FINANCIAL SUMMARY

1.0 PURPOSE

This evidence presents OPG's audited consolidated financial statements as well as the audited financial statements for the prescribed facilities for 2008 and 2009.

2.0 OPG'S CONSOLIDATED FINANCIAL STATEMENTS

OPG's consolidated financial statements are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). OPG is a reporting issuer under the *Securities Act* and is subject to continuous disclosure obligations under this Act. This includes the requirement to file annual and interim financial statements and certifications on internal control over financial reporting with the Ontario Securities Commission. The annual consolidated financial statements, which cover a fiscal year ending December 31, are audited.

The consolidated financial statements include the accounts of OPG and its subsidiaries. They provide financial information by business segment: Regulated – Nuclear Generation, Regulated – Nuclear Waste Management, Regulated – Hydroelectric, Unregulated – Hydroelectric, Unregulated – Thermal, as well as an "Other" category. Prior to the fourth quarter of 2008, OPG reported the financial results of the Regulated – Nuclear Generation and Regulated – Nuclear Waste Management segments in a single segment. Starting in the fourth quarter of 2008, the Regulated – Nuclear Waste Management segment was created in order to reflect a revised internal reporting structure and to improve the transparency of the information provided to stakeholders. This segment primarily reports the balances of OPG's nuclear decommissioning and nuclear used fuel and waste management obligations and nuclear segregated funds, as well as the associated revenues and costs (such as earnings/losses on the nuclear segregated funds, accretion expense, and the related impacts of the variance/deferral accounts). Asset retirement costs included in fixed asset balances and associated depreciation expense continue to be reported in the Regulated – Nuclear Generation segment. In accordance with GAAP, both nuclear segments include assets, liabilities, revenues and costs related to the Bruce facilities. These are included for external financial reporting purposes by virtue of their inclusion in the setting of the payment amounts by the OEB.

OPG's 2008 annual report, which includes audited annual consolidated financial statements and Management's Discussion and Analysis ("MD&A"), and OPG's 2009 financial results, including audited annual consolidated financial statements and MD&A, are presented in Attachments 1 and 2, respectively. OPG's financial statements and annual reports are also available on OPG's website at the following url:
http://www.opg.com/investor/fin_reports/index.asp

In accordance with GAAP, OPG's consolidated financial statements have recognized regulatory assets and liabilities for its regulatory operations since the introduction of regulated prices on April 1, 2005. Regulatory assets and liabilities recorded by OPG in the 2008 and 2009 audited consolidated financial statements reflect the variance and deferral accounts authorized by the OEB (see Exhibit H).

OPG's consolidated financial statements also reflect a regulatory asset related to future income taxes following the adoption of a new GAAP standard. Effective January 1, 2009, GAAP requires all rate-regulated entities to use the liability method of accounting for income taxes and, therefore, to record future income taxes in the financial statements. To the extent that future income taxes related to rate-regulated activities are expected to be recovered from, or refunded to ratepayers through future regulated payment amounts, GAAP requires OPG to recognize corresponding regulatory assets or liabilities. While these regulatory assets or liabilities appear on OPG's financial statements, they do not impact the revenue requirement and are not included in the variance and deferral account amounts presented in Exhibit H.

The adoption of other new GAAP standards since January 1, 2008 is discussed as applicable in the relevant sections of the Application.

The historical and bridge year information provided in the evidence reflects the application of regulatory constructs (e.g., rate base) to the segmented information for OPG's prescribed facilities. OPG's forecast information for the test period was prepared using financial information prepared on a GAAP basis.

The application of regulatory constructs is highlighted in the various sections of the Application. Historical accounting income per the financial statements for the prescribed facilities (see section 3.0) for 2008 and 2009 is reconciled with historical regulatory earnings before tax and return on equity for the prescribed facilities in Ex. C1-T1-S1, Table 7. As required by the OEB's Decision with Reasons in EB-2007-0905, financial information related to Bruce assets is presented in this Application on a GAAP basis without the application of regulatory constructs.

3.0 FINANCIAL STATEMENTS FOR THE PRESCRIBED FACILITIES

In accordance with the OEB's Decision with Reasons in EB-2007-0905, page 171, OPG has prepared a set of stand-alone audited annual financial statements for the prescribed facilities. These financial statements, presented in Attachment 3, are for the years ended December 31, 2009 and December 31, 2008, and have been prepared in accordance with GAAP. These statements exclude applicable assets, liabilities, revenues and costs related to Bruce assets, consistent with the OEB's Decision with Reasons in EB-2007-0905.

The accounting policies applied in these statements are substantially the same as those used in OPG's audited consolidated financial statements, with the exception of those related to the determination of debt and interest expense. The debt balances and interest expense have been computed in a manner consistent with the deemed debt and interest methodology approved by the OEB in EB-2007-0905 (see Ex. C1-T1-S2 and Ex. C1-T1-S3). However, while the interest expense in these financial statements is equal to that presented in Ex. C1-T1-S1, Tables 4 and 5 for 2008 and 2009, the debt balances at each year-end are not equal to the deemed debt balances in those tables. The reason for the difference is that the computation of deemed debt in the Application is based on rate base, which uses average fixed asset and other balances, and weighted average actual outstanding debt during the year. The debt balances in the financial statements are computed using the year-end equivalent of rate base and year-end actual outstanding debt. This approach ensures that the balance sheet, which must present the financial position at year-end, is in compliance with GAAP.

OPG's approach to the preparation of its stand-alone financial statements for the prescribed facilities is informed by research of similar audited statements prepared by other OEB-regulated entities. This research focused on utilities that have significant regulated and unregulated operations within the same legal entity. The closest parallel to OPG's situation was the Great Lakes Power Limited Distribution Division Financial Statements December 31, 2008 filed with the OEB under the Electricity Reporting and Record Keeping Requirements ("RRR") section 2.1.6.

Where possible, OPG has directly assigned balance sheet items to the prescribed facilities (e.g., fixed assets). However, the preparation of these statements required OPG to make reasonable allocation assumptions with respect to balance sheet items that are not tracked by business unit in its accounting systems. For example, OPG maintains a pooled cash balance for the entire company. As well, OPG's systems do not track a number of working capital balances, such as certain accounts receivable and accounts payable balances, by business unit. While the allocation of these balances is necessary for the preparation of these statements in accordance with GAAP, the tracking of these balances is not required for the purposes of determining rate base because a separate lead/lag approach is used to determine cash working capital (see Ex. B1-T1-S2). Income tax expense and related balance sheet items presented in these statements have been determined using the information in these statements on a stand-alone basis in accordance with applicable income tax rules and principles without the application of regulatory constructs. The income tax expense in these statements is an accounting tax expense for the prescribed facilities and is not the same as the regulatory tax expense presented in Ex. F4-T2-S1. Corporate and centrally-held costs and asset service fees have been attributed to the prescribed facilities in the same manner as described in Ex. F3-T1-S1, Ex. F4-T4-S1, and Ex. F3-T2-S1, respectively.

LIST OF ATTACHMENTS

Attachment 1:	OPG's 2008 Annual Report
Attachment 2:	OPG's 2009 Financial Results
Attachment 3:	2008 and 2009 Audited Annual Consolidated Financial Statements for the Prescribed Facilities

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Exhibit A2-1-1
Attachment 1

2008 ANNUAL REPORT

ONTARIOPOWER
GENERATION

ONTARIO POWER GENERATION

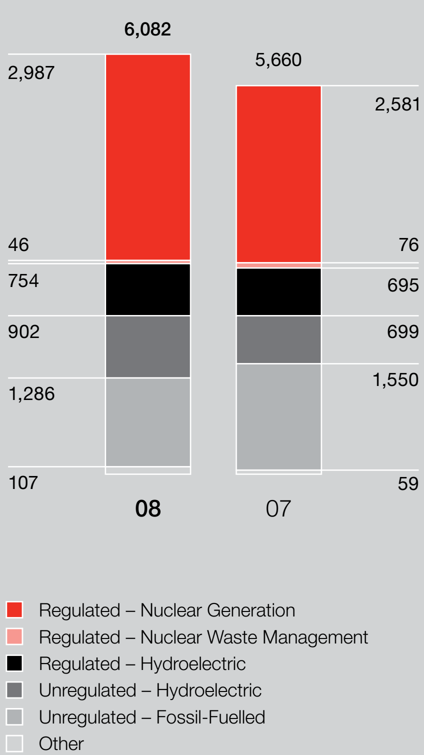
2008 Overview

FINANCIAL HIGHLIGHTS

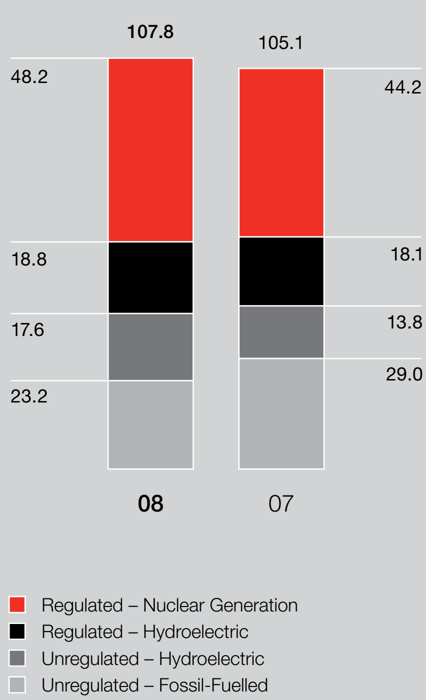
Year Ended December 31 (millions of dollars)	**2008**	2007
Revenue		
Revenue before revenue limit rebate	**6,359**	5,887
Revenue limit rebate	**(277)**	(227)
	6,082	5,660
Earnings		
Income before interest and income taxes by segment:		
Regulated – Nuclear Generation	**235**	(58)
Regulated – Nuclear Waste Management	**(670)**	(26)
Regulated – Hydroelectric	**310**	249
Unregulated – Hydroelectric	**508**	329
Unregulated – Fossil-Fuelled	**(25)**	74
Other	**78**	52
Income before interest and income taxes	**436**	620
Net interest expense	**165**	143
Income tax expense (recovery)	**183**	(51)
Net income	**88**	528
Electricity production (TWh)	**107.8**	105.1
Cash flow		
Cash flow provided by operating activities	**870**	379

REVENUE AND OPERATING HIGHLIGHTS

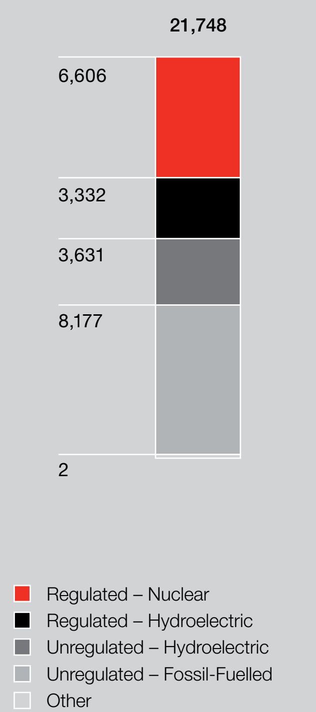
Revenue, Net of Revenue Limit Rebate by Segment
(millions of dollars)



Electricity Generation by Segment
(TWh)



In-Service Generating Capacity by Segment
December 31, 2008
(MW)



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Corporate Profile





OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG's focus is on the efficient production and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner. OPG was established under the Business Corporations Act (Ontario) and is wholly owned by the Province of Ontario.

In 2008, OPG had approximately 12,000 regular employees and generated 107.8 terawatt hours (TWh) of electricity.

OPG's electricity generating portfolio as of December 31, 2008, had a total in-service capacity of 21,748 megawatts (MW), which consisted of:

- three nuclear generating stations with a capacity of 6,606 MW
- five fossil-fuelled generating stations with a capacity of 8,177 MW
- 64 hydroelectric generating stations with a capacity of 6,963 MW, and
- two wind power turbines with a capacity of 2 MW.

In addition, OPG and TransCanada Energy Ltd. co-own the Portlands Energy Centre gas-fired generating station. OPG, ATCO Power Canada Ltd. and ATCO Resources Ltd. co-own the Brighton Beach gas-fired generating station. OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power L.P. ("Bruce Power").

Electricity Terms

One megawatt (MW) is one million watts. Megawatts are a measure of electricity supply capacity at a point in time.

One kilowatt (kW) is 1,000 watts; one gigawatt (GW) is one billion watts; and one terawatt (TW) is one trillion watts.

One kilowatt hour (kWh) is a measure of electricity demand per hour by customers. One kilowatt hour is the energy expended by fifty 20-watt compact fluorescent lights burning for one hour.

The average Ontario household uses approximately 1,000 kWh per month.

One megawatt hour (MWh) is 1,000 kWh; one gigawatt hour (GWh) is one million kWh; and one terawatt hour (TWh) is one billion kWh.

Contents

The Power to Achieve

OPG is selected by the Ontario government to operate two new nuclear units on the Darlington site.

The first phase of the 550 MW gas-fuelled Portlands Energy Centre – a partnership between OPG and TransCanada Energy – is completed on time and on budget, helping to meet Toronto's energy needs.

OPG continues biomass testing at its coal-fuelled plants involving longer test burns of carbon neutral biomass – a potential new energy source for Ontario.

OPG receives the President's Gold Award of Excellence for Employee Safety from the Canadian Electricity Association – for three consecutive years of achieving top quartile safety performance.

OPG's 1,000 hydroelectric employees achieve over three years worked without a lost-time injury.

Over 15,000 people attend the major anniversaries at OPG generating stations: DeCew (110 years); Abitibi (75 years); R.H. Saunders (50 years); and Thunder Bay (45 years).

Darlington and Pickering B nuclear stations receive 5-year operating licence renewals from the Canadian Nuclear Safety Commission (CNSC).

OPG signs milestone equity partnership agreement with the Lac Seul First Nation.

Hydroelectric production is the best since 1979; hydroelectric availability is the best since 1984.

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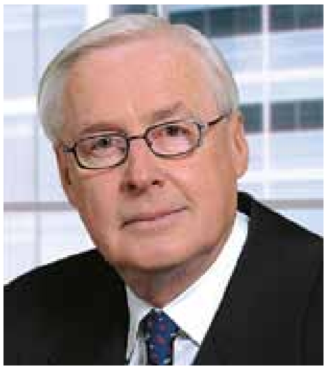
The Power to Achieve

The Lac Seul Generating Station in northwestern Ontario is OPG's newest hydroelectric station since 1977.

Virtually completed in 2008 and declared in service in February 2009, the generating station operates as a partnership between the Lac Seul First Nation and OPG. The facility's Ojibway name is "Obishikokaang Waasiganikewigamig," which means "White Pine Narrows electricity generating building."

Chairman's Message



"The Board was very pleased with OPG's performance in 2008, the strong leadership provided by its management, and the role of OPG as a major provider of electricity for Ontario."

OPG's Board of Directors consists of seasoned business professionals with extensive experience in areas important to OPG's success. These areas include: the management and operation of nuclear stations; management of complex projects; overseeing capital intensive enterprises; expertise in financing and financial services; and the restructuring of large business enterprises.

The Board was very pleased with OPG's performance in 2008, the strong leadership provided by its management, and the role of OPG as a major provider of electricity for Ontario.

Operational performance in 2008 included surpassing a number of milestones for OPG's nuclear and hydroelectric generation; as well as recognition for OPG's safety and environmental performance.

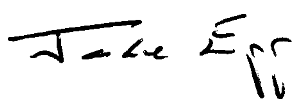
During 2008, the Board was particularly pleased that OPG was selected by its Shareholder, the Ontario government, to operate two new nuclear units at its Darlington site. Nuclear expertise is one of the Board's strengths, and this decision was seen by the Board as an affirmation of OPG's capability as a responsible and effective nuclear operator.

OPG's signing of an equity partnership agreement with the Lac Seul First Nation for a 12.5 MW hydroelectric project in Ear Falls was another major milestone for OPG – and the first of its kind in Ontario. A model for future such agreements, the partnership agreement will help increase Ontario's supply of clean, renewable hydroelectric power.

OPG continued to explore in 2008 the possibility of burning carbon-neutral biomass fuel on units at some of its coal-fired stations. The Board sees biomass fuelled generation as an important complement to OPG's mandate to develop new sources of clean, renewable power, and is proud of the company's efforts in this area.

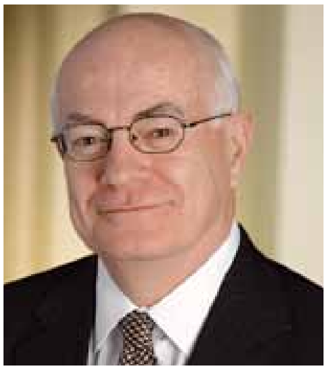
While the current global economic downturn poses challenges for Ontario's economy and for OPG going forward, the Board will ensure that OPG's assets, its investments in electricity infrastructure, and the expertise of its employees will continue to serve Ontario's electricity needs.

On behalf of the Board, I would like to express appreciation to President and CEO Jim Hankinson and his management team for their leadership and significant contribution to OPG's continued strong performance in 2008. Under the CEO's direction, OPG also enhanced its leadership and succession planning capability and developed a new strategic vision to position OPG as a leading, low emitting generator.



Jake Epp
Chairman

President's Message



"A deep commitment to performance excellence remains the bedrock of OPG's strategy and success."

A deep commitment to performance excellence remains the bedrock of OPG's strategy and success. This commitment was reflected in OPG's many safety achievements, its excellent environmental performance and its positive operational results. These results included very strong hydroelectric and nuclear output as well as continued excellent reliability from our fossil-fuelled plants. Output from our existing nuclear fleet was the best in OPG history. Our hydroelectric business had one of its best years, achieving strong results across virtually all major indices – including safety, production, availability and environmental performance. Individual stations and generating units also performed well. The Darlington nuclear station, for example, had another excellent year in terms of safety, generation, unit capability and planned outage completion. In addition, four OPG nuclear units finished the year among the top five performing CANDU reactors in the world.

There were challenges as well. Some stations experienced unexpected extensions to planned outages. And while employee safety performance was strong, there were areas requiring improvement. The number of workplace injuries did not improve compared to 2007 and there were a number of "near miss" incidents that could have resulted in serious employee injury. We put plans in place during 2008 to address both these issues – intensifying our already extensive outage preparation procedures and launching programs to mitigate risks that contribute to injuries, and improve our root cause investigation of near-miss safety incidents.

Our performance focus also includes achieving financial sustainability. In 2008, we moved closer to this goal as a result of the Ontario Energy Board's (OEB) decision to increase regulated prices on electricity produced by our nuclear and regulated hydroelectric stations.

OPG earned just over $1 billion before interest and income taxes in 2008 from its electricity generating segment. This compares to $594 million earned from this segment during 2007. The strong operating performance of our nuclear and hydroelectric stations contributed to our improved results.

In contrast, OPG's 2008 net income fell to $88 million compared to net income of $528 million in 2007. The decline was primarily due to the effects of the global economic downturn, which had a negative effect on the current value of OPG's nuclear decommissioning fund. At the end of 2008, the value of this fund declined to $4.3 billion compared to $5.1 billion at the end of 2007.

OPG continued its strong commitment to develop new supplies of largely low-emission and renewable generation – such as new nuclear, hydroelectric and, potentially, biomass – for Ontario's businesses and residents. Our new supply initiatives not only add to Ontario's electricity supply, they contribute significantly to Ontario's infrastructure development, economic growth and employment.

I was particularly proud of the initiatives launched in 2008 to strengthen our capabilities and outcomes in recruiting, training, leadership and succession planning. These steps will help address our growing need for skilled and talented employees to sustain current operations, manage new projects and enhance our workforce.

OPG's vision is to be a leading clean energy company, powering Ontario to a more sustainable energy future. In 2008, nearly 80 percent of OPG's generation was from our nuclear and hydroelectric stations. These facilities produce virtually no emissions contributing to smog or climate change. We are working to reduce emissions even more by expanding our hydroelectric capability and exploring the possibility of burning carbon-neutral biomass fuel at our coal-fired stations, which have been directed by the Ontario government to stop burning coal by the end of 2014.

Finally, I want to thank all employees for their efforts in making 2008 another productive year for OPG. Their focus on the safe and reliable operation of our plants, coupled with their strong community commitment, has contributed significantly to our success. I am confident our employees will continue to perform, as they always have, at the highest levels to the benefit of OPG and the people of Ontario.

Jim Hankinson
President and CEO

The Power to Deliver

OPG's generating assets consistently provided safe, reliable power to Ontario's families, communities and businesses.

The powerhouse of OPG's Abitibi Canyon hydroelectric generating station in northeast Ontario. Abitibi is OPG's fifth largest hydroelectric station. Improvements over the years have increased its capacity from 285 MW to 350 MW.

OPG's nuclear, hydroelectric and fossil generating stations delivered solid performance in 2008, producing 107.8 TWh of electricity – representing over 70 percent of the electricity consumed in Ontario. Strong nuclear and hydroelectric output, supported by production from our reliable fossil-fuelled plants, drove performance during the year.

NUCLEAR: OPG's nuclear stations are the backbone of Ontario's electricity system, accounting for almost one-third of the energy used in 2008 by the Province. Our nuclear stations had a strong year in 2008, generating more than 48 TWh of electricity that has virtually no emissions that contribute to smog or climate change. Despite some challenging forced outages which impacted output, this was the highest nuclear production level in the company's history from its existing nuclear fleet. Individual nuclear units also delivered strong performance – with five of OPG's 10 operating units achieving unit capability factors of over 90 percent.

In addition, Darlington, Pickering B and the Pickering Nuclear Waste Management Facility had their operating licences renewed by the Canadian Nuclear Safety Commission (CNSC). These licences are for the maximum length of time granted by the CNSC. This is a strong testament to the safe and effective operation of our nuclear stations by OPG's experienced nuclear staff.

OPG's nuclear operations also received positive assessments from the internationally recognized nuclear safety organization, the World Association of Nuclear Operators (WANO). In July, a team from WANO visited Pickering B for more than a week. While noting a need for improvement in some areas, the WANO team commented on the station's progress in safety culture, preventive maintenance and leadership alignment. Later in the year, a second WANO team reviewed the corporate functions that support OPG's nuclear operations. The WANO team identified a number of key strengths, including staffing and hiring, contract management and leadership, and management development. WANO also pointed out opportunities for improvement which OPG will be addressing in 2009.

HYDROELECTRIC: OPG's hydroelectric stations play a critical role in providing Ontario with clean and renewable power at an affordable price. In 2008, these stations produced 36.4 TWh of electricity – making it the best year for hydroelectric production since 1979. Hydroelectric availability was also excellent, ending the year in the mid-90 percent range – the best since 1984. OPG's strong hydroelectric performance benefited from higher water flows on most river systems throughout the Province.

OPG employees Mike Morgan (left) and Jamie Smith (right) perform maintenance work during a planned outage on Unit 4 at the Lambton coal-fired generating station. OPG planned and executed 24 major outages in 2008 to ensure its fossil plants are ready to provide electricity during peak demand periods in summer and winter.

In addition, major planned outages took place at key hydroelectric sites – including the Beck complex, Cameron Falls, Otto Holden, Des Joachims, Chats Falls and Chenaux. These outages provided effective maintenance and targeted improvements which contributed to the company's strong hydroelectric performance.

FOSSIL: OPG's fossil-fuelled stations provide flexible, reliable generation during periods of high demand when electricity is needed most. Fossil generation in 2008 was just over 23 TWh. This was lower than in previous years, due to a relatively mild summer, some forced outage challenges, and stronger production from OPG's nuclear and hydroelectric stations. Nevertheless, OPG's fossil stations continued to deliver excellent reliability throughout the year. Reliability during the critical summer months was very strong. From June through August, Fossil's Equivalent Forced Outage Rate was under 8 percent – a 30 percent improvement compared to the same period in 2007. This achievement is the result of sound planning, smart investment and quality work by OPG employees.

Going forward, OPG will be operating its coal-fired plants less frequently as a result of the Ontario government's revised carbon dioxide emission requirements. Fossil operations will focus on producing power primarily during the summer and winter peak demand periods. The ability to consistently achieve this performance goal will define Fossil's success in the future.

Excellence in Reliability

NUCLEAR Percentage of OPG's 10 operating nuclear units that had unit capability factors above 90 percent	50%
HYDROELECTRIC OPG's hydroelectric stations achieve their best availability since 1984	94.3%
FOSSIL OPG's fossil stations continue to maintain their excellent reliability, achieving a forced outage rate for 2008 that is among their best ever	12.8%

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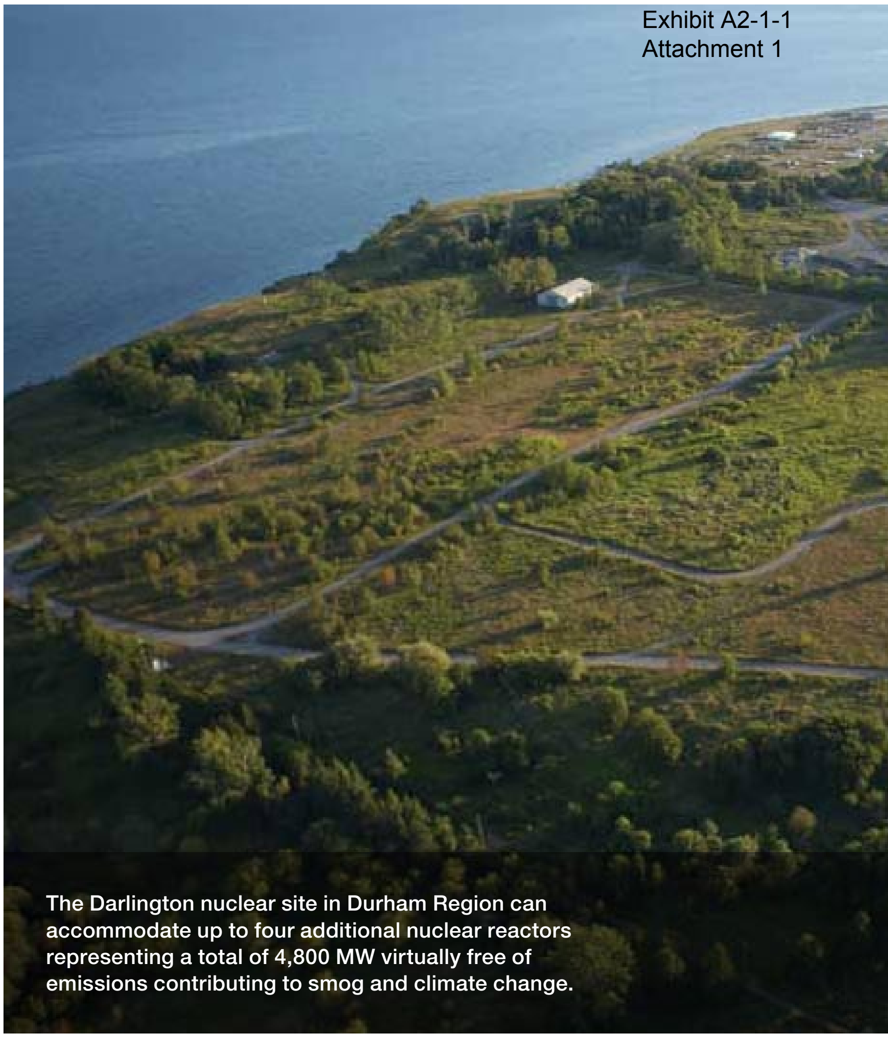
Attachment 1

The Power to Grow

OPG's new generation projects and ongoing asset improvements to its existing generating facilities help ensure Ontario has sufficient power to meet its long-term electricity needs for many decades to come.



The Darlington nuclear site in Durham Region can accommodate up to four additional nuclear reactors representing a total of 4,800 MW virtually free of emissions contributing to smog and climate change.

NEW NUCLEAR: Nuclear energy represents the single most important large-scale energy source to meet Ontario's electricity needs in the future. Nuclear generation has the added advantage of being virtually free of emissions that cause air pollution and contribute to global warming. In June 2008, OPG was selected by the Ontario government to be the operator of two new nuclear units at its Darlington site. The decision reflected OPG's strong performance and community support as a nuclear operator. Throughout the year, OPG conducted extensive site evaluation and environmental studies of the Darlington site – as well as comprehensive community consultations – as part of the required Federal approval process. When complete, the new units will provide over 2,000 MW of generating capacity for Ontario's future energy supply. Next steps in the process include completion of an ongoing Environmental Assessment (EA) and licensing processes by OPG and the selection of the appropriate reactor technology by the Ontario Government. The Government has indicated the first reactor is expected to be in service by 2018 and the second by 2019.

NUCLEAR REFURBISHMENT: OPG is also assessing the feasibility of refurbishing two of its existing nuclear generating stations – Pickering B (brought into service: 1983-86) and Darlington (brought into service: 1990-93). Together, these stations contribute over 5,500 MW to Ontario's electricity supply. Extending their operating lives represents an important potential supply option for Ontario. After extensive reviews by various federal departments, a key milestone was completed in 2008 with a public hearing on the EA for Pickering B's refurbishment. Following this hearing, the CNSC concluded in early 2009 that Pickering B's refurbishment is not likely to cause significant adverse environmental effects after taking into account mitigation measures. Preliminary work for assessing Darlington's refurbishment also got underway in 2008. Even though Darlington will not need to be refurbished until the middle of the next decade, OPG is starting to plan early to ensure the process goes smoothly.

HYDROELECTRIC DEVELOPMENT: OPG has a mandate from the Ontario government to develop and expand the Province's supply of clean, renewable hydroelectric energy. To help meet this goal, OPG has three major hydroelectric projects underway – the Niagara Tunnel; the Upper Mattagami and Hound Chute redevelopment project in northeast Ontario; and the Lac Seul generating station in northwest Ontario. At the end of 2008, excavation of the 10.4 kilometre Niagara Tunnel was about one-third completed – slower than expected progress due to challenging rock conditions inside the Tunnel itself. When completed, the Tunnel will operate for at least 90 years – adding an annual average of 1.6 TWh of energy to the output generated by OPG's Beck hydroelectric complex near Niagara Falls.

The 550 MW Portlands Energy Centre is strategically positioned to help meet Toronto's electricity needs. In 2008, Portlands was named Energy Company of the Year by the Ontario Energy Association.

Meanwhile, in northern Ontario, construction of the Upper Mattagami/Hound Chute redevelopment projects began in the summer. Construction of the 12.5 MW Lac Seul generating station was completed in February 2009 and the station is now producing power for Ontario. OPG also has eight new hydroelectric projects in various stages of planning, representing a potential 600 MW of additional hydropower for Ontario.

HYDROELECTRIC IMPROVEMENTS: OPG also added to its hydroelectric supply through proactive maintenance, upgrades and equipment improvements at its existing hydroelectric stations. Runner upgrades completed on units at Chats Falls and Des Joachims resulted in energy improvements representing 13.8 GWh of additional energy – enough to power about 1,400 households for one year.

FOSSIL: Working in partnership with TransCanada Energy, OPG completed the first phase of the Portlands Energy Centre in 2008. Portlands provides 550 MW of added capacity to help meet central Toronto's electricity needs. The second, combined cycle phase of the natural gas-generating facility is expected to be completed to meet its scheduled in-service date of June 1, 2009. The timely execution and completion of the first phase of the Portlands Energy Centre earned for it the distinction of being named "Energy Company of the Year" by the Ontario Energy Association.

Going forward, OPG will position itself to respond to future natural gas opportunities under the Ontario Power Authority's Request for Proposals process.

Enhancing Capacity

Number of potential megawatts OPG's hydroelectric development projects will contribute to Ontario's electricity supply	about 600 MW
Number of hours OPG employees devoted to the Environmental Assessment process for the Pickering B refurbishment	over 50,000
Amount of energy produced in 2008 by biomass test-burns at OPG's coal-fired generating stations	7 million kWh

The Power of People

Investing in employees and communities helps ensure our long-term success.

Young people learn about nature as part of the Pickering nuclear station's "Tuesdays on the Trail" program on the Waterfront Trail in Durham Region. The program is one of more than 1,000 local community initiatives that OPG helped support in 2008.

A WORKPLACE TO BE PROUD OF: OPG is building a workplace that leverages the power of people. The company offers employees broad-based opportunities for interesting and engaging work, professional growth and personal fulfillment. It also means attracting highly qualified people to choose OPG as an employer.

To help meet these goals, OPG is building a leadership culture that proactively identifies, encourages and develops future leaders within the company. In 2008, OPG's leadership model was rolled out company-wide. This initiative focuses on developing competencies in leadership selection, succession management, performance planning and development. Robust development programs were aimed at all management levels. The company is also embracing a variety of options to expand its leadership pool, including formal training and education, experienced-based learning and mentoring. We are looking deeper into the organization to identify future leaders earlier and accelerate their development.

During the past year, OPG launched a Leadership Forum for more than 100 senior leaders. Under the auspices of this Forum, two leadership events were held in 2008, enabling OPG to tap into the expertise of its current leadership pool. The result was a number of spin-off initiatives to improve performance and efficiency. These Forums are now a regular feature of OPG's operations, aimed at strengthening leadership and organizational effectiveness.

OPG also focused on increasing the number of new employees – especially in the trades and engineering. In 2008, the company hired approximately 800 new employees – including over 300 engineers and technicians. The company has expanded its recruitment efforts at colleges and universities in Ontario and Eastern Canada. Over 100 job offers were made to new university graduates in 2008 as a result of this expanded campaign. OPG also continued to develop and strengthen partnerships with many educational institutions, trade and industry groups. These efforts are helping to broaden the talent pool available to OPG.

To attract the best employees, OPG is committed to becoming an employer that people want to work for – an employer of choice. In 2008, OPG moved closer to this goal by being named one of Canada's Top 100 Employers for the second year in a row. OPG was also named one of the top employers in the Greater Toronto Area for the third consecutive year.

PRIDE IN OUR COMMUNITIES: OPG's investment in people includes investing in the communities where we operate. As an Ontario-based company, OPG is proud of its economic contribution to the Province.

In 2008, OPG invested more than $1.4 billion (excluding fuel purchases) on goods and services in Ontario. Much of this investment was directed toward operations and initiatives at our many generating facilities. These investments helped finance such undertakings as our efforts in nuclear new build, upgrades to our hydroelectric stations and biomass testing at our fossil-fuelled stations.

Lucy He, an intern at OPG's Niagara Plant Group in 2008, is studying Environmental Engineering at Carleton University, Ottawa. In 2008, OPG hired over 425 students in its co-op and summer employment program as part of its strategy to attract talented young people as future employees.

Through its Corporate Citizenship Program, OPG helped support nearly 1,000 small, grass-roots community, environmental and educational non-profit initiatives in its host communities.

OPG and its employees and pensioners also contributed over $2 million to Ontario charities and other worthy causes as part of the company's annual Charity Campaign. Many OPG employees and pensioners regularly volunteer their time and effort in our host communities across Ontario.

In addition to its economic contribution, OPG is committed to being an open, accountable and accessible presence in the communities where it operates.

In 2008, the company held more than a dozen information sessions – and established a special Community Kiosk – to share information and seek input about the nuclear new build EA. OPG plant personnel regularly reported to municipal councils and other local groups on plant operations and initiatives. Senior executives, including the CEO, met with community leaders in Durham Region, Niagara, Timmins, Atikokan and other locations across Ontario. OPG also celebrated four major station anniversaries in 2008 – all open to the public – at R.H. Saunders; Thunder Bay; Abitibi; and DeCew generating stations.

Strong community support was also evident at Pickering B's and Darlington's re-licensing hearings, conducted by the CNSC in 2008. At these hearings, the stations received supportive interventions from elected officials, organizations and individuals in OPG's host communities.

Employee and Community Focus

Number of times in the past three years (2006-2008) that OPG has been recognized as one of Canada's and Toronto's top employers	5
Number of engineers and technicians hired by OPG in 2008	over 300
Number of community residents attending OPG station anniversaries in 2008	over 15,000

The Power of Commitment

OPG is committed to safety and environmental excellence. We will meet these commitments through our continued focus on achieving zero workplace injuries and through our determination to become a leading low emissions generating company.

OPG Fossil participants at OPG's Joint Health and Safety Committee (JHSC) Conference. Demonstrating their commitment to OPG's strong safety culture, more than 200 JHSC members from across OPG and those who support them attended this major safety conference in February 2008.

SAFETY: Public and workplace safety is a fundamental OPG value. It is the basis for all the trust and respect we have earned from our stakeholders.

OPG's overall safety performance was strong in 2008. A number of sites reached major safety milestones with no lost time injuries, demonstrating our progress towards reaching the goal of zero workplace injuries. OPG was also honoured with several safety awards – including awards from the Industrial Accident Prevention Association, the Electrical and Utilities Safety Association and the Canadian Electricity Association.

OPG measures its workplace safety performance using two industry-recognized standards – Accident Severity Rate (ASR) and All Injury Rate (AIR). Performance in both categories was strong in 2008.

- OPG's 2008 ASR performance is the best in its history. During the year, OPG achieved an ASR of 1.47 days lost per 200,000 hours worked. This betters the company's strong 2007 ASR performance of 1.56 days lost per 200,000 hours worked.
- OPG's 2008 AIR was 1.15 injuries per 200,000 hours worked. While slightly below the company's 2007 AIR of 1.12 injuries per 200,000 hours worked, this was still the second best AIR in OPG's history.

OPG's commitment to continuous improvement in safety was demonstrated in 2008 through programs launched to target the reduction in musculoskeletal disorder injuries and our high risk areas that contribute to "near-miss" incidents, any one of which could have led to serious injuries to one of our employees or contractors.

ENVIRONMENT: OPG is committed to becoming a leading low emissions energy company. Environmental performance will define our progress toward this goal.

OPG's environmental performance is assessed annually using a voluntary Environmental Performance Index (EPI). The EPI is based upon weighted scores calculated relative to voluntary performance benchmarks for spills, regulatory compliance, energy efficiency, radiation measures and waste management. An overall score of 100 indicates that, on average, benchmarks were met. Scores greater than 100 indicate performance better than benchmarks, and scores less than 100 indicate performance that did not meet benchmarks. The EPI sets targets for OPG that are more demanding that those set by government regulation and includes targets for several areas not covered by government regulation.

In 2008, OPG's EPI was 117, indicating that OPG's overall environmental performance was better than target in many areas, including spills, regulatory compliance and energy efficiency. Nitrogen oxide emission rates at OPG units equipped with Selective Catalytic Reduction (SCR) technology did not meet targets due to temporary equipment issues and the operation of these units at low loads, which compromised SCR operation. OPG's tritium emissions were worse than target. OPG has actions underway to address this issue and improve its tritium emission performance going forward.

Total emissions from the company's fossil-fuelled plants were significantly lower compared to 2007 levels. This was primarily due to lower demand and higher production from OPG's nuclear and hydroelectric plants. Emissions will be further reduced in 2009 as a result of OPG's plan to focus its fossil production on meeting

Over 200 volunteers planted almost 650 trees and shrubs in Alex Robertson Park, Pickering, as part of "Take Pride in Pickering Day." A supporter of the bi-annual event, OPG and its local partners planted over 400,000 native trees and shrubs across southern Ontario in 2008.

peak demand during the summer and winter months. This is in response to the Ontario government's CO_2 reduction initiative, announced in May 2008.

OPG also continued to be honoured for its leadership in biodiversity. The company received the international "Wings Over Wetlands" award from the Wildlife Habitat Council and Ducks Unlimited Inc. for its wetlands stewardship. OPG and its partners were also recognized by the Carolinian Canada Council for its forest restoration efforts. OPG operates one of the largest tree planting programs in the Province.

Longer term, OPG is shaping its generation mix to be one of the most low emitting portfolios in North America. The company's evolving asset mix will include additional nuclear and hydroelectric sources as well as some gas-fired generation. As directed by the Ontario government, OPG will no longer be burning coal at its fossil-fuelled stations after 2014. This will significantly advance OPG's position as a low-emission generator.

OPG is also exploring the feasibility of burning carbon-neutral biomass fuel at some of its coal-fired stations. In 2008, test burns were conducted on units at the Nanticoke, Lambton and Atikokan coal-fired stations. These included tests in which 100 percent biomass fuel was burned – proving that the fuel is technically capable of replacing coal. While these results are promising, more studies are needed to determine whether biomass is a practical commercial option.

Demonstrating our Values

OPG's operations – in the form of salaries, purchases, and payments in lieu of taxes – represent a significant contribution to Ontario's economy and communities	$3.9 billion
At the end of 2008, OPG's hydroelectric business unit and its 1,000 employees had worked for a record period without a lost time injury	3.3 years
OPG operates one of the most extensive biodiversity programs in Ontario. Number of trees planted since inception	over 3.2 million

Management's Discussion and Analysis

Management's Discussion and Analysis






MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the year ended December 31, 2008. OPG's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. Certain of the 2007 comparative amounts have been reclassified to conform to 2008 presentation. This MD&A is dated February 12, 2009.

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 and, therefore, could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's fuel costs and availability, asset performance, nuclear decommissioning and waste management, closure 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, spot electricity market prices, the ongoing evolution of the Ontario electricity industry, environmental and other regulatory requirements, health, safety and environmental developments, business continuity events, the weather, the developments with respect to third-party Asset-Backed Commercial Paper, and the impact of decisions by the Ontario Electricity Board. 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. OPG does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise.

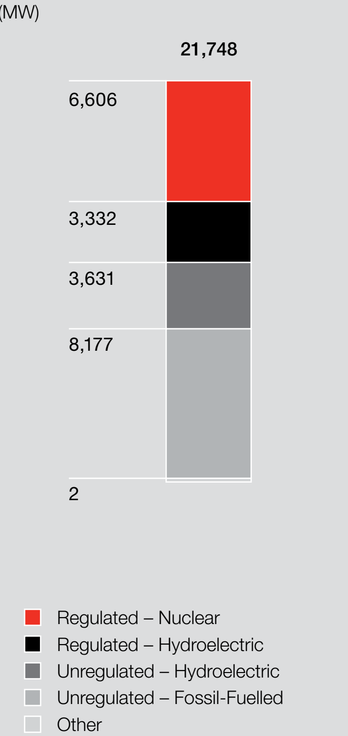
Management's Discussion and Analysis

THE COMPANY

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG's focus is on the efficient production and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner. OPG was established under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the "Province").

At December 31, 2008, OPG's electricity generating portfolio had an in-service capacity of 21,748 megawatts ("MW"). OPG's electricity generating portfolio consists of three nuclear generating stations, five fossil-fuelled generating stations, 64 hydroelectric generating stations, of which four are being redeveloped, and two wind generating stations. In addition, OPG and TransCanada Energy Ltd. co-own the Portlands Energy Centre gas-fired generating station. OPG, ATCO Power Canada Ltd. and ATCO Resources Ltd. co-own the Brighton Beach gas-fired generating station. OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power L.P. ("Bruce Power").

In-Service Generating Capacity by Segment
December 31, 2008
(MW)



OPG's Reporting Structure

During the fourth quarter of 2008, OPG revised the composition of its reporting segments to correspond with OPG's strategic business unit structure and changes to internal reporting. OPG's business segments are reported in a manner consistent with the way that management organizes the business for making operating decisions and assessing performance. As part of the revised internal reporting structure and to improve the transparency of the information provided to stakeholders, a new business segment was created and classified under the caption Regulated – Nuclear Waste Management. This new segment includes certain activities associated with the management of used nuclear fuel and low and intermediate level waste, the decommissioning of OPG's nuclear generating stations (including the stations leased to Bruce Power), the management of the nuclear fixed asset removal and nuclear waste management funds (the "Nuclear Funds"), and related activities including the inspection and maintenance of the waste storage facilities. OPG's other business segments include Regulated – Nuclear Generation, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Fossil-Fuelled.

A description of all of OPG's business segments is provided under the heading *Business Segments*. The preceding year figures have been reclassified to conform with this new presentation.

RATE REGULATION

Since April 1, 2005, OPG has received a regulated price for electricity generated from most of its baseload hydroelectric facilities and all of the nuclear facilities that it operates. This comprises electricity generated from the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering A and B and Darlington nuclear facilities. The regulated prices were established pursuant to a regulation issued under the *Electricity Restructuring Act, 2004* (Ontario) for the three-year period that ended on March 31, 2008. The regulated price established for the first 1,900 megawatt hours ("MWh") of production from the regulated hydroelectric facilities in any hour was $33.00/MWh (3.3¢/kWh). For generation above 1,900 MWh, OPG received the spot electricity market price as an incentive mechanism to optimize hydroelectric production. The regulated price established for production from OPG's nuclear facilities was $49.50/MWh (4.95¢/kWh). OPG's production was subject to these regulated prices up to April 1, 2008, and to the hydroelectric incentive mechanism up to December 1, 2008.

The regulation also directed OPG to establish variance and deferral accounts for certain costs incurred and revenues earned or foregone. Variance account balances recorded by OPG captured deviations from the forecast information provided to the Province for the period from April 1, 2005 to April 1, 2008 for the purposes of establishing the above regulated prices. These related to the impact of water conditions on hydroelectric electricity production; revenues for ancillary services from the regulated facilities; transmission outages and transmission restrictions; and non-capital costs related to nuclear capacity refurbishment incurred since April 1, 2005. Deferral account balances recorded by OPG included non-capital costs incurred after January 1, 2005 associated with the planned return to service of all units at the Pickering A nuclear generating station;

the revenue requirement impact of changes in OPG's liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management ("Nuclear Liabilities") arising from the 2006 Approved Reference Plan in accordance with the terms of the Ontario Nuclear Funds Agreement ("ONFA"); and non-capital costs related to new nuclear generation development incurred on or after June 13, 2006.

The regulation further prescribed, subject to certain requirements, that the Ontario Energy Board ("OEB") should determine OPG's regulated prices to be effective no earlier than April 1, 2008. In November 2007, OPG filed an application with the OEB for new regulated prices for its regulated facilities effective April 1, 2008.

The OEB's decision on the application was issued on November 3, 2008. This was followed by an OEB order on December 2, 2008 which established the new regulated prices at $36.66/MWh (3.67¢/kWh) and $54.98/MWh (5.50¢/kWh) for OPG's regulated hydroelectric and nuclear facilities, respectively, based on an approved 21-month revenue requirement for the period from April 1, 2008 to December 31, 2009 of approximately $6.0 billion. These prices were approved effective April 1, 2008. The new regulated prices reflect the OEB's decision with respect to the recovery of OPG's variance and deferral account balances recorded prior to April 1, 2008 pursuant to the regulation under the *Electricity Restructuring Act*, 2004 (Ontario). In order to reflect the recovery of these balances, the nuclear regulated price of $54.98/MWh includes a rate rider of $2.00/MWh.

The Independent Electricity System Operator ("IESO") implemented the new prices on December 1, 2008. As the OEB determined that these prices should apply retrospectively to production starting on April 1, 2008, OPG receives additional rate riders of $3.22/MWh for production from its nuclear facilities and $2.18/MWh for its regulated hydroelectric facilities starting on December 1, 2008, as a means of collecting the retrospective revenue.

The OEB also approved a revised incentive mechanism based on market signals to optimize hydroelectric production. This new mechanism became effective on December 1, 2008. Under this mechanism, OPG receives the approved hydroelectric payment amount for the actual average hourly net energy production from the prescribed hydroelectric facilities in that month. In the hours when the net actual energy production in Ontario is greater or less than the average hourly net volume, OPG's revenues are adjusted by the difference between the average hourly net volume in the month and the actual net energy production multiplied by the market price.

The OEB also authorized the continuation of certain existing, and the creation of new variance and deferral accounts effective retrospectively to April 1, 2008. Additional information regarding the OEB decision is provided under the heading *Recent Developments*.

The production from OPG's other generating assets remains unregulated and continues to be sold at the Ontario electricity spot market price. However, 85 percent of the generation output from OPG's other generating assets, excluding the Lennox generating station, stations whose generation output is subject to a Hydroelectric Energy Supply Agreement ("HESA") with the Ontario Power Authority ("OPA") pursuant to a ministerial directive, and forward sales as of January 1, 2005, is subject to a revenue limit. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets are also excluded from the output covered by the revenue limit.

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 increased to 4.8¢/kWh effective May 1, 2008. In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the 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. The term of the revenue limit rebate ends on May 1, 2009.

HIGHLIGHTS

Overview of Results

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

(millions of dollars)	**2008**	2007
Revenue		
Revenue before revenue limit rebate	**6,359**	5,887
Revenue limit rebate	**(277)**	(227)
	6,082	5,660
Fuel expense	**1,191**	1,270
Gross margin	**4,891**	4,390
Expenses		
Operations, maintenance and administration	**2,967**	2,974
Depreciation and amortization	**743**	695
Accretion on fixed asset removal and nuclear waste management liabilities	**581**	507
Losses (earnings) on nuclear fixed asset removal and nuclear waste management funds	**93**	(481)
Other net expenses	**71**	75
	4,455	3,770
Income before interest and income taxes	**436**	620
Net interest expense	**165**	143
Income tax expense (recovery)	**183**	(51)
Net income	**88**	528
Electricity production (TWh)	**107.8**	105.1
Cash flow		
Cash flow provided by operating activities	**870**	379

Net income for 2008 was $88 million compared to $528 million for 2007, a decrease of $440 million. Income before income taxes for 2008 was $271 million compared to $477 million for 2007, a decrease of $206 million.

The financial and operating results from OPG's electricity generation business segments improved significantly in 2008 compared to 2007. Income before interest and income taxes from OPG's electricity generation business segments was $1,028 million in 2008 compared to $594 million in 2007. This increase was primarily due to higher electricity prices and electricity production, which resulted in an increase in gross margin in 2008 compared to 2007.

The Regulated Nuclear Waste Management business segment incurred a loss before interest and income taxes of $670 million in 2008 compared to a loss before interest and income taxes of $26 million in 2007. This change was a result of a significant reduction in the earnings from the Nuclear Funds, partly mitigated by the establishment by the OEB of a variance account for differences between actual and forecast revenues and costs related to the nuclear generating stations on lease to Bruce Power ("Bruce variance account") effective April 1, 2008.

The following is a summary of the factors impacting OPG's results for the year ended December 31, 2008 compared to results for 2007, on a before-tax basis:

(millions of dollars – before tax)	Electricity Generation Segments[1]	Regulated Nuclear Waste Management Segment	Other[2]	Total
Income (loss) before income taxes for the year ended December 31, 2007	**594**	**(26)**	**(91)**	**477**
Changes in gross margin:				
Increase in electricity sales price after revenue limit rebate	307	–	–	307
Change in electricity generation by segment:				
Regulated – Nuclear Generation	186	–	–	186
Regulated – Hydroelectric	16	–	–	16
Unregulated – Hydroelectric	157	–	–	157
Unregulated – Fossil-Fuelled	(104)	–	–	(104)
Increase in fuel price and other fuel-related costs	(92)	–	–	(92)
Increase in net trading revenue	–	–	44	44
Other changes in gross margin	13	(30)	4	(13)
	483	(30)	48	501
Changes in operations, maintenance and administration expenses ("OM&A"):				
Increase in maintenance activities primarily due to higher expenditures at OPG's nuclear generating stations	(94)	–	–	(94)
Impact of regulatory accounts and expenditures related to nuclear generation development and capacity refurbishment	(87)	–	–	(87)
Decrease in pension and OPEB costs	74	–	–	74
Decrease in expenses related to past grievances by First Nations	50	–	–	50
Other changes in OM&A	57	34	(27)	64
	–	34	(27)	7
Increase in accretion on fixed asset removal and nuclear waste management liabilities	–	(74)	–	(74)
Decrease in earnings from the Nuclear Funds	–	(907)	–	(907)
Increase in regulatory asset related to earnings from the Nuclear Funds associated with stations on lease to Bruce Power	–	333	–	333
(Increase) decrease in depreciation and amortization expense	(58)	–	10	(48)
Other changes	6	–	(1)	5
Increase (decrease) in income before other gains and losses, interest and income taxes	**431**	**(644)**	**30**	**(183)**
Changes in other gains and (losses)	3	–	(4)	(1)
Increase in net interest expense	–	–	(22)	(22)
Income (loss) before income taxes for the year ended December 31, 2008	**1,028**	**(670)**	**(87)**	**271**

1 Electricity generation segments include results of the Regulated – Nuclear Generation, Regulated – Hydroelectric, Unregulated – Hydroelectric and Unregulated – Fossil-Fuelled segments.

2 Other includes results of the Other category in OPG's segmented statement of income, inter-segment elimination, and net interest expense.

Management's Discussion and Analysis

Earnings for 2008 were favourably impacted by an increase in gross margin of $501 million compared to 2007. The increase in gross margin in the electricity generation segments of $483 million was primarily due to higher prices for generation from OPG's regulated facilities following the OEB's decision to increase prices effective December 1, 2008, but applicable retrospectively to April 1, 2008. During the fourth quarter of 2008, OPG recorded $214 million of retrospective revenue for the period from April 1, 2008 to November 30, 2008. Gross margin was also favourably impacted by higher generation from OPG's nuclear and hydroelectric generating stations, partially offset by lower generation from OPG's fossil-fuelled generating stations and higher fuel costs.

Trading revenue also increased in 2008 compared to 2007, primarily due to higher realized earnings and mark-to-market gains from energy trading transactions.

Operations, maintenance and administration ("OM&A") expenses decreased by $7 million in 2008, compared to 2007. The decrease was primarily due to lower pension and OPEB costs, and a reduction in expenses related to the settlement of past grievances with First Nations. These reductions in expenses were largely offset by higher maintenance expenditures primarily at OPG's nuclear generating stations, and the impact of regulatory accounts and expenditures related to nuclear generation development and nuclear capacity refurbishment activities. The change in these regulatory accounts during 2008 was primarily a result of a lower level of costs incurred for new nuclear generation and capacity refurbishment activities than the forecast approved by the OEB in setting the regulated nuclear prices.

Accretion expense increased in 2008 compared to 2007 primarily due to the discontinuance, effective April 1, 2008, of the deferral account associated with the increases in Nuclear Liabilities arising from the 2006 Approved Reference Plan, and the increase in the present value of the liability due to the passage of time. Accretion expense was reduced in 2008 and 2007, through the deferral account, by $19 million and $75 million, respectively.

Losses from the Nuclear Funds, before the mitigating impact of the Bruce variance account established by the OEB, were $426 million compared to earnings of $481 million in 2007, a decrease of $907 million. The decrease in the earnings from the Nuclear Funds was primarily due to lower returns on the Decommissioning Segregated Fund ("Decommissioning Fund") as a result of significant reductions in trading levels of global financial markets, which reduced the current market value of the fund investments. The investments in the Decommissioning Fund include a diversified portfolio of equities and fixed income securities that are invested across many geographic markets. The Nuclear Funds are invested to fund long-term liability requirements, and as such, the portfolio asset mix is structured to achieve the required return over a long-term horizon. While short-term fluctuations in market value will occur, managing the long-term return of the Nuclear Funds remains the primary goal.

OPG's earnings on the Used Fuel Segregated Fund ("Used Fuel Fund") are not subject to such capital market volatility since the rate of return on this fund is guaranteed by the Province, for the first 2.23 million used fuel bundles.

The losses from the Nuclear Funds were partially mitigated by the establishment of the Bruce variance account, effective April 1, 2008, since a portion of the losses from the Nuclear Funds related to the nuclear generating stations on lease to Bruce Power. OPG recorded a regulatory asset of $333 million in this variance account that reduced the reported losses from the Nuclear Funds.

Depreciation and amortization expense was $743 million in 2008 compared to $695 million in 2007. The increase in depreciation and amortization expense was primarily due to the discontinuance on April 1, 2008 of the deferral of depreciation expense associated with the increase in the Nuclear Liabilities arising from the 2006 Approved Reference Plan. Depreciation and amortization expense was reduced in 2008 and 2007, through the deferral account, by $13 million and $54 million, respectively.

Net interest expense for the year ended December 31, 2008 was $165 million compared to $143 million for 2007, an increase of $22 million. The increase was primarily due to the impact of a higher average debt balance and a lower amount of interest deferred associated with regulatory balances, partially offset by higher interest capitalization for capital projects.

For the year ended December 31, 2008, income tax expense was $183 million compared to a tax recovery of $51 million for 2007. The increase in income tax expense in 2008 compared to 2007 was partly due to an increase in earnings before the impact of the losses on the Nuclear Funds. Also, in 2007, income tax expense was reduced as a result of additional contributions made to the Nuclear Funds. The increase in tax expense in 2008 was partly offset by a reduction in income tax liabilities as a result of the resolution of tax uncertainties related to the audit of OPG's 1999 taxation year.

Average Sales Prices

The weighted average Ontario spot electricity market price and OPG's average sales prices by reportable electricity generation business segment, net of the revenue limit rebate for the years ended December 31, 2008 and 2007, were as follows:

(¢/kWh)	**2008**	2007
Weighted average hourly Ontario spot electricity market price	**5.2**	5.1
Regulated – Nuclear Generation	**5.3**	4.9
Regulated – Hydroelectric	**3.9**	3.5
Unregulated – Hydroelectric	**4.8**	4.7
Unregulated – Fossil-Fuelled	**5.0**	4.8
OPG's average sales price	**4.9**	4.6

The weighted average hourly Ontario spot electricity market price was 5.2¢/kWh for 2008 compared to 5.1¢/kWh in 2007. The increase was primarily due to higher coal and natural gas prices, partially offset by an increase in hydroelectric and nuclear production.

The increase in OPG's average sales price for the Regulated – Nuclear Generation and Regulated – Hydroelectric segments for 2008 compared to 2007 primarily reflected the impact of the increase in the regulated prices resulting from the OEB's decision in 2008, applicable to production from OPG's regulated facilities, effective on April 1, 2008. The increase in OPG's average sales price from the Unregulated – Hydroelectric and Unregulated – Fossil-Fuelled segments in 2008 compared to 2007 reflected the impact of higher Ontario spot market prices and a higher revenue limit in 2008.

As a result of regulated prices and the revenue limit rebate, OPG's average sales price during 2008 and 2007 was lower than the weighted average hourly Ontario spot electricity market price.

Electricity Generation

OPG's electricity generation for the years ended December 31, 2008 and 2007, was as follows:

(TWh)	2008	2007
Regulated – Nuclear Generation	**48.2**	44.2
Regulated – Hydroelectric	**18.8**	18.1
Unregulated – Hydroelectric	**17.6**	13.8
Unregulated – Fossil-Fuelled	**23.2**	29.0
Total electricity generation	**107.8**	105.1

Total electricity generated during 2008 was 107.8 TWh compared to 105.1 TWh during 2007. The increase of 2.7 TWh was primarily due to higher generation from OPG's nuclear and unregulated hydroelectric generating stations, partially offset by lower generation from the fossil-fuelled generating stations.

The increase in generation from the nuclear generating stations during 2008 compared to 2007 was primarily due to a reduction in outage days at the Pickering A and Darlington nuclear generating stations.

The increase in generation from the regulated and unregulated hydroelectric generating stations in 2008 compared to 2007 was primarily due to higher river flows across the province as a result of significant snowfall and rain, along with high availability of the hydroelectric generating stations.

Electricity generation from the fossil-fuelled generating stations was lower during 2008 compared to 2007 primarily due to higher generation from the nuclear and hydroelectric generating stations, and lower market demand.

OPG's operating results are impacted by changes in demand resulting from variations in seasonal weather conditions. The following table provides a comparison of Heating and Cooling Degree Days for the years ended December 31:

	2008	2007
Heating Degree Days[1]		
Total for year	**3,807**	3,684
Ten-year average	**3,662**	3,601
Cooling Degree Days[2]		
Total for year	**279**	454
Ten-year average	**384**	394

1 Heating Degree Days are recorded on days with an average temperature below 18°C, and represent the aggregate of the differences between the average temperature and 18°C for each day during the period, as measured at Pearson International Airport in Toronto, Ontario.

2 Cooling Degree Days are recorded on days with an average temperature above 18°C, and represent the aggregate of the differences between the average temperature and 18°C for each day during the period, as measured at Pearson International Airport in Toronto, Ontario.

Heating Degree Days in 2008 increased compared to 2007 as a result of colder than average temperatures during the fourth quarter of 2008 compared to the same quarter in 2007. Cooling Degree Days decreased in 2008 as a result of cooler temperatures during the second and third quarters of 2008 compared to the same periods in 2007.

The Ontario primary electricity demand was 148.7 TWh and 152.2 TWh for the years ended December 31, 2008 and 2007, respectively.

Cash Flow from Operations

Cash flow provided by operating activities for 2008 was $870 million compared to $379 million for 2007. The increase in cash flow was primarily due to higher cash receipts from generation revenue and a decrease in contributions to the Nuclear Funds in 2008 compared to 2007. In 2007, there was a one-time contribution of $334 million to the Used Fuel Fund as required by the ONFA. The increase in cash flow from operating activities was partially offset by higher revenue limit rebate payments.

Recent Developments

OEB's Decision on Payment Amounts for Prescribed Facilities

The OEB's decision on OPG's application for new payment amounts for its regulated hydroelectric and nuclear facilities was issued in November 2008. The OEB established prices of $36.66/MWh and $54.98/MWh for production from OPG's regulated hydroelectric and nuclear facilities, respectively, effective April 1, 2008 using a forecast cost of service methodology. This methodology establishes regulated payment amounts based on a revenue requirement taking into account a forecast of production volumes and total operating costs, and a return on rate base. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed assets and an allowance for working capital.

Management's Discussion and Analysis

To ensure that OPG collected the new prices effective April 1, 2008, the OEB approved additional rate riders of $2.18/MWh and $3.22/MWh for the production from OPG's hydroelectric and nuclear facilities, respectively. These riders allow OPG to recover the retrospective amounts for production during the period from April 1, 2008 to November 30, 2008 over the 13-month period from December 1, 2008 to December 31, 2009.

In its decision on OPG's application, the OEB determined that the appropriate rate of return on equity for OPG's regulated facilities for the purposes of determining the new regulated prices, is 8.65 percent. This rate is higher than the five percent rate of return on equity, which was the basis for the initial regulated prices established by the Province for the period up to April 1, 2008. The OEB determined that the appropriate deemed capital structure, for the purposes of determining the new regulated prices, is 47 percent equity and 53 percent debt. The OEB also approved OPG's application for an adjustment formula for the return on equity for years after 2009 that would result in a 75 basis point change in the rate of return on equity for every 100 basis point change in the 30-year Long Canada Bond forecast. The OEB determined the new payment amounts based on an approved revenue requirement of $6.0 billion as compared to the $6.2 billion submitted in OPG's application.

In accordance with the regulation, the OEB required OPG to continue to include the difference between OPG's revenues and costs associated with its ownership of the two nuclear stations on lease to Bruce Power in the determination of the regulated prices for production from prescribed nuclear facilities. The respective revenues reduce regulated prices and the respective costs are recovered through the regulated prices.

As part of the decision, the OEB approved OPG's application for the disposition of regulatory balances recorded as at December 31, 2007, without significant adjustments. This resulted in an inclusion of a rate rider of $2.00/MWh in the nuclear regulated price of $54.98/MWh. Any shortfall or over-recovery of the regulatory balances will be collected from, or refunded to ratepayers following OPG's next application to the OEB. OPG will also apply for the disposition of regulatory asset and liability balances recorded since January 1, 2008 in its next application to the OEB.

In determining the recovery of OPG's regulatory balances, the OEB decreased the recovery period for the Pickering A return to service deferral account balance from a proposed period of 15 years to a period of 45 months ending December 31, 2011. The OEB also confirmed that the appropriate period of recovery for the nuclear deferral and variance accounts shall be the 33-month period ending December 31, 2010, and the recovery period for hydroelectric accounts shall be the 21-month period ending December 31, 2009. The higher revenue resulting from the recovery of the deferral and variance accounts is offset by additional amortization expense retrospective to April 1, 2008. OPG recorded amortization expense of $75 million in the fourth quarter of 2008, retrospective to April 1, 2008, as a result of the OEB's decision.

Retrospective to April 1, 2008, the OEB also authorized the continuation of the variance accounts related to the impact of water conditions on hydroelectric electricity production as well as revenues for ancillary services from the regulated facilities. It also established variance accounts for nuclear fuel costs, new nuclear generation development and capacity refurbishment costs, revenues and costs associated with the stations on lease to Bruce Power, income and other taxes, and interim period revenue recovery. These variance accounts capture the differences between actual costs and revenues, and the corresponding forecast amounts approved by the OEB in the setting of the regulated prices.

Investments in Asset-Backed Commercial Paper

In August 2007, the Asset-Backed Commercial Paper ("ABCP") market experienced a liquidity event when paper sponsored by third-party non-bank conduits could not be refinanced as it matured. At that time, OPG's total ABCP investment was $103 million. Of that amount, $45 million was restructured, with OPG receiving payment of approximately 98.7 percent of the face value of the notes in December 2007, which resulted in a loss of $1 million. Of the remaining $58 million, OPG recorded an impairment loss of $9 million as at December 31, 2007. An additional $14 million impairment loss was recorded during 2008, including $5 million in the fourth quarter. The impairment loss was recorded in other gains and losses. As at December 31, 2008, the carrying value of OPG's investments in ABCP was $35 million. OPG's remaining holdings of third-party ABCP are recorded as long-term investments.

On January 21, 2009, the Pan-Canadian Investors Committee for third-party ABCP announced that the restructuring plan (the "Plan") affecting $32 billion of third-party ABCP had been fully implemented. Pursuant to the terms of the Plan, OPG's short-term commercial paper has been exchanged for longer term notes equal to approximately $58 million. OPG received five classes of notes, which are supported by margin funding facilities from third-party asset providers, Canadian banks, and governments. OPG also received a partial payment of the accrued interest, totaling $1.9 million, for its short-term commercial paper held over the past 17 months.

The restructured notes are expected to have a maturity of eight to nine years. The exact maturity will be impacted by the release of collateral as underlying swap trades mature. The stated maturity of the notes is 2056. OPG continues to monitor the development of a secondary market to assess the fair value of its remaining holdings.

OPG has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect any material adverse impact on its operations as a result of this current third-party ABCP liquidity issue.

Contingent Support for Lambton and Nanticoke Generating Stations

In May 2008, the Province announced new annual limits on carbon dioxide ("CO_2") emissions from OPG's coal-fired generating stations to ensure that such emissions are reduced by two-thirds of the 2003 levels by 2011. In accordance with a May 15, 2008 Shareholder Declaration and a May 16, 2008 Shareholder Resolution, OPG is required to stage the reduction measures to meet, on a forecast basis, the interim CO_2 emission targets of 19.6 million tonnes in 2009 and 15.6 million tonnes in 2010.

The Shareholder Resolution stated that the Province will ensure that an appropriate cost recovery mechanism is established to enable OPG to recover the costs of its coal-fired generating stations following the implementation of the CO_2 reductions. OPG has reached an agreement with the Ontario Electricity Financial Corporation ("OEFC") for contingent support for ongoing costs and the recovery of net book value of the Nanticoke and Lambton generating stations during the period from 2009 to 2014.

Lennox Generating Station

The Lennox generating station operated under a reliability must run ("RMR") contract approved by the OEB for the period beginning on October 1, 2007 to September 30, 2008. The IESO has concluded that all four units at the Lennox generating station continue to be required for the purpose of reliability, and recommended that all four units be covered by an RMR contract for the period from October 1, 2008 to September 30, 2009. An RMR contract with the IESO for the period from October 1, 2008 to September 30, 2009, was approved by the OEB in December 2008.

VISION, CORE BUSINESS AND STRATEGY

OPG's mandate is to cost-effectively produce electricity from its diversified generating assets, while operating in a safe, open, and environmentally responsible manner. OPG's goal is to be a leader in clean energy generation and to have a major role in leading Ontario's transition to a more sustainable energy future. OPG is focused on three corporate strategies: performance excellence; generation development; and developing and acquiring talent.

Performance Excellence

Performance excellence is essential to OPG. Every business segment and corporate function exhibits our commitment to generation, safety, the environment, and fiscal performance. It is through our focus on performance excellence that OPG is able to efficiently and reliably provide electricity to the province and deliver value to its shareholder.

Nuclear Generating Assets

Performance excellence of OPG's nuclear generating assets is defined as safe, efficient and cost-effective operation, with prudent investments to improve reliability. Programs and initiatives have been implemented that will continue to: improve safety performance; increase equipment reliability to reduce generation interruptions; plan and execute outages more efficiently to realize optimal generation potential; mitigate technological risks through essential and effective inspection and testing programs; and address workforce planning issues. These initiatives, combined with ongoing cost control efforts, are expected to result in lower production unit energy costs.

Nuclear inspection and testing programs are largely driven by maintenance governance requirements designed to ensure that equipment is fit for service and performs as expected. This enables OPG to satisfy regulatory requirements that the stations are safe to operate, and that nuclear safety is not compromised.

OPG's maintenance strategy is evolving from programs designed to improve equipment condition into initiatives to increase the reliability of generation and the predictability of performance. The view of maintenance of components and equipment has shifted to become a comprehensive life cycle maintenance of systems. OPG plans to perform major scheduled maintenance over the next three years, including vacuum building outages at both the Darlington and Pickering stations in addition to ongoing maintenance work, including steam generator maintenance, and servicing of pumps, valves and other equipment and components.

Reducing maintenance backlogs to improve equipment reliability is another major aspect of achieving performance excellence. Corrective maintenance backlogs were successfully reduced to industry levels in 2007 and are being sustained. Additionally, by year end 2008, all sites achieved significant reductions in elective maintenance backlogs compared to 2007, with Darlington achieving industry standard levels.

OPG is focused on reducing the number and duration of planned outages to increase generation time. The planned outage schedule at the Darlington station has moved from a two-year cycle to a three-year cycle. The Pickering stations remain on a two-year planned outage schedule. The reduction in outage duration targeted at the nuclear stations reflects ongoing and new programs aimed at improving the planning, execution, monitoring and reporting of outage work. Darlington has demonstrated excellent outage performance. As of the end of 2008, the last three outages at Darlington came in on or ahead of schedule.

OPG continues to implement its hiring and training programs to improve employee performance and promote leadership development, while addressing demographic development issues.

Pickering A Units 2 and 3 Safe Storage Project

The Pickering A safe storage project includes isolating Units 2 and 3 from the rest of the generating station, redesigning the control room for the remaining two operating units, and de-watering and de-fuelling the units. De-fuelling of the units was completed in October 2008.

In the third quarter of 2007, the Canadian Nuclear Safety Commission ("CNSC") concluded that an Environmental Assessment ("EA") was necessary for certain aspects of the safe storage project. EA approval was received from the CNSC in December 2008 allowing the Unit 2 de-watering to proceed. The bulk de-watering of both the moderator and heat transport systems of Unit 2 is complete with vacuum drying to begin shortly. The project remains on schedule for completion in the fall of 2010 with a projected completion cost of $349 million.

Management's Discussion and Analysis

Hydroelectric Generating Assets

Performance excellence at OPG's hydroelectric generating assets is defined as improving production in a cost-effective and efficient manner. Programs and initiatives are underway to replace aging equipment such as turbines, generators and transformers. OPG plans to increase the capacity of existing stations by 87 MW over the next five years by replacing existing turbine runners with more efficient equipment. The replacement of control equipment will also improve efficiency and accommodate market dispatch requirements. Aging civil structures will be repaired, rehabilitated or replaced.

The hydroelectric generating assets achieved an availability of 94.3 percent in 2008, which is the best performance in 24 years. OPG plans to maintain high reliability levels as measured by availability factors in excess of 90 percent and an equivalent forced outage rate of less than 1.6 percent. The hydroelectric generating assets produced 36.4 TWh in 2008, the second highest production on record for the existing fleet.

In June and July of 2008, Sandy Falls generating station and Lower Sturgeon generating station were removed from service, as part of the Upper Mattagami Redevelopment Project. The new upgraded stations are planned to return to service at the end of 2010 with significantly increased capacities.

The hydroelectric business segment is strengthening its relationships with First Nations and local communities. In 2008, a number of ceremonies recognizing the settlement of past grievances were held with First Nations.

OPG is meeting the demographic challenges faced by its hydroelectric business unit by training staff to perform new roles and by hiring new staff, including graduate trainees. OPG mentors these new employees in safe work practices and technical skills to ensure continuing performance improvements.

Fossil-Fuelled Generating Assets

Performance excellence at OPG's fossil-fuelled generating assets is defined as maintaining the productive capability of its coal-fired generating facilities for as long as they are required, while continuing to operate in compliance with all applicable environmental laws and emission regulations. OPG's fossil-fuelled generating assets will operate in a reliable, cost-effective, safe, and environmentally responsible manner. In particular, fossil units will be maintained to ensure their availability for summer and winter peak production periods.

During 2008, the overall reliability of OPG's fossil-fuelled generating assets, as measured by equivalent forced outage rates, was comparable to the favourable levels of 2007. This level of reliability is expected to be maintained on a fleet basis over the next few years. Greater emphasis will be placed on equipment maintenance and inspection to ensure that fossil units are available when needed, especially during peak periods.

OPG's unregulated fossil-fuelled business segment has more than 1,500 employees. During the past three years, approximately 30 percent of employees have been replaced in order to manage the effects of an aging workforce. The majority of the new hires were external recruits. OPG provides in-house technical training to assist staff with their new roles, and to adopt safe work practices.

Safety

OPG's safety culture is rooted in the belief that zero injuries can be a reality. OPG is committed to achieving performance excellence in employee, contractor and public safety through continuous improvement in its safety management systems and risk control programs and a corporate commitment to achieving the goal of zero injuries in the workplace. Continuous oversight and reporting provides management with information on the effectiveness of safety management initiatives, compliance with legal and corporate requirements, and safety performance trends. Oversight activities include internal and external safety management system audits, work protection code audits, and specific operational safety risk reviews. OPG also has a rigorous incident management system, which requires that all incidents including near misses be reported and investigated, as appropriate, and that corrective action plans are developed to prevent reoccurrences.

OPG measures its safety performance primarily through two performance indicators – Accident Severity Rate ("ASR") and All Injury Rate ("AIR"). The ASR is a measure of the number of days lost due to injuries. OPG's 2008 ASR performance of 1.47 days lost per 200,000 hours was an improvement over the 2007 ASR of 1.56, and is the best performance that the Company has achieved since its inception in 1999. The AIR provides a measure of the frequency of injuries resulting in lost time or requiring medical treatment. In 2008, OPG experienced 1.15 injuries per 200,000 hours worked compared to 1.12 in 2007. OPG strives for continuous improvement through visible leadership and commitment to safety, a strong safety culture where employees take personal responsibility for safety, and maintaining effective safety management systems. To improve OPG's AIR going forward and to strive for zero injuries, OPG is committed to reducing the number of workplace injuries through targeted risk reduction programs. Given that musculoskeletal disorders ("MSD") comprise 40 percent of injuries, OPG has launched comprehensive MSD reduction programs which include initiatives to educate employees on MSD risk factors and develop strategies to reduce these risks through changes in work methods and in the design of equipment.

In 2008, safety performance was marked by the achievement of a number of significant safety milestones. Of particular note was the hydroelectric business segment which achieved three years without a lost time accident. In addition, in 2008, OPG was recognized with two prestigious safety awards, receiving the President's Gold Award from the Canadian Electricity Association for consistent top quartile safety performance for the last three years, and a Gold Award from the Electrical and Utilities Safety Association for maintenance of a strong safety management system over the last three years.

Environmental Performance

OPG's Environmental Policy states that "OPG will strive to continually improve its environmental performance." This policy further commits OPG to meet all legal requirements and voluntary commitments, with the objective of exceeding those standards where appropriate and feasible. Other goals include integrating environmental factors into business planning and decision-making, and maintaining environmental management systems.

To achieve the goal of continuous improvement in environmental performance, each year OPG sets key performance targets, which are managed through the ISO 14001 (2004) Environmental Management System ("EMS"). These efforts are reinforced by an annual incentive plan that links management's compensation to meeting or surpassing internally established environmental targets. Targets are established for a wide spectrum of environmental indicators, including spills; air emissions inclusive of Nitrogen Oxides ("NO_x"), Sulphur Dioxide ("SO_2"), tritium, and dioxins/furans emissions; regulatory infractions; energy efficiency improvements; and biomass usage.

OPG manages air emissions of NO_x and SO_2 through the installation of specialized equipment such as scrubbers, low NO_x burners, and selective catalytic reduction equipment. OPG also purchases low sulphur fuel and utilizes a regulatory approved emissions trading program to manage emission levels within regulatory limits.

OPG monitors emissions into the air and water and regularly reports the results to regulators that include the Ministry of the Environment, Environment Canada and the CNSC. The public also receives ongoing communications regarding OPG's environmental performance. OPG has developed and implemented internal monitoring, assessment, and reporting programs to manage environmental risks such as air and water emissions, discharges, spills, the treatment of radioactive emissions, and radioactive wastes. OPG also continues to address historical land contamination through its voluntary land assessment and remediation program.

OPG's environmental performance for 2008 met, or was better than target, regarding all spills (Categories A, B and C), infractions, energy efficiency, biomass usage, and dioxins/furans emissions. OPG also maintained its ISO 14001 certification for its corporate level EMS and all of its generating stations. OPG met its external regulatory target for tritium emissions but did not meet the stringent internal target for tritium emissions set by the Company. Certain units at the Lambton and Nanticoke generating stations are equipped with Selective Catalytic Reduction ("SCR") technology for NO_x removal. These units met their external regulatory emission limits, however internal emission targets set by the Company for NO_x removal were not met due to equipment issues and the operation of these units at low loads, which compromised the SCR operation. Acid gas (SO_2 and NO_x) emissions were 104.8 gigagrams ("Gg") in 2008 compared to 139.9 Gg in 2007. The decrease in acid gas emissions was primarily a result of decreased generation from the fossil facilities.

In April 2007, the Federal Government announced its "Turning the Corner" plan for reducing both greenhouse gas ("GHG") emissions and air pollutants from 2006 levels. Under the Federal proposal, OPG would be required to reduce its intensity levels of GHG emissions from its corporate fleet from 2006 levels by 18 percent in 2010, with an eventual reduction of 26 percent by 2015. The Federal Government confirmed these GHG targets in March 2008. The Federal Government also confirmed that the GHG intensity for the electricity sector would be calculated at the corporate level, rather than at the station or fleet levels. The Federal Government had planned to release the draft GHG regulations as well as a regulatory framework for air pollutants in December 2008; however, these documents have not been released to date. In addition, the Government of Canada has recently expressed an interest in entering into discussions with the new administration in the United States about a North American Cap and Trade regime. In support of this, Environment Canada has created a new Associate Deputy Minister position, which is expected to lead future discussions with the United States. The Cap and Trade regime is expected to require hard caps on industry, which would not include "intensity" based targets envisioned in Canada's "Turning the Corner" plan.

In May 2008, the Province announced new annual limits on CO_2 emissions from OPG's coal-fired generating stations to ensure that such emissions are reduced by two-thirds of the 2003 levels by 2011. A draft regulation under the *Environmental Protection Act* requires a reduction in CO_2 emissions to an annual limit of 11.5 million tonnes beginning on January 1, 2011, one third of the 34.5 million tonnes of CO_2 emissions produced in 2003. In accordance with the May 15, 2008 Shareholder Declaration and the May 16, 2008 Shareholder Resolution, OPG is required to develop a strategy to meet, on a forecast basis, the interim CO_2 emission targets of 19.6 million tonnes in 2009 and 15.6 million tonnes in 2010. OPG submitted a strategy to meet, on a forecast basis, the 2009 CO_2 emission target to the Minister of Energy and Infrastructure on November 28, 2008, and within one year thereafter, is required to submit a strategy for 2010. These strategies may result in a reduction to OPG's revenues. The Shareholder Resolution stated that the Province will ensure that an appropriate cost recovery mechanism is established to enable OPG to recover the costs of its coal-fired generating stations following the implementation of the CO_2 reductions. An agreement with the OEFC for contingent support for the appropriate cost recovery was discussed under the heading *Recent Developments*.

In July 2008, the Province of Ontario joined the Western Climate Initiative ("WCI"). WCI is an intergovernmental organization, which was created to identify, evaluate and implement collective and cooperative ways to reduce GHGs in the region, focusing on a market-based cap-and-trade system. It is expected that a cap and trade system impacting OPG facilities emitting 25,000 megagrams ("Mg") and higher will be operating in 2012. The financial impact on OPG of the Province's involvement in WCI is uncertain at this time. Reporting requirements for the WCI will begin in 2010 with results submitted in 2011. Based on the draft reporting requirements, OPG will be required to report emissions on a facility basis where emissions are 10,000 Mg and higher. In addition, for facilities with emissions at 25,000 Mg and higher, reporting and verification will be required.

Management's Discussion and Analysis

To achieve further improvements in OPG's GHG emissions, OPG launched its Greenhouse Gas Management Plan in 2007. The plan focuses on: improving the energy efficiency of OPG's facilities, the use of biofuels as a partial replacement for coal, researching the impact of climate change on OPG's operations, expanding the tree planting effort through OPG's extensive biodiversity program, and an education program for employees.

Financial Sustainability

OPG's financial priority, operating as a commercial enterprise, is to achieve a sustainable level of financial performance. Inherent in this priority are the objectives of: earning an appropriate return on OPG's regulated assets; receiving market prices for production from unregulated assets; identifying and exploring efficiency improvement opportunities; and ensuring that sufficient funds are available to achieve OPG's strategic objectives of performance excellence and generation development. OPG has employed a number of strategies to achieve a level of sustainable financial performance.

OPG's mandate, as agreed with its shareholder, states that: as an Ontario Business Corporations Act corporation with a commercial mandate, OPG will operate on a financially sustainable basis and maintain the value of its assets for its shareholder, the Province.

OPG receives regulated prices for electricity produced from its nuclear generating stations and most of its baseload hydroelectric generating stations. These prices were set by the Province for the period April 1, 2005 to March 31, 2008. The Province also determined that the OEB would become responsible for setting regulated prices for OPG's regulated production after March 31, 2008. OPG filed an application with the OEB in November 2007 for new payment amounts for its regulated facilities effective April 1, 2008. The OEB issued its decision and final payment amounts order in the fourth quarter of 2008. A portion of OPG's revenues is subject to a revenue limit pertaining to the majority of the output from its other generating assets. This limit was established in April 2005, and ends on May 1, 2009.

To the extent that additional funds, beyond those generated from operations, are required, OPG seeks agreement with its shareholder on options to ensure that adequate financing resources are available to fund ongoing operational requirements and new generation development. OPG will continue to seek opportunities to diversify its sources of funding and increase its access to cost-effective capital. By ensuring access to cost-effective funding and maintaining its investment grade credit ratings, OPG will ensure its status as a long-term, commercially viable investment.

Generation Development

With the aging of OPG's generating fleet, it is essential that focus be placed on generation development. OPG endeavours to pursue capacity expansion or life extension opportunities where possible. Increasing the production potential of existing infrastructure reduces the environmental impact of meeting Ontario's electricity demands. Pursuing opportunities to leverage existing sites and assets will enable OPG to realize the additional benefits from these assets. OPG's major projects include nuclear plant refurbishment, new nuclear generation, new hydroelectric generation and plant upgrades, capitalization on emerging biomass opportunities, and expansion into gas-fired generation for contingent electricity production.

Pickering Refurbishment Project

Work is proceeding on the feasibility study to refurbish the Pickering B nuclear generating station. This includes an assessment of the station's condition, an EA, and an Integrated Safety Review ("ISR"), which is designed to ensure safe and secure operations of the station for the proposed future period.

OPG submitted a draft Environmental Impact Statement ("EIS") report to the CNSC in December 2007. The CNSC staff accepted the EA Study Report in June 2008 and held open houses on their draft EA Screening Report, which was issued in July 2008. The CNSC finalized their Screening Report in October 2008. The CNSC held a one-day public hearing to consider the results of the EA Screening Report on December 10, 2008. On January 26, 2009, the CNSC concluded that, taking into account the identified mitigation measures, the refurbishment and continued operation of the Pickering B nuclear station is not likely to cause significant adverse environmental effects.

OPG has submitted all required Safety Factor Reports to the CNSC. The CNSC continues to review these reports and OPG is providing additional information as required. OPG is preparing the final ISR for submission in late 2009.

Darlington Refurbishment Project

Planning work for the assessment of the feasibility of refurbishing the Darlington nuclear generating station began in early 2008. The preliminary scope and a reference schedule have been developed for planning purposes. Planning for the plant condition assessment commenced in the second quarter of 2008 and will continue throughout 2009. In addition, a number of technical studies are underway to evaluate the condition of critical plant components in order to finalize the project's scope. In late 2008, OPG commenced the ISR process. The ISR Basis Document, which identifies the ISR scope and methodology, was submitted to the CNSC in November 2008. The ISR is expected to be completed for submission to the CNSC by late 2011.

New Nuclear Generating Units

OPG initiated a federal approvals process by filing an Application for a Site Preparation Licence with the CNSC for new nuclear generating units at the Darlington nuclear generating site. In January 2008, the CNSC recommended to the Federal Minister of Environment that the project be referred to a review panel, which is the highest level of review under current legislation. In March 2008, the recommendation was accepted and the project EA was referred to a review panel. Work continues on the EIS, which is planned for completion in 2009. The Canadian Environmental Assessment Agency ("CEAA") and the CNSC, on September 5, 2008, issued draft EIS guidelines and a Joint Review Panel Terms of Reference for a 90-day public comment period. The review period was completed and the documents are pending finalization by the CEAA and the CNSC.

In March 2008, the Minister of Energy announced a two-phase competitive Request For Proposal ("RFP") process to select a nuclear reactor vendor for two units of baseload generation to provide 2,000 to 3,500 MW of generating capacity to the Ontario electricity grid. The target in-service date, as stated by Infrastructure Ontario, is mid-2018 for the first unit, and mid-2019 for the second unit. A commercial team, directed by Infrastructure Ontario, and supported by OPG, Bruce Power, and the Ministries of Energy and Infrastructure and Finance, is managing the procurement process to select a nuclear reactor vendor. It is expected that the preferred vendor will be announced in the late spring of 2009.

Phase one of the RFP process was aimed at assessing the ability of the invited vendors to support a successful construction licence application in compliance with Canadian regulatory requirements and to successfully deliver the overall project, as well as to ascertain their financial strength and legal position. Phase one was completed in June 2008 with Areva NP, Atomic Energy of Canada Limited, and Westinghouse Electric Company advancing to phase two.

Phase two of the competitive RFP process was launched in June 2008 to select a nuclear reactor vendor. The competitive process is to select a vendor to design, develop, construct, and provide licensing and commissioning support, and fuel supply, of a stand-alone two-unit nuclear power plant at the Darlington site. Respondents will be evaluated in three key areas: lifetime cost of power, ability to meet Ontario's timetable to bring new supply on line in 2018, and the level of investment in Ontario.

Niagara Tunnel

As of December 31, 2008, the tunnel boring machine had advanced 3,306 metres. The progress of the tunnel boring machine continues to be slower than what was expected under the original contractor schedule, primarily due to excess overbreak of the Queenston shale in the tunnel crown. To minimize further excavation in the Queenston shale, a change in the vertical alignment of the tunnel has been initiated.

A dispute review hearing process was initiated earlier in 2008 to assess, among other things, whether the actual subsurface conditions encountered are materially different from those that were anticipated as part of the design-build contract. The Dispute Review Board issued its non-binding recommendations in late August 2008. OPG and the contractor are using the Dispute Review Board recommendations as a basis for negotiating revisions to the design-build contract. These revisions are expected to have a significant impact on the project completion schedule and the cost estimate. The negotiations are underway and are targeted for completion in the first quarter of 2009. Uncertainties will continue with respect to cost and schedule.

The capital project expenditures for the year ended December 31, 2008 were $132 million and life-to-date capital expenditures were $435 million. The project is debt financed through the OEFC.

Lac Seul

The Lac Seul hydroelectric generating station is expected to be declared in-service in February 2009. The station has a capacity of 12.5 MW. The project was originally expected to be in-service by the end of the third quarter of 2007. However, it was delayed as a result of various contractor difficulties. A settlement in principle has been negotiated to compensate the contractor for recovery of certain additional costs.

At December 31, 2008, life-to-date expenditures were $54 million. The final project cost is expected to be $55 million. The project is debt financed through the OEFC.

OPG has entered into a partnership agreement with the Lac Seul First Nations ("LSFN"). The partnership is a first for OPG and the LSFN, who will own 25 percent of the new facility.

Upper Mattagami and Hound Chute

In December 2007, OPG's Board of Directors approved the replacement of four existing hydroelectric generating stations. Three of the generating stations are on the Upper Mattagami River (Wawaitin, Sandy Falls and Lower Sturgeon) and the fourth (Hound Chute) is located on the Montreal River. The project includes the demolition and decommissioning of the four existing powerhouses that are at the end of their useful lives. Upon completion of the project, the total installed capacity of the four stations will increase from 23 MW to 44 MW, and the annual energy will increase from 134 gigawatt hours ("GWh") to 223 GWh.

Design and construction activities are in progress at all four sites. The Sandy Falls and Lower Sturgeon generating stations have been demolished to make way for construction of the new stations. The shutdown of these stations reduced the unregulated hydroelectric capacity by 9 MW.

Life-to-date expenditures as of December 31, 2008 were $62 million. Total project costs are expected to be $300 million. A significant proportion of this capital cost relates to a design-build contract to construct the facilities.

Lower Mattagami

OPG is proceeding with a development plan to increase the generating capacity of four hydroelectric generating stations on the Lower Mattagami River from 483 MW to 933 MW, an increase of 450 MW. In September 2008, the Minister of the Environment for Canada approved the decision that a comprehensive study is the most appropriate type of EA. Fisheries and Oceans Canada is leading the comprehensive study and will submit its report to the Minister of the Environment and to the CEAA in 2009.

OPG is also engaged with First Nations stakeholders to address past grievances and to establish a new commercial relationship.

Hydroelectric Projects Directive

In December 2007, the Minister of Energy issued a directive to the OPA to negotiate a HESA for the Lac Seul, Upper Mattagami, Hound Chute, Healey Falls and Lower Mattagami projects. The Lac Seul, Upper Mattagami and Hound Chute agreements have been executed. The HESA for the Healey Falls project is being finalized. The negotiations for the HESA for Lower Mattagami began in the fourth quarter of 2008.

Biomass Generation Opportunities

The potential to convert some of the existing coal-fired units to biomass fuelling is continuing to be assessed. Biomass is considered to be carbon neutral. This fuelling option can provide the ability to use existing assets beyond the 2014 coal plant closure date. Studies are currently underway to assess biomass availability, costs and end-to-end requirements for the safe handling, storage and combustion of biomass.

Portlands Energy Centre

OPG entered into a partnership with TransCanada Energy Ltd., through the Portlands Energy Centre L.P. ("PEC"), to pursue the development of a 550 MW gas-fired, combined cycle generating station on the site of the former R.L. Hearn generating station, near downtown Toronto. OPG has a 50 percent ownership interest in the joint venture. In May 2008, the construction for the simple cycle mode of operations for the PEC was completed. The station was available to operate in a simple cycle mode as needed during the summer of 2008.

In September 2008, the simple cycle mode of operations for the PEC ended and the plant was returned to the custody of the contractor for completion of the combined cycle plant. Final system commissioning and preparation for the guarantee performance testing and the demonstration runs was conducted during the last two months of 2008. The PEC is expected to be in-service in a combined cycle mode in the first quarter of 2009, earlier than its contractual in-service date of June 1, 2009.

OPG's share of capital expenditures for the year ended December 31, 2008 was $87 million, and life-to-date expenditures were $360 million. Total project costs continue to be within the $730 million approved budget, excluding capitalized interest. A significant proportion of the capital cost relates to an engineer-procure-construct contract to construct the facility. OPG's share of the project is debt financed through the OEFC.

Southwest Greater Toronto Area Generation

In January 2009, the OPA announced the four companies that have successfully qualified to submit proposals to construct a natural gas generating station in the Southwest Greater Toronto Area ("GTA"). The partnership of TransCanada Energy and OPG, working under the name of the Portlands Energy Centre, is one of the successful qualifiers.

The OPA is expected to issue their RFPs during the first quarter. At that time, more will be known about the specific project requirements. OPG will work with TransCanada to complete the required EA, develop the project, engage suppliers and contractors, and submit a competitive bid later in the year. The OPA is likely to require an in-service date of 2013.

Lakeview Site

In 2008, OPG completed the decommissioning and demolition of the Lakeview coal-fired generating station, having closed the station in 2005 after more than 40 years of service. OPG explored the potential development of a gas-fuelled electricity generating station at the site. However, in July 2008, the Ontario government announced that the Lakeview site will not be used for a new gas-fired generating station.

Developing and Acquiring Talent

Essential to workforce management at any organization is good planning. OPG's ability to sustain on-going operations and the successful delivery of the portfolio of planned projects is dependent on developing and maintaining a talented and engaged workforce, and a strong leadership capability. OPG's resource strategy is to develop and acquire necessary talent focused on developing excellent leadership and the necessary resources to meet the demand that will be generated by retirements and the forecast skilled labour shortages.

Skilled Workforce

As of December 31, 2008, OPG had approximately 12,000 regular employees. OPG's employees have considerable technical experience in operating and maintaining the Company's generating stations. Due to an aging workforce, OPG's challenge is to attract and retain a skilled workforce to replace retiring employees. Approximately 37 percent of OPG's workforce was over the age of 50 at December 31, 2008. OPG has a comprehensive resource and succession planning program to address demographic issues and issues associated with closure of the coal-fired generating stations. OPG is well positioned in the competitive market place to attract new employees.

The Company's collective agreement with the Power Workers' Union runs through March 31, 2009 and the labour agreement with The Society of Energy Professionals runs through December 31, 2010. As of December 31, 2008, the Company had approximately 90 percent of its regular labour force represented by collective bargaining agreements.

CAPABILITY TO DELIVER RESULTS

Generating Assets

OPG continues to implement specific initiatives to improve the reliability and predictability of each nuclear generating station. These initiatives are designed to address the specific technology requirements, operational experience, and mitigate risks. The Darlington nuclear generating station has transitioned to a three-year outage cycle to take advantage of the physical condition of the plant, the availability of backup systems, and the ability to refuel during operations. The Pickering A and B nuclear generating stations will continue to focus on implementing targeted improvements in reliability.

OPG has increased the productive capacity of its hydroelectric stations, extended their service lives and invested significant capital to replace aging equipment, upgrade runners, increase station automation, and enhance maintenance practices. Programs are in place to further improve the efficiency and availability of existing hydroelectric stations.

OPG will continue to maintain the reliability and productive capacity of its coal-fired generating stations until their scheduled closure dates.

In addition to the discussion in this section, OPG's capability to deliver results is affected by factors discussed in the *Risk Management* section.

ONTARIO ELECTRICITY MARKET TRENDS

In its 18-Month Outlook published in December 2008, the IESO indicated that Ontario's installed electricity generating capacity was 33,045 MW, an increase of 1,377 MW from the previously reported capacity in September 2008 of 31,668 MW. The capacity increase includes an addition of 1,153 MW from Greenfield Energy Centre, 99 MW from the Melancthon II Wind Project, 101 MW from Kruger Energy's Port Alma Wind Power Project, and 24 MW from the Umbata Falls Hydroelectric Project. OPG's in-service electricity generating capacity as at December 31, 2008 was 21,748 MW or 66 percent of Ontario's capacity. The IESO reported that the outlook for the reliability of Ontario's electricity system remains positive over the next 18 months. Nearly 4,000 MW of new and refurbished supply is scheduled to come into service, including approximately 2,600 MW of gas-fired generation, 750 MW of refurbished nuclear generation, 100 MW of hydroelectric generation, 60 MW of generation from by-product fuels, and about 400 MW of wind capacity. Ontario's import capability is planned to increase with the first stage of the new interconnection between Ontario and Quebec that is scheduled to be completed by the middle of 2009. The Outlook incorporates the implementation of emission reductions for coal-powered generation in Ontario which commence in 2009.

The IESO expects energy demand in 2009 to decrease by 1.3 percent to 147.5 TWh, with a further 2.6 percent decrease in 2010 to 143.6 TWh. The decrease in demand is primarily attributable to lower industrial demand and the growing impact of conservation initiatives. The expected peak electricity demand in the summer of 2009, under normal weather conditions, is forecast by the IESO to be 24,972 MW.

Both the spot electricity market price and fuel prices can have a significant impact on OPG's revenue and gross margin. Uranium market prices have increased significantly over the past several years and peaked in May 2007. The impact on revenue and margin due to volatility in uranium market prices has been partially mitigated by deliveries under existing lower priced long-term supply agreements, and the consumption of existing lower-cost inventory.

Fuel costs for nuclear operations are expected to be significantly higher in the future. After peaking in June 2008 at $12.68/mmBtu, natural gas prices at Henry Hub declined to an average of $5.84/mmBtu in December. Despite a late-year price decline, average natural gas prices for 2008 finished 27 percent higher than the 2007 annual average. Average 2008 eastern bituminous coal prices, despite their recent softening, still averaged over 125 percent above average 2007 prices while western sub-bituminous coal prices in 2008 averaged 35 percent higher than the 2007 average. The continued depreciation of the Canadian dollar relative to the U.S. dollar could offset a significant portion of the decline in OPG's U.S. dollar denominated fuel costs.

BUSINESS SEGMENTS

Prior to the fourth quarter of 2008, OPG had four reportable business segments. The business segments were Regulated – Nuclear Generation, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Fossil-Fuelled.

Commencing in the fourth quarter of 2008, OPG separated the Regulated – Nuclear segment into two reportable segments identified as Regulated – Nuclear Generation segment and Regulated – Nuclear Waste Management segment. The revised segment reporting is consistent with the manner in which performance is evaluated by management given the magnitude of significant growth in nuclear decommissioning and waste management activities, assets and liabilities. The revised segments also enable OPG to provide greater transparency with respect to its nuclear generation and nuclear waste management and decommissioning activities. Results for the comparative periods have been reclassified to reflect the revised disclosure.

OPG has entered into various energy and related sales contracts with its customers to hedge commodity price exposure to changes in electricity prices associated with the spot market for electricity in Ontario. Contracts that are designated as hedges of OPG's generation revenues are included in the Unregulated – Hydroelectric and Unregulated – Fossil-Fuelled generation segments. Gains or losses from these hedging transactions are recognized in revenue over the terms of the contract when the underlying transaction occurs.

Regulated – Nuclear Generation Segment

OPG's Regulated – Nuclear Generation business segment operates in Ontario, generating and selling electricity from the nuclear generating stations that it owns and operates. The business segment includes electricity generated by the Pickering A and B, and Darlington nuclear generating stations. This business segment also includes revenue under the terms of a lease arrangement with Bruce Power related to the Bruce nuclear generating stations. This arrangement includes lease revenue and revenue from engineering analysis and design, technical and other services. Revenue is also earned from isotope sales and ancillary services. Ancillary revenues are earned through voltage control and reactive support.

Management's Discussion and Analysis

Regulated – Nuclear Waste Management Segment

OPG's Regulated – Nuclear Waste Management segment engages in the management of used nuclear fuel and low and intermediate level waste, the decommissioning of OPG's nuclear generating stations (including the stations on lease to Bruce Power), the management of the Nuclear Funds, and related activities including the inspection and maintenance of the waste storage facilities. Accordingly, accretion expense on the Nuclear Liabilities and earnings (losses) from the Nuclear Funds are reported under this segment.

As the nuclear generating stations operate over time, OPG incurs variable costs related to nuclear used fuel and low and intermediate level waste generated. These costs increase the Nuclear Liabilities through the generation of additional used nuclear fuel bundles and other waste. These variable costs are charged to current operations in the Regulated – Nuclear Generation segment in order to appropriately reflect the cost of producing energy and the earning of revenues under the lease arrangement with Bruce Power that are recorded in this segment. Since variable costs increase the Nuclear Liabilities in the Regulated – Nuclear Waste Management segment, OPG records an inter-segment charge between the Regulated – Nuclear Generation and the Regulated – Nuclear Waste Management segments. The impact of the inter-segment charge between these segments is eliminated on OPG's consolidated statements of income and balance sheets.

The Regulated – Nuclear Waste Management segment is considered regulated because the costs associated with the Nuclear Liabilities are included in the calculation of prices for production from OPG's regulated nuclear facilities by the OEB.

Regulated – Hydroelectric Segment

OPG's Regulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from most of the Company's baseload hydroelectric generating stations. The business segment is comprised of electricity generated by the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and the R.H. Saunders hydroelectric facilities. The Regulated – Hydroelectric business segment also includes ancillary revenues related to these stations earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control and reactive support, certified black start facilities and automatic generation control.

Unregulated – Hydroelectric Segment

The Unregulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from its hydroelectric generating stations that are not subject to rate regulation. The Unregulated – Hydroelectric business segment also includes ancillary revenues earned through offering available generating capacity as operating reserve, and through the supply of other ancillary services including voltage control and reactive support, certified black start facilities and automatic generation control, and revenues from other services.

Unregulated – Fossil-Fuelled Segment

The Unregulated – Fossil-Fuelled business segment operates in Ontario, generating and selling electricity from its fossil-fuelled generating stations, which are not subject to rate regulation. The Unregulated – Fossil-Fuelled business segment also includes ancillary revenues earned through offering available generating capacity as operating reserve, and through the supply of other ancillary services including voltage control and reactive support and automatic generation control, and revenues from other services.

Other

The Other category includes revenue that OPG earns from its 50 percent joint venture share of the Brighton Beach Power Limited Partnership ("Brighton Beach") related to an energy conversion agreement between Brighton Beach and Coral Energy Canada Inc. The revenue and expenses related to OPG's trading and other non-hedging activities are also included in the Other category. As part of these activities, OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate primarily to physical energy that is purchased and sold at the Ontario border, sales of financial risk management products and sales of energy-related products. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in other revenue as gains or losses. In addition, the Other category includes revenue from real estate rentals, and will include OPG's share of the results of the PEC gas-fired generating station, which is co-owned with TransCanada Energy Ltd.

KEY GENERATION AND FINANCIAL PERFORMANCE INDICATORS

Key performance indicators that directly pertain to OPG's mandate and corporate strategies are measures of production efficiency, cost-effectiveness, and environmental performance. OPG evaluates the performance of its generating stations using a number of key performance indicators, which vary depending on the generating technology. These indicators are defined in this section and are discussed in the *Discussion of Operating Results by Business Segment* section.

Nuclear Unit Capability Factor

OPG's nuclear stations operate as baseload facilities as they have low marginal costs and are not designed for fluctuating production levels to meet peaking demand. The nuclear unit capability factor is a key measure of nuclear station performance. It is the amount of energy that the unit(s) generated over a period of time, adjusted for externally imposed constraints such as transmission or demand limitations, as a percentage of the amount of energy that would have been produced over the same period had the unit(s) produced maximum generation. Capability factors are primarily affected by planned and unplanned outages. Capability factors by industry definition exclude grid-related unavailability and high lakewater temperature losses.

Fossil-Fuelled and Hydroelectric Equivalent Forced Outage Rate ("EFOR")

OPG's fossil-fuelled stations provide a flexible source of energy and operate as baseload, intermediate and peaking facilities, depending on the characteristics of the particular stations. OPG's hydroelectric stations operate primarily as baseload facilities and provide a reliable and low-cost source of renewable energy. A key measure of the reliability of the fossil-fuelled and hydroelectric generating stations is the proportion of time they are available to produce electricity when required. EFOR is an index of the reliability of the generating unit measured by the ratio of time a generating unit is forced out of service, including any forced deratings, compared to the amount of time the generating unit was available to operate.

Hydroelectric Availability

Hydroelectric availability is a measure of the reliability of a hydroelectric generating unit represented by the percentage of time the generating unit is capable of providing service, whether or not it is actually in-service, compared to the total time for a respective period.

Nuclear Production Unit Energy Cost ("PUEC")

Nuclear PUEC is used to measure the cost-effectiveness of the operations-related costs of production of OPG's nuclear generating assets. Nuclear PUEC is defined as nuclear fuel, OM&A expenses including allocated corporate costs, and variable costs related to used fuel disposal and storage and the disposal of low and intermediate level radioactive waste materials, divided by nuclear electricity generation.

Hydroelectric OM&A Expense per MWh

Hydroelectric OM&A expense per MWh is used to measure the cost-effectiveness of the hydroelectric generating stations. It is defined as total hydroelectric OM&A expenses, including allocated corporate costs, divided by hydroelectric electricity generation.

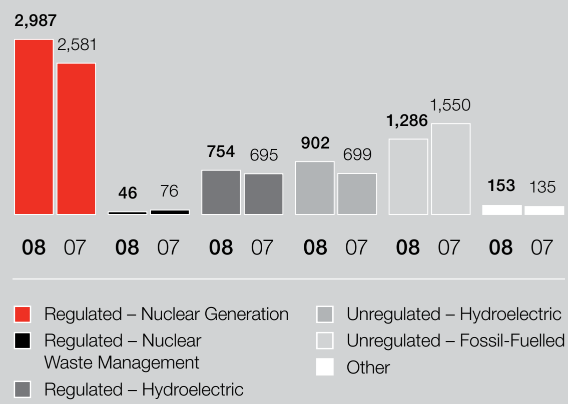
Fossil-Fuelled OM&A Expense per MW

Since fossil-fuelled generating stations are primarily employed during periods of intermediate and peak demand, the cost effectiveness of these stations is measured by their annualized OM&A expenses for the period, including allocated corporate costs, divided by total station nameplate capacity.

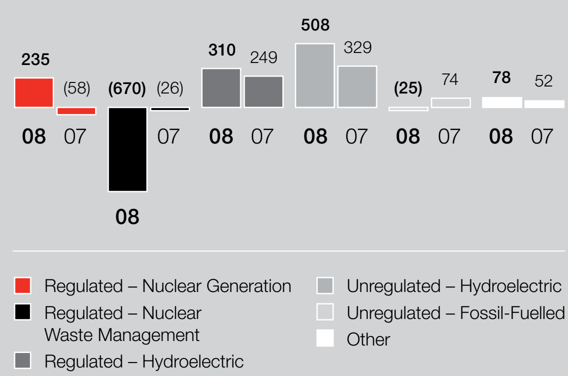
Other Key Indicators

In addition to performance and cost-effectiveness indicators, OPG has identified certain environmental indicators. These indicators are discussed under the heading *Risk Management*.

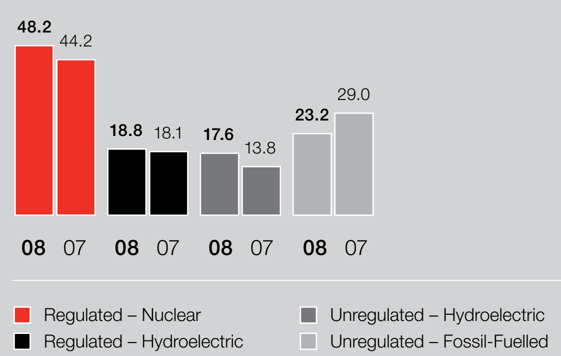
Revenue, Net of Revenue Limit Rebate by Segment
Years Ended December 31 (millions of dollars)



Income (Loss) Before Interest and Income Taxes by Segment
Years Ended December 31 (millions of dollars)



Electricity Generation by Segment
Years Ended December 31 (TWh)



DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

This section summarizes OPG's key results by segment for the years ended December 31, 2008 and 2007. The following table provides a summary of revenue, earnings and key generation and financial performance indicators by business segment:

(millions of dollars)	2008	2007
Revenue, net of revenue limit rebate		
Regulated – Nuclear Generation	**2,987**	2,581
Regulated – Nuclear Waste Management	**46**	76
Regulated – Hydroelectric	**754**	695
Unregulated – Hydroelectric	**902**	699
Unregulated – Fossil-Fuelled	**1,286**	1,550
Other	**153**	135
Elimination	**(46)**	(76)
	6,082	5,660
Income (loss) before interest and income taxes		
Regulated – Nuclear Generation	**235**	(58)
Regulated – Nuclear Waste Management	**(670)**	(26)
Regulated – Hydroelectric	**310**	249
Unregulated – Hydroelectric	**508**	329
Unregulated – Fossil-Fuelled	**(25)**	74
Other	**78**	52
	436	620
Electricity generation (TWh)		
Regulated – Nuclear Generation	**48.2**	44.2
Regulated – Hydroelectric	**18.8**	18.1
Unregulated – Hydroelectric	**17.6**	13.8
Unregulated – Fossil-Fuelled	**23.2**	29.0
Total electricity generation	**107.8**	105.1
Nuclear unit capability factor (percent)		
Darlington	**94.5**	89.5
Pickering A	**71.8**	41.3
Pickering B	**71.4**	75.0
Equivalent forced outage rate (percent)		
Regulated – Hydroelectric	**1.5**	1.8
Unregulated – Hydroelectric	**0.9**	1.5
Unregulated – Fossil-Fuelled	**12.8**	11.5
Availability (percent)		
Regulated – Hydroelectric	**93.8**	94.1
Unregulated – Hydroelectric	**94.6**	93.9
Nuclear PUEC ($/MWh)	**44.31**	47.18
Regulated – Hydroelectric OM&A expense per MWh ($/MWh)	**6.01**	5.30
Unregulated – Hydroelectric OM&A expense per MWh ($/MWh)	**10.97**	13.33
Unregulated – Fossil-Fuelled OM&A expense per MW ($000/MW)	**65.20**	66.80

Regulated – Nuclear Generation Segment

(millions of dollars)	2008	2007
Regulated generation sales	**2,570**	2,179
Variance accounts	**22**	–
Other	**395**	402
Total revenue	**2,987**	2,581
Fuel expense	**167**	133
Gross margin	**2,820**	2,448
Operations, maintenance and administration	**2,098**	2,053
Depreciation and amortization	**462**	426
Property and capital taxes	**25**	31
Income (loss) before other gains and losses, interest and income taxes	**235**	(62)
Other (gains) and losses	**–**	(4)
Income (loss) before interest and income taxes	**235**	(58)

Revenue

Regulated – Nuclear Generation revenue was $2,987 million for the year ended December 31, 2008 compared to $2,581 million in 2007. The increase in revenue of $406 million was primarily due to higher generation of 4.0 TWh, and the increase in the regulated price approved by the OEB during the fourth quarter of 2008, for production retrospective to April 1, 2008.

