ONTARIO POWER GENERATION

News
from Ontario Power Generation

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ONTARIO POWER GENERATION REPORTS 2013 THIRD QUARTER FINANCIAL RESULTS

[Toronto]: – Ontario Power Generation Inc. (OPG or Company) today reported its financial and operating results for the three and nine month periods ended Sept. 30, 2013. Net income for the third quarter of 2013 was $30 million compared to $139 million for the same quarter in 2012. Net income for the nine months ended Sept. 30, 2013 was $131 million compared to $336 million for the same period in 2012.

Tom Mitchell, President and CEO said, "OPG's net income continues to be affected by the fact that prices for electricity that are received by our company are significantly below the rates received by other generating companies in the province.

"OPG's lower electricity rates help consumers and businesses because they moderate the higher prices paid to other companies and thus hold down the overall cost of electricity in Ontario. For the first nine months of this year, we received an average price of 5.7 cents per kilowatt hour. This is good for consumers, but does put financial pressures on the company."

Mitchell stressed, "A key part of our efforts to contain costs has been our almost three-year business transformation process which is delivering its anticipated results, with further actions underway.

"We have reduced the number of employees by 13 per cent, or 1,500 people, since January 1, 2011 – excluding the refurbishment project at the Darlington station. The reductions, which have been largely based on attrition, will continue with another 500 positions planned by the end of 2015.

"We have done this by streamlining our operations, eliminating duplication of processes, and by challenging employees to accomplish more with fewer resources." Mitchell added, "We undertook the challenge to change our business because -- as a publicly owned company -- our obligation is to provide the best service at the lowest price."

Highlights

Net income for the third quarter of 2013 decreased by $109 million compared to the same quarter in 2012. The decrease was mainly a result of lower nuclear generation, higher operations, maintenance and administration (OM&A) expenses primarily due to an increase in planned nuclear outage and maintenance activities; and restructuring costs related to the Lambton and Nanticoke generating stations. These factors were partially offset by additional revenues from the recently approved Thunder Bay Reliability Must Run contract, higher unregulated hydroelectric production, and the favourable impact of headcount reductions and the implementation of other operating efficiencies.

Net income for the first nine months of 2013 decreased by $205 million, compared to the same period in 2012, mainly due to lower nuclear generation; higher OM&A expenses primarily a result of an increase in planned nuclear outage and maintenance activities; and restructuring costs largely related to the Lambton and Nanticoke generating stations. There were also lower Other Post-Employment Benefits expenses in 2012 resulting from the recognition of a regulatory asset for the Impact for USGAAP Deferral Account established by the Ontario Energy Board in 2012. These factors were partially offset by higher unregulated revenues due to higher spot market prices, increased unregulated hydroelectric generation, and higher thermal contract revenues. The net income for the first nine months was also favourably affected by headcount reductions and the implementation of other operating efficiencies.

Income before interest and income taxes from the electricity generation business segments decreased by $148 million for the three months ended Sept. 30, 2013, and by $221 million for the nine months ended Sept. 30, 2013, compared to the same periods in 2012. These decreases were largely due to lower nuclear generation, higher OM&A expenses, and restructuring costs recognized in 2013 related to the Lambton and Nanticoke generating stations.

The Regulated – Nuclear Waste Management business segment recorded lower earnings for both the three and nine month periods ended Sept. 30, 2013, compared to the same periods in 2012. The lower third quarter segment earnings were primarily a result of higher accretion expense. The lower earnings for the nine months ended Sept. 30, 2013 were primarily a result of higher accretion expense and lower earnings from the Decommissioning Segregated Fund, which is currently in an overfunded position. When the Decommissioning Segregated Fund is overfunded, OPG limits the earnings it recognizes by recording a payable to the Province.

Total electricity generated during the third quarter of 2013 was 20.0 TWh. This was a decrease of 0.6 TWh, compared to the same quarter in 2012, mainly a result of lower nuclear and thermal generation, partially offset by higher hydroelectric generation. Total electricity generation for the first nine months of 2013 was 61.0 TWh – a decrease of 2.1 TWh compared to the same period in 2012. The decrease was primarily the result of extensions to planned outages at the Pickering and Darlington generating stations, partially offset by higher unregulated hydroelectric generation.

For the three and nine month periods in 2013, the capability factors for the Pickering and Darlington generating stations decreased, compared to the same periods in 2012. The decreases for the three month period were primarily due to increased unplanned outages at the Pickering generating station and increased planned outage days at the Darlington generating station. The decreases in the capability factor at both stations for the nine months ended Sept. 30, 2013, compared to the same period in 2012, were primarily a result of extensions to planned outages in the first half of 2013.

The availability of OPG's hydroelectric generating stations remained at high levels during the first nine months of 2013. The thermal generating stations continued to maintain high Start Guarantee rates reflecting their ability to respond to market requirements.

Generation Development

OPG is undertaking several generation development projects to support Ontario's long-term electricity supply requirements. Significant developments during the third quarter of 2013 are as follows:

Pickering Continued Operations

- OPG has made good progress on inspection and maintenance activities that support the intention to operate the Pickering units to 2020. OPG has made investments to continue to improve Pickering's performance through to 2020. These investments will help to provide a reliable electricity supply for Ontario while the Darlington reactors are being refurbished. OPG is seeing positive results of that work, including engineering and research assessments that support the safe and reliable operation of the units for a longer operating period. Recently, Pickering also received its best ever international peer review; a significant accomplishment for a station that has given such long service to Ontarians.

Darlington Refurbishment

- The Darlington Refurbishment project is currently in the definition phase. OPG plans to submit the Global Assessment Report and Integrated Implementation Plan, which present the significant Environmental Assessment and Integrated Safety Review results to the Canadian Nuclear Safety Commission in the fourth quarter of 2013.

  Identification of all long-lead materials required for the turbine generator work is completed. Remaining major contracts, including the steam generator cleaning contract and the turbine generator engineering and execution contract, are expected to be awarded by the first quarter of 2014.

  Construction of the reactor full-scale mock-up facility commenced in May 2013 and is planned to be completed in the second quarter of 2014. Retube and feeder replacement tooling design and fabrication is progressing in parallel with mock-up facility construction and remains on track for completion in 2015.

Lower Mattagami

- The Lower Mattagami River project is expected to be completed on schedule by June 2015 within the approved budget of $2.6 billion. The incremental unit at the Little Long generating station is expected to be declared in-service ahead of schedule during the fourth quarter of 2013. As incremental units are placed in-service, the Amisk-oo-Skow Finance Corporation, a corporation wholly owned by the Moose Cree First Nation, is expected to obtain a 25 per cent interest in the assets through its investment in the Lower Mattagami Limited Partnership.

New Nuclear Units

- The Minister of Energy provided a statement in October 2013 that the Ontario government will not include New Nuclear build at Darlington in the upcoming Long-Term Energy Plan (LTEP), but it may be re-considered in the future. The LTEP is expected to be issued by the Province during the fourth quarter of 2013.

Atikokan Biomass Conversion

- The Atikokan Biomass Conversion project is expected to be completed on schedule by August 2014 within the approved budget of $170 million. As of Sept. 30, 2013, construction of two storage silos was completed. In addition, all 15 redesigned burners were installed and commissioning of the combustion systems has begun.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(millions of dollars – except where noted)	Three Months Ended September 30 2013	Three Months Ended September 30 2012	Nine Months Ended September 30 2013	Nine Months Ended September 30 2012
Earnings				
Revenue	**1,244**	1,213	**3,689**	3,537
Fuel expense	**186**	199	**541**	556
Gross margin	**1,058**	1,014	**3,148**	2,981
Operations, maintenance and administration	**684**	610	**2,027**	1,914
Depreciation and amortization	**243**	164	**727**	495
Accretion on fixed asset removal and nuclear waste management liabilities	**188**	181	**567**	544
Nuclear Funds (earnings) – a reduction to expense	**(165)**	(161)	**(462)**	(481)
Other net expenses	**51**	9	**60**	33
Income before interest and income taxes	**57**	211	**229**	476
Net interest expense	**18**	26	**63**	89
Income tax expense (recovery)	**9**	46	**35**	51
Net income	**30**	139	**131**	336
Income (loss) before interest and income taxes				
Generating segments	**68**	216	**280**	501
Nuclear Waste Management segment	**(22)**	(19)	**(100)**	(59)
Other segment	**11**	14	**49**	34
Total income before interest and income taxes	**57**	211	**229**	476
Cash flow				
Cash flow provided by operating activities	**391**	510	**983**	722
Electricity generation (TWh)				
Regulated – Nuclear Generation	**11.5**	12.8	**34.0**	37.0
Regulated – Hydroelectric	**4.9**	4.4	**14.1**	14.1
Unregulated – Hydroelectric	**2.6**	2.0	**10.3**	8.9
Unregulated – Thermal	**1.0**	1.4	**2.6**	3.1
Total electricity generation	**20.0**	20.6	**61.0**	63.1
Average sales prices and average revenue (¢/kWh)				
Regulated – Nuclear Generation[1]	**5.7**	5.6	**5.7**	5.5
Regulated – Hydroelectric[1]	**4.0**	3.5	**4.0**	3.5
Unregulated – Hydroelectric[1]	**2.9**	3.0	**2.8**	2.3
Unregulated – Thermal[1]	**3.4**	3.5	**2.9**	2.6
Average revenue for OPG[2]	**5.8**	5.4	**5.7**	5.2
Average revenue for all electricity generators, excluding OPG[3]	**9.8**	8.0	**10.0**	8.6
Nuclear unit capability factor (per cent)				
Darlington GS	**87.1**	92.4	**85.7**	91.2
Pickering GS	**75.7**	90.1	**73.5**	82.1
Availability (per cent)				
Regulated – Hydroelectric	**91.0**	92.8	**90.7**	91.7
Unregulated – Hydroelectric	**88.8**	87.4	**92.0**	91.1
Start Guarantee rate (per cent)				
Unregulated – Thermal	**99.1**	98.3	**98.3**	97.8
Return on equity for the twelve months ended September 30, 2013 and December 31, 2012 (per cent)[4]			**1.8**	4.2
Funds from operations interest coverage for the twelve months ended September 30, 2013 and December 31, 2012 (times)[4]			**2.8**	2.2

1 Average sales prices are computed as net generation sales or spot market sales divided by net generation volume.
2 Average revenue for OPG is comprised of regulated revenues, market based revenues, and other energy revenues primarily from cost recovery agreements, and revenue from Energy Supply Agreements.
3 Revenues for other electricity generators are calculated as the sum of hourly Ontario demand multiplied by the hourly Ontario electricity price (HOEP) plus total global adjustment payments, plus the sum of hourly net exports multiplied by the HOEP, less OPG's generation revenue.
4 "Funds from operations interest coverage" and "Return on equity" are non-GAAP financial measures and do not have any standardized meaning prescribed by US GAAP. Additional information about these measures is provided in OPG's Management's Discussion and Analysis for the period ended September 30, 2013 under the heading, *Supplementary Non-GAAP Financial Measures*.

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

Ontario Power Generation Inc.'s unaudited consolidated financial statements and Management's Discussion and Analysis as at and for the three and nine month periods ended Sept. 30, 2013, can be accessed on OPG's web site (www.opg.com), the Canadian Securities Administrators' web site (www.sedar.com), or can be requested from the Company.

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ONTARIO POWER GENERATION INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2013 THIRD QUARTER REPORT

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ONTARIO POWER GENERATION INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. (OPG or Company) as at and for the three and nine month periods ended September 30, 2013. For a complete description of OPG's corporate strategies, risk management, corporate governance, related party transactions and the effect of critical accounting policies and estimates on OPG's results of operations and financial condition, this MD&A should also be read in conjunction with OPG's audited consolidated financial statements, accompanying notes, and MD&A as at and for the year ended December 31, 2012.

As required by Ontario Regulation 395/11, as amended, a regulation under the *Financial Administration Act* (Ontario) (FAA), OPG adopted United States generally accepted accounting principles (US GAAP) for the presentation of its consolidated financial statements, effective January 1, 2012. The Ontario Securities Commission also approved OPG's adoption of US GAAP for financial years that begin on or after January 1, 2012, but before January 1, 2015. OPG's unaudited interim consolidated financial statements are prepared in accordance with US GAAP and are presented in Canadian dollars. This MD&A is dated November 13, 2013.

FORWARD-LOOKING STATEMENTS

The MD&A contains forward-looking statements that reflect OPG's current views regarding certain future events and circumstances. Any statement contained in this document that is not current or historical is a forward-looking statement. OPG generally uses words such as "anticipate", "believe", "foresee", "forecast", "estimate", "expect", "schedule", "intend", "plan", "project", "seek", "target", "goal", "strategy", "may", "will", "should", "could" and other similar words and expressions to indicate forward-looking statements. The absence of any such word or expression does not indicate that a statement is not forward-looking.

All forward-looking statements involve inherent assumptions, risks and uncertainties, including those set out under the heading *Risk Management,* and therefore, could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's fuel costs and availability, generating station performance, cost of fixed asset removal and nuclear waste management, performance of investment funds, closure or conversion of coal-fired generating stations, refurbishment of existing facilities, development and construction of new facilities, pension and other post-employment benefit (OPEB) obligations, income taxes, electricity spot market prices, proposed new legislation, the ongoing evolution of the Ontario electricity industry, environmental and other regulatory requirements, health, safety and environmental developments, business continuity events, the weather, and the impact of regulatory decisions by the Ontario Energy Board (OEB). Accordingly, undue reliance should not be placed on any forward-looking statement. The forward-looking statements included in this MD&A are made only as of the date of this MD&A. Except as required by applicable securities laws, OPG does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise.

THE COMPANY

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG was established under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (Province).

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

In August 2013, OPG received a five-year operating licence which combines the Pickering A and B generating stations' licences into a single-site licence. Since 2012, the Pickering station has operated as a single six-unit site.

The in-service generating capacity by business segment as of September 30, 2013 and December 31, 2012 was as follows:

	As at	
(MW)	**September 30 2013**	**December 31 2012**
Regulated – Nuclear Generation	**6,606**	6,606
Regulated – Hydroelectric	**3,321**	3,312
Unregulated – Hydroelectric	**3,683**	3,684
Unregulated – Thermal [1]	**5,447**	5,447
Other	**2**	2
Total	**19,059**	19,051

[1] Includes the capacity of the Atikokan GS, which is being converted to use biomass commencing in 2014, and the capacity of the Lambton GS, which is on an Independent Electricity System Operator approved outage.

In July 2013, the in-service capacity of the Regulated – Hydroelectric segment increased by 9 megawatts (MW) as a result of the completion of a major refurbishment at Unit 3 of the Sir Adam Beck 1 GS.

As a result of a Shareholder declaration issued in March 2013 mandating that OPG cease the use of coal at the Nanticoke GS and the Lambton GS by the end of 2013, the in-service generating capacity of the Unregulated – Thermal segment is expected to decrease by 2,830 MW by December 31, 2013.

HIGHLIGHTS

Overview of Results

This section provides an overview of OPG's unaudited interim consolidated operating results. A detailed discussion of OPG's performance by reportable segment is included under the heading, *Discussion of Operating Results by Business Segment*.

