ONTARIOPOWER GENERATION

News
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November 20, 2009

ONTARIO POWER GENERATION REPORTS 2009 THIRD QUARTER FINANCIAL RESULTS

[Toronto]: Ontario Power Generation Inc. ("OPG" or the "Company") today reported its financial and operating results for the three and nine month periods ended September 30, 2009. Net income for the third quarter of 2009 was $259 million compared to a net loss of $142 million in the third quarter of 2008. Net income for the nine months ended September 30, 2009 was $556 million compared to $119 million for the same period in 2008.

Net income for the third quarter of 2009 was favourably affected by an increase in earnings from the segregated investment funds that have been established for nuclear fixed asset removal and nuclear waste management (the "Nuclear Funds"). Compared to the same period in 2008, earnings from operations continued to be negatively impacted by a decrease in gross margin related to lower fossil-fuelled generation, lower spot market prices and higher fuel related charges.

"Operational results were significantly affected by a reduction in electricity demand in Ontario and lower spot market prices, which substantially reduced revenue. We continue to focus on enhancing our performance as a public power company committed to operating prudently and efficiently, and on identifying cost reduction opportunities", said President and CEO Tom Mitchell.

Total electricity generated in the third quarter of 2009 of 22.6 terawatt hours ("TWh") was 17 percent lower than third quarter 2008 production of 27.3 TWh. The decrease was mainly as a result of lower generation at OPG's fossil-fuelled stations due to lower primary demand and an increase in generation from other Ontario generators. Unregulated hydroelectric generation declined 0.7 TWh in the third quarter of 2009 compared to the same quarter in 2008 primarily due to lower water levels and the impact of controlled water spills due to unusual Surplus Baseload Generation conditions. Nuclear production increased 0.7 TWh as a result of a decrease in unplanned outage days at the Pickering B nuclear generating station.

For the nine months ended September 30, 2009, total production from OPG's generating stations was 69.1 TWh compared to 82.6 TWh for the same period in 2008. This decrease primarily reflects lower fossil production of 11.4 TWh, with OPG's nuclear and hydroelectric generating stations continuing to achieve high levels of reliability, while producing electricity virtually free of greenhouse gas-causing emissions.

Capability factors at the Pickering A and B nuclear stations continued to improve during the third quarter of 2009 compared to the same period in 2008, with the Pickering B station achieving a capability factor of 94.2 percent. The Darlington nuclear station reported a capability factor of 91.8 percent in comparison to 99.1 percent in the third quarter of 2008. Hydroelectric availability remained at a high level of 93.2 percent for OPG's regulated stations, and 87.2 percent for the unregulated stations. Improved reliability of the fossil-fuelled stations reflects the change in operating strategy to optimize the number of coal-fired units offered into the electricity market.

Segmented Financial Results

OPG's third quarter income before interest and income taxes was $324 million in 2009 compared to a loss before interest and income taxes of $37 million in 2008.

Third quarter income before interest and income taxes from OPG's electricity generation business segments was $219 million in 2009 compared to $262 million in 2008. Gross margin decreased primarily as a result of lower electricity sales prices for OPG's unregulated generation, lower fossil-fuelled and unregulated hydroelectric generation, and an increase in fuel prices and fuel-related costs. The unfavourable impact of lower generation, lower electricity sales prices and higher fuel prices and fuel related costs were partially offset by revenues related to a contingency support agreement with the Ontario Electricity Financial Corporation ("OEFC") to provide for the continued reliability and availability of the Nanticoke and Lambton generating stations, and by higher prices received for production from OPG's regulated stations.

Income before interest and income taxes from OPG's Regulated – Nuclear Waste Management segment was $96 million for the third quarter of 2009 compared to a loss of $340 million in 2008, an increase of $436 million primarily due to higher earnings from the Nuclear Funds. The increase in the earnings from the Nuclear Funds was primarily due to improvements in valuation levels of global financial markets, which increased the current market value of the Decommissioning Fund.

OPG's income before interest and income taxes was $787 million for the nine months ended September 30, 2009 compared to $287 million for the same period in 2008.

Income before interest and income taxes from OPG's electricity generation segments was $653 million for the nine months ended September 30, 2009 compared to $815 million for the nine months ended September 30, 2008. Gross margin was lower primarily as a result of lower electricity market prices for production from OPG's unregulated generating stations, lower fossil-fuelled production, and an increase in fuel prices and fuel-related costs. These unfavourable impacts were largely offset by revenues related to the contingency support agreement with the OEFC to maintain availability of the Nanticoke and Lambton stations, the recognition of a regulatory asset related to the tax loss variance account as a result of a 2009 OEB decision, and the corresponding increase in revenue, and higher prices received for production from OPG's regulated stations.

Income before interest and income taxes from OPG's Regulated – Nuclear Waste Management segment was $75 million for the nine months ended September 30, 2009 compared to a loss before interest and taxes of $568 million for the nine months ended September 30, 2008, an improvement of $643 million due to higher earnings from the Nuclear Funds.

Generation Development

OPG is undertaking a number of generation development projects aimed at significantly contributing to Ontario's long-term electricity supply requirements. The status of these projects is as follows:

Nuclear

- On June 29, 2009, the Government of Ontario suspended the competitive Request for Proposal ("RFP") process to procure two new nuclear reactors planned for the Darlington site. OPG continued with two initiatives that were underway – the environmental assessment process and obtaining a site preparation licence. On September 30, 2009, OPG submitted the Environmental Impact Statement and an updated application for the "Licence to Prepare Site" to the Canadian Environmental Assessment Agency and the Canadian Nuclear Safety Commission ("CNSC"). On November 16, 2009, the Joint Review Panel announced the start of the six month public review period for the EIS and the "Licence to Prepare Site".

- Planning work for the assessment of the feasibility of refurbishing the Darlington nuclear generating station began in early 2008. A preliminary feasibility assessment has been completed based on the anticipated Darlington station refurbishment project scope and expected post-refurbishment operating life. OPG is continuing with technical, regulatory and preparatory work, and other analysis related to refurbishing the Darlington nuclear generating station.

- In September 2009, OPG submitted its final Integrated Safety Review report for the Pickering B nuclear generating station to the CNSC. The report concludes that the Pickering B generating station demonstrates a high level of compliance with modern codes and standards. OPG anticipates approval of this report by the CNSC in mid-2010. OPG is assessing a variety of options with respect to future operations at the Pickering nuclear generating stations to determine the preferred strategy for maximizing asset value, including continued operations of the Pickering B nuclear generating station units beyond the current nominal operating lives of 2014 to 2016.

Hydroelectric

- The Niagara tunnel boring machine ("TBM") had advanced 5,418 metres as of September 30, 2009. The TBM reached the milestone of completing 50 percent of the tunnel excavation on August 4, 2009. The advancement of the TBM has been temporarily interrupted since September 11, 2009 to reinforce a short section of the temporary tunnel liner that failed about 1,800 metres behind the current location of the TBM. Installation of the permanent tunnel concrete lining is progressing well and is ahead of the revised schedule. Restoration of the circular cross-section of the tunnel before installation of the upper two-thirds of the concrete lining began, as planned, in September 2009.

- Construction of the Upper Mattagami and Hound Chute development projects continued during the third quarter with fabrication of supplied parts and systems, and delivery of certain major Water-to-Wire equipment. The capacity of the four stations that are being replaced will increase from 23 MW to 44 MW. The stations are expected to be in service by April 2011. Total project costs are expected to be $300 million.

- Definition phase activities for the planned Lower Mattagami development to increase the capacity of four stations from 483 MW to 933 MW continued in the third quarter of 2009. Definition phase activities include finalizing cost estimates, negotiating a design-build contract, obtaining regulatory approvals, and negotiating a Hydroelectric Energy Supply agreement with the Ontario Power Authority.

Fossil

- In September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close four coal-fired units – two units at the Lambton generating station and two units at the Nanticoke generating station. The decision was based on the impact of declining Ontario primary demand, forecast surplus capacity and demand profiles, and reductions in operations, maintenance and administration expense. The closures are expected to occur in October 2010.

- The Lennox generating station operated under a reliability must run contract with the Independent Electricity System Operator as approved by the OEB for the period beginning on October 1, 2008 to September 30, 2009. OPG continues to operate the facility and is in discussions with the Government of Ontario regarding the issuance of a Directive to the OPA to contract with OPG for the capacity of the station for the period commencing October 1, 2009.

- The strategy to convert coal-fired units to alternate fuels continues to advance. Detailed design engineering work on the conversion of the Atikokan generating station to biomass is progressing. OPG is in discussion with the Ministry of Energy and Infrastructure to determine the appropriate mechanism for cost recovery associated with electricity generation using biomass. A cost recovery mechanism is needed prior to OPG issuing a request for proposal for fuel procurement and seeking Board approval to proceed with plant conversions. These two activities are contingent upon discussions with the Ministry. OPG is conducting concept phase engineering for the potential conversion of other coal-fired units.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(millions of dollars – except where noted)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	**2009**	2008
Earnings				
Revenue after revenue limit rebate	**1,345**	1,513	**4,223**	4,461
Fuel expense	**249**	334	**730**	915
Gross margin	**1,096**	1,179	**3,493**	3,546
Operations, maintenance and administration expense	**653**	689	**2,157**	2,130
Depreciation and amortization	**187**	162	**550**	497
Accretion on fixed asset removal and nuclear waste management liabilities	**158**	151	**476**	438
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds	**(254)**	190	**(549)**	133
Other net expenses	**28**	24	**72**	61
Income before interest and income taxes	**324**	(37)	**787**	287
Net interest expense	**48**	41	**130**	120
Income tax expenses (recoveries)	**17**	64	**101**	48
Net income	**259**	(142)	**556**	119
Cash flow				
Cash flow (used in) provided by operating activities	**203**	434	**61**	830
Income (loss) before interest and income taxes				
Generating segments	**219**	262	**653**	815
Nuclear Waste Management segment	**96**	(340)	**75**	(568)
Other segment	**9**	41	**59**	40
Total income before interest and income taxes	**324**	(37)	**787**	287
Electricity Generation (TWh)				
Regulated – Nuclear	**12.9**	12.2	**34.4**	35.6
Regulated – Hydroelectric	**5.0**	4.7	**14.6**	14.2
Unregulated – Hydroelectric	**3.5**	4.2	**12.8**	14.1
Unregulated – Fossil-Fuelled	**1.2**	6.2	**7.3**	18.7
Total electricity generation	**22.6**	27.3	**69.1**	82.6
Average electricity sales price (¢/kWh)				
Regulated – Nuclear	**5.5**	4.9	**5.5**	4.9
Regulated – Hydroelectric	**3.7**	3.8	**3.7**	3.6
Unregulated – Hydroelectric	**2.4**	4.8	**3.2**	4.7
Unregulated – Fossil-Fuelled	**3.1**	5.1	**4.1**	5.0
OPG average sales price	**4.5**	4.8	**4.5**	4.7
Nuclear unit capability factor (percent)				
Darlington	**91.8**	99.1	**81.4**	92.9
Pickering A	**85.1**	84.3	**66.7**	75.1
Pickering B	**94.2**	64.2	**86.9**	69.3
Equivalent forced outage rate (percent)				
Unregulated – Fossil-Fuelled	**5.4**	7.4	**8.6**	11.1
Availability (percent)				
Regulated – Hydroelectric	**93.2**	93.9	**93.7**	93.4
Unregulated– Hydroelectric	**87.2**	93.5	**93.3**	95.6

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

Ontario Power Generation Inc.'s unaudited consolidated financial statements and Management's Discussion and Analysis as at and for the three and nine months ended September 30, 2009, can be accessed on OPG's Web site (www.opg.com), the Canadian Securities Administrators' Web site (www.sedar.com), or can be requested from the Company.

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ONTARIOPOWER GENERATION

2009 THIRD QUARTER REPORT

CONTENTS

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 and nine months ended September 30, 2009. For a complete description of OPG's corporate strategies, risk management, corporate governance, related parties transactions and the effect of critical accounting policies and estimates on OPG's results of operations and financial condition, this MD&A should also be read in conjunction with OPG's audited consolidated financial statements, accompanying notes, and MD&A as at and for the year ended December 31, 2008. Certain of the 2008 comparative amounts have been reclassified to conform to the 2009 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 November 19, 2009.

FORWARD-LOOKING STATEMENTS

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

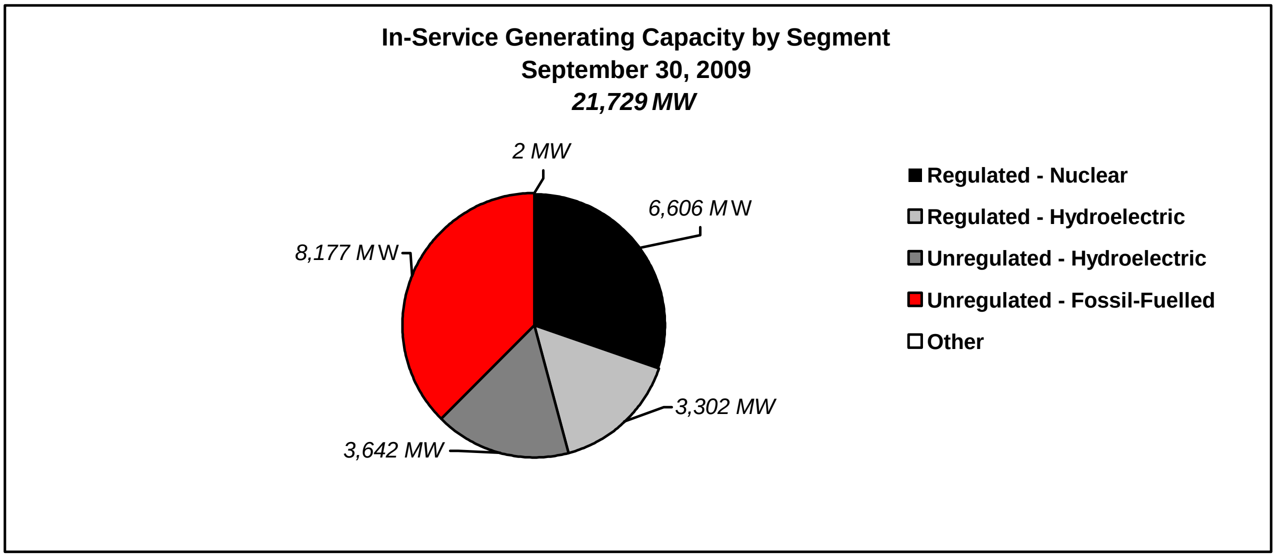
All forward-looking statements involve inherent assumptions, risks and uncertainties and, therefore, could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's fuel costs and availability, asset performance, nuclear decommissioning and waste management, closure or conversion of coal-fired generating stations, refurbishment of existing facilities, development and construction of new facilities, pension and other post employment benefit ("OPEB") obligations, income taxes, spot electricity market prices, proposed new legislation, conversion to International Financial Reporting Standards ("IFRS"), the ongoing evolution of the Ontario electricity industry, environmental and other regulatory requirements, health, safety and environmental developments, business continuity events, the weather, and the impact of regulatory decisions by the Ontario Energy Board ("OEB"). Accordingly, undue reliance should not be placed on any forward-looking statement. The forward-looking statements included in this MD&A are made only as of the date of this MD&A. Except as required by law, 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 September 30, 2009, OPG's electricity generating portfolio had an in-service capacity of 21,729 megawatts ("MW"). OPG's electricity generating portfolio consists of three nuclear generating stations, five fossil-fuelled generating stations, 65 hydroelectric generating stations, of which five are being redeveloped, and two wind power turbines. In addition, OPG and TransCanada Energy Ltd. co-own the Portlands Energy Centre ("PEC") gas-fired combined cycle generating station. OPG, ATCO Power Canada Ltd. and ATCO Resources Ltd. co-own the Brighton Beach gas-fired combined cycle generating station. OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power L.P. ("Bruce Power").

The decrease in in-service capacity of unregulated hydroelectric generation of 3 MW during the third quarter of 2009 compared to capacity at June 30, 2009 was primarily due to the shut-down of the Hound Chute generating station for redevelopment.



OPG's Reporting Structure

OPG receives a regulated price for electricity generated from most of its baseload hydroelectric facilities and all of the nuclear facilities that it operates. This comprises electricity generated from the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering A and B and Darlington nuclear facilities. OPG's regulated prices were established by the OEB in an order issued on December 2, 2008, which was implemented effective April 1, 2008. Previously, the regulated prices were established pursuant to a regulation issued under the *Electricity Restructuring Act, 2004* (Ontario). The operating results from these regulated facilities are described under the Regulated – Nuclear and Regulated – Hydroelectric segments. For the remainder of OPG's hydroelectric facilities, the operating results are described under the Unregulated – Hydroelectric segment. The results from the fossil-fuelled facilities are discussed in the Unregulated – Fossil-Fuelled segment.

During the fourth quarter of 2008, OPG revised the composition of its reporting segments to correspond with OPG's strategic business unit structure and changes to internal reporting. As part of the revised internal reporting structure and to improve the transparency of the information provided to stakeholders, a new segment was created and classified under the caption Regulated – Nuclear Waste Management.

A description of all of OPG's segments is provided in OPG's MD&A as at and for the year ended December 31, 2008 under the heading *Business Segments*. The preceding period figures, as at and for the three and nine month periods ended September 30, 2008, have been reclassified to conform with this new presentation.

HIGHLIGHTS

Overview of Results

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

(millions of dollars)	**Three Months Ended September 30 2009**	**Three Months Ended September 30 2008**	**Nine Months Ended September 30 2009**	**Nine Months Ended September 30 2008**
Revenue				
Revenue before revenue limit rebate	**1,345**	1,628	**4,250**	4,698
Revenue limit rebate	**-**	(115)	**(27)**	(237)
	1,345	1,513	**4,223**	4,461
Fuel expense	**249**	334	**730**	915
Gross margin	**1,096**	1,179	**3,493**	3,546
Expenses				
Operations, maintenance and administration	**653**	689	**2,157**	2,130
Depreciation and amortization	**187**	162	**550**	497
Accretion on fixed asset removal and nuclear waste management liabilities	**158**	151	**476**	438
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds	**(254)**	190	**(549)**	133
Property and capital taxes	**24**	24	**74**	54
Other (gains) losses	**4**	-	**(2)**	7
	772	1,216	**2,706**	3,259
Income (loss) before interest and income taxes	**324**	(37)	**787**	287
Net interest expense	**48**	41	**130**	120
Income tax expense	**17**	64	**101**	48
Net income (loss)	**259**	(142)	**556**	119
Electricity production (TWh)	**22.6**	27.3	**69.1**	82.6
Cash flow				
Cash flow provided by operating activities	**203**	434	**61**	830

Net income for the three months ended September 30, 2009 was $259 million compared to a net loss of $142 million for the same period in 2008, an increase of $401 million. Income before income taxes for the three months ended September 30, 2009 was $276 million compared to a loss of $78 million for the same period in 2008, an increase of $354 million.

Income before interest and income taxes from OPG's electricity generation segments was $219 million for the three months ended September 30, 2009 compared to $262 million for the same period in 2008. The Regulated – Nuclear Waste Management segment earned income before interest and income taxes of $96 million for the three months ended September 30, 2009 compared to a loss before interest and income taxes of $340 million for the same period in 2008.

Net income for the nine months ended September 30, 2009 was $556 million compared to a net income of $119 million for the same period in 2008, an increase of $437 million. Income before income taxes for the nine months ended September 30, 2009 was $657 million compared to $167 million for the same period in 2008, an increase of $490 million.

Income before interest and income taxes from OPG's electricity generation segments was $653 million for the nine months ended September 30, 2009 compared to $815 million for the same period in 2008. The Regulated – Nuclear Waste Management segment earned income before interest and income taxes of $75 million for the nine months ended September 30, 2009 compared to a loss before interest and income taxes of $568 million for the same period in 2008.

Earnings for the Three Months Ended September 30, 2009

The following is a summary of the factors impacting OPG's results for the three months ended September 30, 2009 compared to results for the same period in 2008, on a before-tax basis:

(millions of dollars – before tax)	**Electricity Generation Segments[1]**	**Regulated Nuclear Waste Management Segment**	**Other[2]**	**Total**
Income (loss) before income taxes for the three months ended September 30, 2008	**262**	**(340)**	**-**	**(78)**
Changes in gross margin:				
Change in electricity sales price after revenue limit rebate				
Regulated generation segments	65	-	-	65
Unregulated generation segments	(104)	-	-	(104)
Change in electricity generation by segment:				
Regulated – Nuclear Generation	33	-	-	33
Regulated – Hydroelectric	6	-	-	6
Unregulated – Hydroelectric	(30)	-	-	(30)
Unregulated – Fossil-Fuelled	(97)	-	-	(97)
Revenue related to contingency support agreement for the Nanticoke and Lambton generating stations	114	-	-	114
Increase in fuel price and other fuel-related costs	(71)	-	-	(71)
Impact of regulatory variance accounts	38	-	-	38
Other changes in gross margin	(15)	(4)	(18)	(37)
	(61)	(4)	(18)	(83)
Changes in operations, maintenance and administration expenses ("OM&A"):				
Lower expenditures related to decrease in outage and maintenance activities at OPG's nuclear and fossil-fuelled generating stations	34	-	(4)	30
Impact of regulatory accounts and expenditures related to new nuclear generation development and capacity refurbishment	(13)	-	-	(13)
Decrease in pension and OPEB costs	38	-	-	38
Other changes in OM&A	(19)	4	(4)	(19)
	40	4	(8)	36
Increase in earnings from the Nuclear Funds	-	550	-	550
Decrease in regulatory asset related to earnings from the Nuclear Funds associated with stations on lease to Bruce Power	-	(106)	-	(106)
Increase in depreciation and amortization expense	(24)	-	(1)	(25)
Other changes	2	(8)	(12)	(18)
Income (loss) before income taxes for the three months ended September 30, 2009	**219**	**96**	**(39)**	**276**

1 Electricity generation segments include results of the Regulated – Nuclear Generation, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Fossil-Fuelled segments.
2 Other includes results of the Other category in OPG's segmented statement of income, inter-segment eliminations, and net interest expense.

