ONTARIOPOWER GENERATION

News
from Ontario Power Generation

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ONTARIO POWER GENERATION REPORTS 2007 FIRST QUARTER FINANCIAL RESULTS

[Toronto]: Ontario Power Generation Inc. ("OPG" or the "Company") today reported its financial and operating results for the three months ended March 31, 2007. Net income for the first quarter of 2007 was $171 million compared to net income of $199 million for the same period in 2006.

"The flexibility of OPG's diversified portfolio of generating assets was clearly demonstrated in the first quarter as our fossil stations increased their production to offset lower nuclear production. Lower earnings reflected marginally lower overall production and a higher cost mix of production compared to the first quarter of 2006. We continue to pursue our corporate strategy of increasing generation capacity by progressing on development projects," said President and CEO Jim Hankinson.

Electricity generated in the first quarter of 2007 was 28.2 terawatt hours ("TWh") and was marginally lower than first quarter 2006 production of 28.4 TWh. Electricity production from OPG's nuclear stations decreased by 1.1 TWh as a result of an increase in outage days at the Pickering A and B nuclear stations. Hydroelectric production of 8.5 TWh was marginally lower than production of 8.7 TWh in 2006, due to below normal water levels in northwestern Ontario. Electricity production from OPG's fossil stations increased to 8.1 TWh in the first quarter of 2007 compared to 7.0 TWh in 2006 primarily as a result of lower nuclear production in Ontario.

During the first quarter of 2007, OPG received an average price of 4.7¢/kilowatt hour ("kWh") for the output from all of its generating stations compared to the weighted average Ontario spot market electricity price of 5.5¢/kWh. During the first quarter of 2006, OPG received an average price of 4.7¢/kWh compared to the weighted average Ontario spot market electricity price of 5.2¢/kWh. OPG's average price reflected regulated prices for production from its nuclear and baseload hydroelectric generating assets, as well as spot market prices, subject to a revenue limit, for the majority of its remaining production.

Earnings during the three months ended March 31, 2007, were unfavourably affected by a reduction in gross margin primarily as a result of lower nuclear production due to the increase in outage days, and higher nuclear maintenance and repair costs compared to the same period in 2006. First quarter 2007 earnings were favourably affected by a decrease in depreciation expense due to an extension of the service lives, for accounting purposes, of OPG's coal-fired generating stations.

During the first quarter of 2007, OPG continued to progress on several electricity generation projects aimed at increasing Ontario's long-term electricity supply. These projects include:

- Excavation of a new water diversion tunnel to increase the amount of water flowing to existing turbines at the Sir Adam Beck generating stations in Niagara Falls. This project is expected to be completed in late 2009;
- Construction of a new 12.5 megawatt ("MW") Lac Seul hydroelectric generating station on the English River that is expected to be completed in the fourth quarter of 2007;
- Construction of the Portlands Energy Centre ("PEC"), a limited partnership between OPG and TransCanada Energy Ltd. PEC that is expected to be operating in a simple cycle mode with a capacity of up to 340 MW beginning June 1, 2008, and providing up to 550 MW of power in a combined cycle mode in the second quarter of 2009;
- OPG began an Environmental Assessment process during 2006 as part of its business case examination for the potential refurbishment and life extension of its Pickering B nuclear generating station. In April 2007, OPG received direction from the Canadian Nuclear Safety Commission ("CNSC") that a screening level assessment will be required as part of the regulatory process for approving the potential refurbishment of the Pickering B station; and
- OPG initiated a federal approval process with the CNSC during 2006 for new nuclear generating units on the site of its Darlington nuclear generating station. In April 2007, a project description was submitted to the CNSC as part of determining environmental assessment requirements for this project.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(millions of dollars – except where noted)	Three Months Ended March 31 2007	2006
Earnings		
Revenue after revenue limit rebate	**1,524**	1,508
Fuel expense	**(328)**	(278)
Gross margin	**1,196**	1,230
Operations, maintenance and administration	**694**	640
Other expenses	**274**	296
Income tax expense	**57**	95
Net income	**171**	199
Cash flow		
Cash flow provided by operating activities	**163**	434
Electricity Generation (TWh)		
Regulated – Nuclear	**11.6**	12.7
Regulated – Hydroelectric	**4.6**	4.5
Unregulated Generation – Hydroelectric	**3.9**	4.2
Unregulated Generation – Fossil-Fuelled	**8.1**	7.0
Total electricity generation	**28.2**	28.4
Average electricity sales price (¢/kWh)		
Regulated – Nuclear [1]	**4.9**	4.9
Regulated – Hydroelectric [1]	**3.6**	3.6
Unregulated Generation – Hydroelectric [2]	**4.7**	4.8
Unregulated Generation – Fossil-Fuelled [2]	**4.8**	4.9
OPG average sales price	**4.7**	4.7
Nuclear unit capability factor (per cent)		
Darlington	**93.6**	94.6
Pickering A	**63.5**	91.2
Pickering B	**69.6**	78.6
Equivalent forced outage rate (per cent)		
Unregulated – Fossil-Fuelled	**11.7**	10.8
Availability (per cent)		
Regulated – Hydroelectric	**92.0**	92.7
Unregulated – Hydroelectric	**95.7**	94.4

[1] After April 1, 2005, electricity generation from stations in the Regulated – Nuclear segment receives a fixed price of 4.95¢/kWh and electricity generation from stations in the Regulated – Hydroelectric segment receives a fixed price of 3.3¢/kWh for the first 1,900 MWh of generation in any hour, and the Ontario spot electricity market price for generation above this level.

[2] Eighty-five per cent of the electricity generation from unregulated stations, excluding the Lennox generating station and other contract volumes, is subject to a revenue limit. During the period from April 1, 2005 to April 30, 2006, the revenue limit was set at 4.7¢/kWh. Starting May 1, 2006, the revenue limit decreased to 4.6¢/kWh and increased to 4.7¢/kWh effective May 1, 2007.

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

Ontario Power Generation Inc.'s unaudited interim consolidated financial statements and Management's Discussion and Analysis as at and for the three months ended March 31, 2007, can be accessed on OPG's website (www.opg.com), the Canadian Securities Administrators' website (www.sedar.com), or can be requested from the Company.

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ONTARIOPOWER GENERATION

2007 FIRST QUARTER REPORT

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ONTARIO POWER GENERATION INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the three months ended March 31, 2007. For a complete description of OPG's corporate strategies, risk management, and the effect of critical accounting policies and estimates on OPG's results of operations and financial condition, this MD&A should also be read in conjunction with OPG's audited consolidated financial statements, accompanying notes, and MD&A as at and for the year ended December 31, 2006. Certain of the 2006 comparative amounts have been reclassified to conform to the 2007 presentation. OPG's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This MD&A is dated May 17, 2007.

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.

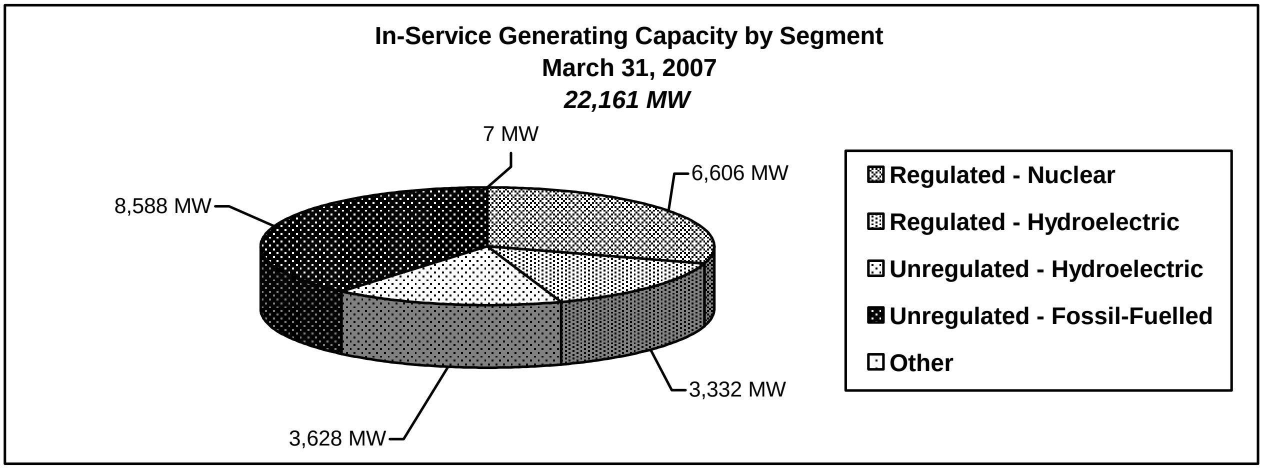
All forward-looking statements involve inherent assumptions, risks and uncertainties and, therefore, could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's fuel costs and availability, asset performance, nuclear decommissioning 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 market electricity prices, the ongoing evolution of the Ontario electricity industry, environmental and other regulatory requirements, and the weather. 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.

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 March 31, 2007, OPG's electricity generating portfolio had an in-service capacity of 22,161 megawatts ("MW"). OPG's electricity generating portfolio consists of three nuclear generating stations, five fossil-fuelled generating stations, 64 hydroelectric generating stations and three wind generating stations (including a 50 per cent interest in the Huron Wind joint venture). In addition, 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").

Effective April 1, 2005, the output from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that the Company operates became rate regulated. OPG continues to receive the spot market price for the output from its remaining hydroelectric, fossil-fuelled and wind generating stations, subject to a revenue limit on the majority of this output.



RATE REGULATION

A regulation was introduced pursuant to the *Electricity Restructuring Act, 2004* (Ontario), which provides that, effective April 1, 2005, OPG receives regulated prices for electricity generated from most of its baseload hydroelectric 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 price received by OPG for the first 1,900 megawatt hours ("MWh") of production from the regulated hydroelectric facilities in any hour is $33.00/MWh (3.3¢/kWh). As an incentive to encourage maximum hydroelectric electricity production during peak demand periods, any production from these regulated hydroelectric facilities above 1,900 MWh in any hour receives the Ontario electricity spot market price. The regulated price received by OPG for production from the nuclear facilities is $49.50/MWh (4.95¢/kWh). These regulated prices were established by the Province, based on a revenue requirement taking into account a forecast of production volumes and total operating costs, and a return on rate base, which assumed an average five per cent return on equity. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed assets, deferred charges and an allowance for working capital. These initial prices took effect April 1, 2005, and are expected to remain in effect until at least March 31, 2008, after which time it is anticipated that new regulated prices to be established by the Ontario Energy Board (the "OEB") will take effect.

The regulation directed OPG to establish variance accounts for costs incurred and revenues earned or foregone on or after April 1, 2005 due to deviations from the forecast information provided to the Province for the purposes of establishing regulated prices. Variance accounts have been established for differences in hydroelectric electricity production due to differences between forecast and actual water conditions; unforeseen changes to nuclear regulatory requirements or unforeseen technological changes which directly affect the nuclear facilities; changes to revenues for ancillary services from the regulated facilities; acts of God (including severe weather events); and transmission outages and transmission restrictions. In addition, the regulation directed OPG to establish a deferral account for non-capital costs incurred on or after January 1, 2005 that are associated with the planned return to service of all units at the Pickering A nuclear generating station.

An amendment to the regulation was made by the Province in February 2007. The amendment clarified certain aspects of the regulation and directed OPG to establish a deferral account related to certain changes in its liability for nuclear used fuel management and its liability for nuclear decommissioning and low and intermediate level waste management. The amendment directed OPG to establish a deferral account to record, up to the effective date of the OEB's first order establishing regulated prices, the revenue requirement impact of any changes in its nuclear liabilities arising from an update to a reference plan, approved after April 1, 2005, in accordance with the terms of the Ontario Nuclear Funds Agreement ("ONFA").

The amendment also clarified that the OEB must ensure that OPG recovers, through future regulated prices, all capital and non-capital costs incurred by OPG in order to increase the output of, refurbish, or add operating capacity to a regulated facility, if these costs are within budgets approved by OPG's Board of Directors prior to the OEB's first order establishing regulated prices, or if the OEB is satisfied that these costs were prudently incurred.

The production from OPG's other generating assets remains unregulated and continues to be sold at the Ontario electricity spot market price. However, 85 per cent of the generation output from OPG's other generating assets, excluding the Lennox generating station 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. In addition, until the Transition – Generation Corporation Designated Rate Options ("TRO") expired on April 30, 2006, volumes sold under such options were excluded from the revenue limit rebate. The revenue limit, which was originally established for a period of 13 months ending April 30, 2006, was subsequently extended for an additional three years. Starting May 1, 2006, the revenue limit decreased to 4.6¢/kWh from the previous limit of 4.7¢/kWh. On May 1, 2007, the revenue limit returned to 4.7¢/kWh and will increase to 4.8¢/kWh effective May 1, 2008. In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the Ontario Power Authority ("OPA") are subject to a revenue limit that is 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these limits are returned to the Independent Electricity System Operator ("IESO") for the benefit of consumers.

HIGHLIGHTS

Overview of Results

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

	Three Months Ended March 31	
(millions of dollars)	**2007**	**2006**
Revenue		
Revenue before revenue limit rebate	**1,620**	1,568
Revenue limit rebate	**(96)**	(60)
	1,524	1,508
Earnings		
Income before interest and income taxes	**254**	343
Net interest expense	**26**	49
Income before income taxes	**228**	294
Income tax expenses	**57**	95
Net income	**171**	199
Electricity production (TWh)	**28.2**	28.4
Cash flow		
Cash flow provided by operating activities	**163**	434

Net income for the three months ended March 31, 2007 was $171 million compared to $199 million for the same period in 2006, a decrease of $28 million. Income before income taxes for the three months ended March 31, 2007 was $228 million compared to income before income taxes during the same period in 2006 of $294 million, a decrease of $66 million.

The following is a summary of the factors impacting OPG's results for the three months ended March 31, 2007 compared to results for the same period in 2006, on a before-tax basis:

(millions of dollars – before tax)	
Income before income taxes for the three months ended March 31, 2006	**294**
Changes in gross margin	
Change in electricity generation by segment:	
Regulated – Nuclear	(53)
Regulated – Hydroelectric	1
Unregulated – Hydroelectric	(14)
Unregulated – Fossil-Fuelled	21
Other changes in gross margin	11
	(34)
Increase in maintenance and repairs primarily due to higher maintenance expenditures related to outages at OPG's nuclear and fossil-fuelled generating stations	(54)
Decrease in depreciation expense primarily due to extension of service lives of the coal-fired generating stations	30
Decrease in net interest expense primarily due to deferral of interest related to the Pickering A return to service deferral account	23
Increase in amortization of the Pickering A return to service deferral account balance	(26)
Other changes	(5)
Income before income taxes for the three months ended March 31, 2007	**228**

Earnings for the three months ended March 31, 2007 were unfavourably impacted by a decrease in gross margin from electricity sales compared to the same period in 2006 primarily due to lower generation from OPG's nuclear generating stations, partially offset by increased generation from higher marginal cost fossil-fuelled generating stations. Other changes in gross margin included an increase in non-electricity revenue due to higher nuclear technical service activities and higher isotope sales, partially offset by a decrease in trading revenue related to higher mark-to-market losses and lower margins on trading transactions.

Although OPG's gross margin was reduced as a result of replacing lower marginal cost nuclear generation with higher marginal cost generation from the fossil-fuelled generating stations, this did not result in an increase in rates charged to consumers.

Operations, maintenance and administration ("OM&A") expenses for the three months ended March 31, 2007 were $694 million compared to $640 million during the same period in 2006. The increase was primarily due to higher maintenance expenditures related to outages at OPG's nuclear and fossil-fuelled generating stations.

Earnings were favourably impacted by a decrease in depreciation expense of $30 million. The decrease in depreciation expense was primarily due to the extension of the service lives of the coal-fired generating stations during the third quarter of 2006, for accounting purposes, as a result of delays in the plan to replace coal-fired generation announced in June 2006.

Net interest expense for the three months ended March 31, 2007 decreased by $23 million compared to the same period in 2006. The decrease was primarily due to the deferral of interest expense related to the Pickering A return to service deferral account as required by the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario).

The amortization of the Pickering A return to service deferral account increased by $26 million for the three months ended March 31, 2007 when compared to the same period in 2006, consistent with the method of recovery of costs included in regulated prices.

Since April 1, 2005, upon the introduction of rate regulation, OPG has accounted for income taxes related to the rate regulated segments of its business using the taxes payable method. Under this method, future income tax assets and liabilities associated with these segments are not recognized where 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 a future tax expense of $18 million and $10 million for the rate regulated segments during the three months ended March 31, 2007 and March 31, 2006, respectively, which would have been recorded had OPG accounted for income taxes for the regulated segments using the liability method.

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 March 31 were as follows:

	Three Months Ended March 31	
(¢/kWh)	**2007**	**2006**
Weighted average hourly Ontario spot electricity market price	**5.5**	5.2
Regulated – Nuclear	**4.9**	4.9
Regulated – Hydroelectric[1]	**3.6**	3.6
Unregulated – Hydroelectric[2]	**4.7**	4.8
Unregulated – Fossil-Fuelled[2]	**4.8**	4.9
OPG's average sales price	**4.7**	4.7

[1] Electricity generated from stations in the Regulated – Hydroelectric segment received a fixed price of 3.3¢/kWh for the first 1,900 MWh of generation in any hour, and the Ontario spot electricity market price for generation above this level.

[2] 85 per cent of the electricity generated from unregulated stations, excluding the Lennox generating station and other contract volumes, is subject to a revenue limit. During the period from April 1, 2005 to April 30, 2006, the revenue limit was set at 4.7¢/kWh. Starting May 1, 2006, the revenue limit decreased to 4.6¢/kWh and increased to 4.7¢/kWh effective May 1, 2007.

OPG's average sales price for the three month periods ended March 31, 2007 and March 31, 2006 remained unchanged at 4.7¢/kWh. The impact of higher Ontario spot market prices during the first quarter of 2007 compared to the same period in 2006 was offset by the impact of a lower revenue limit of 4.6¢/kWh for the unregulated electricity generation, which commenced in May 2006. The higher Ontario spot market prices were primarily due to an increase in higher marginal cost gas-fired generation during the first quarter or 2007.

