 million or four per cent compared to revenues of $1,568 million for the same period in 2000. Total revenues of $4,681 million for the nine months ended September 30, 2001 increased by $229 million or five per cent compared to revenues of $4,452 million for the same period last year. Total revenues consist of Ontario energy revenues, interconnected sales and other non-energy based revenues.

Ontario energy revenues were $1,484 million for the third quarter of 2001 compared with revenues of $1,423 million for the same period in 2000, an increase of $61 million or four per cent. The increase in Ontario energy revenues was mainly due to warmer summer weather, which resulted in higher demand from municipal utility customers. OPG's electricity sales in Ontario increased by 1.1 TWh to 35.0 TWh for the third quarter of 2001 compared with the same period last year.

Ontario energy revenues were $4,332 million for the first nine months of 2001 compared with revenues of $4,168 million for the same period in 2000, an increase of $164 million or four per cent. This increase was primarily due to lower electricity generation from other Ontario generators and higher demand from municipal utility customers compared to last year. OPG's electricity sales in Ontario for the first nine months of 2001 increased by 3.0 TWh to 103.8 TWh compared with sales of 100.8 TWh for the same period last year.

Revenues from interconnected markets during the third quarter of 2001 were $69 million compared with revenues of $118 million in 2000, a decrease of $49 million or 42 per cent. The lower revenues were primarily due to a decrease in sales volume to 0.8 TWh compared to 1.3 TWh for the same period in 2000, and lower structured product revenues in 2001 compared to last year. Revenues from interconnected markets during the first nine months of 2001 were $189 million compared with revenues of $207 million in 2000, a decrease of $18 million or nine per cent. The decrease was mainly due to lower structured product revenues in 2001 compared to the same period last year. Interconnected sales volumes for the nine-month period were 2.8 TWh in 2001 compared to 2.9 TWh in 2000.

Non-energy revenues include revenues from engineering, technical and ancillary services, isotope sales, lease revenue, and interest income related to the Bruce Power lease agreement. Non-energy revenues were $82 million for the third quarter of 2001 compared with $27 million in 2000, an increase of $55 million. For the nine months ended September 30, 2001, non-energy revenues were $160 million compared with revenues of $77 million for the same period in 2000, an increase of $83 million. The increase in non-energy revenues for the third quarter and the nine-month period was mainly due to the lease and service revenue earned under the agreements with Bruce Power.

Operating Expenses

Operating, maintenance and administration (OM&A) expenses were $629 million for the third quarter of 2001 compared with $539 million for the same period in 2000, an increase of $90 million. The increase in OM&A expenses was primarily due to increased activity and expenditures related to the return to service of the Pickering A nuclear generating station ($86 million), higher pension and other post employment benefit expenses primarily due to capital market conditions and a higher claims experience ($70 million), and inflation and other increases ($16 million). The impact of these factors was partially offset by a reduction in operating costs resulting from the lease of the Bruce nuclear generating stations to Bruce Power ($82 million).

OM&A expenses were $1,836 million for the nine months ended September 30, 2001 compared with $1,564 million for the same period in 2000, an increase of $272 million. The same factors that contributed to the increase in OM&A for the three-month period also contributed to the increase for the nine-month period. This included higher expenditures related to the return to service of the Pickering A nuclear generating station ($168 million), an increase in pension and other post employment benefit expenses ($143 million) and inflation and other increases ($75 million), partially offset by a reduction in operating costs resulting from the lease of the Bruce nuclear generating stations ($114 million).

Fuel expense for the third quarter of 2001 was $340 million compared to a fuel expense of $334 million for the same period in 2000, an increase of $6 million or two per cent. The increase in fuel expense for the third quarter was mainly due to higher gas-fired production, partially offset by lower nuclear fuel expense due to the decontrol of the Bruce nuclear stations in the second quarter of 2001. Fuel expense for the first nine months of 2001 was $955 million compared to $899 million for the same period in 2000, an increase of $56 million or six per cent. The increase during the nine-month period was mainly due to the same factors that contributed to the third quarter increase, as well as higher average coal prices in 2001 compared to the same period last year.