Earnings for the third quarter of 2009 were unfavourably impacted by a decrease in gross margin of $83 million compared to the same period in 2008. The decrease in gross margin in the electricity generation segments of $61 million during the third quarter of 2009 compared to the same quarter in 2008 was primarily due to lower generation at OPG's fossil-fuelled and unregulated hydroelectric generating stations, and a decrease in average sales price in the unregulated segments due to lower Ontario spot electricity market prices. The decrease in gross margin in the electricity generation segment was also due to higher fuel prices and fuel related costs at OPG's fossil-fuelled generating stations.

The lower generation at OPG's fossil-fuelled stations was primarily due to lower primary demand, lower net exports, and higher electricity generation from other generators in Ontario. The lower generation at OPG's unregulated hydroelectric generating stations during the third quarter of 2009 compared to the same quarter in 2008 was primarily due to lower water levels and the impact of controlled water spills due to unusual Surplus Baseload Generation ("SBG") conditions.

The increase in fuel prices and fuel related costs at OPG's fossil-fuelled generating stations was primarily due to contract adjustments to coal supply contracts, which included cancellation and deferral of shipments. The costs incurred for coal contract adjustments of $37 million were primarily for OPG's Lambton and Nanticoke coal-fired generating stations.

The unfavourable impact on gross margin from lower generation, lower electricity sales prices in the unregulated generation segments, and higher fuel prices and fuel-related costs at OPG's fossil-fuelled generating stations was largely offset by revenue related to a contingency support agreement established with the Ontario Electricity Financial Corporation ("OEFC") to provide for the continued reliability and availability of OPG's Lambton and Nanticoke generating stations. The agreement was put in place in accordance with a Shareholder Resolution that an appropriate recovery mechanism be established to enable OPG to recover the costs of its coal-fired generating stations following implementation of OPG's carbon dioxide ("CO_2") emissions reduction strategy.

The decrease in gross margin was partially offset by higher average sales prices for the Regulated – Nuclear Generation segment during the three months ended September 30, 2009 compared to the same period in 2008 due to an increase in the regulated prices resulting from the OEB's 2008 decision effective December 1, 2008 and applicable retrospectively to April 1, 2008.

The gross margin in the electricity generation segments for the three months ended September 30, 2009 was favourably impacted by the recognition of a regulatory asset of $40 million, excluding interest, related to the tax loss variance account authorized by the OEB effective April 1, 2008. The account was authorized by the OEB's decision and order issued in May 2009 on OPG's motion to review, and vary, a portion of the OEB's 2008 decision establishing current regulatory prices as it pertains to the treatment of tax losses and their use for mitigation. In accordance with the OEB's decision on the motion, the balance in this variance account was determined based on the difference between regulatory tax losses for the period from April 1, 2005 to March 31, 2008 calculated in accordance with the methodology specified in the OEB's 2008 decision and the revenue requirement reduction reflected in current regulated prices. The balance in the variance account will be reviewed by the OEB as part of OPG's next hearing. The variance account resulted in an increase in regulatory assets and a corresponding increase in revenue.

For the three months ended September 30, 2009, operations, maintenance and administration ("OM&A") expenses decreased by $36 million compared to the same period in 2008. This decrease was primarily due to a decrease in outage and maintenance work and lower pension and OPEB costs during the quarter compared to the same period in 2008, partially offset by the recognition of regulatory liabilities related to new nuclear generation development and capacity refurbishment activities, and higher expenditures incurred for these initiatives.

Earnings from the Used Fuel Segregated Fund ("Used Fuel Fund") and the Decommissioning Segregated Fund ("Decommissioning Fund") (together "Nuclear Funds") for the three months ended September 30, 2009 were $254 million compared to losses of $190 million during the same period in 2008. The earnings from the Nuclear Funds, before the impact of a variance account approved by the OEB to capture the differences between actual and forecast revenues and costs related to the nuclear generating stations on lease to Bruce Power ("Bruce variance account"), were $360 million for the third quarter of 2009, compared to losses of $190 million in the same quarter of 2008, an increase of $550 million. The increase in the earnings from the Nuclear Funds during the three months ended September 30, 2009 compared to the same period in 2008 was primarily due to improvements in valuation levels of global financial markets, which increased the current market value of the Decommissioning Fund. The increase was partially offset by a lower Ontario Consumer Price Index ("CPI") during the third quarter of 2009 compared to the third quarter of 2008, which impacted the guaranteed return on the Used Fuel Fund.

The earnings from the Nuclear Funds were affected by the establishment of the Bruce variance account, effective April 1, 2008, for the portion of the earnings from the Nuclear Funds related to the nuclear generating stations on lease to Bruce Power. OPG recorded a reduction to the regulatory asset of $106 million in this variance account during the third quarter of 2009, which reduced the reported earnings from the Nuclear Funds.

The investments in the Nuclear Funds include a diversified portfolio of equities and fixed income securities that are invested across many geographic markets. The Nuclear Funds are invested to fund long-term liability requirements, and as such, the portfolio asset mix is structured to achieve the required return over a long-term investment horizon. While short-term fluctuations in market value will occur, managing the long-term return of the Nuclear Funds remains the primary goal. OPG's earnings on the Used Fuel Fund are not subject to such capital market volatility since the rate of return on this fund is guaranteed by the Province for the first 2.23 million used fuel bundles.

Depreciation and amortization expense for the three months ended September 30, 2009 were $187 million compared to $162 million for the same period in 2008, an increase of $25 million. The increase in depreciation and amortization expense was primarily due to higher amortization of regulatory balances as a result of the OEB's 2008 decision to allow for the recovery of regulatory balances effective December 1, 2008, and applicable retrospectively to April 1, 2008.

For the three months ended September 30, 2009, income tax expense was $17 million compared to an income tax expense of $64 million for the same period in 2008. The decrease in income tax expense was primarily due to the impact of a higher taxable income in 2008 before losses from the Nuclear Funds, partially offset by the income tax component of the Bruce variance account in 2009.

Earnings for the Nine Months Ended September 30, 2009

The following is a summary of the factors impacting OPG's results for the nine months ended September 30, 2009 compared to results for the same period in 2008, on a before-tax basis:

(millions of dollars – before tax)	Electricity Generation Segments[1]	Regulated Nuclear Waste Management Segment	Other[2]	Total
Income (loss) before income taxes for the nine months ended September 30, 2008	**815**	**(568)**	**(80)**	**167**
Changes in gross margin:				
Change in electricity sales price after revenue limit rebate				
Regulated generation segments	196	-	-	196
Unregulated generation segments	(269)	-	-	(269)
Change in electricity generation by segment:				
Regulated – Nuclear Generation	(57)	-	-	(57)
Regulated – Hydroelectric	9	-	-	9
Unregulated – Hydroelectric	(54)	-	-	(54)
Unregulated – Fossil-Fuelled	(232)	-	-	(232)
Revenue related to contingency support agreement for the Nanticoke and Lambton generating stations	294	-	-	294
Impact of regulatory variance accounts	233	-	-	233
Increase in fuel price and other fuel-related costs	(149)	-	-	(149)
Decrease in net trading revenue	-	-	(13)	(13)
(Decrease) increase in non-electricity generation revenue	(52)	(2)	34	(20)
Other changes in gross margin	9	-	-	9
	(72)	(2)	21	(53)
Changes in operations, maintenance and administration expenses ("OM&A"):				
Higher expenditures primarily related to increase in planned outage activities at OPG's nuclear generating stations	(87)	-	(5)	(92)
Impact of regulatory accounts and expenditures related to new nuclear generation development and capacity refurbishment	(42)	-	-	(42)
Decrease in pension and OPEB costs	125	-	-	125
Other changes in OM&A	(18)	2	(2)	(18)
	(22)	2	(7)	(27)
(Decrease) increase in accretion on fixed asset removal and nuclear waste management liabilities	1	(39)	-	(38)
Increase in earnings from the Nuclear Funds	-	808	-	808
Decrease in regulatory asset related to earnings from the Nuclear Funds associated with stations on lease to Bruce Power	-	(126)	-	(126)
Increase in property and capital taxes primarily due to property tax refunds in the first quarter of 2008, which did not recur in 2009	(18)	-	(2)	(20)
Increase in depreciation and amortization expense	(49)	-	(4)	(53)
Other changes	(2)	-	1	(1)
Income (loss) before income taxes for the nine months ended September 30, 2009	**653**	**75**	**(71)**	**657**

[1] Electricity generation segments include results of the Regulated – Nuclear Generation, Regulated – Hydroelectric, Unregulated – Hydroelectric and Unregulated – Fossil-Fuelled segments.
[2] Other includes results of the Other category in OPG's segmented statement of income, inter-segment eliminations, and net interest expense.

Earnings for the nine months ended September 30, 2009 compared to the same period in 2008 were unfavourably impacted by a decrease in gross margin of $53 million. The decrease in gross margin in the electricity generation segments was primarily due to lower generation at OPG's fossil-fuelled, nuclear, and unregulated hydroelectric generating stations, and a decrease in average sales price in the unregulated generation segments. The gross margin for the electricity generation segments was also unfavourably impacted by costs incurred for coal contract adjustments and higher coal prices during the nine months ended September 30, 2009 compared to the same period in 2008.

The unfavourable impact on gross margin from lower generation, lower electricity sales prices in the unregulated generation segments, and higher fuel prices and fuel-related costs at OPG's fossil-fuelled generating stations for the nine months ended September 30, 2009 compared the same period in 2008 was largely offset by the recognition of revenue of $294 million related to the contingency support agreement with the OEFC.

The gross margin in the electricity generation segments during the nine months ended September 30, 2009 was favourably impacted by the recognition of a regulatory asset of $239 million, excluding interest, related to the tax loss variance account authorized by the OEB in May 2009, which was effective on April 1, 2008. The decrease in gross margin in the electricity generation segments during the nine months ended September 30, 2009 compared the same period in 2008 was also partially offset by the increase in the regulated prices for generation from OPG's regulated facilities retrospective to April 1, 2008, based on the OEB's decision in December 2008.

Non-electricity generation revenue decreased during the nine months ended September 30, 2009 compared to the same period in 2008 primarily due to lower revenue from nuclear technical and engineering services provided to third parties. This decrease was partially offset by an increase in revenue from the PEC, which was declared in-service in April 2009. Revenue from the PEC is reported in the Other category.

For the nine months ended September 30, 2009, OM&A expenses were $2,157 million compared to $2,130 million for the same period in 2008. This increase of $27 million was primarily due to higher expenditures from an increase in work activities related to the Darlington vacuum building outage ("VBO") and higher planned outage expenditures at the Pickering A nuclear generating station. The increase in OM&A expense was also due to the recognition of regulatory liabilities and higher expenditures related new nuclear development and capacity refurbishment activities. The increase in OM&A expense for the nine months ended September 30, 2009 compared to the same period in 2008 was partially offset by lower pension and OPEB costs.

Earnings from the Nuclear Funds for the nine months ended September 30, 2009 were $549 million compared to losses of $133 million during the same period in 2008. The earnings from the Nuclear Funds, before the impact of the Bruce variance account, were $675 million for the nine months ended September 30, 2009, compared to losses of $133 million for the same period of 2008, an increase of $808 million. The increase in the earnings from the Nuclear Funds during the nine months ended September 30, 2009 compared to the same period in 2008 was primarily due to improvements in valuation levels of global financial markets, which increased the current market value of the Decommissioning Fund. This increase was partially offset by reductions in the Ontario CPI during the first half of 2009, which impacted the guaranteed return on the Used Fuel Fund. During the nine months ended September 30, 2009, OPG recorded a reduction to the regulatory asset of $126 million related to the Nuclear Fund earnings in the Bruce variance account, which decreased the reported earnings from the Nuclear Funds.

Accretion expense for the nine months ended September 30, 2009 was $476 million compared to $438 million for the nine months ended September 30, 2008. The increase of $38 million was primarily due to the discontinuance, effective April 1, 2008, of the deferral account associated with the increases in OPG's liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management ("Nuclear Liabilities") arising from the 2006 Approved Reference Plan, and the increase in the present value of the liability due to the passage of time. Accretion expense was reduced in the first quarter of 2008, through the deferral account, by $19 million.

Property and capital taxes for the nine months ended September 30, 2009 were $74 million compared to $54 million for the same period in 2008. The increase in property and capital taxes was primarily due to a refund of property taxes in the amount of $17 million during the first quarter of 2008.

Depreciation and amortization expense for the nine months ended September 30, 2009 were $550 million compared to $497 million, an increase of $53 million. The increase in depreciation and amortization expense was primarily due to higher amortization of regulatory balances resulting from their recovery through regulated prices.

For the nine months ended September 30, 2009, income tax expense was $101 million compared to $48 million for the same period in 2008. The income tax expense in 2008 was favourably impacted by a reduction in income tax liabilities as a result of the resolution of a number of tax uncertainties related to the audit of OPG's 1999 taxation year.

Average Sales Prices

The weighted average Ontario spot electricity market price and OPG's average sales prices by reportable electricity segment, net of the revenue limit rebate, for the three and nine month periods ended September 30, 2009 and 2008, were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(¢/kWh)	**2009**	**2008**	**2009**	**2008**
Weighted average hourly Ontario spot electricity market price	**2.4**	5.5	**3.1**	5.2
Regulated – Nuclear Generation	**5.5**	4.9	**5.5**	4.9
Regulated – Hydroelectric	**3.7**	3.8	**3.7**	3.6
Unregulated – Hydroelectric	**2.4**	4.8	**3.2**	4.7
Unregulated – Fossil-Fuelled	**3.1**	5.1	**4.1**	5.0
OPG's average sales price	**4.5**	4.8	**4.5**	4.7

The weighted average hourly Ontario spot electricity market price was 2.4¢/kWh for the three months ended September 30, 2009 compared to 5.5¢/kWh for the same period in 2008. The weighted average hourly Ontario spot electricity market price was 3.1¢/kWh for the nine months ended September 30, 2009 compared to 5.2¢/kWh for the same period in 2008. The significant decrease in the average Ontario spot electricity market price for the three and nine month periods ended September 30, 2009 compared to the same periods in 2008 was primarily due to lower Ontario primary demand and lower natural gas and coal prices, partially offset by the impact of a weaker Canadian dollar.

The decrease in average sales prices for the unregulated segments during the three and nine month periods ended September 30, 2009 compared to the same periods in 2008 was primarily due to the impact of lower Ontario spot electricity market prices.

The average sales price for the Regulated – Nuclear Generation segment for the three and nine month periods ended September 30, 2009 compared to the same periods in 2008 was primarily impacted by the increase in the regulated prices effective April 1, 2008, resulting from the OEB's decision in December 2008.

For the Regulated – Hydroelectric segment, the decrease in the average electricity sales prices for the three months ended September 30, 2009 compared to the same period in 2008 was primarily due to the impact of lower electricity market prices on the revenue from the regulated hydroelectric incentive mechanism. The impact of the decrease was partially offset by the increase in the regulated prices resulting from the OEB's decision in 2008.

The term of the revenue limit rebate ended April 30, 2009. Under the revenue limit rebate mechanism, 85 percent of the generation output from OPG's unregulated hydroelectric and unregulated fossil-fuelled generating stations, excluding the Lennox generation station, stations whose generation output is subject to a Hydroelectric Energy Supply Agreement ("HESA") with the Ontario Power Authority ("OPA"), and forward sales as of January 1, 2005, was subject to a revenue limit. The revenue limit was 4.7¢/kWh for the period May 1, 2007 to April 30, 2008, and increased to 4.8¢/kWh for the period May 1, 2008 to April 30, 2009.

Electricity Generation

OPG's electricity generation for the three and nine month periods ended September 30, 2009 and 2008, was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(TWh)	**2009**	2008	**2009**	2008
Regulated – Nuclear Generation	**12.9**	12.2	**34.4**	35.6
Regulated – Hydroelectric	**5.0**	4.7	**14.6**	14.2
Unregulated – Hydroelectric	**3.5**	4.2	**12.8**	14.1
Unregulated – Fossil-Fuelled	**1.2**	6.2	**7.3**	18.7
Total electricity generation	**22.6**	27.3	**69.1**	82.6

Total electricity generated during the three months ended September 30, 2009 from OPG's generating stations was 22.6 TWh compared to 27.3 TWh for the third quarter of 2008. The decrease was primarily due to lower electricity generation from OPG's fossil-fuelled and unregulated hydroelectric generating stations, partially offset by higher generation from the Pickering B nuclear generating station.

The decrease in generation from the fossil-fuelled generating stations during the three months ended September 30, 2009 compared to the same period in 2008 was primarily due to the impact of lower primary demand in Ontario and higher electricity generation from other generators in Ontario. The lower generation at OPG's unregulated hydroelectric generating stations for the three months ended September 30, 2009 compared to the same quarter in 2008 was primarily due to lower water levels and the impact of controlled water spills due to unusual SBG conditions.

The increase in generation from the nuclear generating stations during the third quarter of 2009 compared to the same quarter in 2008 was primarily due to a decrease in unplanned outage days at the Pickering B generating station, partially offset by an increase in unplanned and planned outage days at the Darlington nuclear generating station during the third quarter of 2009.

Total electricity generated during the nine months ended September 30, 2009 from OPG's generating stations was 69.1 TWh compared to 82.6 TWh for the period in 2008. The decrease was primarily due to lower electricity generation from OPG's fossil-fuelled, unregulated hydroelectric, and nuclear generating stations.

The decrease in generation from the nuclear generating stations for the nine months ended September 30, 2009 compared to the same period in 2008 was primarily due to a planned VBO at the Darlington nuclear generating station during the second quarter of 2009, which required a shutdown of all four units. The same factors that contributed to lower generation from the fossil-fuelled stations and the unregulated hydroelectric stations during the three months ended September 30, 2009 compared to the same period last year, also impacted generation for the nine months ended September 30, 2009.

Ontario primary electricity demand was 34.5 TWh and 37.5 TWh for the three months ended September 30, 2009 and 2008 respectively. For the nine months ended September 30, 2009 and 2008, Ontario primary electricity demand was 104.3 TWh and 112.1 TWh, respectively. The decrease in primary demand for the three and nine month periods ended September 30, 2009 was primarily due to the recession and the effects of unseasonable weather compared to the same periods in 2008.

OPG's operating results are impacted by changes in demand resulting from variations in seasonal weather conditions. The following table provides a comparison of Heating and Cooling Degree Days for the three and nine month periods ended September 30:

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	**2008**	**2009**	**2008**
Heating Degree Days [1]				
Period	**70**	71	**2,535**	2,431
Ten-year average	**61**	59	**2,436**	2,414
Cooling Degree Days [2]				
Period	**161**	204	**203**	279
Ten-year average	**272**	288	**356**	379

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.

2 Cooling Degree Days are recorded on days with an average temperature above 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 September 30, 2009 were comparable to the Heating Degree Days for the same period in 2008. Heating Degree Days increased for the nine months ended September 30, 2009 compared to the same period in 2008 due to colder than average temperatures in the first quarter of 2009.

Cooling Degree Days decreased for the three and nine months ended September 30, 2009 compared to the same period in 2008 due to cooler weather temperatures.

Recent Developments

Fossil-Fuelled Generating Stations Unit Closure

In September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations. This decision was based on the impact of declining Ontario primary demand, forecast surplus capacity and demand profiles, and reductions in OM&A expenses. The closures are expected to occur in October 2010.

OPG has notified key stakeholders, including the Society of Energy Professionals and the Power Workers' Union, of the decision in accordance with their respective collective bargaining agreements. The termination costs are estimated to be approximately $35 million and are expected to be recorded in mid to late-2010 when they are finalized.

As of August 31, 2009, the total net book value of the four units that are subject to the closure plan was $43 million. Effective September 2009, as a result of the approved unit closure, OPG revised the units' end of life, for accounting purposes, to October 2010 from December 2014. OPG expects to recover the net book values of the units from the OEFC contingency support agreement according to the revised service lives. Accordingly, OPG did not record an impairment loss for the units.

Recent Electricity Market Conditions

SBG was a significant concern to OPG on a number of occasions during the spring and summer of 2009. In addition to low electricity demand, the output from hydroelectric and nuclear baseload generating stations combined with an increase in electricity generated from wind and gas generating stations has resulted in SBG conditions leading to extremely low market prices. Conditions were further exacerbated in March and April by an outage to the Ontario-New York interties which significantly reduced Ontario's capability to export electricity to neighbouring markets during SBG conditions. These SBG conditions have caused OPG to bypass/spill water from hydroelectric generating units and on occasion reduce the output from nuclear generation. SBG conditions continued during July and August of 2009, exacerbated by cooler than normal temperatures and higher than average water levels. For the nine months ended September 30, 2009, the SBG conditions resulted in a reduction in generation by approximately 0.6 TWh.

Green Energy and Green Economy Act, 2009

In May 2009, the *Green Energy and Green Economy Act, 2009* ("Green Energy Act") received Royal Assent. The Green Energy Act takes a two-pronged approach to creating a green economy: to bring more renewable energy sources to the Province; and to create more energy efficiency measures to help conserve energy. Under the Green Energy Act, the amount of non-dispatchable renewable resources will add to the SBG conditions during off-peak periods. This may in turn increase the amount of water spilled at OPG's hydroelectric generating stations and the manoeuvring or shutdown of OPG's nuclear units if curtailment provisions are not factored into the new OPA contracts for generation under the Green Energy Act. Further, the Independent Electricity System Operator ("IESO") is working with stakeholders to determine how best to manage SBG conditions, given the limitations of the generating assets portfolio in the Ontario electricity market. The factors considered by the IESO include safety, regulation, environment, and potential equipment damage. The Feed-in tariff ("FIT") contract form, which excludes curtailment provisions, was posted on September 30 and the 60-day window to apply for FIT contracts began October 1, 2009.