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars – except where noted)	**2013**	**2012**	**2013**	**2012**
Revenue	**1,244**	1,213	**3,689**	3,537
Fuel expense	**186**	199	**541**	556
Gross margin	**1,058**	1,014	**3,148**	2,981
Expenses				
Operations, maintenance and administration	**684**	610	**2,027**	1,914
Depreciation and amortization	**243**	164	**727**	495
Accretion on fixed asset removal and nuclear waste management liabilities	**188**	181	**567**	544
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(165)**	(161)	**(462)**	(481)
Restructuring	**46**	1	**48**	3
Property and capital taxes	**14**	13	**43**	40
	1,010	808	**2,950**	2,515
Income before other income, interest and income taxes	**48**	206	**198**	466
Other income	**(9)**	(5)	**(31)**	(10)
Net interest expense	**18**	26	**63**	89
Income tax expense	**9**	46	**35**	51
Net income	**30**	139	**131**	336
Electricity production (TWh)	**20.0**	20.6	**61.0**	63.1
Cash flow				
Cash flow provided by operating activities	**391**	510	**983**	722

<u>Third Quarter</u>

Net income decreased by $109 million during the third quarter of 2013, compared to the same quarter in 2012. The following summarizes the significant items which caused the variance in net income:

Significant factors that reduced income before other income, interest and income taxes:

- Decrease in gross margin of $67 million as a result of lower nuclear generation.
- Higher nuclear operations, maintenance and administration (OM&A) expenses of $60 million as a result of an increase in outage and maintenance activities, primarily due to a second planned outage at the Darlington GS in 2013 as part of the three year outage cycle.
- Higher restructuring expense of $45 million due to the recognition of severance costs, primarily related to the Shareholder declaration mandating that OPG cease the use of coal at the Lambton GS and the Nanticoke GS by December 31, 2013.

Significant factors that increased income before other income, interest and income taxes:

- Higher earnings of $29 million from the Unregulated – Thermal segment, excluding the impact of restructuring expense, primarily as a result of higher contract revenue. The higher contract revenue includes $32 million from the Thunder Bay Reliability Must Run contract related to the period from January 1, 2013 to September 30, 2013, recognized during the third quarter of 2013. The contract was approved by the OEB in July 2013.
- Higher gross margin of $16 million from the Unregulated – Hydroelectric segment due to higher generation volume.
- Reduced headcount and the implementation of other operating efficiencies resulting in a reduction to OM&A expenses.

Year-To-Date

Net income decreased by $205 million during the first nine months of 2013, compared to the same period in 2012. The following summarizes the significant items which caused the variance in net income:

Significant factors that reduced income before other income, interest and income taxes:

- Decrease in gross margin of $155 million due to lower nuclear generation.
- Higher nuclear OM&A expenses of $64 million as a result of an increase in outage and maintenance activities primarily due to a second planned outage at the Darlington GS during the fall of 2013.
- Higher OM&A expenses of $49 million during the first nine months of 2013, compared to the same period in 2012, primarily due to lower OPEB expenses in 2012 resulting from the recognition of a regulatory asset for the Impact for USGAAP Deferral Account (US GAAP Deferral Account), established by the OEB in 2012.
- Higher restructuring expense of $45 million due to the recognition of severance costs, primarily related to the Lambton GS and the Nanticoke GS.
- Decrease in earnings of $19 million from the nuclear fixed asset removal and nuclear waste management funds (Nuclear Funds) primarily due to lower earnings from the Decommissioning Segregated Fund (Decommissioning Fund) as a result of it being in an overfunded position. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes by recording a payable to the Province.

Significant factors that increased income before other income, interest and income taxes:

- Increase in gross margin of $80 million from the Unregulated – Hydroelectric segment primarily due to higher electricity spot market prices and higher generation volume.
- Higher earnings from the Unregulated – Thermal segment, excluding the impact of restructuring expense, primarily as a result of higher contract revenue.
- Reduced headcount and the implementation of other operating efficiencies resulting in a reduction to OM&A expenses.

Segment Results

The following table summarizes OPG's income before interest and income taxes by segment for the three and nine month periods ended September 30, 2013 and 2012.

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars)	**2013**	**2012**	**2013**	**2012**
Income (loss) before interest and income taxes				
Regulated – Nuclear Generation	**23**	167	**25**	333
Regulated – Hydroelectric	**79**	74	**260**	257
Unregulated – Hydroelectric	**1**	(6)	**70**	(11)
Unregulated – Thermal	**(35)**	(19)	**(75)**	(78)
Total electricity generation business segments	**68**	216	**280**	501
Regulated – Nuclear Waste Management	**(22)**	(19)	**(100)**	(59)
Other	**11**	14	**49**	34
Total income before interest and income taxes	**57**	211	**229**	476

OPG's income before interest and income taxes from the electricity generation business segments decreased by $148 million for the three months ended September 30, 2013, and $221 million for the nine months ended September 30, 2013, compared to the same periods in 2012. The decrease was primarily due to lower nuclear generation, higher OM&A expenses, and the recognition of severance costs related to the Lambton GS and the Nanticoke GS.

For the three months ended September 30, 2013, the lower earnings from the Regulated – Nuclear Waste Management business segment, compared to the same period in 2012, were primarily a result of higher accretion expense. The lower earnings from the Regulated – Nuclear Waste Management business segment for the nine months ended September 30, 2013, compared to the same period in 2012, were primarily a result of higher accretion expense and a decrease in earnings from the Nuclear Funds.

Electricity Generation

Electricity generation for the three and nine month periods ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(TWh)	**2013**	**2012**	**2013**	**2012**
Regulated – Nuclear Generation	**11.5**	12.8	**34.0**	37.0
Regulated – Hydroelectric	**4.9**	4.4	**14.1**	14.1
Unregulated – Hydroelectric	**2.6**	2.0	**10.3**	8.9
Unregulated – Thermal	**1.0**	1.4	**2.6**	3.1
Total OPG electricity generation	**20.0**	20.6	**61.0**	63.1
Total electricity generation by all other generators in Ontario	**18.6**	18.1	**54.4**	50.3

The decrease in electricity generation of 0.6 terawatt hours (TWh) during the third quarter of 2013, compared to the same quarter in 2012, was due to lower electricity generation from the Regulated – Nuclear Generation and Unregulated – Thermal segments, partially offset by higher hydroelectric generation.

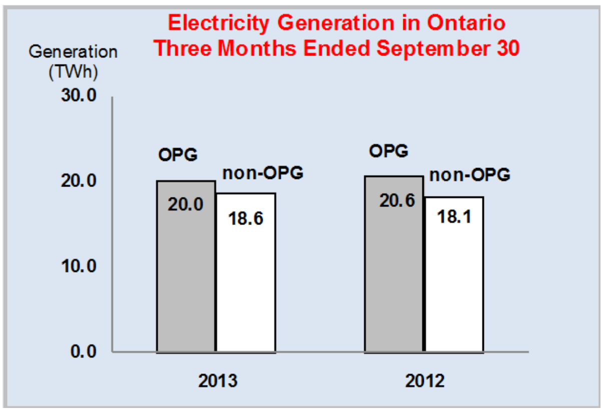
Electricity generation from the Regulated – Nuclear Generation segment decreased by 1.3 TWh during the third quarter of 2013, compared to the same quarter in 2012, primarily as a result of an increase in unplanned outage days at the Pickering GS and planned outage days at the Darlington GS.

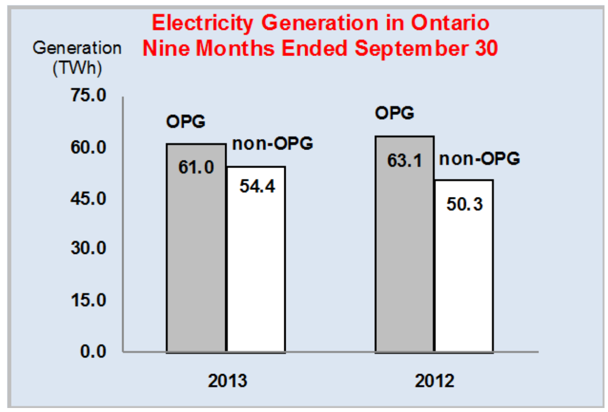
The higher hydroelectric generation during the third quarter of 2013, compared to the same quarter in 2012, was primarily due to higher water levels on the Great Lakes, affecting the Regulated – Hydroelectric segment, and higher water levels on many river systems in Ontario affecting the Unregulated – Hydroelectric segment.

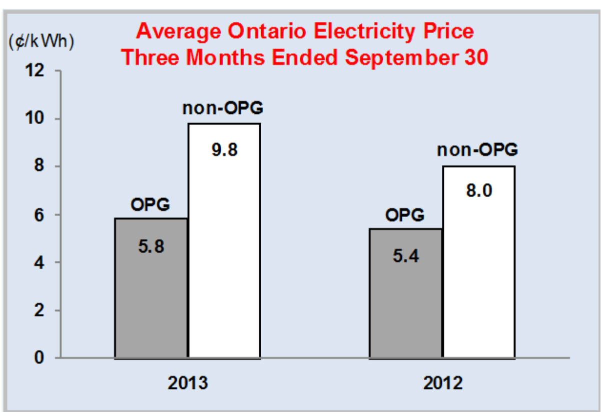
The decrease in generation of 2.1 TWh during the nine months ended September 30, 2013, compared to the same period in 2012, was primarily due to lower nuclear and thermal generation, partially offset by higher unregulated hydroelectric generation.

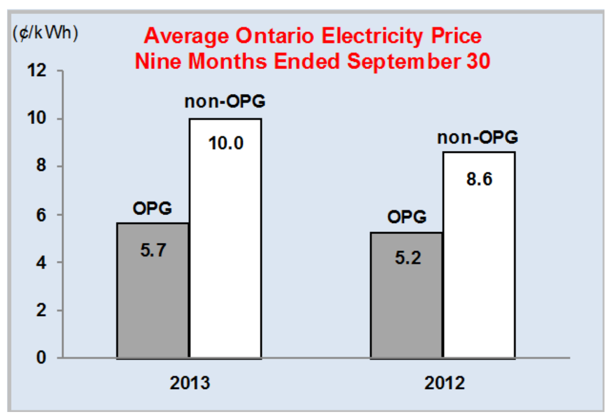
The decrease in nuclear generation during the nine months ended September 30, 2013, compared to the same period in 2012, was primarily a result of extensions to planned outages at the Pickering GS and the Darlington GS.

The increase in unregulated hydroelectric generation resulted from higher water levels on many river systems in Ontario.









Average Sales Prices and Average Revenue

The average sales prices and average revenue were as follows:

(¢/kWh)	Three Months Ended September 30 2013	Three Months Ended September 30 2012	Nine Months Ended September 30 2013	Nine Months Ended September 30 2012
Weighted average hourly Ontario electricity price (HOEP)	**2.6**	3.0	**2.7**	2.4
Regulated – Nuclear Generation [1]	**5.7**	5.6	**5.7**	5.5
Regulated – Hydroelectric [1]	**4.0**	3.5	**4.0**	3.5
Unregulated – Hydroelectric [1]	**2.9**	3.0	**2.8**	2.3
Unregulated – Thermal [1]	**3.4**	3.5	**2.9**	2.6
Average revenue for OPG [2]	**5.8**	5.4	**5.7**	5.2
Average revenue for all electricity generators, excluding OPG [3]	**9.8**	8.0	**10.0**	8.6

[1] Average sales prices are computed as net generation sales or spot market sales divided by net generation volume.
[2] Average revenue for OPG is comprised of regulated revenues, market based revenues, and other energy revenues primarily from agreements for the Nanticoke, Lambton, Thunder Bay, and Lennox generating stations, and revenue from hydroelectric Energy Supply Agreements.
[3] Revenues for other electricity generators are calculated as the sum of hourly Ontario demand multiplied by the HOEP, plus total global adjustment payments, plus the sum of hourly net exports multiplied by the HOEP, less OPG's generation revenue.

The increase in the average sales prices for OPG's regulated segments for the three and nine month periods ended September 30, 2013, compared to the same periods in 2012, was a result of the OEB's approval of new rate riders, effective January 1, 2013. These rate riders were established to collect amounts that were previously recorded in variance and deferral accounts and do not materially affect income.

Average sales prices for OPG's unregulated generation segments decreased slightly for the third quarter of 2013, compared to the same quarter in 2012, primarily due to the impact of a lower HOEP. During the nine months ended September 30, 2013, average sales prices for OPG's unregulated generation segments increased compared to the same period in 2012. This was largely due to the impact of higher natural gas prices which increased the HOEP, partially offset by the impact of higher non-OPG nuclear generation.

Cash Flow from Operations

Cash flow provided by operating activities for the three months ended September 30, 2013 was $391 million, compared to $510 million for the same quarter in 2012. The decrease was primarily due to higher OM&A expenditures during the third quarter of 2013, and the receipt of an income tax refund in the third quarter of 2012.

Cash flow provided by operating activities for the nine months ended September 30, 2013 was $983 million, compared to $722 million for the same period in 2012. The increase was primarily due to the impact of higher cash receipts from generation revenue, and a higher contribution to the pension fund in the first quarter of 2012. This increase in operating cash flow was partially offset by higher OM&A expenditures in the third quarter of 2013.

Funds from Operations Interest Coverage

Funds from Operations (FFO) Interest Coverage is an indicator of OPG's ability to meet interest obligations from operating cash flows. FFO Interest Coverage is measured over a 12-month period. FFO Interest Coverage was 2.8 times and 2.2 times for the twelve months ended September 30, 2013 and December 31, 2012, respectively. The FFO Interest Coverage increased primarily due to higher cash flows provided by operating activities.

Return on Equity

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

ROE was 1.8 percent for the twelve months ended September 30, 2013 compared to 4.2 percent for the twelve months ended December 31, 2012. ROE decreased for the period primarily due to lower net income and higher average shareholder's equity, excluding accumulated other comprehensive income (AOCI). The lower net income was primarily due to lower earnings from the Regulated – Nuclear Generation segment.

OPG's ROE also reflects low levels of income primarily due to low electricity spot market prices, low payment amounts for the generation from the Regulated – Nuclear Generation segment, and a relatively high equity component in OPG's capital structure.

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

Recent Developments

OPG's OEB Application for New Regulated Prices

In September 2013, OPG filed an application with the OEB for new cost-of-service regulated prices, proposed to be effective January 1, 2014, for production from its currently regulated nuclear and hydroelectric facilities. The requested regulated prices include the impact of the Niagara Tunnel.

The decision on OPG's application will be made by the OEB following a public hearing process, which commenced in the fourth quarter of 2013. New regulated prices resulting from the application are expected to remain in effect until the end of 2015.

In addition, OPG's application seeks new rate riders effective January 1, 2015 to recover balances in certain variance and deferral accounts as at December 31, 2013. OPG expects to request recovery of amounts recorded in other accounts in a future application.

The application also includes proposed regulated prices for production from 48 of OPG's currently unregulated hydroelectric generating facilities, following notice of the proposed amendment to Ontario Regulation 53/05 (Regulation 53/05) posted by the Province for public comment in September 2013. The comment period ended on October 28, 2013. The proposed amendment to the regulation, subject to Province approval, would require the OEB to regulate these hydroelectric generating facilities, which provide 3,110 MW of generating capacity. These facilities represent all of OPG's hydroelectric facilities that are not currently regulated or subject to an energy supply agreement (ESA) with the Ontario Power Authority (OPA). OPG currently receives electricity spot market prices for production from these facilities, the results of which are included in the Unregulated – Hydroelectric segment. OPG's application reflects an assumed effective date of July 1, 2014 for regulated prices for these facilities.

Court of Appeal Decision on OEB Ruling

In June 2013, the Court of Appeal for Ontario granted OPG's appeal of the Divisional Court of Ontario's decision regarding the March 2011 OEB ruling, which disallowed recovery in regulated prices of a portion of OPG's nuclear compensation costs. As a result, the OEB's decision in this area was set aside, and the matter was to be sent back to the OEB for a re-hearing. In the third quarter of 2013, the OEB sought leave to appeal the decision to the Supreme Court of Canada. In October 2013, OPG made a submission on the matter. It is expected that the Supreme Court of Canada will decide whether leave is granted in early 2014.

