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News
from Ontario Power Generation

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ONTARIO POWER GENERATION REPORTS 2012 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 months ended September 30, 2012. Net income for the third quarter of 2012 was $139 million compared to a net loss of $154 million in the third quarter of 2011. Net income for the nine months ended September 30, 2012 was $336 million compared to $108 million for the same period in 2011.

"I want to note that the improved bottom line at OPG resulted from better returns on our invested funds that are held on a long-term basis to fund the eventual decommissioning of our nuclear stations, not from increases in prices," said Tom Mitchell, President and Chief Executive Officer at the company.

"In fact, for the first nine months of this year OPG received, on average, less for every kilowatt hour that we generated than we did in the first nine months of last year. This year we received an average of 5.1 cents per kilowatt hour. Last year we received 5.3 cents," Mr. Mitchell said.

"This is very good news for folks and businesses in Ontario, shifting prices downward significantly compared to what they would be without the effect of OPG's moderating impact."

Mr. Mitchell added that OPG's contribution to the generating system is essential to providing power while protecting the environment.

"OPG generates about 60 per cent of the electricity used in Ontario," he said. "Fully 95 per cent of that electricity is free of emissions that contribute to smog and climate change. Our generation will move closer to 100 per cent free of these emissions, when we shut down our remaining coal-burning units by the end of 2014."

Mr. Mitchell noted, "OPG's top priority is operating safely to protect our employees and the people of Ontario. We want to have zero workplace injuries. We know the target of zero injuries is achievable. OPG was recently recognized for its safety excellence after achieving the best safety results in the Company's history in 2011. We will do even better.

Operational performance excellence is another critical focus for OPG, Mr. Mitchell said. "Pickering Nuclear's performance this year to date is an excellent example of a strong outcome of our continued investment in the condition of the plant and the dedication of our employees," said Mr. Mitchell.

In September 2012, OPG filed an application with the Ontario Energy Board ("OEB") requesting approval to recover balances in the OEB authorized regulatory variance and deferral accounts as at December 31, 2012. The application requests the recovery of these balances to be reflected in new rate riders beginning in 2013, as part of regulated prices applicable to production from OPG's regulated hydroelectric and nuclear facilities.

Highlights

OPG's net income in the third quarter of 2012 increased by $293 million compared to the third quarter of 2011. Net income for the nine months ended September 30, 2012 increased by $228 million compared to the same period in 2011. The increase for the three and nine month periods ended September 30, 2012 was primarily due to higher earnings from the Nuclear Fixed Assets Removal and Nuclear Waste Management Funds ("Nuclear Funds"), and the recognition of losses in 2011 due to an increased asset retirement obligation related to certain thermal generating stations. The increase in net income was partially offset by lower electricity market prices and lower hydroelectric generation in 2012 compared to the same periods in 2011. The average revenue that OPG received for a kilowatt hour ("kWh") of electricity in the nine months ended September 30, 2012 was 5.1 ¢/kWh compared to 5.3 ¢/kWh for the same period of 2011, and was well below the average revenue of 8.6 ¢/kWh received by all other generators.

Total electricity generated during the three months ended September 30, 2012 was 20.6 terawatt hours ("TWh") compared to 21.4 TWh for the same period in 2011. Total generation for the nine months ended September 30, 2012 was 63.1 TWh compared to 64.3 TWh in 2011. The decrease in electricity generation for the three and nine months ended September 30, 2012 compared to the same periods in 2011 was primarily due to a decrease in hydroelectric generation resulting from below normal water levels.

The Darlington nuclear station continued to perform well with capability factors of 92.4 per cent and 91.2 per cent for the three and nine months ended September 30, 2012, respectively. These capability factors decreased compared to the same periods in 2011 primarily due to an increase in unplanned outage days. The capability factors for the Pickering stations for the three and nine months ended September 30, 2012 were 90.1 per cent and 82.1 per cent, respectively, compared to 78.1 per cent and 76.1 per cent for the same periods in 2011. The significant improvement in the capability factors was due to a decrease in planned outage days. The availability of OPG's regulated and unregulated hydroelectric generating stations remained at high levels. The Start Guarantee rate of the thermal generating stations for the three and nine months ended September 30, 2012 improved compared to the same periods in 2011, reflecting the ability of these stations to respond to market requirements when needed.

Generation Development

OPG is undertaking a number of generation development projects to support Ontario's long-term electricity supply requirements. The status of these capacity expansion or life extension projects is as follows:

Nuclear

- Engineering deliverables critical to the current phase of the Darlington refurbishment project continue to progress on schedule. An Environmental Assessment ("EA") public hearing scheduled to be held in November 2012 is now rescheduled to December 2012. The decision on the EA is expected by the second quarter of 2013.

- Work is substantially complete on the initiatives to evaluate the continued safe and reliable operation of Units 5 to 8 at the Pickering generating stations for approximately an additional four to six years beyond their nominal end of life. In June 2012, OPG submitted documentation related to the extension of the pressure tube service life to the CNSC. In the third quarter of 2012, the CNSC agreed that OPG will, through continued specified monitoring, the successful completion of on-going research and development, and specified station improvements, be capable of confirming fitness-for-service of Pickering fuel channels for the duration of the proposed continued operations period to 2020. During the fourth quarter of 2012, OPG expects to confirm its plans for the continued operation of the Pickering station.

- In August 2012, the Canadian Nuclear Safety Commission ("CNSC") approved the application for the Power Reactor Site Preparation (License to Prepare Site) for new nuclear units at Darlington. Subsequently, a notice of application for judicial review of the License to Prepare Site was filed by third parties on the grounds that the CNSC's issuance of the license is invalid and does not comply with requirements of the Canadian Environmental Assessment Act. OPG is preparing its response to the application.

Hydroelectric

- The Niagara Tunnel project continues to progress. The installation of the permanent concrete liner was completed in the fourth quarter of 2012 while other lining and grouting activities continue at the Niagara Tunnel. The tunnel is expected to be completed within the approved budget of $1.6 billion and the approved project completion date of December 2013. OPG's contractor, Strabag, has informed OPG that they expect to advance the completion date to mid-2013 and are developing options to further advance the schedule. As at September 30, 2012, the life-to-date capital expenditures were $1.3 billion.

- The Lower Mattagami River project continues to progress. During the third quarter of 2012, concrete work was in progress at the Smoky Falls, Harmon and Kipling sites. The powerhouse steel superstructure was completed at the Little Long site. The project is expected to be completed within the approved budget of $2.6 billion and the last unit is planned to be in service by June 2015. As at September 30, 2012, the life-to-date capital expenditures were $1.2 billion.

Thermal

- OPG and the Ontario Power Authority ("OPA") have executed the Atikokan Biomass Energy Supply Agreement for the conversion of the Atikokan generating station to biomass fuel. The project is now in the execution phase. The project is expected to cost $170 million and be completed in the first half of 2014. OPG is suspending further work on the Thunder Bay generating station conversion, pending a review by the OPA of electricity needs in northwestern Ontario. The OPA has informed OPG that it needs time to explore other options for electricity supply in the northwest part of the province. Costs of $9 million were incurred for the conversion during the definition phase.

- As outlined in Ontario's Long-Term Energy Plan and Supply Mix Directive to the OPA, OPG is also exploring the possible conversion of some units at the Lambton and Nanticoke generating stations to natural gas, with an option for co-firing with biomass, if required for Ontario's system reliability. Without an indication that conversion will proceed, the units will continue to be made available to the system until the mandated cessation of coal consumption.