OEB Accounting Order Application

The OEB's 2008 decision established a number of variance and deferral accounts. In light of OPG's decision not to file an application for new payment amounts for 2010, OPG filed an application in June 2009 for an accounting order to address the treatment of these accounts for the period after December 31, 2009. In the application for the accounting order, OPG sought the continuation of the rate rider of $2.00/MWh for recovery of nuclear regulatory balances approved in the OEB's 2008 decision. OPG also sought to establish the basis for recording additions to existing variance and deferral account balances after 2009. These requests were approved by the OEB's decision in October 2009. In addition, the OEB directed that OPG establish a new variance account to record potential over collection of hydroelectric variance account balances through the hydroelectric payment amount during 2010.

Lennox Generating Station

The Lennox generating station operated under a reliability must run ("RMR") contract with the IESO as approved by the OEB for the period beginning on October 1, 2008 to September 30, 2009. This contract was justified on the basis of analysis by the IESO that all four units at the Lennox generating station were required for the purpose of reliability during the period. With the expiry of the RMR contract and indication of the OPA's requirements for four units at the Lennox generating station in a preliminary Integrated Power System Plan, OPG continues to operate the facility and is in discussions with the Government of Ontario regarding the issuance of a Directive to the OPA to contract with OPG for the capacity of the station for the period commencing October 1, 2009.

VISION, CORE BUSINESS AND STRATEGY

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

In the 2008 year end MD&A dated February 12, 2009, OPG reported details of progress toward accomplishing its business objectives by focusing on these strategies. OPG continued its progress in meeting its objectives during the third quarter of 2009. The more significant developments are described in the following sections.

Performance Excellence

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

Generating Assets

The Regulated – Nuclear segment continued to implement several initiatives to drive performance during the third quarter of 2009. The maintenance strategy initiative to develop and implement improvements in work management, supply chain and equipment reliability continues. The initiative aims to improve the scheduling and execution of critical work orders and is expected to increase the reliability of generation and predictability of station equipment. Preventative maintenance work orders are being refined to optimize component replacement, schedule efficiency, and execution frequency. A number of equipment reliability initiatives are expected to improve station performance such as standardizing equipment reliability processes, making further improvements in efficiency and effectiveness of maintenance on critical equipment, and addressing equipment obsolescence. OPG continues to focus on reducing maintenance backlogs to improve plant reliability.

The performance of the hydroelectric generating stations was strong for the three and nine month periods ended September 30, 2009 with a combined availability of 89.1 percent and 93.4 percent, respectively, for both the regulated and unregulated operations. Major equipment overhauls and rehabilitation work was initiated at several stations during the third quarter of 2009 to sustain and enhance cost-effective hydroelectric generation. This included starting a major rehabilitation of the Sir Adam Beck hydroelectric generating station Unit 9, which is expected to continue until the end of 2010.

OPG continues its strategy for its fossil-fuelled stations to ensure units are available when they are required, and to optimize the number of coal-fired units it offers into the electricity market in order to reduce equipment damage from frequent starts and stops. In addition, OPG is extending the length of outages and reducing outage scope, where warranted, to reduce maintenance related expenditures, such as overtime, as OPG continues to experience low demand for fossil-fuelled generation.

Environmental

In May 2008, the Province announced new annual targets and limits on CO_2 emissions from OPG's coal-fired generating stations to ensure that such emissions are reduced by two-thirds of the 2003 levels by 2011. For 2009, OPG has limited, on a forecast basis, the CO_2 emissions arising from its coal-fired generating stations to not more than 19.6 million metric tonnes. For the nine months ended September 30, 2009, CO_2 emissions were 7.7 million metric tonnes compared to 18.4 million metric tonnes for the same period in 2008. Emissions were significantly reduced as a result of lower generation from OPG's coal-fired stations during the nine months ended September 30, 2009 compared to the same period in 2008 primarily due to significantly lower demand and lower natural gas prices. OPG continues to employ its CO_2 implementation strategy for 2009 to meet the emission target. However, there will not be a need to utilize an emission adder for the remainder of 2009 to limit coal-fired generation, and associated CO_2 emissions.

The Federal and Provincial governments continue to take steps toward implementing a Greenhouse Gas Cap and Trade Program. Both levels of government have indicated that the legislation will be passed by 2010 for reporting in 2011 and compliance in 2012. The Federal government may make an announcement regarding regulation of the electricity sector before the international climate change meeting in Copenhagen in December 2009. The Provincial Ministry of Environment ("MOE") posted the draft Greenhouse Emissions Reporting Regulation and Guideline for a 30-day comment period ended November 6, 2009. The MOE aims to pass the regulation before year-end so that the first reporting will be for the 2010 year, reported in 2011.

Safety

OPG's safety culture is rooted in the belief that zero injuries can be a reality. OPG has received numerous recognitions for its safety performance, safety culture and safety management systems. Earlier this year, OPG was presented with the ZeroQuest Gold Award from the Electrical and Utilities Safety Association recognizing OPG's ability to maintain a high level of safety management and safety performance for four consecutive years. OPG is committed to further reducing the number of workplace injuries through targeted risk reduction programs. For example, working with its unions, a Musculoskeletal Disorder ("MSD") Prevention Guideline was developed and is currently being implemented to reduce the contribution of MSD events to safety performance. OPG is continuing to pursue other 2009 risk reduction priorities, which include identifying opportunities to improve electrical safety and falling object programs.

Financial Sustainability

In response to the economic downturn, OPG has imposed restraints on 2009 discretionary expenditures and continues to focus on efficiency improvements. In addition, OPG continues to review projects to consider deferring work or reducing the scope of work without impacting health and safety. OPG is also ensuring that sufficient funds are available to achieve its strategic objectives while continuing to seek opportunities to diversify its sources of funding and increase its access to cost-effective capital, as discussed under the heading, *Liquidity and Capital Resources.*

Generation Development

OPG's major generation development projects include nuclear plant refurbishment, new nuclear generation, new hydroelectric generation and station upgrades, and capitalizing on emerging biomass and gas generation opportunities. Significant progress was made during the third quarter of 2009 on a number of projects outlined below.

Niagara Tunnel

In June 2009, OPG and the contractor signed an amended design-build contract. The target cost and schedule take into account the difficult rock conditions encountered and the concurrent tunnel excavation and liner installation work required for completion of the tunnel. The contract includes incentives and disincentives related to achieving the target cost and schedule. OPG's Board of Directors has approved the revised project cost estimate of $1.6 billion and the revised scheduled completion date of December 2013. Some uncertainty with respect to the cost and schedule for both the tunnel excavation and liner installation will continue.

As of September 30, 2009, the tunnel boring machine ("TBM") had advanced 5,418 metres. The TBM reached the milestone of completing 50 percent of the tunnel excavation on August 4, 2009. The advancement of the TBM has been temporarily interrupted since September 11, 2009 to reinforce a short section of the temporary tunnel liner that failed about 1,800 metres behind the current location of the TBM. Installation of the permanent tunnel concrete lining is progressing well and is ahead of the revised schedule. Restoration of the circular cross-section of the tunnel before installation of the upper two-thirds of the concrete lining began, as planned, in September 2009.

The capital project expenditures for the three and nine month periods ended September 30, 2009 were $44 million and $156 million, respectively. The life-to-date capital expenditures were $591 million. The project is debt financed through the OEFC. OPG is in the process of pursuing an amendment to the Niagara Tunnel project credit facility with the OEFC, consistent with the revised cost estimate of $1.6 billion, and the revised schedule.

Lac Seul

The Lac Seul hydroelectric generating station was declared in-service in February 2009. The station has a capacity of 12.5 MW. The total project expenditures were $55 million. The project is debt financed through the OEFC.

OPG has entered into a partnership agreement with the Lac Seul First Nation ("LSFN") regarding the Lac Seul generating station. In July 2009, OPG transferred ownership of the station to the partnership. OPG has a 75 percent ownership interest in the partnership, while the LSFN have a 25 percent interest.

Upper Mattagami and Hound Chute

Construction activities to replace three existing hydroelectric generating stations on the Upper Mattagami River and the Hound Chute generating station on the Montreal River continued during the third quarter of 2009. As part of the redevelopment, the Hound Chute generating station was removed from service. The redeveloped station will have a capacity of 10 MW, as compared to 4 MW at the original station.

Upon completion of the project, the total installed capacity of the four stations will increase from 23 MW to 44 MW, and the annual energy will increase from 134 gigawatt hours ("GWh") to 223 GWh. During the third quarter of 2009, fabrication of supplied parts and systems proceeded as planned and certain major Water-to-Wire equipment was delivered. The generating stations are expected to be in-service by April 2011.

Project financing was completed in May 2009, and senior notes totalling $200 million were issued. Life-to-date expenditures as of September 30, 2009 were $158 million. Total project costs are expected to be $300 million.

Lower Mattagami

During the third quarter of 2009, OPG continued to proceed with definition phase activities on the planned Lower Mattagami development to increase the capacity of four stations from 483 MW to 933 MW. Definition phase activities include finalizing cost estimates, negotiating a design-build contract, obtaining regulatory approvals, and negotiating a HESA with the OPA.

OPG has engaged in consultation discussions with Aboriginal communities regarding the project. A comprehensive agreement has been negotiated with the local First Nation that resolves grievances attributed to the construction and subsequent operation and maintenance of OPG facilities in the area. The new agreement will also provide the First Nation with an ability to purchase up to a 25 percent equity interest in the project.

The Federal Environmental Assessment ("EA") Comprehensive Study Report was issued for public comment in October 2009.

New Nuclear Units

On June 29, 2009, the Government of Ontario suspended the competitive Request for Proposal ("RFP") process to procure two new nuclear reactors planned for the Darlington site. In the announcement, the Government indicated that the competitive RFP process did not provide Ontario with a suitable option at this time. OPG continued with two initiatives that were underway – the environmental assessment process and obtaining a site preparation licence. As a result, on September 30, 2009, OPG submitted the Environmental Impact Statement ("EIS") and an updated application for the "Licence to Prepare Site" to the Canadian Environmental Assessment Agency ("CEAA") and the Canadian Nuclear Safety Commission ("CNSC"). On November 16, 2009, the Joint Review Panel announced the start of the six month public review period for the EIS and the "Licence to Prepare Site".

Darlington Refurbishment Project

Planning work for the assessment of the feasibility of refurbishing the Darlington nuclear generating station began in early 2008. A preliminary feasibility assessment has been completed based on the anticipated Darlington station refurbishment project scope and the expected post-refurbishment operating life. OPG is continuing with technical, regulatory and preparatory work, and other analysis related to refurbishing the Darlington nuclear generating station.

Pickering B Refurbishment Project

In September 2009, OPG submitted its final Integrated Safety Review report for the Pickering B nuclear generating station to the CNSC. The report concludes that the station demonstrates a high level of compliance with modern codes and standards. OPG anticipates approval of this report by the CNSC in mid-2010. OPG is assessing a variety of options with respect to future operations at the Pickering stations to determine the preferred strategy for maximizing asset value, including continued operations of the Pickering B nuclear generating station units beyond its current nominal operating lives of 2014 to 2016.

Pickering A Units 2 and 3 Safe Storage

The Pickering A safe storage project includes isolating Units 2 and 3 from the rest of the generating station, redesigning the control room for the remaining two operating units, de-watering and de-fuelling the units and placing the various systems in a safe state. De-fuelling of the units was completed in 2008. The bulk de-watering and vacuum drying of the heat transport systems is complete with removal of the moderator system water in progress. Work continues on placing the various sub-systems in a safe state. The project remains on schedule for completion in the fall of 2010 with a projected completion cost of $349 million. The year-to-date and life-to-date expenditures on the project are $70 million and $252 million, respectively.

Unit Conversion Opportunities

The strategy to convert coal-fired units to alternate fuels continues to advance. Detailed design engineering work on the conversion of the Atikokan generating station to biomass is progressing. OPG is in discussion with the Ministry of Energy and Infrastructure to determine the appropriate mechanism for cost recovery associated with electricity generation using biomass. A cost recovery mechanism is needed prior to OPG issuing a request for proposal for fuel procurement and seeking Board approval to proceed with plant conversions. These activities are contingent upon discussions with the Ministry. OPG is conducting concept phase engineering for the potential conversion of other coal-fired units.

Developing and Acquiring Talent

OPG's ability to sustain on-going operations and successfully deliver the portfolio of planned generation projects is dependent on developing and maintaining a talented and engaged workforce, and a strong leadership capability. OPG's strategies for workforce planning, staffing, and development are primarily locally driven, with corporate level oversight and integration. During 2009, OPG continues its staffing strategy to develop, retain and acquire necessary talent including leadership capability to meet the demand that will be generated by retirements and forecasted skilled trades shortages in the external labour market.

Labour Relations

The Company's collective agreement with the Power Workers' Union runs through March 31, 2012 and the labour agreement with The Society of Energy Professionals runs through December 31, 2010. Collective Agreements between the Company and its construction unions, negotiated either directly or through the Electrical Power Systems Construction Association ("EPSCA"), will expire April 30, 2010. As of September 30, 2009, the Company had approximately 90 percent of its regular labour force represented by a union.

ONTARIO ELECTRICITY MARKET TRENDS

In its 18-Month Outlook published in August 2009, the IESO indicated that as of August 21, 2009, Ontario’s installed electricity generating capacity was 35,370 MW. As of September 30, 2009, OPG’s in-service electricity generating capacity was 21,729 MW or 61 percent of Ontario’s capacity. The IESO reported that the outlook for the reliability of Ontario's electricity system is positive over the next 18 months. Ontario's import capability increased in July 2009 with the completion of the first stage of the new interconnection between Ontario and Quebec. Additional transmission reinforcements in Quebec scheduled to be in service in May 2010 will increase the transfer capability to 1,250 MW. The IESO Outlook incorporates the implementation of emission reductions for coal-fired generation in Ontario, which commenced in 2009.

The IESO expects energy demand to decrease by 5.5 percent to 140.6 TWh during 2009, with a slight 0.2 percent increase to 141.1 TWh in 2010. The decrease in demand is primarily attributable to the recession, unseasonable weather, conservation and growth in embedded generation. The expected peak electricity demand during the summer of 2010, under normal weather conditions, is forecast to be 23,936 MW. The IESO expects that the risk of SBG will be reduced heading into the fall and winter months, but re-emerge in late spring of 2010. Overnight demand is expected to remain low during this period in spite of the expected economic recovery, due to the impact of increasing embedded generation and conservation initiatives.

Fuel prices can have a significant impact on OPG’s revenue and gross margin. Uranium spot market prices began the year at U.S. $53 per pound and declined to a low of U.S. $40 per pound at the beginning of the second quarter. Spot market prices peaked at U.S. $54 per pound in June and have since declined to U.S. $43 per pound at the end of September 2009. Long-term uranium prices began the year at U.S. $70 per pound and remained at that level through the first quarter. The long-term uranium prices decreased to U.S. $65 in April and have remained at that level through the third quarter.

After peaking in June 2008 at U.S. $12.68/mmBtu, natural gas prices at Henry Hub have been under strong downward pressure due to the economic recession, declining demand and strong production in the United States. Gas prices have continued to decline and averaged U.S. $3.17/mmBtu in the third quarter of 2009, a decline of 65% percent from the third quarter of 2008. Eastern bituminous coal prices have experienced a similar trend, and after reaching an all time high during the third quarter of 2008, prices since then have declined by 63% percent, and averaged around U.S. $48.50/ton during the third quarter of 2009. Powder River Basin coal prices, which averaged U.S. $13/ton during the third quarter of 2008, had remained relatively stable until January 2009. Since January 2009, Powder River Basin coal prices have been declining and averaged U.S. $8.50/ton during the third quarter of 2009, which is a decline of 35 percent compared to the same period last year.

BUSINESS SEGMENTS

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

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

Descriptions of OPG’s reportable business segments are included in the 2008 annual MD&A under the heading, *Business Segments*.

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. Except where noted below, these indicators are defined in the 2008 annual MD&A and are discussed in the *Discussion of Operating Results by Business Segment* section.

Performance Indicators for Fossil-Fuelled Generating Stations

OPG's fossil-fuelled stations provide a flexible source of energy and can operate as baseload, intermediate and peaking facilities, depending on demand and the operating characteristics of the particular station. A key measure of the reliability of fossil-fuelled stations is the proportion of time they are available to produce electricity when required. Equivalent forced outage rate ("EFOR") is an index of the reliability of the generating unit measured by the ratio of time a generating unit is forced out of service by unplanned events, including any forced deratings, compared to the amount of time the generating unit was available to operate.

OPG continues its strategy for its fossil-fuelled stations to ensure units are available when they are required, and to optimize the number of coal-fired units offered into the electricity system, in order to reduce equipment damage from frequent starts and stops. In addition, OPG has extended the length of outages and reduced outage scope, where warranted, to reduce maintenance related expenditures, such as overtime, as OPG continues to experience low demand for fossil-fuelled generation. Fossil EFOR for the three and nine month periods ended September 30, 2009 reflected this strategy.

Discussion of Operating Results by Business Segment

This section summarizes OPG's key results by segment for the three and nine month periods ended September 30, 2009 and 2008. The following table provides a summary of revenue, earnings and key generation and financial performance indicators by business segment:

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars)	**2009**	**2008**	**2009**	**2008**
Revenue, net of revenue limit rebate				
Regulated – Nuclear	**840**	697	**2,367**	2,055
Regulated – Nuclear Waste Management	**11**	15	**32**	34
Regulated – Hydroelectric	**187**	187	**585**	556
Unregulated – Hydroelectric	**103**	220	**461**	719
Unregulated – Fossil-Fuelled	**180**	352	**697**	1,037
Other	**35**	57	**113**	94
Elimination	**(11)**	(15)	**(32)**	(34)
	1,345	1,513	**4,223**	4,461
Income (loss) before interest and income taxes				
Regulated – Nuclear	**203**	65	**290**	102
Regulated – Nuclear Waste Management	**96**	(340)	**75**	(568)
Regulated – Hydroelectric	**64**	78	**254**	245
Unregulated – Hydroelectric	**(6)**	118	**174**	432
Unregulated – Fossil-Fuelled	**(42)**	1	**(65)**	36
Other	**9**	41	**59**	40
	324	(37)	**787**	287
Electricity Generation (TWh)				
Regulated – Nuclear	**12.9**	12.2	**34.4**	35.6
Regulated – Hydroelectric	**5.0**	4.7	**14.6**	14.2
Unregulated – Hydroelectric	**3.5**	4.2	**12.8**	14.1
Unregulated – Fossil-Fuelled	**1.2**	6.2	**7.3**	18.7
Total electricity generation	**22.6**	27.3	**69.1**	82.6
Nuclear unit capability factor (percent)				
Darlington	**91.8**	99.1	**81.4**	92.9
Pickering A	**85.1**	84.3	**66.7**	75.1
Pickering B	**94.2**	64.2	**86.9**	69.3
Equivalent forced outage rate (percent)				
Regulated – Hydroelectric	**0.8**	2.6	**0.9**	1.8
Unregulated – Hydroelectric	**2.5**	1.4	**1.3**	0.9
Unregulated – Fossil-Fuelled	**5.4**	7.4	**8.6**	11.1
Availability (percent)				
Regulated – Hydroelectric	**93.2**	93.9	**93.7**	93.4
Unregulated – Hydroelectric	**87.2**	93.5	**93.3**	95.6
Nuclear Production Unit Energy Cost ("PUEC") ($/MWh)	**34.89**	41.09	**45.15**	44.23
Regulated – Hydroelectric OM&A expense per MWh ($/MWh)	**5.60**	5.74	**5.27**	5.28
Unregulated – Hydroelectric OM&A expense per MWh ($/MWh)	**14.57**	11.67	**11.19**	9.86
Unregulated – Fossil-Fuelled OM&A expense per MW ($000/MW)	**52.80**	61.50	**60.80**	60.30

Regulated – Nuclear Generation Segment

(millions of dollars)	Three Months Ended September 30 2009	2008	Nine Months Ended September 30 2009	2008
Regulated generation sales	**709**	605	**1,883**	1,758
Variance accounts	**48**	-	**239**	-
Other	**83**	92	**245**	297
Total revenue	**840**	697	**2,367**	2,055
Fuel expense	**59**	43	**149**	120
Gross margin	**781**	654	**2,218**	1,935
Operations, maintenance and administration	**445**	484	**1,539**	1,524
Depreciation and amortization	**123**	94	**357**	295
Property and capital taxes	**10**	11	**32**	14
Income (loss) before interest and income taxes	**203**	65	**290**	102

Revenue

Regulated – Nuclear Generation revenue was $840 million for the three months ended September 30, 2009 compared to $697 million for the same quarter in 2008. The increase in revenue of $143 million was primarily due to a higher regulated price approved by the OEB during the fourth quarter of 2008, higher generation volume, and the recognition of a regulatory asset of $34 million, excluding interest, related to the tax loss variance account authorized by the OEB.

Regulated – Nuclear Generation revenue for the nine months ended September 30, 2009 and 2008, was $2,367 million and $2,055 million, respectively. The increase in revenue for the nine months ended September 30, 2009 compared to the same period in 2008 was primarily due to the recognition of the regulatory asset of $201 million related to the tax loss variance account and a higher regulated price, partially offset by lower generation volume and a decrease in revenue from nuclear technical services provided to third parties.

Electricity Prices

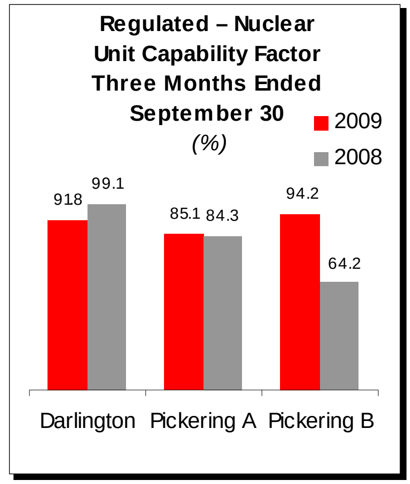
Electricity generation from stations in the Regulated – Nuclear Generation segment received a fixed price of 5.50¢/kWh during the three and nine month periods ended September 30, 2009 due to the establishment of a new regulated price by the OEB, effective April 1, 2008, in the fourth quarter of 2008. During the three and nine month periods ended September 30, 2008 the regulated price was 4.95¢/kWh for nuclear generation.