Minister of Energy Statement on New Nuclear Reactors at Darlington

The Minister of Energy provided a statement in October 2013 that the Ontario government will not include New Nuclear build at Darlington in the upcoming Long-Term Energy Plan (LTEP), but it may be re-considered in the future. OPG's future activities on New Nuclear, if any, will be informed by the details included in the LTEP. The LTEP is expected to be issued by the Province during the fourth quarter of 2013. Life-to-date non-capital expenditures on New Nuclear, as at September 30, 2013, were approximately $180 million. As at September 30, 2013, OPG has recovered $107 million for New Nuclear through payment amounts established by the OEB, and anticipates to recover amounts in the associated regulatory account that have not yet been recovered. No capital expenditures were incurred on New Nuclear.

CORE BUSINESS AND STRATEGY

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

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

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

Performance Excellence

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

Nuclear Generating Assets

In 2012, OPG applied to the Canadian Nuclear Safety Commission (CNSC) for a five-year operating licence, which combines the Pickering A and B generating stations' licences into a single-site licence. Following the CNSC public hearings on OPG's application, the CNSC approved the five-year single-site licence in August 2013. This represents the good progress OPG has made on inspection and maintenance activities that support the intention to operate the Pickering Units 5 to 8 to 2020. OPG has made investments to continue to improve Pickering's performance through to 2020. These investments will help to provide a reliable electricity supply for Ontario while the Darlington reactors are being refurbished. OPG is seeing positive results of that work, including engineering and research assessments that support the safe and reliable operation of the units for a longer operating period

As part of the five-year single-site licence, a regulatory hold point has been added related to fuel channels and the original end-of-life dates for Pickering Units 5 to 8. To satisfy the requirements for removal of the hold point, OPG must conduct further safety assessments to demonstrate that Pickering GS can continue to operate within safety limit margins, incorporating Fukushima lessons learned for beyond design basis events, and conduct a risk assessment to demonstrate that the station can operate to 247,000 equivalent full power hours. The results of these assessments will be provided in a future proceeding with public participation, as required by the CNSC. The CNSC, in its record of decision, also directs OPG to produce an emergency management public information document for area residents by June 2014. OPG is progressing on the completion of these items.

In August 2013, the CNSC presented its Staff Integrated Safety Assessment of Canadian Nuclear Power Plants for 2012. Both the Pickering GS and the Darlington GS received positive safety ratings from the CNSC staff, with the Darlington GS achieving the highest possible safety rating.

During the third quarter of 2013, generation and reliability at the nuclear stations were primarily affected by an increase in unplanned outage days at the Pickering GS, which is discussed under the headings *Electricity Generation* and *Regulated – Nuclear Generation Segment.*

Hydroelectric Generating Assets

With the consideration of current and future electricity market conditions, OPG continues to evaluate and implement plans to increase capacity and maintain the hydroelectric generating assets. During the third quarter of 2013, OPG completed major equipment overhauls and rehabilitation work at several stations, including major refurbishment at Unit 3 of Sir Adam Beck 1 GS. The refurbishment increased the unit's capacity from 46 MW to 55 MW. In addition, an initiative to replace control and monitoring systems for 26 stations was completed during the third quarter of 2013.

Thermal Generating Assets

OPG is continuing activities related to placing the units at the Nanticoke GS and the Lambton GS in reserve status by the end of 2013, and preserving the option to convert these units to natural gas and/or biomass in the future, should they be required.

As a result of the Shareholder declaration issued in March 2013, mandating that OPG cease the use of coal at the Nanticoke GS and the Lambton GS by the end of 2013, existing coal inventory at the Lambton GS has been utilized as of September 30, 2013. The Nanticoke GS coal inventory is expected to be utilized by the end of the year. The Lambton GS is currently on an Independent Electricity System Operator (IESO) approved outage. The station is still available for service, if required, up until December 31, 2013. Both the Nanticoke GS and the Lambton GS will be taken out of service from the IESO-controlled grid by the end of 2013.

In 2009, OPG entered into a Contingency Support Agreement with the Ontario Electricity Financial Corporation (OEFC) to ensure that these generating stations receive sufficient revenue to recover their actual direct costs, and to provide reimbursement of capital expenditures through the recapture of depreciation up to December 31, 2014. As a result of the Shareholder declaration issued in March 2013, OPG and the OEFC executed an amendment to the Contingency Support Agreement to allow for early termination and for OPG to recover costs that cannot reasonably be avoided or mitigated during the period from the advanced shutdown date to the end of 2014. On November 1, 2013, the OEFC triggered the amendment allowing OPG to recover these costs during 2014.

Environmental Performance

During the third quarter of 2013, there were no significant changes to environmental legislation and environmental risks affecting the Company. For the nine months ended September 30, 2013, CO_2 and acid gas (SO_2 and NO_x) emissions from OPG's coal-fired stations were as follows:

	Nine Months Ended September 30	
	2013	**2012**
CO_2 *(million tonnes)*	**2.9**	3.4
SO_2 and NO_x *(gigagrams)*	**11.8**	12.5

CO_2 and acid gas emissions decreased during the first nine months of 2013, compared to the same period in 2012, as a result of lower generation from OPG's coal-fired stations. Disclosures relating to environmental policies and procedures, and environmental risks are provided in the 2012 annual MD&A.

In June 2013, the Minister of Energy issued a Feed-in-Tariff Program Directive to the OPA regarding the Province's renewable energy program. Under this directive, OPG is permitted to compete in the procurement process for large renewable energy initiatives.

Safety

In the third quarter of 2013, OPG completed the development work on a common and integrated health and safety management system, and consistent operational risk control procedures. The new system is expected to be implemented by the end of the first quarter in 2014. This initiative will leverage best practices across OPG, streamline safety governance, and standardize safety requirements across the corporation in alignment with OPG's business transformation objectives.

Project Excellence

OPG is pursuing a number of projects, including several significant generation development projects. The status updates for OPG's major projects as of September 30, 2013 are outlined below.

Project *(millions of dollars)*	**Capital expenditures Year-to-date**	**Capital expenditures Life-to-date**	**Approved budget**	**Planned in-service date**	**Status**
Darlington Refurbishment	306	668			This project is part of the 2010 Ontario LTEP. A detailed cost and schedule estimate for the refurbishment of the four units is expected to be completed by the fourth quarter of 2015. See update below.
Niagara Tunnel	79	1,454	1,600	December 2013	Completed and declared in-service in March 2013 below the approved budget and ahead of the approved project completion date.
Lower Mattagami	491	1,844	2,600	June 2015	Construction continues. Project is on budget and on schedule. See update below.
Deep Geologic Repository for Low and Intermediate Level Waste [1]	14 [1]	160 [1]			The public hearing for the Environmental Assessment and a site preparation and construction licence was conducted during September and October of 2013 in Kincardine and Port Elgin, Ontario. OPG made a number of presentations to the Joint Review Panel at the public hearing and responded to a number of inquiries coming from the panel members including questions arising from the public's participation. Design activities are suspended pending a decision from the Joint Review Panel on the construction licence.
Atikokan Biomass Conversion	68	127	170	August 2014	Construction continues. Project is on budget and on schedule. See update below.

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

Darlington Refurbishment

The Darlington Refurbishment project is currently in the definition phase. The Global Assessment Report and Integrated Implementation Plan, which present the significant Environmental Assessment and Integrated Safety Review results are on track to be submitted to the CNSC in the fourth quarter of 2013.

Engineering is an integral part of the definition phase of the project. The preliminary and detailed engineering work to be completed within each of the major contracts is specified in approximately 190 Modification Definition Packages (MDPs), of which approximately 150 were completed as at September 30, 2013. The remaining MDPs are on track to be completed by August 2014. The completion of these MDPs establishes the basis for the completion of detailed engineering. This forms a key input to preparation of the release quality estimate by the fourth quarter of 2015, which will include detailed scope, cost, and schedule estimates for the execution phase of the Darlington Refurbishment project.

During the third quarter of 2013, OPG completed the identification of all long-lead materials required for the turbine generator work. OPG expects that the remaining major contracts, including the steam generator cleaning contract and the turbine generator engineering and execution contract will be awarded by the first quarter of 2014.

OPG is progressing with the design and construction of facilities and infrastructure projects required at the Darlington site for the refurbishment continued operation of the station. This includes the construction of water and sewer upgrades, site electrical system modifications, project and contractor facilities, as well as the addition of heavy water storage capacity. All prerequisite facility and infrastructure projects are expected to be completed prior to the start of the first unit's refurbishment in the fourth quarter of 2016.

Construction of the Darlington reactor full-scale mock-up facility within the Darlington Energy Complex commenced in May 2013. Significant progress has been made in the installation of structural steel and the fabrication of fuel channel components. The mock-up facility is planned to be completed by the second quarter of 2014, to allow tool testing and training to commence. Retube and feeder replacement tooling design and fabrication is progressing in parallel with mock-up facility construction, and remains on track for completion in 2015.

New Nuclear

The Minister of Energy provided a statement in October 2013 that the Ontario government will not include New Nuclear build at Darlington in the upcoming LTEP, but it may be re-considered in the future. OPG's future activities related to New Nuclear, if any, will be informed by the details included in the upcoming LTEP. Pending the details of the upcoming LTEP, OPG only continues to undertake minimum activities required to support project approvals and existing licences. In 2012, the Power Reactor Site Preparation Licence and Darlington New Nuclear Project Environmental Assessment were challenged by way of judicial review. A two-day hearing for the judicial review of the licence and the environmental assessment is being conducted commencing November 12, 2013. The decision on the judicial review is expected in early 2014.

Lower Mattagami

The Lower Mattagami River project is expected to be completed on schedule by June 2015 within the approved budget of $2.6 billion. The incremental unit at the Little Long GS is expected to be declared in-service ahead of schedule during the fourth quarter of 2013. As incremental units are placed in-service, the Amisk-oo-Skow Finance Corporation, a corporation wholly owned by the Moose Cree First Nation, is expected to obtain a 25 percent interest in the assets through its investment in the Lower Mattagami Limited Partnership.

Atikokan Biomass Conversion

The Atikokan Biomass Conversion project is expected to be completed on schedule by August 2014 within the approved budget of $170 million. As of September 30, 2013, construction of two storage silos was completed. In addition, all 15 redesigned burners were installed and commissioning of the combustion systems has begun.

Financial Sustainability

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

- Enhance profitability by increasing revenue.
- Improve efficiency and reduce costs.
- Ensure a strong financial position that improves OPG's ability to cost effectively finance its operations and projects.

Revenue Growth

OPG's revenue strategy focuses on revenue growth, while taking into account the impact on Ontario electricity ratepayers. Currently, OPG has multiple sources of revenue, including:

- Regulated revenue from nuclear and most baseload hydroelectric generating facilities (Prescribed Facilities);
- Unregulated revenue based on electricity spot market prices for production from certain unregulated hydroelectric facilities;
- Contract revenue from energy supply and cost recovery agreements for the remaining unregulated facilities; and
- Non-generation revenues.

Current regulated prices do not fully recover the costs of regulated operations, and do not provide an appropriate return, thereby negatively affecting OPG's financial performance. OPG has made substantial investments in new generating capacity over the last decade, and significantly transformed its operations in the last few years to achieve higher efficiency. In order to generate an acceptable return on its assets and future investments, maintain its credit rating, and continue to contribute positively to the Province's financial position, an increase in regulated prices will be required. OPG's average revenue per unit of generation is expected to remain significantly below the average revenue received by its competitors.

In the first quarter of 2013, the OEB approved a settlement agreement that allows OPG to recover $633 million over the 2013/2014 period related to balances in variance and deferral accounts as at December 31, 2012. The remaining balances in the variance and deferral accounts as at December 31, 2012 are expected to be recovered over a number of years. The additional revenue from the settlement agreement reflects the collection of balances related to prior periods.

The OEB issued an order establishing the following new rate riders over the period from March 1, 2013 to December 31, 2014.

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

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

OPG also filed an application with the OEB in September 2013, as discussed under the heading, *Recent Developments.* This application seeks new regulated prices for OPG's nuclear and hydroelectric facilities to allow them to recover their costs and earn an appropriate rate of return as allowed by the OEB.

A portion of OPG's electricity production is unregulated and sold at the Ontario electricity spot market price. Despite an increase in the average spot market price during the first nine months of 2013, compared to the same period in 2012, unregulated revenues remain insufficient to fully recover costs and provide an appropriate return. OPG has negotiated energy supply and cost recovery agreements for certain of its unregulated hydroelectric and thermal assets.

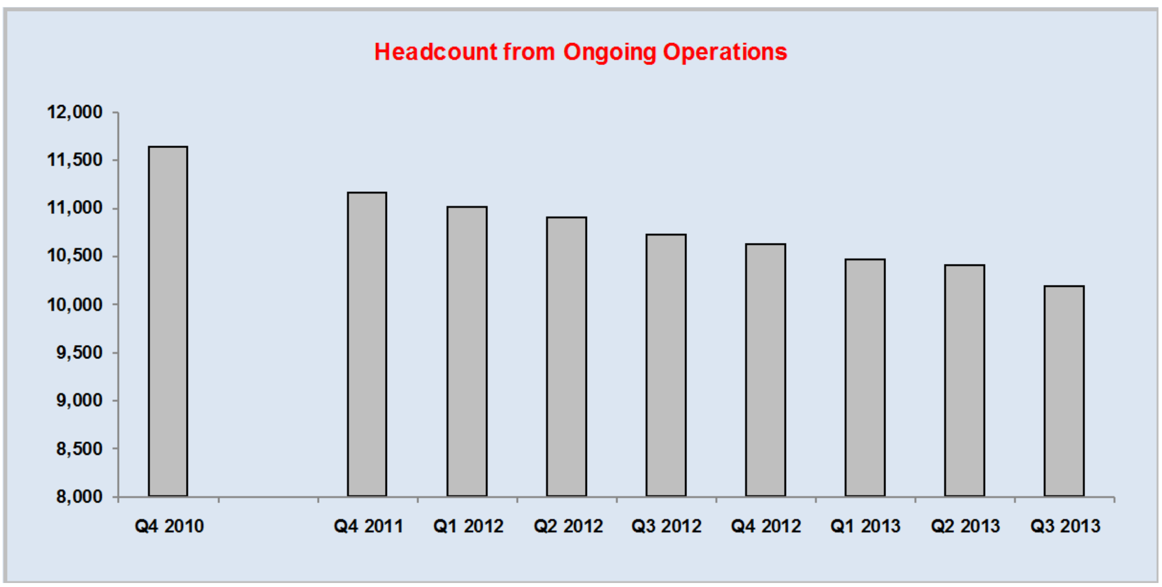
During the third quarter of 2013, notice of a proposed amendment to Regulation 53/05 was issued for comment. The proposed amendment, subject to Province approval, would require OPG's currently unregulated hydroelectric generating stations that are not under an ESA contract with the OPA to be regulated by the OEB. The comment period for the proposed amendment closed on October 28, 2013.

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

Improving Efficiency and Reducing Costs

OPG is aggressively pursuing opportunities to implement efficiency and productivity improvements, while reducing costs. To accomplish this objective, OPG launched a multi-year business transformation initiative to streamline the company and implement a sustainable cost structure. This will support OPG's ability to continue moderating consumer electricity prices, and attract new generation development opportunities in alignment with Ontario's LTEP.

Headcount from ongoing operations continues to decrease primarily through attrition and vacancy management. Business transformation initiatives continued to progress during the third quarter of 2013. OPG's non-surplus staff redeployment processes continue with both the Power Workers' Union and the Society of Energy Professionals, to move to the centre-led business model implemented under business transformation.



Strengthening Financial Position

OPG's initiatives to increase revenue, achieve efficiencies, and reduce costs will serve to strengthen its financial position. To operate on a financially sustainable basis and maintain the value of its assets for its Shareholder, OPG strives to strengthen its financial position by: maintaining an investment grade credit rating; ensuring economic and prudent allocation of capital; ensuring sufficient liquidity; ensuring all major generation development projects are economic; and providing for recovery of costs and an appropriate return on investment.

