RATING AGENCY REPORTS

1.0 PURPOSE

The purpose of this evidence is to provide rating agencies' financial assessments of OPG and highlight implications for OPG.

2.0 CREDIT RATINGS

OPG obtains its credit ratings from Standard & Poor's and Dominion Bond Rating Service. On an annual basis, OPG management meets with each agency to review actual results, corporate strategies, operational performance, and financial forecasts. The agencies each produce an annual credit report on OPG following their meetings and a specific long-term and short-term rating for OPG based on their respective rating scales. OPG provides the agencies with quarterly financial performance updates and on-going communication related to significant business issues that may arise during the year to the agencies.

The credit ratings incorporate many quantitative and qualitative considerations relating to OPG's management, strategy, operations, and financial performance over both the short and longer term. As with all credit ratings, for a rating change to occur, OPG must consistently demonstrate notable or trend improvements over a period of time.

The credit reports are used by the financial markets as an independent opinion of the general creditworthiness of OPG and its debt obligations outstanding. The reports are used by internal management as a benchmark comparison to the financial metrics of other companies in the same sector and as a guideline to address debt leverage and business issues that may affect OPG's rating. The cost and availability of liquidity under OPG's bank agreement is tied directly to the ratings provided by Dominion Bond Rating Service and Standard & Poor's. Lower ratings generally result in higher borrowing costs as well as reduced access to capital markets, conversely higher ratings result in lower borrowing costs and increased access to capital markets.

3.0 CREDIT RATING OVERVIEW

As at December 2007, OPG had a long-term credit rating of BBB+ by Standard & Poor's and A (low) by Dominion Bond Rating Service. In May 2006, Standard & Poor's upgraded the Company's short-term Canadian Scale Commercial Paper debt rating to A-1 (Low) from A-2. In November 2007, Dominion Bond Rating Service issued a rating report confirming OPG's long-term debt rating and short-term Commercial Paper rating of A (low) and R-1 (low), respectively. Copies of the most recent reports from Dominion Bond Rating Service and Standard & Poor's are provided in Attachments A, B and C.

In their report, Standard & Poor's highlights OPG's weaknesses as:

- Uncertain sales volumes due to seasonality of electricity demand, variability in both river flows, and asset operating performance.
- Below-average financial profile related to low allowed returns on regulated operations and an interim revenue cap on unregulated operations.
- Operational challenges at nuclear and coal-fired facilities.
- Significant risk exposure due to nuclear technology and potential for unexpected large capital expenditures.

LIST OF ATTACHMENTS

Attachment A: Dominion Bond Rating Service, Report Dated: November 30, 2007

Attachment B: Standard & Poor's, Report Dated: December 9, 2005

Attachment C: Standard & Poor's – Corporate Ratings, Report Dated: September 29, 2006

Rating Report

Report Date:
November 30, 2007

Previous Report:
August 3, 2006

Insight beyond the rating.

Ontario Power Generation Inc.

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The Company

Ontario Power Generation Inc. is an electricity generating company with a diverse portfolio of 22,157 MW of in-service generating capacity. The Company is wholly owned by the Province of Ontario.

Recent Actions

August 28, 2007
Comments on ABCP Exposure

August 3, 2006
Ratings Confirmed

May 20, 2005
Long-Term Trend Changed to Stable from Under Review with Developing Implications

Authorized Commercial Paper Limit: $1 Billion

Rating

Debt	Rating	Rating Action	Trend
Commercial Paper	R-1 (low)	Confirmed	Stable
Unsecured Debt*	A (low)	Confirmed	Stable

* Debt held by the Ontario Electric Finance Corporation (OEFC).

Rating Rationale

DBRS has confirmed the Unsecured Debt and Commercial Paper ratings of Ontario Power Generation Inc. (OPG or the Company) at A (low) and R-1 (low), respectively, with Stable trends. The rating confirmations reflect OPG's relatively modest level of business risk stemming from its regulated and non-regulated electric generation operations, stable financial profile underpinned by its robust balance sheet and credit metrics, as well as an improved regulatory environment. However, these factors are offset by the revenue limits on OPG's unregulated generation (which dampens financial performance), the general inability to pass through operating cost increases for both regulated and unregulated assets and by the higher expected capital expenditures that are likely to result in a modest decline in credit metrics. DBRS notes that the ratings on OPG continue to be supported by a sole shareholder, the Province of Ontario (the Province), which is rated AA. The Province supports OPG by providing all of its long-term funding; therefore OPG does not issue any long-term debt in the capital markets. The confirmation is further supported by OPG's limited credit-risk exposure, since its principal counterparty is the Independent Electric System Operator (IESO), a creation of the Province that receives its power through provincial regulation and legislation. (Continued on page 2.)

Rating Considerations

Strengths

(1) Dominant market position in Ontario
(2) Interim regulatory framework favourable to improving OPG's financial profile and strong financial metrics
(3) Nuclear waste management liabilities are limited due to agreement with Province
(4) Support of shareholder (Province of Ontario – rated AA)

Challenges

(1) Higher operating and financial risks associated with nuclear assets
(2) Future decommissioning costs and used fuel-storage above 2.23 million bundles
(3) Interim regulatory framework is less favourable than seen in other North American jurisdictions
(4) Fuel-cost risk associated with coal generation and nuclear to a lesser extent
(5) Political intervention
(6) Significant capital expenditure program

Financial Information

	12 mos. ended	For the year ended December 31			
	Sept. 30, 2007	2006	2005	2004	2003
EBIT interest coverage (times)	3.27	3.70	4.60	0.77	0.90
(Cash flow - n.w.f.*) / CAPEX (times)	1.04	1.43	1.94	0.62	(0.07)
(Cash flow - n.w.f.*) / Total debt	19.4%	24.9%	22.9%	9.3%	(1.2%)
Total debt-to-capital	35.6%	39.0%	43.8%	42.6%	42.6%
Net income (before extras) ($ millions)	404.1	504.1	615.7	54.8	(29.0)
Cash flow from operations ($ millions) **	1,265.1	1,513.1	1,481.7	851.8	482.0
Gross electricity generated (TWh)	104.7	105.2	108.5	105.0	109.1

* n.w.f. = nuclear waste funding. ** DBRS-adjusted.

Rating Rationale (Continued from page 1.)

While provincial ownership and financial support limited downward movement in OPG's ratings during earlier periods of weak financial performance by the Company, the current ratings takes into account OPG's improved financial profile on a stand-alone basis, which has improved due to a more favourable regulatory framework. The financial profile of OPG has improved since 2004, following the announcement of the interim regulated rate structure that came into effect on April 1, 2005. Credit metrics for the 12 months ending September 30, 2007, of 35.6% debt-to-capital, 20% cash flow-to-total debt and 3.27 times EBIT gross interest coverage were well within the range that one would expect for the ratings.

OPG's unregulated generation output accounts for approximately 38% of the Company's total generation output. While unregulated, these generating assets are considered to be of lower risk due to the fact that approximately 85% of their output is sold at the Ontario electricity spot market price, but subject to revenue limits that have been below the market price.

On November 2, 2007, OPG began the pre-submission consultations on its rate application for regulated assets (which account for 62% of OPG's electricity output). The Company intends on finalizing the rate application and submitting it to the Ontario Energy Board (OEB) at the end of November 2007. The application, if approved, would result in a 14% pricing increase from these assets and will result in OPG's first rate increase in three years.

Over the next few years, it is expected that OPG will generate sufficient cash flow from operations to fully fund nuclear waste and decommissioning funding, along with sustaining capital expenditures, but will require a manageable level of debt financing to fund development capital expenditures. Additionally, DBRS would expect the Province to forgo dividends during a period of heightened capital expenditures if necessary to preserve the Company's credit metrics. Cash flow-to-debt and interest-coverage ratios will likely come down modestly from their current levels, but are expected to remain more than adequate to support the current ratings.

There continues to be uncertainty regarding the closure of the Company's coal plants. In August 2007, the Province finalized a regulation that commits to the elimination of coal stations by December 31, 2014. Furthermore, in April and June 2007, the federal and provincial governments introduced climate-change plans and environmental policies with aggressive targets to reduce greenhouse gas emissions. The implications have not yet been determined.

The current ratings reflect all the challenges listed above, combined with the regulatory uncertainty going forward. DBRS notes that the regulatory framework has improved over the past couple of years, but the upcoming rate filing with the OEB will help establish key elements of the regulatory framework that the Company will require in the future, particularly if it undertakes a more aggressive capital expenditure program. Currently OPG's regulated rates are based on a return on equity (ROE) of 5%, which is low in comparison to what the majority of regulated generation companies receive in other jurisdictions in North America. Furthermore, under the existing regulated/price capped units, increases in expenses such as operating and maintenance (O&M) and fuel are generally not recoverable.

Over the long term, the Company is considering a number of potential capital projects, including the refurbishment of Pickering, new nuclear units at Darlington and a number of new hydro facilities. DBRS notes that although these potential capital expenditures could pose several significant financing challenges, the Province would be directly involved in the planning and development process and would be expected to provide financial support if necessary. DBRS notes that while the anticipated capital expenditures are likely to affect financial metrics, the financial support provided by the Province, combined with the improving operating performance from the Company and the upcoming OEB rate filing should support the current ratings going forward.

Ontario Power Generation Inc.

Report Date:
November 30, 2007

Rating Considerations Details

Strengths

(1) OPG's importance in Ontario is demonstrated by the fact that it is the primary generator in the Province, accounting for about 71% market share of electricity sold in the province. DBRS believes that OPG will continue to be the dominant generator in the province until at least 2014 when the coal-fired generation plants are scheduled to be closed and are replaced by other forms of generation. However, the majority of OPG's assets are now regulated and this proportion will increase when the coal plants are ultimately closed, significantly reducing OPG's influence on unadjusted wholesale electricity prices.

(2) The interim regulatory framework governing OPG has contributed to an improved financial profile compared with the previous Market Power Mitigation Agreement (MPMA), under which OPG has operated since market opening in 2002. The interim framework is expected to result in a weighted-average price of $45/MWh for regulated generation and $46/MWh to $48/MWh on about 85% of output from OPG's non-regulated generating facilities (with certain exceptions). These interim prices compare favourably to the previous average price received on OPG's generation since market opening of about $42.5/MWh. The Company's credit metrics have improved since 2004 and currently support the assigned ratings. At September 30, 2007, credit metrics were strong with 35.6% debt-to-capital, 20% cash flow-to-total debt and 3.27 times EBIT gross interest. OPG will be submitting a rate application to the OEB requesting a 14% price increase on its regulated assets to become effective April 2008.