FINANCIAL AND OPERATIONAL HIGHLIGHTS [1]

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars – except where noted)	**2012**	**2011**	**2012**	**2011**
Earnings				
Revenue	**1,213**	1,250	**3,537**	3,736
Fuel expense	**199**	217	**556**	566
Gross margin	**1,014**	1,033	**2,981**	3,170
Operations, maintenance and administration	**610**	634	**1,914**	2,026
Depreciation and amortization	**164**	183	**495**	511
Accretion on fixed asset removal and nuclear waste management liabilities	**181**	176	**544**	526
(Earnings) loss on nuclear fixed asset removal and nuclear waste management funds	**(161)**	16	**(481)**	(286)
Other net expenses	**9**	89	**33**	92
Income (loss) before interest and income taxes	**211**	(65)	**476**	301
Net interest expense	**26**	37	**89**	113
Income tax expense	**46**	52	**51**	80
Net income (loss)	**139**	(154)	**336**	108
Income (loss) before interest and income taxes				
Generating segments	**216**	95	**501**	475
Nuclear Waste Management segment	**(19)**	(192)	**(59)**	(240)
Other segment	**14**	32	**34**	66
Total income (loss) before interest and income taxes	**211**	(65)	**476**	301
Cash flow				
Cash flow provided by operating activities	**510**	429	**722**	983
Electricity generation (TWh)				
Regulated – Nuclear	**12.8**	12.6	**37.0**	36.6
Regulated – Hydroelectric	**4.4**	4.9	**14.1**	14.5
Unregulated – Hydroelectric	**2.0**	2.0	**8.9**	10.1
Unregulated – Thermal	**1.4**	1.9	**3.1**	3.1
Total electricity generation	**20.6**	21.4	**63.1**	64.3
Average sales prices and average revenue (¢/kWh)				
Regulated – Nuclear Generation	**5.6**	5.6	**5.5**	5.5
Regulated – Hydroelectric	**3.5**	3.5	**3.5**	3.5
Unregulated – Hydroelectric	**3.0**	3.7	**2.3**	3.3
Unregulated – Thermal	**3.5**	3.9	**2.6**	3.5
Average revenue for all electricity generators, excluding OPG [2]	**8.0**	8.1	**8.6**	8.3
Average revenue for OPG [3]	**5.3**	5.3	**5.1**	5.3
Nuclear unit capability factor (per cent)				
Darlington	**92.4**	97.5	**91.2**	93.9
Pickering	**90.1**	78.1	**82.1**	76.1
Availability (per cent)				
Regulated – Hydroelectric	**92.8**	93.4	**91.7**	91.0
Unregulated– Hydroelectric	**87.4**	87.5	**91.1**	91.9
Start Guarantee rate (per cent)				
Unregulated – Thermal	**98.3**	95.8[4]	**97.8**	95.1[4]
Return on equity for the twelve months ended September 30, 2012 and December 31, 2011 (per cent) [5]			**6.6**	4.0
Funds from operations interest coverage for the twelve months ended September 30, 2012 and December 31, 2011 (times) [5]			**2.8**	3.1

1 OPG has adopted United States generally accepted accounting principles ("US GAAP") for the presentation of its consolidated financial statements, effective January 1, 2012. Financial information derived from the consolidated financial statements for the 2011 comparative periods has been adjusted to US GAAP.

2 Revenues for other electricity generators are computed as the sum of hourly Ontario demand multiplied by the hourly Ontario electricity price ("HOEP") plus total global adjustment payments plus the sum of hourly net exports multiplied by the HOEP less OPG's generation revenue.

3 Average revenue for OPG is comprised of regulated revenues, market based revenues, and other energy revenues primarily from cost recovery agreements for the Nanticoke, Lambton, and Lennox generating stations and revenue from Hydroelectric Energy Supply Agreements for the hydroelectric generating stations.

4 As estimated.

5 "Funds from operations interest coverage" and "Return on equity" are non-GAAP financial measures and do not have any standardized meaning prescribed by US GAAP. Additional information about these measures is provided in OPG's Management's Discussion and Analysis for the period ended September 30, 2012, under the heading, *Supplementary Non-GAAP Financial Measures*.

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

Ontario Power Generation Inc.'s unaudited consolidated financial statements and Management's Discussion and Analysis as at and for the three and nine months ended September 30, 2012, 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

2012 THIRD QUARTER REPORT

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ONTARIO POWER GENERATION INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the three and nine month periods ended September 30, 2012. For a complete description of OPG's corporate strategies, risk management, corporate governance, related party transactions and the effect of critical accounting policies and estimates on OPG's results of operations and financial condition, this MD&A should also be read in conjunction with OPG's audited consolidated financial statements, accompanying notes, and MD&A as at and for the year ended December 31, 2011, which were prepared in accordance with Canadian generally accepted accounting principles, ("Canadian GAAP") as determined in Part V of the Canadian Institute of Chartered Accountants Handbook – Accounting.

As required by Ontario Regulation 395/11, as amended, a regulation under the *Financial Administration Act* (Ontario) ("FAA"), OPG has adopted United States generally accepted accounting principles ("US GAAP") for the presentation of its consolidated financial statements, effective January 1, 2012. In addition to the regulation under the FAA, the Ontario Securities Commission also approved OPG's adoption of US GAAP for financial years that begin on or after January 1, 2012, but before January 1, 2015. Financial information derived from the consolidated financial statements for the 2011 comparative periods has been adjusted to US GAAP. Information for the comparative periods that has been adjusted to US GAAP is labelled "adjusted". In addition, certain of the 2011 comparative amounts have been reclassified to conform to the 2012 presentation consistent with US GAAP. The US GAAP transition adjustments and a summary of changes to significant accounting policies under US GAAP are presented in OPG's first quarter unaudited condensed interim consolidated financial statements for 2012. OPG's third quarter unaudited condensed interim consolidated financial statements are prepared in accordance with US GAAP and are presented in Canadian dollars. This MD&A is dated November 14, 2012.

FORWARD-LOOKING STATEMENTS

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

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

THE COMPANY

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

As at September 30, 2012, OPG's electricity generating portfolio had an in-service capacity of 19,051 megawatts ("MW"). OPG operates three nuclear generating stations, five thermal generating stations, 65 hydroelectric generating stations, 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 and ATCO Power Canada Ltd. co-own the Brighton Beach gas-fired combined cycle generating station ("Brighton Beach"). The income of the co-owned facilities is reflected in other income. OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power L.P. ("Bruce Power"). Income from these leased stations is included in revenue. These co-owned facilities and leased stations are not included in the generation portfolio statistics set out in this report. A description of OPG's segments is provided in OPG's 2011 annual MD&A under the heading, *Business Segments*.

The in-service generating capacity by business segment as of September 30, 2012 and December 31, 2011 is as follows:

	As at	
(MW)	**September 30 2012**	**December 31 2011**
Regulated – Nuclear Generation	**6,606**	6,606
Regulated – Hydroelectric	**3,312**	3,312
Unregulated – Hydroelectric	**3,684**	3,684
Unregulated – Thermal	**5,447**	5,447
Other	**2**	2
Total	**19,051**	19,051

HIGHLIGHTS

Overview of Results

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

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars – except where noted)	**2012**	**2011** *(adjusted)*	**2012**	**2011** *(adjusted)*
Revenue	**1,213**	1,250	**3,537**	3,736
Fuel expense	**199**	217	**556**	566
Gross margin	**1,014**	1,033	**2,981**	3,170
Expenses				
Operations, maintenance and administration	**610**	634	**1,914**	2,026
Depreciation and amortization	**164**	183	**495**	511
Accretion on fixed asset removal and nuclear waste management liabilities	**181**	176	**544**	526
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds	**(161)**	16	**(481)**	(286)
Restructuring	**1**	19	**3**	19
Property and capital taxes	**13**	14	**40**	37
	808	1,042	**2,515**	2,833
Income (loss) before other (income) loss, interest and income taxes	**206**	(9)	**466**	337
Other (income) loss	**(5)**	56	**(10)**	36
Net interest expense	**26**	37	**89**	113
Income tax expense	**46**	52	**51**	80
Net income (loss)	**139**	(154)	**336**	108
Electricity generation (TWh)	**20.6**	21.4	**63.1**	64.3
Cash flow				
Cash flow provided by operating activities	**510**	429	**722**	983

Net income for the three months ended September 30, 2012 was $139 million compared to a net loss of $154 million for the same period in 2011, an increase of $293 million. Income before income taxes for the three months ended September 30, 2012 was $185 million compared to a net loss of $102 million for the same period in 2011, an increase of $287 million.