Electricity Prices

Electricity generation from stations in the Regulated – Nuclear Generation segment received a fixed price of 4.95¢/kWh throughout 2007 and during the first quarter of 2008. The OEB's payment amounts order issued in December 2008 established a new regulated price of 5.50¢/kWh, which includes a deferral and variance account recovery rider of 0.20¢/kWh, applied retrospectively to production from April 1, 2008 onward. OPG recorded the retrospective revenue of $170 million for the period April 1 to November 30 in the fourth quarter of 2008 based on the difference between the revenue earned at this new rate and the amounts received at the previous rate. The retrospective revenue is collected through rate riders applied to production over the period from December 1, 2008 to December 31, 2009.

The average price received for generation from OPG's nuclear stations during 2008 was 5.33¢/kWh, reflecting the regulated price of 4.95¢/kWh for the period from January 1, 2008 to March 31, 2008 and the new regulated price of 5.50¢/kWh for the nine months ended December 31, 2008.

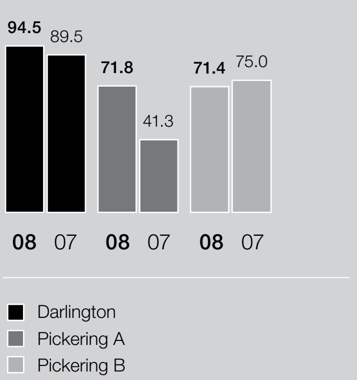
Volume

Electricity generation from OPG's nuclear stations was 48.2 TWh for the year ended December 31, 2008 compared to 44.2 TWh in 2007. The increase of 4.0 TWh was due to a reduction in outage days at the Pickering A and Darlington nuclear generating stations, partly offset by an increase in outage days at the Pickering B nuclear generating station.

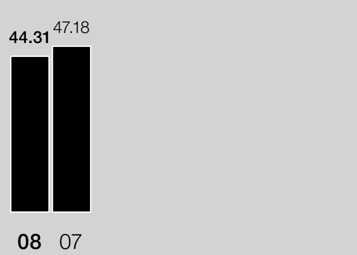
In 2007, generation at the Pickering A station was impacted by the shutdown of Units 1 and 4 from early June through September to perform modifications on a backup electrical system. Generation at the Pickering A station during 2007 was also impacted by an extension to a planned outage during the first quarter of 2007 for significant additional repair work required as a result of a component failure during inspection.

Nuclear generation for 2008 was unfavourably impacted by a higher number of outage days at the Pickering B station primarily due to the extended shutdown of Unit 7 during April to November to replace a calandria and pressure tube. In 2007, generation from the Pickering B station was impacted by an unplanned outage caused by an inadvertent release of resin by a third-party contractor from the water treatment plant into the station's demineralized water system, and the requirement for maintenance related to the recovery of resin.

Nuclear Unit Capability Factor
Years Ended December 31 (%)



Nuclear PUEC
Years Ended December 31 ($/MWh)



Management's Discussion and Analysis

The Darlington nuclear generating station's unit capability factor for 2008 was 94.5 percent compared to 89.5 percent for the same period in 2007. The higher capability factor contributed to the increase in generation in 2008 compared to 2007. The high capability factors reflect the continuing high performance of the generating station.

The unit capability factor for the Pickering A nuclear generating station for 2008 was 71.8 percent compared to 41.3 percent for the same period in 2007. In 2007, the Pickering A units were shutdown to perform modifications on the backup electrical systems.

The unit capability factor for the Pickering B nuclear generating station was 71.4 percent in 2008 compared to 75.0 percent for the same period in 2007. The lower capability factor in 2008 reflects an increase in the outage days at the Pickering B nuclear generating station due to the shutdown of Unit 7 during the period from April to November of 2008. In 2007, the unit capability factor was impacted by the higher unplanned outage days related to the release of resin into the demineralized water system during the first quarter of 2007.

Fuel Expense

Fuel expense for the year ended December 31, 2008 was $167 million compared to $133 million during 2007. The increase in fuel expense in 2008 compared to 2007 was primarily due to an increase in uranium prices and a higher generation volume.

Operations, Maintenance and Administration

OM&A expenses for the year ended December 31, 2008 were $2,098 million compared to $2,053 million during 2007. The increase in OM&A expenses during 2008 compared to 2007 was primarily due to higher costs for maintenance activities, and an increase in costs related to regulated liabilities and other charges required by the OEB. This increase in OM&A expenses in 2008 compared to 2007 was partially offset by lower outage expenditures at the Pickering A nuclear generating station and a reduction in pension and OPEB costs.

The OM&A expenses in 2008 included $36 million recorded as a regulatory liability for new nuclear generation development activities and potential capacity refurbishment at the Pickering B and Darlington nuclear stations. This regulatory liability was a result of a lower level of costs incurred for new nuclear generation and capacity refurbishment activities for the period from April 1, 2008 to December 31, 2008 than the corresponding forecast approved by the OEB in setting the new nuclear payment amounts. The OM&A expenses in 2008 also included a write-off of a $16 million regulatory asset relating to capacity refurbishment costs incurred prior to April 1, 2008, in accordance with the OEB's decision. The OM&A expenses related to new nuclear generation development activities and potential capacity refurbishment, inclusive of the impact of the variance accounts and the regulatory asset write-off, were $95 million in 2008.

Nuclear PUEC for the year ended December 31, 2008 was $44.31/MWh compared to $47.18/MWh during the same period in 2007. The decrease was primarily due to higher generation.

Depreciation and Amortization

Depreciation and amortization expense for the year ended December 31, 2008 was $462 million compared to $426 million in 2007. The increase in depreciation and amortization expense was primarily due to the discontinuance on April 1, 2008 of additions to the deferral account associated with the increase in the Nuclear Liabilities arising from the 2006 Approved Reference Plan in accordance with the ONFA. The discontinuance of the account, which was effective for the period January 1, 2007 to March 31, 2008 as per the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario), resulted in an increase to depreciation expense of $41 million in 2008 compared to 2007. OPG also recorded higher amortization of regulatory balances in 2008 primarily as a result of recovery of these balances through new regulated prices. Amortization expense increased to $105 million in 2008 from $96 million in 2007. The impact of these increases was partly offset by a reduction in depreciation expense resulting from the extension of service lives, for accounting purposes, of the Darlington, Bruce A and Bruce B nuclear generation stations effective January 1, 2008.

Regulated – Nuclear Waste Management Segment

(millions of dollars)	2008	2007
Revenue	**46**	76
Operations, maintenance and administration	**50**	84
Accretion on fixed asset removal and nuclear waste management liabilities	**573**	499
Loss (earnings) on nuclear fixed asset removal and nuclear waste management funds	**93**	(481)
Loss before interest and income taxes	**(670)**	(26)

Revenue

Regulated – Nuclear Waste Management revenue was $46 million for the year ended December 31, 2008 compared to $76 million in 2007. The decrease in revenue was due to a lower inter-segment charge between the Regulated – Nuclear Generation and the Regulated – Nuclear Waste Management segments for variable costs that are charged to current operations in the Regulated – Nuclear Generation segment.

Operations, Maintenance and Administration

OM&A expenses for the year ended December 31, 2008 were $50 million compared to $84 million in 2007. The decrease was a result of a reduction in services provided to an external party.

Accretion

Accretion expenses for the year ended December 31, 2008 were $573 million compared to $499 million for the same period in 2007. The increase in accretion expense during 2008 compared to the same period in 2007 was primarily due to the discontinuance on April 1, 2008 of additions to the deferral account associated with the increase in the Nuclear Liabilities arising from the 2006 Approved Reference Plan. Accretion expense also increased due to the higher balance of Nuclear Liabilities primarily as a result of the increase in the present value of the liabilities due to the passage of time.

(Losses) Earnings on the Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Losses from the Nuclear Funds for the year ended December 31, 2008 were $93 million compared to earnings of $481 million in 2007. In 2008, before the mitigating impact of the Bruce variance account, the Nuclear Funds incurred losses of $426 million. The decrease in earnings from the Nuclear Funds of $907 million before the impact of the regulatory asset in 2008 compared to 2007 was primarily due to lower returns on the Decommissioning Fund as a result of significant reductions in the trading levels of global financial markets, which reduced the current market value of the fund investments. In addition, during 2007, the earnings on the Nuclear Funds were favourably impacted due to a $46 million reimbursement for expenditures related to the safe storage of Units 2 and 3 at the Pickering A nuclear generating station.

OPG's earnings from the Used Fuel Fund are not subject to the volatility of the capital markets, since the Province guarantees the rate of return on the Used Fuel Fund for the first 2.23 million used fuel bundles at 3.25 percent per annum plus the change in the Ontario Consumer Price Index. As of December 31, 2008, there were approximately 1.8 million used fuel bundles. The current projection indicates that the 2.23 million used fuel bundle threshold will be reached in 2012 – 2013.

A portion of the Nuclear Funds relates to OPG's obligations with respect to decommissioning the nuclear stations on lease to Bruce Power, as well as managing nuclear used fuel and waste produced by these stations. As a result of the OEB's decision, OPG established the Bruce variance account for the differences between actual and forecast revenues and costs associated with the Bruce nuclear generating stations. The forecast of earnings associated with the Bruce generating stations included in the approved nuclear payment amounts was significantly higher than the actual earnings. As a result, in the fourth quarter, OPG recorded a regulatory asset of $333 million for the period April 1, 2008 to December 31, 2008, in this variance account that reduced the reported losses on the Nuclear Funds. OPG intends to apply for the disposition of the balance in the Bruce variance account in its next application to the OEB.

Regulated – Hydroelectric Segment

(millions of dollars)	**2008**	2007
Regulated generation sales[1]	**733**	635
Variance accounts	**(32)**	15
Other	**53**	45
Revenue	**754**	695
Fuel expense	**254**	244
Gross margin	**500**	451
Operations, maintenance and administration	**108**	123
Depreciation and amortization	**70**	68
Property and capital taxes	**12**	11
Income before interest and income taxes	**310**	249

1 Regulated generation sales included revenue of $189 million and $158 million that OPG received at the Ontario electricity spot market price for generation over 1,900 MWh in any hour during the 11 months ended November 30, 2008 and the year ended December 31 2007, respectively. OPG also earned additional revenue of $3 million during December 2008 based on a revised regulated hydroelectric incentive mechanism, as described under the heading, *Rate Regulation*.

Revenue

Regulated – Hydroelectric revenue was $754 million for the year ended December 31, 2008 compared to $695 million in 2007. The increase in revenue was primarily due to the increase in the regulated price approved by the OEB during the fourth quarter of 2008, for production retrospective to April 1, 2008.

Electricity Prices

Electricity generation up to 1,900 MWh in any hour from stations in the Regulated – Hydroelectric segment received a fixed price of 3.3¢/kWh throughout 2007 and during the first quarter of 2008, and the spot electricity market price for generation above this level.

As determined by the OEB, for the eight months ended November 30, 2008, electricity generation up to 1,900 MWh in any hour received a new regulated price of 3.67¢/kWh and the spot electricity market price for generation above this level. During December 2008, electricity generation received a fixed price of 3.67¢/kWh subject to a revised incentive mechanism, as described under the heading, *Rate Regulation*. OPG recorded retrospective revenue of $44 million for the period April 1 to November 30 in the fourth quarter of 2008 based on the difference between the revenue earned at the new regulated rate and the amounts received at the previous rate. The revision to the incentive mechanism became effective on December 1, 2008.

Management's Discussion and Analysis

Volume
Electricity generation volume for the years ended December 31, 2008 and 2007 was 18.8 TWh and 18.1 TWh, respectively. The increase in volume was primarily due to unusually high water flows in 2008.

For the 11 months ended November 30, 2008, volume related to production levels above 1,900 MWh in any hour was 3.5 TWh. For the year ended December 31, 2007, 3.3 TWh related to production above 1,900 MWh in any hour.

For the years ended December 31, 2008 and 2007, the EFOR for the Regulated – Hydroelectric stations was 1.5 percent and 1.8 percent, respectively. The decrease in EFOR was due to improved equipment performance in 2008.

The availability for the Regulated – Hydroelectric stations was 93.8 percent in 2008 compared to 94.1 percent in 2007. The decrease in availability was primarily due to an increase in planned maintenance. The regulated hydroelectric stations continued to have strong performance in 2008.

Fuel Expense
OPG pays charges to the Province and the OEFC on gross revenue derived from the annual generation of electricity from its hydroelectric generating assets. The gross revenue charge ("GRC") includes a fixed percentage charge applied to the annual hydroelectric generation derived from stations located on provincial Crown lands, in addition to graduated rate charges applicable to all hydroelectric stations. GRC costs are included in fuel expense.

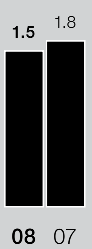
Fuel expense was $254 million for the year ended December 31, 2008 compared to $244 million in 2007. The increase in fuel expense reflected the impact of higher generation.

Variance Accounts
During 2008, OPG recorded a decrease in revenue of $32 million due to regulatory variance accounts that reflect the impact of differences between forecast and actual hydroelectric production and ancillary service revenue. During 2007, OPG recorded an increase to revenue of $15 million due to a regulatory asset in these variance accounts. For the period up to March 31, 2008, OPG computed the differences relative to the forecast provided to the Province for the purposes of setting the previous regulated price of 3.3¢/kWh. For the nine-month period starting April 1, 2008, OPG computed the differences relative to the forecast approved by the OEB in setting the new regulated hydroelectric prices, as the OEB authorized the continuation of these accounts effective April 1, 2008. The OEB's decision on OPG's new prices also eliminated OPG's regulatory liability of $13 million associated with the segregated mode of operations and water transaction net revenues for the period from April 1, 2005 to March 31, 2008. OPG reversed this liability to income in the fourth quarter of 2008.

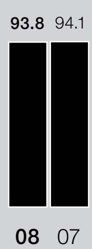
Operations, Maintenance and Administration
OM&A expenses for the year ended December 31, 2008 were $108 million compared to $123 million in 2007. The lower OM&A expenses for the year were primarily due to a reduction in expenses related to the settlement of past grievances with First Nations.

OM&A expense per MWh for the regulated hydroelectric stations was $6.01/MWh during the 12 months ended December 31, 2008 compared to $5.30/MWh in the same period in 2007. OM&A expense per MWh excludes expenses related to past grievances by First Nations. The increase in OM&A expense per MWh in 2008 compared to 2007 was primarily due to increased repairs and maintenance costs, partially offset by higher generation.

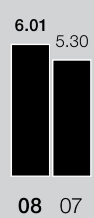
Regulated – Hydroelectric EFOR
Years Ended December 31 (%)



Regulated – Hydroelectric Availability
Years Ended December 31 (%)



Regulated – Hydroelectric OM&A per MWh
Years Ended December 31 ($/MWh)



Unregulated – Hydroelectric Segment

(millions of dollars)	2008	2007
Spot market sales, net of hedging instruments	**921**	725
Revenue limit rebate	**(72)**	(64)
Other	**53**	38
Revenue, net of revenue limit rebate	**902**	699
Fuel expense	**111**	81
Gross margin	**791**	618
Operations, maintenance and administration	**198**	207
Depreciation and amortization	**76**	68
Property and capital taxes	**9**	10
Income before other gains and losses, interest and income taxes	**508**	333
Other losses	**–**	4
Income before interest and income taxes	**508**	329

Revenue
Unregulated – Hydroelectric revenue was $902 million for the year ended December 31, 2008 compared to $699 million in 2007. The increase in revenue of $203 million during the year ended December 31, 2008 compared to 2007 was primarily due to higher generation volume of 3.8 TWh.

Electricity Prices
After taking into account the revenue limit rebate, OPG's average sales price for its unregulated hydroelectric generation for the years ended December 31, 2008 and 2007 was 4.8¢/kWh and 4.7¢/kWh, respectively.

Volume
For the years ended December 31, 2008 and 2007, electricity generation volume was 17.6 TWh and 13.8 TWh, respectively. The increase in volume during 2008 compared to 2007 was primarily due to higher water flows in the Northwestern, Northeastern, and Eastern part of the Province.

The EFOR for the Unregulated – Hydroelectric generating stations was 0.9 percent during the year ended December 31, 2008 compared to 1.5 percent in 2007. The decrease in EFOR was due to improved equipment performance.

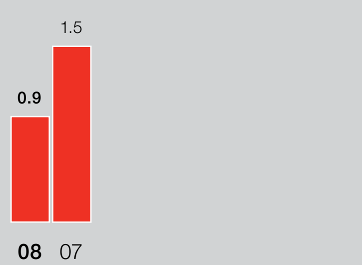
The availability for the Unregulated – Hydroelectric stations was 94.6 percent for the year ended December 31, 2008 compared to 93.9 percent in 2007. The increase in availability and decrease in EFOR reflected the continuing strong performance of the Unregulated – Hydroelectric stations.

Fuel Expense
Fuel expense was $111 million for the year ended December 31, 2008 compared to $81 million in 2007. The increase in fuel expense was primarily due to the impact of higher generation, which is subject to the highest GRC rates.

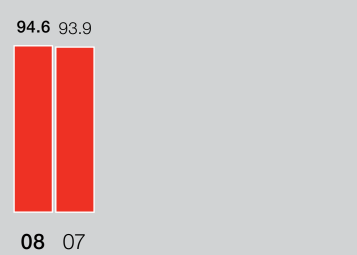
Operations, Maintenance and Administration
During 2008, OM&A expenses were $198 million compared to $207 million for 2007. The decrease in OM&A expenses was primarily due to a reduction in expenses related to the settlement of past grievances with First Nations.

OM&A expense per MWh for the unregulated hydroelectric stations for the years ended December 31, 2008 and 2007 was $10.97/MWh and $13.33/MWh, respectively. The lower OM&A expense per MWh was primarily due to higher generation. OM&A expense per MWh excludes expense related to past grievances by First Nations.

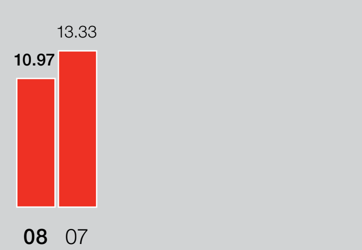
Unregulated – Hydroelectric EFOR
Years Ended December 31 (%)



Unregulated – Hydroelectric Availability
Years Ended December 31 (%)



Unregulated – Hydroelectric OM&A per MWh
Years Ended December 31 ($/MWh)



Management's Discussion and Analysis

Unregulated – Fossil-Fuelled Segment

(millions of dollars)	2008	2007
Spot market sales, net of hedging instruments	**1,366**	1,590
Revenue limit rebate	**(205)**	(163)
Other	**125**	123
Revenue, net of revenue limit rebate	**1,286**	1,550
Fuel expense	**659**	812
Gross margin	**627**	738
Operations, maintenance and administration	**552**	573
Depreciation and amortization	**94**	82
Accretion on fixed asset removal liabilities	**8**	8
Property and capital taxes	**21**	21
Income (loss) before other gains and losses, interest and income taxes	**(48)**	54
Other (gains) and losses	**(23)**	(20)
(Loss) income before interest and income taxes	**(25)**	74

Revenue
Unregulated – Fossil-Fuelled revenue was $1,286 million for the year ended December 31, 2008 compared to $1,550 million in 2007, a decrease of $264 million. The decrease in revenue during the year ended December 31, 2008 compared to 2007 was due to significantly lower electricity generation, partly offset by higher electricity prices.

Electricity Prices
OPG's average sales price net of the revenue limit rebate for its unregulated fossil-fuelled generation was 5.0¢/kWh for the year ended December 31, 2008 compared to 4.8¢/kWh for the year ended December 31, 2007.

Volume
Electricity generation volume for the year ended December 31, 2008 was 23.2 TWh compared to 29.0 TWh during 2007. The decrease in generation in 2008 compared to 2007 was primarily due to higher generation from OPG's hydroelectric and nuclear generating stations and lower market demand, which resulted in lower generation being required from OPG's fossil-fuelled generating stations.

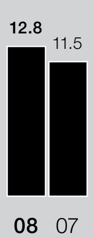
The EFOR for the Unregulated – Fossil-Fuelled stations during the year ended December 31, 2008 was 12.8 percent compared to 11.5 percent in 2007. The increase in EFOR during 2008 compared to 2007 was primarily due to forced and extended outages at the Lambton and Atikokan generating stations.

Fuel Expense
During the year ended December 31, 2008, fuel expense was $659 million compared to $812 million in 2007. The decrease of $153 million in 2008 compared to 2007 was primarily due to lower electricity generation, partly offset by higher commodity and rail transportation costs.

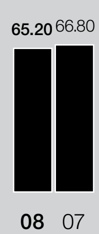
Operations, Maintenance and Administration
OM&A expenses for the year ended December 31, 2008 were $552 million compared to $573 million during the year ended December 31, 2007. The decrease in OM&A expense in 2008 compared to the same period last year was primarily due to the completion during 2007 of non-recurring project work, and the impact of lower generation during 2008.

Annualized OM&A expense per MW ($/MW) for the unregulated fossil-fuelled stations was $65,200/MW for the year ended December 31, 2008 compared to $66,800/MW in 2007. The decrease in OM&A expense per MW during 2008 compared to 2007 was primarily due to lower OM&A expenses.

Unregulated – Fossil-Fuelled EFOR
Years Ended December 31 (%)



Unregulated – Fossil-Fuelled OM&A per MW
Years Ended December 31 ($000/MW)



Other Gains and Losses

In 2007, OPG recorded a recovery of $20 million to reflect a change in the estimated costs required to complete decommissioning of the Lakeview generating station. The demolition of the Lakeview generating station was substantially completed during 2007.

Other gains and losses of $23 million in 2008 primarily consist of a $21 million recovery recognized in 2008 to reflect a change in estimated costs to decommission the other fossil-fuelled generating stations, including the expected costs associated with environmental and site remediation work.

Other

(millions of dollars)	**2008**	2007
Revenue	**153**	135
Operations, maintenance and administration	**7**	10
Depreciation and amortization	**41**	51
Property and capital taxes	**13**	12
Income before other gains and losses, interest and income taxes	**92**	62
Other losses	**14**	10
Income before interest and income taxes	**78**	52

Other revenue was $153 million for the period ending December 31, 2008 compared to $135 million in 2007. The increase in other revenue during the year was primarily due to higher realized earnings and mark-to-market gains from energy trading transactions.

OM&A expenses of the generation business segments include an inter-segment service fee for the use of certain property, plant and equipment held within the Other category. The total service fee is recorded as a reduction to the Other category's OM&A expenses. For the year ended December 31, 2008, the service fee was $29 million for Regulated – Nuclear Generation, $3 million for Regulated – Hydroelectric, $4 million for Unregulated – Hydroelectric and $9 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of $45 million for the Other category. For the year ended December 31, 2007, the service fee was $33 million for Regulated – Nuclear Generation, $2 million for Regulated – Hydroelectric, $4 million for Unregulated – Hydroelectric, $11 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of $50 million for the Other category.

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. If disclosed on a gross basis, revenue and power purchases for the year ended December 31, 2008 would have increased by $177 million (December 31, 2007 – $120 million).

The changes in the fair value of derivative instruments not qualifying for hedge accounting are recorded in Other revenue, and the fair value of derivative instruments are carried on the consolidated balance sheets as assets or liabilities at fair value. The carrying amounts and notional quantities of the derivative instruments are disclosed in Note 13 in the audited annual consolidated financial statements as at and for the year ended December 31, 2008.

Net Interest Expense

Net interest expense for 2008 was $165 million compared to $143 million for 2007, an increase of $22 million. The increase was primarily due to the impact of higher average debt balances in 2008 and a lower amount of interest deferred associated with regulatory balances, partially offset by higher interest capitalization for capital projects.

Income Taxes

OPG follows the liability method of tax accounting for its unregulated operations. Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Following the introduction of rate regulation on April 1, 2005, OPG has accounted for income taxes relating to the rate regulated segments of its business using the taxes payable method. Under the taxes payable method, OPG does not recognize future income taxes relating to the rate regulated segments of its business to the extent those future income taxes are expected to be recovered or refunded through future regulated prices charged to customers. As a result, OPG did not record future tax expenses of $22 million and $127 million for the rate regulated segments during the years ended December 31, 2008 and 2007, respectively, which would have been recorded had OPG accounted for income taxes for the regulated segments using the liability method.

Income tax expense for the year ended December 31, 2008 was $183 million, compared to a net income tax recovery of $51 million for the year ended December 31, 2007. The increase in income tax expense in 2008 was partly due to higher earnings before the impact of the losses on the Nuclear Funds. Earnings on the Nuclear Funds are not taxable, and losses are not deductible, when incurred. The earnings are recognized for tax purposes when OPG receives reimbursements from the Nuclear Funds. Contributions to the Nuclear Funds are deductible for tax purposes. Future income taxes related to the Nuclear Funds are not recorded to the extent that the future income taxes are expected to be recovered through future regulated prices charged to customers. Income tax expense in 2008 included $95 million recorded as part of the Bruce variance account established by the OEB.

The increase in income tax expense in 2008 was partially offset by a reduction in the income tax liabilities as a result of the resolution of tax uncertainties related to the audit of OPG's 1999 taxation year by the Provincial Tax Auditors. During 2008, all outstanding tax matters related to the 1999 tax audit were resolved and as a result, OPG reduced its income tax liability by $106 million.

In 2007, income tax expense was reduced as a result of an additional contribution of $334 million made to the Nuclear Funds. In addition, income tax expense for 2007 was favourably impacted by a reduction in Federal future tax rates that were substantively enacted in that year.

The audit of OPG's taxation years subsequent to 1999 is expected to commence in 2009. Should the outcome of the audit for subsequent years differ from OPG's recorded income tax liabilities, the Company's effective tax rate and its net income could be materially affected either negatively or positively in the period in which the matters are resolved.

The OEB's decision in 2008 on OPG's new payment amounts established a taxation variance account retrospective to April 1, 2008. The scope of the account with respect to income tax includes variances in the income tax expense for the regulated business caused by changes in tax rates or rules under the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), as modified by the *Electricity Act*, *1998*, as well as variances caused by reassessments due to the audit of taxation years subsequent to 1999. OPG did not record any such variances in the account during the year ended December 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

OPG's primary sources of liquidity and capital are funds generated from operations, bank financing and credit facilities provided by the OEFC. These sources are utilized for multiple purposes including: investments in plants and technologies; funding obligations such as contributions to the Pension Fund and the Used Fuel and Decommissioning Funds; to service and repay long-term debt; and to meet revenue limit rebate obligations.

	Years Ended December 31	
(millions of dollars)	**2008**	2007
Cash and cash equivalents, beginning of year	**110**	6
Cash flow provided by operating activities	**870**	379
Cash flow (used in) investing activities	**(652)**	(754)
Cash flow (used in) provided by financing activities	**(13)**	479
Net increase	**205**	104
Cash and cash equivalents, end of year	**315**	110

Operating Activities

Cash flow provided by operating activities for the year ended December 31, 2008 was $870 million compared to cash flow provided by operating activities of $379 million in 2007. The increase in cash flow was primarily due to higher cash receipts from generation revenue and a decrease in contributions to the Nuclear Funds in 2008 compared to 2007. In 2007, OPG made a one-time contribution of $334 million to the Used Fuel Fund as required by the ONFA. The increase in cash flow from operating activities was partially offset by higher revenue limit rebate payments and an increase in fuel payments.

Investing Activities

Electricity generation is a capital-intensive business that requires continued investment in plant and technologies to improve operating performance, increase generating capacity of existing stations, invest in new generating stations and to maintain and improve service, reliability, safety and environmental performance.

Investment in fixed assets during the year ended December 31, 2008 was $661 million compared with $666 million for the year ended December 31, 2007. The impact of a decrease in capital expenditures for the PEC during 2008, was largely offset by higher spending on the Niagara Tunnel project and other hydroelectric initiatives.

OPG's forecast capital expenditures for 2009 are approximately $1.1 billion, which includes amounts for nuclear and hydroelectric development projects.

Cash flow used in investing activities for the year ended December 31, 2008 included an increase in net regulatory assets of $6 million compared to an increase of $30 million in 2007. The change is due primarily to a decrease in the amount of interest recorded in the deferral account related to the Pickering A return to service.

Financing Activities

OPG maintains a $1 billion revolving committed bank credit facility which is divided into two tranches – a $500 million 364-day term tranche and a $500 million five-year term tranche. OPG has renewed and extended the maturity date of the 364-day term tranche to May 20, 2009, and the five-year term tranche to May 20, 2013. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at December 31, 2008, no commercial paper was outstanding (December 31, 2007 – nil), and OPG had no other outstanding borrowings under the bank credit facility.

In the second quarter of 2008, OPG entered into a $100 million five-year revolving committed bank credit facility in support of the Upper Mattagami and Hound Chute project. As at December 31, 2008, there was no borrowing under this credit facility. OPG is also pursuing external project financing of up to $200 million for this project.

OPG also maintains $25 million (December 31, 2007 – $25 million) in short-term uncommitted overdraft facilities and $276 million (December 31, 2007 – $238 million) of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other purposes. At December 31, 2008, there was a total of $243 million of Letters of Credit issued (December 31, 2007 – $205 million), which included $212 million for the supplementary pension plans (December 31, 2007 – $175 million), and $16 million related to the construction and operation of the PEC (December 31, 2007 – $16 million).

OPG has an agreement with the OEFC to finance the Niagara Tunnel project for up to $1 billion over the duration of the project. The funding is advanced in the form of 10-year notes, on commercial terms and conditions. Advances under this facility commenced in October 2006, and amounted to $340 million as at December 31, 2008. Similarly, debt financing has been negotiated with the OEFC for OPG's interest in the PEC and the Lac Seul project for up to $400 million and $50 million, respectively. Advances under these facilities commenced in December 2006, and totalled $305 million for the PEC and $20 million for the Lac Seul project as at December 31, 2008. This included $20 million of new borrowing under the PEC facility in the fourth quarter of 2008.

As at December 31, 2008, OPG's long-term debt outstanding with the OEFC was $3.7 billion. Although the new borrowings added in 2008 have extended the maturity profile, approximately $2.1 billion of long-term debt must be repaid or refinanced within the next five years. To ensure that adequate financing resources are available beyond its $1 billion commercial paper program backed by the bank credit facility, OPG reached an agreement with the OEFC in 2007 for a $950 million credit agreement to refinance senior notes as they mature over the period from September 2007 to September 2009.

Contractual and Commercial Commitments

OPG's contractual obligations and other significant commercial commitments as at December 31, 2008, are as follows:

(millions of dollars)	2009	2010	2011	2012	2013	Thereafter	**Total**
Contractual obligations:							
Fuel supply agreements	743	626	265	217	157	309	**2,317**
Contributions under the ONFA	339	264	250	240	157	852	**2,102**
Long-term debt repayment	350	970	375	400	–	1,565	**3,660**
Interest on long-term debt	204	172	124	96	82	323	**1,001**
Unconditional purchase obligations	17	16	12	13	12	156	**226**
Operating lease obligations	23	25	25	26	27	1	**127**
Operating licence	30	30	33	36	39	–	**168**
Pension contributions[1]	260	270	–	–	–	–	**530**
Other	47	35	30	22	15	84	**233**
Significant commercial commitments:	2,013	2,408	1,114	1,050	489	3,290	**10,364**
Niagara Tunnel	113	260	–	–	–	–	**373**
Other hydroelectric projects	140	58	–	–	–	–	**198**
Total	2,266	2,726	1,114	1,050	489	3,290	**10,935**

1 The pension contributions include additional funding requirements towards the deficit and ongoing funding requirements in accordance with the actuarial valuation as at January 1, 2008. The contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, and the timing of funding valuations. Funding requirements after 2010 are excluded due to significant variability in the assumptions required to project the timing of future cash flows.

CREDIT RATING

Maintaining an investment grade credit rating is essential for corporate liquidity and future capital market access. The cost and availability of financing is influenced by credit ratings, which are an indicator of the creditworthiness of a particular company, security or obligation. Lower ratings generally result in higher borrowing costs as well as reduced access to capital markets.

In August 2008, Standard & Poor's (S&P) raised OPG's long-term credit rating to "A-" with a stable outlook, from "BBB+" with a positive outlook. At the same time, S&P affirmed OPG's "A-2" global scale and "A-1(Low)" Canada scale Commercial Paper rating. S&P stated that the upgrade in the long-term rating reflects a closer relationship between the Company and its higher-rated owner, the Province (AA/Stable/A-1+), and a slightly stronger stand-alone credit profile, given the regulatory support and an expected improvement in cash flow metrics. S&P added that regulatory oversight of the Company's baseload nuclear and hydroelectric assets, a diverse generation portfolio, and a cost-competitive position, support OPG's strong business risk profile.

OPG has a long-term credit rating of A(low) and a Commercial Paper rating of R1(low), both with stable trends from Dominion Bond Rating Service.

BALANCE SHEET HIGHLIGHTS

The following section provides highlights of OPG's audited consolidated financial position using selected balance sheet data as at December 31:

Selected balance sheet data (millions of dollars)	**2008**	2007
Assets		
Accounts receivable	**525**	315
Property, plant and equipment – net	**12,787**	12,777
Nuclear fixed asset removal and nuclear waste management funds	**9,209**	9,263
Regulatory assets	**522**	356
Future income taxes	**68**	12
Liabilities		
Accounts payable and accrued charges	**1,015**	953
Long-term debt (including debt due within one year)	**3,840**	3,853
Fixed asset removal and nuclear waste management	**11,384**	10,957
Long-term accounts payable and accrued charges	**445**	184
Future income taxes	**–**	217
Regulatory liabilities	**54**	14

Management's Discussion and Analysis

Accounts Receivable

As at December 31, 2008, accounts receivable were $525 million compared to $315 million as at December 31, 2007. The increase of $210 million was primarily due to the accrual for the retrospective increase in regulated prices for electricity generation from the regulated facilities resulting from the OEB's decision effective April 1, 2008.

Property, Plant and Equipment – Net

Net property, plant and equipment as at December 31, 2008 was $12,787 million compared to $12,777 million as at December 31, 2007. The increase was primarily due to fixed asset additions, largely offset by depreciation for the year.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Decommissioning Fund

The Decommissioning Fund was established to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level nuclear waste management and a portion of used fuel storage costs after station life. Upon termination of the ONFA, the Province has a right to any excess funding in the Decommissioning Fund, which is the excess of the fair market value of the Decommissioning Fund assets over the estimated completion costs as per the most recently approved ONFA Reference Plan. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes in its consolidated financial statements, through a charge to the Decommissioning Fund with a corresponding payable to the Province, such that the balance of the Decommissioning Fund would equal the cost estimate of the liability based on the most recently approved ONFA Reference Plan. The payable to the Province could be reduced in subsequent periods in the event that the Decommissioning Fund earns less than its target rate of return or in the event that a new ONFA Reference Plan is approved with a higher estimated decommissioning liability. When the Decommissioning Fund is underfunded, the earnings on the Decommissioning Fund reflect actual fund returns based on the market value of the assets.

The Decommissioning Fund's asset value on a fair value basis was $4,325 million at December 31, 2008 compared to $5,072 million as at December 31, 2007. The decrease in asset value in the Decommissioning Fund of $747 million was primarily due to unfavourable returns in the capital markets during the year ended December 31, 2008.

Used Fuel Fund

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 percent plus the change in the Ontario Consumer Price Index ("committed return") for funding related to the first 2.23 million used fuel bundles. OPG recognizes the committed return on the Used Fuel Fund and includes it in the earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of the Used Fuel Fund's assets, which includes realized and unrealized returns, is recorded as due to or due from the Province. The asset value as at December 31, 2008 included a receivable from the Province of $460 million. The asset value as at December 31, 2007 was reduced by a payable to the Province of $511 million. The receivable and payable relate to the committed return adjustment. At December 31, 2008, the Used Fuel Fund asset value on a fair value basis was $4,884 million compared to $4,191 million as at December 31, 2007. The increase in the value of the Used Fuel Fund assets was due to the committed return and new contributions to the fund.

The market volatility during 2008 did not have an impact on the Used Fuel Fund balance as a result of the Province's rate of return guarantee.

Regulatory Assets

As at December 31, 2008, regulatory assets were $522 million compared to $356 million as at December 31, 2007. The increase in regulatory assets was primarily due to the recording of the Bruce revenues and costs variance account of $260 million, in accordance with the OEB decision. The variance account is a regulatory asset and included losses from the Nuclear Funds related to the Bruce generating stations. During the first quarter of 2008, OPG also recorded $33 million in the nuclear liabilities deferral account related to the increase in the Nuclear Liabilities recorded on December 31, 2006. The increase in regulatory assets was partially offset by amortization expense of $102 million, primarily resulting from the recovery of approved regulatory asset balances through new regulated prices.

Accounts Payable and Accrued Charges

Accounts payable and accrued charges as at December 31, 2008 were $1,015 million compared to $953 million as at December 31, 2007. The increase of $62 million was primarily due to an increase in accruals for the GRC as a result of higher hydroelectric generation, and an increase in amounts payable related to projects. The increase was partially offset by lower general trade payables.

Long-Term Debt (including debt due within one year)

Long-term debt as at December 31, 2008 was $3,840 million compared to $3,853 million as at December 31, 2007. The decrease was due to the repayment of long-term debt of $408 million during 2008. This decrease was largely offset by the issuance of long-term debt of $200 million under the $950 million credit agreement to refinance maturing notes, $100 million under the Niagara Tunnel facility, and $95 million under the PEC facility.

Fixed Asset Removal and Nuclear Waste Management

The liability for fixed asset removal for nuclear and fossil-fuelled generating stations and nuclear waste management as at December 31, 2008 was $11,384 million compared to $10,957 million as at December 31, 2007. The increase was primarily due to accretion of $608 million due to the passage of time, partially offset by expenditures on nuclear waste management activities.

Long-Term Accounts Payable and Accrued Charges and Future Income Tax Asset and Liability

As at December 31, 2008, long-term accounts payable and accrued charges included various contingent liabilities and unrealized mark-to-market losses. The resolution of tax uncertainties related to the 1999 taxation year also impacted the future income tax liability as at December 31, 2008.

Regulatory Liabilities

As at December 31, 2008, regulatory liabilities were $54 million compared to $14 million as at December 31, 2007. The increase was primarily due to the recording of liabilities in the variance accounts related to the impact of water conditions on hydroelectric electricity production, new nuclear development and capacity refurbishment, which were authorized by the OEB in its decision on OPG's regulated prices. The regulatory liabilities as at December 31, 2007 were largely reversed in 2008 pursuant to the OEB's decision to eliminate OPG's liability associated with the segregated mode of operations, and water transactions net revenue related to the period preceding April 1, 2008.

Accumulated Other Comprehensive (Loss) Income

Accumulated other comprehensive loss as at December 31, 2008 was $49 million and accumulated other comprehensive income as at December 31, 2007 was $17 million. Accumulated other comprehensive (loss) income reflects the balances related to derivative instruments and amounts that are designated for hedging purposes net of income taxes.

Off-Balance Sheet Arrangements

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

Securitization

In October 2003, OPG completed a revolving securitization agreement with an independent trust. The independent trust is not controlled by OPG, nor is OPG the primary beneficiary. As such, the results of the trust are not consolidated. The securitization provides OPG with an opportunity to obtain an alternative source of cost-effective funding. For the year ended December 31, 2008 and 2007, the average all-in cost of funds was 3.9 percent and 5.1 percent, respectively, and the pre-tax charges on sales to the trust were $12 million and $15 million, respectively. The current securitization agreement extends to August 2009. Refer to Note 5 of OPG's 2008 annual audited consolidated financial statements for additional information.

Guarantees

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

OPG's significant accounting policies, including the impact of future accounting pronouncements, are outlined in Note 3 to the audited annual consolidated financial statements as at and for the year ended December 31, 2008. Certain of these policies are recognized as critical accounting policies by virtue of the subjective and complex judgments and estimates required around matters that are inherently uncertain and could result in materially different amounts being reported under different conditions or assumptions. The critical accounting policies and estimates that affect OPG's consolidated financial statements, the likelihood that materially different amounts would be reported under varied conditions and estimates and the impact of changes in certain conditions or assumptions, are highlighted below.

Rate Regulated Accounting

A regulation made pursuant to the *Electricity Restructuring Act, 2004* (Ontario) prescribes that most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that OPG operates receive regulated prices for their output effective April 1, 2005. The regulation established regulated prices up to April 1, 2008. The regulation and related amendments required OPG to establish several variance and deferral accounts for the period up to April 1, 2008. In its decision issued in the fourth quarter of 2008, the OEB provided for the disposition of these account balances as at December 31, 2007 via recovery from ratepayers through the new regulated prices. The OEB also authorized the continuation and establishment of certain existing and new variance and deferral accounts effective April 1, 2008.

OPG has been recording amounts in the variance and deferral accounts established by the regulation prior to April 1, 2008, as well as accounts authorized by the OEB subsequent to that date. The balances in these accounts are reported as regulatory assets and liabilities on OPG's consolidated balance sheets, as Canadian accounting standards recognize that rate regulation can create economic benefits and obligations that are required by the regulator to be obtained from, or settled with the ratepayers. Approved regulatory assets and liabilities are amortized as the amounts are recovered from, or repaid to ratepayers. Amortization of regulatory balances is recorded to depreciation and amortization expense. OPG began amortizing the balances approved by the OEB retrospectively to April 1, 2008 in the fourth quarter of 2008. OPG recorded total amortization of $111 million related to regulatory balances in 2008 (2007 – $96 million).

Management's Discussion and Analysis

Disallowed balances, including associated interest, are charged to operations in the time period that the decision regarding the disallowance is issued. The OEB's decision in 2008 disallowed $16 million in costs deferred for nuclear capacity refurbishment prior to April 1, 2008, and eliminated a liability of $13 million associated with the segregated mode of operations and water transactions net revenues for the period from April 1, 2005 to March 31, 2008.

OPG applies interest to its regulatory balances as prescribed by the regulation or the OEB, in order to recognize the cost of financing amounts that are to be recovered from, or to be repaid to ratepayers. Prior to April 1, 2008, the regulation required OPG to apply an annual interest rate of six percent to most of its deferral and variance accounts. Subsequent to April 1, 2008, OPG applies the rate determined by the OEB from time to time for variance and deferral accounts of the entities it regulates. The rate has fluctuated in the range of three percent to four percent during the nine months ended December 31, 2008. OPG deferred net interest expense of $13 million in 2008 (2007 – $33 million).

OPG's most significant regulatory balance as at December 31, 2008 was a regulatory asset that relates to the Bruce revenues and costs variance account. The account captures differences between the forecast revenues and costs associated with the Bruce generating stations that are included in the calculation of the approved nuclear regulated prices and actual amounts. As at December 31, 2008, the variance account balance was $260 million, including interest of $1 million. The account was not in effect in 2007. Amortization of the balance is expected to begin following OPG's next application. The regulatory asset includes a $333 million variance from forecast as a result of losses from the Nuclear Funds related to the Bruce generating stations since April 1, 2008, partially offset by a related variance in income tax expense of $95 million. The account also includes variances for lease revenues, and accretion expense related to Nuclear Liabilities associated with the Bruce generating stations.

OPG's regulatory balances as at December 31, 2008 also include a regulatory asset for the Pickering A return to service deferral account that captures non-capital costs incurred on or after January 1, 2005 that were associated with the planned return to service of all units at the Pickering A nuclear generating station. As at December 31, 2008, the deferral account balance was $123 million, including interest of $43 million and net of accumulated amortization of $191 million. As at December 31, 2007, the deferral account balance was $183 million, including interest of $37 million and net of accumulated amortization of $125 million. OPG commenced amortization of the deferral account in accordance with the terms of the regulation when Unit 1 of the Pickering A nuclear generating station was returned to service in November 2005. Amortization of $66 million was recorded in 2008 (2007 – $96 million). In its decision, the OEB authorized the recovery of the unamortized balance in the account as at December 31, 2007 over a 45-month period ending December 31, 2011.

In addition, under the regulation pursuant to the *Electricity Restructuring Act*, *2004* (Ontario), OPG established a deferral account in connection with the increase of $1,386 million in its Nuclear Liabilities as at December 31, 2006 arising from the 2006 Approved Reference Plan in accordance with the terms of the ONFA. The account has a balance of $132 million as at December 31, 2008 (December 31, 2007 – $131 million). Commencing in the first quarter of 2007 and up to April 1, 2008, OPG recorded a regulatory asset of $164 million, including $6 million of interest, in this deferral account. The amount in the account represents the revenue requirement impact associated with the increase in the Nuclear Liabilities. The OEB authorized the recovery of the balance in this account as at December 31, 2007 over a 33-month period ending December 31, 2010. OPG recorded amortization of $36 million related to this deferral account in the fourth quarter of 2008 retrospective to April 1, 2008 pursuant to the OEB decision. No amortization was recorded during 2007.

OPG's other regulatory asset and liability balances represent a net liability balance of $47 million as at December 31, 2008 (a net asset balance of $28 million as at December 31, 2007). In 2008, this balance primarily included regulatory liabilities recorded for variance accounts related to the impact of water conditions on regulated hydroelectric electricity production, ancillary services revenue from regulated facilities, non-capital new nuclear development costs, and costs incurred for potential capacity refurbishment at Pickering B and Darlington nuclear generating stations. In 2007, the balance consisted primarily of regulatory assets related to costs for new nuclear development and nuclear capacity refurbishment, net of a regulatory liability associated with segregated mode of operations and water transactions net revenue.

Prior to April 1, 2008, OPG accounted for lease revenue from Bruce Power using the cash basis of accounting. Under the cash basis of accounting, OPG recognized lease income as stipulated in the lease agreement to the extent that the lease payments were expected to be included in future regulated prices charged to customers. Pursuant to the OEB's decision, certain lease payments from Bruce Power were included in the determination of regulated prices effective April 1, 2008 on a straight-line basis over the term of the lease agreement. Accordingly, OPG recognized these lease payments on a straight-line basis over the term of the lease effective April 1, 2008.

In late 2008, OPG re-evaluated the Bruce lease for accounting purposes due to a modification to the lease. As a result of the re-evaluation, the timing in which certain of the lease revenues are recognized for accounting purposes has been revised. The revision will result in reductions to the lease revenue for accounting purposes during the initial years of the remaining lease term, and increases in lease revenue for accounting purposes during the later years of the remaining lease term. The impact of these changes on revenue in 2008 was offset by the impact of the Bruce revenues and costs variance account.

Income Taxes

OPG is exempt from tax under the *Income Tax Act* (Canada). However, under the *Electricity Act*, *1998*, OPG is required to make payments in lieu of corporate income and capital taxes to the OEFC. These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), and are modified by regulations made under the *Electricity Act*, *1998*.

OPG's operations are complex and the computation of the provision for income taxes involves interpretation of the various tax statutes and regulations. The *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario) have a large body of technical interpretations and case law to help determine the Company's filing position. However, the *Electricity Act*, *1998* and tax related regulations are relatively new and it has therefore been necessary for OPG, since its inception, to take certain filing positions in calculating the amount of its income tax provision. These filing positions may be challenged on audit and some of them possibly disallowed, resulting in a potential significant change in OPG's tax provision upon reassessment.

OPG uses the liability method of accounting for income taxes for the unregulated segment of the business and provides future income taxes for temporary differences. The process involves an estimate of OPG's actual current tax liability and an assessment of the Company's future income taxes as a result of temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value on the consolidated balance sheets. In addition, OPG has to assess whether the future tax assets can be realized and to the extent that recovery is not considered likely, a valuation allowance must be established.

Commencing April 1, 2005, OPG accounts for income taxes related to the rate regulated segments of its business in accordance with paragraphs 102 to 104, inclusive, of the Canadian Institute of Chartered Accountants ("CICA") Handbook, Section 3465 – *Income Taxes*. Accordingly, OPG does not recognize future income taxes related to the rate regulated segments of its business to the extent that these income taxes are expected to be recovered or refunded through future regulated prices charged to customers.

Future tax assets of $195 million (2007 – $234 million) have been recorded on the consolidated balance sheet at December 31, 2008. The Company believes there will be sufficient future taxable income and capital gains that will permit the use of these deductions and carry-forwards. Because of the adoption of rate regulated accounting, OPG did not record future tax assets of $3,480 million (2007 – $3,313 million), which it would have recorded under the liability method, resulting primarily from temporary differences related to the nuclear fixed asset removal and nuclear waste management provisions.

Future tax liabilities of $125 million (2007 – $439 million) have been recorded on the consolidated balance sheet at December 31, 2008. Because of the adoption of rate regulated accounting, OPG did not record future tax liabilities of $3,820 million (2007 – $3,749 million), which it would have recorded under the liability method, resulting primarily from temporary differences related to the nuclear fixed asset removal and nuclear waste management funds.

Fixed Assets

OPG's business is capital intensive and requires significant investment in property, plant and equipment. At December 31, 2008, the net book value of OPG's fixed assets was $12,787 million (2007 – $12,777 million).

Property, plant and equipment are tested for recoverability whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Recoverability of property, plant and equipment is determined by comparing the carrying amount of an asset to the undiscounted future net cash flows expected to be generated from the asset over its estimated useful life. In cases where the undiscounted expected future cash flows are less than the carrying amounts, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the fair value, or discounted cash flows.

Various assumptions and accounting estimates are required to determine whether an impairment loss should be recognized and, if so, the value of such loss. This includes factors such as short-term and long-term forecasts of the future market price of electricity, the demand for and supply of electricity, the in-service dates of new and laid-up generating stations, inflation, fuel prices, capital expenditures and station lives. The amount of the future net cash flow that OPG expects to receive from its fixed assets could differ materially from the net book values recorded in OPG's consolidated financial statements.

The accounting estimates related to asset depreciation require significant management judgment to assess the appropriate useful lives of OPG's long-lived assets, including consideration of various technological and other factors.

Effective January 1, 2008, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended by two years to 2019 after a review of the technical analysis for life limiting components. The life extension reduced depreciation expense by $18 million annually.

Effective January 1, 2009, the service life of fossil-fuelled stations, for the purpose of calculating depreciation, was extended by two years to 2014 based on the Province of Ontario's announcement to phase out coal generation by 2014. The life extension reduced depreciation expense by $31 million annually.

The Company has extended the service life of the Bruce B nuclear generating station to 2014 for depreciation purposes effective January 1, 2008 after reviewing future capacity plans in the OPA's IPSP, and historical information regarding the service lives of major life limiting components of the station. As a result of the extension, depreciation expense decreased by $7 million annually. In addition, effective January 1, 2008, OPG extended the service life of Bruce A nuclear generating station to 2035 for depreciation purposes after the review of future capacity plans filed with the OPA and other publicly available information. The extension of the service life of the Bruce A nuclear generating station for depreciation purposes decreased depreciation expense by $8 million annually.

Pension and Other Post Employment Benefits

OPG's accounting for pension and OPEB is dependent on management's accounting policies and assumptions used in calculating such amounts.

Accounting Policy

In accordance with Canadian GAAP, actual results that differ from the assumptions used, as well as adjustments resulting from changes in assumptions, are accumulated and amortized over future periods and therefore generally affect the recognized expense and the recorded obligation in future periods.

Under OPG's policy on accounting for pension and OPEB, certain actuarial gains and losses have not been charged to expense and are therefore not reflected in OPG's pension and OPEB obligations as a result of the following:

- Pension fund assets are valued using market-related values for purposes of determining actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six percent assumed real return over a five-year period.
- For pension and OPEB, the excess of the net cumulative unamortized gain or loss, over 10 percent of the greater of the benefit obligation and the market-related value of the plan assets (the "corridor"), is amortized over the expected average remaining service life.

In addition, past service costs arising from any pension and OPEB amendments are amortized over future periods and therefore affect recognized expense and the recorded obligation in future periods.

At December 31, 2008, the unamortized net actuarial loss and unamortized past service costs for the pension plans and OPEB amounted to $928 million (2007 – $1,993 million). Details of the unamortized net actuarial loss and total unamortized past service costs at December 31, 2008 and 2007, are as follows:

	Registered Pension Plan		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	**2008**	2007	**2008**	2007	**2008**	2007
Net actuarial loss not yet subject to amortization due to use of market-related values	**1,700**	2	**–**	–	**–**	–
Net actuarial (gain) loss not subject to amortization due to use of corridor	**(763)**	960	**(3)**	16	**(70)**	206
Net actuarial loss subject to amortization	**–**	384	**–**	6	**–**	332
Unamortized net actuarial loss (gain)	**937**	1,346	**(3)**	22	**(70)**	538
Unamortized past service costs	**46**	64	**2**	3	**16**	20

Accounting Assumptions

Assumptions are significant inputs to actuarial models that measure pension and OPEB obligations and related effects on operations. Two critical assumptions, discount rate and inflation, are important elements of benefit costs and obligations. In addition, the expected return on assets is a critical assumption in the determination of pension costs. These assumptions, as well as other assumptions involving demographic factors such as retirement age, mortality and employee turnover, are all evaluated periodically by management in consultation with an independent actuary. During the evaluation process, the assumptions are updated to reflect actual experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors, and in accordance with Canadian GAAP, the impact of these differences are accumulated and amortized over future periods.

The discount rates used by OPG in determining projected benefit obligations and the costs for the Company's employee benefit plans are based on representative AA corporate bond yields. The respective discount rates enable OPG to calculate the present value of the expected future cash flows on the measurement date. A lower discount rate increases the present value of benefit obligations and increases benefit plan costs. The expected rate of return on plan assets is based on current and expected asset allocation, as well as the long-term historical risks and returns associated with each asset class within the plan portfolio. A lower expected rate of return on plan assets increases pension cost.

The discount rate used to determine the projected pension benefit obligation at December 31, 2008 of 7.5 percent represents a significant increase compared to the 5.6 percent discount rate that was used to determine the obligation at December 31, 2007. The deficit for the registered pension plan decreased from

$679 million at December 31, 2007 to $186 million at December 31, 2008 primarily as a result of the significant increase in the discount rate. The impact of the loss of $1,566 million on the pension fund assets during 2008 was more than offset by the impact of the higher discount rate.

The discount rate used to determine the OPEB obligation at December 31, 2008 of 7.46 percent increased significantly compared to the 5.59 percent discount rate that was used to determine the obligation at December 31, 2007. The projected benefit obligation decreased from $2,064 million at December 31, 2007 to $1,591 million at December 31, 2008 primarily as a result of the significant increase in the discount rate.

A change in assumptions, holding all other assumptions constant, would increase (decrease) 2008 costs, excluding amortization components, as follows:

(millions of dollars)	Registered Pension Plan	Supplementary Pension Plans	Other Post Employment Benefits
Expected long-term rate of return			
0.25% increase	(22)	na	na
0.25% decrease	22	na	na
Discount rate			
0.25% increase	(15)	–	(3)
0.25% decrease	13	–	3
Inflation			
0.25% increase	37	1	–
0.25% decrease	(38)	(1)	–
Salary increases			
0.25% increase	10	1	–
0.25% decrease	(10)	(1)	–
Health care cost trend rate			
1% increase	na	na	33
1% decrease	na	na	(24)

na – change in assumption not applicable

Asset Retirement Obligations

At December 31, 2008, OPG's asset retirement obligation was $11,384 million ($10,957 as at December 31, 2007), comprised of liabilities for nuclear fixed asset removal and nuclear waste management costs and non-nuclear fixed asset removal costs related to the decommissioning of fossil-fuelled generating stations. The liabilities associated with decommissioning the nuclear generating stations and long-term used nuclear fuel management comprise the most significant amounts of the total obligation. The estimates of the nuclear liabilities are reviewed on an annual basis as part of the ongoing, overall nuclear waste management program. Changes in the nuclear liabilities resulting from changes in assumptions or estimates that impact the amount of the originally estimated undiscounted cash flows are recorded as an adjustment to the liabilities, with a corresponding change in the related asset retirement cost capitalized as part of the carrying amount of fixed assets.

The estimates of nuclear fixed asset removal and nuclear waste management costs require significant assumptions in the calculations since the programs run for many years. Significant assumptions underlying operational and technical factors are used in the calculation of the accrued liabilities and are subject to periodic review. Changes to these assumptions, including changes in the timing of programs, technology employed, inflation rate, and discount rate, could result in significant changes in the value of the accrued liabilities.

Financial Instruments Measured at Fair Value

Financial assets and liabilities, including exchange traded derivatives, and other financial instruments measured at fair value and for which quoted prices in an active market are available, are determined directly from those quoted market prices.

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 which may include the use of valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing at the balance sheet date. This is the case for over-the-counter derivatives, which includes energy commodity derivatives, foreign exchange derivatives, and interest rate swap derivatives. 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.

OPG's use of financial instruments expose the Company to various risks, including credit risk, commodity price risk, and foreign currency and interest rate risk. A discussion of how OPG manages these and other risks are in the *Risk Management* section.

Changes in Accounting Policies

Capital Disclosures and Financial Instruments

In December 2006, the CICA issued three new accounting standards: Handbook Section 1535, *Capital Disclosures* ("Section 1535"), Handbook Section 3862, *Financial Instruments – Disclosures* ("Section 3862"), and Handbook Section 3863, *Financial Instruments – Presentation* ("Section 3863"). These new standards were effective for the Company beginning January 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing the disclosure requirements, and carrying forward unchanged the presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Inventories

The CICA issued a new accounting standard, Section 3031, *Inventories*, in March 2007, which is based on International Accounting Standard ("IAS") 2. The new section replaced the existing Section 3030, *Inventories*. Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of "lower of cost and market". The new section also allows the reversal of any write-downs previously recognized. Further, due to the changes in the section and the consequential amendments, some of OPG's critical spare parts, which were previously reported as materials and supplies on OPG's consolidated balance sheets are now accounted for as property, plant and equipment. The new accounting standard and the consequential amendments were effective for OPG beginning January 1, 2008. OPG reclassified significant critical spare parts of $19 million, net of accumulated depreciation, to property, plant and equipment in 2008.

Accounting for Regulated Operations

In December 2007, the CICA revised its guidance on accounting for rate-regulated operations. The revision resulted in amendments to Handbook Sections 1100, *Generally Accepted Accounting Principles*, and 3465, *Income Taxes*, and Accounting Guideline 19 ("AcG-19"), *Disclosures by Entities Subject to Rate Regulation*, as follows:

- to remove the temporary exemption pertaining to the application of Section 1100 to rate-regulated operations, including the elimination of the opportunity to use industry practice as an acceptable basis for recognition and measurement of assets and liabilities arising from rate regulation;
- to amend Section 3465 to require the recognition of future income tax liabilities and assets as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers; and
- to amend AcG-19, as necessary, as a result of amendments to Sections 1100 and 3465.

As a result of the changes to Section 3465, OPG will be required to recognize future income taxes associated with its rate-regulated operations. OPG will apply the changes prospectively to interim and annual financial consolidated statements beginning January 1, 2009. Accordingly, on January 1, 2009, OPG will record a future income tax liability of $466 million and a corresponding regulatory asset. The future income tax liability of $466 million includes future income taxes resulting from regulatory assets and liabilities of $126 million that are required to be recorded due to amendments to Section 3465.

Intangible Assets

In February 2008, the CICA adopted Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces CICA Handbook Section 3062, *Goodwill and other Intangible Assets*, and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008, with early adoption encouraged. The adoption of this standard is not expected to have a significant impact on the Company's financial position or results of operation.

Reportable Segments

Commencing in the fourth quarter of 2008, OPG separated the Regulated – Nuclear segment into two reportable segments identified as Regulated – Nuclear Generation segment and Regulated – Nuclear Waste Management segment. The revised segment reporting is consistent with the manner in which performance is evaluated by management given the magnitude and significant growth in nuclear decommissioning and waste management activities, assets and liabilities. The revised segments also enable OPG to provide greater transparency with respect to OPG's generation and nuclear waste management and decommissioning activities. Results for the comparative periods have been reclassified to reflect the revised disclosure.

Conversion to International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that Publicly Accountable Enterprises will be required to transition from Canadian GAAP to International Financial Reporting Standards ("IFRS") for interim and annual financial reporting purposes for fiscal years beginning on or after January 1, 2011. OPG is required to present its first set of published IFRS statements in the first quarter of 2011, with comparative information. In May 2008, the Canadian Securities Administrators issued Staff Notice 52-320, which provides guidance on the disclosure of changes in expected accounting policies related to the change over to IFRS. In accordance with the notice, OPG is required to provide an update of the Company's IFRS conversion plan in each financial reporting period prior to conversion on January 1, 2011.

OPG commenced its IFRS conversion project in 2007 and has established a formal project governance structure. This structure includes a steering committee consisting of senior levels of management from finance, representatives from all business units, and information technology. There is regular reporting to executive management and to the Audit/Risk Committee of the Board of Directors. OPG has also engaged an external expert advisor.

OPG's conversion project consists of three phases: diagnostic, development, and implementation. During the fourth quarter of 2007, OPG completed the diagnostic phase which involved a high level review of the major differences between current Canadian GAAP and IFRS. Currently, OPG has determined that the differences with the highest potential to impact OPG's accounting include rate regulated accounting, accounting for fixed assets, asset retirement obligation accounting, as well as the initial adoption of IFRS under the provision of IFRS 1, First-time Adoption of IFRS. OPG continues to monitor developments at the International Accounting Standards Board and International Financial Reporting Interpretations Committee.

During 2008, OPG has completed a number of milestones as part of the development stage of its IFRS conversion project, which requires a more detailed consideration of those issues identified by the diagnostic exercise as well as a more thorough review of all of the accounting differences, and related system and process impacts. These milestones include training for all components and the completion of all of OPG's component evaluations, identification of the relevant elections available to OPG under IFRS 1, and the determination of and execution against a communication plan for the broader dissemination of IFRS matters to those impacted. OPG has begun the process of determining the systems, process and internal control impacts of the IFRS conversion.

As part of assessing the impact of the IFRS changeover on its financial reporting, OPG is currently working on identifying areas of its financial statements where disclosure gaps exist between current Canadian GAAP and IFRS requirements.

During 2009, OPG will determine the projected impacts of adopting IFRS on its financial statements after consideration of the options available under IFRS 1, develop its significant accounting policies under IFRS, and finalize the determination of the systems, process and internal control impacts of converting to IFRS. Communication of the project will continue through 2009 and OPG will execute against its training plan for the broader organization to ensure that OPG is well positioned to embed IFRS requirements within its underlying systems, processes and internal controls.

RISK MANAGEMENT

Overview

The global economic downturn and uncertainties in the economy are expected to increase risks faced by OPG. Potential increased risks include lower revenues as a result of a forecast decrease in electricity market prices, and higher credit exposures as many of OPG's counterparties' creditworthiness may deteriorate in the near term. Generation development initiatives, including the design and development of new nuclear and hydroelectric stations, and a new operating strategy for coal-fired generation, are underway. Specific remediation activities designed to provide early identification of emerging risks and mitigating actions have been initiated to comprehensively address OPG's risks.

Risk Governance Structure

OPG's Board of Directors has approved, and management has implemented, a risk management governance structure designed to effectively identify, measure, monitor and report on key risk management activities across the Company. These activities are coordinated by a centralized risk management group led by the Chief Risk Officer. An illustration of OPG's governance structure that supports its risk management function is provided on the following page.

In 2008, OPG implemented a revised risk management approach designed to enable the Company to identify and prioritize significant risks, and to assess the impact on specific business plan objectives. In addition, an Executive Risk Committee ("ERC") has been established, which is comprised of the business unit leaders, chaired by the Chief Financial Officer.

OPG has a comprehensive and fully-integrated risk management evaluation process that is able to continually evaluate the effectiveness of risk mitigation activities against significant risks faced by the Company. The findings from this evaluation process are reported quarterly to the Audit/Risk Committee by the Chief Risk Officer.

Risk Management Activities

OPG faces a wide array of risks as a result of its business operations. For the purposes of disclosure, these risks have been organized into the following five risk categories: (i) Operational; (ii) Financial; (iii) Regulatory; (iv) Enterprise-wide; and (v) Environmental. A brief overview of the significant risks that comprise each of these five categories is presented below.

Operational Risks

Operational risks are those risks normally inherent in the operation of electricity generating facilities. These risks can lead to interruptions in the operations of generating stations or uncertainty in future production. Risks to OPG's diverse fleet of nuclear, hydroelectric and fossil-fuelled generating stations are a function of the age of the stations, and the technology.

OPG is also exposed to operational risks relating to a portfolio of major generation development projects that are currently underway or are planned.

Nuclear Generating Stations

The uncertainty associated with production at OPG's nuclear stations is primarily caused by the condition of the plant components and systems, which are all subject to the effects of aging. To respond to this challenge, OPG has implemented extensive inspection and maintenance programs to monitor performance and identify corrective actions required to operate reliably, and within design parameters.

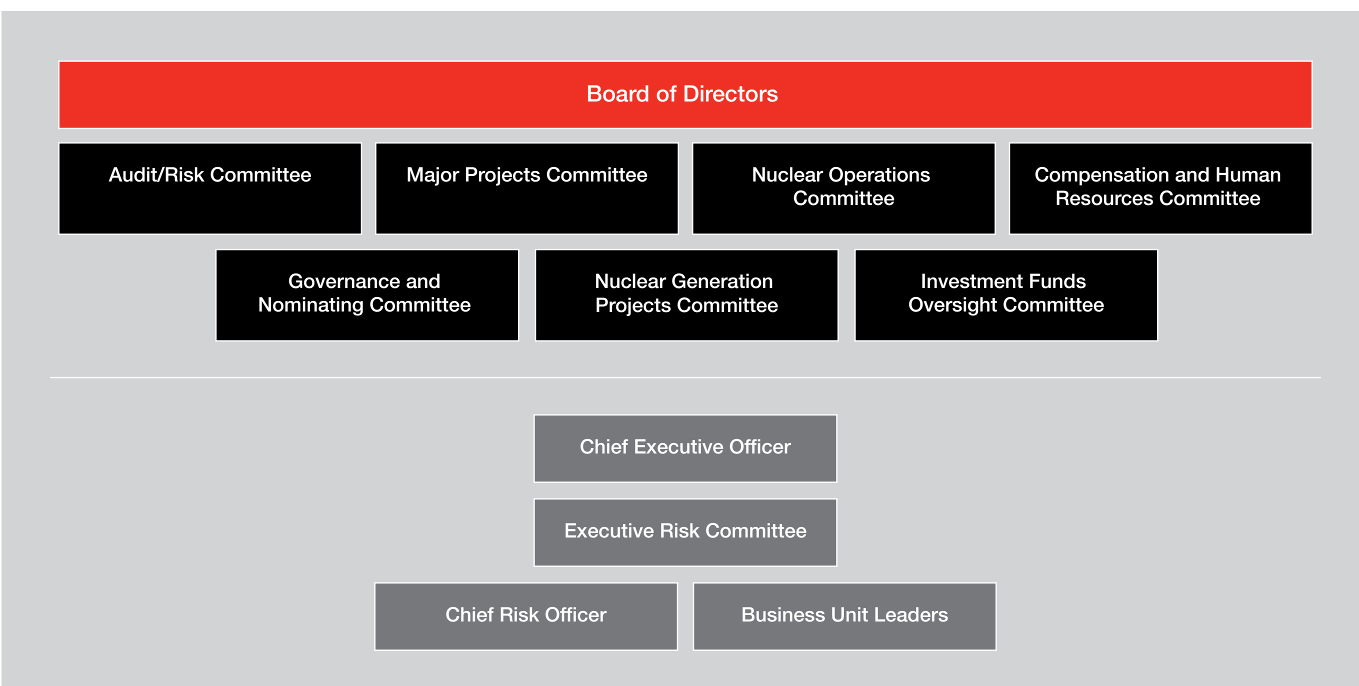
In certain cases, deterioration of plant components progresses in an unexpected manner, resulting in the need to increase monitoring, conduct extensive repairs, or undertake additional remedial measures. To maintain a safe operating margin, a nuclear unit could be derated. When an unexpected risk first appears, a specific monitoring program is established. The primary impact of these discovered risks on OPG is an increase in the long-term cost of operations. The associated mitigation may create additional outage work, thus increasing the number of outages or extending planned outages.

Hydroelectric Generating Stations

Forecasting water levels for hydroelectric generation is inherently uncertain as water levels vary from year to year due in large part to the weather. The inherent uncertainty in forecasting water levels introduces a significant degree of uncertainty in forecasting hydroelectric generation. OPG manages this hydrology risk by using production forecasting models that incorporate unit efficiency characteristics, water flow conditions and outage plans. Inputs to the models are assessed, monitored and adjusted on an ongoing basis.

The risk associated with the uncertainty in water levels is partly mitigated by the hydroelectric production variance account that was established for OPG's regulated hydroelectric facilities.

OPG's Risk Governance Structure



OPG's hydroelectric generating stations vary in age. Over 75 percent of the hydroelectric generating capacity is over 50 years old. Due to the variability and age of the equipment and civil components, there is a risk that some facilities may require significant investment in the near future to sustain their reliability. OPG manages these reliability risks by performing maintenance of critical components, and conducting detailed engineering reviews, plant condition assessments and inspections in order to identify future work necessary to sustain and, if necessary, upgrade a plant.

The hydroelectric business segment operates 239 dams across the Province. Dam operations are subject to provincial dam safety regulations established by the Ministry of Natural Resources ("MNR"). Changes in these regulations by the MNR may result in costly structural enhancements for several of OPG's hydroelectric facilities.

Fossil-Fuelled Generating Stations

In May 2008, the Province announced new annual limits on CO_2 emissions from OPG's coal-fired generating stations to reduce emissions by two-thirds of the 2003 levels by 2011. In accordance with the May 15, 2008 Shareholder Declaration and the May 16, 2008 Shareholder Resolution, OPG is required to develop a strategy to stage the reduction measures in 2009 and 2010 on a forecast basis. OPG must maintain operational readiness of these stations to meet peak demands, and hence the new operating strategy will have a negative impact on revenue and the costs to operate coal-fired units. The Province has agreed to ensure that OPG recovers its net book value and ongoing costs for Lambton and Nanticoke during the period 2009 to 2014.

Major Development Projects

OPG is undertaking numerous projects designed to enhance and expand its electricity generating portfolio. The risks associated with these projects could adversely impact the Company's financial performance. Major projects include new nuclear units at OPG's Darlington site, potential refurbishment of existing nuclear generating stations, the Niagara Tunnel project, and other hydroelectric and fossil-fuelled projects.

New Nuclear Units

OPG is participating in the Ontario government's procurement process to select a nuclear reactor vendor for the Province of Ontario. Once a vendor is selected, OPG will manage this complex, multi-year project. Based on the experience of other new nuclear projects underway in other parts of the world, the risks presented by this project are regarded as significant. The identification and management of the risks are being considered as part of the process to select a nuclear reactor vendor.

Niagara Tunnel Project

As at December 31, 2008, the tunnel boring machine has progressed much slower than expected under the original contractor schedule, primarily due to excess overbreak of the Queenston shale in the tunnel crown. OPG and the contractor are using recommendations from the Dispute Review Board as a basis for negotiating revisions to the design-build contract. The revisions are expected to have a significant impact on the project cost estimate and completion schedule. Uncertainties will continue with respect to cost and schedule.

Other Development Projects

OPG is engaged in a number of other hydroelectric development projects and is investigating the potential for refurbishment of existing nuclear generating stations. These projects are exposed to a number of risks, including material and equipment cost escalation and delays in permits and approvals.

Escalation of Material and Equipment Costs

Cost and availability of raw materials and equipment are significant factors for electricity generation projects. Recent economic conditions have precipitated declines in the prices of many commodities. However, costs of major equipment needed for civil construction projects may eventually be higher than forecast due in part to the scarcity of skilled labour and the decline in credit capital. OPG will continuously monitor such input costs and trends in order to keep abreast of emerging issues.

Delays in Permits and Approvals

Numerous permits and approvals are required in a generation development project. Unforeseen delays in receiving permits or approvals, which may involve various external stakeholders, could result in schedule delays or ultimately, cancellation of a project. OPG attempts to mitigate risks associated with delays in receiving permits and approvals through early involvement and constant communication with applicable government agencies, close consultation with external stakeholders, and ongoing monitoring of contractor performance relative to permits.

Financial Risks

OPG is exposed to a number of capital market-related risks that could adversely impact its financial and operating performance. Many of these risks arise due to OPG's exposure to volatility in commodity, equity, pension and OPEB costs, foreign exchange, and interest rate markets. OPG manages this complex array of risks to reduce the uncertainty or mitigate the potential unfavourable impact on the Company's financial results. Despite OPG's risk management measures, residual risk to financial results continues due to volatility in the markets.

Commodity markets

Unpredictable increases in the price of fuels used to produce electricity can adversely impact OPG's earnings. To manage this risk, the Company has a fuel hedging program, which includes using fixed price and indexed contracts, as well as approved derivative products.

OPG's risk associated with changes in fuel costs for nuclear operations is partly mitigated by the nuclear fuel variance account established by the OEB in its recent decision on OPG's regulated payment amounts.

OPG's revenue is also affected by changes in the market or spot price of electricity. The Company takes steps, such as executing forward sales at fixed prices, to mitigate the impact that extreme variations in the spot price could have on the gross margin. In 2009, a difference of \$1/MWh in the spot price of electricity compared to the annual average price forecast internally by OPG will impact OPG's gross margin by approximately \$20 million. The impact of this difference is both linear and symmetric which reflects the relatively low probability of unexpected financial performance that may result from significantly higher or lower spot prices for electricity.

The percentages of OPG's expected generation, emission requirements and fuel requirements hedged are shown below:

	2009	2010	2011
Estimated generation output hedged[1]	89%	83%	83%
Estimated fuel requirements hedged[2]	99%	87%	77%
Estimated nitric oxide ("NO") emission requirement hedged[3]	100%	100%	100%
Estimated SO_2 emission requirement hedged[3]	100%	100%	100%

1 Represents the portion of megawatt hours of expected future generation production, including power purchases, for which the Company has sales commitments and contracts including the obligations under regulated pricing commitments, agreements with the IESO, the OPA auction sales and the revenue limit on OPG's unregulated assets (which ends on April 30, 2009).

2 Represents the approximate portion of megawatt hours of expected production (and fossil year-end inventory target) from all types of facilities (fossil, nuclear and hydroelectric) for which OPG has entered into some form of contractual arrangements or obligations in order to secure either the expected availability and/or price of fuel and/or fuel related services. Excess fuel inventory in a given year is attributed to the next year for the purpose of measuring hedge ratios. Since production from hydroelectric facilities is primarily influenced by expected weather and weather patterns, fuel hedge ratios for hydroelectric facilities are assumed to be 100 percent.

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

Equity markets

Unexpected volatility or loss due to the decline in the market value of individual equities and/or equity indices negatively impacts the value of OPG's Nuclear Funds and pension plan assets.

Nuclear Funds Market Risk

The weak performance of the global financial markets has negatively affected the market value of the investments held in the Decommissioning Fund. Although the Decommissioning Fund was underfunded at the end of 2008, under the terms of the ONFA between OPG and the Province, OPG is not required to increase the contributions to the Decommissioning Fund prior to the approval of a new ONFA Reference Plan, which is expected in 2011.

The impact on OPG caused by the decrease in value of the Decommissioning Fund has been partially offset by the creation of the Bruce revenues and costs variance account, which captures losses from the Nuclear Funds related to the Bruce generating stations.

For the Used Fuel Fund, the Province guarantees the annual rate of return at 3.25 percent plus the change in the Ontario Consumer Price Index for the first 2.23 million fuel bundles. By providing this rate of return guarantee for the Used Fuel Fund, the Province assumes the risk of the rate of return and therefore, the market volatility does not impact OPG's earnings from this fund.

Pension and Other Post Employment Benefit Costs

OPG's post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. The Company's registered pension plan is a contributory defined benefit plan that is indexed to inflation and covers most employees and retirees.

Attractive long-run return characteristics of the equity market have made large equity allocations a common feature of defined-benefit pension plans. Due to the recent volatility in the global markets, a significant risk exists in meeting asset-return targets.

Contributions to OPG's pension plan are determined by actuarial valuations, which are filed with the appropriate regulatory authorities at least every three years. The most recently filed valuation was prepared as at January 1, 2008. As a result of the valuation, OPG will make annual pension contributions in 2009 and 2010 of approximately $260 million and $270 million, respectively. The next valuation will be prepared with an effective date no later than January 1, 2011. The required level of contributions for 2011 and the following two years will be dependent on a number of factors including future investment returns and changes in actuarial assumptions.

The costs of, and obligations for, pension and OPEB are calculated based on assumptions including the long-term rate of return on pension assets, discount rates for pension and OPEB obligations, expected service period of employees, wage or salary increases, inflation and health care cost trend rates. These assumptions are subject to significant changes as they require judgment and involve inherent uncertainties. The most significant assumptions used to calculate the net periodic cost of pension and OPEB are the discount rates for pension and OPEB, the expected return on pension fund assets, and the expected inflation rate for pension benefits.

The Company's future plan assets, accrued benefit obligations, pension and OPEB expenses, and pension contributions could be materially affected by: significant changes in assumptions driven by changes in financial markets; experience gains and losses; changes in the pension plan or regulatory environment; divestitures; and the measurement uncertainty incorporated into the actuarial valuation process.

Foreign exchange and interest rate markets

OPG's financial results are exposed to volatility in Canadian/U.S. foreign exchange rate as fuels purchased for fossil and nuclear generation stations are paid in U.S. dollars. The magnitude of the impact of this volatility is largely a function of the quantity of the fuels purchased. In addition to this exposure, the market price of electricity in Ontario is influenced by the exchange rate because of the interaction between the Ontario and neighbouring U.S. interconnected electricity markets. In order to manage this risk, OPG employs various financial instruments such as forwards and other derivative contracts in accordance with approved risk management policies.

OPG has interest rate exposure on its short-term borrowings and investment programs. The majority of OPG's existing debt is at fixed interest rates. Interest rate risk arises with the need to undertake new financing and with the potential addition of variable rate debt. 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 of December 31, 2008, OPG had total interest rate swap contracts outstanding with a notional principal of $272 million.

Trading

OPG's trading operations are closely monitored and total exposures are measured and reported to senior management on a daily basis. The metric used to measure the risk of this trading activity is known as "value at risk" or "VaR", which is defined as the potential future loss expressed in monetary terms for a portfolio based on normal market conditions for a set period of time. For 2008, the utilization of VaR fluctuated between $0.9 million to $4.2 million versus $0.5 million and $2.0 million for the previous year.

Credit

The Company's credit exposure is a function of electricity sales and trading as well as commercial transactions with various suppliers of goods and services. OPG's credit exposure relating to electricity sales is considered low as the majority of sales are through the IESO-administered spot market. The IESO oversees the credit worthiness of all market participants.

OPG manages its exposure to various suppliers or "counterparties" by evaluating the financial condition of all counterparties and ensuring that appropriate collateral or other forms of security are held by OPG.

The following chart summarizes OPG's credit exposure to all counterparties as at December 31, 2008:

			Potential Exposure for Largest Counterparties	
Credit Rating [1]	Number of Counterparties[2]	Potential Exposure[3]	Number of Counterparties	Counterparty Exposure
		(millions of dollars)		(millions of dollars)
Investment grade	162	117	4	84
Below investment grade	53	111	6	93
IESO[4]	1	471	1	471
Total	216	699	11	648

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

2 OPG's counterparties are defined on the basis of individual master agreements.

3 Potential exposure is OPG's statistical assessment of maximum exposure over the life of each transaction at a 95 percent confidence interval.

4 Credit exposure to the IESO peaked at $897 million during the year ended December 31, 2008 and at $883 million during the year ended December 31, 2007.

Liquidity

OPG operates in a capital intensive business. Significant financial resources are required to fund capital improvement projects and related maintenance programs at generating stations. In addition, the Company has other significant disbursement requirements including investment in new generating capacity, annual funding obligations under the ONFA, pension funding and continuing debt maturities with the OEFC. OPG must ensure it has the financial capacity and sufficient access to cost-effective financing sources to fund its capital requirements. A discussion of corporate liquidity is included in the *Liquidity and Capital Resources* section.

Regulatory Risks

OPG is subject to regulation by entities including the OEB and the CNSC. The risks that arise from being a regulated entity include the inability to recover costs, reductions in revenue, increases in the cost of operations, and unexpected outages. These unfavourable impacts are mitigated by maintaining close contact with regulators and issuers of standards and codes to ensure early identification and discussion of issues.

Rate Regulation

The prices for electricity generated from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that it operates are determined by the OEB based on a forecast cost of service methodology and will remain in effect until the effective date of the OEB's next order. As with any regulated price established using a forecast cost of service methodology, there is an inherent risk that the prices established by the regulator may not provide for recovery of all actual costs incurred by regulated operations or may result in the regulated operations not earning its allowed rate of return.

Nuclear Regulatory Requirements

The uncertainty associated with nuclear regulatory requirements is primarily driven by plant aging, technology risks and changes to technical codes. Proactively addressing these requirements adds to the cost of operations and in some instances, may result in a reduction in the productive capacity of a plant, or in the earlier than planned replacement of a plant component.

OPG manages uncertainty associated with nuclear regulatory requirements by maintaining close contact with the regulator and issuers of standards and codes for the early identification and discussions of issues.

Enterprise-Wide Risks

Human Resources

The risk associated with the availability of skilled and experienced resources continues to exist for OPG. The urgency of this risk will continue to remain high as a growing percentage of staff become eligible to retire. In order to mitigate the impact of this risk, OPG implemented a "Resourcing Strategy Initiative" in 2008, which includes aggressive recruitment strategies, workforce planning and ongoing analysis of potential shortfalls.

OPG's continued commitment to building and strengthening internal capabilities is evidenced by further development of an integrated leadership competency model, focused succession planning efforts, and enhanced supervisory training.

Health and Safety

A robust safety culture, evidenced by continuous improvement in safety management and risk controls program, exists at OPG. The importance of safety is continually reinforced in OPG's Corporate Safety Rules, which emphasize higher standards for accountability and training in high risk areas.

The Company's commitment to health and safety is also evident in OPG's Emergency Management program. This program is designed to respond to incidents or developments that could threaten the safety of various stakeholders as well as the continuity of OPG's business operations. The program complies with provincial and federal regulations as they relate to emergency prevention, preparedness, and response and recovery requirements.

Corporate Reputation

As a provider of a large portion of the Province's electricity requirements, maintaining a positive corporate reputation is critical for OPG. OPG focuses on building and maintaining its reputation through many practices, including corporate citizenship initiatives across the Province, appropriate and transparent governance practices, and effective communication with stakeholders. In addition, OPG undertakes continuous improvement initiatives in various assurance and risk management activities.

Environmental Risks

Changes to environmental laws or delays in implementing the current timetable of the Province's coal plant closure policy could create compliance risks that may be addressed by the installation of additional equipment or control technologies, the purchase of additional emission reduction credits, or by constraining production from the fossil-fuelled fleet. In addition, a failure to comply with applicable environmental laws may result in enforcement actions, including the potential for orders or charges. Further, some of OPG's activities have the potential to cause contamination to land or water that may require remediation. The potential liability associated with any of these events could have a material adverse effect on the business.

In order to meet the federal and provincial GHG emission targets previously identified under the heading, *Environmental Stewardship*, there is a risk that OPG will be required to either reduce GHG emissions or purchase offsets, which could have a material adverse impact to OPG.

RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province, the other successor entities of Ontario Hydro, including Hydro One Inc. ("Hydro One"), the IESO, and the OEFC. OPG also enters into related party transactions with its joint ventures. 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.

These transactions are summarized below:

(millions of dollars)	Revenue 2008	Expenses 2008	Revenue 2007	Expenses 2007
Hydro One				
Electricity sales	**35**	**–**	28	–
Services	**–**	**7**	–	12
Province of Ontario				
GRC water rentals and land tax	**–**	**151**	–	129
Guarantee fee	**–**	**4**	–	8
Used Fuel Fund rate of return guarantee	**–**	**(971)**	–	(130)
Decommissioning Fund excess funding	**–**	**(3)**	–	(291)
OEFC				
GRC and proxy property tax	**–**	**215**	–	199
Interest income on receivable	**–**	**–**	–	(6)
Interest expense on long-term notes	**–**	**215**	–	187
Capital tax	**–**	**36**	–	35
Income taxes	**–**	**88**	–	(51)
Indemnity fees	**–**	**–**	–	–
IESO				
Electricity sales	**5,330**	**127**	5,094	104
Revenue limit rebate	**(277)**	**–**	(227)	–
Ancillary services	**155**	**–**	145	–
Other	**–**	**–**	–	1
	5,243	**(131)**	5,040	197

At December 31, 2008, accounts receivable included nil (2007 – $2 million) due from Hydro One and $207 million (2007 – $179 million) due from the IESO. Accounts payable and accrued charges at December 31, 2008 included $1 million (2007 – $2 million) due to Hydro One.

CORPORATE GOVERNANCE

Corporate Governance

National Instrument 58-101, *Disclosure of Corporate Governance Practices*, has been implemented by Canadian securities regulatory authorities to provide greater transparency for the marketplace regarding issuers' corporate governance practices. Information with respect to OPG's Board of Directors is as follows:

Board of Directors and Directorships

OPG's Board of Directors is made up of 12 individuals with substantial capability in managing and restructuring large businesses, managing and operating nuclear stations, managing capital intensive companies, finance and capital markets, and overseeing regulatory, government and public relations. The Board exercises its independent supervision over management as follows: the majority of members of the Board of Directors are independent of the Company; meetings of the Board of Directors are held at least six times a year; a formal Charter for the Board of Directors, and for each Board Committee, has been adopted; each Board Committee is chaired by an independent director; and a portion of each Board and Committee meeting is reserved for directors to meet without management present. The Board delineates the respective role and responsiblities of the Board from that of the President and Chief Executive Officer ("CEO") through the By-laws, Board Charter, Board policies and the CEO's annual goals and objectives.

All directors listed are independent within the meaning of Section 1.4 of National Instrument 52-110 of the Canadian Securities Administrators ("NI 52-110") except for Jim Hankinson who is the CEO of OPG and Gary Kugler who is the Chairman of the Nuclear Waste Management Organization ("NWMO").

At the request of the Board of Directors, Dr. Kugler serves as a Director and Chairman of the NWMO, an organization which is in effect controlled by OPG by virtue of OPG's proportionately larger financial responsibility for nuclear fuel. The Board of Directors believes that Dr. Kugler's service as Director and Chairman is in the best interests of OPG, the NWMO, and OPG's stakeholders, in view of his experience and extensive knowledge of the Canadian nuclear industry, and does not affect his ability to exercise impartial judgment and fulfill his committee responsibilities. As a result, OPG's Board of Directors has determined that it is appropriate for Dr. Kugler to serve as a non-independent member on his current OPG Committees, in accordance with NI 52-110.

The following are the directors of OPG as at February 13, 2009.

Management's Discussion and Analysis

Jake Epp
Age: 69
Calgary, Alberta, Canada

Jake Epp was appointed as Chairman of the Board of Ontario Power Generation Inc. in April 2004. He held the position of interim Chairman from December 2003 until his current appointment. Jake Epp was a member of the provincial government's review committee that was created in December 2003 and headed by John Manley, to look at OPG's future role in the province's electricity market; examine its corporate and management structure; and decide whether OPG should go ahead with refurbishing three more nuclear reactors at the Pickering A nuclear power plant. The committee's report was presented to the government in March 2004. In May 2003, he was appointed by the Ontario government to lead a panel to review the delays and cost overruns at the Pickering A nuclear generating station. The findings of the report were released in December 2003. He is also certified by the Institute of Corporate Directors.

Board/Committee Membership	2008 Attendance	
Board (since December 2003)	7 of 7	100%
Compensation and Human Resources Committee (since November 2004)	7 of 7	100%
Governance and Nominating Committee (since August 2005)	3 of 3	100%
Nuclear Generation Projects Committee (since November 2006)	6 of 6	100%
The Board Chair attends all other committee meetings	17 of 17	100%

Principal Occupation
Chairman, Ontario Power Generation Inc. Board of Directors

Board Memberships for other Reporting Issuers
None

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers
None

James F. Hankinson
Age: 65
Toronto, Ontario, Canada

James Hankinson was appointed as President and Chief Executive Officer of Ontario Power Generation Inc. in May 2005. He has broad management experience in energy, transportation, resource and manufacturing-based businesses. He served as President and Chief Executive Officer of New Brunswick Power Corporation from 1996 to 2002, and during that time, had a significant impact on improving the operational and financial position of the company. In 1973, he joined Canadian Pacific Limited, and served as Chief Operating Officer from 1990 to 1995. A chartered accountant, Mr. Hankinson has a Master of Business Administration from McMaster University, and a Honorary Doctor of Laws degree from Mount Allison University. He also sits on the Boards of CAE Inc. and Maple Leaf Foods Inc.

Board/Committee Membership	2008 Attendance	
Board (since December 2003)	7 of 7	100%
The President and CEO attends all committee meetings	32 of 33	97%

Principal Occupation
President and Chief Executive Officer, Ontario Power Generation Inc.

Board Memberships for other Reporting Issuers
CAE Inc.
Maple Leaf Foods Inc.

Independence from OPG
Not Independent (Member of Management)

Interlocking Directorships on Boards of other Reporting Issuers:
None

Donald Hintz

Age: 66
Punta Gorda, Florida, U.S.A.

Donald Hintz is the retired President of Entergy Corporation, where he was responsible for Entergy's 30,000 megawatts of generating assets, including 10 nuclear plants. Prior to his appointment as President, he spent seven years as President and CEO of Entergy Operations Inc. Here he oversaw the improvement of Entergy's nuclear operations to top quartile performance. Mr. Hintz currently serves on the Board of Entergy Corporation and through May 2008 was the President of the American Nuclear Society, an international organization of more than 10,500 nuclear scientists and engineers. He has a Bachelor of Science in Chemical Engineering from the University of Wisconsin, and has completed the Utility Executive Program and the Advanced Management Program at the University of Michigan and the Harvard Business School, respectively.

Board/Committee Membership	2008 Attendance	
Board (since October 2004)	7 of 7	100%
Compensation and Human Resources Committee (since November 2004)	7 of 7	100%
Nuclear Operations Committee* (since November 2004)	5 of 5	100%
Nuclear Generation Projects Committee (since November 2006)	6 of 6	100%

* Chair of Committee

Principal Occupation

Retired President of Entergy Corporation

Board Memberships for other Reporting Issuers

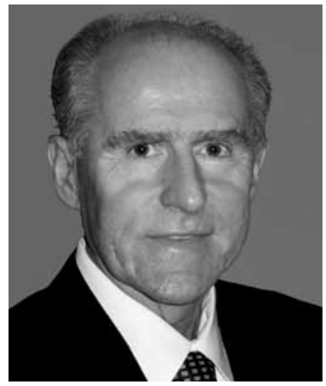
Entergy Corporation

Independence from OPG

Independent

Interlocking Directorships on Boards of other Reporting Issuers

None



Gary Kugler

Age: 68
Burlington, Ontario, Canada

Dr. Gary Kugler currently serves as Chairman of the Board of the Nuclear Waste Management Organization. He is the retired Senior Vice President, Nuclear Products and Services of Atomic Energy of Canada, Limited (AECL), where he was responsible for all of AECL's commercial operations, including nuclear power plant sales and services world-wide. During his 34 years with AECL, he also held various technical, project management, and business development positions. Prior to joining AECL, he served as a pilot in the Canadian air force. He holds a Bachelor of Science degree in honours physics and a Ph.D. in nuclear physics from McMaster University.

Board/Committee Membership	2008 Attendance	
Board (since September 2004)	7 of 7	100%
Audit/Risk Committee (November 2004 – December 2008)	4 of 4	100%
Compensation and Human Resources Committee (since December 2008)	–	–
Governance and Nominating Committee (since August 2005)	3 of 3	100%
Nuclear Operations Committee (since November 2004)	5 of 5	100%
Nuclear Generation Projects Committee (since November 2006)	6 of 6	100%

Principal Occupation

Chairman, Nuclear Waste Management Organization

Board Memberships for other Reporting Issuers

None

Independence from OPG

Not Independent (Chairman of Nuclear Waste Management Organization)

Interlocking Directorships on Boards of other Reporting Issuers

None

M. George Lewis
Age: 48
Toronto, Ontario, Canada

George Lewis is Group Head, Wealth Management, RBC Financial Group. Mr. Lewis is also Chairman of RBC Asset Management Inc. Prior to his current appointment, Mr. Lewis was Head of Wealth Management for the Canadian Personal and Business segment of RBC FG, Canada's largest bank, as well as serving as Head of all Products for that segment. Formerly he was Managing Director, Head of Institutional Equity Sales, Trading and Research with RBC Capital Markets and was Canada's top-rated analyst for three consecutive years. He has extensive experience in the investment industry and has a Master of Business Administration degree with distinction from Harvard University, a Bachelor of Commerce degree with high distinction from Trinity College at the University of Toronto and is a chartered financial analyst and chartered accountant, as well as being certified by the Institute of Corporate Directors. Mr. Lewis serves on the Board of Directors of the Bloorview Kids Foundation, the Anglican Diocese of Toronto Foundation, and the Toronto Symphony Orchestra. He is Chair of the Bishop's Company of the Anglican Diocese of Toronto, as well as a member of the Cabinet and Patron of the United Way of Greater Toronto and Patron of Operation Springboard.

Board/Committee Membership	2008 Attendance	
Board (since February 2005)	6 of 7	86%
Audit/Risk Committee* (since February 2005)	4 of 4	100%
Investment Funds Oversight Committee (since March 2005)	3 of 3	100%

* Chair of Committee

Principal Occupation
Group Head, Wealth Management, RBC Financial Group

Board Memberships for other Reporting Issuers
None

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers:
None

David J. MacMillan
Age: 55
Barnes, London, United Kingdom

David MacMillan is a Managing Director of Good Energies, a European-based multi-billion dollar private equity fund that invests in renewable energy technology companies and renewable energy companies and projects worldwide. Until early 2008, he was a Non-Executive Director of InterGen N.V., an international owner and operator of utility scale power generation plants. He has extensive international experience in the power generation sector with a focus on investment strategy and financing. Mr. MacMillan was also a former Director of Killingholme Power Limited. Mr. MacMillan holds a B.A. and a M.A. of Economics from McGill University.

Board/Committee Membership	2008 Attendance	
Board (since September 2004)	7 of 7	100%
Major Projects Committee* (since November 2004)	6 of 6	100%
Nuclear Operations Committee (since November 2004)	5 of 5	100%

* Chair of Committee

Principal Occupation
Partner – Good Energies

Board Memberships for other Reporting Issuers
None

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers
None

Corbin A. McNeill Jr.
Age: 69
Jackson, Wyoming, U.S.A

Corbin McNeill is the retired Chairman and Co-Chief Executive Officer of Exelon Corporation, which was formed by the merger of PECO Energy and Unicom Corp. At PECO, he had been Chairman, President and CEO, having joined PECO in 1988 as Executive Vice President, Nuclear. Prior to PECO, he oversaw nuclear operations at the Public Service Electric and Gas Company and the New York Power Authority. Mr. McNeill currently serves as a Director of Owens-Illinois Inc. and Portland General Electric. Mr. McNeill has a Bachelor of Science degree from the U.S. Naval Academy and has completed the Executive Management Program at Stanford University.

Board/Committee Membership:	2008 Attendance:	
Board (since October 2004)	7 of 7	100%
Audit/Risk Committee (since December 2008)	–	–
Governance and Nominating Committee* (since August 2005)	3 of 3	100%
Investment Funds Oversight Committee (May 2005 – May 2008)	0 of 1	0%
Nuclear Operations Committee (since November 2004)	5 of 5	100%
Nuclear Generation Projects Committee* (since November 2006)	6 of 6	100%

* Chair of Committee

Principal Occupation
Retired Chairman and Co-Chief Executive Officer of Exelon Corporation

Board Memberships for other Reporting Issuers
Owens-Illinois Inc.
Portland General Electric Company

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers:
None

Peggy Mulligan
Age: 50
Mississauga, Ontario, Canada

Peggy Mulligan is the Chief Financial Officer, Biovail Corporation. Mrs. Mulligan was most recently a Principal at Priiva Consulting. Prior to that she served as Executive Vice President and Chief Financial Officer of Linamar Corporation. Prior to Linamar, Mrs. Mulligan was with the Bank of Nova Scotia for 11 years as Executive Vice President, Systems and Operations and Senior Vice President, Audit and Chief Inspector. Before joining Scotiabank, she was an Audit Partner with PricewaterhouseCoopers in Toronto. Peggy Mulligan currently serves on the Board of Resolve Business Outsourcing Income Fund. She holds a B. Math (Honours) from the University of Waterloo and was named a Fellow Chartered Accountant (FCA) by the Institute of Chartered Accountants of Ontario in 2003.

Board/Committee Membership	2008 Attendance	
Board (since December 2005)	6 of 7	86%
Audit/Risk Committee (since February 2006)	4 of 4	100%
Investment Funds Oversight Committee* (since February 2007)	3 of 3	100%
Nuclear Generation Projects Committee (since May 2008)	2 of 4	50%

* Chair of Committee

Principal Occupation
Chief Financial Officer, Biovail Corporation

Board Memberships for other Reporting Issuers
Resolve Business Outsourcing Income Fund

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers
None

Management's Discussion and Analysis

C. Ian Ross
Age: 66
Collingwood, Ontario, Canada

Ian Ross served at the Richard Ivey School of Business at the University of Western Ontario from 1997 to September 2003. Most recently he held the position of Senior Director, Administration in the Dean's Office, and was also Executive in Residence for the School's Institute for Entrepreneurship, Innovation and Growth. He has served as Governor and President and CEO of Ortech Corporation; Chairman, President and CEO of Provincial Papers Inc.; and President and CEO of Paperboard Industries Corp. Mr. Ross currently serves as a Director for a number of corporations including Menu Foods Income Trust, GrowthWorks Canadian Fund Ltd., PetValu Canada Inc., RuggedCom Ltd., eJust Systems (formerly Praeda Managements Systems) and the Nuclear Waste Management Organization (NWMO). He is also a member of the Law Society of Upper Canada.

Board/Committee Membership	2008 Attendance	
Board (since December 2003)	7 of 7	100%
Audit/Risk Committee (since November 2004)	4 of 4	100%
Governance and Nominating Committee (since August 2005)	3 of 3	100%
Major Projects Committee (since November 2004)	6 of 6	100%
Nuclear Generation Projects Committee (since November 2006)	6 of 6	100%

Principal Occupation
Chairman, GrowthWorks Canadian Fund Ltd.

Board Memberships for other Reporting Issuers
Clearford Industries Inc.
GrowthWorks Canadian Fund Ltd.
Menu Foods Income Trust
PetValu Canada Inc.
RuggedCom Ltd.

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers
None

Marie C. Rounding
Age: 61
Toronto, Ontario, Canada

Marie Rounding is Counsel at Gowling Lafleur Henderson LLP where she is a member of the National Energy and Infrastructure Industry Group. On November 1, 2007, she was appointed by Prime Minister Stephen Harper to the Advisory Council on National Security. Ms. Rounding served as Chair of the Ontario Energy Board from 1992 to 1998 and as President and Chief Executive Officer of the Canadian Gas Association from 1998 to 2003. Prior to those appointments she was Director of the Crown Law Office, Civil Law at the Ontario Ministry of the Attorney General. She has extensive background in regulatory and administrative law, and as a leading regulator was involved in the deregulation of the natural gas markets and the early restructuring of the electricity sector in Ontario. Ms. Rounding currently serves as a Director for Nova Scotia Power Inc. and as a member of the Independent Review Committee for Sentry Select Capital Corp. and several related entities. She is a graduate of the University of Western Ontario and Osgoode Hall Law School and is certified by the Institute of Corporate Directors.

Board/Committee Membership	2008 Attendance	
Board (since September 2004)	7 of 7	100%
Investment Funds Oversight Committee (since May 2005)	3 of 3	100%
Major Projects Committee (since November 2004)	5 of 6	83%
Nuclear Operations Committee (since February 2007)	5 of 5	100%

Principal Occupation
Counsel, Gowling Lafleur Henderson LLP

Board Memberships for other Reporting Issuers
Nova Scotia Power Inc.

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers
None

William Sheffield
Age: 60
Toronto, Ontario, Canada

William Sheffield is the former Chief Executive Officer of Sappi Fine Paper plc., and a former Executive Vice President of International Operations and Corporate Development at Abitibi Consolidated. He has experience in operating large international industries. He also spent 17 years with Stelco. Mr. Sheffield currently serves on the Boards of Velan Inc., Canada Post, Houston Wire & Cable Company and Corby Distilleries. Mr. Sheffield has a B.Sc. in Chemistry from Carleton University, an M.B.A. from McMaster University and completed the Advanced Management Program at INSEAD School of Business, France, and is certified by the Institute of Corporate Directors.

Board/Committee Membership	2008 Attendance	
Board (since September 2004)	7 of 7	100%
Compensation and Human Resources Committee* (since November 2004)	7 of 7	100%
Investment Funds Oversight Committee (since February 2005)	3 of 3	100%
Major Projects Committee (since November 2004)	6 of 6	100%

* Chair of Committee

Principal Occupation
Corporate Director

Board Memberships for other Reporting Issuers
Corby Distilleries Ltd.
Houston Wire & Cable Company
Velan Inc.

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers
None

David G. Unruh
Age: 64
Vancouver, British Columbia, Canada

David Unruh is a retired lawyer and general counsel currently serving as a Director of Union Gas Limited, Pacific Northern Gas Ltd., Corriente Resources Inc., The Wawanesa Mutual Insurance Company, TransLink (South Coast British Columbia Transportation Authority), Canada Line Rapid Transit Inc., and Globe Foundation of Canada. Prior to this, Mr. Unruh served as Vice Chairman of Westcoast Energy Inc. and Union Gas Limited, before that as Senior Vice President and General Counsel for Houston-based Duke Energy Gas Transmission and, before that as Senior Vice President, Law and Corporate Secretary of Westcoast Energy Inc. Mr. Unruh practiced corporate and commercial law in Winnipeg, Manitoba, before joining Westcoast Energy Inc. in Vancouver, British Columbia, in 1993.

Board/Committee Membership	2008 Attendance	
Board (since September 2004)	7 of 7	100%
Audit/Risk Committee (since November 2004)	4 of 4	100%
Compensation and Human Resources Committee (since November 2004)	7 of 7	100%
Governance and Nominating Committee (since December 2008)	–	–
Major Projects Committee (since December 2004)	6 of 6	100%

Principal Occupation
Corporate Director

Board Memberships for other Reporting Issuers
Corriente Resources Inc.
Pacific Northern Gas Ltd.
Union Gas Limited

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers
None

Orientation and Continuing Education

The Governance and Nominating Committee is responsible for reviewing and recommending appropriate orientation and education programs to the Board. New directors are provided relevant documentation relating to OPG's governance practices, policies and to its business. Directors attend comprehensive introductory briefing sessions from senior executives on OPG's operations and business and plant tours are provided to OPG generating facilities.

The Board supports the continuing education of directors, in both the business of OPG and their duties as directors. Annual plant tours of major facilities and, based on requests from directors, special presentations by internal and external experts are made to the Board or a Committee on topical business-related issues or on specific aspects of OPG's operations. OPG also sponsors the professional certification of its directors.

Ethical Business Conduct

OPG has a policy for ethical business behaviour and a Code of Business Conduct, which is approved by the Board. The Audit/Risk Committee Charter expressly includes regular reporting by Management on the Code of Business Conduct, including reports on substantiated cases of fraud and the disposition of such cases including disciplinary action. The Audit/Risk Committee also receives an annual report on the Code of Business Conduct in order to satisfy itself that appropriate codes of conduct and compliance programs are in place and are being enforced and remedial action is being taken. A copy of OPG's Code of Business Conduct has been filed on SEDAR (www.sedar.com). The Audit/Risk Committee has also established procedures for the receipt, retention and treatment of complaints received pertaining to internal accounting controls or auditing matters and the confidential anonymous submission by employees concerning such matters.

The Board has a Board of Directors Conflict of Interest Policy to deal with real or potential conflicts of interest and has adopted an annual process of written disclosure of information by directors in order to: (i) identify potential conflicts of interest for the purposes of complying with the Board of Directors Conflict of Interest Policy and with the Ontario Business Corporations Act, (ii) validate their independence and financial literacy for the purposes of complying with securities regulations related to Boards and Audit Committees, and (iii) satisfy other disclosures and filings.

Nomination of Directors

The Governance and Nominating Committee's responsibilities are to: (i) develop and maintain a list of optimum skills which the Board should collectively possess, (ii) recommend a process to identify director candidates, (iii) recommend selection criteria, (iv) identify director candidates to the Board and (v) recommend to the Board the candidates to stand for election. The Board submits recommended candidates to the shareholder. Nominations of directors by the shareholder are also reviewed by the Governance and Nominating Committee.

The Governance and Nominating Committee consists of five members, four of which are independent of OPG within the meaning of NI 52-110.

Compensation

Director Compensation

The Governance and Nominating Committee is responsible for annually monitoring and reviewing the level and nature of compensation of directors. In 2008, the Governance and Nominating Committee reviewed OPG's Director Compensation against comparable public and private companies and recommended that no change be made to the compensation of directors.

Each director who is not an employee of OPG receives an annual retainer of $25,000. Directors also receive a $3,000 annual retainer to chair committees and for each committee that they are a member of. In recognition of the increased duties and responsibilities placed upon the chair of the Audit/Risk Committee as a result of recent regulatory initiatives in North America, the annual retainer for the Audit/Risk Committee chair is $8,000.

Directors are compensated for each meeting that they attend and receive a fee of $1,500 or $750, as determined by the Board or Committee chair.

In order to retain national and international expertise, non-resident directors are compensated in U.S. dollars exchanged at par and directors who travel long distances receive a travel fee to cover travel time related to Board and Committee meetings they attend.

Directors are also reimbursed for travel and other expenses they incur to attend meetings or to perform other duties in their role as a director.

The Chair of the Board in his role as non-executive Chair receives an all-inclusive annual fee of $150,000 and is reimbursed for out-of-pocket expenses including travel and other expenses.

CEO Compensation

The Compensation and Human Resources Committee of the Board consists of five members, four of whom are independent of OPG within the meaning of NI 52-110. The Committee oversees, on behalf of the Board, the setting of the CEO's annual goals and objectives and the annual review of CEO performance, and makes recommendations to the Board with respect to CEO compensation. The Compensation and Human Resources Committee seeks input from an independent advisor with regard to monitoring and benchmarking compensation developments.

During 2008, the Compensation and Human Resources Committee of the Board retained an independent advisor from Mercer Human Resource Consulting, to review the compensation package for the President and CEO and to confirm that the compensation package is appropriate given the nature, complexity and risk profile of OPG's business. The Compensation and Human Resources Committee submitted its recommendation to the Board for approval. The approved executive compensation was publicly disclosed.

Board Committees

The Board has established seven standing committees to focus on areas critical to the Company:

Audit/Risk Committee

The Committee is responsible for reviewing the Company's regulatory filings including consolidated financial statements, MD&A, and press releases prior to their disclosures to the public. The Committee is also responsible for overseeing the internal audit function, the work of external auditors including their nomination and compensation, that the Company has adequate controls in the financial reporting process and the risk management process, and is in compliance with regulatory and internal policies. The Committee is also responsible for overseeing OPG's policy on ethical behaviour and the Code of Business Conduct, including reports on compliance programs, substantiated cases of fraud and the disposition of such cases including disciplinary action.

Compensation and Human Resources Committee

This Committee focuses on human resources related areas including compensation practices, CEO objectives and compensation, disclosure on compensation and human resources matters, leadership talent review including succession planning, human resources policies related to employee complaints, diversity and pay equity, organizational design, labour relations, pension plans and policies, and Board compensation, education and evaluation programs.

Governance and Nominating Committee

The Committee develops governance principles for OPG that are consistent with high standards of corporate governance and reviewing and assessing on an ongoing basis OPG's system of corporate governance with a view to maintaining these high standards. The Committee identifies and recommends candidates for election or appointment to the Board to be put before the shareholder in the event of a vacancy on the Board. Finally, the Committee reviews and recommends OPG's processes for director orientation, assessment, and compensation.

Investment Funds Oversight Committee

This Committee assists the Board in fulfilling its responsibilities for the OPG Pension Fund, the Used Fuel Fund and the Decommissioning Fund. The Committee provides oversight of the investment of assets, investment-related liabilities and the management of any surplus (deficit) of the funds. Specifically the Committee: reviews the investment policies, risks and the asset mix; approves annual performance objectives for the investment portfolios; and monitors the performance of the funds.

Major Projects Committee

This Committee assists the Board in providing oversight of major non-nuclear electricity supply projects, including project development, contracting, financing, and construction monitoring.

Nuclear Generation Projects Committee

This Committee was formed in 2006 following direction from the shareholder to: (i) begin feasibility studies on refurbishing its existing nuclear units, and (ii) to begin a federal approvals process, including an environmental assessment, for new nuclear units at an existing site. This Committee assists the Board in providing oversight of the new nuclear plant projects and the refurbishment and life extension projects for existing nuclear plants.