(3) OPG established and manages, jointly with the Province a Used Fuel Fund (UFF) and a Decommisioning Fund (DF), which are funded by OPG in accordance with the Ontario Nuclear Funds Agreement (ONFA). Under ONFA, the Province guarantees OPG's annual rate of return on the UFF related to the first 2.23 million bundles used. The DF is currently over funded based on the 2006 approved reference plan.

(4) The Province indirectly provides OPG with all of its long-term funding requirements. The Province is the sole shareholder of the Company and is actively involved in the energy-planning process in Ontario and the overall business of the Company. The Province does not directly guarantee OPG or its financial obligations, however DBRS believes the Province will continue to support its investment since it is a creation of the Province and an integral part of meeting the energy needs of Ontarians. OPG on a project-by-project basis enters into negotiated agreements with the Ontario Electric Finance Corporation (OEFC) to finance the project. The Province has provided support to OPG in the past by extending the maturities on OPG's debt held by the OEFC on a number of occasions and by allowing OPG flexibility on dividends. Furthermore, the OEFC is the agency that provides OPG with long-term debt financing.

Challenges

(1) Nuclear generation accounts for approximately 30% of in-service generating capacity and approximately 45% of OPG's 2006 annual production. Nuclear contributions could increase to 59% in 2014 (the scheduled closing of the coal-fired plants) if the Company has not replaced the capacity of the coal-fired plants. Nuclear generation faces higher operating risks than other types of generation due to the complexity of the technology and financial implications of forced outages are greater given the high fixed-cost nature of these plants, as well as the fact that lost revenues resulting from outages are not recoverable through rates. Additionally, nuclear generation carries more regulatory and political uncertainty as a result of the risks associated with the ownership of these plants, such as evolving regulatory rules, safety targets and measures, and costs associated with used fuel-storage and future decommissionings. Furthermore, older nuclear units, such as those at Pickering, are more susceptible to forced outages. For example, in 2005/2006, Pickering A and B have had availability factors in the 70% to 78% range, compared to Darlington, which is newer and has had an average availability of 90%. OPG is undertaking a business case examination on the feasibility of the potential refurbishment and life extension of its Pickering B nuclear station.

(2) (2) A long-term risk facing OPG with respect to its nuclear facilities (as well as those leased to Bruce Power) is uncertainty with respect to the cost of long-term used fuel storage and future decommissioning costs. Under the ONFA, OPG bears the risk and the liability for cost increases and fund earnings in the DF. As at September 30, 2007, the DF is overfunded compared with the estimated completion costs for nuclear fixed-asset removal and the disposal of low- and intermediate-level nuclear waste materials per the most recently approved ONFA reference plan.

(3) The interim regulatory framework governing OPG, while an improvement over the previous pricing mechanisms, is less favourable than frameworks governing regulated electric utilities in many other jurisdictions in North America. OPG's regulated prices are supported by a deemed capital structure of 55% debt/45% equity for the regulated assets and an ROE of 5%. The 5% ROE and revenue cap on unregulated assets penalizes the Company more than other regulated electric utilities in the province. Both regulated transmission and distribution operations in Ontario, which have materially lower business risk profiles, have approved ROEs of 8.35% and 9% respectively. Furthermore, compared to vertically integrated utilities in the United States that have deemed equity components ranging from 35% to 55%, the ROEs are significantly higher, ranging from 9.0% to 13.0%. Additionally, there are generally no provisions under either the regulated or price-capped mechanisms under which operating cost increases (e.g., maintenance, fuel costs) can be recovered.

(4) OPG's fuel-price risk is mostly correlated to its fossil-fuel generation and, to a lesser extent, nuclear. The revenue rate cap currently imposed on fossil-fuelled generation does not account for an abnormal rise in coal prices or an unanticipated increase in coal use. To mitigate this risk, OPG has a fuel-hedging program for all fuel types. For 2007, 2008 and 2009, the Company has hedged 99%, 92% and 75% of its exposure, respectively. Therefore, margins can be constrained if fuel prices rise drastically, especially if the revenue cap is reached or if the volume of coal burned increases unexpectedly (as occurred during the past year).

(5) OPG is subject to political intervention, due largely to changes in government mandates and policies, as well as limits that restrict revenues and earnings should the price of electricity rise quickly. Due to political influence, OPG has been under-earning for a regulated utility. The Company is a creation of and wholly owned by the Province, therefore, it has been subject to various policy changes and interventions. DBRS notes the Province has committed to having OPG run more autonomously, however the risk of further government intervention still exists. The highly contentious policy review that centered on the closing of the coal-fired generating facilities in Ontario is a recent example of political issues that raise uncertainty for the Company and make it more challenging for OPG to undertake long-term strategic planning. In August 2007, the Province finalized a regulation that commits to eliminate the use of coal by December 31, 2014. Furthermore, in June 2007 and April 2007, the Province and Federal governments, respectively, introduced climate-change plans and environmental policies to reduce greenhouse gas emissions.

(6) OPG has a significant capital expenditure program underway and this is likely to increase given the potential new nuclear plants and the refurbishments of existing facilities under consideration. It is expected that OPG will not undertake any major capital projects without having its financing and a cost-recovery mechanism in place, thus minimizing the financial risks. It is also expected that OPG will turn to the OEFC or project-style financing in the capital markets to fund these projects. Although OPG may be able to reduce its risks through design-build contracts, some residual risk will remain on significant capital expenditures.

Regulation

Regulation pursuant to the Electricity Restructuring Act, 2004 (Ontario), allows OPG to receive regulated prices for electricity generated from its nuclear facilities (6,606 MW) and most of its baseload hydroelectric, namely Sir Adam Beck I, II and the Pump Generating Station; DeCew Falls I and II; and R.H. Saunders plant (totalling 3,332 MW), effective April 1, 2005. About 45% of OPG's installed in-service capacity, or 62% of its total generation output, is sold at regulated prices.

The initial regulated prices for electricity generated by OPG's regulated assets are:

- $33/MWh for the first 1,900 MWh in any hour of production from regulated baseload hydroelectric facilities; for production above 1,900 MWh in any hour, it will receive the Ontario electricity spot market price.
- $49.50/MWh for nuclear facilities.

These initial prices are expected to remain in effect until at least March 31, 2008, after which time the OEB will assume responsibility for establishing new regulated prices. Combined, this is expected to result in a weighted-average price of $45/MWh for regulated generation.

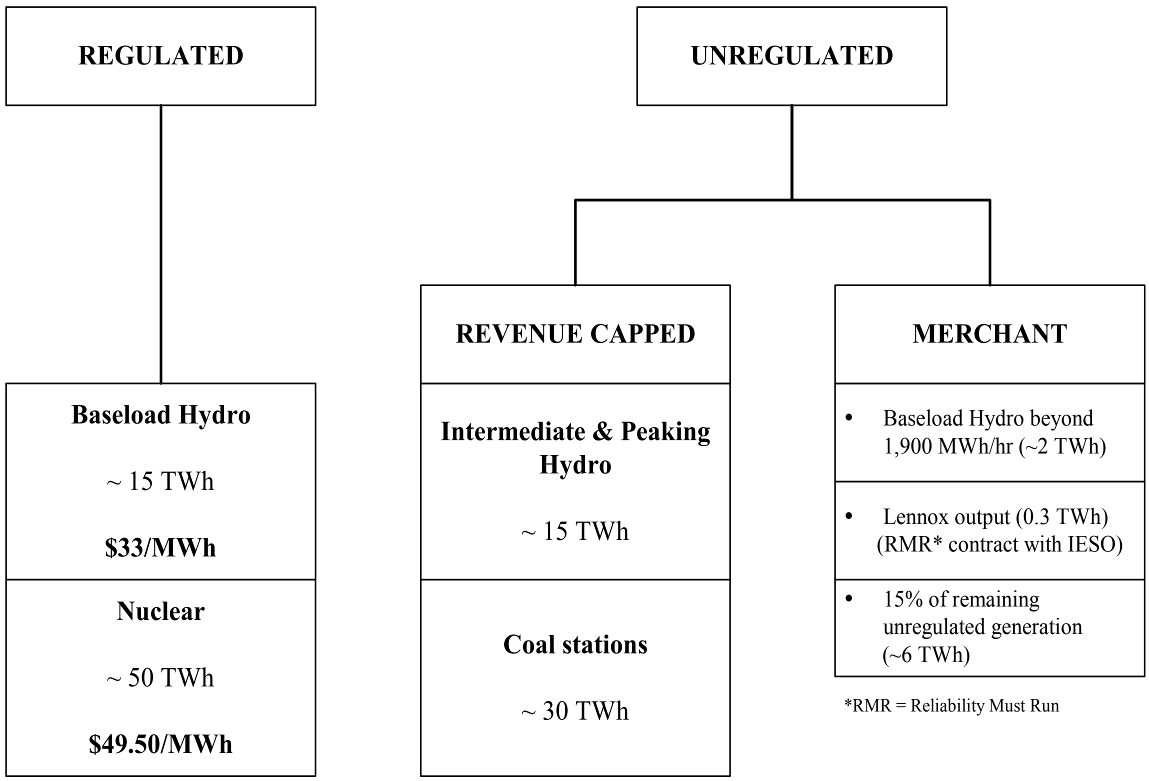
These regulated prices were established by the Province, based on a revenue requirement that takes into account a forecast of production volumes and total operating costs, a capital structure of 55% debt/45% equity for the regulated assets and an ROE of 5%.

The production from OPG's other generating assets remains unregulated and continues to be sold at the Ontario electricity spot market price. However, 85% of output from OPG's non-regulated generating facilities (with some exceptions) is subject to a revenue limit that was implemented on January 1, 2005. The revenue limit, which was originally established for a period of 13 months ending April 30, 2006, was subsequently extended for an additional three years. Starting May 1, 2006, the revenue limit decreased to 4.6¢/kWh from the previous limit of 4.7¢/kWh. On May 1, 2007, the revenue limit returned to 4.7¢/kWh and will increase to 4.8¢/kWh effective May 1, 2008 (compared to the 2007 year-to-date hourly Ontario spot market price (HOEP) of 5.0¢/kWh). In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the Ontario Power Authority (OPA) are subject to a revenue limit that is 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these limits are returned to the IESO for the benefit of consumers.

OPG must also maintain variance accounts for costs incurred and revenues earned or foregone on or after April 1, 2005, that are a result of differing amounts from the Province's forecasts that were used to establish the current regulated rates. These variance accounts capture differences that include poor hydrological conditions, changes to regulatory requirements or technological changes, transmission constraints or outages and other events that are beyond OPG's control, such as acts of God. Recovery of items in the variance account will be subject to approval by the OEB. We note that increases in costs, such as fuel expense and maintenance, are generally not included in these variance accounts.