	Three months ended September 30		**Nine months ended September 30**	
Production and Power Purchased (TWh)	**2001**	2000	**2001**	2000
Nuclear:				
Darlington & Pickering	**10.1**	9.5	**30.0**	27.9
Bruce	**-**	6.3	**8.7**	17.5
Total Nuclear	**10.1**	15.8	**38.7**	45.4
Fossil	**10.9**	10.7	**30.9**	30.5
Hydroelectric	**6.8**	7.9	**24.0**	26.3
Total Production	**27.8**	34.4	**93.6**	102.2
Total Power Purchased	**7.9**	0.7	**13.7**	1.6
Total Production and Purchases	**35.7**	35.1	**107.3**	103.8

Power purchased during the third quarter of 2001 was $374 million compared with $43 million for the same period in 2000, an increase of $331 million. The increase in power purchased was primarily due to the agreement, in conjunction with the terms of the lease transaction with Bruce Power, to purchase all of Bruce Power's electricity generation up to the date of market opening, additional requirements resulting from record peak demand and lower generation from hydroelectric facilities.

Power purchased during the first nine months of 2001 was $649 million compared with $87 million for the same period in 2000 based on purchases of 13.7 TWh in 2001 and 1.6 TWh in 2000. For the nine-month period, the major factors that contributed to the increase in power purchased compared to last year included the agreement to purchase electricity from Bruce Power, a decrease in hydroelectric generation due to lower water levels, lower generation from other Ontario generators, the availability of coal supply and the optimization of fossil generation in light of supply constraints and environmental guidelines, and higher demand during the summer season.

Property and capital taxes for the third quarter of 2001 were $55 million compared with $93 million for the same period in 2000, a decrease of $38 million. Property and capital taxes during the first nine months of 2001 were $190 million compared with $281 million for the same period last year, a decrease of $91 million. The decrease for both the three-month and nine-month periods was mainly due to the impact of tax reform for property tax on hydroelectric facilities as introduced by the Province of Ontario and a property tax refund. The property tax reform involves the implementation of a charge based on gross revenue. The gross revenue charge, unlike the former property tax regime, is dependent on both energy prices and hydroelectric production.

Income Tax Expense

For the nine-month period ended September 30, 2001, the effective income tax rate decreased to 33.5 per cent in 2001 from 42.7 per cent in 2000. The decrease in the effective income tax rate was primarily due to a reduction in future income taxes resulting from a decrease in the future income tax rate as announced under the Federal and Provincial Budgets. The third quarter results reflect a further reduction in the effective income tax rate as a result of favourable income tax treatment for certain other revenues.

Liquidity and Capital Resources

Cash flow used from operating activities for the third quarter was $24 million compared to cash flows provided from operating activities of $213 million for the same period in 2000. The decrease in cash flows was mainly due to lower earnings and an increase in coal inventory levels. Cash flow from operating activities for the nine months ended September 30, 2001 was $177 million compared to $1,019 million for the same period last year. The decrease was primarily due to lower earnings, a decrease in future income tax liabilities, an increase in coal inventory levels and other changes in working capital requirements.

Capital expenditures for the third quarter were $181 million compared to $138 million for the same period in 2000. For the nine-month period ended September 30, 2001, capital expenditures were $450 million compared to $372 million for the same period last year. The increase in capital expenditures was primarily due to higher activity related to the return to service of the Pickering A nuclear generating station and the purchase of emission control equipment for the Company's fossil generating stations.

During the nine months ended September 30, 2001, the fixed asset removal and nuclear waste management fund increased by a total of $322 million compared with $287 million for the same period in 2000 as a result of increased contributions and interest earned on investments. The balance in the fund at September 30, 2001 was $1,103 million.

During the nine months ended September 30, 2001, the Company repaid $200 million of its long-term debt, with $100 million repaid in each of the first and third quarters of 2001. The Company reduced the short-term notes issued from its commercial paper program by $50 million in the first quarter. The outstanding short-term notes as at September 30, 2001 were $100 million. The commercial paper program is supported by a $600 million revolving short-term committed credit facility.

The Company paid dividends of $238 million during the nine months ended September 30, 2001 compared with $163 million for the same period in 2000. The increase in dividends reflected a special dividend as well as regular dividends to achieve a 35 per cent pay out of actual earnings.