As a result of regulated prices and the revenue limit rebate, OPG's average sales price of 4.7¢/kWh was lower than the weighted average hourly Ontario spot electricity market price of 5.5¢/kWh.

Electricity Generation

Total electricity generation during the three months ended March 31, 2007 from OPG's generating stations was 28.2 TWh compared to 28.4 TWh during the same period in 2006. The decrease was primarily due to lower electricity generation from OPG's nuclear generating stations, largely offset by higher generation from the fossil-fuelled generating stations.

Nuclear generation decreased primarily due to an unplanned outage 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. Nuclear generation also decreased due to a forced extension to a planned outage at the Pickering A nuclear generation station for significant additional repair work required as a result of a component failure during inspection.

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

	Three Months Ended March 31	
	2007	**2006**
Heating Degree Days [1]		
Quarter	**1,920**	1,664
Ten-year average	**1,831**	1,828

[1] Heating Degree Days are recorded on days with an average temperature below 18^0C, and represent the aggregate of the differences between the average temperature and 18^0C for each day during the period, as measured at Pearson International Airport in Toronto, Ontario.

Heating Degree Days for the three months ended March 31, 2007 increased significantly compared to the same period in 2006 due to weather that was colder than average during the first quarter of 2007 and much warmer than average during the first quarter of 2006. The increase in heating degree days contributed to the Ontario electricity demand of 40.0 TWh for the three months ended March 31, 2007 compared to 39.4 TWh for the same period in 2006.

Cash Flow from Operations

Cash flow provided by operating activities for the three months ended March 31, 2007 was $163 million compared to $434 million during the same period in 2006, a decrease of $271 million. The decrease was primarily due to lower cash receipts from electricity sales and other changes in working capital requirements.

Recent Developments

Ontario's Integrated Power System Plan

In April 2007, the OPA issued an addendum to their Discussion Paper 7 entitled: Emission Control Alternatives for Ontario Coal Generators. This addendum presents the OPA's assessment of the impacts of four emission control technology alternatives on air emissions associated with the operation of coal-fired electricity generation in Ontario between 2010 and 2014. The OPA's analysis projected the energy output from Ontario's coal-fired generating units for the period 2010 through 2014. It assumed that all coal-fired units would be available in 2010, that total coal-fired capacity would be reduced by 1,000 MW in 2011, and that almost all output from 2012 through 2014 would be from Lambton Units 3 and 4, and Nanticoke Units 5, 6, 7 and 8, in accordance with the coal replacement strategy. The analysis estimated that required coal-fired production would be 25 TWh in 2010, 23 TWh in 2011, and 15 TWh in 2012, 2013 and 2014. Given the planned reductions in usage and planned shutdowns of the coal-fired generating stations, the Minister of Energy concluded that it would not be economically justifiable to invest in additional emission control technologies.

Regulatory Framework for Air Emissions

In April, the federal government announced their intention to introduce a Regulatory Framework for Air Emissions that will include regulations setting mandatory reduction targets for emissions of greenhouse gases and air pollutants from all major industrial sources. The regulations will apply to facilities in a number of sectors including the electricity sector. For greenhouse gas emissions, which are primarily carbon dioxide ("CO_2"), the plan identifies an 18 per cent reduction in emission rates by 2010, followed by a two per cent annual improvement to 2015, resulting in an overall reduction of 26 per cent. The federal government also intends to develop national emission caps for nitrogen oxides ("NO_x") (40 per cent reduction from 2006 emissions) and sulphur dioxide ("SO_2") (55 per cent reduction from 2006 emissions) between 2012 and 2015. The regulatory framework for air pollutants, including the timeframe for the entry into force of the regulations, is expected to be finalized by the fall of 2007. OPG is assessing the implications of the federal government's announcement on its operations and will undertake a more detailed assessment following proclamation of electricity generation sector emission caps, which are expected in June 2007.

Screening Level Assessment for Pickering B Generating Station

In 2006, OPG received confirmation from the Canadian Nuclear Safety Commission ("CNSC") that a Federal Environmental Assessment ("EA") is required prior to the refurbishment of the Pickering B nuclear generating station. In April 2007, OPG received direction from the CNSC that a Screening Level Assessment is required to be completed and reviewed publicly as part of the regulatory process for approving the potential refurbishment of the Pickering B nuclear generating station. A Screening Level Assessment is a self-assessment conducted using guidelines provided by the CNSC. A public hearing will be held to determine how OPG will complete the self-assessment. A second public hearing will be held upon OPG's completion of the self-assessment. There is provision in the process for a panel review if deemed required.

OPG is currently assessing the feasibility of refurbishing the Pickering B nuclear generating station for life extension and continued operation for an additional 30 years. The assessment will be presented to OPG's Board of Directors in early 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. To accomplish its mandate, OPG is focused on four corporate strategies: improving the performance of its generating assets; increasing its generating capacity; achieving financial sustainability; and achieving excellence in corporate governance, safety, social responsibility, corporate citizenship and environmental stewardship. A detailed discussion is outlined in the 2006 annual MD&A under the heading, *Vision, Core Business and Strategy*.

Improving the Performance of Generating Assets

Nuclear Generating Assets

OPG's strategic objective is to operate the Darlington and Pickering A and B nuclear generating stations in a safe, efficient and cost effective manner, while undertaking prudent investments to improve their reliability and operating performance. To achieve this objective, programs and initiatives have been implemented that will continue to improve safety performance, reduce forced outages through improvements in equipment reliability, optimize planned outages, reduce maintenance backlogs, mitigate technological risks through comprehensive inspection and testing programs, focus on production unit energy costs, and address longer term resource planning issues.

During the first quarter of 2007, electricity production and reliability from the Darlington nuclear station continued to reflect strong operating performance. Generation at the Pickering A and B nuclear generating stations decreased in the first quarter of 2007 as a result of a higher number of outage days related to specific issues that are not expected to reoccur. Safety and environmental results for the three months ended March 31, 2007 at all three nuclear generating stations exceeded those of the first quarter of 2006. In 2007, aggressive targets have been set to reduce maintenance backlogs in order to improve plant reliability. Results to the end of the first quarter indicate that OPG is on track to achieving this objective.

OPG is progressing with the safe storage of Unit 2 at the Pickering A nuclear generating station with more than 300 of the 390 fuel channels de-fuelled to date. De-watering of the unit will commence upon completion of the de-fuelling. Unit 3 of the Pickering A nuclear generating station will be de-fuelled following the completion of ongoing work on Unit 2 of the Pickering A nuclear generating station.

Work is proceeding on the feasibility study of the Pickering B nuclear generating station refurbishment project. This work includes a plant condition assessment, an environmental assessment, and an integrated safety review. OPG plans to make a recommendation to its Board of Directors in the first quarter of 2008.

Hydroelectric Generating Assets

OPG's strategic objective is to improve production from its existing hydroelectric generating assets in a cost effective and efficient manner. To achieve this objective, prudent investments will be undertaken to maintain and/or improve the condition, reliability and efficiency of the hydroelectric generating assets. Programs and initiatives are underway to increase the availability of existing stations by replacing aging and obsolete equipment, upgrading turbine runners with more efficient equipment, and ensuring that maintenance is performed in a timely and cost effective manner. Performance improvement initiatives are being pursued while maintaining OPG's focus on employee and public safety, dam safety, environmental stewardship, and community relations.

During the first quarter of 2007, OPG's hydroelectric fleet continued to maximize production from available water flows. Major rehabilitation continued at the DeCew Falls and Otto Holden generating stations. Initiatives to increase the capacity at OPG's existing stations continued with upgrades of turbine runner equipment at two stations. These projects are expected to be completed in the second quarter of 2007. Safety performance continued to be excellent with no lost time accidents during the first quarter of 2007. Hydroelectric operations achieved 1.5 years without a lost time accident to the end of the first quarter.

Fossil-Fuelled Generating Assets

OPG's strategic objective is to maintain the productive capability of its coal-fired generating facilities, while continuing to operate in compliance with all applicable laws and regulations. To achieve this objective, various initiatives are in place to address the impacts of increased unit starts and stops, in part due to the role that the fossil-fuelled generating stations perform as intermediate and peaking facilities. In addition, OPG will ensure continued environmental compliance, and recruit and retain staff to ensure that adequate expertise is available to both operate and maintain the units until their closure.

During the first quarter of 2007, production from OPG's fossil stations was higher than the first quarter of 2006. During the first quarter of 2007, OPG continued its initiatives to reduce environmental emissions. Such initiatives included maximizing production from units with advanced emission controls such as Lambton Units 3 and 4 and Nanticoke Units 7 and 8 and conducting test burns of biomass fuels.

Increasing OPG's Generating Capacity

OPG's strategy with respect to increasing its generating capacity is to expand, develop, and/or improve its hydroelectric generating capacity through expansion and redevelopment of its existing sites, as well as the pursuit of new projects where feasible. In addition, OPG, in consultation with its shareholder, plans to increase its generating capacity by exploring and developing, where feasible, natural gas and nuclear opportunities in Ontario. OPG will undertake these investments on its own or through partnerships. OPG is currently involved in the following hydroelectric, natural gas and nuclear generation projects.

Niagara Tunnel

The Niagara tunnel project will increase the amount of water flowing to existing turbines at OPG's Sir Adam Beck generating stations in Niagara Falls, allowing the stations to utilize available water more effectively. Upon the completion of the 10.4 km tunnel, the average annual generation from the Sir Adam Beck generating stations is expected to increase by approximately 1.6 TWh.

As of March 2007, the tunnel boring machine had advanced 525 metres. At the intake area, work was substantially completed on replacement of the accelerating wall and installation of a cofferdam required for construction of the intake structure. In accordance with the contractor's committed schedule, the project is expected to be completed in late 2009.

The project is expected to cost approximately $985 million. Capital project expenditures for the three months ended March 31, 2007 were $15 million and life-to-date capital expenditures were approximately $259 million. The project is debt financed through the Ontario Electricity Financial Corporation ("OEFC").

Lac Seul

OPG is constructing a new 12.5 MW hydroelectric generating station on the English River. The new Lac Seul generating station will utilize a majority of the spill currently passing the existing Ear Falls generating station, thus increasing the overall efficiency, capacity and energy generated from this location. A design-build contract was awarded and construction started during the first quarter of 2006. In accordance with the contractor's schedule, the project is expected to be in-service in the fourth quarter of 2007. A major sub-contractor is currently in the process of demobilizing and OPG is working with the contractor to assess any impact this might have on the project schedule. Total project costs are expected to be $47 million.

During the three months ended March 31, 2007, erection of the steel powerhouse building was substantially completed and the powerhouse crane was installed and commissioned. Installation of fixed turbine parts, including the pit structure, has commenced and excavation of the intake is underway. Capital project expenditures for the three months ended March 31, 2007 were approximately $4 million and life-to-date capital expenditures were approximately $31 million. OPG is continuing negotiations with the OPA for a contract for electricity produced from the new facility and the existing Ear Falls generating station.

Lower Mattagami

In May 2006, OPG provided development alternatives to the Province to increase the generating capacity of four hydroelectric generating stations on the Lower Mattagami River. The incremental capacity associated with these alternatives ranged from approximately 140 to 450 MW.

In May 2006, OPG received a letter from the Minister of Energy, which directed OPG to proceed immediately with the definition phase for a 450 MW development which includes the replacement of the Smoky Falls generating station and the expansion of Little Long, Harmon and Kipling generating stations, all of which are located on the Lower Mattagami River. OPG was also directed to initiate discussions with Ministry staff on a hydroelectric energy supply agreement.

OPG has been engaged in consultations with First Nation stakeholders regarding an agreement to address past issues and provide an opportunity for establishing a new commercial relationship. OPG has been informed that the First Nation stakeholders require additional time to consider their options relating to the agreement. As a result, further development work on the Lower Mattagami Project has been delayed pending additional discussion with the First Nation stakeholders.

Portlands Energy Centre

OPG entered into a partnership with TransCanada Energy Ltd. ("TransCanada"), through the Portlands Energy Centre L.P. ("PEC"), to pursue the development of a 550 MW gas-fired, combined cycle station on the site of the former R.L. Hearn generating station, near downtown Toronto. OPG has a 50 per cent ownership interest in the joint venture.

Construction of PEC started in 2006 and is expected to be operational in a simple cycle mode with a capacity of up to 340 MW by June 1, 2008. The plant is expected to be completed and fully operational in the second quarter of 2009, providing up to 550 MW of power in a combined cycle mode. The cost of PEC is estimated to be $730 million excluding capitalized interest. A significant proportion of this capital cost relates to an engineer-procure-construct contract to construct the facility.

OPG's share of capital expenditures for the three months ended March 31, 2007 was approximately $46 million. OPG's share of the life-to-date capital expenditures was approximately $143 million. OPG has negotiated financing for its share of the project with the OEFC.

Lakeview Site

OPG is continuing with 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 is exploring the potential development of a gas-fired electricity generating station at the site. Construction of a new plant would proceed only after required approvals and completion of a clean energy supply agreement.

New Nuclear Generating Units

As directed by the Minister of Energy in June of 2006, OPG initiated a federal approvals process with the CNSC in September of 2006 by filing with the CNSC an Application for a Site Preparation Licence for new nuclear generating units at OPG's Darlington nuclear generating site.

During the first quarter of 2007, OPG proceeded with initiatives in support of an environmental assessment for new nuclear units at Darlington including: geology, hydrogeology, archeology and terrestrial studies. In April 2007, OPG submitted to the CNSC a project description for potential new nuclear generating units on the same site as its Darlington nuclear station. The project description will be reviewed by the CNSC to determine the environment assessment requirements. The CNSC is expected to confirm the environment assessment requirements within the next few months.

Achieving Financial Sustainability

OPG's financial priority, operating as a commercial enterprise, is to achieve a sustainable level of financial performance. Inherent in this priority is the objective of ensuring that sufficient funds are available to achieve OPG's strategic objectives of improving the performance of its generating assets and increasing its generating capacity. To the extent that additional funds, beyond those generated from operations, are required, OPG plans to continue to seek opportunities to diversify its sources of funding and increase its access to cost effective capital.

OPG's ability to increase its revenues is constrained as a result of regulated prices for production from its regulated assets and a revenue limit on production from the majority of its unregulated assets. OPG is examining opportunities for revenue enhancement. In March, OPG met its debt retirement obligation by repaying $200 million of maturing notes held by the OEFC. To improve its liquidity, OPG reached an agreement with its bank lending group to renew its $1 billion bank credit facility with a commitment to extend the term of the $500 million tranche from three to five years. In addition, OPG is negotiating arrangements with its shareholder and the OEFC to establish two new financial agreements. A $500 million short term facility will be used to fund cash requirements for the current fiscal year, while a second, longer term facility will provide OPG with the flexibility to repay or refinance notes as they mature over the next three years. These facilities will allow OPG to fix the term of notes issued for periods of up to ten years, thereby extending the corporation's overall debt profile.

ONTARIO ELECTRICITY MARKET TRENDS

In its 18-Month Outlook published on April 10, 2007, the IESO indicated that Ontario's existing installed electricity generating capacity was 31,214 MW, an increase of 25 MW from Ontario's capacity at the end of 2006. OPG's in-service electricity generating capacity at the end of the first quarter of 2007 was 22,161 MW or 71 per cent of Ontario's capacity. The expected peak electricity demand in the summer of 2007, under normal weather conditions, is forecast to be 25,762 MW. Peak demand in 2007 is forecast to be slightly higher than the IESO's December 2006 forecast of 25, 658 MW. However, energy demand in 2007 is now forecasted to be 154.0 TWh, which is lower than the IESO's December 2006 forecast of 155.1 TWh. This results from a combination of lower industrial demand and increased levels of conservation. The IESO reported that over the next 18 months, the outlook for Ontario's supply/demand balance remains generally positive. Over the next 18 months, more than 1,400 MW of new supply is expected.

Fuel prices can have a significant impact on revenue and gross margin, both in terms of the underlying commodity price and the United States dollar ("USD") to Canadian dollar exchange rate. Uranium spot market prices have increased by 41 per cent to $US 113 per pound since January this year and prices have increased more than tenfold since the beginning of 2003. Some industry experts believe that the price may increase to beyond $US 150 per pound by the end of this year. This rapid increase in the price of uranium is the result of many supply and demand factors that will persist and continue to support higher prices. The impact on OPG's fuel costs has been delayed as the company draws down on inventories purchased at lower prices, however, future fuel costs for nuclear operations will be significantly higher in the near future. During the first quarter of 2007, market prices for natural gas and coal prices experienced marginal decreases.

Ontario's Integrated Power System Plan ("IPSP") being prepared by the OPA, has been delayed and is now expected to be submitted in the summer of 2007 to the OEB for its review and approval. The plan will: identify conservation, generation and transmission initiatives; provide details on phasing out coal-fired generation; identify options for wind generation; and address issues regarding retiring and replacing or refurbishing existing nuclear units as well as developing hydroelectric sites in northern Ontario.

BUSINESS SEGMENTS

OPG has four reportable business segments. The business segments are Regulated – Nuclear, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Fossil-Fuelled.

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 Segment

OPG's Regulated – Nuclear 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/reactive support.

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/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/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 and automatic generation control, and revenues from other services.

Other

The Other category includes revenue that OPG earns from its 50 per cent 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"). 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 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.