On November 2, 2007, OPG began the pre-submission consultations on its rate application for regulated assets. The Company intends on finalizing the rate application requesting new payment amounts to become effective April 1, 2008, for a 21-month period and submitting it to the OEB at the end of November 2007. The application, if approved, would result in a 14% increase in revenues from these assets and will result in OPG's first rate increase in three years.

OPG's Price Structure



- ROE of 5%
- Prices in effect until no earlier than March 31, 2008

85% of production capped (with some exceptions) at
$47/MWh May 1, 2007 to April 30, 2008 $48/MWh beyond May 1, 2008

Earnings and Outlook

Income Statement ($ millions)	12 mos ended Sept. 30, 2007	For the year ended December 31 2006	2005	2004	2003
Total revenues	5,594	5,564	5,798	4,926	5,178
EBITDA	1,285	1,583	1,878	1,076	993
Depreciation and amortization	658	664	753	765	603
Increase in net nuclear-related liabilities	16	128	95	140	192
EBIT	611	791	1,030	171	198
Gross interest costs	187	214	224	223	219
Net interest costs	150	193	197	189	144
Net income (before extras)	404	504	616	55	(29)
Non-recurring	(14)	(14)	(250)	(13)	(462)
Net income (as reported)	390	490	366	42	(491)
Return on avg. equity (before extras)	6.5%	9.1%	11.8%	1.1%	(0.6%)
EBIT by Segmented (before extras)					
Hydroelectric - Unregulated	349	375	423	n/a	
Fossil-fuel - Unregulated	45	(15)	189	n/a	
Total Unregulated	**394**	**360**	**612**	**228**	
Hydroelectric - Regulated	247	264	375	406	
Nuclear - Regulated	(99)	70	53	(468)	
Total Regulated	**148**	**334**	**428**	**(62)**	
Other *	69	97	(10)	5	
Total EBIT	**611**	**791**	**1,030**	**171**	

Note: With the introduction of rate regulation, reporting definitions of business segments were changed effect April 1, 2005.

* Includes EBIT associated with share of Brighton Beach joint venture, real estate rentals and trading activities. n/a=not available

Summary

Revenues have generally stabilized since the 2005 change to rate regulations that govern the nuclear and baseload hydro facilities.

The revenue reduction from 2005 levels is largely attributable to lower received pricing in 2006 as the revenue limit price was reduced ($0.046 in 2006 versus $0.049 in 2005) and lower wholesale prices on uncapped generation as the HOEP decreased materially from 2005 ($0.049 in 2006 versus $0.072 in 2005); and modestly lowered volumes in 2006 versus 2005 due to lowered demand attributable to less extreme weather in 2006 from 2005 (less heating and cooling degree days).

EBITDA has trended lower since 2005, largely due to reduced revenues (mentioned above), increased fuel costs as coal generation increased to compensate for lower nuclear output and increased OM&A attributable to higher pension and OPEB costs, as well as higher maintenance costs on nuclear and coal facilities. The negative impact on EBITDA of increased operating costs is a function of the pricing mechanics on the regulated and non-regulated but capped pricing assets; under which there is no recovery of increased costs such as fuel and OM&A.

Interest expense decreased on a last 12-months (LTM) basis, due to lower coupon rates and reclassification of interest expense related to Pickering A to a deferral account related to an amendment to regulation.

Outlook

In the near term, EBITDA and earnings should exhibit stability from current levels, although OPG's ability to manage costs will factor into this as cost fluctuations are generally not recoverable under either the regulated or revenue-capped assets. The Company is expected to submit a rate filing with the OEB on the regulated facilities, which OPG has stated would, if approved, result in a 14% rate increase, which would drive some improvement in margins. Additionally, market prices do impact the results on the non-price capped units, as evidenced by the 2005 earnings spike.

Interest expense is expected to increase in the medium term, given the debt financing required to fund the increased capital expenditures, therefore coverage ratios will slightly weaken.

Longer-term earnings growth will be largely driven by capital projects coming into service from both current projects (i.e., the Niagara tunnel) and the large prospective projects under consideration. The closing of the coal-fired units in 2014 should not materially impact EBITDA or earnings as these assets currently do not provide a significant margin due to the revenue caps currently in place.

Financial Profile

	12 mos ended	For the year ended December 31			
($ millions)	Sept. 30, 2007	2006	2005	2004	2003
EBITDA	1,285	1,583	1,878	1,076	993
Net income adj. for non-recurring	404	504	616	55	(29)
Depreciation and amortization	658	664	753	765	603
Incr. in net liab. on decom. & waste fuel mgm't	16	128	95	140	192
Future income taxes	(16)	26	38	(117)	(100)
Recurring non-cash adjustments	203	191	(20)	9	(184)
Cash Flow From Operations	1,265	1,513	1,482	852	482
n.w.f.* and decommissioning	(547)	(599)	(521)	(506)	(525)
Common dividends	(128)	(128)	-	-	(17)
Capital expenditures	(691)	(637)	(494)	(561)	(643)
Free Cash Flow Before Work. Cap. Changes	(101)	149	467	(215)	(703)
Working capital changes	118	316	(147)	(83)	166
Net Free Cash Flow	17	465	320	(298)	(537)
Revenue limit rebate (including MPMA rebate)	(18)	(699)	300	0	0
Other investments & adjustments	(155)	(147)	(179)	(19)	334
Net debt financing	113	(521)	465	33	(135)
Net change in cash and s.t. inv.	(43)	(902)	906	(284)	(338)
EBITDA interest coverage (times)	6.87	7.40	8.38	4.83	4.53
Fixed-charges coverage (times)	3.27	3.70	4.60	0.78	1.00
Senior debt-to-capital (1)	28.4%	31.0%	36.0%	34.1%	34.0%
Total debt-to-capital (2)	35.6%	31.0%	36.0%	42.6%	42.6%
Net total debt-to-capital (3)	34.8%	39.0%	37.9%	42.6%	40.7%
(Cash flow - n.w.f.*) / CAPEX	1.04	1.43	1.94	0.62	(0.07)
(Cash flow - n.w.f.*) / Total debt	19.4%	24.9%	22.9%	9.3%	(1.2%)

(1) Senior debt = Senior debt held by the OEFC + Bank debt + A/R securitization (2) Total debt = Senior debt + Subordinated debt held by the OEFC.

(3) Net debt-to-capital = (Total debt - Cash) / (Total capital - Cash).

* n.w.f. = nuclear waste funding. This is subtracted from cash flow because the payments are not discretionary.

Note: Debt ratios include receivable sales as a debt equivalent.

Summary

Cash flow from operations has largely tracked EBITDA trends, with recent lower revenues and non-recoverable cost increases reducing cash flow. However, a marked improvement is evident since the imposition of regulated pricing in early 2005. Capital expenditures have ranged from $500MM to $700MM since 2003, with recent levels above the 2005 low point, due to increased spending on initiatives including the Portlands Energy Centre, investments in coal and nuclear facilities, and the Niagara Tunnel project. Funding for nuclear fuel waste and decommissioning, however, has remained reasonably steady.

Dividends to the Province were reinstituted in 2006 with a $128 million payment, the first dividend paid since 2003.

Operating cash flow in 2005 and 2006 was sufficient to cover nuclear waste fuel and decommissioning expenses, as well as capital expenditures and common dividends; although a small deficit (before working capital) was recorded on an LTM basis. Again, this represents a large improvement over pre-2005 levels.

While debt levels have fluctuated modestly year-over-year, they have been essentially flat since 2003. So, as a result, key credit metrics (debt/capital, EBITDA/interest and cash flow/debt) have all improved since 2004. The modest debt swings in 2005 and 2006 were driven by the timing of remittances under the revenue limit and MPMA payments.

Outlook

In the near term, operating cash flows are expected to be reasonably stable, compared with current levels, and should be sufficient to fund maintenance, capital expenditures and nuclear-waste fuel and decommissioning expenses. However, given the growth/enhancement projects currently under construction (Niagara tunnel, Portlands etc.), and a large expected nuclear-funds cash contribution, we would anticipate free cash flow deficits to be incurred. Note this does not assume the undertaking on any of as-yet uncommitted capital projects (Pickering B refurbishment, Darlington new unit construction, etc.).

Capital expenditures are expected to average $700 million in each of 2008 and 2009 (excluding the additional costs of any new projects), resulting in modest free cash flow deficits that would be funded with a modest increase in debt. As debt is added to fund capital expenditures, credit metrics would be expected to decline from current levels, as assets do not generate earnings or cash flows until placed in service. Once in service, metrics would be expected to improve.

Longer term, cash flow will be driven by prices received on the regulated and price-capped units, and incremental cash flow generated from new assets. The inclusion of any of the material capital projects currently under consideration would be the key drivers of cash flow deficits. DBRS would expect the Province to forgo dividends at a time of increased capital expenditures.

Long-Term Debt Maturities and Credit Facilities

Long-term Debt September 30, 2007 (CAD millions)	2007	2008	2009	2010	2011 & Thereafter	Total
OEFC Senior debt	200	400	350	595	920	2,465
OEFC Subordinated debt	-	-	-	375	375	750
Brighton Beach project debt	-	-	-	-	189	189
Total	200	400	350	970	1,484	3,404

Credit Facilities as at Sept. 30, 2007 (CAD millions)

Bank facilities	Maturity	Amount	Outstanding	Available
Committed credit facility - Tranche 1	May 21, 2008	500	0	500
Committed credit facility - Tranche 2	May 22, 2012	500	0	500
Short-term uncommitted credit facilities	No Maturity	238	201	37
Short-term uncommitted overdraft facilities	No Maturity	25	0	25
Total		1,263	201	1,062
OEFC facilities				
Niagara Tunnel project facility	Nov. 30, 2010	1,000	240	760
Portlands Energy Centre project facility	Dec. 31, 2009	400	160	240
Lac Seul project facility	Dec. 31, 2009	50	20	30
General corporate facility	Mar. 31, 2008	500	100	400
Credit facility	Sept. 22, 2009	950	200	750
Total		2,900	720	2,180

The OEFC provides OPG with its long-term debt financing on a project-by-project basis. OPG currently has a total of $1,450 million of project facilities with $420 million drawn as of September 30, 2007, for the Niagara Tunnel, Portlands Energy Centre and Lac Seul projects under construction. It is expected that OPG will not undertake any major capital projects without being assured of financing and an in-place cost-recovery mechanism, thus minimizing the financial risks.

The current debt maturity profile is shorter than comparable entities, considering the remaining asset life. This necessitates continued financial support from the Province to refinance OEFC debt maturities. Currently, the OEFC provides credit facilities totaling $1,450 million that consist of a $500 million general corporate facility maturing March 31, 2008, and a $950 million refinancing credit facility maturing September 22, 2009. The OEFC agreed to provide OPG with these facilities to restructure the existing OEFC debt that matures from June 2007 to September 2010. The refinanced debt has a maximum term of ten years at fixed rates, which will extend the Company's debt maturity profile.