Pickering A Return to Service

In November, the Canadian Nuclear Safety Commission announced its decision to permit the Pickering A nuclear generating station to return to service. Prior to the start up of each unit, Ontario Power Generation is required to complete the safety and environmental upgrades and other refurbishment work as specified in the decision. The estimated cost of the project, the majority of which is being expensed, is approximately $1.5 billion, of which approximately $500 million has been spent to date. Pickering A represents a profitable undertaking for OPG and will make a significant contribution towards improving environmental performance within the Ontario electricity sector. OPG expects to begin commissioning the first unit of the Pickering A nuclear generating station by mid-2002.

Forward-looking Statements

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

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(millions of dollars except where noted)

	Three Months Ended September 30		Nine months Ended September 30	
	2001	**2000**	**2001**	**2000**
Revenues	**1,635**	1,568	**4,681**	4,452
Operating expenses				
Operation, maintenance and administration	**629**	539	**1,836**	1,564
Fuel	**340**	334	**955**	899
Power purchased	**374**	43	**649**	87
Depreciation and amortization	**202**	179	**606**	566
Property and capital taxes (note 3)	**55**	93	**190**	281
	1,600	1,188	**4,236**	3,397
Operating income	**35**	380	**445**	1,055
Interest expense	**31**	34	**102**	107
Income before income taxes	**4**	346	**343**	948
Income taxes (note 3)				
Current	**(175)**	76	**97**	208
Future	**116**	72	**18**	197
	(59)	148	**115**	405
Net income	**63**	198	**228**	543
Basic and fully diluted earnings per common share	**0.25**	0.77	**0.89**	2.12
Common shares outstanding (millions)	**256.3**	256.3	**256.3**	256.3

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (UNAUDITED)

(millions of dollars)	Nine months Ended September 30	
	2001	**2000**
Retained earnings, beginning of period	**691**	291
Net income	**228**	543
Dividends	**(238)**	(163)
Retained earnings, end of period	**681**	671

see accompanying notes to financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(millions of dollars)	Three Months Ended September 30		Nine months Ended September 30	
	2001	**2000**	**2001**	**2000**
Operating activities				
Net income	**63**	198	**228**	543
Adjust for non-cash items:				
Depreciation and amortization	**202**	179	**606**	566
Deferred pension asset	**6**	(33)	**(1)**	(99)
Other post employment benefits	**47**	18	**86**	48
Future income taxes	**116**	109	**18**	234
Other	**23**	18	**56**	52
	457	489	**993**	1,344
Fixed asset removal and nuclear waste management fund	**(105)**	(97)	**(322)**	(287)
Expenditures on nuclear waste management provisions	**(15)**	(10)	**(38)**	(27)
Changes to other long-term assets and liabilities	**(28)**	(10)	**(107)**	(59)
Deferred revenue	**(8)**	-	**(10)**	-
Non-cash working capital changes:				
Accounts receivable	**23**	(15)	**155**	201
Fuel	**(79)**	73	**(77)**	93
Materials and supplies	**(19)**	(5)	**(37)**	(11)
Accounts payable and accrued charges	**(250)**	(212)	**(380)**	(235)
Cash flow (used in) provided from operating activities	**(24)**	213	**177**	1,019
Investing activities				
Net (purchases) proceeds from short-term investments	**(12)**	-	**214**	-
Proceeds from Bruce decontrol (note 2)	**-**	-	**370**	-
Proceeds on sale of fixed assets	**2**	-	**12**	-
Expenditures for fixed assets	**(181)**	(138)	**(450)**	(372)
Cash flow before financing activities	**(215)**	75	**323**	647
Financing activities				
Repayment of long-term debt to OEFC	**(100)**	-	**(200)**	-
Dividends on common shares	**(138)**	(42)	**(238)**	(163)
Repayment of short-term notes	**-**	-	**(50)**	-
(Decrease) increase in cash and cash equivalents during period	**(453)**	33	**(165)**	484
Cash and cash equivalents, beginning of period	**853**	694	**565**	243
Cash and cash equivalents, end of period	**400**	727	**400**	727