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 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

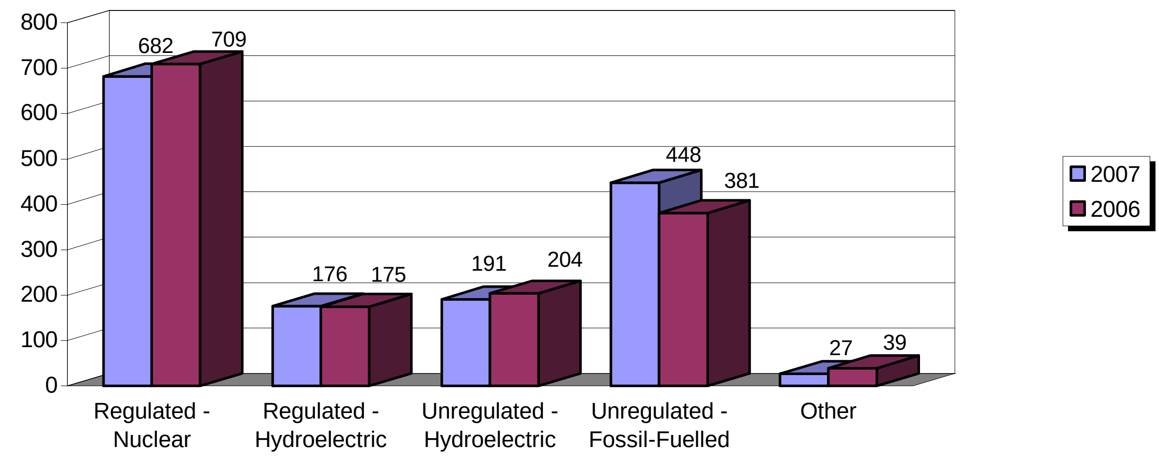
In addition to performance and cost effectiveness indicators, OPG has identified certain environmental indicators. These indicators are discussed under the heading, *Risk Management*.

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

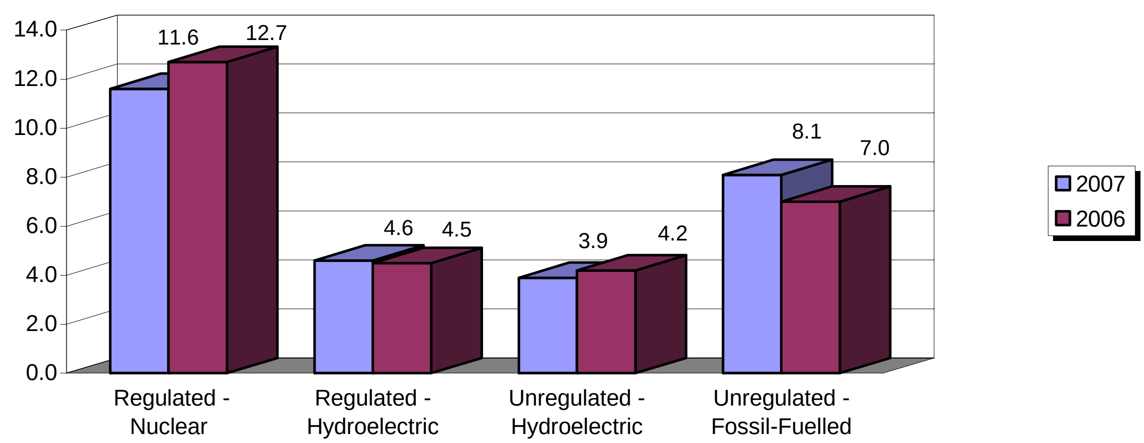
This section summarizes OPG's key results by segment for the three months ended March 31, 2007 and 2006. The following table provides a summary of revenue, earnings and key generation and financial performance indicators by business segment:

(millions of dollars)	Three Months Ended March 31 2007	2006
Revenue, net of revenue limit rebate		
Regulated – Nuclear	**682**	709
Regulated – Hydroelectric	**176**	175
Unregulated – Hydroelectric	**191**	204
Unregulated – Fossil-Fuelled	**448**	381
Other	**27**	39
	1,524	1,508
(Loss) income before interest and income taxes		
Regulated – Nuclear	**(11)**	74
Regulated – Hydroelectric	**80**	81
Unregulated – Hydroelectric	**108**	128
Unregulated – Fossil-Fuelled	**67**	34
Other	**10**	26
	254	343
Electricity Generation (TWh)		
Regulated – Nuclear	**11.6**	12.7
Regulated – Hydroelectric	**4.6**	4.5
Unregulated – Hydroelectric	**3.9**	4.2
Unregulated – Fossil-Fuelled	**8.1**	7.0
Total electricity generation	**28.2**	28.4
Nuclear unit capability factor (per cent)		
Darlington	**93.6**	94.6
Pickering A	**63.5**	91.2
Pickering B	**69.6**	78.6
Equivalent forced outage rate (per cent)		
Regulated – Hydroelectric	**1.4**	0.5
Unregulated – Hydroelectric	**1.2**	1.2
Unregulated – Fossil-Fuelled	**11.7**	10.8
Availability (per cent)		
Regulated – Hydroelectric	**92.0**	92.7
Unregulated – Hydroelectric	**95.7**	94.4
Nuclear PUEC ($/MWh)	**43.78**	37.97
Regulated – Hydroelectric OM&A expense per MWh ($/MWh)	**5.13**	4.51
Unregulated – Hydroelectric OM&A expense per MWh ($/MWh)	**10.79**	8.64
Unregulated – Fossil-Fuelled OM&A expense per MW ($000/MW)	**61.4**	53.9

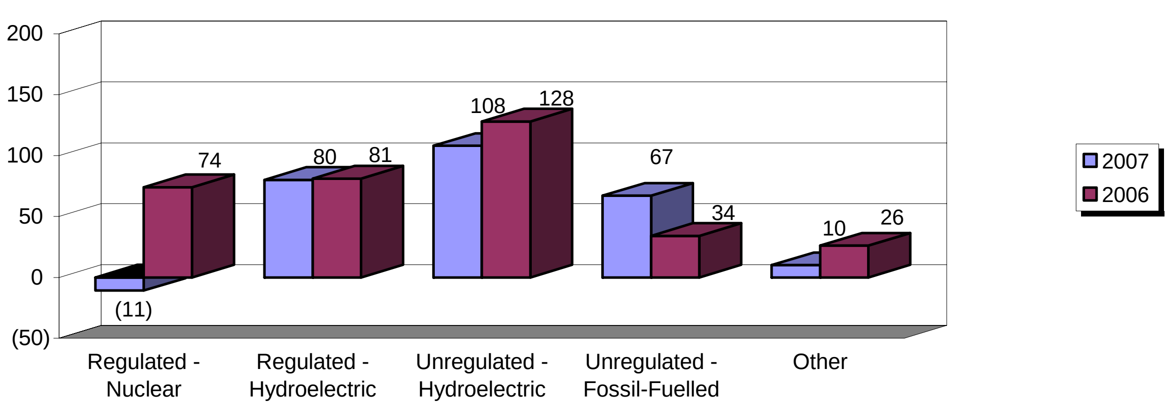
Revenue, Net of Revenue Limit Rebate
by Segment
Three Months Ended March 31
(millions of dollars)



Electricity Production by Segment
Three Months Ended March 31
(TWh)



(Loss) Income Before Interest and Income Taxes by Segment
Three Months Ended March 31
(millions of dollars)



Regulated – Nuclear Segment

	Three Months Ended March 31	
(millions of dollars)	**2007**	**2006**
Revenue	**682**	709
Fuel expense	**32**	31
Gross margin	**650**	678
Operations, maintenance and administration	**499**	465
Depreciation and amortization	**116**	95
Accretion on fixed asset removal and nuclear waste management liabilities	**126**	123
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(91)**	(89)
Property and capital taxes	**11**	10
(Loss) income before interest and income taxes	**(11)**	74

Revenue

	Three Months Ended March 31	
(millions of dollars)	**2007**	**2006**
Regulated generation sales	**569**	625
Other	**113**	84
Total revenue	**682**	709

Regulated – Nuclear revenue was $682 million for the three months ended March 31, 2007 compared to $709 million during the same period in 2006, which was a decrease of $27 million. The decrease in revenue was due to lower generation volume, partly offset by higher revenue from nuclear technical services and isotope sales.

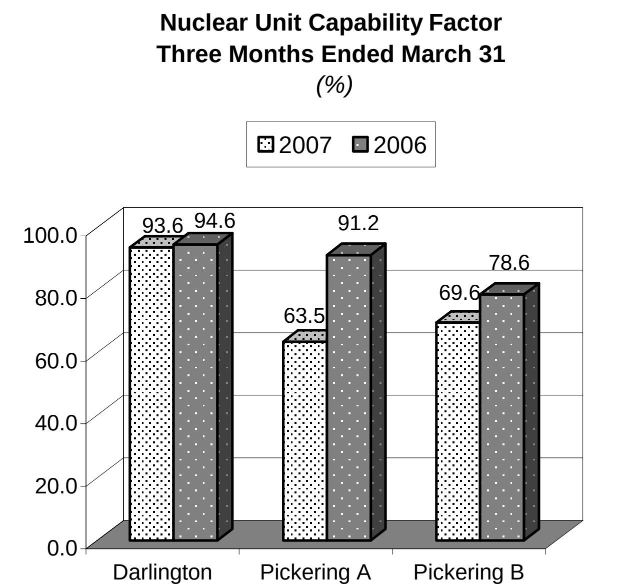
Electricity Prices

Electricity generation from stations in the Regulated – Nuclear segment received a fixed price of 4.95¢/kWh since the introduction of rate regulation effective April 1, 2005.

Volume

Electricity generation from stations in the Regulated – Nuclear segment for the three months ended March 31, 2007 was 11.6 TWh compared to 12.7 TWh for the same period in 2006. Nuclear generation decreased primarily due to an unplanned outage at the Pickering B nuclear generating station caused by an inadvertent release of resin from the water treatment plant into the demineralized water system, and the requirement for maintenance related to the recovery of the resin. Resin recovery maintenance was completed in January 2007. OPG is currently pursuing the recovery of lost revenue and incremental costs as a result of this matter. Nuclear generation also decreased due to a forced extension to a planned outage at the Pickering A nuclear generating station for significant additional repair work required as a result of a component failure during testing.

The Darlington nuclear generating station's unit capability factor for the three months ended March 31, 2007 remained high at 93.6 per cent compared to 94.6 per cent for the same period in 2006. The decrease in the unit capability factor was due to higher planned outage days at the Darlington nuclear generating station during the first quarter of 2007 compared to the same period in 2006. The high capability factors reflect the continuing strong performance of the Darlington station.



The Pickering A nuclear generating station's unit capability factor for the three months ended March 31, 2007 was 63.5 per cent compared to 91.2 per cent in 2006. The decrease was primarily due to the forced extension of a planned outage at the Pickering A nuclear generating station as a result of the component failure during inspection.

The Pickering B nuclear generating station's unit capability factor was 69.6 per cent compared to 78.6 per cent in 2006. The decrease was due to the unplanned outage from the release of resin into the demineralized water system.

Fuel Expense

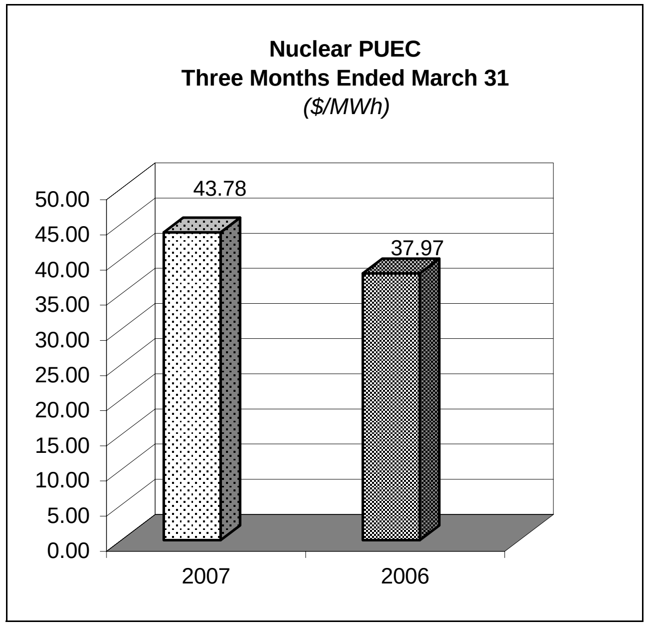
Fuel expense for the three months ended March 31, 2007 was $32 million compared to $31 million during the same period in 2006. The increase of $1 million was due to higher uranium prices, partially offset by lower generation volume.

Operations, Maintenance and Administration

OM&A expenses for the three months ended March 31, 2007 were $499 million compared to $465 million during the same period in 2006. The increase was primarily due to higher maintenance costs related to the forced extension to a planned outage at the Pickering A nuclear generating station and the unplanned outage at the Pickering B nuclear generating station, and costs related to the increase in nuclear technical services revenue.

Based on the amendment to the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) made in February 2007, OPG recorded as a regulatory asset $9 million of non-capital costs for nuclear generation development initiatives during the three months ended March 31, 2007.

Nuclear PUEC for the three months ended March 31, 2007 was $43.78/MWh compared to $37.97/MWh during the same period in 2006. The increase was primarily due to higher maintenance expenditures and lower generation volume.



Depreciation and Amortization

Depreciation and amortization expense for the three months ended March 31, 2007 was $116 million compared to $95 million for the same period in 2006. The increase in expense was primarily due to higher amortization of the Pickering A return to service deferral account. The amortization expense related to this deferral account was $36 million for the three months ended March 31, 2007 compared to $10 million during the same period in 2006, consistent with the method of recovery of costs included in regulated prices.

At December 31, 2006, OPG increased the estimate of the present value of the asset retirement obligation for nuclear fixed asset removal and nuclear waste management by $1,386 million, based on an approved reference plan in accordance with the terms of the ONFA (the "2006 Approved Reference Plan"). Asset retirement costs are capitalized by increasing the carrying value of the related fixed assets. As a result, OPG recorded an increase in the carrying value of the nuclear fixed assets of $1,386 million at December 31, 2006. For the three months ended March 31, 2007, OPG recognized additional depreciation expense of $14 million related to this increase. The increase in depreciation expense was offset by the impact of establishing a deferral account, effective January 1, 2007, related to the change in the estimate of the asset retirement obligation, as prescribed by the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario).

Accretion

Accretion expense was $126 million for the three months ended March 31, 2007 compared to $123 million for the same period in 2006. The increase of $3 million was due to the higher nuclear fixed asset removal and nuclear waste management liability compared to the first quarter of 2006 primarily as a result of the increase in the present value of the liability due to the passage of time. For the three months ended March 31, 2007, OPG recorded additional accretion expense related to the increase in the estimate of the liability. This increase in accretion expense was largely offset by the impact of establishing the deferral account effective January 1, 2007 relating to the change in estimate of the liabilities, as prescribed by the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario).

Earnings on the Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

For the three months ended March 31, 2007, OPG recorded earnings of $91 million on the nuclear fixed asset removal and nuclear waste management funds compared to $89 million for the same period in 2006.

Commencing January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, Financial Instruments – Recognition and Measurement. As a result, the investments in the funds and the corresponding payables to the Province are measured at fair value. The impact of the new handbook section is described under the heading *Nuclear Fixed Asset Removal and Nuclear Waste Management Funds* in the *Balance Sheet Highlights* section.

Regulated – Hydroelectric Segment

	Three Months Ended March 31	
(millions of dollars)	**2007**	**2006**
Revenue	**176**	175
Fuel expense	**52**	52
Gross margin	**124**	123
Operations, maintenance and administration	**23**	21
Depreciation and amortization	**16**	16
Property and capital taxes	**5**	5
Income before interest and income taxes	**80**	81

Revenue

	Three Months Ended March 31	
(millions of dollars)	**2007**	**2006**
Regulated generation sales[1]	**167**	163
Variance accounts	**(2)**	3
Other	**11**	9
Total revenue	**176**	175

[1] Regulated generation sales included revenue of $47 million that OPG received at the Ontario spot market price for generation over 1,900 MWh in any hour during the three months ended March 31, 2007 (three months ended March 31, 2006 – $46 million).

Regulated – Hydroelectric revenue was $176 million for the three months ended March 31, 2007 compared to $175 million during the same period in 2006.

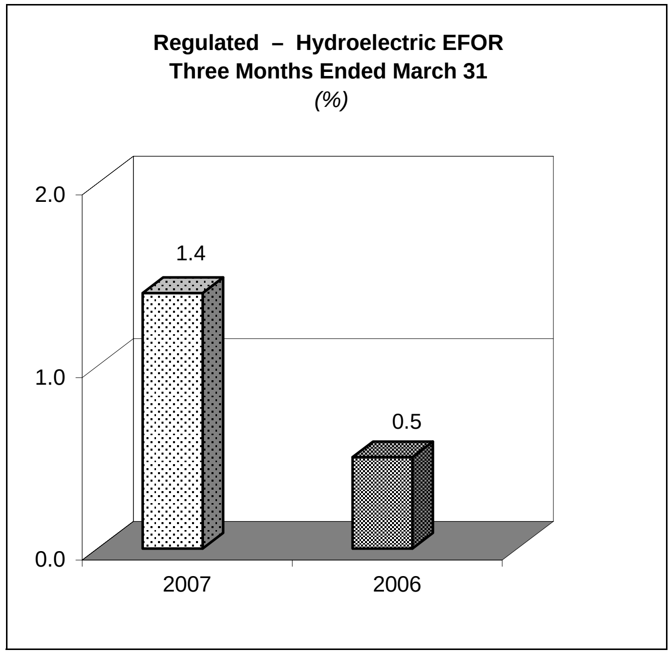
Electricity Prices

During the three months ended March 31, 2007 and March 31, 2006, the average electricity sales price for the Regulated – Hydroelectric segment was 3.6¢/kWh. The average sales price is based on the fixed price of 3.3¢/kWh for generation up to 1,900 MWh in any hour, and the spot electricity market price for generation above this level.