Net income for the nine months ended September 30, 2012 was $336 million compared to $108 million for the nine months ended September 30, 2011, an increase of $228 million. Income before income taxes for the nine months ended September 30, 2012 was $387 million compared to $188 million for the same period in 2011, an increase of $199 million.

Earnings before Income Taxes for the Three Months Ended September 30, 2012

The following is a summary of the factors affecting OPG's results for the three months ended September 30, 2012 compared to results for the same period in 2011, on a before-tax basis:

(millions of dollars)	**Electricity Generation Segments**[1]	**Regulated Nuclear Waste Management Segment**	**Other**[2]	**Total**
Income (loss) before income taxes for three months ended September 30, 2011 *(adjusted)*	**95**	**(192)**	**(5)**	**(102)**
Changes in gross margin:				
Change in electricity sales price:				
Regulated generation segments	(1)	-	-	(1)
Unregulated – Hydroelectric	(14)	-	-	(14)
Change in electricity generation by segment:				
Regulated – Nuclear Generation	14	-	-	14
Regulated – Hydroelectric	(12)	-	-	(12)
Decrease in thermal gross margin largely as a result of lower electricity sales prices, lower revenue from the contingency support agreement related primarily to unit closures, and lower revenue from an energy supply contract for the Lennox generating station	(20)	-	-	(20)
Increase in gross margin for the Regulated – Hydroelectric segment due to the impact of regulatory variance accounts primarily related to lower water levels	15	-	-	15
Other changes in gross margin	2	9	(12)	(1)
	(16)	9	(12)	(19)
Changes in Operations, Maintenance and Administration ("OM&A") expenses:				
Lower nuclear expenditures due to managed headcount and other cost reductions, and a decrease in outage activities, partially offset by higher maintenance activities	7	-	-	7
Lower thermal expenditures due to managed headcount and other cost reductions, and unit closures	10	-	-	10
Other changes in OM&A expenses	11	(10)	6	7
	28	(10)	6	24
Increase in earnings from the nuclear fixed asset removal and nuclear waste management funds ("Nuclear Funds")	-	324	-	324
Impact of the Bruce Lease Net Revenues Variance Account on earnings from the Nuclear Funds	-	(147)	-	(147)
Decrease in depreciation and amortization expenses due to lower amortization expense related to regulatory balances and lower depreciation expense for thermal generating stations	17	-	-	17
Increase (decrease) in other income due to losses recognized during the third quarter of 2011 as a result of write-downs related to increases to the asset retirement obligation ("ARO") for certain thermal generating stations, partially offset by a gain recognized in 2011 reflecting a decrease in the ARO for the decommissioned R.L. Hearn generating station	81	-	(15)	66
Decrease in restructuring charges due to the recognition of severance costs during the third quarter of 2011 related to the safe shutdown of two coal-fired units at the Nanticoke generating station	18	-	-	18
Other changes	(7)	(3)	14	4
Income (loss) before income taxes for the three months ended September 30, 2012	**216**	**(19)**	**(12)**	**185**

[1] Electricity generation segments include results of the Regulated – Nuclear Generation, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Thermal segments.

[2] Other includes results of the Other category in OPG's segmented statements of income, inter-segment eliminations, and net interest expense.

Earnings before Income Taxes for the Nine Months Ended September 30, 2012

The following is a summary of the factors affecting OPG's results for the nine months ended September 30, 2012 compared to results for the same period in 2011, on a before-tax basis:

(millions of dollars)	**Electricity Generation Segments**[1]	**Regulated Nuclear Waste Management Segment**	**Other**[2]	**Total**
Income (loss) before income taxes for nine months ended September 30, 2011 *(adjusted)*	**475**	**(240)**	**(47)**	**188**
Changes in gross margin:				
Change in electricity sales price:				
Regulated generation segments	(7)	-	-	(7)
Unregulated – Hydroelectric	(89)	-	-	(89)
Change in electricity generation by segment:				
Regulated – Nuclear Generation	23	-	-	23
Regulated – Hydroelectric	(7)	-	-	(7)
Unregulated – Hydroelectric	(32)	-	-	(32)
Decrease in thermal gross margin largely as a result of lower electricity sales prices and lower revenue from the contingency support agreement related primarily to unit closures	(50)	-	-	(50)
Increase in fuel expense for the Regulated – Nuclear segment due to higher fuel prices	(8)	-	-	(8)
Increase in gross margin for the Regulated – Hydroelectric segment due to the impact of regulatory variance accounts primarily related to lower water levels	18	-	-	18
Decrease in non-electricity generation revenue, net of the impact of the Bruce Lease Net Revenues Variance Account	(18)	-	-	(18)
Other changes in gross margin	(14)	35	(40)	(19)
	(184)	35	(40)	(189)
Changes in OM&A expenses:				
Lower nuclear expenditures primarily due to managed headcount and other cost reductions, and a decrease in outage activities	26	-	-	26
Lower thermal expenditures due to managed headcount and other cost reductions, and unit closures	22	-	-	22
Decrease (increase) in pension and OPEB costs largely as a result of the impact of the regulatory variance and deferral accounts related to these costs, partially offset by the impact of lower discount rates for 2012	46	(1)	-	45
Other changes in OM&A expenses	21	(35)	33	19
	115	(36)	33	112
Increase in earnings from the Nuclear Funds	-	340	-	340
Impact of the Bruce Lease Net Revenues Variance Account on earnings from the Nuclear Funds	-	(145)	-	(145)
Decrease in depreciation expense primarily related to OPG's thermal generating stations	19	-	-	19
Increase (decrease) in other income due to other loss (income) recognized during the third quarter of 2011 as a result of changes to the ARO related to certain thermal generating stations	81	-	(15)	66
Decrease in restructuring expense related to coal-fired units	16	-	-	16
Other changes	(21)	(13)	14	(20)
Income (loss) before income taxes for the nine months ended September 30, 2012	**501**	**(59)**	**(55)**	**387**

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

Electricity Generation

OPG's electricity generation for the three and nine month periods ended September 30, 2012 and 2011 was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(TWh)	**2012**	**2011**	**2012**	**2011**
Regulated – Nuclear Generation	**12.8**	12.6	**37.0**	36.6
Regulated – Hydroelectric	**4.4**	4.9	**14.1**	14.5
Unregulated – Hydroelectric	**2.0**	2.0	**8.9**	10.1
Unregulated – Thermal	**1.4**	1.9	**3.1**	3.1
Total electricity generation	**20.6**	21.4	**63.1**	64.3

Total electricity generated during the three months ended September 30, 2012 was 20.6 terawatt hours ("TWh") compared to 21.4 TWh during the same quarter in 2011. The decrease in electricity generation was primarily due to a decrease in electricity generation from the Regulated – Hydroelectric and the Unregulated – Thermal segments, partially offset by higher nuclear generation.

The decrease in electricity generation from the Regulated – Hydroelectric segment during the third quarter of 2012 compared to the same quarter in 2011 was primarily due to lower water levels on the lower Great Lakes during the third quarter of 2012. The lower generation from the Unregulated – Thermal segment during the third quarter of 2012 compared to the same quarter in 2011 was primarily due to increased electricity generation from other non-OPG generators in Ontario. The increase in electricity generation from the Regulated – Nuclear segment during the third quarter of 2012 compared to the same quarter in 2011 was primarily due to higher generation at the Pickering generating stations as a result of a decrease in planned and unplanned outage days.

Total electricity generation volume during the nine months ended September 30, 2012 from OPG's generating stations was 63.1 TWh compared to 64.3 TWh during the same period in 2011. The decrease in electricity generation was primarily due to lower electricity generation from the Unregulated – Hydroelectric and the Regulated – Hydroelectric segments, partially offset by higher electricity generation from the Regulated – Nuclear segment.