Nuclear Operations Committee

This Committee is responsible for oversight of safe and efficient operations of OPG's nuclear business, regulatory compliance of OPG's nuclear facilities, review of reports from independent oversight of OPG's nuclear operations, reviews of OPG's nuclear management and organization matters, security of OPG's nuclear facilities and substances, and oversight of OPG's nuclear waste and decommissioning liabilities and management.

Assessments

The Governance and Nominating Committee is responsible for the annual process for evaluating the performance of the Board, its Committees and its individual directors. The Board and Committee evaluations are based upon the completion of confidential questionnaires regarding assessment of its performance and the compliance with the Board and Committee Charters. Director evaluations are based on self-assessment questionnaires, which are submitted in confidence to the Board Chair and the Chair of the Governance and Nominating Committee. The annual process is overseen by the Chair of the Governance and Nominating Committee, who reports the results and recommendations for enhancing oversight to the Board.

Further Information on OPG Governance

OPG provides additional information on OPG's governance on its website (www.opg.com) including:

- Memorandum of Agreement
- Shareholder Directives
- Board and Committee Charters
- Board and Committee Chair Position Descriptions
- Board of Directors Conflict of Interest Policy
- Code of Business Conduct
- Disclosure Policy
- Environment Policy
- Health and Safety Policy
- Dam Safety Policy
- Nuclear Safety Policy

AUDIT/RISK COMMITTEE INFORMATION

NI 52-110, Audit Committees, has been implemented by Canadian securities regulatory authorities to encourage reporting issuers to establish and maintain strong, effective and independent audit committees, which enhance the quality of financial disclosure and ultimately foster increased investor confidence in Canada's capital markets. Information on OPG's Audit/Risk Committee, which includes the text of the Audit/Risk Committee Charter, is as follows:

Audit/Risk Committee Charter

Purpose

The purpose of the Audit/Risk Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing, advising and making recommendations to the Board on:

- The integrity, quality and transparency of the Company's financial information;
- The adequacy of the financial reporting process;
- The systems of internal controls and risk management, and the Company's related principles, policies and procedures which Management have established;
- The performance of the Company's internal audit function and the external auditors;
- The external auditors' qualifications and independence;
- The Company's compliance with related legal and regulatory requirements and internal policies; and
- The promotion of a culture of ethical business conduct and compliance with OPG's Code of Business Conduct.

The function of the Audit/Risk Committee is oversight. Management is responsible for the preparation, presentation and integrity of the consolidated financial statements of the Company. Management of the Company is responsible for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations.

Organization

Members

The Audit/Risk Committee shall consist of three or more independent Directors appointed by the Board of Directors, none of whom shall be employees of the Company or any of the Company's affiliates. A majority of the members of the Committee, but not less than two, will constitute a quorum. As a venture issuer, OPG is exempt from the statutory requirements of NI 52-110 requiring members of Audit Committees be independent and financially literate. However, OPG considers such independence and financial literacy to be "best practice" and therefore each of the members of the Audit/Risk Committee shall satisfy the applicable independence and financial literacy requirements of the laws and regulations governing Audit Committees.

The Board of Directors shall designate one member of the Audit/Risk Committee as the Committee Chair. Members of the Audit/Risk Committee shall serve at the pleasure of the Board of Directors for such term or terms as the Board of Directors may determine. The Board of Directors shall confirm that each member of the Audit/Risk Committee is financially literate as such qualification is interpreted by the Board of Directors in its business judgment and in compliance with NI 52-110 and its Companion Policy.

Meetings

The Committee will meet at least quarterly or more frequently as circumstances require and at any time at the request of a member. The Committee will meet regularly and at least annually with the external auditors, the internal auditors and Management in separate sessions to discuss any matters that the Committee believes should be discussed and to provide a forum for any relevant issues to be raised.

Reports

The Committee will report its activities and actions to the Board of Directors with recommendations, as the Committee deems appropriate.

The Committee will provide for inclusion in the Company's financial information or regulatory filings any report from the Audit/Risk Committee required by applicable laws and regulations and stating, among other things, whether the Audit/Risk Committee has:

- Reviewed and discussed the audited consolidated financial statements with Management;
- Discussed pertinent matters with the internal and external auditors;
- Received disclosures from the external auditors regarding the auditors' independence and discussed with the auditors their independence; and
- Recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report.

Authority

While the Audit/Risk Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit/Risk Committee to plan or conduct audits or risk assessments, or to determine that the Company's consolidated financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibility of Management and the external auditor.

In carrying out its oversight responsibilities, the Audit/Risk Committee and the Board will necessarily rely on the expertise, knowledge and integrity of the Company's Management, and internal and external auditors.

The Audit/Risk Committee shall have the authority to set and pay the compensation for any advisors employed by the Committee.

The Audit/Risk Committee shall have the authority to communicate directly with the internal and external auditors.

Delegation of Authority

The Committee may delegate to any employee of OPG or a sub-committee the authority to: (i) execute or carry out any decision of the Committee; and/or (ii) exercise any right, power or function of the Committee on such terms and conditions and within such limits as the Committee may establish, except that the Committee may not delegate its oversight responsibilities.

Access to Management and Outside Advisors

The Audit/Risk Committee shall have unrestricted access to members of Management and relevant information. The Audit/Risk Committee may retain independent counsel, accountants or other advisors to assist it in the conduct of any investigation, as it determines necessary to carry out its duties.

Committee Responsibilities and Duties

The Committee shall:

General

- Conduct or authorize investigations into any matters within the Committee's scope of responsibilities; and
- Review and recommend approval to the Board, the appointment or replacement of the CFO and the CRO.

Risk Management and Internal Controls

- Review and evaluate the Company's policies and processes for assessing significant risks or exposures and the steps Management has taken to monitor and control such risks to the Company, including the organizational structure and the adequacy of resources;
- Consider and review with the CRO and Management the critical risks to the Company, the potential impact of such risks, and related mitigation;
- Ascertain whether the Company has an effective process for determining risks and exposure from actual and potential litigation and claims relating to non-compliance with laws and regulations;
- Review with Management, reports demonstrating compliance with risk management policies;
- Review with the Company's General Counsel and others any legal, tax, or regulatory matters that may have a material impact on Company operations and the financial statements, including, but not limited to, violations of securities law or breaches of fiduciary duty;
- Review with Management, internal audit, and the external auditors, the scope of review of internal control over financial reporting, significant findings, recommendations and Management's responses for implementation of actions to correct weaknesses in internal controls;
- Review disclosures made by the CEO and CFO during the certification process regarding significant deficiencies in the design or operation of internal controls or any fraud that involves Management or other employees who have a significant role in the Company's internal controls; and
- Review the expenses of the Chairman, Board, President and the President's direct reports on a semi-annual basis, and of any other senior officers and employees the Committee considers appropriate.

Internal Audit

- Evaluate the internal audit process and define expectations in establishing the annual internal audit plan and the focus on risk, including the organizational structure and the adequacy of resources;
- Approve the Charter of the internal audit function annually;
- Evaluate the audit scope and role of internal audit; and
- Consider and review with the CRO and Management:
    - Significant findings and Management's response including the timetable for implementation of Management actions to correct weaknesses;
    - Any difficulties encountered in the course of their audit (such as restrictions on the scope of their work or access to information);
    - Any changes required in the planned scope of the audit plan; and
    - The internal audit budget.

External Auditor

- Recommend to the Board of Directors the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, and the compensation of the external auditor;
- Oversee the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, including the resolution of disagreements between Management and the external auditor regarding financial reporting;
- Review the independence and qualifications of the external auditor;
- At least annually, obtain and review a report by the external auditor describing the auditing firm's internal quality control procedures, any material issues raised by the most recent internal quality control review or peer review of the auditing firm or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the external auditor and any steps taken to deal with any such issues and all relationships between the external auditors and the Company;
- Review the scope and approach of the annual audit plan with the external auditors;

- Discuss with the external auditor the quality and acceptability of the Company's accounting principles including all critical accounting policies and practices used, any alternative treatments that have been discussed with Management as well as any other material communications with Management;

- Assess the external auditor's process for identifying and responding to key audit and internal control risks;

- Ensure the rotation of the lead audit partner every five years and other audit partners every seven years, and consider regular rotation of the audit firm;

- Evaluate the performance of the external auditor annually and present its findings to the Board of Directors;

- Determine which non-audit services the external auditor is prohibited by law or regulation, or as determined by the Audit/Risk Committee, from providing and pre-approve all services provided by the external auditors. The Committee may delegate such pre-approval authority to a member of the Committee. The decision of any Committee member to whom pre-approval authority is delegated must be presented to the full Audit/Risk Committee at its next scheduled meeting;

- Review and approve all related party transactions; and

- Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company.

Financial Reporting

- Review with Management and the external auditors the Company's interim financial information and disclosures under MD&A and earnings press release, prior to filing;

- Satisfy itself that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's consolidated financial statements, other than the public disclosure referred to above, and periodically assess the adequacy of those procedures;

- Review with Management and the external auditors, at the completion of the annual audit:

  - The Company's annual financial statements, MD&A, related footnotes and any documentation required by the Securities Act to be prepared and filed by the Company or that the Company otherwise files with the Ontario Securities Commission;

  - The external auditors' audit of the consolidated financial statements and their report;

  - Any significant changes required in the external auditors' audit plan;

  - Any difficulties or disputes with Management encountered during the audit;

  - The Company's accounting principles; and

  - Other matters related to conduct, which should be communicated to the Committee under generally accepted auditing standards.

- Review significant accounting and reporting issues and understand their impact on the consolidated financial statements. These include complex or unusual transactions and highly judgmental areas; major issues regarding accounting principles and financial presentations, including significant changes in the Company's selection or application of accounting principles; and the effect of regulatory and accounting initiatives, as well as off-balance sheet arrangements, on the consolidated financial statements of the Company;

- Review analysis prepared by Management and/or the external auditor detailing financial reporting issues and judgments made in connection with the preparation of financial information, including analysis of the effects of alternative Generally Accepted Accounting Principles methods; and

- Advise Management, based upon the Audit/Risk Committee's review and discussion, whether anything has come to the Committee's attention that causes it to believe that the consolidated financial statements contain an untrue statement of material fact or omit to state a necessary material fact.

Compliance with Code of Business Conduct

- Review the administration of and compliance with the Company's Code of Business Conduct to ensure that appropriate codes of conduct and compliance programs are in place, are being enforced and remedial action is being taken, as well as the process for communicating the Code of Business Conduct to Company personnel; and

- Monitor through regular updates from Management regarding compliance matters.

Treatment of Complaints

- Establish procedures for the receipt, recording and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and

- Establish procedures for the confidential and anonymous submission by employees of concerns regarding accounting or auditing matters of the Company.

Annual Review and Assessment

The Committee shall conduct an annual review and assessment of its performance, including a review of its compliance with this Charter, in accordance with the evaluation process approved by the Board.

The Committee shall also review and assess the adequacy of this Charter on an annual basis taking into account all legislative and regulatory requirements applicable to the Committee as well as any best practice guidelines recommended by regulators with whom OPG has a reporting relationship, and if appropriate, shall recommend changes to the Board.

Composition of the Audit/Risk Committee

OPG's Audit/Risk Committee consists of George Lewis, Corbin McNeill, Peggy Mulligan, Ian Ross and David Unruh. As a venture issuer, OPG is not subject to the rules governing the composition and independence of audit committees which are established by NI 52-110. However, OPG's Board of Directors has determined to follow best practices and constitute the Audit/Risk Committee in accordance with the requirements of NI 52-110. The Board of Directors has concluded that all of the members of the committee are financially literate and independent of OPG and its subsidiaries, within the meaning of NI 52-110.

During 2008, Dr. Kugler was a member of the Audit/Risk Committee as a non-independent member as determined by the Board of Directors, in accordance with section 3.3(2) of NI 52-110. Dr. Kugler stepped down from the Audit/Risk Committee on December 12, 2008.

Relevant Education and Experience

Financially literate means having the ability to read and understand the accounting principles used by OPG to prepare its consolidated financial statements, and the ability to address the breadth and level of complex accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by OPG's consolidated financial statements. Each member had an understanding of internal controls and procedures for financial reporting. The education and experience of each Audit/Risk Committee member that are relevant to his or her performance as an audit committee member may be found in the *Corporate Governance* section.

Audit/Risk Committee Oversight

There have been no recommendations of the Audit/Risk Committee to nominate or compensate an external auditor which have not been adopted by the Board of Directors.

External Auditor Service Fees

The following fees were billed by Ernst & Young LLP:

(thousands of dollars)	**2008**	2007
Audit Fees	**1,308**	1,253
Audit-Related Fees	**338**	259
Tax Fees and Other	**146**	118

Audit Fees

These fees included the audit of OPG's consolidated financial statements, quarterly reviews of the financial statements, and the pension fund audits.

Audit-Related Fees

These fees included work with respect to internal controls, accounting assistance, French translation of consolidated financial statements and MD&A, and special audits and reviews. During 2008, OPG has employed the services of other professional advisers, particularly in the areas of internal controls and accounting assistance.

Tax Fees and Other

These fees included tax services related to assistance with matters raised by the Tax Auditors for the 1999 taxation year and a United States state tax review.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Management, including the President and CEO and Chief Financial Officer ("CFO"), are responsible for maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICOFR"). DC&P is designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. ICOFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with GAAP.

An evaluation of the effectiveness of design and operation of OPG's DC&P and ICOFR was conducted as of December 31, 2008. Management, including the President and the CEO and the CFO, concluded that, as of December 31, 2008, OPG's DC&P and ICOFR (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, of the Canadian Securities Administrators) were effective.

There were no material changes in OPG's ICOFR for the most recent interim period that have materially affected or are reasonably likely to materially affect OPG's ICOFR.

Management's Discussion and Analysis

FOURTH QUARTER

Discussion of Results

(millions of dollars) (unaudited)	Three Months Ended December 31 2008	2007
Regulated generation sales	**1,029**	681
Spot market sales, net of hedging instruments	**432**	519
Revenue limit rebate	**(40)**	(51)
Variance accounts	**(11)**	7
Other	**211**	186
Revenue	**1,621**	1,342
Fuel expense	**276**	308
Gross margin	**1,345**	1,034
Operations, maintenance and administration	**837**	815
Depreciation and amortization	**246**	176
Accretion on fixed asset removal and nuclear waste management liabilities	**143**	126
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(40)**	(89)
Property and capital taxes	**26**	19
Income (loss) before other gains and losses, interest and income taxes	**133**	(13)
Other (gains) and losses	**(16)**	(10)
Income (loss) before interest and income taxes	**149**	(3)
Net interest expense	**45**	41
Income (loss) before income taxes	**104**	(44)
Income taxes (recoveries)	**135**	(163)
Net income (loss)	**(31)**	119

Revenue

Revenue was $1,621 million for the three months ended December 31, 2008 compared to $1,342 million during the same period in 2007. The increase of $279 million was primarily due to a higher average sales price due to the OEB's decision including the impact of the price increases effective December 1, 2008, but applicable retrospective to April 1, 2008. During the fourth quarter of 2008, OPG recorded $214 million of retrospective revenue for the period from April 1, 2008 to November 30, 2008.

Revenue for the three months ended December 31, 2008 compared to the same quarter in 2007 was favourably impacted by higher generation from OPG's nuclear generating stations, which displaced generation from the fossil-fuelled generating stations, and an increase in trading revenue primarily due to higher mark-to-market gains on interconnected market sales, offset by lower generation.

Fuel Expense

Fuel expense was $276 million for the three months ended December 31, 2008 compared to $308 million during the same period in 2007. The decrease of $32 million was primarily due to lower electricity generation at OPG's fossil-fuelled generating stations partially offset by the effect of higher fossil fuel costs.

Operations, Maintenance and Administration

OM&A expenses for the three months ended December 31, 2008 were $837 million compared to $815 million for the same quarter in 2007. The increase of $22 million was primarily due to the impact of regulatory accounts and expenditures related to nuclear generation development and nuclear capacity refurbishment activities. The change in the regulatory accounts related to these activities during the fourth quarter was primarily a result of a lower level of costs incurred for new nuclear generation and capacity refurbishment activities than the forecast approved by the OEB in setting the new nuclear payment amounts. The increase in OM&A expense was partially offset by lower pension and OPEB costs.

Depreciation and Amortization

Depreciation and amortization expenses for the three months ended December 31, 2008 were $246 million compared to $176 million for the same quarter in 2007. The increase in depreciation and amortization for the fourth quarter of 2008 compared to the same quarter in 2007 was primarily due to the recovery of regulatory balances through the new prices, as a result of the OEB's decision being recognized retrospectively to April 1, 2008.

Earnings on Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Losses from the Nuclear Funds in the Regulated – Nuclear Waste Management segment for the fourth quarter of 2008, before the mitigating impact of the Bruce revenues and costs variance account, were $293 million compared to earnings of $89 million for the fourth quarter of 2007, a decrease of $382 million. The decrease in the earnings from the Nuclear Funds was primarily due to lower returns on the Decommissioning Fund as a result of significant reductions in trading levels of global financial markets, which reduced the current market value of the fund investments. The losses from the Nuclear Funds were partially mitigated by the establishment of the Bruce revenues and costs variance account retrospectively to April 1, 2008. OPG recorded a regulatory asset of $333 million in this variance account that reduced the reported losses from the Nuclear Funds.

Average Sales Prices

The weighted average Ontario spot electricity market price and OPG's average sales prices by reportable business segment, net of the revenue limit rebate for the three months ended December 31, 2008 and 2007, were as follows:

	Three Months Ended December 31	
(¢/kWh)	**2008**	2007
Weighted average hourly Ontario spot electricity market price	**5.0**	5.1
Regulated – Nuclear Generation	**6.5**	4.9
Regulated – Hydroelectric	**4.7**	3.5
Unregulated – Hydroelectric	**4.8**	4.7
Unregulated – Fossil-Fuelled	**4.8**	4.8
OPG's average sales price	**5.6**	4.6

The increase in OPG's average sales price for the Regulated – Nuclear generation and Regulated – Hydroelectric segments for the three months ended December 31, 2008 compared to the same quarter in 2007 primarily reflected the impact of the increase in the regulated prices due to the OEB's decision.

Electricity Generation

	Three Months Ended December 31	
(TWh)	**2008**	2007
Regulated – Nuclear Generation	**12.6**	10.7
Regulated – Hydroelectric	**4.6**	4.4
Unregulated – Hydroelectric	**3.5**	3.2
Unregulated – Fossil-Fuelled	**4.5**	6.4
Total electricity generation	**25.2**	24.7

Total electricity sales volume for the three months ended December 31, 2008 was 25.2 TWh compared to 24.7 TWh during the same period in 2007. The increase was primarily due to higher generation from OPG's nuclear generating stations, which displaced generation from OPG's Unregulated – Fossil-Fuelled segment. The higher generation from OPG's nuclear generating stations for the three months ended December 31, 2008 compared to the same period in 2007 was primarily due to lower outage days.

During the fourth quarter of 2008 and 2007, the primary electricity demand in Ontario was 36.6 TWh and 37.7 TWh, respectively.

Liquidity and Capital Resources

Cash flow provided by operating activities during the three months ended December 31, 2008 was $35 million compared to cash flow used in operating activities of $323 million for the three months ended December 31, 2007. The increase in cash flow activities was primarily due to lower contributions to the Nuclear Funds, as a result of the one-time contribution to the Used Fuel Fund required by the ONFA in 2007 and higher receipts from generation revenues. This increase was partly offset by higher revenue limit payments in 2008.

Investment in fixed assets during the three months ended December 31, 2008 was $227 million compared with $190 million during the same period in 2007.

Cash flow provided by financing activities during the three months ended December 31, 2008 was $18 million compared to $449 million for the three months ended December 31, 2007. The decrease in cash flow was primarily due to the issuance of long-term debt under the general corporate facilities of $450 million in the fourth quarter of 2007.

QUARTERLY FINANCIAL HIGHLIGHTS

The following tables set out selected financial information from OPG's unaudited interim consolidated financial statements for each of the 12 most recently completed quarters. This financial information has been prepared in accordance with Canadian GAAP.

	2008 Quarters Ended				
(millions of dollars) (unaudited)	**December 31 2008**	**September 30 2008**	**June 30 2008**	**March 31 2008**	**Total**
Revenue, net of revenue limit rebate	**1,621**	**1,513**	**1,385**	**1,563**	**6,082**
Net (loss) income	**(31)**	**(142)**	**99**	**162**	**88**
Net (loss) income per share	**$(0.12)**	**$(0.55)**	**$0.39**	**$0.63**	**$0.34**

	2007 Quarters Ended				
(millions of dollars) (unaudited)	December 31 2007	September 30 2007	June 30 2007	March 31 2007	Total
Revenue, net of revenue limit rebate	1,342	1,421	1,373	1,524	5,660
Net income	119	113	125	171	528
Net income per share	$0.46	$0.44	$0.49	$0.67	$2.06

	2006 Quarters Ended				
(millions of dollars) (unaudited)	December 31 2006	September 30 2006	June 30 2006	March 31 2006	Total
Revenue, net of revenue limit rebate	1,276	1,435	1,345	1,508	5,564
Net (loss) income	(19)	167	143	199	490
Net (loss) income per share	$(0.08)	$0.65	$0.56	$0.78	$1.91

Balance Sheet as at December 31 (millions of dollars)	**2008**	2007	2006
Total assets	**25,579**	24,839	22,750
Total long-term liabilities	**17,177**	16,494	15,408
Cash dividend declared per share *(dollars)*	**–**	–	$0.50
Common shares outstanding *(millions)*	**256.3**	256.3	256.3

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

Additional items which impacted net income (loss) in certain quarters above include the following:

- Decrease in depreciation expense primarily due to the extension of service lives, for accounting purposes, of the Nanticoke generating station, Pickering B generating station and Unit 4 of the Pickering A generating station beginning in the first quarter of 2006;
- Decrease in depreciation expense primarily due to extension of the service life, for accounting purposes, of all coal-fired generating stations to December 31, 2012, beginning in the third quarter of 2006;
- Impairment loss on the Thunder Bay and Atikokan coal-fired generating stations of $22 million, reflecting the carrying value of the stations, during the fourth quarter of 2006;
- Higher OM&A expense in 2007 primarily due to higher outage and other maintenance expenditures at OPG's nuclear and fossil-fuelled generating stations, and expenses related to past grievances by First Nations;

- Decrease in gross margin from electricity sales during the first quarter of 2007 primarily due to lower generation from OPG's nuclear generating stations as a result of an unplanned outage during the first quarter of 2007 at the Pickering B nuclear generation station, caused by an inadvertent release of resin by a third-party contractor from the water treatment plant into the demineralized water system, and the requirement for maintenance related to the recovery of the resin. In addition, nuclear generation was also impacted by an extension to a planned outage during the first quarter of 2007 at the Pickering A nuclear generating station for significant additional repair work required as a result of a component failure during inspection;
- Higher earnings from the Nuclear Funds during the second quarter of 2007 primarily due to a higher Ontario CPI during the second quarter of 2007, which impacted the guaranteed return on the Used Fuel Fund. In addition, the increase in earnings also reflected a reimbursement from the Nuclear Funds for expenditures related to the safe storage of Pickering A Units 2 and 3;
- Lower gross margin primarily due to lower nuclear generation during the three months ended September 30, 2007 as a result of the shutdown of the Pickering A nuclear generating station Units 1 and 4 to perform modifications on a backup electrical system;
- Higher earnings due to a recovery of $20 million related to the re-estimation of costs to complete the remaining work to remediate the Lakeview site during the fourth quarter of 2007;
- Lower income tax expense during the fourth quarter of 2007 largely due to an additional contribution of $334 million to the Nuclear Funds. Contributions are deductible for tax purposes and no offsetting future tax expense is recognized by OPG due to the use of the taxes payable method to account for income taxes in the rate regulated segments;
- Decrease in income tax expense of $85 million and $21 million during the first and second quarters of 2008, respectively, due to the resolution of the tax uncertainties related to the audit of OPG's 1999 taxation year; and
- Decrease in earnings due to lower returns on the Decommissioning Fund, as a result of significant volatility and unfavourable returns in the capital markets during 2008.

SUPPLEMENTAL EARNINGS MEASURES

In addition to providing net income in accordance with Canadian GAAP, OPG's MD&A, audited consolidated financial statements as at and for the years ended December 31, 2008 and 2007 and the notes thereto, present certain non-GAAP financial measures. These financial measures do not have standard definitions prescribed by Canadian GAAP and therefore may not be comparable to similar measures disclosed by other companies. OPG utilizes these measures in making operating decisions and assessing its performance. Readers of the MD&A, consolidated financial statements and notes thereto utilize these measures in assessing the Company's financial performance from ongoing operations. These non-GAAP financial measures have not been presented as an alternative to net income in accordance with Canadian GAAP as an indicator of operating performance. The definitions of the non-GAAP financial measures are as follows:

(1) **Gross margin** is defined as revenue less revenue limit rebate and fuel expense.

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

For further information, please contact:

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www.sedar.com

Statement of Management's Responsibility for Financial Information

Ontario Power Generation Inc.'s ("OPG") management is responsible for presentation and preparation of the annual consolidated financial statements and Management's Discussion and Analysis ("MD&A").

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the requirements of the Ontario Securities Commission ("OSC"), as applicable. The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators and its related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. Something is considered material if it is reasonably expected to have a significant impact on the Company's earnings, cash flow, value of an asset or liability, or reputation. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

In meeting our responsibility for the reliability of financial information, we maintain and rely on a comprehensive system of internal controls and internal audit, including organizational and procedural controls and internal controls over financial reporting. Our system of internal controls includes written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and sound and conservative accounting policies, which we regularly update. This structure ensures appropriate internal control over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements.

Management, including the President and CEO and Chief Financial Officer ("CFO"), are responsible for maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICOFR"). DC&P is designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. ICOFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with GAAP.

An evaluation of the effectiveness of design and operation of OPG's DC&P and ICOFR was conducted as of December 31, 2008. Accordingly, we, as OPG's Chief Executive Officer and Chief Financial Officer, will certify OPG's annual disclosure documents filed with the OSC, which includes attesting to the design and effectiveness of OPG's disclosure controls and procedures and internal control over financial reporting.

The Board of Directors, based on recommendations from its Audit/Risk Committee, reviews and approves the consolidated financial statements and the MD&A, and oversees management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major risk areas and assessment of significant and related party transactions.

The consolidated financial statements have been audited by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The Auditors' Report outlines the auditors' responsibilities and the scope of their examination and their opinion on OPG's consolidated financial statements. The independent external auditors, as confirmed by the Audit/Risk Committee, had direct and full access to the Audit/Risk Committee, with and without the presence of management, to discuss their audit and their findings therefrom, as to the integrity of OPG's financial reporting and the effectiveness of the system of internal controls.

Jim Hankinson
President and Chief Executive Officer

Donn W. J. Hanbidge
Chief Financial Officer

February 11, 2009

Auditors' Report

To the Shareholder of Ontario Power Generation Inc.

We have audited the consolidated balance sheets of Ontario Power Generation Inc. as at December 31, 2008 and 2007 and the consolidated statements of income, changes in shareholder's equity, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of Ontario Power Generation Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Ontario Power Generation Inc. as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants,
Licensed Public Accountants

Toronto, Canada
February 11, 2009

Consolidated Statements of Income

Years Ended December 31 (millions of dollars except where noted)	2008	2007
Revenue (Note 19)		
Revenue before revenue limit rebate	**6,359**	5,887
Revenue limit rebate (Note 17)	**(277)**	(227)
	6,082	5,660
Fuel expense (Note 19)	**1,191**	1,270
Gross margin (Note 19)	**4,891**	4,390
Expenses (Note 19)		
Operations, maintenance and administration	**2,967**	2,974
Depreciation and amortization (Note 6)	**743**	695
Accretion on fixed asset removal and nuclear waste management liabilities (Note 10)	**581**	507
Losses (earnings) on nuclear fixed asset removal and nuclear waste management funds (Note 10)	**93**	(481)
Property and capital taxes	**80**	85
	4,464	3,780
Income before the following:	**427**	610
Other (gains) and losses (Notes 3 and 18)	**(9)**	(10)
Income before interest and income taxes	**436**	620
Net interest expense (Note 9)	**165**	143
Income before income taxes	**271**	477
Income tax expense (recovery) (Note 11)		
Current	**255**	1
Future	**(72)**	(52)
	183	(51)
Net income	**88**	528
Basic and diluted income per common share (dollars)	**0.34**	2.06
Common shares outstanding (millions)	**256.3**	256.3

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

Years Ended December 31 (millions of dollars)	2008	2007
Operating activities		
Net income	**88**	528
Adjust for non-cash items:		
Depreciation and amortization (Note 6)	**743**	695
Accretion on fixed asset removal and nuclear waste management liabilities (Note 10)	**581**	507
Losses (earnings) on nuclear fixed asset removal and nuclear waste management funds (Notes 10 and 19)	**93**	(481)
Pension costs (Note 12)	**187**	243
Other post employment benefits and supplementary pension plans (Note 12)	**226**	244
Future income taxes (Note 11)	**(72)**	(52)
Mark-to-market on derivative instruments	**(33)**	1
Provision for used nuclear fuel	**33**	30
Regulatory assets and liabilities (Note 7)	**44**	(39)
Other (gains) and losses (Note 18)	**(9)**	(10)
Provision for other liabilities	**–**	54
Other	**19**	25
	1,900	1,745
Contributions to nuclear fixed asset removal and nuclear waste management funds (Note 10)	**(454)**	(788)
Expenditures on fixed asset removal and nuclear waste management (Note 10)	**(195)**	(200)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management (Note 10)	**82**	119
Contributions to Pension Fund (Note 12)	**(253)**	(268)
Expenditures on other post employment benefits and supplementary pension plans (Note 12)	**(81)**	(73)
Revenue limit rebate (Note 17)	**(292)**	(167)
Expenditures on restructuring	**–**	(2)
Net changes to other long-term assets and liabilities	**90**	(56)
Changes in non-cash working capital balances (Note 24)	**73**	69
Cash flow provided by operating activities	**870**	379
Investing activities		
Increase in regulatory assets (Note 7)	**(6)**	(30)
Investment in fixed assets (Notes 6 and 19)	**(661)**	(666)
Net proceeds from sale of long-term assets	**15**	–
Cash and cash equivalents transferred to long-term investments (Note 4)	**–**	(58)
Cash flow used in investing activities	**(652)**	(754)
Financing activities		
Issuance of long-term debt (Note 8)	**395**	900
Repayment of long-term debt (Note 8)	**(408)**	(406)
Net decrease in short-term notes (Note 9)	**–**	(15)
Cash flow (used in) provided by financing activities	**(13)**	479
Net increase in cash and cash equivalents	**205**	104
Cash and cash equivalents, beginning of year	**110**	6
Cash and cash equivalents, end of year	**315**	110

See accompanying notes to the consolidated financial statements

Consolidated Balance Sheets

As at December 31 (millions of dollars)	2008	2007
Assets		
Current assets		
Cash and cash equivalents	**315**	110
Accounts receivable (Note 5)	**525**	315
Fuel inventory	**736**	604
Prepaid expenses	**32**	35
Future income taxes (Note 11)	**6**	12
Materials and supplies (Note 3)	**132**	125
	1,746	1,201
Fixed assets (Notes 6 and 19)		
Property, plant and equipment	**18,333**	17,772
Less: accumulated depreciation	**5,546**	4,995
	12,787	12,777
Other long-term assets		
Deferred pension asset (Note 12)	**797**	731
Nuclear fixed asset removal and nuclear waste management funds (Note 10)	**9,209**	9,263
Long-term investments (Note 4)	**74**	93
Long-term materials and supplies	**338**	353
Future income taxes (Note 11)	**62**	–
Regulatory assets (Note 7)	**522**	356
Long-term accounts receivable and other assets	**44**	65
	11,046	10,861
	25,579	24,839

See accompanying notes to the consolidated financial statements

Consolidated Balance Sheets

As at December 31 (millions of dollars)	2008	2007
Liabilities		
Current liabilities		
Accounts payable and accrued charges	**1,015**	953
Revenue limit rebate payable (Note 17)	**85**	100
Long-term debt due within one year (Note 8)	**357**	407
Deferred revenue due within one year	**12**	12
Income and capital taxes payable	**104**	66
	1,573	1,538
Long-term debt (Note 8)	**3,483**	3,446
Other long-term liabilities		
Fixed asset removal and nuclear waste management (Note 10)	**11,384**	10,957
Other post employment benefits and supplementary pension plans (Note 12)	**1,703**	1,556
Long-term accounts payable and accrued charges	**445**	184
Deferred revenue	**108**	120
Future income taxes (Note 11)	**–**	217
Regulatory liabilities (Note 7)	**54**	14
	13,694	13,048
Shareholder's equity		
Common shares	**5,126**	5,126
Retained earnings	**1,752**	1,664
Accumulated other comprehensive (loss) income	**(49)**	17
	6,829	6,807
	25,579	24,839

Commitments and Contingencies (Notes 4, 8, 13, and 16)

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

Honourable Jake Epp
Chairman

M. George Lewis
Director

Consolidated Statements of Changes in Shareholder's Equity

Years Ended December 31 (millions of dollars)	2008	2007
Common shares (Note 15)	**5,126**	5,126
Retained earnings		
Balance at beginning of year	**1,664**	623
Transition adjustment on adoption of financial instruments accounting standards	**–**	513
Net income	**88**	528
Balance at end of year	**1,752**	1,664
Accumulated other comprehensive (loss) income, net of income taxes		
Balance at beginning of year	**17**	–
Transition adjustment on adoption of financial instruments accounting standards	**–**	21
Other comprehensive loss for the year	**(66)**	(4)
Balance at end of year	**(49)**	17
Total shareholder's equity at end of year	**6,829**	6,807

Consolidated Statements of Comprehensive Income

Years Ended December 31 (millions of dollars)	2008	2007
Net income	**88**	528
Other comprehensive (loss) income, net of income taxes		
Net (loss) gain on derivatives designated as cash flow hedges[1]	**(52)**	11
Reclassification to income of gains on derivatives designated as cash flow hedges[2]	**(14)**	(15)
Other comprehensive loss for the year	**(66)**	(4)
Comprehensive income	**22**	524

1 Net of income tax expense of $3 million and $1 million for the years ended December 31, 2008 and 2007, respectively.

2 Net of income tax recoveries of $9 million for each of the years ended December 31, 2008 and 2007.

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements for the Years Ended December 31, 2008 and 2007

1. DESCRIPTION OF BUSINESS

Ontario Power Generation Inc. ("OPG" or the "Company") was incorporated on December 1, 1998 pursuant to the *Business Corporations Act* (Ontario). As part of the reorganization of Ontario Hydro, under the *Electricity Act*, 1998 and the related restructuring of the electricity industry in Ontario, Ontario Power Generation Inc. and its subsidiaries (collectively "OPG" or the "Company") purchased and assumed certain assets, liabilities, employees, rights and obligations of the electricity generation business of Ontario Hydro on April 1, 1999 and commenced operations on that date. Ontario Hydro has continued as Ontario Electricity Financial Corporation ("OEFC"), responsible for managing and retiring Ontario Hydro's outstanding debt and other obligations.

2. BASIS OF PRESENTATION

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

The consolidated financial statements include the accounts of OPG and its subsidiaries. OPG accounts for its interests in jointly controlled entities using the proportionate consolidation method. All significant intercompany transactions have been eliminated on consolidation.

Certain of the 2007 comparative amounts have been reclassified from financial statements previously presented to conform to the 2008 financial statement presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash on deposit and money market securities with a maturity of less than 90 days on the date of purchase. All other money market securities with a maturity on the date of purchase that is greater than 90 days, but less than one year, are recorded as short-term investments. These securities are valued at the lower of cost or market.

Interest earned on cash and cash equivalents and short-term investments of $13 million (2007 – $5 million) at an average effective rate of 3.0 percent (2007 – 4.4 percent) is offset against interest expense in the consolidated statements of income.

Sales of Accounts Receivable

Asset securitization involves selling assets such as accounts receivable to independent entities or trusts, which buy the receivables and then issue interests in them to investors. These transactions are accounted for as sales, given that control has been surrendered over these assets in return for net cash consideration. For each transfer, the excess of the carrying value of the receivables transferred over the estimated fair value of the proceeds received is reflected as a loss on the date of the transfer, and is included in net interest expense. The carrying value of the interests transferred is allocated to accounts receivable sold or interests retained according to their relative fair values on the day the transfer is made. Fair value is determined based on the present value of future cash flows. Cash flows are projected using OPG's best estimates of key assumptions, such as discount rates, weighted average life of accounts receivable and credit loss ratios.

As part of the sales of accounts receivable, certain financial assets are retained and consist of interests in the receivables transferred. Any retained interests held in the receivables are accounted for at cost. The receivables are transferred on a fully serviced basis and do not create a servicing asset or liability.

Inventories

Fuel inventory is valued at weighted average cost.

Materials and supplies are valued at the lower of average cost and net realizable value. The determination of net realizable value of materials and supplies takes into account various factors including the remaining useful life of the related facilities in which the materials and supplies are expected to be used.

Fixed Assets and Depreciation

Property, plant and equipment are recorded at cost. Interest costs incurred during construction are capitalized as part of the cost of the asset based on the interest rate on OPG's long-term debt. Expenditures for replacements of major components are capitalized.

Depreciation rates for the various classes of assets are based on their estimated service lives. Any asset removal costs that have not been specifically provided for in current or previous periods are also charged to depreciation expense. Repairs and maintenance are expensed when incurred.

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

Fixed assets are depreciated on a straight-line basis except for computers, and transport and work equipment, which are depreciated on a declining balance basis as noted below:

Nuclear generating stations and major components	15 to 55 years[1]
Fossil generating stations and major components	25 to 40 years[2]
Hydroelectric generating stations and major components	25 to 100 years
Administration and service facilities	10 to 50 years
Computers, and transport and work equipment assets – declining balance	9% to 40% per year
Major application software	5 years
Service equipment	5 to 10 years

1 The end of station life for depreciation purposes for the Darlington, Pickering A, Pickering B, Bruce A, and Bruce B nuclear generating stations ranges between 2014 and 2035. Major components are depreciated over the lesser of the station life and the life of the components. The Bruce A nuclear generating station was fully depreciated in 2003, however Bruce Power L.P. decided to refurbish the Bruce A generating station contributing to an increase in the asset retirement obligation and an increase in the carrying value of the Bruce A station. Changes to the end of station life for depreciation purposes are described under the heading *Changes in Accounting Policies and Estimates*.

2 The end of station life for depreciation purposes disclosed above excludes the impact of life extensions commencing January 1, 2008, which are described under the heading *Changes in Accounting Policies and Estimates*.

Impairment of Fixed Assets

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

Rate Regulated Accounting

A regulation pursuant to the *Electricity Restructuring Act*, *2004* (Ontario) provides that, effective April 1, 2005, OPG receives regulated prices for electricity generated from most of its baseload hydroelectric facilities and all of the nuclear facilities that it operates. This includes electricity generated from Sir Adam Beck 1, 2 and Pump generating stations, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering A and B, and Darlington nuclear facilities. The regulation established regulated prices up to April 1, 2008. The Ontario Energy Board ("OEB") determined the new prices in the fourth quarter of 2008 effective April 1, 2008 using a forecast cost of service methodology. This methodology establishes regulated prices based on a revenue requirement taking into account a forecast of production volumes and total operating costs, and a return on rate base. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed assets and an allowance for working capital. Regulated prices prior to April 1, 2008 were established by the Province of Ontario (the "Province") using the forecast cost of service methodology. The impact of the regulation and the OEB's decision on OPG's revenue recognition policies is described under the heading, *Revenue Recognition*.

The OEB is a self-funding crown corporation. Its mandate and authority come from the *Ontario Energy Board Act*, *1998*, the *Electricity Act*, *1998*, and a number of other provincial statutes. The OEB is an independent, quasi-judicial tribunal that reports to the Legislature of the Province through the Minister of Energy and Infrastructure. It regulates market participants in the Province's natural gas and electricity industries and carries out its regulatory functions through public hearings and other more informal processes such as consultations.

The regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) required OPG to establish certain variance and deferral accounts for the period up to April 1, 2008. In its decision on OPG's new regulated prices, the OEB ruled on the disposition of the balances recorded in these accounts as at December 31, 2007. The OEB also authorized the continuation and establishment of certain existing and new variance and deferral accounts effective April 1, 2008.

The balances in variance and deferral accounts are recognized as regulatory assets and liabilities in OPG's consolidated financial statements, as Canadian accounting standards recognize that rate regulation can create economic benefits and obligations that are required by the regulator to be obtained from, or settled with, the ratepayers. When the regulator provides assurance that incurred expenses will be recovered in the future, then OPG may defer those expenses and report them as a regulatory asset. If current recovery is provided for expenses expected to be incurred in the future, then OPG reports a regulatory liability. Similarly, if the regulator provides for lesser or greater than planned revenue to be received or returned by OPG through future regulated prices, then OPG recognizes a regulatory asset or liability, respectively. The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the regulation and the OEB's decisions.

Regulatory asset and liability balances approved by the regulator for inclusion in regulated prices are amortized based on approved recovery periods. Disallowed balances, including associated interest, are charged to operations in the period that the regulator's decision is issued. OPG applies interest to regulatory balances as prescribed by the regulation or the OEB, in order to recognize the cost of financing amounts to be recovered from, or repaid to, ratepayers.

See Notes 7 and 11 to these consolidated financial statements for additional disclosure related to regulatory assets and liabilities and rate regulated accounting.

Investments in OPG Ventures

In accordance with Accounting Guideline 18, *Investment Companies* ("AcG-18"), investments owned by the Company's wholly owned subsidiary OPG Ventures Inc. ("OPGV") are recorded at fair value, and changes to the fair value of the investments are included in revenue in the period in which the change occurs. The fair values of these investments are estimated using a methodology that is appropriate in light of the nature, facts and circumstances of the respective investments and considers reasonable data and market inputs, assumptions and estimates.

Fixed Asset Removal and Nuclear Waste Management Liability

OPG recognizes asset retirement obligations for fixed asset removal and nuclear waste management, discounted for the time value of money. OPG has estimated both the amount and timing of future cash expenditures based on current plans for fixed asset removal and nuclear waste management. The liabilities are initially recorded at their estimated fair value, which is based on a discounted value of the expected costs to be paid.

On an ongoing basis, the liability is increased by the present value of the variable cost portion of the nuclear waste generated each year, with the corresponding amounts charged to operating expenses. Expenses relating to low and intermediate level waste are charged to depreciation and amortization expense. Expenses relating to the disposal or storage of nuclear used fuel are charged to fuel expense. The liability may also be adjusted due to any changes in the estimated amount or timing of the underlying future cash flows. Upon settlement of the liability, a gain or loss would be recorded.

Accretion arises because liabilities for fixed asset removal and nuclear waste management are reported on a net present value basis. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time. The resulting expense is included in operating expenses.

The asset retirement cost is capitalized by increasing the carrying value of the related fixed assets. The capitalized cost is depreciated over the remaining useful life of the related fixed assets and is included in depreciation expense.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

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

The Nuclear Funds are invested in fixed income and equity securities. Effective January 1, 2007, OPG adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. As a result of the adoption of this new section, the investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading. Accordingly, the Nuclear Funds and the corresponding payables to the Province are measured at fair value based on the bid prices of the underlying securities with gains and losses recognized in net income.

Revenue Recognition

All of OPG's electricity generation is sold into the real-time energy spot market administered by the Independent Electricity System Operator ("IESO"). Effective April 1, 2005, the generation from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that OPG operates became rate regulated. As a result, energy revenue generated from the nuclear facilities up to April 1, 2008 was recognized based on a regulated price of 4.95¢/kWh. The regulated prices for nuclear generation increased to 5.50¢/kWh retrospectively to April 1, 2008, based on the OEB's decision issued in the fourth quarter of 2008. This price includes a rate rider of 0.20¢/kWh for recovery of approved nuclear variance and deferral account balances. The regulated price received by OPG up to April 1, 2008 for the first 1,900 megawatt hours ("MWh") of production from the regulated hydroelectric facilities in any hour was 3.3¢/kWh. The OEB increased the price to 3.67¢/kWh for the first 1,900 MWh of regulated hydroelectric production for the period April 1, 2008 to November 30, 2008. Any production from these regulated hydroelectric facilities above 1,900 MWh in any hour for the period April 1, 2005 to November 30, 2008 received the Ontario electricity spot market price. Following the OEB's decision, effective December 1, 2008, the threshold of 1,900 MWh no longer applies. Effective December 1, 2008, the actual average hourly net energy production from these hydroelectric facilities in the month receives the regulated price of 3.67¢/kWh. In the hours when the net actual energy production in Ontario is greater or less than the average hourly net volume in the month, OPG's revenues are adjusted by the difference between the average hourly net volume and the actual net energy production multiplied by spot market price. The retrospective increase in the regulated prices for production from regulated facilities for the period from April 1, 2008 to November 30, 2008 was recognized in the period that the OEB's decision was issued.

The production from OPG's remaining hydroelectric, fossil-fuelled and wind generating stations remains unregulated and continues to be sold at the Ontario electricity spot market price. However, 85 percent of the generation output from OPG's other generating assets, excluding the Lennox generating station, stations whose generation output is subject to a Hydroelectric Energy Supply Agreement ("HESA") with the Ontario Power Authority ("OPA") pursuant to a ministerial directive, and forward sales as of January 1, 2005, is subject to a revenue limit. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets are also excluded from the output covered by the revenue limit.

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 increased to 4.8¢/kWh effective May 1, 2008. In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the 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. The term of the revenue limit rebate ends on May 1, 2009.

OPG also sells into, and purchases from, interconnected markets of other provinces and the U.S. northeast and midwest. All contracts that are not designated as hedges are recorded in the consolidated balance sheets at market value with gains or losses recorded in the consolidated statements of income. Gains and losses on energy trading contracts (including those to be physically settled) are recorded on a net basis in the consolidated statements of income. Accordingly, power purchases of $177 million in 2008 and $120 million in 2007 were netted against revenue.

OPG derives non-energy revenue under the terms of a lease arrangement with Bruce Power L.P. ("Bruce Power") related to the Bruce nuclear generating stations. This includes lease revenues and revenues for engineering analysis and design, technical and ancillary services.

Prior to April 1, 2008, OPG accounted for lease revenue from Bruce Power using the cash basis of accounting. Under the cash basis of accounting, OPG recognized lease income as stipulated in the lease agreement to the extent that the lease payments were expected to be included in future regulated prices charged to customers. Pursuant to the OEB's decision during the fourth quarter of 2008, certain lease payments from Bruce Power were included in the determination of regulated prices effective April 1, 2008 on a straight-line basis over the term of the lease. Accordingly, OPG recognized these lease payments on a straight-line basis over the term of the lease effective April 1, 2008.

OPG also earns revenue from its joint venture share of the Brighton Beach Power Limited Partnership ("Brighton Beach") related to an energy conversion agreement between Brighton Beach and Coral Energy Canada Inc. ("Coral"). In addition, non-energy revenue includes isotope sales and real estate rentals. Revenues from these activities are recognized as services are provided or as products are delivered.

Financial Instruments

On January 1, 2007, OPG adopted three new accounting standards that were issued by the CICA: Handbook Section 1530, *Comprehensive Income*; Handbook Section 3855, *Financial Instruments – Recognition and Measurement*; and Handbook Section 3865, *Hedges*.

Under the new standard, for accounting purposes, financial assets are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading or available-for-sale, and financial liabilities are classified as held-for-trading or other than held-for-trading. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and financial liabilities other than those held-for-trading, are measured at amortized cost. Financial assets available-for-sale are measured at fair value with unrealized gains and losses due to fluctuations in fair value recognized in accumulated other comprehensive income. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established timeframe, are recognized on a trade-date basis. All derivatives, including embedded derivatives that must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the consolidated balance sheets. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading.

The new standard permits designation of any financial instrument as held-for-trading (the fair value option) upon initial recognition. This designation by OPG requires that the financial instrument be reliably measurable, and eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities.

Hedges

The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting is to be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income. The ineffective portion is recognized in net income. The amounts recognized in accumulated other comprehensive income are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item.

Derivatives

OPG is exposed to changes in electricity prices associated with a wholesale spot market for electricity in Ontario. To hedge the commodity price risk exposure associated with changes in the wholesale price of electricity, OPG enters into various energy and related sales contracts. These contracts are expected to be effective as hedges of the commodity price exposure on OPG's generation portfolio. Gains or losses on hedging instruments are recognized in unregulated revenue over the term of the contract when the underlying hedged transactions occur. All contracts not designated as hedges are recorded as assets or liabilities at fair value with changes in fair value recorded in other revenue.

OPG also enters into derivative contracts with major financial institutions to manage the Company's exposure to foreign currency movements. Foreign exchange translation gains and losses on these foreign currency denominated derivative contracts are recognized as an adjustment to the purchase price of the commodity or goods received.

OPG is exposed to changes in market interest rates on debt expected to be issued in the future. OPG uses interest rate derivative contracts to hedge this exposure. Gains and losses on interest rate hedges are recorded as an adjustment to interest expense for the debt being hedged. Gains and losses that do not meet the effectiveness criteria are recorded through net income in the period incurred.

OPG utilizes emission reduction credits ("ERCs") and allowances to manage emissions within the prescribed regulatory limits. ERCs are purchased from trading partners in Canada and the United States. Emission allowances are obtained from the Province and purchased from trading partners in Ontario. The cost of ERCs and allowances are held in inventory and charged to OPG's operations at average cost as part of fuel expense as required. Options to purchase ERCs are accounted for as derivatives and are recorded at estimated market value.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. The fair value of such derivative instrument is included in accumulated other comprehensive income ("AOCI") on a net of tax basis and changes to the fair value are recorded on the consolidated statements of comprehensive income. When a derivative hedging relationship is expired, the designation of a hedging relationship is terminated, or a portion of the hedging instrument is no longer effective, any associated gains or losses included in AOCI are recognized in the current period's consolidated statement of income.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at year-end exchange rates. Any resulting gain or loss is reflected in revenue.

Research and Development

Research and development costs are charged to operations in the year incurred. Research and development costs incurred to discharge long-term obligations such as the nuclear waste management liabilities, for which specific provisions have already been made, are charged to the related liability.

Pension and Other Post Employment Benefits

OPG's post employment benefit programs include a contributory defined benefit registered pension plan, a defined benefit supplementary pension plan, group life insurance, health care and long-term disability benefits. OPG accrues its obligations under pension and other post employment benefit ("OPEB") plans. The obligations for pension and OPEB costs are determined using the projected benefit method pro-rated on service. The obligation for long-term disability benefits is determined using the projected benefit method on a terminal basis. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions, experience gains or losses, salary levels, inflation, and cost escalation. Pension and OPEB costs and obligations are determined annually by independent actuaries using management's best estimate assumptions.

Assumptions are significant inputs to actuarial models that measure pension and OPEB obligations and related effects on operations. Two critical assumptions—discount rate and inflation—are important elements of benefit costs and obligations. In addition, the expected return on assets is a critical assumption in the determination of pension costs. These assumptions, as well as other assumptions involving demographic factors such as retirement age, mortality and employee turnover are evaluated periodically by management in consultation with an independent actuary. During the evaluation process, the assumptions are updated to reflect actual experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors, and in accordance with Canadian GAAP, the impact of these differences are accumulated and amortized over future periods.

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(for the years ended December 31, 2008 and 2007)

The discount rates used by OPG in determining projected benefit obligations and the costs for the Company's employee benefit plans are based on representative AA corporate bond yields. The respective discount rates enable OPG to calculate the present value of the expected future cash flows on the measurement date. A lower discount rate increases the present value of benefit obligations and increases benefit plan costs. The expected rate of return on plan assets is based on current and expected asset allocation, as well as the long-term historical risks and returns associated with each asset class within the plan portfolio. A lower expected rate of return on plan assets increases pension cost.

Pension fund assets include equity securities and corporate and government debt securities, real estate and other investments which are managed by professional investment managers. The fund does not invest in equity or debt securities issued by OPG. Pension fund assets are valued using market-related values for purposes of determining actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six percent assumed real return over a five-year period.

Pension and OPEB costs include current service costs, interest costs on the obligations, the expected return on pension plan assets, adjustments for plan amendments and adjustments for actuarial gains or losses, which result from changes in assumptions and experience gains and losses. Past service costs arising from pension and OPEB plan amendments are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plan, since OPG will realize the economic benefit over that period. Due to the long-term nature of post-employment liabilities, the excess of the net cumulative unamortized gain or loss, over 10 percent of the greater of the benefit obligation and the market-related value of the plan assets, is also amortized over the expected average remaining service life.

When the recognition of the transfer of employees and employee-related benefits gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's liability.

Taxes

Under the *Electricity Act*, *1998*, OPG is responsible for making payments in lieu of corporate income and capital taxes to the OEFC. These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), and are modified by the *Electricity Act*, *1998* and related regulations. This effectively results in OPG paying taxes similar to what would be imposed under the federal and Ontario tax acts.

OPG follows the liability method of accounting for income taxes of its unregulated operations. Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period the change is substantively enacted. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is established.

Commencing April 1, 2005, with the introduction of rate regulation, OPG accounts for income taxes relating to the rate regulated segments of its business using the taxes payable method. Under the taxes payable method, OPG does not recognize future income taxes relating to the rate regulated segments of its business to the extent those future income taxes are expected to be recovered or refunded in future regulated prices charged to customers.

OPG makes payments in lieu of property tax on its nuclear and fossil-fuelled generating assets to the OEFC, and also pays property taxes to municipalities.

OPG pays charges on gross revenue derived from the annual generation of electricity from its hydroelectric generating assets. The gross revenue charge ("GRC") includes a fixed percentage charge applied to the annual hydroelectric generation derived from stations located on provincial Crown lands, in addition to graduated rate charges applicable to all hydroelectric stations. GRC costs are included in fuel expense.

Changes in Accounting Policies and Estimates

Depreciation of Long-Lived Assets

The accounting estimates related to the depreciation of long-lived assets require significant management judgment to assess the appropriate useful lives of OPG's long-lived assets, including consideration of various technological and other factors.

Effective January 1, 2008, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended by two years to 2019 after a review of the technical analysis of the station's life limiting components. The life extension reduced depreciation expense by $18 million annually.

Effective January 1, 2009, the service life of fossil-fuelled stations, for the purpose of calculating depreciation, was extended by two years to 2014 based on the Province of Ontario's announcement to phase out coal generation by 2014. The life extension will reduce depreciation expense by $31 million annually.

The Company extended the service life of Bruce B nuclear generating station to 2014 for depreciation purposes effective January 1, 2008 after reviewing future capacity plans in the OPA's Integrated Power System Plan ("IPSP"), and historical information regarding the service lives of major life limiting components of the station. As a result of the extension, depreciation expense decreased by $7 million annually. In addition, effective January 1, 2008, OPG extended the service life of Bruce A nuclear generating station to 2035 for depreciation purposes after the review of future capacity plans filed with the OPA and other publicly available information. The extension of the service life of the Bruce A nuclear generating station for depreciation purposes decreased depreciation expense by $8 million annually.

Financial Instruments and Capital Disclosures – Disclosure and Presentation

On January 1, 2008, OPG adopted three new presentation and disclosure standards that were issued by the CICA: Handbook Section 3862, *Financial Instruments – Disclosures*, Handbook Section 3863, *Financial Instruments – Presentation*, and Handbook Section 1535, *Capital Disclosures*.

Handbook Section 3862, *Financial Instruments – Disclosures*, outlines disclosure requirements for financial instruments and places increased emphasis on disclosure about the risks associated with recognized and unrecognized financial instruments and how these risks are managed.

Handbook Section 3863, *Financial Instruments – Presentation*, carries forward the presentation requirements from Section 3861, *Financial Instruments – Disclosure and Presentation*.

Handbook Section 1535, *Capital Disclosures*, requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate a company's objectives, policies and processes for managing capital.

Reportable Segments

Commencing in the fourth quarter of 2008, OPG separated the Regulated – Nuclear segment into two reportable segments identified as Regulated – Nuclear Generation segment and Regulated – Nuclear Waste Management segment. The revised segment reporting is consistent with OPG's strategic business unit and reporting structure, and reflects the manner in which operating decisions are made and performance is assessed, given the magnitude and significant growth in nuclear decommissioning and waste management activities, assets and liabilities. Results for the comparative periods have been reclassified to reflect the revised disclosure.

Inventories

The CICA issued Handbook Section 3031, *Inventories*, in March 2007, which is based on International Accounting Standard ("IAS") 2. The section replaced the existing Handbook Section 3030, *Inventories*. Under this section, inventories are required to be measured at the lower of cost and net realizable value, which is different from the previous guidance of lower of cost and market. This section also allows the reversal of any write-downs previously recognized. Further, due to the changes in the section and the consequential amendments, some of OPG's critical spare parts, which were previously reported as materials and supplies on OPG's consolidated balance sheets, are now accounted for as property, plant and equipment. The accounting standard and the consequential amendments were effective for OPG beginning January 1, 2008. OPG reclassified significant critical spare parts of $19 million, net of accumulated depreciation, to property, plant and equipment in 2008. This accounting standard and the consequential amendments did not have a significant impact on OPG's financial position or results of operations for the year ended December 31, 2008.

Future Changes in Accounting Policies

Accounting for Regulated Operations

In December 2007, the CICA revised its guidance on accounting for rate regulated operations. The revision resulted in amendments to Handbook Sections 1100, *Generally Accepted Accounting Principles*, and 3465, *Income Taxes*, and Accounting Guideline 19 ("AcG-19"), *Disclosures by Entities Subject to Rate Regulation*, as follows:

- to remove the temporary exemption pertaining to the application of Section 1100 to rate regulated operations, including the elimination of the opportunity to use industry practice as an acceptable basis for recognition and measurement of assets and liabilities arising from rate regulation;
- to amend Section 3465 to require the recognition of future income tax assets and liabilities as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers; and
- to amend AcG-19, as necessary, as a result of amendments to Sections 1100 and 3465.

As a result of the changes to Section 3465, OPG is required to recognize future income taxes associated with its rate regulated operations in the same manner as it currently recognizes future income taxes for its unregulated operations. OPG applied the changes prospectively to interim and annual consolidated financial statements beginning January 1, 2009. Accordingly, on January 1, 2009, OPG recorded a future income tax liability of $466 million and a corresponding regulatory asset. The future income tax liability of $466 million includes future income taxes resulting from regulatory assets and liabilities of $126 million that are required to be recorded due to amendments to Section 3465.

Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces Handbook Section 3062, *Goodwill and Other Intangible Assets*, and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of this standard resulted in a reclassification of $42 million from fixed assets to intangible assets on January 1, 2009.

4. INVESTMENTS IN ASSET-BACKED COMMERCIAL PAPER

In August 2007, the Asset-Backed Commercial Paper ("ABCP") market experienced a liquidity event when paper sponsored by third-party non-bank conduits could not be refinanced as it matured. At that time, OPG's total ABCP investment was $103 million. Of that amount, $45 million was restructured, with OPG receiving payment of approximately 98.7 percent of the face value of the notes in December 2007, which resulted in a loss of $1 million. Of the remaining $58 million, OPG recorded an impairment loss of $9 million as at December 31, 2007, plus an additional $14 million impairment loss during 2008. The impairment loss was recorded in other gains and losses. OPG's remaining holdings of third-party ABCP are recorded as long-term investments.

On January 21, 2009, the Pan-Canadian Investors Committee for third-party ABCP announced the restructuring Plan (the "Plan") affecting $32 billion of third-party ABCP had been fully implemented. Pursuant to the terms of the Plan, OPG's short-term commercial paper has been exchanged for longer term notes equal to approximately $58 million. OPG received five classes of notes, which are supported by margin funding facilities from third-party asset providers, Canadian banks, and governments. OPG also received a partial payment of the accrued interest totalling $2 million for its short-term commercial paper held over the past 17 months.

During the fourth quarter of 2008, as a result of the continuing deterioration in credit conditions, OPG concluded that an additional impairment loss of $5 million was required. The loss was determined using the previously developed valuation methodology updated for credit spread and discount rate information.

The restructured notes are expected to have a maturity of eight to nine years. The exact maturity will be impacted by the release of collateral as underlying swap trades mature. The stated maturity of the notes is 2056. OPG continues to monitor the development of a secondary market to assess the fair value of its remaining holdings.

OPG has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect any material adverse impact on its operations as a result of this current third-party ABCP liquidity issue.

5. SALE OF ACCOUNTS RECEIVABLE

In October 2003, the Company signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the "receivables") to an independent trust. The Company also retains an undivided co-ownership interest in the receivables sold to the trust. Under the agreement, OPG continues to service the receivables. The transfer provides the trust with ownership of a share of the payments generated by the receivables, computed on a monthly basis. The trust's recourse to the Company is generally limited to its income earned on the receivables. In December 2005, the Company extended this agreement to August 2009.

OPG reflected the initial transfer to the trust of the co-ownership interest, and subsequent transfers required by the revolving nature of the securitization, as sales in accordance with CICA Accounting Guideline 12, *Transfer of Receivables*. In accordance with this Guideline, the proceeds of each sale to the trust were deemed to be the cash received from the trust, net of the undivided co-ownership interest retained by the Company. For 2008, OPG has recognized pre-tax charges of $12 million (2007 – $15 million) on such sales at an average cost of funds of 3.9 percent (2007 – 5.1 percent). As at December 31, 2008, OPG had sold receivables of $300 million from its total portfolio of $507 million (as at December 31, 2007 – $479 million).

The accounts receivable reported and securitized by the Company are as follows:

	Principal amount of receivables as at December 31		Average balance of receivables for the year ended December 31	
(millions of dollars unless otherwise stated)	**2008**	2007	**2008**	2007
Total receivables portfolio[1]	**507**	479	**471**	454
Receivables sold	**300**	300	**300**	300
Receivables retained	**207**	179	**171**	154
Average cost of funds			**3.9%**	5.1%

1 Amount represents gross IESO receivables outstanding, including receivables that have been securitized, which the Company continues to service.

An immediate 10 percent or 20 percent adverse change in the discount rate would not have a material effect on the current fair value of the retained interest. There were no credit losses for the years ended December 31, 2008 and 2007.

Details of cash flows from securitizations for the years ended December 31, 2008 and 2007 are as follows:

(millions of dollars)	**2008**	2007
Collections reinvested in revolving sales[1]	**3,600**	3,600
Cash flows from retained interest	**2,020**	1,759

1 Given the revolving nature of the securitization, the cash collections received on the receivables securitized are immediately reinvested in additional receivables resulting in no further cash proceeds to the Company over and above the initial cash amount of $300 million. The amounts reflect the total of 12 monthly amounts.

6. FIXED ASSETS, DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense consists of the following as at December 31, 2008 and 2007:

(millions of dollars)	**2008**	2007
Depreciation and amortization	**626**	587
Amortization of regulatory assets and liabilities (Note 7)	**111**	96
Nuclear waste management costs	**6**	12
	743	695

Fixed assets consist of the following as at December 31, 2008 and 2007:

(millions of dollars)	**2008**	2007
Property, plant and equipment		
Nuclear generating stations	**6,615**	6,466
Regulated hydroelectric generating stations	**4,425**	4,411
Unregulated hydroelectric generating stations	**3,559**	3,525
Fossil-fuelled generating stations	**1,618**	1,553
Other fixed assets	**844**	867
Construction in progress	**1,272**	950
	18,333	17,772
Less: accumulated depreciation		
Generating stations	**5,182**	4,636
Other fixed assets	**364**	359
	5,546	4,995
	12,787	12,777

Interest capitalized to construction in progress at six percent during the years ended December 31, 2008 and 2007 was $56 million and $42 million, respectively.

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7. REGULATORY ASSETS AND LIABILITIES AND SUMMARY OF RATE REGULATED ACCOUNTING

Under a regulation pursuant to the *Electricity Restructuring Act*, *2004* (Ontario), OPG was required to establish certain variance and deferral accounts for the period April 1, 2005 to March 31, 2008. The OEB's determination of new regulated prices effective April 1, 2008 included the disposition of OPG's regulatory asset and liability balances as at December 31, 2007 as well as the authorization of certain variance and deferral accounts effective subsequent to March 31, 2008. During 2008, OPG recorded additions to its regulatory balances up to March 31, 2008 pursuant to the regulation and in accordance with the OEB's decision subsequent to that date. OPG also began amortizing regulatory balances approved for recovery effective April 1, 2008. Regulatory balances disallowed by the OEB were charged to operations upon the issuance of its decision in the fourth quarter of 2008. OPG also recorded interest on its regulatory balances at the interest rate of six percent for the period up to March 31, 2008 as per the regulation, and starting on April 1, 2008, at the interest rate prescribed by the OEB from time to time for variance and deferral accounts of entities it regulates. This interest rate fluctuated in the range of three to four percent during the nine months ended December 31, 2008. OPG will apply for recovery of regulatory balances recorded subsequent to December 31, 2007 in its next application to the OEB.

The regulatory assets and liabilities recorded as at December 31, 2008 and 2007 are as follows:

(millions of dollars)	**2008**	2007
Regulatory assets		
Bruce revenues and costs variance	**260**	–
Pickering A return to service costs	**123**	183
Nuclear liabilities deferral account	**132**	131
Nuclear generation development costs – Capacity refurbishment	**–**	16
Nuclear generation development costs – New nuclear development	**–**	12
Hydroelectric production variance	**–**	7
Ancillary services revenue variance	**–**	5
Other	**7**	2
Total regulatory assets	**522**	356
Regulatory liabilities		
Nuclear generation development costs – Capacity refurbishment	**6**	–
Nuclear generation development costs – New nuclear development	**21**	–
Hydroelectric production variance	**22**	–
Ancillary services revenue variance	**4**	–
Other	**1**	14
Total regulatory liabilities	**54**	14

The changes in the regulatory assets and liabilities for 2008 and 2007 are as follows:

(millions of dollars)	Bruce Revenues and Costs Variance	Pickering A Return to Service Costs	Nuclear Liabilities Deferral Account	Nuclear Generation Development Costs – Capacity Refurbishment	Nuclear Generation Development Costs – New Nuclear Development	Hydro -electric Production Variance	Ancillary Services Revenue Variance	Other (net)
Regulatory assets (liabilities), January 1, 2007	–	249	–	–	–	(4)	–	(5)
Increase (decrease) during the year	–	–	127	15	12	10	5	(6)
Interest	–	30	4	1	–	1	–	(1)
Amortization during the year	–	(96)	–	–	–	–	–	–
Regulatory assets (liabilities), December 31, 2007	–	183	131	16	12	7	5	(12)
Increase (decrease) during the year	259	–	31	(6)	(30)	(25)	(7)	5
Interest	1	6	6	–	–	–	–	–
Amortization during the year	–	(66)	(36)	–	(3)	(4)	(2)	–
Other charges	–	–	–	(16)	–	–	–	13
Regulatory assets (liabilities), December 31, 2008	**260**	**123**	**132**	**(6)**	**(21)**	**(22)**	**(4)**	**6**

Bruce Revenues and Costs Variance

As per the requirements of the regulation, the OEB required OPG to include the difference between OPG's revenues and costs associated with its ownership of the two nuclear stations on lease to Bruce Power in the determination of the regulated prices for production from OPG's regulated nuclear facilities. The OEB also established a variance account, effective April 1, 2008, that captures differences between the forecast revenues and costs associated with the Bruce generating stations that are included in the approved regulated nuclear prices, and the actual amounts. In 2008, OPG recorded a regulatory asset of $260 million in this variance account, including $1 million of interest on the balance. The regulatory asset includes a $333 million variance from forecast as a result of losses from the Nuclear Funds related to the Bruce generating stations since April 1, 2008, partially offset by a related variance in income tax expense of $95 million. The remaining net variance of $21 million includes variances for lease revenues, and accretion expense related to Nuclear Liabilities associated with the Bruce generating stations.

Pickering A Return to Service Costs

Effective January 1, 2005, in accordance with the regulation, OPG was required to establish a deferral account in connection with non-capital costs incurred on or after January 1, 2005 that were associated with the planned return to service of all units at the Pickering A nuclear generating station. As at December 31, 2008, the balance in the deferral account was $123 million, including interest of $43 million and net of accumulated amortization of $191 million. As at December 31, 2007, the balance in the deferral account was $183 million, including interest of $37 million and net of accumulated amortization of $125 million. No additional costs were deferred in the account in the years ended December 31, 2008 and 2007. OPG commenced amortization of the deferral account balance for the period November 2005, when Unit 1 of the Pickering A nuclear generating station was returned to service, to March 31, 2008 in accordance with the terms of the regulation. In its decision, the OEB authorized the recovery of the unamortized balance in the account as at December 31, 2007 over a 45-month period ending December 31, 2011. Therefore, effective retrospectively to April 1, 2008, OPG amortizes the balance of the account on a straight-line basis over this period.

Nuclear Liabilities Deferral Account

In February 2007, the Province amended the regulation pursuant to the *Electricity Restructuring Act*, *2004* (Ontario) to direct OPG to establish a deferral account in connection with changes to its liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management. The deferral account represents the revenue requirement impact associated with the changes in the nuclear liabilities arising from an approved reference plan, approved after April 1, 2005, in accordance with the terms of the ONFA.

On December 31, 2006, OPG recorded an increase in its nuclear liabilities of $1,386 million arising from an update to the approved reference plan in accordance with the terms of the ONFA. Therefore, commencing January 1, 2007 and up to March 31, 2008, OPG recorded a regulatory asset associated with this increase in the nuclear fixed assets removal and nuclear waste management liabilities ("Nuclear Liabilities") arising from the approved reference plan. During the year ended December 31, 2008, OPG recorded additions to the deferral account of $37 million, including $6 million of interest. During the year ended December 31, 2007, OPG recorded additions to the account of $131 million, including $4 million of interest. In its decision in 2008, the OEB authorized the recovery of the balance recorded in the account as at December 31, 2007 over a 33-month period ending December 31, 2010. Accordingly, OPG began amortizing the approved balance retrospective to April 1, 2008 in the fourth quarter of 2008 on a straight-line basis over the 33-month period.

Nuclear Generation Development Costs

In accordance with its interpretation of the regulation, OPG recorded regulatory assets related to non-capital costs for nuclear generation development initiatives up to March 31, 2008. Specifically, the costs recorded were those made in the course of planning and preparing for the development of proposed new nuclear facilities incurred on or after June 13, 2006, as well as those related to the potential refurbishment of the Pickering B and Darlington nuclear stations to the extent that they had not been previously included in the forecast provided to the Province for the purposes of establishing regulated prices for the period up to March 31, 2008.

OPG deferred costs totalling $4 million related to new nuclear generation development initiatives during the three months ended March 31, 2008 and $12 million during the year ended December 31, 2007. OPG did not record any costs related to the potential refurbishment of existing stations during the three months ended March 31, 2008 and recorded $16 million, including $1 million of interest, during the year ended December 31, 2007. The OEB's decision authorized the recovery of the costs recorded up to December 31, 2007 related to new nuclear development over a 33-month period ending December 31, 2010. Accordingly, OPG began amortizing the approved balance retrospective to April 1, 2008 in the fourth quarter on a straight-line basis over this period. The OEB determined that it did not have jurisdiction to approve the recovery of the costs recorded prior to April 1, 2008 for capacity refurbishment. Therefore, the associated regulatory asset in the amount of $16 million was charged to operations in the fourth quarter of 2008.

The OEB also established variance accounts effective April 1, 2008 for new nuclear generation development and capacity refurbishment costs for deviations from the forecast costs approved by the OEB in setting the new regulated prices. Accordingly, OPG recorded additional operations, maintenance and administration ("OM&A") expenses of $34 million for new nuclear generation development costs and $6 million for capacity refurbishment costs during the nine months ended December 31, 2008.

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(for the years ended December 31, 2008 and 2007)

Hydroelectric Production and Ancillary Services Revenue Variances

The OEB's decision authorized the continuation of previously existing variance accounts effective April 1, 2008 for the difference in hydroelectric electricity production due to differences between forecast and actual water conditions, as well as the difference between forecast and actual ancillary services revenue. Forecast water conditions and ancillary services revenues refer to those approved by the OEB in setting the new regulated prices. Prior to April 1, 2008, variances were determined by reference to the forecast information previously provided to the Province for the purposes of establishing regulated prices. OPG recorded a decrease in revenue during the year ended December 31, 2008 of $32 million reflecting actual water conditions and ancillary services revenue that were favourable compared to those approved by the OEB, or included in the forecast provided to the Province for the purposes of establishing regulated prices, as appropriate. OPG recorded an increase in revenue during the year ended December 31, 2007 of $15 million reflecting actual water conditions and ancillary services revenue that were unfavourable compared to the forecast provided to the Province for the purposes of establishing regulated prices.

The OEB's decision authorized the recovery of balances in these variance accounts related to regulated hydroelectric operations recorded up to December 31, 2007 over a 21-month period ending December 31, 2009. Accordingly, OPG began amortizing the approved balances in the fourth quarter on a straight-line basis retrospective to April 1, 2008.

Other Regulatory Assets and Liabilities

Other regulatory assets include $5 million recorded in the fourth quarter of 2008 for the under-recovery of approved regulatory balances during the period April 1, 2008 to December 31, 2008. The under-recovery results from the collection of approved balances based on actual production, which varies from the forecast production approved by the OEB. The OEB's decision stated that OPG is entitled to recover and is obligated to repay through future regulated prices any under or over-recovery of approved regulatory balances resulting from variances from the forecast production. Other regulatory assets also include the variance account related to transmission outages and transmission restrictions recorded prior to April 1, 2008.

The other regulatory liability of $1 million, as at December 31, 2008, represents the balance in the nuclear fuel variance account approved by the OEB effective April 1, 2008. The other regulatory liability as at December 31, 2007 includes a portion of segregated mode of operations and water transactions net revenues and related interest, which the OEB determined OPG should not refund to ratepayers in its decision. As such, OPG reversed a regulatory liability of $13 million to income in the fourth quarter of 2008 when the OEB's decision was issued.

Summary of Rate Regulated Accounting

The following tables summarize the impact of applying rate regulated accounting for selected income statement information:

Years Ended December 31	**2008**			2007		
(millions of dollars)	**As Stated**	**Impact of Rate Regulated Accounting**	**Financial Statements without Rate Regulated Accounting**	As Stated	Impact of Rate Regulated Accounting	Financial Statements without Rate Regulated Accounting
Revenue	**6,082**	**(4)**	**6,078**	5,660	9	5,669
Fuel expense	**1,191**	**(3)**	**1,188**	1,270	(5)	1,265
Operations, maintenance and administration	**2,967**	**(52)**	**2,915**	2,974	27	3,001
Depreciation and amortization	**743**	**(102)**	**641**	695	(42)	653
Losses (earnings) on segregated funds	**93**	**333**	**426**	(481)	–	(481)
Accretion on fixed asset removal and nuclear waste management liabilities	**581**	**28**	**609**	507	75	582
Property and capital taxes	**79**	**1**	**80**	85	3	88
Net interest expense	**165**	**11**	**176**	143	33	176
Income taxes	**183**	**(95)**	**88**	(51)	–	(51)

8. LONG-TERM DEBT

Long-term debt consists of the following:

(millions of dollars)	2008	2007
Notes payable to the Ontario Electricity Financial Corporation	**3,660**	3,665
Share of non-recourse limited partnership debt	**180**	188
	3,840	3,853
Less: due within one year		
Notes payable to the Ontario Electricity Financial Corporation	**350**	400
Share of limited partnership debt	**7**	7
	357	407
Long-term debt	**3,483**	3,446

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

The maturity dates as at December 31, 2008 for notes payable to the OEFC are as follows:

		Principal Outstanding (millions of dollars)		
Year of Maturity	Interest Rate (%)	Senior Notes	Subordinated Notes	Total
2009	6.01%	350	–	350
2010	6.00%	595	375	970
2011	6.65%	–	375	375
2012	5.72%	400	–	400
2016	4.91%	270	–	270
2017	5.35%	900	–	900
2018	5.27%	395	–	395
		2,910	750	3,660

Debt financing for the Niagara Tunnel, the Portlands Energy Centre ("PEC") and the Lac Seul hydroelectric generating station projects is provided by the OEFC. As at December 31, 2008, debt financing for these projects consists of the following:

(millions of dollars)	Niagara Tunnel	Portlands Energy Centre	Lac Seul Hydroelectric Generating Station
Debt financing, as at December 31, 2007	240	210	20
New borrowing	100	95	–
Debt financing, as at December 31, 2008	**340**	**305**	**20**

In September 2005, OPG reached an agreement with the OEFC to provide debt financing for the Niagara Tunnel project. The funding, which is up to $1 billion over the duration of the project, will be in the form of 10-year notes, which will be issued quarterly to meet the project's obligations. Interest will be fixed for each note issued at the time of advance at a rate equal to the prevailing Benchmark Government of Canada 10-Year Bond, plus a credit spread determined by the OEFC based on a survey of market rates. As at December 31, 2008, OPG issued $340 million against this facility, which included new borrowing of $100 million under the facility in 2008.

In December 2006, OPG reached an agreement with the OEFC to provide debt financing for the Lac Seul Hydroelectric Generating Station and the PEC projects. There will be up to $50 million available for the Lac Seul project and up to $400 million available for the PEC project under each credit facility. The credit facilities will be drawn as needed to fund the respective projects over the construction period. The funding will be in the form of 10-year notes with interest rates fixed for each note issued at the time of advance at a rate equal to the prevailing Benchmark Government of Canada 10-Year Bond, plus a credit spread determined by the OEFC based on a survey of market rates. As at December 31, 2008, OPG issued $20 million against the Lac Seul project credit facility and $305 million against the PEC credit facility, which included new borrowing of $95 million under the PEC facility in 2008.

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In 2007, OPG reached an agreement with the OEFC for a $500 million general corporate facility and for a $950 million credit agreement to refinance senior notes as they mature over the period September 22, 2007 to September 22, 2009. As of December 31, 2008, OPG borrowed $500 million under its general corporate facility and refinanced $400 million senior notes under the $950 million credit facility, which included new refinancing of $200 million in 2008.

The non-recourse limited partnership debt is secured by a first charge on the assets of one of the joint venture limited partnerships, an assignment of the joint venture's bank accounts, and an assignment of the joint venture's project agreements. OPG's share of the total assets was $275 million as at December 31, 2008 (December 31, 2007 – $284 million). The minimum principal repayments of the non-recourse limited partnership debt for the next five calendar years range from $14 million to $19 million annually. OPG's share of the non-recourse limited partnership debt included a note payable of $127 million at an interest rate of 6.9 percent, with an effective interest rate of 7.0 percent. This note payable is repayable in quarterly payments commencing March 31, 2006 to March 31, 2024. The remaining non-recourse limited partnership debt is at various floating rates. The interest rates of the floating rate debt are referenced to various interest rate indices, such as the bankers' acceptance rate and the London Interbank Offered Rate, plus a margin. The joint venture has entered into floating-to-fixed interest rate hedges to manage the risks arising from fluctuation in interest rates.

Interest paid in 2008 was $242 million (2007 – $224 million), of which $225 million (2007 – $203 million) relates to interest paid on long-term corporate debt. Interest on the notes payable to the OEFC is paid semi-annually.

9. SHORT-TERM CREDIT FACILITIES AND NET INTEREST EXPENSE

OPG maintains a $1 billion revolving committed bank credit facility which is divided into two tranches – a $500 million 364-day term tranche and a $500 million five-year term tranche. OPG renewed and extended the maturity date of the 364-day term tranche to May 20, 2009 and the five-year term tranche to May 20, 2013. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at December 31, 2008, no commercial paper was outstanding, and OPG had no other outstanding borrowings under the bank credit facility. In the second quarter of 2008, OPG entered into a $100 million five-year revolving committed bank credit facility in support of the Upper Mattagami Project. As at December 31, 2008, there was no borrowing under this credit facility.

OPG also maintains $25 million (2007 – $25 million) of short-term uncommitted overdraft facilities and $276 million (December 31, 2007 – $238 million) of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other purposes. At December 31, 2008, there was a total of $243 million of Letters of Credit issued (December 31, 2007 – $205 million), which included $212 million for the supplementary pension plans (December 31, 2007 – $175 million) and $16 million related to the construction and operation of the PEC (December 31, 2007 – $16 million).

The following table summarizes the net interest expense for the year ended December 31, 2008 and 2007:

(millions of dollars)	**2008**	2007
Interest on long-term debt	**231**	205
Interest on short-term debt	**18**	19
Interest income	**(13)**	(6)
Capitalized interest	**(56)**	(42)
Interest applied to regulatory assets and liabilities	**(13)**	(33)
Other	**(2)**	–
Net interest expense	**165**	143

10. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

The liability for fixed asset removal and nuclear waste management on a present value basis consists of the following for the years ended December 31:

(millions of dollars)	**2008**	2007
Liability for nuclear used fuel management	**6,213**	5,938
Liability for nuclear decommissioning and low and intermediate level waste management	**5,020**	4,843
Liability for non-nuclear fixed asset removal	**151**	176
Fixed asset removal and nuclear waste management liabilities	**11,384**	10,957

The changes in the fixed asset removal and nuclear waste management liabilities for the years ended December 31, 2008 and 2007, are as follows:

(millions of dollars)	**2008**	2007
Liabilities, beginning of year	**10,957**	10,520
Increase in liabilities due to accretion	**608**	582
Increase in liabilities due to nuclear used fuel and nuclear waste management variable expenses	**47**	76
Liabilities settled by expenditures on waste management	**(195)**	(200)
Decrease in the liabilities for non-nuclear fixed asset removal	**(33)**	(21)
Liabilities, end of year	**11,384**	10,957

OPG's fixed asset removal and nuclear waste management liabilities are comprised of expected costs to be incurred up to and beyond termination of operations and the closure of nuclear and fossil-fuelled generating plant facilities. Costs will be incurred for activities such as dismantling, demolition and disposal of facilities and equipment, remediation and restoration of sites and the ongoing and long-term management of nuclear used fuel and low and intermediate level waste material. Nuclear station decommissioning consists of original placement of stations into a safe store condition followed by a nominal 30-year store period prior to station dismantling.

The following costs are recognized as a liability:

- The present value of the costs of dismantling the nuclear and fossil-fuelled production facilities at the end of their useful lives;
- The present value of the fixed cost portion of any nuclear waste management programs that are required based on the total volume of waste expected to be generated over the assumed life of the stations; and
- The present value of the variable cost portion of any nuclear waste management program taking into account actual waste volumes generated to date.

The determination of the accrual for fixed asset removal and nuclear waste management costs requires significant assumptions, since these programs run for many years. The most recent update of the estimates for the nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management liabilities was performed as at December 31, 2006. The update resulted in an increased estimate of costs mainly due to additional used fuel and waste quantities resulting from station life extensions, experience in decommissioning reactors, and changes in economic indices. The increase was partially offset by the impact of later end of life dates for some stations, which results in later decommissioning dates and a reduced present value of decommissioning costs. The change in the cost estimate resulted in an updated Reference Plan, the 2006 Approved Reference Plan, which was approved by the Province in accordance with the terms of the ONFA.

As a result of the approval of the 2006 Approved Reference Plan, OPG recognized additional expenses including accretion on the fixed asset removal and nuclear waste management liabilities and depreciation of the carrying value of the related fixed assets starting on January 1, 2007. The impact of these additional expenses for the period up to March 31, 2008 was reduced by the recognition of a regulatory asset, as prescribed by the regulation pursuant to the *Electricity Restructuring Act*, *2004* (Ontario). OPG began recovering this regulatory asset through regulated prices effective April 1, 2008, as per the OEB's decision. This is discussed in Note 7 to the consolidated financial statements.

For the purposes of calculating OPG's fixed asset removal and nuclear waste management liabilities, nuclear and fossil-fuelled plant closures are projected to occur over the next 6 to 28 years. End of life dates may change as decisions on life extensions are made. The 2006 Approved Reference Plan includes cash flow estimates for decommissioning nuclear stations for approximately 40 years after station shutdown and to 2065 for placement of used fuel into the long-term disposal repository followed by extended monitoring. The undiscounted amount of estimated future cash flows associated with the liabilities is approximately $24 billion in 2008 dollars. The discount rate used to calculate the present value of the liabilities was 5.75 percent for liabilities established prior to December 31, 2006. The increase in cost estimates related to the 2006 Approved Reference Plan and subsequent increases to the value of the undiscounted estimated cash flows for OPG's liability for nuclear waste management and decommissioning are discounted at 4.6 percent. The cost escalation rates ranged from 1.8 percent to 3.6 percent. Under the terms of the lease agreement with Bruce Power, OPG continues to be responsible for the nuclear fixed asset removal and nuclear waste management liabilities associated with the Bruce nuclear generating stations.

The significant assumptions underlying operational and technical factors used in the calculation of the accrued liabilities are subject to periodic review. Changes to these assumptions, including changes to assumptions on the timing of the programs, financial indicators or the technology employed may result in significant changes to the value of the accrued liabilities. With programs of this duration and the evolving technology to handle the nuclear waste, there is a significant degree of uncertainty surrounding the measurement accuracy of the costs for these programs, which may increase or decrease over time.

Liability for Nuclear Used Fuel Management Costs

The liability for nuclear used fuel management represents the cost of managing the highly radioactive used nuclear fuel bundles. The federal Nuclear Fuel Waste Act ("NFWA") released in 2002 required that Canada's nuclear fuel waste owners form a Nuclear Waste Management Organization ("NWMO") and that each waste owner establish a trust fund for used fuel management costs. To estimate its liability for nuclear used fuel management costs, OPG has adopted a conservative approach consistent with the Adaptive Phased Management concept approved by the Government of Canada, which assumes a deep geologic repository in-service date in 2035.

Liability for Nuclear Decommissioning and Low and Intermediate Level Waste Management Costs

The liability for nuclear decommissioning and low and intermediate level waste management represents the estimated costs of decommissioning nuclear generating stations after the end of their service lives, as well as the cost of managing low and intermediate level radioactive wastes generated by the nuclear stations. The significant assumptions used in estimating future nuclear fixed asset removal costs include decommissioning of nuclear generating stations on a deferred dismantlement basis where the reactors will remain in a safe storage state for a 30-year period prior to a 10-year dismantlement period.

The life cycle costs of low and intermediate level waste management include the costs of processing and storage of such radioactive wastes during and following the operation of the nuclear stations, as well as the costs of ultimate long-term management of these wastes. The current assumptions used to establish the accrued low and intermediate level waste management costs include a disposal facility for low and intermediate level waste with a targeted in-service date of year end 2017. Agreement has been reached with local municipalities for OPG to develop a deep geologic repository for the long-term management of low and intermediate level waste adjacent to the Western Waste Management Facility. A federal environmental assessment in respect of this proposed facility is in progress.

Liability for Non-Nuclear Fixed Asset Removal Costs

The liability for non-nuclear fixed asset removal is based on third-party cost estimates after an in-depth review of active plant sites and an assessment of required clean-up and restoration activities. This liability represents the estimated costs of decommissioning fossil-fuelled generating stations at the end of their service lives. The estimated retirement date of these stations is between 2014 and 2034.

In addition to the $87 million liability for active sites, OPG also has an asset retirement obligation liability of $64 million for decommissioning and restoration costs associated with plant sites that have been divested or are no longer in use.

OPG has no legal obligation associated with the decommissioning of its hydroelectric generating facilities. Also, the costs cannot be reasonably estimated because of the long service life of these assets. With either maintenance efforts or rebuilding, the water control structures are assumed to be used for the foreseeable future. Accordingly, OPG has not recognized a liability for the decommissioning of its hydroelectric generating facilities.

Ontario Nuclear Funds Agreement

OPG sets aside funds to be used specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities. In July 2003, OPG and the Province completed arrangements, pursuant to the ONFA. To comply with the ONFA, OPG established the Nuclear Funds. OPG jointly oversees the investment management of the Nuclear Funds with the Province. The assets of the Nuclear Funds are maintained in third-party custodian accounts that are segregated from the rest of OPG's assets.

The Decommissioning Fund was established to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level nuclear waste management and a portion of used fuel storage costs after station life. As at December 31, 2008, the Decommissioning Fund was in an underfunded position. The Decommissioning Fund was in an overfunded position as at December 31, 2007. OPG bears the risk and liability for cost estimate increases and fund earnings in the Decommissioning Fund.

The Used Fuel Fund will be used to fund future costs of long-term nuclear used fuel waste management. OPG is responsible for the risk and liability for cost increases for used fuel waste management, subject to graduated liability thresholds specified in the ONFA, which limit OPG's total financial exposure at approximately $10.1 billion in December 31, 2008 dollars based on used fuel bundle projections of 2.23 million bundles consistent with the station lives included within the initial financial reference plan. The graduated liability thresholds do not apply to additional used fuel bundles beyond 2.23 million as projected in the 2006 Approved Reference Plan.

OPG makes quarterly payments to the Used Fuel Fund over the life of its nuclear generating stations, as specified in the ONFA. Required funding for 2008 under the ONFA was $454 million, including a contribution to The Ontario NFWA Trust (the "Trust") of $100 million.

In 2007, OPG made a one-time contribution of approximately $334 million to the Used Fuel Fund to satisfy the extraordinary payment specified within the ONFA and related to the Bruce Lease transaction with Bruce Power as discussed in Note 19. This payment constituted a Triggering Event under the ONFA, which has subsequently resulted in an Amended Payment Schedule. The Amended Payment Schedule was approved by the Ontario Financing Authority in March 2008. The Amended Payment Schedule requires contribution amounts of $454 million in 2008 and from $339 million to $240 million over the years 2009 to 2012 (Note 16).

The NFWA was proclaimed into force in November 2002. As required under the NFWA, OPG established the Trust in November 2002 and made an initial deposit of $500 million into the Trust. The NFWA requires OPG to make annual contributions of $100 million to the Trust. These contributions are to be deposited into the Trust no later than the November anniversary of the NFWA. In accordance with the NFWA, the NWMO proposed a funding formula to address the future financial costs of implementing the Adaptive Phased Management approach in its 2007 Annual Report. The proposed funding formula is under review by the Federal Government. The NFWA specifies that contributions to the Trust are to continue at the present rate of $100 million until the funding formula is approved by the Minister of Natural Resources. The Trust forms part of the Used Fuel Fund, and contributions to the Trust as required by the NFWA are applied towards the ONFA payment obligations.

As required by the terms of the ONFA, the Province has provided a Provincial Guarantee to the Canadian Nuclear Safety Commission ("CNSC") 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 will supplement the Used Fuel Fund and the Decommissioning Fund until they have accumulated sufficient funds to cover the accumulated liabilities for nuclear decommissioning and waste management. The value of this guarantee is for $1,545 million for years 2009 to 2012. The guarantee, taken together with the Used Fuel Fund and Decommissioning Fund, are in satisfaction of OPG's nuclear licensing requirements with the CNSC. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount guaranteed by the Province. In 2008, OPG paid the annual guarantee fee of $3.8 million based on a Provincial Guarantee amount of $760 million (2007 – $8 million on a Provincial Guarantee amount of $1,510 million).

Effective January 1, 2007, OPG adopted the CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. As a result of the adoption of this new section, the investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading and are measured at fair value with realized and unrealized gains and losses recognized in OPG's consolidated financial statements.

Decommissioning Fund

Upon termination of the ONFA, the Province has a right to any excess funding in the Decommissioning Fund, which is the excess of the fair market value of the Decommissioning Fund over the estimated completion costs as per the most recently approved ONFA Reference Plan. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes in its consolidated financial statements, through a charge to the Decommissioning Fund with a corresponding payable to the Province, such that the balance of the Decommissioning Fund would equal the cost estimate of the liability based on the most recently approved ONFA Reference Plan. The payable to the Province could be reduced in subsequent periods in the event that the Decommissioning Fund earns less than its target rate of return or in the event that a new ONFA Reference Plan is approved with a higher estimated decommissioning liability. When the Decommissioning Fund is underfunded, the earnings on the Decommissioning Fund reflect actual fund returns based on the market value of the assets.

The Province's right to any excess funding in the Decommissioning Fund upon termination of the ONFA results in OPG capping its earnings at 5.15 percent, which is the rate of growth in the liability for the estimated completion cost, as long as the Decommissioning Fund is in an overfunded status. If the Decommissioning Fund were underfunded, the earnings for the Decommissioning Fund would reflect actual fund returns based on the market value of the assets.

The Decommissioning Fund's asset value on a fair value basis was $4,325 million at December 31, 2008, which was less than the liability per the approved 2006 Approved ONFA Reference Plan. At December 31, 2007, the Decommissioning Fund's asset value on a fair value basis was $5,075 million, which exceeded the value of the liability as per the 2006 Approved Reference Plan. As a result of the overfunded status, OPG reported a payable to the Province of $3 million, reflecting an amount due to the Province if the Decommissioning Fund were terminated under the ONFA. Under the ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the most recently approved ONFA Reference Plan, are at least 120 percent funded, OPG may direct up to 50 percent of the surplus over 120 percent to be treated as a contribution to the Used Fuel Fund, and the OEFC would be entitled to a distribution of an equal amount.

The investments in the Decommissioning Fund include a diversified portfolio of equities and fixed income securities that are invested across many geographic markets. The Nuclear Funds are invested to fund long-term liability requirements, and as such, the portfolio asset mix is structured to achieve the required return over a long-term horizon. While short-term fluctuations in market value will occur, managing the long-term return of the Nuclear Funds remains the primary goal.

Used Fuel Fund

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 percent plus the change in the Ontario Consumer Price Index ("committed return") for funding related to the first 2.23 million used fuel bundles. OPG recognizes the committed return on the Used Fuel Fund and includes it in the earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of the Used Fuel Fund's assets, which includes realized and unrealized returns, is recorded as due to or due from the Province.

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As at December 31, 2008, the Used Fuel Fund asset value on a fair value basis was $4,424 million. The asset value included a receivable from the Province of $460 million related to the committed return adjustment. As at December 31, 2007, the Used Fuel Fund asset value on a fair value basis was $4,702 million. The asset value was offset by a payable to the Province of $511 million related to the committed return adjustment.

Under the ONFA, the Province is entitled to any surplus in the Used Fuel Fund, subject to a threshold funded ratio of 110 percent compared to the value of the associated liabilities.

The nuclear fixed asset removal and nuclear waste management funds as at December 31, 2008 and 2007 consist of the following:

	Fair Value	
(millions of dollars)	**2008**	2007
Decommissioning Fund	**4,325**	5,075
Due to Province – Decommissioning Fund	**–**	(3)
	4,325	5,072
Used Fuel Fund[1]	**4,424**	4,702
Due from (to) Province – Used Fuel Fund	**460**	(511)
	4,884	4,191
	9,209	9,263

1 The Ontario NFWA Trust represented $1,386 million as at December 31, 2008 (December 31, 2007 – $1,244 million) of the Used Fuel Fund on a fair value basis.

The fair value of the securities invested in the Nuclear Funds, which include the Used Fuel Fund and Decommissioning Fund, as at December 31, 2008 and 2007, are as follows:

	Fair Value	
(millions of dollars)	**2008**	2007
Cash and cash equivalents and short-term investments	**503**	833
Marketable equity securities	**4,451**	5,391
Bonds and debentures	**3,805**	3,559
Administrative expense payable	**(10)**	(6)
	8,749	9,777
Due to Province – Decommissioning Fund	**–**	(3)
Due from (to) Province – Used Fuel Fund	**460**	(511)
Total	**9,209**	9,263

The bonds and debentures held in the Used Fuel Fund and the Decommissioning Fund as at December 31, 2008 and 2007 mature according to the following schedule:

	Fair Value	
(millions of dollars)	**2008**	2007
1 – 5 years	**1,618**	1,631
5 – 10 years	**962**	879
More than 10 years	**1,225**	1,049
Total maturities of debt securities	**3,805**	3,559
Average yield	**4.6%**	4.9%

The change in the Nuclear Funds for the years ended December 31, 2008 and 2007, are as follows:

	Fair Value	
(millions of dollars)	**2008**	2007
Decommissioning Fund at beginning of year	**5,072**	4,875
(Decrease) increase in fund due to return on investments	**(681)**	5
Decrease in fund due to reimbursement of expenditures	**(69)**	(99)
Decrease in Due to Province	**3**	291
Decommissioning Fund, end of year	**4,325**	5,072
Used Fuel Fund, beginning of year	**4,191**	3,238
Increase in fund due to contributions made	**454**	788
(Decrease) increase in fund due to return on investments	**(719)**	55
Decrease in fund due to reimbursement of expenditures	**(13)**	(20)
Decrease in Due to Province	**511**	130
Increase in Due from Province	**460**	–
Used Fuel Fund, end of year	**4,884**	4,191

The earnings (losses) from the Nuclear Funds during 2008 were partially mitigated by the establishment of a variance account for revenues and costs associated with the Bruce nuclear stations, as a result of the OEB's decision. The earnings on the Nuclear Funds for 2008 and 2007 are as follows:

(millions of dollars)	**2008**	2007
Decommissioning Fund	**(678)**	296
Used Fuel Fund	**252**	185
Bruce Variance Account	**333**	–
Total earnings (losses)	**(93)**	481

11. INCOME TAXES

Commencing April 1, 2005, OPG accounts for income taxes related to the rate regulated segments of its business using the taxes payable method. Under the taxes payable method, OPG does not recognize future income taxes related to the rate regulated segments of its business to the extent that the future income taxes are expected to be recovered or refunded through future regulated prices charged to customers.

A reconciliation between the statutory and the effective rate of income taxes is as follows:

(millions of dollars unless otherwise stated)	**2008**	2007
Income before income taxes	**271**	477
Combined Canadian federal and provincial statutory income tax rates, including surtax	**33.5%**	36.1%
Statutory income tax rates applied to accounting income	**91**	172
Increase in income taxes resulting from:		
Income tax component of the Bruce variance account	**95**	–
Lower future tax rate on temporary differences	**(33)**	(10)
Non-taxable income items	**(15)**	(7)
Unrecorded future income tax related to regulated operations	**151**	(127)
Change in income tax positions	**(106)**	(13)
Changes in future tax rate	**–**	(66)
	92	(223)
Income tax expense (recovery)	**183**	(51)
Effective rate of income taxes	**67.5%**	(10.7%)

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In the third quarter of 2006, OPG received a preliminary communication from the Provincial Tax Auditors ("Tax Auditors") with respect to their initial findings from their audit of OPG's 1999 taxation year. Many of the issues raised through the audit were unique to OPG and related either to start-up matters and positions taken on April 1, 1999 upon commencement of operations, or matters that were not adequately addressed through the *Electricity Act*, *1998*. In 2008, all outstanding tax matters related to the 1999 tax audit were resolved. As a result, OPG reduced its income tax liability by $106 million.

The audit of OPG's taxation years subsequent to 1999 is expected to commence in 2009. Should the ultimate outcome materially differ from OPG's recorded income tax liabilities, the Company's effective tax rate and its earnings could be affected positively or negatively in the period in which the matters are resolved.

The Bruce variance account authorized by the OEB in its decision on OPG's application for new regulated prices for its regulated production effective April 1, 2008 is discussed in Note 7 to these consolidated financial statements. In its decision, the OEB also approved a taxation variance account effective April 1, 2008. The scope of the account with respect to income taxes includes variances in the income tax expense for the Company's rate regulated segments caused by changes in tax rates or rules under the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), as modified by the *Electricity Act*, *1998*, as well as variances caused by reassessments due to audits of OPG's taxation years subsequent to 1999. Variances are to be determined with respect to the forecast to be approved by the OEB. OPG did not record any amounts in the account for the year ended December 31, 2008.

Significant components of the income tax expense (recovery) are presented in the table below:

(millions of dollars)	**2008**	2007
Current income tax expense (recovery):		
Current payable	**169**	1
Change to income tax position	**86**	–
	255	1
Future income tax expense (recovery):		
Change in temporary differences	**25**	(2)
Change to income tax position	**(192)**	–
Changes in future tax rate	**–**	(30)
Income tax component of the Bruce variance account	**95**	–
Other	**–**	(20)
	(72)	(52)
Income tax expense (recovery)	**183**	(51)

The income tax effects of temporary differences that give rise to future income tax assets and liabilities as at December 31, 2008 and 2007 are presented in the table below:

(millions of dollars)	**2008**	2007
Future income tax assets:		
Fixed asset removal and nuclear waste management liabilities	**30**	22
Other liabilities and assets	**163**	125
Future recoverable Ontario minimum tax	**–**	87
	193	234
Future income tax liabilities:		
Fixed assets	**(56)**	(263)
Other liabilities and assets	**(69)**	(176)
	(125)	(439)
Net future income tax assets (liabilities)	**68**	(205)
Represented by:		
Current portion – asset	**6**	12
Long-term portion – asset (liability)	**62**	(217)
	68	(205)

The following table summarizes the difference in the consolidated statements of income and consolidated statements of comprehensive income under the taxes payable method used by the Company to account for income taxes for the regulated businesses compared to what would have been reported had OPG applied the liability method for the regulated businesses for 2008 and 2007:

(millions of dollars)	**2008**	2007
As stated:		
Future income tax expense	**(72)**	(52)
Future income tax: Other comprehensive income – upon transition	**–**	16
Future income tax: Other comprehensive income – for the year	**(6)**	(8)
Liability method[1]:		
Future income tax expense	**(50)**	75
Future income tax: Other comprehensive income – upon transition	**–**	12
Future income tax: Other comprehensive income – for the year	**(19)**	(6)

1 OPG accounted for certain lease revenues relating to the regulated businesses for the three months ended March 31, 2008 and for the year ended December 31, 2007 using the cash basis of accounting. The related future income tax impact is excluded from the above.

The following table summarizes the difference in the consolidated balance sheet amounts under the taxes payable method used by the Company to account for income taxes compared to what would have been reported had OPG applied the liability method for the regulated business as at December 31, 2008 and 2007. The amounts of future income taxes not recorded do not include the future income taxes resulting from regulatory assets and liabilities that are required to be recorded effective January 1, 2009 due to amendments to the CICA Handbook Section 3465, *Income Taxes*.

	2008		2007	
(millions of dollars)	**As Stated[1]**	**Liability Method[1,2]**	As Stated	Liability Method[2]
Current future income tax recoverable (liabilities)	**6**	**47**	12	39
Long-term future income tax liabilities	**62**	**(319)**	(217)	(680)

1 The future income tax asset and liability balances above include adjustments during 2008 related to changes in income tax positions resulted from the resolution of the 1999 income tax audit. In addition, the income tax component of the Bruce variance account was reflected in the Bruce Regulatory Asset account and not in the future income tax asset (liability) balance above.

2 OPG accounted for certain lease revenues relating to the regulated businesses for the three months ended March 31, 2008 and for the year ended December 31, 2007 using the cash basis of accounting. The related future income tax impact is excluded from the above.

The amount of cash income taxes paid for 2008 was $49 million (2007 – $64 million).

12. PENSION AND OTHER POST EMPLOYMENT BENEFIT PLANS

The pension and OPEB obligations, and the pension fund assets, are measured at December 31, 2008. Details of OPG's pension and OPEB obligations, pension fund assets and costs are presented in the following tables:

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2008	2007	**2008**	2007
Weighted Average Assumptions – Benefit Obligation at Year End				
Rate used to discount future benefits	**7.50%**	5.60%	**7.46%**	5.59%
Salary schedule escalation rate	**3.00%**	3.25%	**–**	–
Rate of cost of living increase to pensions	**2.00%**	2.25%	**–**	–
Initial health care trend rate	**–**	–	**6.58%**	6.91%
Ultimate health care trend rate	**–**	–	**4.69%**	4.68%
Year ultimate rate reached	**–**	–	**2018**	2014
Rate of increase in disability benefits	**–**	–	**2.00%**	2.25%

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	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2008	2007	**2008**	2007
Weighted Average Assumptions – Cost for the Year				
Expected return on plan assets net of expenses	**7.00%**	7.00%	**–**	–
Rate used to discount future benefits	**5.60%**	5.25%	**5.59%**	5.22%
Salary schedule escalation rate	**3.25%**	3.00%	**–**	–
Rate of cost of living increase to pensions	**2.25%**	2.00%	**–**	–
Initial health care trend rate	**–**	–	**6.91%**	7.34%
Ultimate health care trend rate	**–**	–	**4.68%**	4.68%
Year ultimate rate reached	**–**	–	**2014**	2014
Rate of increase in disability benefits	**–**	–	**2.25%**	2.00%
Average remaining service life for employees (years)	**11**	11	**11**	11

	Registered Pension Plan		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	**2008**	2007	**2008**	2007	**2008**	2007
Changes in Plan Assets						
Fair value of plan assets at beginning of year	**8,924**	8,829	**–**	–	**–**	–
Contributions by employer	**253**	268	**10**	7	**71**	66
Contributions by employees	**75**	66	**–**	–	**–**	–
Actual return on plan assets net of expenses	**(1,566)**	159	**–**	–	**–**	–
Benefit payments	**(432)**	(398)	**(10)**	(7)	**(71)**	(66)
Fair value of plan assets at end of year	**7,254**	8,924	**–**	–	**–**	–
Changes in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	**9,603**	9,313	**162**	152	**2,064**	2,067
Employer current service costs	**217**	224	**6**	6	**59**	70
Contributions by employees	**75**	66	**–**	–	**–**	–
Interest on projected benefit obligation	**540**	493	**9**	8	**116**	109
Benefit payments	**(432)**	(398)	**(10)**	(7)	**(71)**	(66)
Net actuarial (gain) loss	**(2,563)**	(95)	**(25)**	3	**(577)**	(116)
Projected benefit obligation at end of year	**7,440**	9,603	**142**	162	**1,591**	2,064
Funded Status – Deficit at end of year	**(186)**	(679)	**(142)**	(162)	**(1,591)**	(2,064)

The assets of the OPG pension fund are allocated among three principal investment categories. Furthermore, equity investments are diversified across Canadian, U.S. and non-North American stocks. The fund also has a small real estate portfolio that is less than one percent of plan assets.

	2008	2007
Registered pension plan fund asset investment categories		
Equities	**60%**	60%
Fixed income	**37%**	35%
Cash and short-term investments	**3%**	5%
Total	**100%**	100%

Based on the most recently filed actuarial valuation, as at January 1, 2008, there was an unfunded liability on a going-concern basis of $239 million and a deficiency on a wind-up basis of $2,846 million. In the previously filed actuarial valuation, as at January 1, 2005, there was an unfunded liability on a going-concern basis of $465 million and a deficiency on a wind-up basis of $1,979 million. The deficit disclosed in the next filed funding valuation, which must have an effective date no later than January 1, 2011, could be significantly different.

The supplementary pension plans are not funded, but are secured by Letters of Credit totalling $212 million (2007 – $175 million).

(millions of dollars)	Registered Pension Plan 2008	2007	Supplementary Pension Plans 2008	2007	Other Post Employment Benefits 2008	2007
Reconciliation of Funded Status to Accrued Benefit Asset (Liability)						
Funded status – deficit at end of year	**(186)**	(679)	**(142)**	(162)	**(1,591)**	(2,064)
Unamortized net actuarial loss (gain)	**937**	1,346	**(3)**	22	**(70)**	538
Unamortized past service costs	**46**	64	**2**	3	**16**	20
Accrued benefit asset (liability) at end of year	**797**	731	**(143)**	(137)	**(1,645)**	(1,506)
Short-term portion	**–**	–	**(6)**	(7)	**(79)**	(80)
Long-term portion	**797**	731	**(137)**	(130)	**(1,566)**	(1,426)

(millions of dollars)	Registered Pension Plan 2008	2007	Supplementary Pension Plans 2008	2007	Other Post Employment Benefits 2008	2007
Components of Cost Recognized						
Current service costs	**217**	224	**6**	6	**59**	70
Interest on projected benefit obligation	**540**	493	**9**	8	**116**	109
Expected return on plan assets net of expenses	**(623)**	(569)	**–**	–	**–**	–
Amortization of past service costs	**18**	18	**1**	–	**4**	5
Amortization of net actuarial loss	**35**	77	**–**	1	**31**	45
Cost recognized	**187**	243	**16**	15	**210**	229

(millions of dollars)	Registered Pension Plan 2008	2007	Supplementary Pension Plans 2008	2007	Other Post Employment Benefits 2008	2007
Components of Cost Incurred and Recognized						
Current service costs	**217**	224	**6**	6	**59**	70
Interest on projected benefit obligation	**540**	493	**9**	8	**116**	109
Actual return on plan assets net of expenses	**1,566**	(159)	**–**	–	**–**	–
Net actuarial (gain) loss	**(2,563)**	(95)	**(25)**	3	**(577)**	(116)
Cost incurred in year	**(240)**	463	**(10)**	17	**(402)**	63
Differences between costs incurred and recognized in respect of:						
Actual return on plan assets net of expenses	**(2,189)**	(410)	**–**	–	**–**	–
Past service costs	**18**	18	**1**	–	**4**	5
Net actuarial loss (gain)	**2,598**	172	**25**	(2)	**608**	161
Cost recognized	**187**	243	**16**	15	**210**	229

A one percent increase or decrease in the health care trend rate would result in an increase in the service and interest components of the 2008 OPEB cost recognized of $33 million (2007 – $37 million) or a decrease in the service and interest components of the 2008 OPEB cost recognized of $24 million (2007 – $29 million), respectively. A one percent increase or decrease in the health care trend rate would result in an increase in the projected OPEB obligation at December 31, 2008 of $213 million (2007 – $328 million) or a decrease in the projected OPEB obligation at December 31, 2008 of $170 million (2007 – $256 million).