Volume

Electricity generation from OPG's nuclear stations was 12.9 TWh for the three months ended September 30, 2009 compared to 12.2 TWh in the same period in 2008. The increase of 0.7 TWh was primarily due to higher generation from the Pickering B generating station resulting from lower unplanned outages, partially offset by lower generation at the Darlington nuclear generating station due to an increase in unplanned and planned outage days during the third quarter of 2009.

Nuclear generation during the nine month period ended September 30, 2009 was 34.4 TWh compared to 35.6 TWh for the same period in 2008. The decrease in nuclear generation was primarily due to the planned VBO at the Darlington nuclear generating station and an increase in planned outage days at the Pickering A nuclear generating station, partially offset by a decrease in unplanned outage days at the Pickering B nuclear generating station.

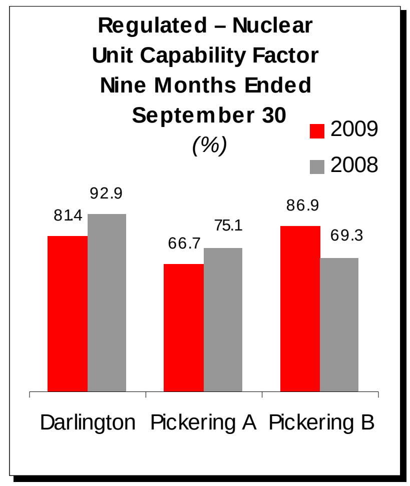
The Darlington nuclear generating station's unit capability factor for the three months ended September 30, 2009 was 91.8 percent compared to 99.1 percent for the same period in 2008. The decrease in the capability factor was primarily a result of unplanned outages at Units 2 and 4 to repair a primary heat transport instrument tube and an extension to a planned outage at Unit 3.



The unit capability factor for the Pickering A nuclear generating station for the three months ended September 30, 2009 was 85.1 percent compared to 84.3 percent for the same period in 2008.

The unit capability factor for the Pickering B nuclear generating station was 94.2 percent during the three months ended September 30, 2009, compared to 64.2 percent for the same period in 2008. The unit capability factor for the three months ended September 2008 reflected the shutdown of a unit to replace a calandria tube.

The Darlington nuclear generating station's unit capability factor for the nine months ended September 30, 2009 was 81.4 percent compared to 92.9 percent for the same period in 2008. The decrease in the capability factor was primarily a result of the planned VBO during the second quarter of 2009.



For the nine months ended September 30, 2009, the unit capability factor for the Pickering A nuclear generating station was 66.7 percent compared to 75.1 percent for the same period in 2008. The decrease in capability factor reflects higher planned outage days during the first quarter of 2009.

For the nine months ended September 30, 2009, the Pickering B nuclear generating station unit capability factor was 86.9 percent compared to 69.3 percent during the same period in 2008. The unit capability factor for the nine months ended September 30, 2008 primarily reflects the shutdown of a unit to replace a calandria tube and an extension to a planned outage.

Fuel Expense

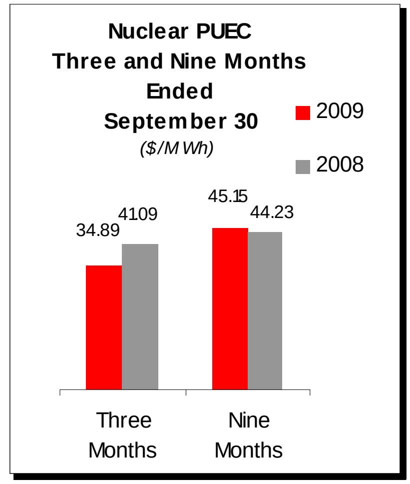
Fuel expense for the three months ended September 30, 2009 was $59 million compared to $43 million during the same period in 2008. For the nine months ended September 30, 2009, fuel expense was $149 million compared to $120 million during the same period in 2008. The increase in fuel expense for the three and nine month periods ended September 30, 2009 compared to the same periods in 2008 was primarily due to an increase in uranium prices.

Operations, Maintenance and Administration

OM&A expenses for the three months ended September 30, 2009 were $445 million compared to $484 million during the same period in 2008. The decrease in OM&A expense during the three months ended September 30, 2009 compared to the same period in 2008 was primarily due to lower pension and OPEB costs, and a decrease in outage and maintenance work. The decrease in OM&A expense for the three months ended September 30, 2009 compared to the same period in 2008 was partially offset by the recognition of regulatory liabilities related to new nuclear generation development and capacity refurbishment activities, and higher expenditures incurred for these initiatives. Although expenditures on these activities were higher during the three months ended September 30, 2009 compared to the same period in 2008, they were lower than the forecast approved by the OEB in setting the regulated nuclear prices. Therefore, OPG was required to record the related regulatory liabilities.

OM&A expenses were $1,539 million for the nine months ended September 30, 2009 compared to $1,524 million during the same period in 2008. The increase in OM&A expenses during the nine months ended September 30, 2009 was primarily due to an increase in work activities related to the Darlington VBO and higher planned outage expenditures at Unit 4 of the Pickering A nuclear generating station.

OM&A expenses during the nine months ended September 30, 2009 compared to the same period in 2008 were also impacted by the recognition of regulatory liabilities related to new nuclear generation development and capacity refurbishment activities, and higher expenditures incurred for these initiatives. The increase in OM&A expenses was partially offset by the impact of lower pension and OPEB costs.



Nuclear PUEC for the three months ended September 30, 2009 was $34.89/MWh compared to $41.09/MWh during the same period in 2008. The decrease during the three months ended September 30, 2009 compared to the same period in 2008 was primarily due to lower OM&A expenses and higher generation.

Nuclear PUEC for the nine months ended September 30, 2009 was $45.15/MWh compared to $44.23/MWh during the same period in 2008. The increase during the nine month period ended September 30, 2009 compared to the same period in 2008 was primarily due to lower generation.

Depreciation and Amortization

Depreciation and amortization expense for the three months ended September 30, 2009 was $123 million compared to $94 million in the same quarter of 2008. The increase in depreciation and amortization expense was primarily due to higher amortization of regulatory balances as a result of the OEB's 2008 decision to allow for the recovery of regulatory balances effective December 1, 2008, and applicable retrospectively to April 1, 2008.

For the nine months ended September 30, 2009, depreciation and amortization expense was $357 million compared to $295 million during the same period in 2008. The increase in depreciation and amortization expense during the nine months ended September 30, 2009 compared to the same period in 2008 was primarily due to higher amortization of regulatory balances resulting from the OEB's 2008 decision along with the discontinuance on April 1, 2008 of additions to the deferral account associated with the increase in the Nuclear Liabilities arising from the 2006 Approved Reference Plan in accordance with the Ontario Nuclear Funds Agreement ("ONFA"). The deferral account was effective for the period January 1, 2007 to March 31, 2008 as per the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario).

Regulated – Nuclear Waste Management Segment

(millions of dollars)	Three Months Ended September 30 2009	2008	Nine Months Ended September 30 2009	2008
Revenue	**11**	15	**32**	34
Operations, maintenance and administration	**12**	16	**35**	37
Accretion on fixed asset removal and nuclear waste management liabilities	**157**	149	**471**	432
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds	**(254)**	190	**(549)**	133
Income (loss) before interest and income taxes	**96**	(340)	**75**	(568)

Accretion

Accretion expense for the three months ended September 30, 2009 was $157 million compared to $149 million for the same period in 2008. The increase was primarily due to the increase in the present value of the Nuclear Liabilities due to the passage of time.

For the nine month period ended September 30, 2009 and 2008, accretion expense was $471 million and $432 million, respectively. The increase was due to the discontinuance on April 1, 2008 of additions to the deferral account associated with the increase in the Nuclear Liabilities arising from the 2006 Approved Reference Plan, and an increase in the present value of the Nuclear Liabilities due to the passage of time.

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

Earnings from the Nuclear Funds for the three months ended September 30, 2009 were $254 million compared to losses of $190 million for the same quarter in 2008. During the third quarter of 2009, before the impact of the Bruce variance account, earnings from the Nuclear Funds were $360 million compared to losses of $190 million during the same period in 2008, an increase of $550 million. The increase in the earnings from the Nuclear Funds, before the impact of the variance account, was primarily due to improvements in valuation levels of global financial markets, which increased the current market value of the Decommissioning Fund, partially offset by reductions in the CPI, which impacted the guaranteed return on the Used Fuel Fund.

Earnings from the Nuclear Funds for the nine months ended September 30, 2009, were $549 million compared to losses of $133 million for the same period in 2008. During the nine months ended September 30, 2009, before the impact of the Bruce variance account, earnings from the Nuclear Funds were $675 million compared to losses of $133 million during the same period in 2008, an increase of $808 million. The increase in the earnings from the Nuclear Funds, before the impact of the variance account, was primarily due to improvements in valuation levels of global financial markets, which increased the current market value of the Decommissioning Fund, partially offset by reductions in the CPI, which impacted the guaranteed return on the Used Fuel Fund.

A portion of the Nuclear Funds relates to OPG's obligations with respect to decommissioning the nuclear generating stations on lease to Bruce Power, as well as managing nuclear used fuel and waste produced by these stations. As a result of the OEB's decision, OPG established the Bruce variance account to capture the differences between actual and forecast revenues and costs associated with the Bruce nuclear generating stations. During the three and nine month periods ended September 30, 2009, OPG recorded a reduction to the regulatory asset of $106 million and $126 million, respectively, which decreased the reported earnings from the Nuclear Funds.

Regulated – Hydroelectric Segment

(millions of dollars)	Three Months Ended September 30 2009	2008	Nine Months Ended September 30 2009	2008
Regulated generation sales	**181**	175	**541**	516
Variance accounts	**(6)**	-	**2**	1
Other	**12**	12	**42**	39
Revenue	**187**	187	**585**	556
Fuel expense	**76**	69	**191**	185
Gross margin	**111**	118	**394**	371
Operations, maintenance and administration	**28**	22	**77**	70
Depreciation and amortization	**17**	16	**55**	48
Property and capital taxes	**2**	2	**8**	8
Income before interest and income taxes	**64**	78	**254**	245

Revenue

Regulated – Hydroelectric revenue was $187 million for the three months ended September 30, 2009, and 2008. The revenue for the three months ended September 30, 2009 included the recognition of a regulatory asset of $6 million, excluding interest, related to the tax loss variance account authorized by the OEB.

Regulated – Hydroelectric revenue was $585 million for the nine months ended September 30, 2009 and $556 million for the same quarter in 2008. The increase in revenue was as a result of the recognition of a regulatory asset of $38 million related to the tax loss variance account authorized by the OEB, and higher average sales prices.

Electricity Prices

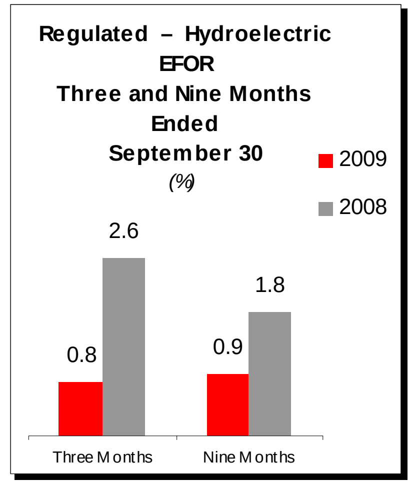
For the three and nine month periods ended September 30, 2009, electricity generation received a fixed price of 3.67¢/kWh, subject to a revised incentive mechanism. The OEB approved a revised incentive mechanism effective December 1, 2008. Under this mechanism, OPG receives the approved hydroelectric payment amount for the actual average hourly net energy production from the prescribed hydroelectric facilities in that month. In the hours when the net actual energy production in Ontario is greater or less than the average hourly net volume, OPG's revenues are adjusted by the difference between the average hourly net volume in the month and the actual net energy production multiplied by the market price. For the three and nine month periods ended September 30, 2008, electricity generation up to 1,900 MWh in any hour from stations in the Regulated – Hydroelectric segment, received a fixed price of 3.3¢/kWh, and the spot electricity market price for generation above this level. The revised incentive mechanism resulted in net revenue of $5 million and $18 million for the three and nine month periods ended September 30, 2009. The regulated generation sales for the three and nine month periods ended September 30, 2008 included revenue of $54 million and $150 million, respectively, at the spot electricity market price.

The average electricity sales price for the three months ended September 30, 2009 and 2008 was 3.7¢/kWh and 3.8¢/kWh respectively. The average electricity sales price for the nine months ended September 30, 2009 and 2008 was 3.7¢/kWh and 3.6¢/kWh, respectively.

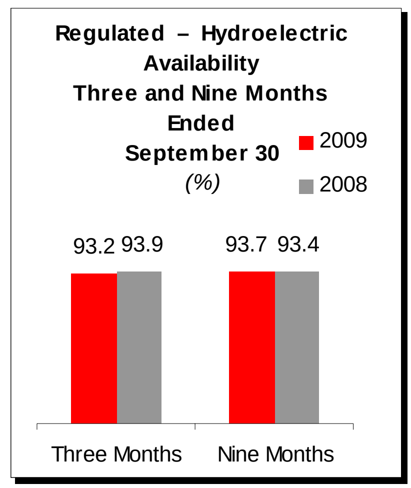
Volume

Electricity generation volume for third quarter of 2009 and 2008 was 5.0 TWh and 4.7 TWh, respectively. For the nine months ended September 30, 2009, electricity generation volume was 14.6 TWh compared to 14.2 TWh for the same period in 2008. The increase in volume was primarily due to an increase in water flows.

For the three months ended September 30, 2009 and 2008, the EFOR for the Regulated – Hydroelectric stations was 0.8 percent and 2.6 percent, respectively. During the nine months ended September 30, 2009 and 2008, the EFOR for the Regulated – Hydroelectric stations was 0.9 percent and 1.8 percent, respectively. EFOR decreased for the three and nine months ended September 30, 2009 as a result of strong equipment performance at the regulated generating stations.



The availability for the Regulated – Hydroelectric stations was 93.2 percent for the third quarter of 2009 compared to 93.9 percent for the same quarter in 2008. The decrease in availability was a result of an increase in planned outages during the three months ended September 30, 2009 compared to the same period in 2008. Availability for the nine months ended September 30, 2009 was 93.7 percent compared to 93.4 percent for the same period in 2008. The high availability and low EFOR reflected the continuing strong performance of the regulated hydroelectric stations.



Fuel Expense

Fuel expense was $76 million for the three months ended September 30, 2009 compared to $69 million in the same period during 2008. For the nine months ended September 30, 2009, fuel expense was $191 million compared to $185 million in the same period during 2008. The increase in fuel expense was primarily due to an increase in electricity generation volumes

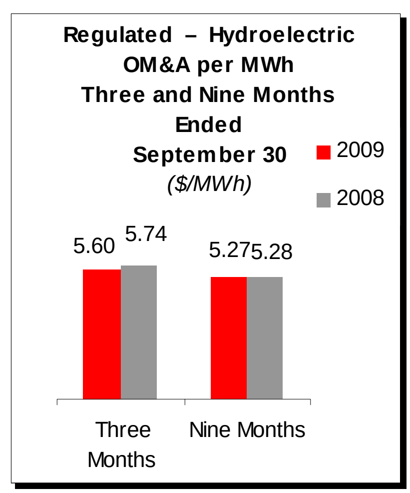
Variance Accounts

In addition to the recognition of a regulatory asset related to the tax loss variance account established during the second quarter of 2009, OPG recorded a decrease in revenue of $12 million and $36 million during the three and nine month periods ended September 30, 2009, respectively, due to regulatory variance accounts that reflect the impact of differences between forecast and actual water conditions on hydroelectric production, and differences between forecast and actual ancillary services revenue.

Operations, Maintenance and Administration

OM&A expenses for the three months ended September 30, 2009 were $28 million compared to $22 million for the same period in 2008. For the nine months ended September 30, 2009, OM&A expenses were $77 million compared to $70 million during the same period in 2008.

OM&A expense per MWh for the regulated hydroelectric generating stations was $5.60/MWh during the three months ended September 30, 2009 compared to $5.74/MWh for the same period in 2008. For the nine month periods ended September 30, 2009 and 2008, OM&A expense per MWh for the regulated hydroelectric stations was $5.27/MWh and $5.28/MWh, respectively. OM&A per MWh expense for the comparative periods ended September 30, 2008 excludes expenses related to past grievances by First Nations.



Unregulated – Hydroelectric Segment

(millions of dollars)	Three Months Ended September 30 2009	2008	Nine Months Ended September 30 2009	2008
Spot market sales, net of hedging instruments	**90**	234	**429**	735
Revenue limit rebate	**-**	(30)	**(10)**	(57)
Other	**13**	16	**42**	41
Revenue net of revenue limit rebate	**103**	220	**461**	719
Fuel expense	**25**	31	**75**	84
Gross margin	**78**	189	**386**	635
Operations, maintenance and administration	**65**	49	**155**	141
Depreciation and amortization	**16**	19	**50**	55
Property and capital taxes	**3**	3	**7**	7
(Loss) income before interest and income taxes	**(6)**	118	**174**	432

Revenue

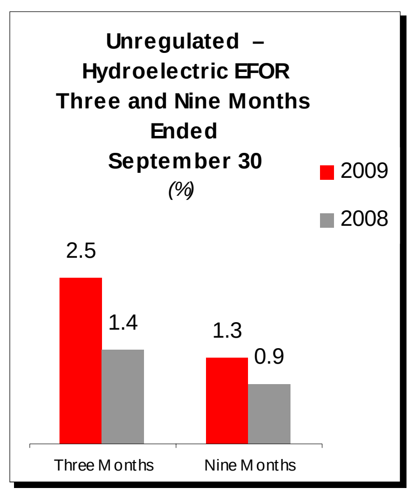
Unregulated – Hydroelectric revenue was $103 million for the three months ended September 30, 2009 compared to $220 million during the same period in 2008. For the nine months ended September 30, 2009, Unregulated – Hydroelectric revenue was $461 million compared to $719 million during the same period in 2008. The significant decrease in revenue for the three and nine month periods ended September 30, 2009 compared to the same periods in 2008 was primarily due to lower electricity prices, and lower generation volume.

Electricity Prices

After taking into account the revenue limit rebate, OPG's average sales price for its unregulated hydroelectric generation for the three months ended September 30, 2009 and 2008 was 2.4¢/kWh and 4.8¢/kWh, respectively. OPG's average sales price for its unregulated hydroelectric generation for the nine months ended September 30, 2009 and 2008 was 3.2¢/kWh and 4.7¢/kWh, respectively. The decrease in electricity prices was primarily due to the impact of lower Ontario spot market prices.

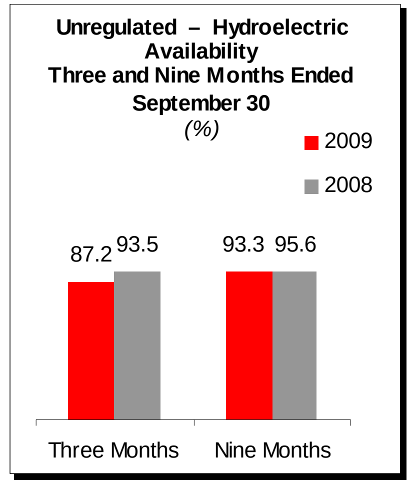
Volume

For the three months ended September 30, 2009 and 2008, electricity generation volume was 3.5 TWh and 4.2 TWh, respectively. Electricity sales volume for the nine months ended September 30, 2009 was 12.8 TWh compared to 14.1 TWh during the same period in 2008. The decrease in volume during the three and nine month periods ended September 30, 2009 compared to the same periods in 2008 was primarily due to lower water levels and the impact of controlled water spills due to unusual SBG conditions.



The EFOR for the Unregulated – Hydroelectric generating stations was 2.5 percent in the third quarter of 2009 compared to 1.4 percent during the same period in 2008. For the nine months ended September 30, 2009, the EFOR was 1.3 percent compared to 0.9 percent for the nine months ended September 30, 2008.

The availability for the Unregulated – Hydroelectric stations was 87.2 percent for the three months ended September 30, 2009 compared to 93.5 percent in the same period in 2008. The availability for the Unregulated – Hydroelectric stations was 93.3 percent for the nine months ended September 30, 2009 compared to 95.6 percent during the same period in 2008. The increase in EFOR and decrease in availability for the three and nine month periods ended September 30, 2009 compared to the same periods in 2008 were primarily as a result of forced outages at the Abitibi Canyon and the Mountain Chute generating stations. The low EFOR and high availability for the nine months ended September 30, 2009 reflected the continuing strong performance of the Unregulated – Hydroelectric stations.



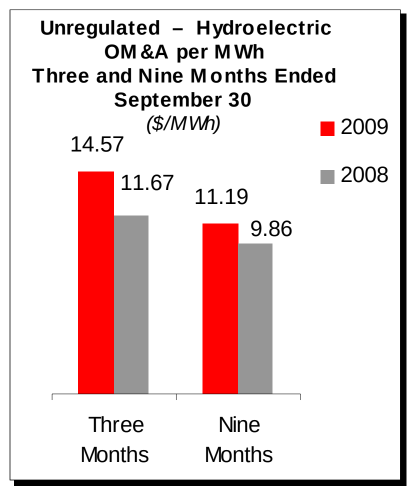
Fuel Expense

Fuel expense was $25 million for the three months ended September 30, 2009 compared to $31 million for the same period in 2008. For the nine months ended September 30, 2009, fuel expense was $75 million compared to $84 million during the same period in 2008. The decrease in fuel expense was primarily due to a decrease in electricity generation volumes.