The decrease in electricity generation at the unregulated hydroelectric generating stations during the nine months ended September 30, 2012 compared to the same period in 2011 was primarily due to lower water levels in the Ottawa and Northeast river systems.

Average Sales Prices and Average Revenue

The weighted average hourly Ontario electricity price ("HOEP"), OPG's average sales price by reportable segment, average revenue for all electricity generators, excluding OPG, and average revenue for OPG for the three and nine month periods ended September 30, 2012 and 2011, were as follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
(¢/kWh)	**2012**	**2011**	**2012**	**2011**
Weighted average HOEP	**3.0**	3.5	**2.4**	3.2
Regulated – Nuclear Generation	**5.6**	5.6	**5.5**	5.5
Regulated – Hydroelectric	**3.5**	3.5	**3.5**	3.5
Unregulated – Hydroelectric	**3.0**	3.7	**2.3**	3.3
Unregulated – Thermal	**3.5**	3.9	**2.6**	3.5
Average revenue for all electricity generators, excluding OPG[1]	**8.0**	8.1	**8.6**	8.3
Average revenue for OPG [2]	**5.3**	5.3	**5.1**	5.3

1 Revenues for other electricity generators are computed as the sum of hourly Ontario demand multiplied by the HOEP, plus total global adjustment payments, plus the sum of hourly net exports multiplied by the HOEP, less OPG's generation revenue.

2 Average revenue for OPG is comprised of regulated revenues, market based revenues, and other energy revenues primarily from cost recovery agreements for the Nanticoke, Lambton and Lennox generating stations, and revenue from Hydroelectric Energy Supply Agreements for the hydroelectric generating stations.

The average sales prices for the Regulated – Nuclear Generation and Regulated – Hydroelectric segments for the three and nine month periods ended September 30, 2012 reflect the OEB's March 2011 decision establishing new regulated prices effective March 1, 2011, as discussed in OPG's 2011 annual MD&A under the heading, *Recent Developments*.

The decrease in average sales prices for OPG's unregulated segments for the three and nine month periods ended September 30, 2012 compared to the same periods in 2011 was primarily due to the impact of significantly lower Ontario electricity spot market prices.

The decrease in the HOEP for the three months ended September 30, 2012 compared to the same period in 2011 was primarily due to lower natural gas prices, partially offset by the impact of lower hydroelectric generation and lower non OPG nuclear generation.

The decrease in the HOEP for the nine months ended September 30, 2012 compared to the same period in 2011 was primarily due to lower natural gas prices and lower Ontario primary demand, partially offset by the impact of lower hydroelectric generation and lower non OPG nuclear generation in Ontario.

Cash Flow from Operations

Cash flow provided by operating activities for the three months ended September 30, 2012 was $510 million compared to $429 million for the three months ended September 30, 2011. The increase in operating cash flow was primarily due to a decrease in operations, maintenance and administrative ("OM&A") expenses, lower pension contributions, and lower fuel purchases, partially offset by a reduction in revenues from isotope sales and lower cash receipts from electricity generation.

Cash flow provided by operating activities for the nine months ended September 30, 2012 was $722 million compared to $983 million for the same period in 2011. The decrease in operating cash flow was primarily due to lower cash receipts from electricity generation, an increase in pension contributions, and lower cash receipts resulting from a reduction in revenues from technical services provided to third parties and isotope sales. The decrease in operating cash flow was partially offset by a decrease in OM&A expenses and lower fuel purchases.

Recent Developments

OPG's OEB Application

In September 2012, OPG filed an application with the OEB requesting approval to recover balances in the OEB authorized regulatory variance and deferral accounts as at December 31, 2012. The application requests the recovery of these balances to be reflected in new rate riders beginning in 2013, as part of regulated prices applicable to production from OPG's regulated hydroelectric and nuclear facilities. The current rate riders included in the regulated prices were established by the OEB to be in effect until December 31, 2012. In the application, OPG is also seeking approval for the use of US GAAP for regulatory purposes, as well as approval for an extension of the Pension and OPEB Cost Variance Account, currently effective until December 31, 2012. The OEB's final decision and order on OPG's application are expected in the spring of 2013 following a public hearing process, which is currently in progress.

OPG's application also sought, on an interim basis effective January 1, 2013, approval for the continuation of the current rate rider applicable to production from OPG's nuclear facilities and the extension of the Pension and OPEB Cost Variance Account. In a decision and order issued in November 2012, the OEB granted these requests and also determined that the current regulated hydroelectric rate rider will be allowed to expire on December 31, 2012. The current nuclear rate rider is expected to continue until the implementation date of the new riders resulting from the OEB's final decision and order on OPG's application. The OEB's approval of the request for an interim extension of the Pension and OPEB Cost Variance Account preserves the opportunity for OPG to record additions to the account for future recovery, for the period from January 1, 2013 until such time as the OEB's final decision and order regarding the Pension and OPEB Cost Variance Account. These interim decisions and their impacts are subject to final determination on OPG's application.

In 2013, OPG also plans to file an application with the OEB for new regulated prices for production from OPG's regulated hydroelectric facilities to be effective in 2014. OPG continues to determine the timing and approach for a rate application for production from its regulated nuclear facilities. A discussion of the risk regarding future regulated prices is included under the headings, *Financial Sustainability* and *Risk Management*.

The Society of Energy Professionals' Collective Agreement

The Company's labour agreement with the Society of Energy Professionals ("The Society") expires on December 31, 2012. OPG and The Society commenced negotiations on October 1, 2012, however the parties were unable to reach an agreement. The Society collective agreement has a no strike/lock out clause and, as a result, mediation/arbitration is scheduled to commence on January 29, 2013 and conclude on January 31, 2013.

Land Arrangement at the Lennox Site

OPG is working with TransCanada Energy Ltd. and the Ontario Power Authority ("OPA") for an arrangement to sell a parcel of land at the Lennox generating station site at fair market value and other site-specific arrangements for the development of a combined cycle, natural-gas fired generating station. OPG does not have an ownership interest in this gas-fired generating station.

VISION, CORE BUSINESS AND STRATEGY

OPG's mandate is to reliably and cost-effectively produce electricity from its diversified portfolio of generating assets, while operating in a safe, open, and environmentally responsible manner. OPG's mission is to be Ontario's low cost electricity generator of choice. OPG is focused on three corporate strategies – performance excellence, project excellence, and financial sustainability.

The following sections provide an update to OPG's disclosures related to the three corporate strategies, and should be read in conjunction with OPG's 2011 annual MD&A. Detailed discussions of OPG's commitment to its three corporate strategies are included in the 2011 annual MD&A under the headings, *Performance Excellence, Project Excellence,* and *Financial Sustainability*.

Performance Excellence

OPG's business segments and corporate groups are guided by the Company's commitment to performance excellence in the areas of generation, the environment, and safety.

Nuclear Generating Assets

Beginning in 2012, the Pickering stations are managed as a six-unit site through the operational amalgamation of the Pickering A and B generating stations. OPG successfully combined the Pickering stations' work management, maintenance and operational planning departments during the first half of 2012 becoming a fully integrated six-unit site. During the third quarter of 2012, the Canadian Nuclear Safety Commission ("CNSC") staff reviewed the Sustainable Operations Plan, which describes the strategy for safe operation of the Pickering site in an integrated fashion for the balance of this decade. OPG has applied to the CNSC for a single operating license for the Pickering generating stations for the license renewal effective in 2013.

As part of the reviews of the Sustainable Operations Plan and the Continued Operations Plan for the Pickering stations, the CNSC staff did not identify any new regulatory requirements. The CNSC also agreed that OPG will, through continued specified monitoring, the successful completion of on-going research and development, and specified station improvements, be capable of confirming fitness-for-service of Pickering fuel channels for the duration of the proposed continued operations period to 2020.

Hydroelectric Generating Assets

With consideration of current market conditions, OPG continues to evaluate and implement plans to increase capacity and maintain the hydroelectric generating assets through refurbishment or replacement of existing turbine runners, generators, transformers, and protections and controls. This includes increasing the capacity and efficiency at certain stations by approximately 20 MW over the next five years. OPG is also planning to repair, rehabilitate, or replace a number of aging civil structures in the next five years.