OPG's liquidity is adequate for the rating category. The Company has a $1 billion syndicated bank credit facility that backs its $1 billion commercial paper program. This facility is comprised of a 364-day, $500 million tranche maturing in 2008 and a five-year $500 million tranche maturing in 2012. No commercial paper was outstanding as at September 30, 2007.

OPG has $215 million of short-term uncommitted credit facilities that are used to support Letters of Credit and a $25 million short-term uncommitted overdraft facility. At September 30, 2007, a total of $201 million of Letters of Credit were issued.

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OPG's liquidity is also supported by its securitization agreement (maturing August 2009) with an independent trust to sell receivables up to a maximum of $300 million. As at September 30, 2007, the maximum $300 million was outstanding.

At September 30, 2007, OPG's holdings of asset-backed commercial paper was $103 million, of which the Company expects $45 million will be recovered in late 2007. This level of exposure is not viewed as a material credit concern for OPG given its sizeable liquidity position.

Capital Expenditure Outlook

Significant Projects	Fuel Source	Budgeted Cost (CAD millions)	CAPEX Spent As of Sept. 30, 2007 (CAD millions)	CAPEX Remaining As of Sept. 30, 2007 (CAD millions)	Additional Capacity (MW)	Forecasted Completion
Under Construction						
Niagara Tunnel	Hydro	985	281	704	1,600	Late 2009 to mid 2010
Portlands Energy Centre 50/50 Joint Venture	Cogen.	400*	244*	156*	550**	Q2 2009
Lac Seul	Hydro	47	38	9	13	Q2 2008

* Figures reflect OPG's 50% share of the cost in the joint venture **This capacity is the total for the facility

Capital expenditures for the year ended 2007 are expected to be approximately $700 million to $1 billion, including amounts for the Niagara Tunnel project, Portlands Energy Centre and Lac Seul project.

OPG manages its construction risk by contracting with third parties for the construction of the projects, thereby transfering some of the construction cost over-runs, schedule-adherence and other construct-related risks to the contractor.

The Niagara Tunnel project is expected to increase annual generation capacity of the Sir Adam Beck generating stations in Niagara Falls by approximately 1,600 MW. The completion date for the Niagara Tunnel project is still expected to be mid-2010, despite slower progress by the tunnel-boring machine. It is anticipated that the project will be completed within the budget estimate and it is being debt financed through the OEFC.

OPG is currently jointly developing the Portlands Energy Centre cogeneration facility with TransCanada Energy Ltd. OPG will proportionately consolidate their 50-per-cent interest in the 550 MW joint venture. The project remains on schedule; single-cycle operation is expected to be on line by June 2008 and combined cycle by Q2 2009. OPG's $400 million share of the cost is being debt financed through the OEFC.

OPG's capital program is expected to remain significant over the medium to longer term, due to the large number of projects in OPG's concept/development pipeline, most notably a potential refurbishment of Pickering B, new nuclear units Darlington, the Upper/Lower Mattagami hydro development and a possible re-powering of the Lakeview site.

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Company Profile

Generation Portfolio

	Per Cent	Capacity (MW)	Plant Availability 9 mos Sept/07	Year ended 2006	2005	2004
Nuclear						
Darlington	*16%*	3,512	91%	89%	91%	88%
Pickering A	*5%*	1,030	42%	72%	70%	76%
Pickering B	*9%*	2,064	75%	75%	78%	70%
	30%	6,606				
Fossil-Fuel (1)						
Nanticoke (Coal)	*18%*	3,933				
Lambton (Coal)	*9%*	1,975				
Atikokan (Coal)	*1%*	215				
Thunder Bay (Coal)	*1%*	310				
Lennox (Duel oil & gas)	*10%*	2,140				
	39%	8,573	89%	86%	84%	81%
Hydroelectric						
Non-regulated (1)(2)	*16%*	3,639	94%	98%	99%	99%
Regulated (1)(2)	*15%*	3,332	94%	99%	99%	98%
	31%	6,971				
Huron & Pickering (Wind)	*0%*	7				
Total Capacity	*100%*	22,157				

(1) Fossil fuel and Hydroelectric plant availability is measured by equivalent forced outage rate by business segment

(2) Total hydroelectric portfolio comprises 64 stations.

Ontario Power Generation is responsible for approximately 71% of the electricity generation in the Province. As of December 31, 2006, OPG had a total in-service capacity of 22,147 megawatts (MW) and generated 105.2 terawatt hours (TWh) of electricity during the year. OPG's electricity-generating portfolio consists of the following:

- Three nuclear generating stations (Pickering A, Pickering B and Darlington), with a capacity of 6,606 MW.
- Five fossil-fuelled generating stations with a capacity of 8,578 MW.
- 64 hydroelectric generating stations with a capacity of 6,956 MW.
- Three wind-generating stations (which includes a 50% interest in the Huron Wind joint venture) with a capacity of 7 MW.

OPG partnerships consist of:

- OPG, ATCO Power Canada Ltd. and ATCO Resources Ltd. co-own the Brighton Beach Generating Station, a 580 MW natural gas-fired generating station.
- OPG jointly owns with TransCanada Energy, the Portlands Energy Centre, a 550 MW natural gas-fired generating station that is currently under construction.
- OPG also owns two other nuclear generating stations, Bruce A and Bruce B, which are leased on a long-term basis to Bruce Power L.P.

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Balance Sheet ($ millions)	As at Sept. 30, 2007	As at December 31 2006	2005		As at Sept. 30, 2007	As at December 31 2006	2005
Cash + short-term investments	235	6	908	Debt due one year	406	421	806
Accounts receivable	230	256	538	A/P + accr'ds + other	1,019	1,132	1,051
Future income taxes	-	-	18	MPMA rebate	67	40	739
Fuel	508	669	581	**Current Liabilities**	1,492	1,593	2,596
Material & supplies	178	112	115	Long-term debt	2,248	2,203	2,339
Current Assets	1,151	1,043	2,160	Subordinate l.t. debt	750	750	750
Net fixed assets	12,761	12,761	11,412	Waste mgmt. liab.	10,857	10,520	8,759
Defined pension assets	722	706	663	Other liabilities	589	539	580
Regulatory & other assets	791	646	600	Post-employ. benefits	1,529	1,396	1,212
Nuclear waste management fund	8,743	7,594	6,788	Equity	6,703	5,749	5,387
Total	24,168	22,750	21,623	**Total**	24,168	22,750	21,623

	12 months ended	For the year ended December 31			
Liquidity & Cash Flow Ratios	Sept. 30, 2007	2006	2005	2004	2003
Current ratio	0.77	0.65	0.83	0.73	0.87
Cash flow / CAPEX	1.83	2.38	3.00	1.52	0.75
(Cash flow - n.w.f.*) / CAPEX	1.04	1.43	1.94	0.62	(0.07)
(Cash flow - n.w.f.* - Dividends) / CAPEX	0.85	1.23	1.94	0.62	(0.09)
(Cash flow - n.w.f.*) / Total debt	19.4%	24.9%	22.9%	9.3%	(1.2%)
Leverage Ratios					
Senior debt-to-capital (1)	28.4%	31.0%	36.0%	34.1%	34.0%
Total debt-to-capital (2)	35.6%	39.0%	43.8%	42.6%	42.6%
Net debt-to-capital (3)	34.8%	39.0%	37.9%	42.6%	40.7%
Total gross debt / EBITDA	2.88	2.32	2.23	3.47	3.72
Coverage Ratios (4)					
EBIT interest coverage	3.27	3.70	4.60	0.77	0.90
Fixed-charges coverage	3.27	3.70	4.60	0.78	1.00
EBITDA interest coverage	6.87	7.40	8.38	4.83	4.53
Earnings Quality & Operating Efficiency					
Fuel costs / Revenues	22.0%	19.7%	22.4%	23.4%	32.4%
EBIT margin	10.9%	14.2%	17.8%	3.5%	3.8%
Net margin (before extras)	7.2%	9.1%	10.6%	1.1%	(0.6%)
Return on average equity (before extras)	6.5%	9.1%	11.8%	1.1%	(0.6%)
Profit returned to gov't (before extras)	49.9%	46.6%	34.5%	35.6%	127.4%
Common dividend payout (before extras)	31.7%	25.4%	0.0%	0.0%	(58.6%)

* n.w.f. = nuclear waste funding. This is subtracted from cash flow because the payments are not discretionary.

(1) Senior debt = Senior debt held by the OEFC + bank debt + securitization of receivables.

(2) Total debt = Senior debt held by the OEFC + bank debt + securitization of receivables + subordinated debt held by the OEFC.

(3) Net debt-to-capital = (Gross debt - cash) / (Total capitalization - cash).

(4) EBIT includes interest income. Interest expense before capitalized interest, AFUDC and debt amortizations.

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Rating

Debt	Rating	Rating Action	Trend
Commercial Paper	R-1 (low)	Confirmed	Stable
Unsecured Debt*	A (low)	Confirmed	Stable

* Debt held by the Ontario Electric Finance Corporation.

Rating History

	Current	2006	2005	2004	2003	2002
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Unsecured Debt	A (low)	A (low)	A (low)	A (low)	A (low)	A

Related Research

- Comments on ABCP Exposure, August 28, 2007
- Ontario Power Generation Inc., August 3, 2006
- Comments on New Electricity Pricing, February 23, 2005

Note:
All figures are in Canadian dollars, unless otherwise noted.

STANDARD & POOR'S CANADIAN RATINGS

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Ontario Power Generation Inc.

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Corporate Credit Rating

BBB+/Positive/--

Financial policy:
Moderate
Debt maturities:
2006 C$800 mil.
2007 C$400 mil.
2008 C$400 mil.
2009 C$350 mil.
2010-2012 C$1,745 mil.

Outstanding Rating(s)	
Ontario Power Generation Inc.	
CP	
Local currency	A-2
Ontario (Province of)	
Corporate Credit Rating	AA/Stable/A-1+
Sr unsecd debt	AA
Hydro One Inc.	
Corporate Credit Rating	A/Stable/A-1
Sr unsecd debt	
Local currency	A
CP	
Local currency	A-1

Corporate Credit Rating History	
Oct. 12, 2001	BBB+

Major Rating Factors

Strengths:

- Dominant position in a market with a strong and diversified economic base
- Government ownership and implied financial support
- Diversified portfolio of generating assets
- Low cost hydroelectric assets with river system diversity

Weaknesses:

- Uncertain sales volumes due to seasonality of electricity demand, variability in both river flows and asset operating performance
- Below-average financial profile related to low allowed returns on

regulated operations and an interim revenue cap on nonregulated operations

- Operational challenges at nuclear and coal-fired facilities
- Nuclear technology exposes company to significant risk and potential for unexpected large capital expenditures

Rationale

The ratings on Ontario-based electricity generator Ontario Power Generation Inc. (OPG) reflect the close relationship between the company and its higher rated owner, the Province of Ontario (AA/Stable/A-1+). Secure cash flows derived from OPG's regulated nuclear and regulated hydroelectric assets, a diverse portfolio of generating assets, and a strong cost competitive position in the Ontario wholesale electricity market further support the ratings. These strengths are partially offset by operational and technology risk associated with its nuclear assets, volume risk related to OPG's unregulated coal and hydroelectric assets, a price cap on the bulk of unregulated commodity sales, and a below-average but improving financial position.