Operations, Maintenance and Administration

For the three months ended September 30 2009, OM&A expenses were $65 million compared to $49 million for the same period in 2008. During the nine months ended September 30, 2009, OM&A expenses were $155 million compared to $141 million for the same period in 2008. The increases in OM&A expenses during the three and nine month periods ended September 30, 2009 compared to the same periods in 2008 were primarily as a result of expenses related to past grievances by First Nations.

OM&A expense per MWh for the unregulated hydroelectric stations for the quarters ended September 30, 2009 and 2008 was $14.57/MWh and $11.67/MWh, respectively. During the nine months ended September 30, 2009, OM&A expense per MWh for the unregulated hydroelectric stations was $11.19/MWh compared to $9.86/MWh for the same period in 2008. The increase in OM&A expense per MWh for the three and nine month periods ended September 30, 2009 compared to the same periods in 2008 was primarily due to lower generation. OM&A expense per MWh for the three and nine month periods ended September 30, 2009 and 2008 excludes expenses related to past grievances by First Nations.



Unregulated – Fossil-Fuelled Segment

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars)	**2009**	**2008**	**2009**	**2008**
Spot market sales, net of hedging instruments	**38**	406	**317**	1,120
Revenue limit rebate	**-**	(85)	**(17)**	(180)
Other	**142**	31	**397**	97
Revenue, net of revenue limit rebate	**180**	352	**697**	1,037
Fuel expense	**89**	191	**315**	526
Gross margin	**91**	161	**382**	511
Operations, maintenance and administration	**108**	131	**373**	387
Depreciation and amortization	**19**	22	**53**	68
Accretion on fixed asset removal liabilities	**1**	2	**5**	6
Property and capital taxes	**5**	5	**16**	16
(Loss) income before other gains, interest and income taxes	**(42)**	1	**(65)**	34
Other gains	**-**	-	**-**	(2)
(Loss) income before interest and income taxes	**(42)**	1	**(65)**	36

Revenue

Unregulated – Fossil-Fuelled revenue was $180 million for the three months ended September 30, 2009 compared to $352 million during the same period in 2008, a decrease of $172 million. Unregulated – Fossil-Fuelled revenue was $697 million for the nine months ended September 30, 2009 compared to $1,037 million for the same period in 2008. The decrease in revenue was primarily due to a significant reduction in electricity generation and lower average sales prices during the three and nine month periods ended September 30, 2009, compared to the same periods in 2008. The decrease in revenue for the three and nine month periods ended September 30, 2009 compared to the same periods in 2008 was partially offset by revenue related to the contingency support agreement established with the OEFC of $114 million and $294 million for the three and nine month periods ended September 30, 2009, respectively.

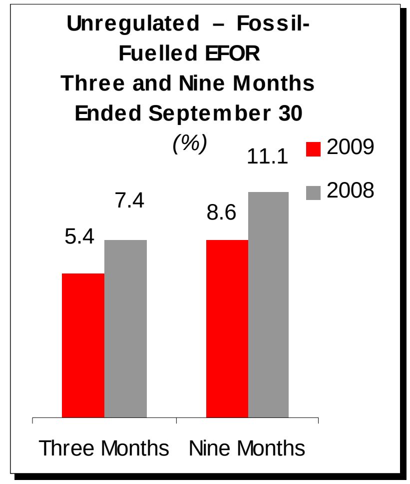
Electricity Prices

OPG's average sales price, for its unregulated fossil-fuelled generation, net of the revenue limit rebate, for the three months ended September 30, 2009 and 2008 was 3.1¢/kWh and 5.1¢/kWh, respectively. For the nine months ended September 30, 2009 and 2008, OPG's average sales price net of the revenue limit rebate for its unregulated fossil-fuelled generation was 4.1¢/kWh and 5.0¢/kWh, respectively. The lower sales price was primarily due to the impact of lower Ontario spot electricity market prices.

Volume

Electricity generation volume for the three months ended September 30, 2009 was 1.2 TWh compared to 6.2 TWh during 2008. Electricity generation volume for the nine months ended September 30, 2009 was 7.3 TWh compared to 18.7 TWh during the same period in 2008. The decrease in generation from the fossil-fuelled generating stations during the three and nine month periods ended September 30, 2009 compared to the same periods in 2008 was primarily due to the impact of lower Ontario primary demand and an increase in electricity generation from other electricity generators in Ontario.

The EFOR for the Unregulated – Fossil-Fuelled stations during the three months ended September 30, 2009 was 5.4 percent compared to 7.4 percent during the same period in 2008. During the nine months ended September 30, 2009 and 2008, the EFOR for the Unregulated – Fossil-Fuelled stations was 8.6 percent and 11.1 percent, respectively. The improvement in EFOR for the three and nine month periods ended September 30, 2009 compared to the same periods in 2008 reflects improved reliability of the fossil-fuelled generating fleet consistent with the change in operating strategy, one component of which is to optimize the number of coal-fired units offered into the electricity market.



Fuel Expense

During the three months ended September 30, 2009, fuel expense was $89 million compared to $191 million for the same period in 2008. The decrease of $102 million in 2009 compared to 2008 was primarily due to a decrease in generation, partially offset by higher coal prices and costs incurred for coal contract adjustments.

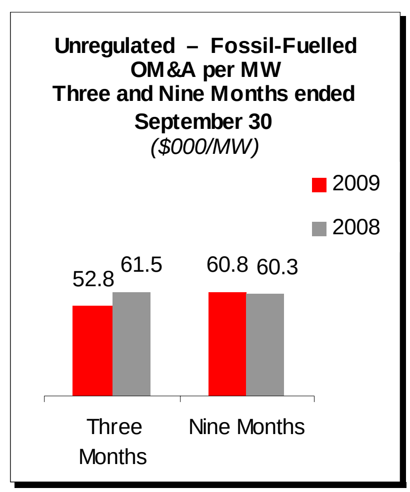
During the nine months ended September 30, 2009, fuel expense was $315 million compared to $526 million during the nine months ended September 30, 2008. The decrease of $211 million compared to 2008 was primarily due to lower electricity generation, partially offset by contract adjustments to coal supply contracts.

The reduced demand for coal-fired generation during the three and nine month periods ended September 30, 2009 has resulted in excess coal supplies. This has resulted in OPG negotiating reductions to coal supply contracts, which includes cancellations and deferral of shipments. Costs associated with the cancellations and deferrals are recorded as incurred. The costs incurred for coal contract adjustments, of $37 million and $48 million for the three and nine months ended September 30, 2009, respectively, relate primarily to the Lambton and Nanticoke coal fired generating stations and were recovered through the contingency support agreement with the OEFC.

Operations, Maintenance and Administration

OM&A expenses for the three months ended September 30, 2009 and 2008 were $108 million and $131 million, respectively. The decrease in OM&A expenses during the three months ended September 30, 2009 compared to the same period in 2008 reflects a reduction in planned outages and lower pension and OPEB costs. OM&A expenses for the nine months ended September 30, 2009 were $373 million compared to $387 million during the nine months ended September 30, 2008. The decrease of $14 million in OM&A expense was primarily due to lower pension and OPEB costs.

Annualized OM&A expense per MW ($/MW) for the unregulated fossil-fuelled stations was $52,800/MW for the three months ended September 30, 2009 compared to $61,500/MW for the same period in 2008. The decrease in OM&A per MW for the three months ended September 30, 2009 was due to a decrease in OM&A expenses.



During the nine months ended September 30, 2009, annualized OM&A expense per MW was $60,800/MW compared to $60,300/MW for the same period in 2008. The increase in OM&A expense per MW for the nine months ended September 30, 2009 compared to the same period in 2008 was due to a decrease in the maximum capacity rating of some of the units assessed in November 2008.

Other

(millions of dollars)	Three Months Ended September 30 2009	2008	Nine Months Ended September 30 2009	2008
Revenue	**35**	57	**113**	94
Operations, maintenance and administration	**6**	2	**10**	5
Depreciation and amortization	**12**	11	**35**	31
Property and capital taxes	**4**	3	**11**	9
Income before other gains and losses, interest and income taxes	**13**	41	**57**	49
Other (gains) and losses	**4**	-	**(2)**	9
Income before interest and income taxes	**9**	41	**59**	40

Other revenue was $35 million for the three months ended September 30, 2009 compared to $57 million for the same period in 2008. The decrease in other revenue during the third quarter of 2009 compared to the same quarter in 2008 was primarily due to lower net trading revenue resulting from unfavourable mark to market adjustments, partially offset by an increase in revenue from the PEC. Other revenue for the nine months ended September 30, 2009 was $113 million compared to $94 million for the same period in 2008. The increase in other revenue during the nine months ended September 30, 2009 compared to the same period in 2008 was primarily due to an increase in revenue from the PEC, partially offset by lower net trading revenue resulting from unfavourable mark to market adjustments.

OM&A expenses of the generation 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 expense. For the three months ended September 30, 2009, the service fee was $6 million for Regulated – Nuclear Generation, $1 million for Regulated – Hydroelectric, $1 million for Unregulated – Hydroelectric and $2 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expense of $10 million for the Other category. For the three months ended September 30, 2008, the service fee was $7 million for Regulated – Nuclear Generation, $1 million for Regulated-Hydroelectric, $1 million for Unregulated – Hydroelectric and $2 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expense of $11 million for the Other category.

For the nine months ended September 30, 2009, the service fee was $20 million for Regulated – Nuclear Generation, $2 million for Regulated – Hydroelectric, $3 million for Unregulated – Hydroelectric, $6 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of $31 million for the Other category. For the nine months ended September 30, 2008, the service fee was $21 million for Regulated – Nuclear Generation, $2 million for Regulated – Hydroelectric, $3 million for Unregulated – Hydroelectric, $6 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of $32 million for the Other category.

Interconnected purchases and sales, including those to be physically settled, and unrealized mark-to-market gains and losses on energy trading contracts, are disclosed on a net basis in the consolidated statements of income. If disclosed on a gross basis, revenue and power purchases for the three months ended September 30, 2009 would have increased by $25 million (three months ended September 30, 2008 – $34 million). For the nine months ended September 30, 2009, if disclosed on a gross basis, revenue and power purchases would have increased by $65 million (nine months ended September 30, 2008 – $135 million).

The changes in the fair value of derivative instruments not qualifying for hedge accounting are recorded in Other revenue, and the fair value of derivative instruments are carried on the consolidated balance sheets as assets or liabilities at fair value. The carrying amounts and notional quantities of the derivative instruments are disclosed in Note 12 in the unaudited interim consolidated financial statements as at and for the three and nine month periods ended September 30, 2009.

Net Interest Expense

Net interest expense for the three months ended September 30, 2009 was $48 million compared to $41 million for the same quarter in 2008. The net interest expense for the nine months ended September 30, 2009 and 2008 was $130 million and $120 million, respectively.

Income Taxes

From April 1, 2005 to December 31, 2008, OPG followed the liability method of tax accounting for its unregulated operations and the taxes payable method for its rate regulated operations. Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Under the taxes payable method, OPG does not recognize future income taxes relating to the rate regulated segments of its business to the extent those future income taxes are expected to be recovered or refunded through future regulated prices charged to customers. Accordingly, OPG did not record a future tax recovery of $78 million during the three months ended September 30, 2008 which would have been recorded had OPG accounted for income taxes for the regulated segments using the liability method. During the nine months ended September 30, 2008, OPG did not record a future tax expense of $38 million for the regulated segments.

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

- to amend Section 3465 to require, effective January 1, 2009, the recognition of future income tax liabilities and assets as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers; and
- to amend AcG-19, as necessary, as a result of the amendment to Section 3465.

Accordingly, on January 1, 2009, OPG recorded a future income tax liability of $340 million, being the cumulative future income tax liability on January 1, 2009 related to differences between the accounting and tax bases of assets and liabilities, measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse and recorded a corresponding regulatory asset. OPG also recorded an additional future income tax liability and a corresponding regulatory asset of $126 million for future income taxes resulting from regulatory assets that were recorded due to amendments to Section 3465. Effective January 1, 2009, OPG follows the liability method of tax accounting for all its segments and records a corresponding regulatory asset or liability for the future taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

For the three months ended September 30, 2009, income tax expense was $17 million compared to $64 million for the same period in 2008. The decrease in income tax expense was primarily due to the impact of a higher taxable income in 2008 before losses from the Nuclear Funds, partially offset by the income tax component of the Bruce variance account.

For the nine months ended September 30, 2009, income tax expense was $101 million compared to $48 million for the same period in 2008. For the nine months ended September 30, 2009, the increase in income tax expense was primarily due to a reduction in income tax liabilities during the same period in 2008 as a result of the resolution of a number of tax uncertainties related to the audit of OPG's 1999 taxation year.

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

LIQUIDITY AND CAPITAL RESOURCES

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

Changes in cash and cash equivalents for the three and nine month periods ended September 30, 2009, and 2008 are as follows:

(millions of dollars)	**Three Months Ended September 30** **2009**	**2008**	**Nine Months Ended September 30** **2009**	**2008**
Cash and cash equivalents, beginning of the period	**84**	365	**315**	110
Cash flow provided by operating activities	**203**	434	**61**	830
Cash flow (used in) investing activities	**(196)**	(164)	**(519)**	(426)
Cash flow (used in) provided by financing activities	**(46)**	(152)	**188**	(31)
Net (decrease) increase	**(39)**	118	**(270)**	373
Cash and cash equivalents, end of the period	**45**	483	**45**	483

Operating Activities

Cash flow provided by operating activities for the three months ended September 30, 2009 was $203 million compared to cash flow provided by operating activities of $434 million for the three months ended September 30, 2008. The decrease in cash flow was primarily due to lower cash receipts as a result of lower unregulated generation sales. The decrease in cash flow was partially offset by the impact of the revenue limit rebate payment made in the third quarter of 2008, which did not recur in the third quarter of 2009 due to discontinuance of the revenue limit.

Cash flow provided by operating activities for the nine months ended September 30, 2009 was $61 million compared to cash flow provided by operating activities of $830 million for the same period in 2008. The decrease in cash flow was primarily due to lower cash receipts as a result of lower unregulated generation sales and higher tax instalments.

Investing Activities

Investments in fixed and intangible assets during the quarter ended September 30, 2009 were $196 million compared with $172 million for the same quarter in 2008. The increase in capital expenditures for the three months ended September 30, 2009 compared to the same period in 2008 was primarily due to higher expenditures for unregulated hydroelectric development projects, partially offset by lower expenditures due to the completion and in-service of the PEC. For the nine months ended September 30, 2009, investments in fixed and intangible assets were $519 million compared with $434 million for the nine months ended September 30, 2008. The increase in capital expenditures for the nine months ended September 30, 2009 compared to the same period in 2008 was primarily due to higher expenditures for the Niagara Tunnel and unregulated hydroelectric development projects, partially offset by lower expenditures due to the in-service of the PEC.

OPG's forecasted capital expenditures for 2009 are approximately $770 million, which includes amounts for the Niagara Tunnel project, the Upper Mattagami hydroelectric development, other hydroelectric development projects and nuclear projects.

Investment in Asset-Backed Commercial Paper

Pursuant to the terms of a restructuring plan announced by the Pan-Canadian Investors Committee for third-party ABCP, OPG's short-term commercial paper was exchanged for longer term notes of approximately $58 million in January 2009. OPG received five classes of notes, which are supported by margin funding facilities from third-party asset providers, Canadian banks, and governments. OPG replaced existing ABCP notes that had a net book value of $35 million ($58 million book value less a provision of $23 million) with new ABCP notes of $35 million, which represented the fair value of the new ABCP notes. The restructured notes are expected to have a maturity of eight to nine years. The exact maturity will be determined by the release of collateral as underlying swap trades mature. The stated maturity of the notes is 2056.

In the third quarter of 2009, the fair value of the ABCP notes decreased by $4 million. The decrease in fair value reflected the revised credit rating for one of the note holdings. For the nine months ended September 30, 2009, the fair value of the ABCP notes increased by $2 million as a result of improved market conditions, partially offset by the impact of the revised credit rating. As at September 30, 2009, the ABCP holdings were valued at $37 million (December 31, 2008 – $35 million). OPG continues to monitor the development of a secondary market.

Financing Activities

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two tranches – a $500 million 364-day term tranche, and a $500 million five-year term tranche. During the first quarter of 2009, OPG renewed and extended the maturity date of the 364-day term tranche to May 19, 2010. The renewal became effective in the second quarter of 2009. The five-year term tranche was not extended, and therefore, has four years remaining, with a maturity date of May 20, 2013. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at September 30, 2009, $62 million of commercial paper was outstanding (December 31, 2008 – nil), and OPG had no other outstanding borrowings under the bank credit facility.

In the second quarter of 2008, OPG entered into a $100 million five-year revolving committed bank credit facility in support of the Upper Mattagami and Hound Chute project. As at September 30, 2009, there were no borrowings under this credit facility. In addition, project financing was completed for the Upper Mattagami and Hound Chute project in May 2009. Senior notes totalling $200 million were issued by the UMH Energy Partnership, a general partnership between OPG and UMH Energy Inc., a wholly-owned subsidiary of OPG. Transaction costs that are directly attributable to the issuance of the senior notes are included in the amortized cost of the notes. The senior notes have an effective interest rate of 7.86 percent and will mature in 2041. These notes are secured by the assets of the Upper Mattagami and Hound Chute project.

As at September 30, 2009, OPG maintained $25 million (December 31, 2008 – $25 million) of short-term, uncommitted overdraft facilities, and $276 million (December 31, 2008 – $238 million) of short-term, uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans, and for other purposes. At September 30, 2009, there was a total of $234 million of Letters of Credit issued (December 31, 2008 – $243 million), which included $212 million for the supplementary pension plans (December 31, 2008 – $212 million), and $7 million related to the construction and operation of the PEC (December 31, 2008 – $16 million).

In accordance with the receivable purchase agreement, OPG reduced the securitized receivable balance by $50 million, from $300 million to $250 million in May and June of 2009 primarily due to lower cash flows from the IESO. During the third quarter of 2009, OPG renewed the agreement with a maturity date of August 31, 2010 and an amended commitment of $250 million from $300 million.

OPG has an agreement with the OEFC to finance the Niagara Tunnel project for up to $1 billion over the duration of the project. The funding is advanced in the form of 10-year notes, on commercial terms and conditions. Advances under this facility commenced in October 2006 and amounted to $440 million as at September 30, 2009, which included $35 million of new borrowing during the third quarter of 2009. OPG is in the process of pursuing an amendment to the Niagara Tunnel project credit facility, consistent with the revised cost estimate of $1.6 billion, and the revised schedule.

Debt financing has been negotiated with the OEFC for OPG's interest in the PEC and the Lac Seul project for up to $400 million and $50 million, respectively. Advances under these facilities commenced in December 2006, and totalled $355 million for the PEC and $50 million for the Lac Seul project as at September 30, 2009. This included $30 million of new borrowing under the PEC facility in the third quarter of 2009.

As at September 30, 2009, OPG's long-term debt outstanding with the OEFC was $3.6 billion. Although the new borrowings added in 2008 and during the first nine months of 2009 have extended the maturity profile, approximately $1.7 billion of long-term debt must be repaid or refinanced within the next three years. To ensure that adequate financing resources are available beyond its $1 billion commercial paper program backed by the bank credit facility, OPG entered into a $950 million credit facility with the OEFC in 2007 to refinance senior notes maturing between September 2007 and September 2009. To date, $500 million has been advanced under this facility. OPG is currently in discussion with the OEFC to replace the current facility with a new facility to support OPG's refinancing through to June 30, 2010.

Maintaining an investment grade credit rating is essential for corporate liquidity and future capital market access. In August 2009, Dominion Bond Rating Service affirmed the long-term credit rating on OPG at A (low) and the commercial paper rating at R-1 (low) with a stable outlook. In October 2009, Standard and Poor's affirmed the long-term credit rating on OPG at A- with a stable outlook. These ratings reflect OPG's solid financial profile supported by a stable balance sheet and credit metrics and an improved regulatory environment. As at September 30, 2009, the following are OPG's credit ratings:

	Dominion Bond Rating Service	**Standard & Poor's**
Long-Term Credit Rating	A (low)	A-
Commercial Paper Rating	R1 (low)	A-2[1] A-1(Low)[2]

[1] *Global scale*
[2] *Canada scale*

Balance Sheet Highlights

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

Selected balance sheet data *(millions of dollars)*	**As At** **September 30 2009**	 **December 31 2008**
Assets		
Nuclear fixed asset removal and nuclear waste management funds	**10,071**	9,209
Regulatory assets	**1,207**	522
Future income taxes	**50**	68
Liabilities		
Fixed asset removal and nuclear waste management	**11,757**	11,384
Future income taxes	**655**	-

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Decommissioning Fund

The Decommissioning Fund was established to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level nuclear waste management, and a portion of used fuel storage costs after station life. For additional information regarding the Decommissioning Fund, refer to the 2008 annual MD&A under the heading, *Balance Sheet Highlights*.

The Decommissioning Fund's fair value was $4,821 million as at September 30, 2009 compared to $4,325 million as at December 31, 2008. The increase in asset value of $496 million was primarily due to favourable returns in the capital markets during the nine months ended September 30, 2009.

Used Fuel Fund

Under the ONFA, the Province guarantees OPG's annual return from the Used Fuel Fund at 3.25 percent plus the change in the Ontario Consumer Price Index ("committed return") for funding related to the first 2.23 million used fuel bundles. For additional information regarding the Used Fuel Fund, refer to the 2008 annual MD&A under the heading, *Balance Sheet Highlights*.

The Used Fuel Fund's fair value was $5,250 million as at September 30, 2009 compared to $4,884 million as at December 31, 2008. The increase in asset value in the Used Fuel Fund during the nine months ended September 30, 2009 of $366 million was due to new contributions to the fund and the committed return. The asset values as at September 30, 2009 and December 31, 2008, included a receivable from the Province of $17 million and $460 million, respectively.