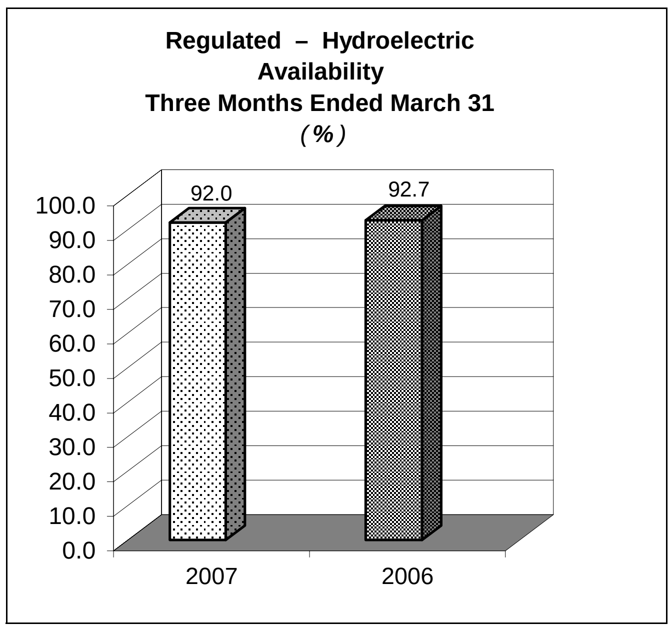
Volume

Electricity sales volume for the first quarter of 2007 was 4.6 TWh compared to 4.5 TWh during the first quarter of 2006. The increase in volume was due to higher water levels in the Niagara and St. Lawrence Rivers. Volume related to production levels above 1,900 MWh in any hour was 0.8 TWh during the first quarter of 2007 compared to 0.9 TWh for the same period in 2006.

The EFOR for the Regulated – Hydroelectric stations was 1.4 per cent for the three months ended March 31, 2007 compared to 0.5 per cent during the same period in 2006. The increase in EFOR was due to additional unplanned outage days related primarily to trapped debris in the units, and the performance of certain equipment.



The availability for the Regulated – Hydroelectric stations was 92.0 per cent for the three months ended March 31, 2007 compared to 92.7 per cent in the first quarter of 2006. The lower availability in the first quarter of 2007 was attributable to additional planned and unplanned outage days compared to 2006. The high availability and low EFOR reflect the continuing strong performance of these generating stations.



Variance Accounts

OPG is required under a regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) to establish variance accounts for the Regulated – Hydroelectric segment to capture the impact of differences in hydroelectric electricity production due to differences between forecast and actual water conditions and differences between forecast and actual ancillary service revenue. During the three months ended March 31, 2007, OPG recorded a reduction in revenue and a corresponding decrease in OPG's regulatory assets of $2 million, as a result of ancillary services revenue and actual water conditions that were favourable compared to the forecast provided to the Province for the purpose of establishing regulated prices.

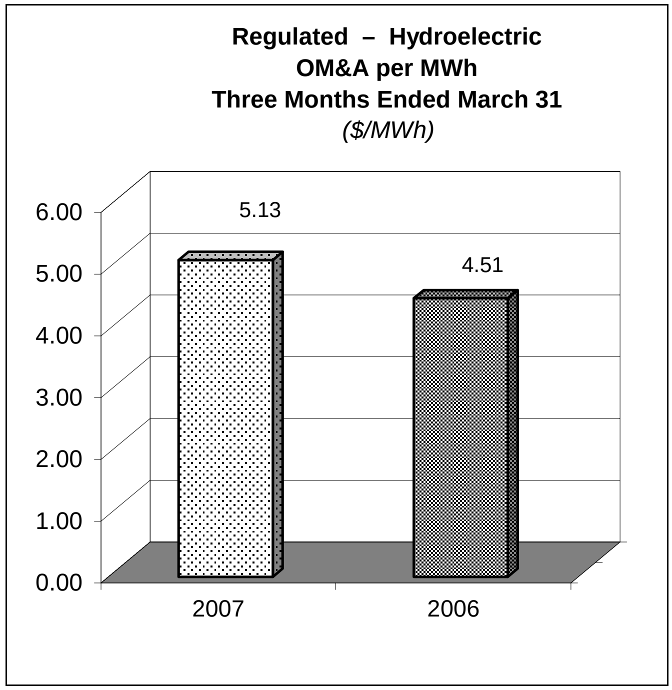
Fuel Expense

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 for the three months ended March 31, 2007 and March 31, 2006 was $52 million.

Operations, Maintenance and Administration

OM&A expenses for the three months ended March 31, 2007 were $23 million compared to $21 million for the first quarter of 2006.

OM&A expense per MWh for the regulated hydroelectric stations increased to $5.13/MWh in the first quarter of 2007 compared to $4.51/MWh for the same period in 2006. This increase was due to slightly higher OM&A expenses for the three months ended March 31, 2007.



Depreciation and Amortization

Depreciation expense for the three months ended March 31, 2007 was unchanged at $16 million compared to the same period in 2006.

Unregulated – Hydroelectric Segment

	Three Months Ended March 31	
(millions of dollars)	**2007**	**2006**
Revenue net of revenue limit rebate	**191**	204
Fuel expense	**19**	20
Gross margin	**172**	184
Operations, maintenance and administration	**42**	36
Depreciation and amortization	**18**	16
Property and capital taxes	**4**	4
Income before interest and income taxes	**108**	128

Revenue

	Three Months Ended March 31	
(millions of dollars)	**2007**	**2006**
Spot market sales, net of hedging instruments	**215**	219
Revenue limit rebate	**(31)**	(20)
Other	**7**	5
Total revenue	**191**	204

Unregulated – Hydroelectric revenue was $191 million for the three months ended March 31, 2007 compared to $204 million for the same period in 2006. The decrease of $13 million was primarily due to lower generation volume.

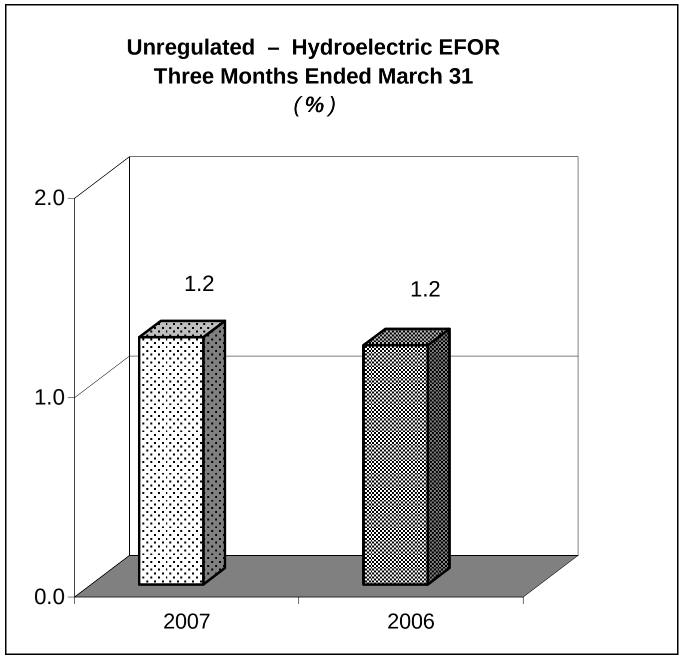
Electricity Prices

Eighty-five per cent of the generation output from OPG's unregulated generating assets, excluding the Lennox generating station, TRO volumes and forward sales as of January 1, 2005, was subject to the revenue limit based on an average price of 4.7¢/kWh commencing April 1, 2005. Effective May 1, 2006, the revenue limit decreased to 4.6¢/kWh. In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the Ontario Power Authority ("OPA") are subject to a revenue limit that is 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets.

After taking into account the revenue limit rebate, OPG's average sales price for its unregulated hydroelectric generation for the three months ended March 31, 2007 and March 31, 2006 was 4.7¢/kWh and 4.8¢/kWh, respectively. The decrease in average sales price during the three months ended March 31, 2007 compared to the same period in 2006 was primarily due to the lower revenue limit of 4.6¢/kWh, partially offset by the impact of higher average Ontario spot market prices.

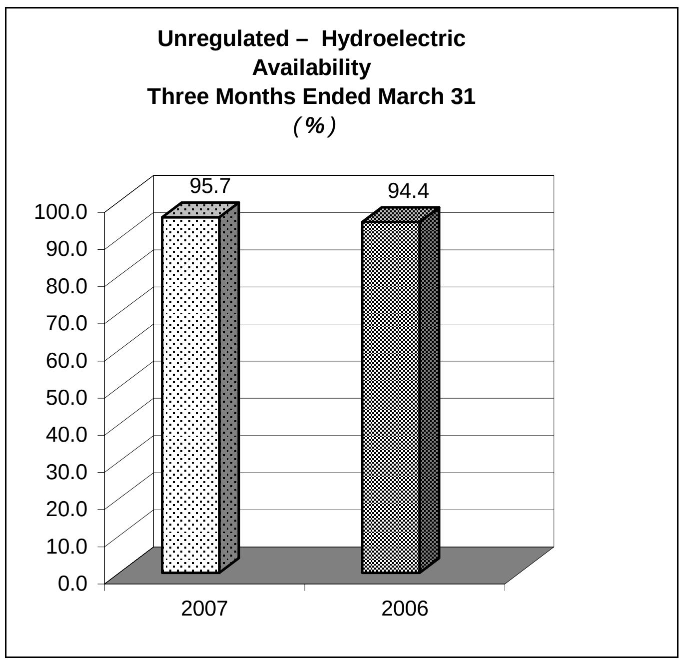
Volume

Electricity sales volume for the three months ended March 31, 2007 was 3.9 TWh compared to 4.2 TWh during the same period in 2006. The decrease in volume was primarily due to lower water levels in Northwestern Ontario.



The EFOR for the Unregulated – Hydroelectric stations was unchanged at 1.2 per cent for the three months ended March 31, 2007 and March 31, 2006.

The availability for the Unregulated – Hydroelectric stations was 95.7 per cent for the three months ended March 31, 2007 compared to 94.4 per cent in the first quarter of 2006. The higher availability in the first quarter of 2007 compared to the same period in 2006 was due to fewer planned outage days. The high availability and low EFOR reflect the continuing strong performance of the Unregulated – Hydroelectric stations.



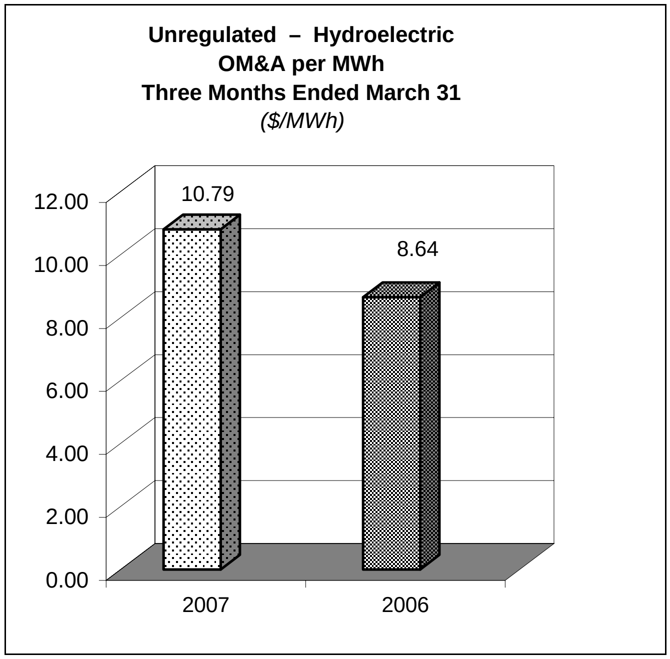
Fuel Expense

Generating stations within this segment are subject to the gross revenue charge. Fuel expense was $19 million for the three months ended March 31, 2007 compared to $20 million for the same period in 2006. The decrease in fuel expense was a result of lower generation volume.

Operations, Maintenance and Administration

OM&A expenses for the three months ended March 31, 2007 were $42 million compared to $36 million for the same period in 2006.

OM&A expense per MWh for the unregulated hydroelectric stations increased to $10.79/MWh in the first quarter of 2007 compared to $8.64/MWh for the same period in 2006. This increase was due to slightly higher OM&A expenses and the impact of lower generation for the three months ended March 31, 2007.



Depreciation and Amortization

Depreciation expense for the three months ended March 31, 2007 was $18 million compared to $16 million for the same period in 2006.

Unregulated – Fossil-Fuelled Segment

	Three Months Ended March 31	
(millions of dollars)	**2007**	**2006**
Revenue, net of revenue limit rebate	**448**	381
Fuel expense	**225**	175
Gross margin	**223**	206
Operations, maintenance and administration	**130**	117
Depreciation and amortization	**18**	49
Accretion on fixed asset removal	**2**	2
Property and capital taxes	**6**	4
Income before interest and income taxes	**67**	34

Revenue

	Three Months Ended March 31	
(millions of dollars)	**2007**	**2006**
Spot market sales, net of hedging instruments	**463**	378
Revenue limit rebate	**(65)**	(40)
Other	**50**	43
Total revenue	**448**	381

Unregulated – Fossil-Fuelled revenue was $448 million for the three months ended March 31, 2007 compared to $381 million for the same period in 2006, an increase of $67 million. The increase in revenue was a result of higher electricity generation of 1.1 TWh during the first quarter of 2007 compared to the same period in 2006. The increase in revenue was partially offset by the impact of lower average electricity prices for the Unregulated – Fossil-Fuelled segment, net of the revenue limit rebate.

The increase in revenue was also due to higher revenue related to the Lennox reliability must-run contract. During the first quarter of 2007, OPG recorded revenue of $40 million related to the recovery of costs compared to $29 million for the same period in 2006.

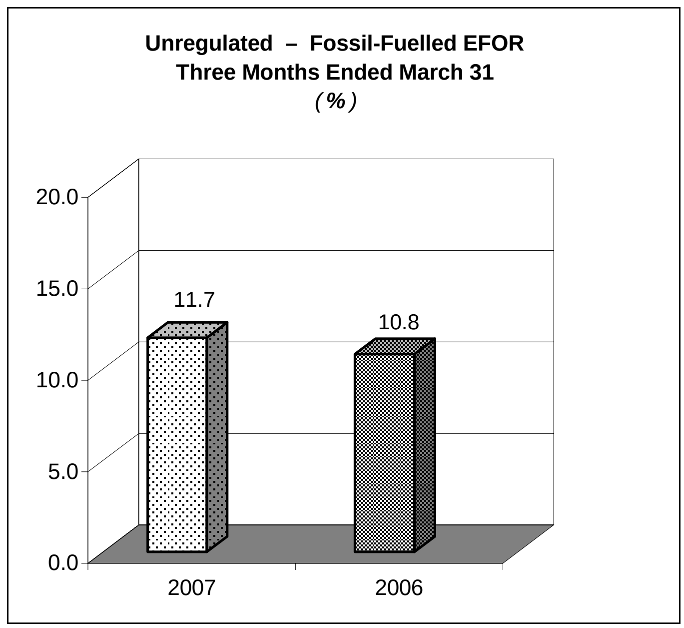
Electricity Prices

OPG's average sales price net of the revenue limit rebate for its unregulated fossil-fuelled generation was 4.8¢/kWh for the three months ended March 31, 2007 compared to 4.9¢/kWh for the same period in 2006. The decrease in average sales price was primarily due to the impact of a lower revenue limit of 4.6¢/kWh, partially offset by the impact of higher average Ontario spot electricity market prices for the three months ended March 31, 2007.

Volume

Electricity sales volume for the three months ended March 31, 2007 was 8.1 TWh compared to 7.0 TWh for the same period in 2006. The increase in volume was primarily due to lower nuclear generation in Ontario.

While the EFOR for the fossil-fuelled generating stations was 11.7 per cent during the first quarter of 2007 compared to 10.8 per cent for the same period last year it continues to reflect strong performance of the fossil-fuelled generating stations. The slightly higher EFOR was impacted primarily by unplanned outages and related maintenance at the Lambton and Nanticoke generating stations. The EFOR of 11.7 per cent for the first quarter of 2007 has improved significantly compared to an EFOR of 14.1 per cent for the year 2006.



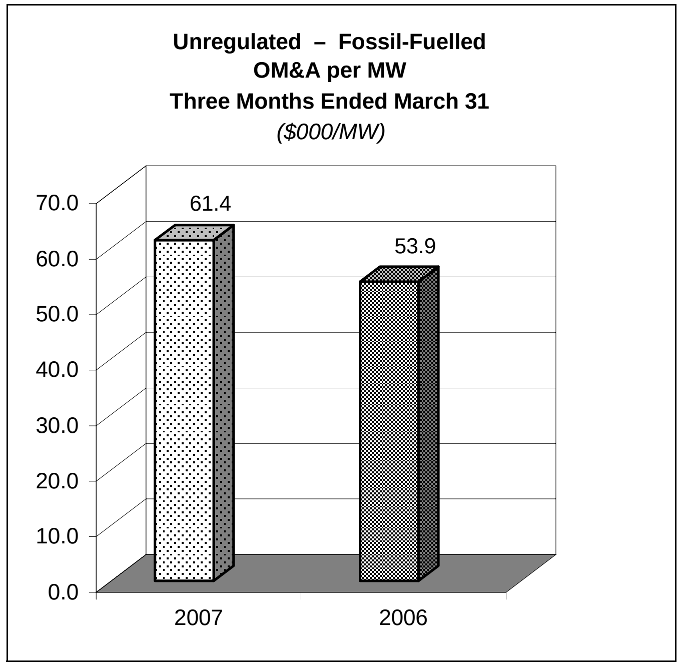
Fuel Expense

Fuel expense was $225 million for the three months ended March 31, 2007 compared to $175 million for the same period in 2006. The increase of $50 million was primarily due to a higher generation volume for the three months ended March 31, 2007, including an increase in volume at OPG's Lennox generating station, which has a higher marginal cost of fuel.

Operations, Maintenance and Administration

OM&A expenses for the three months ended March 31, 2007 were $130 million compared to $117 million for the same period in 2006. The increase of $13 million was mainly due to new maintenance programs and projects related to the extension of the service lives of the coal-fired generating stations, and project expenditures at the Thunder Bay generating station.

Annualized OM&A expense per MW ($/MW) for the unregulated fossil-fuelled stations increased to $61,400/MW for the three months ended March 31, 2007 compared to $53,900/MW for the first quarter of 2006. The increase reflected the impact of the higher OM&A expenses noted above.