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13. FINANCIAL INSTRUMENTS

OPG's Board of Directors has approved, and management has implemented, a risk management governance structure designed to effectively identify, measure, monitor and report on key risks across the Company. Risk management activities are coordinated through a centralized risk management group, separate and independent from operational management. Risk information from the business units is independently assessed and aggregated by the Risk Services Group, and is reported by the Chief Risk Officer to the Executive Risk Committee and to the Audit/Risk Committee of the Board. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

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

The following is a summary of OPG's financial instruments as at December 31, 2008:

Financial Instruments[1] (millions of dollars)	Designated Category	**Fair Value**
Cash and cash equivalents	Held-to-maturity	**315**
Long-term investments[2]	Held-to-maturity	**35**
Nuclear fixed asset removal and nuclear waste management funds	Held-for-trading	**9,209**
Long-term debt (including current portion)	Other liabilities	**3,828**
Other commodity derivative instruments included in current and long-term accounts receivable[3]	Held-for-trading	**49**
Other commodity derivative instruments included in current and long-term accounts payable[3]	Held-for-trading	**(19)**

1 The carrying value of other financial instruments included in accounts receivable and accounts payable and accrued charges approximates their fair value due to the immediate or short-term maturity of these financial instruments.

2 Excludes investments of $39 million owned by the Company's wholly-owned subsidiary, OPGV, that are recorded at fair value in accordance with AcG-18.

3 Derivative instruments not qualifying for hedge accounting.

Risks Associated with Financial Instruments

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument might fail to meet its obligation under the terms of a financial instrument. To manage credit risk, the Company enters into transactions with creditworthy counterparties, limits the amount of exposure to each counterparty where possible, and monitors the financial condition of counterparties.

The following table provides information on credit risk from energy trading activities (excluding fuels) as at December 31, 2008:

			Potential Exposure for Largest Counterparties	
Credit Rating[1]	Number of Counterparties[2]	Potential Exposure[3]	Number of Counterparties	Counterparty Exposure
		(millions of dollars)		(millions of dollars)
Investment grade	28	118	4	84

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

2 OPG's counterparties are defined by each master agreement.

3 Potential exposure is OPG's assessment of maximum exposure over the life of each transaction at a 95 percent confidence interval.

The majority of OPG's revenues are derived from sales through the IESO administered spot market. Net credit exposure to the IESO at December 31, 2008 was $207 million (Note 5). 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 was a diverse group of generally high quality counterparties. OPG's allowance for doubtful debts at December 31, 2008 was less than $1 million.

OPG also enters into financial transactions with highly rated financial institutions in order to hedge interest rate and currency exposures. The potential credit exposure with these counterparties was less than $10 million at December 31, 2008. Other credit exposures include the investing of excess cash.

Investments
The Company limits its exposure to credit risk by investing in reasonably liquid (i.e., in normal circumstances, capable of liquidation within one month) securities that are rated by a recognized credit rating agency in accordance with a minimum investment quality standards. In regard to derivative contracts, the Company limits its exposure to credit risk by engaging with high credit-quality counterparties.

Current exposure to credit risk has changed due to the Company's exposure to the restructuring of the ABCP market in Canada. Additional details with respect to OPG's exposure to the restructuring program are described in Note 4.

Guarantees
As part of normal business, OPG and certain of its subsidiaries and joint ventures enter into various agreements providing financial guarantees to third-parties on behalf of certain subsidiaries and joint ventures. Such agreements include guarantees, standby Letters of Credit and surety bonds.

Liquidity Risk
Liquidity risk arises through excess financial obligations over available financial assets, due at any point in time. The Company's approach to managing liquidity is to continuously monitor its ability to maintain sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

The table below summarizes the maturity profile of the Company's long-term debt at December 31, 2008:

(millions of dollars)	2009	2010	2011	2012	2013 and Thereafter
Long-term debt	357	978	383	409	1,713
Interest on long-term debt	215	183	134	106	465

Non-recourse limited partnership debt is secured by a first charge on the assets of one of the joint venture limited partnerships, an assignment of the joint venture's bank accounts, and an assignment of the joint venture's project agreements.

Market Risk
Market risk is the risk that changes to market prices, such as foreign exchange rates, interest rates, electricity prices and equities, will affect OPG's income or the value of the Company's holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Company manages its exposure to market risks using forwards and various derivative products in the ordinary course of business. All such transactions are carried out within the guidelines set by the Executive Risk Committee.

Foreign Exchange Risk
OPG's foreign exchange exposure is attributable to two primary factors: United States dollar ("USD") denominated transactions such as the purchase of fossil fuels; and the influence of USD denominated commodity prices on Ontario electricity spot market prices. OPG enters into derivative contracts with major financial institutions to manage the Company's exposure to foreign currency movements.

Interest Rate Risk
Interest rate risk is the risk that the value of OPG's assets and liabilities can decrease and increase respectively because of a change in the related interest rates. OPG considers interest rate risk related to cash and cash equivalents and short-term borrowings to be low because of their short-term nature. Changes in interest rates do not currently have a significant impact on the Company's interest expense, since long-term borrowings are on a fixed rate basis.

The Company is exposed to interest rate risk on its long-term borrowings expected to be issued in the future. The Company manages the exposure to changes in market interest rates on anticipated issuance of long-term borrowings by entering into forward start interest rate contracts and floating-to-fixed interest rate swap contracts.

Electricity Price Risk

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 for a significant portion of OPG's business, and is also affected by the revenue limit rebate mechanism that applies to generation from OPG's unregulated generating stations. To manage this risk, the Company seeks to maintain a balance between the commodity price risk inherent in its electricity production and electricity forward sales contracts to the extent that trading liquidity in the electricity commodity market provides the economic opportunity to do so.

The table below summarizes a sensitivity analysis for significant unsettled market risk exposures with respect to the Company's financial instruments as at December 31, 2008, with all other variables held constant. It shows how net income and other comprehensive income before tax would have been affected by changes in the relevant risk variable that were reasonably possible, at that date, over the year.

(millions of dollars except where noted)	A Change of:	Impact on Net Income Before Tax	Impact on Other Comprehensive Income Before Tax
Foreign exchange – USD	+/- 0.04	–	1
Interest rate[1]	+/- 35 basis points	–	7
Electricity price – Hedge[2]		n/a	7
Electricity price – Trading[2]		1	n/a

1 The interest rate sensitivity analysis was determined based on the exposure to interest rates for derivative instruments designated as hedges at the date of the consolidated balance sheets.

2 The sensitivity analysis around electricity prices was constructed using forward price volatilities that were based on historical daily forward electricity contract prices. The analysis considered contracts of varying time frames, traded in Ontario and neighbouring electricity markets.

Nuclear Funds Equity Price Risk

Equity price risk is the risk of loss or unexpected volatility due to a decline in the values of individual equities and/or equity indices. The Company is exposed to equity price risk primarily related to equity investments held in the Nuclear Funds that are classified on the consolidated balance sheets as held-for-trading and measured at fair value. To manage this risk, OPG has established investment policies and procedures that set out an investment framework for the funds, including the investment assumptions, permitted investments, and various investment constraints for the Nuclear Funds. Such policies and procedures are approved annually by OPG and the Province in the case of the Decommissioning Fund, and by the Province in the case of the Used Fuel Fund.

Under the ONFA, the annual return in the Used Fuel Fund is guaranteed by the Province for funding related to the first 2.23 million used fuel bundles. Therefore, OPG is not currently exposed to equity price risk in the Used Fuel Fund. OPG is, however, exposed to equity price risk in the Decommissioning Fund. Due to the long-term nature of the Decommissioning Fund's liabilities, the target asset mix of the fund was established with the goal of meeting the long-term liabilities. As such, the Company is prepared to accept shorter term market fluctuations with the expectation that equity securities will provide adequate returns over the long-term.

The table below approximates the potential dollar impact on OPG's pre-tax profit, associated with a one percent change in the specified equity indices. This analysis is based on the market values of the Decommissioning Fund's equity holdings at December 31, 2008, as well as on the assumption that when one equity index changes by one percent, all other equity indices are held constant.

(millions of dollars)	December 31, 2008
S&P/TSX Capped Composite Index	9
S&P 500	4
MSCI EAFE Index	4
MSCI World Index	5

Derivatives and Hedging

At the inception of a hedging relationship, OPG documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. OPG also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. When such a derivative instrument hedge ceases to exist or be effective as a hedge, or when designation of a hedging relationship is terminated, any associated deferred gains or losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period's consolidated statement of income.

Derivative Instruments Qualifying for Hedge Accounting

The following table provides the estimated fair value of derivative instruments designated as hedges. The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized in net income upon settlement when the underlying transactions occur.

OPG holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity.

	Notional Quantity	**Terms**	**Fair Value**	Notional Quantity	Terms	Fair Value
(millions of dollars except where noted)	**December 31, 2008**			December 31, 2007		
Electricity derivative instruments	**0.9 TWh**	**1 year**	**20**	1.8 TWh	1-3 yrs	35
Foreign exchange derivative instruments	**USD $35**	**July/09**	**6**	USD $48	Sep./08	(1)
Floating-to-fixed interest rate hedges	**40**	**1-11yrs**	**8**	43	1-11 yrs	(2)
Forward start interest rate hedges	**272**	**1-12yrs**	**(50)**	692	1-12 yrs	(6)

Foreign exchange derivative instruments are used to hedge the exposure to anticipated USD denominated purchases. The weighted average fixed exchange rate for contracts outstanding at December 31, 2008 and December 31, 2007 was USD $0.95 and $0.99, respectively, for every Canadian dollar.

One of the Company's joint ventures is exposed to changes in interest rates. The joint venture entered into an interest rate swap to manage the risk arising from fluctuations in interest rates by swapping the short-term floating interest rate with a fixed rate of 5.33 percent. OPG's proportionate interest in the swap is 50 percent and is accounted for as a hedge.

Net losses of $14 million and $15 million related to derivative instruments qualifying for hedge accounting were recognized in net income during the years ended December 31, 2008 and 2007, respectively. This amount was previously recorded in other comprehensive income. Existing net gains of $8 million deferred in accumulated other comprehensive income at December 31, 2008 are expected to be reclassified to net income within the next 12 months.

In the third quarter of 2008, OPG de-designated certain forward start interest rate hedges as the previously anticipated future borrowings associated with these instruments were no longer expected to occur. As a result of the de-designation, a net loss of $3 million was reclassified to net income in the third quarter of 2008.

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Derivative Instruments Not Qualifying for Hedge Accounting

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

(millions of dollars except where noted)	Notional Quantity	Fair Value	Notional Quantity	Fair Value
	December 31, 2008		December 31, 2007	
Foreign exchange derivative instruments	**–**	**–**	USD $14	(2)
Commodity derivative instruments				
Assets	**6.9 TWh**	**49**	9.9 TWh	14
Liabilities	**2.2 TWh**	**(19)**	1.2 TWh	(10)
		30		2
Market liquidity reserve		**(4)**		(2)
Total		**26**		–

Foreign exchange derivative instruments that are not designated as hedges had a weighted average exchange rate of USD $0.86 at December 31, 2007.

Fair Value

Fair value is the value that a financial instrument can be closed out or sold, in a transaction with a willing and knowledgeable counterparty. The fair value of financial assets and liabilities, including exchange traded derivatives and other financial instruments for which quoted prices are available in an active market, are determined directly from those quoted market prices.

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 which may include the use of valuation techniques or models based, wherever possible, on assumptions supported by observable market prices or rates prevailing at the dates of the consolidated balance sheets. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and ABCP issued by third-party trusts. 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.

Forward pricing information is inherently uncertain so that fair values of derivative instruments may not accurately represent the cost to enter into these positions. To address the impact of some of this uncertainty on trading positions, OPG established liquidity reserves against the mark-to-market gains or losses of these positions. These reserves decreased trading revenue by $2 million during the year ended December 31, 2008 (December 31, 2007 – no change).

14. CAPITAL MANAGEMENT

The Board of Directors' objectives when managing capital are to safeguard the Company's assets and its ability to operate on a commercial basis, while undertaking future development projects that provide an adequate return to the shareholder, and benefits to other stakeholders. The Company attempts to maintain an optimal capital structure and minimize the cost of capital.

The Company is owned 100 percent by the Province. To minimize its cost of capital, the Company targets financial metrics consistent with an investment grade credit rating. This provides the Company with access to capital markets in the future, while targeting a low cost of debt financing.

The Company monitors capital on the basis of the ratio of total debt to total capitalization. Debt is calculated as total borrowings, including long-term debt due within one year, long-term debt and the amount of the Letters of Credit. Total capitalization is calculated as total debt plus total shareholder's equity as shown in the consolidated balance sheets. A financial covenant in OPG's $1 billion revolving committed bank credit facility requires OPG to maintain, on a fully consolidated basis, a ratio of debt to total capitalization of not greater than 0.65:1.0 at any time.

As per the OEB's decision in November 2008, the deemed capital structure for the regulated business is 53 percent debt and 47 percent equity.

The table below summarizes OPG's debt to total capitalization position as at December 31, 2008 and 2007:

(millions of dollars unless otherwise noted)	2008	2007
Long-term debt due within one year	**357**	407
Long-term debt	**3,483**	3,446
Letters of Credit	**243**	205
Total debt	**4,083**	4,058
Total shareholder's equity	**6,829**	6,807
Total capitalization	**10,912**	10,865
Total debt to total capitalization	**37%**	37%

There were no changes in the Company's approach to capital management during the year ended December 31, 2008.

15. COMMON SHARES

As at December 31, 2008 and 2007, OPG had 256,300,010 common shares issued and outstanding at a stated value of $5,126 million. OPG is authorized to issue an unlimited number of common shares without nominal or par value. Any issue of new shares is subject to the consent of all of OPG's shareholders.

16. 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 in the amount of $500 million (the "Claim") was served on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited ("British Energy"), claiming that OPG is liable to them for breach of contract and negligence. OPG leased the Bruce nuclear generating stations to Bruce Power L.P. in 2001. British Energy was an investor in Bruce Power L.P. In 2003, British Energy sold its interest in Bruce Power L.P. to a group of investors (the "Purchasers"). The Purchasers are claiming that British Energy is liable to them with respect to this purchase transaction. Their claim is currently the subject of an arbitration proceeding (the "Arbitration"). British Energy is therefore suing OPG in order to preserve any similar claim it may have against OPG pursuant to the 2001 lease transaction. British Energy has indicated that it does not require OPG to actively defend the Claim at this point in time as British Energy is defending the Arbitration commenced by the Purchasers. The Arbitration is scheduled to proceed in September 2009. It may narrow or eliminate the claims or damages British Energy has, so as to narrow or eliminate the need to continue the Claim against OPG. British Energy has reserved the right to require OPG to defend the Claim prior to the conclusion of the Arbitration should British Energy at some point believe there is some advantage in doing so.

On September 2, 2008, a certain First Nation served a Notice of Action against the Government of Canada, the Province of Ontario, OPG and the OEFC claiming damages in the amount of $200 million arising from breach of contract, fiduciary duty, trespass to property, negligence, nuisance, misrepresentation, breach of riparian rights and unlawful and unjustifiable infringement of the aboriginal and treaty rights and $0.5 million in special damages. A Notice of Arbitration was served at the same time upon OPG pursuant to an agreement between OPG and the said First Nation to address OPG's role in the sharing of benefits related to hydro development. OPG assessed the merits of the litigation, and neither the arbitration nor the claim is likely to have any material impact on the Company's financial position, and therefore, OPG has minimal exposure with respect to this claim.

Certain First Nations have commenced actions for interference with reserve and traditional land rights. The claims by some of these First Nations involve joint and several liabilities with other parties and total approximately $45 million and claims by others are for unspecified amounts.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably with respect to OPG and could have a significant effect on OPG's financial position. Management has provided for contingencies that are determined to be likely and are reasonably measurable.

Environmental

OPG was required to assume certain environmental obligations from Ontario Hydro. A provision of $76 million was established as at April 1, 1999 for such obligations. As at December 31, 2008, the remaining provision was $41 million (December 31, 2007 – $45 million).

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 consolidated financial statements to meet OPG's current environmental obligations.

Guarantees

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

Contractual and Commercial Commitments

The Company's contractual obligations and other significant commercial commitments as at December 31, 2008, are as follows:

(millions of dollars)	2009	2010	2011	2012	2013	Thereafter	Total
Contractual obligations:							
Fuel supply agreements	743	626	265	217	157	309	2,317
Contributions under the ONFA	339	264	250	240	157	852	2,102
Long-term debt repayment	350	970	375	400	–	1,565	3,660
Interest on long-term debt	204	172	124	96	82	323	1,001
Unconditional purchase obligations	17	16	12	13	12	156	226
Long-term accounts payable	–	–	–	–	–	–	–
Operating lease obligations	23	25	25	26	27	1	127
Operating licence	30	30	33	36	39	–	168
Pension contributions[1]	260	270	–	–	–	–	530
Other	47	35	30	22	15	84	233
Significant commercial commitments:	2,013	2,408	1,114	1,050	489	3,290	10,364
Niagara Tunnel	113	260	–	–	–	–	373
Other hydroelectric projects	140	58	–	–	–	–	198
Total	2,266	2,726	1,114	1,050	489	3,290	10,935

1 The pension contributions include additional funding requirements towards the deficit and ongoing funding requirements in accordance with the actuarial valuation as at January 1, 2008. The contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, and the timing of funding valuations. Funding requirements after 2010 are excluded due to significant variability in the assumptions required to project the timing of future cash flows.

Niagara Tunnel

As of December 31, 2008, the tunnel boring machine had advanced 3,306 metres. The progress of the tunnel boring machine continues to be slower than anticipated under the original contractor schedule primarily due to excess overbreak of the Queenston shale in the tunnel crown. To minimize further excavation in the Queenston shale, a change in the vertical alignment has been initiated.

A dispute review hearing process was initiated earlier in 2008 to assess, among other things, whether the actual subsurface conditions encountered are materially different from those that were anticipated as part of the design-build contract. The Dispute Review Board issued its non-binding recommendations in late August 2008. OPG and the contractor are using the Dispute Review Board recommendations as a basis for negotiating revisions to the design-build contract. These revisions are expected to have significant impacts on the project completion schedule and the cost estimate of the project. The negotiations are underway and are targeted for completion in the first quarter of 2009. Uncertainties will continue with respect to cost and schedule.

The capital project expenditures for the year ended December 31, 2008 were $132 million and life-to-date capital expenditures were $435 million. The project is debt financed through the OEFC.

Lac Seul

The Lac Seul hydroelectric generating station is expected to be declared in-service in February 2009. The station has a capacity of 12.5 MW. The project was originally expected to be in-service by the end of the third quarter of 2007. However, it was delayed as a result of various contractor difficulties. A settlement in principle has been negotiated to compensate the contractor for recovery of certain additional costs.

At December 31, 2008, life-to-date expenditures were $54 million. The final project cost is expected to be $55 million. The project is debt financed through the OEFC.

OPG has entered into a partnership agreement with the Lac Seul First Nations ("LSFN"). The partnership is a first for OPG and the LSFN, who will own 25 percent of the new facility.

Portlands Energy Centre

OPG entered into a partnership with TransCanada Energy Ltd., through the Portlands Energy Centre L.P., to pursue the development of a 550 MW gas-fired, combined cycle generating station on the site of the former R.L. Hearn generating station, near downtown Toronto. OPG has a 50 percent ownership interest in the joint venture.

In May 2008, the construction for the simple cycle mode of operations for the PEC was completed. The station was available to operate in a simple cycle mode as needed during the summer of 2008.

In September 2008, the simple cycle mode of operations for the PEC ended and the plant was returned to the custody of the contractor for completion of the combined cycle plant. Final system commissioning and preparation for the guarantee performance testing and the demonstration runs were conducted during the last two months of 2008. The PEC is expected to be in-service in a combined cycle mode in the first quarter of 2009, earlier than its contractual in-service date of June 1, 2009.

OPG's share of capital expenditures for the year ended December 31, 2008 was $87 million, and life-to-date expenditures were $360 million. Total project costs continue to be within the $730 million approved budget, excluding capitalized interest. A significant proportion of the capital cost relates to an engineer-procure-construct contract to construct the facility. OPG's share of the project is debt financed through the OEFC.

Upper Mattagami and Hound Chute

In December 2007, OPG's Board of Directors approved the replacement of four existing hydroelectric generating stations. Three of the generating stations are on the Upper Mattagami River (Wawaitin, Sandy Falls and Lower Sturgeon) and the fourth (Hound Chute) is located on the Montreal River. The project includes the demolition and decommissioning of the four existing powerhouses that are at the end of their useful lives. Upon completion of the project, the total installed capacity of the four stations will increase from 23 MW to 44 MW, and the annual energy will increase from 134 gigawatt hours ("GWh") to 223 GWh.

Design and construction activities are in progress at all four sites. Sandy Falls and Lower Sturgeon have been demolished to make way for construction of the new stations.

Life-to-date expenditures as of December 31, 2008 were $62 million and total project costs are expected to be $300 million. A significant proportion of this capital cost relates to a design-build contract to construct the facilities.

Other Commitments

In addition to the above commitments, the Company has the following commitments:

The Company maintains labour agreements with the Power Workers' Union and The Society of Energy Professionals; the agreements are effective until March 31, 2009 and December 31, 2010, respectively. As at December 31, 2008, OPG had approximately 12,000 regular employees and approximately 90 percent of its regular labour force is covered by the collective bargaining agreements.

Contractual and commercial commitments above exclude certain purchase orders as they represent purchase authorizations rather than legally binding contracts and are subject to change without significant penalties.

Proxy Property Taxes

In November 2005, OPG received a letter from the Ministry of Finance indicating its intent to recommend to the Minister of Finance that an Ontario regulation covering proxy property taxes be updated retroactive to April 1, 1999 to reflect reassessments and appeal settlements of certain OPG properties since that date. OPG continues to monitor resolution to this issue with the Ministry of Finance as updates to the regulation may not occur for several years. OPG has not recorded any amounts relating to this anticipated regulation change.

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17. REVENUE LIMIT REBATE

Eighty-five percent of the generation output from OPG's unregulated generating assets, excluding the Lennox generating station, stations whose generation output is subject to a HESA with the OPA pursuant to a ministerial directive, and forward sales as of January 1, 2005, is subject to a revenue limit. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets are also excluded from the output covered by the revenue limit.

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 increased to 4.8¢/kWh effective May 1, 2008. In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the 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. The revenue limit rebate is expected to terminate effective May 1, 2009.

The changes in the revenue limit rebate liability for 2008 and 2007 are as follows:

(millions of dollars)	**2008**	2007
Liability, beginning of year	**100**	40
Increase to provision during the year	**277**	227
Payments made during the year	**(292)**	(167)
Liability, end of year	**85**	100

18. OTHER GAINS AND LOSSES

(millions of dollars)	**2008**	2007
Change in estimated cost required to decommission fossil-fuelled generating stations	**(21)**	(20)
Impairment loss on investments in ABCP (Note 4)	**14**	10
Other	**(2)**	–
Other gains and losses	**(9)**	(10)

In 2007, OPG recorded a recovery of $20 million to reflect a change in the estimated costs required to complete decommissioning of the Lakeview generating station. The demolition of the Lakeview generating station was substantially completed during 2007.

Other gains and losses of $21 million were recognized in 2008 to reflect a change in estimated costs to decommission the other fossil-fuelled generating stations, including the expected costs associated with environmental and site remediation work.

19. BUSINESS SEGMENTS

Prior to the fourth quarter of 2008, OPG had four reportable business segments. The business segments were Regulated – Nuclear Generation, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Fossil-Fuelled.

Commencing in the fourth quarter of 2008, OPG separated the Regulated – Nuclear segment into two reportable segments identified as Regulated – Nuclear Generation segment and Regulated – Nuclear Waste Management segment. Results for the comparative periods have been reclassified to reflect the revised disclosure.

Regulated – Nuclear Generation Segment

OPG's Regulated – Nuclear Generation business segment operates in Ontario, generating and selling electricity from the nuclear generating stations that it owns and operates. The business segment includes electricity generated by the Pickering A and B, and Darlington nuclear generating stations. This business segment also includes revenue under the terms of a lease arrangement with Bruce Power related to the Bruce nuclear generating stations. This arrangement includes lease revenue and revenue from engineering analysis and design, technical and other services. Revenue is also earned from isotope sales and ancillary services. Ancillary revenues are earned through voltage control and reactive support.

Bruce Nuclear Generating Stations
In May 2001, the Company leased its Bruce A and Bruce B nuclear generating stations to Bruce Power until 2018, with options to renew for up to 25 years.

Under the terms of the lease, OPG agreed to transfer certain fuel and material inventory to Bruce Power, in addition to certain fixed assets. Pension assets and liabilities related to the approximately 3,000 employees were transferred to Bruce Power. Bruce Power assumed the liability for OPEB for these employees. OPG made payments to Bruce Power in respect of OPEB of approximately $2.3 million per month over a 72-month period, ending in 2008.

As part of the closing, OPG recorded deferred revenue to reflect the initial payments of $595 million less net assets transferred to Bruce Power under the lease agreement. The deferred revenue is being amortized over the initial lease term of approximately 18 years and is recorded as revenue.

In December 2002, British Energy plc. entered into an agreement to dispose of its entire 82.4 percent interest in Bruce Power. The transaction was completed in February 2003 and a consortium of Canadian companies assumed the lease of the Bruce A and Bruce B nuclear generating stations that was formerly held by British Energy plc. The Bruce facilities will continue to be operated by Bruce Power. Upon closing of the transaction, a $225 million note receivable was paid to OPG, and lease payments commenced to be paid monthly. Proceeds from the note and applicable interest were to be applied by March 2008 against OPG's funding requirements with respect to the nuclear fixed asset removal and nuclear waste management liabilities. OPG made an extraordinary contribution of $334 million to the Used Fuel Fund in December 2007.

As part of the agreement reached in October 2005 between the Province and Bruce Power, OPG received a Shareholder Declaration from the Province instructing OPG's Board of Directors to accept certain amendments to the lease agreement. These amendments included a change to the provisions regarding the transfer of Bruce Power's interest in the site and included a reduction of the annual lease payment for three of the four refurbished Bruce A units to $5.5 million per unit (in 2002 dollars, escalated at Consumer Price Index), that will affect the three Bruce A units to be refurbished, once the planned future refurbishments are completed. These changes to the lease agreement will affect OPG when Units 1 and 2 of the Bruce A nuclear generating station are returned to service, and when Unit 3 is refurbished at the end of its current operational life. Other changes to the existing arrangements were made to address Cameco Corporation's decision not to participate in the refurbishment of the Bruce A nuclear generating station.

During 2008, OPG recorded lease revenue related to the Bruce generating stations of $258 million (2007 – $253 million). In late 2008, OPG re-evaluated the Bruce lease for accounting purposes due to a modification to the lease. As a result of the re-evaluation, the timing in which certain of the lease revenues are recognized for accounting purposes has been revised. The revision will result in reductions to the lease revenue for accounting purposes during initial years of the remaining lease term, and increases in lease revenue for accounting purposes during the later years of the remaining lease term. The impact of these timing changes on the amount of lease revenue recognized during 2008 was offset by the impact of the Bruce variance account described in Note 7 to these consolidated financial statements. The net book value of fixed assets on lease to Bruce Power at December 31, 2008 was $1,140 million (2007 – $1,201 million).

Regulated – Nuclear Waste Management
OPG's Regulated – Nuclear Waste Management segment engages in the management of used nuclear fuel and low and intermediate level waste, the decommissioning of OPG's nuclear generating stations (including the stations on lease to Bruce Power), the management of the Nuclear Funds, and related activities including the inspection and maintenance of the waste storage facilities. Accordingly, accretion expense on the Nuclear Liabilities and losses (earnings) from the Nuclear Funds are reported under this segment.

As the nuclear generating stations operate over time, OPG incurs variable costs related to nuclear used fuel and low and intermediate level waste generated. These costs increase the Nuclear Liabilities through the generation of additional used nuclear fuel bundles and other waste. These variable costs are charged to current operations in the Regulated – Nuclear Generation segment in order to appropriately reflect the cost of producing energy and the earning of revenues under the lease arrangement with Bruce Power that are recorded in this segment. Since variable costs increase the Nuclear Liabilities in the Regulated – Nuclear Waste Management segment, OPG records an inter-segment charge between the Regulated – Nuclear Generation and the Regulated – Nuclear Waste Management segments. The impact of the inter-segment charge between these segments is eliminated on OPG's consolidated statements of income and balance sheets.

The Regulated – Nuclear Waste Management segment is considered regulated because the costs associated with the Nuclear Liabilities are included in the OEB's determination of regulated prices for production from OPG's regulated nuclear facilities by the OEB.

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Regulated – Hydroelectric Segment

OPG's Regulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from most of OPG's baseload hydroelectric generating stations. The business segment is comprised of electricity generated by the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and the R.H. Saunders hydroelectric facilities. The Regulated – Hydroelectric business segment also includes ancillary revenues related to these stations earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control and reactive support, certified black start facilities and automatic generation control.

Unregulated – Hydroelectric Segment

The Unregulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from its hydroelectric generating stations that are not subject to rate regulation. The Unregulated – Hydroelectric business segment also includes ancillary revenues earned through offering available generating capacity as operating reserve, and through the supply of other ancillary services including voltage control and reactive support, certified black start facilities and automatic generation control, and revenues from other services.

Unregulated – Fossil-Fuelled Segment

The Unregulated – Fossil-Fuelled business segment operates in Ontario, generating and selling electricity from its fossil-fuelled generating stations, which are not subject to rate regulation. The Unregulated – Fossil-Fuelled business segment also includes ancillary revenues earned through offering available generating capacity as operating reserve, and through the supply of other ancillary services including voltage control/reactive support, automatic generation control, and revenues from other services.

Other

OPG earns revenue from its joint venture share of Brighton Beach related to an energy conversion agreement between Brighton Beach and Coral. The Other category also includes OPG's share of joint venture revenues and expenses from the PEC gas-fired generating station. In addition, the Other category includes revenue from real estate rentals.

The revenue and expenses related to OPG's trading and other non-hedging activities are also included in the Other category. As part of these activities, OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate primarily to physical energy that is purchased and sold at the Ontario border, sales of financial risk management products and sales of energy-related products. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in other revenue as gains or losses.

OM&A expenses of the generation business segments include an inter-segment service fee for the use of certain property, plant and equipment of the Other category. The total service fee is recorded as a reduction to the Other category's OM&A expenses. For the year ended December 31, 2008, the service fee was $29 million for Regulated – Nuclear Generation, $3 million for Regulated – Hydroelectric, $4 million for Unregulated – Hydroelectric and $9 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of $45 million for the Other category. For the year ended December 31, 2007, the service fee was $33 million for Regulated – Nuclear Generation, nil for Regulated – Nuclear Waste Management, $2 million for Regulated – Hydroelectric, $4 million for Unregulated – Hydroelectric and $11 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of $50 million for the Other category.

Segment Income (Loss) for the Year Ended December 31, 2008 (millions of dollars)	**Regulated**			**Unregulated**				
	Nuclear Generation	**Nuclear Waste Management**	**Hydro-electric**	**Hydro-electric**	**Fossil-Fuelled**	**Other**	**Elimination**	**Total**
Revenue	**2,987**	**46**	**754**	**974**	**1,491**	**153**	**(46)**	**6,359**
Revenue limit rebate	**–**	**–**	**–**	**(72)**	**(205)**	**–**	**–**	**(277)**
	2,987	**46**	**754**	**902**	**1,286**	**153**	**(46)**	**6,082**
Fuel expense	**167**	**–**	**254**	**111**	**659**	**–**	**–**	**1,191**
Gross margin	**2,820**	**46**	**500**	**791**	**627**	**153**	**(46)**	**4,891**
Operations, maintenance and administration	**2,098**	**50**	**108**	**198**	**552**	**7**	**(46)**	**2,967**
Depreciation and amortization	**462**	**–**	**70**	**76**	**94**	**41**	**–**	**743**
Accretion on fixed asset removal and nuclear waste management liabilities	**–**	**573**	**–**	**–**	**8**	**–**	**–**	**581**
Losses on nuclear fixed asset removal and nuclear waste management funds	**–**	**93**	**–**	**–**	**–**	**–**	**–**	**93**
Property and capital taxes	**25**	**–**	**12**	**9**	**21**	**13**	**–**	**80**
Income (loss) before other gains and losses	**235**	**(670)**	**310**	**508**	**(48)**	**92**	**–**	**427**
Other (gains) and losses	**–**	**–**	**–**	**–**	**(23)**	**14**	**–**	**(9)**
Income (loss) before interest and income taxes	**235**	**(670)**	**310**	**508**	**(25)**	**78**	**–**	**436**

Segment (Loss) Income for the Year Ended December 31, 2007 (millions of dollars)	Regulated			Unregulated				
	Nuclear Generation	Nuclear Waste Management	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	Elimination	Total
Revenue	2,581	76	695	763	1,713	135	(76)	5,887
Revenue limit rebate	–	–	–	(64)	(163)	–	–	(227)
	2,581	76	695	699	1,550	135	(76)	5,660
Fuel expense	133	–	244	81	812	–	–	1,270
Gross margin	2,448	76	451	618	738	135	(76)	4,390
Operations, maintenance and administration	2,053	84	123	207	573	10	(76)	2,974
Depreciation and amortization	426	–	68	68	82	51	–	695
Accretion on fixed asset removal and nuclear waste management liabilities	–	499	–	–	8	–	–	507
Earnings on nuclear fixed asset removal and nuclear waste management funds	–	(481)	–	–	–	–	–	(481)
Property and capital taxes	31	–	11	10	21	12	–	85
(Loss) income before other gains and losses	(62)	(26)	249	333	54	62	–	610
Other (gains) and losses	(4)	–	–	4	(20)	10	–	(10)
(Loss) income before interest and income taxes	(58)	(26)	249	329	74	52	–	620

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(for the years ended December 31, 2008 and 2007)

Selected Consolidated Balance Sheet Information As at December 31, 2008 (millions of dollars)	**Regulated**			**Unregulated**			
	Nuclear Generation	**Nuclear Waste Management**	**Hydro-electric**	**Hydro-electric**	**Fossil-Fuelled**	**Other**	**Total**
Segment fixed assets in service, net	**3,845**	**–**	**3,823**	**2,971**	**396**	**480**	**11,515**
Segment construction work in progress	**227**	**–**	**444**	**190**	**29**	**382**	**1,272**
Segment property, plant and equipment, net	**4,072**	**–**	**4,267**	**3,161**	**425**	**862**	**12,787**
Segment materials and supplies inventory, net:							
Short-term	**77**	**–**	**–**	**–**	**55**	**–**	**132**
Long-term	**336**	**–**	**–**	**1**	**1**	**–**	**338**
Segment fuel inventory	**301**	**–**	**–**	**–**	**435**	**–**	**736**
Fixed asset removal and nuclear waste management liabilities	**–**	**(11,233)**	**–**	**–**	**(117)**	**(34)**	**(11,384)**
Nuclear fixed asset removal and nuclear waste management funds	**–**	**9,209**	**–**	**–**	**–**	**–**	**9,209**

Selected Consolidated Balance Sheet Information As at December 31, 2007 (millions of dollars)	Regulated			Unregulated			
	Nuclear Generation	Nuclear Waste Management	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	Total
Segment fixed assets in service, net	4,030	–	3,871	2,996	422	508	11,827
Segment construction work in progress	210	–	299	88	49	304	950
Segment property, plant and equipment, net	4,240	–	4,170	3,084	471	812	12,777
Segment materials and supplies inventory, net:							
Short-term	73	–	1	–	51	–	125
Long-term	346	–	–	3	4	–	353
Segment fuel inventory	231	–	–	–	373	–	604
Fixed asset removal and nuclear waste management liabilities	–	(10,781)	–	–	(141)	(35)	(10,957)
Nuclear fixed asset removal and nuclear waste management funds	–	9,263	–	–	–	–	9,263

Selected Consolidated Cash Flow Information (millions of dollars)	**Regulated** Nuclear Generation	**Regulated** Nuclear Waste Management	**Regulated** Hydro-electric	**Unregulated** Hydro-electric	**Unregulated** Fossil-Fuelled	**Other**	**Total**
Year ended December 31, 2008							
Investment in fixed assets	**184**	**–**	**160**	**149**	**59**	**109**	**661**
Year ended December 31, 2007							
Investment in fixed assets	206	1	80	66	94	219	666

20. RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province, the other successor entities of Ontario Hydro, including Hydro One Inc. ("Hydro One"), the IESO, and the OEFC. OPG also enters into related party transactions with its joint ventures. 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.

These transactions are summarized below:

(millions of dollars)	**Revenue 2008**	**Expenses 2008**	Revenue 2007	Expenses 2007
Hydro One				
Electricity sales	**35**	**–**	28	–
Services	**–**	**7**	–	12
Province of Ontario				
GRC, water rentals and land tax	**–**	**151**	–	129
Guarantee fee	**–**	**4**	–	8
Used Fuel Fund rate of return guarantee	**–**	**(971)**	–	(130)
Decommissioning Fund excess funding	**–**	**(3)**	–	(291)
OEFC				
GRC and proxy property tax	**–**	**215**	–	199
Interest income on receivable	**–**	**–**	–	(6)
Interest expense on long-term notes	**–**	**215**	–	187
Capital tax	**–**	**36**	–	35
Income taxes	**–**	**88**	–	(51)
Indemnity fees	**–**	**–**	–	–
IESO				
Electricity sales	**5,330**	**127**	5,094	104
Revenue limit rebate	**(277)**	**–**	(227)	–
Ancillary services	**155**	**–**	145	–
Other	**–**	**–**	–	1
	5,243	**(131)**	5,040	197

At December 31, 2008, accounts receivable included nil (2007 – $2 million) due from Hydro One and $207 million (2007 – $179 million) due from the IESO. Accounts payable and accrued charges at December 31, 2008 included $1 million (2007 – $2 million) due to Hydro One.

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

21. JOINT VENTURES

Significant joint ventures include Brighton Beach and PEC, which are 50 percent owned by OPG.

The following condensed information from the consolidated statements of income, cash flows and balance sheets details the Company's share of its investments in joint ventures and partnerships that has been proportionately consolidated:

(millions of dollars)	**2008**	2007
Proportionate joint venture operations		
Revenue	**41**	43
Expenses	**(31)**	(36)
Net income	**10**	7
Proportionate joint venture cash flows		
Operating activities	**33**	1
Investing activities	**(76)**	(165)
Financing activities	**50**	164
Share of changes in cash	**7**	–
Proportionate joint venture balance sheets		
Current assets	**31**	38
Long-term assets	**585**	533
Current liabilities	**(18)**	(24)
Long-term liabilities	**(183)**	(185)
Share of net assets	**415**	362

22. INVESTMENT COMPANY

The Company applied AcG-18 for all investments owned by OPGV. OPGV is a wholly owned subsidiary of the Company and its results are included in the Company's consolidated financial statements. The carrying amount of OPGV's investments was $39 million (2007 – $45 million) and the amount was included as long-term accounts receivable and other assets on the consolidated balance sheets.

As a result of the application of this policy, the Company's net income and other assets for 2008 decreased by $6 million (2007 – $13 million). The net realized gains and losses for OPGV was $3 million in 2008 (2007 – nil).

The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2008 were $17 million and $19 million, respectively. The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2007 were $19 million and $15 million, respectively.

23. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2008, $75 million (2007 – $93 million) of research and development expenses were charged to operations.

24. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	**2008**	2007
Accounts receivable	**(171)**	(97)
Prepaid expenses	**3**	(9)
Fuel inventory	**(132)**	65
Materials and supplies	**(7)**	(13)
Revenue limit rebate payable	**277**	227
Accounts payable and accrued charges	**65**	(42)
Income and capital taxes payable	**38**	(62)
	73	69

Officers

Jake Epp
Chairman

Jim Hankinson
President and CEO

Robert Boguski*
Senior Vice President,
Business Services and
Information Technology

Bruce Boland
Senior Vice President,
Corporate Affairs

David Brennan
Senior Vice President,
Law and General Counsel

Jim Burpee
Executive Vice President,
Corporate Development

Pierre Charlebois
Executive Vice President
and Chief Operating Officer

Frank Chiarotto**
Senior Vice President, Fossil

Janice Dunlop
Senior Vice President,
Human Resources and
Chief Ethics Officer

Donn Hanbidge
Senior Vice President and
Chief Financial Officer

Catriona King
Vice President,
Corporate Secretary

Tom Mitchell
Chief Nuclear Officer

John Murphy
Executive Vice President,
Hydro

Ken Nash***
Senior Vice President,
Nuclear Waste
Management

Colleen Sidford
Vice President, Treasurer

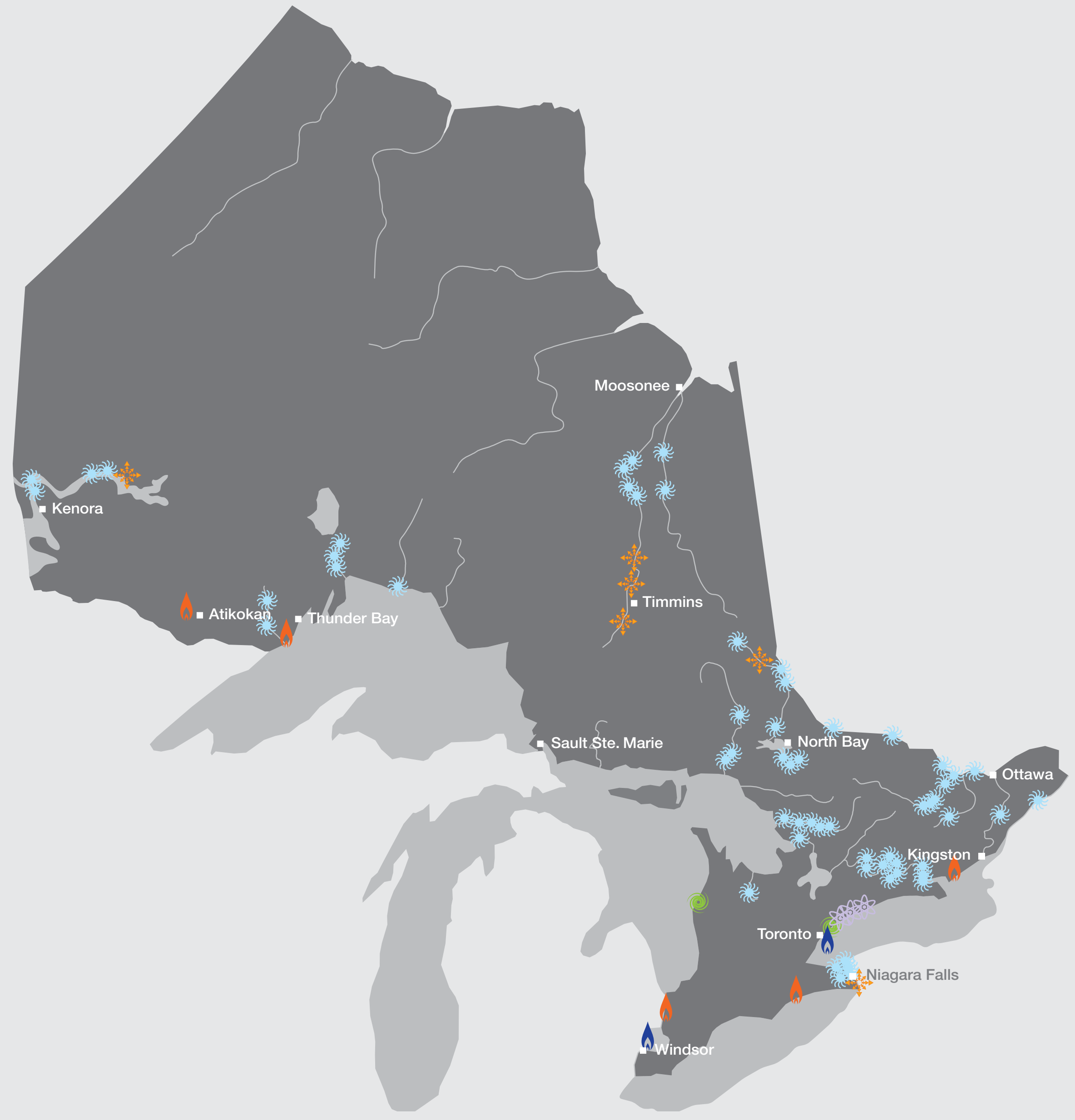
Jim Twomey***
Executive Vice President,
Fossil

* Appointed, May 22, 2008.
** Appointed December 1, 2008.
*** Retired, December 31, 2008.

Filed: 2010-05-26
EB-2010-0008
Exhibit A2-1-1
Attachment 1

Ontario Power Generation Facilities

OPG's electricity generating portfolio as of December 31, 2008 had a total in-service capacity of 21,748 MW.



3	5	2	64	2	3
Nuclear Stations	Fossil-Fuelled Stations	Co-owned Gas-Fired Stations*	Hydroelectric Stations**	Wind Power Turbines	New Generation Projects***

* The 550 MW Portlands Energy Centre gas-fired generating station in Toronto (co-owned by OPG and TransCanada Energy Ltd.) and the 580 MW Brighton Beach gas-fired generating station, co-owned by OPG, ATCO Power Canada Ltd. and ATCO Resources Ltd.

** Includes four hydroelectric stations in northeastern Ontario under redevelopment (Wawaitin, Sandy Falls, Lower Sturgeon, and Hound Chute).

*** Consists of three hydroelectric projects – the Lac Seul generating station in northwestern Ontario (in service, February 2009); the Niagara Tunnel, near Niagara Falls; and the Upper Mattagami/Hound Chute redevelopment in northeastern Ontario, consisting of the Wawaitin, Sandy Falls, Lower Sturgeon, and Hound Chute generating stations.

This annual report is also available in French on our website – ce rapport est également publié en français – at **www.opg.com.**

Please recycle.

The head office of Ontario Power Generation Inc. is located at 700 University Avenue, Toronto, Ontario M5G 1X6; telephone (416) 592-2555 or (877) 592-2555.

Design, Print, Distribution: OPG Office Services

PICTURED ON THE FRONT COVER:
(CLOCKWISE, FROM LARGE PHOTO)

- Darren Porter, Northeast Plant Group
- Bob Quinn, Lambton GS
- Roma Kopechanski, Northwest Plant Group
- Gerry Martineau (l) and John Armstrong (r), Darlington Nuclear GS

PAGE 1

- OPG employees Norma Siroski (l) and Mario Durepos (r), with local artist Gayle Ballantyne at the Abitibi Hydroelectric GS – 75th anniversary
- Sidra Abid, Engineering Trainee, Nuclear
- OPG employees and volunteers at the R.H. Saunders Hydroelectric GS 50th anniversary
- Dwayne Korchack, Hydro
- Jeff Veenbaas, Kathy Hoard and Shawn Anderson, Atikokan GS

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- Adam Cochrane and Ransford Peacock, Pickering B Nuclear GS
- Thunder Bay Fossil GS, 45th anniversary
- Dave Jarrell, Niagara Plant Group

PAGE 14

- Victor Kabuga, Nuclear Refurbishment
- Larry Jankovic, Nanticoke GS
- Darlington Nuclear GS
- Andre LeClerc, Northeast Plant Group
- Katya Milanoski and Richard Baker, OPG Nuclear Security
- Sir Adam Beck 1, Unit 7 upgrade

ONTARIO POWER GENERATION

ONTARIO POWER GENERATION
700 University Avenue Toronto, Ontario M5G 1X6

News
from Ontario Power Generation

Tel: 416-592-4008 or 1-877-592-4008 Fax: 416-592-2178
www.opg.com

March 8, 2010

ONTARIO POWER GENERATION REPORTS 2009 FINANCIAL RESULTS

[Toronto]: Ontario Power Generation Inc. ("OPG" or the "Company") today reported its financial and operating results for the year ended December 31, 2009. Net income for the year was $623 million compared to net income of $88 million for the year ended December 31, 2008.

Tom Mitchell, President and CEO of OPG, said, "I am pleased that OPG achieved this level of income in the face of challenging electricity demand conditions in Ontario, which resulted in lower electricity generation from OPG's assets, and lower Ontario spot electricity market prices. Despite the lower demand, OPG's nuclear, hydroelectric and thermal generating stations achieved high levels of reliability."

Mr. Mitchell noted, "Overall, OPG received an average price of 4.5 cents per kilowatt hour for the electricity it generated in 2009. To put this in context, the current price for generation charged to residential and other consumers of smaller volumes of electricity under the Regulated Price Plan of the OEB is 5.8 cents per kilowatt hour for the first 1,000 kilowatt hour and 6.7 cents per kilowatt hour thereafter."

Mr. Mitchell added, "The prices that OPG received for approximately 70 percent of the electricity it generated in 2009 were set through a regulatory process at the OEB."

Highlights

Net income in 2009 was favourably impacted by an increase in earnings from the segregated investment funds due to improved global financial markets. These funds were established to provide for the future costs of OPG's nuclear fixed asset removal and nuclear waste management liabilities. Net income also increased due to the recognition of a regulatory asset related to tax losses established as a result of the 2009 Ontario Energy Board ("OEB") decision. These factors were partially offset by a decrease in gross margin related to lower average sales prices for production from OPG's unregulated generation segments and lower thermal generation. Lower generation, lower electricity prices, and increased fuel expenses at the thermal generating stations were in turn partially offset by additional revenues related to an agreement with the Ontario Electricity Financial Corporation ("OEFC"). The agreement with the OEFC is intended to provide for the continued reliability and availability of OPG's Lambton and Nanticoke generating stations.

Total electricity generated during 2009 of 92.5 TWh decreased from 2008 production of 107.8 TWh. The decrease of 15.3 TWh was primarily due to lower generation from OPG's thermal and nuclear generating stations. The decrease in production from the thermal generating stations of 13.7 TWh was primarily due to the impact of lower primary demand in Ontario, and higher electricity generation from other Ontario generators.

The reliability of OPG's Pickering B nuclear station improved during 2009 due to a reduction in the number of outage days. The Darlington station achieved a lower unit capability factor in 2009 compared to 2008 primarily as a result of a planned vacuum building outage. The unit capability factor at the Pickering A nuclear station was lower in 2009 due to an increase in the number of planned outage days. The availability of OPG's regulated and unregulated hydroelectric generating stations remained at high levels. The reliability of the thermal generating fleet improved as a result of optimizing how coal-fired units are offered into the market.

Segmented Financial Results

Income before interest and income taxes of $827 million from OPG's electricity generating segments in 2009 was lower than income before interest and income taxes of $1,028 million in 2008. The reduction in income was primarily due to a decrease in average sales price in the unregulated generation segments due to lower Ontario spot electricity market prices, lower thermal generation, and higher coal prices and costs related to contract adjustments to coal supply contracts. The unfavourable impact of these factors was partially offset by the recognition of revenue related to the contingency support agreement with the OEFC, and the recognition of a regulatory asset related to the tax loss variance account authorized by the OEB in 2009, but effective on April 1, 2008.

Income before interest and income taxes of $52 million in the Regulated – Nuclear Waste Management segment in 2009 improved significantly compared to a loss before interest and income taxes of $670 million in 2008. The income before interest and income taxes in 2009 primarily resulted from higher returns on the Decommissioning Segregated Fund due to improvements in valuation levels of global financial markets. The favourable impact of these factors was partially offset by the reduction in 2009 of a variance account approved by the OEB related to the earnings associated with the stations leased to Bruce Power, since a portion of the earnings from the Nuclear Funds are related to these stations.

Generation Development

OPG is undertaking a number of generation development projects aimed at significantly contributing to Ontario's long-term electricity supply requirements. The status of these capacity expansion or life extension projects is as follows:

Nuclear

- On June 29, 2009, the Government of Ontario suspended the competitive Request for Proposal process to procure two new nuclear reactors planned for the Darlington site. In the announcement, the Government indicated that the competitive RFP process did not provide Ontario with a suitable option at this time. The bids that were received during this process have subsequently expired. The Government has not yet announced its revised plans for procurement of two new nuclear reactors. OPG continues with two initiatives that were underway – the environmental assessment process and obtaining a site preparation licence. On September 30, 2009, OPG submitted the Environmental Impact Statement ("EIS") and an updated application for the "Licence to Prepare Site" to the Canadian Environmental Assessment Agency and the Canadian Nuclear Safety Commission ("CNSC"). On November 16, 2009, the Joint Review Panel ("JRP") announced the start of the six-month public review period for the EIS and the "Licence to Prepare Site". On February 3, 2010, the JRP requested additional information in support of the EIS and application for the "Licence to Prepare Site".

- In February 2010, OPG announced its decision to commence the detailed planning phase for the refurbishment of the Darlington nuclear generating station. The refurbishment is expected to extend the service life of the Darlington nuclear station to provide an additional 30 years of nuclear generation. In the detailed planning phase, all regulatory work will be completed including the Environmental Assessment, the Integrated Safety Review ("ISR"), and the Integrated Improvement Plan ("IIP"). As part of the definition phase, OPG will also complete engineering and detailed project planning, establish the project management organization, develop required infrastructure, and prepare a detailed cost and schedule estimate for project approval by mid-2014, with construction expected to start in about 2016.

- In February 2010, OPG announced its decision to continue the safe and reliable operation of OPG's Pickering B nuclear generating station. Pickering B nuclear generating units are currently predicted to reach their nominal end of life between 2014 and 2016. OPG is undertaking a coordinated set of initiatives to evaluate the opportunity to continue safe and reliable operations of Pickering B for an additional four to six years. Following this, OPG will place the units into safe-storage and then begin the long-term decommissioning process.

Hydroelectric

- The Niagara tunnel boring machine ("TBM") had advanced 5,481 metres, or 54 percent of the tunnel length, as of December 31, 2009. The advancement of the TBM was temporarily interrupted from September 11, 2009 to December 8, 2009 to repair a short section of the temporary tunnel liner about 1,800 metres behind the TBM location at that time, and to complete a planned overhaul of the TBM cutterhead, conveyor systems and other tunnel construction equipment. Installation of the lower one-third of the permanent tunnel concrete lining is progressing ahead of schedule. Installation of the upper two-thirds of the concrete lining is scheduled to begin in the spring of 2010.

- Construction of the Upper Mattagami and Hound Chute development projects continued during 2009 with fabrication of supplied parts and systems, and delivery of certain major Water-to-Wire equipment. The capacity of the four stations that are being replaced will increase from 23 MW to 44 MW. The stations are expected to be in service by April 2011.

- Project development activities for the planned Lower Mattagami project, which will increase the capacity of four stations from 483 MW to 933 MW, continued from 2009 into 2010. These activities include completing cost estimates, finalizing a design-build contract, obtaining regulatory approvals, consultation discussions and negotiations with Aboriginal communities, and negotiating a Hydroelectric Energy Supply Agreement with the Ontario Power Authority. As well, a Federal

Environmental Assessment ("EA") consultation was completed at the end of 2009 and the EA was submitted to the Federal Minister.

Thermal

- In September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close four coal-fired units – two units at the Lambton generating station and two units at the Nanticoke generating station. The decision was based on the impact of declining Ontario primary demand, forecast surplus capacity and demand profiles, and reductions in operations, maintenance and administration expense. The closures are expected to occur in October 2010. By the end of 2014, all units currently burning coal will have ceased burning coal and either have been converted to alternative fuels or shut down.

- The Lennox generating station operated under a Reliability Must Run ("RMR") contract with the Independent Electricity System Operator ("IESO"), as approved by the OEB, for the period beginning on October 1, 2008 to September 30, 2009. This contract was justified on the basis of analysis by the IESO that all four units at the Lennox generating station were required for the purpose of local area reliability during the period. Given an indication from the OPA that it would require the four units at the Lennox generating station, as documented in the OPA's preliminary Integrated Power System Plan, OPG continued to operate the facility following the expiry of the RMR contract. On January 6, 2010, the Minister of Energy and Infrastructure issued a Directive to the OPA to contract with OPG for the capacity of the station commencing October 1, 2009. OPG and the OPA are working towards execution of a new agreement.

- The strategy to convert coal-fired units to alternate fuels continues to advance. Detailed design engineering work on the conversion of the Atikokan generating station to biomass is progressing. OPG is also conducting concept phase engineering for possible conversion of other coal-fired units at other stations. OPG requires cost recovery agreements with the OPA for conversion of the units and the electricity generated post-conversion, before seeking Board of Directors approval to proceed with unit conversions. OPG is in discussion with the Ministry of Energy and Infrastructure to issue a directive to the OPA to negotiate a cost recovery agreement with OPG.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(millions of dollars – except where noted)	Year Ended December 31 2009	2008
Earnings		
Revenue after revenue limit rebate	**5,613**	6,082
Fuel expense	**991**	1,191
Gross margin	**4,622**	4,891
Operations, maintenance and administration expense	**2,882**	2,967
Depreciation and amortization	**760**	743
Accretion on fixed asset removal and nuclear waste management liabilities	**634**	581
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds	**(683)**	93
Other net expenses	**76**	71
Income before interest and income taxes	**953**	436
Net interest expense	**185**	165
Income tax expenses	**145**	183
Net income	**623**	88
Cash flow		
Cash flow provided by operating activities	**299**	870
Income (loss) before interest and income taxes		
Generating segments	**827**	1,028
Nuclear Waste Management segment	**52**	(670)
Other segment	**74**	78
Total income before interest and income taxes	**953**	436
Electricity Generation (TWh)		
Regulated – Nuclear	**46.8**	48.2
Regulated – Hydroelectric	**19.4**	18.8
Unregulated – Hydroelectric	**16.8**	17.6
Unregulated – Thermal	**9.5**	23.2
Total electricity generation	**92.5**	107.8
Average electricity sales price (¢/kWh)		
Regulated – Nuclear	**5.5**	5.3
Regulated – Hydroelectric	**3.7**	3.9
Unregulated – Hydroelectric	**3.2**	4.8
Unregulated – Thermal	**3.9**	5.0
OPG average sales price	**4.5**	4.9
Nuclear unit capability factor (percent)		
Darlington	**85.9**	94.5
Pickering A	**64.2**	71.8
Pickering B	**84.0**	71.4
Availability (percent)		
Regulated – Hydroelectric	**93.6**	93.8
Unregulated– Hydroelectric	**92.4**	94.6
Equivalent forced outage rate (percent)		
Unregulated – Thermal	**8.5**	12.8

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 audited consolidated financial statements and Management's Discussion and Analysis as at and for the year ended December 31, 2009, 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.

For further information, please contact: Investor Relations 416-592-6700
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1-877-592-4008

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ONTARIOPOWER GENERATION

2009 YEAR END REPORT

CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

ONTARIO POWER GENERATION INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the year ended December 31, 2009. OPG's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. Certain of the 2008 comparative amounts have been reclassified to conform to the 2009 presentation. This MD&A is dated March 5, 2010.

FORWARD-LOOKING STATEMENTS

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

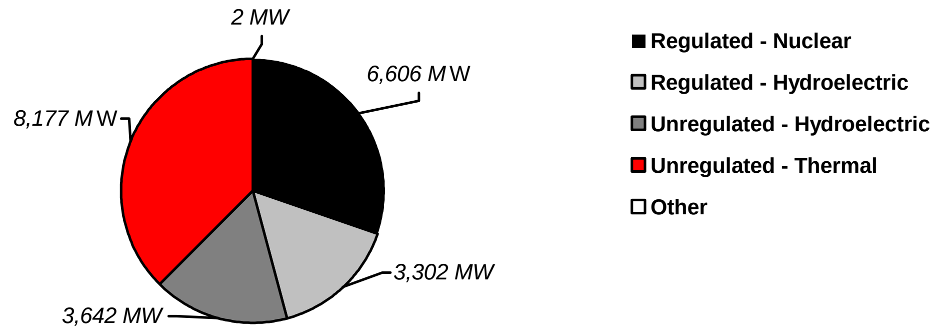
All forward-looking statements involve inherent assumptions, risks and uncertainties, including those set out under the heading *Risk Management,* and therefore, could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's fuel costs and availability, asset performance, nuclear decommissioning and waste management, closure or conversion of coal-fired generating stations, refurbishment of existing facilities, development and construction of new facilities, pension and other post employment benefit ("OPEB") obligations, income taxes, spot electricity market prices, the ongoing evolution of the Ontario electricity industry, proposed new legislation, conversion to International Financial Reporting Standards ("IFRS"), environmental and other regulatory requirements, health, safety and environmental developments, business continuity events, the weather, the developments with respect to third-party Asset-Backed Commercial Paper ("ABCP"), 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's focus is on the efficient production and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner. OPG was established under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the "Province").

At December 31, 2009, OPG's electricity generating portfolio had an in-service capacity of 21,729 megawatts ("MW"). OPG's electricity generating portfolio consists of three nuclear generating stations, five thermal generating stations, 65 hydroelectric generating stations, of which four are being redeveloped, and two wind power turbines. In addition, OPG and TransCanada Energy Ltd. co-own the Portlands Energy Centre gas-fired combined cycle generating station. OPG, ATCO Power Canada Ltd. and ATCO Resources Ltd. co-own the Brighton Beach gas-fired combined cycle generating station. OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power L.P. ("Bruce Power"). These co-owned or leased facilities are not included in the generation portfolio statistics set out in this report.

In-Service Generating Capacity by Segment
December 31, 2009
21,729 MW



OPG's Reporting Structure

OPG receives a regulated price for electricity generated from most of its baseload hydroelectric facilities and all of the nuclear facilities that it operates. This comprises electricity generated from the Sir Adam Beck 1, 2 and Pump generating station, Decew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering A and B and Darlington nuclear facilities. The operating results from these regulated facilities are described under the Regulated – Nuclear and Regulated – Hydroelectric segments. For the remainder of OPG's hydroelectric facilities, the operating results are described under the Unregulated – Hydroelectric segment.

The results from the thermal facilities are discussed in the Unregulated – Thermal segment, which was previously named the Unregulated – Fossil-Fuelled segment. The name change is reflective of the changing operating environment in Ontario including the regulated phase-out of coal-fired generation, the potential conversion to alternative fuels such as biomass, natural gas and gas-biomass dual-fuel, potential new gas generation, and the impact of the *Green Energy and Green Economy Act, 2009* ("Green Energy Act").

During the fourth quarter of 2008, OPG revised the composition of its reporting segments to correspond with OPG's strategic business unit structure and changes to internal reporting. As part of the revised internal reporting structure and to improve the transparency of the information provided to stakeholders, a new segment was created and classified under the caption Regulated – Nuclear Waste Management.

A description of all OPG's segments is provided under the heading *Business Segments*. The preceding period figures, as at and for the year ended December 31, 2008, have been reclassified to conform with this new presentation.

RATE REGULATION

Ontario Regulation 53/05, a regulation pursuant to the *Ontario Energy Board Act, 1998* provides that, effective April 1, 2005, OPG receives regulated prices for electricity generated from most of its baseload hydroelectric facilities and all of the nuclear facilities that it operates. The regulation set the regulated prices that OPG received up to April 1, 2008. Beginning April 1, 2008, OPG's regulated prices were determined by the OEB. An OEB decision, issued in the fourth quarter of 2008, determined the new prices retrospectively to April 1, 2008. The regulated prices were based on a forecast cost of service methodology. This methodology establishes regulated payment amounts based on a revenue requirement taking into account a forecast of production volumes and total operating costs, and a return on rate base. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed assets and an allowance for working capital.

The regulated price for production from OPG's nuclear facilities for the period April 1, 2005 to March 31, 2008 was 4.95¢/kWh. The regulated price for nuclear generation increased to 5.50¢/kWh effective April 1, 2008. This price includes a rate rider of 0.20¢/kWh for the recovery of approved nuclear variance and deferral account balances.

The regulated price received for the period April 1, 2005 to March 31, 2008 for the first 1,900 megawatt hours ("MWh") of production from the regulated hydroelectric facilities in any hour was 3.30¢/kWh. For generation above 1,900 MWh in any hour, OPG received the Ontario spot electricity market price as an incentive mechanism to optimize hydroelectric production. The OEB established a new price for regulated hydroelectric generation of 3.67¢/kWh effective April 1, 2008. The OEB also approved a revised incentive mechanism, which became effective December 1, 2008. Under this mechanism, OPG receives the approved regulated price of 3.67¢/kWh for the actual average hourly net energy production from these hydroelectric facilities in that month. In the hours when the actual net energy production in Ontario is greater or less than the average hourly net volume in the month, hydroelectric revenues are adjusted by the difference between the average hourly net volume and the actual net energy production multiplied by the spot market price. The regulated price of 3.67¢/kWh includes the recovery of approved hydroelectric regulatory balances. The OEB's 2008 decision also established a number of variance and deferral accounts for the period after April 1, 2008.

In January 2009, OPG filed a motion with the OEB to review, and vary a portion of the OEB's decision establishing current regulatory prices, as it pertains to the treatment of tax losses and their use for mitigation of regulated prices. The OEB granted OPG's motion in a decision and order in May 2009. This order also directed OPG to establish a variance account to record the difference between the amount of mitigation included in the approved payment amounts and the revenue requirement reduction available from tax loss carry forwards recalculated as per the OEB's decision. The balance in the variance account will be reviewed by the OEB as part of OPG's next hearing. The establishment of this variance account resulted in an increase in regulatory assets and a corresponding increase in revenue in 2009.

Also during 2009, OPG filed an accounting order application to address the treatment of a number of variance and deferral accounts for the period after December 31, 2009. In the application for the accounting order, OPG sought the continuation of the rate rider of 0.20¢/kWh for recovery of nuclear regulatory balances approved in the OEB's 2008 decision. OPG also sought to establish the basis for recording entries to existing variance and deferral account balances after 2009. These requests were approved by the OEB's decision in October 2009. In addition, the OEB directed that OPG establish a new variance account to record potential over collection of hydroelectric variance account balances through the hydroelectric payment amount during 2010. OPG plans to file an application with the OEB for new payment amounts for its regulated facilities effective January 1, 2011.

The production from OPG's other generating assets remains unregulated and continues to be sold at the Ontario electricity spot market price, with the exception of a Hydroelectric Energy Supply Agreement ("HESA") for the production from the Lac Seul and Ear Falls generating stations, and the production from the Lennox generating station. For the period April 1, 2005 to April 30, 2009, the generation output from 85 percent of OPG's other generating assets, excluding the Lennox generating station, stations whose generation output is subject to a HESA with the Ontario Power Authority ("OPA") pursuant to a ministerial directive, and forward sales as of January 1, 2005, was subject to a revenue limit. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets were also excluded from the output covered by the revenue limit.

The revenue limit was 4.7¢/kWh for the period May 1, 2007 to April 30, 2008, and increased to 4.8¢/kWh effective May 1, 2008. During this period, volumes sold under a Pilot Auction administered by the OPA were subject to a revenue limit that was 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these limits were returned to the Independent Electricity System Operator ("IESO") for the benefit of consumers. The term of the revenue limit rebate ended on April 30, 2009.

The Lambton and Nanticoke generating stations are subject to a contingency support agreement with the OEFC. The agreement was put in place to enable OPG to recover the costs of its coal-fired generating stations following implementation of OPG's carbon dioxide ("CO_2") emissions reduction strategy. Further, the production from Lennox was subject to the reliability must run ("RMR") contract up to September 30, 2009. For further discussion of the Lennox RMR, refer to *Recent Developments*.

HIGHLIGHTS

Overview of Results

This section provides an overview of OPG's audited 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*.

(millions of dollars)	**2009**	**2008**
Revenue		
Revenue before revenue limit rebate	**5,640**	6,359
Revenue limit rebate	**(27)**	(277)
	5,613	6,082
Fuel expense	**991**	1,191
Gross margin	**4,622**	4,891
Expenses		
Operations, maintenance and administration	**2,882**	2,967
Depreciation and amortization	**760**	743
Accretion on fixed asset removal and nuclear waste management liabilities	**634**	581
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds	**(683)**	93
Other net expenses	**76**	71
	3,669	4,455
Income before interest and income taxes	**953**	436
Net interest expense	**185**	165
Income tax expense	**145**	183
Net income	**623**	88
Electricity production (TWh)	**92.5**	107.8
Cash flow		
Cash flow provided by operating activities	**299**	870

Net income for 2009 was $623 million compared to $88 million for 2008, an increase of $535 million. Income before income taxes for 2009 was $768 million compared to $271 million for 2008, an increase of $497 million. Income before interest and income taxes from OPG's electricity generation business segments was $827 million in 2009 compared to $1,028 million in 2008. This decrease was primarily due to lower electricity generation and lower electricity prices, which resulted in a decrease in gross margin in 2009 compared to 2008.

The Regulated – Nuclear Waste Management business segment earned income before interest and income taxes of $52 million in 2009 compared to a loss before interest and income taxes of $670 million in 2008. The increase was primarily due to higher earnings on the nuclear fixed asset removal and nuclear waste management funds (the "Nuclear Funds") during 2009.

The following is a summary of the factors impacting OPG's results for 2009 compared to results for 2008, on a before-tax basis:

(millions of dollars – before tax)	**Electricity Generation Segments**[1]	**Regulated Nuclear Waste Management Segment**	**Other**[2]	**Total**
Income (loss) before income taxes for the year ended December 31, 2008	**1,028**	**(670)**	**(87)**	**271**
Changes in gross margin:				
Change in electricity sales price after revenue limit rebate				
Regulated generation segments	20	-	-	20
Unregulated generation segments	(365)	-	-	(365)
Change in electricity generation by segment:				
Regulated – Nuclear Generation	(67)	-	-	(67)
Regulated – Hydroelectric	15	-	-	15
Unregulated – Hydroelectric	(35)	-	-	(35)
Unregulated – Thermal	(262)	-	-	(262)
Revenue related to contingency support agreement for the Nanticoke and Lambton generating stations	412	-	-	412
Impact of regulatory variance accounts	485	-	-	485
Increase in fuel price and other fuel related costs	(205)	-	-	(205)
Decrease in net trading revenue	-	-	(56)	(56)
(Decrease) increase in non-electricity generation revenue	(253)	(2)	51	(204)
Other changes in gross margin	(7)	-	-	(7)
	(262)	(2)	(5)	(269)
Changes in operations, maintenance and administration ("OM&A") expenses:				
Higher expenditures primarily related to increase in planned outage and maintenance activities at OPG's nuclear generating stations	(33)	-	(5)	(38)
Expenditures related to new nuclear generation development and capacity refurbishment, partially offset by the impact of related regulatory accounts	(15)	-	-	(15)
Decrease (increase) in pension and OPEB costs	164	(1)	1	164
Other changes in OM&A	(25)	3	(4)	(26)
	91	2	(8)	85
Increase (decrease) in accretion on fixed asset removal and nuclear waste management liabilities	1	(54)	-	(53)
Increase in earnings from the Nuclear Funds	-	1,228	-	1,228
Decrease in regulatory asset related to earnings from the Nuclear Funds associated with stations on lease to Bruce Power	-	(452)	-	(452)
Other changes	(31)	-	(11)	(42)
Income (loss) before income taxes for the year ended December 31, 2009	**827**	**52**	**(111)**	**768**

1 Electricity generation segments include results of the Regulated – Nuclear Generation, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Thermal segments.
2 Other includes results of the Other category in OPG's segmented statement of income, inter-segment eliminations, and net interest expense.

Earnings for 2009 compared to the same period in 2008 were unfavourably impacted by a decrease in gross margin of $269 million. The decrease in gross margin in the electricity generation segments was primarily due to a decrease in average sales price in the unregulated generation segments due to lower Ontario spot electricity market prices, and lower generation at OPG's thermal and nuclear generating stations.

The gross margin for the electricity generation segments was also unfavourably impacted by higher fuel prices and fuel related costs at OPG's thermal generating stations. The increase in fuel prices and fuel related costs at OPG's thermal generating stations was primarily due to higher coal prices and costs related to contract adjustments to coal supply contracts, which included cancellation and deferral of shipments. The costs incurred for coal contract adjustments of $63 million were primarily for OPG's Lambton and Nanticoke coal-fired generating stations.

The unfavourable impact on gross margin from lower generation, lower electricity sales prices in the unregulated generation segments, and higher fuel prices and fuel-related costs at OPG's thermal generating stations in 2009 compared to the same period in 2008 was largely offset by the recognition of revenue of $412 million related to the contingency support agreement with the OEFC.

The gross margin for the electricity generation segments during 2009 was favourably impacted by the recognition of a regulatory asset of $292 million, excluding interest, related to the Tax Loss Variance Account authorized by the OEB effective on April 1, 2008.

The net trading revenue for 2009 was $18 million compared to $74 million in 2008, a decrease of $56 million. The decrease in net trading revenue was primarily due to unfavourable mark-to-market adjustments.

Under the Bruce Power lease agreement ("Bruce Lease"), lease revenue is reduced in each calendar year where the annual arithmetic average of the Hourly Ontario Electricity Price ("Average HOEP") falls below $30/MWh, and certain other conditions are met. As a result of the Average HOEP for 2009 being less than $30/MWh, the Bruce Lease revenue for 2009 was reduced by $69 million. The reduction of lease revenue is offset by the impact of a variance account approved by the OEB to capture the differences between actual and forecast revenues and costs related to the nuclear generating stations under the Bruce Lease ("Bruce Lease Net Revenues Variance Account"). The conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, is treated as a derivative according to Canadian Institute of Chartered Accountants ("CICA") Section 3855, *Financial Instruments – Recognition and Measurement*. Derivatives are measured at fair value and changes in fair value are recognized in the statement of income. As a result of the significant reduction in the arithmetic Average HOEP, the fair value of the derivative increased to $118 million in 2009. The increase in the fair value of this derivative is recognized as a reduction to non-electricity generation revenue, offset by the impact of the Bruce Lease Net Revenues Variance Account.

In addition, the decrease in non-electricity generation revenue, excluding the impact of regulatory variance accounts, in 2009 compared to 2008, was primarily due to lower revenue from nuclear technical and engineering services provided to third parties. This decrease was partially offset by higher revenue from the Portlands Energy Centre, which was declared in-service in April 2009.

In 2009, OM&A expenses were $2,882 million compared to $2,967 million in 2008. The decrease of $85 million in 2009 compared to 2008 was primarily due to higher discount rates which resulted in lower pension and OPEB costs, partially offset by an increase in outage and maintenance work and higher expenditures incurred for new nuclear generation development and capacity refurbishment activities. The higher expenditures related to the new nuclear generation development and capacity refurbishment activities were partially offset by a reduction in OM&A expenses as a result of the change to the regulatory liabilities related to these initiatives for 2009 when compared to 2008.

Accretion expense in 2009 was $634 million compared to $581 million in 2008. The increase of $53 million was primarily due to the increase in the present value of the liability due to the passage of time, and the discontinuance, effective April 1, 2008, of the deferral account associated with the increases in OPG's liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management ("Nuclear Liabilities") arising from the 2006 approved reference plan in accordance with the terms of the Ontario Nuclear Funds Agreement ("2006 Approved Reference Plan"). Accretion expense was reduced in 2008, through the deferral account, by $19 million.

Earnings from the Nuclear Funds in 2009 were $683 million compared to losses of $93 million in 2008. The earnings from the Nuclear Funds, before the impact of the Bruce Lease Net Revenues Variance Account, were $802 million in 2009 compared to losses of $426 million in 2008, an increase of $1,228 million. The increase in the earnings from the Nuclear Funds in 2009 compared to 2008 was primarily due to improvements in valuation levels of global financial markets, which increased the current market value of the Decommissioning Segregated Fund ("Decommissioning Fund"). This increase was partially offset by reductions in the Ontario Consumer Price Index ("CPI") during the first half of 2009, which impacted the guaranteed return on the Used Fuel Segregated Fund ("Used Fuel Fund"). In 2009, OPG recorded a reduction to the Bruce Lease Net Revenues Variance Account regulatory asset of $119 million, which decreased the reported earnings from the Nuclear Funds.

For the year ended December 31, 2009, income tax expense was $145 million compared to $183 million for the same period in 2008. The decrease in income tax expense was primarily due to lower income before earnings from the Nuclear Funds, and a lower income tax component of the Bruce Lease Net Revenues Variance Account in 2009. Earnings on the Nuclear Funds are not taxable, and losses are not deductible, when incurred. The income tax expense in 2008 was favourably affected by a reduction in income tax liabilities as a result of the resolution of a number of tax uncertainties related to the audit of OPG's 1999 taxation year.

Average Sales Prices

The weighted average Ontario spot electricity market price and OPG's average sales prices by reportable electricity segment, net of the revenue limit rebate for the years ended December 31, 2009 and 2008, were as follows:

(¢/kWh)	**2009**	**2008**
Weighted average hourly Ontario spot electricity market price	**3.2**	5.2
Regulated – Nuclear Generation	**5.5**	5.3
Regulated – Hydroelectric	**3.7**	3.9
Unregulated – Hydroelectric	**3.2**	4.8
Unregulated – Thermal	**3.9**	5.0
OPG's average sales price	**4.5**	4.9

The weighted average hourly Ontario spot electricity market price was 3.2¢/kWh for 2009 compared to 5.2¢/kWh for 2008. The significant decrease in the average Ontario spot electricity market price for 2009 compared to 2008 was primarily due to lower Ontario primary demand, and lower natural gas and coal prices, partially offset by the impact of a weaker Canadian dollar.

The decrease in average sales prices for the unregulated segments for 2009 compared to 2008 was primarily due to the impact of lower Ontario spot electricity market prices.

The average sales price for the Regulated – Nuclear Generation segment for 2009 compared to 2008 was primarily impacted by the increase in the regulated prices effective April 1, 2008, resulting from the OEB's decision in December 2008.

For the Regulated – Hydroelectric segment, the decrease in the average electricity sales price for 2009 compared to 2008 was primarily due to the impact of lower electricity market prices on the revenue from the regulated hydroelectric incentive mechanism. The impact of the decrease was partially offset by the increase in the regulated prices resulting from the OEB's decision in 2008.

The term of the revenue limit rebate ended April 30, 2009. The revenue limit was 4.7¢/kWh for the period May 1, 2007 to April 30, 2008, and increased to 4.8¢/kWh for the period May 1, 2008 to April 30, 2009.

Electricity Generation

OPG's electricity generation for the years ended December 31, 2009 and 2008, was as follows:

(TWh)	**2009**	**2008**
Regulated – Nuclear Generation	**46.8**	48.2
Regulated – Hydroelectric	**19.4**	18.8
Unregulated – Hydroelectric	**16.8**	17.6
Unregulated – Thermal	**9.5**	23.2
Total electricity generation	**92.5**	107.8

Total electricity generated during 2009 from OPG's generating stations was 92.5 TWh compared to 107.8 TWh during 2008. The decrease was primarily due to lower electricity generation from OPG's thermal and nuclear generating stations.

The decrease in generation from the thermal generating stations in 2009 compared to 2008 was primarily due to the impact of lower primary demand in Ontario and higher electricity generation from other generators in Ontario.

The decrease in generation from the nuclear generating stations for 2009 compared to 2008 was primarily due to the planned vacuum building outage ("VBO") at the Darlington nuclear generating station and an increase in planned outage days at the Pickering A and B nuclear generating stations.

The lower generation at OPG's unregulated hydroelectric generating stations in 2009 compared to 2008 was primarily due to lower water levels and the impact of controlled water spills due to unusual Surplus Baseload Generation ("SBG") conditions.

Ontario primary electricity demand was 139.2 TWh and 148.7 TWh for 2009 and 2008, respectively. The decrease in primary demand for 2009 was primarily due to the recession, and the effects of unseasonably cool summer weather compared to 2008.

OPG's operating results are impacted by changes in demand resulting from variations in seasonal weather conditions. The following table provides a comparison of Heating and Cooling Degree Days for the years ended December 31:

	2009	**2008**
Heating Degree Days [1]		
Total for year	**3,806**	3,807
Ten-year average	**3,691**	3,662
Cooling Degree Days [2]		
Total for year	**203**	279
Ten-year average	**360**	384

1 Heating Degree Days are recorded on days with an average temperature below 18°C, and represent the aggregate of the differences between the average temperature and 18°C for each day during the period, as measured at Pearson International Airport in Toronto, Ontario.

2 Cooling Degree Days are recorded on days with an average temperature above 18°C, and represent the aggregate of the differences between the average temperature and 18°C for each day during the period, as measured at Pearson International Airport in Toronto, Ontario.

Heating Degree Days in 2009 were comparable to the Heating Degree Days in 2008, but higher when compared to the ten year average due to colder than average temperatures in 2009. Cooling Degree Days for 2009 decreased compared to 2008, and were lower than the ten year average, due to cooler than average temperatures in 2009.

Cash Flow from Operations

Cash flow provided by operating activities for 2009 was $299 million compared to cash flow provided by operating activities of $870 million for 2008. The decrease in cash flow was primarily due to lower cash receipts as a result of lower unregulated generation sales and higher income tax installments in 2009, when compared to 2008. The decrease in cash flow was partially offset by lower coal purchases, a decrease in the revenue limit rebate payments with the discontinuance of the revenue limit rebate in the second quarter of 2009, and lower contributions to the nuclear fixed asset removal and nuclear waste management funds in 2009 compared to 2008.

Recent Developments

Thermal Generating Stations Unit Closure

In September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations. This decision, based on the impact of the CO_2 limit, forecast surplus capacity, and demand profiles, will result in reductions in OM&A expenses beyond 2010. The closures are expected to occur in October 2010.

OPG has notified key stakeholders, including the Society of Energy Professionals and the Power Workers' Union, of the decision in accordance with their respective collective bargaining agreements. The termination costs are estimated to be up to $35 million and are expected to be recorded in 2010 when they are finalized.

As of August 31, 2009, the total net book value of the four units that are subject to the closure plan was $43 million. Effective September 2009, as a result of the approved unit closure, OPG revised the units' end of life, for accounting purposes, to October 2010 from December 2014. OPG expects to recover the net book values of the units from the OEFC contingency support agreement according to the revised service lives. Accordingly, OPG did not record an impairment loss for the units.

Recent Electricity Market Conditions

Since the spring of 2009, the Ontario electricity market has experienced numerous periods with Surplus Baseload Generation conditions that have produced extremely low off-peak market prices. SBG conditions were due to low off-peak electricity demand, both as a result of the weak economy and a cool summer, and high output from hydroelectric and nuclear generating stations, combined with an increase in electricity generated from wind. SBG was further exacerbated in March and April by an outage to the Ontario–New York interties which significantly reduced Ontario's capability to export electricity to neighbouring markets during SBG conditions and by commissioning tests of gas-fired generation in June. In periods of SBG, OPG has had to bypass/spill water from hydroelectric generating units and, on occasion, reduce the output from its nuclear generation. During 2009, the SBG conditions resulted in an estimated reduction in OPG generation of approximately 0.6 TWh. The IESO is working with stakeholders to determine how best to manage SBG conditions, given the operating limitations of the generators in the Ontario electricity market. The factors considered by the IESO include safety, regulation, environment, and potential equipment damage.

Green Energy Act

In May 2009, the Green Energy Act received Royal Assent. The Green Energy Act is intended to bring more renewable energy sources to the Province and to create more energy efficiency measures to help conserve energy. The act offers Feed-in Tariffs ("FIT") for wind, solar, biomass and small hydro developments. The FIT contract form was posted on September 30, 2009 and the 60-day window to apply for FIT contracts began October 1, 2009. Results of this application process are expected to be announced in the spring of 2010. New wind capacity is expected to have the largest impact on Ontario supply. About half of the wind energy is likely to be produced in off-peak hours and is expected to exacerbate SBG conditions. Whether this increases the amount of water spilled at OPG's hydroelectric generating stations and results in more manoeuvring or shutdown of OPG's nuclear units will depend on the application of curtailment provisions being developed by the IESO to address SBG conditions.

OEB Report on Cost of Capital

In December 2009, the OEB released its Report on the Cost of Capital for Ontario's Regulated Utilities, establishing a new cost of capital policy for regulated utilities in Ontario. The new policy will be effective for all utilities filing cost of service applications for rates commencing in 2010. The new policy refines the methods the OEB will use to determine both debt and equity costs. As outlined in the report, the OEB continued the use of an equity risk premium approach to set return on equity ("ROE"). Based on September 2009 data, the cost of capital or ROE is 9.75 percent, based on an equity risk premium of 5.50 percent and a Long-Canada bond yield of 4.25 percent. OPG's current regulated prices are based on an allowed ROE of 8.65 percent. The OEB also refined its ROE adjusting formula to capture changes in both Long-Canada and corporate bond rates.

Lennox Generating Station

The Lennox generating station operated under a RMR contract with the IESO, as approved by the OEB, for the period beginning on October 1, 2008 to September 30, 2009. This contract was justified on the basis of analysis by the IESO that all four units at the Lennox generating station were required for the purpose of local area reliability during the period. Given an indication from the OPA that it would require the four units at the Lennox generating station, as documented in the OPA's preliminary Integrated Power System Plan, OPG continued to operate the facility following the expiry of the RMR contract. On January 6, 2010, the Minister of Energy and Infrastructure issued a Directive to the OPA to contract with OPG for the capacity of the station commencing October 1, 2009. OPG and the OPA are working towards execution of a new agreement.

VISION, CORE BUSINESS AND STRATEGY

OPG's mandate is to cost-effectively produce electricity from its diversified generating assets, while operating in a safe, open, and environmentally responsible manner. OPG's goal is to be a leader in clean energy generation and to have a major role in leading Ontario's transition to a more sustainable energy future. OPG is focused on three corporate strategies: performance excellence; generation development; and developing and acquiring talent.

Performance Excellence

Each of OPG's business segments and corporate groups exhibit the Company's commitment to performance excellence in the areas of generation, safety, the environment, and fiscal performance. It is through this focus on performance excellence that OPG is able to efficiently and reliably provide electricity to the Province and deliver value to its Shareholder.

Nuclear Generating Assets

Performance excellence at OPG's nuclear generating facilities is defined as generating safe, efficient, reliable and cost effective electricity through dependable performance. This is achieved through the effective execution of work programs and initiatives in the four cornerstones of safety, reliability, human performance and value for money. On-going monitoring and independent oversight of these key focus areas ensures alignment and focus in the implementation of this strategy.

OPG continually benchmarks the practices, processes and results of its nuclear generating facilities against other top performing nuclear facilities around the world. In 2009, a significant benchmarking effort focusing on the four cornerstones was undertaken to assess the performance of the nuclear generating facilities against those in the industry. Initiatives were identified and implemented to drive OPG towards top quartile performance over the 2010 to 2014 period.

Nuclear safety, employee safety and environmental safety are the overriding priorities. Overall safety performance is strong at OPG's nuclear sites where most of the safety metrics are considered industry top quartile, including the All Injury Rate ("AIR") and the Accident Severity Rate ("ASR"). Nuclear inspection and testing programs are largely driven by maintenance governance requirements designed to ensure that equipment is fit for service and performs as expected. This enables OPG to satisfy regulatory requirements that the stations are safe to operate, and that nuclear safety is not compromised.

Reliability involves operating and maintaining OPG's nuclear facilities such that equipment, performance, availability, and output are optimized. Improved equipment reliability helps reduce generation interruptions, which in turn facilitates the efficient planning and execution of outages to realize generation potential. Programs and initiatives such as Work Order Readiness and the Standard Equipment Reliability Program have been implemented to mitigate technological risks through effective inspection and testing activities. Reducing maintenance backlogs to improve equipment reliability is another major aspect of achieving performance excellence. The nuclear generating stations have all shown consistent improvement in maintenance backlog metrics. OPG's maintenance strategy is evolving from programs designed to improve equipment condition into initiatives that increase the reliability and predictability of performance through comprehensive life cycle maintenance of systems.

Reliability improvements were demonstrated through the successful execution of the VBO at the Darlington station in 2009, where 25,000 tasks were completed and an all-time high daily task completion rate was achieved. Plans are in place to perform major scheduled maintenance over the next three years, including a VBO at the Pickering stations in addition to ongoing maintenance work, including steam generator inspections and maintenance, feeder inspections and replacements, turbine maintenance and fuel channel inspections. OPG is also focused on reducing the quantity and duration of planned outages to increase generation time. The planned outage schedule at the Darlington station has moved from a two-year cycle to a three-year cycle. The reduction in outage duration targeted at the nuclear stations reflects ongoing and new programs aimed at improving the planning, execution, monitoring and reporting of outage work, as well as, reducing outage costs and increasing generation.

Human performance involves measuring the ability of individuals to follow processes and procedures, and to operate in a nuclear environment with a strong safety and performance culture. OPG's nuclear generating stations performed well in the area of managing human performance in 2009, as evidenced by a low number of human performance events, a common industry defined measure that is reported by all nuclear facilities. OPG's nuclear business segment continues to implement its hiring and training programs to improve employee performance and promote leadership development, while addressing demographic issues.

The value for money cornerstone involves delivering solutions that represent the best combination of cost, quality, and human performance. In 2009, a comprehensive benchmarking study was conducted to develop aggressive, yet balanced performance targets. Accordingly, business unit plans incorporate a number of performance improvement initiatives. These initiatives, combined with ongoing cost control efforts, are expected to result in lower production unit energy costs, while sustaining or improving operational performance.

Hydroelectric Generating Assets

The hydroelectric business segment is focused on producing electricity in a safe, reliable and cost-effective and efficient manner. OPG plans to continue to increase the capacity of many of the existing stations over the upcoming years by replacing aging equipment such as turbines, generators, transformers, and other control components with more efficient equipment.

The hydroelectric business segment has the following objectives:

- Sustain and improve the existing hydroelectric assets for the long-term;
- Operate and maintain hydroelectric facilities in an efficient and cost effective manner;
- Seek to expand and develop existing hydroelectric stations where feasible;
- Maintain and improve reliability performance where practical and economical;
- Maintain an excellent employee safety record by ensuring that all worker safety laws are met, and Safety Management Processes and activities are performed conservatively and responsibly;
- Strive for continuous improvement in the areas of dam and waterways public safety and environmental performance; and
- Build and improve relationships with First Nations and Métis.

OPG plans to increase the capacity of existing stations by 50 MW over the next five years by replacing existing turbine runners and installing more efficient equipment. The replacement of control equipment will also improve efficiency and accommodate market dispatch requirements. OPG is also planning to repair, rehabilitate, or replace aging civil structures. The development of additional pumped storage facilities is being considered to offset operating challenges related to the increasing wind generation in Ontario.

OPG completed major equipment overhauls and rehabilitation work at several stations during 2009, including a major rehabilitation of Unit 9 at Sir Adam Beck hydroelectric generating station, and runner upgrades and major overhauls at Unit 6 of Des Joachims, Unit 4 of Cameron Falls, Units 1 and 2 of Mc Vittie, and Unit 2 of the Ragged Rapids hydroelectric generating stations.

In 2009, OPG implemented a number of strategies related to its Aboriginal Relations Policy. The strategies include negotiating past grievance settlements, working with First Nations to explore hydroelectric business development opportunities, and developing employment and contracting opportunities, capacity building, and community relations programs. OPG completed its first partnership arrangement in 2009 with an Aboriginal community, the Lac Seul First Nation, as part of the development of the Lac Seul generating station.

OPG is continuing to address the demographic challenges faced by its hydroelectric business unit by hiring graduate trainees, and training staff to perform new roles. OPG mentors these new employees in safe work practices and technical skills to ensure continuing safety, environmental and reliability, and cost performance.

Thermal Generating Assets

Thermal capacity provides the system flexibility required to enable expansion of Ontario's renewable generation portfolio. This requires the continued maintenance and staffing of coal and other thermal generating plants in a manner which is appropriate to their role and mode of operation. Coal generating assets will be positioned to produce the required volume of electricity and ancillary services while operating in a reliable, cost effective, safe, open, and environmentally responsible manner.

In the longer term, the thermal business segment will cease coal-fuelled operations by 2014 and is exploring options and the feasibility to move to lower CO_2 emission fuels such as biomass, natural gas and gas-biomass dual-fuel. Thermal generating stations have the potential to provide the Province with load-following ramp capability to complement non-dispatchable renewable energy sources. In the meantime, all OPG thermal generating stations will be maintained and staffed to be available when they are needed.

The demographic challenges associated with the planned closure of four coal-fired units in 2010 are being managed through the mechanisms of the collective agreements, augmented with ongoing discussions and cooperation with union representatives. Additionally, strategies are under development with respect to the demographic challenges associated with the changing operational profiles of the stations upon unit conversion.

The thermal business segment's safety strategy is based on the ISO18000 Health and Safety managed system process. Through these managed systems and ongoing risk assessments, the thermal business places a priority on investments to mitigate and eliminate health and safety matters at its stations.

Environmental Performance

OPG's Environmental Policy states that "OPG will strive to continually improve its environmental performance." This policy further commits OPG to meet all legal requirements and voluntary commitments, with the objective of exceeding those standards where appropriate and feasible. Other goals include integrating environmental factors into business planning and decision-making, and maintaining environmental management systems.

OPG sets key performance targets which form part of the Corporate and Fleet Scorecards. Targets are established for a wide spectrum of environmental indicators, including: spills; air emissions inclusive of Nitrogen Oxides ("NO_x"), Sulphur Dioxide ("SO_2"), radionuclide emissions, radiological waste and dioxins/furans emissions; regulatory infractions; and energy efficiency improvements.

OPG manages air emissions of NO_x and SO_2 through the use of specialized equipment such as scrubbers, low NO_x burners, and Selective Catalytic Reduction ("SCR") equipment and the purchase of low sulphur fuel.

OPG monitors emissions into the air and water and regularly reports the results to regulators including the Ministry of the Environment, Environment Canada, and the Canadian Nuclear Safety Commission ("CNSC"). The public also receives ongoing communications regarding OPG's environmental performance. OPG has developed and implemented internal monitoring, assessment, and reporting programs to manage environmental risks such as air and water emissions, discharges, spills, the treatment of radioactive emissions, and radioactive wastes. OPG also continues to address historical land contamination through its voluntary land assessment and remediation program.

OPG's environmental performance for 2009 met, or outperformed targets, regarding all spills, infractions, energy efficiency, production of radiological waste, and dioxins/furans emissions. OPG met its external regulatory target for tritium emissions, but did not meet the stringent internal target set by the Company. OPG also maintained its ISO 14001 certification for its corporate level EMS and all of its generating stations. Certain units at the Lambton and Nanticoke generating stations are equipped with SCR technology for NO_x removal. These units met their external regulatory emission limits; however internal emission targets set by the Company for NO_x removal were not met due to equipment issues and the operation of these units at low loads, which compromised the SCR operation. Acid gas (SO_2 and NO_x) emissions were 42.8 gigagrams ("Gg") in 2009 compared to 104.8 Gg in 2008. The decrease in acid gas emissions was primarily a result of decreased generation from the thermal facilities.

The Federal Government did not release proposed greenhouse gas ("GHG") emission regulation in 2009. Indications are that the Federal Government is now considering a cap-and-trade regime aligned with the developments in the U.S. OPG continues to monitor developments related to the Federal Government proposed regulation of GHG emissions.

The Ontario government is also taking steps to implement a GHG cap-and-trade regime. In July 2008, the Province of Ontario joined the Western Climate Initiative ("WCI"), committing to implement a cap-and-trade regime by 2012. In 2009, the Province passed regulations enabling the development of a cap-and-trade regime and requiring facilities that emit 10,000 Mg or more to monitor, measure, and report 2010 emissions in 2011. OPG will comply with the 2010 requirements and will continue to monitor developments of the cap-and-trade regime.

To achieve further improvements in OPG's greenhouse gas emissions, OPG launched its Greenhouse Gas Management Plan in 2007. The plan focuses on: improving the energy efficiency of OPG's facilities, the use of biofuels as a partial replacement for coal, researching the impact of climate change on OPG's operations, expanding the tree planting effort through OPG's extensive biodiversity program, and an education program for employees.

In May 2008, the Province announced new annual limits on CO_2 emissions from OPG's coal-fired generating stations to ensure that such emissions are reduced by two-thirds of the 2003 levels by 2011. A draft regulation under the *Environmental Protection Act* requires a reduction in OPG's CO_2 emissions to an annual limit of 11.5 million tonnes beginning on January 1, 2011, one third of the 34.5 million tonnes of CO_2 emissions produced in 2003. In accordance with the May 15, 2008 Shareholder Declaration and the May 16, 2008 Shareholder Resolution, OPG developed a strategy to meet, on a forecast basis, the interim CO_2 emission targets of 19.6 million tonnes in 2009 and 15.6 million tonnes in 2010. OPG submitted the 2010 implementation strategy to the Minister of Energy and Infrastructure on November 27, 2009.

For 2009, CO_2 emissions were 10.0 million tonnes compared to 23.0 million tonnes for 2008. Emissions were significantly reduced as a result of lower generation from OPG's coal-fired stations during 2009 compared to the same period in 2008 primarily due to the impact of lower primary demand in Ontario and higher electricity generation from other generators in Ontario. OPG continues to employ its CO_2 implementation strategy to meet the emission targets.

Safety

OPG is committed to achieving excellent safety performance, striving for continuous improvement and the ultimate goal of zero injuries. Safety performance is measured using two primary indicators, the ASR and the AIR. Overall, the Company's safety performance is consistently one of the best among Canadian electrical utilities, OPG was awarded the Canadian Electricity Association's President's Safety Award (Groups I and II) in six out of the last nine years, in recognition of its top quartile safety performance in ASR and AIR. In 2009, OPG was also honoured with a Gold Award from the Electrical and Utilities Safety Association, in recognition of four consecutive years of sustaining an effective safety management system and a strong safety culture.

OPG's 2009 ASR performance of 1.40 days lost per 200,000 hours was an improvement over the 2008 ASR performance of 1.47 days lost per 200,000 hours. The 2009 ASR was the best in OPG's history with a number of sites reaching major safety milestones with no lost time injuries, demonstrating progress towards reaching the goal of zero workplace injuries. OPG's 2009 AIR was 1.19 injuries per 200,000 hours worked which was slightly higher than the Company's 2008 AIR of 1.15 injuries per 200,000 hours worked.

OPG is committed to achieving its goal of zero injuries through further development of a strong safety culture and continuous improvement in safety management systems and risk control programs. One of the key strategies used to achieve this improvement has been through maintenance of formal safety management systems based on the British Standard Institution's Occupational Health and Safety Assessment Series 18001 ("OHSAS 18001"). These systems exist at both the corporate and site levels, and serve to focus OPG on proactively managing safety risks and developing targeted risk mitigation programs. Under this plan, OPG has identified improvement programs to continue building a strong safety culture where employees take personal responsibility for safety, and focus on key risks that include enhanced musculoskeletal disorder prevention programming and identifying opportunities to prevent incidents involving electrical safety and falling objects.

Inherent in OPG's contractor management program is the expectation that its contractors maintain a level of safety equivalent to that of OPG's employees. Since 2005, OPG's AIR for construction contractors has compared favourably against the Ontario construction industry as measured by the Construction Safety Association of Ontario.

OPG continues to demonstrate leadership in safety through a commitment to young worker safety in the communities where OPG operates, participating in initiatives to raise awareness on the importance of workplace safety.

Progress in safety performance and improvement initiatives is monitored regularly through ongoing management reporting. Oversight activities also include internal and external audits of OPG's safety management system and audits on specific operational risks. OPG also has a rigorous incident management system, which requires that all incidents, including near misses, be reported and investigated, and that corrective action plans are developed to ensure that reoccurrences are prevented. An initiative is underway to improve OPG's investigation process in order to further improve lessons learned from safety incidents and prevent reoccurrences.

Financial Sustainability

OPG's financial priority, operating as a commercial enterprise, is to achieve a sustainable level of financial performance. Inherent in this priority are the objectives of earning an appropriate return on OPG's regulated assets; optimizing prices for production from unregulated assets; identifying and exploring efficiency improvement opportunities; and ensuring that sufficient funds are available to achieve its strategic objectives of performance excellence and generation development. OPG has employed a number of strategies to achieve a level of sustainable financial performance.

OPG's mandate, as agreed with its Shareholder, states that: as an Ontario Business Corporations Act corporation with a commercial mandate, OPG will operate on a financially sustainable basis and maintain the value of its assets for its Shareholder, the Province.

OPG receives regulated prices for electricity produced from its nuclear generating stations and most of its baseload hydroelectric generating stations. A significant portion of OPG's generation remains unregulated and continues to be sold at the Ontario spot electricity market price. The income from the unregulated generating stations has been negatively impacted in 2009 by significantly lower Ontario spot electricity market prices, a decrease in demand, and higher generation from other generators in Ontario. OPG is pursuing opportunities for increasing revenue and decreasing expenditures as a means of maintaining appropriate levels of profitability. The focus on cost reduction includes efficiency improvements and the potential for deferring work or reducing scope of work without impacting health and safety.

To the extent that additional funds beyond those generated from operations are required, OPG seeks agreement with its Shareholder on options to ensure that adequate financing resources are available to fund ongoing operational requirements and new generation development. By ensuring access to cost-effective funding and maintaining its investment grade credit ratings, OPG will ensure its status as a long-term, commercially viable investment. OPG is also ensuring that sufficient funds are available to achieve its strategic objectives while continuing to seek opportunities to diversify its sources of funding and increase its access to cost-effective capital, as discussed under the heading, *Liquidity and Capital Resources.*

OPG seeks to minimize cost of capital by targeting financial metrics that are consistent with an investment grade credit rating. OPG monitors capital on the basis of the ratio of total debt to total capitalization. Total debt is maintained at a level that provides OPG with sufficient financial flexibility to issue debt when required. The management of capital structure would consider both the metrics consistent with the target credit rating as well as the deemed capital structure of 53 percent debt and 47 percent equity established by the OEB decision on rates for the regulated operations.

Generation Development

OPG is pursuing a number of generation development opportunities including capacity expansion and life extension opportunities where possible. Increasing the production potential of existing infrastructure reduces the environmental impact of meeting Ontario's electricity demands. Pursuing opportunities to leverage existing sites and assets will enable OPG to realize additional benefits from these assets. OPG's major projects include nuclear station refurbishment, new hydroelectric generation and plant upgrades, and the conversion of some of the coal-fired generating units to alternate fuels.

New Nuclear Units

On June 29, 2009, the Government of Ontario suspended the competitive Request for Proposal ("RFP") process to procure two new nuclear reactors planned for the Darlington site. In the announcement, the Government indicated that the competitive RFP process did not provide Ontario with a suitable option at this time. The bids that were received during this process have subsequently expired. The Government has not yet announced its revised plans for procurement of two new nuclear reactors. OPG continues with two initiatives that were underway – the environmental assessment process and obtaining a site preparation licence. On September 30, 2009, OPG submitted the Environmental Impact Statement ("EIS") and an updated application for the "Licence to Prepare Site" to the Canadian Environmental Assessment Agency ("CEAA") and the CNSC. On November 16, 2009, the Joint Review Panel ("JRP") announced the start of the six-month public review period for the EIS and the "Licence to Prepare Site". On February 3, 2010, the JRP requested additional information in support of the EIS and application for the "Licence to Prepare Site".

Darlington Refurbishment Project

In February 2010, OPG announced its decision to commence the detailed planning phase project for the refurbishment of the Darlington nuclear generating station. The average end of service life for the Darlington nuclear station units, for the purposes of calculating depreciation, is 2019. The objective of the refurbishment is to extend the operating life to provide an additional 30 years of nuclear generation. The refurbishment would involve an outage for the replacement of life-limiting components, as well as maintenance or replacement of other components which are most effectively done during the refurbishment outage period.

In the detailed planning phase, all regulatory work will be completed including the Environmental Assessment ("EA"), the Integrated Safety Review ("ISR"), and the Integrated Improvement Plan ("IIP"). As part of the definition phase, OPG will also complete engineering and detailed project planning, establish the project management organization, develop required infrastructure, and prepare a detailed cost and schedule estimate for project approval by mid-2014, with construction expected to start in about 2016. A preliminary feasibility assessment has been completed based on the anticipated Darlington station refurbishment project scope and the expected operating life once refurbishment is complete.

Pickering B Continued Operations

In September 2009, OPG submitted its final Integrated Safety Review report for the Pickering B nuclear generating station to the CNSC. The report concluded that the station demonstrates a high level of compliance with modern codes and standards, and can be operated safely today and in the future. OPG anticipates the CNSC to render a decision on this report in mid-2010.

In February 2010, OPG announced its decision to continue the safe and reliable operation of OPG's Pickering B nuclear generating station. Pickering B nuclear generating units are currently predicted to reach their nominal end of life between 2014 and 2016. OPG is undertaking a coordinated set of initiatives to evaluate the opportunity to continue safe and reliable operations of Pickering B for an additional four to six years. When continued operations end, OPG will place the units into safe-storage and then begin the long-term decommissioning process.

Pickering A Units 2 and 3 Safe Storage

The Pickering A safe storage project includes de-fuelling, de-watering, and isolating Units 2 and 3 from the rest of the generating station, along with redesigning the control room for the remaining two operating units and placing the various systems in a safe state. De-fuelling of the units was completed in 2008 and de-watering was completed on January 4, 2010. During 2009, four permanent heavy water storage tanks were installed and 26 Polychlorinated Biphenyls ("PCB") oil-filled transformers were removed. Work is progressing on isolating the units and placing various sub-systems in a safe state. The project remains on schedule for completion in the fall of 2010 with a projected completion cost of $349 million. The 2009 and life-to-date expenditures on the project were $95 million and $276 million, respectively.

Niagara Tunnel

In June 2009, following the recommendations of a dispute review board, OPG and the contractor signed an amended design-build contract with a revised target cost and schedule. The target cost and schedule took into account the difficult rock conditions encountered and the concurrent tunnel excavation and liner installation work required to expedite completion of the tunnel. The amended contract includes incentives and disincentives related to achieving the target cost and schedule. OPG's Board of Directors approved a revised project cost estimate of $1.6 billion and a revised scheduled completion date of December 2013. Some uncertainty with respect to the cost and schedule for both the tunnel excavation and liner installation will continue.

As of December 31, 2009, the Tunnel Boring Machine ("TBM") has progressed 5,481 metres, which is 54 percent of the tunnel length. The advancement of the TBM was temporarily interrupted from September 11, 2009 to December 8, 2009 to repair a short section of the temporary tunnel liner that failed about 1,800 metres behind the TBM location at that time, and to complete a planned overhaul of the TBM cutterhead, conveyor systems and other tunnel construction equipment. Installation of the lower one-third of the permanent tunnel concrete lining is progressing ahead of schedule. Restoration of the circular cross-section of the tunnel before installation of the upper two-thirds of the concrete lining began, as planned, in September 2009. Installation of the upper two-thirds of the concrete lining is scheduled to begin in the spring of 2010.

The capital project expenditures for the year ended December 31, 2009 were $214 million and the life-to-date capital expenditures were $649 million. The project is debt financed through the OEFC. OPG is in the process of pursuing an amendment to the Niagara Tunnel project credit facility with the OEFC, consistent with the revised cost estimate of $1.6 billion and the revised schedule.

Lac Seul

The Lac Seul hydroelectric generating station was declared in-service in February 2009. The station has a capacity of 12.5 MW. The total project expenditures were $55 million. The project is debt financed through the OEFC.

OPG has entered into a partnership agreement with the Lac Seul First Nation ("LSFN") regarding the Lac Seul generating station. In July 2009, OPG transferred ownership of the station to the partnership. OPG has a 75 percent ownership interest in the partnership, while the LSFN have a 25 percent interest.

Upper Mattagami and Hound Chute

Construction activities to replace three existing hydroelectric generating stations on the Upper Mattagami River and the Hound Chute generating station on the Montreal River continued during 2009. As part of the redevelopment, the Hound Chute generating station was removed from service in July 2009. The redeveloped station will have a capacity of 10 MW, as compared to 4 MW at the original station.

Upon completion of the project, the total installed capacity of the four stations will increase from 23 MW to 44 MW, and the expected annual energy will increase from 134 gigawatt hours ("GWh") to 223 GWh. During 2009, construction activities and fabrication of supplied parts and systems proceeded as planned and certain major Water-to-Wire equipment was delivered. The generating stations are expected to be in-service by April 2011.

Project financing was completed in May 2009, and Senior notes totalling $200 million were issued. Life-to-date expenditures as of December 31, 2009 were $196 million. Total project costs are expected to be $300 million.

Lower Mattagami

OPG continues to proceed with project development activities on the planned Lower Mattagami development to increase the capacity of four stations from 483 MW to 933 MW. In January 2010, a design-build contract was finalized which will allow engineering and other preparations to continue in parallel with securing final regulatory approvals and negotiating a HESA with the OPA.

OPG has engaged in consultation discussions with Aboriginal communities regarding the project. A comprehensive agreement has been negotiated with the local First Nation that resolves grievances attributed to the construction and subsequent operation and maintenance of OPG facilities in the area. The new agreement will also provide the First Nation with an ability to purchase up to a 25 percent equity interest in the project. Discussions with other Aboriginal groups are ongoing.

The Federal Environmental Assessment ("EA") Comprehensive Study Report was issued for public comment in October 2009, and the public consultation process was completed at the end of 2009. The EA was submitted to the Federal Minister.

Unit Conversion Opportunities

The strategy to convert coal-fired units to alternate fuels continues to advance and is reflective of the changing operating environment in Ontario, including the regulated phase-out of coal-fired generation and conversion to alternative fuels such as biomass, natural gas and gas-biomass dual-fuelled. Detailed design engineering work on the conversion of the Atikokan generating station to biomass is progressing. OPG is also conducting concept phase engineering for possible conversion of other coal-fired units at other plants. OPG requires cost recovery agreements with the OPA for conversion of the units and the electricity generated post-conversion, before seeking Board of Directors approval to proceed with unit conversions. OPG is in discussion with the Ministry of Energy and Infrastructure to issue a directive to the OPA to negotiate a cost recovery agreement with OPG.

Portlands Energy Centre

OPG has a partnership arrangement with TransCanada Energy Ltd., through the Portlands Energy Centre L.P. ("PEC"), for the development and operation of a 550 MW gas-fired, combined cycle generating station on the site of the former R.L. Hearn generating station, near downtown Toronto. OPG has a 50 percent ownership interest in the joint venture, which operates under the terms of an Accelerated Clean Energy Supply ("ACES") contract with the OPA.