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

Regulated – Nuclear Generation Segment

(millions of dollars)	Three Months Ended September 30 2013	2012	Nine Months Ended September 30 2013	2012
Regulated generation sales	**659**	711	**1,941**	2,051
Variance accounts	**23**	(7)	**31**	43
Other	**68**	96	**214**	199
Total revenue	**750**	800	**2,186**	2,293
Fuel expense	**79**	81	**224**	233
Variance and deferral accounts	**(17)**	(13)	**(43)**	(37)
Total fuel expense	**62**	68	**181**	196
Gross margin	**688**	732	**2,005**	2,097
Operations, maintenance and administration	**500**	438	**1,490**	1,386
Depreciation and amortization	**159**	120	**470**	358
Property and capital taxes	**6**	8	**21**	21
Income before other income, interest and income taxes	**23**	166	**24**	332
Other income	**-**	(1)	**(1)**	(1)
Income before interest and income taxes	**23**	167	**25**	333

Income before interest and income taxes was $23 million during the three months ended September 30, 2013, compared to $167 million for the same quarter in 2012. This decrease was primarily due to higher OM&A expenses and lower gross margin primarily due to lower generation.

Gross margin for the third quarter of 2013, compared to the same quarter in 2012, decreased primarily due to lower generation of 1.3 TWh, which resulted in a $67 million reduction to gross margin. This decrease in gross margin was partially offset by an increase in revenue of $22 million, resulting from the new rate riders for nuclear generation, effective January 1, 2013. The rate riders were established to collect amounts previously recorded in variance and deferral accounts. The collection of these amounts does not materially affect income, as it is largely offset by higher amortization expense related to the regulatory variance and deferral accounts. The rate riders also include a refund to ratepayers for the impact of the lower depreciation expense related to the changes in the station lives of the Pickering GS.

The $62 million increase in OM&A expenses during the third quarter of 2013, compared to the same quarter in 2012, was primarily due to a second planned outage at the Darlington GS in 2013, and increased maintenance activities at the Darlington GS and the Pickering GS. Pension and OPEB costs increased in the third quarter of 2013 due to lower discount rates. However, this increase was largely offset by amounts recorded in the Pension and OPEB Cost Variance Account.

Depreciation and amortization expenses increased by $39 million during the third quarter of 2013, compared to the same quarter in 2012, primarily due to the increase from the amortization of regulatory variance and deferral accounts related to the establishment of the new rate riders, effective January 1, 2013. The amortization impact of the regulatory balances was largely offset by a corresponding increase in the revenue related to the new rate riders, as discussed above. The increase in depreciation and amortization expenses was partially offset by lower depreciation expense resulting from the change in station lives at the Pickering GS, net of the impact of the Nuclear Liability Deferral Account. The benefit of the Pickering GS decrease in depreciation expense is being refunded to ratepayers through the new rate rider for nuclear.

The decrease in other revenue was primarily due to the increase in the fair value of the derivative liability, during the third quarter of 2013, embedded in the terms of the Bruce Power lease agreement. The change in the fair value of this derivative is recorded in other revenue, with a corresponding change in the regulatory asset related to the Bruce Lease Net Revenues Variance Account. As such, there was no income impact related to the change in the fair value of the derivative liability.

Income before interest and income taxes during the nine months ended September 30, 2013 decreased by $308 million primarily due to lower generation and an increase in OM&A expenses.

The increase in OM&A expenses during the nine months ended September 30, 2013, compared to same period in 2012, was primarily due to a second planned outage at the Darlington GS in the fall of 2013, and lower OPEB expenses during 2012 resulting from the recognition of a regulatory asset for the US GAAP Deferral Account.

The unit capability factors for the Darlington GS and the Pickering GS, and the Production Unit Energy Cost (PUEC) for the three and nine month periods ended September 30, 2013 and 2012 are as follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2013	**2012**	**2013**	**2012**
Unit Capability Factor *(%)*				
Darlington GS	**87.1**	92.4	**85.7**	91.2
Pickering GS	**75.7**	90.1	**73.5**	82.1
Nuclear PUEC *($/MWh)*	**47.50**	38.27	**48.18**	41.59

The unit capability factor at the Darlington GS for the three months ended September 30, 2013 decreased compared to the same period in 2012 as a result of an increase in planned outage days. The increase is largely a result of a second planned outage in the fall of 2013, in accordance with the 3-year outage schedule for the units at the Darlington GS. The unit capability factor at the Pickering GS for the three months ended September 30, 2013 decreased, compared to the same period in 2012. The decrease was primarily due to an increase in unplanned outage days.

The decrease in the unit capability factors at the Pickering GS and the Darlington GS for the nine months ended September 30, 2013, compared to the same period in 2012, was primarily a result of extensions to planned outages during the first half of the year.

Nuclear PUEC increased during the three months ended September 30, 2013 compared to the same period in 2012, primarily due to an increase in OM&A expenses and lower generation. Nuclear PUEC increased during the nine months ended September 30, 2013, compared to the same period in 2012, primarily due to lower generation and an increase in OM&A expenses.

Regulated – Nuclear Waste Management Segment

	Three Months Ended September 30		**Nine Months Ended September 30**	
(millions of dollars)	**2013**	**2012**	**2013**	**2012**
Revenue	**31**	27	**84**	77
Operations, maintenance and administration	**33**	29	**90**	83
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	**185**	178	**556**	534
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(165)**	(161)	**(462)**	(481)
Loss before interest and income taxes	**(22)**	(19)	**(100)**	(59)

The loss before interest and income taxes increased for the three months ended September 30, 2013, compared to the same period in 2012, primarily as a result of higher accretion expense. The loss was partially offset by an increase in earnings from the Nuclear Funds. The increase in Nuclear Fund earnings was due to higher Used Fuel Segregated Fund (Used Fuel Fund) earnings as a result of an increase in the Ontario consumer price index, which affects the committed return on the fund related to the first 2.23 million fuel bundles. The increased earnings in the Used Fuel Fund were partially offset by lower earnings from the Decommissioning Fund. The reduced earnings for the Decommissioning Fund resulted from it being in an overfunded position. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes by recording a payable to the Province.

The loss before interest and income taxes increased for the nine months ended September 30, 2013, compared to the same period in 2012, due to higher accretion expense and lower earnings from the Decommissioning Fund as a result of its overfunded status. The impact of these factors was partially offset by higher earnings from the Used Fuel Fund.

Regulated – Hydroelectric Segment

	Three Months Ended September 30		**Nine Months Ended September 30**	
(millions of dollars)	**2013**	**2012**	**2013**	**2012**
Regulated generation sales[1]	**194**	155	**557**	491
Variance accounts	**6**	22	**38**	40
Other	**10**	7	**32**	19
Total revenue	**210**	184	**627**	550
Fuel expense	**71**	62	**182**	181
Variance accounts	**2**	8	**12**	11
Total fuel expense	**73**	70	**194**	192
Gross margin	**137**	114	**433**	358
Operations, maintenance and administration	**27**	27	**77**	72
Depreciation and amortization	**30**	8	**94**	25
Property and capital taxes	**1**	1	**2**	-
Income before other loss, interest and income taxes	**79**	78	**260**	261
Other loss	**-**	4	**-**	4
Income before interest and income taxes	**79**	74	**260**	257

[1] During the three months ended September 30, 2013 and 2012, the Regulated – Hydroelectric segment generation sales included revenue of $6 million and $4 million, respectively, related to the hydroelectric incentive mechanism. During the nine months ended September 30, 2013 and 2012, the Regulated – Hydroelectric segment generation sales included revenue of $13 million and $11 million, respectively, related to the hydroelectric incentive mechanism.

The income before interest and income taxes for the three and nine month periods ended September 30, 2013 was slightly higher, compared to the income for the same periods in 2012.

The increase in gross margin for the three and nine month periods ended September 30, 2013, compared to the same periods in 2012, was primarily due to an increase in revenue of $23 million and $66 million, respectively, as a result of the new rate riders, effective January 1, 2013. The revenue impact of the new rate riders was largely offset by a corresponding increase in amortization expense related to the regulatory variance and deferral accounts. The higher depreciation expense associated with the Niagara Tunnel being declared in-service in March 2013 was offset by a regulatory asset related to the Capacity Refurbishment Variance Account.

The increase in OM&A expenses during the first nine months of 2013, compared to the same period in 2012, was mainly a result of an increase in maintenance activities. The increase in OM&A expenses was also due to a decrease in OPEB expenses during the first quarter of 2012, due to the recognition of a regulatory asset for the US GAAP Deferral Account.

The Regulated – Hydroelectric availability, Equivalent Forced Outage Rate (EFOR) and OM&A expense per megawatt hour (MWh) for the three and nine month periods ended September 30, 2013 and 2012 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	**2012**	**2013**	**2012**
Availability *(%)*	**91.0**	92.8	**90.7**	91.7
EFOR *(%)*	**0.9**	2.4	**0.5**	2.3
Regulated – Hydroelectric OM&A expense per MWh *($/MWh)*	**5.51**	6.14	**5.46**	5.11

The decrease in availability for the three months ended September 30, 2013, compared to the same period in 2012, was primarily due to an increase in planned outage days at the DeCew Falls GS. The decrease in availability for the nine months ended September 30, 2013, compared to the same period in 2012, was primarily due to an increase in planned outage days at the Sir Adam Beck 1 GS and the DeCew Falls GS. The high availability and low EFOR for the three and nine month periods ended September 30, 2013 reflected the continued good performance of these regulated generating stations.

The decrease in OM&A expense per MWh for the third quarter of 2013, compared to the same quarter in 2012, was primarily due to higher generation. The increase in OM&A expense per MWh during the nine months ended September 30, 2013, compared to the same period in 2012, was a result of higher OM&A expenses.

Unregulated – Hydroelectric Segment

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars)	**2013**	**2012**	**2013**	**2012**
Spot market sales	**78**	60	**294**	205
Other	**21**	22	**67**	64
Total revenue	**99**	82	**361**	269
Fuel expense	**18**	11	**59**	47
Gross margin	**81**	71	**302**	222
Operations, maintenance and administration	**61**	57	**174**	175
Depreciation and amortization	**18**	17	**55**	55
Property and capital taxes	**-**	(1)	**-**	(1)
Income (loss) before other loss, interest and income taxes	**2**	(2)	**73**	(7)
Other loss	**1**	4	**3**	4
Income (loss) before interest and income taxes	**1**	(6)	**70**	(11)

Earnings before interest and income taxes increased for the three months ended September 30, 2013, compared to the same period in 2012, primarily due to higher generation resulting from higher water levels. The increase was partially offset by higher OM&A expenses, primarily related to an increase in maintenance activities.

During the nine months ended September 30, 2013, the increase in earnings before interest and income taxes was primarily due to a higher weighted average HOEP, compared to the same period in 2012. Gross margin also increased as a result of higher generation during the nine months ended September 30, 2013, compared to the same period in 2013.

For the three and nine month periods ended September 30, 2013 and 2012, prices received for generation from the unregulated hydroelectric stations remained at low levels, due to the low HOEP.

The Unregulated – Hydroelectric availability, EFOR and OM&A expense per MWh for the three and nine month periods ended September 30, 2013 and 2012 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	**2012**	**2013**	**2012**
Availability *(%)*	**88.8**	87.4	**92.0**	91.1
EFOR *(%)*	**3.8**	3.1	**2.3**	2.4
Unregulated – Hydroelectric OM&A expense per MWh *($/MWh)*	**23.46**	29.00	**16.89**	19.44

The increase in EFOR during the third quarter of 2013, compared to the same quarter in 2012, was primarily due to additional unplanned outage days at the Aguasabon GS to repair the turbine runner, and at the Caribou GS to repair a damaged headcover. EFOR for the nine months ended September 30, 2013 remained comparable to the same period in 2012.

The increase in availability for the three and nine month periods ended September 30, 2013, compared to the same periods in 2012, was primarily due to a decrease in planned outage days. The high availability for the three and nine month periods ended September 30, 2013 reflected the continued strong performance of the unregulated hydroelectric stations.

The decrease in OM&A expense per MWh during the three and nine month periods ended September 30, 2013, compared to the same periods in 2012, was primarily due to the impact of higher generation.

Unregulated – Thermal Segment

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars)	**2013**	**2012**	**2013**	**2012**
Spot market sales	**34**	49	**76**	83
Contingency support agreement	**80**	54	**269**	205
Other	**59**	31	**121**	92
Total revenue	**173**	134	**466**	380
Fuel expense	**33**	50	**107**	121
Gross margin	**140**	84	**359**	259
Operations, maintenance and administration	**91**	82	**272**	269
Depreciation and amortization	**31**	15	**94**	43
Accretion on fixed asset removal liabilities	**3**	3	**11**	10
Property and capital taxes	**4**	2	**11**	12
Restructuring	**46**	1	**48**	3
Loss before other income, interest and income taxes	**(35)**	(19)	**(77)**	(78)
Other income	**-**	-	**(2)**	-
Loss before interest and income taxes	**(35)**	(19)	**(75)**	(78)

The increase in the loss before interest and income taxes for the third quarter of 2013, compared to the same quarter in 2012, was largely due to the recognition of severance costs of $46 million. The severance costs relate primarily to the Lambton GS and the Nanticoke GS, as a result of the Shareholder declaration mandating that OPG cease the use of coal at these stations by December 31, 2013. The increase in loss was partially offset by higher contract revenue from the Thunder Bay GS, Lambton GS and Nanticoke GS, and Lennox GS.

OM&A expenses increased during the third quarter of 2013 compared to the same period in 2012, primarily due to the installation of an auxiliary boiler at the Nanticoke GS, and other costs incurred to preserve the station for possible future conversion, if required.

The slight decrease in the loss before interest and income taxes for the nine months ended September 30, 2013, compared to the same period in 2012, was primarily due to higher contract revenue, partially offset by the recognition of severance costs of $48 million.

The increase in depreciation and amortization expenses of $16 million and $51 million for the three and nine month periods ended September 30, 2013, compared to the same periods in 2012, was primarily due to the recognition of accelerated depreciation during 2013, as a result of the expected shutdown of all remaining units at the Lambton and Nanticoke generating stations by the end of 2013. The increase in depreciation and amortization expense for the Lambton and Nanticoke generating stations is offset by higher payments under the Contingency Support Agreement.

The Unregulated – Thermal Start Guarantee rate, EFOR, and OM&A expense per MW for the three and nine month periods ended September 30, 2013 and 2012 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	**2012**	**2013**	**2012**
Start Guarantee rate *(%)*	**99.1**	98.3	**98.3**	97.8
EFOR *(%)*	**5.7**	9.0	**8.7**	7.3
Unregulated – Thermal OM&A expense per MW *($000/MW)*	**66.80**	60.20	**66.60**	65.80

OPG continues its strategy to cease the use of coal at the Nanticoke GS and the Lambton GS by December 31, 2013 as mandated by the Ministry of Energy's declaration issued in March 2013. The increase in EFOR for the nine months ended September 30, 2013, compared to the same period in 2012, is a reflection of this strategy. The improvement in EFOR for the third quarter of 2013, compared to the same quarter in 2012, is a result of an unexpected performance improvement at the Nanticoke GS, given OPG's strategy to cease operations by the end of the year.

The high Start Guarantee rate for the three and nine month periods ended September 30, 2013 and 2012 reflected the ability of the thermal generating stations to respond to market requirements when needed.

The increase in OM&A expense per MW during the third quarter of 2013, compared to the same quarter in 2012, was primarily due to higher OM&A expenses related to placing the assets at the Lambton GS and the Nanticoke GS in reserve status.