Depreciation and Amortization

Depreciation expense for the three months ended March 31, 2007 was $18 million, compared to $49 million for the same period in 2006. The decrease in depreciation expense was primarily due to the extension of the service lives of the coal-fired generating stations, for the purpose of calculating depreciation, due to the delay in the coal replacement program announced in June 2006. OPG will continue to assess the service lives of the coal-fired stations upon release of the IPSP, and the subsequent approval by the OEB, and on the basis of other available information.

Other

	Three Months Ended March 31	
(millions of dollars)	**2007**	**2006**
Revenue	**27**	39
Operations, maintenance and administration	**-**	1
Depreciation and amortization	**14**	10
Property and capital taxes	**3**	2
Income before interest and income taxes	**10**	26

Other revenue was $27 million for the three months ended March 31, 2007 compared to $39 million for the same period in 2006. There was a net trading loss for the first quarter of 2007 of $1 million compared to a net trading gain of $22 million during the first quarter of 2006. The decrease of $23 million was primarily due to mark-to-market losses on interconnected sales contracts and lower margins on interconnected sales. The decrease in trading revenue was partially offset by an $11 million increase in non-electricity sales revenue primarily due to higher investment income from OPG's equity investments.

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 three months ended March 31, 2007, the service fee was $8 million for Regulated – Nuclear, $1 million for Unregulated – Hydroelectric and $2 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of $11 million for the Other category. For the three months ended March 31, 2006, the service fee was $4 million for Regulated – Nuclear and $2 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of $6 million for the Other category. Results for the three months ended March 31, 2006 have been reclassified to reflect the service fee.

Interconnected purchases and sales (including those to be physically settled) and mark-to-market gains and losses (realized and unrealized) on energy trading contracts are disclosed on a net basis in the consolidated statements of income. If disclosed on a gross basis, revenue and power purchases for the three months ended March 31, 2007 would have increased by $44 million (three months ended March 31, 2006 – $49 million), with no impact on net income.

The changes in the fair value of derivative instruments not qualifying for hedge accounting are recorded in Other revenue, and 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 11 in the unaudited interim consolidated financial statements as at and for the three months ended March 31, 2007.

Net Interest Expense

The net interest expense for the three months ended March 31, 2007 was $26 million compared to $49 million for the same period in 2006. The decrease in interest expense was primarily due to the deferral of additional interest related to the Pickering A return to service deferral account. Additional interest was deferred in accordance with the requirements of the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario).

Income Tax

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. 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 through future regulated prices charged to customers.

Income tax expense for the first quarter of 2007 was $57 million compared to an income tax expense of $95 million for the same period in the prior year. The decrease in the income tax expense was primarily due to lower earnings in 2007 compared to the same period in 2006. During the first quarter of 2007 and 2006, the income tax expense was lower than what would otherwise have been recorded had OPG accounted for income tax for the regulated segment using the liability method by $18 million and $10 million, respectively.

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 are unique to OPG and relate 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*. Although OPG has subsequently resolved some of these issues, there is uncertainty as to how the remaining issues will be resolved. OPG expects to receive a reassessment for its 1999 taxation year. The Company would defend its position through the tax appeals process.

OPG has previously recorded income tax charges related to certain income tax positions that the Company has taken in prior years that may be disallowed. Given the uncertainty as to how these income tax matters will be resolved, OPG has not adjusted its income tax liabilities. Should the ultimate outcome 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.

LIQUIDITY AND CAPITAL RESOURCES

OPG's primary sources of liquidity and capital are funds generated from operations, bank financing and credit facilities provided by OPG's shareholder. These resources are required for continued investment in plant and technologies, and to meet other significant funding obligations including contributions to the pension fund, the Used Fuel Segregated Fund ("Used Fuel Fund") and Decommissioning Segregated Fund ("Decommissioning Fund") (together, the "Nuclear Funds"), and to service and repay long-term debt and revenue limit rebate obligations.

	Three Months Ended March 31	
(millions of dollars)	**2007**	**2006**
Cash and cash equivalents, beginning of the period	**6**	908
Cash flow provided by operating activities	**163**	434
Cash flow (used in) investing activities	**(164)**	(122)
Cash flow provided by (used in) financing activities	**10**	(301)
Net increase	**9**	11
Cash and cash equivalents, end of the period	**15**	919

Operating Activities

Cash flow provided by operating activities for the three months ended March 31, 2007 was $163 million compared to $434 million during the same period in 2006, a decrease of $271 million. The decrease was primarily due to lower cash receipts from electricity sales and other changes in working capital requirements.

Investing Activities

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

Investment in fixed assets during the three months ended March 31, 2007 was $134 million compared with $114 million during the same period in 2006. The increase in capital expenditures was primarily due to increased investment in Portlands Energy Centre, and partially offset by lower spending on the Niagara Tunnel project.

OPG's anticipated capital expenditures for 2007 are approximately $900 million, which include amounts for the Niagara Tunnel project, Portlands Energy Centre, the Lac Seul project, and the Lower Mattagami project.

Investing activities included costs related to OPG's regulatory assets of $30 million in the first quarter of 2007 compared to $10 million during the same period in 2006. The amounts deferred during the three months ended March 31, 2007, and reflected in the investing activities, included interest expense of $21 million related to the Pickering A return to service deferral account, and $9 million related to non-capital costs incurred for nuclear generation development initiatives.

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 maturing May 22, 2007 and a $500 million three-year term tranche maturing May 22, 2009. OPG received commitments from the banks to renew and extend the maturity date of the 364-day term tranche to May 21, 2008 and extend the term of the other tranche for a five-year term to May 22, 2012. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. OPG has recently borrowed under its commercial paper program. As at March 31, 2007, $177 million of commercial paper was outstanding (December 31, 2006 – $15 million). OPG had no other outstanding borrowings under the bank credit facility.

OPG also maintains $26 million (2006 – $26 million) in short-term uncommitted overdraft facilities as well as $240 million (2006 – $240 million) of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG uses Letters of Credit to support the supplementary pension plans, and is required to post Letters of Credit as collateral with Local Distribution Companies ("LDCs") as prescribed by the OEB's Retail Settlement Code. At March 31, 2007 and December 31, 2006, there were a total of $185 million of Letters of Credit issued, which included $159 million for the supplementary pension plans and $16 million related to the construction of Portlands Energy Centre.

To finance the Niagara Tunnel project, OPG negotiated an agreement with the OEFC to finance the 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 $210 million as at March 31, 2007, including $50 million of new borrowing during the three months ended March 31, 2007. Similarly, debt financing has been negotiated with the OEFC for OPG's interest in Portlands Energy Centre and the Lac Seul project for up to $400 million and $50 million, respectively. Advances under these facilities commenced in December 2006, and totalled $90 million for Portlands Energy Centre and $20 million for the Lac Seul projects, as at March 31, 2007. OPG did not obtain additional borrowing under these facilities during the first quarter of 2007.

In March 2007, OPG met its debt retirement obligation by repaying $200 million of maturing notes held by the OEFC. As at March 31, 2007, OPG's long-term debt outstanding with the OEFC was $3.0 billion. Although the new financing added in 2006 has extended the maturity profile, approximately $2.3 billion of long-term debt must be repaid or refinanced within the next five years. OPG's liquidity outlook for 2007 is forecast to be constrained due to electricity prices that are forecast to remain at relatively low levels, revenues that are subject to regulated prices and a revenue limit, contributions to the pension fund and other post employment benefit payments, debt repayment obligations, and significant funding requirements for ongoing operations and new generation project development. To ensure that adequate financing resources are available beyond its $1 billion commercial paper program backed by the bank credit facility, OPG is negotiating with its shareholder, and the OEFC, to establish two new financial agreements. A $500 million short term facility would be used to fund cash requirements for the current fiscal year, while a second, longer term facility would provide OPG with the flexibility to repay or refinance notes as they mature over the next three years.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Changes in Accounting Policies and Estimates

The accounting policies used in preparing the unaudited interim consolidated financial statements are consistent with those used in the preparation of the 2006 annual consolidated financial statements, except as disclosed in Note 2 to the unaudited interim consolidated financial statements.

Certain of the accounting policies disclosed in OPG's 2006 annual audited consolidated financial statements are recognized as critical by virtue of the subjective and complex judgements 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 relate to rate regulated accounting, income taxes, business segments, impairment of generating stations and other fixed assets, pension and other post employment benefits, asset retirement obligations and depreciation. For further details, refer to the 2006 annual MD&A under the heading, *Critical Accounting Policies and Estimates*.

On January 1, 2007, the Company adopted the CICA Handbook Sections 3855, *Financial Instruments – Recognition and Measurement*, 3865, *Hedges*, 1530, *Comprehensive Income*, 3251 *Equity*, and 3861, *Financial Instruments – Disclosure and Presentation*. These standards have been applied prospectively with transition adjustments to opening retained earnings of $513 million and accumulated other comprehensive income ("AOCI") of $21 million. The impact of adoption is further disclosed in Note 2 to the unaudited interim financial statements.

Future Changes in Accounting Policies and Estimates

Capital Disclosures

The CICA issued an accounting standard, Section 1535, *Capital Disclosures*, which requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The standards also require companies to disclose if the company has complied with any capital requirements, and, if it has not complied, the consequences of such non-compliance. This new accounting standard will be effective for the Company beginning January 1, 2008. OPG is evaluating the impact of this new standard on its consolidated financial statements.

Financial Instruments – Disclosure and Presentation

OPG will be required to adopt Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These standards were issued in December 2006 and will replace Section 3861, *Financial Instruments – Disclosure and Presentation*. The new disclosure standard increases the emphasis on the risk associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements under the existing Section 3861. These new accounting standards will be effective for OPG beginning January 1, 2008. OPG is assessing the impact of the new standards on its consolidated financial statements.

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 the "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 currently reported as materials and supplies on OPG's consolidated balance sheet may be accounted for in the future as property, plant and equipment. The new accounting standard and any consequential amendments will be effective for OPG beginning January 1, 2008. OPG is in the process of assessing the impact of the new standard.

BALANCE SHEET HIGHLIGHTS

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

Selected balance sheet data *(millions of dollars)*	**As at** **March 31 2007**	**December 31 2006**
Assets		
Accounts receivable	**397**	256
Property, plant and equipment – net	**12,738**	12,761
Nuclear fixed asset removal and nuclear waste management funds	**8,306**	7,594
Regulatory assets	**278**	251
Liabilities		
Accounts payable and accrued charges	**820**	989
Revenue limit rebate payable	**114**	40
Long-term debt (including debt due within one year)	**3,207**	3,359
Fixed asset removal and nuclear waste management	**10,623**	10,520
Other post employment benefits and supplementary pension plans (long-term portion)	**1,440**	1,396

Accounts Receivable

As at March 31, 2007, accounts receivable were $397 million compared to $256 million as at December 31, 2006. The increase of $141 million was primarily due to higher electricity generation volumes in March 2007 compared to December 2006.

Property, Plant and Equipment – Net

Net property, plant and equipment as at March 31, 2007 was $12,738 million compared to $12,761 million as at December 31, 2006. The decrease of $23 million was primarily due to depreciation expense, partially offset by additions to fixed assets.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

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

To fund these liabilities, OPG established and manages, jointly with the Province, a Used Fuel Fund and a Decommissioning Fund, which are funded by OPG in accordance with the ONFA. The Used Fuel Fund is primarily intended to fund future expenditures associated with the disposal of highly radioactive used nuclear fuel bundles. The Decommissioning Fund was established to fund future 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 and trustee accounts that are segregated from the rest of OPG's assets.

Assets in the Nuclear Funds are invested in fixed income and equity securities. The Nuclear Funds are referred to as the nuclear fixed asset removal and nuclear waste management funds in OPG's consolidated financial statements. Until December 31, 2006, OPG recorded the assets in the Nuclear Funds as long-term investments at their amortized cost. Up to and including December 31, 2006, gains and losses were recognized only upon the sale of an underlying security. As such, any unrealized gains and losses associated with the investments in the Nuclear Funds were not recognized in OPG's consolidated financial statements. As at December 31, 2006, the value of the Nuclear Funds on an amortized cost basis was $7,594 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

According to 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. At December 31, 2006, based on the estimate of costs to complete under the 2006 Approved Reference Plan, the Decommissioning Fund was fully funded on a fair value basis, and underfunded on an amortized cost basis.

As a result of the adoption of the financial instruments accounting standards on January 1, 2007, OPG adjusted the investments and the related payables in the Decommissioning Fund, to fair value and recorded a transition adjustment of $519 million to increase opening retained earnings. Subsequently, the investments and the related payables in the Decommissioning Fund are measured at fair value and any changes to the fair values are recognized in income.

On January 1, 2007, because the fair value of the investments in the Decommissioning Fund exceeded the estimated completion costs under the 2006 Approved Reference Plan, the Decommissioning Fund balance was reduced by the amount of the excess funding through the recording of a payable to the Province. This requirement to cap the value of the Decommissioning Fund under the ONFA results in earnings being capped at 5.15 per cent, 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 at market value.

At March 31, 2007, the Decommissioning Fund asset value on a fair value basis was $5,252 million, which continued to exceed 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 $324 million. 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 per cent funded, OPG may direct up to 50 per cent of the surplus over 120 per cent to be treated as a contribution to the Used Fuel Fund, and the OEFC is entitled to a distribution of an equal amount.

Used Fuel Fund

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 per cent 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 earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of the assets, which includes realized and unrealized returns, is recorded as due to or due from the Province.

Up until December 31, 2006, OPG accounted for the investments in the Used Fuel Fund on an amortized cost basis, with the amount due to or due from the Province being recorded in the consolidated financial statements as the difference between the committed return and the actual return based on realized returns. At December 31, 2006, the Used Fuel Fund included an amount due to the Province of $100 million. The Used Fuel Fund asset value, after taking into account the committed return and the amount due to the Province, was $3,238 million at December 31, 2006. In addition, under the ONFA, the Province is entitled to any surplus in the Used Fuel Fund, subject to a threshold funded ratio of 110 per cent compared to the value of the associated liabilities.

Commencing January 1, 2007, the investment in the Used Fuel Fund is measured at fair value. Accordingly, the Used Fuel Fund balance increased to $3,876 million to reflect the fair value measurement. The Province guarantees OPG's annual return in the Used Fuel Fund related to the initial 2.23 million used fuel bundles at the committed return, such that any difference between the committed return and the actual return based on fair value would be offset by the change in the related payable or receivable to the Province in the Used Fuel Fund. As a result, OPG did not record a transition adjustment to opening retained earnings for the Used Fuel Fund.

As at March 31, 2007, the Used Fuel Fund asset value on a fair value basis was $4,063 million. The asset value was offset by a payable to the Province of $685 million related to the committed return adjustment.

Regulatory Assets

As at March 31, 2007, regulatory assets were $278 million compared to $251 million as at December 31, 2006. In accordance with the amendment to the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario), during the three months ended March 31, 2007, OPG recorded $33 million in the deferral account related to the increase in OPG's liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management arising from the 2006 Approved Reference Plan. The recognition of the regulatory asset for this deferral account reduced the additional expense resulting from the increase in the nuclear liabilities. These expenses included accretion on the fixed asset removal and nuclear waste management liabilities and depreciation of the carrying value of the related fixed assets. During the three months ended March 31, 2007, OPG also deferred $9 million of non-capital costs incurred for nuclear generation development initiatives.

The increases in regulatory assets were partially offset by the reduction in the balance of the Pickering A return to service deferral account due to amortization expense of $36 million during the first quarter of 2007 as compared to amortization expense of $10 million during the same period in 2006. The impact of the additional amortization related to the Pickering A return to service deferral account was partly offset by the deferral of $21 million of additional interest expense related to the balance in the deferral account as prescribed by the amended regulation.

Accounts Payable and Accrued Charges

Accounts payable and accrued charges as at March 31, 2007 were $820 million compared to $989 million as at December 31, 2006. The decrease of $169 million was primarily due to the reduction in accrued interest on the OEFC bonds resulting from a payment made in the first quarter of 2007, reduced payroll related accruals, and lower fossil fuels and uranium purchases.

Revenue Limit Rebate Payable

The revenue limit rebate payable as at March 31, 2007 was $114 million compared to $40 million as at December 31, 2006. The increase of $74 million during the first quarter of 2007 was primarily related to higher electricity sales by OPG's unregulated segments.

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

Long-term debt as at March 31, 2007 was $3,207 million compared to $3,359 million as at December 31, 2006. The decrease in long-term debt was primarily due to repayment of long-term debt of $202 million, partially offset by new debt issuance of $50 million related to the Niagara Tunnel project during the first quarter of 2007.

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 March 31, 2007 was $10,623 million compared to $10,520 million as at December 31, 2006. The increase was primarily due to accretion due to the passage of time, partially offset by expenditures on nuclear waste management activities.

OPEB and Supplementary Pension Plans

The long-term portion of the liability for OPEB and supplementary pension plans was $1,440 million as at March 31, 2007 compared to $1,396 million as at December 31, 2006. The increase of $44 million was due to costs recognized during the first quarter of 2007, net of benefit payments.

Accumulated Other Comprehensive Income

Effective January 1, 2007, OPG adopted the CICA Handbook Section 3865 – Hedges, and recognized hedging instruments designated as cash flow hedges in opening AOCI on a net of tax basis. At the same time, the fair value of the hedging instruments was recorded on OPG's interim consolidated balance sheets. Subsequent adjustments arising due to these hedging instruments are also recognized in AOCI on a net of tax basis. Prior to January 1, 2007, hedging instruments that qualified for hedge accounting were not carried at fair value on the consolidated balance sheets and were disclosed as off-balance sheet items.

The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized in income upon settlement of the underlying transactions. OPG holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity. Foreign exchange derivative instruments are used to hedge the exposure to anticipated USD denominated purchases. Interest rate derivative contracts are used to hedge exposure to changes in market interest rates on variable debt and on debt expected to be issued in the future. When a derivative instrument 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. As at March 31, 2007, OPG reported AOCI of $10 million.

For additional information, refer to Note 11 of OPG's unaudited interim consolidated financial statements for the three months ended March 31, 2007.