OPG's ownership by the province significantly enhances the creditworthiness of the company. The close relationship between OPG and the province is expected to continue. This view is supported by the company's strategic position in Ontario's electricity sector and overall economy. The province's demonstrated willingness to financially assist the business and stated intention to continue to direct the company's future investments in major new generation is further evidence of a close relationship. The province has made a commitment to provide OPG with 100% debt financing for the C$1 billion Niagara tunnel project announced in September 2005. All of OPG's long-term debt is in the form of notes payable to the province. Furthermore, the likelihood of the privatization of OPG or further divesting of significant assets appears low.

Cash flow from all of OPG's nuclear production and a portion of its hydroelectric production is supported by a legislated fixed price of C$49.50 per MWh and C$33 per MWh respectively, until 2008. Based on forecast production, operating costs, and existing capital structure, the company should be able to earn about a 5% return on equity from its regulated operations that generate more than half of energy revenues. The ability to recover significant unexpected capital and operating costs offsets some of the potential negative financial impact related to the company's inherent operational risks. Cash recovery of these costs, if approved by the regulator, would be unlikely to begin before 2008 and could be spread out over a three-year period. If necessary, the generator may apply for a price increase before the implementation of full regulatory oversight by the Ontario Energy Board (OEB; the province's independent regulator) expected in 2008.

The fuel diversity and large number of units in OPG's generation portfolio mitigate the risk of operational disruptions and enhance the company's business position. The portfolio includes base-load nuclear (6,618 MW), predominantly run-of-the-river hydroelectric (6,962 MW), intermediate coal-fired (6,438 MW), and peaking gas- and oil-fired (2,140 MW) generation assets. Furthermore, OPG's hydroelectric assets are on multiple river systems, the diversity of which serves to partially offset OPG's exposure to hydrology risk. All told, the company's asset base includes more than 75 generating units with capacity ranging from 50 MW to more than 800 MW each.

OPG has a strong cost-competitive position in its primary market. The combined output of the generator's base-load regulated assets (about 60 TWh per year) is among the lowest cost generation in the province and is not exposed to significant dispatch risk. The Ontario electricity market can absorb all available nuclear generation output from OPG and its competitor Bruce Power Inc. (Bruce Power). OPG's unregulated hydroelectric generation can easily compete with higher cost oil- or gas-fired production to meet intermediate and peaking demand in the Ontario electricity spot market. Further strengthening its market position, OPG is the only Ontario-based coal-fired generator and the dominant player in the Ontario market, producing two-thirds or more of the approximately 150 TWh of electricity sold in Ontario each year.

There is significant operational and technology risk associated with nuclear generating assets. OPG operates 10 of its 12 CANDU nuclear units at its three stations. Technical challenges associated with key components of the facilities have the potential to expose the nuclear units to lengthy outages and have negatively affected operational and cash flow performance in recent years. Although similar in concept, each station has design differences that add to the complexity of monitoring and maintaining their performance. OPG has a nuclear liability risk-sharing agreement with the province that caps the company's used nuclear fuel liabilities. Furthermore, OPG will have access to segregated funds to manage the costs associated with used fuel and eventual nuclear decommissioning. Until 2008 OPG is required to make a cash payment of C$454 million per year to the fund. Post 2008, annual contributions are scheduled to be reduced by about 15% but will remain a significant and ongoing drain on funds from operations (FFO) available to meet the company's debt and interest obligations.

Cash flow derived from OPG's unregulated coal-fired and hydroelectric assets is exposed to variability in production. Although cost-competitive with oil- or gas-fired generators, OPG's coal-fired fleet is exposed to competitively priced imports from neighboring markets. Furthermore, wear and tear on the coal-fired plants, that frequently ramp up and down, result in maintenance outages that can also reduce total output. Volume risk associated with OPG's unregulated hydroelectric production is due to the inherent uncertainty of available water flows. The reliability and availability of OPG's hydroelectric assets, however, is strong. OPG does not have significant water storage capability but is able to take some advantage of peak prices on a daily and weekly basis.

Until April 30, 2006, there is a C$47 per MWh revenue cap on approximately 85% of production from OPG's unregulated assets that limits the company's opportunity to increase cash flow from spot market sales. At the same time, the price cap on unregulated production is not a guaranteed floor. A small portion of OPG's cash flow remains exposed to volatile commodity prices. Given rising energy and electricity prices and the track record of government price setting in Ontario, there is some risk that the revenue cap will be extended.

Although OPG's financial profile has been weak in the past several years, it has shown improvement in 2005 and is expected to continue to strengthen in 2006. In assessing OPG's key credit ratios, such as FFO interest coverage and FFO to total debt, cash payments to segregated nuclear liability funds are deducted from cash flow from operations. Based on forecast production and the regulatory pricing scheme implemented May 1, 2005, FFO interest coverage could exceed 4x in 2005, after taking into consideration cash rebate payments related to the revenue cap due in May 2006, as compared with 3x coverage achieved in 2004. Furthermore, assuming the C$47 per MWh revenue cap on OPG's nonregulated output is removed as of May 1, 2006, and a full year's production from a second refurbished nuclear unit is achieved, FFO interest coverage could exceed 5x in 2006. On the same basis, FFO-to-total-debt is expected to increase to about 17% in 2005 and to or above 20% in 2006, as compared with about 10% in 2004. Total-debt-to-total-capital on an adjusted basis is expected to be about 42% in 2005 but based on the company's current plans for debt reduction, could improve in 2006 and 2007. On a forward-looking basis, given significantly higher FFO and lower capital expenditures, the company anticipates being in a position to repay C$1.2 billion in debt maturing in 2006 and 2007 that would contribute to further improvement in cash flow credit metrics. The extent of this marked improvement to cash flow adequacy, however, is subject to market price volatility, the lifting of the revenue cap, and the operating performance of OPG's generating assets, in particular its nuclear fleet.

Liquidity
Based on available credit lines, cash, expected cash flow, and demonstrated support from its government shareholder, OPG's liquidity should be sufficient to meet cash outlay commitments in the next 12 months.

OPG's C$1 billion fully committed credit facility has a C$500 million 364-day term tranche maturing May 23, 2006, and a C$500 million three-year term tranche maturing May 23, 2008. The facility serves as a backstop to the generator's C$1 billion CP program. At Sept. 30, 2005, the full amount under the credit facility remained available as no CP had been issued and the bank line remained undrawn. The C$1 billion bank facility remains available to support collateral requirements that could arise from the company's exposure to commodity market-related financial settlement risk. In addition, as of Sept. 30, 2005, OPG had about C$215 million (unaudited) under its separate standby LOC facilities, and C$549 million in cash and cash equivalents. A significant portion of the company's cash on hand is earmarked for rebate payments, due in May 2006, related to the C$47 per MWh revenue cap.

Based on average production of about 110 TWh and assuming the C$47 per MWh revenue cap on output from nonregulated assets is removed effective May 2006, OPG can expect to generate more than C$1 billion in FFO in 2006. Capital expenditures of about C$500 million (excluding the Niagara tunnel project) are anticipated in 2006, similar to about C$540 million in 2005. Given significantly improved earnings, the company is expected to resume dividend payments based on its 35% payout policy expected to be equivalent to about C$250 million in 2006. OPG plans to use any remaining cash flow to pay down debt maturing in 2006. Ongoing financial support from its shareholder enhances OPG's liquidity. Earlier in 2005 OPG borrowed an additional C$495 million from its shareholder to partially fund its 2005 cash requirements. OPG has access to a further C$200 million in preapproved funds from its shareholder until March 31, 2006.

Outlook
The positive outlook reflects the expectation of a significant improvement to OPG's cash flow and credit metrics in 2006 due to increased nuclear output and a full year of higher regulated prices. The anticipated removal of the C$47 revenue cap on 85% of OPG's unregulated output as of May 1, 2006, should also contribute to an improved financial position in 2006 and 2007. The positive outlook is further supported by the expectation of a period of relative stability in both Ontario's electricity policy and regulatory framework, and increasing transparency in decisions affecting the company's financial profile. The outlook could be revised to stable as a result of lower-than-expected market prices or significantly lower-than-expected electricity production due to operational or technological challenges at the company's nuclear facilities. A material change in the shareholder relationship is not expected to lead to a higher rating but could lead to a lower rating. Should the expected improvement in cash flow credit metrics materialize in 2006 and be considered sustainable in years beyond, the rating will likely move a notch

higher.

Business Description

OPG, wholly owned by the Province of Ontario, is an electricity generator with both regulated (nuclear and hydroelectric) and unregulated (coal, hydroelectric, and oil- and gas-fired) assets. In addition to energy revenues, the company receives payments from Bruce Power L.P. that operates OPG's Bruce A and Bruce B nuclear stations under a long-term lease arrangement, and revenues from sales of radioactive isotopes used for medical treatments. The company also undertakes power-marketing activities; however, it is a minor part of its operations, representing less than 2% of total revenue.

Rating Methodology

Government shareholder support is a significant factor (two notches) in the final rating outcome on OPG. For a more detailed outline of the application of the government support methodology, the basis of the two-notch rating uplift, and circumstances where the level of implied government support can differ between related entities refer to "Credit FAQ: Implied Government Support As A Rating Factor For Hydro One Inc. And Ontario Power Generation Inc." published Oct. 20, 2005, on RatingsDirect, Standard & Poor's Ratings Services' Web-based credit research and analysis system, at www.ratingsdirect.com. For a more detailed outline of the rating criteria used, refer to "Revised Rating Methodology For Government-Supported Entities" published June 5, 2001.

Business Risk Profile

Profitability

OPG's profitability is a function of the fixed prices received for the output from its regulated nuclear and hydroelectric assets and the company's ability to meet its targeted nuclear production without exceeding forecast operating costs. Improved profitability will require prudent cost control and effective management of the company's ongoing maintenance and capital expenditure programs. A mechanism under the company's new license agreement serves to mitigate the potential negative impact on earnings of some cost overruns. The mechanism allows OPG to defer unexpected operating costs at OPG's regulated facilities and seek approval from the regulator for cost recovery post 2008.