As required by the terms of the ONFA, the Province provides a Provincial Guarantee to the Canadian Nuclear Safety Commission ("CNSC") on behalf of OPG. The *Nuclear Safety and Control Act (Canada)* requires OPG to have sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The Provincial Guarantee provides for any shortfall between the long term liabilities and the current market value of the Used Fuel Fund and the Decommissioning Fund. As of September 30, 2009, the value of this guarantee was $760 million. It is expected that the CNSC will require the guarantee to be increased to approximately $1.5 billion as a result of the market value losses experienced primarily during the latter half of 2008.

Regulatory Assets

As at September 30, 2009, regulatory assets were $1,207 million compared to $522 million as at December 31, 2008. The increase in regulatory assets was primarily due to the recognition of a regulatory asset of $566 million as a result of adopting the liability method of accounting for income taxes for the rate regulated operations, as discussed under the heading, *Income Taxes,* and the recording of a regulatory asset of $242 million for the tax loss variance account established by the OEB in May 2009. The increase in regulatory assets was partly offset by amortization expense of $76 million, resulting from the recovery of regulatory assets through current regulated prices.

Fixed Asset Removal and Nuclear Waste Management

The liability for fixed asset removal and nuclear waste management as at September 30, 2009 was $11,757 million compared to $11,384 million as at December 31, 2008. The increase was primarily due to accretion of $474 million due to the passage of time, partially offset by expenditures of $132 million on nuclear waste management activities.

Future Income Taxes

As at September 30, 2009, net future income tax liabilities were $605 million compared to net future income tax assets of $68 million as at December 31, 2008. The increase in future income tax liabilities was primarily due to the recognition of future income tax liabilities of $566 million as a result of adopting an amendment to Section 3465, *Income Taxes,* of the CICA Handbook. The impact of adopting the amended handbook section is described under the heading, *Income Taxes,* in the *Discussion of Operating Results by Business Segment* section.

Off-Balance Sheet Arrangements

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

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.

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

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

Accounting for Regulated Operations

As a result of prospectively adopting changes to Section 3465, *Income Taxes*, on January 1, 2009, OPG recognized a future income tax liability of $466 million relating to its rate regulated operations for future income taxes expected to be recovered through future regulated prices, and also recognized a corresponding regulatory asset. The future income tax liability of $466 million includes future income taxes of $126 million resulting from the additional regulatory asset for future income taxes recognized as a result of the amendments to Section 3465.

In addition to the transitional adjustment related to the amendments to Section 3465, for the three and nine month periods ended September 30, 2009, OPG recorded an increase to the future income tax liability of $61 million and $100 million, respectively, which is expected to be recovered through future regulated prices, and recorded a corresponding increase to the regulatory asset. As a result, the future income tax expense for the three and nine month periods ended September 30, 2009 was not impacted. The increase in the future income tax liability for the three and nine month periods ended September 30, 2009 included $18 million and $28 million, respectively, related to the increase to the regulatory asset for future income taxes. The regulatory asset was also increased by $61 million and $100 million, respectively, during the three and nine month periods ended September 30, 2009.

Intangible Assets

In February 2008, the CICA adopted Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces CICA Handbook Section 3062, *Goodwill and Other Intangible Assets*. The new guidance establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

This section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. OPG adopted the Handbook section effective January 1, 2009. The adoption of this standard did not have a significant impact on the Company's financial position or results of operations. As at September 30, 2009 and December 31, 2008, OPG reported intangible assets of $52 million and $57 million, respectively.

Depreciation

In September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations. As a result of the unit closures, effective September 2009, OPG revised the units' end of life to October 2010 from December 2014. This change in estimate was accounted for on a prospective basis and will increase the depreciation expense by $11 million and $22 million in 2009 and 2010, respectively.

FUTURE CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Conversion to International Financial Reporting Standards

Introduction to conversion project

In February 2008, the Canadian Accounting Standards Board confirmed that Publicly Accountable Enterprises will be required to transition from Canadian GAAP to International Financial Reporting Standards ("IFRS") for interim and annual financial reporting purposes for fiscal years beginning on or after January 1, 2011.   The objective of IFRS is to improve financial reporting by having one set of international accounting standards.

In May 2008, the Canadian Securities Administrators issued Staff Notice 52-320, which provides guidance on the disclosure of changes in expected accounting polices related to the change over to IFRS. In accordance with the notice, OPG is required to provide an update of the Company's IFRS conversion plan in each financial reporting period prior to conversion on January 1, 2011.

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

Phases of conversion

OPG's conversion project consists of three phases: diagnostic, development, and implementation.

<u>Diagnostic Phase</u>
This phase involved a high level review of major differences between current Canadian GAAP and IFRS, and a review of OPG's significant accounting and reporting standards. OPG completed the diagnostic phase of the conversion project during the fourth quarter of 2007 and determined that the differences with the highest potential to impact OPG's accounting included rate regulated accounting, accounting for fixed assets, asset retirement obligation accounting, as well as the initial adoption of IFRS under the provision of IFRS 1, *First-time Adoption of IFRS*.

<u>Development Phase</u>
The development phase, which began in January 2008, involves a detailed analysis of key impact areas, issue resolutions, and the preparation of illustrative financial statements.

Development phase activities include:
- The evaluation of accounting policy alternatives
- The investigation, and development of solutions to resolve differences identified in the diagnostic phase
- Changes to existing accounting policies and practices, business processes, information technology systems, and internal controls

- The implementation of a change management strategy to address the information and training needs of internal and external stakeholders.

OPG is progressing in its selection of accounting policies and choices under IFRS 1 exemptions.

Appropriate resources have been secured to complete the changeover on a timely basis according to the plan milestones. OPG has ensured training needs are met and continues to be addressed throughout the changeover period.

Implementation Phase
In the third and final phase of OPG's IFRS transition plan, OPG will integrate the changes to affected accounting policies and practices, business processes, systems and internal controls. These changes will be tested prior to the formal reporting requirements under IFRS to ensure all significant differences are appropriately addressed in time for the changeover. The implementation phase began in 2009 and will continue during 2010.

Transition plan

OPG continues to monitor the development of standards by the International Accounting Standards Board ("IASB"), as well as regulatory developments. OPG is actively involved with the Canadian Electricity Association ("CEA") in analyzing the IASB's Exposure Drafts, and prepares comment letters when relevant. As a number of the IFRS standards are changing, OPG will continue to assess the impact on its opening balance sheet on transition date and the ongoing impact on financial statements and disclosures, as additional information becomes available. Therefore, OPG is unable to quantify the impact of IFRS on its financial statements. After OPG quantifies the impact of IFRS on its financial statements, it will also be able to assess the impact on key performance indicators.

The following table provides certain elements of the changeover plan and an assessment of the progress OPG has achieved as of September 30, 2009. This information reflects OPG's most recent assumptions and expectations. Circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations.

Selected Key Activities	Milestone/Deadlines	Progress to Date
Financial statement preparations		
Identify relevant differences between IFRS and current accounting policies and practices and design and implement solutions Evaluate and select one-time and ongoing accounting policy alternatives Benchmark findings with peer companies Prepare illustrative financial statements and related note disclosures to comply with IFRS Quantify the effects of changeover to IFRS	Assessment and quantification of the significant effects of the changeover completed by approximately the third quarter of 2010 OPG expects the IASB to issue final guidance of the Rate-regulated activities Exposure Draft ("ED") mid-2010, and to be able to adopt such guidance effective January 1, 2011, with comparable 2010 figures Final selection of accounting policy alternatives by the changeover date	Completed the identification of IFRS differences Assessment and design of solutions to resolve differences has begun Evaluation and selection of accounting policy alternatives is underway IASB has issued an ED in July 2009 with comment period ending November 2009. OPG is analyzing the ED and determining the impact it will have on its accounting for rate regulated operations and financial results
Training and communications		
Provide training to affected employees of operating units, management and the Board of Directors and relevant committees thereof, including the Audit/Risk Committee Engage subject matter experts to assist in the transition Communicate progress of change over plan to internal and external stakeholders	Timely training provided to align with work under changeover – training completed by mid-2010 Communicate effects of changeover by the fourth quarter of 2010	Completed detailed training for resources directly engaged in the change over and general awareness training to broader group of finance employees Periodic internal and external communications about our progress are ongoing Engaged third-party subject matter experts to assist in the transition
IT systems		
Identify and address IFRS differences that require changes to financial systems Evaluate and select methods to address need for dual record-keeping during 2010 (i.e., IFRS and Canadian GAAP) for comparatives and budget and planning purposes in 2011	Changes to significant systems and dual record-keeping process completed in time for the first quarter of 2010 Remaining changes to systems post-dual recordkeeping year by the fourth quarter of 2010	IFRS differences with system impacts identified and design of solutions underway Parallel accounting approach will be used during the dual reporting period
Contractual arrangements and compensation		
Identify impact of changeover on contractual arrangements, including financial covenants and employee compensation plans Make any required changes to arrangements and plans	Changes completed by the third quarter of 2010	IFRS differences with potential impacts on financial covenants and compensation plans are being identified
Internal controls: Internal controls over financial reporting ("ICOFR"), disclosure controls and procedures ("DC&P") and related communications		
Revise existing internal control processes and procedures to address significant changes to existing accounting policies and practices, including the need for dual record-keeping during 2010, and changes to financial systems Design and implement internal controls with respect to one-time changeover adjustments and related communications For changes to accounting policies and practices identified, assess the DC&P and ICOFR design and effectiveness implications	Conduct management evaluation of new or revised controls throughout 2010	Accounting policies and procedures, as well as their impact on controls are currently under review

Financial Instruments – Disclosures

In June 2009, the CICA amended Handbook Section 3862, *Financial Instruments – Disclosures*, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require entities to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has three levels. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. These amendments will be applicable to OPG effective for its financial statements for the year ended December 31, 2009, but not for interim financial statements during this period. OPG is in the process of assessing the impact of these requirements.

RISK MANAGEMENT

A detailed discussion of OPG's governance structure and inherent risks is included in the 2008 annual MD&A under the heading, *Risk Management*. The following discussion updates the annual disclosure.

Risk Management Activities

The following discussion provides an update of OPG's risk management activities that were disclosed in the 2008 annual MD&A under the heading *Risk Management Activities.*

Enterprise-Wide Perspective

The Company has designed a comprehensive framework that identifies and evaluates threats or risks on the basis of their potential impact on the Company's capacity to achieve specific business plan objectives. The framework provides both senior management and the Board of Directors with detailed descriptions of various activities designed to mitigate the threats, to the extent possible.

For the purpose of this report, a number of key risks are presented in four main categories namely, operational, financial, regulatory and environmental. For each category, a number of key threats or risks are briefly described.

Operational Risks

Fossil-Fuelled Generating Stations

The Lennox generating station operated under a RMR contract with the IESO as approved by the OEB for the period beginning on October 1, 2008 to September 30, 2009. With the expiry of the RMR contract and indication of the OPA's requirements for four units at the Lennox generating station in a preliminary Integrated Power System Plan, OPG continues to operate the facility and is in discussions with the Government of Ontario regarding the issuance of a Directive to the OPA to contract with OPG for the capacity of the station for the period commencing October 1, 2009.

In September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations. The closures are expected to occur in October 2010.

Major Development Projects

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

New Nuclear Units

The Government of Ontario competitive RFP process to procure two new nuclear reactors planned for the Darlington site remains under suspension. OPG is continuing with two initiatives that were underway – the environmental assessment process and obtaining a site preparation licence. The Environmental Impact Statement and application for the Licence to Prepare Site were submitted to the CEAA and the CNSC on September 30, 2009. On November 16, 2009, the Joint Review Panel announced the start of the six month review period for the EIS and the “Licence to Prepare Site”.

Niagara Tunnel Project

In June 2009, OPG and the contractor signed an amended design-build contract. The target cost and schedule take into account the difficult rock conditions encountered and the concurrent tunnel excavation and liner installation work required for completion of the tunnel. The contract includes incentives and disincentives related to achieving the target cost and schedule. OPG’s Board of Directors has approved the revised project cost estimate of $1.6 billion and the revised scheduled completion date of December 2013. The advancement of the TBM has been temporarily interrupted since September 11, 2009 to reinforce a short section of the temporary tunnel liner that failed about 1,800 metres behind the current location of the TBM.   Installation of the permanent tunnel concrete lining is progressing well and is ahead of the revised schedule. Restoration of the circular cross-section of the tunnel before installation of the upper two-thirds of the concrete lining began, as planned, in September 2009. Some uncertainty with respect to the cost and schedule for both the tunnel excavation and liner installation will continue.

Other

The Green Energy Act is expected to provide a significant amount of additional electricity from renewable energy sources. Given the potential for other producers to add significant amounts of non-dispatchable renewable resources under the Green Energy Act, OPG’s future operations may be significantly impacted. The interconnection between Ontario and Quebec, which was placed in service July 2009, also increases the possibility of OPG’s generation being displaced.

The reduction in primary demand resulting from the economic downturn, combined with increased generating sources and the impact of the Ontario and Quebec interconnection, may cause OPG to spill water from hydroelectric generating units and reduce generation output of fossil and nuclear units. One or more of these conditions could result in a significant decline in OPG‘s revenue and potentially result in increased costs.

Market prices continue to be depressed and are expected to remain low for the foreseeable future.

Financial Risks

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

Commodity markets

Changes in the market price of electricity, or in the price of the fuels used to produce electricity, can adversely impact OPG’s earnings and cash flows from operations. To manage this risk, OPG seeks to maintain a balance between the commodity price risk inherent in its electricity production and generating station fuel portfolios by renegotiating fuel supply contracts and taking advantage of relevant commodities markets to the extent trading liquidity exists. To manage fuel price risk, OPG has a fuel hedging program, which includes using fixed price and indexed contracts.

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

	2009	2010	2011
Estimated generation output hedged [1]	80%	79%	79%
Estimated fuel requirements hedged [2]	100%	100%	87%
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 and OPA auction sales.

2 Represents the approximate portion of megawatt hours of expected generation production (and fossil year end inventory targets) from each type of facility (fossil, nuclear and hydroelectric) for which OPG has entered into contractual arrangements or obligations in order to secure either the expected availability and/or price of fuel. Excess fuel in inventories in a given year is attributed to the next year for the purpose of measuring hedge ratios. 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%.

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.

Foreign exchange and interest rate markets

In order to manage foreign exchange risk, OPG employs various financial instruments such as forwards and various forms of derivative contracts in accordance with approved risk management policies. As of September 30, 2009, OPG had total foreign exchange swap contracts outstanding with a notional principal of $35 million, with settlement between October 2009 and December 2009.

OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated new financing. As of September 30, 2009, OPG had total forward start interest rate swap contracts outstanding with a notional principal of $155 million and a maturity schedule of eleven years.

Trading

OPG's trading operations are closely monitored, and total exposures are measured and reported to senior management on a daily basis. The metric used to measure the risk of this trading activity is known as "value at risk" or "VaR", which is defined as the potential future loss, expressed in monetary terms, for a portfolio based on normal market conditions for a set period of time. The VaR limit for trading was $5 million, and VaR utilization ranged between $0.7 million to $0.9 million during the three months ended September 30, 2009, compared to $0.7 million to $1.2 million during the three months ended June 30, 2009.

Credit

OPG manages its exposure to various suppliers or "counterparties" by evaluating the financial condition of all counterparties and ensuring that appropriate collateral or other forms of security are held by OPG. OPG's credit exposure as at September 30, 2009 was $455 million, including $364 million to the IESO. Over 93 percent of the remaining $91 million exposure was to investment grade counterparties.

Regulatory Risks

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

The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's decisions and the regulation. These estimates and assumptions will be reviewed as part of the OEB's regulatory process.

Environmental Risks

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

Other Enterprise-Wide Risks

Human Resources

The risk associated with the availability of skilled and experienced resources continues to exist for OPG. In order to mitigate the impact of this risk, OPG implemented a "Resourcing Strategy Initiative", which includes recruitment strategies, workforce planning, and ongoing analysis of potential shortfalls. Short-term impacts of the recession would indicate improved ability to attract and retain employees; however, the longer term impacts on knowledge transfer and future availability of skilled resources represent an ongoing strategic risk.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

During the most recent interim period, there have been no changes in the Company's policies and procedures and other processes that comprise its internal 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)	**September 30 2009**	**June 30 2009**	**March 31 2009**	**December 31 2008**
Revenue after revenue limit rebate	**1,345**	1,397	1,481	1,621
Net income (loss)	**259**	306	(9)	(31)
Net income (loss) per share	**$1.01**	$1.20	$(0.04)	$(0.12)

(millions of dollars)	September 30 2008	June 30 2008	March 31 2008	December 31 2007
Revenue after revenue limit rebate	1,513	1,385	1,563	1,342
Net (loss) income	(142)	99	162	119
Net (loss) income per share	$(0.55)	$0.39	$0.63	$0.46

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

Additional items which impacted net income (loss) in certain quarters above are described below and in OPG's 2008 annual MD&A under the heading, Quarterly Financial Highlights:

- A decrease in gross margin during the first quarter of 2009 primarily due to lower generation and higher fuel prices at OPG's fossil-fuelled generating stations, largely offset by the recognition of revenue related to a contingency support agreement established with the OEFC.
- A decrease in income resulting from losses in the Nuclear Funds during the first quarter of 2009 primarily due to reductions in the Ontario Consumer Price index. Losses from the Nuclear Funds were partially mitigated by the establishment of the Bruce variance account for the portion of the losses from the Nuclear Funds related to the nuclear generating stations on lease to Bruce Power.
- A decrease in income in the first quarter of 2009 related to higher OM&A expenses primarily due to an increase in planned outage and maintenance activities, new nuclear generation development, and capacity refurbishment activities at OPG's nuclear generating stations.
- An increase in gross margin during the second quarter of 2009 due to the recognition of a regulatory asset of $199 million, excluding interest, related to the tax loss variance account authorized by the OEB effective April 1, 2008 and the recognition of revenue related to a contingency support agreement established with the OEFC. The increase was partially offset by lower generation at OPG's fossil-fuelled and nuclear generating stations, a decrease in electricity sales prices in the unregulated generation segments, and higher fuel prices and fuel related costs at OPG's fossil-fuelled generating stations.
- Lower generation at OPG's nuclear generating stations during the second quarter of 2009 primarily due to a planned Vacuum Building Outage ("VBO") at the Darlington nuclear generating station during the second quarter of 2009.
- An increase in the earnings from the Nuclear Funds of $343 million during the second quarter of 2009 compared to the same quarter in 2008 primarily due to improvements in valuation levels of global financial markets, partially offset by the reduction to the Bruce variance account regulatory asset of $150 million.

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 and nine months ended September 30, 2009 and 2008 and the notes thereto, present certain non-GAAP financial measures. These financial measures do not have standard definitions prescribed by Canadian GAAP, and therefore, may not be comparable to similar measures disclosed by other companies. OPG utilizes these measures in making operating decisions and assessing its performance. Readers of the MD&A, consolidated financial statements, and notes thereto, utilize these measures in assessing the Company's financial performance from ongoing operations. These non-GAAP financial measures have not been presented as an alternative to net income in accordance with Canadian GAAP as an indicator of operating performance. The definitions of the non-GAAP financial measures are as follows:

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

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

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INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

(millions of dollars except where noted)	**Three Months Ended September 30** **2009**	**2008**	**Nine Months Ended September 30** **2009**	**2008**
Revenue *(Note 15)*				
Revenue before revenue limit rebate	**1,345**	1,628	**4,250**	4,698
Revenue limit rebate *(Note 14)*	**-**	(115)	**(27)**	(237)
	1,345	1,513	**4,223**	4,461
Fuel expense *(Note 15)*	**249**	334	**730**	915
Gross margin *(Note 15)*	**1,096**	1,179	**3,493**	3,546
Expenses				
Operations, maintenance and administration	**653**	689	**2,157**	2,130
Depreciation and amortization *(Note 5)*	**187**	162	**550**	497
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 9)*	**158**	151	**476**	438
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds *(Note 9)*	**(254)**	190	**(549)**	133
Property and capital taxes	**24**	24	**74**	54
	768	1,216	**2,708**	3,252
Income (loss) before the following:	**328**	(37)	**785**	294
Other losses (gains) *(Notes 15 and 17)*	**4**	-	**(2)**	7
Income (loss) before interest and income taxes	**324**	(37)	**787**	287
Net interest expense	**48**	41	**130**	120
Income (loss) before income taxes	**276**	(78)	**657**	167
Income tax expense (recovery) *(Note 10)*				
Current	**40**	33	**19**	179
Future	**(23)**	31	**82**	(131)
	17	64	**101**	48
Net income (loss)	**259**	(142)	**556**	119
Basic and diluted income per common share *(dollars)*	**1.01**	(0.55)	**2.17**	0.46
Common shares outstanding *(millions)*	**256.3**	256.3	**256.3**	256.3

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(millions of dollars)	Three Months Ended September 30 2009	2008	Nine Months Ended September 30 2009	2008
Operating activities				
Net income (loss)	**259**	(142)	**556**	119
Adjust for non-cash items:				
Depreciation and amortization *(Note 5)*	**187**	162	**550**	497
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 9)*	**158**	151	**476**	438
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds *(Note 9)*	**(254)**	190	**(549)**	133
Pension and other post employment benefit costs *(Note 11)*	**65**	103	**190**	315
Future income taxes *(Note 10)*	**(23)**	31	**82**	(131)
Mark-to-market on derivative instruments	**10**	(28)	**18**	2
Provision for used nuclear fuel	**7**	7	**25**	24
Regulatory assets and liabilities *(Note 6)*	**(30)**	(2)	**(220)**	(12)
Other	**8**	4	**10**	11
	387	476	**1,138**	1,396
Contributions to nuclear fixed asset removal and nuclear waste management funds	**(87)**	(113)	**(262)**	(340)
Expenditures on fixed asset removal and nuclear waste management *(Note 9)*	**(50)**	(40)	**(132)**	(135)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	**38**	46	**75**	54
Contributions to Pension Fund	**(72)**	(66)	**(204)**	(198)
Expenditures on other post employment benefits and supplementary pension plans	**(20)**	(21)	**(60)**	(60)
Revenue limit rebate *(Note 14)*	**-**	(93)	**(112)**	(189)
Net changes to other long-term assets and liabilities	**(4)**	(13)	**(28)**	119
Net changes in non-cash working capital balances *(Note 16)*	**11**	258	**(354)**	183
Cash flow provided by operating activities	**203**	434	**61**	830
Investing activities				
Increase in regulatory assets *(Note 6)*	**-**	(2)	**(1)**	(7)
Investment in fixed and intangible assets	**(196)**	(172)	**(519)**	(434)
Net proceeds from sale of long-term investments	**-**	10	**1**	15
Cash flow used in investing activities	**(196)**	(164)	**(519)**	(426)
Financing activities				
Issuance of long-term debt *(Note 7)*	**65**	50	**480**	375
Repayment of long-term debt *(Note 7)*	**(177)**	(202)	**(358)**	(406)
Net increase in short-term notes *(Note 8)*	**62**	-	**62**	-
Capital contribution by non-controlling interest *(Note 18)*	**4**	-	**4**	-
Cash flow (used in) provided by financing activities	**(46)**	(152)	**188**	(31)
Net (decrease) increase in cash and cash equivalents	**(39)**	118	**(270)**	373
Cash and cash equivalents, beginning of period	**84**	365	**315**	110
Cash and cash equivalents, end of period	**45**	483	**45**	483