Other

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars)	**2013**	**2012**	**2013**	**2012**
Revenue	**11**	12	**46**	43
Operations, maintenance and administration	**2**	3	**5**	4
Depreciation and amortization	**5**	4	**14**	14
Property and capital taxes	**3**	3	**9**	8
Income before other income, interest and income taxes	**1**	2	**18**	17
Other income	**(10)**	(12)	**(31)**	(17)
Income before interest and income taxes	**11**	14	**49**	34

Income before interest and income taxes in the Other category decreased for the three months ended September 30, 2013, compared to the same quarter in 2012. The decrease was primarily due to lower earnings from OPG's investments in joint ventures. Income before interest and income taxes in the Other category increased for the nine months ended September 30, 2013, compared to the same period in 2012. The increase was primarily due to higher earnings from OPG's investments in joint ventures during the first half of 2013 compared to the same period in 2012.

Interconnected purchases and sales, including those to be physically settled, and unrealized mark-to-market gains and losses on energy trading contracts, are disclosed on a net basis in the consolidated statements of income. For the three months ended September 30, 2013, if disclosed on a gross basis, revenue and power purchases would have increased by $7 million (three months ended September 30, 2012 – $17 million). For the nine months ended September 30, 2013, if disclosed on a gross basis, revenue and power purchases would have increased by $34 million (nine months ended September 30, 2012 – $43 million).

Income Taxes

Income tax expense for the three months ended September 30, 2013 was $9 million, compared to $46 million, for the same period in 2012. Income tax expense for the nine months ended September 30, 2013 was $35 million compared to $51 million for the same period in 2012. The decrease in income tax expense for the three and nine month periods ended September 30, 2013, was primarily due to a reduction in income.

LIQUIDITY AND CAPITAL RESOURCES

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

Changes in cash and cash equivalents for the three and nine month periods ended September 30, 2013 and 2012 are as follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
(millions of dollars)	**2013**	**2012**	**2013**	**2012**
Cash and cash equivalents, beginning of period	**699**	353	**413**	630
Cash flow provided by operating activities	**391**	510	**983**	722
Cash flow used in investing activities	**(379)**	(353)	**(1,168)**	(988)
Cash flow provided by financing activities	**40**	81	**523**	227
Net increase (decrease)	**52**	238	**338**	(39)
Cash and cash equivalents, end of period	**751**	591	**751**	591

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

Investing Activities

Cash flow used in investing activities during the three months ended September 30, 2013 increased by $26 million, compared to the same quarter in 2012. The increase for the three months ended September 30, 2013 was primarily due to higher expenditures for the Darlington Refurbishment project and the Atikokan Biomass Conversion project, partially offset by lower expenditures with the completion of the Niagara Tunnel project. Cash flow used in investing activities during the nine months ended September 30, 2012 increased by $180 million, compared to the same period in 2012. The increase for the nine months ended September 30, 2013 was primarily due to higher expenditures for the Darlington Refurbishment, Lower Mattagami River, and Atikokan Biomass Conversion projects, partially offset by lower expenditures for the Niagara Tunnel project.

OPG's forecast capital expenditures for 2013 are approximately $1.6 billion, which includes amounts for hydroelectric development and nuclear refurbishment.

Financing Activities

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two $500 million multi-year term tranches. During the second quarter of 2013, OPG renewed and extended both tranches by one year, to May 2018. As at September 30, 2013, there were no outstanding borrowings under the bank credit facility.

As at September 30, 2013, OPG maintained $25 million of short-term, uncommitted overdraft facilities, and $390 million of short-term uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans, and for other general corporate purposes. As at September 30, 2013, a total of $349 million of Letters of Credit had been issued, including $324 million for the supplementary pension plans, $24 million for general corporate purposes, and $1 million related to the operation of the PEC.

The Company has an agreement, which expires November 30, 2014, to sell an undivided co-ownership interest of up to $250 million in its current and future accounts receivable to an independent trust. As at September 30, 2013, of the $324 million of Letters of Credit issued for the supplementary pension plans, $55 million were issued under this agreement.

OPG also maintains a Niagara Tunnel project credit facility with the OEFC for an amount up to $1.6 billion. As at September 30, 2013, advances under this facility were $1,065 million, including new borrowings of $40 million during the first half of 2013.

The Lower Mattagami Energy Limited Partnership (LME) maintains a $600 million bank credit facility to support the funding requirements for the Lower Mattagami River project. The facility consists of two tranches. The first tranche of $400 million was reduced to $300 million during the third quarter of 2013, and the maturity date was extended by one year, to August 17, 2018. The second tranche of $300 million has a maturity date of August 17, 2015. As at September 30, 2013, $10 million of commercial paper was outstanding under this program. In 2011, OPG executed a $700 million credit facility with the OEFC in support of the Lower Mattagami River project. As at September 30, 2013, there were no outstanding borrowings under this credit facility. In February 2013, the LME issued senior notes totalling $275 million with a maturity date of 2046. The effective interest rate for these notes was 4.3 percent and the coupon interest rate was 4.2 percent. In September 2013, the LME issued senior notes totalling $200 million with a maturity date of 2043. The effective interest rate for these notes was 5.1 percent and the coupon interest rate was 4.9 percent.

As at September 30, 2013, OPG's long-term debt outstanding was $5,627 million, including $5 million due within one year.

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

BALANCE SHEET HIGHLIGHTS

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

(millions of dollars)	As At September 30 2013	As At December 31 2012
Property, plant and equipment - net	**16,510**	15,860
The increase was primarily due to additions related to the Lower Mattagami River project and the refurbishment of the Darlington GS. The increase was partially offset by depreciation expense.		
Nuclear fixed asset removal and nuclear waste management funds *(current and non-current portions)*	**13,279**	12,717
The increase was primarily due to earnings on the Nuclear Funds, and contributions to the Used Fuel Fund, partially offset by reimbursements of expenditures on nuclear fixed asset removal and nuclear waste management.		
Fixed asset removal and nuclear waste management liabilities	**16,077**	15,522
The increase was primarily a result of accretion expense due to the passage of time, partially offset by expenditures on nuclear fixed asset removal and waste management activities.		

Off-Balance Sheet Arrangements

In the normal course of operations, OPG engages in a variety of transactions that, under US GAAP, are either not recorded in the Company's interim consolidated financial statements or are recorded in the Company's interim consolidated financial statements using amounts that differ from the full contract amounts. Principal off-balance sheet activities that OPG undertakes include guarantees, which provide financial or performance assurance to third-parties on behalf of certain subsidiaries, and long-term fixed price contracts.

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

OPG's significant accounting policies are outlined in Note 3 to the audited 2012 annual consolidated financial statements as at and for the year ended December 31, 2012. A discussion of recent accounting pronouncements is included in OPG's interim consolidated financial statements for the third quarter of 2013 under the heading *Changes in Accounting Policies and Estimates.* Disclosure regarding OPG's critical accounting policies is included in OPG's 2012 annual MD&A.

International Financial Reporting Standards (IFRS)

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

RISK MANAGEMENT

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

Operational Risks

Risks Associated with Major Development Projects

The risks associated with the cost, schedule, and technical aspects of the major development projects could adversely impact OPG's financial performance and its corporate reputation.

Darlington Refurbishment

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

Risks Associated with Existing Generation Operations

OPG is exposed to uncertain output from its existing generating stations that could adversely impact its financial performance.

Pickering Continued Operations

In August 2013, the CNSC extended the operating license of Pickering GS to August 31, 2018, subject to OPG meeting several conditions. These conditions include conducting further safety assessments to demonstrate that Pickering GS can continue to operate within safety limit margins, incorporating Fukushima lessons learned for beyond design basis events, and conducting a risk assessment to demonstrate that the station can operate to 247,000 equivalent full power hours. Inability to meet these conditions in a timely manner could have an impact on the operating strategy for continued operation of Pickering GS. The regulatory hold point, if not addressed by the spring of 2014, may require one unit to be shutdown. The remaining units will not be affected. This risk is being mitigated by completing the required actions on schedule and with senior level oversight.

Financial Risks

Commodity Markets

Changes in the market price of electricity or of the fuels used to produce electricity can adversely impact OPG's earnings and cash flow from operations.

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

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

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

	2013 [4]	**2014**	**2015**
Estimated generation output hedged [1]	82%	82%	84%
Estimated fuel requirements hedged [2]	78%	69%	56%
Estimated nitric oxide emission requirement hedged [3]	100%	100%	100%
Estimated SO_2 emission requirement hedged [3]	100%	100%	100%

[1] Represents the portion of MWh of expected future generation production which is currently subject to regulated prices established by the OEB, agreements with the IESO, OEFC and OPA, or other electricity contracts which are used as hedges.

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

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

[4] Includes forecast for the remainder of the year.

Foreign Exchange and Interest Rate Markets

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

OPG's financial results are exposed to volatility in the Canadian/US foreign exchange rate, as certain procurement transactions are in US dollars. The market price of electricity in Ontario is influenced by the exchange rate due to the interaction between the Ontario and neighbouring US interconnected electricity markets. The Ontario electricity spot market is also influenced by US dollar denominated commodity prices, such as for natural gas and coal which are used in electricity generation. To manage this risk, OPG employs various financial instruments such as derivative contracts, in accordance with approved risk management policies. As at September 30, 2013, OPG had total foreign exchange contracts outstanding with a notional value of US $66 million.

The majority of OPG's existing debt is at fixed interest rates. Interest rate risk arises with the need to refinance existing debt and/or undertake new financing. The management of these risks is undertaken by using derivatives to hedge the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated new financing. As at September 30, 2013, OPG had interest rate swap contracts outstanding for hedging interest rate risk with a notional principal of $100 million.

Trading

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

OPG's trading operations are closely monitored, and total exposures are measured and reported to senior management on a daily basis. One of the metrics used to measure the financial risk of this trading activity is Value at Risk (VaR). For the third quarter of 2013, the utilization of VaR averaged $0.5 million, compared to an average of $0.3 million for the third quarter of 2012.

Credit

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

OPG manages its exposure to various suppliers or counterparties by evaluating their financial condition and ensuring that appropriate collateral, or other forms of security, are held by OPG. OPG's credit exposure relating to energy markets transactions as at September 30, 2013, was $339 million, including $315 million to the IESO. Over 95 percent of the remaining $24 million exposure is related to investment grade counterparties.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

During the most recent interim period, there have been no changes in the Company's policies and procedures and other processes that comprise its internal controls over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

QUARTERLY FINANCIAL HIGHLIGHTS

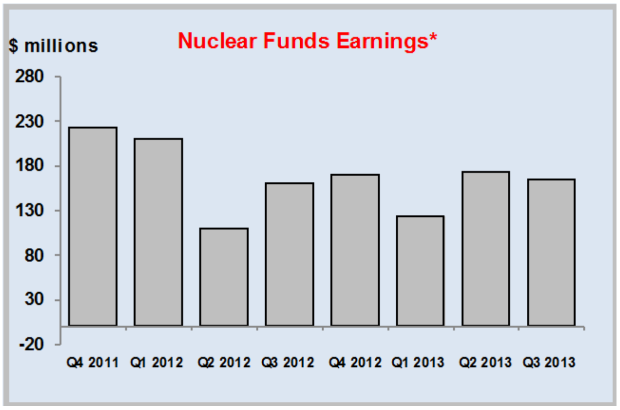
The following tables set out selected financial information from OPG's unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This financial information has been prepared in accordance with US GAAP.

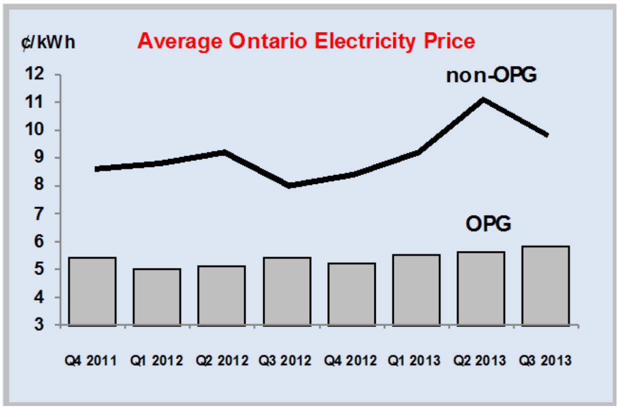
(millions of dollars – except where noted) (unaudited)	**September 30 2013**	**June 30 2013**	**March 31 2013**	**December 31 2012**
Revenue	**1,244**	1,190	1,255	1,195
Net income	**30**	73	28	31
Net income per share *(dollars)*	**$0.12**	$0.28	$0.11	$0.12

(millions of dollars – except where noted) (unaudited)	**September 30 2012**	**June 30 2012**	**March 31 2012**	**December 31 2011**
Revenue	1,213	1,125	1,199	1,128
Net income	139	43	154	230
Net income per share *(dollars)*	$0.54	$0.17	$0.60	$0.90

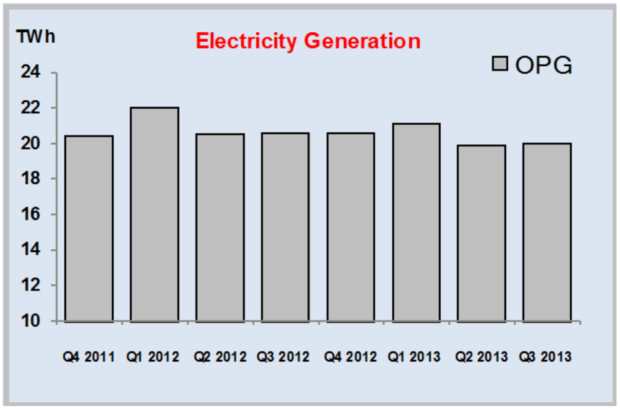
Trends

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





*net of regulatory variance account



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

- At December 31, 2012, the Decommissioning Fund became overfunded. When the Decommissioning Fund becomes overfunded, OPG limits the earnings it recognizes by recording a payable to the Province.

SUPPLEMENTARY NON-GAAP FINANCIAL MEASURES

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

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

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

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

(millions of dollars – except where noted)	**For the twelve months ended September 30 2013**	**December 31 2012**
FFO before interest		
Cash flow provided by operating activities	**1,137**	876
Add: Interest paid	**251**	246
Less: Interest capitalized to fixed and intangible assets	**(131)**	(126)
Add: Changes to non-cash working capital balances	**(202)**	(172)
FFO before interest	**1,055**	824
Adjusted Interest Expense		
Net interest expense	**91**	117
Add: Interest income	**8**	7
Add: Interest capitalized to fixed and intangible assets	**131**	126
Add: Interest related to regulatory assets and liabilities[1]	**51**	17
Add: Interest on pension and OPEB projected benefit obligation less expected return on plan assets	**92**	103
Adjusted Interest Expense	**373**	370
FFO Interest Coverage *(times)*	**2.8**	2.2

¹ The twelve months ended December 31, 2012 number has been adjusted to include all adjustments to interest expense related regulatory assets and liabilities

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

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

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

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www.sedar.com

ONTARIO POWER GENERATION INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

SEPTEMBER 30, 2013

INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(millions of dollars except where noted)	Three Months Ended September 30 2013	Three Months Ended September 30 2012	Nine Months Ended September 30 2013	Nine Months Ended September 30 2012
Revenue *(Note 14)*	**1,244**	1,213	**3,689**	3,537
Fuel expense *(Note 14)*	**186**	199	**541**	556
Gross margin *(Note 14)*	**1,058**	1,014	**3,148**	2,981
Expenses *(Note 14)*				
Operations, maintenance and administration	**684**	610	**2,027**	1,914
Depreciation and amortization *(Note 3)*	**243**	164	**727**	495
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 7)*	**188**	181	**567**	544
Earnings on nuclear fixed asset removal and nuclear waste management funds *(Note 7)*	**(165)**	(161)	**(462)**	(481)
Property and capital taxes	**14**	13	**43**	40
Restructuring *(Note 19)*	**46**	1	**48**	3
	1,010	808	**2,950**	2,515
Income before other income, interest and income taxes	**48**	206	**198**	466
Other income *(Note 17)*	**(9)**	(5)	**(31)**	(10)
Income before interest and income taxes	**57**	211	**229**	476
Net interest expense *(Note 6)*	**18**	26	**63**	89
Income before income taxes	**39**	185	**166**	387
Income tax expense *(Note 8)*	**9**	46	**35**	51
Net income	**30**	139	**131**	336
Basic and diluted income per common share *(dollars)*	**0.12**	0.54	**0.51**	1.31
Common shares outstanding *(millions)*	**256.3**	256.3	**256.3**	256.3

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(millions of dollars)	**Three Months Ended September 30**		**Nine Months Ended September 30**	
	2013	**2012**	**2013**	**2012**
Net income	**30**	139	**131**	336
Other comprehensive income, net of income taxes *(Note 9)*				
Net gain (loss) on derivatives designated as cash flow hedges [1]	**1**	(6)	**12**	(10)
Reclassification to income of losses from cash flow hedges [2]	**3**	4	**10**	13
Reclassification to income of amounts related to pension and other post-employment benefits [3]	**10**	7	**32**	21
Other comprehensive income for the period	**14**	5	**54**	24
Comprehensive income	**44**	144	**185**	360

[1] Net of income tax expenses of nil for the three months ended September 30, 2013 and 2012, respectively. For the nine months ended September 30, 2013 and 2012, net of income tax expenses of $3 million and recoveries of $1 million, respectively.