The PEC was declared in-service in a combined cycle mode in April 2009, earlier than its contractual in-service date of June 1, 2009. OPG's share of capital expenditures for the project was $370 million, including finance costs. Total project costs were within the approved budget. OPG's share of the project is debt financed through the OEFC.

Developing and Acquiring Talent

Essential to workforce management at any organization is good planning. OPG's ability to sustain on-going operations and the successful delivery of the portfolio of planned projects is dependent on developing and maintaining a talented and engaged workforce, and a strong leadership capability. OPG's resource strategy is to develop and acquire necessary talent focused on developing excellent leadership and the necessary resources to meet its business needs and address attrition in critical skill areas. OPG maintains a workforce planning system that compares forecast supply and demand for staff and skills and addresses any gaps. OPG also has an active succession planning program and continues to implement leadership development programs across the organization.

Skilled Workforce

As of December 31, 2009, OPG has approximately 12,100 full-time employees and approximately 1,000 contract, casual construction and non-regular staff. The majority of OPG's full-time employees are represented by two unions: approximately 7,000 by the Power Workers' Union (the "PWU") and approximately 3,800 by the Society of Energy Professionals (the "Society"). The current collective agreement between OPG and the PWU has a three-year term (April 1, 2009 – March 31, 2012). The current collective agreement between OPG and The Society has a five-year term (January 1, 2006 – December 31, 2010).

In addition to the regular workforce, construction and contract maintenance is performed through 22 craft unions with established bargaining rights on OPG facilities. These bargaining rights are either through the Electrical Power Systems Construction Association ("EPSCA") or directly with OPG. All the construction agreements will expire in April 2010. OPG, in conjunction with EPSCA, is actively involved in all aspects of negotiations.

CAPABILITY TO DELIVER RESULTS

Generating Assets

OPG continues to implement specific initiatives to improve the reliability and predictability of each nuclear generating station. These initiatives are designed to address the specific technology requirements, operational experience, and mitigate risks. The Darlington nuclear generating station has transitioned to a three-year outage cycle to take advantage of the physical condition of the plant, the availability of backup systems, and the ability to refuel during operations. The Pickering A and B nuclear generating stations will continue to focus on implementing targeted improvements in reliability.

OPG has increased the productive capacity of its hydroelectric stations, extended their service lives, and invested significant capital to replace aging equipment, upgrade runners, increase station automation, and enhance maintenance practices. Programs are in place to further improve the efficiency and availability of existing hydroelectric stations.

OPG will continue to maintain the reliability of its coal-fired generating stations to produce the electricity required until their scheduled closure dates, or upon conversion to alternative fuels.

In addition to the discussion in this section, OPG's capability to deliver results is affected by factors discussed in the *Risk Management* section.

ONTARIO ELECTRICITY MARKET TRENDS

In its 18-Month Outlook published on February 23, 2010, the IESO indicated that as of February 4, 2010, Ontario's installed electricity generating capacity was 35,485 MW. As of December 31, 2009, OPG's in-service electricity generating capacity was 21,729 MW or 61 percent of Ontario's capacity. The IESO reported that the outlook for the reliability of Ontario's electricity system remains positive over the next 18 months. The expected addition of 2,600 megawatts ("MW") of new and refurbished supply comprising of a mix of wind, water, nuclear, gas and biomass facilities over this period will reinforce and solidify Ontario's already positive electricity supply situation. The early shutdown of four coal-fired units, two units at Lambton and two units at Nanticoke for a reduction of 2,000 MW of generating capacity, is planned for 2010, but will have no undue impacts on energy adequacy or reliability in Ontario. The new intertie with Quebec provides 1,250 MW of transfer capability. The IESO Outlook incorporates the implementation of emission reductions for coal-fired generation in Ontario, which commenced in 2009.

The IESO expects energy demand to increase by 0.5 percent to 141.1 TWh during 2010, with a 0.6 percent increase to 141.9 TWh in 2011. The slight increase in demand is primarily attributable to expected modest economic recovery. The expected peak electricity demand during the summer of 2010, under normal weather conditions, is expected to decline and is forecast to be 23,556 MW. The IESO expects that the risk of SBG will be low until sometime in the spring of 2010, but will re-emerge in the summer of 2010, and might persist into the fall. Increasing embedded generation and conservation initiatives create the potential for SBG, although their effects are mitigated during winter when minimum overnight demand is affected by heating load.

Fuel prices can have a significant impact on OPG's revenue and gross margin. Uranium spot market prices displayed some variation during 2009. Spot prices began the year at U.S. $53 per pound and declined to a low of U.S. $40 per pound at the beginning of the second quarter. Spot market prices then peaked for the year at U.S. $54 per pound in June and have since generally declined to U.S. $45 per pound at the end of 2009. Long-term uranium prices began the year at U.S. $70 per pound then displayed a slow decline to U.S. $62 at the end of 2009.

For most of 2009, natural gas prices at Henry Hub have been under strong downward pressure due to the economic recession, declining demand, and strong production in the United States. Natural gas prices have rebounded in December 2009 to U.S. $5.56/MMBtu, significantly higher than in recent months and reaching the highest level since December 2008. Gas prices at Henry Hub averaged U.S. $4.41/MMBtu in the fourth quarter, 39 percent above the prices in the third quarter of 2009, but still 31 percent below the fourth quarter of 2008. Eastern bituminous coal prices have experienced a similar trend. After reaching an all time high during the third quarter of 2008, prices have been under strong downward pressure and averaged around U.S. $53.00/tonne during the fourth quarter of 2009, a decline of 49 percent compared to the fourth quarter of 2008. Powder River Basin coal prices, which averaged U.S. $13.50/tonne during the fourth quarter of 2008, had declined to about U.S. $8.85/tonne by June 2009 and has stayed at approximately that level for the balance of the year. Powder River Basin coal prices averaged U.S. $8.80/tonne during the fourth quarter of 2009, which is a decline of 35 percent compared to the same period in 2008.

BUSINESS SEGMENTS

OPG has five reportable business segments. The business segments are Regulated – Nuclear Generation, Regulated – Nuclear Waste Management, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Thermal. Prior to the fourth quarter of 2008, OPG had four reportable business segments as described in *The Company* section.

OPG has entered into various energy and related sales contracts to hedge commodity price exposure to changes in electricity prices associated with the spot market for electricity in Ontario. Contracts that are designated as hedges of OPG's generation revenues are included in the Unregulated – Hydroelectric and Unregulated – Thermal generation segments. Gains or losses from these hedging transactions are recognized in revenue over the terms of the contract when the underlying transaction occurs.

Regulated – Nuclear Generation Segment

OPG's Regulated – Nuclear Generation business segment operates in Ontario, generating and selling electricity from the nuclear generating stations that it owns and operates. The business segment includes electricity generated by the Pickering A and B, and Darlington nuclear generating stations. This business segment also includes revenue under the terms of a lease arrangement with Bruce Power related to the Bruce nuclear generating stations. This arrangement includes lease revenue and revenue from engineering analysis and design, technical and other services. Revenue is also earned from isotope sales and ancillary services. Ancillary revenues are earned through voltage control and reactive support.

Regulated – Nuclear Waste Management Segment

OPG's Regulated – Nuclear Waste Management segment engages in the management of used nuclear fuel and low and intermediate level waste, the decommissioning of OPG's nuclear generating stations (including the stations on lease to Bruce Power), the management of the Nuclear Funds, and related activities including the inspection and maintenance of the waste storage facilities. Accordingly, accretion expense on the Nuclear Liabilities and earnings (losses) from the Nuclear Funds are reported under this segment.

As the nuclear generating stations operate over time, OPG incurs variable costs related to nuclear used fuel and low and intermediate level waste generated. These costs increase the Nuclear Liabilities through the generation of additional used nuclear fuel bundles and other waste. These variable costs are charged to current operations in the Regulated – Nuclear Generation segment to reflect the cost of producing energy and earning revenue under the Bruce Power lease arrangement. Since variable costs increase the Nuclear Liabilities in the Regulated – Nuclear Waste Management segment, OPG records an inter-segment charge between the Regulated – Nuclear Generation and the Regulated – Nuclear Waste Management segments. The impact of the inter-segment charge between these segments is eliminated on OPG's consolidated statements of income and balance sheets.

The Regulated – Nuclear Waste Management segment is considered regulated because the costs associated with the Nuclear Liabilities are included in the calculation of regulated prices for production from OPG's regulated nuclear facilities by the OEB.

Regulated – Hydroelectric Segment

OPG's Regulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from most of the Company's baseload hydroelectric generating stations. The business segment is comprised of electricity generated by the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and the R.H. Saunders hydroelectric facilities. Ancillary revenues are earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control and reactive support, certified black start facilities and automatic generation control.

Unregulated – Hydroelectric Segment

The Unregulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from its hydroelectric generating stations that are not subject to rate regulation. Ancillary revenues are earned through offering available generating capacity as operating reserve, and the supply of other ancillary services including voltage control and reactive support, certified black start facilities, automatic generation control, and other services.

Unregulated – Thermal Segment

The Unregulated – Thermal business segment operates in Ontario, generating and selling electricity from its thermal generating stations, which are not subject to rate regulation. Ancillary revenues are earned through offering available generating capacity as operating reserve, and the supply of other ancillary services including voltage control and reactive support, automatic generation control, and other services.

Other

The Other category includes revenue that OPG earns from its 50 percent joint venture share of the Brighton Beach Power Limited Partnership ("Brighton Beach") related to an energy conversion agreement between Brighton Beach and Coral Energy Canada Inc. This category also includes revenue that OPG earns from its 50 percent share of the results of the PEC gas-fired generating station, which is co-owned with TransCanada Energy Ltd and is operated under the terms of an ACES contract with the OPA. The revenue and expenses related to OPG's trading and other non-hedging activities are also included in the Other category. As part of these activities, OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate primarily to physical energy that is purchased and sold at the Ontario border, sales of financial risk management products and sales of energy-related products. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in other revenue as gains or losses. In addition, the Other category includes revenue from real estate rentals.

KEY GENERATION AND FINANCIAL PERFORMANCE INDICATORS

Key performance indicators that directly pertain to OPG's mandate and corporate strategies are measures of production efficiency, cost effectiveness, and environmental performance. OPG evaluates the performance of its generating stations using a number of key performance indicators, which vary depending on the generating technology. These indicators are defined in this section and are discussed in the *Discussion of Operating Results by Business Segment* section.

Nuclear Unit Capability Factor

OPG's nuclear stations are baseload facilities as they have low marginal costs and are not designed for fluctuating production levels to meet peaking demand. The nuclear unit capability factor is a key measure of nuclear station performance. It is the amount of energy that the unit(s) generated over a period of time, adjusted for externally imposed constraints such as transmission or demand limitations, as a percentage of the amount of energy that would have been produced over the same period had the unit(s) produced maximum generation. Capability factors are primarily affected by planned and unplanned outages. Capability factors by industry definition exclude grid-related unavailability and high lake water temperature losses.

Thermal and Hydroelectric Equivalent Forced Outage Rate ("EFOR")

OPG's thermal stations provide a flexible source of energy and may operate as baseload, intermediate and peaking facilities, depending on the characteristics of the particular stations and demand of the market. OPG's hydroelectric stations, which operate as baseload, intermediate, and peaking stations, provide a safe, reliable and low-cost source of renewable energy. A key measure of the reliability of the thermal and hydroelectric generating stations is the proportion of time they are available to produce electricity when required. EFOR is an index of the reliability of the generating unit measured by the ratio of time a generating unit is forced out of service by unplanned events, including any forced deratings, compared to the amount of time the generating unit was available to operate.

OPG continues its strategy for its thermal stations to ensure units are available when they are required, and to optimize how coal-fired units are offered into the electricity system, to reduce equipment damage from frequent starts and stops. In addition, OPG has extended the length of outages and reduced outage scope, where warranted, to reduce maintenance related expenditures, such as overtime, as OPG continues to experience low demand for thermal generation. Thermal EFOR for 2009 reflected this strategy.

Hydroelectric Availability

Hydroelectric availability is a measure of the reliability of a hydroelectric generating unit. It is represented by the percentage of time the generating unit is capable of providing service, whether or not it is actually in-service, compared to the total time for a respective period.

Nuclear Production Unit Energy Cost ("PUEC")

Nuclear PUEC is used to measure the cost effectiveness of the operations-related costs of production of OPG's nuclear generating assets. Nuclear PUEC is defined as the total cost of nuclear fuel, OM&A expenses including allocated corporate costs, and variable costs related to used fuel disposal and storage and the disposal of low and intermediate level radioactive waste materials, divided by nuclear electricity generation.

Hydroelectric OM&A Expense per MWh

Hydroelectric OM&A expense per MWh is used to measure the cost effectiveness of the hydroelectric generating stations. It is defined as total hydroelectric OM&A expenses excluding expenses related to past grievances by First Nations, including allocated corporate costs, divided by hydroelectric electricity generation.

Thermal OM&A Expense per MW

Since thermal generating stations are primarily employed during periods of intermediate and peak demand, the cost effectiveness of these stations is measured by their annualized OM&A expenses for the period, including allocated corporate costs, divided by total station nameplate capacity.

Other Key Indicators

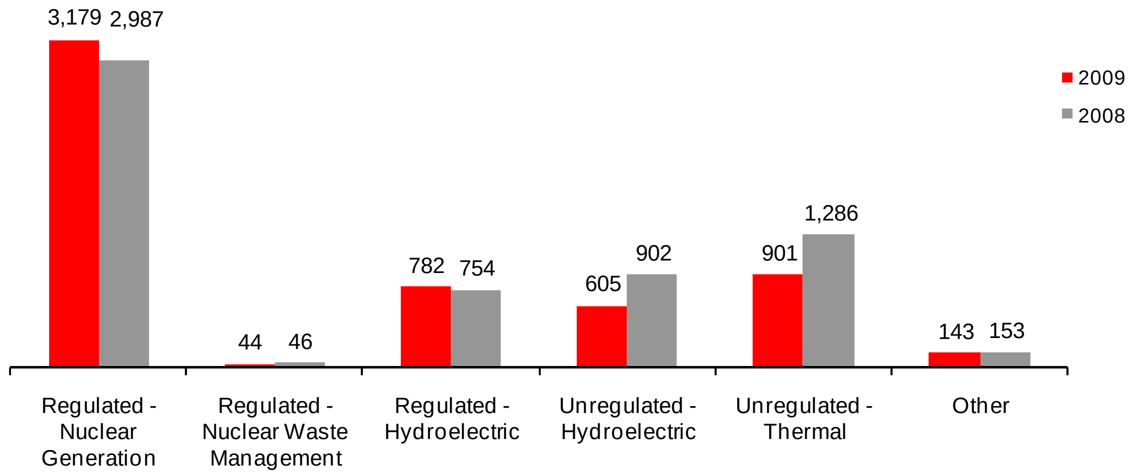
In addition to performance and cost effectiveness indicators, OPG has identified certain environmental indicators. These indicators are discussed under the heading *Risk Management*.

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

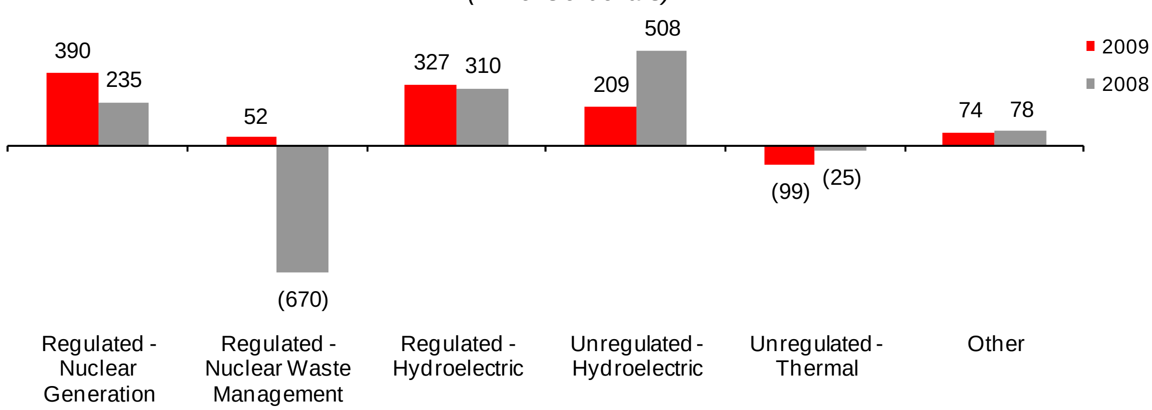
This section summarizes OPG's key results by segment for the years ended December 31, 2009 and 2008. The following table provides a summary of revenue, earnings, and key generation and financial performance indicators by business segment:

(millions of dollars)	**2009**	**2008**
Revenue, net of revenue limit rebate		
Regulated – Nuclear	**3,179**	2,987
Regulated – Nuclear Waste Management	**44**	46
Regulated – Hydroelectric	**782**	754
Unregulated – Hydroelectric	**605**	902
Unregulated – Thermal	**901**	1,286
Other	**143**	153
Elimination	**(41)**	(46)
	5,613	6,082
Income (loss) before interest and income taxes		
Regulated – Nuclear	**390**	235
Regulated – Nuclear Waste Management	**52**	(670)
Regulated – Hydroelectric	**327**	310
Unregulated – Hydroelectric	**209**	508
Unregulated – Thermal	**(99)**	(25)
Other	**74**	78
	953	436
Electricity generation (TWh)		
Regulated – Nuclear	**46.8**	48.2
Regulated – Hydroelectric	**19.4**	18.8
Unregulated – Hydroelectric	**16.8**	17.6
Unregulated – Thermal	**9.5**	23.2
Total electricity generation	**92.5**	107.8
Nuclear unit capability factor (percent)		
Darlington	**85.9**	94.5
Pickering A	**64.2**	71.8
Pickering B	**84.0**	71.4
Equivalent forced outage rate (percent)		
Regulated – Hydroelectric	**1.0**	1.5
Unregulated – Hydroelectric	**1.6**	0.9
Unregulated – Thermal	**8.5**	12.8
Availability (percent)		
Regulated – Hydroelectric	**93.6**	93.8
Unregulated – Hydroelectric	**92.4**	94.6
Nuclear PUEC ($/MWh)	**44.09**	44.31
Regulated – Hydroelectric OM&A expense per MWh ($/MWh)	**5.46**	6.01
Unregulated – Hydroelectric OM&A expense per MWh ($/MWh)	**11.67**	10.97
Unregulated – Thermal OM&A expense per MW ($000/MW)	**60.20**	65.20

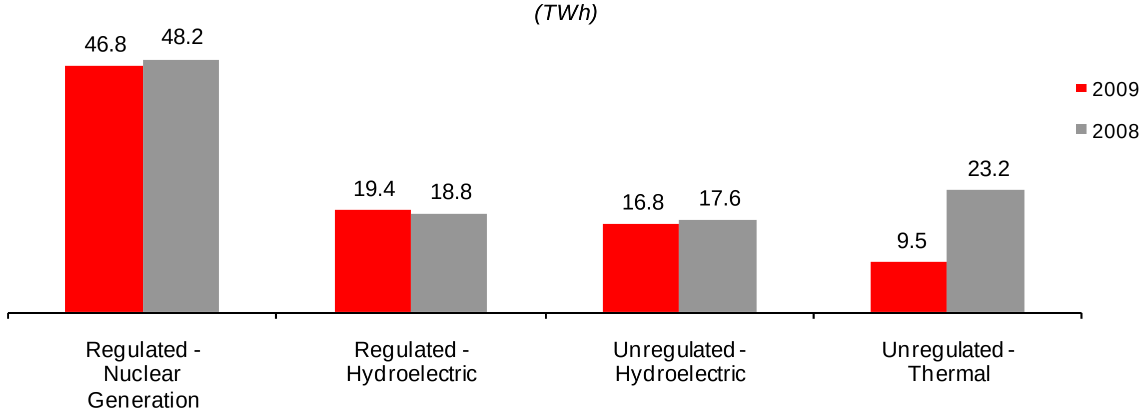
Revenue, Net of Revenue Limit Rebate by Segment
Years Ended December 31
(millions of dollars)



Income (Loss) Before Interest and Income Taxes by Segment
Years Ended December 31
(millions of dollars)



Electricity Generation by Segment
Years Ended December 31
(TWh)



Regulated – Nuclear Generation Segment

(millions of dollars)	**2009**	**2008**
Regulated generation sales	**2,557**	2,570
Variance accounts	**480**	22
Other	**142**	395
Total revenue	**3,179**	2,987
Fuel expense	**210**	167
Gross margin	**2,969**	2,820
Operations, maintenance and administration	**2,057**	2,098
Depreciation and amortization	**481**	462
Property and capital taxes	**41**	25
Income before interest and income taxes	**390**	235

Revenue

Regulated – Nuclear Generation revenue was $3,179 million for the year ended December 31, 2009 compared to $2,987 million in 2008. The increase in revenue of $192 million was primarily due to the recognition of the regulatory asset of $245 million related to the Tax Loss Variance Account and a higher regulated price based on the OEB's decision in December 2008. The increase in revenue was partially offset by lower generation volume and a decrease in revenue from nuclear technical services provided to third parties.

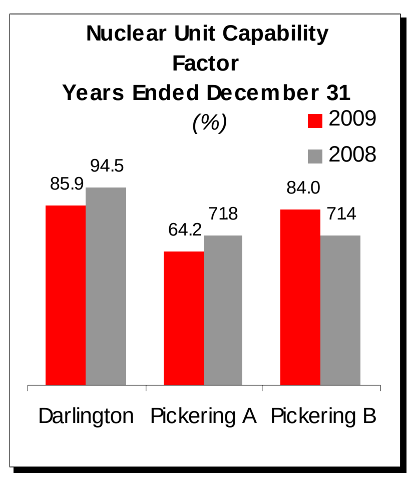
During 2009, OPG recognized a reduction in Bruce Lease revenue of $118 million related to the change in fair value of a derivative embedded in the Bruce Lease and the adjustment to lease revenue for 2009 of $69 million as a result of low Ontario electricity prices. The decrease in lease revenue was offset by the increase in a regulatory asset related to the Bruce Lease Net Revenues Variance Account.

Electricity Prices

Electricity generation from stations in the Regulated – Nuclear Generation segment received a fixed price of 5.50¢/kWh throughout 2009 due to the establishment of a new regulated price by the OEB, effective April 1, 2008, in the fourth quarter of 2008. The average price received for generation from OPG's nuclear stations during 2008 was 5.33¢/kWh, reflecting the regulated price of 4.95¢/kWh for the period from January 1, 2008 to March 31, 2008 and the new regulated price of 5.50¢/kWh for the nine months ended December 31, 2008. The new regulated price of 5.50¢/kWh included a deferral and variance account recovery rider of 0.20¢/kWh, applied retrospectively to production from April 1, 2008 onward.

Volume

Electricity generation from OPG's nuclear generating stations was 46.8 TWh for the year ended December 31, 2009 compared to 48.2 TWh in 2008. The decrease in generation was primarily due to the planned VBO at the Darlington nuclear generating station and an increase in planned outage days at the Pickering A and B nuclear generating stations, partially offset by a decrease in unplanned outage days at the Pickering A and B nuclear generating stations.



The Darlington nuclear generating station's unit capability factor for 2009 was 85.9 percent compared to 94.5 percent for the same period in 2008. The decrease in the capability factor was primarily a result of the planned VBO during 2009.

The unit capability factor for the Pickering A nuclear generating station for 2009 was 64.2 percent compared to 71.8 percent in 2008. The decrease in the capability factor reflected a significant increase in planned outage days in 2009 compared to 2008, partially offset by a decrease in unplanned outage days.

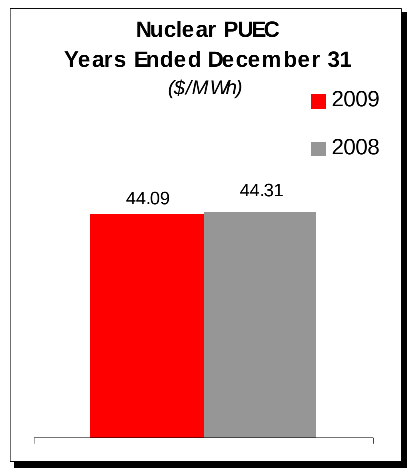
The unit capability factor for the Pickering B nuclear generating station was 84.0 percent in 2009 compared to 71.4 percent in 2008. The increase in the capability factor was primarily due to a decrease in unplanned outage days, partially offset by an increase in planned outage days in 2009 compared to 2008. In 2008, the unit capability factor reflected the shutdown of a unit during the period of April to November 2008 to replace a calandria tube, and an extension to a planned outage.

Fuel Expense

Fuel expense for the year ended December 31, 2009 was $210 million compared to $167 million during 2008. The increase in fuel expense in 2009 compared to 2008 was primarily due to an increase in uranium prices.

Operations, Maintenance and Administration

OM&A expenses for 2009 were $2,057 million compared to $2,098 million during 2008. The decrease in OM&A expenses was primarily due to lower pension and OPEB costs and the reduction of regulatory liabilities related to new nuclear generation development and capacity refurbishment activities. The reduction of OM&A expenses was partially offset by an increase in work activities related to the Darlington VBO and higher planned Unit 4 outage expenditures at the Pickering A nuclear generating station. In addition, higher expenditures incurred for new nuclear generation activities including a reimbursement of expenses incurred by Infrastructure Ontario during the procurement process, also contributed to offset the decrease in OM&A expenses.



Nuclear PUEC for the year ended December 31, 2009 was $44.09/MWh compared to $44.31/MWh during the same period in 2008. The decrease was primarily due to lower OM&A expenses, partially offset by lower generation.

Depreciation and Amortization

Depreciation and amortization expense for the year ended December 31, 2009 was $481 million compared to $462 million in 2008. The increase in depreciation and amortization expense was primarily due to fixed asset additions, and the discontinuance on April 1, 2008 of additions to the deferral account associated with the increase in the Nuclear Liabilities arising from the 2006 Approved Reference Plan in accordance with the Ontario Nuclear Funds Agreement (“ONFA”). The deferral account was effective for the period January 1, 2007 to March 31, 2008 as per the regulation pursuant to the *Ontario Energy Board Act, 1998.* This increase in depreciation expense was partially offset by lower amortization of regulatory balances in 2009 when compared to 2008 due to lower amortization of the Pickering A Return to Service Costs deferral account.

Regulated – Nuclear Waste Management Segment

(millions of dollars)	**2009**	**2008**
Revenue	**44**	46
Operations, maintenance and administration	**48**	50
Accretion on fixed asset removal and nuclear waste management liabilities	**627**	573
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds	**(683)**	93
Income (loss) before interest and income taxes	**52**	(670)

Revenue

Regulated – Nuclear Waste Management revenue was $44 million for the year ended December 31, 2009 compared to $46 million in 2008. The decrease in revenue was due to a lower inter-segment charge between the Regulated – Nuclear Generation and the Regulated – Nuclear Waste Management segments for variable costs.

Accretion

Accretion expense for the year ended December 31, 2009 were $627 million compared to $573 million for the same period in 2008. The increase in expense was primarily due to an increase in the present value of the Nuclear Liabilities due to the passage of time, and the discontinuance on April 1, 2008 of additions to the deferral account associated with the increase in the Nuclear Liabilities arising from the 2006 Approved Reference Plan.

Earnings on the Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Earnings from the Nuclear Funds for the year ended December 31, 2009 were $683 million compared to losses of $93 million in 2008. During 2009, before the impact of the Bruce Lease Net Revenues Variance Account, earnings from the Nuclear Funds were $802 million compared to losses of $426 million during 2008, an increase of $1,228 million. The increase in the earnings from the Nuclear Funds was primarily due to improvements in valuation levels of global financial markets, which increased the market value of the Decommissioning Fund. The increase in earnings was partially offset by reductions in the Ontario CPI, which impacted the guaranteed return on the Used Fuel Fund.

A portion of the Nuclear Funds relates to OPG's obligations with respect to decommissioning the nuclear generating stations on lease to Bruce Power, as well as managing nuclear used fuel and waste produced by these stations. As a result of the OEB's decision, OPG established the Bruce Lease Net Revenues Variance Account to capture the differences between actual and forecast revenues and costs associated with the Bruce nuclear generating stations. During 2009, OPG recorded a reduction to the regulatory asset of $119 million, which decreased the reported earnings from the Nuclear Funds.

Regulated – Hydroelectric Segment

(millions of dollars)	**2009**	**2008**
Regulated generation sales	**718**	733
Variance accounts	**11**	(32)
Other	**53**	53
Revenue	**782**	754
Fuel expense	**264**	254
Gross margin	**518**	500
Operations, maintenance and administration	**106**	108
Depreciation and amortization	**75**	70
Property and capital taxes	**10**	12
Income before interest and income taxes	**327**	310

Revenue

Regulated – Hydroelectric revenue was $782 million for the year ended December 31, 2009 compared to $754 million in 2008. The increase in revenue was as a result of the recognition of a regulatory asset of $47 million related to the Tax Loss Variance Account authorized by the OEB, and higher generation volume, partially offset by lower electricity sales prices.

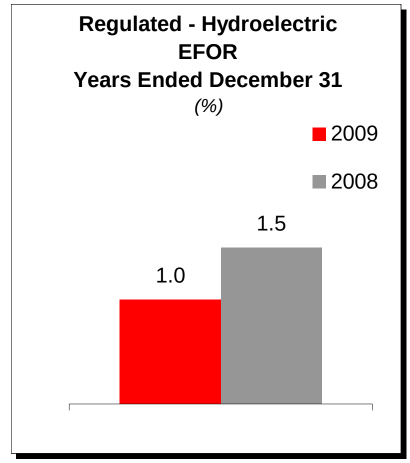
Electricity Prices

The average electricity sales price for 2009 and 2008 was 3.7¢/kWh and 3.9¢/kWh, respectively. The decrease in average electricity sales price was primarily due to the impact of lower electricity market prices on the revenue from the regulated hydroelectric incentive mechanism. The impact of this decrease was partially offset by the increase in the regulated prices resulting from the OEB's decision in 2008.

Effective April 1, 2008, electricity generation from the regulated hydroelectric stations received a fixed price of 3.67¢/kWh. During the first quarter of 2008, OPG received a fixed price of 3.3¢/kWh. In the fourth quarter of 2008, OPG recorded retrospective revenue of $44 million for the period April 1, 2008 to November 30, 2008 based on the difference between the revenue earned at the new regulated price and the amounts received at the previous price.

The revised incentive mechanism resulted in net revenue of $21 million for 2009. Regulated generation sales included revenue of $189 million that OPG received at the Ontario spot electricity market price for generation over 1,900 MWh in any hour during the 11 months ended November 30, 2008. OPG also earned additional revenue of $3 million during December 2008 based on a revised regulated hydroelectric incentive mechanism, as described under the heading, *Rate Regulation*.

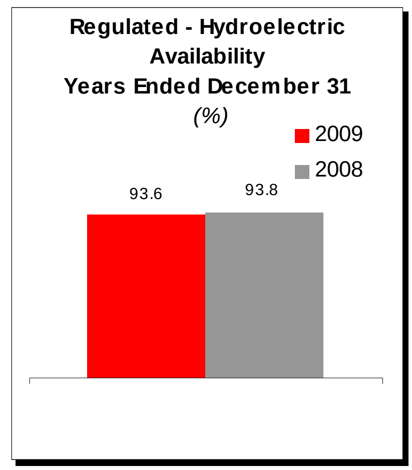
Volume



Electricity generation volume for the year ended December 31, 2009 and 2008 was 19.4 TWh and 18.8 TWh, respectively. The increase in volume was primarily due to an increase in water flows, partially offset by controlled water spills due to the unusual SBG conditions.

For the years ended December 31, 2009 and 2008, the EFOR for the Regulated – Hydroelectric stations was 1.0 percent and 1.5 percent, respectively. EFOR decreased in 2009 as a result of strong equipment performance at the regulated hydroelectric stations. The availability for the Regulated – Hydroelectric stations was 93.6 percent in 2009 compared to 93.8 percent in 2008. The high availability and low EFOR reflected the continuing strong performance of these hydroelectric stations.

Fuel Expense



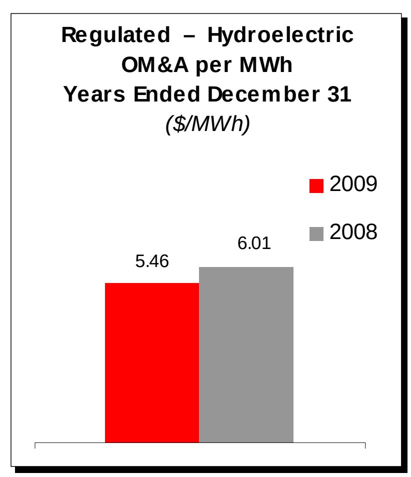
OPG pays charges to the Province and the OEFC on gross revenue derived from the annual generation of electricity from its hydroelectric generating assets. The gross revenue charge ("GRC") includes a fixed percentage charge applied to the annual hydroelectric generation derived from stations located on provincial Crown lands, in addition to graduated rate charges applicable to all hydroelectric stations. GRC costs are included in fuel expense.

Fuel expense was $264 million for the year ended December 31, 2009 compared to $254 million in 2008. The increase in fuel expense was primarily due to an increase in electricity generation volumes.

Variance Accounts

During 2009, in addition to the recognition of a regulatory asset related to the Tax Loss Variance Account established in 2009, OPG recorded a decrease in revenue of $38 million due to regulatory variance accounts that reflect the impact of differences between forecast and actual water conditions on hydroelectric production, and differences between forecast and actual ancillary services revenue. For the period up to March 31, 2008, OPG computed the differences relative to the forecast provided to the Province for the purposes of setting the previous regulated price of 3.3¢/kWh. For the nine-month period starting April 1, 2008, OPG computed the differences relative to the forecast approved by the OEB in setting the new regulated hydroelectric prices, as the OEB authorized the continuation of these accounts effective April 1, 2008.

Operations, Maintenance and Administration



OM&A expenses for the year ended December 31, 2009 were $106 million compared to $108 million in 2008. OM&A expense per MWh for the regulated hydroelectric generating stations was $5.46/MWh for 2009 compared to $6.01/MWh for the same period in 2008. OM&A expense per MWh excludes expenses related to past grievances by First Nations. The decrease in OM&A expense per MWh in 2009 compared to 2008 was primarily due to lower OM&A expenses and higher volume.

Unregulated – Hydroelectric Segment

(millions of dollars)	**2009**	**2008**
Spot market sales, net of hedging instruments	**561**	921
Revenue limit rebate	**(10)**	(72)
Other	**54**	53
Revenue, net of revenue limit rebate	**605**	902
Fuel expense	**104**	111
Gross margin	**501**	791
Operations, maintenance and administration	**210**	198
Depreciation and amortization	**73**	76
Property and capital taxes	**9**	9
Income before interest and income taxes	**209**	508

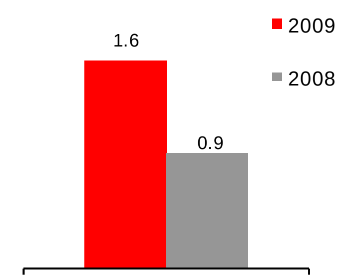
Revenue

Unregulated – Hydroelectric revenue was $605 million for the year ended December 31, 2009 compared to $902 million in 2008. The decrease in revenue of $297 million during the year ended December 31, 2009 compared to 2008 was primarily due to lower electricity prices and lower generation volume.

Electricity Prices

After taking into account the revenue limit rebate, OPG's average sales price for its unregulated hydroelectric generation for the years ended December 31, 2009 and 2008 was 3.2¢/kWh and 4.8¢/kWh, respectively. The decrease in electricity price was primarily due to the impact of lower Ontario spot market prices.

Unregulated – Hydroelectric EFOR
Years Ended December 31
(%)

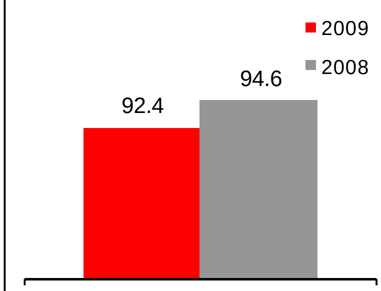


Volume

For the years ended December 31, 2009 and 2008, electricity generation volume was 16.8 TWh and 17.6 TWh, respectively. The decrease in volume during 2009 compared to 2008 was primarily due to lower water levels and the impact of controlled water spills due to unusual SBG conditions.

The EFOR for the Unregulated – Hydroelectric generating stations was 1.6 percent during the year ended December 31, 2009 compared to 0.9 percent in 2008. The availability for the Unregulated – Hydroelectric stations was 92.4 percent for the year ended December 31, 2009 compared to 94.6 percent in 2008. The increase in EFOR and decrease in availability were primarily as a result of forced outages at the Abitibi Canyon and Mountain Chute generating stations. The low EFOR and high availability reflected the continuing strong performance of the Unregulated – Hydroelectric stations.

Unregulated - Hydroelectric Availability
Years Ended December 31
(%)



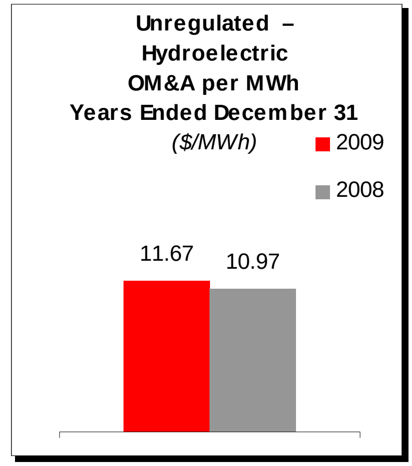
Fuel Expense

Fuel expense was $104 million for the year ended December 31, 2009 compared to $111 million in 2008. The decrease in fuel expense was primarily due to the impact of lower generation.

Operations, Maintenance and Administration

During 2009, OM&A expenses were $210 million compared to $198 million for 2008. The increase in OM&A expenses was primarily due to expenses related to past grievances by First Nations and higher costs for maintenance activities, partially offset by lower pension and OPEB costs.

OM&A expense per MWh for the unregulated hydroelectric stations for the year ended December 31, 2009 and 2008 was $11.67/MWh and $10.97/MWh, respectively. The higher OM&A expense per MWh was primarily due to lower generation. OM&A expense per MWh excludes expenses related to past grievances by First Nations.



Unregulated – Thermal Segment

(millions of dollars)	**2009**	2008
Spot market sales, net of hedging instruments	**393**	1,366
Revenue limit rebate	**(17)**	(205)
Other	**525**	125
Revenue, net of revenue limit rebate	**901**	1,286
Fuel expense	**413**	659
Gross margin	**488**	627
Operations, maintenance and administration	**492**	552
Depreciation and amortization	**79**	94
Accretion on fixed asset removal liabilities	**7**	8
Property and capital taxes	**18**	21
Loss before other gains and losses, interest and income taxes	**(108)**	(48)
Other (gains) losses	**(9)**	(23)
Loss before interest and income taxes	**(99)**	(25)

Revenue

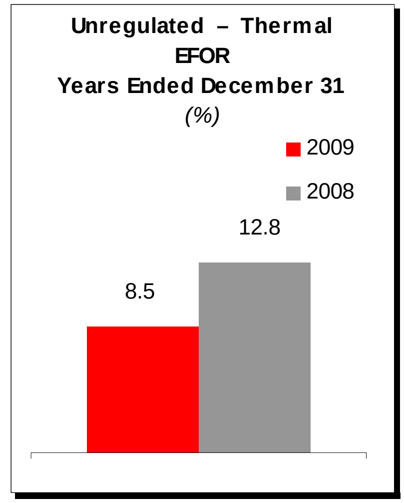
Unregulated – Thermal revenue was $901 million for the year ended December 31, 2009 compared to $1,286 million in 2008, a decrease of $385 million. The decrease in revenue during 2009 was due to a significant reduction in electricity generation and lower average sales prices, partially offset by revenue related to the contingency support agreement established with the OEFC of $412 million.

Electricity Prices

OPG's average sales price net of the revenue limit rebate for its unregulated thermal generation was 3.9¢/kWh for the year ended December 31, 2009 compared to 5.0¢/kWh for the year ended December 31, 2008. The lower sales price was primarily due to the impact of lower Ontario spot electricity market prices.

Volume

Electricity generation volume for the year ended December 31, 2009 was 9.5 TWh compared to 23.2 TWh during 2008. The decrease in generation in 2009 compared to 2008 was primarily due to the impact of lower Ontario primary demand and an increase in electricity generation from other electricity generators in Ontario.

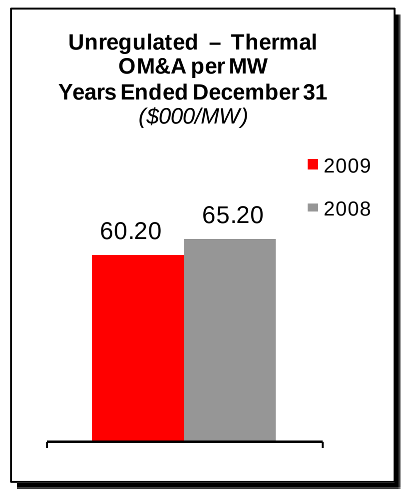


The EFOR for the Unregulated – Thermal stations during the year ended December 31, 2009 was 8.5 percent compared to 12.8 percent in 2008. The improvement in EFOR during 2009 compared to 2008 reflects improved reliability of the thermal generating fleet consistent with changes in operating strategy, one component of which is to optimize how coal-fired units were offered into the electricity market.

Fuel Expense

During the year ended December 31, 2009, fuel expense was $413 million compared to $659 million in 2008. The decrease of $246 million was primarily due to lower electricity generation, partially offset by higher coal prices and costs related to contract adjustments to coal supply contracts.

The reduced demand for coal-fired generation during 2009 has resulted in excess coal supplies. This excess has resulted in OPG negotiating reductions to coal supply contracts, which includes cancellations and deferral of shipments. Costs associated with the cancellations and deferrals of $63 million were recorded as incurred. The costs incurred for coal contract adjustments relate primarily to the Lambton and Nanticoke coal-fired generating stations and were recovered through the contingency support agreement with the OEFC.



Operations, Maintenance and Administration

OM&A expenses for the year ended December 31, 2009 were $492 million compared to $552 million in 2008. The decrease of $60 million in OM&A expenses was primarily due to lower generation, reductions in the scope of outage work, and lower pension and OPEB costs.

Annualized OM&A expense per MW ($/MW) for the unregulated thermal stations was $60,200/MW for the year ended December 31, 2009 compared to $65,200/MW in 2008. The decrease in OM&A expense per MW during 2009 compared to 2008 was due to a decrease in OM&A expenses, partially offset by a decrease in the maximum capacity rating of some of the units assessed during the fourth quarter of 2008.

Other Gains and Losses

In 2009, OPG recorded a recovery of $9 million to reflect a decrease in the estimated costs to decommission and remediate the Lakeview site. Other gains of $23 million in 2008 primarily consist of a $21 million recovery to recognize a change in estimated costs to decommission other thermal generating stations, including the expected costs associated with environmental and site remediation work.

Other

(millions of dollars)	**2009**	**2008**
Revenue	**143**	153
Operations, maintenance and administration	**10**	7
Depreciation and amortization	**52**	41
Property and capital taxes	**8**	13
Income before other gains and losses, interest and income taxes	**73**	92
Other (gains) losses	**(1)**	14
Income before interest and income taxes	**74**	78

Other revenue was $143 million in 2009 compared to $153 million in 2008. The decrease in Other revenue was primarily due to lower net trading revenue primarily resulting from unfavourable mark-to-market adjustments, partially offset by an increase in revenue from the PEC.

OM&A expenses of the generation segments include an inter-segment service fee for the use of certain property, plant and equipment, and intangibles held within the Other category. The total service fee is recorded as a reduction to the Other category's OM&A expenses. For the year ended December 31, 2009, the service fee was $27 million for Regulated – Nuclear Generation, $3 million for Regulated – Hydroelectric, $4 million for Unregulated – Hydroelectric and $9 million for Unregulated – Thermal, with a corresponding reduction in OM&A expenses of $43 million for the Other category. For the year ended December 31, 2008, the service fee was $29 million for Regulated – Nuclear Generation, $3 million for Regulated – Hydroelectric, $4 million for Unregulated – Hydroelectric, and $9 million for Unregulated – Thermal, with a corresponding reduction in OM&A expenses of $45 million for the Other category.

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 year ended December 31, 2009, if disclosed on a gross basis, revenue and power purchases would have increased by $79 million (December 31, 2008 – $177 million).

The changes in the fair value of derivative instruments not qualifying for hedge accounting are recorded in Other revenue. The fair value of derivative instruments is carried on the consolidated balance sheets as assets or liabilities at fair value. The carrying amounts and notional quantities of the derivative instruments are disclosed in Note 13 in the audited annual consolidated financial statements as at and for the year ended December 31, 2009.

Net Interest Expense

Net interest expense for 2009 was $185 million compared to $165 million for 2008, an increase of $20 million. The increase was primarily due to an increase in bank activity fees, lower interest income, and lower interest applied to regulatory balances.

Income Taxes

From April 1, 2005 to December 31, 2008, OPG followed the liability method of tax accounting for its unregulated operations and the taxes payable method for its rate regulated operations. Under the liability method, future income tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Under the taxes payable method, OPG did not recognize future income taxes relating to the rate regulated segments of its business to the extent those future income taxes were expected to be recovered or refunded through future regulated prices charged to customers. Accordingly, OPG did not record a future income tax expense of $151 million during the year ended December 31, 2008 which would have been recorded had OPG accounted for income taxes for the regulated segments using the liability method.

In December 2007, the Canadian Institute of Chartered Accountants ("CICA") revised its guidance on accounting for rate regulated operations. The revision resulted in amendments to CICA Handbook Section 3465, *Income Taxes*, ("Section 3465") and Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation,* ("AcG-19") as follows:

- To amend Section 3465 to require, effective January 1, 2009, the recognition of future income tax liabilities and assets as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers; and
- To amend AcG-19, as necessary, as a result of the amendment to Section 3465.

Accordingly, on January 1, 2009, OPG recorded a future income tax liability of $340 million, which was the cumulative future income tax liability on January 1, 2009 related to differences between the accounting and tax bases of assets and liabilities, measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse and recorded a corresponding regulatory asset. OPG also recorded an additional future income tax liability and a corresponding regulatory asset of $126 million for future income taxes resulting from regulatory assets that were recorded due to amendments to Section 3465. Effective January 1, 2009, OPG follows the liability method of tax accounting for all its segments and records a corresponding regulatory asset or liability for the future income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

Income tax expense for the year ended December 31, 2009 was $145 million compared to $183 million for the year ended December 31, 2008. The decrease in income tax expense was primarily due to lower income before the earnings from the Nuclear Funds, and a lower income tax component of the Bruce Lease Net Revenues Variance Account in 2009. In 2008, the impact of the higher income and higher income tax component of the Bruce Lease Net Revenues Variance Account was partially offset by a reduction in the income tax expense as a result of the resolution of a number of tax uncertainties related to the audit of OPG's 1999 taxation year.

The audit of OPG's taxation years subsequent to 1999 commenced in 2009. Should the outcome of the audit for subsequent years differ from OPG's recorded income tax liabilities, the Company's effective tax rate and its net income could be materially affected either negatively or positively in the period in which the matters are resolved.

The OEB's decision in 2008 on OPG's new payment amounts established an Income and Other Taxes Variance Account retrospective to April 1, 2008. The scope of the account with respect to income tax includes variances in the income tax expense for the regulated business caused by changes in tax rates or rules under the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), as modified by the *Electricity Act, 1998*, as well as variances caused by re-assessments. Variance in income tax expense for re-assessments of prior taxation years that have an impact on taxes payable for the years after April 1, 2008 can also be recorded in the Income and Other Taxes Variance Account. During the year ended December 31, 2009, OPG recorded the benefit of investment tax credits on eligible scientific research and experimental development expenditures in the amount of $21 million in the account.

LIQUIDITY AND CAPITAL RESOURCES

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

Changes in cash and cash equivalents for the years ended December 31, 2009 and 2008 are as follows:

(millions of dollars)	**2009**	**2008**
Cash and cash equivalents, beginning of year	**315**	110
Cash flow provided by operating activities	**299**	870
Cash flow used in investing activities	**(753)**	(652)
Cash flow provided by (used in) financing activities	**210**	(13)
Net (decrease) increase	**(244)**	205
Cash and cash equivalents, end of year	**71**	315

Operating Activities

Cash flow provided by operating activities for 2009 was $299 million compared to cash flow provided by operating activities of $870 million in 2008. The decrease in cash flow was primarily due to lower cash receipts as a result of lower unregulated generation sales and higher tax installments in 2009 when compared to 2008. The decrease in cash flow was partially offset by lower coal purchases, a decrease in revenue limit rebate payments with the discontinuance of the revenue limit in the second quarter of 2009, and lower contributions to the nuclear fixed asset removal and nuclear waste management funds in 2009 compared to 2008.

Investing Activities

Electricity generation is a capital-intensive business that requires continued investment in plant and technologies to improve operating performance, increase generating capacity of existing stations, invest in new generating stations and to maintain and improve service, reliability, safety and environmental performance.

Investing activities primarily consisted of investments in fixed and intangible assets during the year ended December 31, 2009 of $752 million compared to $661 million for the year ended December 31, 2008. The increase in capital expenditures for 2009 compared to 2008 was primarily due to higher expenditures for the Niagara Tunnel project and the Upper Mattagami and Hound Chute hydroelectric development project, partially offset by lower expenditures due to the in-service of the PEC.

OPG's forecast capital expenditures for 2010 are approximately $1.3 billion, which includes amounts for hydroelectric and nuclear development projects.

Investment in Asset-Backed Commercial Paper

Pursuant to the terms of a restructuring plan announced by the Pan-Canadian Investors Committee for third-party ABCP, OPG's short-term commercial paper was exchanged for longer term notes of approximately $58 million in January 2009. OPG received five classes of notes, which are supported by margin funding facilities from third-party asset providers, Canadian banks, and governments. OPG replaced existing ABCP notes that had a net book value of $35 million ($58 million book value less a provision of $23 million) with new ABCP notes of $35 million, which represented the fair value of the new ABCP notes. The restructured notes are expected to have a maturity of eight to nine years. The exact maturity will be determined by the timing of the release of collateral as underlying swap trades mature. The stated maturity of the notes is 2056.

For the year ended December 31, 2009, the fair value of the ABCP notes increased by $1 million as a result of improved market conditions, partially offset by the impact of a revised credit rating of the underlying notes. As at December 31, 2009, the ABCP holdings were valued at $36 million (December 31, 2008 – $35 million). OPG continues to monitor the development of a secondary market.

Financing Activities

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two tranches – a $500 million 364-day term tranche, and a $500 million five-year term tranche. During the first quarter of 2009, OPG renewed and extended the maturity date of the 364-day term tranche to May 19, 2010. The renewal became effective in the second quarter of 2009. The five-year term tranche was not extended, and therefore, has four years remaining, with a maturity date of May 20, 2013. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at December 31, 2009, no commercial paper was outstanding (December 31, 2008 – nil), and OPG had no other outstanding borrowings under the bank credit facility.

In the second quarter of 2008, OPG entered into a $100 million five-year revolving committed bank credit facility in support of the Upper Mattagami and Hound Chute project. As at December 31, 2009, there were no borrowings under this credit facility. In addition, project financing was completed for the Upper Mattagami and Hound Chute project in May 2009. Senior notes totalling $200 million were issued by the UMH Energy Partnership, a general partnership between OPG and UMH Energy Inc., a wholly-owned subsidiary of OPG. Transaction costs that are directly attributable to the issuance of the Senior notes are included in the amortized cost of the notes. The Senior notes have an effective interest rate of 7.86 percent and will mature in 2041. These notes are secured by the assets of the Upper Mattagami and Hound Chute project and are recourse to OPG during the construction period, and non-recourse thereafter.

As at December 31, 2009, OPG maintained $25 million (December 31, 2008 – $25 million) of short-term, uncommitted overdraft facilities, and $275 million (December 31, 2008 – $276 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 purposes. At December 31, 2009, there was a total of $231 million of Letters of Credit issued (December 31, 2008 – $243 million), which included $210 million for the supplementary pension plans (December 31, 2008 – $212 million), and $7 million related to the construction and operation of the PEC (December 31, 2008 – $16 million).

Effective January 1, 2009, the accounts of the Nuclear Waste Management Organization ("NWMO") are included in OPG's consolidated financial statements as OPG became the primary beneficiary of the NWMO. In accordance with Accounting Guideline 15, *Consolidation of Variable Interest Entities,* the applicable amounts in the accounts of the NWMO are therefore included in OPG's consolidated financial statements. As at December 31, 2009 the NWMO has issued a $1 million Letter of Credit for its supplementary pension plan.

In October 2003, the Company signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable to an independent trust. In accordance with the receivable purchase agreement, OPG reduced the securitized receivable balance by $50 million, from $300 million to $250 million in May and June of 2009 primarily due to lower cash flows from the IESO. During the third quarter of 2009, OPG renewed the agreement with a maturity date of August 31, 2010 and an amended commitment of $250 million.

OPG has an agreement with the OEFC to finance the Niagara Tunnel project for up to $1 billion over the duration of the project. The funding is advanced in the form of 10-year notes, on commercial terms and conditions. Advances under this facility commenced in October 2006 and amounted to $490 million as at December 31, 2009, which included $150 million of new borrowing during 2009. OPG is in the process of pursuing an amendment to the Niagara Tunnel project credit facility, consistent with the revised cost estimate of $1.6 billion, and the revised schedule.

Debt financing has been negotiated with the OEFC for OPG's interest in the PEC and the Lac Seul project for up to $400 million and $50 million, respectively. Advances under these facilities commenced in December 2006, and totalled $390 million for the PEC and $50 million for the Lac Seul project as at December 31, 2009. This included $85 million and $30 million of new borrowings under the PEC and Lac Seul facilities, respectively in 2009.

As at December 31, 2009, OPG's long-term debt outstanding with the OEFC was $3.7 billion. Although the new borrowings added in 2008 and 2009 have extended the maturity profile, approximately $1.7 billion of long-term debt must be repaid or refinanced within the next three years. To ensure that adequate financing resources are available beyond its $1 billion commercial paper program backed by the bank credit facility, OPG entered into a $950 million credit facility with the OEFC in 2007 to refinance Senior notes maturing between September 2007 and September 2009. To date, $500 million has been advanced under this facility. OPG is currently in discussion with the OEFC for a new facility to support OPG's refinancing in 2010.

Contractual and Commercial Commitments

OPG's contractual obligations and other significant commercial commitments as at December 31, 2009, are as follows:

(millions of dollars)	**2010**	**2011**	**2012**	**2013**	**2014**	**Thereafter**	**Total**
Contractual obligations:							
Fuel supply agreements	503	281	186	126	62	101	1,259
Contributions under the ONFA	264	250	240	157	94	758	1,763
Long-term debt repayment	978	384	412	12	13	2,250	4,049
Interest on long-term debt	207	159	131	117	117	639	1,370
Unconditional purchase obligations	22	22	22	23	23	51	163
Operating lease obligations	25	25	26	28	27	-	131
Operating licence	34	33	36	36	36	-	175
Pension contributions [1]	268	-	-	-	-	-	268
Other	38	32	40	33	32	65	240
	2,339	1,186	1,093	532	404	3,864	9,418
Significant commercial commitments:							
Niagara Tunnel	186	231	123	23	13	-	576
Other hydroelectric projects	67	10	-	-	-	-	77
Total	2,592	1,427	1,216	555	417	3,864	10,071

[1] The pension contributions include additional funding requirements towards the deficit and ongoing funding requirements in accordance with the actuarial valuation of OPG's registered pension plan as at January 1, 2008. The contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, and the timing of funding valuations. Funding requirements after 2010 are excluded due to significant variability in the assumptions required to project the timing of future cash flows. Contributions to the NWMO registered pension plan are not included since an actuarial valuation is required as at January 1, 2010.

CREDIT RATINGS

Maintaining an investment grade credit rating is essential for corporate liquidity and future capital market access. The cost and availability of financing are influenced by credit ratings, which are an indicator of the creditworthiness of a particular company, security or obligation. Lower ratings generally result in higher borrowing costs as well as reduced access to capital markets.

In August 2009, Dominion Bond Rating Service affirmed the long-term credit rating on OPG at A (low) and the commercial paper rating at R-1 (low) with a stable outlook. In October 2009, Standard & Poor's affirmed the long-term credit rating on OPG at A- with a stable outlook. These ratings reflect OPG's solid financial profile supported by a stable balance sheet and credit metrics and an improved regulatory environment.

As at December 31, 2009, the following are OPG's credit ratings:

	Dominion Bond Rating Service	Standard & Poor's
Long-Term Credit Rating	A (low)	A-
Commercial Paper Rating	R-1 (low)	A-2[1] A-1(low)[2]

[1] *Global scale*
[2] *Canada scale*

BALANCE SHEET HIGHLIGHTS

The following section provides highlights of OPG's audited consolidated financial position using selected balance sheet data as at December 31:

Selected balance sheet data *(millions of dollars)*	**2009**	**2008**
Assets		
Accounts receivable	**391**	525
Fuel inventory	**837**	736
Property, plant and equipment – net	**12,836**	12,730
Nuclear fixed asset removal and nuclear waste management funds	**10,246**	9,209
Regulatory assets	**1,396**	522
Future income taxes	**51**	68
Liabilities		
Accounts payable and accrued charges	**933**	1,015
Long-term debt (including debt due within one year)	**4,046**	3,840
Fixed asset removal and nuclear waste management	**11,859**	11,384
Long-term accounts payable and accrued charges	**522**	445
Future income taxes	**633**	-
Regulatory liabilities	**172**	54

Accounts Receivable

As at December 31, 2009, accounts receivable were $391 million compared to $525 million as at December 31, 2008. The decrease of $134 million was primarily due to the accrual in 2008 for the retrospective increase in regulated prices for electricity generation from the regulated facilities resulting from the OEB's decision effective April 1, 2008.

Fuel Inventory

Fuel inventory as at December 31, 2009 was $837 million compared to $736 million for 2008, an increase of $101 million. The increase in fuel inventory was primarily due to higher coal inventory at OPG's coal-fired generating stations primarily due to a decrease in coal-fired electricity generation during 2009.

Property, Plant and Equipment – Net

Net property, plant and equipment as at December 31, 2009 was $12,836 million compared to $12,730 million as at December 31, 2008. The increase was primarily due to fixed asset additions, largely offset by depreciation for the year.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Decommissioning Fund

The Decommissioning Fund was established to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level nuclear waste management and a portion of used fuel storage costs after station life. Upon termination of the ONFA, the Province has a right to any excess funding in the Decommissioning Fund, which is the excess of the fair market value of the Decommissioning Fund assets over the estimated completion costs as per the most recently approved ONFA Reference Plan. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes in its consolidated financial statements, through a charge to the Decommissioning Fund with a corresponding payable to the Province, such that the balance of the Decommissioning Fund would equal the cost estimate of the liability based on the most recently approved ONFA Reference Plan. The payable to the Province could be reduced in subsequent periods in the event that the Decommissioning Fund earns less than its target rate of return or in the event that a new ONFA Reference Plan is approved with a higher estimated decommissioning liability. When the Decommissioning Fund is underfunded, the earnings on the Decommissioning Fund reflect actual fund returns based on the market value of the assets.

The Decommissioning Fund’s asset value on a fair value basis was $4,876 million at December 31, 2009 compared to $4,325 million as at December 31, 2008. The increase in asset value of $551 million was primarily due to improvements in valuation levels of global financial markets during the year ended December 31, 2009.

Used Fuel Fund

Under the ONFA, the Province guarantees OPG’s annual return in the Used Fuel Fund at 3.25 percent plus the change in the Ontario Consumer Price Index for funding related to the first 2.23 million used fuel bundles (“committed return”). OPG recognizes the committed return on the Used Fuel Fund and includes it in the earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of the Used Fuel Fund’s assets, which includes realized and unrealized returns, is recorded as due to or due from the Province. The due to or due from the Province represents the amount OPG would pay to or receive from the Province if the committed return were to be settled as of the balance sheet date. As part of its regular contributions to the Used Fuel Fund, OPG was required to allocate $31 million of its December 31, 2009 contributions towards its liability associated with future fuel bundles that exceed the 2.23 million threshold. As prescribed under the ONFA, earnings on OPG’s contributions related to fuel bundles in excess of 2.23 million do not grow at the Province’s guaranteed rate of return, but rather earn the return of the Used Fuel Fund based on changes in the market value of the assets.

The asset value as at December 31, 2009 was $5,370 million, which included a payable to the Province of $33 million related to the committed return adjustment. As at December 31, 2008, the Used Fuel Fund asset value on a fair value basis was $4,884 million, including a receivable from the Province of $460 million related to the committed return adjustment. The increase in the value of the Used Fuel Fund assets was primarily due to new contributions to the fund and the committed return.

As required by the terms of the ONFA, the Province provides a Provincial Guarantee to the Canadian Nuclear Safety Commission (“CNSC”) 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 long-term liabilities and the current market value of the Used Fuel Fund and the Decommissioning Fund. In December 2009, the CNSC approved the increase of the Provincial Guarantee to $1,545 million to be effective in 2010. The value of this guarantee will be in effect through the end of 2012, when the next reference plan for the CNSC is required to be submitted. The increase was primarily a result of the market value losses experienced by the Nuclear Funds in the latter half of 2008.

Regulatory Assets and Liabilities

As at December 31, 2009, regulatory assets were $1,396 million compared to $522 million as at December 31, 2008. The increase in regulatory assets was primarily due to the recognition of a regulatory asset of $592 million as a result of adopting the liability method of accounting for income taxes for the rate regulated operations, as discussed under the heading, *Income Taxes,* and the recording of a regulatory asset of $295 million for the Tax Loss Variance Account established by the OEB in May 2009 and effective April 1, 2008. The increase in regulatory assets was partly offset by amortization expense of $91 million, resulting from the recovery of regulatory assets through current regulated prices.

As at December 31, 2009, regulatory liabilities were $172 million compared to $54 million as at December 31, 2008. The increase was primarily due to the recording of liabilities in the variance accounts related to new nuclear development, the impact of water conditions on hydroelectric electricity production, the difference between forecast and actual nuclear fuel costs per unit of production, and the difference between forecast and actual ancillary services revenue, all of which were authorized by the OEB in its 2008 decision on OPG's regulated prices.

The balance in the variance accounts will be reviewed by the OEB as part of OPG's next hearing. OPG's most significant regulatory balances in 2009 are as follows:

Future Income Taxes

Effective January 1, 2009, OPG is required to recognize future income taxes associated with its rate regulated operations, including future income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. In addition, OPG is required to recognize a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers. OPG recorded $592 million in the account for the year ended December 31, 2009.

Bruce Lease Net Revenues Variance Account

The Bruce Lease Net Revenues Variance Account captures differences between the forecast revenues and costs associated with the Bruce nuclear generating stations that are included in the calculation of the approved nuclear regulated price and actual amounts. As at December 31, 2009, the variance account balance was $328 million. The regulatory asset includes $256 million of revenue variance related to the Bruce Lease, including the impact of the derivative embedded in the Bruce Lease, and a $214 million variance from forecast as a result of losses from the Nuclear Funds related to the Bruce generating stations since April 1, 2008, partially offset by a related variance in income tax expense of $131 million. The account also includes variances for accretion expense related to Nuclear Liabilities associated with the Bruce generating stations.

Tax Loss Variance Account

The Tax Loss Variance Account authorized by the OEB in May 2009 and effective April 1, 2008 pertains to the treatment of tax losses and their use for mitigation. In accordance with the OEB's decision on OPG's motion to review and vary the OEB's 2008 payment amounts decision, this account records the difference between the amount of mitigation included in the approved payment amounts and the revenue requirement reduction available from tax loss carry forwards recalculated to reflect the OEB's 2009 decision. The variance account resulted in an increase in regulatory assets and a corresponding increase in revenue. The balance in the account was $295 million as at December 31, 2009.

Accounts Payable and Accrued Charges

Accounts payable and accrued charges as at December 31, 2009 were $933 million compared to $1,015 million as at December 31, 2008. The decrease of $82 million was primarily due to a decrease in income taxes payable.

Long-Term Debt (including debt due within one year)

Long-term debt as at December 31, 2009 was $4,046 million compared to $3,840 million as at December 31, 2008. The increase was due to the issue of Senior notes totalling $200 million by the UMH Energy Partnership, the issuance of long-term debt of $150 million under the Niagara Tunnel Facility, the issuance of long-term debt of $100 million under the $950 million credit agreement to refinance maturing notes, and the issuance of $85 million and $30 million under the PEC and Lac Seul facilities, respectively. The increase was partially offset by a repayment of long-term debt of $359 million during 2009.

Fixed Asset Removal and Nuclear Waste Management

The liability for fixed asset removal for nuclear and thermal generating stations and nuclear waste management as at December 31, 2009 was $11,859 million compared to $11,384 million as at December 31, 2008. The increase was primarily due to accretion of $631 million due to the passage of time, partially offset by expenditures of $192 million on nuclear waste management activities.

Long-Term Accounts Payable and Accrued Charges

Long-term accounts payable and accrued charges as at December 31, 2009 were $522 million compared to $445 million as at December 31, 2008. The change was primarily due to an increase in the fair value of a derivative embedded in the Bruce Lease of $118 million.

Off-Balance Sheet Arrangements

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

Securitization

In October 2003, OPG completed a revolving securitization agreement with an independent trust. The independent trust is not controlled by OPG, nor is OPG the primary beneficiary. As such, the results of the trust are not consolidated. The securitization provides OPG with an opportunity to obtain an alternative source of cost-effective funding. For the year ended December 31, 2009 and 2008, the average all-in cost of funds was 2.1 percent and 3.9 percent, respectively, and the pre-tax charges on sales to the trust were $4 million and $12 million, respectively. The current securitization agreement extends to August 31, 2010 with a commitment of $250 million. Refer to Note 5 of OPG's 2009 annual audited consolidated financial statements for additional information.

Guarantees

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

OPG's significant accounting policies, including the impact of future accounting pronouncements, are outlined in Note 3 of OPG's 2009 annual audited consolidated financial statements. Certain of these policies are recognized as critical accounting policies by virtue of the subjective and complex judgments and estimates required around matters that are inherently uncertain and could result in materially different amounts being reported under different conditions or assumptions. The critical accounting policies and estimates that affect OPG's consolidated financial statements, the likelihood that materially different amounts would be reported under varied conditions and estimates and the impact of changes in certain conditions or assumptions, are highlighted below.

Rate Regulated Accounting

A regulation pursuant to the *Ontario Energy Board Act, 1998* provides that, effective April 1, 2005, regulated prices are received by OPG for electricity generated from the baseload hydroelectric facilities and all of the nuclear facilities. The regulation established regulated prices up to April 1, 2008. The OEB's decision, issued in the fourth quarter of 2008, determined the new prices effective April 1, 2008 using a forecast cost of service methodology. This methodology establishes regulated prices based on a revenue requirement taking into account a forecast of production volumes, and total operating costs and a return on rate base. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed assets and an allowance for working capital. Regulated prices prior to April 1, 2008 were established by the Province.

The OEB's decision issued in the fourth quarter of 2008, as well as the OEB's decision issued in May 2009 on OPG's motion to review and vary a portion of the 2008 decision, authorized certain variance and deferral accounts effective April 1, 2008. The OEB's decision also ruled on the disposition of the balances as at December 31, 2007, previously recorded by OPG in variance and deferral accounts prescribed by a regulation pursuant to the *Ontario Energy Board Act, 1998*.

The balances in variance and deferral accounts are recognized as regulatory assets and liabilities as Canadian accounting standards recognize that rate regulation can create economic benefits and obligations that are required by the regulator to be settled with ratepayers. When a company assesses that there is sufficient assurance that incurred expenses will be recovered in the future, those expenses may be deferred and reported as a regulatory asset. When a regulator provides recovery through current rates for expenses that are not incurred then a regulatory liability is reported. The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the regulation and the OEB's decisions. These estimates and assumptions will be reviewed as part of the OEB's regulatory process.

Regulatory asset and liability balances approved by the regulator for inclusion in regulated prices are amortized based on approved recovery periods. Disallowed balances, including associated interest, are charged to operations in the period that the regulator's decision is issued.

OPG applies interest to its regulatory balances as prescribed by the regulation or the OEB, in order to recognize the cost of financing amounts that are to be recovered from, or to be repaid to ratepayers. Prior to April 1, 2008, the regulation required OPG to apply an annual interest rate of six percent to most of its deferral and variance accounts. Subsequent to April 1, 2008, OPG applies the rate determined by the OEB from time to time for variance and deferral accounts of the entities it regulates. The rate was 0.55 percent to 2.45 percent during the year ended December 31, 2009. The rate fluctuated in the range of 3.35 percent to 4.08 percent during the nine months ended December 31, 2008. OPG deferred net interest expense of $8 million in 2009 (2008 – $13 million).

Prior to April 1, 2008, OPG accounted for lease revenue from Bruce Power using the cash basis of accounting. Under the cash basis of accounting, OPG recognized lease income as stipulated in the lease agreement to the extent that the lease payments were expected to be included in future regulated prices charged to customers. Pursuant to the OEB's decision, certain lease payments from Bruce Power were included in the determination of regulated prices effective April 1, 2008 on a straight-line basis over the term of the lease agreement. Accordingly, OPG recognized these lease payments on a straight-line basis over the term of the lease effective April 1, 2008.

In late 2008, OPG re-evaluated the Bruce Lease for accounting purposes due to a modification to the lease. As a result of the re-evaluation, the timing in which certain of the lease revenues are recognized for accounting purposes has been revised. The revision will result in reductions to the lease revenue for accounting purposes during the initial years of the remaining lease term, and increases in lease revenue for accounting purposes during the later years of the remaining lease term. The impact of these changes on revenue in 2008 was offset by the impact of the Bruce Lease Net Revenues Variance Account.

Income Taxes

OPG is exempt from tax under the *Income Tax Act* (Canada). However, under the *Electricity Act, 1998*, OPG is required to make payments in lieu of corporate income and capital taxes to the OEFC. These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), and are modified by regulations made under the *Electricity Act, 1998*.

OPG's operations are complex and the computation of the provision for income taxes involves interpretation of the various tax statutes and regulations. The *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario) have a large body of technical interpretations and case law to help determine the Company's filing position. However, the *Electricity Act, 1998* and tax related regulations are relatively new and therefore it has been necessary for OPG, since its inception, to take certain filing positions in calculating the amount of its income tax provision. These filing positions may be challenged on audit and some of them possibly disallowed, resulting in a potential significant change in OPG's tax provision upon reassessment.

Future income tax assets of $3,636 million (2008 – $193 million) have been recorded on the consolidated balance sheet at December 31, 2009. The Company believes there will be sufficient future taxable income and capital gains that will permit the use of these deductions and carry-forwards. In 2008, due to the adoption of rate regulated accounting, OPG did not record future income tax assets of $3,480 million, which it would have recorded under the liability method, resulting primarily from temporary differences related to the nuclear fixed asset removal and nuclear waste management provisions.

Future tax liabilities of $4,218 million (2008 – $125 million) have been recorded on the consolidated balance sheet as at December 31, 2009. In 2008, because of the adoption of rate regulated accounting, OPG did not record future income tax liabilities of $3,820 million, which it would have recorded under the liability method, resulting primarily from temporary differences related to the nuclear fixed asset removal and nuclear waste management funds.

Fixed Assets

Property, plant and equipment are tested for recoverability whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Recoverability of property, plant and equipment is determined by comparing the carrying amount of an asset to the undiscounted future net cash flows expected to be generated from the asset over its estimated useful life. In cases where the undiscounted expected future cash flows are less than the carrying amounts, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the fair value, or discounted cash flows.

Various assumptions and accounting estimates are required to determine whether an impairment loss should be recognized and, if so, the value of such loss. This includes factors such as short-term and long-term forecasts of the future market price of electricity, the demand for and supply of electricity, the in-service dates of new and laid-up generating stations, inflation, fuel prices, capital expenditures and station lives. The amount of the future net cash flow that OPG expects to receive from its fixed assets could differ materially from the net book values recorded in OPG's consolidated financial statements.

The accounting estimates related to asset depreciation require significant management judgment to assess the appropriate useful lives of OPG's long-lived assets, including consideration of various technological and other factors.

Effective January 1, 2009, the service life of thermal stations, for the purpose of calculating depreciation, was extended by two years to 2014 based on the Province of Ontario's announcement to phase out coal generation by the end of 2014. The life extension reduced depreciation expense by $31 million annually. Subsequently, in September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations. As a result of the unit closures, effective September 2009, OPG revised the end of life for these units to October 2010 from December 2014. This change in estimate was accounted for on a prospective basis and increased depreciation expense by $11 million in 2009. The change in estimate will increase the depreciation expense by $22 million in 2010.

Effective January 1, 2008, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended by two years to 2019 after a review of the technical analysis for life limiting components. The life extension reduced depreciation expense by $18 million in 2008 and 2009. The service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended during 2010. The extension to service life is discussed under the heading, *Future Changes in Accounting Estimates*.

The Company extended the service life of the Bruce B nuclear generating station to 2014 for depreciation purposes effective January 1, 2008 after reviewing future capacity plans in the OPA's Integrated Power System Plan ("IPSP"), and historical information regarding the service lives of major life limiting components of the station. As a result of the extension, depreciation expense decreased by $7 million annually. In addition, effective January 1, 2008, OPG extended the service life of the Bruce A nuclear generating station to 2035 for depreciation purposes after the review of future capacity plans filed with the OPA and other publicly available information. The extension of the service life of the Bruce A nuclear generating station for depreciation purposes decreased depreciation expense by $8 million annually.

Pension and Other Post Employment Benefits

OPG's accounting for pension and OPEB is dependent on management's accounting policies and assumptions used in calculating such amounts.

Accounting Policy

In accordance with Canadian GAAP, actual results that differ from the assumptions used, as well as adjustments resulting from changes in assumptions, are accumulated and amortized over future periods and therefore generally affect the recognized expense and the recorded obligation in future periods.

Under OPG's policy on accounting for pension and OPEB, certain actuarial gains and losses have not been charged to expense and are therefore not reflected in OPG's pension and OPEB accrued benefit asset and liability as a result of the following:

- Pension fund assets are valued using market-related values for purposes of determining actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six percent assumed real return over a five-year period.
- For pension and OPEB, the excess of the net cumulative unamortized gain or loss, over 10 percent of the greater of the benefit obligation and the market-related value of the plan assets (the "corridor"), is amortized over the expected average remaining service life.

In addition, past service costs arising from any pension and OPEB amendments are amortized over future periods and therefore affect recognized expense and the recorded obligation in future periods.

As at December 31, 2009, the unamortized net actuarial loss and unamortized past service costs for the pension plans and OPEB amounted to $1,595 million (2008 – $928 million). Details of the unamortized net actuarial loss and total unamortized past service costs at December 31, 2009 and 2008 are as follows:

	Registered Pension Plans		**Supplementary Pension Plans**		**Other Post Employment Benefits**	
(millions of dollars)	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Net actuarial loss not yet subject to amortization due to use of market-related values	**932**	1,700	**-**	-	**-**	-
Net actuarial (gain) loss not subject to amortization due to use of corridor	**433**	(763)	**18**	(3)	**157**	(70)
Net actuarial loss subject to amortization	**-**	-	**7**	-	**-**	-
Unamortized net actuarial loss (gain)	**1,365**	937	**25**	(3)	**157**	(70)
Unamortized past service costs	**28**	46	**1**	2	**19**	16

Accounting Assumptions

Assumptions are significant inputs to actuarial models that measure pension and OPEB obligations and related effects on operations. Two critical assumptions, discount rate and inflation, are important elements of benefit costs and obligations. In addition, the expected return on assets is a critical assumption in the determination of pension costs. These assumptions, as well as other assumptions involving demographic factors such as retirement age, mortality and employee turnover, are all evaluated periodically by management in consultation with an independent actuary. During the evaluation process, the assumptions are updated to reflect actual experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors, and in accordance with Canadian GAAP, the impact of these differences is accumulated and amortized over future periods.

The discount rates used by OPG in determining projected benefit obligations and the costs for the Company's employee benefit plans are based on representative AA corporate bond yields. The respective discount rates enable OPG to calculate the present value of the expected future cash flows on the measurement date. A lower discount rate increases the present value of benefit obligations and increases benefit plan costs. The expected rate of return on plan assets is based on current and expected asset allocation, as well as the long-term historical risks and returns associated with each asset class within the plan portfolio. A lower expected rate of return on plan assets increases pension cost.

The discount rate used to determine the projected pension benefit obligation as at December 31, 2009 of 6.8 percent represents a significant decrease compared to the 7.5 percent discount rate that was used to determine the obligation as at December 31, 2008. The deficit for the registered pension plans increased from $186 million as at December 31, 2008 to $394 million as at December 31, 2009 primarily as a result of the decrease in the discount rate. The impact of the gain of $428 million on the pension fund assets during 2009 was more than offset by the impact of the lower discount rate.

The discount rate used to determine the OPEB obligation as at December 31, 2009 of 6.69 percent decreased significantly compared to the 7.46 percent discount rate that was used to determine the obligation as at December 31, 2008. The projected benefit obligation increased from $1,591 million at December 31, 2008 to $1,910 million as at December 31, 2009 primarily as a result of the decrease in the discount rate.

A change in assumptions, holding all other assumptions constant, would increase (decrease) 2009 costs, excluding amortization components, as follows:

(millions of dollars)	**Registered Pension Plans**	**Supplementary Pension Plans**	**Other Post Employment Benefits**
Expected long-term rate of return			
0.25% increase	(22)	na	na
0.25% decrease	22	na	na
Discount rate			
0.25% increase	(12)	-	(2)
0.25% decrease	12	-	2
Inflation			
0.25% increase	32	1	-
0.25% decrease	(30)	(1)	-
Salary increases			
0.25% increase	9	1	-
0.25% decrease	(8)	(1)	-
Health care cost trend rate			
1% increase	na	na	24
1% decrease	na	na	(19)

na – change in assumption not applicable

Asset Retirement Obligations

As at December 31, 2009, OPG's asset retirement obligation was $11,859 million (2008 – $11,384 million), comprised of liabilities for nuclear fixed asset removal and nuclear waste management costs and non-nuclear fixed asset removal costs related to the decommissioning of thermal generating stations. The liabilities associated with decommissioning the nuclear generating stations and long-term used nuclear fuel management comprise the most significant amounts of the total obligation. The estimates of the Nuclear Liabilities are reviewed on an annual basis as part of the ongoing, overall nuclear waste management program. Changes in the Nuclear Liabilities resulting from changes in assumptions or estimates that impact the amount of the originally estimated undiscounted cash flows are recorded as an adjustment to the liabilities, with a corresponding change in the related asset retirement cost capitalized as part of the carrying amount of fixed assets.

The estimates of nuclear fixed asset removal and nuclear waste management costs require significant assumptions in the calculations since the programs run for many years. Significant assumptions underlying operational and technical factors are used in the calculation of the accrued liabilities and are subject to periodic review. Changes to these assumptions, including changes in the timing of programs, technology employed, inflation rate, and discount rate, could result in significant changes in the value of the accrued liabilities.

Financial Instruments Measured at Fair Value

Financial assets and liabilities, including exchange traded derivatives, and other financial instruments measured at fair value and for which quoted prices in an active market are available, are determined directly from those quoted market prices.

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 which may include the use of valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing at the balance sheet date. This is the case for over-the-counter derivatives, which includes energy commodity derivatives, foreign exchange derivatives, and interest rate swap derivatives. 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 the valuation technique or model is not based on observable market data, specific valuation techniques are used primarily based on recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors.

OPG's use of financial instruments exposes the Company to various risks, including credit risk, commodity price risk, and foreign currency and interest rate risk. A discussion of how OPG manages these and other risks is in the *Risk Management* section.

Changes in Accounting Policies

Accounting for Regulated Operations

The Canadian Institute of Chartered Accountants ("CICA") revised its guidance on accounting for rate regulated operations, effective January 1, 2009, with amendments to Handbook Section 1100, *Generally Accepted Accounting Principles*, ("Section 1100"), Handbook Section 3465, *Income Taxes*, ("Section 3465"), and Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation,* ("AcG-19") as follows:

- To remove the temporary exemption pertaining to the application of Section 1100 to rate regulated operations, including the elimination of the opportunity to use industry practice as an acceptable basis for recognition and measurement of assets and liabilities arising from rate regulation;
- To amend Section 3465 to require the recognition of future income tax assets and liabilities as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers; and
- To amend AcG-19, as necessary, as a result of amendments to Sections 1100 and 3465.

As a result of the changes to Section 3465, OPG is required to recognize future income taxes associated with its rate regulated operations and records a corresponding regulatory asset or liability for future income taxes that are expected to be recovered or refunded through future regulated prices charged to customers. OPG applied the changes prospectively to interim and annual consolidated financial statements beginning January 1, 2009.

In addition, effective January 1, 2009, with the removal of the temporary exemption in Section 1100, the Company must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Certain assets and liabilities arising from rate regulation continue to have specific guidance under a primary source of Canadian GAAP that applies only to the particular circumstances described therein, including those arising under Handbook Section 1600, *Consolidated Financial Statements*, Handbook Section 3061, *Property, Plant and Equipment*, Section 3465, and Handbook Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*. Other assets and liabilities arising from rate regulation do not have specific guidance under a primary source of GAAP. Therefore, Section 1100 directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Handbook Section 1000, *Financial Statement Concepts*. In developing these accounting policies, the Company may consult other sources including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. Therefore, in accordance with Section 1100, the Company has determined that these assets and liabilities qualify for recognition under Canadian GAAP and this recognition is consistent with the Financial Accounting Standards Board Accounting Standards Codification Topic 980, *Accounting for the Effects of Certain Types of Regulation* (formerly Financial Accounting Standards No. 71). As a result, there is no effect on the Company's financial statements for the year ended December 31, 2009, with the exception of the impact of the amendment to Section 3465, as discussed above.

Financial Instruments – Disclosures

In June 2009, the CICA amended Handbook Section 3862, *Financial Instruments – Disclosures*, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require entities to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has three levels. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. OPG has adopted the amended Section and has reflected the additional disclosures in Note 13 of its 2009 annual audited consolidated financial statements.

Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, ("Section 3064") which replaces Handbook Section 3062, *Goodwill and Other Intangible Assets*, and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

OPG adopted Section 3064 on January 1, 2009 and reclassified prior period comparative amounts from property, plant and equipment to intangible assets. The adoption of this standard did not have a significant impact on the Company's financial position or results of operations. Intangible assets are amortized over a period of five years.

Future Changes in Accounting Estimates

Liabilities for Fixed Assets Removal and Nuclear Waste Management, and Depreciation Expense

In February 2010, OPG announced its decision to commence the definition phase of the refurbishment of the Darlington nuclear generating station. Accordingly, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended to 2051. The approval and the extension of service life also impacted the assumptions for OPG's liabilities for fixed assets removal and nuclear waste management primarily due to cost increases related to additional used fuel bundles, partially offset by a decrease in the liability for decommissioning, resulting from the change in the service life assumptions. The net increase in the liabilities is estimated to be approximately $300 million using a discount rate of 4.8 percent. The increase in liabilities will be reflected in the fixed asset balance in 2010. As a result of these changes, OPG's depreciation expense is expected to decrease by $136 million on an annual basis beginning in 2010.

Conversion to International Financial Reporting Standards

Introduction to Conversion Project

In February 2008, the Canadian Accounting Standards Board confirmed that Publicly Accountable Enterprises will be required to transition from Canadian GAAP to IFRS for interim and annual financial reporting purposes for fiscal years beginning on or after January 1, 2011. The objective of IFRS is to improve financial reporting by having one set of international accounting standards.

In May 2008, the Canadian Securities Administrators issued Staff Notice 52-320, which provides guidance on the disclosure of changes in expected accounting polices related to the change over to IFRS. In accordance with the notice, OPG is required to provide an update of the Company's IFRS conversion plan in each financial reporting period prior to conversion on January 1, 2011.

OPG commenced its IFRS conversion project in 2007 and has established a formal project governance structure. This structure includes a steering committee consisting of senior levels of management from finance, representatives from all business units, and information technology. The steering committee monitors the progress and critical decisions of conversion. There is regular reporting to executive management and to the Audit/Risk Committee of the Board of Directors. OPG has also engaged an external expert advisor.

Phases of Conversion

OPG's conversion project consists of three phases: diagnostic, development, and implementation.

Diagnostic Phase

This phase involved a high level review of major differences between current Canadian GAAP and IFRS, and a review of OPG's significant accounting and reporting standards. OPG completed the diagnostic phase of the conversion project during the fourth quarter of 2007 and determined that the differences with the highest potential to impact OPG's accounting included rate regulated accounting, accounting for fixed assets, asset retirement obligation accounting, as well as the initial adoption of IFRS under the provision of IFRS 1, *First-time Adoption of IFRS*.

Development Phase

The development phase, which began in January 2008, involves a detailed analysis of key impact areas, issue resolutions, and the preparation of illustrative financial statements.

Development phase activities include:
- The evaluation of accounting policy alternatives;
- The investigation, and development of solutions to resolve differences identified in the diagnostic phase;
- Changes to existing accounting policies and practices, business processes, information technology systems, and internal controls; and
- The implementation of a change management strategy to address the information and training needs of internal and external stakeholders.

Appropriate resources have been secured to complete the changeover on a timely basis according to the plan milestones. OPG has ensured training needs are met and continue to be addressed throughout the changeover period.

Implementation Phase

In the third and final phase of OPG's IFRS transition plan, OPG will integrate the changes to affected accounting policies and practices, business processes, information technology systems and internal controls. These changes will be tested prior to the formal reporting requirements under IFRS to ensure all significant differences are appropriately addressed in time for the changeover. The implementation phase began in 2009 and continues during 2010.

The following table provides certain elements of the changeover plan and an assessment of the progress OPG has achieved as of December 31, 2009. This information reflects OPG's most recent assumptions and expectations. Circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations.

Selected Key Activities	Milestones/Deadlines	Progress to Date
Financial statement preparations		
Identify relevant differences between IFRS and current accounting policies and practices and design and implement solutions Evaluate and select one-time and ongoing accounting policy alternatives Benchmark findings with peer companies Prepare illustrative financial statements and related note disclosures to comply with IFRS Quantify the effects of changeover to IFRS	Assessment and quantification of the significant effects of the changeover completed by approximately the third quarter of 2010 OPG expects the IASB to issue final guidance of the Rate-regulated activities Exposure Draft ("ED") late-2010, and to be able to adopt such guidance effective January 1, 2011, with comparable 2010 figures Final selection of accounting policy alternatives by the changeover date	Completed the identification of IFRS differences Assessment and design of solutions to resolve differences is underway Evaluation and selection of accounting policy alternatives is underway In February 2010, the IASB staff indicated that the rate-regulated activities project will likely be delayed by up to 12 months. Therefore, OPG is unable to determine the impact on its accounting for rate-regulated operations and financial results.
Training and communications		
Provide training to affected employees of operating units, management and the Board of Directors and relevant committees thereof, including the Audit/Risk Committee Engage subject matter experts to assist in the transition Communicate progress of change over plan to internal and external stakeholders	Provide timely training in line with changeover milestones. Target to complete training by mid-2010 Communicate effects of changeover by the fourth quarter of 2010	Completed detailed training for resources directly engaged in the changeover and general awareness training to broader group of finance employees Completed specific and relevant training to 150 finance employees Ongoing, periodic internal and external communications about OPG's progress Engaged third-party subject matter experts to assist in the transition
IT systems		
Identify and address IFRS differences that require changes to financial systems Evaluate and select methods to address need for dual record-keeping during 2010 (i.e., IFRS and Canadian GAAP) for comparatives and budget and planning purposes in 2011	Changes to significant systems and dual record-keeping process completed for the first quarter of 2010 Remaining changes to systems post-dual recordkeeping year by the fourth quarter of 2010	Assessed the need for systems upgrades or modifications to ensure an efficient conversion to IFRS Prepared information systems' plans for implementation Commenced accumulating IFRS data to enable reporting of 2010 comparative information in 2011 The impact on the information systems is largely dependent upon future changes to the IFRS standards such as the accounting for rate-regulated activities.
Contractual arrangements and compensation		
Identify impact of changeover on contractual arrangements, including financial covenants and employee compensation plans Make any required changes to arrangements and plans	Changes completed by the third quarter of 2010	IFRS differences with potential impacts on financial covenants and compensation plans were identified and discussed with both internal and external parties as required
Internal controls: Internal controls over financial reporting ("ICOFR"), disclosure controls and procedures ("DC&P") and related communications		
Revise existing internal control processes and procedures to address significant changes to existing accounting policies and practices, including the need for dual record-keeping during 2010, and changes to financial systems Design and implement internal controls with respect to one-time changeover adjustments and related communications. For changes to accounting policies and practices identified, assess the DC&P and ICOFR design and effectiveness implications	Conduct management evaluation of new or revised controls throughout 2010 Changes will be mapped and tested to ensure that no material deficiencies exist as a result of OPG's conversion to the IFRS accounting standards	Accounting policies and procedures, as well as their impact on controls continue to be reviewed

Impact of Adopting IFRS

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure. OPG has completed an initial assessment of the impacts of adopting IFRS, and has identified the areas that have the greatest potential to impact OPG's accounting policies and financial reporting requirements upon conversion to IFRS. The adoption of IFRS will likely have a material impact on OPG's consolidated balance sheets and statements of income. The most significant impacts will likely be a decrease in the carrying values of OPG's fixed asset removal and nuclear waste management liabilities, together with an associated decrease in the carrying values of property, plant and equipment. OPG also expects the carrying values of accounts receivable to increase with an associated increase in payables, the deferred pension asset to decrease, and the OPEB liability to increase. As a result of a delay in the IASB's project on rate-regulated activities, there is uncertainty as to how OPG will account for its currently recognized regulatory assets and liabilities upon adoption of IFRS. The actual impacts are subject to certain final accounting guidance, which will be issued by the IASB before January 1, 2011. OPG is also of the opinion that the adoption of IFRS will not have a material impact on its reported cash flows. Additional information of the expected impacts on OPG's financial statements is included in the following discussion.

OPG will prepare its first financial statements in accordance with IFRS for the three months ending March 31, 2011, which will include comparative results for the periods commencing January 1, 2010. The opening balance sheets as at January 1, 2010 will reflect certain adjustments to the recognized values of assets and liabilities, which will have a future impact on the income statements. All changes to the opening balance sheets will require that the tax assets or liabilities be revised based on the resulting differences between the carrying value of the assets and liabilities under IFRS and their tax values.

The following discussion provides further information about the Company's choices upon transition to IFRS. At this time, OPG has not concluded on all of its accounting policy choices upon transition to IFRS, and is waiting for the IASB to finalize various accounting standards including the accounting standard for rate-regulated activities. Since the IASB continues to issue new accounting standards, the final accounting policy decisions of OPG will only be determined once all applicable standards are known upon the January 1, 2011 conversion date. Differences between IFRS and Canadian GAAP, in addition to those referred to below may still be identified based on further analysis.

Accounting Policy Decisions and Anticipated Impacts

<u>IFRS 1, First-Time Adoption of International Financial Reporting Standards</u>

IFRS 1 provides the framework for the first time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. IFRS 1 also specifies that the adjustments that arise on retrospective conversion to IFRS from other GAAP should be recognized directly in the opening retained earnings. Certain optional exemptions and mandatory exceptions to this retrospective application are provided for under IFRS 1.

While preliminary decisions have been made by OPG with respect to the elective exemptions available upon transition, final decisions cannot be made at this time pending further certainty as to final IFRS standards such as the accounting standard on rate-regulated activities.

Property, Plant and Equipment

Upon adoption of IFRS, an entity has the elective option to reset the cost of its property, plant and equipment based on fair value in accordance with the provisions of IFRS 1, and to use either the cost model or the revaluation model to measure its property, plant and equipment subsequent to transition. The ED – *Rate-Regulated Activities* proposed a transitional exemption for qualifying rate-regulated entities that would have allowed the use of the carrying amount of property, plant and equipment under Canadian GAAP as the deemed cost under IFRS. This is now uncertain given the delay in the IASB's project on rate-regulated activities. The IASB staff has recommended an alternative to the IASB, which would address this issue for first-time adopters of IFRS; however, this recommendation has yet to be decided on by the IASB. OPG will likely apply this exemption, should it become available. As such, OPG would continue carrying its property, plant and equipment at historical cost less accumulated depreciation upon adoption of IFRS.

Business Combinations

Under IFRS 3, *Business Combinations* ("IFRS 3"), business combinations must be accounted for by applying the acquisition method. One of the parties to a business combination is to be identified as the acquirer, which is the entity that obtains control of the other business. In a business combination where OPG is the acquirer, OPG will recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree.

Under IFRS 1, an entity has the option to retroactively apply IFRS 3 to all business combinations or may elect to apply the standard prospectively only to those business combinations that occur after the date of transition. OPG currently intends to exercise the elective exemption under IFRS 1, for all business combinations, including the reorganization of Ontario Hydro which resulted in the incorporation of OPG in 1999, which removes the requirement to retrospectively restate all business combinations prior to the date of transition to IFRS.

Accounts Receivable and Short-term Notes Payable

OPG has an agreement to sell an undivided co-ownership interest in its current and future accounts receivables to an independent trust. Under Canadian GAAP, OPG de-recognizes $250 million of accounts receivable. OPG has determined that the agreement does not meet the de-recognition criteria under IFRS. The estimated amount of $250 million is expected to be recognized in the accounts receivable balance, with a corresponding recognition of an associated payable upon adoption of IFRS.

Property, Plant, and Equipment and Fixed Asset Removal and Nuclear Waste Management Liabilities

The cost of an item of property, plant and equipment under both Canadian GAAP and IAS 16, *Property, Plant and Equipment* ("IAS 16"), includes the cost of dismantling and removing a piece of property, plant, and equipment, and restoring the site on which it is located. However, OPG has determined that certain costs recognized as part of its estimated fixed asset removal and nuclear waste management liability under Canadian GAAP cannot be recognized upon transition to IFRS. Accordingly, OPG expects a significant downward adjustment to its fixed asset removal and nuclear waste management liability, and a corresponding downward adjustment to the carrying value of its property, plant, and equipment. Opening retained earnings will also be impacted. OPG is in the process of estimating the costs that will be de-recognized and is determining the expected adjustment. Refer to Notes 6 and 10 of OPG's 2009 annual audited consolidated financial statements for additional information on property plant and equipment and fixed asset removal and nuclear waste management liabilities.

Employee Benefits

OPG values pension fund assets using market-related values for purposes of determining actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six percent assumed real return over a five-year period. OPG currently amortizes past service costs over the expected average remaining service life to full eligibility of the employees covered by the plan. IAS 19, *Employee Benefits* ("IAS 19") does not permit the use of market-related values to value pension fund assets, and requires vested past service costs to be expensed immediately, and unvested past service costs to be expensed on a straight-line basis until the benefits become vested. Further, actuarial gains or losses for long term disability benefits cannot be amortized under IAS 19.

As a result of these differences between Canadian GAAP and IFRS, OPG expects to reduce its deferred pension asset and increase its liability for OPEB upon adoption of IFRS. Opening retained earnings will also be impacted.

Impairment of Assets

IAS 36, *Impairment of Assets* ("IAS 36") uses a one-step approach for testing and measuring asset impairments, with asset carrying values being compared to the higher of (i) value in use and (ii) fair value less costs to sell. Value in use is defined as being equal to the present value of future cash flows expected to be derived from the asset in its current state. In the absence of an active market, fair value less costs to sell may also be determined using discounted cash flows. The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP where undiscounted future cash flows are used to compare against the asset's carrying value to determine if impairment exists. This may result in more frequent write-downs in the carrying value of assets under IFRS since asset carrying values that were previously supported under Canadian GAAP based on undiscounted cash flows may not be supported on a discounted cash flow basis under IFRS. In addition, under IAS 36, previous impairment losses may be reversed where circumstances change such that the impairment has reduced. This also differs from Canadian GAAP, which prohibits the reversal of previously recognized impairment losses.

OPG is in the process of estimating whether there is an impairment and or an impairment reversal related to its property, plant and equipment included in its joint venture arrangements and thermal generating stations.

Ongoing Monitoring of IASB Projects

The IASB has a number of on-going projects on its agenda which may result in changes to existing IFRS prior to OPG's conversion in 2011. OPG continues to monitor these projects and the impact that any resulting IFRS changes may have on its anticipated accounting policies, financial position or results of operations.

Accounting for Rate-Regulated Activities under IFRS

IFRS does not currently provide specific guidance with respect to accounting for rate-regulated activities. However, in December 2008, the IASB initiated a project on accounting for rate-regulated activities, which aimed to determine whether or not rate-regulated entities could or should recognize assets or liabilities as a result of rate regulation imposed by a regulatory body.

In July, 2009, the IASB issued the ED – *Rate-Regulated Activities.* Based on the ED as it currently exists, regulatory assets and liabilities arising from activities subject to cost-of-service regulation would be recognized under IFRS when certain conditions are met.

The IASB staff analyzed the comments it received on the ED and issued a summary in February 2010 indicating that the IASB's project on rate-regulated activities will not be finalized within the originally planned timeline of late 2010. Based on the volume and nature of the comments received, the IASB staff is of the opinion that a re-exposure draft will have to be published, which will take up to 12 months. The IASB staff presented the IASB with a number of alternatives to consider regarding this project.

At its February 2010 meeting, the IASB directed its staff to re-examine whether regulatory assets and regulatory liabilities exist under its *Framework for the Preparation and Presentation of Financial Statements*. Since the IASB has yet to consider the alternatives that were put to it, the IASB's decision on the path forward is unknown at this time, and OPG is unable to speculate on the outcome of the IASB's project. Therefore, OPG is unable to reasonably estimate and conclude on the impact, if any, on the future financial position and results of operations that would result from differences in accounting for rate-regulated activities under IFRS compared to Canadian GAAP. Refer to Note 7 of OPG's 2009 annual audited consolidated financial statements for additional information on regulatory assets and liabilities.

Joint Ventures

Under Canadian GAAP, OPG proportionately consolidates its interests in joint ventures. The IASB is currently considering ED 9, *Joint Arrangements* ("ED 9"), which is intended to modify IAS 31, *Interests in*

Joint Ventures ("IAS 31"). ED 9 proposes to eliminate the option to proportionately consolidate interests in jointly controlled entities and will require an entity to recognize its interest using the equity method. The IASB has indicated that it expects to issue a new standard to replace IAS 31 during the first quarter of 2010, which may impact OPG's financial statements upon adoption of IFRS.

RISK MANAGEMENT

Overview

The current economic downturn has resulted in a decrease in the demand and price for electricity, which has had a significant impact on OPG's unregulated business segments. The short-term market trends have resulted in near-term cost reduction pressures for OPG which must be balanced with the strategic objectives of maximizing the return on the ratepayer's investment in OPG assets. There is a potential for lower revenue to persist if electricity market prices remain depressed due to either lower demand or capacity additions which affect the supply and demand balance over the medium-term; or due to other market factors that impact electricity prices. Generation development initiatives, including the development of hydroelectric stations, refurbishment of nuclear units, and the potential conversion of coal-fired units to other fuels are underway. Specific remediation activities designed to provide early indication of emerging risks and mitigating outcomes have been initiated to address OPG's risks.

Risk Governance Structure

OPG's risk management governance structure is designed to effectively identify, measure, monitor and report on key risk management activities across the Company. The Audit/Risk Committee ("ARC") of the Board of Directors assists the Board to fulfill its oversight responsibilities by reviewing and evaluating the effectiveness of the Company's risk management processes, and considering the key risks to the Company and related mitigation. An Executive Risk Committee ("ERC"), which is comprised of the business unit leaders and the Chief Risk Officer ("CRO"), assists the ARC in fulfilling its governance and oversight responsibilities in relation to OPG's risk management activities.

Risk Management Activities

OPG faces a wide array of risks as a result of its business operations. The enterprise risk management framework is designed to identify and evaluate threats or risks on the basis of their potential impact on the Company's capacity to achieve specific business plan objectives.

Risk management activities are coordinated by a centralized Corporate Risk Management group led by the CRO. Risks that would prevent business units from achieving business plan objectives are identified at the business unit level. OPG's senior executives identify broader strategic risks, then prioritize the tactical and strategic risks to determine the top threats to the Company. Senior management sets risk limits for the financing, procurement and trading activities of the Company and ensures that effective risk management policies and processes are in place to ensure compliance with such limits in order to maintain an appropriate balance between risk and return. OPG's risk management process aims to continually evaluate the effectiveness of risk mitigation activities for identified key risks. The findings from this evaluation process are reported quarterly to the Audit/Risk Committee.

For the purpose of disclosure, a number of key risks are presented in four main categories namely, operational, financial, regulatory, enterprise-wide, and environmental. For each category, a number of key threats or risks are briefly described.

Operational Risks

Operational risks are those risks normally inherent in the operation of electricity generating facilities. These risks can lead to interruptions in the operations of generating stations or uncertainty in future production. Risks to OPG's diverse fleet of nuclear, hydroelectric and thermal generating stations are a function of the age of the stations and the technology.

OPG is also exposed to operational risks relating to a portfolio of major generation development projects that are currently underway or are planned.

Nuclear Generating Stations

The uncertainty associated with production at OPG's nuclear stations is primarily caused by the condition of the station components and systems, which are all subject to the effects of aging. To respond to this challenge, OPG has implemented extensive inspection and maintenance programs to monitor performance and identify corrective actions required to operate reliably, and within design parameters.

In certain cases, deterioration of station components progresses in an unexpected manner, resulting in the need to increase monitoring, conduct extensive repairs, or undertake additional remedial measures. To maintain a safe operating margin, a nuclear unit could be derated. When an unexpected risk first appears, a specific monitoring program is established. The primary impact of these discovered risks on OPG is an increase in the long-term cost of operations. The associated mitigation may create additional outage work, thus increasing the number of outages or extending planned outages.

The electricity generated by nuclear generating stations also produces nuclear waste. OPG is accountable for the management of used fuel, low and intermediate level waste ("L&ILW") and decommissioning of OPG's nuclear generating stations. There is no facility for the permanent disposal of used fuel or L&ILW currently in operation in Canada, nor has the CNSC licensed any such facility. To address this need, OPG is developing a Deep Geologic Repository ("DGR") for centralized storing of L&ILW on the Bruce site. OPG has contracted with the NWMO to manage the L&ILW DGR project through the regulatory process on behalf of OPG. The NWMO is also planning for the permanent disposal of used fuel. In the interim, OPG is storing and managing used fuel at its nuclear generating station sites. Residual risk remains around nuclear waste management operations since it depends on a multitude of variable factors such as human performance, community support, and regulatory requirements.

Hydroelectric Generating Stations

Due to changing weather patterns, forecasting water levels for hydroelectric generation is inherently uncertain. This uncertainty in forecasting water levels introduces a significant degree of uncertainty in forecasting hydroelectric generation. OPG manages this hydrology risk by using production forecasting models that incorporate unit efficiency characteristics, water flow conditions and outage plans. Inputs to the models are assessed, monitored and adjusted on an ongoing basis. The risk associated with the uncertainty in water levels is partly mitigated by the Hydroelectric Water Conditions Variance that was established for OPG's regulated hydroelectric facilities.

OPG's hydroelectric generating stations vary in age. Over 75 percent of the hydroelectric generating capacity is over 50 years old. The age of the equipment and civil components create risks to reliability of some hydroelectric generating stations. OPG manages these reliability risks by performing maintenance of critical components, and conducting detailed engineering reviews, station condition assessments and inspections in order to identify future work necessary to sustain and, if necessary, upgrade a station.

The hydroelectric business segment operates 239 dams across the Province. Dam safety legislation does not currently exist in the Province, although the Ministry of Natural Resources ("MNR") is currently considering introducing dam safety legislation. While the legislation concerning dam safety and public safety is currently in a state of development, OPG has well-established programs based on established industry guidelines. The MNR has developed a draft regulation governing dam safety which is expected to be enacted in 2010. The regulation may ultimately result in expenditures for structural enhancements to several of OPG's hydroelectric facilities.

OPG has an Aboriginal Relations Policy, which sets out its commitment to build and maintain positive relationships with Aboriginal Peoples in Ontario. OPG has been successful in resolving some past grievances. However, the outcome of the ongoing and future negotiations with Aboriginal communities depends on a number of factors, including legislation, regulations, and continued Aboriginal community support, which are subject to change over time. Precedents created by court rulings also impact negotiations and resolution of past grievances.

Thermal Generating Stations

In May 2008, the Province announced new annual limits on CO_2 emissions from OPG's coal-fired generating stations to reduce emissions by two-thirds of the 2003 levels by 2011. OPG has developed a strategy to stage the reductions on a forecast basis.

In September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations. The closures are expected to occur in October 2010. The contingency support payments received by OPG from the OEFC will be reduced to account for the earlier closure of the coal plants.

Despite the announcement to phase out coal generation by the end of 2014, OPG is required to maintain its coal-fired generating station to produce the required volume of electricity and ancillary services if and when needed. OPG's ability to continue to operate its thermal generating stations is dependent on the condition of the equipment. Engineering risk and equipment condition assessments are used as the basis for a maintenance work program appropriate to the operating profile of a particular unit. However, if the work program is not properly executed, it could lead to extended forced unit outages.

OPG's long-term thermal asset strategy is to pursue the feasibility of converting selected coal units with fuels such as biomass, natural gas and gas-biomass dual-fuel. OPG requires a cost recovery agreement with the OPA for conversion of any units and the electricity generated post conversion, before seeking Board of Directors approval to proceed with unit conversions. OPG is in discussion with the Ministry of Energy and Infrastructure to issue a directive to the OPA to negotiate one or more cost recovery agreements with OPG. OPG is also continuing work to evaluate the technical and supply chain aspects of converting units, to ensure the biomass conversion will be economically viable.

Major Development Projects

OPG is undertaking numerous projects designed to enhance and expand its fleet of generating stations. These projects are capital intensive and require significant investments in terms of resources. There may be an adverse effect on the Company if OPG is unable to manage these projects to achieve the cost, schedule and quality required, if it is unable to borrow the necessary capital, or if it does not receive full recovery of its capital and operating costs. Major projects include possible new nuclear units at OPG's Darlington site, potential refurbishment of existing nuclear generating stations, the Niagara Tunnel project, and other hydroelectric and thermal projects.

<u>New Nuclear Units</u>

The Government of Ontario competitive RFP process to procure two new nuclear reactors planned for the Darlington site was suspended on June 29, 2009. In the announcement, the Government indicated that the competitive RFP process did not provide Ontario with a suitable option at this time. The bids that were received during this process have subsequently expired. The Government has not yet announced its revised plans for procurement of two new nuclear reactors. OPG continues with two initiatives that were underway – the environmental assessment process and obtaining a site preparation licence. The EIS and application for the "Licence to Prepare Site" were submitted to the CEAA and the CNSC on September 30, 2009. On November 16, 2009, the Joint Review Panel ("JRP") announced the start of the six month review period for the EIS and the "Licence to Prepare Site". On February 3, 2010, the JRP requested additional information in support of the EIS and application for the "Licence to Prepare Site". Uncertainty with respect to the timing of a future choice of a nuclear reactor vendor continues. The choice of a nuclear reactor vendor would allow OPG to further identify risks associated with the project.

<u>Darlington Refurbishment</u>

The refurbishment of the Darlington nuclear generating station is expected to extend the current operating life of the station. Failure to achieve the objectives of the refurbishment project may create the need for additional outages and restrict the useful post-refurbishment life of the station. To mitigate this risk, and as part of the project front-end planning process, a component condition assessment is being performed on all systems within the station. This work will evaluate the current condition of the systems and identify required work to be performed in the refurbishment outage. Additionally, key life limiting components such as pressure tubes, are included in the base refurbishment scope. A detailed ISR and EA will also be conducted to identify additional scope required to meet regulatory and environmental requirements.

Pickering B Continued Operations

In February 2010, OPG announced its decision to continue the safe and reliable operation of OPG's Pickering B nuclear generating station. Pickering B nuclear generating units are currently predicted to reach their nominal end of life between 2014 and 2016. OPG is undertaking a coordinated set of initiatives to evaluate the opportunity to continue safe and reliable operations of Pickering B for an additional four to six years. Risk factors include discovery of unexpected conditions, equipment failures, requirement of significant plant modifications, and obtaining CNSC approval. The inability to achieve Pickering B Continued Operations could reduce OPG's revenue due to shutdown of the Pickering B generation station and could lead to discontinuation of Pickering A operations. To mitigate these risks, OPG undertook a number of activities which include work on fuel channel life cycle management, a regulatory strategy and economic analysis to support optimal reactor end of life dates, and modification of the operating and maintenance strategy to support Continued Operations.

Niagara Tunnel Project

In June 2009, following the recommendations of the dispute review board, OPG and the contractor signed an amended design-build contract with a revised target cost and schedule. The target cost and schedule take into account the challenging rock conditions encountered and the concurrent tunnel excavation and liner installation work required to expedite completion of the tunnel. The amended contract includes incentives and disincentives related to achieving the target cost and schedule. As at December 31, 2009, the TBM has progressed 5,481 metres (54 percent to the tunnel length). Installation of the lower one-third of the permanent tunnel concrete lining is progressing ahead of schedule. Restoration of the circular cross-section of the tunnel before installation of the upper two-thirds of the concrete lining began, as planned, in September 2009. Installation of the upper two-thirds of the concrete lining is scheduled to begin in the spring of 2010.