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**September 30 2009**	**December 31 2008**
Assets		
Current assets		
Cash and cash equivalents *(Note 9)*	**45**	315
Accounts receivable *(Note 4)*	**366**	525
Fuel inventory	**838**	736
Prepaid expenses	**58**	32
Income tax recoverable	**62**	-
Future income taxes *(Note 10)*	**50**	6
Materials and supplies	**133**	132
	1,552	1,746
Fixed assets *(Note 15)*		
Property, plant and equipment	**18,448**	17,976
Less: accumulated depreciation	**5,662**	5,246
	12,786	12,730
Intangible assets *(Notes 2 and 15)*		
Intangible assets	**365**	357
Less: accumulated amortization	**313**	300
	52	57
Other long-term assets		
Deferred pension asset	**949**	797
Nuclear fixed asset removal and nuclear waste management funds *(Note 9)*	**10,071**	9,209
Long-term investments *(Note 3)*	**73**	74
Long-term materials and supplies	**366**	338
Future income taxes *(Note 10)*	**-**	62
Regulatory assets *(Note 6)*	**1,207**	522
Long-term accounts receivable and other assets	**49**	44
	12,715	11,046
	27,105	25,579

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**September 30 2009**	**December 31 2008**
Liabilities		
Current liabilities		
Accounts payable and accrued charges	**796**	1,015
Revenue limit rebate payable *(Note 14)*	**-**	85
Short-term notes payable *(Note 8)*	**62**	-
Long-term debt due within one year *(Note 7)*	**977**	357
Deferred revenue due within one year	**12**	12
Income and capital taxes payable	**-**	104
	1,847	1,573
Long-term debt *(Note 7)*	**2,985**	3,483
Other long-term liabilities		
Fixed asset removal and nuclear waste management *(Note 9)*	**11,757**	11,384
Other post employment benefits and supplementary pension plans	**1,781**	1,703
Long-term accounts payable and accrued charges	**421**	445
Deferred revenue	**124**	108
Future income taxes *(Note 10)*	**655**	-
Regulatory liabilities *(Note 6)*	**132**	54
	14,870	13,694
Non-controlling interest *(Note 18)*	**4**	-
Shareholder's equity		
Common shares	**5,126**	5,126
Retained earnings	**2,308**	1,752
Accumulated other comprehensive loss	**(35)**	(49)
	7,399	6,829
	27,105	25,579

Commitments and Contingencies (Notes 7, 12, and 13)

See accompanying notes to the interim consolidated financial statements

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

Nine Months Ended September 30 *(millions of dollars)*	**2009**	**2008**
Common shares	**5,126**	5,126
Retained earnings		
Balance at beginning of period	**1,752**	1,664
Net income	**556**	119
Balance at end of period	**2,308**	1,783
Accumulated other comprehensive (loss) income, net of income taxes		
Balance at beginning of period	**(49)**	17
Other comprehensive income (loss) for the period	**14**	(27)
Balance at end of period	**(35)**	(10)
Total shareholder's equity at end of period	**7,399**	6,899

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended September 30		**Nine Months Ended September 30**	
(millions of dollars)	**2009**	**2008**	**2009**	**2008**
Net income (loss)	**259**	(142)	**556**	119
Other comprehensive (loss) income, net of income taxes				
Net (loss) gain on derivatives designated as cash flow hedges[1]	**(7)**	10	**21**	(20)
Reclassification to income of gains on derivatives designated as cash flow hedges[2]	**-**	(3)	**(7)**	(7)
Other comprehensive (loss) income for the period	**(7)**	7	**14**	(27)
Comprehensive income (loss)	**252**	(135)	**570**	92

[1] Net of income tax recoveries of $1 million for the three months ended September 30, 2009 and tax recoveries of $5 million for the three months ended September 30, 2008. For the nine months ended September 30, 2009 and 2008, net of income tax expenses of $2 million and recoveries of $2 million, respectively.

[2] Net of income tax recoveries of nil for the three months ended September 30, 2009 and tax expenses of $2 million for the three months ended September 30, 2008. For the nine months ended September 30, 2009 and 2008, net of income tax recoveries of $3 million and expenses of $5 million, respectively.

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 (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 ("GAAP") 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, 2008.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Certain of the 2008 comparative amounts have been reclassified from financial statements previously presented to conform to the 2009 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. Changes in Accounting Policies and Estimates

Changes Applicable to the Current Period

Accounting for Regulated Operations

The Canadian Institute of Chartered Accountants ("CICA") revised its guidance on accounting for rate regulated operations, effective January 1, 2009, with amendments to Handbook Section 1100, *Generally Accepted Accounting Principles*, ("Section 1100"), Handbook Section 3465, *Income Taxes*, ("Section 3465"), and Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation,* ("AcG-19") as follows:

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

As a result of the changes to Section 3465, OPG is required to recognize future income taxes associated with its rate regulated operations. OPG applied the changes prospectively to interim and annual consolidated financial statements beginning January 1, 2009. The impact of the change is disclosed in Note 10, *Income Taxes*.

In addition, effective January 1, 2009, with the removal of the temporary exemption in Section 1100, the Company must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Certain assets and liabilities arising from rate regulation continue to have specific guidance under a primary source of GAAP that applies only to the particular circumstances described therein, including those arising under Handbook Section 1600, *Consolidated Financial Statements*, Handbook Section 3061, *Property, Plant and Equipment*, Section 3465, and Handbook Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*. Other assets and liabilities arising from rate regulation do not have specific guidance under a primary source of GAAP. Therefore, Section 1100 directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Handbook Section 1000, *Financial Statement Concepts*. In developing these accounting policies, the Company may consult other sources including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. Therefore, in accordance with Section 1100, the Company has determined that these assets and liabilities qualify for recognition under GAAP and this recognition is consistent with the Financial Accounting Standards Board Accounting Standards Codification Topic 980, *Accounting for the Effects of Certain Types of Regulation* (formerly Financial Accounting Standards No. 71). As a result, there is no effect on the Company's financial statements for the three and nine month periods ended September 30, 2009, with the exception of the impact of the amendment to Section 3465, as discussed above.

Intangible Assets

In February 2008, the CICA adopted Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces CICA Handbook Section 3062, *Goodwill and Other Intangible Assets*, and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008, with early adoption encouraged.

OPG adopted the Handbook Section on January 1, 2009 and reclassified prior period comparative amounts from property, plant and equipment to intangible assets. The adoption of this standard did not have a significant impact on the Company's financial position or results of operations. As at September 30, 2009 and December 31, 2008, OPG reported intangible assets of $52 million and $57 million, respectively. Intangible assets are amortized over a period of five years.

Depreciation

In September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations. As a result of the unit closures, effective September 2009, OPG revised the units' end of life, to October 2010 from December 2014. This change in estimate was accounted for on a prospective basis and will increase the depreciation expense by $11 million and $22 million in 2009 and 2010, respectively.

Restructuring

As a result of the decision to close two coal-fired units at each of the Lambton and Nanticoke generating stations, OPG has notified key stakeholders, including the Society of Energy Professionals and the Power Workers' Union, of the decision in accordance with their respective collective bargaining agreements. The termination costs are estimated to be approximately $35 million and are expected to be recorded in mid to late-2010 when they are finalized.

Changes Applicable to Future Reporting Periods

Financial Instruments – Disclosures

In June 2009, the CICA amended Handbook Section 3862, *Financial Instruments – Disclosures*, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require entities to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has three levels. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. These amendments will be applicable to OPG effective for its annual 2009 financial statements.

3. INVESTMENTS IN ASSET-BACKED COMMERCIAL PAPER

Pursuant to the terms of a restructuring plan announced by the Pan-Canadian Investors Committee for third-party Asset-Backed Commercial Paper ("ABCP"), OPG's short-term commercial paper was exchanged for longer term notes of approximately $58 million. OPG received five classes of notes, which are supported by margin funding facilities from third-party asset providers, Canadian banks, and governments. OPG replaced existing ABCP notes that had a net book value of $35 million ($58 million book value less a provision of $23 million) with new ABCP notes of $35 million, which represented the fair value of the new ABCP notes. The restructured notes are expected to have a maturity of eight to nine years. The exact maturity will be determined by the release of collateral as underlying swap trades mature. The stated maturity of the notes is 2056.

OPG classified the new ABCP notes for the purposes of measurement, subsequent to their initial recognition and related income reporting, as held for trading. Fair value was determined based on the same methodology previously developed with updated credit spread and discount rate information.

In the third quarter of 2009, the fair value of the ABCP notes decreased by $4 million. The decrease in fair value reflected the revised credit rating for one of the note holdings. For the nine months ended September 30, 2009, the fair value of the ABCP notes increased by $2 million as a result of the improved market conditions partially offset by the impact of the revised credit rating. As at September 30, 2009, the ABCP holdings were valued at $37 million (December 31, 2008 – $35 million). OPG continues to monitor the development of a secondary market.

4. SALE OF ACCOUNTS RECEIVABLE

The Company has 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.

In accordance with the receivable purchase agreement, OPG reduced the securitized receivable balance by $50 million, from $300 million to $250 million in May and June of 2009 primarily due to lower cash flows from the Independent Electricity System Operator. During the third quarter of 2009, OPG renewed the agreement with a maturity date of August 31, 2010 and an amended commitment of $250 million.

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

	Principal Amount of Receivables as at	
(millions of dollars)	**September 30 2009**	**December 31 2008**
Total receivables portfolio[1]	**364**	507
Receivables sold	**250**	300
Receivables retained	**114**	207

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

The pre-tax charges and average cost of funds are as follows:

(millions of dollars except where noted)	Three Months Ended September 30 2009	Three Months Ended September 30 2008	Nine Months Ended September 30 2009	Nine Months Ended September 30 2008
Pre-tax charges	**1**	3	**4**	9
Average cost of funds *(percent)*	**1.3**	3.7	**1.7**	4.1

5. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for the three and nine month periods ended September 30, 2009 and 2008 consists of the following:

(millions of dollars)	Three Months Ended September 30 2009	Three Months Ended September 30 2008	Nine Months Ended September 30 2009	Nine Months Ended September 30 2008
Depreciation	**154**	152	**453**	441
Amortization of intangible assets	**5**	5	**16**	15
Amortization of regulatory assets and liabilities *(Note 6)*	**27**	3	**76**	36
Nuclear waste management costs	**1**	2	**5**	5
	187	162	**550**	497

Interest capitalized to construction in progress at an average rate of six percent during the three and nine month periods ended September 30, 2009 (three and nine month periods ended September 30, 2008 – six percent) was $13 million and $42 million, respectively (three and nine month periods ended September 30, 2008 – $15 million and $41 million, respectively).

6. REGULATORY ASSETS AND LIABILITIES

Pursuant to the Ontario Energy Board's ("OEB") decision issued in 2008 on OPG's application for regulated prices effective April 1, 2008, OPG recorded additions to variance and deferral accounts for the nine months ended September 30, 2009. OPG also continued to amortize regulatory balances approved for recovery by the OEB effective April 1, 2008, as well as to record interest on outstanding regulatory balances at the interest rate prescribed by the OEB.

During the second quarter of 2009, OPG established a tax loss variance account retroactive to April 1, 2008 pursuant to the OEB's decision and order in May 2009 on OPG's motion to review, and vary, a portion of the OEB's 2008 decision establishing current regulatory prices, as it pertains to the treatment of tax losses and their use for mitigation of regulated prices. OPG filed the motion with the OEB in January 2009. In accordance with the OEB's decision on the motion, the balance in this variance account is based on the difference between regulatory tax losses for the period from April 1, 2005 to March 31, 2008, calculated in accordance with the methodology specified in the OEB's 2008 decision, and the revenue requirement reduction reflected in current regulated prices. The balance in the variance account will be reviewed by the OEB as part of OPG's next regulated prices hearing. During the nine months ended September 30, 2009, OPG recorded a regulatory asset of $242 million, including $3 million of interest, related to the tax loss variance account and a corresponding $239 million increase to revenue. The increase to revenue of $239 million included an amount of $119 million related to the period from April 1, 2008 to December 31, 2008.

Beginning on January 1, 2009, OPG also started recording a regulatory asset or liability related to the recognition of future income taxes for its rate regulated operations, as required by the CICA's amended guidance for accounting for rate regulated operations described in Notes 2 and 10.

Prior to April 1, 2008, OPG recorded additions to variance and deferral accounts prescribed by a regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario). OPG also amortized the Pickering A return to service deferral account prior to April 1, 2008 in accordance with the terms of the regulation. The regulation required OPG to record interest on its regulatory balances at the interest rate of six percent prior to April 1, 2008.

The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's decisions and the regulation. These estimates and assumptions will be reviewed as part of the OEB's regulatory process.

The regulatory assets and liabilities recorded as at September 30, 2009 and December 31, 2008 are as follows:

(millions of dollars)	**September 30 2009**	**December 31 2008**
Regulatory assets		
Future income taxes *(Note 10)*	**566**	-
Bruce revenues and costs variance account	**189**	260
Pickering A return to service deferral account	**93**	123
Tax loss variance account	**242**	-
Nuclear liabilities deferral account	**98**	132
Other	**19**	7
Total regulatory assets	**1,207**	522
Regulatory liabilities		
Nuclear generation development costs – Capacity refurbishment	**10**	6
Nuclear generation development costs – New nuclear development	**43**	21
Hydroelectric production variance	**51**	22
Other	**28**	5
Total regulatory liabilities	**132**	54

As at September 30, 2009, other regulatory assets included $11 million related to the under-recovery of approved regulatory balances over the period from April 1, 2008 to September 30, 2009, and $6 million related to the under-recovery of retroactive revenue for the period April 1, 2008 to November 30, 2008. As at December 31, 2008, other regulatory assets included $5 million related to the under-recovery of approved regulatory balances over the period from April 1, 2008 to December 31, 2008.

As at September 30, 2009, other regulatory liabilities included $18 million in the ancillary services revenue variance account and $10 million in the nuclear fuel variance account. As at December 31, 2008, other regulatory liabilities included $4 million in the ancillary services revenue variance account and $1 million in the nuclear fuel variance account.

The changes in the regulatory assets and liabilities for the nine months ended September 30, 2009 and the year ended December 31, 2008 are as follows:

(millions of dollars)	**Future Income Taxes**	**Bruce Revenues and Costs Variance**	**Tax Loss Variance**	**Pickering A Return to Service Deferral Account**	**Nuclear Liabilities Deferral Account**	**Nuclear Generation Develop-ment Costs – Capacity Refurbish-ment**	**Nuclear Generation Develop-ment Costs – New Nuclear Develop-ment**	**Hydro-electric Production Variance**	**Other (net)**
Regulatory assets (liabilities), January 1, 2008	-	-	-	183	131	16	12	7	(7)
Increase (decrease) during the year	-	259	-	-	31	(6)	(30)	(25)	(2)
Interest	-	1	-	6	6	-	-	-	-
Amortization during the year	-	-	-	(66)	(36)	-	(3)	(4)	(2)
Other charges[1]	-	-	-	-	-	(16)	-	-	13
Regulatory assets (liabilities), December 31, 2008	-	260	-	123	132	(6)	(21)	(22)	2
Increase (decrease) during the period	566	(74)	239	-	-	(4)	(18)	(26)	(8)
Interest	-	3	3	1	1	-	-	-	-
Amortization during the period	-	-	-	(31)	(35)	-	(4)	(3)	(3)
Regulatory assets (liabilities), September 30, 2009	**566**	**189**	**242**	**93**	**98**	**(10)**	**(43)**	**(51)**	**(9)**

[1] Other charges for the year ended December 31, 2008 represent regulatory balances that were charged to operations based on the OEB's decision in 2008 that these amounts would not be refunded or charged to ratepayers.

The following table summarizes the income statement and other comprehensive income impacts of recognizing regulatory assets and liabilities:

(millions of dollars)	Three Months Ended September 30, 2009			Three Months Ended September 30, 2008		
	As Stated	**Impact of Regulatory Assets and Liabilities**	**Financial Statements without the Impact of Regulatory Assets and Liabilities**	**As Stated**	**Impact of Regulatory Assets and Liabilities**	**Financial Statements without the Impact of Regulatory Assets and Liabilities**
Revenue	**1,345**	**(42)**	**1,303**	1,513	-	1,513
Fuel expense	**249**	**(4)**	**245**	334	-	334
Operations, maintenance, and administration	**653**	**(9)**	**644**	689	-	689
Depreciation and amortization	**187**	**(27)**	**160**	162	(3)	159
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds	**(254)**	**(106)**	**(360)**	190	-	190
Accretion on fixed asset removal and nuclear waste management liabilities	**158**	**(1)**	**157**	151	-	151
Property and capital taxes	**24**	**-**	**24**	24	-	24
Net interest expense	**48**	**1**	**49**	41	3	44
Income tax expense[1]	**17**	**89**	**106**	64	-	64
Other comprehensive (loss) income[1]	**(7)**	**2**	**(5)**	7	-	7

[1] Effective January 1, 2009, OPG is required to recognize future income taxes and a corresponding regulatory asset or liability associated with its rate regulated operations in accordance with amendments to Section 3465 (see Notes 2 and 10). The impact of the regulatory asset or liability is reflected above for the three months ended September 30, 2009. Prior to January 1, 2009, OPG followed the taxes payable method of accounting for income taxes and therefore did not recognize these regulatory assets or liabilities. Accordingly, the impact of recognizing regulatory assets and liabilities for the three months ended September 30, 2008 shown above does not include the future income tax for the regulated operations and the associated regulatory asset or liability.

	Nine Months Ended September 30, 2009			Nine Months Ended September 30, 2008		
(millions of dollars)	**As Stated**	**Impact of Regulatory Assets and Liabilities**	**Financial Statements without the Impact of Regulatory Assets and Liabilities**	**As Stated**	**Impact of Regulatory Assets and Liabilities**	**Financial Statements without the Impact of Regulatory Assets and Liabilities**
Revenue	**4,223**	**(241)**	**3,982**	4,461	(1)	4,460
Fuel expense	**730**	**(9)**	**721**	915	(2)	913
Operations, maintenance, and administration	**2,157**	**(22)**	**2,135**	2,130	4	2,134
Depreciation and amortization	**550**	**(78)**	**472**	497	(23)	474
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds	**(549)**	**(126)**	**(675)**	133	-	133
Accretion on fixed asset removal and nuclear waste management liabilities	**476**	**(2)**	**474**	438	19	457
Property and capital taxes	**74**	**(1)**	**73**	54	1	55
Net interest expense	**130**	**7**	**137**	120	14	134
Income tax expense[1]	**101**	**120**	**221**	48	-	48
Other comprehensive income (loss)[1]	**14**	**(6)**	**8**	(27)	-	(27)

[1] Effective January 1, 2009, OPG is required to recognize future income taxes and a corresponding regulatory asset or liability associated with its rate regulated operations in accordance with amendments to Section 3465 (see Notes 2 and 10). The impact of the regulatory asset or liability is reflected above for the nine months ended September 30, 2009. Prior to January 1, 2009, OPG followed the taxes payable method of accounting for income taxes and therefore did not recognize these regulatory assets or liabilities. Accordingly, the impact of recognizing regulatory assets and liabilities for the nine months ended September 30, 2008 shown above does not include the future income tax for the regulated operations and the associated regulatory asset or liability.

7. LONG-TERM DEBT

Long-term debt consists of the following:

(millions of dollars)	**September 30 2009**	**December 31 2008**
Notes payable to the Ontario Electricity Financial Corporation	**3,590**	3,660
Share of non-recourse limited partnership debt	**372**	180
	3,962	3,840
Less: due within one year		
Notes payable to the Ontario Electricity Financial Corporation	**970**	350
Share of limited partnership debt	**7**	7
	977	357
Long-term debt	**2,985**	3,483

Interest paid during the three months ended September 30, 2009 was $96 million (three months ended September 30, 2008 – $104 million), of which $94 million relates to interest paid on long-term debt (three months ended September 30, 2008 – $98 million). Interest paid during the nine months ended September 30, 2009 was $217 million (nine months ended September 30, 2008 – $218 million), of which $207 million relates to interest paid on long-term debt (nine months ended September 30, 2008 – $205 million). Interest on the notes payable to the Ontario Electricity Financial Corporation ("OEFC") is paid semi-annually.

Debt financing for the Niagara Tunnel, the Portlands Energy Centre and the Lac Seul hydroelectric generating station projects is provided by the OEFC. As at September 30, 2009, debt financing for these projects, which is included as part of the notes payable to the OEFC, consisted of the following:

(millions of dollars)	**Niagara Tunnel**	**Portlands Energy Centre**	**Lac Seul Hydroelectric Generating Station**
Debt financing, as at December 31, 2008	340	305	20
New borrowing	100	50	30
Debt financing, as at September 30, 2009	**440**	**355**	**50**

OPG reached an agreement with the OEFC in 2007 for a $950 million credit agreement to refinance senior notes as they mature over the period from September 2007 to September 2009. Refinancing under this agreement totalled $500 million as at September 30, 2009, which included $100 million of refinancing in the first quarter of 2009 at an interest rate of 5.65 percent.