Profitability of OPG's merchant segment is also a function of available hydrology and constrained by a government-imposed revenue cap that is in effect until April 2006. It is likely that OPG will earn an average C$47 per MWh on 85% of unregulated generation output until the revenue cap is removed. This average price implies a significant margin on unregulated hydroelectric output but a very modest margin for coal-fired production given rising fuel costs. OPG's owner has the legislative authority to extend or revise the revenue cap currently constraining profitability. Upside potential on the remaining 15% of OPG's unregulated merchant production, not subject to the revenue cap, is a function of electricity spot market prices, coal prices, and the U.S./Canadian exchange rate.

Regulation

OPG's satisfactory business profile is supported by price regulation of its key base-load assets. The transitional price cap regulation is intended to allow OPG to recover allowed costs and earn a return of 5% on equity for its regulated assets based on a notional 55% debt and 45% equity split of the regulated asset value in 2004. If OPG's costs or output performance differs from planned levels, OPG could earn more or less. Based on forecast production, OPG expects to receive an average price of C$45 per MWh from the combined output of its regulated nuclear (C$49 per MWh) and regulated hydroelectric assets (C$33 per MWh). OPG's regulated facilities include the Niagara River plants, the St. Lawrence River plant, the Pickering Nuclear Generating Station (A and B) and the Darlington Nuclear Generating Station. Total output from these facilities represents 41% of total Ontario generation (2005 estimate) and about 50%-60% of OPG's energy-related revenue.

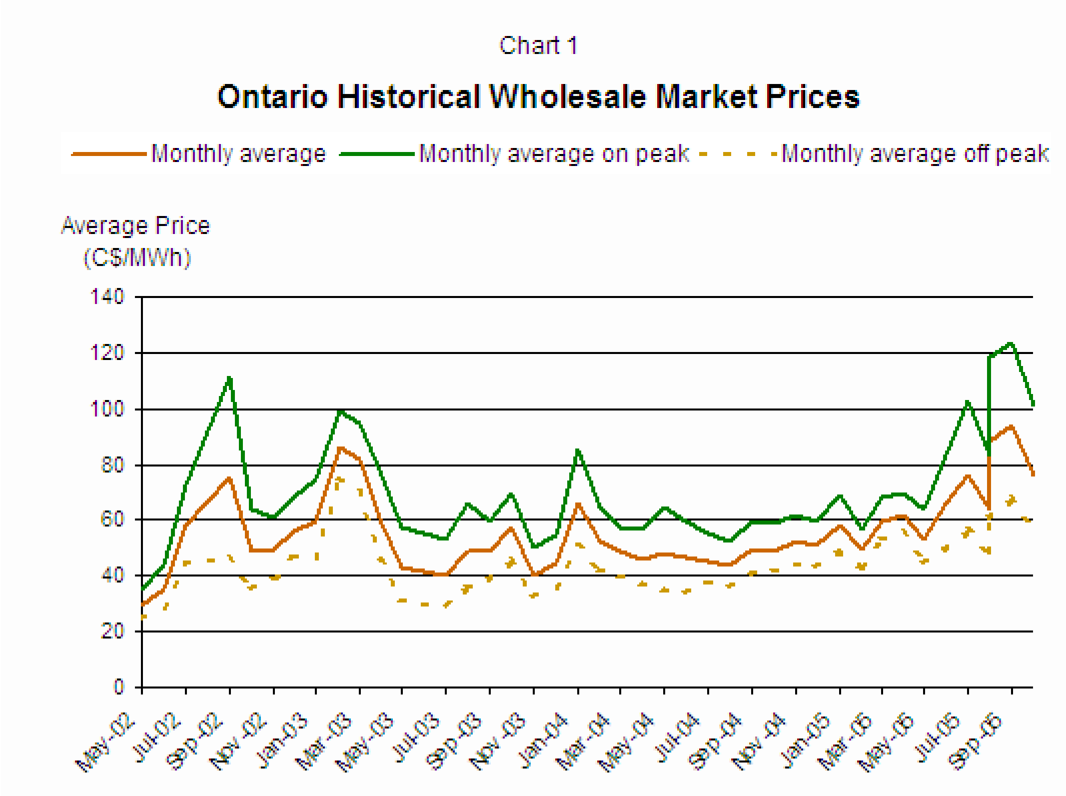
Recent legislative changes have created a transitional, slightly more transparent, pricing framework. The current pricing scheme, effective April 1, 2005, will remain in place until the OEB assumes regulatory oversight of the generator in 2008 or later. During the transition period, OPG is able to apply to its shareholder for adjustments to the current regulated price caps. OPG will track revenue and expenditures, and establish variance and deferral accounts related to unexpected operational costs OPG deems beyond its immediate control. The OEB will determine treatment of any established variance accounts; however, OPG is unlikely to benefit from any related cost recovery prior to 2008. Furthermore, post 2008, it is likely that the company's regulated rate base will be adjusted upward by the value of capital expenditures undertaken in the next few years that serve to extend operations or increase output of OPG's regulated facilities.

It will be several years before the nature of the OEB's eventual regulatory framework and of its relationship with OPG can be fully assessed. Although the regulator's independence with respect to local distribution companies in Ontario has improved significantly as a result of legislative changes since 2002, OPG is likely to be the first and only generator to fall under OEB's regulatory oversight. It remains to be seen whether the capital structure and returns allowed by the regulator post 2008 will reflect the much higher operating risks associated with electricity generation (including hydrology risk and nuclear technology risk) as compared with the low risk profile of distribution and transmission companies. For regulatory purposes, the capital structures of transmission and distribution utilities in Ontario have equity layers of between 35% and 45% and allowed returns on equity of 9% in 2006.

Markets

OPG operates primarily in Ontario, which is viewed as an above-average market characterized by a strong provincial economy and economic fundamentals that compare favorably with national averages. The growing province of Ontario, with a population of 12.4 million as of 2005, accounts for 40% of Canada's GDP. Ontario's GDP growth rate, which has generally outpaced the national average, has grown an average of 4% (nominal) per year during the period 2000-2004. In its May 2005 budget, the province forecast real GDP growth of 2.0% in 2005 and 2.8% in 2006.

Total electricity consumption in Ontario totaled 153 TWh in 2004 and is expected to continue to grow in the long term at about 1% per year. Steady growth in energy usage is due to increased commercial and residential consumption, mitigated by a decline in consumption by the Ontario manufacturing and resource base segment. Increased residential demand is due to recent strong increases in housing construction and a growing air-conditioning load. Average historical prices in the Ontario spot market for 2003, 2004, and the first three quarters of 2005 were C$57.60, C$52.20, and C$71.20 per MWh, respectively (see Chart 1). During the years 2006 and 2007 (prior to new gas capacity replacing OPG's coal-fired capacity), given a return to average available hydrology in Ontario, expected nuclear output, and normal weather conditions, the rolling 12-month average electricity spot price could decrease modestly from its current level of about C$65 per MWh.



Operations
The excellent diversification of OPG's existing generation portfolio (see Table 1 and Table 2), that serves to mitigate cash flow exposure to hydrology and nuclear-related operating risks, is expected to decrease significantly. By 2009 the company is expected to cease operations of its more than 6,000 MW of coal-fired generation to comply with its owner's energy policy. The company may, however, retain about 2,500 MW of gas- or oil-fired production capacity. OPG's generating assets produced 105 TWh during 2004 of which about a third was derived from hydro, about 40% from nuclear, and about a quarter from coal.

Table 1 Ontario Power Generation Inc. Generation Portfolio			
	MW	**Fuel**	**Regulatory Status**
Nanticoke	3,938	Low sulphur coal	Unregulated
Lambton	1,975	Low sulphur coal	Unregulated
Thunder Bay	310	Lignite	Unregulated
Atikokan	215	Lignite	Unregulated
Lennox	2,140	Oil/Gas	Unregulated
Total fossil fuel capacity	8,578		
St Lawrence River	1,045	Hydro	Regulated
Niagara	2,326	Hydro	Regulated
Mattagami	495	Hydro	Unregulated
Ottawa River	912	Hydro	Unregulated
Madawaska River	615	Hydro	Unregulated
Abitibi River	501	Hydro	Unregulated
Other rivers	1,068	Hydro	Unregulated

Total hydroelectric capacity	6,962		
Pickering A	1,030	Uranium	Regulated
Pickering B	2,064	Uranium	Regulated
Darlington	3,524	Uranium	Regulated
Total nuclear capacity	6,618		
Total capacity	22,158		
N.M.--Not meaningful. Data as of Sept. 30, 2005.			

Table 2 Ontario Power Generation Inc. Portfolio Diversification		
	MW	**Portfolio Diversification (%)**
Fossil fuel capacity	8,578	39
Hydroelectric capacity	6,962	31
Nuclear capacity	6,618	30
Total capacity	22,158	100
Regulated 2005	9,989	45
Regulated post 2008 after coal plants are shut down	9,989	61
Data as of Sept. 30, 2005.		

OPG's hydroelectric assets have lower operating risk than either the coal-fired or nuclear-fueled assets, as illustrated by strong capability factors and low forced outage rates. OPG is expected to continue to invest a modest but appropriate level of capital in its long-lived hydroelectric assets. Capital spending of C$300 million is earmarked for hydroelectric maintenance in the period 2006 to 2009 but also targets modest increases in station capacity. Although the in-service dates of the company's hydroelectric assets range from 1898 to 1971, OPG's two largest hydroelectric facilities (representing about 36% of OPG's total hydroelectric capacity) are among the youngest at about 50 years old.

Achieving an improvement in the overall performance of the company's entire nuclear fleet is a key challenge for OPG. Capability factors are reported quarterly for each of the three nuclear stations. OPG has typically been unable to meet targeted performance in the past several years in part due to longer-than-anticipated maintenance and inspection outages. The future performance of the Pickering A station, which includes two refurbished operating units, one of which returned to service in 2003 and the other in November 2005, remains uncertain. Although the performance of the Pickering B station has improved significantly as of Sept. 30, 2005, compared with previous years, it remains below historical global standards (see table 3). Darlington, the newest of the three stations, has performed consistently better than Pickering A and B stations.