[2] Net of income tax expenses of nil for the three months ended September 30, 2013 and 2012, respectively. For the nine months ended September 30, 2013 and 2012, net of income tax expenses of $1 million and nil, respectively.

[3] Net of income tax expenses of $3 million and $2 million for the three months ended September 30, 2013 and 2012, respectively. For the nine months ended September 30, 2013 and 2012, net of income tax expenses of $10 million and $7 million, respectively.

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Nine Months Ended September 30 *(millions of dollars)*	**2013**	**2012**
Operating activities		
Net income	**131**	336
Adjust for non-cash items:		
Depreciation and amortization *(Note 3)*	**727**	495
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 7)*	**567**	544
Earnings on nuclear fixed asset removal and nuclear waste management funds *(Note 7)*	**(462)**	(481)
Pension and other post-employment benefit costs *(Note 10)*	**354**	299
Deferred income taxes and other accrued charges	**-**	22
Mark-to-market on derivative instruments	**17**	26
Provision for used nuclear fuel and low and intermediate level waste	**80**	76
Regulatory assets and liabilities	**(177)**	(107)
Provision for restructuring *(Note 19)*	**48**	-
Provision for materials and inventory	**22**	-
Other	**(15)**	15
	1,292	1,225
Contributions to nuclear fixed asset removal and nuclear waste management funds	**(136)**	(182)
Expenditures on fixed asset removal and nuclear waste management *(Note 7)*	**(144)**	(144)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	**58**	51
Contributions to pension funds and expenditures on other post-employment benefits and supplementary pension plans	**(306)**	(370)
Expenditures from restructuring provision *(Note 19)*	**(4)**	(14)
Net changes to other long-term assets and liabilities	**52**	15
Net changes to non-cash working capital balances *(Note 15)*	**171**	141
Cash flow provided by operating activities	**983**	722
Investing activities		
Proceeds from sale of long-term investments	**-**	24
Investment in property, plant and equipment and intangible assets	**(1,168)**	(1,012)
Cash flow used in investing activities	**(1,168)**	(988)
Financing activities		
Issuance of long-term debt *(Note 5)*	**515**	545
Repayment of long-term debt	**(2)**	(402)
Net increase in short-term debt *(Note 6)*	**10**	84
Cash flow provided by financing activities	**523**	227
Net increase (decrease) in cash and cash equivalents	**338**	(39)
Cash and cash equivalents, beginning of period	**413**	630
Cash and cash equivalents, end of period	**751**	591

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**September 30 2013**	**December 31 2012**
Assets		
Current assets		
Cash and cash equivalents	**751**	413
Receivables from related parties *(Note 16)*	**384**	442
Other accounts receivable and prepaid expenses	**126**	125
Nuclear fixed asset removal and nuclear waste management funds *(Note 7)*	**21**	27
Fuel inventory	**417**	505
Materials and supplies	**89**	90
Regulatory assets *(Note 4)*	**345**	-
Income taxes recoverable	**33**	63
Deferred income taxes *(Note 8)*	**7**	68
	2,173	1,733
Property, plant and equipment	**24,061**	22,923
Less: accumulated depreciation	**7,551**	7,063
	16,510	15,860
Intangible assets	**396**	380
Less: accumulated amortization	**339**	328
	57	52
Other assets		
Nuclear fixed asset removal and nuclear waste management funds *(Note 7)*	**13,258**	12,690
Long-term materials and supplies	**345**	355
Regulatory assets *(Note 4)*	**6,148**	6,478
Investments subject to significant influence *(Note 18)*	**359**	373
Other long-term assets	**63**	60
	20,173	19,956
	38,913	37,601

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**September 30 2013**	**December 31 2012**
Liabilities		
Current liabilities		
Accounts payable and accrued charges *(Note 16)*	**932**	891
Deferred revenue due within one year	**12**	12
Long-term debt due within one year *(Note 5)*	**5**	5
Regulatory liabilities *(Note 4)*	**18**	-
Short-term notes payable	**10**	-
	977	908
Long-term debt *(Note 5)*	**5,622**	5,109
Other liabilities		
Fixed asset removal and nuclear waste management liabilities *(Note 7)*	**16,077**	15,522
Pension liabilities	**3,571**	3,621
Other post-retirement benefit liabilities	**3,196**	3,076
Long-term accounts payable and accrued charges	**707**	707
Deferred revenue	**172**	150
Deferred income taxes *(Note 8)*	**496**	563
Regulatory liabilities *(Note 4)*	**6**	41
	24,225	23,680
Shareholder's equity		
Common shares[1]	**5,126**	5,126
Retained earnings	**3,888**	3,757
Accumulated other comprehensive loss *(Note 9)*	**(925)**	(979)
	8,089	7,904
	38,913	37,601

[1] 256,300,010 common shares outstanding at a stated value of $5,126 million as at September 30, 2013 and December 31, 2012; unlimited authorized shares without nominal or par value.

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

See accompanying notes to the interim consolidated financial statements

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

Nine Months Ended September 30 *(millions of dollars)*	**2013**	**2012**
Common shares	**5,126**	5,126
Retained earnings		
Balance at beginning of period	**3,757**	3,390
Net income	**131**	336
Balance at end of period	**3,888**	3,726
Accumulated other comprehensive loss, net of income taxes *(Note 9)*		
Balance at beginning of period	**(979)**	(890)
Other comprehensive income for the period	**54**	24
Balance at end of period	**(925)**	(866)
Total shareholder's equity at end of period	**8,089**	7,986

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine month periods ended September 30, 2013 and 2012

1. BASIS OF PRESENTATION

These interim consolidated financial statements for the three and nine months ended September 30, 2013 have been prepared and presented in accordance with United States generally accepted accounting principles (US GAAP) and the rules and regulations of the United States Securities and Exchange Commission for interim financial statements. These interim consolidated financial statements do not contain all of the disclosures required by US GAAP for annual financial statements. Accordingly, they should be read in conjunction with the annual consolidated financial statements of Ontario Power Generation Inc. (OPG or Company) as at and for the year ended December 31, 2012. All dollar amounts are presented in Canadian dollars.

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

Use of Management Estimates

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

Variable Interest Entities

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

Seasonal Operations

OPG's quarterly results are affected by changes in demand primarily resulting from variations in seasonal weather conditions. Historically, OPG's revenues are higher in the first quarter of a fiscal year as a result of winter heating demands, and in the third quarter due to air conditioning and cooling demands. The impact of seasonal price fluctuations on the results of operations is significantly reduced by the effect of regulated prices for most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that OPG operates, cost recovery contracts and energy supply agreements, and OPG's hedging strategies.

2. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Recent Accounting Pronouncements

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

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

Investment Companies

For reporting periods beginning January 1, 2014, OPG will adopt the updates to Accounting Standards Codification Topic 946, *Investment Companies*. Based on the amended scope of the standard, OPG concluded that OPG Ventures Inc., the Decommissioning Segregated Fund, the Used Fuel Segregated Fund and the Ontario NFWA Trust should be accounted for as investment companies. As the investments of these companies are already recorded at fair value, there will be no measurement differences upon adoption of this update. However, additional disclosures will be required in OPG's consolidated financial statements.

3. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses consist of the following:

	Three Months Ended September 30		**Nine Months Ended September 30**	
(millions of dollars)	**2013**	**2012**	**2013**	**2012**
Depreciation	**132**	118	**390**	357
Amortization of intangible assets	**3**	3	**10**	11
Amortization of regulatory assets and liabilities *(Note 4)*	**108**	43	**327**	127
	243	164	**727**	495

Interest capitalized to construction and development in progress at an average rate of five percent during the three and nine month periods ended September 30, 2013 (three and nine month periods ended September 30, 2012 – five percent) was $28 million and $94 million, respectively (three and nine month periods ended September 30, 2012 – $33 million and $89 million, respectively).

4. REGULATORY ASSETS AND LIABILITIES

In 2012, OPG filed an application with the Ontario Energy Board (OEB) requesting approval to recover balances in the authorized regulatory variance and deferral accounts as at December 31, 2012, and for the adoption of US GAAP for regulatory purposes. In March 2013, OPG reached a settlement agreement with intervenors on all aspects of its application (Settlement Agreement). The Settlement Agreement was reviewed and approved by the OEB.

Subsequently, in April 2013, the OEB issued an order establishing new rate riders effective January 1, 2013. This resulted in approval of $1,234 million recorded in the authorized accounts as at December 31, 2012, deferral for future review of $34 million recorded in certain accounts as at December 31, 2012, and a write-off of $7 million of interest recorded in certain accounts as at December 31, 2012. The interest write-off was recorded in net interest expense during the first quarter of 2013.

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

As a result of the OEB's approval of the Settlement Agreement, OPG has been authorized to recover $633 million through rate riders over the period from March 1, 2013 to December 31, 2014. Any shortfall or over-recovery of the approved balances due to differences between actual and forecast production is recorded in the authorized Nuclear Deferral and Variance Over/Under Recovery Variance Account and Hydroelectric Deferral and Variance Over/Under Recovery Variance Account to be collected from, or refunded to, ratepayers in the future.

Effective January 1, 2013, as part of the approved Settlement Agreement, OPG ceased recording interest on the balance of the Nuclear Liability Deferral Account. For the period from January 1, 2013 to December 31, 2014, as part of the agreement, OPG will not record interest on the balances of the Bruce Lease Net Revenues Variance Account and the majority of the balance of the Pension and OPEB Cost Variance Account. OPG continues to record interest on all other variance and deferral accounts using the interest rate prescribed by the OEB. For the period from January 1, 2012 to September 30, 2013, the prescribed interest rate was 1.47 percent per annum.

In September 2013, OPG filed an application with the OEB for new regulated prices for production from its currently regulated nuclear and hydroelectric facilities effective January 1, 2014. In addition, OPG's application seeks new rate riders to recover balances in certain variance and deferral accounts as at December 31, 2013.

OPG's application also includes proposed regulated prices for production from 48 of OPG's currently unregulated hydroelectric generating facilities, following the proposed amendment to Ontario Regulation 53/05 posted by the Province of Ontario (the Province) for public comment in September 2013. The comment period ended on October 28, 2013. The proposed regulation, subject to Province approval, would require the OEB to regulate these hydroelectric generating facilities.

The regulatory assets and liabilities recorded as at September 30, 2013 and December 31, 2012 are as follows:

(millions of dollars)	**September 30 2013**	**December 31 2012**
Regulatory assets		
Variance and deferral accounts as authorized by the OEB		
Pension and OPEB Cost Variance Account	**598**	324
Bruce Lease Net Revenues Variance Account	**340**	311
Nuclear Liability Deferral Account	**251**	208
Tax Loss Variance Account	**168**	302
Capacity Refurbishment Variance Account	**72**	14
Nuclear Development Variance Account	**53**	30
Other variance and deferral accounts	**127**	127
	1,609	1,316
Pension and OPEB Regulatory Asset *(Note 10)*	**4,312**	4,494
Deferred Income Taxes *(Note 8)*	**572**	668
Total regulatory assets	**6,493**	6,478
Less: current portion	**345**	-
Non-current regulatory assets	**6,148**	6,478
Regulatory liabilities		
Variance and deferral accounts as authorized by the OEB		
Other variance and deferral accounts	**24**	41
Total regulatory liabilities	**24**	41
Less: current portion	**18**	-
Non-current regulatory liabilities	**6**	41

As at September 30, 2013 and December 31, 2012, regulatory assets for other variance and deferral accounts included the Impact for USGAAP Deferral Account, the Nuclear Deferral and Variance Over/Under Recovery Variance Account, and Ancillary Services Net Revenue Variance Account, and other variance accounts authorized by the OEB. As at September 30, 2013 and December 31, 2012, regulatory liabilities for variance and deferral accounts included the Income and Other Taxes Variance Account and other variance accounts authorized by the OEB.

The changes in the regulatory assets and liabilities during the nine months ended September 30, 2013 and the year ended December 31, 2012 are as follows:

(millions of dollars)	**Pension and OPEB Cost Variance**	**Bruce Lease Net Revenues Variance**	**Nuclear Liability Deferral**	**Tax Loss Variance**	**Capacity Refurbish-ment Variance**	**Nuclear Develop-ment Variance**	**Pension and OPEB Regulatory Asset**	**Deferred Income Taxes**	**Other Variance and Deferral (net)**
Net regulatory assets (liabilities), January 1, 2012	96	196	22	425	(1)	(55)	3,553	699	(72)
Change during the year	225	248	206	-	10	25	941	(31)	107
Interest	3	3	1	5	-	-	-	-	-
Amortization during the year	-	(136)	(21)	(128)	5	60	-	-	51
Net regulatory assets December 31, 2012	324	311	208	302	14	30	4,494	668	86
Change during the period	318	81	102	-	63	22	(182)	(96)	54
Interest	-	(5)	(2)	2	-	1	-	-	1
Amortization during the period	(44)	(47)	(57)	(136)	(5)	-	-	-	(38)
Net regulatory assets, September 30, 2013	**598**	**340**	**251**	**168**	**72**	**53**	**4,312**	**572**	**103**

5. LONG-TERM DEBT

Long-term debt consists of the following:

(millions of dollars)	**September 30 2013**	**December 31 2012**
Notes payable to the Ontario Electricity Financial Corporation	**3,965**	3,925
UMH Energy Partnership debt	**194**	195
Lower Mattagami Energy Limited Partnership debt	**1,468**	994
	5,627	5,114
Less: due within one year	**5**	5
Long-term debt	**5,622**	5,109

OPG maintains a Niagara Tunnel project credit facility with the Ontario Electricity Financial Corporation (OEFC) for an amount up to $1.6 billion. As at September 30, 2013, advances under this facility were $1,065 million, including no new borrowings during the three months ended September 30, 2013 and new borrowings of $40 million during the first half of 2013.

In February 2013, the Lower Mattagami Energy Limited Partnership (LME) issued senior notes totalling $275 million with a maturity date of 2046. The effective interest rate of these notes was 4.3 percent and the coupon interest rate was 4.2 percent. In September 2013, the LME issued senior notes totalling $200 million with a maturity date of 2043. The effective interest rate for these notes was 5.1 percent and the coupon interest rate was 4.9 percent.

6. SHORT-TERM DEBT AND NET INTEREST EXPENSE

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two $500 million multi-year term tranches. During the second quarter of 2013, OPG renewed and extended both tranches to May 2018. As at September 30, 2013, there were no outstanding borrowings under the bank credit facility (December 31, 2012 – nil).