In addition, project financing was completed for the Upper Mattagami and Hound Chute project in May 2009. Senior notes totalling $200 million were issued by the UMH Energy Partnership, a general partnership between OPG and UMH Energy Inc., a wholly-owned subsidiary of OPG. Transaction costs that are directly attributable to the issuance of the senior notes are included in the amortized cost of the notes. The senior notes have an effective interest rate of 7.86 percent and will mature in 2041. These notes are secured by the assets of the Upper Mattagami and Hound Chute project.

8. SHORT-TERM CREDIT FACILITIES

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two tranches – a $500 million 364-day term tranche and a $500 million five-year term tranche. During the first quarter of

2009, OPG renewed and extended the maturity date of the 364-day term tranche to May 19, 2010. The renewal became effective in the second quarter of 2009. The five-year term tranche was not extended, and therefore has four years remaining, with a maturity date of May 20, 2013. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at September 30, 2009, $62 million of commercial paper was outstanding (December 31, 2008 – nil), and OPG had no other outstanding borrowings under the bank credit facility.

In the second quarter of 2008, OPG entered into a $100 million five-year revolving committed bank credit facility in support of the Upper Mattagami and Hound Chute project. As at September 30, 2009, there was no borrowing under this credit facility.

9. 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)	**September 30 2009**	**December 31 2008**
Liability for nuclear used fuel management	**6,451**	6,213
Liability for nuclear decommissioning and low and intermediate level waste management	**5,151**	5,020
Liability for non-nuclear fixed asset removal	**155**	151
Fixed asset removal and nuclear waste management liabilities	**11,757**	11,384

The change in the fixed asset removal and nuclear waste management liabilities for the nine months ended September 30, 2009 and the year ended December 31, 2008 are as follows:

(millions of dollars)	**September 30 2009**	**December 31 2008**
Liabilities, beginning of period	**11,384**	10,957
Increase in liabilities due to accretion	**474**	608
Increase in liabilities due to nuclear used fuel and nuclear waste management variable expenses	**31**	47
Liabilities settled by expenditures on waste management	**(132)**	(195)
Decrease in the liabilities for non-nuclear fixed asset removal	**-**	(33)
Liabilities, end of period	**11,757**	11,384

The cash and cash equivalents balance as at September 30, 2009 includes $20 million of cash and cash equivalents that are for the use of nuclear waste management activities.

Ontario Nuclear Funds Agreement

OPG sets aside and invests funds held in segregated custodian and trustee accounts specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities. The nuclear fixed asset removal and nuclear waste management funds ("Nuclear Funds") as at September 30, 2009 and December 31, 2008 consist of the following:

	Fair Value	
(millions of dollars)	**September 30 2009**	**December 31 2008**
Decommissioning Fund	**4,821**	4,325
Used Fuel Fund[1]	**5,233**	4,424
Due from Province – Used Fuel Fund	**17**	460
	5,250	4,884
	10,071	9,209

[1] The Ontario NFWA Trust represented $1,688 million as at September 30, 2009 (December 31, 2008 – $1,386 million) of the Used Fuel Fund on a fair value basis.

As required by the terms of the Ontario Nuclear Funds Agreement, the Province provides a Provincial Guarantee to the Canadian Nuclear Safety Commission ("CNSC") on behalf of OPG. The *Nuclear Safety and Control Act (Canada)* requires OPG to have sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The Provincial Guarantee provides for any shortfall between the long-term liabilities and the current market value of the Used Fuel Fund and the Decommissioning Fund. As of September 30, 2009, the value of this guarantee was $760 million. It is expected that the CNSC will require the guarantee to be increased to approximately $1.5 billion as a result of the market value losses experienced in the latter half of 2008.

The earnings from the Nuclear Funds during the three and nine month periods ended September 30, 2009 were partially reduced by the establishment of a variance account for revenues and costs associated with the Bruce nuclear stations, as a result of the OEB's decision in the fourth quarter of 2008. The earnings on the Nuclear Funds for the three and nine month periods ended September 30, 2009 and 2008 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars)	**2009**	**2008**	**2009**	**2008**
Decommissioning Fund	**296**	(328)	**554**	(400)
Used Fuel Fund	**64**	138	**121**	267
Bruce Revenues and Costs Variance *(Note 6)*	**(106)**	-	**(126)**	-
Total earnings (losses)	**254**	(190)	**549**	(133)

10. INCOME TAXES

From April 1, 2005 to December 31, 2008, OPG followed the liability method of tax accounting for its unregulated operations and the taxes payable method for the rate regulated segments of its business. Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Under the taxes payable method, OPG does not recognize future income taxes relating to the rate regulated segments of its business to the extent those future income taxes are expected to be recovered or refunded through future regulated prices charged to customers. Accordingly, OPG did not record a future tax recovery of $78 million and a tax expense of $38 million during the three and nine month periods ended September 30, 2008, respectively, which would have been recorded had OPG accounted for income taxes for the regulated segments using the liability method.

As discussed in Note 2, *Changes in Accounting Policies and Estimates*, effective January 1, 2009, OPG is required to recognize future income taxes associated with its rate regulated operations, including future income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. Accordingly, on January 1, 2009, OPG recorded a future income tax liability of $340 million, being the cumulative future income tax liability on January 1, 2009 related to differences between the accounting and tax bases of assets and liabilities, measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse, and recorded a corresponding regulatory asset. OPG also recorded an additional future income tax liability and a corresponding regulatory asset of $126 million for future income taxes resulting from regulatory assets that were recorded due to amendments to Section 3465. Effective January 1, 2009, OPG follows the liability method of tax accounting for all its business segments and records a corresponding regulatory asset or liability for the future income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

In addition to the transitional adjustment related to the amendments to Section 3465, for the three and nine month periods ended September 30, 2009, OPG recorded an increase to the future income tax liability of $61 million and $100 million, respectively, which is expected to be recovered through future regulated prices and recorded a corresponding increase to the regulatory asset for future income taxes. As a result, the future income tax expense for the three and nine month periods ended September 30, 2009 was not impacted. The increase in the future income tax liability for the three and nine month periods ended September 30, 2009 included $18 million and $28 million, respectively, related to the increase to the regulatory asset for future income taxes.

The following table summarizes the future income tax liabilities recorded as a result of the changes to Section 3465:

(millions of dollars)	
Transition – January 1, 2009:	
Future income tax liabilities on temporary differences related to regulated operations	**340**
Future income tax liabilities resulting from the regulatory asset for future income taxes	**126**
	466
Changes during the period:	
Increase in future income tax liabilities on temporary differences related to regulated operations	**72**
Increase in future income tax liabilities resulting from the regulatory asset for future income taxes	**28**
Balance at September 30, 2009	**566**

The amount of cash income taxes paid during the three months ended September 30, 2009 was nil (three months ended September 30, 2008 – $14 million). For the nine months ended September 30, 2009, cash income taxes paid were $192 million (nine months ended September 30, 2008 – $44 million).

11. PENSION AND OTHER POST EMPLOYMENT BENEFIT COSTS

Total benefit costs for the three and nine month periods ended September 30, 2009 and 2008 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars)	**2009**	**2008**	**2009**	**2008**
Registered pension plan	**17**	47	**52**	141
Supplementary pension plans	**4**	4	**12**	12
Other post employment benefits	**44**	52	**126**	162
Pension and other post employment benefit costs	**65**	103	**190**	315

12. FINANCIAL INSTRUMENTS

OPG's Board of Directors has approved, and management has implemented, a risk management governance structure designed to effectively identify, measure, monitor and report on key risks across the Company. Risk management activities are coordinated through a centralized risk management group, separate and independent from operational management. Risk information from the business units is independently assessed and aggregated by the Risk Services Group, and is reported by the Chief Risk Officer to the Executive Risk Committee and to the Audit/Risk Committee of the Board of Directors. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

OPG is exposed to risks related to changes in electricity prices associated with a wholesale spot market for electricity in Ontario, changes in interest rates, and movements in foreign currency that affect its assets, liabilities, and forecast transactions. Select derivative instruments are used to limit such risks. Derivatives are used as hedging instruments, as well as for trading purposes.

Derivatives and Hedging

At the inception of a hedging relationship, OPG documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. OPG also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. When such a derivative instrument hedge ceases to exist or be effective as a hedge, or when designation of a hedging relationship is terminated, any associated deferred gains or losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the interim consolidated statement of income (loss).

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 (loss) 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
	September 30, 2009			**December 31, 2008**		
Electricity derivative instruments	**0.5 TWh**	**1.5 yrs**	**23**	0.9TWh	1 yr	20
Foreign exchange derivative instruments	**U.S. $35**	**Dec/09**	**(4)**	U.S. $35	July/09	6
Floating-to-fixed interest rate hedges	**38**	**1-10 yrs**	**(5)**	40	1–11 yrs	(8)
Forward start interest rate hedges	**155**	**1-11 yrs**	**(15)**	272	1–12 yrs	(50)

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 September 30, 2009 and December 31, 2008 was U.S. $0.85 and U.S. $0.95, respectively, for every Canadian dollar.

One of the Company's joint ventures is exposed to changes in interest rates. The joint venture entered into an interest rate swap to manage the risk arising from fluctuations in interest rates by swapping the short-term floating interest rate with a fixed rate of 5.33 percent. OPG's proportionate interest in the swap is 50 percent and is accounted for as a hedge.

Net gains of $7 million related to derivative instruments qualifying for hedge accounting were recognized in net income during the nine months ended September 30, 2009. This amount was previously recorded in other comprehensive income (loss). Existing net gains of $10 million deferred in accumulated other comprehensive loss at September 30, 2009 are expected to be reclassified to net income (loss) 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
	September 30, 2009		**December 31, 2008**	
Commodity derivative instruments				
Assets	**5.6 TWh**	**30**	6.9 TWh	49
Liabilities	**1.4 TWh**	**(20)**	2.2 TWh	(19)
		10		30
Market liquidity reserve		**(1)**		(4)
Total		**9**		26

Fair Value

Fair value is the value at which a financial instrument can be closed out or sold, in a transaction with a willing and knowledgeable counterparty. The fair value of financial assets and liabilities, including exchange traded derivatives and other financial instruments for which quoted prices are available in an active market, are determined directly from those quoted market prices.

For financial instruments which do not have quoted market prices directly available, fair values are estimated using forward price curves developed from observable market prices or rates which may include the use of valuation techniques or models, based, wherever possible, on assumptions supported by observable market prices or rates prevailing at the dates of the interim consolidated balance sheets. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and ABCP issued by third-party trusts. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate.

13. COMMITMENTS AND CONTINGENCIES

Litigation

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

On August 9, 2006, a Notice of Action and Statement of Claim in the amount of $500 million was served on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited ("British Energy").

The British Energy claim against OPG pertains to corrosion in the Bruce Unit 8 Steam Generators, in particular erosion of the support plates through which the boiler tubes pass. The claim amount includes $65 million due to an extended outage to repair some of the alleged damage. The balance of the amount claimed is based on an increased probability the steam generators will have to be replaced or the unit taken out of service prematurely. OPG leased the Bruce nuclear generating stations to Bruce Power L.P. in 2001.

British Energy is involved in arbitration with the current owners of Bruce Power L.P. regarding an alleged breach of British Energy's representations and warranties to the current owners when they purchased British Energy's interest in Bruce Power L.P. (the "Arbitration"). If British energy is successful in defending against the arbitration claim they will not have suffered any damages to attempt to recoup from OPG. This Arbitration is scheduled to be heard between November 30 and December 18, 2009. The arbitrator may take some time to come to a decision following the conclusion of the Arbitration.

British Energy previously indicated that they did not require OPG or Bruce Power L.P. to actively defend the court action until the conclusion of the Arbitration. Although the Arbitration has not been heard, British energy has now requested that OPG file a Statement of Defence. OPG and Bruce Power L.P. have advised British Energy that if British Energy wishes the court action to proceed prior to the conclusion of the Arbitration, the defendants will bring a motion for a Stay of proceedings until the conclusion of the Arbitration, a Dismissal of the current action or, in the alternative, a motion to extend the time for service of the Statement of Defence.

In September 2008, a certain First Nation has served a Notice of Action against Canada, Ontario, OPG and the OEFC claiming damages in the amount of $200 million arising from breach of contract, fiduciary duty, trespass to property, negligence, nuisance, misrepresentation, breach of riparian rights and unlawful and unjustifiable infringement of the aboriginal and treaty rights and $0.5 million in special damages. A Notice of Arbitration was served at the same time upon OPG pursuant to an agreement between OPG and the said First Nation to address OPG's role in the sharing of benefits related to hydro development. While OPG continues to assess the merits of the litigation, neither the arbitration nor the claim is expected to have any material impact on the Company's financial position, and therefore, OPG has minimal exposure with respect to this claim.

Certain First Nations have commenced actions for interference with reserve and traditional land rights. The claims by some of these First Nations total $45 million and claims by others are for unspecified amounts.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably with respect to OPG and could have a significant effect on OPG's financial position. Management has provided for contingencies that are determined to be likely and are reasonably measurable.

Environmental

OPG was required to assume certain environmental obligations from Ontario Hydro. A provision of $76 million was established as at April 1, 1999 for such obligations. As at September 30, 2009, the remaining provision was $40 million (December 31, 2008 - $41 million).

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

14. REVENUE LIMIT REBATE

Eighty-five percent of the generation output from OPG's unregulated generation assets, excluding the Lennox generating station and forward sales as of January 1, 2005, was subject to a revenue limit. The term of the revenue limit rebate ended on April 30, 2009.

The revenue limit rebate liability for the nine months ended September 30, 2009 and the year ended December 31, 2008 is as follows:

(millions of dollars)	**September 30 2009**	**December 31 2008**
Liability, beginning of period	**85**	100
Increase to provision during the period	**27**	277
Payments made during the period	**(112)**	(292)
Liability, end of period	**-**	85

15. BUSINESS SEGMENTS

Segment Income (Loss) for the Three Months Ended September 30, 2009	Regulated			Unregulated				
	Nuclear	Nuclear Waste Management	Hydroelectric	Hydroelectric	Fossil-Fuelled	Other	Elimination	Total
(millions of dollars)								
Revenue	**840**	**11**	**187**	**103**	**180**	**35**	**(11)**	**1,345**
Revenue limit rebate	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	840	**11**	**187**	**103**	**180**	**35**	**(11)**	**1,345**
Fuel expense	**59**	**-**	**76**	**25**	**89**	**-**	**-**	**249**
Gross margin	**781**	**11**	**111**	**78**	**91**	**35**	**(11)**	**1,096**
Operations, maintenance and administration	**445**	**12**	**28**	**65**	**108**	**6**	**(11)**	**653**
Depreciation and amortization	**123**	**-**	**17**	**16**	**19**	**12**	**-**	**187**
Accretion on fixed asset removal and nuclear waste management liabilities	**-**	**157**	**-**	**-**	**1**	**-**	**-**	**158**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**-**	**(254)**	**-**	**-**	**-**	**-**	**-**	**(254)**
Property and capital taxes	**10**	**-**	**2**	**3**	**5**	**4**	**-**	**24**
Other losses	**-**	**-**	**-**	**-**	**-**	**4**	**-**	**4**
Income (loss) before interest and income taxes	**203**	**96**	**64**	**(6)**	**(42)**	**9**	**-**	**324**

Segment Income (Loss) for the Three Months Ended September 30, 2008	Nuclear	Regulated Nuclear Waste Manage-ment	Hydro-electric	Unregulated Hydro-electric	Fossil-Fuelled	Other	Elimination	Total
(millions of dollars)								
Revenue	697	15	187	250	437	57	(15)	1,628
Revenue limit rebate	-	-	-	(30)	(85)	-	-	(115)
	697	15	187	220	352	57	(15)	1,513
Fuel expense	43	-	69	31	191	-	-	334
Gross margin	654	15	118	189	161	57	(15)	1,179
Operations, maintenance and administration	484	16	22	49	131	2	(15)	689
Depreciation and amortization	94	-	16	19	22	11	-	162
Accretion on fixed asset removal and nuclear waste management liabilities	-	149	-	-	2	-	-	151
Losses on nuclear fixed asset removal and nuclear waste management funds	-	190	-	-	-	-	-	190
Property and capital taxes	11	-	2	3	5	3	-	24
Income (loss) before interest and income taxes	65	(340)	78	118	1	41	-	(37)

Segment Income (Loss) for the Nine Months Ended September 30, 2009	Nuclear	Regulated Nuclear Waste Manage-ment	Hydro-electric	Unregulated Hydro-electric	Fossil-Fuelled	Other	Elimination	Total
(millions of dollars)								
Revenue	**2,367**	**32**	**585**	**471**	**714**	**113**	**(32)**	**4,250**
Revenue limit rebate	**-**	**-**	**-**	**(10)**	**(17)**	**-**	**-**	**(27)**
	2,367	**32**	**585**	**461**	**697**	**113**	**(32)**	**4,223**
Fuel expense	**149**	**-**	**191**	**75**	**315**	**-**	**-**	**730**
Gross margin	**2,218**	**32**	**394**	**386**	**382**	**113**	**(32)**	**3,493**
Operations, maintenance and administration	**1,539**	**35**	**77**	**155**	**373**	**10**	**(32)**	**2,157**
Depreciation and amortization	**357**	**-**	**55**	**50**	**53**	**35**	**-**	**550**
Accretion on fixed asset removal and nuclear waste management liabilities	**-**	**471**	**-**	**-**	**5**	**-**	**-**	**476**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**-**	**(549)**	**-**	**-**	**-**	**-**	**-**	**(549)**
Property and capital taxes	**32**	**-**	**8**	**7**	**16**	**11**	**-**	**74**
Other gains	**-**	**-**	**-**	**-**	**-**	**(2)**	**-**	**(2)**
Income (loss) before interest and income taxes	**290**	**75**	**254**	**174**	**(65)**	**59**	**-**	**787**

Segment Income (Loss) for the Nine Months Ended September 30, 2008	Regulated		Unregulated					
	Nuclear	Nuclear Waste Manage-ment	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	Elimination	Total
(millions of dollars)								
Revenue	2,055	34	556	776	1,217	94	(34)	4,698
Revenue limit rebate	-	-	-	(57)	(180)	-	-	(237)
	2,055	34	556	719	1,037	94	(34)	4,461
Fuel expense	120	-	185	84	526	-	-	915
Gross margin	1,935	34	371	635	511	94	(34)	3,546
Operations, maintenance and administration	1,524	37	70	141	387	5	(34)	2,130
Depreciation and amortization	295	-	48	55	68	31	-	497
Accretion on fixed asset removal and nuclear waste management liabilities	-	432	-	-	6	-	-	438
Losses on nuclear fixed asset removal and nuclear waste management funds	-	133	-	-	-	-	-	133
Property and capital taxes	14	-	8	7	16	9	-	54
Other (gains) losses	-	-	-	-	(2)	9	-	7
Income (loss) before interest and income taxes	102	(568)	245	432	36	40	-	287

(millions of dollars)	Regulated Nuclear	Regulated Hydro-electric	Unregulated Hydro-electric	Unregulated Fossil-Fuelled	Other	Total
Selected Balance Sheet Information						
As at September 30, 2009						
Segment fixed assets in service, net	**3,716**	**3,803**	**2,969**	**400**	**818**	**11,706**
Segment construction in progress	**204**	**590**	**250**	**30**	**6**	**1,080**
Segment property, plant and equipment, net	**3,920**	**4,393**	**3,219**	**430**	**824**	**12,786**
As at September 30, 2009						
Segment intangible assets in service, net	**16**	**-**	**2**	**-**	**18**	**36**
Segment development in progress	**12**	**-**	**1**	**1**	**2**	**16**
Segment intangible assets, net	**28**	**-**	**3**	**1**	**20**	**52**
As at December 31, 2008						
Segment fixed assets in service, net	3,822	3,823	2,970	396	456	11,467
Segment construction in progress	230	445	190	29	369	1,263
Segment property, plant and equipment, net	4,052	4,268	3,160	425	825	12,730
As at December 31, 2008						
Segment intangible assets in service, net	23	-	1	-	24	48
Segment development in progress	3	2	-	-	4	9
Segment intangible assets, net	26	2	1	-	28	57

16. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	Three Months Ended September 30 2009	Three Months Ended September 30 2008	Nine Months Ended September 30 2009	Nine Months Ended September 30 2008
Accounts receivable	**84**	145	**135**	105
Prepaid expenses	**(7)**	(14)	**(26)**	(4)
Fuel inventory	**(56)**	11	**(102)**	24
Materials and supplies	**5**	-	**(1)**	(3)
Revenue limit rebate	**-**	115	**27**	237
Accounts payable and accrued charges	**(64)**	(17)	**(221)**	(169)
Income and capital taxes payable (recoverable)	**49**	18	**(166)**	(7)
	11	258	**(354)**	183

17. OTHER (GAINS) AND LOSSES

(millions of dollars)	Three Months Ended September 30 2009	2008	Nine Months Ended September 30 2009	2008
ABCP valuation adjustment *(Note 3)*	**4**	-	**(2)**	9
Other	**-**	-	**-**	(2)
	4	-	**(2)**	7

18. NON-CONTROLLING INTEREST

OPG has entered into a partnership agreement with the Lac Seul First Nation ("LSFN") regarding the 12.5 MW Lac Seul generating station. In July 2009, OPG transferred ownership of the station to the partnership. OPG has a 75 percent ownership interest in the partnership, while the LSFN have a 25 percent interest.

OPG consolidates the results of the Lac Seul LP and the non-controlling interest represents the Lac Seul First Nation's 25 percent ownership interest in the partnership.

19. 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 up to April 30, 2009, and OPG's hedging strategies significantly reduced the impact of seasonal price fluctuations on the results of operations.