Table 3 Ontario Power Generation Inc.--Historical Nuclear Performance										
	2005		**2004**		**2003**		**2002**		**2001**	
	Target	Actual*	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Capability Factor¶										
Industry benchmark	N/A	N.A.	N/A	N.A.	N/A	91.3	N/A	91.3	N/A	90.6
Pickering A§	94.7	60.0	77.9	73.3	91.0	70.3	N/A	N/A	N/A	N/A
Pickering B	76.3	79.8	73.0	69.7	81.0	67.8	80.5	80.9	76.1	73.3

Darlington	91.5	90.0	87.7	87.5	84.3	81.7	89.9	90.3	88.1	85.8
*As of Sept. 30, 2005. ¶Capability factor represents the amount of electricity the station is actually capable of producing as a percent of its potential capacity. §Prior to 2003, all four nuclear units at Pickering A were not operational. N.A.--Not available. N/A--Not applicable.										

The company's coal-fired units were designed to run as midmerit units with capacity factors typically below 50%. Despite the wear and tear of higher-than-expected production in the past several years, net capability factors for OPG's aging coal-fired plants remain better than 70%. The shutdown of 1,140 MW of coal-fired capacity at OPG's Lakeview facility in early 2005 and abnormal weather-related peak demand in the summer challenged OPG's remaining coal operations in 2005. The return to service of about 2,400 MW of base-load nuclear generating capacity in the Ontario market since October 2004, however, has served to offset demand for fossil fuel-fired generation production.

Fuel risk

Although operating risk is relatively low for OPG's hydroelectric generating units compared with the rest of the generation portfolio, variable hydrology is a significant risk. Two key assets on the Great Lakes, in addition to the benefits of more than 200 run-of-the-river plants on numerous river systems throughout the province, however, alleviate much of OPG's hydrology risk. This view is supported by OPG's consistent performance relative to peers despite several years of low water in most parts of Canada, including Ontario. In the past five years, OPG's total hydroelectric energy production has fluctuated by plus or minus 1%-6% from average historical annual production of 34.7 TWh. Total production was up at 35.7 TWh in 2004 as compared with 32.4 TWh in 2003. The Niagara Falls facilities (harness the water flow between two adjoining Great Lakes) produce almost 40% of OPG's hydro-based electricity output. A further 20% of OPG's hydroelectric production is derived from the St. Lawrence River that connects the Great Lakes to the Atlantic Ocean.

OPG's exposure to increasing coal prices is partially mitigated by its hedging program. As of Sept. 30, 2005, OPG had hedged 100% of its total estimated fuel (all fuels) requirements for 2005 and 93% of its 2006 estimated fuel requirement. About 90% of the coal used at OPG's fossil fuel stations is shipped across the Great Lakes with related fuel transportation risk. To mitigate this risk, OPG maintains sufficient inventories for typically higher demand winter months when the shipping lanes are closed. Fuel expense of about C$1 billion accounts for more than 70% of the total production cost of OPG's fossil fuel generation. The bulk of this cost represents purchases in U.S. dollars that expose OPG to some foreign-exchange risk.

Asset retirement obligations

The costs associated with the retirement of nuclear generation are material but OPG's exposure is mitigated to some degree by a growing cash reserve to fund nuclear asset decommissioning and waste management. In addition, OPG has established a nuclear liability risk-sharing framework with the province that will cap the company's exposure to nuclear-related liabilities at C$10 billion. As of Sept. 30, 2005, the fund had a fair value of C$7 billion.

Construction risk

OPG's near-term exposure to construction risk is limited. The company completed the refurbishment of a second nuclear unit, Unit 1, at its Pickering A station in 2005. The construction of a 10.4-kilometer tunnel at OPG's Sir Adam Beck facility at Niagara Falls has been contracted out as a fixed price turnkey project and, as such, presents limited liability to OPG. As OPG proceeds in the next several years with the shutdown of its coal-fired facilities, there is a likelihood of modest exposure to construction risk at site(s) where the government approves the construction of gas-fired replacements.

Within a 10-year time frame, however, further nuclear refurbishments are likely required given the average age of OPG's nuclear plants is 21 years of an expected 30-year life (with the potential for 10-year life extensions). It is unclear whether efforts to launch approvals for new nuclear capacity or major hydroelectric developments in Ontario will be forthcoming in the near term and if so, whether OPG will participate.

Competitiveness
OPG's strong competitive position in the Ontario electricity spot market is founded on the low marginal operating costs of its hydroelectric and nuclear generating facilities. Although there are other independent hydroelectric and nuclear operators participating in the spot market, the demand for energy and capacity is such that nuclear and hydroelectric generators have relatively modest exposure to dispatch risk. Access to interconnected markets in New York and Michigan where OPG's generation is also competitively priced (on a marginal cost basis) further reduces the company's dispatch risk. OPG's competitive position as a coal-fired generator is also strong. OPG owns all the coal-fired assets in Ontario and they are cost competitive with gas-fired production in Ontario and neighboring jurisdictions. OPG's volume of coal-fired production is most affected by weather conditions, OPG's and Bruce Power's nuclear unit availability, and available water flow in the province.

Hydroelectric imports from Quebec and Manitoba do not pose an immediate competitive threat to OPG, although they do provide Ontario with some added supply security. Imports from Quebec are exposed to transmission constraints and faster-than-expected growth in Quebec's domestic electricity demand. Imports from Manitoba are scheduled to increase modestly in 2006 and 2007 to assist with the tight supply in Ontario. Discussions continue at the provincial level regarding the potential for more significant imports from Manitoba and Quebec beyond 2015 that would involve major generation developments, in addition to significant transmission expansion in all three provinces.

Financial Risk Profile

Accounting
OPG's consolidated financial statements are prepared in accordance with Canadian GAAP. The accounting policies OPG adopted in preparing its 2004 financial statements appear reasonable. OPG has adopted several new accounting recommendations, none of which have a material effect on its financial statements. These include Accounting Guideline 13 regarding hedging relationships, the accounting of the disposal of long-lived assets and discontinued operations, and additional disclosure requirements of employee future benefits.

In assessing OPG's creditworthiness and overall financial profile, Standard & Poor's treats payments to nuclear waste and decommissioning funds as a cost of ongoing operations and deducts them from FFO before working capital, as presented in the company's financial statements.

In a bid to quantify the financial risk involved in trading activities, Standard & Poor's will, if appropriate, make an adjustment to a company's financial profile by adding a capital adequacy requirement to the balance sheet that is representative of the estimated market, credit, and operating risks associated with these activities. No such adjustment was made to OPG's balance sheet because, given the company's risk exposure, the amount was not material. Energy trading represents less than 2% of the company's total revenues.

OPG engages primarily in asset-backed physical trades, bought and sold at the Ontario border, and typical commitments are less than a year in duration. Counterparty risk for energy-trading transactions is concentrated in 'BB' territory but is very small.

Financial Policy: Moderate
OPG's moderate dividend policy is to pay the province, from time to time, approximately 35% of its net income in addition to special dividends related to the sale of assets. No dividends were paid in 2003 or 2004, however, OPG is expected to resume dividend payments based on anticipated 2005 earnings. Special dividends to the province have been paid in the past relating to the government-directed sale of the assets.

Although OPG's financial policy is to maintain total-debt-to-total-capital at 50% or less in the long term, this could change once the OEB assumes oversight of OPG's regulated assets in 2008 or later.

Cash flow adequacy
OPG's cash flow could almost double in 2005 to about C$640 million and potentially double again in 2006 to more than C$1 billion, as compared with about C$340 million in 2004. The expected improvement in cash flow is linked to increased margins resulting from a more favorable pricing scheme, and increased nuclear output resulting from improved overall performance and the return to service of Pickering A nuclear Unit 1. Further cash flow improvement in 2006 is premised on the removal of the C$47 per MWh revenue cap in May 2006 and average market prices above C$55 per MWh. Without the prospect of significantly improved cash flow on the immediate horizon, historical coverage levels, prior to the implementation of the new pricing scheme in second-quarter 2005, were insufficient to support an investment-grade rating on a stand-alone basis. OPG's weak credit metrics in 2003 and 2004, however, were less of a concern, given the company enjoyed and was expected to continue to benefit from meaningful shareholder support.

In the longer term, OPG's cash flow adequacy faces considerable challenges given the government's policy to phase out all coal-fired stations post 2007. OPG's credit metrics could be adversely affected in the longer term given the combined effect of lost revenues, significant capital spending associated with site remediation, and no reduction in related debt servicing requirements. These risks could be offset somewhat, by the conversion of the coal plants to an alternative fossil fuel, or by the sale of the sites with proceeds directed to remediation works or debt reduction. The timing of the coal plant retirements is uncertain and dependent on the successful construction of replacement capacity (primarily gas and wind) by independent generators and significant investment in Ontario's transmission infrastructure. A provincial election, likely in 2007, could also result in a change in energy policy.

OPG's sustaining, nondiscretionary capital expenditure program is significant at about C$500 million in 2006. Ongoing capital expenditures include the cost of maintaining OPG's existing fossil-fueled assets in good working order, maintaining almost 300 remote hydroelectric facilities, and ongoing care of 10 operating CANDU reactors. Although OPG faces significant uncertainty regarding its total level of capital expenditures, access to debt financing for shareholder-directed initiatives is not a concern, given that OPG's shareholder has consistently made additional funds available in a timely manner. To date, OPG's owner has directed the company to proceed with the Niagara tunnel project, and the conversion of OPG's Thunder Bay plant to gas from coal. During the next 10 years, it is unclear if the province will approve the refurbishment of OPG's Pickering B and Darlington nuclear stations or direct OPG to build or procure new nuclear facilities; either would involve billions of dollars of additional capital spending.

Liability management
Refinancing risk, related to debt maturities in 2006 that amount to about 25% of OPG's total debt, is not a concern, given OPG's relationship with its shareholder. All of OPG's debt is in the form of notes payable to its shareholder, who has consistently refinanced OPG's debt outstanding at maturity in each of the past three years. Average debt duration is relatively short, at about 3.5 years, compared with its long-life assets. Debt maturities are spread over the next seven years. Interest rate exposure is limited, given that rates are fixed for OPG's existing long-term debt.

The Niagara tunnel project, announced in September 2005, will be entirely debt financed by the province and as such does not present additional financing risk to OPG. Given the absence of any equity funding, when the asset is rolled into OPG's regulated rate base, likely in 2009, it will have a noticeable negative impact on the company's capital structure. The tunnel construction is expected to cost about C$1 billion and be completed during the period 2005 to 2009.

Financial flexibility
The keystone to OPG's average financial flexibility is its supportive owner, with deep pockets and demonstrated record of support. In the past two years the company has been able to negotiate the deferral of significant debt maturities with its owner. The shareholder has also demonstrated a willingness to forgo dividend payments and, if necessary, could be expected to support OPG's short-term liquidity, if only by allowing the deferral of various payments OPG makes to the province. Based on past experience, access to additional debt financing from OPG's owner is expected should it be required. Further flexibility is derived from the regulatory framework that includes an ability to recoup unexpected costs if approved by the regulator. Financial flexibility is restricted, however, by little discretionary capital spending, no indication of additional equity injections from the shareholder, political constraints on the sale of assets, and the potential for the province to direct the company to make investments in projects that the company's board of directors does not deem viable on a commercial basis.