The LME maintains a $600 million bank credit facility to support the funding requirements for the Lower Mattagami River project. The facility consists of two tranches. The first tranche of $400 million was reduced to $300 million during the third quarter of 2013, and the maturity date was extended by one year to August 17, 2018. The second tranche of $300 million has a maturity date of August 17, 2015. As at September 30, 2013, $10 million of commercial paper was outstanding under this program (December 31, 2012 – nil). In 2011, OPG executed a $700 million credit facility with the OEFC in support of the Lower Mattagami River project. As at September 30, 2013, there were no outstanding borrowings under this credit facility (December 31, 2012 – nil).

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

As at September 30, 2013, OPG maintained $25 million of short-term, uncommitted overdraft facilities, and $390 million of short-term uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other general corporate purposes.

As at September 30, 2013, there was a total of $349 million of Letters of Credit issued. This included $324 million for the supplementary pension plans, of which $55 million related to accounts receivable sold to an independent trust, as discussed above; $24 million for general corporate purposes; and $1 million related to the operation of the Portlands Energy Centre (PEC).

In addition, as at September 30, 2013, the NWMO has issued a Letter of Credit of $3 million for its supplementary pension plan.

The following table summarizes the net interest expense for the three and nine month periods ended September 30, 2013 and 2012:

	Three Months Ended September 30		**Nine Months Ended September 30**	
(millions of dollars)	**2013**	**2012**	**2013**	**2012**
Interest on long-term debt	**70**	64	**206**	190
Interest on short-term debt	**-**	2	**2**	4
Interest income	**(3)**	(2)	**(7)**	(6)
Interest capitalized to property, plant and equipment and intangible assets	**(28)**	(33)	**(94)**	(89)
Interest related to regulatory assets and liabilities[1]	**(21)**	(5)	**(44)**	(10)
Net interest expense	**18**	26	**63**	89

[1] Includes interest to recognize the cost of financing related to regulatory assets and liabilities and interest deferred in the Capacity Refurbishment Variance Account and the Bruce Lease Net Revenues Variance Account.

7. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT LIABILITIES

The liabilities for fixed asset removal and nuclear waste management on a present value basis as at September 30, 2013 and December 31, 2012 consist of the following:

(millions of dollars)	**September 30 2013**	**December 31 2012**
Liability for nuclear used fuel management	**9,838**	9,469
Liability for nuclear decommissioning and low and intermediate level waste management	**5,886**	5,708
Liability for non-nuclear fixed asset removal	**353**	345
Fixed asset removal and nuclear waste management liabilities	**16,077**	15,522

The changes in the fixed asset removal and nuclear waste management liabilities for the nine months ended September 30, 2013 and the year ended December 31, 2012 are as follows:

(millions of dollars)	**September 30 2013**	**December 31 2012**
Liabilities, beginning of period	**15,522**	14,392
Increase in liabilities due to accretion	**620**	774
Increase in liabilities reflecting a change to the useful lives of the Pickering Bruce nuclear generating stations	**-**	451
Increase in liabilities due to nuclear used fuel, nuclear waste management variable expenses and other expenses	**80**	103
Liabilities settled by expenditures on fixed asset removal and nuclear waste management	**(144)**	(198)
Change in the liabilities for non-nuclear fixed asset removal	**(1)**	-
Liabilities, end of period	**16,077**	15,522

For the nine months ended September 30, 2013, expenditures on fixed asset removal and nuclear waste management include $42 million in funding to the NWMO related to OPG's nuclear fixed asset removal and nuclear waste management liabilities (December 31, 2012 – $57 million). OPG's cash and cash equivalents balance as at September 30, 2013 includes $6 million of cash and cash equivalents that are for the use of nuclear waste management activities (December 31, 2012 – $5 million).

Ontario Nuclear Funds Agreement

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

The nuclear fixed asset removal and nuclear waste management funds (Nuclear Funds) as at September 30, 2013 and December 31, 2012 consist of the following:

	Fair Value	
(millions of dollars)	**September 30 2013**	**December 31 2012**
Decommissioning Segregated Fund	**6,214**	5,771
Due to Province – Decommissioning Segregated Fund	**(315)**	(64)
	5,899	5,707
Used Fuel Segregated Fund [1]	**7,976**	7,245
Due to Province – Used Fuel Segregated Fund	**(596)**	(235)
	7,380	7,010
Total Nuclear Funds	**13,279**	12,717
Less: current portion	**21**	27
Non-current Nuclear Funds	**13,258**	12,690

[1] The Ontario NFWA Trust represented $2,659 million as at September 30, 2013 (December 31, 2012 – $2,559 million) of the Used Fuel Segregated Fund on a fair value basis.

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

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

The earnings on the Nuclear Funds are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars)	**2013**	**2012**	**2013**	**2012**
Decommissioning Segregated Fund	**74**	151	**218**	314
Used Fuel Segregated Fund	**110**	14	**266**	196
Bruce Lease Net Revenues Variance Account *(Note 4)*	**(19)**	(4)	**(22)**	(29)
Total earnings	**165**	161	**462**	481

8. INCOME TAXES

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

During the three months ended September 30, 2013, OPG recorded a decrease to the deferred income tax liability for the deferred income taxes that are expected to be recovered or refunded through regulated prices charged to customers of $31 million. Since these deferred income taxes are expected to be refunded through future regulated prices, OPG has recorded a corresponding decrease to the regulatory asset for deferred income taxes. As a result, the deferred income taxes for the three months ended September 30, 2013 were not impacted.

During the nine months ended September 30, 2013, OPG recorded a decrease of $96 million to the deferred income tax liability for the deferred income taxes that are expected to be recovered or refunded through regulated prices charged to customers. Since these deferred income taxes are expected to be refunded through future regulated prices, OPG has recorded a corresponding decrease to the regulatory asset for deferred income taxes. As a result, the deferred income taxes for the nine months ended September 30, 2013 were not impacted.

The amount of cash income taxes paid during the three months ended September 30, 2013 was $6 million (three months ended September 30, 2012 – nil). For the nine months ended September 30, 2013, income taxes paid were $11 million (nine months ended September 30, 2012 – $24 million).

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in the balance of each component of accumulated other comprehensive loss (AOCL), net of income taxes, during the nine months ended September 30, 2013 and 2012 are as follows:

	For the nine months ended September 30, 2013		
(millions of dollars)	**Unrealized Gains and Losses on Cash Flow Hedges**	**Pension and Other Post-Employment Benefits**	**Total**
AOCL, beginning of period	**(156)**	**(823)**	**(979)**
Other comprehensive income before reclassifications	**12**	**-**	**12**
Amounts reclassified from AOCL	**10**	**32**	**42**
Other comprehensive income for the period	**22**	**32**	**54**
AOCL, end of period	**(134)**	**(791)**	**(925)**

	For the nine months ended September 30, 2012		
(millions of dollars)	**Unrealized Gains and Losses on Cash Flow Hedges**	**Pension and Other Post-Employment Benefits**	**Total**
AOCL, beginning of period	(163)	(727)	(890)
Other comprehensive income before reclassifications	(10)	-	(10)
Amounts reclassified from AOCL	13	21	34
Other comprehensive income for the period	3	21	24
AOCL, end of period	(160)	(706)	(866)

The significant amounts reclassified out of each component of AOCL, net of income taxes, during the three and nine month periods ended September 30, 2013 and 2012 are as follows:

	Amount Reclassified from AOCL		
(millions of dollars)	**Three Months Ended September 30, 2013**	**Nine Months Ended September 30, 2013**	**Statement of Income Line Item**
Amortization of losses from cash flow hedges			
Losses	**3**	**11**	Net interest expense
Income tax expense	**-**	**(1)**	
	3	**10**	
Amortization of amounts related to pension and other post-employment benefits			
Actuarial losses	**13**	**42**	See (1) below
Income tax expense	**(3)**	**(10)**	
	10	**32**	
Total reclassifications for the period	**13**	**42**	

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

	Amount Reclassified from AOCL		
(millions of dollars)	**Three months Ended September 30, 2012**	**Nine Months Ended September 30, 2012**	**Statement of Income Line Item**
Amortization of losses from cash flow hedges			
Losses	4	13	Net interest expense
	4	13	
Amortization of amounts related to pension and other post-employment benefits			
Actuarial losses	9	28	See (1) below
Income tax expense	(2)	(7)	
	7	21	
Total reclassifications for the period	11	34	

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

10. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

OPG's total benefit costs for the three and nine month periods ended September 30, 2013 and 2012 are as follows:

	For the three months ended September 30					
	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
(millions of dollars)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Components of Costs Recognized						
Current service costs	**73**	66	**2**	2	**28**	26
Interest on projected benefit obligation	**147**	156	**4**	4	**35**	35
Expected return on plan assets, net of expenses	**(162)**	(167)	**-**	-	**-**	-
Amortization of past service costs [1]	**-**	-	**-**	-	**-**	-
Amortization of net actuarial loss [1]	**61**	38	**2**	2	**11**	8
Recognition of long-term disability net actuarial loss	**-**	-	**-**	-	**-**	8
Costs recognized [2]	**119**	93	**8**	8	**74**	77

¹ The amortization of past service costs and net actuarial loss is recognized as an increase to other comprehensive income. The increase for the three months ended September 30, 2013 was partially offset by a decrease in the Pension and OPEB Regulatory Asset of $61 million (three months ended September 30, 2012 – $38 million).

² These pension and OPEB costs for the three months ended September 30, 2013 exclude the reduction of costs resulting from the recognition of additions to the regulatory assets for the Pension and OPEB Cost Variance Account and the Impact for the US GAAP Deferral Account of $82 million and nil, respectively (three months ended September 30, 2012 - $57 million and $6 million, respectively).

	For the nine months ended September 30					
	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
(millions of dollars)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Components of Costs Recognized						
Current service costs	**218**	199	**7**	6	**80**	68
Interest on projected benefit obligation	**442**	469	**10**	10	**105**	104
Expected return on plan assets, net of expenses	**(486)**	(501)	**-**	-	**-**	-
Amortization of past service costs [1]	**-**	-	**-**	-	**-**	1
Amortization of net actuarial loss [1]	**183**	116	**5**	4	**36**	24
Recognition of long-term disability net actuarial loss	**-**	-	**-**	-	**-**	8
Costs recognized [2]	**357**	283	**22**	20	**221**	205

¹ The amortization of past service costs and net actuarial loss is recognized as an increase to other comprehensive income. This increase for the nine months ended September 30, 2013 was partially offset by a decrease in the Pension and OPEB Regulatory Asset of $182 million (nine months ended September 30, 2012 – $116 million).

² These pension and OPEB costs for the nine months ended September 30, 2013 exclude the reduction of costs resulting from recognition of additions to the regulatory assets for the Pension and OPEB Cost Variance Account and the Impact for USGAAP Deferral Account of $246 million and nil, respectively (nine months ended September 30, 2012 – $163 million and $46 million, respectively).

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

11. DERIVATIVES

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

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

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

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

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

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

The majority of OPG's revenues are derived from sales through the Independent Electricity System Operator (IESO) administered spot market. Although the credit exposure to the IESO represents a significant portion of OPG's accounts receivable, the Company's management accepts this risk due to the IESO's primary role in the Ontario electricity market. The remaining receivables exposure is to a diverse group of generally high quality counterparties. OPG's allowance for doubtful accounts as at September 30, 2013 was less than $1 million.

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

(millions of dollars except where noted)	**Notional Quantity**	**Terms**	**Fair Value**	**Balance Sheet Line Item**
As at September 30, 2013				
Commodity derivative instruments	**7.0 TWh**	**1 - 2 years**	**7**	Other accounts receivable and prepaid expenses
Foreign exchange derivative instruments	**67**	**within 1 year**	**1**	Other accounts receivable and prepaid expenses
Commodity derivative instruments	**3.4 TWh**	**1 - 2 years**	**(7)**	Accounts payable and accrued charges
Cash flow hedges – Forward start interest rate swaps	**100**	**1 - 11 years**	**(8)**	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	**n/a**	**7 years**	**(405)**	Long-term accounts payable and accrued charges
Total derivatives			**(412)**	
As at December 31, 2012				
Commodity derivative instruments	4.3 TWh	1 - 2 years	7	Other accounts receivable and prepaid expenses
Foreign exchange derivative instruments	63	within 1 year	(1)	Accounts payable and accrued charges
Commodity derivative instruments	2.0 TWh	1 - 2 years	(4)	Accounts payable and accrued charges
Cash flow hedges – Forward start interest rate swaps	410	1 - 12 years	(66)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	n/a	7 years	(392)	Long-term accounts payable and accrued charges
Total derivatives			(456)	

The following table shows the amount related to derivatives recorded in AOCL and income for the three and nine month periods ended September 30:

	Three Months Ended September 30		**Nine Months Ended September 30**	
(millions of dollars)	**2013**	**2012**	**2013**	**2012**
Cash flow hedges				
Gain (loss) in other comprehensive income	**1**	(6)	**15**	(11)
Reclassification of losses to net interest expense	**3**	4	**11**	13
Commodity derivatives				
Realized losses in revenue	**(2)**	(1)	**(5)**	(1)
Unrealized losses in revenue	**(2)**	-	**(2)**	(2)
Embedded derivative				
Unrealized (losses) gains in revenue [1]	**(7)**	16	**(13)**	(27)

[1] Excludes the impact of the Bruce Lease Net Revenues Variance Account

Existing net losses of $19 million deferred in AOCL as at September 30, 2013 are expected to be reclassified to net income within the next 12 months.

12. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

The Company is required to determine the fair value of all its financial instruments. The following is a summary of OPG's financial instruments as at September 30, 2013 and December 31, 2012:

(millions of dollars except where noted)	**Fair Value**	**Carrying Value [1]**	**Balance Sheet Line Item**
As at September 30, 2013			
Commodity derivative instruments	**7**	**7**	Other accounts receivable and prepaid expenses
Investment in OPG Ventures Inc.	**10**	**10**	Other long-term assets
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	**13,279**	**13,279**	Nuclear fixed asset removal and nuclear waste management funds
Foreign exchange derivative instruments	**1**	**1**	Other accounts receivable and prepaid expenses
Commodity derivative instruments	**(7)**	**(7)**	Accounts payable and accrued charges
Cash flow hedges - Forward start interest rate swaps	**(8)**	**(8)**	Long-term accounts payable and accrued charges
Payable related to cash flow hedges	**(58)**	**(58)**	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	**(405)**	**(405)**	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	**(6,000)**	**(5,627)**	Long-term debt
As at December 31, 2012			
Commodity derivative instruments	7	7	Other accounts receivable and prepaid expenses
Investment in OPG Ventures Inc.	10	10	Other long-term assets
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	12,717	12,717	Nuclear fixed asset removal and nuclear waste management funds
Foreign exchange derivative instruments	(1)	(1)	Accounts payable and accrued charges
Commodity derivative instruments	(4)	(4)	Accounts payable and accrued charges
Cash flow hedges - Forward start interest rate swaps	(66)	(66)	Long-term accounts payable and accrued charges
Payable related to cash flow hedges	(24)	(24)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	(392)	(392)	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	(5,751)	(5,114)	Long-term debt

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

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

The following tables present financial assets and liabilities measured at fair value in accordance with the fair value hierarchy as at September 30, 2013 and December 31, 2012:

	September 30, 2013			
(millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Used Fuel Segregated Fund	**474**	**6,873**	**33**	**7,380**
Decommissioning Segregated Fund	**2,890**	**2,801**	**208**	**5,899**
Commodity derivative instruments	**4**	**1**	**2**	**7**
Investment in OPG Ventures Inc.	**-**	**-**	**10**	**10**
Foreign exchange derivative instruments	**-**	**1**	**-**	**1**
Total	**3,368**	**9,676**	**253**	**13,297**
Liabilities				
Derivative embedded in the Bruce Lease	**-**	**-**	**(405)**	**(405)**
Forward start interest rate swaps	**-**	**(8)**	**-**	**(8)**
Commodity derivative instruments	**(5)**	**(2)**	**-**	**(7)**
Total	**(5)**	**(10)**	**(405)**	**(420)**
Net assets (liabilities)	**3,363**	**9,666**	**(152)**	**12,877**

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

During the nine months ended September 30, 2013, there were no transfers between Level 1 and Level 2. In addition there were no transfers into and out of Level 3.