see accompanying notes to financial statements

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(millions of dollars)	September 30 2001	December 31 2000
ASSETS		
Current assets		
Cash and cash equivalents (note 2)	**400**	565
Short-term investments	**121**	335
Accounts receivable	**805**	968
Fuel	**321**	288
Materials and supplies	**204**	229
	1,851	2,385
Fixed assets		
Property, plant and equipment	**14,185**	13,842
Less: accumulated depreciation	**1,332**	910
	12,853	12,932
Other assets		
Deferred pension asset (note 2)	**533**	641
Fixed asset removal and nuclear waste management fund	**1,103**	781
Long-term note receivable (note 2)	**225**	-
Long-term accounts receivable and other assets	**72**	52
	1,933	1,474
	16,637	16,791
LIABILITIES		
Current liabilities		
Accounts payable and accrued charges	**1,053**	1,406
Short-term notes payable	**100**	150
Deferred revenue due within one year (note 2)	**13**	-
Long-term debt due within one year	**204**	204
	1,370	1,760
Long-term debt	**3,016**	3,219
Other liabilities		
Fixed asset removal and nuclear waste management	**4,668**	4,482
Other post employment benefits (note 2)	**983**	997
Deferred revenue (note 2)	**207**	-
Long-term accounts payable and accrued charges (note 2)	**350**	298
Future income taxes liability (note 3)	**236**	218
	6,444	5,995
Shareholder's equity		
Common shares	**5,126**	5,126
Retained earnings	**681**	691
	5,807	5,817
	16,637	16,791

see accompanying notes to financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 (UNAUDITED)

1. Basis of preparation

The Company's unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies and methods of computation as were used for the consolidated financial statements for the year ended December 31, 2000. These statements should be read in conjunction with the Company’s December 31, 2000 audited consolidated financial statements.

2. Decontrol of Bruce nuclear generating stations

On May 11, 2001, the Company completed the close of the operating lease agreement to lease its Bruce A and Bruce B nuclear generating stations to Bruce Power L.P. (Bruce Power). As part of the initial payment, the Company received $370 million in cash proceeds, after closing adjustments for the timing of the close. The Company will also receive, as part of the initial payment, $225 million payable in two installments of $112.5 million no later than four and six years from the date the transaction was completed. Under the terms of the lease, the Company transferred to Bruce Power, materials, certain fixed assets and pension assets and liabilities.

Inventory and fixed assets

Under the terms of the lease, the Company transferred certain fuel and material inventory to Bruce Power, in addition to certain fixed assets. The total book value of the assets transferred was $185 million.

Deferred pension asset and other post employment benefits

The Company will transfer pension assets and liabilities related to the approximately 3,000 employees who transferred from the Company to Bruce Power. Bruce Power also assumed the liability for other post employment benefits for these employees. The Company will pay Bruce Power for the liability, that existed on or before the date of close, in respect of other post employment benefits over seventy-two months, with the first payment to commence one year from the date of closing plus applicable interest. The impact to the deferred pension asset and the value of the other post employment benefit obligation will be finalized through actuarial processes, which are expected to be completed in the first quarter of 2002.

Deferred revenue

Deferred revenue was recorded to reflect the amount of the initial payment, net of assets transferred as part of the lease agreement, and all closing costs and adjustments. The value of the deferred revenue at September 30, 2001 was $220 million. The deferred revenue will be amortized over the initial lease term of approximately 18 years and will be recorded as non-energy revenue.

Long-term note receivable

The initial payment of $225 million is payable to the Company in two installments. Interest is currently charged on the initial payment at a rate of 10.5 per cent, escalating over time to 18 per cent annually. The interest is included as non-energy revenue.

3. Payment in lieu of taxes

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

The Company is also required to make payments in lieu of property taxes on its generating assets to the Province. These payments, together with property taxes, were intended to approximate the total property tax paid by privately owned companies. Payments in lieu equal the difference between property taxes paid by privately owned companies and amounts paid by OPG to municipalities.

Beginning on January 1, 2001, the Province of Ontario introduced legislation to restructure the payment of property taxes and water rentals from the Company's hydroelectric generating facilities. The legislation (referred to as the Gross Revenue Charge) has the effect of setting payments to the Province based on the generation from these hydroelectric facilities rather than on a fixed cost basis.

4. Municipal Electric Utilities

An action was brought against Ontario Hydro in 1997 by three Municipal Electric Utilities (MEUs) and was certified as a class proceeding on behalf of all MEUs in Ontario. The amount claimed was $5,195 million in aggregate. In the third quarter, a settlement was reached with the MEUs, which received the necessary court approval. All due process and time limitations to object to the settlement have been completed or have expired. In July 2001, OPG made a lump sum payment of approximately $35 million in settlement of the litigation.

5. Seasonal operations

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

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