Uncertainty with respect to the cost and schedule for both the tunnel excavation and liner installation continues. There are a number of factors which contribute to this uncertainty, including challenging rock conditions. Allowances for differing rock conditions have been included in the cost estimate and schedule. Major equipment breakdown is also a risk factor. To mitigate this risk, the contractor is monitoring the equipment and maintenance programs are in place, with critical spare parts available, to minimize potential delays. In addition, there is risk with respect to the rate of progress for the restoration of the circular cross-section of the tunnel. Mitigation measures such as extended operations and use of additional equipment are planned by the contractor.

There are also uncertainties associated with aspects of the project which have yet to begin, such as the installation of the upper two-thirds of the concrete lining and tunnel pre-stress grouting. Allowances have been included in the cost estimate and schedule with respect to these uncertainties. Finally, events such as tunnel failure or flood are also a potential risk. The vendor has implemented appropriate tunnel convergence and cofferdam monitoring programs, and has rigorous emergency response programs in place, including safety drills and redundant equipment and materials on site, in order to minimize the impact should such an event occur.

Other Development Projects

OPG is engaged in a number of other hydroelectric development projects including the Upper Mattagami and Hound Chute, and Lower Mattagami projects. These projects are exposed to a number of risks, including cost escalation, availability of raw materials and equipment, and receipt of permits and approvals.

Despite initial reductions in the prices of many commodities during the start of the economic downturn, equipment and construction costs for development projects did not decline further. With the start of economic recovery and governments increasing infrastructure spending, equipment and construction costs may resume an upward trend. OPG will continuously monitor such input costs and trends in order to keep abreast of emerging issues. OPG will seek to manage and limit cost increases through contracting strategies.

For projects that are in initial development stages, such as the Lower Mattagami project, unforeseen delays in receiving permits or approvals, which may involve various external stakeholders, could result in schedule delays or ultimately, cancellation of a project. OPG attempts to mitigate risks associated with delays in receiving permits and approvals through early involvement and constant communication with applicable government agencies, close consultation with external stakeholders, and ongoing monitoring of contractor performance relative to permits.

Electricity Demand and Supply

The Green Energy Act is expected to provide a significant amount of additional electricity from renewable energy sources. Given the potential for other producers to add significant amounts of non-dispatchable renewable resources under the Green Energy Act, OPG's future operations may be significantly impacted. The interconnection between Ontario and Quebec, which was placed in-service July 2009, also increases the possibility of OPG's generation being displaced.

The reduction in primary demand resulting from the economic downturn, combined with increased generating sources and the impact of the Ontario and Quebec interconnection, may cause OPG to spill water from hydroelectric generating units and reduce generation output of thermal and nuclear units. One or more of these conditions could result in a significant decline in OPG's revenue and potentially result in increased costs.

Market prices continue to be depressed and are expected to remain low for the foreseeable future.

Financial Risks

OPG is exposed to a number of capital market-related risks that could adversely impact its financial and operating performance. Many of these risks arise due to OPG's exposure to volatility in commodity, equity and foreign exchange markets, and interest rate movements. Pension and OPEB costs are potentially impacted by these various market and interest rate movements. OPG manages this complex array of risks to reduce the uncertainty or mitigate the potential unfavourable impact on the Company's financial results. Despite OPG's risk management measures, residual risk to financial results continues due to volatility in the markets.

Commodity Markets

Unpredictable increases in the price of fuels used to produce electricity can adversely impact OPG's earnings. To manage this risk, the Company has fuel hedging programs, which include using fixed price and indexed contracts. OPG's risk associated with changes in fuel costs for nuclear operations is primarily mitigated by the nuclear fuel variance account established by the OEB in its decision on OPG's regulated payment amounts.

OPG's revenue is also affected by changes in the market or spot price of electricity. The Company takes steps, such as executing forward sales at fixed prices, to mitigate the impact that extreme variations in the spot price could have on the gross margin. A $1/MWh decrease in the 2010 forecast average annual spot market price of electricity, would impact OPG's gross margin by approximately $19 million. An increase in price by $1/MWh would increase gross margin by approximately $13 million.

The percentages of OPG's expected generation, emission requirements, and fuel requirements hedged are shown below:

	2010	2011	2012
Estimated generation output hedged [1]	82%	82%	82%
Estimated fuel requirements hedged [2]	100%	84%	59%
Estimated nitric oxide ("NO") emission requirement hedged [3]	100%	100%	100%
Estimated SO_2 emission requirement hedged [3]	100%	100%	100%

[1] Represents the portion of megawatt-hours of expected future generation production, including power purchases, for which the Company has sales commitments and contracts including the obligations under regulated pricing commitments, and agreements with the IESO, OEFC, and OPA auction sales.

[2] Represents the approximate portion of megawatt hours of expected generation production (and thermal year end inventory targets) from each type of facility (thermal and nuclear) for which OPG has entered into contractual arrangements or obligations in order to secure either the expected availability and/or price of fuel. Excess fuel in inventories in a given year is attributed to the next year for the purpose of measuring hedge ratios.

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

Equity Markets

Unexpected volatility or loss due to the decline in the market value of individual equities and/or equity indices negatively impacts the value of OPG's Nuclear Funds and pension plan assets.

Nuclear Funds Market Risk

The strong performance of the global financial markets in 2009 positively affected the market value of the investments held in the Decommissioning Fund. Although the Decommissioning Fund was underfunded at the end of 2009, under the terms of the ONFA between OPG and the Province, OPG is not required to increase the contributions to the Decommissioning Fund prior to the approval of a new ONFA Reference Plan, which is expected in 2011.

For the Used Fuel Fund, the Province guarantees the annual rate of return at 3.25 percent plus the change in the Ontario Consumer Price Index for the first 2.23 million fuel bundles. As such, a change in the value of the fund related to the first 2.23 million bundles does not impact OPG's earnings. On December 31, 2009, OPG made a contribution of $31 million towards incremental fuel bundles beyond the first 2.23 million. Unlike contributions designated for the first 2.23 million fuel bundles, funds set aside for incremental bundles are not subject to the Province's rate of return guarantee, and OPG therefore assumes the market risk for such investments.

The performance of Nuclear Funds related to stations leased to Bruce Power is subject to the Bruce Lease Net Revenues Variance Account established by OPG. The variance account partially mitigates market risk to the Nuclear Funds as it captures the differences between actual and forecast earnings of the Nuclear Funds as they relate to the nuclear generating stations leased to Bruce Power.

Pension and Other Post Employment Benefit Costs

OPG's post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. The Company's registered pension plans are contributory defined benefit plans that is indexed to inflation and covers most employees and retirees.

Contributions to OPG's pension plan are determined by actuarial valuations, which are filed with the appropriate regulatory authorities at least every three years. The most recently filed valuation of the OPG registered pension plan was prepared as at January 1, 2008. As a result of the valuation, OPG will make annual pension contributions in 2010 of approximately $270 million. The next valuation for OPG's pension plan will be prepared with an effective date no later than January 1, 2011. The required level of contributions for 2011 and the following two years will be dependent on a number of factors including future investment returns and changes in actuarial assumptions.

The costs of, and obligations for, pension and OPEB are calculated based on assumptions including the long-term rate of return on pension assets, discount rates for pension and OPEB obligations, expected service period of employees, wage or salary increases, inflation and health care cost trend rates. These assumptions are subject to significant changes as they require judgment and involve inherent uncertainties. The most significant assumptions used to calculate the net periodic cost of pension and OPEB are the discount rates for pension and OPEB, the expected return on pension fund assets, and the expected inflation rate for pension benefits.

The Company's future plan assets, accrued benefit obligations, pension and OPEB expenses, and pension contributions could be materially affected by: significant changes in assumptions driven by changes in financial markets; experience gains and losses; changes in the pension plan or regulatory requirements; divestitures; and the measurement uncertainty incorporated into the actuarial valuation process.

Foreign Exchange and Interest Rate Markets

OPG's financial results are exposed to volatility in the Canadian/U.S. foreign exchange rate as fuels purchased for thermal and nuclear generation stations are paid in U.S. dollars. The magnitude of the impact of this volatility is largely a function of the quantity of the fuels purchased. In addition to this exposure, the market price of electricity in Ontario is influenced by the exchange rate because of the interaction between the Ontario and neighbouring U.S. interconnected electricity markets. In order to manage this risk OPG employs various financial instruments such as forwards and other derivative contracts in accordance with approved risk management policies.

OPG has interest rate exposure on its short-term borrowings and investment programs. The majority of OPG's existing debt is at fixed interest rates. Interest rate risk arises with the need to undertake new financing and with the potential addition of variable rate debt. 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 December 31, 2009, OPG had total interest rate swap contracts outstanding with a notional principal of $490 million.

Trading

OPG's trading operations are closely monitored and total exposures are measured and reported to senior management on a daily basis. The metric used to measure the risk of this trading activity is known as "value at risk" or "VaR", which is defined as the potential future loss expressed in monetary terms for a portfolio based on normal market conditions over a set period of time. For 2009, the utilization of VaR fluctuated between $0.5 million and $2.6 million compared to $0.9 million and $4.2 million for 2008.

Credit

The Company's credit exposure is a function of electricity sales and trading as well as commercial transactions with various suppliers of goods and services. OPG's credit exposure relating to electricity sales is considered low as the majority of sales are through the IESO-administered spot market. The IESO oversees the credit worthiness of all market participants.

OPG manages its exposure to various suppliers or "counterparties" by evaluating the financial condition of all counterparties and ensuring that appropriate collateral or other forms of security are held by OPG.

The following table summarizes OPG's credit exposure to all counterparties as at December 31, 2009:

			Potential Exposure for Largest Counterparties	
Credit Rating [1]	**Number of Counterparties** [2]	**Potential Exposure** [3]	**Number of Counterparties**	**Counterparty Exposure**
		(millions of dollars)		*(millions of dollars)*
Investment grade	32	66	3	40
Below investment grade	7	6	2	4
IESO [4]	1	420	1	420
Total	40	492	6	464

1 Credit ratings are based on OPG's own analysis, taking into consideration external rating agency analysis where available, as well as recognizing explicit credit support provided through parental guarantees, Letters of Credit or other forms of security.
2 OPG's counterparties are defined on the basis of individual master agreements.
3 Potential exposure is OPG's statistical assessment of maximum exposure over the life of each transaction at a 95 percent confidence interval.
4 Credit exposure to the IESO peaked at $854 million during the year ended December 31, 2009 and at $897 million during the year ended December 31, 2008.

Liquidity

OPG operates in a capital intensive business. Significant financial resources are required to fund capital improvement projects and related maintenance programs at generating stations. In addition, the Company has other significant disbursement requirements including investment in new generating capacity, annual funding obligations under the ONFA, pension funding and continuing debt maturities with the OEFC. OPG must ensure it has the financial capacity and sufficient access to cost-effective financing sources to fund its capital requirements. A discussion of corporate liquidity is included in the *Liquidity and Capital Resources* section.

Regulatory Risks

OPG is subject to regulation by various entities including the OEB and the CNSC. The risks that arise from being a regulated entity include the potential inability to receive full recovery of capital and operating costs, reductions in revenue, and increases in the cost of operations. These unfavourable impacts are mitigated by maintaining close contact with regulators and issuers of standards and codes to ensure early identification and discussion of issues.

Rate Regulation

The prices for electricity generated from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that it operates are determined by the OEB based on a forecast cost of service methodology. The regulated prices remain in effect until the effective date of the OEB's next payment amounts order. As with any regulated price established using a forecast cost of service methodology, there is an inherent risk that the prices established by the regulator may not provide for recovery of all actual costs incurred by the regulated operations, or allow the regulated operations to earn the allowed rate of return.

The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's decisions and the regulation. These estimates and assumptions will be reviewed as part of the OEB's regulatory process.

Nuclear Regulatory Requirements

The uncertainty associated with nuclear regulatory requirements is primarily driven by plant aging, technology risks and changes to technical codes. Proactively addressing these requirements adds to the cost of operations, and in some instances, may result in a reduction in the productive capacity of a plant, or in the earlier than planned replacement of a plant component.

Enterprise-Wide Risks

Significant risks that have a potential enterprise-wide impact on OPG's business, reputation, financial condition, operating results and prospects are discussed below.

Human Resources

The risk associated with the availability of skilled and experienced resources continues to exist for OPG. The severity of this risk will continue to remain high as a growing percentage of staff become eligible to retire. In order to mitigate the impact of this risk, OPG implemented a "Resourcing Strategy Initiative" which includes recruitment strategies, workforce planning and ongoing analysis of potential shortfalls.

Although the short term impacts of the recent recession would indicate improved ability to attract and retain personnel, there can be no assurance that OPG will be able to attract and retain qualified personnel in the future.

OPG's continued commitment to building and strengthening internal capabilities is evidenced by further development of an integrated leadership competency model, focused succession planning efforts, and enhanced supervisory training.

Health and Safety

A robust safety culture, evidenced by continuous improvement in safety management and risk controls program, exists at OPG. The importance of safety is continually reinforced in OPG's Corporate Safety Rules, which emphasize higher standards for accountability and training in high risk areas.

Corporate Reputation

As a provider of a large portion of the Province's electricity requirements, maintaining a positive corporate reputation is critical for OPG. OPG focuses on building and maintaining its reputation through many practices, including corporate citizenship initiatives across the Province, appropriate and transparent governance practices, and effective communication with stakeholders. In addition, OPG undertakes continuous improvement initiatives in various assurance and risk management activities.

Ownership by the Province

The Province owns all of the Company's issued and outstanding common shares. Accordingly, the Province has the power to determine the composition of the Company's Board of Directors and to directly influence major business and corporate decisions. Competing interests may also arise between OPG and the Province as a result of the obligation of the Province to respond to a broad range of matters, including the regulation of Ontario's electricity industry, the regulation of environmental matters, the allocation of nuclear waste management costs between OPG and the Province, the reduction of the stranded debt from the revenues of the electricity industry, any future sale by the Province of all or any of the Company's assets or common shares, and the determination of the amount of payments to be made by the Company to the Province by way of dividends or taxes. OPG is committed to operational excellence, maintaining positive stakeholder relationships and maximizing the return on its assets.

Interconnected Electricity Markets

OPG depends on the capacity and reliability of the third party transmission and interconnection systems in order to access the interconnected markets. A majority of OPG's sales are through the IESO. There is a residual risk that OPG might be unable to supply or sell power to the interconnected markets due to operational or regulatory constraints on the transmission and distribution systems.

OPG's ability to access interconnected electricity markets depends upon many external factors, including: the cost to transmit electricity to these markets; the price of electricity in these markets; the competitive actions of other generators and power marketers; the state of deregulation in Ontario and the interconnected markets; currency exchange rates; any new trade limitations; retention of a Federal Energy licence; and costs to comply with environmental standards imposed in these markets. There can be no assurance that OPG will continue to compete successfully in interconnected markets.

Leases and Partnerships

OPG has leased its Bruce nuclear generating stations to Bruce Power and is a party to a number of partnership arrangements related to the ownership and operation of generating stations. Each of these generating stations are subject to numerous operational, financial, regulatory, and environmental risk factors.

In addition, under the Bruce Lease, lease revenue is reduced in each calendar year where the annual arithmetic Average HOEP falls below $30/MWh and certain other conditions are met. The conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, is treated as a derivative according to CICA Section 3855, *Financial Instruments – Recognition and Measurement*. Derivatives are measured at fair value and changes in fair value are recognized in the statement of income. As a result of the significant reduction in the Average HOEP, the fair value of the derivative has increased to $118 million for 2009. The exposure will continue until the Bruce units that are subject to this mechanism are no longer in operation, specific units are refurbished, or when the lease agreement is terminated. This exposure is mitigated as part of the OEB regulatory process, since the revenue from the lease of the Bruce generating stations is included in the determination of regulated prices.

Information Technology

OPG's ability to operate effectively is in part dependent upon OPG developing or subcontracting and managing a complex information technology systems infrastructure. Future system failures, or an inability to keep information technology systems aligned with changing market conditions and strategic business objectives, could have a negative impact on the operational and financial results of the Company. OPG closely monitors its information technology system and service requirements and has recently negotiated a new information technology outsourcing agreement.

Suppliers

OPG's ability to operate effectively is also in part dependent upon OPG's access to equipment, materials and service suppliers. Loss of key equipment, materials and service suppliers could have a negative impact on the operational and financial results of the Company. OPG mitigates this risk to the extent possible through effective contract negotiations, contract language, vendor monitoring, and diversification of its supplier base.

Natural or Unexpected Events

OPG is exposed to incidents or developments, such as natural disasters or an influenza pandemic that could threaten the safety of various stakeholders, as well as the continuity of OPG's business operations. A significant event could occur that is not fully insured or indemnified against, or a party could fail to meet its indemnification obligations.

OPG's Emergency Management program is designed to ensure operational continuity and to respond to incidents or developments that could threaten the safety of stakeholders. The program goals are to protect the health and safety of employees, the public and responders, the environment and OPG's assets and reputation. The program elements are designed to meet legal and regulatory requirements.

Environmental Risks

Changes to environmental laws could create compliance risks and result in potential liabilities that may be addressed by the installation of control technologies, the purchase of emission reduction credits, allowances or offsets, or by constraining electricity production. Further, some of OPG's activities have the potential to impair natural habitat, damage aquatic or terrestrial plant and wildlife, or cause contamination to land or water that may require remediation. In addition, a failure to comply with applicable environmental laws may result in enforcement actions, including the potential for orders or charges.

If the Ontario government implements a GHG cap-and-trade regime, there is a risk of incurring material costs to purchase allowances or offsets against GHG emissions from coal, oil and natural gas generation. For further details on OPG's environmental performance and policies refer to the *Vision, Core Business and Strategy* section.

RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province, Infrastructure Ontario, and the other successor entities of Ontario Hydro, including Hydro One Inc. ("Hydro One"), the IESO, and the OEFC. 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.

These transactions are summarized below:

(millions of dollars)	Revenue 2009	Expenses 2009	Revenue 2008	Expenses 2008
Hydro One				
Electricity sales	**20**	**-**	35	-
Services	**-**	**13**	-	7
Province of Ontario				
GRC water rentals and land tax	**-**	**146**	-	151
Guarantee fee	**-**	**4**	-	4
Used Fuel Fund rate of return guarantee	**-**	**493**	-	(971)
Decommissioning Fund excess funding	**-**	**-**	-	(3)
OEFC				
GRC and proxy property tax	**-**	**224**	-	215
Interest expense on long-term notes	**-**	**210**	-	-
Capital tax	**-**	**31**	-	215
Income taxes	**-**	**221**	-	36
Contingency support agreement	**412**	**-**	-	88
Infrastructure Ontario				
Reimbursement of expenses incurred during the procurement of new nuclear units	**-**	**21**	-	-
	-	**-**	-	-
IESO				
Electricity sales	**4,434**	**31**	5,330	127
Revenue limit rebate	**(27)**	**-**	(277)	-
Ancillary services	**153**	**-**	155	-
Other	**6**	**-**	-	-
	4,998	**1,394**	5,243	(131)

As at December 31, 2009, accounts receivable included $2 million (2008 – nil) due from Hydro One and $189 million (2008 – $207 million) due from the IESO. Accounts payable and accrued charges as at December 31, 2009 included $3 million (2008 – $1 million) due to Hydro One and $21 million (2008 – nil) due to Infrastructure Ontario.

CORPORATE GOVERNANCE

Corporate Governance

National Instrument 58-101, *Disclosure of Corporate Governance Practices*, has been implemented by Canadian securities regulatory authorities to provide greater transparency for the marketplace regarding issuers' corporate governance practices. Information with respect to OPG's Board of Directors is as follows:

Board of Directors and Directorships

OPG's Board of Directors is made up of 12 individuals with substantial capability in managing and restructuring large businesses, managing and operating nuclear stations, managing capital intensive companies, and overseeing regulatory, government and public relations. The Board exercises its independent supervision over management as follows: the majority of members of the Board of Directors are independent of the Company; meetings of the Board of Directors are held at least six times a year; a formal Charter for the Board of Directors, and for each Board Committee has been adopted; each Board

Committee is chaired by an independent director; and a portion of each Board and Committee meeting is reserved for directors to meet without management present. The Board delineates the President and Chief Executive Officer ("CEO") role and responsibilities through the By-laws, Board Charter, Board policies and the annual goals and objectives. The Board also sets and monitors performance against annual CEO and OPG targets and objectives.

All directors listed are independent within the meaning of Section 1.4 of National Instrument 52-110 of the Canadian Securities Administrators ("NI 52-110") except for Tom Mitchell who is the President and CEO of OPG.

Directors

The following tables set forth the name, municipality of residence, position with the Corporation and principal occupation of each of the directors of the Corporation as of March 8, 2010:

Jake Epp
Age: 70
Calgary, Alberta, Canada

Jake Epp was appointed as Chairman of the Board of Ontario Power Generation Inc. in April 2004. He held the position of interim Chairman from December 2003 until his current appointment. Jake Epp was a member of the provincial government's review committee that was created in December 2003 and headed by John Manley, to look at OPG's future role in the province's electricity market; examine its corporate and management structure; and decide whether OPG should go ahead with refurbishing three more nuclear reactors at the Pickering A nuclear power plant. The committee's report was presented to the government in March 2004. In May 2003, he was appointed by the Ontario government to lead a panel to review the delays and cost overruns at the Pickering A nuclear generating station. The findings of the report were released in December 2003. He is also certified by the Institute of Corporate Directors.

Board/Committee Membership:	**2009 Attendance:**	
Board (since December 2003)	10 of 10	100%
Compensation and Human Resources Committee (since November 2004)	10 of 10	100%
Governance and Nominating Committee (since August 2005)	3 of 3	100%
Nuclear Generation Projects Committee (since November 2006)	6 of 6	100%
The Board Chair attends all other committee meetings	18 of 18	100%

Principal Occupation: Chairman, Ontario Power Generation Inc. Board of Directors

Board Memberships for other Reporting Issuers: None

Independence from OPG: Independent

Interlocking Directorships on Boards of other Reporting Issuers: None

Tom Mitchell
Age: 54
Whitby, Ontario, Canada
Tom Mitchell was appointed as President and Chief Executive Officer and as a Director of Ontario Power Generation Inc. on July 1, 2009. Mr. Mitchell has over 30 years of electricity industry experience. Since joining OPG in 2002 as Vice President, Nuclear Operations, he has held positions of increasing responsibility, most recently serving as OPG's Chief Nuclear Officer. In this position he was responsible for overseeing OPG's nuclear generation business which in 2008 saw production from its nuclear units reach their highest level since the company was formed in 1999. Before joining OPG, Mr. Mitchell was the Vice President of the Assistance Division of the Institute of Nuclear Power Operations ("INPO") in Atlanta, Georgia. His career at INPO included assignments at the World Association of Nuclear Operators, Nuclear Electric in the United Kingdom and Peach Bottom Atomic Power Station, where he served as Manager of Operations Support, Director of Site Engineering, and Site Vice President. Mr. Mitchell holds a master's degree in Mechanical Engineering from George Washington University and a bachelor's degree in Nuclear Engineering from Cornell University.

Board/Committee Membership: (Since July 1, 2009)	**2009 Attendance:**	
Board	5 of 5	100%
The President & CEO attends all other committee meetings excluding independent director in camera meetings/sessions (Since July 1, 2009)	17 of 17	100%

Principal Occupation: President & Chief Executive Officer, Ontario Power Generation Inc.

Board Memberships for other Reporting Issuers: None

Independence from OPG: Not-Independent

Interlocking Directorships on Boards of other Reporting Issuers: None

Donald Hintz
Age: 67
Punta Gorda, Florida, U.S.A.

Donald Hintz is the retired President of Entergy Corporation, where he was responsible for Entergy's 30,000 megawatts of generating assets, including 10 nuclear plants. Prior to his appointment as President he spent seven years as President and CEO of Entergy Operations Inc. where he oversaw the improvement of Entergy's nuclear operations to top quartile performance. Mr. Hintz currently serves on the Board of Entergy Corporation and through May 2008 was the President of the American Nuclear Society, an international organization of more than 10,500 nuclear scientists and engineers. He has a Bachelor of Science in Chemical Engineering from the University of Wisconsin, and has completed the Utility Executive Program and the Advanced Management Program at the University of Michigan and the Harvard Business School, respectively.

Board/Committee Membership:	**2009 Attendance:**	
Board (since October 2004)	10 of 10	100%
Compensation and Human Resources Committee (since November 2004)	9 of 10	90%
Nuclear Operations Committee* (since November 2004)	4 of 4	100%
Nuclear Generation Projects Committee (since November 2006)	6 of 6	100%

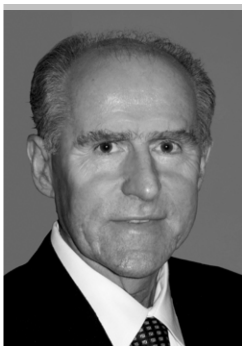
* Chair of Committee

Principal Occupation: Retired President of Entergy Corporation

Board Memberships for other Reporting Issuers: Entergy Corporation

Independence from OPG: Independent

Interlocking Directorships on Boards of other Reporting Issuers: None



Gary Kugler
Age: 69
Burlington, Ontario, Canada

Dr. Gary Kugler currently serves as Chairman of the Board of the NWMO. He is the retired Senior Vice President, Nuclear Products and Services of Atomic Energy of Canada, Limited ("AECL"), where he was responsible for all of AECL's commercial operations, including nuclear power plant sales and services world-wide. During his 34 years with AECL, he also held various technical, project management, and business development positions. Prior to joining AECL, he served as a pilot in the Canadian air force. He holds a Bachelor of Science degree in honours physics and a Ph.D. in nuclear physics from McMaster University. He is also a graduate of the Directors Education Program of the Institute of Corporate Directors.

Board/Committee Membership:	**2009 Attendance:**	
Board (since September 2004)	10 of 10	100%
Compensation and Human Resources Committee (since December 2008)	10 of 10	100%
Governance and Nominating Committee (since August 2005)	3 of 3	100%
Nuclear Operations Committee (since November 2004)	4 of 4	100%
Nuclear Generation Projects Committee (since November 2006)	6 of 6	100%

Principal Occupation: Chairman, Nuclear Waste Management Organization

Board Memberships for other Reporting Issuers: None

Independence from OPG: Independent

Interlocking Directorships on Boards of other Reporting Issuers: None

M. George Lewis
Age: 49
Toronto, Ontario, Canada

George Lewis is Group Head, Wealth Management, RBC Financial Group. Mr. Lewis is also Chairman of RBC Asset Management Inc. Prior to his current appointment, Mr. Lewis was Head of Wealth Management for the Canadian Personal and Business segment of RBC FG, Canada's largest bank, as well as serving as Head of all Products for that segment. Formerly, he was Managing Director, Head of Institutional Equity Sales, Trading and Research with RBC Capital Markets and was Canada's top-rated analyst for three consecutive years. He has extensive experience in the investment industry and has a Master of Business Administration degree with distinction from Harvard University, a Bachelor of Commerce degree with high distinction from Trinity College at the University of Toronto and is a chartered financial analyst and chartered accountant, as well as being certified by the Institute of Corporate Directors. Mr. Lewis serves on the Board of Directors of the Bloorview Kids Foundation, the Anglican Diocese of Toronto Foundation and the Toronto Symphony Orchestra. He is a current member and Past Chair of the Bishop's Company of the Anglican Diocese of Toronto, and a member of the Cabinet and Patron of the United Way of Greater Toronto and Patron of Operation Springboard.

Board/Committee Membership:	**2009 Attendance:**	
Board (since February 2005)	9 of 10	90%
Audit/Risk Committee* (since February 2005)	5 of 5	100%
Investment Funds Oversight Committee (since March 2005)	3 of 3	100%

* Chair of Committee

Principal Occupation: Group Head, Wealth Management, RBC Financial Group

Board Memberships for other Reporting Issuers: None

Independence from OPG: Independent

Interlocking Directorships on Boards of other Reporting Issuers: None

David J. MacMillan
Age: 57
Barnes, London, United Kingdom

David MacMillan is a Senior Advisor at Good Energies, a European based multi-billion dollar private equity fund that invests in renewable energy technology companies and renewable energy companies and projects worldwide. Until early 2008, he was also a Non-Executive Director of InterGen N.V., an international owner and operator of utility scale power generation plants. He has extensive international experience in the power generation sector with a focus on investment strategy and financing. Mr. MacMillan was also a former Director of Killingholme Power Limited. Mr. MacMillan holds a B.A. and a M.A. of Economics from McGill University.

Board/Committee Membership:	**2009 Attendance:**	
Board (since September 2004)	10 of 10	100%
Compensation and Human Resources Committee (since May 2009)	5 of 5	100%
Nuclear Operations Committee (since November 2004)	4 of 4	100%
Major Projects Committee*	6 of 6	100%

* Chair of Committee

Principal Occupation: Senior Advisor – Good Energies

Board Memberships for other Reporting Issuers: None

Independence from OPG: Independent

Interlocking Directorships on Boards of other Reporting Issuers: None

Corbin A. McNeill Jr.
Age: 70
Jackson, Wyoming, U.S.A

Corbin McNeill is the retired Chairman and Co-Chief Executive Officer of Exelon Corporation, which was formed by the merger of PECO Energy and Unicom Corp. At PECO, he had been Chairman, President and CEO, having joined PECO in 1988 as Executive Vice President, Nuclear. Prior to PECO, he oversaw nuclear operations at the Public Service Electric and Gas Company and the New York Power Authority. Mr. McNeill currently serves as a Director of Owens-Illinois Inc. and Portland General Electric. Mr. McNeill has a Bachelor of Science degree from the U.S. Naval Academy and has completed the Executive Management Program at Stanford University.

Board/Committee Membership:	**2009 Attendance:**	
Board (since October 2004)	9 of 10	90%
Audit/Risk Committee (since December 2008)	5 of 5	100%
Governance and Nominating Committee* (since August 2005)	3 of 3	100%
Nuclear Operations Committee (since November 2004)	4 of 4	100%
Nuclear Generation Projects Committee* (since November 2006)	6 of 6	100%

* Chair of Committee

Principal Occupation: Retired Chairman and Co-Chief Executive Officer of Exelon Corporation

Board Memberships for other Reporting Issuers: Owens-Illinois Inc.
Portland General Electric Company

Independence from OPG: Independent

Interlocking Directorships on Boards of other Reporting Issuers: None

Peggy Mulligan
Age: 51
Mississauga, Ontario, Canada

Peggy Mulligan is the Chief Financial Officer, Biovail Corporation. Mrs. Mulligan was most recently a Principal at Priiva Consulting. Prior to that she served as Executive Vice President and Chief Financial Officer of Linamar Corporation. Prior to Linamar, Mrs. Mulligan was with the Bank of Nova Scotia for eleven years as Executive Vice President, Systems and Operations and Senior Vice President, Audit and Chief Inspector. Before joining Scotiabank, she was an Audit Partner with PricewaterhouseCoopers in Toronto. She holds a B. Math (Honours) from the University of Waterloo and was named an FCA by the Institute of Chartered Accountants of Ontario in 2003.

Board/Committee Membership:	**2009 Attendance:**	
Board (since December 2005)	8 of 10	80%
Audit/Risk Committee (since February 2006)	3 of 5	60%
Investment Funds Oversight Committee* (since February 2007)	3 of 3	100%
Nuclear Generation Projects Committee (since May 2008)	5 of 6	83%

* Chair of Committee

Principal Occupation: Chief Financial Officer, Biovail Corporation

Board Memberships for other Reporting Issuers: None

Independence from OPG: Independent

Interlocking Directorships on Boards of other Reporting Issuers: None

C. Ian Ross
Age: 67
Collingwood, Ontario, Canada

Ian Ross served at the Richard Ivey School of Business at the University of Western Ontario from 1997 to September 2003. Most recently he held the position of Senior Director, Administration in the Dean's Office, and was also Executive in Residence for the School's Institute for Entrepreneurship, Innovation and Growth. He has served as Governor and President and CEO of Ortech Corporation; Chairman, President and CEO of Provincial Papers Inc.; and President and CEO of Paperboard Industries Corp. Mr. Ross currently serves as a Director for a number of corporations including Menu Foods Income Trust, GrowthWorks Canadian Fund Ltd., RuggedCom Ltd. Clearford Industries Inc., and the NWMO. He is also a member of the Law Society of Upper Canada.

In addition, Mr. Ross had served as the Lead Director of Finance for OPG prior to the Audit/Risk Committee being formed, and CFO of private companies. He also worked closely with CEOs and CFOs of several companies to ensure that ICOFR were in place and followed.

Board/Committee Membership:	**2009 Attendance:**	
Board (since December 2003)	9 of 10	90%
Audit/Risk Committee (since November 2004)	5 of 5	100%
Governance and Nominating Committee (since August 2005)	3 of 3	100%
Major Projects Committee (since November 2004)	6 of 6	100%
Nuclear Generation Projects Committee (since November 2006)	6 of 6	100%

Principal Occupation: Chairman, GrowthWorks Canadian Fund Ltd.

Board Memberships for other Reporting Issuers: GrowthWorks Canadian Fund Ltd.
Menu Foods Income Trust
Clearford Industries Inc.
RuggedCom Ltd.

Independence from OPG: Independent

Interlocking Directorships on Boards of other Reporting Issuers: None

Marie C. Rounding
Age: 62
Toronto, Ontario, Canada

Marie Rounding is Counsel at Gowling Lafleur Henderson LLP where she is a member of the National Energy and Infrastructure Industry Group. On November 1, 2007, she was appointed by Prime Minister Stephen Harper to the Advisory Council on National Security. Ms. Rounding served as Chair of the Ontario Energy Board from 1992 to 1998 and as President and Chief Executive Officer of the Canadian Gas Association from 1998 to 2003. Prior to those appointments she was Director of the Crown Law Office, Civil Law at the Ontario Ministry of the Attorney General. She has extensive background in regulatory and administrative law, and as a leading regulator was involved in the deregulation of the natural gas markets and the early restructuring of the electricity sector in Ontario. Ms. Rounding currently serves as a Director for Nova Scotia Power Inc. and as a member of the Independent Review Committee for Sentry Select Capital Corp. and several related entities and also for Vertex One Asset Management Inc. She is a graduate of the University of Western Ontario and Osgoode Hall Law School and is certified by the Institute of Corporate Directors.

Ms. Rounding is a graduate of the Directors Education Program and is certified by the Institute of Corporate Directors. She is also a graduate of the Financial Literacy Program sponsored by Rotmans and the Institute of Corporate Directors. Ms. Rounding has previous experience as a Chair of the Finance Committee for Doctors Hospital and is currently the Chair of the Audit Committee of Nova Scotia Power Inc. and The Kensington (Health) Foundation.

Board/Committee Membership:	**2009 Attendance:**	
Board (since September 2004)	9 of 10	90%
Audit/Risk Committee (since May 2009)	3 of 3	100%
Investment Funds Oversight Committee (since May 2005)	3 of 3	100%
Major Projects Committee (since November 2004)	6 of 6	100%
Nuclear Operation Committee (since February 2007)	4 of 4	100%

Principal Occupation: Counsel, Gowling Lafleur Henderson LLP

Board Memberships for other Reporting Issuers: Nova Scotia Power Inc.

Independence from OPG: Independent

Interlocking Directorships on Boards of other Reporting Issuers: None

William Sheffield
Age: 61
Toronto, Ontario, Canada

William Sheffield is the former Chief Executive Officer of Sappi Fine Paper plc., and a former Executive Vice President at Abitibi Consolidated. He has experience in operating large international industrial companies. He also spent 17 years with Stelco. In addition to OPG, Mr. Sheffield currently serves on the Boards of Velan Inc., Canada Post and Houston Wire & Cable Company. Mr. Sheffield has a B.Sc. in Chemistry from Carleton University, an M.B.A. from McMaster University, has completed the Advanced Management Program at INSEAD School of Business, France and has been certified by both the Institute of Corporate Directors in Canada [ICD.D] as well as the National Association of Corporate Directors in the United States.

Board/Committee Membership:	**2009 Attendance:**	
Board (since September 2004)	10 of 10	100%
Compensation and Human Resources Committee* (since November 2004)	10 of 10	100%
Investment Funds Oversight Committee (since February 2005)	3 of 3	100%
Major Projects Committee (since November 2004)	6 of 6	100%

* Chair of Committee

Principal Occupation: Corporate Director

Board Memberships for other Reporting Issuers: Houston Wire & Cable Company
Velan Inc.

Independence from OPG: Independent

Interlocking Directorships on Boards of other Reporting Issuers: None

David G. Unruh
Age: 65
Vancouver, British Columbia, Canada

David Unruh is a retired lawyer and general counsel currently serving as a director of Union Gas Limited, Pacific Northern Gas Ltd., Corriente Resources Inc., The Wawanesa Mutual Insurance Company, TransLink, and Globe Foundation of Canada. Prior to this, Mr. Unruh served as Vice Chairman of Westcoast Energy Inc. and Union Gas Limited, before that as Senior Vice President and General Counsel for Houston based Duke Energy Gas Transmission and, before that as Senior Vice President, Law and Corporate Secretary of Westcoast Energy Inc. Mr. Unruh practiced commercial, business, mergers and acquisitions, and regulatory law in Winnipeg, Manitoba before joining Westcoast Energy Inc. in Vancouver, British Columbia in 1993.

Mr. Unruh has also served as a member of numerous Audit Committees for various reporting and non-reporting issuers.

Board/Committee Membership:	**2009 Attendance:**	
Board (since September 2004)	10 of 10	100%
Governance and Nominating Committee (since December 2008)	3 of 3	100%
Compensation and Human Resources Committee (since November 2004)	10 of 10	100%
Audit/Risk Committee (since November 2004)	5 of 5	100%
Major Projects Committee (since December 2004)	6 of 6	100%

Principal Occupation: Corporate Director

Board Memberships for other Reporting Issuers: Corriente Resources Inc.
Pacific Northern Gas Ltd.
Union Gas Limited

Independence from OPG: Independent

Interlocking Directorships on Boards of other Reporting Issuers: None

All of the directors of the Company have been engaged for more than five years in their current principal occupations except as set out below:

Mr. Mitchell was Senior Vice President of Pickering B nuclear generating station for OPG from January 2004 to November 2006 and Chief Nuclear Officer for OPG from December 2006 to June 2009.

Mr. Kugler has been Chairman of the NWMO since June 2006.

Mr. Lewis has been Group Head of Wealth Management for RBC Financial Group since 2007.

Mr. MacMillan was a Non-Executive Director of Eclipse Energy Co. Ltd from 2006 to 2007, Non-Executive Director of InterGen NV (Holland) from 2006 to 2008, Managing Director of Good Energies (UK) LLP from April 2007 to April 2009, Non-Executive Director – Good Energies' appointee of Carbon-Free Power Corp. since October 2007, Non-Executive Director – Good Energies' appointee of Sequoia Energy Limited since November 2007 and a Senior Adviser of Good Energies since April 2009.

Mrs. Mulligan was a Corporate Director from December 2004 to November 2005. During that period, her directorships included Resolve Business Outsourcing Fund, Cybermation, and OPG. She was Executive Vice President and Chief Financial Officer of Linamar Corporation from November 2005 to March 2007, Principal of Priiva Consulting Corporation from 2007 to September 2008 and has been Chief Financial Officer of Biovail Corporation since September 2008.

Ms. Rounding was a Senior Advisor for Elenchus Research Associates from October 2003 to December 2005 and has been Counsel at Gowling Lafleur Henderson LLP since January 2006.

Orientation and Continuing Education

The Governance and Nominating Committee is responsible for reviewing and recommending appropriate orientation and education programs to the Board. New directors are provided relevant documentation relating to OPG's governance practices, policies and to its business. Directors attend comprehensive introductory briefing sessions from senior executives on OPG's operations and business and plant tours are provided to OPG generating facilities.

The Board supports the continuing education of directors, in both the business of OPG and their duties as directors. Annual plant tours of major facilities and, based on requests from directors, special presentations by internal and external experts are made to the Board or a Committee on topical business-related issues or on specific aspects of OPG's operations. OPG also sponsors the professional certification of its directors.

Ethical Business Conduct

OPG has a policy for ethical business behaviour and a Code of Business Conduct, which is approved by the Board. The Audit/Risk Committee Charter expressly includes regular reporting by Management on the Code of Business Conduct, including reports on substantiated cases of fraud and the disposition of such cases including disciplinary action. The Audit/Risk Committee also receives an annual report on the Code of Business Conduct in order to satisfy itself that appropriate codes of conduct and compliance programs are in place and are being enforced and remedial action is being taken. A copy of OPG's Code of Business Conduct has been filed on SEDAR (www.sedar.com). The Audit/Risk Committee has also established procedures for the receipt, retention and treatment of complaints received pertaining to internal accounting controls or auditing matters and the confidential anonymous submission by employees concerning such matters.

The Board has a Board of Directors Conflict of Interest Policy to deal with conflicts or potential conflicts of interest and has adopted an annual process of written disclosure by directors of information in order to: (i) identify potential conflicts of interest for the purposes of complying with the Board of Directors Conflict of Interest Policy and with the Ontario Business Corporations Act, (ii) validate their independence and financial literacy for the purposes of complying with securities regulations related to Boards and Audit Committees, and (iii) satisfy other disclosures and filings.

Nomination of Directors

The Governance and Nominating Committee's responsibilities are to: (i) develop and maintain a list of optimum skills which the Board should collectively possess, (ii) recommend a process to identify director candidates, (iii) recommend selection criteria, (iv) identify director candidates to the Board and (v) recommend to the Board the candidates to stand for election. The Board submits recommended candidates to the Shareholder. Nominations of directors by the Shareholder are also reviewed by the Governance and Nominating Committee.

The Governance and Nominating Committee consists of five members, all of which are independent of OPG within the meaning of NI 52-110.

The Board consists of 12 directors.

Compensation

Director Compensation

The Governance and Nominating Committee is responsible for annually monitoring and reviewing the level and nature of compensation of directors. In 2009, the Governance and Nominating Committee benchmarked OPG's Director Compensation against comparable public and private companies and recommended that no change be made to the compensation of directors, given the nature, complexity and risk profile of OPG's business.

Each director who is not an employee of OPG receives an annual retainer of $25,000. Directors also receive a $3,000 annual retainer to chair committees and for each committee that they are a member of. In recognition of the increased duties and responsibilities placed upon the chair of the Audit/Risk Committee as a result of recent regulatory initiatives in North America, the annual retainer for the Audit/Risk Committee chair is $8,000.

Directors are compensated for each meeting that they attend and receive a fee of $1,500 or $750, as determined by the Board or Committee chair.

In order to retain national and international expertise, non-resident directors are compensated in U.S. dollars exchanged at par and directors who travel long distances receive a travel fee to cover travel time related to Board and Committee meetings they attend.

The Chair of the Board in his role as non-executive Chair receives an all-inclusive annual fee of $150,000 and is reimbursed for out-of-pocket expenses including travel and other expenses.

CEO Compensation

The Compensation and Human Resources Committee of the Board consists of six members, all of which are independent of OPG within the meaning of 52-110. The Committee oversees, on behalf of the Board, the setting of the CEO's annual goals and objectives and the annual review of CEO performance, and makes recommendations to the Board with respect to CEO compensation. The Compensation and Human Resources Committee seeks input from an independent advisor with regard to monitoring and benchmarking compensation developments.

During 2009, following the retirement of the former President and CEO, the OPG Board of Directors, using a special ad hoc Board committee, and an established process approved by the Board, recruited a new President and CEO. On behalf of the Board, the Chair of the Compensation and Human Resources Committee of the Board retained an independent advisor from Mercer Human Resource Consulting, to benchmark CEO compensation using pre-established criteria, consistent with the May 2007 Report of the Agency Review Panel on Phase 1 of Its Review of Ontario's Provincially-Owned Electricity Agencies. The compensation package for the new President and CEO was established based on the benchmark data and falls well within the pre-established criteria. The Chair of the Compensation and Human Resources

Committee submitted his recommendation to the Board for approval and the approved executive compensation was publicly disclosed.

Committees of the Board of Directors

Audit/Risk Committee

The Committee is responsible for reviewing the Company's regulatory filings including financial statements, MD&A, and press releases prior to their disclosures to the public. The Committee is also responsible for overseeing the internal audit function, the work of external auditors including their nomination and compensation, that the Company has adequate controls in the financial reporting process and the risk management process, and is in compliance with regulatory and internal policies. The Committee is also responsible for overseeing OPG's policy on ethical behaviour and the Code of Business Conduct, including reports on compliance programs, substantiated cases of fraud and the disposition of such cases including disciplinary action.

As of the date hereof the Audit/Risk Committee consists of George Lewis (Chair), Corbin McNeill, Peggy Mulligan, Ian Ross, Marie Rounding, and David Unruh.

Governance and Nominating Committee

The Committee develops governance principles for OPG that are consistent with high standards of corporate governance and reviewing and assessing on an ongoing basis OPG's system of corporate governance with a view to maintaining these high standards. The Committee identifies and recommends candidates for election or appointment to the Board to be put before the Shareholder in the event of a vacancy on the Board. Finally, the Committee reviews and recommends OPG's processes for director orientation, assessment, and compensation.

As of the date hereof the Governance and Nominating Committee consists of Corbin McNeill (Chair), Jake Epp, Gary Kugler, Ian Ross, and David Unruh.

Nuclear Operations Committee

This Committee is responsible for oversight of safe and efficient operations of OPG's nuclear business, regulatory compliance of OPG's nuclear facilities, review of reports from independent oversight of OPG's nuclear operations, reviews of OPG nuclear management and organization matters, security of OPG's nuclear facilities and substances, and oversight of OPG's nuclear waste and decommissioning liabilities and management.

As of the date hereof the Nuclear Operations Committee consists of Donald Hintz (Chair), Gary Kugler, David MacMillan, Corbin McNeill and Marie Rounding.

Nuclear Generation Projects Committee

This Committee was formed in 2006 following direction from the Shareholder to: (i) begin feasibility studies on refurbishing its existing nuclear units, and (ii) to begin a federal approvals process, including an environmental assessment, for new nuclear units at an existing site. This Committee assists the Board in providing oversight of the new nuclear plant projects and the refurbishment and life extension projects for existing nuclear plants.

As of the date hereof the Nuclear Generation Projects Committee consists of Corbin McNeill (Chair), Jake Epp, Donald Hintz, Gary Kugler, Peggy Mulligan and Ian Ross.

Investment Funds Oversight Committee

This Committee assists the Board in fulfilling its responsibilities for the OPG Pension Fund and the Used Fuel Fund and Decommissioning Fund. The Committee provides oversight of the investment of assets, investment-related liabilities and the management of any surplus (deficit) of the funds. Specifically the Committee: reviews the investment policies, risks and the asset mix; approves annual performance objectives for the investment portfolios; and monitors the performance of the funds.

As of the date hereof the Investment Funds Oversight Committee consists of Peggy Mulligan (Chair), George Lewis, Marie Rounding and William Sheffield.

Compensation and Human Resources Committee

This Committee focuses on human resources related areas including compensation practices, disclosure on compensation and human resources matters, leadership talent review including succession planning, human resources policies related to employee complaints, diversity and pay equity, organizational design, labour relations, pension plans and policies, and Board compensation, education and evaluation programs.

As of the date hereof the Compensation and Human Resources Committee consists of William Sheffield (Chair), Jake Epp, Donald Hintz, Gary Kugler, David MacMillan and David Unruh.

Major Projects Committee

This Committee assists the Board in providing oversight of major non-nuclear electricity supply projects, including project development, contracting, financing, and construction monitoring.

As of the date hereof the Major Projects Committee consists of David MacMillan (Chair), Ian Ross, Marie Rounding, William Sheffield and David Unruh.

Assessments

The Governance and Nominating Committee is responsible for the annual process for evaluating the performance of the Board, its Committees and its individual directors. The Board and Committee evaluations are based upon the completion of confidential questionnaires regarding assessment of its performance and the compliance with the Board and Committee Charters. Director evaluations are based on self-assessment questionnaires, which are submitted in confidence to the Board Chair and the Chair of the Governance and Nominating Committee. The annual process is overseen by the Chair of the Governance and Nominating Committee, who reports the results and recommendations for enhancing oversight to the Board.

Further Information on OPG Governance

OPG provides additional information on OPG's governance on its website (www.opg.com) including:

- Memorandum of Agreement
- Shareholder Directives
- Board and Committee Charters
- Board and Committee Chair Position Descriptions
- Board of Directors Conflict of Interest Policy
- Code of Business Conduct
- Disclosure Policy
- Environment Policy
- Health and Safety Policy
- Dam Safety Policy
- Nuclear Safety Policy

AUDIT/RISK COMMITTEE INFORMATION

NI 52-110, Audit Committees, has been implemented by Canadian securities regulatory authorities to encourage reporting issuers to establish and maintain strong, effective and independent audit committees, which enhance the quality of financial disclosure and ultimately foster increased investor confidence in Canada's capital markets. Information on OPG's Audit/Risk Committee, which includes the text of the Audit/Risk Committee Charter, is as follows:

Audit/Risk Committee Charter

Purpose

The purpose of the Audit/Risk Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing, advising and making recommendations to the Board on the following:

- The integrity, quality and transparency of the Company's financial information;
- The adequacy of the financial reporting process;
- The systems of internal controls and risk management, and the Company's related principles, policies and procedures which Management have established;
- The performance of the Company's internal audit function and the external auditors;
- The external auditors' qualifications and independence;
- The Company's compliance with related legal and regulatory requirements and internal policies; and
- The promotion of a culture of ethical business conduct and compliance with OPG's Code of Business Conduct.

The function of the Audit/Risk Committee is oversight. Management is responsible for the preparation, presentation and integrity of the consolidated financial statements of the Company. Management of the Company is responsible for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations.

Organization

<u>Members</u>

The Audit/Risk Committee shall consist of three or more independent Directors appointed by the Board of Directors, none of whom shall be employees of the Company or any of the Company's affiliates. A majority of the members of the Committee, but not less than two, will constitute a quorum. As a "venture issuer", OPG is exempt from the statutory requirements of National Instrument 52-110 requiring members of Audit Committees be independent and financially literate. However, OPG considers such independence and financial literacy to be "best practice" and therefore each of the members of the Audit/Risk Committee shall satisfy the applicable independence and financial literacy requirements of the laws and regulations governing Audit Committees.

The Board of Directors shall designate one member of the Audit/Risk Committee as the Committee Chair. Members of the Audit/Risk Committee shall serve at the pleasure of the Board of Directors for such term or terms as the Board of Directors may determine. The Board of Directors shall confirm that each member of the Audit/Risk Committee is financially literate; as such qualification is interpreted by the Board of Directors in its business judgment, and in compliance with National Instrument 52-110 and its Companion Policy.

<u>Meetings</u>

The Committee will meet at least quarterly or more frequently as circumstances require and at any time at the request of a member. During quarterly meetings, the Committee will hold separate in camera sessions with the external auditors, the Chief Internal Audit Executive, and Management to discuss any matters that the Committee believes should be discussed and to provide a forum for any relevant issues to be raised. In addition, the Committee will hold a separate in camera session with the CRO on a semi-annual basis.

Reports

The Committee will report its activities and actions to the Board of Directors with recommendations, as the Committee deems appropriate.

The Committee will provide for inclusion in the Company's financial information or regulatory filings any report from the Audit/Risk Committee required by applicable laws and regulations and stating among other things whether the Audit/Risk Committee has:

- Reviewed and discussed the audited consolidated financial statements with Management;
- Discussed pertinent matters with the internal and external auditors;
- Received disclosures from the external auditors regarding the auditors' independence and discussed with the auditors their independence; and
- Recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report.

Authority

While the Audit/Risk Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit/Risk Committee to plan or conduct audits or risk assessments, or to determine that the Company's consolidated financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibility of Management and, as appropriate, the external auditor.

In carrying out its oversight responsibilities, the Audit/Risk Committee and the Board will necessarily rely on the expertise, knowledge and integrity of the Company's Management, and internal and external auditors.

The Audit/Risk Committee shall have the authority to set and pay the compensation for any advisors employed by the Committee.

The Audit/Risk Committee shall have the authority to communicate directly with the internal and external auditors.

Delegation of Authority

The Committee may delegate to any employee of OPG or a sub-committee the authority to: (i) execute or carry out any decision of the Committee; and/or (ii) exercise any right, power or function of the Committee on such terms and conditions and within such limits as the Committee may establish, except that the Committee may not delegate its oversight responsibilities.

Access to Management and Outside Advisors

The Audit/Risk Committee shall have unrestricted access to members of Management and relevant information. The Audit/Risk Committee may retain independent counsel, accountants or other advisors to assist it in the conduct of any investigation, as it determines necessary to carry out its duties.

Committee Responsibilities and Duties

The Committee shall:

General

- Conduct or authorize investigations into any matters within the Committee's scope of responsibilities; and
- Review and recommend approval to the Board, the appointment or replacement of the Chief Financial Officer (“CFO”), the CRO, and the Chief Internal Audit Executive.

Risk Management and Internal Controls

- Review and evaluate the Company's policies and processes for assessing significant risks or exposures and the steps Management has taken to monitor and control such risks to the Company; including the organizational structure and the adequacy of resources;
- Consider and review with the CRO, the Chief Internal Audit Executive, and Management the critical risks to the Company, the potential impact of such risks, and related mitigation;
- Ascertain whether the Company has an effective process for determining risks and exposure from actual and potential litigation and claims relating to non-compliance with laws and regulations;
- Review with Management, reports demonstrating compliance with risk management policies;
- Review with the Company's General Counsel and others any legal, tax, or regulatory matters that may have a material impact on Company operations and the financial statements, including, but not limited to, violations of securities law or breaches of fiduciary duty;
- Review with Management, the Chief Internal Audit Executive and the external auditors, the scope of review of internal control over financial reporting, significant findings, recommendations and Management's responses for implementation of actions to correct weaknesses in internal controls;
- Review disclosures made by the CEO and CFO during the certification process regarding significant deficiencies in the design or operation of internal controls or any fraud that involves Management or other employees who have a significant role in the Company’s internal controls; and
- Review the expenses of the Chairman, Board, President and the President’s direct reports on an annual basis, and of any other senior officers and employees the Committee considers appropriate.

Internal Audit

- Evaluate the internal audit process and define expectations in establishing the annual internal audit plan and the focus on risk, including the organizational structure and the adequacy of resources;
- Approve the Charter of the internal audit function annually;
- Evaluate the audit scope and role of Internal Audit; and
- Approve the annual internal audit plan; and
- Consider and review with the Chief Internal Audit Executive and Management:
    - Significant findings and Management's response including the significance of the risk, the adequacy of the control processes, and the timetable for implementation of Management Actions to correct weaknesses;
    - Any difficulties encountered in the course of their work (such as restrictions on the scope of their work or access to information);
    - Any changes required in the planned scope of the audit plan; and
    - The internal audit budget; and
- Review Internal Audit’s confirmation of organizational independence and disclosure of any conflict of interest.

External Auditor

- Recommend to the Board of Directors the external auditor to be nominated for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Company, and the compensation of the external auditor;

- Oversee the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, including the resolution of disagreements between Management and the external auditor regarding financial reporting;
- Review the independence and qualifications of the external auditor;
- At least annually, obtain and review a report by the external auditor describing the auditing firm's internal quality control procedures, any material issues raised by the most recent internal quality-control review or peer review of the auditing firm or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the external auditor and any steps taken to deal with any such issues and all relationships between the external auditors and the Company;
- Review the scope and approach of the annual audit plan with the external auditors;
- Discuss with the external auditor the quality and acceptability of the Company's accounting principles including all critical accounting policies and practices used, any alternative treatments that have been discussed with Management as well as any other material communications with Management;
- Assess the external auditor's process for identifying and responding to key audit and internal control risks;
- Ensure the rotation of the lead and concurring audit partner every five years and other audit partners every seven years, and consider regular rotation of the audit firm;
- Evaluate the performance of the external auditor annually and present its findings to the Board of Directors;
- Determine which non-audit services the external auditor is prohibited by law or regulation, or as determined by the Audit/Risk Committee, from providing and pre-approve all services provided by the external auditors. The Committee may delegate such pre-approval authority to a member of the Committee. The decision of any Committee member to whom pre-approval authority is delegated must be presented to the full Audit/Risk Committee at its next scheduled meeting;
- Review and approve all related-party transactions; and
- Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company.

Financial Reporting

- Review with Management and the external auditors the Company's interim financial information and disclosures under MD&A and earnings press release, prior to filing;
- Satisfy itself that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's consolidated financial statements, other than the public disclosure referred to above, and periodically assess the adequacy of those procedures;
- Review with Management and the external auditors, at the completion of the annual audit:
    - The Company's annual financial statements, MD&A, related footnotes and any documentation required by the Securities Act to be prepared and filed by the Company or that the Company otherwise files with the Ontario Securities Commission;
    - The external auditors' audit of the consolidated financial statements and their report.
    - Any significant changes required in the external auditors' audit plan;
    - Any difficulties or disputes with Management encountered during the audit;
    - The Company's accounting principles; and
    - Other matters related to conduct, which should be communicated to the Committee under generally accepted auditing standards;
- Review significant accounting and reporting issues and understand their impact on the consolidated financial statements. These include complex or unusual transactions and highly judgmental areas; major issues regarding accounting principles and financial presentations, including significant changes in the Company's selection or application of accounting principles; the effect of regulatory and accounting initiatives, as well as off-balance sheet arrangements, on the consolidated financial statements of the Company;
- Review analysis prepared by Management and/or the external auditor detailing financial reporting issues and judgments made in connection with the preparation of financial information, including analysis of the effects of alternative Generally Accepted Accounting Principles methods; and

- Advise Management, based upon the Audit/Risk Committee's review and discussion, whether anything has come to the Committee's attention that causes it to believe that the consolidated financial statements contain an untrue statement of material fact or omit to state a necessary material fact.

Compliance with Code of Business Conduct

- Review the administration of and compliance with the Company's Code of Business Conduct: that appropriate codes of conduct and compliance programs are in place, are being enforced and remedial action is being taken, as well as the process for communicating the Code of Business Conduct to Company personnel; and
- Monitor through regular updates from Management regarding compliance matters.

Treatment of Complaints

- Establish procedures for the receipt, recording and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
- Establish procedures for the confidential and anonymous submission by employees of concerns regarding accounting or auditing matters of the Company.

Annual Review and Assessment

The Committee shall conduct an annual review and assessment of its performance, including a review of its compliance with this Charter, in accordance with the evaluation process approved by the Board.

The Committee shall also review and assess the adequacy of this Charter on an annual basis taking into account all legislative and regulatory requirements applicable to the Committee as well as any best practice guidelines recommended by regulators with whom OPG has a reporting relationship, and if appropriate, shall recommend changes to the Board.

Composition of the Audit/Risk Committee

As at December 31, 2009, the members of the Audit/Risk Committee were George Lewis (Chair), Corbin McNeill, Peggy Mulligan, Ian Ross, Marie Rounding and David Unruh. All members are independent and financially literate as such terms are defined under applicable Canadian securities legislation.

Relevant Education and Experience

Financially literate means having the ability to read and understand the accounting principles used by OPG to prepare its consolidated financial statements, and the ability to address the breadth and level of complex accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by OPG's consolidated financial statements. Each member has an understanding of internal controls and procedures for financial reporting. The education and experience of each Audit/Risk Committee member that is relevant to his or her performance as an audit committee member may be found in the *Corporate Governance* section.

External Auditor Service Fees

The following fees were billed by Ernst & Young LLP:

(thousands of dollars)	**2009**	**2008**
Audit fees	1,590	1,308
Audit-Related fees	291	338
Tax fees and other	125	146

Audit Fees

These fees included the audit of OPG's consolidated financial statements, quarterly reviews of the financial statements, and audits of the pension funds, the Nuclear Funds, and the regulated financial statements for the OEB. The increase in audit fees in 2009 compared to 2008 was primarily due to the audit of the 2009 regulated financial statements with 2008 comparatives as required by the OEB.

Audit-Related Fees

These fees included work with respect to internal controls, accounting assistance, French translation of consolidated financial statements and MD&A, and special audits and reviews. During 2009, OPG has employed the services of other professional advisers, particularly in the areas of internal controls and accounting assistance.

Tax Fees and Other

For 2009 and 2008, these fees included tax services related to assistance with matters raised by the Tax Auditors for the 1999 taxation year and a United States state tax review.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Management, including the President and CEO and Chief Financial Officer ("CFO"), are responsible for maintaining disclosure controls and procedures ("DC&P") and ICOFR. DC&P is designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. ICOFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with GAAP.

An evaluation of the effectiveness of design and operation of OPG's DC&P and ICOFR was conducted as of December 31, 2009. Management, including the President and CEO and the CFO, concluded that, as of December 31, 2009, OPG's DC&P and ICOFR (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, of the Canadian Securities Administrators) were effective.

There were no material changes in OPG's ICOFR for the most recent interim period that have materially affected or are reasonably likely to materially affect OPG's ICOFR.

FOURTH QUARTER

Discussion of Results

(millions of dollars) (unaudited)	Three Months Ended December 31 2009	2008
Regulated generation sales	**851**	1,029
Spot market sales, net of hedging instruments	**208**	432
Revenue limit rebate	**-**	(40)
Variance accounts	**250**	(11)
Other	**81**	211
Revenue	**1,390**	1,621
Fuel expense	**261**	276
Gross margin	**1,129**	1,345
Operations, maintenance and administration	**725**	837
Depreciation and amortization	**210**	246
Accretion on fixed asset removal and nuclear waste management liabilities	**158**	143
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(134)**	(40)
Property and capital taxes	**12**	26
Income before other gains and losses, interest and income taxes	**158**	133
Other (gains)	**(8)**	(16)
Income before interest and income taxes	**166**	149
Net interest expense	**55**	45
Income before income taxes	**111**	104
Income taxes	**44**	135
Net income (loss)	**67**	(31)

Revenue

Revenue was $1,390 million for the three months ended December 31, 2009 compared to $1,621 million during the same period in 2008. The decrease of $231 million was primarily due to OPG recording $214 million of retrospective revenue related to the regulated operations for the period from April 1, 2008 to November 30, 2008, in the fourth quarter of 2008. In addition, revenue was impacted by lower generation from the unregulated thermal generating stations and lower prices for the unregulated generation segments, partially offset by revenue related to the OEFC contingency support agreement during the fourth quarter of 2009, compared to the same period in 2008. During the fourth quarter of 2009, OPG recognized a reduction in Bruce Lease revenue of $118 million related to the change in fair value of a derivative embedded in the Bruce Lease, and the adjustment to lease revenue for 2009 of $69 million as a result low Ontario electricity prices. The decrease in lease revenue was offset by the increase in a regulatory asset related to the Bruce Lease Net Revenues Variance Account.

Fuel Expense

Fuel expense was $261 million for the three months ended December 31, 2009 compared to $276 million during the same period in 2008. The decrease of $15 million was primarily due to lower electricity generation at OPG’s thermal generating stations, partially offset by the effect of higher thermal fuel costs and coal contract adjustments.

Operations, Maintenance and Administration

OM&A expenses for the three months ended December 31, 2009 were $725 million compared to $837 million for the same quarter in 2008. The decrease of $112 million was primarily due to a decrease in outage and maintenance work at the thermal and nuclear generating stations, the reduction of regulatory liabilities related to new nuclear generation development and capacity refurbishment activities and lower pension and OPEB costs. This reduction of OM&A expenses was partially offset by higher expenditures incurred for new nuclear generation activities including reimbursement of expenses incurred by Infrastructure Ontario during the procurement process.

Depreciation and Amortization

Depreciation and amortization expenses for the three months ended December 31, 2009 were $210 million compared to $246 million for the same quarter in 2008. The decrease in depreciation and amortization during the fourth quarter of 2009 compared to the same quarter in 2008 was primarily due to the OEB's decision in the fourth quarter of 2008 which authorized the recovery of regulatory balances retrospectively to April 1, 2008. As a result, higher amortization associated with the regulatory balances was recorded in the fourth quarter of 2008.

Earnings on Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Earnings from the Nuclear Funds in the Regulated – Nuclear Waste Management segment for the fourth quarter of 2009, before the mitigating impact of the Bruce revenues and costs variance account, were $127 million compared to losses of $293 million for the fourth quarter of 2008, an increase of $420 million. The increase in earnings from the Nuclear Funds was primarily due to improvements in valuation levels of global financial markets, which increased the current market value of the Decommissioning Fund, and higher Ontario CPI during the fourth quarter of 2009 compared to the fourth quarter of 2008, which impacted the guaranteed return on the Used Fuel Fund. Earnings from the Nuclear Funds were partially offset by the establishment of the Bruce revenues and costs variance account retrospectively to April 1, 2008. OPG recorded an increase to the regulatory asset of $7 million that increased the reported earnings from the Nuclear Funds in the quarter.

Average Sales Prices

The weighted average Ontario spot electricity market price and OPG's average sales prices by reportable business segment, net of the revenue limit rebate for the three months ended December 31, 2009 and 2008, were as follows:

	Three Months Ended December 31	
(¢/kWh)	**2009**	**2008**
Weighted average hourly Ontario spot electricity market price	**3.1**	5.0
Regulated – Nuclear Generation	**5.5**	6.5
Regulated – Hydroelectric	**3.7**	4.7
Unregulated – Hydroelectric	**3.2**	4.8
Unregulated – Thermal	**3.4**	4.8
OPG's average sales price	**4.5**	5.6

The decrease in average sales prices for the unregulated segments for the three months ended December 31, 2009 compared to the same period in 2008 was primarily due to the impact of lower Ontario spot electricity market prices.

The decrease in OPG's average sales price for the Regulated – Nuclear Generation and Regulated – Hydroelectric segments for the three months ended December 31, 2009 compared to the same quarter in 2008 primarily reflects the recording of the retrospective revenue in 2008 for the period from April 1, 2008 to November 30, 2008, resulting from the increase in the regulated prices due to the OEB's 2008 decision.

Electricity Generation

(TWh)	Three Months Ended December 31 2009	2008
Regulated – Nuclear Generation	**12.4**	12.6
Regulated – Hydroelectric	**4.8**	4.6
Unregulated – Hydroelectric	**4.0**	3.5
Unregulated – Thermal	**2.2**	4.5
Total electricity generation	**23.4**	25.2

Total electricity sales volume for the three months ended December 31, 2009 was 23.4 TWh compared to 25.2 TWh during the same period in 2008. The decrease was primarily due to lower electricity generation from OPG's thermal generating stations, partially offset by higher generation from the unregulated and regulated hydroelectric generating stations.

During the fourth quarter of 2009 and 2008, the primary electricity demand in Ontario was 34.9 TWh and 36.6 TWh, respectively.

Liquidity and Capital Resources

Cash flow provided by operating activities during the three months ended December 31, 2009 was $238 million compared to cash flow provided by operating activities of $35 million for the three months ended December 31, 2008. The increase in cash flow was primarily due to lower coal purchases in 2009 compared to 2008, the impact of the revenue limit rebate payments made in 2008, which did not recur the fourth quarter of 2009 due to the discontinuance of the revenue limit in 2009, and lower contributions to the nuclear fixed asset removal and nuclear waste management funds in 2009 when compared to 2008.

Investment in fixed and intangible assets during the three months ended December 31, 2009 was $233 million compared to $227 million during the same period in 2008.

Cash flow provided by financing activities during the three months ended December 31, 2009 was $22 million compared to $18 million for the three months ended December 31, 2008. The increase in cash flow was primarily due to issuance of long-term debt for the Niagara Tunnel and the PEC, partially offset by the repayment of short term notes in the quarter.

QUARTERLY FINANCIAL HIGHLIGHTS

The following tables set out selected financial information from OPG's unaudited interim consolidated financial statements for each of the 12 most recently completed quarters. This financial information has been prepared in accordance with Canadian GAAP.

	2009 Quarters Ended				
(millions of dollars) (unaudited)	**December 31 2009**	**September 30 2009**	**June 30 2009**	**March 31 2009**	**Total**
Revenue, net of revenue limit rebate	**1,390**	**1,345**	**1,397**	**1,481**	**5,613**
Net income (loss)	**67**	**259**	**306**	**(9)**	**623**
Net income (loss) per share	**$0.26**	**$1.01**	**$1.20**	**$(0.04)**	**$2.43**

	2008 Quarters Ended				
(millions of dollars) (unaudited)	December 31 2008	September 30 2008	June 30 2008	March 31 2008	Total
Revenue, net of revenue limit rebate	1,621	1,513	1,385	1,563	6,082
Net (loss) income	(31)	(142)	99	162	88
Net (loss) income per share	$(0.12)	$(0.55)	$0.39	$0.63	$0.34

	2007 Quarters Ended				
(millions of dollars) (unaudited)	December 31 2007	September 30 2007	June 30 2007	March 31 2007	Total
Revenue, net of revenue limit rebate	1,342	1,421	1,373	1,524	5,660
Net income	119	113	125	171	528
Net income per share	$0.46	$0.44	$0.49	$0.67	$2.06

Balance Sheet as at December 31

(millions of dollars)	**2009**	**2008**	**2007**
Total assets	**27,584**	25,579	24,839
Total long-term liabilities	**18,180**	17,177	16,494
Common shares outstanding *(millions)*	**256.3**	256.3	256.3

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

Additional items that impacted net income (loss) in certain quarters above include the following:

- Higher OM&A expenses in 2007 primarily due to higher outage and other maintenance expenditures at OPG's nuclear and thermal generating stations, and expenses related to past grievances by First Nations;

- A decrease in gross margin from electricity sales during the first quarter of 2007 primarily due to lower generation from OPG's nuclear generating stations as a result of an unplanned outage during the first quarter of 2007 at the Pickering B nuclear generating station, caused by an inadvertent release of resin by a third-party contractor from the water treatment plant into the demineralized water system, and the requirement for maintenance related to the recovery of the resin. In addition, nuclear generation was also impacted by an extension to a planned outage during the first quarter of 2007 at the Pickering A nuclear generating station for significant additional repair work required as a result of a component failure during inspection;
- Higher earnings from the Nuclear Funds during the second quarter of 2007 primarily due to a higher Ontario CPI during the second quarter of 2007, which impacted the guaranteed return on the Used Fuel Fund. In addition, the increase in earnings also reflected a reimbursement from the Nuclear Funds for expenditures related to the safe storage of Pickering A Units 2 and 3;
- Lower gross margin primarily due to lower nuclear generation during the three months ended September 30, 2007 as a result of the shutdown of the Pickering A nuclear generating station Units 1 and 4 to perform modifications on a backup electrical system;
- Higher earnings due to a recovery of $20 million related to the re-estimation of costs to complete the remaining work to remediate the Lakeview site during the fourth quarter of 2007;
- Lower income tax expense during the fourth quarter of 2007 largely due to an additional contribution of $334 million to the Nuclear Funds. Contributions are deductible for tax purposes and no offsetting future tax expense is recognized by OPG due to the use of the taxes payable method to account for income taxes in the rate regulated segments;
- A decrease in income tax expense of $85 million and $21 million during the first and second quarters of 2008, respectively, due to the resolution of the tax uncertainties related to the audit of OPG's 1999 taxation year;
- A decrease in earnings due to lower returns on the Decommissioning Fund, as a result of significant volatility and unfavourable returns in the capital markets during 2008;
- A decrease in gross margin during 2009 primarily due to lower generation at OPG's thermal and nuclear generating stations, a decrease in electricity sales prices in the unregulated generating segments, and higher fuel prices and fuel related costs at OPG's thermal generating stations, partially offset by the recognition of revenue related to a contingency support agreement established with the OEFC;
- Lower generation at OPG's nuclear generating stations during the second quarter of 2009 primarily due to a planned VBO at the Darlington nuclear generating station;
- An increase in gross margin during the second quarter of 2009 due to the recognition of a regulatory asset of $199 million, excluding interest, related to the Tax Loss Variance Account authorized by the OEB effective April 1, 2008;
- A decrease in income in the first quarter of 2009 related to higher OM&A expenses primarily due to an increase in planned outage and maintenance activities, new nuclear generation development, and capacity refurbishment activities at OPG's nuclear generating stations;
- A decrease in income resulting from losses in the Nuclear Funds during the first quarter of 2009 primarily due to reductions in the Ontario CPI. Losses from the Nuclear Funds were partially mitigated by the establishment of the Bruce Lease Net Revenues Variance Account for the portion of the losses from the Nuclear Funds related to the nuclear generating stations on lease to Bruce Power; and
- An increase in the earnings from the Nuclear Funds of $343 million and $550 million during the second and third quarter of 2009, respectively, compared to the same quarters in 2008 primarily due to improvements in valuation levels of global financial markets, partially offset by the reduction to the Bruce Lease Net Revenues Variance Account regulatory asset of $150 million and $106 million, respectively.

SUPPLEMENTAL EARNINGS MEASURES

In addition to providing net income in accordance with Canadian GAAP, OPG's MD&A, audited consolidated financial statements as at and for the years ended December 31, 2009 and 2008 and the notes thereto, present certain non-GAAP financial measures. These financial measures do not have standard definitions prescribed by Canadian GAAP and therefore may not be comparable to similar measures disclosed by other companies. OPG utilizes these measures in making operating decisions and assessing its performance. Readers of the MD&A, consolidated financial statements and the notes thereto utilize these measures in assessing the Company's financial performance from ongoing operations. These non-GAAP financial measures have not been presented as an alternative to net income in accordance with Canadian GAAP as an indicator of operating performance. The definitions of the non-GAAP financial measures are as follows:

(1) **Gross margin** is defined as revenue less revenue limit rebate and fuel expense.

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

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Ontario Power Generation Inc.'s ("OPG") management is responsible for the presentation and preparation of the annual consolidated financial statements and Management's Discussion and Analysis ("MD&A").

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the requirements of the Ontario Securities Commission ("OSC"), as applicable. The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators and its related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. Something is considered material if it is reasonably expected to have a significant impact on the Company's earnings, cash flow, value of an asset or liability, or reputation. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

In meeting our responsibility for the reliability of financial information, we maintain and rely on a comprehensive system of internal controls and internal audit, including organizational and procedural controls and internal controls over financial reporting. Our system of internal controls includes written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and sound and conservative accounting policies, which we regularly update. This structure ensures appropriate internal control over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements.

Management, including the President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICOFR"). DC&P is designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. ICOFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with GAAP.

An evaluation of the effectiveness of design and operation of OPG's DC&P and ICOFR was conducted as of December 31, 2009. Accordingly, we, as OPG's President and CEO and Chief Financial Officer, will certify OPG's annual disclosure documents filed with the OSC, which includes attesting to the design and effectiveness of OPG's disclosure controls and procedures and internal control over financial reporting.

The Board of Directors, based on recommendations from its Audit/Risk Committee, reviews and approves the consolidated financial statements and the MD&A, and oversees management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major risk areas and assessment of significant and related party transactions.

The consolidated financial statements have been audited by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The Auditors' Report outlines the auditors' responsibilities and the scope of their examination and their opinion on OPG's consolidated financial statements. The independent external auditors, as confirmed by the Audit/Risk Committee, had direct and full access to the Audit/Risk Committee, with and without the presence of management, to discuss their audit and their findings therefrom, as to the integrity of OPG's financial reporting and the effectiveness of the system of internal controls.

Tom Mitchell (signed)
President and Chief Executive Officer

Donn W. J. Hanbidge (signed)
Chief Financial Officer

March 4, 2010

AUDITORS' REPORT

To the Shareholder of Ontario Power Generation Inc.

We have audited the consolidated balance sheets of Ontario Power Generation Inc. as at December 31, 2009 and 2008 and the consolidated statements of income, changes in shareholder's equity, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of Ontario Power Generation Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Ontario Power Generation Inc. as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

ERNST & YOUNG LLP (signed)
Chartered Accountants, Licensed Public Accountants
Toronto, Canada
March 4, 2010

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31 *(millions of dollars except where noted)*	**2009**	**2008**
Revenue *(Note 19)*		
Revenue before revenue limit rebate	**5,640**	6,359
Revenue limit rebate *(Note 17)*	**(27)**	(277)
	5,613	6,082
Fuel expense *(Note 19)*	**991**	1,191
Gross margin *(Note 19)*	**4,622**	4,891
Expenses *(Note 19)*		
Operations, maintenance and administration	**2,882**	2,967
Depreciation and amortization *(Note 6)*	**760**	743
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 10)*	**634**	581
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds *(Note 10)*	**(683)**	93
Property and capital taxes	**86**	80
	3,679	4,464
Income before the following:	**943**	427
Other (gains) and losses *(Notes 4 and 18)*	**(10)**	(9)
Income before interest and income taxes	**953**	436
Net interest expense *(Note 9)*	**185**	165
Income before income taxes	**768**	271
Income tax expense (recovery) *(Note 11)*		
Current	**51**	255
Future	**94**	(72)
	145	183
Net income	**623**	88
Basic and diluted income per common share *(dollars)*	**2.43**	0.34
Common shares outstanding *(millions)*	**256.3**	256.3

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 *(millions of dollars)*	**2009**	**2008**
Operating activities		
Net income	**623**	88
Adjust for non-cash items:		
Depreciation and amortization *(Note 6)*	**760**	743
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 10)*	**634**	581
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds *(Notes 10 and 19)*	**(683)**	93
Pension costs *(Note 12)*	**69**	187
Other post employment benefits and supplementary pension plans *(Note 12)*	**180**	226
Future income taxes *(Note 11)*	**94**	(72)
Mark-to-market on derivative instruments	**16**	(33)
Provision for used nuclear fuel	**35**	33
Regulatory assets and liabilities *(Note 7)*	**(429)**	44
Other (gains) and losses *(Note 18)*	**(10)**	(9)
Other	**29**	19
	1,318	1,900
Contributions to nuclear fixed asset removal and nuclear waste management funds *(Note 10)*	**(339)**	(454)
Expenditures on fixed asset removal and nuclear waste management *(Note 10)*	**(189)**	(195)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management *(Note 10)*	**104**	82
Contributions to pension funds *(Note 12)*	**(271)**	(253)
Expenditures on other post employment benefits and supplementary pension plans *(Note 12)*	**(81)**	(81)
Revenue limit rebate *(Note 17)*	**(112)**	(292)
Net changes to other long-term assets and liabilities	**105**	90
Net changes in non-cash working capital balances *(Note 24)*	**(236)**	73
Cash flow provided by operating activities	**299**	870
Investing activities		
Increase in regulatory assets *(Note 7)*	**(2)**	(6)
Investment in fixed and intangible assets *(Notes 6 and 19)*	**(752)**	(661)
Net proceeds from sale of long-term investments	**1**	15
Cash flow used in investing activities	**(753)**	(652)
Financing activities		
Issuance of long-term debt *(Note 8)*	**565**	395
Repayment of long-term debt *(Note 8)*	**(359)**	(408)
Capital contribution by non-controlling interest	**4**	-
Cash flow provided by (used in) financing activities	**210**	(13)
Net (decrease) increase in cash and cash equivalents	**(244)**	205
Cash and cash equivalents, beginning of year	**315**	110
Cash and cash equivalents, end of year	**71**	315

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	**2009**	**2008**
Assets		
Current assets		
Cash and cash equivalents	**71**	315
Accounts receivable *(Note 5)*	**391**	525
Fuel inventory	**837**	736
Prepaid expenses	**47**	32
Income tax recoverable	**45**	-
Future income taxes *(Note 11)*	**51**	6
Materials and supplies *(Note 19)*	**132**	132
	1,574	1,746
Fixed assets *(Notes 6 and 19)*		
Property, plant and equipment	**18,656**	17,976
Less: accumulated depreciation	**5,820**	5,246
	12,836	12,730
Intangible assets *(Notes 6 and 19)*		
Intangible assets	**370**	357
Less: accumulated amortization	**318**	300
	52	57
Other long-term assets		
Deferred pension asset *(Note 12)*	**999**	797
Nuclear fixed asset removal and nuclear waste management funds *(Note 10)*	**10,246**	9,209
Long-term investments *(Note 4)*	**66**	74
Long-term materials and supplies *(Note 19)*	**388**	338
Future income taxes *(Note 11)*	**-**	62
Regulatory assets *(Note 7)*	**1,396**	522
Long-term accounts receivable and other assets	**27**	44
	13,122	11,046
	27,584	25,579

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	**2009**	**2008**
Liabilities		
Current liabilities		
Accounts payable and accrued charges	**933**	1,015
Revenue limit rebate payable *(Note 17)*	**-**	85
Long-term debt due within one year *(Note 8)*	**978**	357
Deferred revenue due within one year	**12**	12
Income and capital taxes payable	**-**	104
	1,923	1,573
Long-term debt *(Note 8)*	**3,068**	3,483
Other long-term liabilities		
Fixed asset removal and nuclear waste management *(Note 10)*	**11,859**	11,384
Other post employment benefits and supplementary pension plans *(Note 12)*	**1,796**	1,703
Long-term accounts payable and accrued charges	**522**	445
Deferred revenue	**130**	108
Future income taxes *(Note 11)*	**633**	-
Regulatory liabilities *(Note 7)*	**172**	54
	15,112	13,694
Non-controlling interest *(Note 25)*	**4**	-
Shareholder's equity		
Common shares *(Note 15)*	**5,126**	5,126
Retained earnings	**2,375**	1,752
Accumulated other comprehensive loss	**(24)**	(49)
	7,477	6,829
	27,584	25,579

Commitments and Contingencies (Notes 7, 8, 12, 13, and 16)

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

Honourable Jake Epp (signed)
Chairman

M. George Lewis (signed)
Director

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

Years Ended December 31 *(millions of dollars)*	**2009**	**2008**
Common shares *(Note 15)*	**5,126**	5,126
Retained earnings		
Balance at beginning of year	**1,752**	1,664
Net income	**623**	88
Balance at end of year	**2,375**	1,752
Accumulated other comprehensive (loss) income, net of income taxes		
Balance at beginning of year	**(49)**	17
Other comprehensive income (loss) for the year	**25**	(66)
Balance at end of year	**(24)**	(49)
Total shareholder's equity at end of year	**7,477**	6,829

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31 *(millions of dollars)*	**2009**	**2008**
Net income	**623**	88
Other comprehensive income (loss), net of income taxes		
Net gain (loss) on derivatives designated as cash flow hedges[1]	**32**	(52)
Reclassification to income of gains on derivatives designated as cash flow hedges[2]	**(7)**	(14)
Other comprehensive income (loss) for the year	**25**	(66)
Comprehensive income	**648**	22

[1] Net of income tax expense of $2 million and $3 million for the years ended December 31, 2009 and 2008, respectively.
[2] Net of income tax recoveries of $3 million and $9 million for the years ended December 31, 2009 and 2008, respectively.

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

1. DESCRIPTION OF BUSINESS

Ontario Power Generation Inc. ("OPG" or the "Company") was incorporated on December 1, 1998 pursuant to the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the "Province"). OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG's focus is on the efficient production and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner.

2. BASIS OF PRESENTATION

These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of OPG and its subsidiaries. OPG accounts for its interests in jointly controlled entities using the proportionate consolidation method. Effective January 1, 2009, the accounts of the Nuclear Waste Management Organization ("NWMO") are included in OPG's consolidated financial statements as OPG became the primary beneficiary of the NWMO. In accordance with Accounting Guideline 15, *Consolidation of Variable Interest Entities,* the applicable amounts in the accounts of the NWMO are therefore included in OPG's consolidated financial statements. All significant intercompany transactions have been eliminated on consolidation.

Certain of the 2008 comparative amounts have been reclassified from financial statements previously presented to conform to the 2009 consolidated financial statement presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash on deposit and money market securities with a maturity of less than 90 days on the date of purchase. All other money market securities with a maturity on the date of purchase that is greater than 90 days, but less than one year, are recorded as short-term investments. These securities are valued at the lower of cost and market.

Interest earned on cash and cash equivalents and short-term investments of $1 million (2008 – $13 million) at an average effective rate of 0.7 percent (2008 – 3.0 percent) is offset against interest expense in the consolidated statements of income.

Sales of Accounts Receivable

Asset securitization involves selling assets such as accounts receivable to independent entities or trusts, which buy the receivables and then issue interests in them to investors. These transactions are accounted for as sales, given that control has been surrendered over these assets in return for net cash consideration. For each transfer, the excess of the carrying value of the receivables transferred over the estimated fair value of the proceeds received is reflected as a loss on the date of the transfer, and is included in net interest expense. The carrying value of the interests transferred is allocated to accounts receivable sold or interests retained according to their relative fair values on the day the transfer is made. Fair value is determined based on the present value of future cash flows. Cash flows are projected using

OPG's best estimates of key assumptions, such as discount rates, weighted average life of accounts receivable and credit loss ratios.

As part of the sales of accounts receivable, certain financial assets are retained and consist of interests in the receivables transferred. Any retained interests held in the receivables are accounted for at cost. The receivables are transferred on a fully serviced basis and do not create a servicing asset or liability.

Inventories

Fuel inventory is valued at the lower of weighted average cost and net realizable value.

Materials and supplies are valued at the lower of average cost and net realizable value. The determination of net realizable value of materials and supplies takes into account various factors including the remaining useful life of the related facilities in which the materials and supplies are expected to be used.

Fixed and Intangible Assets and Depreciation and Amortization

Property, plant and equipment and intangible assets are recorded at cost. Interest costs incurred during construction and development are capitalized as part of the cost of the asset based on the interest rate on OPG's long-term debt. Expenditures for replacements of major components are capitalized.

Depreciation rates for the various classes of assets are based on their estimated service lives. Any asset removal costs that have not been specifically provided for in current or previous periods are also charged to depreciation expense. Repairs and maintenance are expensed when incurred.

Fixed assets are depreciated on a straight-line basis except for computers, and transport and work equipment, which are depreciated on a declining balance basis. Intangible assets, which consist of major application software, are amortized on a straight-line basis. As at December 31, 2009, the depreciation and amortization periods of fixed and intangible assets are as follows:

Nuclear generating stations and major components	15 to 58 years [1]
Thermal generating stations and major components	25 to 44 years [2]
Hydroelectric generating stations and major components	25 to 100 years
Administration and service facilities	10 to 50 years
Computers, and transport and work equipment assets – declining balance	9% to 40% per year
Major application software	5 years
Service equipment	5 to 10 years

[1] As at December 31, 2009, the end of station life for depreciation purposes for the Darlington, Pickering A, Pickering B, Bruce A, and Bruce B nuclear generating stations ranges between 2014 and 2035. Major components are depreciated over the lesser of the station life and the life of the components. The Bruce A nuclear generating station was fully depreciated in 2003, however Bruce Power L.P. decided to refurbish the Bruce A generating station contributing to an increase in the asset retirement obligation and an increase in the carrying value of the Bruce A station. Changes to the end of station life for depreciation purposes are described under the heading *Changes in Accounting Policies and Estimates.*

[2] Lambton unit 1 and 2 and Nanticoke unit 2 and 3 will be fully depreciated by September 30, 2010.

Impairment of Fixed Assets

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

Rate Regulated Accounting

Ontario Regulation 53/05, a regulation pursuant to the *Ontario Energy Board Act, 1998,* provides that, effective April 1, 2005, regulated prices are received by OPG for electricity generated from the baseload hydroelectric facilities and all of the nuclear facilities. The regulation established regulated prices which applied up to April 1, 2008. The Ontario Energy Board's ("OEB") decision, issued in the fourth quarter of 2008, determined the new prices effective April 1, 2008. The regulated prices were based on a forecast cost of service methodology. This methodology establishes regulated prices based on a revenue requirement taking into account a forecast of production volumes and total operating costs, and a return on rate base. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed assets and an allowance for working capital. Regulated prices prior to April 1, 2008 were established by the Province.

The OEB's decision issued in the fourth quarter of 2008, as well as the OEB's decision issued in May 2009 on OPG's motion to review and vary a portion of the 2008 decision, authorized certain variance and deferral accounts effective April 1, 2008. The OEB's decision also ruled on the disposition of the balances previously recorded by OPG in variance and deferral accounts as at December 31, 2007. The impact of the regulation and OEB's decision on OPG's revenue recognition policies is described under the heading *Revenue Recognition*.

The OEB is a self-funding Crown corporation. Its mandate and authority come from the *Ontario Energy Board Act, 1998*, the *Electricity Act, 1998*, and a number of other provincial statutes. The OEB is an independent, quasi-judicial tribunal that reports to the Legislature of the Province through the Minister of Energy and Infrastructure. It regulates market participants in the province's natural gas and electricity industries and carries out its regulatory functions through public hearings and other more informal processes such as consultations.

The balances in variance and deferral accounts are recognized as regulatory assets and liabilities as Canadian accounting standards recognize that rate regulation can create economic benefits and obligations that are required by the regulator to be obtained from, or settled, with the ratepayers. When a company assesses that there is sufficient assurance that incurred expenses will be recovered in the future, those expenses may be deferred and reported as a regulatory asset. When a regulator provides recovery through current rates for expenses that are not incurred then a regulatory liability is reported. The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the regulation and the OEB's decisions. These estimates and assumptions will be reviewed as part of the OEB's regulatory process.

Regulatory asset and liability balances approved by the regulator for inclusion in regulated prices are amortized based on approved recovery periods. Disallowed balances, including associated interest, are charged to operations in the period that the regulator's decision is issued. Interest is applied to regulatory balances as prescribed by the regulation or the OEB, in order to recognize the cost of financing amounts to be recovered from, or repaid to, ratepayers.

See Notes 7 and 11 to these consolidated financial statements for additional disclosure related to regulatory assets and liabilities and rate regulated accounting.

Investments in OPG Ventures

In accordance with Accounting Guideline 18, *Investment Companies* ("AcG-18"), investments owned by the Company's wholly owned subsidiary OPG Ventures Inc. ("OPGV") are recorded at fair value, and changes to the fair value of the investments are included in revenue in the period in which the change occurs. The fair values of these investments are estimated using a methodology that is appropriate in light of the nature, facts and circumstances of the respective investments and considers reasonable data and market inputs, assumptions and estimates. See Notes 13 and 22 of these consolidated financial statements for additional disclosure related to OPG's investments in OPGV.

Fixed Asset Removal and Nuclear Waste Management Liability

OPG recognizes asset retirement obligations for fixed asset removal and nuclear waste management, discounted for the time value of money. OPG has estimated both the amount and timing of future cash expenditures based on current plans for fixed asset removal and nuclear waste management. The liabilities are initially recorded at their estimated fair value, which is based on a discounted value of the expected costs to be paid.

On an ongoing basis, the liability is increased by the present value of the variable cost portion of the nuclear waste generated each year, with the corresponding amounts charged to operating expenses. Expenses relating to low and intermediate level waste are charged to depreciation and amortization expense. Expenses relating to the management or storage of nuclear used fuel are charged to fuel expense. The liability may also be adjusted due to any changes in the estimated amount or timing of the underlying future cash flows. Upon settlement of the liability, a gain or loss would be recorded.

Accretion arises because liabilities for fixed asset removal and nuclear waste management are reported on a net present value basis. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time. The resulting expense is included in operating expenses.

The asset retirement cost is capitalized by increasing the carrying value of the related fixed assets. The capitalized cost is depreciated over the remaining useful life of the related fixed assets and is included in depreciation and amortization expense.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

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

The investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading. Accordingly, the Nuclear Funds and the corresponding payables to the Province are measured at fair value based on the bid prices of the underlying securities with gains and losses recognized in net income.

Revenue Recognition

All of OPG's electricity generation is offered into the real-time energy spot market administered by the Independent Electricity System Operator ("IESO"). Energy revenue, generated from the nuclear facilities for the period April 1, 2005 to March 31, 2008, was based on a regulated price of 4.95¢/kWh. The regulated price for nuclear generation increased to 5.50¢/kWh retrospectively to April 1, 2008, based on the OEB's decision issued in the fourth quarter of 2008. This price includes a rate rider of 0.20¢/kWh for the recovery of approved nuclear variance and deferral account balances.

The regulated price received for the period April 1, 2005 to March 31, 2008 for production from the regulated hydroelectric facilities was 3.30¢/kWh. For generation above 1,900 MWh in any hour, OPG received the Ontario electricity spot market price as an incentive mechanism to optimize hydroelectric production. The OEB established a new price for regulated hydroelectric generation of 3.67¢/kWh effective April 1, 2008. The OEB also approved a revised incentive mechanism, which became effective December 1, 2008. Under this mechanism, OPG receives the approved regulated price of 3.67¢/kWh for the actual average hourly net energy production from these hydroelectric facilities in that month. In the hours when the actual net energy production in Ontario is greater or less than the average hourly net volume in the month, hydroelectric revenues are adjusted by the difference between the average hourly net volume and the actual net energy production multiplied by spot market price. The regulated price of

3.67¢/kWh includes the recovery of approved hydroelectric regulatory balances based on recovery periods authorized by the OEB's decision.

During 2009, OPG filed an accounting order application to address the treatment of a number of variance and deferral accounts for the period after December 31, 2009. In the application for the accounting order, OPG sought the continuation of the rate rider of 0.20¢/kWh for recovery of nuclear regulatory balances approved in the OEB's 2008 decision. OPG also sought to establish the basis for recording additions to existing variance and deferral account balances after 2009. These requests were approved by the OEB's decision in October 2009. In addition, the OEB directed that OPG establish a new variance account to record potential over collection of hydroelectric variance account balances through the hydroelectric payment amount during 2010. OPG plans to file an application with the OEB for new payment amounts for its regulated facilities effective January 1, 2011.

Subject to the agreements with the Ontario Power Authority ("OPA") and the Ontario Electricity Financial Corporation ("OEFC"), and the revenue limit, the production from OPG's other generating assets remains unregulated and continues to be sold at the Ontario electricity spot market price. The generation output from 85 percent of OPG's other generating assets, excluding the Lennox generating station, stations whose generation output is subject to a Hydroelectric Energy Supply Agreement ("HESA") with the OPA pursuant to a ministerial directive, and forward sales as of January 1, 2005, was subject to a revenue limit for the period April 1, 2005 to April 30, 2009. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets was also excluded from the output covered by the revenue limit.

The revenue limit was 4.7¢/kWh for the period May 1, 2007 to April 30, 2008, and increased to 4.8¢/kWh effective May 1, 2008. During this period, volumes sold under a Pilot Auction administered by the OPA were subject to a revenue limit that was 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these limits were returned to the IESO for the benefit of consumers. The term of the revenue limit rebate ended on April 30, 2009.

The Lambton and Nanticoke generating stations are subject to a contingency support agreement with the OEFC. The agreement was put in place to enable OPG to recover the costs of its coal-fired generating stations following implementation of OPG's carbon dioxide ("CO_2") emissions reduction strategy. Further, the production from Lennox was subject to the reliability must run ("RMR") contract up to September 30, 2009. The production from the Lac Seul and Ear Falls generating stations is subject to a HESA.

OPG also sells into, and purchases from, interconnected markets of other provinces and the U.S. northeast and midwest. All contracts that are not designated as hedges are recorded in the consolidated balance sheets at market value with gains or losses recorded in the consolidated statements of income. Gains and losses on energy trading contracts (including those to be physically settled) are recorded on a net basis in the consolidated statements of income. Accordingly, power purchases of $79 million in 2009 and $177 million in 2008 were netted against revenue.

OPG derives non-energy revenue under the terms of a lease arrangement with Bruce Power L.P. ("Bruce Power") related to the Bruce nuclear generating stations. This includes lease revenue and revenue for engineering analysis and design, technical and ancillary services. Prior to April 1, 2008, OPG accounted for lease revenue from Bruce Power using the cash basis of accounting. Under the cash basis of accounting, OPG recognized lease income as stipulated in the lease agreement to the extent that the lease payments were expected to be included in future regulated prices charged to customers. Pursuant to the OEB's decision during the fourth quarter of 2008, certain lease payments from Bruce Power were included in the determination of regulated prices effective April 1, 2008 on a straight-line basis over the term of the lease. Accordingly, OPG recognized these lease payments on a straight-line basis over the term of the lease effective April 1, 2008.

OPG also earns revenue from its joint venture share of the Brighton Beach Power Limited Partnership ("Brighton Beach") related to an energy conversion agreement between Brighton Beach and Coral Energy Canada Inc. ("Coral"). It also earns revenue from its 50 percent share of the results of the Portlands

Energy Centre ("PEC") gas-fired generating station, which is co-owned with TransCanada Energy Ltd. In addition, non-energy revenue includes isotope sales and real estate rentals. Revenues from these activities are recognized as services are provided or as products are delivered.

Financial Instruments

On January 1, 2007, OPG adopted three accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): Handbook Section 1530, *Comprehensive Income*; Handbook Section 3855, *Financial Instruments – Recognition and Measurement* ("Section 3855"); and Handbook Section 3865, *Hedges*. Section 3855, was amended in July 2009 with the amendments applicable to the December 31, 2009 annual consolidated financial statements. These amendments did not impact OPG.

For accounting purposes, financial assets are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, or available-for-sale, and financial liabilities are classified as held-for-trading or other than held-for-trading. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and financial liabilities other than those held-for-trading, are measured at amortized cost. Financial assets available-for-sale are measured at fair value with unrealized gains and losses due to fluctuations in fair value recognized in accumulated other comprehensive income ("AOCI"). Financial assets purchased and sold, where the contract requires the asset to be delivered within an established timeframe, are recognized on a trade-date basis. All derivatives, including embedded derivatives that must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the consolidated balance sheets. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading.

The standard permits designation of any financial instrument as held-for-trading (the fair value option) upon initial recognition. This designation by OPG requires that the financial instrument be reliably measurable, and eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities.

Hedges

The standard specifies the criteria under which hedge accounting can be applied and how hedge accounting is to be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income. The ineffective portion is recognized in net income. The amounts recognized in AOCI are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item.

Derivatives

Some of OPG's unregulated generation is exposed to changes in electricity prices associated with a wholesale spot market for electricity in Ontario. To hedge the commodity price risk exposure associated with changes in the wholesale price of electricity, OPG enters into various energy and related sales contracts. These contracts are expected to be effective as hedges of the commodity price exposure on OPG's generation portfolio. Gains or losses on hedging instruments are recognized in unregulated revenue over the term of the contract when the underlying hedged transactions occur. All contracts not designated as hedges are recorded as assets or liabilities at fair value with changes in fair value recorded in other revenue.

OPG also enters into derivative contracts with major financial institutions to manage the Company's exposure to foreign currency movements. Foreign exchange translation gains and losses on these foreign currency denominated derivative contracts are recognized as an adjustment to the purchase price of the commodity or goods received.

OPG is exposed to changes in market interest rates on debt expected to be issued in the future. OPG uses interest rate derivative contracts to hedge this exposure. Gains and losses on interest rate hedges are recorded as an adjustment to interest expense for the debt being hedged. Gains and losses that do not meet the effectiveness criteria are recorded through net income in the period incurred.

OPG utilizes emission reduction credits ("ERCs") and allowances to manage emissions within the prescribed regulatory limits. ERCs are purchased from trading partners in Canada and the United States. Emission allowances are obtained from the Province and purchased from trading partners in Ontario. The cost of ERCs and allowances is held in inventory and charged to OPG's operations at average cost as part of fuel expense, as required.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. The fair value of such derivative instrument is included in AOCI on a net of tax basis and changes to the fair value are recorded on the consolidated statements of comprehensive income. When a derivative hedging relationship is expired, the designation of a hedging relationship is terminated, or a portion of the hedging instrument is no longer effective, any associated gains or losses included in AOCI are recognized in the current period's consolidated statement of income.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at year-end exchange rates. Any resulting gain or loss is reflected in revenue.

Research and Development

Research and development costs are charged to operations in the year incurred. Research and development costs incurred to discharge long-term obligations such as the nuclear waste management liabilities, for which specific provisions have already been made, are charged to the related liability.

Pension and Other Post Employment Benefits

OPG's post employment benefit programs include a contributory defined benefit registered pension plan, a defined benefit supplementary pension plan, group life insurance, health care and long-term disability benefits. Effective January 1, 2009, similar post employment benefit programs were established by the NWMO. Information on the Company's post employment benefit programs is presented on a consolidated basis.

OPG accrues its obligations under pension and other post employment benefit ("OPEB") plans. The obligations for pension and other post retirement benefit costs are determined using the projected benefit method pro-rated on service. The obligation for long-term disability benefits is determined using the projected benefit method on a terminal basis. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions, experience gains or losses, salary levels, inflation, and cost escalation. Pension and OPEB costs and obligations are determined annually by independent actuaries using management's best estimate assumptions.

Assumptions are significant inputs to actuarial models that measure pension and OPEB obligations and related effects on operations. Two critical assumptions—discount rate and inflation—are important elements of benefit costs and obligations. In addition, the expected return on assets is a critical assumption in the determination of pension costs. These assumptions, as well as other assumptions involving demographic factors such as retirement age, mortality, and employee turnover are evaluated periodically by management in consultation with an independent actuary. During the evaluation process, the assumptions are updated to reflect actual experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors, and in accordance with Canadian GAAP, the impact of these differences is accumulated and amortized over future periods.

The discount rates used by OPG in determining projected benefit obligations and the costs for the Company's employee benefit plans are based on representative AA corporate bond yields. The respective discount rates enable OPG to calculate the present value of the expected future cash flows on the measurement date. A lower discount rate increases the present value of benefit obligations and increases benefit plan costs. The expected rate of return on plan assets is based on current and expected asset allocation, as well as the long-term historical risks and returns associated with each asset class within the plan portfolio. A lower expected rate of return on plan assets increases pension cost.

Pension fund assets include equity securities and corporate and government debt securities, real estate and other investments which are managed by professional investment managers. The fund does not invest in equity or debt securities issued by OPG. Pension fund assets are valued using market-related values for purposes of determining actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six percent assumed real return over a five-year period.

Pension and OPEB costs include current service costs, interest costs on the obligations, the expected return on pension plan assets, adjustments for plan amendments and adjustments for actuarial gains or losses, which result from changes in assumptions and experience gains and losses. Past service costs arising from pension and OPEB plan amendments are amortized on a straight-line basis over the expected average remaining service life to full eligibility of the employees covered by the plan. Due to the long-term nature of post-employment liabilities, the excess of the net cumulative unamortized gain or loss, over 10 percent of the greater of the benefit obligation and the market-related value of the plan assets, is amortized over the expected average remaining service life, since OPG will realize the economic benefit over that period.

When the recognition of the transfer of employees and employee-related benefits gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's liability.

Taxes

Under the *Electricity Act, 1998*, OPG is required to make payments in lieu of corporate income and capital taxes to the OEFC. These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), and are modified by the *Electricity Act, 1998* and related regulations. This effectively results in OPG paying taxes similar to what would be imposed under the federal and Ontario tax acts.

OPG follows the liability method of accounting for income taxes of its unregulated operations. Under the liability method, future income tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period the change is substantively enacted. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is established.

From April 1, 2005 to December 31, 2008, OPG followed the taxes payable method for the rate regulated segments of its business. Under the taxes payable method, OPG did not recognize future income taxes relating to the rate regulated segments of its business to the extent those future income taxes were expected to be recovered or refunded through future regulated prices charged to customers.

As discussed in *Changes in Accounting Policies and Estimates*, effective January 1, 2009, OPG is required to recognize future income taxes associated with its rate regulated operations, including future income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. Thus, effective January 1, 2009, OPG follows the liability method of tax accounting for all its business segments and records a corresponding regulatory asset or liability for the future income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

OPG makes payments in lieu of property tax on its nuclear and thermal generating assets to the OEFC, and also pays property taxes to municipalities.

OPG pays charges on gross revenue derived from the annual generation of electricity from its hydroelectric generating assets. The gross revenue charge ("GRC") includes a fixed percentage charge applied to the annual hydroelectric generation derived from stations located on provincial Crown lands, in addition to graduated rate charges applicable to all hydroelectric stations. GRC costs are included in fuel expense.

Changes in Accounting Policies and Estimates

Accounting for Regulated Operations

The CICA revised its guidance on accounting for rate regulated operations, effective January 1, 2009, with amendments to Handbook Section 1100, *Generally Accepted Accounting Principles*, ("Section 1100"), Handbook Section 3465, *Income Taxes*, ("Section 3465"), and Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation,* ("AcG-19") as follows:

- To remove the temporary exemption pertaining to the application of Section 1100 to rate regulated operations, including the elimination of the opportunity to use industry practice as an acceptable basis for recognition and measurement of assets and liabilities arising from rate regulation;
- To amend Section 3465 to require the recognition of future income tax assets and liabilities as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers; and
- To amend AcG-19, as necessary, as a result of amendments to Sections 1100 and 3465.

As a result of the changes to Section 3465, OPG is required to recognize future income taxes associated with its rate regulated operations. OPG applied the changes prospectively to interim and annual consolidated financial statements beginning January 1, 2009. The impact of the change is disclosed in Note 11, *Income Taxes*.

In addition, effective January 1, 2009, with the removal of the temporary exemption in Section 1100, the Company must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Certain assets and liabilities arising from rate regulation continue to have specific guidance under a primary source of Canadian GAAP that applies only to the particular circumstances described therein, including those arising under Handbook Section 1600, *Consolidated Financial Statements*, Handbook Section 3061, *Property, Plant and Equipment*, Section 3465, and Handbook Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*. Other assets and liabilities arising from rate regulation do not have specific guidance under a primary source of Canadian GAAP. Therefore, Section 1100 directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Handbook Section 1000, *Financial Statement Concepts*. In developing these accounting policies, the Company may consult other sources including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. Therefore, in accordance with Section 1100, the Company has determined that these assets and liabilities qualify for recognition under Canadian GAAP and this recognition is consistent with the Financial Accounting Standards Board Accounting Standards Codification Topic 980, *Accounting for the Effects of Certain Types of Regulation* (formerly Financial Accounting Standards No. 71). As a result, there is no effect on the Company's financial statements for the year ended December 31, 2009, with the exception of the impact of the amendment to Section 3465, as discussed above.

Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets* ("Section 3064"), which replaces Handbook Section 3062, *Goodwill and Other Intangible Assets*, and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

OPG adopted Section 3064 on January 1, 2009 and reclassified prior period comparative amounts from property, plant and equipment to intangible assets. The adoption of this standard did not have a significant impact on the Company's financial position or results of operations. Intangible assets are amortized over a period of five years.

Depreciation of Long-Lived Assets

The accounting estimates related to the depreciation of long-lived assets require significant management judgment to assess the appropriate useful lives of OPG's long-lived assets, including consideration of various technological and other factors.

Effective January 1, 2009, the service life of thermal stations, for the purpose of calculating depreciation, was extended by two years to 2014 based on the Province of Ontario's announcement to phase out coal generation by 2014. The life extension reduced depreciation expense by $31 million annually. Subsequently, in September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations. As a result of the unit closures, effective September 2009, OPG revised the end of life for these units to October 2010 from December 2014. This change in estimate was accounted for on a prospective basis and increased depreciation expense by $11 million in 2009. The change in estimate will increase the depreciation expense by $22 million in 2010.

Effective January 1, 2008, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended by two years to 2019 after a review of the technical analysis of the station's life limiting components. The life extension reduced depreciation expense by $18 million annually.

The Company extended the service life of the Bruce B nuclear generating station to 2014 for depreciation purposes, effective January 1, 2008, after reviewing future capacity plans in the OPA's Integrated Power System Plan ("IPSP"), and historical information regarding the service lives of major life limiting components of the station. As a result of the extension, depreciation expense decreased by $7 million annually. In addition, effective January 1, 2008, OPG extended the service life of the Bruce A nuclear generating station to 2035 for depreciation purposes after the review of future capacity plans filed with the OPA and other publicly available information. The extension of the service life of the Bruce A nuclear generating station for depreciation purposes decreased depreciation expense by $8 million annually.

Restructuring

As a result of the decision to close two coal-fired units at each of the Lambton and Nanticoke generating stations, OPG has notified key stakeholders, including the Society of Energy Professionals and the Power Workers' Union, of the decision in accordance with their respective collective bargaining agreements. The termination costs are estimated to be up to $35 million and are expected to be recorded in 2010 when they are finalized.

Financial Instruments – Disclosure and Presentation

In June 2009, the CICA amended Handbook Section 3862, *Financial Instruments – Disclosures ("Section 3862")*, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require entities to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measuring the financial instruments. The fair value hierarchy has three levels. Fair value of assets and liabilities included in Level 1 is determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. These amendments have been reflected in OPG's 2009 financial statements. Comparative information is not required by the amendment. Accordingly, the disclosure is only presented for the year ended December 31, 2009.

Future Changes in Accounting Policy

In February 2008, the Canadian Accounting Standards Board confirmed that Publicly Accountable Enterprises will be required to transition from Canadian GAAP to International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for interim and annual financial reporting purposes of fiscal years beginning on or after January 1, 2011. IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure. In line with OPG's IFRS conversion project, an assessment has been completed to identify the key accounting differences from Canadian GAAP. OPG's assessment of the impact of IFRS will depend on the IFRS standards in effect at the time of transition and accounting elections made. Proposed changes to the IFRS accounting standards have the potential to introduce additional significant accounting differences. OPG's consolidated financial statements, as currently disclosed in accordance with Canadian GAAP, will be significantly different when presented in accordance with IFRS. OPG will publish its first consolidated financial statements prepared in accordance with IFRS for the period ending March 31, 2011, including one year of comparative figures.

4. INVESTMENTS IN ASSET-BACKED COMMERCIAL PAPER

Pursuant to the terms of a restructuring plan announced by the Pan-Canadian Investors Committee for third-party Asset-Backed Commercial Paper ("ABCP"), OPG's short-term commercial paper was exchanged for longer term notes of approximately $58 million in January 2009. OPG received five classes of notes, which are supported by margin funding facilities from third-party asset providers, Canadian banks, and governments. OPG also received a partial payment of the accrued interest totaling $2 million for its short-term commercial paper held over the past 17 months. OPG replaced existing ABCP notes that had a net book value of $35 million ($58 million book value less a provision of $23 million) with new ABCP notes of $35 million, which represented the fair value of the new ABCP notes. The restructured notes are expected to have a maturity of eight to nine years. The exact maturity will be determined by the timing of the release of collateral as underlying swap trades mature. The stated maturity of the notes is 2056.