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 on the Company's consolidated financial statements in 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 three months ended March 31, 2007, the average all-in cost of funds was 4.9 per cent and the pre-tax charges on sales to the trust were $4 million. The current securitization agreement extends to August 2009. Refer to Notes 3 and 4 of OPG's 2006 annual 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.

RISK MANAGEMENT

A detailed discussion of OPG's inherent risks, including operational, financial, and strategic risks are included in the 2006 annual MD&A under the heading, *Risk Management*. The sections which follow provide updates to this disclosure.

Operational Risks

OPG is exposed to the financial impacts of uncertain output from its generating units. The amount of electricity generated by OPG is affected by fuel supply, equipment malfunction, maintenance requirements, and regulatory and environmental constraints. There is also a risk that an unexpected deterioration of equipment could result in extensive repairs and additional remedial measures. The primary impacts of this risk are increased cost of operations, and the potential derating of a generating unit below its normal level of output.

Nuclear Segment Generation Risks

The uncertainty around the level of electricity produced by OPG's nuclear generating units is driven by equipment performance and by degradation in the condition of the plant components and systems. Management of these risks is primarily through the execution of an extensive maintenance program, aligned with industry practices, and through detailed plant condition assessments and lifecycle equipment management programs designed to keep the equipment in safe working order until the end of its design life.

In some cases, deterioration progresses or materials change properties in an unexpected way, resulting in the possible need for increased monitoring of a condition, extensive repairs, additional remedial measures or the derating of the units in order to maintain safe operating conditions. When a technology risk first appears or is suspected, a specific monitoring program is established. If the risk exposure materializes, a resolution program is initiated. The primary impact of these technology risks is an increase in the cost of operations. One resolution program currently underway is the replacement of piping components, known as feeders. Feeders are part of the system that transports heat from the reactors to the steam generators that feed the turbines producing electricity. Certain feeders have shown degradation beyond expectations, and will be replaced under a multi-year program.

In addition to remediation measures, monitoring and inspections, OPG's management programs with respect to technology and plant deterioration risks also involve the sharing of operating experiences and information with other nuclear operators, participating in industry-wide or shared research programs, as well as the development of investigation methods and remediation tools or methods.

Nuclear Regulatory Uncertainty

Another effect of plant deterioration or technology risks is their impact on nuclear regulation and the changes they bring to technical codes. Operating experience around the world also contributes new knowledge and understanding of both nuclear operations and safety issues, resulting in continually evolving regulatory rules and the refinement of safety measurements and assessments. Remaining current with and addressing these unexpected changes adds to the cost of operations and in some instances, it may result in a reduction in the productive capacity of a plant, or the premature replacement of a plant component. As there is currently no single, uniform, prescribed methodology to assess nuclear safety, OPG and its regulator may develop differing expectations about the timing or extent of any remediation needed. While such situations are normally resolved through subsequent detailed reviews and discussions, they contribute to the uncertainty of the regulatory requirements during the review period.

OPG manages regulatory uncertainty risk by maintaining close contacts with the regulator and issuers of standards and codes. Together with other industry members, OPG is pursuing the use of a common, risk-based mode of assessment and regulation.

Hydroelectric Segment Generation Risks

OPG's hydroelectric generating performance is partially dependent on the availability of water, which can 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 the capability of hydroelectric generation. OPG manages the risk with production forecasting models, which consider unit efficiency characteristics, water flow conditions and outage plans. Water flows and outage conditions are assessed and monitored on an ongoing basis.

The hydroelectric generating stations vary in age from 13 to 108 years, with an average age of over 72 years. Over 75 per cent of the hydroelectric generating capacity is over 50 years old. Due to the variability and age of some of the equipment and civil components, there is a risk that some facilities will require significant work and funding to sustain their reliability. OPG manages the reliability risks by conducting ongoing maintenance of critical components, engineering reviews, plant condition assessments, and inspections to identify future work necessary to sustain and, if necessary, upgrade the plant and its equipment. The business plan for the next five years includes substantial continued reinvestment in the hydroelectric assets to address issues associated with the age of the equipment and to improve the performance of the assets. The success of the program is monitored through the measurement of risk reduction and reliability improvements. OPG hydroelectric assets continue to significantly outperform relevant North American benchmarks.

The hydroelectric business segment operates 238 dams across the province. To mitigate and manage the risks associated with the operation of these dams, OPG has a dam safety program that performs ongoing maintenance, upgrades and rehabilitation work. OPG also undertakes ongoing dam safety reviews and monitoring, and ad hoc peer reviews. Emergency preparedness and response plans have been established for all facilities to mitigate losses in the event of a dam failure or uncontrolled release of water.

Unregulated – Fossil-Fuelled Segment Risks

The fossil-fuelled generation units can be interrupted by plant and equipment failures. OPG manages and mitigates the risks associated with its fossil-fuelled stations by performing ongoing maintenance and undertaking engineering reviews, condition assessments and critical reviews of maintenance processes. OPG uses the results of these reviews and assessments to make changes to inspection, maintenance, and capital project programs. The risks associated with plant and equipment failures and unplanned outages at OPG's fossil-fuelled generating stations are measured by their availability to produce electricity when called upon. OPG's fossil-fuelled generating stations' EFOR of 11.7 per cent for the first quarter of 2007 has improved compared to 14.1 per cent for the year ended December 31, 2006.

Major Project Risk

OPG is involved with several major development projects, including: the Niagara Tunnel, Lac Seul, Portlands Energy Centre, other projects supporting operating units, hydroelectric development projects, the potential refurbishment of existing nuclear generation, and the consideration of new nuclear units at OPG's Darlington nuclear generation site. There is a risk that OPG will have insufficient resources and ability to implement several large projects concurrently. This risk is especially critical given the complexity, long project timelines, and inherent risks related to these projects.

OPG has taken many steps that address the unique challenges relating to the various development projects. OPG utilizes Owner's Representative services to acquire the necessary technical expertise to monitor and control projects. Also, major projects have been contracted on a “design and build” basis, which provides OPG with greater certainty over costs.

For nuclear related projects, OPG established a new division to evaluate the viability of refurbishment of existing nuclear facilities in order to extend their life. The activities of this division include completing plant condition and environmental assessments, developing appropriate project infrastructures and confirming various industry regulatory requirements.

Human Resources Risk

OPG continues to identify demographic risks, assess resourcing gaps, and review plans and programs in place to meet business needs for human resources and critical skills. Business leaders are actively involved in the review of workforce needs and plans to resource critical skills and jobs in their functional lines of business. During the first quarter of 2007 several initiatives were undertaken in support of OPG’s employment brand, youth outreach and educational relations, including: the hiring of 26 engineering interns, participating in several college career fair events, and providing information about OPG’s programs for skilled trades, opportunities for co-op students, trainees and apprenticeship positions. In addition, OPG sponsored the Ontario Engineering competition where OPG provided information about its graduate and student opportunities.

Environmental Risk

OPG’s Environmental Policy commits OPG to meet all legal requirements and voluntary environmental commitments, integrate environmental factors into business planning and decision-making, and contribute to environmental protection, pollution prevention, and energy and resource use efficiency. This policy also commits OPG to maintain comprehensive environmental management systems (“EMSs”) at its generating facilities consistent with the ISO 14001 standard.

OPG monitors emissions into the air and water and regularly reports the results to various regulators, including the Ministry of the Environment, Environment Canada and the Canadian Nuclear Safety Commission. The public also receives ongoing communications regarding OPG’s environmental performance through community-based advisory groups, annual environmental reports, community newsletters, open houses and OPG’s website. 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.

In April 2007, the federal government announced their intention to proceed with regulating greenhouse gases and emissions contributing to smog formation. While Canada-wide targets were announced, targets by sector, particularly the electricity sector, are expected to be announced in June 2007. OPG is assessing the implications of the federal government’s announcement on its operations and will undertake a more detailed assessment following proclamation of electricity generation sector emission caps. There is a risk that OPG will be required to either make reductions or purchase offsets in order to meet the requirements that are expected to be implemented.

Financial Risks

Commodity Price Risk

Commodity price risk (the risk of changes in the market price of electricity or of the fuels used to produce electricity) will adversely impact OPG’s earnings and cash flow from operations. To manage this risk, the Company seeks to maintain a balance between the commodity price risk inherent in its electricity production and plant fuel portfolios to the extent that trading liquidity in the relevant commodities markets provides the economic opportunity to do so. To manage the input risk, OPG has a fuel hedging program, which includes fixed price and indexed contracts for fossil and nuclear fuels, as well as commodity derivatives.

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

	2007	2008	2009
Estimated generation output hedged [1]	94%	92%	71%
Estimated fuel requirements hedged [2]	100%	90%	79%
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, OPA auction sales and the revenue limit on OPG's non-prescribed assets.
2 Represents the approximate portion of megawatt hours of expected generation production (and fossil year-end inventory target) from all types of facilities (fossil, nuclear and hydroelectric) for which OPG has entered into some form of contractual arrangements or obligations in order to secure either the expected availability and/or price of fuel and/or fuel related services. Excess fuel in inventories in a given year is attributed to the next year for the purpose of measuring hedge ratios. Since production from hydroelectric facilities is primarily influenced by expected weather and weather patterns, fuel hedge ratios for hydroelectric facilities are assumed to be 100 per cent.
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 OPG's obligations under Ontario Environmental Regulations 397/01.

Trading Risk

Open trading positions are subject to measurement against Value at Risk ("VaR") limits. For a given portfolio, VaR measures the possible future loss in terms of market value, which under normal market conditions will not be exceeded within a defined probability and time period. VaR utilization ranged between $0.7 million and $1.6 million during the three months ended March 31, 2007, compared to $1.4 million and $3.0 million during the three months ended March 31, 2006. VaR utilization is closely monitored in order to ensure compliance with approved limits.

Liquidity Risk

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, rebate payments associated with the revenue limit, annual funding obligations under the ONFA, pension funding and continuing debt maturities with the OEFC. A discussion of corporate liquidity is included in the *Liquidity and Capital Resources* section.

Credit Risk

OPG's credit risk exposure is comprised of two major components: the first is derived from its sales of electricity and the second is derived from its purchases of services and products. As the majority of OPG's sales are derived through the IESO administered spot market, OPG management accepts this credit risk due to the IESO's primary role in the Ontario electricity market. This confidence is based on the IESO's own credit risk management policies and practices, which require all spot market participants to meet specific standards for creditworthiness. Additionally, in the event of a participant default, the loss is shared on a pro-rata basis among all participants thus reducing the specific exposure to OPG.

The following table provides information on credit risk from energy sales and trading activities as at March 31, 2007:

			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	165	121	8	102
Below investment grade	61	16	2	9
IESO [4]	1	491	1	491
Total	227	628	11	602

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 95 per cent confidence.
4 Credit exposure to the IESO peaked at $883 million during the three months ended March 31, 2007 and at $1,029 million during the year ended December 31, 2006.

OPG's second element of credit risk relates to the exposures created by companies ("counterparties") who are contracted to provide services or products. OPG manages this risk using a comprehensive credit risk management function that independently evaluates all major counterparties and provides continuous input to business units who acquire these services.

Strategic Risks

Regulatory Risk

Effective April 1, 2005, resulting from a regulation passed pursuant to the *Electricity Restructuring Act, 2004* (Ontario), OPG receives regulated prices for electricity generated from most of its baseload hydroelectric facilities and all of the nuclear facilities that it operates. These prices are expected to remain in effect until at least March 31, 2008. If there are changes to the fundamental assumptions on which these regulated prices were developed, the Province may amend them.

Effective some time after March 31, 2008, the OEB is expected to establish new regulated prices for electricity generated by OPG's regulated facilities. The process of setting new regulated prices is inherently uncertain. The new prices established by the OEB may not provide for recovery of all of OPG's costs, including an appropriate rate of return. Despite the fact that some costs may not be included within the new prices, these expenditures may still be necessary to maintain the reliability and safety of OPG's regulated generating assets.

Following a consultation process throughout 2006, the OEB has concluded that a limited cost of service form of regulation for OPG is appropriate for establishing prices to be effective on or after April 1, 2008. Under cost of service regulation, a rate application process leads to the implementation of new prices based on the total revenue requirement and forecast production. The OEB has stated that its first order for prices is expected to be in effect until December 31, 2009. OPG expects to file an application for new prices during 2007. The prices ultimately established by the OEB can have significant implications on OPG's future financial performance and operating plans. A delay in the effective date of new prices beyond April 1, 2008 may result in a continuation of current prices. To the extent that these prices do not reflect current costs and operating plans, this could negatively impact the Company's financial performance.

OPG has recorded certain regulatory assets and liabilities pursuant to the *Electricity Restructuring Act, 2004* (Ontario), which it expects to recover or refund through future regulated prices to be established by the OEB. In accordance with the regulation, the accuracy and prudence of certain of these balances must be demonstrated to the OEB as part of the process to establish new regulated prices. In the event that some of the amounts recorded as regulatory assets or liabilities are disallowed by the OEB, amounts disallowed will be reflected in the results of operations in the period that the OEB decision occurs.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

QUARTERLY FINANCIAL HIGHLIGHTS

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

(millions of dollars)	March 31 2007	December 31 2006	September 30 2006	June 30 2006
Revenue after revenue limit rebate	**1,524**	1,276	1,435	1,345
Net income (loss)	**171**	(19)	167	143
Net income (loss) per share	**$0.67**	$(0.08)	$0.65	$0.56

(millions of dollars)	March 31 2006	December 31 2005	September 30 2005	June 30 2005
Revenue after revenue limit rebate	1,508	1,496	1,571	1,373
Income before extraordinary item	199	160	181	137
Income before extraordinary item per share	$0.78	$0.62	$0.71	$0.53
Net income	199	160	181	63
Net income per share	$0.78	$0.62	$0.71	$0.25

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/cooling demands in the third quarter.

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

- Lower OM&A expenses due to the deferral of non-capital costs related to the planned return to service of all units at the Pickering A nuclear generating station, commencing January 1, 2005, as required by the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario);
- Lower income tax expense due to the use of the taxes payable method for the regulated segments commencing April 1, 2005;
- Impairment loss of $63 million related to Units 2 and 3 of the Pickering A generating station, recorded in the second quarter of 2005;
- One-time extraordinary loss of $74 million recorded in the second quarter of 2005, resulting from the adoption of rate regulated accounting and the corresponding use of the taxes payable method;
- Write-off of $22 million and $35 million of excess inventory as a result of not returning Pickering A generating station Units 2 and 3 to service recorded in the third and fourth quarters of 2005 respectively;
- Higher depreciation expense related to the return to service of Unit 1 at the Pickering A generating station in the fourth quarter of 2005;
- Decrease in depreciation expense primarily due to extension of service lives, for accounting purposes, of the Nanticoke station, Pickering B station and Unit 4 of the Pickering A station beginning in the first quarter of 2006;
- Higher pension and OPEB costs during 2006 and 2007 mainly due to changes in economic assumptions used to measure the costs;
- Write-off of $13 million for costs incurred on the Thunder Bay conversion project due to a Shareholder Declaration that effectively cancelled the project during the second 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; and
- 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.

SUPPLEMENTAL EARNINGS MEASURES

In addition to providing net income in accordance with Canadian GAAP, OPG's MD&A, unaudited interim consolidated financial statements as at and for the three months ended March 31, 2007 and 2006 and the notes thereto, present 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** is defined as net income.

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INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended March 31 *(millions of dollars except where noted)*	**2007**	**2006**
Revenue		
Revenue before revenue limit rebate	**1,620**	1,568
Revenue limit rebate *(Note 13)*	**(96)**	(60)
	1,524	1,508
Fuel expense	**328**	278
Gross margin	**1,196**	1,230
Expenses		
Operations, maintenance and administration	**694**	640
Depreciation and amortization *(Note 4)*	**182**	186
Accretion on fixed asset removal and nuclear waste management liabilities	**128**	125
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(91)**	(89)
Property and capital taxes	**29**	25
	942	887
Income before interest and income taxes	**254**	343
Net interest expense	**26**	49
Income before income taxes	**228**	294
Income tax expenses		
Current	**48**	20
Future *(Note 9)*	**9**	75
	57	95
Net income	**171**	199
Basic and diluted income per common share *(dollars)*	**0.67**	0.78
Common shares outstanding *(millions)*	**256.3**	256.3

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2007**	**2006**
Operating activities		
Net income	**171**	199
Adjust for non-cash items:		
Depreciation and amortization *(Note 4)*	**182**	186
Accretion on fixed asset removal and nuclear waste management liabilities	**128**	125
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(91)**	(89)
Pension cost *(Note 10)*	**61**	54
Other post employment benefits and supplementary pension plans *(Note 10)*	**61**	64
Future income taxes *(Note 9)*	**9**	75
Transition rate option contracts	**-**	(9)
Mark-to-market on energy contracts	**2**	(9)
Provision for used nuclear fuel	**7**	8
Regulatory assets and liabilities	**5**	(3)
Other	**(8)**	-
	527	601
Contributions to nuclear fixed asset removal and nuclear waste management funds	**(114)**	(114)
Expenditures on fixed asset removal and nuclear waste management	**(53)**	(28)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	**12**	7
Contributions to pension fund	**(66)**	(65)
Expenditures on other post employment benefits and supplementary pension plans	**(17)**	(15)
Revenue limit rebate	**(22)**	-
Expenditures on restructuring	**(2)**	(5)
Net changes to other long-term assets and liabilities	**-**	(31)
Changes in non-cash working capital balances *(Note 15)*	**(102)**	84
Cash flow provided by operating activities	**163**	434
Investing activities		
Increase in regulatory assets *(Note 5)*	**(30)**	(10)
Investment in fixed assets	**(134)**	(114)
Net proceeds from sale of long term investments	**-**	2
Cash flow (used in) investing activities	**(164)**	(122)
Financing activities		
Issuance of long-term debt *(Note 7)*	**50**	-
Repayment of long-term debt *(Note 7)*	**(202)**	(301)
Net increase in short-term notes *(Note 6)*	**162**	-
Cash flow provided by (used in) financing activities	**10**	(301)
Net increase in cash and cash equivalents	**9**	11
Cash and cash equivalents, beginning of period	**6**	908
Cash and cash equivalents, end of period	**15**	919