Table 4 Ontario Power Generation Inc. -- Peer Comparison*

Industry Sector: Electric Utility Companies -- Canada

	--Average of past three fiscal years--			
	Ontario Power Generation Inc.	**TransAlta Corp.**	**Emera Inc.**	**Exelon Corp.**
Rating	BBB+/Positive/--	BBB-/Stable/--	BBB+/Negative/--	BBB+/Watch Neg/A-2
	(Mil. C$)	(Mil. C$)	(Mil. C$)	(Mil. US$)
Sales	5,280.7	2,356.9	1,226.7	14,735.3
Net income from cont. oper.	(134.0)	168.7	113.9	1,434.7
Funds from oper. (FFO)	205.7	545.5	277.7	3,718.3
Capital expenditures	691.0	622.4	127.6	1,995.3
Total debt	3,716.6	3,188.4	1,975.1	15,018.3
Preferred stock	0.0	359.2	263.0	256.3
Total capital	8,844.3	6,324.3	3,565.2	23,870.3

Ratios				
EBIT interest coverage (x)	0.1	1.5	2.1	3.9
FFO interest coverage (x)	2.3	3.2	2.7	5.5
Return on common equity (%)	(3.2)	5.4	8.4	17.1
NCF/capital expenditures (%)	23.3	58.6	136.9	152.6
FFO/total debt (%)	5.9	16.6	13.9	25.5
Total debt/capital (%)	42.0	50.4	55.4	63.7
*Adjusted by capital operating leases and off-balance-sheet obligations.				

Table 5 Ontario Power Generation -- Financial Summary*							
Industry Sector: Electric Utility Companies -- Canada							
	--Average of past three fiscal years--		**--Fiscal year ended Dec. 31--**				
Rating history			BBB+/Developing/--	BBB+/Watch Neg/--	BBB+/Watch Neg/--	BBB+/Stable/--	N.R.
	Sector median	**Issuer**	**2004**	**2003**	**2002**	**2001**	**2000**
(Mil. C$)							
Sales	901.6	5,280.7	4,918.0	5,178.0	5,746.0	6,239.0	5,978.0
Net income from cont. oper.	85.8	(134.0)	42.0	(491.0)	47.0	152.0	605.0
Funds from oper. (FFO)	215.0	205.7	335.0	30.0	252.0	738.0	1,033.0
Capital expenditures	124.7	691.0	561.0	643.0	869.0	739.0	585.0
Total debt	1,213.0	3,716.6	3,747.7	3,745.8	3,656.3	3,220.0	3,573.0
Total capital	2,398.3	8,844.3	8,768.7	8,724.8	9,039.3	8,690.0	9,390.0
Ratios							
EBIT interest coverage (x)	2.6	0.1	0.8	(1.5)	1.0	1.9	6.0
FFO interest coverage (x)	3.3	2.3	2.8	1.5	2.6	4.8	6.1
Return on common equity (%)	10.0	(3.2)	0.8	(10.5)	0.1	2.2	10.4
NCF/capital expenditures (%)	83.6	23.3	63.7	4.3	12.7	49.1	141.5
FFO/total debt (%)	18.7	5.9	9.1	1.1	7.6	21.7	29.5
Total debt/capital (%)	52.9	42.0	42.7	42.9	40.4	37.1	38.1
*Adjusted by capital operating leases and off-balance-sheet obligations. N.R.--Not rated.							

Ontario Power Generation Inc.

Credit Rating:
BBB+/Positive/—

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Rationale

The ratings on Ontario Power Generation Inc. (OPG), a large electricity generator, reflect the close relationship between the company and its higher rated owner, the Province of Ontario (AA/Stable/A-1+). A fixed price for output derived from OPG's baseload nuclear and hydroelectric assets, a diverse portfolio of more than 22,000 MW of in-service generating capacity, and a strong cost-competitive position in the Ontario wholesale electricity market, support OPG's cash flows and provide further credit strength. Operational and technology risk associated with its nuclear assets, revenue constraints, volume risk related to production from OPG's unregulated assets, and a satisfactory financial profile partially offset the company's credit strengths.

The government's demonstrated willingness to financially assist the publicly owned generator is reflected in a two-notch rating enhancement to the stand-alone long-term corporate credit rating on OPG. This view is supported by the company's strategic position in both the electricity sector and overall economy of Ontario. The government's continued direction of the company's investments in major new generation and provision of debt financing for the business is further evidence of a close relationship. Standard & Poor's is of the opinion that OPG is unlikely to be privatized in the foreseeable future. The government shareholder held OPG's notes payable of C$3.4 billion as of June 30, 2006, representing the bulk of OPG's debt outstanding.

Cash flow from all of OPG's nuclear and a portion of its hydroelectric production (derived from assets designated as regulated) is currently supported by legislated prices of C$49.50 per megawatt-hour (MWh) and C$33.00 per MWh, respectively, that are fixed until April 30, 2008. Based on forecast production, operating costs, and existing capital structure, the company should be able to earn about a 5% ROE from its regulated assets that generate more than half of its energy revenues. OPG can request future recovery of significant unexpected capital and operating costs associated with its regulated assets. Before the implementation of full regulatory oversight of these assets by the Ontario Energy Board (the province's independent regulator), which is expected in 2008, OPG may apply to its shareholder for an increase to the aforementioned legislated fixed prices.

The fuel diversity and large number of units in OPG's generation portfolio mitigate the risk of operational disruptions and enhance the company's business position. The portfolio includes baseload nuclear (6,606 MW), predominantly run-of-the-river hydroelectric (6,946 MW), intermediate coal-fired (6,438 MW), and peaking gas- and oil-fired (2,140 MW) generation assets. Furthermore, OPG's hydroelectric assets are on multiple river systems, the diversity of which serves to partially offset OPG's exposure to hydrology risk.

OPG has a strong cost-competitive position in its primary market, the Ontario wholesale electricity market. OPG is the dominant player in the Ontario electricity market, producing two-thirds or more of the approximately 150 terawatt-hours (TWh) of electricity sold in Ontario each year. The combined output of the generator's baseload regulated assets (about 60 TWh per year) is among the lowest cost generation in the province and, as such, dispatch risk is not material. The bulk of the remaining electricity demand in Ontario is met by competitive-based offers from OPG and other generators in an hourly spot market administered by the Independent Electricity System Operator.

There is significant operational and technology risk associated with nuclear generating assets. OPG operates 10 of its 12 CANDU nuclear units at its three stations. Technical challenges associated with key components of the facilities have the potential to expose the nuclear units to lengthy outages and have negatively affected operational and cash flow performance in the past. OPG's nuclear liability risk-sharing agreement with the province caps the company's used nuclear fuel liabilities and is a positive for the credit. Furthermore, OPG will have access to segregated funds to manage the costs associated with used fuel and eventual nuclear decommissioning. The decommissioning fund was fully funded as of June 30, 2006, based on the latest Ontario Nuclear Funds Agreement reference plan (from 1999).

OPG's nonregulated cash flow is constrained by a government-imposed revenue cap until April 30, 2008, and is also exposed to volume risk. The revenue cap affects approximately 85% of production from OPG's unregulated coal-fired and hydroelectric assets; the cap will rise to C$48/MWh in 2008/2009 from C$46/MWh in 2006/2007. Volume risk relates to fluctuations in Ontario-based market demand, the inherent uncertainty of available water flows, and competitively priced imports from neighboring markets. Cash flow from the remaining 15% of nonregulated production is exposed to volatile commodity prices but is not precluded from benefiting from higher market prices.

OPG's financial profile showed significant improvement in 2005, with funds from operations (FFO) interest coverage of 6.2x and FFO-to-average total debt of 30%, compared with 2.5x and 9%, respectively, in 2004. Much lower cash flow in 2004 was in large part due to the previous C$38/MWh revenue cap on 80% of the company's entire output. OPG can be expected to maintain FFO interest coverage of more than 5x in 2006 and 2007 and FFO-to-average total debt of about 30%. The marked improvement to cash flow adequacy is subject to market price volatility, available water resources for OPG's hydroelectric generation assets, and the operating performance of OPG's nuclear fleet. In assessing OPG's key credit ratios, such as FFO interest coverage and FFO-to-average total debt, cash payments to segregated nuclear liability funds are treated as an operating expense.

Liquidity

Based on available credit lines, cash on hand, expected cash flow, and credit facilities established with its shareholder to fund government directives, OPG's liquidity should be sufficient to meet cash outlay commitments in and the next 12 months.

OPG has a C$1 billion, fully committed credit facility with a C$500 million, 364-day term tranche maturing May 22, 2007, and a C$500 million, three-year revolving tranche maturing May 22, 2009. The C$1 billion facility serves as a backstop to the generator's C$1 billion CP program. At June 30, 2006, the full amount under this credit facility remained available as no CP had been issued and the bank line remained undrawn. As such, the facility remained available to support collateral requirements that arise from the company's exposure to commodity market-related risk. OPG also had about C$99 million available under its separate C$240 million standby LOC facilities. LOCs issued relate primarily to the company's pension obligations. OPG also has credit facilities in place with its shareholder to fully debt finance new developments under construction. In April, the company made its first 2005 rebate payment of C$739 million related to its revenue cap and as such its cash position as of June 30, 2006, of C$360 million was much lower than C$919 million as of March 31, 2006.

OPG can expect to generate about C$1.1 billion in FFO in 2006 after cash payments of C$454 million to its nuclear liability fund. Sustaining and growth capital expenditures of about C$750 million are expected in 2006, similar to the C$763 million spent in 2005. There is the potential for OPG's shareholder to expect the company to resume dividend payments. Based on the 35% dividend payout policy applied to 2005 earnings, the dividends could be as much as C$150 million in 2006. Should this be the case, OPG would have sufficient cash and credit facilities available to meet its capital commitments and distributions but would have less cash available to direct toward expected debt reduction.

Outlook

The positive outlook is an indication that the rating will likely move a notch higher if OPG can manage its expenses and operational performance within the bounds of its current license agreement and maintain its satisfactory financial profile in 2006 with a similar outlook for 2007 and beyond. For the rating to move a notch higher, there will also have to be an expectation of continued relative stability in both Ontario's electricity policy and regulatory framework. The outlook could be revised to stable or negative as a result of a sustained period of significantly lower-than-expected electricity production due to operational or technological challenges at the company's nuclear facilities, or higher operating expense due to poor hydrology and higher prices for coal, with no related increase to the revenue cap. As the shareholder relationship evolves in the long term, there could be a change to the degree of support factored into the rating.