During the third quarter of 2012, OPG continued to execute a number of projects, including overhauls at Unit 3 of the Sir Adam Beck generating station and Unit 1 of the Des Joachims generating station, refurbishment of headgates at Arnprior and Alexander Falls generating stations, and a penstock replacement at the Matabichuan generating station.

Thermal Generating Assets

Consistent with Ontario's Long-Term Energy Plan (the "Energy Plan") and the Supply Mix Directive issued to the OPA, OPG removed from service two more coal-fired units at the Nanticoke generating station on December 31, 2011 in advance of the December 31, 2014 target deadline.

Environmental Performance

While the Federal Government passed the Reduction of Carbon Dioxide from Coal-fired Generation of Electricity Regulations in the third quarter of 2012, it is not expected to impact OPG as provincial regulations require OPG to cease coal-fuelled operations by December 31, 2014. Starting July 1, 2015, the federal regulations impose an annual emission intensity limit of 420 Mg CO_2/GWh for coal-burning units that have reached the end of their useful life. To meet this limit, a coal-fired unit would have to be fitted with carbon-capture-and-storage technology or co-fire biomass at very high rates. The federal regulations are not expected to impair OPG's ability to convert coal units to burn biomass or natural gas.

For the nine months ended September 30, 2012, CO_2 emissions from OPG's thermal stations were 3.5 million tonnes compared to 3.4 million tonnes for the same period in 2011. Acid gas (SO_2 and NO_X) emissions were 12.7 gigagrams and 13.9 gigagrams for the nine months ended September 30, 2012 and

2011, respectively. Acid gas emissions decreased during the first nine months of 2012 compared to the same period in 2011 as a result of utilizing lower sulphur coal and increased usage of the SO_2 scrubber at the Lambton generating station.

OPG's disclosures relating to environmental policies and procedures, and environmental risks are provided in the 2011 annual MD&A.

Safety

OPG remains steadfast in its commitment to safety excellence, sustaining a strong safety culture and continuous improvement in safety management systems.

Situational awareness, which involves assessing and controlling hazards associated with changing or unexpected conditions at the work site, continues to be integrated into the work practices as a key area of improvement in 2012. Key deliverables in this cultural improvement initiative include providing clear expectations from leadership and a comprehensive communication campaign to increase knowledge and skills in the area of situational awareness. Business leaders are challenging employees to focus on situational awareness by assessing and controlling hazards associated with changing or unexpected conditions at the work site. In addition, work continues in 2012 to further improve the work protection processes used to isolate equipment for maintenance activities. In October 2012, OPG received the Canadian Electricity Association's 2012 Occupational Health & Safety Bronze Award.

Project Excellence

OPG is pursuing a number of generation development projects consistent with the Energy Plan. OPG's major projects include nuclear station refurbishment, new nuclear generation, Pickering Units 5 - 8 Continued Operations, new hydroelectric generation and plant upgrades, and the potential conversion of some coal-fired generating units to alternative fuels.

Darlington Refurbishment Project

Engineering deliverables critical to the current phase of the program, including Engineering Change Requests and Modification Design Requirements, continue to progress on schedule. In September 2012, OPG received concurrence from the CNSC that OPG's procedure for developing the Global Assessment report and Integrated Implementation Plan ("IIP") met the CNSC's expectations. The Global Assessment report and IIP will be submitted to the CNSC in December 2013. In addition, the EA public hearing scheduled to be held in November 2012 is now rescheduled to December 2012. The decision on the EA is expected by the second quarter of 2013.

The Darlington Energy Complex, which is under construction, will house a full-scale reactor mock-up as well as warehouse facilities and offices and will now be ready for occupancy in the summer of 2013.

New Nuclear Units

In August 2012, the CNSC approved the application for the Power Reactor Site Preparation ("License to Prepare Site") for new nuclear units at Darlington. Subsequently, a notice of application for a judicial review of the License to Prepare Site was filed by third parties on the grounds that the CNSC's issuance of the license is invalid and does not comply with requirements of the *Canadian Environmental Assessment Act*. OPG is preparing its response to the application.

Pickering Units 5 - 8 Continued Operations

Work is substantially complete on the coordinated set of initiatives to evaluate the continued safe and reliable operation of Units 5 to 8 at the Pickering generating stations for approximately an additional four to six years beyond their nominal end of life. OPG is executing the Unit 7 reactor outage to complete the necessary inspection and equipment improvements. Continued operations work related to planned equipment improvements and inspections will continue until the end of 2014.

In June 2012, OPG submitted the necessary documentation related to the extension of the pressure tube service life to the CNSC. In the third quarter of 2012, the CNSC agreed that OPG will, through continued specified monitoring, the successful completion of on-going research and development, and specified station improvements, be capable of confirming fitness-for-service of Pickering fuel channels for the duration of the proposed continued operations period to 2020. During the fourth quarter of 2012, OPG expects to confirm its plans for the continued operation of the Pickering station.

Deep Geologic Repository for Low and Intermediate Level Waste

The public review period continues for the Environmental Impact Statement, Preliminary Safety Report, and Technical Support Documents related to the Deep Geologic Repository ("DGR") project. During the third and fourth quarters of 2012, OPG received a number of Information Requests ("IRs") on the documents from the Joint Review Panel ("JRP") and provided responses to the majority of these IRs. The JRP has extended the end date of the review based on the large volume of IRs received to-date. OPG anticipates that the public review period could extend into the first quarter of 2013.

OPG has suspended design activities pending receipt of the site preparation and construction license from the JRP. Construction of the DGR is expected to commence in 2015.

Niagara Tunnel

Lining installation activities at the Niagara Tunnel continue. The restoration of the circular cross section of the tunnel was completed in the third quarter of 2012. Installation of the permanent concrete lining was completed during the fourth quarter of 2012.

At September 30, 2012, contact grouting to fill the space between the concrete lining and impermeable membrane had progressed to 8,238 metres. Pre-stress grouting, to complete the attachment of the concrete liner with the surrounding rock, was at 6,788 metres.

The Niagara Tunnel is expected to be completed within the approved budget of $1.6 billion and the approved project completion date of December 2013. OPG's contractor, Strabag, has informed OPG that they expect to advance the completion date to mid-2013 and are developing options to further advance the schedule. Upon completion of the 10.2 kilometre tunnel, an additional water flow of approximately 500 cubic metres per second will be diverted from the Niagara River, contributing to an average increase of approximately 1.6 TWh of annual generation from the Sir Adam Beck generating stations. The capital project expenditures for the three and nine month periods ended September 30, 2012 were $58 million and $187 million, respectively. At September 30, 2012, the life-to-date capital expenditures were $1,331 million.

Lower Mattagami

The Lower Mattagami River project will increase the capacity of the four generating stations on the Lower Mattagami River by 438 MW. During the third quarter of 2012, concrete work was in progress at the intake, powerhouse, and service areas at the Smoky Falls site. At the Harmon and Kipling sites, concrete operations are in progress in the powerhouse area. The powerhouse steel superstructure was completed at the Little Long site.

Capital project expenditures for the three and nine month periods ended September 30, 2012 were $154 million and $423 million, respectively. At September 30, 2012, the life-to-date capital expenditures were $1,189 million. The project is expected to be completed within the approved budget of $2.6 billion and the last unit is planned to be in service by June 2015.

Conversion of Coal-Fired Units

The strategy to convert coal-fired units to alternative fuels is reflective of the changing energy generation portfolio for Ontario. Options for alternative fuels include biomass, natural gas and gas-biomass dual-fuelled. Before OPG can proceed with unit conversions, a mechanism is required for recovery of capital and ongoing costs.