OPG classified the new ABCP notes for the purposes of measurement, subsequent to their initial recognition and related income reporting, as held-for-trading. Fair value was determined based on a discounted cash flow model. For purposes of CICA Section 3862 fair value hierarchy disclosures (Note 13), OPG has classified its investment in ABCP as Level 3 of the fair value hierarchy.

In 2009, the fair value of the ABCP notes increased by $1 million. The increase in fair value reflected improved market conditions, partially offset by the impact of a revised credit rating of the underlying notes. As at December 31, 2009, the ABCP holdings were valued at $36 million (2008 – $35 million). OPG continues to monitor the development of a secondary market.

As at December 31, 2009, the fair value of the ABCP reflected the latest information available including changes to credit market conditions. For the purposes of estimating future cash flows, OPG estimated that the ABCP notes would generate a weighted average return of 2.8 percent. These future cash flows were discounted using a rate of 6.1 percent.

5. SALE OF ACCOUNTS RECEIVABLE

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

OPG reflected the initial transfer to the trust of the co-ownership interest, and subsequent transfers required by the revolving nature of the securitization, as sales in accordance with CICA Accounting Guideline 12, *Transfer of Receivables*. In accordance with this Guideline, the proceeds of each sale to the trust were deemed to be the cash received from the trust, net of the undivided co-ownership interest retained by the Company. In accordance with the receivable purchase agreement, OPG reduced the securitized receivable balance by $50 million, from $300 million to $250 million in May and June of 2009 primarily due to lower cash flows from the IESO. During the third quarter of 2009, OPG renewed the agreement with a maturity date of August 31, 2010 and an amended commitment of $250 million.

For 2009, OPG has recognized pre-tax charges of $4 million (2008 – $12 million) on such sales at an average cost of funds of 2.1 percent (2008 – 3.9 percent). As at December 31, 2009, OPG had sold receivables of $250 million from its total portfolio of $436 million (2008 – $507 million).

The accounts receivable reported and securitized by the Company are as follows:

	Principal Amount of Receivables as at December 31		**Average Balance of Receivables for the year ended December 31**	
(millions of dollars)	**2009**	**2008**	**2009**	**2008**
Total receivables portfolio [1]	**436**	507	**398**	471
Receivables sold	**250**	300	**267**	300
Receivables retained	**186**	207	**131**	171
Average cost of funds			**2.1%**	3.9%

[1] Amount represents gross IESO receivables outstanding, including receivables that have been securitized, which the Company continues to service.

An immediate 10 percent or 20 percent adverse change in the discount rate would not have a material effect on the current fair value of the retained interest. There were no credit losses for the years ended December 31, 2009 and 2008.

Details of cash flows from securitizations for the years ended December 31, 2009 and 2008 are as follows:

(millions of dollars)	**2009**	**2008**
Collections reinvested in revolving sales [1]	**3,200**	3,600
Cash flows from retained interest	**1,577**	2,020

[1] Given the revolving nature of the securitization, the cash collections received on the receivables securitized are immediately reinvested in additional receivables resulting in no further cash proceeds to the Company over and above the securitized amount. The amounts reflect the total of twelve monthly amounts.

6. FIXED AND INTANGIBLE ASSETS AND DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense consists of the following as at December 31, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
Depreciation	**629**	606
Amortization of intangible assets	**21**	20
Amortization of regulatory assets and liabilities *(Note 7)*	**103**	111
Nuclear waste management costs	**7**	6
	760	743

Fixed assets consist of the following as at December 31, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
Property, plant and equipment		
Nuclear generating stations	**6,654**	6,495
Regulated hydroelectric generating stations	**4,454**	4,425
Unregulated hydroelectric generating stations	**3,607**	3,558
Thermal generating stations	**1,674**	1,617
Other fixed assets	**1,043**	618
Construction in progress	**1,224**	1,263
	18,656	17,976
Less: accumulated depreciation		
Generating stations	**5,586**	5,084
Other fixed assets	**234**	162
	5,820	5,246
	12,836	12,730

Intangible assets consist of the following as at December 31, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
Intangible assets		
Nuclear generating stations	**128**	120
Unregulated hydroelectric generating stations	**2**	1
Thermal generating stations	**2**	1
Other intangible assets	**225**	226
Development in progress	**13**	9
	370	357
Less: accumulated amortization		
Generating stations	**108**	98
Other intangible assets	**210**	202
	318	300
	52	57

Interest capitalized to construction and development in progress at six percent during the years ended December 31, 2009 and 2008 was $57 million and $56 million, respectively.

7. Regulatory Assets and Liabilities and Summary of Rate Regulated Accounting

The OEB's decision issued in the fourth quarter of 2008 authorized certain variance and deferral accounts effective April 1, 2008. In its decision the OEB also ruled on the disposition of the balances previously recorded by OPG in variance and deferral accounts as at December 31, 2007, including interest recorded on these balances at the rate of six percent. During the year ended December 31, 2009, the Company recorded additions to the variance and deferral accounts authorized by the OEB's decision, and amortized approved regulatory balances based on recovery periods established by the OEB. OPG also recorded interest on outstanding regulatory balances at the interest rate prescribed by the OEB effective April 1, 2008. The interest rate fluctuated in the range of 0.55 percent to 2.45 percent during the year ended December 31, 2009 and 3.35 percent to 4.08 percent during the nine months ended December 31, 2008. Regulatory balances disallowed by the OEB's decision were charged to operations in the fourth quarter of 2008. OPG will apply for recovery of regulatory balances recorded subsequent to December 31, 2007, including balances recorded for the three months ended March 31, 2008 pursuant to the regulation under the *Ontario Energy Board Act, 1998*, in its next application to the OEB.

During 2009, the OEB issued its decision on OPG's application for an accounting order to address the treatment of the variance and deferral accounts for the period after December 31, 2009. The OEB granted OPG's application to continue to recover the nuclear regulatory balances as at December 31, 2007, through the rate rider of 0.20¢/kWh. In addition, effective January 1, 2010, the OEB directed OPG to establish a variance account to record any over collection of approved hydroelectric regulatory balances through the hydroelectric payment amount of 3.67¢/kWh that remains in effect after December 31, 2009. The OEB also approved OPG's proposed basis for recording additions to nuclear and hydroelectric variance and deferral accounts, for the period after December 31, 2009.

During 2009, OPG also established and recorded additions to the Tax Loss Variance Account retroactive to April 1, 2008. This action was taken in accordance with the OEB's decision and order in May 2009 on OPG's motion to review, and vary a portion of the 2008 decision establishing current regulatory prices, as it pertains to the treatment of tax losses and their use for mitigation of regulated prices.

Beginning on January 1, 2009, OPG also started recording a regulatory asset or liability related to the recognition of future income taxes, as required by the CICA's amended guidance for accounting for rate regulated operations described in Notes 3 and 11.

The regulatory assets and liabilities recorded as at December 31, 2009 and 2008 were as follows:

(millions of dollars)	**2009**	**2008**
Regulatory assets		
Future income taxes *(Note 11)*	**592**	-
Bruce Lease Net Revenues Variance Account	**328**	260
Pickering A Return to Service Deferral Account	**82**	123
Tax Loss Variance Account	**295**	-
Nuclear Liabilities Deferral Account	**86**	132
Other	**13**	7
Total regulatory assets	**1,396**	522
Regulatory liabilities		
Nuclear Generation Development Costs – Capacity Refurbishment	**3**	6
Nuclear Generation Development Costs – New Nuclear Development	**55**	21
Hydroelectric Water Conditions Variance	**55**	22
Other	**59**	5
Total regulatory liabilities	**172**	54

The changes in the regulatory assets and liabilities for 2009 and 2008 are as follows:

(millions of dollars)	**Future Income Taxes**	**Bruce Lease Net Revenues Variance**	**Tax Loss Variance**	**Pickering A Return to Service Deferral**	**Nuclear Liabilities Deferral**	**Nuclear Generation Develop-ment Costs – Capacity Refurbish-ment**	**Nuclear Generation Develop-ment Costs – New Nuclear Develop-ment**	**Hydro-electric Water Conditions Variance**	**Other (net)**
Regulatory assets (liabilities), January 1, 2008	-	-	-	183	131	16	12	7	(7)
Increase (decrease) during the year	-	259	-	-	31	(6)	(30)	(25)	(2)
Interest	-	1	-	6	6	-	-	-	-
Amortization during the year	-	-	-	(66)	(36)	-	(3)	(4)	(2)
Other charges[1]	-	-	-	-	-	(16)	-	-	13
Regulatory assets (liabilities), December 31, 2008	-	260	-	123	132	(6)	(21)	(22)	2
Increase (decrease) during the year	592	64	292	-	-	3	(29)	(29)	(42)
Interest	-	4	3	2	1	-	-	-	(2)
Amortization during the year	-	-	-	(43)	(47)	-	(5)	(4)	(4)
Regulatory assets (liabilities), December 31, 2009	**592**	**328**	**295**	**82**	**86**	**(3)**	**(55)**	**(55)**	**(46)**

[1] Other charges for the year ended December 31, 2008 include regulatory balances that were charged to operations based on the OEB's decision in 2008 that these amounts would not be refunded or charged to ratepayers.

Future Income Taxes

Effective January 1, 2009, OPG is required to recognize future income taxes associated with its rate regulated operations, including future income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. In addition, OPG is required to recognize a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers. OPG recorded $592 million in the account for the year ended December 31, 2009.

Tax Loss Variance Account

The Tax Loss Variance Account authorized by the OEB in May 2009 and effective April 1, 2008 pertains to the treatment of tax losses and their use for mitigation. In accordance with the OEB's decision on OPG's motion to review and vary the OEB's 2008 payment amounts decision, this account records the difference between the amount of mitigation included in the approved payment amounts and the revenue requirement reduction available from tax loss carry forwards recalculated to reflect the OEB's 2009 decision. As such, during the year ended December 31, 2009, OPG recorded a regulatory asset of $295 million, including $3 million of interest, related to the Tax Loss Variance Account and a corresponding $292 million increase to revenue. The increase to revenue of $292 million included an amount of $125 million related to the period from April 1, 2008 to December 31, 2008.

Bruce Lease Net Revenues Variance Account

As per the requirements of the regulation pursuant to the *Ontario Energy Board Act, 1998*, the OEB required OPG to include the difference between OPG's revenues and costs associated with its ownership of the two nuclear stations on lease to Bruce Power in the determination of the regulated prices for production from OPG's regulated nuclear facilities. The OEB also established a variance account, effective April 1, 2008, that captures differences between the forecast revenues and costs associated with the Bruce generating stations that are included in the approved regulated nuclear prices, and the actual amounts. As at December 31, 2009, the variance account balance was $328 million. Amortization of the balance is expected to begin following OPG's next application. The regulatory asset includes $256 million of revenue variance related to the Bruce lease agreement ("Bruce Lease"), including the impact of the derivative embedded in the Bruce Lease (refer to Note 13), and a $214 million variance from forecast as a result of losses from the Nuclear Funds related to the Bruce generating stations since April 1, 2008, partially offset by a related variance in income tax expense of $131 million. The account also includes variances for accretion expense related to Nuclear Liabilities associated with the Bruce generating stations.

Pickering A Return to Service Deferral Account

Effective January 1, 2005, in accordance with the regulation pursuant to the *Ontario Energy Board Act, 1998*, OPG was required to establish a deferral account in connection with non-capital costs incurred on or after January 1, 2005 that were associated with the planned return to service of all units at the Pickering A nuclear generating station. As at December 31, 2009, the balance in the deferral account was $82 million (2008 – $123 million), including interest of $45 million and net of accumulated amortization of $234 million. OPG commenced amortization of the deferral account in accordance with the terms of the regulation when Unit 1 of the Pickering A nuclear generating station was returned to service in November 2005. Amortization of $43 million was recorded in 2009 (2008 – $66 million). In its decision, the OEB authorized the recovery of the unamortized balance in the account as at December 31, 2007 over a 45-month period ending December 31, 2011. Therefore, effective retrospectively to April 1, 2008, OPG amortizes the balance of the account on a straight-line basis over this period.

Nuclear Liabilities Deferral Account

Effective April 1, 2005, the regulation pursuant to the *Ontario Energy Board Act, 1998* required OPG to establish a deferral account in connection with changes to its liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management ("Nuclear Liabilities"). The deferral account represents the revenue requirement impact associated with the changes in the Nuclear Liabilities arising from an approved reference plan, approved after April 1, 2005, in accordance with the terms of the ONFA.

On December 31, 2006, OPG recorded an increase in its Nuclear Liabilities of $1,386 million arising from an update to the approved reference plan in accordance with the terms of the ONFA (the "2006 Approved Reference Plan"). Therefore, commencing January 1, 2007 and up to March 31, 2008, OPG recorded a regulatory asset associated with this increase in the Nuclear Liabilities arising from the approved reference plan. The balance of the regulatory asset was $86 million as at December 31, 2009 (2008 – $132 million). The OEB authorized the recovery of the balance in this account as at December 31, 2007 over a 33-month period ending December 31, 2010. In 2009, OPG recorded amortization of $47 million (2008 – $36 million).

Nuclear Generation Development Costs

In accordance with the regulation pursuant to the *Ontario Energy Board Act, 1998*, OPG recorded regulatory assets related to non-capital costs for nuclear generation development initiatives up to March 31, 2008. Specifically, the costs recorded up to March 31, 2008 were those made in the course of planning and preparing for the development of proposed new nuclear facilities incurred on or after June 13, 2006, as well as those related to the potential capacity refurbishment of the Pickering B and Darlington nuclear stations to the extent that they had not been previously included in the forecast provided to the Province for the purposes of establishing regulated prices for the period up to March 31, 2008. Effective April 1, 2008, the OEB's decision established variance accounts for new nuclear generation development and capacity refurbishment costs for deviations from the forecast costs approved by the OEB in setting regulated prices.

OPG deferred costs, including interest, of $16 million related to new nuclear generation development initiatives as at March 31, 2008, including $4 million of costs deferred during the three months ended March 31, 2008. OPG reported a regulatory asset, including interest, of $16 million related to the potential refurbishment of existing stations as at March 31, 2008, all of which was recognized prior to January 1, 2008. The OEB's decision authorized the recovery of the costs recorded up to December 31, 2007 related to new nuclear development over a 33-month period ending December 31, 2010. Accordingly, effective retrospectively to April 1, 2008, the amortization of these deferred costs is recorded by OPG on a straight-line basis over this period. The OEB determined that it did not have jurisdiction to approve the recovery of the costs recorded prior to April 1, 2008 for capacity refurbishment. Therefore, the associated regulatory asset in the amount of $16 million was charged to operations by OPG in the fourth quarter of 2008.

The OEB also established variance accounts effective April 1, 2008 for new nuclear generation development and capacity refurbishment costs for deviations from the forecast costs approved by the OEB in setting the new regulated prices. OPG recorded lower operations, maintenance and administration ("OM&A") expenses of $29 million for new nuclear generation development costs and additional OM&A expenses of $3 million for capacity refurbishment costs during the year ended December 31, 2009. In 2008, OPG recorded additional OM&A expenses of $34 million for new nuclear generation development costs and $6 million for capacity refurbishment costs during the nine months ended December 31, 2008.

Hydroelectric Water Conditions Variance

The OEB's decision authorized the continuation of a previously existing variance account effective April 1, 2008 for the difference in hydroelectric electricity production due to differences between forecast and actual water conditions. Forecast water conditions refer to those approved by the OEB in setting regulated prices. Prior to April 1, 2008, variances were determined by reference to the forecast water conditions previously provided to the Province for the purposes of establishing regulated prices.

For the years ended December 31, 2009 and 2008, OPG recorded decreases in revenue of $29 million and $25 million, respectively, reflecting actual water conditions that were favourable compared to those approved by the OEB or included in the forecast provided to the Province for the purposes of establishing regulated prices, as appropriate.

The OEB's decision authorized the recovery of the balance in this variance account as at December 31, 2007 over a 21-month period ended December 31, 2009. Accordingly, effective retrospectively to April 1, 2008, the amortization of this balance is recorded by OPG on a straight-line basis over this period.

Other Regulatory Assets and Liabilities

As at December 31, 2009, other regulatory assets included $8 million related to the under-recovery of nuclear variance and deferral account balances and $5 million related to the Interim Period Shortfall Variance Account for the period April 1, 2008 to November 30, 2008. These under-recoveries are recorded in the respective variance accounts established by the OEB's decision and result from the collection of approved nuclear balances and retroactive revenue based on actual production, which varies from the forecast production approved by the OEB.

As at December 31, 2008, other regulatory assets included $5 million related to the under-recovery of approved regulatory balances over the period from April 1, 2008 to December 31, 2008, and the balance of the variance account related to transmission outages and transmission restrictions.

As at December 31, 2009, other regulatory liabilities included $21 million in the Nuclear Fuel Cost Variance Account, $21 million in the Income and Other Taxes Variance Account and $17 million in the Ancillary Services Net Revenue Variance Account. The Nuclear Fuel Cost Variance Account was established by the OEB's decision, effective April 1, 2008 for the difference between forecast and actual nuclear fuel costs per unit of production. Forecast ancillary services net revenue and nuclear fuel costs per unit of production refer to those approved by the OEB in setting regulated prices. The continuation of the previously existing Ancillary Services Net Revenue Variance Account was authorized by the OEB's decision, effective April 1, 2008, for the difference between forecast and actual ancillary services net revenue. The balance of the Income and Other Taxes Variance Account, authorized by the OEB's decision effective from April 1, 2008, results from the resolution of the 1999 audit and its impact on the income tax expense of OPG for the period from April 1, 2008 to December 31, 2009.

As at December 31, 2008, other regulatory liabilities of $5 million consists of $4 million in the Ancillary Services Net Revenue Variance Account and $1 million in the Nuclear Fuel Cost Variance Account. Prior to April 1, 2008, variances recorded in the Ancillary Services Net Revenue Variance Account were determined by reference to the forecast revenue previously provided to the Province for the purposes of establishing regulated prices. The balance in the Income and Other Taxes Variance Account was nil as at December 31, 2008.

Summary of Rate Regulated Accounting

The following table summarizes the income statement and other comprehensive income impacts of recognizing regulatory assets and liabilities:

Years Ended December 31	**2009**			**2008**		
(millions of dollars)	**As Stated**	**Impact of Regulatory Assets and Liabilities**	**Financial Statements without the Impact of Regulatory Assets and Liabilities**	**As Stated**	**Impact of Regulatory Assets and Liabilities**	**Financial Statements without the Impact of Regulatory Assets and Liabilities**
Revenue	**5,613**	**(491)**	**5,122**	6,082	(4)	6,078
Fuel expense	**991**	**(19)**	**972**	1,191	(3)	1,188
Operations, maintenance and administration	**2,882**	**(43)**	**2,839**	2,967	(52)	2,915
Depreciation and amortization	**760**	**(106)**	**654**	743	(102)	641
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds	**(683)**	**(119)**	**(802)**	93	333	426
Accretion on fixed asset removal and nuclear waste management liabilities	**634**	**(3)**	**631**	581	28	609
Property and capital taxes	**86**	**(3)**	**83**	80	1	81
Net interest expense	**185**	**6**	**191**	165	11	176
Income tax expense[1]	**145**	**76**	**221**	183	(95)	88
Other comprehensive income (loss)	**25**	**(10)**	**15**	(66)	-	(66)

[1] Effective January 1, 2009, OPG is required to recognize future income taxes and a corresponding regulatory asset or liability associated with its rate regulated operations in accordance with amendments to Section 3465 (Notes 3 and 11). The impact of the regulatory asset or liability is reflected above for the year ended December 31, 2009. Prior to January 1, 2009, OPG followed the taxes payable method of accounting for income taxes and therefore did not recognize these regulatory assets or liabilities. Accordingly, the impact of recognizing regulatory assets and liabilities for the year ended December 31, 2008 shown above does not include the future income tax for the regulated operations and the associated regulatory asset or liability.

8. LONG-TERM DEBT

Long-term debt consists of the following:

(millions of dollars)	**2009**	**2008**
Notes payable to the Ontario Electricity Financial Corporation	**3,675**	3,660
UMH Energy Partnership debt	**197**	-
Share of non-recourse limited partnership debt	**174**	180
	4,046	3,840
Less: due within one year		
Notes payable to the Ontario Electricity Financial Corporation	**970**	350
Share of limited partnership debt	**8**	7
	978	357
Long-term debt	**3,068**	3,483

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

The maturity dates as at December 31, 2009 for notes payable to the OEFC are as follows:

		Principal Outstanding *(millions of dollars)*		
Year of Maturity	**Interest Rate**	**Senior Notes**	**Subordinated Notes**	**Total**
2010	6.00%	595	375	970
2011	6.65%	-	375	375
2012	5.72%	400	-	400
2016	4.91%	270	-	270
2017	5.35%	900	-	900
2018	5.27%	395	-	395
2019	5.44%	365	-	365
		2,925	750	3,675

Debt financing for the Niagara Tunnel, the PEC and the Lac Seul hydroelectric generating station projects is provided by the OEFC. As at December 31, 2009, debt financing for these projects consists of the following:

(millions of dollars)	**Niagara Tunnel**	**Portlands Energy Centre**	**Lac Seul Hydroelectric Generating Station**
Debt financing, as at December 31, 2008	340	305	20
New borrowing	150	85	30
Debt financing, as at December 31, 2009	**490**	**390**	**50**

In September 2005, OPG reached an agreement with the OEFC to provide debt financing for the Niagara Tunnel project. The funding, which is up to $1 billion over the duration of the project, will be in the form of 10-year notes, which will be issued quarterly to meet the project's obligations. Interest will be fixed for each note issued at the time of advance at a rate equal to the prevailing Benchmark Government of Canada 10-Year Bond, plus a credit spread determined by the OEFC based on a survey of market rates. As at December 31, 2009, OPG issued $490 million against this facility, which included new borrowing of $150 million under the facility in 2009. OPG is in the process of pursuing an amendment to the Niagara Tunnel project credit facility, consistent with the revised cost estimate of $1.6 billion, and the revised schedule.

In December 2006, OPG reached an agreement with the OEFC to provide debt financing for the Lac Seul Hydroelectric Generating Station and the PEC projects. There will be up to $50 million available for the Lac Seul project and up to $400 million available for the PEC project under each credit facility. The credit facilities will be drawn as needed to fund the respective projects over the construction period. The funding will be in the form of 10-year notes with interest rates fixed for each note issued at the time of advance at a rate equal to the prevailing Benchmark Government of Canada 10-Year Bond, plus a credit spread determined by the OEFC based on a survey of market rates. As at December 31, 2009, OPG issued $50 million against the Lac Seul project credit facility and $390 million against the PEC credit facility, which included new borrowing of $30 million under the Lac Seul facility and $85 million under the PEC facility in 2009.

In 2007, OPG reached an agreement with the OEFC for a $500 million general corporate facility and for a $950 million credit agreement to refinance senior notes as they mature over the period September 22, 2007 to September 22, 2009. As at December 31, 2009, OPG borrowed $500 million under its general corporate facility and refinanced $500 million senior notes under the $950 million credit facility, which included new refinancing of $100 million in 2009 at an interest rate of 5.65 percent.

In addition, project financing was completed for the Upper Mattagami and Hound Chute project in May 2009. Senior notes totalling $200 million were issued by the UMH Energy Partnership, a general partnership between OPG and UMH Energy Inc., a wholly owned subsidiary of OPG. Transaction costs that are directly attributable to the issuance of the senior notes are included in the amortized cost of the notes. The senior notes have an effective interest rate of 7.86 percent and will mature in 2041. These notes are secured by the assets of the Upper Mattagami and Hound Chute project. These notes are recourse to OPG during the construction period, and non-recourse thereafter. The undiscounted contractual maturities are as follows:

(millions of dollars)	**Principal**
2010	-
2011	1
2012	3
2013	3
2014	3
2015 and thereafter	190

The non-recourse limited partnership debt is secured by a first charge on the assets of one of the joint venture limited partnerships, an assignment of the joint venture's bank accounts, and an assignment of the joint venture's project agreements. OPG's share of the total assets was $251 million as at December 31, 2009 (2008 – $275 million). The minimum principal repayments of the non-recourse limited partnership debt for the next five calendar years range from $9 million to $11 million annually. OPG's share of the non-recourse limited partnership debt included a note payable of $123 million at an interest rate of 6.9 percent, with an effective interest rate of 7.0 percent. This note payable is repayable in quarterly payments commencing March 31, 2006 to March 31, 2024. The remaining non-recourse limited partnership debt is at various floating rates. The interest rates of the floating rate debt are referenced to various interest rate indices, such as the bankers' acceptance rate and the London Interbank Offered Rate, plus a margin. The joint venture has entered into floating-to-fixed interest rate hedges to manage the risks arising from fluctuation in interest rates.

Interest paid in 2009 was $252 million (2008 – $242 million), of which $237 million (2008 – $227 million) relates to interest paid on long-term corporate debt. Interest on the notes payable to the OEFC is paid semi-annually.

9. SHORT-TERM CREDIT FACILITIES AND NET INTEREST EXPENSE

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two tranches – a $500 million 364-day term tranche and a $500 million five-year term tranche. During the first quarter of 2009, OPG renewed and extended the maturity date of the 364-day term tranche to May 19, 2010. The renewal became effective in the second quarter of 2009. The five-year term tranche was not extended, and therefore has four years remaining, with a maturity date of May 20, 2013. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at December 31, 2009, no commercial paper was outstanding (2008 – nil), and OPG had no other outstanding borrowings under the bank credit facility.

In the second quarter of 2008, OPG entered into a $100 million five-year revolving committed bank credit facility in support of the Upper Mattagami and Hound Chute project. As at December 31, 2009, there was no borrowing under this credit facility.

OPG also maintains $25 million (2008 – $25 million) in short-term uncommitted overdraft facilities and $275 million (2008 – $276 million) of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other purposes. As at December 31, 2009, there was a total of $231 million of Letters of Credit issued (2008 – $243 million), which included $210 million for the supplementary pension plans (2008 – $212 million) and $7 million related to the construction and operation of the PEC (2008 – $16 million).

In addition, as at December 31, 2009, the NWMO issued a $1 million Letter of Credit for its supplementary pension plan.

The following table summarizes the net interest expense for the year ended December 31, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
Interest on long-term debt	**240**	234
Interest on short-term debt	**15**	15
Interest income	**(5)**	(13)
Capitalized interest	**(57)**	(56)
Interest applied to regulatory assets and liabilities	**(8)**	(13)
Other	**-**	(2)
Net interest expense	**185**	165

10. Fixed Asset Removal and Nuclear Waste Management

The liability for fixed asset removal and nuclear waste management on a present value basis consists of the following for the years ended December 31, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
Liability for nuclear used fuel management	**6,525**	6,213
Liability for nuclear decommissioning and low and intermediate level waste management	**5,186**	5,020
Liability for non-nuclear fixed asset removal	**148**	151
Fixed asset removal and nuclear waste management liabilities	**11,859**	11,384

The changes in the fixed asset removal and nuclear waste management liabilities for the years ended December 31, 2009 and 2008, are as follows:

(millions of dollars)	**2009**	**2008**
Liabilities, beginning of year	**11,384**	10,957
Increase in liabilities due to accretion	**631**	608
Increase in liabilities due to nuclear used fuel and nuclear waste management variable expenses	**42**	47
Liabilities settled by expenditures on waste management	**(189)**	(195)
Decrease in the liabilities for non-nuclear fixed asset removal	**(9)**	(33)
Liabilities, end of year	**11,859**	11,384

The cash and cash equivalents balance as at December 31, 2009 includes $11 million of cash and cash equivalents that are for the use of nuclear waste management activities.

OPG's fixed asset removal and nuclear waste management liabilities are comprised of expected costs to be incurred up to and beyond termination of operations and the closure of nuclear and thermal generating plant facilities. Costs will be incurred for activities such as dismantling, demolition and disposal of facilities and equipment, remediation and restoration of sites and the ongoing and long-term management of nuclear used fuel and low and intermediate level waste material. Nuclear station decommissioning consists of original placement of stations into a safe store condition followed by a nominal 30-year store period prior to station dismantling.

The following costs are recognized as a liability:

- The present value of the costs of dismantling the nuclear and thermal production facilities at the end of their useful lives;
- The present value of the fixed cost portion of any nuclear waste management programs that are required based on the total volume of waste expected to be generated over the assumed life of the stations; and
- The present value of the variable cost portion of any nuclear waste management program taking into account actual waste volumes generated to date.

The determination of the accrual for fixed asset removal and nuclear waste management costs requires significant assumptions, since these programs run for many years. The most recent update of the estimates for the nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management liabilities was performed as at December 31, 2006. The update resulted in an increased estimate of costs mainly due to additional used fuel and waste quantities resulting from station life extensions, experience in decommissioning reactors, and changes in economic indices. The increase was partially offset by the impact of later end of life dates for some stations, which results in later decommissioning dates and a reduced present value of decommissioning costs. The change in the cost estimate resulted in an updated reference plan, the 2006 Approved Reference Plan, which was approved by the Province in accordance with the terms of the ONFA.

As a result of the approval of the 2006 Approved Reference Plan, OPG recognized additional expenses including accretion on the fixed asset removal and nuclear waste management liabilities and depreciation of the carrying value of the related fixed assets starting on January 1, 2007. The impact of these additional expenses for the period up to March 31, 2008 was reduced by the recognition of a regulatory asset, as prescribed by the regulation pursuant to the *Ontario Energy Board Act, 1998*. OPG began recovering this regulatory asset through regulated prices effective April 1, 2008, as per the OEB's decision. This is discussed in Note 7 to the consolidated financial statements.

For the purposes of calculating OPG's fixed asset removal and nuclear waste management liabilities, as at December 31, 2009 nuclear and thermal plant closures are projected to occur over the next four to 27 years. End of life dates may change as decisions on life extensions are made. The 2006 Approved Reference Plan includes cash flow estimates for decommissioning nuclear stations for approximately 40 years after station shutdown and to 2065 for placement of used fuel into the long-term disposal repository followed by extended monitoring. The undiscounted amount of estimated future cash flows associated with the liabilities is approximately $25 billion in 2009 dollars. The discount rate used to calculate the present value of the liabilities was 5.75 percent for liabilities established prior to December 31, 2006. The increase in cost estimates related to the 2006 Approved Reference Plan and subsequent increases to the value of the undiscounted estimated cash flows for OPG's liability for nuclear waste management and decommissioning are discounted at 4.6 percent. The cost escalation rates ranged from 1.8 percent to 3.6 percent. Under the terms of the lease agreement with Bruce Power, OPG continues to be responsible for the nuclear fixed asset removal and nuclear waste management liabilities associated with the Bruce nuclear generating stations.

The significant assumptions underlying operational and technical factors used in the calculation of the accrued liabilities are subject to periodic review. Changes to these assumptions, including changes to assumptions on the timing of the programs, financial indicators or the technology employed may result in significant changes to the value of the accrued liabilities. With programs of this duration and the evolving technology to handle the nuclear waste, there is a significant degree of uncertainty surrounding the measurement accuracy of the costs for these programs, which may increase or decrease over time.

Liability for Nuclear Used Fuel Management Costs

The liability for nuclear used fuel management represents the cost of managing the highly radioactive used nuclear fuel bundles. The federal Nuclear Fuel Waste Act ("NFWA") released in 2002 requires that Canada's nuclear fuel waste owners form a nuclear waste management organization and that each waste owner establishes a trust fund for used fuel management costs. To estimate its liability for nuclear used fuel management costs, OPG has adopted a conservative approach consistent with the Adaptive Phased Management concept approved by the Government of Canada, which assumes a deep geologic repository in-service date in 2035.

Liability for Nuclear Decommissioning and Low and Intermediate Level Waste Management Costs

The liability for nuclear decommissioning and low and intermediate level waste management represents the estimated costs of decommissioning nuclear generating stations after the end of their service lives, as well as the cost of managing low and intermediate level radioactive wastes generated by the nuclear stations. The significant assumptions used in estimating future nuclear fixed asset removal costs include decommissioning of nuclear generating stations on a deferred dismantlement basis where the reactors will remain in a safe storage state for a 30-year period prior to a 10-year dismantlement period.

The life cycle costs of low and intermediate level waste management include the costs of processing and storage of such radioactive wastes during and following the operation of the nuclear stations, as well as the costs of ultimate long-term management of these wastes. The current assumptions used to establish the accrued low and intermediate level waste management costs include a disposal facility for low and intermediate level waste with a targeted in-service date of 2018. Agreement has been reached with local municipalities for OPG to develop a deep geologic repository for the long-term management of low and intermediate level waste adjacent to the Western Waste Management Facility. A federal environmental assessment in respect of this proposed facility is in progress.

Liability for Non-Nuclear Fixed Asset Removal Costs

The liability for non-nuclear fixed asset removal is based on third-party cost estimates after an in-depth review of active plant sites and an assessment of required clean-up and restoration activities. This liability represents the estimated costs of decommissioning thermal generating stations at the end of their service lives. The estimated retirement date of these stations is between 2014 and 2034.

In addition to the $92 million liability for active sites, OPG also has an asset retirement obligation liability of $56 million for decommissioning and restoration costs associated with plant sites that have been divested or are no longer in use.

OPG has no legal obligation associated with the decommissioning of its hydroelectric generating facilities. Also, the costs cannot be reasonably estimated because of the long service life of these assets. With either maintenance efforts or rebuilding, the water control structures are assumed to be used for the foreseeable future. Accordingly, OPG has not recognized a liability for the decommissioning of its hydroelectric generating facilities.

Ontario Nuclear Funds Agreement

OPG sets aside funds to be used specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities in accordance with the ONFA and the NFWA. OPG jointly oversees the investment management of the Nuclear Funds with the Province. The assets of the Nuclear Funds are maintained in third-party custodian accounts that are segregated from the rest of OPG's assets.

The Decommissioning Fund was established to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level nuclear waste management and a portion of used fuel storage costs after station life. As at December 31, 2009 and 2008, the Decommissioning Fund was in an underfunded position. OPG bears the risk and liability for cost estimate increases and fund earnings in the Decommissioning Fund.

The Used Fuel Fund was established to fund future costs of long-term nuclear used fuel waste management. OPG is responsible for the risk and liability for cost increases for used fuel waste management, subject to graduated liability thresholds specified in the ONFA, which limit OPG's total financial exposure at approximately $10.5 billion in December 31, 2009 dollars based on used fuel bundle projections of 2.23 million bundles, consistent with the station lives included within the initial financial reference plan. The graduated liability thresholds do not apply to additional used fuel bundles beyond 2.23 million as projected in the 2006 Approved Reference Plan.

OPG makes quarterly payments to the Used Fuel Fund over the life of its nuclear generating stations, as specified in the ONFA. Required funding for 2009 under the ONFA was $339 million, including a contribution to The Ontario NFWA Trust (the "Trust") of $153 million. Included in the funding was a $31 million contribution on December 31, 2009 related to future bundles over the 2.23 million threshold. Based on the current ONFA Reference Plan, OPG is required to contribute annual amounts to the Used Fuel Fund, ranging from $94 million to $264 million annually over the years 2010 to 2014 (Note 16).

The NFWA was proclaimed into force in November 2002. As required under the NFWA, OPG established the Trust in November 2002 and made an initial deposit of $500 million into the Trust. The NFWA required OPG to make annual contributions of $100 million to the Trust until such time the NWMO proposed funding formula to address the future financial costs of implementing the Adapted Phase Management approach was approved by the Minister of Natural Resources. In 2009, this funding formula was approved, requiring OPG to make a 2008 contribution true-up of $25 million in addition to a contribution amount of $128 million for 2009. The contribution for 2010 is $136 million and the proposed contribution for 2011 is $149 million. The Trust forms part of the Used Fuel Fund, and contributions to the Trust, as required by the NFWA, are applied towards OPG's ONFA payment obligations.

As required by the terms of the ONFA, the Province has provided a Provincial Guarantee to the Canadian Nuclear Safety Commission ("CNSC") 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 will supplement the Used Fuel Fund and the Decommissioning Fund until they have accumulated sufficient funds to cover the accumulated liabilities for nuclear decommissioning and waste management. The Provincial Guarantee, taken together with the Used Fuel Fund and the Decommissioning Fund, are in satisfaction of OPG's nuclear licensing requirements with the CNSC. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount of the Provincial Guarantee provided by the Province. In 2009 and 2008, OPG paid the annual guarantee fee of $3.8 million based on a Provincial Guarantee amount of $760 million.

In December 2009, the CNSC approved the increase of the Provincial Guarantee amount to $1,545 million to be effective in 2010. The value of this Provincial Guarantee will be in effect through to the end of 2012, when the next reference plan for the CNSC is required to be submitted. The increase was primarily a result of the market value losses experienced by the Nuclear Funds in 2008.

In accordance with Section 3855, the investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading and are measured at fair value with realized and unrealized gains and losses recognized in OPG's consolidated financial statements.

Decommissioning Fund

Upon termination of the ONFA, the Province has a right to any excess funding in the Decommissioning Fund, which is the excess of the fair market value of the Decommissioning Fund over the estimated completion costs as per the most recently approved ONFA Reference Plan. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes in its consolidated financial statements, through a charge to the Decommissioning Fund with a corresponding payable to the Province, such that the balance of the Decommissioning Fund would equal the cost estimate of the liability based on the most recently approved ONFA Reference Plan. The payable to the Province could be reduced in subsequent periods in the event that the Decommissioning Fund earns less than its target rate of return or in the event that a new ONFA Reference Plan is approved with a higher estimated decommissioning liability. When the Decommissioning Fund is underfunded, the earnings on the Decommissioning Fund reflect actual fund returns based on the market value of the assets.

The Province's right to any excess funding in the Decommissioning Fund upon termination of the ONFA results in OPG capping its annual earnings at 5.15 percent, which is the rate of growth in the liability for the estimated completion cost, as long as the Decommissioning Fund is in an overfunded status.

The Decommissioning Fund's asset value on a fair value basis was $4,876 million as at December 31, 2009, which was less than the liability per the 2006 Approved Reference Plan. At December 31, 2008, the Decommissioning Fund's asset value on a fair value basis was $4,325 million, which was less than the liability per the 2006 Approved Reference Plan. Under the ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the most recently approved ONFA Reference Plan, are at least 120 percent funded, OPG may direct up to 50 percent of the surplus over 120 percent to be treated as a contribution to the Used Fuel Fund, and the OEFC would be entitled to a distribution of an equal amount. Since OPG is responsible for the risks associated with liability cost increases and investment returns in the Decommissioning Fund, future contributions to the

Decommissioning Fund may be required should the fund be in an underfunded position at the time of the next liability reference plan review.

The investments in the Decommissioning Fund include a diversified portfolio of equities and fixed income securities that are invested across geographic markets. The Nuclear Funds are invested to fund long-term liability requirements, and as such, the portfolio asset mix is structured to achieve the required return over a long-term horizon. While short-term fluctuations in market value will occur, managing the long-term return of the Nuclear Funds remains the primary goal.

Used Fuel Fund

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 percent plus the change in the Ontario Consumer Price Index for funding related to the first 2.23 million used fuel bundles ("committed return"). OPG recognizes the committed return on the Used Fuel Fund and includes it in the earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of the Used Fuel Fund's assets, which includes realized and unrealized returns, is recorded as due to or due from the Province. The due to or due from the Province represents the amount OPG would pay to or receive from the Province if the committed return were to be settled as of the balance sheet date. As part of its regular contributions to the Used Fuel Fund, OPG was required to allocate $31 million of its December 31, 2009 contribution towards its liability associated with future fuel bundles that exceed the 2.23 million threshold. As prescribed under the ONFA, earnings related to OPG's contributions for incremental fuel bundles do not grow at the Province's guaranteed rate of return, but rather earn the return of the Used Fuel Fund based on changes in the market value of the assets.

As at December 31, 2009, the Used Fuel Fund asset value on a fair value basis was $5,370 million. The Used Fuel Fund value included a payable to the Province of $33 million related to the committed return adjustment. As at December 31, 2008, the Used Fuel Fund asset value on a fair value basis was $4,884 million, including a receivable from the Province of $460 million related to the committed return adjustment.

Under the ONFA, the Province is entitled to any surplus in the Used Fuel Fund, subject to a threshold funded ratio of 110 percent compared to the value of the associated liabilities.

The nuclear fixed asset removal and nuclear waste management funds as at December 31, 2009 and 2008 consist of the following:

	Fair Value	
(millions of dollars)	**2009**	**2008**
Decommissioning Fund	**4,876**	4,325
Used Fuel Fund[1]	**5,403**	4,424
Due (to) from Province – Used Fuel Fund	**(33)**	460
	5,370	4,884
	10,246	9,209

[1] The Ontario NFWA Trust represented $1,693 million as at December 31, 2009 (2008 – $1,386 million) of the Used Fuel Fund on a fair value basis.

The fair value of the securities invested in the Nuclear Funds, which include the Used Fuel Fund and the Decommissioning Fund, as at December 31, 2009 and 2008, are as follows:

	Fair Value	
(millions of dollars)	**2009**	**2008**
Cash and cash equivalents and short-term investments	**463**	455
Pooled funds	**1,497**	1,412
Marketable equity securities	**4,699**	3,795
Fixed income securities	**3,596**	3,090
Net receivables/payables	**30**	7
Administrative expense payable	**(6)**	(10)
	10,279	8,749
Due (to) from Province – Used Fuel Fund	**(33)**	460
	10,246	9,209

The bonds and debentures held in the Used Fuel Fund and the Decommissioning Fund as at December 31, 2009 and 2008 mature according to the following schedule:

	Fair Value	
(millions of dollars)	**2009**	**2008**
1 – 5 years	**1,276**	1,142
5 – 10 years	**857**	777
More than 10 years	**1,463**	1,171
Total maturities of debt securities	**3,596**	3,090
Average yield	**3.7%**	4.3%

The change in the Nuclear Funds for the years ended December 31, 2009 and 2008, is as follows:

	Fair Value	
(millions of dollars)	**2009**	**2008**
Decommissioning Fund, beginning of year	**4,325**	5,072
Increase (decrease) in fund due to return on investments	**631**	(681)
Decrease in fund due to reimbursement of expenditures	**(80)**	(69)
Decrease in Due to Province	**-**	3
Decommissioning Fund, end of year	**4,876**	4,325
Used Fuel Fund, beginning of year	**4,884**	4,191
Increase in fund due to contributions made	**339**	454
Increase (decrease) in fund due to return on investments	**664**	(719)
Decrease in fund due to reimbursement of expenditures	**(24)**	(13)
(Decrease) increase in Due to/from Province	**(493)**	971
Used Fuel Fund, end of year	**5,370**	4,884

The earnings from the Nuclear Funds during 2009 were partially reduced by the establishment of a variance account for revenues and costs associated with the Bruce nuclear stations, as a result of the OEB's decision in the fourth quarter of 2008. The earnings on the Nuclear Funds for 2009 and 2008 are as follows:

(millions of dollars)	**2009**	**2008**
Decommissioning Fund	**631**	(678)
Used Fuel Fund	**171**	252
Bruce Lease Net Revenues Variance Account *(Note 7)*	**(119)**	333
Total earnings (losses)	**683**	(93)

11. INCOME TAXES

From April 1, 2005 to December 31, 2008, OPG followed the liability method of tax accounting for its unregulated operations and the taxes payable method for the rate regulated segments of its business. Under the liability method, future income tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Under the taxes payable method, OPG does not recognize future income taxes relating to the rate regulated segments of its business to the extent those future income taxes are expected to be recovered or refunded through future regulated prices charged to customers. Accordingly, OPG did not record a future income tax expense of $151 million during 2008 which would have been recorded had OPG accounted for income taxes for the regulated segments using the liability method.

As discussed in Note 3, *Changes in Accounting Policies and Estimates*, effective January 1, 2009, OPG is required to recognize future income taxes associated with its rate regulated operations, including future income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. Accordingly, on January 1, 2009, OPG recorded a future income tax liability of $340 million, being the cumulative future income tax liability on January 1, 2009 related to differences between the accounting and tax bases of assets and liabilities, measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse, and recorded a corresponding regulatory asset. OPG also recorded an additional future income tax liability and a corresponding regulatory asset of $126 million for future income taxes resulting from regulatory assets that were recorded due to amendments to Section 3465. Effective January 1, 2009, OPG follows the liability method of tax accounting for all its business segments and records a corresponding regulatory asset or liability for the future income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

In addition to the transitional adjustment related to the amendments to Section 3465, for the year ended December 31, 2009, OPG recorded an increase to the future income tax liability of $126 million which is expected to be recovered through future regulated prices and recorded a corresponding increase to the regulatory asset for future income taxes. As a result, the future income tax expense for the year ended December 31, 2009 was not impacted. The increase in the future income tax liability for the year ended December 31, 2009 included $14 million related to the increase to the regulatory asset for future income taxes.

The following table summarizes the future income tax liabilities recorded as a result of the changes to Section 3465:

(millions of dollars)	
Transition – January 1, 2009:	
Future income tax liabilities on temporary differences related to regulated operations	**340**
Future income tax liabilities resulting from the regulatory asset for future income taxes	**126**
	466
Changes during the year:	
Increase in future income tax liabilities on temporary differences related to regulated operations	**112**
Increase in future income tax liabilities resulting from the regulatory asset for future income taxes	**14**
Balance at December 31, 2009	**592**

A reconciliation between the statutory and the effective rate of income taxes is as follows:

(millions of dollars)	**2009**	**2008**
Income before income taxes	**768**	271
Combined Canadian federal and provincial statutory income tax rates, including surtax	**33.0%**	33.5%
Statutory income tax rates applied to accounting income	**253**	91
Increase (decrease) in income taxes resulting from:		
Income tax component of the Bruce Lease Net Revenues Variance Account	**36**	95
Lower future tax rate on temporary differences	**(16)**	(33)
Non-taxable income items	**1**	(15)
Unrecorded future income tax related to regulated operations	**-**	151
Change in income tax positions	**(6)**	(106)
Changes in future tax rate	**3**	-
Regulatory asset	**(126)**	-
	(108)	92
Income tax expense	**145**	183
Effective rate of income taxes	**18.9%**	67.5%

In the third quarter of 2006, OPG received a preliminary communication from the Provincial Tax Auditors ("Tax Auditors") with respect to their initial findings from their audit of OPG's 1999 taxation year. Many of the issues raised through the audit were unique to OPG and related either to start-up matters and positions taken on April 1, 1999 upon commencement of operations, or matters that were not adequately addressed through the *Electricity Act, 1998*. In 2008, all outstanding tax matters related to the 1999 tax audit were resolved. As a result, OPG reduced its income tax liability by $106 million.

The audit of OPG's taxation years subsequent to 1999 commenced in 2009. Should the ultimate outcome materially differ from OPG's recorded income tax liabilities, the Company's effective tax rate and its earnings could be affected positively or negatively in the period in which the matters are resolved.

The Bruce Lease Net Revenues Variance Account authorized by the OEB in its decision on OPG's application for new regulated prices for its regulated production effective April 1, 2008 is discussed in Note 7 to these consolidated financial statements.

In its decision, the OEB approved an Income and Other Taxes Variance Account effective April 1, 2008. The scope of the account with respect to income taxes includes variances in the income tax expense for the Company's rate regulated segments caused by changes in tax rates or rules under the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), as modified by the *Electricity Act, 1998*, as well as variances caused by reassessments due to audits of OPG's taxation years which have an impact on the income taxes payable after April 1, 2008. The amount of the variances, resulting from the changes, will be determined based on the forecasts approved by the OEB for those years. OPG recorded $21 million in the account for the year ended December 31, 2009. OPG did not record any amounts in the account for the year ended December 31, 2008.

Significant components of the income tax expense (recovery) are presented in the table below:

(millions of dollars)	**2009**	**2008**
Current income tax expense (recovery):		
Current payable	**57**	169
Change to income tax position	**(6)**	86
	51	255
Future income tax expense (recovery):		
Change in temporary differences	**181**	25
Change to income tax position	**-**	(192)
Changes in future income tax rate	**3**	-
Income tax component of the Bruce Lease Net Revenues Variance Account	**36**	95
Regulatory asset	**(126)**	-
	94	(72)
Income tax expense	**145**	183

The income tax effects of temporary differences that give rise to future income tax assets and liabilities as at December 31, 2009 and 2008 are presented in the table below:

(millions of dollars)	**2009**	**2008**
Future income tax assets:		
Fixed asset removal and nuclear waste management liabilities	**2,968**	30
Other liabilities and assets	**656**	163
Future recoverable Ontario minimum tax	**12**	-
	3,636	193
Future income tax liabilities:		
Fixed assets	**(1,078)**	(56)
Nuclear fixed asset removal and nuclear waste management funds	**(2,567)**	-
Other liabilities and assets	**(573)**	(69)
	(4,218)	(125)
Net future income tax (liabilities) assets	**(582)**	68
Represented by:		
Current portion – asset	**51**	6
Long-term portion – (liability) asset	**(633)**	62
	(582)	68

The following table summarizes the difference in the consolidated statements of income and consolidated statements of comprehensive income under the taxes payable method used by the Company to account for income taxes for the regulated businesses compared to what would have been reported had OPG applied the liability method for the regulated businesses for 2008. For 2009, OPG applied the liability method for the regulated business, hence, the following table is not applicable to the 2009 year:

(millions of dollars)	**2008**
As stated:	
Future income tax expense	(72)
Future income tax: Other comprehensive income – for the year	(6)
Liability method[1]:	
Future income tax expense	(50)
Future income tax: Other comprehensive income – for the year	(19)

[1] OPG accounted for certain lease revenues relating to the regulated businesses for the three months ended March 31, 2008 using the cash basis of accounting. The related future income tax impact is excluded from the above.

The following table summarizes the difference in the consolidated balance sheet amounts under the taxes payable method used by the Company to account for income taxes compared to what would have been reported had OPG applied the liability method for the regulated business as at December 31, 2008. The amounts of future income taxes not recorded in 2008 do not include the future income taxes resulting from regulatory assets and liabilities that are required to be recorded effective January 1, 2009 due to amendments to the Section 3465. For 2009, OPG applied the liability method for the regulated business, hence, the following table is not applicable to the 2009 year.

	2008	
(millions of dollars)	**As Stated[1]**	**Liability Method[1,2]**
Current future income tax recoverable	6	47
Long-term future income tax assets (liabilities)	62	(319)

[1] The future income tax asset and liability balances above include adjustments during 2008 related to changes in income tax positions resulted from the resolution of the 1999 income tax audit. In addition, the income tax component of the Bruce Lease Net Revenues Variance Account was reflected in the Bruce Regulatory Asset account and not in the future income tax asset (liability) balance above.
[2] OPG accounted for certain lease revenues relating to the regulated businesses for the three months ended March 31, 2008 and for the year ended December 31, 2007 using the cash basis of accounting. The related future income tax impact is excluded from the above.

The amount of cash income taxes paid for 2009 was $192 million (2008 – $49 million).

12. PENSION AND OTHER POST EMPLOYMENT BENEFIT PLANS

The pension and OPEB obligations, and the pension fund assets, are measured as at December 31, 2009. Details of OPG's pension and OPEB obligations, pension fund assets and costs are presented in the following tables.

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2009	**2008**	**2009**	**2008**
Weighted Average Assumptions – Benefit Obligation at Year End				
Rate used to discount future benefits	**6.80%**	7.50%	**6.69%**	7.46%
Salary schedule escalation rate	**3.00%**	3.00%	**-**	-
Rate of cost of living increase to pensions	**2.00%**	2.00%	**-**	-
Initial health care trend rate	**-**	-	**6.61%**	6.58%
Ultimate health care trend rate	**-**	-	**4.70%**	4.69%
Year ultimate rate reached	**-**	-	**2030**	2018
Rate of increase in disability benefits	**-**	-	**2.00%**	2.00%

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2009	**2008**	**2009**	**2008**
Weighted Average Assumptions – Cost for the Year				
Expected return on plan assets net of expenses	**7.00%**	7.00%	**-**	-
Rate used to discount future benefits	**7.50%**	5.60%	**7.46%**	5.59%
Salary schedule escalation rate	**3.00%**	3.25%	**-**	-
Rate of cost of living increase to pensions	**2.00%**	2.25%	**-**	-
Initial health care trend rate	**-**	-	**6.58%**	6.91%
Ultimate health care trend rate	**-**	-	**4.70%**	4.68%
Year ultimate rate reached	**-**	-	**2018**	2014
Rate of increase in disability benefits	**-**	-	**2.00%**	2.25%
Average remaining service life for employees (years)	**12**	11	**11**	11

(millions of dollars)	Registered Pension Plans 2009	Registered Pension Plans 2008	Supplementary Pension Plans 2009	Supplementary Pension Plans 2008	Other Post Employment Benefits 2009	Other Post Employment Benefits 2008
Changes in Plan Assets						
Fair value of plan assets at beginning of year	**7,254**	8,924	**-**	-	**-**	-
Contributions by employer	**271**	253	**7**	10	**74**	71
Contributions by employees	**86**	75	**-**	-	**-**	-
Actual return on plan assets net of expenses	**1,051**	(1,566)	**-**	-	**-**	-
Benefit payments	**(446)**	(432)	**(7)**	(10)	**(74)**	(71)
Fair value of plan assets at end of year	**8,216**	7,254	**-**	-	**-**	-
Changes in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	**7,440**	9,603	**142**	162	**1,591**	2,064
Employer current service costs	**120**	217	**5**	6	**40**	59
Contributions by employees	**86**	75	**-**	-	**-**	-
Interest on projected benefit obligation	**554**	540	**11**	9	**118**	116
Benefit payments	**(446)**	(432)	**(7)**	(10)	**(74)**	(71)
Past service costs	**-**	-	**-**	-	**8**	-
Net actuarial (gain) loss	**856**	(2,563)	**28**	(25)	**227**	(577)
Projected benefit obligation at end of year	**8,610**	7,440	**179**	142	**1,910**	1,591
Funded Status – Deficit at end of year	**(394)**	(186)	**(179)**	(142)	**(1,910)**	(1,591)

Pension fund assets are allocated among three principal investment categories. Furthermore, equity investments are diversified across Canadian, U.S. and non-North American stocks. There is also a small real estate portfolio that is less than one percent of pension fund assets.

	2009	2008
Registered pension plan fund asset investment categories		
Equities	**62%**	60%
Fixed income	**34%**	37%
Cash and short-term investments	**4%**	3%
Total	**100%**	100%

Based on the most recently filed actuarial valuation of the OPG registered pension plan, as at January 1, 2008, there was an unfunded liability on a going-concern basis of $239 million and a deficiency on a wind-up basis of $2,846 million. In the previously filed actuarial valuation, as at January 1, 2005, there was an unfunded liability on a going-concern basis of $465 million and a deficiency on a wind-up basis of $1,979 million. The deficit disclosed in the next filed funding valuation, which must have an effective date no later than January 1, 2011, could be significantly different.

Based on the filed initial actuarial valuation of the NWMO registered pension plan, as at January 1, 2009, there was a surplus on a going-concern basis of $2 million and a deficiency on a wind-up basis of $4 million. The next filed funding valuation must have an effective date no later than January 1, 2010.

The supplementary pension plans are not funded, but are secured by Letters of Credit totalling $211 million (2008 – $212 million).

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Reconciliation of Funded Status to Accrued Benefit Asset (Liability)						
Funded status – deficit at end of year	**(394)**	(186)	**(179)**	(142)	**(1,910)**	(1,591)
Unamortized net actuarial loss (gain)	**1,365**	937	**25**	(3)	**157**	(70)
Unamortized past service costs	**28**	46	**1**	2	**19**	16
Accrued benefit asset (liability) at end of year	**999**	797	**(153)**	(143)	**(1,734)**	(1,645)
Short-term portion	**-**	-	**(7)**	(6)	**(84)**	(79)
Long-term portion	**999**	797	**(146)**	(137)	**(1,650)**	(1,566)

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Components of Cost Recognized						
Current service costs	**120**	217	**5**	6	**40**	59
Interest on projected benefit obligation	**554**	540	**11**	9	**118**	116
Expected return on plan assets net of expenses	**(623)**	(623)	**-**	-	**-**	-
Amortization of past service costs	**18**	18	**1**	1	**5**	4
Amortization of net actuarial loss	**-**	35	**-**	-	**-**	31
Cost recognized	**69**	187	**17**	16	**163**	210

(millions of dollars)	Registered Pension Plans 2009	Registered Pension Plans 2008	Supplementary Pension Plans 2009	Supplementary Pension Plans 2008	Other Post Employment Benefits 2009	Other Post Employment Benefits 2008
Components of Cost Incurred and Recognized						
Current service costs	**120**	217	**5**	6	**40**	59
Interest on projected benefit obligation	**554**	540	**11**	9	**118**	116
Actual return on plan assets net of expenses	**(1,051)**	1,566	**-**	-	**-**	-
Past service costs	**-**	-	**-**	-	**8**	-
Net actuarial loss (gain)	**856**	(2,563)	**28**	(25)	**227**	(577)
Cost incurred in year	**479**	(240)	**44**	(10)	**393**	(402)
Differences between costs incurred and recognized in respect of:						
Actual return on plan assets net of expenses	**428**	(2,189)	**-**	-	**-**	-
Past service costs	**18**	18	**1**	1	**(3)**	4
Net actuarial (gain) loss	**(856)**	2,598	**(28)**	25	**(227)**	608
Cost recognized	**69**	187	**17**	16	**163**	**210**

A one percent increase or decrease in the health care trend rate would result in an increase in the service and interest components of the 2009 OPEB cost recognized of $24 million (2008 – $33 million) or a decrease in the service and interest components of the 2009 OPEB cost recognized of $19 million (2008 – $24 million), respectively. A one percent increase or decrease in the health care trend rate would result in an increase in the projected OPEB obligation at December 31, 2009 of $270 million (2008 – $213 million) or a decrease in the projected OPEB obligation at December 31, 2009 of $217 million (2008 – $170 million).

13. FINANCIAL INSTRUMENTS

OPG's risk management governance structure is designed to effectively identify, measure, monitor, and report on key risk management activities across the Company. Risk management activities are coordinated by a centralized Corporate Risk Management group led by the Chief Risk Officer ("CRO"). Risks that would prevent business units from achieving business plan objectives are identified at the business unit level. Senior management sets risk limits for the financing, procurement, and trading activities of the Company and ensures that effective risk management policies and processes are in place to ensure compliance with such limits in order to maintain an appropriate balance between risk and return. OPG's risk management process aims to continually evaluate the effectiveness of risk mitigation activities for identified key risks. The findings from this evaluation process are reported quarterly to the Audit/Risk Committee of the Board by the CRO.

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

The following is a summary of OPG's financial instruments as at December 31, 2009:

Financial Instruments [1] *(millions of dollars)*	**Designated Category**	**Fair Value**
Cash and cash equivalents	Held-to-maturity	**71**
Long-term investments [2]	Held-for-trading	**36**
Nuclear fixed asset removal and nuclear waste management funds	Held-for-trading	**10,246**
Long-term debt (including current portion)	Other than Held-for-trading	**(4,021)**
Derivative Embedded in the Bruce Lease agreement	Held-for-trading	**(118)**
Other commodity derivative instruments included in current and long-term accounts receivable [3]	Held-for-trading	**7**
Other commodity derivative instruments included in current and long-term accounts payable [3]	Held-for-trading	**(6)**

[1] The carrying value of other financial instruments included in accounts receivable and accounts payable and accrued charges approximates their fair value due to the immediate or short-term maturity of these financial instruments.
[2] Excludes investments of $30 million owned by the Company's wholly owned subsidiary, OPGV, that are recorded at fair value in accordance with AcG-18.
[3] Derivative instruments not qualifying for hedge accounting.

Risks Associated with Financial Instruments

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument might fail to meet its obligation under the terms of a financial instrument. To manage credit risk, the Company enters into transactions with creditworthy counterparties, limits the amount of exposure to each counterparty where possible, and monitors the financial condition of counterparties.

The following table provides information on credit risk from energy trading activities (excluding fuels) as at December 31, 2009:

			Potential Exposure for Largest Counterparties	
Credit Rating [1]	**Number of Counterparties** [2]	**Potential Exposure** [3]	**Number of Counterparties**	**Counterparty Exposure**
		(millions of dollars)		*(millions of dollars)*
Investment grade	32	66	3	40

1 Credit ratings are based on OPG's own analysis, taking into consideration external rating agency analysis where available, as well as recognizing explicit credit support provided through guarantees and Letters of Credit or other security.
2 OPG's counterparties are defined by each master agreement.
3 Potential exposure is OPG's assessment of maximum exposure over the life of each transaction at a 95 percent confidence interval.

The majority of OPG's revenues are derived from sales through the IESO administered spot market. Net credit exposure to the IESO of the securitized receivables retained at December 31, 2009 was $186 million (Note 5). 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 was a diverse group of generally high quality counterparties. OPG's allowance for doubtful debts at December 31, 2009 was less than $1 million.

OPG also enters into financial transactions with highly rated financial institutions in order to hedge interest rate and currency exposures. The potential credit exposure with these counterparties was less than approximately $50 million at December 31, 2009. Other credit exposures include the investing of excess cash.

Investments

The Company limits its exposure to credit risk by investing in reasonably liquid (i.e., in normal circumstances, capable of liquidation within one month) securities that are rated by a recognized credit rating agency in accordance with minimum investment quality standards. In regard to derivative contracts, the Company limits its exposure to credit risk by engaging with high credit-quality counterparties.

Current exposure to credit risk has changed due to the Company's exposure to the restructuring of the ABCP market in Canada. Additional details with respect to OPG's exposure to the restructuring program are described in Note 4.

Guarantees

As part of normal business, OPG and certain of its subsidiaries and joint ventures enter into various agreements providing financial guarantees to third-parties on behalf of certain subsidiaries and joint ventures. Such agreements include guarantees, standby Letters of Credit and surety bonds.

Market Risk

Market risk is the risk that changes to market prices, such as foreign exchange rates, interest rates, electricity prices, and equities, will affect OPG's income or the value of the Company's holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Company manages its exposure to market risks using forwards and various derivative products in the ordinary course of business. All such transactions are carried out within the guidelines set by the Executive Risk Committee.

Foreign Exchange Risk

OPG's foreign exchange exposure is attributable to two primary factors: United States dollar ("USD") denominated transactions such as the purchase of fuels; and the influence of USD denominated commodity prices on Ontario electricity spot market prices. OPG enters into foreign exchange spot and/or forward contracts with major financial institutions to manage the Company's exposure to foreign currency movements.

Interest Rate Risk

Interest rate risk is the risk that the value of OPG's assets and liabilities can decrease and increase, respectively, because of a change in the related interest rates. OPG considers interest rate risk related to cash and cash equivalents and short-term borrowings to be low because of their short-term nature. Changes in interest rates do not currently have a significant impact on the Company's interest expense, since long-term borrowings are on a fixed rate basis.

The Company is exposed to interest rate risk on its long-term borrowings expected to be issued in the future. The Company manages the exposure to changes in market interest rates on anticipated issuance of long-term borrowings by entering into forward start interest rate contracts and floating-to-fixed interest rate swap contracts.

Electricity Price Risk

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. To manage this risk, the Company seeks to maintain a balance between the commodity price risk inherent in its electricity production and electricity forward sales contracts to the extent that trading liquidity in the electricity commodity market provides the economic opportunity to do so.

The table below summarizes a sensitivity analysis for significant unsettled market risk exposures with respect to the Company's financial instruments as at December 31, 2009, with all other variables held constant. It shows how net income and other comprehensive income before tax would have been affected by changes in the relevant risk variable that were reasonably possible, at that date, over the year.

(millions of dollars except where noted)	**A Change of:**	**Impact on Net Income Before Tax**	**Impact on Other Comprehensive Income Before Tax**
Foreign exchange – USD	+/- 0.16	-	n/a
Interest rate [1]	+/- 46 basis points	-	+50/-60
Electricity price – Hedge [2]		n/a	+/-5
Electricity price – Trading [2]		+/-4	n/a

1 The interest rate sensitivity analysis was determined based on the exposure to interest rates for derivative instruments designated as hedges at the date of the consolidated balance sheets.

2 The sensitivity analysis around electricity prices was constructed using forward price volatilities that were based on historical daily forward electricity contract prices. The analysis considered contracts of varying time frames, traded in Ontario and neighbouring electricity markets.

Nuclear Funds Equity Price Risk

Equity price risk is the risk of loss or unexpected volatility due to a decline in the values of individual equities and/or equity indices. The Company is exposed to equity price risk primarily related to equity investments held in the Nuclear Funds that are classified on the consolidated balance sheets as held-for-trading and measured at fair value. To manage this risk, OPG has established investment policies and procedures that set out an investment framework for the funds, including the investment assumptions, permitted investments, and various investment constraints for the Nuclear Funds. Such policies and procedures are approved annually by OPG and the Province in the case of the Decommissioning Fund, and by the Province in the case of the Used Fuel Fund.

Under the ONFA, the annual return in the Used Fuel Fund is guaranteed by the Province for funding related to the first 2.23 million used fuel bundles. On December 31, 2009, OPG made its first contribution of $31 million towards incremental fuel bundles in excess of the 2.23 million threshold prescribed in the ONFA. As prescribed under the ONFA, earnings related to OPG's contributions for incremental fuel bundles will be exposed to equity price risk. OPG is exposed to equity price risk in the Decommissioning Fund. Due to the long-term nature of the Decommissioning Fund's liabilities, the target asset mix of the fund was established with the goal of meeting the long-term liabilities. As such, the Company is prepared to accept shorter term market fluctuations with the expectation that equity securities will provide adequate returns over the long term.

The table below approximates the potential dollar impact on OPG's pre-tax profit, associated with a one percent change in the specified equity indices. This analysis is based on the market values of the Decommissioning Fund's equity holdings at December 31, 2009, as well as on the assumption that when one equity index changes by one percent, all other equity indices are held constant.

(millions of dollars)	**December 31 2009**
S&P/TSX Capped Composite Index	**12**
S&P 500	**4**
MSCI EAFE Index	**4**
MSCI World Index	**6**

Risk Associated with Leases and Partnership Arrangements

OPG has leased its Bruce nuclear generating stations to Bruce Power and is also a party to a number of partnerships which operate generating stations such as Brighton Beach and the PEC. Each of these generating stations are subject to numerous operational, financial, regulatory, and environmental risk factors. Although OPG may not be involved in the day to day operations of these stations, counterparty claims, defaults, or other risk factors could materially adversely affect the Company.

In addition, under the Bruce Lease, lease revenue is reduced in each calendar year where the annual arithmetic average of the Hourly Ontario Electricity Price ("Average HOEP") falls below $30/MWh and certain other conditions are met. The conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, is treated as a derivative according to CICA Section 3855, *Financial Instruments – Recognition and Measurement*. Derivatives are measured at fair value and changes in fair value are recognized in the statement of income. As a result of the significant reduction in the Average HOEP, the fair value of the derivative has increased to $118 million for 2009. The exposure will continue until the Bruce units that are subject to this mechanism are no longer in operation, specific units are refurbished, or when the lease agreement is terminated. This exposure is mitigated as part of the OEB regulatory process, since the revenue from the lease of the Bruce generating stations is included in the determination of regulated prices.

Derivatives and Hedging

At the inception of a hedging relationship, OPG documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. OPG also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. When such a derivative instrument hedge ceases to exist or to be effective as a hedge, or when designation of a hedging relationship is terminated, any associated deferred gains or losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period's consolidated statement of income.

Derivative Instruments Qualifying for Hedge Accounting

The following table provides the estimated fair value of derivative instruments designated as hedges. The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized in net income upon settlement when the underlying transactions occur.

OPG holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity.

(millions of dollars except where noted)	**Notional Quantity**	**Terms**	**Fair Value**	**Notional Quantity**	**Terms**	**Fair Value**
	December 31, 2009			**December 31, 2008**		
Electricity derivative instruments	**0.4TWh**	**1 year**	**16**	0.9 TWh	1 year	20
Foreign exchange derivative instruments	**-**	**-**	**-**	USD $35	July/09	6
Floating-to-fixed interest rate hedges	**38**	**1-10 years**	**(4)**	40	1-11yrs	(8)
Forward start interest rate hedges	**490**	**1-13 years**	**3**	272	1-12yrs	(50)

Foreign exchange derivative instruments are used to hedge the exposure to anticipated USD denominated purchases. The weighted average fixed exchange rate for contracts outstanding at December 31, 2008 was USD $0.95 for every Canadian dollar.

One of the Company's joint ventures is exposed to changes in interest rates. The joint venture entered into an interest rate swap to manage the risk arising from fluctuations in interest rates by swapping the short-term floating interest rate with a fixed rate of 5.33 percent. OPG's proportionate interest in the swap is 50 percent and is accounted for as a hedge.

Net losses of $7 million and $14 million related to derivative instruments qualifying for hedge accounting were recognized in net income during the years ended December 31, 2009 and 2008, respectively. These amounts were previously recorded in other comprehensive income. Existing net gains of $16 million deferred in accumulated other comprehensive income at December 31, 2009 are expected to be reclassified to net income within the next 12 months.

In the third quarter of 2008, OPG de-designated certain forward start interest rate hedges as the previously anticipated future borrowings associated with these instruments were no longer expected to occur. As a result of the de-designation, a net loss of $3 million was reclassified to net income in the third quarter of 2008.

Derivative Instruments Not Qualifying for Hedge Accounting

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

(millions of dollars except where noted)	**Notional Quantity**	**Fair Value**	**Notional Quantity**	**Fair Value**
	December 31, 2009		**December 31, 2008**	
Commodity derivative instruments				
Assets	**3.6 TWh**	**7**	6.9 TWh	49
Liabilities	**1.3 TWh**	**(6)**	2.2 TWh	(19)
		1		30
Market liquidity reserve		**(1)**		(4)
Total		**-**		26

Forward pricing information is inherently uncertain so that fair values of derivative instruments may not accurately represent the cost to enter into these positions. To address the impact of some of this uncertainty on trading positions, OPG established liquidity reserves against the mark-to-market gains or losses of these positions. These reserves increased trading revenue by $3 million during the year ended December 31, 2009 (2008 – decrease in trading revenue by $2 million).

In addition, under the Bruce Lease, lease revenue is reduced in each calendar year where the annual arithmetic Average HOEP falls below $30/MWh and if certain other conditions are met. The conditional reduction to revenue included in the lease agreement is treated as a derivative according to CICA Section 3855, *Financial Instruments – Recognition and Measurement*. OPG reported a liability of $118 million in 2009, which reflected the fair value of a derivative embedded in the Bruce Lease. The reduction to revenue was offset by the impact of the Bruce Lease Net Revenues Variance Account.

Fair Value Hierarchy

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 following table presents financial assets and liabilities measured at fair value in accordance with the fair value hierarchy:

(*millions of dollars*)	**Level 1**	**Level 2**	**Level 3**	**Total**
Asset-Backed Commercial Paper	-	-	36	36
Decommissioning Fund	2,302	2,574	-	4,876
Used Fuel Fund	-	5,370	-	5,370
Forward start interest rate hedges	-	3	-	3
Commodity derivative instruments	-	14	-	14
Investments in OPGV	13	-	17	30
Floating-to-fixed interest rate hedges	-	(4)	-	(4)
Derivative embedded in the Bruce Lease	-	-	(118)	(118)
Total assets and liabilities	**2,315**	**7,957**	**(65)**	**10,207**

During the year ended December 31, 2009, there were no transfers between level 1 and level 2, and no transfers into and out of level 3 fair value measurements.

Fair value is the value that a financial instrument can be closed out or sold, in a transaction with a willing and knowledgeable counterparty. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. 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 electricity contracts, 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 which may include the use of valuation techniques or models based, wherever possible, on assumptions supported by observable market prices or rates prevailing at the dates of the consolidated balance sheets. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and fund investments. 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.

The following table presents the changes in OPG's assets measured at fair value based on Level 3 for the year ended December 31, 2009.

(millions of dollars)	**Investments in OPGV**	**Asset-Back Commercial Paper**	**Derivative Embedded in the Bruce Lease**
Opening balance	24	35	-
Total gains (losses) included in net income[1]	(9)	1	(118)
Purchases	2	-	-
Closing balance	**17**	**36**	**(118)**

[1] Excluding the impact of rate regulated accounting

Sensitivity Analysis

The valuation of the derivative embedded in the Bruce lease required assumptions related to future electricity prices. The effect of changing inputs to reasonably possible alternative assumptions is as follows:

(millions of dollars)	**Long-term Accounts Payable**	**Net Income[1]**
Favourable change in assumptions related to electricity prices	(51)	51
Unfavourable change in assumptions related to electricity prices	52	(52)

[1] Excluding the impact of rate regulated accounting

The volatilities of OPG's investments in OPGV and ABCP that were classified as level 3 were not considered significant. As such, a sensitivity analysis on these investments resulted in a negligible change in the fair value.

Liquidity Risk

OPG's derivative and non-derivative liabilities include current accounts payable, floating-to-fixed interest rate hedges, and long-term debt. The contractual maturity of long-term debt is disclosed in Notes 8 and 16.

Liquidity risk arises through excess financial obligations over available financial assets, due at any point in time. The Company's approach to managing liquidity is to continuously monitor its ability to maintain sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

14. CAPITAL MANAGEMENT

The Board of Directors' objectives when managing capital are to safeguard the Company's assets and its ability to operate on a commercial basis, while undertaking future development projects that provide an adequate return to the shareholder, and benefits to other stakeholders. The Company attempts to maintain an optimal capital structure and minimize the cost of capital.

The Company is owned 100 percent by the Province. To minimize its cost of capital, the Company targets financial metrics consistent with an investment grade credit rating. This provides the Company with access to capital markets in the future, while targeting a low cost of debt financing.

The Company monitors capital on the basis of the ratio of total debt to total capitalization. Debt is calculated as total borrowings, including long-term debt due within one year, long-term debt and the amount of the Letters of Credit. Total capitalization is calculated as total debt plus total shareholder's equity as shown in the consolidated balance sheets. A financial covenant in OPG's $1 billion revolving committed bank credit facility requires OPG to maintain, on a fully consolidated basis, a ratio of debt to total capitalization of not greater than 0.65:1.0 at any time.

As per the OEB's decision in November 2008, the deemed capital structure for the regulated business is 53 percent debt and 47 percent equity.

The table below summarizes OPG's debt to total capitalization position as at December 31, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
Long-term debt due within one year	**978**	357
Long-term debt	**3,068**	3,483
Letters of Credit[1]	**231**	243
Total debt	**4,277**	4,083
Total shareholder's equity	**7,477**	6,829
Total capitalization	**11,754**	10,912
Total debt to total capitalization	**36%**	37%

[1]The NWMO Letter of Credit of $1 million has not been included above.

There were no changes in the Company's approach to capital management during the year ended December 31, 2009.

15. COMMON SHARES

As at December 31, 2009 and 2008, OPG had 256,300,010 common shares issued and outstanding at a stated value of $5,126 million. OPG is authorized to issue an unlimited number of common shares without nominal or par value. Any issue of new shares is subject to the consent of all of OPG's shareholders.

16. 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 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 ("British Energy").

The British Energy claim against OPG pertains to corrosion in the Bruce Unit 8 Steam Generators, in particular erosion of the support plates through which the boiler tubes pass. The claim amount includes $65 million due to an extended outage to repair some of the alleged damage. The balance of the amount claimed is based on an increased probability the steam generators will have to be replaced or the unit taken out of service prematurely. OPG leased the Bruce nuclear generating stations to Bruce Power L.P. in 2001.

British Energy is involved in arbitration with the current owners of Bruce Power L.P. regarding an alleged breach of British Energy's representations and warranties to the current owners when they purchased British Energy's interest in Bruce Power L.P. (the "Arbitration"). If British Energy is successful in defending against the Arbitration claim, they will not have suffered any damages to attempt to recoup from OPG. This Arbitration was scheduled to be heard between November 30 and December 18, 2009 but was adjourned with dates to now be set in 2010. The arbitrator may take some time to come to a decision following the conclusion of the Arbitration.

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 has not been heard, British Energy has now requested that OPG file a Statement of Defence. 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 Defence until the conclusion of the arbitration. Subsequently, British Energy noted the defendants in default for not filing the Defence. The above noted motion was scheduled to be heard March 5, 2010 but has been adjourned to a date yet to be determined. The motion will also seek to set aside the noting in default.

In September 2008, a certain First Nation has served a Notice of Action against the Government of Canada, the Province of Ontario, OPG, and the OEFC claiming damages in the amount of $200 million arising from breach of contract, fiduciary duty, trespass to property, negligence, nuisance, misrepresentation, breach of riparian rights and unlawful and unjustifiable infringement of the aboriginal and treaty rights and $0.5 million in special damages. OPG continues to assess the merits of the litigation and does not expect the litigation will result in any material impact on OPG's financial position.

A Notice of Arbitration was served upon OPG and OEFC by a First Nation. The arbitration concerns whether OPG breached an Agreement to use its "best efforts" to engage the Province in discussion with the First Nation concerning the sharing of benefits related to hydroelectric development. The arbitration hearing has concluded and the parties are waiting for the decision of the Arbitrator. The arbitration is not expected to have any material impact on the Company's financial position.

Certain First Nations have commenced actions for interference with reserve and traditional land rights. OPG has been brought into certain actions by a First Nation against other parties as a third party defendant. The claims by some of these First Nations against OPG total $70 million and the other claims are for unspecified amounts.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably with respect to OPG and could have a significant effect on OPG's financial position.

Management has provided for contingencies that are determined to be likely and are reasonably measurable.

Environmental

OPG was required to assume certain environmental obligations from Ontario Hydro. A provision of $76 million was established as at April 1, 1999 for such obligations. As at December 31, 2009, the remaining provision was $40 million (2008 – $41 million).

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 consolidated financial statements to meet OPG's current environmental obligations.

Guarantees

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

Contractual and Commercial Commitments

The Company's contractual obligations and other significant commercial commitments as at December 31, 2009, are as follows:

(millions of dollars)	**2010**	**2011**	**2012**	**2013**	**2014**	**Thereafter**	**Total**
Contractual obligations:							
Fuel supply agreements	503	281	186	126	62	101	1,259
Contributions under the ONFA	264	250	240	157	94	758	1,763
Long-term debt repayment	978	384	412	12	13	2,250	4,049
Interest on long-term debt	207	159	131	117	117	639	1,370
Unconditional purchase obligations	22	22	22	23	23	51	163
Operating lease obligations	25	25	26	28	27	-	131
Operating licence	34	33	36	36	36	-	175
Pension contributions [1]	268	-	-	-	-	-	268
Other	38	32	40	33	32	65	240
	2,339	1,186	1,093	532	404	3,864	9,418
Significant commercial commitments:							
Niagara Tunnel	186	231	123	23	13	-	576
Other hydroelectric projects	67	10	-	-	-	-	77
Total	2,592	1,427	1,216	555	417	3,864	10,071

[1] The pension contributions include additional funding requirements towards the deficit and ongoing funding requirements in accordance with the actuarial valuation of OPG's registered pension plan as at January 1, 2008. The contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, and the timing of funding valuations. Funding requirements after 2010 are excluded due to significant variability in the assumptions required to project the timing of future cash flows. Contributions to the NWMO registered pension plan are not included since an actuarial valuation is required as at January 1, 2010.

Niagara Tunnel

In June 2009, following the recommendations of a dispute review board, OPG and the contractor signed an amended design-build contract with a revised target cost and schedule. The target cost and schedule took into account the difficult rock conditions encountered and the concurrent tunnel excavation and liner installation work required to expedite completion of the tunnel. The amended contract includes incentives and disincentives related to achieving the target cost and schedule. OPG's Board of Directors approved a revised project cost estimate of $1.6 billion and a revised scheduled completion date of December 2013. Some uncertainty with respect to the cost and schedule for both the tunnel excavation and liner installation will continue. As of December 31, 2009, the Tunnel Boring Machine ("TBM") has progressed 5,481 metres, which is 54 percent of the tunnel length.

The capital project expenditures for the year ended December 31, 2009 were $214 million and the life-to-date capital expenditures were $649 million. The project is debt financed through the OEFC. OPG is in the process of pursuing an amendment to the Niagara Tunnel project credit facility with the OEFC, consistent with the revised cost estimate of $1.6 billion and the revised schedule.

Upper Mattagami and Hound Chute

Construction activities to replace three existing hydroelectric generating stations on the Upper Mattagami River and the Hound Chute generating station on the Montreal River continued during 2009. As part of the redevelopment, the Hound Chute generating station was removed from service. The redeveloped station will have a capacity of 10 MW, as compared to 4 MW at the original station.

Upon completion of the project, the total installed capacity of the four stations will increase from 23 MW to 44 MW, and the annual energy will increase from 134 gigawatt hours ("GWh") to 223 GWh. During 2009, fabrication of supplied parts and systems proceeded as planned and certain major Water-to-Wire equipment was delivered. The generating stations are expected to be in-service by April 2011.

Project financing was completed in May 2009, and senior notes totalling $200 million were issued. Life-to-date expenditures as of December 31, 2009 were $196 million. Total project costs are expected to be $300 million.

Lower Mattagami

OPG continues to proceed with project development activities on the planned Lower Mattagami development to increase the capacity of four stations from 483 MW to 933 MW. In January 2010, a design-build contract was finalized which will allow engineering and other preparations to continue in parallel with securing final regulatory approvals and negotiating a HESA with the OPA.

OPG has engaged in consultation discussions with Aboriginal communities regarding the project. A comprehensive agreement has been negotiated with the local First Nation that resolves grievances attributed to the construction and subsequent operation and maintenance of OPG facilities in the area. The new agreement will also provide the First Nation with an ability to purchase up to a 25 percent equity interest in the project. Discussions with other Aboriginal groups are ongoing.

The Federal Environmental Assessment ("EA") Comprehensive Study Report was issued for public comment in October 2009, and the public consultation process was completed at the end of 2009. The EA was submitted to the Federal Minister.

Other Commitments

In addition to the previously disclosed commitments, the Company has the following commitments:

The Company maintains labour agreements with the Power Workers' Union and The Society of Energy Professionals; the agreements are effective until March 31, 2012 and December 31, 2010, respectively. As at December 31, 2009, OPG had approximately 12,100 regular employees and approximately 89 percent of its regular labour force is covered by the collective bargaining agreements.

Contractual and commercial commitments as noted exclude certain purchase orders as they represent purchase authorizations rather than legally binding contracts and are subject to change without significant penalties.

Proxy Property Taxes

In November 2005, OPG received a letter from the Ministry of Finance indicating its intent to recommend to the Minister of Finance that an Ontario regulation covering proxy property taxes be updated retroactive to April 1, 1999 to reflect reassessments and appeal settlements of certain OPG properties since that date. OPG continues to monitor resolution to this issue with the Ministry of Finance as updates to the regulation may not occur for several years. OPG has not recorded any amounts relating to this anticipated regulation change.

17. REVENUE LIMIT REBATE

Eighty-five percent of the generation output from OPG's unregulated generating assets, excluding the Lennox generating station, stations whose generation output is subject to a HESA with the OPA pursuant to a ministerial directive, and forward sales as of January 1, 2005, was subject to a revenue limit for the period April 1, 2005 to April 30, 2009. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets were also excluded from the output covered by the revenue limit.

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. The revenue limit was 4.7¢/kWh for the period May 1, 2007 to April 30, 2008, and increased to 4.8¢/kWh effective May 1, 2008. During this period, volumes sold under a Pilot Auction administered by the OPA were subject to a revenue limit that was 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these limits were returned to the IESO for the benefit of consumers. The revenue limit rebate ended on April 30, 2009.

The changes in the revenue limit rebate liability for 2009 and 2008 are as follows:

(millions of dollars)	**2009**	**2008**
Liability, beginning of year	**85**	100
Increase to provision during the year	**27**	277
Payments made during the year	**(112)**	(292)
Liability, end of year	**-**	85

18. OTHER (GAINS) AND LOSSES

(millions of dollars)	**2009**	**2008**
Change in estimated cost required to decommission thermal generating stations	**(9)**	(21)
ABCP valuation adjustment *(Note 4)*	**(1)**	14
Other	**-**	(2)
	(10)	(9)

During the fourth quarter of 2009, the Company re-estimated the costs to complete the remaining work to remediate the Lakeview coal-fired generating station site. As a result, OPG recorded a recovery of $9 million in other gains and losses to reflect a change in the estimated costs.

19. BUSINESS SEGMENTS

OPG has five reportable business segments. The business segments are Regulated – Nuclear Generation, Regulated – Nuclear Waste Management, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Thermal.

Regulated – Nuclear Generation Segment

OPG's Regulated – Nuclear Generation business segment operates in Ontario, generating and selling electricity from the nuclear generating stations that it owns and operates. The business segment includes electricity generated by the Pickering A and B, and Darlington nuclear generating stations. This business segment also includes revenue under the terms of a lease arrangement with Bruce Power related to the Bruce nuclear generating stations. This arrangement includes lease revenue and revenue from engineering analysis and design, technical and other services. Revenue is also earned from isotope sales and ancillary services. Ancillary revenues are earned through voltage control and reactive support.

Bruce Nuclear Generating Stations

In May 2001, the Company leased its Bruce A and Bruce B nuclear generating stations to Bruce Power until 2018, with options to renew for up to 25 years.

Under the Bruce Lease agreement, lease revenue is reduced in each calendar year where the annual arithmetic Average HOEP falls below $30/MWh and certain other conditions are met. As a result of the Average HOEP for 2009 being less than $30/MWh, the Bruce Lease revenue for 2009 was reduced by $69 million. The reduction of lease revenue is offset by the impact of the Bruce Lease Net Revenues Variance Account described in Note 7 to these consolidated financial statements. The conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, is treated as a derivative according to CICA Section 3855, *Financial Instruments – Recognition and Measurement*. Derivatives are measured at fair value and changes in fair value are recognized in the statement of income. As a result of the significant reduction in the arithmetic Average HOEP, the fair value of the derivative has increased to $118 million for 2009. The increase in the fair value of this derivative was recognized as a reduction to revenue, offset by the impact of the Bruce Lease Net Revenues Variance Account.

During 2009, OPG recorded lease revenue related to the Bruce generating stations of $160 million (2008 – $258 million). In late 2008, OPG re-evaluated the Bruce Lease for accounting purposes due to a modification to the lease. As a result of the re-evaluation, the timing in which certain of the lease revenues are recognized for accounting purposes was revised. This results in reductions to the lease revenue for accounting purposes during initial years of the remaining lease term, and increases in lease revenue for accounting purposes during the later years of the remaining lease term. The impact of these timing changes on the amount of lease revenue recognized during 2008 was offset by the impact of the Bruce Lease Net Revenues Variance Account described in Note 7 to these consolidated financial statements. The net book value of fixed assets on lease to Bruce Power at December 31, 2009 was $1,073 million (2008 – $1,134 million).

Regulated – Nuclear Waste Management

OPG's Regulated – Nuclear Waste Management segment engages in the management of used nuclear fuel and low and intermediate level waste, the decommissioning of OPG's nuclear generating stations (including the stations on lease to Bruce Power), the management of the Nuclear Funds, and related activities including the inspection and maintenance of the waste storage facilities. Accordingly, accretion expense on the Nuclear Liabilities and earnings (losses) from the Nuclear Funds is reported under this segment.

As the nuclear generating stations operate over time, OPG incurs variable costs related to nuclear used fuel and low and intermediate level waste generated. These costs increase the Nuclear Liabilities through the generation of additional used nuclear fuel bundles and other waste. These variable costs are charged to current operations in the Regulated – Nuclear Generation segment in order to appropriately reflect the cost of producing energy and the earning of revenues under the lease arrangement with Bruce Power that are recorded in this segment. Since variable costs increase the Nuclear Liabilities in the Regulated – Nuclear Waste Management segment, OPG records an inter-segment charge between the Regulated – Nuclear Generation and the Regulated – Nuclear Waste Management segments. The impact of the inter-segment charge between these segments is eliminated on OPG's consolidated statements of income and balance sheets.

The Regulated – Nuclear Waste Management segment is considered regulated because the costs associated with the Nuclear Liabilities are included in the OEB's determination of regulated prices for production from OPG's regulated nuclear facilities by the OEB.

Regulated – Hydroelectric Segment

OPG's Regulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from most of OPG's baseload hydroelectric generating stations. The business segment is comprised of electricity generated by the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and the R.H. Saunders hydroelectric facilities. Ancillary revenues related to these stations are earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control and reactive support, certified black start facilities and automatic generation control.

Unregulated – Hydroelectric Segment

The Unregulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from its hydroelectric generating stations that are not subject to rate regulation. Ancillary revenues earned through offering available generating capacity as operating reserve, and through the supply of other ancillary services including voltage control and reactive support, certified black start facilities, automatic generation control, and other services.

Unregulated – Thermal Segment

The Unregulated – Thermal business segment, which was previously named the Unregulated – Fossil-Fuelled segment, operates in Ontario, generating and selling electricity from its thermal generating stations, which are not subject to rate regulation. Ancillary revenues are earned through offering available generating capacity as operating reserve, and the supply of other ancillary services including voltage control and reactive support, automatic generation control, and other services.

Other

OPG earns revenue from its joint venture share of Brighton Beach related to an energy conversion agreement between Brighton Beach and Coral. The Other category also includes OPG's share of joint venture revenues and expenses from the PEC gas-fired generating station, which is co-owned with TransCanada Energy Ltd. In addition, the Other category includes revenue from real estate rentals.

The revenue and expenses related to OPG's trading and other non-hedging activities are also included in the Other category. As part of these activities, OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate primarily to physical energy that is purchased and sold at the Ontario border, sales of financial risk management products and sales of energy-related products. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in other revenue as gains or losses.

OM&A expenses of the generation segments include an inter-segment service fee for the use of certain property, plant and equipment, and intangibles held within the Other category. The total service fee is recorded as a reduction to the Other category's OM&A expenses. For the year ended December 31, 2009, the service fee was $27 million for Regulated – Nuclear Generation, $3 million for Regulated – Hydroelectric, $4 million for Unregulated – Hydroelectric and $9 million for Unregulated – Thermal, with a corresponding reduction in OM&A expenses of $43 million for the Other category. For the year ended December 31, 2008, the service fee was $29 million for Regulated – Nuclear Generation, $3 million for Regulated – Hydroelectric, $4 million for Unregulated – Hydroelectric, $9 million for Unregulated – Thermal, with a corresponding reduction in OM&A expenses of $45 million for the Other category.

Segment Income (Loss) for the Year Ended December 31, 2009 *(millions of dollars)*	**Regulated**			**Unregulated**				
	Nuclear Generation	**Nuclear Waste Manage-ment**	**Hydro-electric**	**Hydro-electric**	**Thermal**	**Other**	**Elimination**	**Total**
Revenue	**3,179**	**44**	**782**	**615**	**918**	**143**	**(41)**	**5,640**
Revenue limit rebate	**-**	**-**	**-**	**(10)**	**(17)**	**-**	**-**	**(27)**
	3,179	**44**	**782**	**605**	**901**	**143**	**(41)**	**5,613**
Fuel expense	**210**	**-**	**264**	**104**	**413**	**-**	**-**	**991**
Gross margin	**2,969**	**44**	**518**	**501**	**488**	**143**	**(41)**	**4,622**
Operations, maintenance and administration	**2,057**	**48**	**106**	**210**	**492**	**10**	**(41)**	**2,882**
Depreciation and amortization	**481**	**-**	**75**	**73**	**79**	**52**	**-**	**760**
Accretion on fixed asset removal and nuclear waste management liabilities	**-**	**627**	**-**	**-**	**7**	**-**	**-**	**634**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**-**	**(683)**	**-**	**-**	**-**	**-**	**-**	**(683)**
Property and capital taxes	**41**	**-**	**10**	**9**	**18**	**8**	**-**	**86**
Other (gains) and losses	**-**	**-**	**-**	**-**	**(9)**	**(1)**	**-**	**(10)**
Income (loss) before interest and income taxes	**390**	**52**	**327**	**209**	**(99)**	**74**	**-**	**953**

Segment Income (Loss) for the Year Ended December 31, 2008 *(millions of dollars)*	**Regulated**			**Unregulated**				
	Nuclear Generation	**Nuclear Waste Manage -ment**	**Hydro-electric**	**Hydro-electric**	**Thermal**	**Other**	**Elimination**	**Total**
Revenue	2,987	46	754	974	1,491	153	(46)	6,359
Revenue limit rebate	-	-	-	(72)	(205)	-	-	(277)
	2,987	46	754	902	1,286	153	(46)	6,082
Fuel expense	167	-	254	111	659	-	-	1,191
Gross margin	2,820	46	500	791	627	153	(46)	4,891
Operations, maintenance and administration	2,098	50	108	198	552	7	(46)	2,967
Depreciation and amortization	462	-	70	76	94	41	-	743
Accretion on fixed asset removal and nuclear waste management liabilities	-	573	-	-	8	-	-	581
Losses on nuclear fixed asset removal and nuclear waste management funds	-	93	-	-	-	-	-	93
Property and capital taxes	25	-	12	9	21	13	-	80
Other (gains) and losses	-	-	-	-	(23)	14	-	(9)
Income (loss) before interest and income taxes	235	(670)	310	508	(25)	78	-	436

Selected Consolidated Balance Sheet Information as at December 31, 2009 *(millions of dollars)*	**Regulated**			**Unregulated**			
	Nuclear Generation	**Nuclear Waste Manage-ment**	**Hydro-electric**	**Hydro-electric**	**Thermal**	**Other**	**Total**
Segment fixed assets in service, net	**3,661**	**-**	**3,791**	**2,968**	**384**	**808**	**11,612**
Segment construction in progress	**217**	**-**	**663**	**308**	**32**	**4**	**1,224**
Segment property, plant and equipment, net	**3,878**	**-**	**4,454**	**3,276**	**416**	**812**	**12,836**
Segment intangible assets in service, net	**22**	**-**	**-**	**2**	**-**	**15**	**39**
Segment development in progress	**8**	**-**	**-**	**1**	**1**	**3**	**13**
Segment intangible assets, net	**30**	**-**	**-**	**3**	**1**	**18**	**52**
Segment materials and supplies inventory, net:							
Short-term	**70**	**-**	**-**	**-**	**60**	**2**	**132**
Long-term	**386**	**-**	**-**	**1**	**1**	**-**	**388**
						-	
Segment fuel inventory	**333**	**-**	**-**	**-**	**504**	**-**	**837**
Fixed asset removal and nuclear waste management liabilities	**-**	**(11,711)**	**-**	**-**	**(146)**	**(2)**	**(11,859)**
Nuclear fixed asset removal and nuclear waste management funds	**-**	**10,246**	**-**	**-**	**-**	**-**	**10,246**

Selected Consolidated Balance Sheet Information As at December 31, 2008 *(millions of dollars)*	**Regulated**			**Unregulated**			
	Nuclear Generation	**Nuclear Waste Manage-ment**	**Hydro-electric**	**Hydro-electric**	**Thermal**	**Other**	**Total**
Segment fixed assets in service, net	3,822	-	3,823	2,970	396	456	11,467
Segment construction in progress	234	-	444	192	30	363	1,263
Segment property, plant and equipment, net	4,056	-	4,267	3,162	426	819	12,730
Segment intangible assets in service, net	23	-	-	1	-	24	48
Segment development in progress	3	-	-	-	1	5	9
Segment intangible assets, net	26	-	-	1	1	29	57
Segment materials and supplies inventory, net:							
Short-term	77	-	-	-	55		132
Long-term	336	-	-	1	1	-	338
						-	
Segment fuel inventory	301	-	-	-	435	-	736
Fixed asset removal and nuclear waste management liabilities	-	(11,233)	-	-	(117)	(34)	(11,384)
Nuclear fixed asset removal and nuclear waste management funds	-	9,209	-	-	-	-	9,209

Selected Consolidated Cash Flow Information *(millions of dollars)*	**Regulated**			**Unregulated**			
	Nuclear Generation	**Nuclear Waste Manage -ment**	**Hydro-electric**	**Hydro-electric**	**Thermal**	**Other**	**Total**
Year ended December 31, 2009 Investment in fixed and intangible assets	**200**	**-**	**254**	**239**	**32**	**27**	**752**
Year ended December 31, 2008 Investment in fixed and intangible assets	194	-	161	150	63	93	661

20. RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province, Infrastructure Ontario, and the other successor entities of Ontario Hydro, including Hydro One Inc. ("Hydro One"), the IESO, and the OEFC. 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.

These transactions are summarized below:

(millions of dollars)	**Revenue**	**Expenses**	**Revenue**	**Expenses**
	2009		**2008**	
Hydro One				
Electricity sales	**20**	**-**	35	-
Services	**-**	**13**	-	7
Province of Ontario				
GRC, water rentals and land tax	**-**	**146**	-	151
Guarantee fee	**-**	**4**	-	4
Used Fuel Fund rate of return guarantee	**-**	**493**	-	(971)
Decommissioning Fund excess funding	**-**	**-**	-	(3)
OEFC				
GRC and proxy property tax	**-**	**224**	-	215
Interest expense on long-term notes	**-**	**210**	-	215
Capital tax	**-**	**31**	-	36
Income taxes	**-**	**221**	-	88
Contingency support agreement	**412**	**-**	-	-
Infrastructure Ontario				
Reimbursement of expenses incurred during the procurement of new nuclear units	**-**	**21**	**-**	-
IESO				
Electricity sales	**4,434**	**31**	5,330	127
Revenue limit rebate	**(27)**	**-**	(277)	-
Ancillary services	**153**	**-**	155	-
Other	**6**	**-**	**-**	-
	4,998	**1,394**	5,243	(131)

As at December 31, 2009, accounts receivable included $2 million (2008 – nil) due from Hydro One and $189 million (2008 – $207 million) due from the IESO. Accounts payable and accrued charges at December 31, 2009 included $3 million (2008 – $1 million) due to Hydro One and $21 million (2008 – nil) due to Infrastructure Ontario.

21. JOINT VENTURES

Significant joint ventures include Brighton Beach and the PEC, which are 50 percent owned by OPG.

The following condensed information from the consolidated statements of income, cash flows and balance sheets details the Company's share of its investments in joint ventures and partnerships that has been proportionately consolidated:

(millions of dollars)	**2009**	**2008**
Proportionate joint venture operations		
Revenue	**76**	41
Expenses	**(49)**	(31)
Net income	**27**	10
Proportionate joint venture cash flows		
Operating activities	**34**	33
Investing activities	**(17)**	(76)
Financing activities	**(25)**	50
Share of changes in cash	**(8)**	7
Proportionate joint venture balance sheets		
Current assets	**31**	31
Long-term assets	**583**	585
Current liabilities	**(14)**	(18)
Long-term liabilities	**(172)**	(183)
Share of net assets	**428**	415

22. INVESTMENT COMPANY

The Company applied AcG-18 for all investments owned by OPGV. OPGV is a wholly owned subsidiary of the Company and its results are included in the Company's consolidated financial statements. The carrying amount of OPGV's investments was $30 million (2008 – $39 million) and the amount was included as long-term investments on the consolidated balance sheets.

As a result of the application of this policy, the Company's net income and other assets for 2009 decreased by $11 million (2008 – $6 million). The net realized gains for OPGV were $7 million in 2009 (2008 – $3 million).

The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2009 were $11 million and $24 million, respectively. The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2008 were $17 million and $19 million, respectively.

23. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2009, research and development expenses of $112 million (2008 – $112 million) were charged to operations.

24. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	**2009**	**2008**
Accounts receivable	**105**	(171)
Prepaid expenses	**(15)**	3
Fuel inventory	**(101)**	(132)
Materials and supplies	**-**	(7)
Revenue limit rebate payable	**27**	277
Accounts payable and accrued charges	**(103)**	65
Income and capital taxes (recoverable) payable	**(149)**	38
	(236)	73

25. NON-CONTROLLING INTEREST

OPG has entered into a partnership agreement with the Lac Seul First Nation (“LSFN”) regarding the 12.5 MW Lac Seul generating station. In July 2009, OPG transferred ownership of the station to the partnership. OPG has a 75 percent ownership interest in the partnership, while the LSFN has a 25 percent interest.

OPG consolidates the results of the Lac Seul LP and the non-controlling interest represents the LSFN’s 25 percent ownership interest in the partnership.

26. SUBSEQUENT EVENT

Liabilities for Fixed Asset Removal and Nuclear Waste Management, and Depreciation Expense

In February 2010, OPG announced its decision to commence the definition phase of the refurbishment of the Darlington nuclear generating station. Accordingly, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended to 2051. The approval and the extension of service life also impacted the assumptions for OPG’s liabilities for fixed asset removal and nuclear waste management primarily due to cost increases related to additional used fuel bundles, partially offset by a decrease in the liability for decommissioning, resulting from the change in the service life assumptions. The net increase in the liabilities is estimated to be approximately $300 million using a discount rate of 4.8 percent. The increase in liabilities will be reflected in the fixed asset balance in 2010. As a result of these changes, OPG’s depreciation expense is expected to decrease by $136 million on an annual basis beginning in 2010.

AUDITORS' REPORT

To the Directors of Ontario Power Generation Inc.

We have audited the consolidated balance sheets of the Prescribed Facilities of Ontario Power Generation Inc. ("OPG"), as defined under *Ontario Regulation 53/05* pursuant to the *Ontario Energy Board Act, 1998*, as at December 31, 2009 and 2008 and the consolidated statements of income, changes in excess of assets over liabilities, comprehensive income and cash flows of the business for the years then ended. These financial statements are the responsibility of OPG's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Prescribed Facilities of OPG, as defined under *Ontario Regulation 53/05* pursuant to the *Ontario Energy Board Act, 1998*, as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

These consolidated financial statements are solely for the information and use of the Directors of OPG and for filing with the Ontario Energy Board. These financial statements are not intended to be and should not be used for any other purpose.

Ernst & Young LLP (signed)
Chartered Accountants, Licensed Public Accountants

Toronto, Canada
March 4, 2010

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31 *(millions of dollars)*	**2009**	**2008**
Revenue *(Notes 3 and 15)*	**3,687**	3,456
Fuel expense *(Notes 3 and 15)*	**460**	406
Gross margin *(Note 15)*	**3,227**	3,050
Expenses *(Note 15)*		
Operations, maintenance and administration *(Note 2)*	**2,170**	2,210
Depreciation and amortization *(Note 5)*	**490**	465
Accretion on nuclear fixed asset removal and nuclear waste management liabilities *(Note 9)*	**345**	326
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds *(Note 9)*	**(416)**	242
Property and capital taxes *(Note 2)*	**32**	35
	2,621	3,278
Income (loss) before interest and income taxes	**606**	(228)
Net interest expense *(Notes 7 and 8)*	**193**	194
Income (loss) before income taxes	**413**	(422)
Income tax expense (recovery) *(Notes 2 and 10)*		
Current	**36**	106
Future	**72**	(4)
	108	102
Net income (loss)	**305**	(524)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 *(millions of dollars)*	**2009**	**2008**
Operating activities		
Net income (loss)	**305**	(524)
Adjust for non-cash items:		
Depreciation and amortization *(Notes 5 and 15)*	**490**	465
Accretion on nuclear fixed asset removal and nuclear waste management liabilities *(Notes 9 and 15)*	**345**	326
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds *(Notes 9 and 15)*	**(416)**	242
Pension costs *(Note 11)*	**53**	147
Other post employment benefits and supplementary pension plans *(Note 11)*	**141**	178
Future income taxes *(Note 10)*	**72**	(4)
Mark-to-market on derivative instruments	**-**	(8)
Provision for used nuclear fuel	**19**	19
Regulatory assets and liabilities *(Note 6)*	**(197)**	70
Other	**(1)**	-
	811	911
Contributions to nuclear fixed asset removal and nuclear waste management funds *(Note 9)*	**(125)**	(59)
Expenditures on nuclear fixed asset removal and nuclear waste management *(Note 9)*	**(128)**	(123)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management *(Note 9)*	**66**	62
Contributions to pension funds *(Note 11)*	**(213)**	(199)
Expenditures on other post employment benefits and supplementary pension plans *(Note 11)*	**(63)**	(64)
Net changes to other long-term assets and liabilities	**(68)**	(20)
Net changes in non-cash working capital balances *(Note 18)*	**14**	(123)
Other	**-**	208
Cash flow provided by operating activities	**294**	593
Investing activities		
Increase in regulatory assets *(Note 6)*	**(2)**	(6)
Investment in fixed and intangible assets *(Notes 5 and 15)*	**(454)**	(355)
Net proceeds from sale of long-term assets	**-**	10
Cash flow used in investing activities	**(456)**	(351)
Financing activities		
Net increase (decrease) in long-term debt *(Note 7)*	**42**	(122)
Net decrease in short-term debt *(Note 8)*	**(7)**	(2)
Cash flow provided by (used in) financing activities	**35**	(124)
Net (decrease) increase in cash and cash equivalents	**(127)**	118
Cash and cash equivalents, beginning of year	**169**	51
Cash and cash equivalents, end of year	**42**	169

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	**2009**	**2008**
Assets		
Current assets		
Cash and cash equivalents *(Notes 2 and 3)*	**42**	169
Accounts receivable *(Notes 2 and 4)*	**158**	352
Fuel inventory *(Notes 2 and 15)*	**333**	301
Prepaid expenses	**38**	22
Future income taxes *(Note 10)*	**45**	-
Materials and supplies *(Notes 2 and 15)*	**70**	77
	686	921
Fixed assets *(Notes 2, 5 and 15)*		
Property, plant and equipment	**9,989**	9,599
Less: accumulated depreciation	**2,730**	2,409
	7,259	7,190
Intangible assets *(Notes 2, 5 and 15)*		
Intangible assets	**136**	123
Less: accumulated amortization	**106**	97
	30	26
Other long-term assets		
Deferred pension asset *(Note 11)*	**786**	626
Nuclear fixed asset removal and nuclear waste management funds *(Notes 9 and 15)*	**5,059**	4,584
Long-term materials and supplies *(Notes 2 and 15)*	**386**	336
Future income taxes *(Note 10)*	**-**	21
Regulatory assets *(Note 6)*	**968**	522
Long-term accounts receivable and other assets	**3**	3
	7,202	6,092
	15,177	14,229

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	**2009**	**2008**
Liabilities		
Current liabilities		
Accounts payable and accrued charges *(Notes 2 and 3)*	**529**	628
Short-term debt *(Note 8)*	**162**	169
Due to Ontario Power Generation Inc. *(Notes 3, 6, 15, and 16)*	**391**	283
Income and capital taxes payable *(Notes 2 and 10)*	**43**	118
	1,125	1,198
Long-term debt *(Note 7)*	**3,086**	3,044
Other long-term liabilities		
Nuclear fixed asset removal and nuclear waste management *(Notes 9 and 15)*	**6,395**	6,155
Other post employment benefits and supplementary pension plans *(Note 11)*	**1,420**	1,347
Long-term accounts payable and accrued charges *(Note 2)*	**290**	337
Future income taxes *(Note 10)*	**261**	-
Regulatory liabilities *(Note 6)*	**172**	54
	8,538	7,893
Excess of assets over liabilities		
Net capital *(Note 2)*	**2,454**	2,149
Accumulated other comprehensive loss *(Note 2)*	**(26)**	(55)
	2,428	2,094
	15,177	14,229

Commitments and Contingencies (Notes 6, 11, 12, and 14)

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

Honourable Jake Epp (signed)
Chairman

M. George Lewis (signed)
Director

CONSOLIDATED STATEMENTS OF CHANGES IN EXCESS OF ASSETS OVER LIABILITIES

Years Ended December 31 *(millions of dollars)*	**2009**	**2008**
Net capital		
Balance at beginning of year	**2,149**	2,673
Net income (loss)	**305**	(524)
Balance at end of year	**2,454**	2,149
Accumulated other comprehensive loss, net of income taxes		
Balance at beginning of year	**(55)**	(5)
Other comprehensive income (loss) for the year	**29**	(50)
Balance at end of year	**(26)**	(55)
Excess of assets over liabilities at end of year	**2,428**	2,094

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31 *(millions of dollars)*	**2009**	**2008**
Net income (loss)	**305**	(524)
Other comprehensive income (loss), net of income taxes		
Net gain (loss) on derivatives designated as cash flow hedges[1]	**27**	(55)
Reclassification to income of losses on derivatives designated as cash flow hedges[1]	**2**	5
Other comprehensive income (loss) for the year	**29**	(50)
Comprehensive income (loss)	**334**	(574)

[1]Net of income tax expense of nil for each of the years ended December 31, 2009 and 2008.

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

1. DESCRIPTION OF THE BUSINESS

Ontario Regulation 53/05, a regulation pursuant to the *Ontario Energy Board Act, 1998*, provides that, effective April 1, 2005, Ontario Power Generation Inc. ("OPG") receives regulated prices for electricity generated from Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering A and B and Darlington nuclear facilities (collectively the "Prescribed Facilities"). These Prescribed Facilities comprise the business.

Effective, April 1, 2008, the regulated prices for the Prescribed Facilities are determined by the Ontario Energy Board ("OEB") using a cost of service methodology. The OEB is a self-funding crown corporation. Its mandate and authority come from the *Ontario Energy Board Act,1998*, the *Electricity Act,1998*, and a number of other provincial statutes. The OEB is an independent, quasi-judicial tribunal that reports to the Legislature of the Province of Ontario (the "Province") through the Minister of Energy and Infrastructure. It regulates market participants in the Province's natural gas and electricity industries and carries out its regulatory functions through public hearings and other more informal processes such as consultations.