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**March 31 2007**	**December 31 2006**
Assets		
Current assets		
Cash and cash equivalents	**15**	6
Accounts receivable *(Note 3)*	**397**	256
Fuel inventory *(Note 14)*	**566**	669
Materials and supplies *(Note 14)*	**112**	112
	1,090	1,043
Fixed assets *(Note 14)*		
Property, plant and equipment	**17,266**	17,136
Less: accumulated depreciation	**4,528**	4,375
	12,738	12,761
Other long-term assets		
Deferred pension asset	**711**	706
Nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**8,306**	7,594
Long-term materials and supplies	**329**	326
Regulatory assets *(Note 5)*	**278**	251
Long-term accounts receivable and other assets	**93**	69
	9,717	8,946
	23,545	22,750

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**March 31 2007**	**December 31 2006**
Liabilities		
Current liabilities		
Accounts payable and accrued charges	**820**	989
Revenue limit rebate payable *(Note 13)*	**114**	40
Short-term notes payable *(Note 6)*	**177**	15
Long-term debt due within one year *(Note 7)*	**406**	406
Future income taxes *(Note 9)*	**6**	3
Deferred revenue due within one year	**12**	12
Income and capital taxes payable	**137**	128
	1,672	1,593
Long-term debt *(Note 7)*	**2,801**	2,953
Other long-term liabilities		
Fixed asset removal and nuclear waste management *(Note 8)*	**10,623**	10,520
Other post employment benefits and supplementary pension plans	**1,440**	1,396
Long-term accounts payable and accrued charges	**160**	150
Deferred revenue	**129**	132
Future income taxes *(Note 9)*	**261**	246
Regulatory liabilities *(Note 5)*	**16**	11
	12,629	12,455
Shareholder's equity		
Common shares	**5,126**	5,126
Retained earnings *(Note 2)*	**1,307**	623
Accumulated other comprehensive income	**10**	-
	6,443	5,749
	23,545	22,750

Commitments and Contingencies (Notes 1, 5, 6, 7, 8, 11 and 12)

See accompanying notes to the interim consolidated financial statements

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

Three Months Ended March 31 *(millions of dollars)*	**2007**	**2006**
Common shares	**5,126**	5,126
Retained earnings		
Balance at beginning of period	**623**	261
Transition adjustment on adoption of financial instruments accounting standards *(Note 2)*	**513**	-
Net income	**171**	199
Balance at end of period	**1,307**	460
Accumulated other comprehensive income, net of income taxes		
Balance at beginning of period	**-**	
Transition adjustment on adoption of financial instruments accounting standards *(Note 2)*	**21**	
Other comprehensive loss for the period	**(11)**	
Balance at end of period	**10**	
Total shareholder's equity at end of period	**6,443**	5,586

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2007**
Net income	**171**
Other comprehensive loss, net of income tax	
Net loss on derivatives designated as cash flow hedges[1]	**(8)**
Reclassification to income of gains on derivatives designated as cash flow hedges[2]	**(3)**
Other comprehensive loss for the period	**(11)**
Comprehensive income	**160**

[1] Net of income tax benefit of $5 million

[2] Net of income tax of $2 million

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006 (UNAUDITED)

1. BASIS OF PRESENTATION

These interim consolidated financial statements were prepared following the same accounting policies and methods as in the most recent annual consolidated financial statements, except as discussed in Note 2 to these interim consolidated financial statements. These interim consolidated financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles for annual financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended December 31, 2006.

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.

Certain of the 2006 comparative amounts have been reclassified from financial statements previously presented to conform to the 2007 financial statement presentation.

The interim consolidated financial statements include the accounts of Ontario Power Generation Inc. ("OPG" or the "Company") 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rate Regulated Accounting

In December 2004, the *Electricity Restructuring Act, 2004* (Ontario) received royal assent. A regulation made pursuant to that statute by the Province of Ontario (the "Province") in February 2005 provides that OPG receives regulated prices beginning April 1, 2005 for electricity generated from most of OPG's 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 was amended in February 2007. The amendment clarified certain aspects of the regulation and directed OPG to establish a deferral account related to certain changes in its liability for nuclear used fuel management and its liability for nuclear decommissioning and low and intermediate level waste management.

OPG's regulated prices were established by the Province based on a forecast of production volumes and total operating costs, and a return on rate base, which assumed an average five per cent rate of return on equity. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed assets, deferred charges, and an allowance for working capital. The initial prices took effect April 1, 2005, and are expected to remain in effect until at least March 31, 2008, at which time it is anticipated that new regulated prices to be established by the Ontario Energy Board (the "OEB") will take effect. If there are changes to the fundamental assumptions on which the initial prices were developed, the Province may amend these initial prices.

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. It regulates all 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.

Accounting standards recognize that rate regulation can create economic benefits and obligations, which are reported in the interim consolidated financial statements as regulatory assets and liabilities. When the regulation 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. Also, if the regulation provides for lesser or greater than planned revenue to be received or returned by OPG through future regulated prices, then OPG recognizes and reports a regulatory asset or liability, respectively. The measurement of such regulatory assets and liabilities are subject to certain estimates and assumptions, including assumptions made in the interpretation of the regulation. See Notes 5 and 9 to the unaudited interim consolidated financial statements for additional disclosure related to rate regulated accounting.

Changes in Accounting Policies and Estimates

On January 1, 2007, OPG adopted three new 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; and Handbook Section 3865, Hedges. OPG adopted these standards prospectively, and, as such, comparative amounts for prior periods have not been restated.

Comprehensive Income

As a result of adopting these standards, a new category, accumulated other comprehensive income, was added to shareholder's equity in the interim consolidated balance sheets. Comprehensive income consists of net income and other comprehensive income. This category includes changes in the fair value of the effective portion of cash flow hedging instruments. Amounts are recorded in other comprehensive income until the criteria for recognition in the interim consolidated statement of income are met.

Financial Instruments – Recognition and Measurement

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 purchased and sold, where the contract requires the asset to be delivered within an established time frame, 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 interim 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.

Impact of Adoption

Upon adoption of the financial instruments accounting standards, the assets in the Used Fuel Segregated Fund ("Used Fuel Fund") and the Decommissioning Segregated Fund ("Decommissioning Fund") (together the "Nuclear Funds") that were carried at amortized cost until the end of 2006, were classified as held-for-trading and reported at fair value. The transition adjustment related to the change in accounting for the Nuclear Funds was recognized in the opening balance of retained earnings at January 1, 2007. The transition adjustment for embedded derivatives within long-term contracts was also recognized in the opening balance of retained earnings at January 1, 2007. Prior to January 1, 2007, OPG disclosed the market value of securities in the Nuclear Funds based on the closing price of the securities. Starting January 1, 2007, OPG applied bid pricing to determine the market value of the securities. As a result, the fair value of the Nuclear Funds based on bid pricing is lower than that reported as at December 31, 2006 in Note 9 of the audited consolidated financial statements. The change in pricing methodology does not have any impact to the overall balance on the interim consolidated balance sheets since the reduction in fair value is offset by the corresponding change in the due to Province balance.

The fair values of hedging instruments designated as cash flow hedges were recognized in the opening accumulated other comprehensive income on a net of tax basis. The fair values of these hedges are disclosed in Note 11 to the unaudited interim consolidated financial statements.

The transition amounts that were recorded in the opening retained earnings or in the opening accumulated other comprehensive income balance on January 1, 2007 were as follows:

	At Cost	**At Fair Value**	**Transition Amounts – January 1, 2007**	
(millions of dollars)	**December 31 2006**	**January 1 2007**	**Opening Retained Earnings**	**Opening Accumulated Other Comprehensive Income**
Nuclear Funds balance	7,694	9,041	1,347	-
Due to Province	(100)	(928)	(828)	-
	7,594	8,113	519	-
Accounts receivable and other assets	325	372	-	47
Accounts payable and accrued charges	(989)	(1,005)	(6)	(10)
Net future income tax liability	(249)	(265)	-	(16)
Transition adjustments			513	21

Future Changes in Accounting Policies

Capital Disclosures

The CICA issued a new accounting standard, Handbook Section 1535, Capital Disclosures, which 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. This new standard is effective for OPG beginning January 1, 2008.

Financial Instruments – Disclosure and Presentation

In December 2006, the CICA issued Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These standards will replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation. The new disclosure standard increases the emphasis on the risk associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements under the existing Handbook Section 3861. These new accounting standards will be effective for OPG beginning January 1, 2008. OPG is assessing the impact of the new standards on its consolidated financial statements.

Inventories

The CICA issued a new 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 the "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 currently reported as materials and supplies on OPG's consolidated balance sheet may be accounted for in the future as property, plant and equipment. The new accounting standard and any consequential amendments will be effective for OPG beginning January 1, 2008. OPG is in the process of assessing the impact of the new standard.

3. 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 the three months ended March 31, 2007, the Company has recognized pre-tax charges of $4 million (three months ended March 31, 2006 – $3 million) on such sales at an average cost of funds of 4.9 per cent (three months ended March 31, 2006 – 4.1 per cent). As at March 31, 2007, OPG had sold receivables of $300 million (December 31, 2006 – $300 million) from its total portfolio of $502 million (December 31, 2006 – $392 million).

4. FIXED ASSETS, DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for the three months ended March 31, 2007 and 2006 consists of the following:

(millions of dollars)	**Three Months Ended March 31 2007**	**Three Months Ended March 31 2006**
Depreciation	**144**	175
Amortization of deferred Pickering A return to service costs *(Note 5)*	**36**	10
Nuclear waste management costs	**2**	1
	182	186

Interest capitalized to construction in progress at 6.0 per cent (three months ended March 31, 2006 – 6.0 per cent) during the three months ended March 31, 2007 was $8 million (three months ended March 31, 2006 – $4 million).

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

The regulatory assets and liabilities as at March 31, 2007 and December 31, 2006 are as follows:

(millions of dollars)	**March 31 2007**	**December 31 2006**
Regulatory assets		
Pickering A generating station return to service costs	**234**	249
Nuclear liabilities deferral account	**33**	-
Nuclear generation development costs	**9**	-
Transmission outages and transmission restrictions variance	**2**	2
Total regulatory assets	**278**	251
Regulatory liabilities		
Hydroelectric production variance	**5**	4
Ancillary services revenue variance	**1**	-
Other	**10**	7
Total regulatory liabilities	**16**	11

The changes in the regulatory assets and liabilities for the three months ended March 31, 2007 and the year ended December 31, 2006 are as follows:

(millions of dollars)	**Pickering A Return to Service Costs**	**Nuclear Liabilities Deferral Account**	**Nuclear Generation Development Costs**	**Transmission Outages and Transmission Restrictions Variance**	**Hydro-electric Production Variance**	**Ancillary Services Revenue Variance**	**Other**
Regulatory assets (liabilities), January 1, 2006	261	-	-	-	(4)	4	(8)
Increase (decrease) during the year	13	-	-	2	-	(4)	1
Amortization during the year	(25)	-	-	-	-	-	-
Regulatory assets (liabilities), December 31, 2006	249	-	-	2	(4)	-	(7)
Increase (decrease) during the period	21	33	9	-	(1)	(1)	(3)
Amortization during the period	(36)	-	-	-	-	-	-
Regulatory assets (liabilities), March 31, 2007	**234**	**33**	**9**	**2**	**(5)**	**(1)**	**(10)**

Pickering A Return to Service Costs

Effective January 1, 2005, in accordance with a regulation made under the *Electricity Restructuring Act, 2004* (Ontario), 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. The change in accounting was prospectively adopted on January 1, 2005. As at March 31, 2007, the balance in the deferral account was $234 million, consisting of non-capital costs of $232 million relating to Unit 1 and $19 million relating to Units 2 and 3, $20 million of general return to service non-capital costs and interest of $28 million, net of the accumulated amortization of $65 million. During the three months ended March 31, 2007, OPG deferred $21 million of additional interest related to the Pickering A return to service deferral account as a result of the amendment to the regulation made in February 2007. The costs accumulated in the deferral account are charged to operations in accordance with the terms of the regulation.

As at December 31, 2006, the balance in the deferral account was $249 million, consisting of non-capital costs of $232 million relating to Unit 1 and $19 million relating to Units 2 and 3, $20 million of general return to service non-capital costs and interest of $7 million, net of the accumulated amortization of $29 million.

Under the regulation, the OEB is directed to ensure that OPG recovers any balance in the deferral account on a straight-line basis over a period not to exceed 15 years.

There were no operations, maintenance and administration ("OM&A") costs charged to the deferral account during the three months ended March 31, 2007. During the three months ended March 31, 2006, $10 million of OM&A expenses were charged to the deferral account. Had OPG not charged these costs to the deferral account during the three months ended March 31, 2006, OM&A expenses for that period would have increased by $10 million.

OPG also applies interest to the balance in the deferral account and amortizes the costs recorded in the deferral account. Had OPG not applied interest to this account, the net interest expense would have increased by $21 million (three months ended March 31, 2006 – $ nil). Had OPG not amortized the costs in the deferral account, depreciation and amortization expense for the three months ended March 31, 2007 would have been reduced by $36 million (three months ended March 31, 2006 – $10 million).

Nuclear Liabilities Deferral Account

In February 2007, the Province amended a regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) that directed OPG to establish a deferral account in connection with certain 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, as reflected in the audited consolidated financial statements. Revenue requirement is a regulatory construct, which represents all allowed costs and a return on rate base at an allowed rate of return that the regulator determines to be appropriate. The regulation also requires OPG to record interest at an annual rate of six per cent on the balance in the deferral account.

On December 31, 2006, OPG recorded an increase in its nuclear liabilities of $1,386 million arising from the approved reference plan in accordance with the terms of the Ontario Nuclear Funds Agreement ("ONFA") ("2006 Approved Reference Plan"). Commencing January 1, 2007 and up to the effective date of the OEB's first order establishing regulated prices, which is expected to be after March 31, 2008, OPG records a regulatory asset associated with the increase in the nuclear liabilities arising from the 2006 Approved Reference Plan.

The OEB is directed by the regulation to ensure that OPG recovers the balance recorded in the deferral account on a straight-line basis over a period not to exceed three years, to the extent that the OEB is satisfied that the revenue requirement impacts are accurately recorded.

As at March 31, 2007, the following items have been recorded as components of the regulatory asset relating to the increase in the nuclear liabilities arising from the 2006 Approved Reference Plan:

(millions of dollars)	**March 31 2007**
Return on rate base	19
Depreciation expense	14
Fuel expense	(1)
Capital tax	1
	33

The return on rate base component of $19 million was recorded as a reduction to the accretion on fixed asset removal and nuclear waste management liabilities expense.

Had OPG not established the deferral account as required by the regulation, accretion expense would have increased by $19 million and depreciation expense would have increased by $14 million. In addition, property and capital taxes expense would have been higher by $1 million and fuel expense would have been lower by $1 million.

The regulation also provides for the recovery of an amount relating to additional income taxes that OPG will be subject to as a result of recovering the regulatory asset through future regulated prices charged to customers. Since OPG has not yet incurred a related income tax expense, no amounts related to income taxes have been recorded as part of the regulatory asset.

Nuclear Generation Development Costs

The amendment to the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) made in February 2007 clarified that the OEB must ensure that OPG recovers, through future regulated prices, all capital and non-capital costs incurred in order to increase the output of, refurbish or add operating capacity to a regulated facility, either if these costs are within budgets approved by OPG's Board of Directors prior to the OEB's first order establishing regulated prices or if the OEB is satisfied that these costs were prudently incurred. As a result of the amendment, OPG has recorded a regulatory asset of $9 million during the three months ended March 31, 2007, which represents non-capital costs incurred since April 1, 2005 for its nuclear generation development initiatives.

Had OPG not recorded the above costs as a regulatory asset, OM&A expenses would have increased by $9 million.

Variance Accounts and Other Regulatory Balances

Effective April 1, 2005, in accordance with a regulation made under the *Electricity Restructuring Act, 2004* (Ontario), OPG was directed to establish variance accounts for capital and non-capital costs incurred and revenues earned or foregone on or after April 1, 2005 due to deviations from the forecast information provided to the Province for the purposes of establishing regulated prices. Variance accounts have been established for differences in hydroelectric electricity production due to differences between forecast and actual water conditions, unforeseen changes to nuclear regulatory requirements or unforeseen technological changes which directly affect the nuclear facilities, changes to revenues for ancillary services from the regulated facilities, acts of God (including severe weather events), and transmission outages and transmission restrictions.

OPG recorded a reduction in revenue during the three months ended March 31, 2007 of $1 million, reflecting ancillary services revenue that was favourable compared to the forecast provided to the Province for the purposes of establishing regulated prices. In addition, OPG recorded a reduction in revenue of $1 million, as a result of higher actual water conditions compared to those forecasted.

The OEB is directed by the regulation to ensure recovery of amounts recorded in the variance accounts to the extent that the OEB is satisfied that revenues recorded in the accounts were earned or foregone, that costs recorded in the accounts were prudently incurred, and that both revenues and costs are accurately recorded. Any balances approved by the OEB will be amortized over a period not to exceed three years. The amortization will commence when OPG starts to recover the balances through new prices that will be set by the OEB. Any balances in the accounts disallowed by the OEB will be reflected in the results of operations in the period that the OEB decision occurs.

The other regulatory liability consists of a portion of non-regulated revenue earned by OPG's regulated assets, which may result in a reduction of future regulated prices to be established by the OEB. OPG recorded an additional liability of $3 million, including $1 million of interest expense, during the three months ended March 31, 2007 (three months ended March 31, 2006 – $1 million).

Had OPG not accounted for the variance accounts and other regulatory balances as regulatory assets and liabilities, revenue for the three months ended March 31, 2007 would have been higher by $4 million (three months ended March 31, 2006 – would have been lower by $3 million).