In August 2012, OPG and the OPA executed the Atikokan Biomass Energy Supply Agreement. As a result, OPG approved the full release of the project to convert the Atikokan generating station to biomass fuel. The station has ceased using coal and the biomass conversion is now in the execution phase. The converted station will have a capacity of approximately 200 MW. The conversion project has an approved cost estimate of $170 million and is expected to be completed in the first half of 2014. The capital project expenditures for the three and nine month periods ended September 30, 2012 were $13 million and $33 million, respectively. At September 30, 2012, the life-to-date capital expenditures were $38 million.

OPG is suspending further work on the Thunder Bay generating station conversion, pending a review by the OPA of electricity needs in northwestern Ontario. The OPA has informed OPG that it needs time to explore other options for electricity supply in the northwest part of the province. Costs of $9 million were incurred for the conversion during the definition phase.

As outlined in the Energy Plan and Supply Mix Directive, OPG is also exploring the possible conversion of some units at the Lambton and Nanticoke generating stations to natural gas, with an option for co-firing with biomass, if required for Ontario's system reliability. Without an indication that conversion will proceed, the units will continue to be made available to the system until the mandated cessation of coal consumption.

Financial Sustainability

OPG's priority, as a commercial enterprise, is to achieve and maintain a level of performance to secure its long-term financial sustainability, and maintain the value of its assets for its Shareholder – the Province. Inherent in this priority are the objectives of: earning an appropriate return on its generating assets; identifying and exploring efficiency improvement opportunities; and ensuring a strong balance sheet that enhances OPG's ability to finance its operations and projects.

The Business Transformation process improvement initiatives continued in the third quarter of 2012, focusing on cost reduction, effectiveness, and efficiency gains. From January 2011 to the third quarter of 2012, OPG achieved a reduction of over 900 employees from on-going operations. Business Transformation is expected to support further cost efficiencies and headcount reductions.

OPG receives regulated prices for electricity produced from its nuclear generating stations and most of its baseload hydroelectric generating stations. While OPG continues to reduce costs and pursue efficiency improvement opportunities, it remains necessary for OPG to recover its costs and earn an appropriate return on its regulated assets through the rate-setting process. OPG continues to work with its Shareholder to determine approaches to enable OPG to recover its costs and obtain an appropriate return for its assets, while considering the impact to electricity consumers.

KEY GENERATION AND FINANCIAL PERFORMANCE INDICATORS

Key performance indicators that directly pertain to OPG's mandate and corporate strategies are measures of production efficiency, cost-effectiveness, and environmental performance. OPG evaluates the performance of its generating stations using a number of key performance indicators, which vary depending on the generating technology. These indicators are defined in the 2011 annual MD&A and are discussed in the *Discussion of Operating Results by Business Segment* section of this MD&A. Updates to OPG's key performance indicators from those disclosed in the 2011 annual MD&A are discussed below.

Thermal Equivalent Force Outage Rate and Start Guarantee Rate

Given continued changes in the electricity market in Ontario, the main focus of the thermal business is to ensure its generating units are available when needed. While the industry standard Equivalent Forced Outage Rate ("EFOR") measure continues to be monitored by the Thermal business within the context of its business strategy, beginning in 2012, OPG also adopted Start Guarantee rate as a key thermal reliability measure. Start Guarantee rate represents the ratio of the number of times thermal units successfully start compared to the number of starts requested by the Independent Electricity System Operator ("IESO"). Start Guarantee performance was monitored in 2011 in anticipation of this change.

Funds from Operations Interest Coverage

The Funds from Operations ("FFO") Interest Coverage is an indicator of OPG's ability to meet interest obligations from operating cash flows. FFO Interest Coverage is defined as FFO before interest divided by Adjusted Interest Expense and is measured over a period of twelve months. See *Liquidity and Capital Resources – FFO Interest Coverage* and *Supplementary Non-GAAP Financial Measures – FFO Interest Coverage* sections, for further details.

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, 2012 and 2011. The following table provides a summary of revenue, earnings, and electricity generation by business segment:

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars – except where noted)	**2012**	**2011** *(adjusted)*	**2012**	**2011** *(adjusted)*
Revenue				
Regulated – Nuclear Generation	**800**	793	**2,293**	2,293
Regulated – Nuclear Waste Management	**27**	18	**77**	42
Regulated – Hydroelectric	**184**	176	**550**	550
Unregulated – Hydroelectric	**82**	94	**269**	392
Unregulated – Thermal	**134**	171	**380**	451
Other	**12**	15	**43**	48
Elimination	**(26)**	(17)	**(75)**	(40)
	1,213	1,250	**3,537**	3,736
Income (loss) before interest and income taxes				
Regulated – Nuclear Generation	**167**	142	**333**	277
Regulated – Nuclear Waste Management	**(19)**	(192)	**(59)**	(240)
Regulated – Hydroelectric	**74**	73	**257**	256
Unregulated – Hydroelectric	**(6)**	(2)	**(11)**	113
Unregulated – Thermal	**(19)**	(118)	**(78)**	(171)
Other	**14**	32	**34**	66
	211	(65)	**476**	301
Electricity generation (TWh)				
Regulated – Nuclear Generation	**12.8**	12.6	**37.0**	36.6
Regulated – Hydroelectric	**4.4**	4.9	**14.1**	14.5
Unregulated – Hydroelectric	**2.0**	2.0	**8.9**	10.1
Unregulated – Thermal	**1.4**	1.9	**3.1**	3.1
Total electricity generation	**20.6**	21.4	**63.1**	64.3

Regulated – Nuclear Generation Segment

(millions of dollars)	Three Months Ended September 30 2012	2011 (adjusted)	Nine Months Ended September 30 2012	2011 (adjusted)
Regulated generation sales	**711**	698	**2,051**	2,024
Variance accounts	**(7)**	(6)	**43**	23
Other	**96**	101	**199**	246
Total revenue	**800**	793	**2,293**	2,293
Fuel expense	**81**	70	**233**	189
Variance and deferral accounts	**(13)**	(4)	**(37)**	(10)
Total fuel expense	**68**	66	**196**	179
Gross margin	**732**	727	**2,097**	2,114
Operations, maintenance and administration	**438**	451	**1,386**	1,475
Depreciation and amortization	**120**	128	**358**	345
Property and capital taxes	**8**	6	**21**	20
Income before other income, interest and income taxes	**166**	142	**332**	274
Other income	**(1)**	-	**(1)**	(3)
Income before interest and income taxes	**167**	142	**333**	277

Income before interest and income taxes from the Regulated – Nuclear generation segment for the third quarter of 2012 was $167 million compared to $142 million for the same period in 2011. The increase in income before interest and income taxes was primarily due to lower OM&A expenses, lower depreciation and amortization expenses, and an increase in revenue.

OM&A expenses for the three months ended September 30, 2012 decreased by $13 million compared to the same period in 2011, primarily as a result of managed headcount reductions, lower pension and OPEB costs net of the impact of related regulatory variance and deferral accounts, and a decrease in outage activities, partially offset by higher maintenance activities.

The decrease in depreciation and amortization expenses of $8 million during the third quarter of 2012 compared to the same period in 2011 was primarily due to the regulatory asset for the Pickering A Return to Service ("PARTS") Deferral Account being fully amortized by December 31, 2011.

The increase in revenue of $7 million for the three months ended September 30, 2012 compared to the same period in 2011 was primarily due to an increase in generation revenue, partially offset by lower revenue from isotope sales to third parties. The increase in generation revenue was primarily due to higher generation at the Pickering generating stations resulting from strong performance, partially offset by lower generation at the Darlington generating station.

The increase in fuel expense during third quarter of 2012 compared to the same quarter in 2011 was primarily due to an increase in costs associated with used fuel storage and disposal, mainly as a result of the 2011 update of the nuclear fixed asset removal and nuclear waste management liabilities ("Nuclear Liabilities") estimate. This increase was largely offset by the recognition of regulatory assets for the Nuclear Liability Deferral Account ("NLDA") and the Bruce Lease Net Revenues Variance Account. Further details regarding the NLDA are included in the *Balance Sheet Highlights* section.