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

	For the three months ended September 30, 2013				
(millions of dollars)	Decom-missioning Segregated Fund	Used Fuel Segregated Fund	Investment in OPG Ventures Inc.	Derivative Embedded in the Bruce Lease [1]	Commodity Derivative Instruments
Opening balance, July 1, 2013	184	28	10	(398)	4
Unrealized losses included in revenue	(2)	-	-	(7)	-
Realized losses included in revenue	(1)	-	-	-	(2)
Purchases	31	5	-	-	-
Sales	(1)	-	-	-	-
Settlements	(3)	-	-	-	-
Closing balance, September 30, 2013	208	33	10	(405)	2

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

	For the nine months ended September 30, 2013				
(millions of dollars)	Decom-missioning Segregated Fund	Used Fuel Segregated Fund	Investment in OPG Ventures Inc.	Derivative Embedded in the Bruce Lease [1]	Commodity Derivative Instruments
Opening balance, January 1, 2013	163	13	10	(392)	3
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds[1]	8	1	-	-	-
Unrealized losses included in revenue	(2)	-	-	(13)	-
Realized losses included in revenue	(2)	-	-	-	(5)
Purchases	48	8	-	-	4
Sales	(2)	-	-	-	-
Settlements	(5)	11	-	-	-
Closing balance, September 30, 2013	208	33	10	(405)	2

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

Derivative Embedded in the Bruce Lease

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

The following table presents the quantitative information about the Level 3 fair value measurement of the Bruce Lease embedded derivative as at September 30, 2013.

(millions of dollars except where noted)	Fair Value	Valuation Technique	Unobservable Input	Range
Derivative embedded in the Bruce Lease	(405)	Option model	Risk premium[1]	0% - 30%

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

The term related to the derivative embedded in the Bruce Lease is based on the remaining service lives, for accounting purposes, for certain units of the Bruce generating station (GS) and may be revised at such time when the units' service lives are modified. OPG's exposure to changes in the fair value of the Bruce Lease embedded derivative is mitigated as part of the OEB regulatory process since the revenue from the lease of the Bruce GS is included in the determination of regulated prices for OPG's nuclear generation and is subject to the Bruce Lease Net Revenues Variance Account. As such, the pre-tax income statement impact as a result of changes in the liability is offset by the pre-tax income statement impact of the Bruce Lease Net Revenues Variance Account.

Decommissioning Segregated Fund and Used Fuel Segregated Fund

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

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

The following are the classes of investments within the Nuclear Funds that are reported on the basis of net asset value as at September 30, 2013:

(millions of dollars except where noted)	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice**
Infrastructure	280	249	n/a	n/a
Real Estate	199	447	n/a	n/a
Pooled Funds				
Short-term Investments	19	-	Daily	1 - 5 Days
Fixed Income	515	-	Daily	1 - 5 Days
Equity	1,466	-	Daily	1 - 5 Days
Total	2,479	696		

Infrastructure

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

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

The investments in the respective infrastructure funds are not redeemable. However, the Nuclear Funds may transfer any of its partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each infrastructure fund will be received based on the operations of the underlying investments and/or as the underlying investments of the infrastructure funds are liquidated. It is not possible to estimate when the underlying assets of the infrastructure funds will be liquidated, however, the infrastructure funds have a maturity end period ranging from 2019 to 2025.

Real Estate

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

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

The partnership investments are not redeemable. However, the Nuclear Funds may transfer any of their partnership interest to another party, as stipulated in the partnership agreement, with prior written consent of the other limited partners. For investments in private real estate corporations, shares may be redeemed through a pre-established redemption process. It is not possible to estimate when the underlying assets in this class will be liquidated.

Pooled Funds

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

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

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

Investment in OPG Ventures Inc.

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

13. COMMITMENTS AND CONTINGENCIES

Litigation

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

On August 9, 2006, a Notice of Action and Statement of Claim filed with the Ontario Superior Court of Justice in the amount of $500 million was served on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited (together British Energy). In 2001, OPG leased its Bruce nuclear generating station to Bruce Power L.P. (of which British Energy was a major partner). British Energy sold its interest in Bruce Power L.P. to some of the other existing partners of Bruce Power L.P. The British Energy claim against OPG pertains to corrosion in the Bruce Unit 8 Steam Generators, in particular, erosion of the support plates through which the boiler tubes pass. This corrosion was not known by any party until after British Energy had sold its interest. The claim amount includes $65 million due to an extended outage to repair some of the alleged damage. The balance of the amount claimed is based on an increased probability the steam generators will have to be replaced or the unit taken out of service prematurely.

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

British Energy previously indicated that they did not require OPG or Bruce Power L.P. to actively defend the court action until the conclusion of the Arbitration. Although the Arbitration had not concluded, British Energy requested that OPG file a Statement of Defense. OPG and Bruce Power L.P. advised British Energy that if British Energy wishes the court action to proceed prior to the conclusion of the Arbitration, the defendants would bring a motion for a Stay of proceedings, a Dismissal of the current action or, in the alternative, a motion to extend the time for service of the Statement of Defense until the conclusion of the Arbitration. That motion was scheduled to be heard on March 5, 2010 but was adjourned at the request of British Energy. The return date of that motion is yet to be set. However, British Energy has acknowledged that it must amend its Statement of Claim in light of the Arbitration ruling such that it may no longer be necessary for OPG to go forward with this motion.

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

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

Environmental

Current operations are subject to regulation with respect to emissions to air, water, and land as well as other environmental matters by federal, provincial, and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in its interim consolidated financial statements to meet certain other environmental obligations. As at September 30, 2013, OPG's environmental liabilities were $15 million (December 31, 2012 – $17 million).

Guarantees

The Company and its joint venture partners have jointly guaranteed the financial performance of jointly owned entities related primarily to the payment of liabilities. As at September 30, 2013, OPG's share of the potential exposure under these guarantees is estimated to be $76 million. OPG may terminate some of these guarantees within a short time frame by providing written notice to the counterparties at any time; others have terms ending between 2019 and 2029. The fair value of these guarantees has been estimated as at September 30, 2013 to be negligible. As at September 30, 2013, OPG does not expect to make any payments associated with these guarantees.

Contractual and Commercial Commitments

The Company's contractual obligations and other significant commercial commitments as at September 30, 2013 are as follows:

(millions of dollars)	**2013**	**2014**	**2015**	**2016**	**2017**	**Thereafter**	**Total**
Contractual obligations:							
Fuel supply agreements	34	183	185	134	112	253	901
Contributions under the ONFA [1]	48	139	143	150	163	2,899	3,542
Long-term debt repayment	3	5	593	273	1,103	3,650	5,627
Interest on long-term debt	51	262	256	242	223	2,272	3,306
Unconditional purchase obligations	34	99	98	8	1	-	240
Operating lease obligations	10	16	16	16	18	1	77
Operating licence	10	39	40	4	-	-	93
Pension contributions [2]	76	-	-	-	-	-	76
Other	264	118	55	37	39	99	612
Significant commercial commitments:							
Niagara Tunnel	25	-	-	-	-	-	25
Lower Mattagami	238	275	63	-	-	-	576
Atikokan	18	14	-	-	-	-	32
Total	811	1,150	1,449	864	1,659	9,174	15,107

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

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

14. BUSINESS SEGMENTS

Segment Income (Loss) for the Three Months Ended September 30, 2013 *(millions of dollars)*	Regulated Nuclear Generation	Regulated Nuclear Waste Management	Regulated Hydroelectric	Unregulated Hydroelectric	Unregulated Thermal	Other	Elimination	Total
Revenue	750	31	210	99	173	11	(30)	1,244
Fuel expense	62	-	73	18	33	-	-	186
Gross margin	688	31	137	81	140	11	(30)	1,058
Operations, maintenance and administration	500	33	27	61	91	2	(30)	684
Depreciation and amortization	159	-	30	18	31	5	-	243
Accretion on fixed asset removal and nuclear waste management liabilities	-	185	-	-	3	-	-	188
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(165)	-	-	-	-	-	(165)
Property taxes	6	-	1	-	4	3	-	14
Restructuring	-	-	-	-	46	-	-	46
Other loss (income)	-	-	-	1	-	(10)	-	(9)
Income (loss) before interest and income taxes	23	(22)	79	1	(35)	11	-	57

Segment Income (Loss) for the Three Months Ended September 30, 2012 *(millions of dollars)*	**Regulated**			**Unregulated**				
	Nuclear Generation	**Nuclear Waste Manage-ment**	**Hydro-electric**	**Hydro-electric**	**Thermal**	**Other**	**Elimination**	**Total**
Revenue	800	27	184	82	134	12	(26)	1,213
Fuel expense	68	-	70	11	50	-	-	199
Gross margin	732	27	114	71	84	12	(26)	1,014
Operations, maintenance and administration	438	29	27	57	82	3	(26)	610
Depreciation and amortization	120	-	8	17	15	4	-	164
Accretion on fixed asset removal and nuclear waste management liabilities	-	178	-	-	3	-	-	181
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(161)	-	-	-	-	-	(161)
Property and capital taxes	8	-	1	(1)	2	3	-	13
Restructuring	-	-	-	-	1	-	-	1
Other (income) loss	(1)	-	4	4	-	(12)	-	(5)
Income (loss) before interest and income taxes	167	(19)	74	(6)	(19)	14	-	211

Segment Income (Loss) for the Nine Months Ended September 30, 2013 *(millions of dollars)*	**Regulated**			**Unregulated**				
	Nuclear Generation	**Nuclear Waste Manage-ment**	**Hydro-electric**	**Hydro-electric**	**Thermal**	**Other**	**Elimination**	**Total**
Revenue	**2,186**	**84**	**627**	**361**	**466**	**46**	**(81)**	**3,689**
Fuel expense	**181**	**-**	**194**	**59**	**107**	**-**	**-**	**541**
Gross margin	**2,005**	**84**	**433**	**302**	**359**	**46**	**(81)**	**3,148**
Operations, maintenance and administration	**1,490**	**90**	**77**	**174**	**272**	**5**	**(81)**	**2,027**
Depreciation and amortization	**470**	**-**	**94**	**55**	**94**	**14**	**-**	**727**
Accretion on fixed asset removal and nuclear waste management liabilities	**-**	**556**	**-**	**-**	**11**	**-**	**-**	**567**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**-**	**(462)**	**-**	**-**	**-**	**-**	**-**	**(462)**
Property taxes	**21**	**-**	**2**	**-**	**11**	**9**	**-**	**43**
Restructuring	**-**	**-**	**-**	**-**	**48**	**-**	**-**	**48**
Other (income) loss	**(1)**	**-**	**-**	**3**	**(2)**	**(31)**	**-**	**(31)**
Income (loss) before interest and income taxes	**25**	**(100)**	**260**	**70**	**(75)**	**49**	**-**	**229**

Segment Income (Loss) for the Nine Months Ended September 30, 2012 *(millions of dollars)*	**Regulated**		**Unregulated**					
	Nuclear Generation	**Nuclear Waste Manage-ment**	**Hydro-electric**	**Hydro-electric**	**Thermal**	**Other**	**Elimination**	**Total**
Revenue	2,293	77	550	269	380	43	(75)	3,537
Fuel expense	196	-	192	47	121	-	-	556
Gross margin	2,097	77	358	222	259	43	(75)	2,981
Operations, maintenance and administration	1,386	83	72	175	269	4	(75)	1,914
Depreciation and amortization	358	-	25	55	43	14	-	495
Accretion on fixed asset removal and nuclear waste management liabilities	-	534	-	-	10	-	-	544
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(481)	-	-	-	-	-	(481)
Property and capital taxes	21	-	-	(1)	12	8	-	40
Restructuring	-	-	-	-	3	-	-	3
Other (income) loss	(1)	-	4	4	-	(17)	-	(10)
Income (loss) before interest and income taxes	333	(59)	257	(11)	(78)	34	-	476

15. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	**Nine Months Ended September 30** **2013**	**2012**
Receivables from related parties	**58**	109
Other accounts receivable and prepaid expenses	**(1)**	(115)
Fuel inventory	**88**	106
Income taxes payable/recoverable	**30**	9
Materials and supplies	**1**	-
Accounts payable and accrued charges	**(5)**	32
	171	141

16. RELATED PARTY TRANSACTIONS

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

The balances between OPG and its related parties are summarized below:

(millions of dollars)	**September 30 2013**	**December 31 2012**
Receivables from related parties		
Hydro One	**1**	3
IESO	**282**	337
OEFC	**89**	84
OPA	**10**	16
PEC	**2**	2
Accounts payable and accrued charges		
Hydro One	**3**	2
OEFC	**28**	51
Province of Ontario	**3**	3

17. OTHER INCOME

(millions of dollars)	**Three Months Ended September 30 2013**	**2012**	**Nine Months Ended September 30 2013**	**2012**
Income from investments subject to significant influence	**(9)**	(12)	**(28)**	(17)
Other loss (income)	**-**	7	**(3)**	7
Other income	**(9)**	(5)	**(31)**	(10)

18. INVESTMENTS SUBJECT TO SIGNIFICANT INFLUENCE

Investments subject to significant influence consist of OPG's 50 percent ownership interest in the jointly controlled entities of PEC and Brighton Beach, which are accounted for using the equity method. Details of the balances as at September 30, 2013 and December 31, 2012 are as follows:

(millions of dollars)	**September 30 2013**	**December 31 2012**
PEC		
Current assets	**15**	8
Long-term assets	**304**	315
Current liabilities	**(12)**	(8)
Long-term liabilities	**(3)**	(3)
Brighton Beach		
Current assets	**5**	11
Long-term assets	**198**	209
Current liabilities	**(11)**	(11)
Long-term liabilities	**(5)**	(9)
Long-term debt	**(132)**	(139)
Investments subject to significant influence	**359**	373

19. RESTRUCTURING

In 2011, OPG announced its decision to close two additional coal-fired units at the Nanticoke GS, consistent with the 2010 Ontario Long-Term Energy Plan and the 2011 Supply Mix Directive. Total restructuring costs, primarily severance costs, related to these closures are $21 million and have been recognized in the consolidated financial statements.

OPG has ceased using coal at the Atikokan GS, which has an impact on staff requirements. Severance costs of $2 million were recorded during March 2013.

In March 2013, Unit 2 at the Thunder Bay GS was removed from the IESO market as it is not required by the IESO. The impact on staff requirements has been finalized. The total restructuring costs, exclusively severance costs, associated with this unit are estimated to be $4 million and were recorded in July 2013.

In March 2013, the Ministry of Energy issued a declaration mandating that OPG cease the use of coal at the Nanticoke GS and Lambton GS by the end of 2013. OPG has estimated the restructuring costs, including severance and relocation to other OPG sites, at $52 million and has accrued $42 million of severance costs in September 2013. Relocation costs will be recorded as incurred, primarily in 2014.

The change in the restructuring liability for severance costs for the nine months ended September 30, 2013 and for the year ended December 31, 2012 is as follows:

(millions of dollars)	
Liability, January 1, 2012	23
Payments during the year	(20)
Liability, December 31, 2012	3
Restructuring charges during the period	48
Payments during the period	(4)
Liability, September 30, 2013	47

OPG conducted discussions with key stakeholders, including The Society of Energy Professionals and the Power Workers' Union, in accordance with their respective collective bargaining agreements, at all plants impacted to date by the regulation requiring the cessation of the use of coal for electricity generation. Given collective agreement provisions allowing deferral of severance payout to future periods, the existing restructuring liability is expected to be drawn down by the end of 2016.