Summary of Rate Regulated Accounting

The following table summarizes the impact of applying rate regulated accounting for selected income statement information:

	Three Months Ended March 31, 2007			**Three Months Ended March 31, 2006**		
(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	**1,524**	**9**	**1,533**	1,508	2	1,510
Fuel expense	**328**	**(1)**	**327**	278	-	278
Operations, maintenance, and administration	**694**	**9**	**703**	640	10	650
Depreciation and amortization	**182**	**(22)**	**160**	186	(10)	176
Accretion on fixed asset removal and nuclear waste management liabilities	**128**	**19**	**147**	125	-	125
Property and capital taxes	**29**	**1**	**30**	25	-	25
Net interest expense	**26**	**20**	**46**	49	-	49

Accounting for Certain Leases

OPG accounts for certain lease revenues relating to the regulated business using the cash basis of accounting. Under the cash basis of accounting, OPG recognizes lease income as stipulated in the lease agreement to the extent that the lease payments are expected to be included in future regulated prices charged to customers. If OPG did not apply the cash basis of accounting for certain lease revenues related to the regulated business, revenue for the three months ended March 31, 2007 would have increased by $5 million (three months ended March 31, 2006 – $5 million).

6. SHORT-TERM CREDIT FACILITIES

OPG's $1 billion revolving committed bank credit facility is divided into two tranches – a $500 million 364-day term tranche maturing May 22, 2007, and a $500 million three-year term tranche maturing May 22, 2009. The total credit facility is used primarily as support for notes issued under OPG's commercial paper program. As at March 31, 2007, there was $177 million of commercial paper outstanding (December 31, 2006 – $15 million). OPG had no other outstanding borrowing under its bank credit facility as at March 31, 2007.

OPG also maintains $26 million (December 31, 2006 – $26 million) in short-term uncommitted overdraft facilities as well as $240 million (December 31, 2006 – $240 million) of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG uses Letters of Credit to support the supplementary pension plans and is required to post Letters of Credit as collateral with Local Distribution Companies ("LDCs") as prescribed by the OEB's Retail Settlement Code. At March 31, 2007, there was a total of $185 million (December 31, 2006 – $185 million) of Letters of Credit issued, which included $159 million (December 31, 2006 – $159 million) relating to the supplementary pension plans and $16 million (December 31, 2006 – $16 million) relating to the construction of the Portlands Energy Centre.

7. LONG-TERM DEBT

Long-term debt consists of the following:

(millions of dollars)	**March 31 2007**	**December 31 2006**
Notes payable to the Ontario Electricity Financial Corporation	**3,015**	3,165
Share of non-recourse limited partnership debt	**192**	194
	3,207	3,359
Less: due within one year		
Notes payable to the Ontario Electricity Financial Corporation	**400**	400
Share of limited partnership debt	**6**	6
	406	406
Long-term debt	**2,801**	2,953

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 Ontario Electricity Financial Corporation ("OEFC") currently holds all of OPG's outstanding senior and subordinated notes.

Interest paid during the three months ended March 31, 2007 was $96 million (three months ended March 31, 2006 – $119 million), of which $90 million relates to interest paid on long-term debt (three months ended March 31, 2006 – $114 million). Interest on the notes payable to OEFC is paid semi-annually.

Debt financing for the Niagara Tunnel, the Portlands Energy Centre and the Lac Seul hydroelectric generating station projects are provided by the OEFC. As at March 31, 2007, OPG issued under the credit facilities $210 million for the Niagara Tunnel, $90 million for Portlands Energy Centre and $20 million for the Lac Seul hydroelectric station.

In March 2007, OPG met its debt retirement obligation by repaying $200 million of maturing notes held by the OEFC.

8. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

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

(millions of dollars)	**March 31 2007**	**December 31 2006**
Liability for nuclear used fuel management	**5,730**	5,669
Liability for nuclear decommissioning and low and intermediate level waste management	**4,700**	4,659
Liability for non-nuclear fixed asset removal	**193**	192
Fixed asset removal and nuclear waste management liability	**10,623**	10,520

The change in the fixed asset removal and nuclear waste management liability for the three months ended March 31, 2007 and the year ended December 31, 2006 are as follows:

(millions of dollars)	**March 31 2007**	**December 31 2006**
Liability, beginning of period	**10,520**	8,759
Increase in liability due to accretion	**147**	499
Increase in liability due to nuclear used fuel and nuclear waste management variable expenses	**9**	38
Liabilities settled by expenditures on waste management	**(53)**	(164)
Increase in the liability for non-nuclear fixed asset removal	**-**	2
Increase in the liability for nuclear used fuel management and the liability for nuclear decommissioning and low and intermediate level waste management to reflect the change in cost estimates	**-**	1,386
Liability, end of period	**10,623**	10,520

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. Net changes resulting from revisions to the timing or the amount of the initial estimate are recognized as an increase in the carrying amount of the liabilities, and the related asset retirement cost is capitalized as part of the carrying value of the related fixed assets.

Ontario Nuclear Funds Agreement

OPG sets aside and invests funds in segregated custodian and trustee accounts specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities. The nuclear fixed asset removal and nuclear waste management funds as at March 31, 2007 and December 31, 2006 consist of the following:

	Fair Value		**Cost**
(millions of dollars)	**March 31 2007**	**December 31 2006**	**December 31 2006**
Decommissioning Fund	**5,252**	5,169	4,356
Due to Province – Decommissioning Fund	**(324)**	(294)	-
	4,928	4,875	4,356
Used Fuel Fund[1]	**4,063**	3,879	3,338
Due to Province – Used Fuel Fund	**(685)**	(641)	(100)
	3,378	3,238	3,238
	8,306	8,113	7,594

[1] The Ontario NFWA Trust represented $1,214 million as at March 31, 2007 of the Used Fuel Fund on a fair value basis. The Ontario NFWA Trust represented $1,102 million as at December 31, 2006 of the Used Fuel Fund on an amortized cost and fair value basis.

As a result of the adoption of the new financial instrument accounting standards, assets in the Nuclear Funds are classified as held-for-trading, and therefore measured at fair value. At December 31, 2006, these assets were carried and reported at amortized cost.

As a result of adoption of the new financial instrument accounting standards, the Due to Province payable within each of the Nuclear Funds is measured at fair value with changes in fair value reported in net income.

9. INCOME TAXES

The following table summarizes the difference in the income statement amounts under the taxes payable method used by the Company to account for income taxes for the regulated business compared to what would have been reported had OPG applied the liability method for the regulated business for the three months ended March 31, 2007 and 2006:

(millions of dollars)	**Three Months Ended March 31 2007**	**March 31 2006**
As stated:		
Future income tax expense	**9**	75
Future income tax: Other comprehensive income – Upon transition	**16**	-
Future income tax: Other comprehensive income – Current	**(7)**	
Liability method[1]:		
Future income tax expense	**27**	85
Future income tax: Other comprehensive income – Upon transition	**12**	
Future income tax: Other comprehensive income – Current	**(6)**	-

[1] As disclosed in note 5, OPG accounts for certain lease revenues relating to the regulated business 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 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 March 31, 2007 and December 31, 2006:

	March 31, 2007		**December 31, 2006**	
(millions of dollars)	**As Stated**	**Liability Method[1]**	**As Stated**	**Liability Method[1]**
Future income tax liabilities – current	**(6)**	**(7)**	(3)	(4)
Long-term future income tax liabilities	**(261)**	**(447)**	(246)	(417)

[1] As disclosed in note 5, OPG accounts for certain lease revenues relating to the regulated business using the cash basis of accounting. The related future income tax impact is excluded from the above.

The amount of cash income taxes paid during the three months ended March 31, 2007 was $37 million (three months ended March 31, 2006 – $8 million).

10. BENEFIT PLANS

The post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. Pension and other post employment benefit ("OPEB") obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The 2007 costs are based on a measurement of the pension and OPEB obligations and the pension fund assets as at December 31, 2006.

Total benefit costs for the three months ended March 31, 2007 and 2006 are as follows:

(millions of dollars)	**March 31 2007**	**March 31 2006**
Registered pension plan	**61**	54
Supplementary pension plans	**4**	4
OPEB	**57**	60

11. Financial Instruments

Risk Management and Hedging Activities

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 income over the term of the contract when the underlying hedged transactions occur. These gains or losses are included in unregulated revenue and are recorded on the consolidated balance sheets. 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

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 derivative instrument 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.

Determination of Fair Value

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

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 $1 million during the three months ended March 31, 2007 (three months ended March 31, 2006 – decreased by $9 million).

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**
	March 31, 2007			**December 31, 2006**		
Gain (loss)						
Electricity derivative instruments	**3.4 TWh**	**1-4 Yrs**	**29**	4.3 TWh	1-4 yrs	51
Foreign exchange derivative instruments	**U.S. $44**	**Apr. – Nov./07**	**-**	U.S. $2	Jan./07	-
Floating to fixed interest rate hedges	**45**	**1-12 yrs**	**(2)**	45	1-12 yrs	(3)
Forward start interest rate hedges	**597**	**1-14 Yrs**	**(5)**	622	1-14 yrs	(9)

Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. The weighted average fixed exchange rate for contracts outstanding at both December 31, 2006 and March 31, 2007 was $0.87 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 per cent. OPG's proportionate interest in the swap is 50 per cent and is accounted for as a hedge.

OPG entered into a number of forward start interest rate swap agreements to hedge against the effect of future interest rate movement based on the anticipated future borrowing requirement for the Niagara Tunnel and the Portlands Energy Centre projects. Although these transactions are ordinarily accounted for as hedges, a gain of approximately $3 million was recorded to account for ineffectiveness in the hedges as at March 31, 2006.

A net gain of $3 million related to electricity derivative instruments was recognized in net income during the three months ended March 31, 2007. This amount was previously recorded in other comprehensive income.

Existing net gains of $13 million deferred in accumulated other comprehensive income at March 31, 2007 are expected to be reclassified to net income within the next 12 months.

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
	March 31, 2007		December 31, 2006	
Foreign exchange derivative instruments	**$U.S. 14**	**-**	-	-
Commodity derivative instruments				
Assets	**5.5 TWh**	**10**	3.9 TWh	25
Liabilities	**1.0 TWh**	**(12)**	2.6 TWh	(25)
		(2)		-
Ontario market liquidity reserve		**(3)**		(2)
Total		**(5)**		(2)

Foreign exchange derivative instruments that are not designated as hedges have a weighted average exchange rate of U.S. $0.86 at March 31, 2007.

Fair Value of Other Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued charges, and short-term notes payable approximate their fair values due to the immediate or short-term maturity of these financial instruments. Fair values for other financial instruments have been estimated by reference to quoted market prices for actual or similar instruments where available.

The carrying values and fair values of these other financial instruments as at March 31, 2007 and December 31, 2006 are as follows:

(millions of dollars)	Carrying Value	Fair Value	Carrying Value	Fair Value
	March 31, 2007		December 31, 2006	
Financial Assets				
Nuclear fixed asset removal and nuclear waste management funds	**8,306**	**8,306**	7,594	8,113
Long-term accounts receivable and other assets	**93**	**93**	69	69
Financial Liabilities				
Long-term debt due within one year	**406**	**411**	406	409
Long-term debt	**2,801**	**2,917**	2,953	3,082
Long-term accounts payable and accrued charges	**160**	**160**	150	150

Credit Risk

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

Credit exposure to the IESO fluctuates based on spot prices and the volume of rate regulated and unregulated generation, and is reduced each month upon settlement of the accounts. Credit exposure to the IESO peaked at $883 million during the three months ended March 31, 2007 ($1,029 million during the year ended December 31, 2006).

12. 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 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.

Certain First Nations have commenced actions for interference with reserve and traditional land rights. The claims by some of these First Nations total approximately $50 million and claims by others are for unspecified amounts.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably with respect to OPG 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. During the three months ended March 31, 2007, expenditures of $1 million (three months ended March 31, 2006 – $1 million) were recorded against the provision. As at March 31, 2007, the remaining provision was $51 million (December 31, 2006 – $52 million).

Current operations are subject to regulation with respect to air, soil and water quality and other environmental matters by federal, provincial and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in its interim consolidated financial statements to meet 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.

13. Revenue Limit Rebate

Eighty-five per cent of the generation output from OPG's unregulated generation assets, excluding the Lennox generating station 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 is also excluded from the output covered by the revenue limit. In addition, until the Transition – Generation Corporation Designated Rate Options ("TRO") expired on April 30, 2006, volumes sold under such options were also excluded from the revenue limit rebate.

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 it will increase to 4.8¢/kWh effective May 1, 2008. In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the Ontario Power Authority ("OPA") are subject to a revenue limit that is 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Furthermore, the Pilot Auction revenue limit increased by 0.1¢/kWh on May 1, 2007 and will increase by a further 0.1¢/kWh on May 1, 2008. Revenues above these limits are returned to the IESO for the benefit of consumers.

The change in the revenue limit rebate liability for the three months ended March 31, 2007 and the year ended December 31, 2006 are as follows:

(millions of dollars)	**March 31 2007**	**December 31 2006**
Liability, beginning of the period	**40**	739
Increase to provision during the period	**96**	161
Payments made during the period	**(22)**	(860)
Liability, end of period	**114**	40

14. Business Segments

Effective April 1, 2005, the output from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that it operates became rate regulated. With the introduction of rate regulation, OPG revised its reportable business segments to separately reflect the regulated and unregulated aspects of its business. Commencing in the first quarter of 2006, OPG separated the Unregulated Generation business segment into two reportable segments identified as Unregulated – Fossil-Fuelled and Unregulated – Hydroelectric, as a result of changes in the management structure of these segments.

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 three months ended March 31, 2007, the service fee was $8 million for Regulated – Nuclear, $1 million for Unregulated – Hydroelectric and $2 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of $11 million for the Other category. For the three months ended March 31, 2006, the service fee was $4 million for Regulated – Nuclear and $2 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of $6 million for the Other category. Results for the three months ended March 31, 2006 have been reclassified to reflect the service fee.

Segment (Loss) Income for Three Months Ended March 31, 2007	Regulated Nuclear	Regulated Hydro-electric	Unregulated Hydro-electric	Unregulated Fossil-Fuelled	Other	Total
(millions of dollars)						
Revenue	**682**	**176**	**222**	**513**	**27**	**1,620**
Revenue limit rebate	**-**	**-**	**(31)**	**(65)**	**-**	**(96)**
	682	**176**	**191**	**448**	**27**	**1,524**
Fuel expense	**32**	**52**	**19**	**225**	**-**	**328**
Gross margin	**650**	**124**	**172**	**223**	**27**	**1,196**
Operations, maintenance and administration	**499**	**23**	**42**	**130**	**-**	**694**
Depreciation and amortization	**116**	**16**	**18**	**18**	**14**	**182**
Accretion on fixed asset removal and nuclear waste management liabilities	**126**	**-**	**-**	**2**	**-**	**128**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(91)**	**-**	**-**	**-**	**-**	**(91)**
Property and capital taxes	**11**	**5**	**4**	**6**	**3**	**29**
(Loss) income before interest and income taxes	**(11)**	**80**	**108**	**67**	**10**	**254**

Segment Income for Three Months Ended March 31, 2006	Regulated Nuclear	Regulated Hydro-electric	Unregulated Hydro-electric	Unregulated Fossil-Fuelled	Other	Total
(millions of dollars)						
Revenue	709	175	224	421	39	1,568
Revenue limit rebate	-	-	(20)	(40)	-	(60)
	709	175	204	381	39	1,508
Fuel expense	31	52	20	175	-	278
Gross margin	678	123	184	206	39	1,230
Operations, maintenance and administration	465	21	36	117	1	640
Depreciation and amortization	95	16	16	49	10	186
Accretion on fixed asset removal and nuclear waste management liabilities	123	-	-	2	-	125
Earnings on nuclear fixed asset removal and nuclear waste management funds	(89)	-	-	-	-	(89)
Property and capital taxes	10	5	4	4	2	25
Income before interest and income taxes	74	81	128	34	26	343

(millions of dollars)	Regulated Nuclear	Regulated Hydro-electric	Unregulated Hydro-electric	Unregulated Fossil-Fuelled	Other	Total
Selected Balance Sheet Information						
As at March 31, 2007						
Segment fixed assets in service, net	**4,143**	**3,897**	**3,020**	**408**	**536**	**12,004**
Segment construction work in progress	**197**	**263**	**64**	**43**	**167**	**734**
Segment property, plant and equipment, net	**4,340**	**4,160**	**3,084**	**451**	**703**	**12,738**
Segment materials and supplies inventory, net:						
Short-term	**62**	**1**	**-**	**49**	**-**	**112**
Long-term	**322**	**-**	**3**	**4**	**-**	**329**
Segment fuel inventory	**174**	**-**	**-**	**392**	**-**	**566**
As at December 31, 2006						
Segment fixed assets in service, net	4,213	3,907	3,012	408	544	12,084
Segment construction work in progress	165	252	78	49	133	677
Segment property, plant and equipment, net	4,378	4,159	3,090	457	677	12,761
Segment materials and supplies inventory, net:						
Short-term	63	1	-	48	-	112
Long-term	320	-	3	3	-	326
Segment fuel inventory	183	-	-	486	-	669
Selected Cash Flow Information						
Three months ended March 31, 2007 Investment in fixed assets	**41**	**17**	**12**	**13**	**51**	**134**
Three months ended March 31, 2006 Investment in fixed assets	41	34	11	14	14	114

15. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	Three Months Ended March 31 2007	Three Months Ended March 31 2006
Accounts receivable	**(147)**	197
Fuel inventory	**103**	11
Materials and supplies	**-**	5
Revenue limit rebate payable	**96**	60
Accounts payable and accrued charges	**(163)**	(204)
Income and capital taxes payable	**9**	15
	(102)	84

16. SEASONAL OPERATIONS

OPG's quarterly results are impacted by changes in demand resulting from variations in seasonal weather conditions. Historically, OPG's revenues are higher in the first and third quarters of a fiscal year as a result of winter heating demands in the first quarter and air conditioning/cooling demands in the third quarter. Regulated prices for most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that OPG operates, the revenue limit related to the generation from OPG's other generating assets and OPG's hedging strategies significantly reduced the impact of seasonal price fluctuations on the results of operations.