Income before interest and income taxes from the Regulated – Nuclear Generation segment for the nine months ended September 30, 2012 was $333 million compared to $277 million for the same period in 2011. This increase was primarily due to lower OM&A expenses, partially offset by a lower gross margin and higher depreciation and amortization expenses.

The decrease in OM&A expenses of $89 million for the nine months ended September 30, 2012 compared to the same period in 2011 was primarily due to lower pension and OPEB costs related to the impact of the Pension and OPEB Cost Variance Account, effective March 1, 2011. As a result, the Pension and OPEB Cost Variance Account reduced OM&A expenses over a nine month period in 2012 compared to a seven month period in 2011. In addition, OM&A expenses were reduced in 2012 due to the recognition of a regulatory asset during the first quarter related to OPG's transition to US GAAP. These impacts were partially offset by an increase in pension and OPEB costs primarily as a result of lower discount rates for 2012. OM&A expenses also decreased due to reductions in the number of employees and lower outage expenses.

Gross margin decreased primarily as a result of lower revenue from technical services and isotope sales to third parties, and a net increase to fuel expense partly resulting from higher fuel prices. Fuel expense also increased as a result of the impact of the 2011 update to the Nuclear Liabilities estimate on costs associated with used fuel storage and disposal. This increase was largely offset by the recognition of regulatory assets for the NLDA and the Bruce Lease Net Revenues Variance Account.

The increase in depreciation and amortization expenses of $13 million for the nine months ended September 30, 2012 compared to the same period in 2011 was primarily due to higher amortization expense related to the recovery of regulatory balances as a result of the OEB's March 2011 decision on new regulated prices, partially offset by the regulatory asset for the PARTS Deferral Account being fully amortized by December 31, 2011.

The unit capability factors for the Darlington and Pickering generating stations, and the Production Unit Energy Cost ("PUEC") for the three and nine month periods ended September 30, 2012 and 2011 are as follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2012	**2011** *(adjusted)*	**2012**	**2011** *(adjusted)*
Unit Capability Factor *(%)*				
Darlington	**92.4**	97.5	**91.2**	93.9
Pickering	**90.1**	78.1	**82.1**	76.1
Nuclear PUEC *($/MWh)*	**38.27**	39.62	**41.59**	43.51

The Darlington nuclear station continued to perform well with capability factors of 92.4 percent and 91.2 percent for the three and nine month periods ended September 30, 2012. The lower capability factors at the Darlington generating station for the three and nine month periods ended September 30, 2012, compared to the same periods in 2011 were primarily due to an increase in unplanned outage days. For the three and nine month periods ended September 30, 2012, the higher capability factors at the Pickering generating stations compared to the same periods in 2011 primarily reflected fewer planned outage days.

The decrease in Nuclear PUEC for the three and nine month periods ended September 30, 2012, compared to the same periods in 2011 was primarily due to lower OM&A expenses and higher generation, partially offset by an increase in fuel and fuel-related expenses.

Regulated – Nuclear Waste Management Segment

(millions of dollars)	Three Months Ended September 30 2012	2011	Nine Months Ended September 30 2012	2011
Revenue	**27**	18	**77**	42
Operations, maintenance and administration	**29**	19	**83**	47
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	**178**	175	**534**	521
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds	**(161)**	16	**(481)**	(286)
Loss before interest and income taxes	**(19)**	(192)	**(59)**	(240)

Loss before interest and income taxes for the Regulated – Nuclear Waste Management segment was $19 million and $59 million for the three and nine month periods ended September 30, 2012, respectively, compared to $192 million and $240 million for the same respective periods in 2011. The lower loss was largely due to an increase in the valuation levels of global equity markets during the third quarter of 2012 compared to the same period in 2011, resulting in higher earnings from the Decommissioning Segregated Fund, net of the impact of the related variance account.

Regulated – Hydroelectric Segment

(millions of dollars)	Three Months Ended September 30 2012	2011	Nine Months Ended September 30 2012	2011
Regulated generation sales[1]	**155**	174	**491**	514
Variance accounts	**22**	(4)	**40**	10
Other	**7**	6	**19**	26
Total revenue	**184**	176	**550**	550
Fuel expense	**62**	74	**181**	191
Variance accounts	**8**	(3)	**11**	(1)
Total fuel expense	**70**	71	**192**	190
Gross margin	**114**	105	**358**	360
Operations, maintenance and administration	**27**	25	**72**	76
Depreciation and amortization	**8**	8	**25**	30
Property and capital taxes	**1**	(1)	**-**	(2)
Income before other loss, interest and income taxes	**78**	73	**261**	256
Other loss	**4**	-	**4**	-
Income before interest and income taxes	**74**	73	**257**	256

[1] During the three months ended September 30, 2012 and 2011, the Regulated – Hydroelectric segment generation sales included revenue of $4 million related to the hydroelectric incentive mechanism approved by the OEB. During the nine months ended September 30, 2012 and 2011, the Regulated – Hydroelectric segment generation sales included revenue of $11 million and $12 million, respectively, related to the hydroelectric incentive mechanism.

For the three months ended September 30, 2012, income before interest and income taxes for the Regulated – Hydroelectric segment was $74 million compared to $73 million for the same period in 2011. Gross margin increased by $9 million during the third quarter of 2012 compared to the third quarter of 2011. The increase in gross margin was primarily due to the impact of the regulatory variance accounts primarily related to water levels, partially offset by lower generation revenue as a result of lower water levels on the lower Great Lakes.

For the nine months ended September 30, 2012, income before interest and income taxes was $257 million compared to $256 million for the same period in 2011. Gross margin decreased by

$2 million during the nine months ended September 30, 2012 compared to the same period in 2011. The marginal decrease in gross margin was primarily due to lower generation revenue resulting from lower water levels, and lower ancillary and other station revenues, partially offset by the impact of regulatory variance accounts primarily related to water levels.

The availability, EFOR and OM&A expense per MWh for the Regulated – Hydroelectric segment for the three and nine month periods ended September 30, 2012 and 2011 are as follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2012	**2011**	**2012**	**2011**
Availability *(%)*	**92.8**	93.4	**91.7**	91.0
EFOR *(%)*	**2.4**	0.7	**2.3**	0.9
Regulated – Hydroelectric OM&A expense per MWh *($/MWh)*	**6.14**	5.10	**5.11**	5.24

The availability for the regulated hydroelectric stations was 92.8 percent in the third quarter of 2012 compared to 93.4 percent in the same quarter of 2011. The decrease in availability was primarily due to unplanned outages at the Sir Adam Beck 1 generating station. During the nine months ended September 30, 2012, the availability for the regulated hydroelectric stations was 91.7 percent compared to 91.0 percent during the same period of 2011. The increase in availability was primarily due to fewer planned outage days.

The increase in EFOR for the three months ended September 30, 2012 compared to the same period in 2011 was primarily due to a forced extension of a planned outage at Sir Adam Beck 1 generating station to repair a cracked headcover. When combined with an outage at the Sir Adam Beck Pump generating station that was carried over from 2011, this contributed to a higher EFOR for the nine months ended September 30, 2012 compared to the same period in 2011. The high availability reflects the continuing strong performance of the regulated hydroelectric generating stations.

The OM&A expense per MWh for the third quarter of 2012 and 2011 was $6.14/MWh and $5.10/MWh, respectively. The increase in OM&A expense per MWh was due to lower generation volume and higher OM&A expenses. The OM&A expense per MWh for the nine months ended September 30, 2012 was $5.11/MWh compared to $5.24/MWh for the same period in 2011. The decrease in OM&A expense per MWh was primarily due to lower OM&A expenses, partially offset by lower generation volume.