The Prescribed Facilities have no separate legal status and are a part of OPG. OPG was incorporated on December 1, 1998 pursuant to *the Business Corporations Act* (Ontario). As part of the reorganization of Ontario Hydro, under the *Electricity Act, 1998,* and the related restructuring of the electricity industry in Ontario, OPG and its subsidiaries purchased and assumed certain assets, liabilities, employees, and rights and obligations of the electricity generation business of Ontario Hydro on April 1, 1999, and commenced operations on that date.

2. BASIS OF PRESENTATION

These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars. These statements have been prepared primarily through specific identification of assets, liabilities, accumulated other comprehensive income ("AOCI"), revenues, expenses, and other comprehensive income of OPG and the Nuclear Waste Management Organization ("NWMO") that relate to the Prescribed Facilities. Effective January 1, 2009, the accounts of the NWMO are included in OPG's consolidated financial statements as OPG became the primary beneficiary of the NWMO. In accordance with Accounting Guideline 15, *Consolidation of Variable Interest Entities,* the applicable amounts in the accounts of the NWMO are therefore included in OPG's and the Prescribed Facilities' consolidated financial statements. All significant intercompany transactions have been eliminated on consolidation.

As OPG maintains pooled bank accounts for the use of all of its operations, OPG's cash balance cannot be assigned specifically to the Prescribed Facilities. OPG's cash balance was allocated to the Prescribed Facilities based on the cash receipts from the Independent Electricity System Operator ("IESO") in the month of December of the reporting year. NWMO's cash balance was directly assigned to the Prescribed Facilities.

The accounts receivable balance includes the receivable balance from the IESO attributable to the Prescribed Facilities, net of amounts sold to an independent trust, as discussed in Note 4. The portion of OPG's net outstanding receivable balance from the IESO was attributed to the Prescribed Facilities using direct assignment. Fuel inventory, current and long-term materials and supplies, fixed assets, and intangible assets, and related fuel and depreciation and amortization expenses represent a direct assignment of OPG's respective balances to the Prescribed Facilities. The full balance of OPG's regulatory assets and regulatory liabilities and related amortization expense are reflected in the Prescribed Facilities' consolidated financial statements, as discussed in Note 6.

The deferred pension asset, the liabilities for other post employment benefits ("OPEB") and supplementary pension plans, and related costs were determined using a combination of specific identification and allocation of the respective amounts on OPG's consolidated financial statements, as discussed in Note 11. The nuclear fixed asset removal and nuclear waste management liabilities that relate to the Prescribed Facilities were determined using a combination of specific identification and allocation of the amounts on OPG's consolidated financial statements, as discussed in Note 9. The associated accretion was computed directly on the balance of the liabilities attributed to the Prescribed Facilities, as discussed in Note 9. The nuclear fixed asset removal and nuclear waste management funds and associated earnings or losses were directly assigned to the Prescribed Facilities, as described in Note 9.

The Prescribed Facilities' short-term and long-term debt represents amounts owing to OPG. The derivation of debt and net interest expense was based on the methodology approved in the OEB's Decision with Reasons EB-2007-0905 on OPG's application for regulated prices effective April 1, 2008 (the "OEB Decision"), as discussed in Notes 7 and 8. For the purposes of determining long-term debt, this methodology considers the portion of OPG's project specific long-term debt incurred to finance net fixed and intangible assets of the Prescribed Facilities and an allocation of OPG's non-project specific long-term debt. This allocation is primarily based on the net fixed and intangible asset balances of the Prescribed Facilities relative to those of OPG. The Prescribed Facilities' accrued interest payable represents the portion of OPG's accrued interest payable for project specific and non-project specific long-term debt attributed to the Prescribed Facilities. The accrued interest payable is included in accounts payable and accrued charges.

The short-term debt is derived using the methodology approved in the OEB Decision that considers a portion of OPG's short-term borrowings and securitized receivables allocated to the Prescribed Facilities on the basis of construction work in progress and non-cash working capital amounts attributed to the Prescribed Facilities relative to those of OPG.

Income tax payable, future income tax assets and liabilities, and income tax expense, discussed in Note 10, were determined as though the Prescribed Facilities were a separate taxable entity and were calculated based on the financial position and results of operations of the Prescribed Facilities reported in these consolidated financial statements. Capital tax payable and capital tax expense were derived as an allocation of OPG's respective balances based on the net fixed and intangible assets in-service attributed to the Prescribed Facilities.

The majority of the long-term accounts payable and accrued charges balance reported by the Prescribed Facilities represents a direct assignment of OPG's balance based on the nature of the underlying items.

AOCI and other comprehensive income components represent the portion of the financial impact of OPG's hedging instruments recorded in OPG's AOCI and other comprehensive income attributed to the Prescribed Facilities on the basis of the hedged items that relate to the Prescribed Facilities. Net capital of the Prescribed Facilities represents the excess of assets over liabilities, excluding AOCI, as reported in these consolidated financial statements.

Operations, maintenance and administration ("OM&A") expenses consist of expenses specific to the Prescribed Facilities and a portion of OPG's corporate support and centrally held expenses. Accounts payable and accrued charges associated with OPG's OM&A expenses specific to the Prescribed Facilities were directly assigned to the Prescribed Facilities.

OPG's corporate support and centrally held OM&A expenses were attributed to the Prescribed Facilities consistent with the methodology outlined in an independent cost allocation study undertaken by OPG, which was approved by the OEB Decision. According to this methodology, where possible, these expenses were directly assigned based on specific identification to the Prescribed Facilities. Where specific identification was not possible, the expenses were allocated based on cost drivers exhibiting a causal relationship. Accounts payable and accrued charges associated with OPG's corporate support and centrally held OM&A expenses were attributed to the Prescribed Facilities on the same basis as the expenses.

The statements of cash flows were prepared using methodologies and assumptions that are consistent with those underlying the balances of assets, liabilities and AOCI and amounts of revenues, expenses and other comprehensive income reported in these consolidated financial statements.

As a result of this basis of presentation, the statements of income, statements of cash flows, balance sheets, statements of changes in excess of assets over liabilities, and statements of comprehensive income for the Prescribed Facilities will not be identical to the financial position and results of operations that would have resulted had the Prescribed Facilities historically operated on a stand-alone basis. These consolidated financial statements have been prepared solely for the use of filing with the OEB, and are considered by management to be a reasonable representation of the financial results of the Prescribed Facilities for the purpose of filing with the OEB. The methodologies and assumptions used to attribute OPG's amounts to the Prescribed Facilities, as reflected in these consolidated financial statements, are considered by management to be reasonable and consistent with that purpose. Consolidated financial statements for OPG for the years ended December 31, 2009 and 2008 have been prepared and filed with the Ontario Securities Commission.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents include an allocated portion of OPG's cash on deposit and money market securities with a maturity of less than 90 days on the date of purchase.

Sales of Accounts Receivable

Asset securitization involves selling assets such as accounts receivable to independent entities or trusts, which buy the receivables and then issue interests in them to investors. These transactions are accounted for as sales, given that control has been surrendered over these assets in return for net cash consideration. For each transfer, the excess of the carrying value of the receivables transferred over the estimated fair value of the proceeds received results in a loss on the date of the transfer. This loss forms part of the derivation of the Prescribed Facilities' net interest expense on short-term debt in accordance with the OEB Decision (Notes 4 and 8). The carrying value of the interests transferred by OPG is allocated to accounts receivable sold or interests retained according to their relative fair values on the day the transfer is made. Fair value is determined based on the present value of future cash flows. Cash flows are projected using OPG's best estimates of key assumptions, such as discount rates, weighted average life of accounts receivable and credit loss ratios.

As part of the sales of accounts receivable, certain financial assets are retained and consist of interests in the accounts receivable transferred. Any retained interests held in the receivables are accounted for at cost. The receivables are transferred on a fully serviced basis and do not create a servicing asset or liability.

Inventories

Fuel inventory is valued at the lower of weighted average cost and net realizable value.

Materials and supplies are valued at the lower of average cost and net realizable value. The determination of net realizable value of materials and supplies takes into account various factors including the remaining useful life of the related facilities in which the materials and supplies are expected to be used.

Fixed and Intangible Assets and Depreciation and Amortization

Property, plant and equipment and intangible assets are recorded at cost. Interest costs incurred during construction and development are capitalized as part of the cost of the asset based on the interest rate on OPG's long-term debt as reported in its consolidated financial statements. Expenditures for replacements of major components are capitalized.

Depreciation rates for the various classes of assets are based on their estimated service lives. Any asset removal costs that have not been specifically provided for in current or previous periods are also charged to depreciation expense. Repairs and maintenance are expensed when incurred.

Fixed assets are depreciated on a straight-line basis except for computers, and transport and work equipment, which are depreciated on a declining balance basis. Intangible assets, which consist of major application software, are amortized on a straight-line basis.

As at December 31, 2009, the depreciation and amortization periods of fixed and intangible assets are as follows:

Nuclear generating stations and major components	15 to 50 years [1]
Hydroelectric generating stations and major components	25 to 100 years
Administration and service facilities	10 to 50 years
Computers, and transport and work equipment assets – declining balance	9% to 40% per year
Major application software	5 years
Service equipment	5 to 10 years

[1] As at December 31, 2009, the end of station life for depreciation purposes for the Darlington, Pickering A and Pickering B nuclear generating stations ranges between 2014 and 2021. Major components are depreciated over the lesser of the station life and the life of the components. Changes to the end of station life for depreciation purposes are described under the heading *Changes in Accounting Policies and Estimates*.

Impairment of Fixed Assets

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

Rate Regulated Accounting

Ontario Regulation 53/05, a regulation pursuant to the *Ontario Energy Board Act, 1998*, provides that, effective April 1, 2005, regulated prices are received by OPG for electricity generated from the Prescribed Facilities. The regulation established regulated prices, which applied up to April 1, 2008. The OEB Decision, issued in the fourth quarter of 2008, determined new prices effective April 1, 2008. The regulated prices were based on a forecast cost of service methodology. This methodology establishes regulated prices based on a revenue requirement taking into account a forecast of production volumes and total operating costs, and a return on rate base. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed assets and an allowance for working capital. Regulated prices prior to April 1, 2008 were established by the Province.

The OEB Decision issued in the fourth quarter of 2008, as well as the OEB's ruling issued in May 2009 on OPG's motion to review and vary a portion of the OEB Decision, authorized certain variance and deferral accounts effective April 1, 2008. The OEB Decision also ruled on the disposition of the balances as at December 31, 2007 previously recorded by OPG in variance and deferral accounts prescribed by a regulation pursuant to the *Ontario Energy Board Act, 1998*. The impact of the regulation and the OEB

Decision on the revenue recognition policies for the Prescribed Facilities is described under the heading *Revenue Recognition*.

The balances in variance and deferral accounts are recognized as regulatory assets and liabilities as Canadian accounting standards recognize that rate regulation can create economic benefits and obligations that are required by the regulator to be obtained from, or settled, with the ratepayers. When a company assesses that there is sufficient assurance that incurred expenses will be recovered in the future, those expenses may be deferred and reported as a regulatory asset. When a regulator provides recovery through current rates for expenses that are not incurred, then a regulatory liability is reported. The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the regulation and the OEB's decisions. These estimates and assumptions will be reviewed as part of the OEB's regulatory process.

Regulatory asset and liability balances approved by the regulator for inclusion in regulated prices are amortized based on approved recovery periods. Disallowed balances are charged to operations in the period that the regulator's decision is issued. Interest is applied to regulatory balances as prescribed by the regulation or the OEB, in order to recognize the cost of financing amounts to be recovered from, or repaid to, ratepayers.

See Notes 6 and 10 to these consolidated financial statements for additional disclosure related to regulatory assets and liabilities and rate regulated accounting.

Nuclear Fixed Asset Removal and Nuclear Waste Management Liability

The Prescribed Facilities recognize asset retirement obligations for nuclear fixed asset removal and nuclear waste management, discounted for the time value of money. OPG has estimated both the amount and timing of future cash expenditures based on current plans for nuclear fixed asset removal and nuclear waste management. The liabilities are initially recorded at their estimated fair value, which is based on a discounted value of the expected costs to be paid.

On an ongoing basis, the liability is increased by the present value of the variable cost portion of the nuclear waste generated each year, with the corresponding amounts charged to operating expenses. Expenses relating to low and intermediate level waste are charged to depreciation and amortization expense. Expenses relating to the management or storage of nuclear used fuel are charged to fuel expense. The liability may also be adjusted due to any changes in the estimated amount or timing of the underlying future cash flows. Upon settlement of the liability, a gain or loss would be recorded.

Accretion arises because liabilities for nuclear fixed asset removal and nuclear waste management are reported on a net present value basis. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time. The resulting expense is included in operating expenses.

The asset retirement cost is capitalized by increasing the carrying value of the related fixed assets. The capitalized cost is depreciated over the remaining useful life of the related fixed assets and is included in depreciation and amortization expense.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Pursuant to the Ontario Nuclear Funds Agreement ("ONFA") between OPG and the Province, OPG established a Used Fuel Segregated Fund ("Used Fuel Fund") and a Decommissioning Segregated Fund ("Decommissioning Fund") (together the "Nuclear Funds"). The Used Fuel Fund is intended to fund expenditures associated with the management of highly radioactive used nuclear fuel bundles, while the Decommissioning Fund was established to fund expenditures associated with nuclear fixed asset removal and the disposal of low and intermediate level nuclear waste materials. OPG maintains the Nuclear Funds in third-party custodial accounts that are segregated from the rest of OPG's assets. The segregated funds include amounts associated with the Prescribed Facilities. Separate segregated funds are not maintained for the Prescribed Facilities.

The investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading. Accordingly, the Nuclear Funds and the corresponding payables to the Province are measured at fair value based on the bid prices of the underlying securities with gains and losses recognized in net income.

Revenue Recognition

Revenues for electricity generated by the Prescribed Facilities are collected by OPG based on the OEB approved regulated prices. Electricity generation from the Prescribed Facilities is sold into the real-time energy spot market administered by the Independent Electricity System Operator ("IESO"). Energy revenue, generated from the nuclear facilities for the period April 1, 2005 to March 31, 2008, was based on a regulated price of 4.95¢/kWh. The regulated price for nuclear generation increased to 5.50¢/kWh retrospectively to April 1, 2008, based on the OEB Decision issued in the fourth quarter of 2008. This price includes a rate rider of 0.20¢/kWh for recovery of approved nuclear variance and deferral account balances.

The regulated price received for the period April 1, 2005 to March 31, 2008 for production from the regulated hydroelectric facilities was 3.30¢/kWh. For generation above 1,900 MWh in any hour, OPG received the Ontario electricity spot market price as an incentive mechanism to optimize hydroelectric production. The OEB established a new price for regulated hydroelectric generation of 3.67¢/kWh effective April 1, 2008. The OEB also approved a revised incentive mechanism, which became effective December 1, 2008. Under this mechanism, regulated hydroelectric facilities receive the approved regulated price of 3.67¢/kWh for the actual average hourly net energy production from these hydroelectric facilities in that month. In the hours when the net actual energy production in Ontario is greater or less than the average hourly net volume in the month, hydroelectric revenues are adjusted by the difference between the average hourly net volume and the actual net energy production multiplied by spot market price. The regulated price of 3.67¢/kWh includes the recovery of approved hydroelectric regulatory balances based on recovery periods authorized by the OEB Decision.

Energy revenue is directly assigned to the Prescribed Facilities on the basis of underlying generation of nuclear and regulated hydroelectric facilities.

During 2009, an accounting order application was filed by OPG with the OEB to address the treatment of a number of variance and deferral accounts for the period after December 31, 2009. In the application for the accounting order, the continuation of the rate rider of 0.20¢/kWh for recovery of nuclear regulatory balances approved in the OEB's 2008 decision was sought. The basis for recording additions to existing variance and deferral account balances after 2009 was also sought. These requests were approved by the OEB's decision in October 2009. In addition, the OEB directed that a new variance account be established to record potential over collection of hydroelectric variance account balances through the hydroelectric payment amount during 2010.

The Prescribed Facilities also earn revenue from nuclear technical and engineering services provided to third parties, isotope sales and ancillary services. Revenues from these activities are recognized as services are provided, or as products are delivered, and are directly assigned to the Prescribed Facilities based on the underlying nature of these activities.

Financial Instruments

On January 1, 2007, OPG adopted three accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): Handbook Section 1530, *Comprehensive Income*; Handbook Section 3855, *Financial Instruments – Recognition and Measurement* ("Section 3855"); and Handbook Section 3865, *Hedges*. Handbook Section 3855 was amended in July 2009 with the amendments applicable to December 31, 2009 annual financial statements. These amendments did not impact the Prescribed Facilities.

For accounting purposes, financial assets are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading or available-for-sale, and financial liabilities are classified as held-for-trading or other than held-for-trading. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and financial liabilities other than those held-for-trading, are measured at amortized cost. Financial assets available-for-sale are measured at fair value with unrealized gains and losses due to fluctuations in fair value recognized in AOCI. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established timeframe, are recognized on a trade-date basis. All derivatives, including embedded derivatives that must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the consolidated balance sheets. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading.

The standard permits designation of any financial instrument as held-for-trading (the fair value option) upon initial recognition. This designation requires that the financial instrument be reliably measurable, and eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities.

Hedges

The standards specify the criteria under which hedge accounting can be applied and how hedge accounting is to be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income. The amounts recognized in AOCI are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item.

Derivatives

OPG is exposed to changes in market interest rates on debt expected to be issued in the future. The Prescribed Facilities are also exposed to these changes through the debt owing to OPG. OPG uses interest rate derivative contracts to hedge its exposure. A portion of the financial impacts of these contracts is attributed to the Prescribed Facilities consistent with the methodology used to derive the Prescribed Facilities' debt and net interest expense. Therefore, a portion of gains and losses on OPG's interest rate hedges that are effective is reflected in the net interest expense of the Prescribed Facilities.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. The fair value of such derivative instrument is included in AOCI of the Prescribed Facilities on a net of tax basis and changes to the fair value are recorded on the statements of comprehensive income. When a derivative hedging relationship is expired, the designation of a hedging relationship is terminated, or a portion of the hedging instrument is no longer effective, any associated gains or losses included in AOCI are derecognized from the consolidated financial statements of the Prescribed Facilities and are charged to OPG through the due to/from account with OPG.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at year-end exchange rates. Any resulting gain or loss is reflected in revenue.

Research and Development

Research and development costs are charged to operations in the year incurred. Research and development costs incurred to discharge long-term obligations, such as the nuclear waste management liabilities, for which specific provisions have already been made, are charged to the related liability.

Pension and Other Post Employment Benefits

OPG's post employment benefit programs include a contributory defined benefit registered pension plan, a defined benefit supplementary pension plan, group life insurance, health care and long-term disability benefits. Effective January 1, 2009, similar post employment benefit programs were established by the NWMO. Information on post employment benefit programs is presented on a consolidated basis. OPG does not maintain separate pension and OPEB plans for the eligible employees and pensioners associated with the Prescribed Facilities.

OPG accrues its obligations under pension and OPEB plans. The obligations for pension and other post retirement benefit costs are determined using the projected benefit method pro-rated on service. The obligation for long-term disability benefits is determined using the projected benefit method on a terminal basis. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions, experience gains or losses, salary levels, inflation, and cost escalation. OPG's pension and OPEB costs and obligations are determined annually by independent actuaries using management's best estimate assumptions.

Assumptions are significant inputs to actuarial models that measure OPG's pension and OPEB obligations and related effects on OPG's operations. Two critical assumptions—discount rate and inflation—are important elements of OPG's benefit costs and obligations. In addition, the expected return on assets is a critical assumption in the determination of OPG's pension costs. These assumptions, as well as other assumptions involving demographic factors such as retirement age, mortality and employee turnover, are evaluated periodically by management in consultation with an independent actuary. During the evaluation process, the assumptions are updated to reflect actual experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors, and in accordance with Canadian GAAP, the impact of these differences is accumulated and amortized over future periods.

The discount rates used by OPG in determining projected benefit obligations and the costs for its employee benefit plans are based on representative AA corporate bond yields. The respective discount rates enable OPG to calculate the present value of the expected future cash flows on the measurement date. A lower discount rate increases the present value of benefit obligations and increases benefit plan costs. The expected rate of return on plan assets is based on current and expected asset allocation, as well as the long-term historical risks and returns associated with each asset class within the plan portfolio. A lower expected rate of return on plan assets increases pension cost.

OPG's pension fund assets include equity securities and corporate and government debt securities, real estate and other investments which are managed by professional investment managers. The fund does not invest in equity or debt securities issued by OPG. Pension fund assets are valued using market-related values for purposes of determining actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six percent assumed real return over a five-year period.

Pension and OPEB costs include current service costs, interest costs on the obligations, the expected return on pension plan assets, adjustments for plan amendments and adjustments for actuarial gains or losses, which result from changes in assumptions and experience gains and losses. Past service costs arising from pension and OPEB plan amendments are amortized on a straight-line basis over the expected average remaining service life to full eligibility of employees covered by the plan. Due to the long-term nature of post-employment liabilities, the excess of the net cumulative unamortized gain or loss, over 10 percent of the greater of the benefit obligation and the market-related value of the plan assets, is amortized over the expected average remaining service life, since OPG will realize the economic benefit over that period.

When the recognition of the transfer of employees and employee-related benefits gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's liability.

Taxes

Under the *Electricity Act, 1998*, OPG is required to make payments in lieu of corporate income and capital taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), and are modified by the *Electricity Act, 1998* and related regulations. This effectively results in OPG paying taxes similar to what would be imposed under the Federal and Ontario tax acts. OPG's payments in lieu of corporate income and capital taxes are made on an aggregate basis for all of its operations. Income tax payable, future income tax assets and liabilities and income tax expense reflected in these consolidated financial statements are calculated as though the Prescribed Facilities are a stand-alone taxable entity. Capital tax payable and capital tax expense reflected in these consolidated financial statements represents an allocation of OPG's respective balances based on net fixed and intangible assets in-service attributed to the Prescribed Facilities.

Up to January 1, 2009, the Prescribed Facilities accounted for income taxes using the taxes payable method for the rate regulated operations. Under the taxes payable method, future income taxes were not recognized to the extent those future income taxes were expected to be recovered or refunded in future regulated prices charged to customers. As discussed in *Changes in Accounting Policies and Estimates,* effective January 1, 2009, the Prescribed Facilities are required to recognize future income taxes including future income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. Thus, effective January 1, 2009, the Prescribed Facilities follow the liability method of tax accounting for the Prescribed Facilities and record a corresponding regulatory asset or liability for the future income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

OPG makes payments in lieu of property tax on certain of its generating assets to the OEFC along with property taxes to the municipalities. These payments are determined on an individual facility basis, and those pertaining to the Prescribed Facilities are reflected in these consolidated financial statements.

OPG pays charges on gross revenue derived from the annual generation of electricity from its hydroelectric generating assets. The gross revenue charge ("GRC") includes a fixed percentage charge applied to the annual hydroelectric generation derived from stations located on provincial Crown lands, in addition to graduated rate charges applicable to all hydroelectric stations. The GRC expenses and the associated liabilities reflected in these consolidated financial statements represent amounts directly attributed to the generation derived from the prescribed hydroelectric stations. GRC expenses are reported in fuel expense. The GRC liabilities are included in accounts payable and accrued charges.

Changes in Accounting Policies and Estimates

Accounting for Regulated Operations

The CICA revised its guidance on accounting for rate regulated operations, effective January 1, 2009, with amendments to Handbook Section 1100, *Generally Accepted Accounting Principles*, ("Section 1100"), Handbook Section 3465, *Income Taxes*, ("Section 3465"), and Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation,* ("AcG-19") as follows:

- To remove the temporary exemption pertaining to the application of Section 1100 to rate regulated operations, including the elimination of the opportunity to use industry practice as an acceptable basis for recognition and measurement of assets and liabilities arising from rate regulation;
- To amend Section 3465 to require the recognition of future income tax assets and liabilities as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers; and
- To amend AcG-19, as necessary, as a result of amendments to Sections 1100 and 3465.

As a result of the changes to Section 3465, the Prescribed Facilities are required to recognize future income taxes associated with the rate regulated operations. The changes were applied prospectively to annual financial statements beginning January 1, 2009. The impact of the change is disclosed in Note 10, *Income Taxes.*

In addition, effective January 1, 2009, with the removal of the temporary exemption in Section 1100, the Prescribed Facilities must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Certain assets and liabilities arising from rate regulation continue to have specific guidance under a primary source of GAAP that applies only to the particular circumstances described therein, including those arising under Handbook Section 1600, *Consolidated Financial Statements*, Handbook Section 3061, *Property, Plant and Equipment*, Section 3465, and Handbook Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*. Other assets and liabilities arising from rate regulation do not have specific guidance under a primary source of GAAP. Therefore, Section 1100 directs the Prescribed Facilities to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Handbook Section 1000, *Financial Statement Concepts*. In developing these accounting policies, the Prescribed Facilities may consult other sources including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. Therefore, in accordance with Section 1100, the Prescribed Facilities has determined that these assets and liabilities qualify for recognition under GAAP and this recognition is consistent with the Financial Accounting Standards Board Accounting Standards Codification Topic 980, *Accounting for the Effects of Certain Types of Regulation* (formerly Financial Accounting Standards No. 71). As a result, there is no effect on the Prescribed Facilities' financial statements for the year ended December 31, 2009, with the exception of the impact of the amendment to Section 3465, as discussed above.

Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces Handbook Section 3062, *Goodwill and Other Intangible Assets*, and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

The Prescribed Facilities adopted the Handbook Section on January 1, 2009 and reclassified prior period comparative amounts from property, plant and equipment to intangible assets. The adoption of this standard did not have a significant impact on the Prescribed Facilities' financial position or results of operations. Intangible assets are amortized over a period of five years.

Depreciation of Long-Lived Assets

The accounting estimates related to the depreciation of long-lived assets require significant management judgment to assess the appropriate useful lives of long-lived assets, including consideration of various technological and other factors.

Effective January 1, 2008, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended by two years to 2019 after a review of the technical analysis of the station's life limiting components. The life extension reduced depreciation expense by $18 million annually.

Financial Instruments – Disclosure and Presentation

In June 2009, the CICA amended Handbook Section 3862, *Financial Instruments – Disclosures*, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require entities to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measuring the financial instruments. The fair value hierarchy has three levels. Fair value of assets and liabilities included in Level 1 is determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. These amendments have been reflected in the Prescribed Facilities' 2009 financial statements. Comparative information is not required by the amendment, accordingly, the disclosure is only presented for the year ended December 31, 2009

Future Changes in Accounting Policy

In February 2008, the Canadian Accounting Standards Board confirmed that Publicly Accountable Enterprises will be required to transition from Canadian GAAP to International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, for interim and annual financial reporting purposes of fiscal years beginning on or after January 1, 2011. IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure. In line with OPG's IFRS conversion project, an assessment has been completed to identify the key accounting differences from Canadian GAAP. OPG's assessment of the impact of IFRS on the Prescribed Facilities will depend on the IFRS standards in effect at the time of transition and accounting elections made. Proposed changes to the IFRS accounting standards have the potential to introduce additional significant accounting differences. The Prescribed Facilities' consolidated financial statements, as currently disclosed in accordance with Canadian GAAP, will be significantly different when presented in accordance with IFRS.

4. SALE OF ACCOUNTS RECEIVABLE

In October 2003, OPG signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the "receivables") to an independent trust. OPG also retains an undivided co-ownership interest in the receivables sold to the trust. Under the agreement, OPG continues to service the receivables. The transfer provides the trust with ownership of a share of the payments generated by the receivables, computed on a monthly basis. The trust's recourse to OPG is generally limited to its income earned on the receivables. In accordance with the receivable purchase agreement, OPG reduced the securitized receivable balance by $50 million, from $300 million to $250 million, in May and June of 2009, primarily due to lower cash flows from the IESO. During the third quarter of 2009, OPG renewed the agreement with a maturity date of August 31, 2010 and an amended commitment of $250 million.

The Prescribed Facilities reflect their portion of OPG's transfers to the trust required by the revolving nature of the securitization as sales in accordance with CICA Accounting Guideline 12, *Transfer of Receivables*. In accordance with this Guideline, the Prescribed Facilities' portion of OPG's proceeds of each sale to the trust are deemed to be the cash received from the trust, net of the Prescribed Facilities' portion of the undivided co-ownership interest retained by OPG.

For 2009, OPG's average cost of funds on such sales was 2.1 percent (2008 – 3.9 percent). For the year ended December 31, 2009, the derivation of the Prescribed Facilities' net interest expense on short-term debt included $3 million of pre-tax charges (2008 – $7 million) on these sales in accordance with the methodology approved by the OEB Decision, as discussed in Note 8. As at December 31, 2009, the Prescribed Facilities' portion of OPG's sold receivables was $190 million (as at December 31, 2008 – $206 million) from its portion of $327 million of OPG's total portfolio (as at December 31, 2008 – $339 million).

The accounts receivable reported and securitized by the Prescribed Facilities are as follows:

	Principal amount of receivables as at December 31		**Average balance of receivables for the year ended December 31**	
(millions of dollars)	**2009**	**2008**	**2009**	**2008**
Total receivables portfolio [1]	**327**	339	**304**	272
Receivables sold [2]	**190**	206	**236**	173
Receivables retained	**137**	133	**68**	99

[1] Amount represents the Prescribed Facilities' portion of OPG's gross IESO receivables outstanding, including the Prescribed Facilities' portion of receivables that have been securitized, which OPG continues to service. The amounts as at December 31, 2009 and 2008 represent gross IESO receivables specifically attributable to the Prescribed Facilities. The average receivable balances for the years 2009 and 2008 were estimated on the basis of generation revenue, as adjusted, for the Prescribed Facilities for the respective years.

[2] The average balances of receivables sold for the years 2009 and 2008 were estimated as a portion of OPG's average total receivables sold. This estimate was based on the percentage of OPG's total generation revenue represented by the Prescribed Facilities for the respective years.

An immediate 10 percent or 20 percent adverse change in the discount rate would not have a material effect on the current fair value of the retained interest. There were no credit losses for the years ended December 31, 2009 and 2008.

The cash flows from retained interest for the Prescribed Facilities were estimated as $809 million and $1,183 million for the years ended December 31, 2009, and 2008, respectively. The amounts were calculated as the portion of OPG's total generation revenue attributable to the Prescribed Facilities net of the estimated amount of collections reinvested in revolving sales by the Prescribed Facilities for each of the years.

5. FIXED AND INTANGIBLE ASSETS AND DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense consists of the following for the years ended December 31, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
Depreciation	**374**	344
Amortization of intangible assets	**9**	8
Amortization of regulatory assets and liabilities *(Note 6)*	**103**	111
Nuclear waste management costs	**4**	2
	490	465

Fixed assets consist of the following as at December 31, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
Property, plant and equipment		
Nuclear generating stations	**4,655**	4,496
Hydroelectric generating stations	**4,454**	4,425
Construction in progress	**880**	678
	9,989	9,599
Less: accumulated depreciation		
Nuclear generating stations	**2,067**	1,807
Hydroelectric generating stations	**663**	602
	2,730	2,409
	7,259	7,190

Intangible assets consist of the following as at December 31, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
Intangibles assets		
Nuclear generating stations	**128**	120
Development in progress	**8**	3
	136	123
Less: accumulated amortization		
Nuclear generating stations	**106**	97
	106	97
	30	26

Interest capitalized to construction and development in progress at six percent during the years ended December 31, 2009 and 2008 was $41 million and $31 million, respectively.

6. REGULATORY ASSETS AND LIABILITIES

The OEB Decision issued in the fourth quarter of 2008 authorized certain variance and deferral accounts effective April 1, 2008. In its decision the OEB also ruled on the disposition of the balances previously recorded in variance and deferral accounts as at December 31, 2007, including interest recorded on these balances at the rate of six percent. During the year ended December 31, 2009, the Prescribed Facilities recorded additions to the variance and deferral accounts authorized by the OEB Decision, and amortized approved regulatory balances based on recovery periods established by the OEB. The Prescribed Facilities also recorded interest on outstanding regulatory balances at the interest rate prescribed by the OEB effective April 1, 2008. The interest rate fluctuated in the range of 0.55 percent to 2.45 percent during the year ended December 31, 2009 and 3.35 percent to 4.08 percent during the nine months ended December 31, 2008. Regulatory balances disallowed by the OEB Decision were charged to operations in the fourth quarter of 2008. OPG will apply for recovery of regulatory balances recorded subsequent to December 31, 2007, including balances recorded for the three months ending March 31, 2008 pursuant to the regulation under the *Ontario Energy Board Act, 1998*, in its next application to the OEB.

During 2009, the OEB issued its decision on OPG's application for an accounting order to address the treatment of the variance and deferral accounts for the period after December 31, 2009. The OEB granted OPG's application to continue to recover the nuclear regulatory balances, as at December 31, 2007, through the rate rider of 0.20¢/kWh. In addition, effective January 1, 2010, the OEB directed OPG to establish a variance account to record any over collection of approved hydroelectric regulatory balances through the hydroelectric payment amount of 3.67¢/kWh that remains in effect after December 31, 2009. The OEB also approved OPG's proposed basis for recording additions to nuclear and hydroelectric variance and deferral accounts for the period after December 31, 2009.

During 2009, the Prescribed Facilities also established and recorded additions to the Tax Loss Variance Account retroactive to April 1, 2008. This action was taken in accordance with the OEB's decision and order in May 2009 on OPG's motion to review, and vary a portion of the OEB Decision establishing current regulatory prices, as it pertains to the treatment of tax losses and their use for mitigation of regulated prices.

Beginning on January 1, 2009, the Prescribed Facilities also started recording a regulatory asset or liability related to the recognition of future income taxes, as required by the CICA's amended guidance for accounting for rate regulated operations described in Notes 3 and 10.

The regulatory assets and liabilities recorded by the Prescribed Facilities as at December 31, 2009 and 2008 were as follows:

(millions of dollars)	**2009**	**2008**
Regulatory assets		
Future income taxes *(Note 10)*	**164**	-
Bruce Lease Net Revenues Variance Account	**328**	260
Pickering A Return to Service Deferral Account	**82**	123
Tax Loss Variance Account	**295**	-
Nuclear Liabilities Deferral Account	**86**	132
Other	**13**	7
Total regulatory assets	**968**	522
Regulatory liabilities		
Nuclear Generation Development Costs – Capacity Refurbishment	**3**	6
Nuclear Generation Development Costs – New Nuclear Development	**55**	21
Hydroelectric Water Conditions Variance	**55**	22
Other	**59**	5
Total regulatory liabilities	**172**	54

The changes in the regulatory assets and liabilities for 2009 and 2008 were as follows:

(millions of dollars)	**Future Income Taxes**	**Bruce Lease Net Revenues Variance**	**Tax Loss Variance**	**Pickering A Return to Service Deferral**	**Nuclear Liabilities Deferral**	**Nuclear Generation Develop-ment Costs – Capacity Refurbish-ment**	**Nuclear Generation Develop-ment Costs – New Nuclear Develop-ment**	**Hydro-electric Water Conditions Variance**	**Other (net)**
Regulatory assets (liabilities), January 1, 2008	-	-	-	183	131	16	12	7	(7)
Increase (decrease) during the year	-	259	-	-	31	(6)	(30)	(25)	(2)
Interest	-	1	-	6	6	-	-	-	-
Amortization during the year	-	-	-	(66)	(36)	-	(3)	(4)	(2)
Other charges[1]	-	-	-	-	-	(16)	-	-	13
Regulatory assets (liabilities), December 31, 2008	-	260	-	123	132	(6)	(21)	(22)	2
Increase (decrease) during the year	164	64	292	-	-	3	(29)	(29)	(42)
Interest	-	4	3	2	1	-	-	-	(2)
Amortization during the year	-	-	-	(43)	(47)	-	(5)	(4)	(4)
Regulatory assets (liabilities), December 31, 2009	**164**	**328**	**295**	**82**	**86**	**(3)**	**(55)**	**(55)**	**(46)**

[1] Other charges for the year ended December 31, 2008 represent regulatory balances that were charged to operations based on the OEB Decision in 2008 that these amounts would not be refunded to or charged to ratepayers.

Future Income Taxes

Effective January 1, 2009, the Prescribed Facilities are required to recognize future income taxes, including future income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. In addition, the Prescribed Facilities are required to recognize a separate regulatory asset or liability for the amount of future income taxes expected to be included in future regulated prices and recovered from or paid to customers. The Prescribed Facilities recorded $164 million in the account for the year ended December 31, 2009.

Tax Loss Variance Account

The Tax Loss Variance Account authorized by the OEB in May 2009 and effective April 1, 2008 pertains to the treatment of tax losses and their use for mitigation. In accordance with the OEB's decision on OPG's motion to review and vary the OEB Decision, this account records the difference between the amount of mitigation included in the approved payment amounts and the revenue requirement reduction available from tax loss carry forwards recalculated to reflect the OEB's 2009 decision. As such, during the year ended December 31, 2009, the Prescribed Facilities recorded a regulatory asset of $295 million, including $3 million of interest, related to the Tax Loss Variance Account and a corresponding $292 million increase to revenue. The increase to revenue of $292 million included an amount of $125 million related to the period from April 1, 2008 to December 31, 2008.

Bruce Lease Net Revenues Variance Account

As per the requirements of the regulation pursuant to the *Ontario Energy Board Act, 1998*, the OEB required OPG to include the difference between OPG's revenues and costs associated with its ownership of the two nuclear generating stations, Bruce A and Bruce B, on lease to Bruce Power L.P. in the determination of the regulated prices for production from OPG's regulated nuclear facilities. The OEB also established a variance account, effective April 1, 2008, that captures differences between the forecast revenues and costs associated with the Bruce generating stations that are included in the approved regulated nuclear prices, and the actual amounts. As at December 31, 2009, the variance account balance was $328 million. Amortization of the balance is expected to begin following OPG's next application to the OEB, and will be recognized in the consolidated statements of income of the Prescribed Facilities.

The regulatory asset includes $256 million of revenue variance related to OPG's lease agreement with Bruce Power L.P., including the impact of the derivative embedded in the lease agreement, and a $214 million variance from forecast as a result of losses from the Nuclear Funds related to the Bruce generating stations since April 1, 2008, partially offset by a related variance in income tax expense of $131 million. The account also includes variances for accretion expense related to OPG's liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management ("Nuclear Liabilities") associated with the Bruce generating stations. These variances are not recognized in the consolidated statements of income of the Prescribed Facilities, and are charged to OPG through the due to/from account. OPG reported the impact of these variances as part of the revenues and expenses to which they related on its consolidated statements of income.

The embedded derivative in the lease agreement with Bruce Power L.P. is recognized in OPG's consolidated financial statements in accordance with CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. The derivative arises from the conditional reduction of lease revenue to OPG in the future, embedded in the terms of the agreement, each calendar year where the annual arithmetic average of the Hourly Ontario Electricity Price falls below $30/MWh and if certain other conditions are met. OPG's valuation of the derivative embedded in the lease agreement required assumptions related to future electricity prices. The effect of changing inputs to reasonably possible alternative assumptions could result in changes of approximately $50 million to the balances of the regulatory asset for the Bruce Lease Net Revenues Variance Account and due to/from account with OPG reported by the Prescribed Facilities.

Pickering A Return to Service Costs

Effective January 1, 2005, in accordance with the regulation pursuant to the *Ontario Energy Board Act, 1998*, OPG was required to establish a deferral account in connection with non-capital costs incurred on or after January 1, 2005 that were associated with the planned return to service of all units at the Pickering A nuclear generating station. As at December 31, 2009, the balance in the deferral account was $82 million (December 31, 2008 – $123 million), including interest of $45 million and net of accumulated amortization of $234 million. The amortization of the deferral account commenced in accordance with the terms of the regulation when Unit 1 of the Pickering A nuclear generating station was returned to service in November 2005. Amortization of $43 million was recorded in 2009 (2008 – $66 million). The OEB Decision authorized the recovery of the unamortized balance in the account as at December 31, 2007 over a 45-month period ending December 31, 2011. Therefore, effective retrospectively to April 1, 2008, the amortization of the balance of the account is recorded by the Prescribed Facilities on a straight-line basis over this period.

Nuclear Liabilities Deferral Account

Effective April 1, 2005, the regulation pursuant to the *Ontario Energy Board Act, 1998* required OPG to establish a deferral account in connection with changes to the Nuclear Liabilities. The deferral account represents the revenue requirement impact associated with the changes in the Nuclear Liabilities arising from an approved reference plan, approved after April 1, 2005, in accordance with the terms of the ONFA.

On December 31, 2006, OPG recorded an increase in its Nuclear Liabilities of $1,386 million arising from an update to the approved reference plan in accordance with the terms of the ONFA, including amounts relating to both prescribed and Bruce A and B nuclear generating stations. Commencing January 1, 2007 and up to March 31, 2008, the Prescribed Facilities recorded a regulatory asset associated with this increase in the Nuclear Liabilities arising from the approved reference plan. The balance of the regulatory asset was $86 million as at December 31, 2009 (2008 – $132 million). The OEB authorized the recovery of the balance in this account as at December 31, 2007 over a 33-month period ending December 31, 2010. The amortization of the balance is recognized in the consolidated statements of income of the Prescribed Facilities. In 2009, the Prescribed Facilities recorded amortization of $47 million (2008 – $36 million). The amounts deferred in the account up to March 31, 2008 relating to Bruce A and B nuclear generation stations were not recognized on the consolidated statements of income of the Prescribed Facilities, and were charged to OPG through the due to/from account with OPG. OPG reported the impact of these deferred amounts as part of the expenses to which they related on its consolidated statements of income.

Nuclear Generation Development Costs

In accordance with the regulation, OPG recorded regulatory assets related to non-capital costs for nuclear generation development initiatives up to March 31, 2008. Specifically, the costs recorded up to March 31, 2008 were those made in the course of planning and preparing for the development of proposed new nuclear facilities incurred on or after June 13, 2006, as well as those related to the potential capacity refurbishment of the Pickering B and Darlington nuclear stations to the extent that they had not been previously included in the forecast provided to the Province for the purposes of establishing regulated prices for the period up to March 31, 2008. Effective April 1, 2008, the OEB Decision established variance accounts for new nuclear generation development and capacity refurbishment costs for deviations from the forecast costs approved by the OEB in setting regulated prices.

OPG deferred costs, including interest, of $16 million related to new nuclear generation development initiatives as at March 31, 2008, including $4 million of costs deferred during the three months ended March 31, 2008. OPG reported a regulatory asset, including interest, of $16 million related to the potential refurbishment of existing stations as at March 31, 2008, all of which was recognized prior to January 1, 2008. The OEB's Decision authorized the recovery of the costs recorded up to December 31, 2007 related to new nuclear development over a 33-month period ending December 31, 2010. Accordingly, effective retrospectively to April 1, 2008, the amortization of these deferred costs is recorded by the Prescribed Facilities on a straight-line basis over this period. The OEB determined that it did not have jurisdiction to approve the recovery of the costs recorded prior to April 1, 2008 for capacity refurbishment. Therefore, the associated regulatory asset in the amount of $16 million was charged to operations by the Prescribed Facilities in the fourth quarter of 2008.

The OEB also established variance accounts effective April 1, 2008 for new nuclear generation development and capacity refurbishment costs for deviations from the forecast costs approved by the OEB in setting the new regulated prices. The Prescribed Facilities recorded lower OM&A expenses of $29 million for new nuclear generation development costs and additional OM&A expenses of $3 million for capacity refurbishment costs during the year ended December 31, 2009. In 2008, the Prescribed Facilities recorded additional OM&A expenses of $34 million for new nuclear generation development costs and $6 million for capacity refurbishment costs during the nine months ended December 31, 2008.

Hydroelectric Water Conditions Variance

The OEB Decision authorized the continuation of a previously existing variance account effective April 1, 2008 for the difference in hydroelectric electricity production due to differences between forecast and actual water conditions. Forecast water conditions refer to those approved by the OEB in setting regulated prices. Prior to April 1, 2008, variances were determined by reference to the forecast water conditions previously provided to the Province for the purposes of establishing regulated prices.

For the years ended December 31, 2009 and 2008, the Prescribed Facilities recorded decreases in revenue of $29 million and $25 million, respectively, reflecting actual water conditions that were favourable compared to those approved by the OEB or included in the forecast provided to the Province for the purposes of establishing regulated prices, as appropriate.

The OEB Decision authorized the recovery of the balance in this variance account as at December 31, 2007 over a 21-month period ending December 31, 2009. Accordingly, effective retrospectively to April 1, 2008, the amortization of this balance was recorded by the Prescribed Facilities on a straight-line basis over this period.

Other Regulatory Assets and Liabilities

As at December 31, 2009, other regulatory assets included $8 million related to the under-recovery of nuclear variance and deferral account balances, and $5 million related to the Interim Period Shortfall Variance Account for the period April 1, 2008 to November 30, 2008. These under-recoveries are recorded in the respective variance accounts established by the OEB Decision and result from the collection of approved nuclear balances and retroactive revenue based on actual production, which varies from the forecast production approved by the OEB.

As at December 31, 2008, other regulatory assets included $5 million related to the under-recovery of approved regulatory balances over the period from April 1, 2008 to December 31, 2008, and the balance of the variance account related to transmission outages and transmission restrictions.

As at December 31, 2009, other regulatory liabilities included $21 million in the Nuclear Fuel Cost Variance Account, $21 million in the Income and Other Taxes Variance Account and $17 million in the Ancillary Services Net Revenue Variance Account. The Nuclear Fuel Cost Variance Account was established by the OEB Decision, effective April 1, 2008, for the difference between forecast and actual nuclear fuel costs per unit of production. Forecast ancillary services net revenue and nuclear fuel costs per unit of production refer to those approved by the OEB in setting regulated prices. The continuation of the previously existing Ancillary Services Net Revenue Variance Account was authorized by the OEB Decision, effective April 1, 2008, for the difference between forecast and actual ancillary services net revenue. The balance of the Income and Other Taxes Variance Account, authorized by the OEB Decision effective April 1, 2008, results from the resolution of the 1999 audit and its impact on the income tax expense of the Prescribed Facilities for the period from April 1, 2008 to December 31, 2009.

As at December 31, 2008, other regulatory liabilities of $5 million consist of $4 million in the Ancillary Services Net Revenue Variance Account and $1 million in the Nuclear Fuel Cost Variance Account. Prior to April 1, 2008, variances recorded in the Ancillary Services Net Revenue Account were determined by reference to the forecast revenue previously provided to the Province for the purposes of establishing regulated prices. The balance in the Income and Other Taxes Variance Account was nil as at December 31, 2008.

The following table summarizes the income statement and other comprehensive income impacts of recognizing regulatory assets and liabilities**:**

Years Ended December 31	**2009**			**2008**		
(millions of dollars)	**As Stated**	**Impact of Regulatory Assets and Liabilities**	**Financial Statements without the Impact of Regulatory Assets and Liabilities**	**As Stated**	**Impact of Regulatory Assets and Liabilities**	**Financial Statements without the Impact of Regulatory Assets and Liabilities**
Revenue	**3,687**	**(261)**	**3,426**	3,456	14	3,470
Fuel expense	**460**	**(19)**	**441**	406	(2)	404
Operations, maintenance and administration	**2,170**	**(43)**	**2,127**	2,210	(52)	2,158
Depreciation and amortization	**490**	**(103)**	**387**	465	(100)	365
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	**345**	**-**	**345**	326	7	333
Property and capital taxes	**32**	**-**	**32**	35	1	36
Income tax expense[1]	**108**	**27**	**135**	102	-	102
Other comprehensive income (loss)	**29**	**(10)**	**19**	(50)	-	(50)

[1] Effective January 1, 2009, the Prescribed Facilities are required to recognize future income taxes and a corresponding regulatory asset or liability associated with its rate regulated operations in accordance with amendments to Section 3465 (see Notes 3 and 10). The impact of the regulatory asset or liability is reflected above for the year ended December 31, 2009. Prior to January 1, 2009, the Prescribed Facilities followed the taxes payable method of accounting for income taxes and therefore did not recognize these regulatory assets or liabilities. Accordingly, the impact of recognizing regulatory assets and liabilities for the year ended December 31, 2008 shown above does not include the future income tax for the regulated operations and the associated regulatory asset or liability.

7. LONG-TERM DEBT AND NET INTEREST EXPENSE

The Prescribed Facilities' long-term debt is due to OPG and is derived based on the methodology approved in the OEB Decision. The methodology establishes the total amount of short and long-term debt based on a deemed capital structure for the Prescribed Facilities, determined as 53 percent debt and 47 percent equity by the OEB Decision. The long-term debt portion of the total debt established using the deemed capital structure includes a portion of OPG's project specific debt incurred to finance net fixed and intangible assets of the Prescribed Facilities and an allocation of OPG's non-project specific debt. The allocation is primarily based on the net fixed and intangible assets balances of the Prescribed Facilities relative to those of OPG. The Other component of Prescribed Facilities' long-term debt is derived as the difference between the total debt per the deemed capital structure established by the OEB Decision, and the portion of OPG's actual short and long-term debt attributed to the Prescribed Facilities.

The following table summarizes the components of the long-term debt of the Prescribed Facilities as at December 31, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
OPG's project specific debt for the Prescribed Facilities	**490**	340
Allocated portion of OPG's non-project specific debt	**1,523**	1,660
Other	**1,073**	1,044
Total long-term debt	**3,086**	3,044

OPG's project specific debt included in the derivation of the Prescribed Facilities' long-term debt consists of outstanding debt financing for the Niagara Tunnel project provided by the OEFC of $490 million as at December 31, 2009, including $150 million of new borrowing in 2009. In September 2005, OPG reached an agreement with the OEFC to provide debt financing for the Niagara Tunnel project. The funding, which is up to $1 billion over the duration of the project, will be in the form of 10-year notes, which will be issued quarterly to meet the project's obligations. Interest payable by OPG will be fixed for each note issued at the time of advance at a rate equal to the prevailing Benchmark Government of Canada 10-Year Bond, plus a credit spread determined by the OEFC based on a survey of market rates. OPG is in the process of pursuing an amendment to the Niagara Tunnel project credit facility, consistent with the revised cost estimate of $1.6 billion, and the revised schedule.

OPG's total non-project specific debt, a portion of which is allocated to the Prescribed Facilities in the derivation of their long-term debt, consisted of senior and subordinated notes payable to the OEFC totalling $2,745 million and $2,995 million as at December 31, 2009 and December 31, 2008, respectively. Approximately 55 percent of OPG's non-project specific notes payable to the OEFC were allocated to the Prescribed Facilities as at December 31, 2009 and 2008 using the methodology per the OEB Decision.

The net interest expense on the Prescribed Facilities' long-term debt for the year ended December 31, 2009 was calculated pursuant to the methodology established by the OEB Decision at the effective rate of 6.14 percent (2008 – 5.74 percent). The calculation is based on the actual interest cost of the weighted average amount of applicable OPG's debt issues outstanding during the year, taking into account the impact of related effective interest rate hedging instruments entered into by OPG.

The following table summarizes the net interest expense on the Prescribed Facilities' long-term debt for the years ended December 31, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
OPG's project specific debt for the Prescribed Facilities	**24**	17
Allocated portion of OPG's non-project specific debt	**94**	102
Other	**69**	67
Net interest expense on long-term debt	**187**	186

8. SHORT-TERM DEBT AND NET INTEREST EXPENSE

The Prescribed Facilities' short-term debt is due to OPG and is derived using a methodology that considers a portion of OPG's short-term borrowings and securitized receivables allocated to the Prescribed Facilities on the basis of construction work in progress, fuel inventory, and materials and supplies balances attributed to the Prescribed Facilities' relative to those of OPG. OPG's short-term borrowings considered in the derivation of the Prescribed Facilities' short-term debt were nil as at December 31, 2009 and 2008. OPG's total securitized receivables, a portion of which was included in the derivation of the Prescribed Facilities' short-term debt, were $250 million and $300 million as at December 31, 2009 and 2008, respectively. Approximately 65 percent and 56 percent of these amounts were allocated to the Prescribed Facilities' as at December 31, 2009 and 2008, respectively, using the methodology established by the OEB, resulting in the Prescribed Facilities' short-term debt of $162 million and $169 million, respectively. OPG's securitization program is discussed in Note 4 to these consolidated financial statements.

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two tranches – a $500 million 364-day term tranche and a $500 million five-year term tranche. During the first quarter of 2009, OPG renewed and extended the maturity date of the 364-day term tranche to May 19, 2010. The renewal became effective in the second quarter of 2009. The five-year term tranche was not extended, and therefore has four years remaining, with a maturity date of May 20, 2013. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at December 31, 2009, no commercial paper was outstanding (December 31, 2008 – nil), and OPG had no other outstanding borrowings under the bank credit facility.

The net interest expense on the Prescribed Facilities' short-term debt for the year ended December 31, 2009 was calculated pursuant to the methodology established by the OEB Decision at the effective rate of 1.58 percent (2008 – 4.10 percent) plus the cost of maintaining the commercial bank credit facility. The calculation of the effective rate is based on the cost of funds associated with sales of receivables and the interest cost of the weighted average amount of OPG's commercial paper outstanding during the year that was allocated to the Prescribed Facilities.

The following table summarizes the net interest expense on the Prescribed Facilities' short-term debt for the years ended December 31, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
Securitized receivables' cost of funds	**3**	7
Bank credit facility cost	**3**	1
Net interest expense on short-term debt	**6**	8

9. NUCLEAR FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

OPG's nuclear fixed asset removal and nuclear waste management liabilities are comprised of expected costs to be incurred by OPG up to and beyond termination of operations and the closure of its nuclear plant facilities, including the Bruce A and Bruce B nuclear generating stations on lease to Bruce Power L.P. Costs will be incurred by OPG for activities such as dismantling, demolition and disposal of facilities and equipment, remediation and restoration of sites and the ongoing and long-term management of nuclear used fuel and low and intermediate level waste material. Nuclear station decommissioning consists of original placement of stations into a safe store condition followed by a nominal 30-year store period prior to station dismantling.

The portion of OPG's liabilities for nuclear fixed asset removal and nuclear waste management on a present value basis attributed to the Prescribed Facilities consists of the following for the years ended December 31, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
Liability for nuclear used fuel management	**3,091**	2,934
Liability for nuclear decommissioning and low and intermediate level waste management	**3,304**	3,221
Nuclear fixed asset removal and nuclear waste management liabilities	**6,395**	6,155

The changes in the portion of OPG's nuclear fixed asset removal and nuclear waste management liabilities attributed to the Prescribed Facilities for the years ended December 31, 2009 and 2008 are as follows:

(millions of dollars)	**2009**	**2008**
Liabilities, beginning of year	**6,155**	5,925
Increase in liabilities due to accretion	**345**	332
Increase in liabilities due to nuclear used fuel and nuclear waste management variable expenses	**23**	21
Liabilities settled by expenditures on waste management	**(128)**	(123)
Liabilities, end of year	**6,395**	6,155

The costs that are recognized as a liability by OPG and the method of attributing these costs for the purposes of determining the liabilities for the nuclear stations of the Prescribed Facilities are as follows:

- The present value of the costs of dismantling the nuclear production facilities at the end of their useful lives, with the costs being determined on an individual facility basis and directly assigned to the nuclear stations of the Prescribed Facilities;
- The present value of the fixed cost portion of any nuclear waste management programs that are required based on the total volume of waste expected to be generated over the assumed life of the stations, with the cost being allocated to the nuclear stations of the Prescribed Facilities on the basis of total expected waste volumes for these stations over their assumed lives; and
- The present value of the variable cost portion of any nuclear waste management program taking into account actual waste volumes generated to date by each of OPG's nuclear stations, with associated variable cost rates being calculated using either the total waste volumes expected to be generated over the assumed life of each of the nuclear stations of the Prescribed Facilities or the total waste volumes expected to be generated over the assumed life of all of OPG's nuclear stations, depending on the nature of the waste management program.

Changes in the portion of OPG's liabilities for nuclear fixed asset removal and nuclear waste management liabilities attributed to the Prescribed Facilities during the years ended December 31, 2009 and 2008 were determined as follows:

- Accretion was computed directly on the balance of the liabilities attributed to the Prescribed Facilities using the discount rates applicable to OPG's total liabilities;
- Nuclear used fuel and nuclear waste management variable expenses for the Prescribed Facilities were computed using applicable waste management program cost rates applied to waste volumes generated by each of the nuclear stations of the Prescribed Facilities; and

- With the exception of expenditures incurred for placing Pickering A, Units 2 and 3 in safe storage, which were directly assigned to the Prescribed Facilities, expenditures on waste management were primarily allocated to the Prescribed Facilities in proportion to total expected waste volumes for each of the nuclear stations over their assumed lives.

The determination of the accrual for nuclear fixed asset removal and nuclear waste management costs requires significant assumptions, since these programs run for many years. Many of these assumptions are made by OPG on an aggregate basis for all of its nuclear stations, including the Bruce A and B nuclear generating stations, based on the nature of these programs. These assumptions are described on this basis for the purposes of these consolidated financial statements.

The most recent update of the estimates for OPG's nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management liabilities was performed as at December 31, 2006. The update resulted in an increased estimate of OPG's costs mainly due to additional used fuel and waste quantities resulting from station life extensions, experience in decommissioning reactors, and changes in economic indices. The increase was partially offset by the impact of later end of life dates for some stations, which results in later decommissioning dates and a reduced present value of decommissioning costs. The change in the cost estimate resulted in an updated Reference Plan, the 2006 Approved Reference Plan, which was approved by the Province in accordance with the terms of the ONFA.

As a result of the approval of the 2006 Approved Reference Plan, OPG recognized additional expenses including accretion on the nuclear fixed asset removal and nuclear waste management liabilities and depreciation of the carrying value of the related fixed assets starting on January 1, 2007. The impact of these additional expenses for the period up to March 31, 2008 was reduced by the recognition of a regulatory asset, as prescribed by the regulation pursuant to the *Ontario Energy Board Act, 1998*. OPG began recovering this regulatory asset through nuclear regulated prices effective April 1, 2008, as per the OEB Decision. The regulatory asset associated with the 2006 Approved Reference Plan is discussed in Note 6 to these consolidated financial statements.

For the purposes of calculating OPG's nuclear fixed asset removal and nuclear waste management liabilities, as of December 31, 2009, nuclear plant closures are projected to occur over the next four to 27 years. As of December 31, 2009, the Prescribed Facilities' nuclear plant closures are projected to occur over the next four to 13 years. End of life dates may change as decisions on life extensions are made. The 2006 Approved Reference Plan includes cash flow estimates for decommissioning of OPG's nuclear stations for approximately 40 years after station shutdown and to 2065 for placement of used fuel into the long-term disposal repository followed by extended monitoring. The undiscounted amount of estimated future cash flows associated with OPG's total liabilities is approximately $25 billion in 2009 dollars. The discount rate used to calculate the present value of OPG's liabilities, including amounts attributed to the Prescribed Facilities, was 5.75 percent for liabilities established prior to December 31, 2006. The increase in cost estimates related to the 2006 Approved Reference Plan and subsequent increases to the value of the undiscounted estimated cash flows for OPG's liability for nuclear waste management and decommissioning, including amounts attributed to the Prescribed Facilities, are discounted at 4.6 percent. The cost escalation rates ranged from 1.8 percent to 3.6 percent.

The significant assumptions underlying operational and technical factors used in the calculation of the accrued liabilities are subject to periodic review. Changes to these assumptions, including changes to assumptions on the timing of the programs, financial indicators or the technology employed may result in significant changes to the value of the accrued liabilities. With programs of this duration and the evolving technology to handle the nuclear waste, there is a significant degree of uncertainty surrounding the measurement accuracy of the costs for these programs, which may increase or decrease over time.

The cash and cash equivalents balance reported by the Prescribed Facilities as at December 31, 2009 includes $11 million of cash and cash equivalents that are for use of nuclear waste management activities.

Liability for Nuclear Used Fuel Management Costs

The liability for nuclear used fuel management represents the cost of managing the highly radioactive used nuclear fuel bundles. The federal Nuclear Fuel Waste Act ("NFWA") released in 2002 required that Canada's nuclear fuel waste owners form a nuclear waste management organization and that each waste owner establish a trust fund for used fuel management costs. To estimate its liability for nuclear used fuel management costs, OPG has adopted a conservative approach consistent with the Adaptive Phased Management concept approved by the Government of Canada, which assumes a deep geologic repository in-service date in 2035.

Liability for Nuclear Decommissioning and Low and Intermediate Level Waste Management Costs

The liability for nuclear decommissioning and low and intermediate level waste management represents the estimated costs of decommissioning nuclear generating stations after the end of their service lives, as well as the cost of managing low and intermediate level radioactive wastes generated by the nuclear stations. The significant assumptions used in estimating future nuclear fixed asset removal costs include decommissioning of nuclear generating stations on a deferred dismantlement basis where the reactors will remain in a safe storage state for a 30-year period prior to a 10-year dismantlement period.

The life cycle costs of low and intermediate level waste management include the costs of processing and storage of such radioactive wastes during and following the operation of the nuclear stations, as well as the costs of ultimate long-term management of these wastes. The current assumptions used to establish the accrued low and intermediate level waste management costs include a disposal facility for low and intermediate level waste with a targeted in-service date of 2018. Agreement has been reached with local municipalities for OPG to develop a deep geologic repository for the long-term management of low and intermediate level waste adjacent to the Western Waste Management Facility. A federal environmental assessment in respect of this proposed facility is in progress.

Ontario Nuclear Funds Agreement

OPG sets aside funds to be used specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities in accordance with the ONFA and the NFWA. OPG jointly oversees the investment management of the Nuclear Funds with the Province. The assets of the Nuclear Funds are maintained in third-party custodian accounts that are segregated from the rest of OPG's assets. The segregated funds include amounts associated with the Prescribed Facilities. Separate segregated funds are not maintained for the Prescribed Facilities.

The Decommissioning Fund was established to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level nuclear waste management and a portion of used fuel storage costs after station life for all of OPG's nuclear stations, including the Bruce A and Bruce B nuclear generating facilities. As at December 31, 2009 and 2008, the Decommissioning Fund for all of OPG's nuclear stations as well as the portion of the Decommissioning Fund attributed to the Prescribed Facilities is in an underfunded position. OPG, and therefore the Prescribed Facilities, bear the risk and liability for cost estimate increases and fund earnings in the Decommissioning Fund.

The portion of the balance of OPG's Decommissioning Fund attributed to the Prescribed Facilities is assigned to them on the basis of the costs estimates in the 2006 Approved Reference Plan.

The Used Fuel Fund will be used to fund future costs of long-term nuclear used fuel waste management for all of OPG's nuclear stations. OPG is responsible for the risk and liability for cost increases for used fuel waste management, subject to graduated liability thresholds specified in the ONFA, which limit OPG's total financial exposure at approximately $10.5 billion in December 31, 2009 dollars based on used fuel bundle projections of 2.23 million bundles for all of OPG's nuclear stations consistent with the station lives included within the initial financial reference plan. The graduated liability thresholds do not apply to additional used fuel bundles beyond 2.23 million as projected in the 2006 Approved Reference Plan.

The portion of the balance of OPG's Used Fuel Fund attributed to the Prescribed Facilities is directly assigned to them on the basis of the station level opening balance of the Used Fuel Fund prescribed by the 1999 ONFA Reference Plan, periodically updated as required by the ONFA.

OPG makes quarterly payments to the Used Fuel Fund over the life of its nuclear generating stations, as specified in the ONFA. Total required funding by OPG for 2009 under the ONFA was $339 million, including a contribution to The Ontario NFWA Trust (the "Trust") of $153 million. Included in the funding was a $31 million contribution on December 31, 2009 related to future bundles over the 2.23 million threshold. The amount of $14 million of this contribution related to the Prescribed Facilities.

The portion of the required funding for the years ended December 31, 2009 and 2008 related to the nuclear stations of the Prescribed Facilities as determined in accordance with the ONFA was $125 million and $59 million, respectively. The ONFA requires OPG to contribute amounts ranging from $95 million to $264 million annually over the years 2010 to 2014, of which $79 million to $150 million is assigned by the ONFA to the nuclear stations of the Prescribed Facilities (Note 14).

The NFWA was proclaimed into force in November 2002. As required under the NFWA, OPG established the Trust in November 2002 and made an initial deposit of $500 million into the Trust. The NFWA required OPG to make annual contributions of $100 million to the Trust until such time the NWMO proposed funding formula to address the future financial costs of implementing the Adapted Phase Management approach was approved by the Minister of Natural Resources. In 2009, this funding formula was approved, requiring OPG to make a 2008 contribution true-up of $25 million in addition to a contribution of $128 million for 2009. The contribution for 2010 is $136 million and the proposed contribution for 2011 is $149 million. The Trust forms part of the Used Fuel Fund, and contributions to the Trust, as required by the NFWA, are applied towards OPG's ONFA payment obligations. The NFWA does not provide a basis to attribute OPG's contributions to the Trust at the station level.

As required by the terms of the ONFA, the Province has provided a Provincial Guarantee to the Canadian Nuclear Safety Commission ("CNSC") 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 will supplement the Used Fuel Fund and the Decommissioning Fund until they have accumulated sufficient funds to cover the accumulated liabilities for nuclear decommissioning and waste management. The Provincial Guarantee, taken together with the Used Fuel Fund and Decommissioning Fund, are in satisfaction of OPG's nuclear licensing requirements with the CNSC. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount of the Provincial Guarantee provided by the Province. In 2009 and 2008, OPG paid the annual guarantee fee of $3.8 million, which is fully reflected in these consolidated financial statements, based on a Provincial Guarantee amount of $760 million.

In December 2009, the CNSC approved the increase of the Provincial Guarantee amount to $1,545 million to be effective in 2010. The value of this Provincial Guarantee will be in effect through to the end of 2012, when the next reference plan for the CNSC is required to be submitted. The increase was primarily a result of the market value losses experienced by the Nuclear Funds in 2008.

In accordance with CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement,* the investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading and are measured at fair value with realized and unrealized gains and losses recognized in the financial statements.

Decommissioning Fund

Upon termination of the ONFA, the Province has a right to any excess funding in the Decommissioning Fund, which is the excess of the fair market value of the Decommissioning Fund over the estimated completion costs as per the most recently approved ONFA Reference Plan. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes in its consolidated financial statements, through a charge to the Decommissioning Fund with a corresponding payable to the Province, such that the balance of the Decommissioning Fund would equal the cost estimate of the liability based on the most recently approved ONFA Reference Plan. The payable to the Province could be reduced in subsequent periods in the event that the Decommissioning Fund earns less than its target rate of return or in the event that a new ONFA Reference Plan is approved with a higher estimated decommissioning liability. When the Decommissioning Fund is underfunded, the earnings on the Decommissioning Fund reflect actual fund returns based on the market value of the assets.

The Province's right to any excess funding in the Decommissioning Fund upon termination of the ONFA results in OPG capping its annual earnings at 5.15 percent, which is the rate of growth in the liability for the estimated completion cost, as long as the Decommissioning Fund is in an overfunded status.

The Decommissioning Fund's asset value for all of OPG's nuclear stations and the nuclear stations of the Prescribed Facilities on a fair value basis was $4,876 million and $2,607 million, respectively, at December 31, 2009, both of which were less than the respective liabilities based on the 2006 Approved ONFA Reference Plan. At December 31, 2008, the Decommissioning Fund's asset value for all of OPG's nuclear stations and the nuclear stations of the Prescribed Facilities on a fair value basis was $4,325 million and $2,324 million, respectively, both of which were lower than the value of the respective liabilities based on the 2006 Approved Reference Plan.

The investments in the Decommissioning Fund include a diversified portfolio of equities and fixed income securities that are invested across many geographic markets. The Nuclear Funds are invested to fund long-term liability requirements, and as such, the portfolio asset mix is structured to achieve the required return over a long-term horizon. While short-term fluctuations in market value will occur, managing the long-term return of the Nuclear Funds remains the primary goal. The Nuclear Funds are managed on a total OPG basis.

Used Fuel Fund

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 percent plus the change in the Ontario Consumer Price Index for funding related to the first 2.23 million used fuel bundles generated by all of OPG's nuclear facilities ("committed return"). OPG recognizes the committed return on the Used Fuel Fund and includes it in the earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of the Used Fuel Fund's assets, which includes realized and unrealized returns, is recorded as due to or due from the Province. The due to or due from the Province represents the amount OPG would pay to or receive from the Province if the committed return were to be settled as of the balance sheet date. As part of its regular contributions to the Used Fuel Fund, OPG was required to allocate $31 million, which included $14 million related to the Prescribed Facilities, of its December 31, 2009 contribution towards its liability associated with future fuel bundles that exceed the 2.23 million threshold. As prescribed under the ONFA, earnings on OPG's contributions for incremental fuel bundles do not grow at the Province's guaranteed rate of return, but rather earn the return of the Used Fuel Fund based on changes in the market value of the assets.

As at December 31, 2009, the Used Fuel Fund asset value for all of OPG's nuclear stations and the nuclear stations of the Prescribed Facilities on a fair value basis was $5,370 million and $2,452 million, respectively. The Used Fuel Fund value for all of OPG's nuclear stations and the nuclear stations of the Prescribed Facilities included a payable to the Province of $33 million and $15 million, respectively, related to the committed return adjustment. As at December 31, 2008, the Used Fuel Fund asset value for all OPG's nuclear stations and the nuclear stations of the Prescribed Facilities on a fair value basis was $4,884 million and $2,260 million, respectively. The asset values included a receivable from the Province of $460 million and $213 million, respectively, related to the committed return adjustment.

The portion of OPG's nuclear fixed asset removal and nuclear waste management funds as at December 31, 2009 and 2008 assigned to the Prescribed Facilities consist of the following:

	Fair Value	
(millions of dollars)	**2009**	**2008**
Decommissioning Fund	**2,607**	2,324
	2,607	2,324
Used Fuel Fund[1]	**2,467**	2,047
Due (to) from Province – Used Fuel Fund	**(15)**	213
	2,452	2,260
	5,059	4,584

[1] The Ontario NFWA Trust is estimated to represent $773 million as at December 31, 2009 (2008 – $641 million) of the Used Fuel Fund on a fair value basis. The portion of OPG's amounts related to the Trust attributed to the Prescribed Facilities was estimated on the same basis as the attribution of OPG's total balance of the Used Fuel Fund to the Prescribed Facilities, as the NFWA does not provide a basis to attribute OPG's contributions to the Trust at the station level.

The total fair value of the securities invested by OPG in the Nuclear Funds, which include the Used Fuel Fund and Decommissioning Fund, as at December 31, 2009 and 2008, is provided below. This information is not available for the Prescribed Facilities as the Nuclear Funds are not managed on a station-level basis.

	Fair Value	
(millions of dollars)	**2009**	**2008**
Cash and cash equivalents and short-term investments	**463**	455
Pooled funds	**1,497**	1,412
Marketable equity securities	**4,699**	3,795
Fixed income securities	**3,596**	3,090
Net receivables/payables	**30**	7
Administrative expense payable	**(6)**	(10)
	10,279	8,749
Due (to) from Province – Used Fuel Fund	**(33)**	460
Total	**10,246**	9,209

Bonds and debentures held by OPG in the Used Fuel Fund and the Decommissioning Fund as at December 31, 2009 and 2008 mature according to the following schedule:

(millions of dollars)	**Fair Value** **2009**	**2008**
1 – 5 years	**1,276**	1,142
5 – 10 years	**857**	777
More than 10 years	**1,463**	1,171
Total maturities of debt securities	**3,596**	3,090
Average yield	**3.7%**	4.3%

This information is not available for the Prescribed Facilities as the Nuclear Funds are not managed on a station-level basis.

The change in the Nuclear Funds attributed to the Prescribed Facilities for the years ended December 31, 2009 and 2008, are as follows:

(millions of dollars)	**Fair Value** **2009**	**2008**
Decommissioning Fund, beginning of year	**2,324**	2,744
Increase (decrease) in fund due to return on investments	**338**	(366)
Decrease in fund due to reimbursement of expenditures	**(55)**	(56)
Decrease in Due to Province	**-**	2
Decommissioning Fund, end of year	**2,607**	2,324
Used Fuel Fund, beginning of year	**2,260**	2,085
Increase in fund due to contributions made	**125**	59
Increase (decrease) in fund due to return on investments	**306**	(345)
Decrease in fund due to reimbursement of expenditures	**(11)**	(6)
(Decrease) increase in Due to/from Province	**(228)**	467
Used Fuel Fund, end of year	**2,452**	2,260

The earnings (losses) on the Nuclear Funds attributed to the Prescribed Facilities for the years ended December 31, 2009 and 2008 are as follows**:**

(millions of dollars)	**2009**	**2008**
Decommissioning Fund	338	(364)
Used Fuel Fund	78	122
Total earnings (losses)	416	(242)

10. INCOME TAXES

Prior to January 1, 2009, the Prescribed Facilities followed the taxes payable method for the rate regulated operations. Under the taxes payable method, the Prescribed Facilities did not recognize future income taxes relating to the rate regulated operations to the extent those future income taxes were expected to be recovered or refunded through future regulated prices charged to customers. Accordingly, the Prescribed Facilities did not record a future income tax recovery of $196 million during 2008 which would have been recorded had the Prescribed Facilities accounted for income taxes for the regulated operations using the liability method.

As discussed in Note 3, effective January 1, 2009, the Prescribed Facilities are required to recognize future income taxes associated with its rate regulated operations, including future income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. Accordingly, on January 1, 2009, the Prescribed Facilities recorded a future income tax liability of $90 million, being the cumulative future income tax liability on January 1, 2009 related to differences between the accounting and tax bases of assets and liabilities, measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse, and recorded a corresponding regulatory asset. The Prescribed Facilities also recorded an additional future income tax liability and a corresponding regulatory asset of $33 million for future income taxes resulting from regulatory assets that were recorded due to amendments to Section 3465. Effective January 1, 2009, the Prescribed Facilities follow the liability method of tax accounting for all of its operations and record a corresponding regulatory asset or liability for the future income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

In addition to the transitional adjustment related to the amendments to Section 3465, for the year ended December 31, 2009, the Prescribed Facilities recorded an increase to the future income tax liability of $31 million which is expected to be recovered through future regulated prices and recorded a corresponding increase to the regulatory asset for future income taxes. As a result, the future income tax expense for the year ended December 31, 2009 was not impacted. The increase in the future income tax liability for the year ended December 31, 2009 included $10 million related to the increase to the regulatory asset for future income taxes.

The following table summarizes the future income tax liabilities recorded by the Prescribed Facilities as a result of the changes to Section 3465:

(millions of dollars)	
Transition – January 1, 2009:	
Future income tax liabilities on temporary differences related to regulated operations	**90**
Future income tax liabilities resulting from the regulatory asset for future income taxes	**33**
	123
Changes during the period:	
Increase in future income tax liabilities on temporary differences related to regulated operations	**31**
Increase in future income tax liabilities resulting from the regulatory asset for future income taxes	**10**
Balance at December 31, 2009	**164**

A reconciliation between the statutory and the effective rate of income taxes for the Prescribed Facilities is as follows:

(millions of dollars)	**2009**	**2008**
Income (loss) before income taxes	**413**	(422)
Combined Canadian federal and provincial statutory income tax rates, including surtax	**33.0%**	33.5%
Statutory income tax rates applied to accounting income	**136**	(141)
Increase (decrease) in income taxes resulting from:		
Lower future tax rate on temporary differences	**(14)**	50
Non-taxable income items	**1**	(9)
Unrecorded future income tax related to regulated operations	**-**	196
Regulatory asset	**(15)**	-
Other	**-**	6
	(28)	243
Income tax expense	**108**	102
Effective rate of income taxes	**26.2%**	(24.2%)

The OEB Decision approved an Income and Other Taxes Variance Account effective April 1, 2008. The scope of the account with respect to income taxes includes variances in the income tax expense for the Prescribed Facilities' rate regulated operations caused by changes in tax rates or rules under the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), as modified by the *Electricity Act, 1998*, as well as variances caused by reassessments due to audits of OPG's taxation years, which have an impact on the Prescribed Facilities' income taxes payable after April 1, 2008. The amount of the variances, resulting from the changes, will be determined based on the forecasts approved by the OEB for those years. The Prescribed Facilities recorded $21 million in the account for the year ended December 31, 2009. The Prescribed Facilities did not record any amounts in the account for the year ended December 31, 2008.

Significant components of the income tax expense of the Prescribed Facilities are presented in the table below:

(millions of dollars)	**2009**	**2008**
Current income tax expense:		
Current payable	**32**	106
Regulatory liability	**4**	-
	36	106
Future income tax expense (recovery):		
Change in temporary differences	**87**	(4)
Regulatory asset	**(15)**	-
	72	(4)
Income tax expense	**108**	102

The income tax effects of temporary differences that give rise to future income tax assets and liabilities as at December 31, 2009 and 2008 are presented in the table below:

(millions of dollars)	**2009**	**2008**
Future income tax assets:		
Nuclear fixed asset removal and nuclear waste management liabilities	**1,605**	-
Other liabilities and assets	**512**	21
	2,117	21
Future income tax liabilities:		
Fixed assets	**(751)**	-
Nuclear fixed asset removal and nuclear waste management funds	**(1,268)**	-
Other liabilities and assets	**(314)**	-
	(2,333)	-
Net future income tax (liabilities) assets	**(216)**	21
Represented by:		
Current portion – asset	**45**	-
Long-term portion – (liability) asset	**(261)**	21
	(216)	21

The following table summarizes the difference in the consolidated statements of income and consolidated statements of comprehensive income under the taxes payable method used by the Prescribed Facilities to account for income taxes for the rate regulated operations compared to what would have been reported had the Prescribed Facilities applied the liability method for the rate regulated operations for 2008. For 2009, the Prescribed Facilities applied the liability method for the rate regulated operations, hence, the following table is not applicable to the 2009 year.

(millions of dollars)	**2008**
As stated:	
Future income tax expense (recovery)	(4)
Future income tax: Other comprehensive income – for the year	-
Liability method:	
Future income tax expense (recovery)	(200)
Future income tax: Other comprehensive income – for the year	13

The following table summarizes the difference in the consolidated balance sheet amounts under the taxes payable method used by the Prescribed Facilities to account for income taxes for the rate regulated operations compared to what would have been reported had the Prescribed Facilities applied the liability method for the rate regulated operations as at December 31, 2008. The amounts of future income taxes not recorded in 2008 do not include the future income taxes resulting from regulatory assets and liabilities that are required to be recorded effective January 1, 2009 due to amendments to Section 3465. For 2009, the Prescribed Facilities applies the liability method for the rate regulated operations, hence, the following table is not applicable to the 2009 year.

(millions of dollars)	2008 As Stated	2008 Liability Method
Current future income tax recoverable assets	-	42
Long-term future income tax assets (liabilities)	21	(111)

Cash income taxes are paid by OPG for all of its operations, including the Prescribed Facilities, and are not paid separately for or by the Prescribed Facilities. The total amount of cash income taxes paid by OPG for all of its operations for 2009 was $192 million (2008 – $49 million).

11. Pension and Other Post Employment Benefit Plans

OPG does not have separate pension and OPEB benefit plans for the Prescribed Facilities. Accordingly, OPG's pension and OPEB obligations, and pension fund assets cannot be segregated for the Prescribed Facilities.

A portion of OPG's deferred pension asset and liability for OPEB and supplementary pension plans was allocated to the Prescribed Facilities as of April 1, 2005, the effective date of the regulated prices established by the Province. This allocation was determined on the basis of the number of regular OPG employees associated with the Prescribed Facilities. Subsequent to April 1, 2005, the majority of OPG's recognized post employment benefit plan costs attributed to the Prescribed Facilities were determined using direct assignment primarily on the basis of labour costs incurred by those employees associated with the Prescribed Facilities. The post employment benefit plan costs associated with OPG's corporate support functions were allocated to the Prescribed Facilities as part of the allocation of corporate support costs, consistent with the methodology outlined in the independent cost allocation study approved in the OEB Decision.

Contributions to the pension fund, and expenditures on OPEB and supplementary pension plans were primarily allocated proportionately based on the respective benefit costs charged to the Prescribed Facilities.

Separate actuarial assumptions are not made to derive the Prescribed Facilities' pension and OPEB costs, as OPG's benefit obligations and pension fund assets cannot be segregated for the Prescribed Facilities. The assumptions used to derive OPG's total pension and OPEB obligations and costs are presented below.

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2009	**2008**	**2009**	**2008**
Weighted Average Assumptions – Benefit Obligation at Year End				
Rate used to discount future benefits	**6.80%**	7.50%	**6.69%**	7.46%
Salary schedule escalation rate	**3.00%**	3.00%	**-**	-
Rate of cost of living increase to pensions	**2.00%**	2.00%	**-**	-
Initial health care trend rate	**-**	-	**6.61%**	6.58%
Ultimate health care trend rate	**-**	-	**4.70%**	4.69%
Year ultimate rate reached	**-**	-	**2030**	2018
Rate of increase in disability benefits	**-**	-	**2.00%**	2.00%

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2009	**2008**	**2009**	**2008**
Weighted Average Assumptions – Cost for the Year				
Expected return on plan assets net of expenses	**7.00%**	7.00%	**-**	-
Rate used to discount future benefits	**7.50%**	5.60%	**7.46%**	5.59%
Salary schedule escalation rate	**3.00%**	3.25%	**-**	-
Rate of cost of living increase to pensions	**2.00%**	2.25%	**-**	-
Initial health care trend rate	**-**	-	**6.58%**	6.91%
Ultimate health care trend rate	**-**	-	**4.70%**	4.68%
Year ultimate rate reached	**-**	-	**2018**	2014
Rate of increase in disability benefits	**-**	-	**2.00%**	2.25%
Average remaining service life for employees (years)	**12**	11	**11**	11

The accrued benefit asset (liability) for the Prescribed Facilities as at December 31, 2009 and 2008 was as follows:

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Accrued benefit asset (liability) at end of year	**786**	626	**(121)**	(113)	**(1,371)**	(1,301)
Short-term portion [1]	**-**	-	**(6)**	(5)	**(66)**	(62)
Long-term portion	**786**	626	**(115)**	(108)	**(1,305)**	(1,239)

[1] The short-term portion of the accrued benefit liability is included in accounts payable and accrued charges

The components of OPG's post employment benefit plan costs recognized by the Prescribed Facilities for the years ended December 31, 2009 and 2008 were as follows:

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Components of Cost Recognized						
Current service costs	**94**	171	**4**	5	**31**	46
Interest on projected benefit obligation	**432**	424	**8**	7	**93**	91
Expected return on plan assets net of expenses	**(487)**	(489)	**-**	-	**-**	-
Amortization of past service costs	**14**	14	**1**	1	**4**	4
Amortization of net actuarial loss	**-**	27	**-**	-	**-**	24
Cost recognized	**53**	147	**13**	13	**128**	165

The assets of the OPG pension fund are allocated among three principal investment categories. Furthermore, equity investments are diversified across Canadian, U.S. and non-North American stocks. The fund also has a small real estate portfolio that is less than one percent of plan assets.

	2009	2008
Registered pension plan fund asset investment categories		
Equities	**62%**	60%
Fixed income	**34%**	37%
Cash and short-term investments	**4%**	3%
Total	**100%**	100%

The above information is not available for the Prescribed Facilities, as OPG's pension fund assets cannot be segregated for the Prescribed Facilities.

Based on the most recently filed actuarial valuation of OPG's registered pension plan, as at January 1, 2008, there was an unfunded liability on a going-concern basis of $239 million and a deficiency on a wind-up basis of $2,846 million. The deficit disclosed in OPG's next filed valuation, which must have an effective date of no later than January 1, 2011, could be significantly different. This information is not available for the Prescribed Facilities, as OPG's pension obligations and pension fund assets cannot be segregated for the Prescribed Facilities.

OPG's supplementary pension plans, which include the NWMO plan, are not funded, but are secured by Letters of Credit totalling $211 million (2008 – $212 million). This amount cannot be segregated for the Prescribed Facilities.

A one percent increase or decrease in OPG's health care trend rate would result in an increase in the service and interest components of the 2009 OPEB cost recognized by the Prescribed Facilities of $19 million (2008 – $26 million) or a decrease in the service and interest components of the 2009 OPEB cost recognized by the Prescribed Facilities of $15 million (2008 – $19 million), respectively.

A one percent increase or decrease in OPG's health care trend rate would increase OPG's total projected OPEB obligation of $1,910 million at December 31, 2009 (2008 – $1,591 million) by $270 million (2008 – $213 million) or decrease OPG's total projected OPEB obligation at December 31, 2009 by $217 million (2008 – $170 million). This information is not available for the Prescribed Facilities, as OPG's benefit obligations cannot be segregated for the Prescribed Facilities.

12. FINANCIAL INSTRUMENTS

OPG's risk management governance structure is designed to effectively identify, measure, monitor and report on key risk management activities across OPG. Risk management activities are coordinated by a centralized Corporate Risk Management group led by the Chief Risk Officer ("CRO"). Risks that would prevent business units from achieving business plan objectives are identified at the business unit level. Senior management sets risk limits for OPG's financing, procurement and trading activities and ensures that effective risk management policies and processes are in place to ensure compliance with such limits in order to maintain an appropriate balance between risk and return. OPG's risk management process aims to continually evaluate the effectiveness of risk mitigation activities for identified key risks. The findings from this evaluation process are reported quarterly to the Audit/Risk Committee of the Board by the CRO.

The Prescribed Facilities are exposed to risks related to changes in market interest rates through the debt they owe to OPG, and movements in foreign currency that affect their reported assets, liabilities, and forecast transactions. Select derivative instruments are used by OPG to limit its own risks related to these exposures, and a portion of the financial impacts of these instruments is attributed to the Prescribed

Facilities. The financial impacts of derivative instruments related to changes in interest rates are attributed to the Prescribed Facilities' consistent with the methodology used to derive the Prescribed Facilities' debt and net interest expense. The financial impacts of derivative instruments related to movements in foreign currency are directly assigned to the Prescribed Facilities on the basis of the assignment of the underlying assets, liabilities, and forecast transactions. The portion of OPG's derivatives which are attributed to the Prescribed Facilities are used as hedging instruments only.

The following is a summary of the financial instruments of the Prescribed Facilities' as at December 31, 2009, the impact of which is reported in these consolidated financial statements:

Financial Instruments [1] *(millions of dollars)*	**Designated Category**	**Fair Value**
Cash and cash equivalents	Held-to-maturity	**42**
Nuclear fixed asset removal and nuclear waste management funds	Held-for-trading	**5,059**
Short-term debt	Other than held-for-trading	**162**
Long-term debt	Other than held-for-trading	**3,086**

[1] The carrying value of other financial instruments included in accounts receivable, accounts payable and accrued charges, and due to Ontario Power Generation Inc. approximates their fair value due to the immediate or short-term maturity of these financial instruments.

Risks Associated with Financial Instruments

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument might fail to meet its obligation under the terms of a financial instrument. To manage its credit risk, including the credit risk of the Prescribed Facilities, OPG enters into transactions with creditworthy counterparties, limits the amount of exposure to each counterparty where possible, and monitors the financial condition of counterparties.

The majority of OPG's and the Prescribed Facilities' revenues are derived from sales through the IESO administered spot market. The Prescribed Facilities' net credit exposure to the IESO at December 31, 2009 was $137 million (Note 4). Although the credit exposure to the IESO represents a significant portion of both OPG's and the Prescribed Facilities' accounts receivable, OPG's management accepts this risk due to the IESO's primary role in the Ontario electricity market. The remaining receivables exposure was a diverse group of generally high quality counterparties. The portion of OPG's allowance for doubtful debts attributed to the Prescribed Facilities' and reported in these consolidated financial statements at December 31, 2009 was less than $1 million.

OPG also enters into financial transactions with highly rated financial institutions in order to hedge interest rate and currency exposures. Other credit exposures of OPG include the investing of excess cash.

Investments

OPG manages its exposure to credit risk in aggregate for all of its operations, and not specifically for the Prescribed Facilities. OPG limits its exposure by investing in reasonably liquid (i.e., in normal circumstances, capable of liquidation within one month) securities that are rated by a recognized credit rating agency in accordance with minimum investment quality standards. In regard to derivative contracts, the credit risk is limited by engaging with high credit-quality counterparties.

Market Risk

Market risk is the risk that changes to market prices, such as foreign exchange rates and interest rates, will affect the Prescribed Facilities' income or the value of the Prescribed Facilities' holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

OPG manages its exposure to market risks using forwards and various derivative products in the ordinary course of business. All such transactions are carried out within the guidelines set by OPG's Executive Risk Committee.

Foreign Exchange Risk

The Prescribed Facilities' foreign exchange exposure is attributable to United States dollar ("USD") denominated transactions such as for the purchase of fuel. OPG enters into derivative contracts with major financial institutions to manage its exposure to foreign currency movements.

Interest Rate Risk

Interest rate risk is the risk that the value of the Prescribed Facilities' assets and liabilities can decrease and increase, respectively, because of a change in the related interest rates. OPG considers interest rate risk related to cash and cash equivalents and short-term borrowings to be low because of their short-term nature. Changes in interest rates do not currently have a significant impact on OPG's interest expense since OPG's long-term borrowings are on a fixed rate basis. Similarly, changes in interest rates do not currently have a significant impact on the Prescribed Facilities' interest expense, as OPG's long-term borrowings and related interest costs are considered in the derivation of the Prescribed Facilities' interest expense in accordance with the OEB Decision.

OPG, and therefore the Prescribed Facilities, through the interest expense derivation methodology established by the OEB Decision, are exposed to interest rate risk on OPG's long-term borrowings expected to be issued in the future. OPG manages the exposure to changes in market interest rates on anticipated issuance of long-term borrowings by entering into interest rate contracts, a portion of the financial impact of which is included in the derivation of the Prescribed Facilities' interest expense on their long-term debt to OPG, as described in Note 7.

The table below summarizes a sensitivity analysis for significant unsettled market risk exposures with respect to OPG's interest rate derivative instruments related to the Prescribed Facilities as at December 31, 2009, with all other variables held constant. It shows how net income and other comprehensive income before tax of the Prescribed Facilities would have been affected by changes in the relevant risk variable that were reasonably possible, at that date, over the year.

(millions of dollars except where noted)	**A Change of:**	**Impact on Net Income Before Tax**	**Impact on Other Comprehensive Income Before Tax**
Interest rate [1]	+/- 46 basis points	-	+50/-60

[1] The interest rate sensitivity analysis was determined based on the exposure to interest rates for derivative instruments designated as hedges at the date of the consolidated balance sheets.

Nuclear Funds Equity Price Risk

Equity price risk is the risk of loss or unexpected volatility due to a decline in the values of individual equities and/or equity indices. The Prescribed Facilities, as part of OPG, are exposed to equity price risk primarily related to equity investments held in the Nuclear Funds that are classified on the consolidated balance sheets as held-for-trading and measured at fair value. To manage this risk, OPG has established investment policies and procedures that set out an investment framework for the funds, including the investment assumptions, permitted investments, and various investment constraints for the Nuclear Funds. Such policies and procedures are approved annually by OPG and the Province in the case of the Decommissioning Fund, and by the Province in the case of the Used Fuel Fund. The policies and procedures apply to OPG's total Nuclear Fund balances, and thus encompass those attributed to the Prescribed Facilities as reported on these consolidated financial statements.

Under the ONFA, the annual return in the Used Fuel Fund is guaranteed by the Province for funding related to the first 2.23 million used fuel bundles. On December 31, 2009, OPG made its first contribution of $31 million, which included $14 million related to the Prescribed Facilities, towards incremental fuel bundles in excess of the 2.23 million threshold prescribed in the ONFA. As prescribed under the ONFA, OPG's earnings, and therefore, the earnings attributable to the Prescribed Facilities, related to OPG's contributions for incremental fuel bundles will be exposed to equity price risk. OPG, and therefore the Prescribed Facilities are exposed to equity price risk in the Decommissioning Fund. Due to the long-term nature of the Decommissioning Fund's liabilities, the target asset mix of the fund was established with the goal of meeting the long-term liabilities. As such, the Prescribed Facilities are prepared to accept shorter term market fluctuations with the expectation that equity securities will provide adequate returns over the long term.

The table below approximates the potential dollar impact on Prescribed Facilities' pre-tax profit, associated with a one percent change in the specified equity indices. This analysis is based on the market values of the Decommissioning Fund's equity holdings at December 31, 2009, as well as on the assumption that when one equity index changes by one percent, all other equity indices are held constant. The amounts below represent a proportionate allocation to the Prescribed Facilities of the impact on OPG's total Decommissioning Fund's equity holding at December 31, 2009 based on the attribution of OPG's Decommissioning Fund balance to the Prescribed Facilities, as described in Note 9.

(millions of dollars)	**December 31 2009**
S&P/TSX Capped Composite Index	**6**
S&P 500	**2**
MSCI EAFE Index	**2**
MSCI World Index	**3**

Derivatives and Hedging

At the inception of a hedging relationship, OPG documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. OPG also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. When such a derivative instrument hedge ceases to exist or be effective as a hedge, or when designation of a hedging relationship is terminated, any associated deferred gains or losses are carried forward to be recognized in OPG's income in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period's consolidated statement of income of OPG.

Derivative Instruments Qualifying for Hedge Accounting

The following table provides the estimated fair value of OPG's derivative instruments designated as hedges that were attributed to the Prescribed Facilities. OPG's derivative instruments designated as hedges were directly assigned to the Prescribed Facilities, and are used as hedging instruments only.

(millions of dollars except where noted)	Notional Quantity	Terms	Fair Value	Notional Quantity	Terms	Fair Value
	December 31, 2009			December 31, 2008		
Forward start interest rate hedges	**490**	**1-13yrs**	**3**	272	1-12 yrs	(50)

Fair Value Hierarchy

The Prescribed Facilities are 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 following table presents financial assets and liabilities of the Prescribed Facilities measured at fair value in accordance with the fair value hierarchy:

(millions of dollars)	Level 1	Level 2	Level 3	Total
Decommissioning Fund	1,231	1,376	-	2,607
Used Fuel Fund	-	2,452	-	2,452
Forward start interest rate hedges	-	3	-	3
Total assets	**1,231**	**3,831**	**-**	**5,062**

During the period ending December 31, 2009, there were no transfers between level 1 and level 2, and no transfers into and out of level 3 fair value measurements.

Fair value is the value that a financial instrument can be closed out or sold, in a transaction with a willing and knowledgeable counterparty. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. 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 the Prescribed Facilities 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 which may include the use of valuation techniques or models based, wherever possible, on assumptions supported by observable market prices or rates prevailing at the dates of the consolidated balance sheets. This is the case for over-the-counter derivatives and securities, interest rate swap derivatives, and fund investments. 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. Significant level 3 inputs include recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors.

Liquidity Risk

The Prescribed Facilities' derivative and non-derivative liabilities include current accounts payable, interest rate hedges, and short-term and long-term debt. Liquidity risk is managed by OPG and not at the Prescribed Facilities' level. OPG's liquidity risk arises through excess financial obligations over available financial assets, due at any point in time. OPG's approach to managing liquidity is to continuously monitor its ability to maintain sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

13. CAPITAL MANAGEMENT

OPG sets capital management objectives, and undertakes capital management and monitoring activities at the corporate level, and does not manage capital separately for the Prescribed Facilities.

14. COMMITMENTS AND CONTINGENCIES

Litigation

Various legal proceedings are pending against OPG covering a wide range of matters that arise in the ordinary course of its business activities and which may impact the Prescribed Facilities. These matters are subject to various uncertainties. Some of these matters may be resolved unfavourably with respect to OPG and could have a significant effect on OPG's and therefore the Prescribed Facilities' financial position. Management has provided for contingencies that are determined to be likely and are reasonably measurable.

Environmental

OPG was required to assume certain environmental obligations from Ontario Hydro. A provision of $76 million was established by OPG as at April 1, 1999 for such obligations, which included obligations related to the Prescribed Facilities. As at December 31, 2009, the portion of the remaining provision attributed to the Prescribed Facilities was $30 million (December 31, 2008 – $31 million). The portion of OPG's provision attributed to the Prescribed Facilities was determined through a direct assignment based on the underlying obligations.

OPG's 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 OPG's obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in the Prescribed Facilities' consolidated financial statements to meet OPG's current environmental obligations related to the Prescribed Facilities.

Contractual and Commercial Commitments

The portion of OPG's contractual obligations and other significant commercial commitments related to the Prescribed Facilities as at December 31, 2009 was determined primarily using specific identification, and is as follows:

(millions of dollars)	2010	2011	2012	2013	2014	Thereafter	Total
Contractual obligations:							
Fuel supply agreements	182	195	155	95	60	89	776
Contributions under the ONFA	150	145	140	82	79	389	985
Operating lease obligations	12	13	13	13	14	-	65
Operating licence	34	33	36	36	36	-	175
Pension contributions [1]	209	-	-	-	-	-	209
Other	26	29	30	27	29	32	173
	613	415	374	253	218	510	2,383
Significant commercial commitments:							
Niagara Tunnel	186	231	123	23	13	-	576
Other hydroelectric projects	7	6	-	-	-	-	13
Total	806	652	497	276	231	510	2,972

[1] The portion of OPG's pension contributions attributed to Prescribed Facilities reflects additional funding requirements towards the deficit and ongoing funding requirements related to OPG's registered pension plan in accordance with the actuarial valuation as at January 1, 2008. The contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, and the timing of funding valuations. Funding requirements after 2010 are excluded due to significant variability in the assumptions required to project the timing of future cash flows. Contributions to the NWMO registered pension plan are not included since an actuarial valuation is required as at January 1, 2010.

Niagara Tunnel

In June 2009, following the recommendations of a dispute review board, OPG signed an amended design-build contract with a revised target cost and schedule. The target cost and schedule took into account the difficult rock conditions encountered and the concurrent tunnel excavation and liner installation work required to expedite completion of the tunnel. The amended contract includes incentives and disincentives related to achieving the target cost and schedule. OPG's Board of Directors approved a revised project cost estimate of $1.6 billion and a revised scheduled completion date of December 2013. Some uncertainty with respect to the cost and schedule for both the tunnel excavation and liner installation will continue. As of December 31, 2009, the Tunnel Boring Machine has progressed 5,481 metres, which is 54 percent of the tunnel length.

The capital project expenditures for the year ended December 31, 2009 were $214 million and the life-to-date capital expenditures were $649 million. The project is debt financed through the OEFC. OPG is in the process of pursuing an amendment to the Niagara Tunnel project credit facility with the OEFC, consistent with the revised cost estimate of $1.6 billion and the revised schedule. The capital project is fully attributed to the Prescribed Facilities. The determination of the Prescribed Facilities' debt owing to OPG considers this project specific debt based on the methodology approved in the OEB Decision (Note 7).

Other Commitments

OPG maintains labour agreements with the Power Workers' Union and The Society of Energy Professionals; the agreements are effective until March 31, 2012 and December 31, 2010, respectively. As at December 31, 2009, OPG had approximately 12,100 regular employees and approximately

89 percent of its regular labour force is covered by the collective bargaining agreements. Approximately 80 percent of OPG's regular labour force is estimated to relate to the Prescribed Facilities.

Contractual and commercial commitments as noted exclude certain purchase orders as they represent purchase authorizations rather than legally binding contracts and are subject to change without significant penalties.

Proxy Property Taxes

In November 2005, OPG received a letter from the Ministry of Finance indicating its intent to recommend to the Minister of Finance that an Ontario regulation covering proxy property taxes be updated retroactive to April 1, 1999 to reflect reassessments and appeal settlements of certain OPG properties, including the nuclear properties of the Prescribed Facilities, since that date. OPG continues to monitor resolution to this issue with the Ministry of Finance as updates to the regulation may not occur for several years. Neither OPG nor the Prescribed Facilities have recorded any amounts relating to this anticipated regulation change.

15. BUSINESS SEGMENTS

The Prescribed Facilities have three reportable business segments. The business segments are Nuclear Generation, Nuclear Waste Management and Hydroelectric. As a result of the basis of presentation of these consolidated financial statements described in Note 2, the financial position and results of operations of the business segments will not be identical to the financial position and results of operations that would have resulted had the Prescribed Facilities historically operated on a stand-alone basis, and may differ from the financial position and results of operations of the business segments reported in OPG's consolidated financial statements.

OM&A expenses of the Prescribed Facilities' generation business segments include a service fee for the use of certain property, plant and equipment and intangibles assets held by OPG. The service fee is recorded in OM&A expenses and a corresponding payable in the due to/from account with OPG. For the year ended December 31, 2009, the service fee was $27 million for Nuclear Generation and $3 million for Hydroelectric. For the year ended December 31, 2008, the service fee was $29 million for Nuclear Generation and $3 million for Hydroelectric.

Nuclear Generation Segment

The Nuclear Generation business segment operates in Ontario, generating and selling electricity from the Pickering A and B, and Darlington nuclear generating stations that it operates. This business segment also includes revenue earned from nuclear technical and engineering services, isotope sales and ancillary services. Ancillary services revenue is earned through voltage control and reactive support.

Nuclear Waste Management

The Nuclear Waste Management segment engages in the management of used nuclear fuel and low and intermediate level waste produced by the Darlington and Pickering nuclear stations, the decommissioning of the Darlington and Pickering nuclear generating stations, the management of the portion of OPG's Nuclear Funds attributable to the Prescribed Facilities, and related activities including the inspection and maintenance of the waste storage facilities. Accordingly, accretion expense on the Prescribed Facilities' portion of the Nuclear Liabilities and losses (earnings) from the Prescribed Facilities' portion of the Nuclear Funds are reported under this segment.

As the nuclear generating stations operate over time, the Prescribed Facilities incurs variable costs related to nuclear used fuel and low and intermediate level waste generated. These costs increase the Nuclear Liabilities through the generation of additional used nuclear fuel bundles and other waste. These variable costs are charged to current operations in the Nuclear Generation segment in order to appropriately reflect the cost of producing energy. Since variable costs increase the Nuclear Liabilities in the Nuclear Waste Management segment, the Prescribed Facilities record an inter-segment charge between the Nuclear Generation and the Nuclear Waste Management segments. The impact of the inter-segment charge between these segments is eliminated on the consolidated statements of income and balance sheets of the Prescribed Facilities.

Hydroelectric Segment

The Hydroelectric business segment operates in Ontario, generating and selling electricity from the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and the R.H. Saunders hydroelectric facilities. The Hydroelectric business segment also includes ancillary services revenue related to these stations earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control and reactive support, certified black start facilities and automatic generation control.

Segment Income for the Year Ended December 31, 2009 *(millions of dollars)*	**Nuclear Generation**	**Nuclear Waste Management**	**Hydroelectric**	**Elimination**	**Total**
Revenue	**2,902**	**26**	**782**	**(23)**	**3,687**
Fuel expense	**196**	**-**	**264**	**-**	**460**
Gross Margin	**2,706**	**26**	**518**	**(23)**	**3,227**
Operations, maintenance and administration	**2,057**	**30**	**106**	**(23)**	**2,170**
Depreciation and amortization	**415**	**-**	**75**	**-**	**490**
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	**-**	**345**	**-**	**-**	**345**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**-**	**(416)**	**-**	**-**	**(416)**
Property and capital taxes	**22**	**-**	**10**	**-**	**32**
Income before interest and income taxes	**212**	**67**	**327**	**-**	**606**

Segment Income (Loss) for the Year Ended December 31, 2008 *(millions of dollars)*	**Nuclear Generation**	**Nuclear Waste Management**	**Hydroelectric**	**Elimination**	**Total**
Revenue	2,702	21	754	(21)	3,456
Fuel expense	152	-	254	-	406
Gross Margin	2,550	21	500	(21)	3,050
Operations, maintenance and administration	2,098	25	108	(21)	2,210
Depreciation and amortization	395	-	70	-	465
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	-	326	-	-	326
Losses on nuclear fixed asset removal and nuclear waste management funds	-	242	-	-	242
Property and capital taxes	23	-	12	-	35
Income (loss) before interest and income taxes	34	(572)	310	-	(228)

Selected Balance Sheet Information As at December 31, 2009 *(millions of dollars)*	**Nuclear Generation**	**Nuclear Waste Management**	**Hydroelectric**	**Total**
Segment fixed assets in service, net	**2,588**	**-**	**3,791**	**6,379**
Segment construction work in progress	**217**	**-**	**663**	**880**
Segment property, plant and equipment, net	**2,805**	**-**	**4,454**	**7,259**
Segment intangible assets in service, net	**22**	**-**	**-**	**22**
Segment development in progress	**8**	**-**	**-**	**8**
Segment intangible assets, net	**30**	**-**	**-**	**30**
Segment materials and supplies inventory, net:				
Short-term	**70**	**-**	**-**	**70**
Long-term	**386**	**-**	**-**	**386**
Segment fuel inventory	**333**	**-**	**-**	**333**
Nuclear fixed asset removal and nuclear waste management liabilities	**-**	**(6,395)**	**-**	**(6,395)**
Nuclear fixed asset removal and nuclear waste management funds	**-**	**5,059**	**-**	**5,059**

Selected Balance Sheet Information As at December 31, 2008 *(millions of dollars)*	**Nuclear Generation**	**Nuclear Waste Management**	**Hydroelectric**	**Total**
Segment fixed assets in service, net	2,689	-	3,823	6,512
Segment construction work in progress	234	-	444	678
Segment property, plant and equipment, net	2,923	-	4,267	7,190
Segment intangible assets in service, net	23	-	-	23
Segment development in progress	3	-	-	3
Segment intangible assets, net	26	-	-	26
Segment materials and supplies inventory, net:				
Short-term	77	-	-	77
Long-term	336	-	-	336
Segment fuel inventory	301	-	-	301
Nuclear fixed asset removal and nuclear waste management liabilities	-	(6,155)	-	(6,155)
Nuclear fixed asset removal and nuclear waste management funds	-	4,584	-	4,584

Selected Cash Flow Information *(millions of dollars)*	**Nuclear Generation**	**Nuclear Waste Management**	**Hydroelectric**	**Total**
Year ended December 31, 2009				
Investment in fixed and intangible assets	**200**	**-**	**254**	**454**
Year ended December 31, 2008				
Investment in fixed and intangible assets	194	-	161	355

16. RELATED PARTY TRANSACTIONS

Related parties of OPG, and therefore the Prescribed Facilities, include the Province, Infrastructure Ontario, and the other successor entities of Ontario Hydro, including Hydro One Inc. (“Hydro One”), the IESO, and the OEFC. The transactions between OPG, and therefore the Prescribed Facilities, and related parties are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Amounts due to and from OPG by the Prescribed Facilities which arise in the normal course of operations are settled through the due to/from account with OPG.

The portion of OPG's related party transactions were attributed to the Prescribed Facilities primarily using direct assignment of OPG's respective amounts, and are summarized below:

	Revenue	**Expenses**	**Revenue**	**Expenses**
(millions of dollars)		**2009**		**2008**
Hydro One				
Services	**-**	**11**	-	5
Province of Ontario			-	
GRC, water rentals and land tax	**-**	**71**	-	69
Guarantee fee	**-**	**4**	-	4
Used Fuel Fund rate of return guarantee	**-**	**228**	-	(467)
Decommissioning Fund excess funding	**-**	**-**	-	(2)
OEFC			**-**	
GRC and proxy property tax	**-**	**171**	-	185
Capital tax	**-**	**18**	-	21
Income taxes	**-**	**135**	-	102
Infrastructure Ontario				
Reimbursement of expenses incurred during the procurement of new nuclear units	**-**	**21**	**-**	-
IESO			**-**	
Electricity sales	**3,439**	**-**	3,079	-
Ancillary services	**45**	**-**	45	-
	3,484	**659**	3,124	(83)

As at December 31, 2009, Prescribed Facilities' reported account receivable included an estimated amount of $2 million (2008 – nil) due from Hydro One and a specifically identified amount of $137 million (2008 – $133 million) due from the IESO of the respective OPG amounts. The Prescribed Facilities' reported accounts payable and accrued charges at December 31, 2009 included an estimated amount of $2 million (2008 – $1 million) due to Hydro One of the OPG amount and $21 million (2008 – nil) due to Infrastructure Ontario.

17. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2009, $101 million (2008 – $96 million) of research and development expenses were charged to operations by the Prescribed Facilities. The amount of expenses attributed to the Prescribed Facilities was primarily determined by direct assignment of OPG's total research and development expenses.

18. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	**2009**	**2008**
Accounts receivable	**194**	(217)
Prepaid expenses	**(16)**	4
Fuel inventory	**(32)**	(70)
Materials and supplies	**7**	(3)
Accounts payable and accrued charges	**(104)**	59
Due to Ontario Power Generation Inc.	**40**	-
Income and capital taxes payable	**(75)**	104
	14	(123)

19. SUBSEQUENT EVENT

Liabilities for Nuclear Fixed Asses Removal and Nuclear Waste Management, and Depreciation Expense

In February 2010, OPG announced its decision to commence the definition phase of the refurbishment of the Darlington nuclear generating station. Accordingly, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended to 2051. The approval and the extension of service life also impacted the assumptions for OPG's liabilities for nuclear fixed asset removal and nuclear waste management primarily due to cost increases related to additional used fuel bundles, partially offset by a decrease in the liability for decommissioning, resulting from the change in the service life assumptions. The portion of the net increase in the liabilities attributed to the Prescribed Facilities is estimated to be approximately $500 million using a discount rate of 4.8 percent. The increase in liabilities will be reflected in the fixed asset balance in 2010. As a result of these changes, the Prescribed Facilities depreciation expense is expected to decrease by $116 million on an annual basis beginning in 2010.