Unregulated – Hydroelectric Segment

(millions of dollars)	Three Months Ended September 30 2012	2011	Nine Months Ended September 30 2012	2011
Spot market sales	**60**	74	**205**	333
Other	**22**	20	**64**	59
Total revenue	**82**	94	**269**	392
Fuel expense	**11**	13	**47**	55
Gross margin	**71**	81	**222**	337
Operations, maintenance and administration	**57**	60	**175**	168
Depreciation and amortization	**17**	20	**55**	56
Property and capital taxes	**(1)**	3	**(1)**	-
(Loss) income before other loss, interest and income taxes	**(2)**	(2)	**(7)**	113
Other loss	**4**	-	**4**	-
(Loss) income before interest and income taxes	**(6)**	(2)	**(11)**	113

Loss before interest and income taxes for the Unregulated – Hydroelectric segment for the three months ended September 30, 2012 was $6 million compared to $2 million for the same period in 2011. The increase in loss was primarily due to a decrease in gross margin and the recognition of a loss of $4 million primarily related to the retirement of various assets, partially offset by lower OM&A expenses and lower depreciation and amortization expenses.

Gross margin decreased by $10 million in the third quarter of 2012 compared to the same quarter in 2011 primarily as a result of the impact of a lower weighted average HOEP on revenue. The weighted average HOEP for the third quarter of 2012 and 2011 was 3.0¢/kWh and 3.5¢/kWh, respectively.

Loss before interest and income taxes for the nine months ended September 30, 2012 was $11 million, compared to income before interest and income taxes of $113 million for the same period in 2011. The decrease in income was primarily due to the impact of the significantly lower weighted average HOEP on revenue and the impact of lower water conditions on hydroelectric generation. The weighted average HOEP for the nine months ended September 30, 2012 and 2011 was 2.4¢/kWh and 3.2¢/kWh, respectively. The decrease in income for the nine months ended September 30, 2012 compared to the same period in 2011 also resulted from an increase in OM&A expenses primarily due to higher pension and OPEB costs in 2012, largely as a result of lower discount rates for 2012.

The availability, EFOR and OM&A expense per MWh for Unregulated – Hydroelectric segment for the three and nine month periods ended September 30, 2012 and 2011 are as follows:

	Three Months Ended September 30 2012	2011	Nine Months Ended September 30 2012	2011
Availability *(%)*	**87.4**	87.5	**91.1**	91.9
EFOR *(%)*	**3.1**	3.4	**2.4**	1.5
Unregulated – Hydroelectric OM&A expense per MWh *($/MWh)*	**29.00**	30.00	**19.44**	16.63

The availability for the unregulated hydroelectric stations was 87.4 percent and 87.5 percent during the third quarter of 2012 and 2011, respectively. During the nine months ended September 30, 2012, the availability for the unregulated hydroelectric stations was 91.1 percent compared to 91.9 percent during the same period of 2011. The decrease in availability and increase in EFOR for the nine months ended September 30, 2012 compared to the same period in 2011 were primarily due to an increase in unplanned outage activities in 2012. Although these unplanned outages resulted in a decrease in availability and an increase in EFOR, they did not result in any loss of production. The high availability reflected the continuing strong performance of the unregulated hydroelectric stations.

The decrease in OM&A expense per MWh for the third quarter of 2012 compared to the same period in 2011 was due to lower OM&A expenses. The increase in OM&A expense per MWh for the nine months ended September 30, 2012 compared to the same period in 2011 was due to the impact of lower generation and higher OM&A expenses.

Unregulated – Thermal Segment

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars)	**2012**	**2011** *(adjusted)*	**2012**	**2011** *(adjusted)*
Spot market sales	**49**	73	**83**	108
Contingency support agreement	**54**	64	**205**	259
Other	**31**	34	**92**	84
Total revenue	**134**	171	**380**	451
Fuel expense	**50**	67	**121**	142
Gross margin	**84**	104	**259**	309
Operations, maintenance and administration	**82**	96	**269**	298
Depreciation and amortization	**15**	21	**43**	64
Accretion on fixed asset removal liabilities	**3**	1	**10**	5
Property and capital taxes	**2**	4	**12**	12
Restructuring	**1**	19	**3**	19
Loss before other loss, interest and income taxes	**(19)**	(37)	**(78)**	(89)
Other loss	**-**	81	**-**	82
Loss before interest and income taxes	**(19)**	(118)	**(78)**	(171)

For the three months ended September 30, 2012, loss before interest and income taxes for the Unregulated – Thermal segment was $19 million compared to $118 million for the same period in 2011. The decrease in loss before interest and income taxes was primarily due to the recognition of a loss during the third quarter of 2011 of $81 million resulting from an increase in the ARO estimate, a decrease in restructuring charges, and lower OM&A expenses. The decrease in the loss for the third quarter of 2012 compared to the same quarter in 2011 was partially offset by a lower gross margin.

In September 2011, OPG completed a review of the ARO for most of its thermal stations which resulted in a loss of $81 million being recognized in accordance with US GAAP in the Thermal business segment, and income of $15 million in the Other business segment. The 2011 review of the ARO estimate is discussed in the *Changes in Accounting Policies and Estimates* section.

Gross margin decreased by $20 million during the three months ended September 30, 2012 compared to the same period in 2011 primarily as a result of lower electricity sales prices, lower revenue from the contingency support agreement, and lower other station revenues, partially offset by lower fuel and fuel-related costs. Fuel and fuel-related costs for the three months ended September 30, 2012 decreased compared to the same period in 2011 primarily due to favourable adjustments to the Nanticoke coal inventory during the third quarter of 2012. The decrease in revenue from the contingency support agreement reflected the impact on expenses of the closure of Units 1 and 2 at the Nanticoke generating station in December 2011, and the favourable adjustments to coal inventory during the third quarter of 2012.

The reduction in OM&A expenses of $14 million for the three months ended September 30, 2012 compared to the same period in 2011 was primarily due to the vacancy and overtime management program, reduced scope of work associated with changing operating profiles, and unit closures at the Nanticoke generating station in 2011. The reduction in OM&A expenses contributed to lower revenue from the contingency support agreement.

Restructuring expense decreased during the third quarter of 2012 compared to the same quarter in 2011. The decrease in restructuring charges was primarily due to the recognition of severance costs of $19 million during the third quarter of 2011 related to the planned safe shutdown of two coal-fired units at the Nanticoke generating station in 2011. The cessation of coal use at the Atikokan generating station during the third quarter of 2012 has impacted staff requirements. As a result, in August 2012, OPG notified key stakeholders of the potential impact in accordance with their respective collective bargaining agreements. The total restructuring costs are estimated to be $3 million and are expected to be recorded in 2013 and 2014 when they are finalized.

The decrease in depreciation and amortization expenses during the three months ended September 30, 2012 compared to the same period in 2011 was primarily due to the recognition of accelerated depreciation during 2011 related to the Nanticoke unit closures in 2011, and adjustments to the thermal ARO in the third quarter of 2011.

For the nine months ended September 30, 2012, the loss before interest and income taxes was $78 million compared to $171 million for the same period in 2011. The decrease in the loss was primarily due to the recognition of a loss during the third quarter of 2011 related to an increase in the ARO estimate. In addition, for the nine months ended September 30, 2012 compared to the same period in 2011, there was a decrease in OM&A and depreciation expenses, and lower restructuring charges, partially offset by a lower gross margin.

The decrease in gross margin during the nine months ended September 30, 2012 compared to the same period in 2011 was primarily due to lower generation revenue and lower revenue from the contingency support agreement. The lower revenue from the contingency support agreement reflected a decrease in expenses resulting from the impact of the closure of Units 1 and 2 at the Nanticoke generating station in December 2011, and the favourable adjustments to coal inventory related to the Nanticoke generating station.

The Start Guarantee rate, EFOR, and OM&A expense per MW for the Unregulated – Thermal segment for the three and nine month periods ended September 30, 2012 and 2011 are as follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2012	**2011**	**2012**	**2011**
Start Guarantee rate *(%)*	**98.3**	95.8[1]	**97.8**	95.1[1]
EFOR *(%)*	**9.0**	13.1	**7.3**	9.5
Unregulated – Thermal OM&A expense per MW *($000/MW)*	**60.2**	62.1	**65.8**	63.5

1 As estimated.

The EFOR was 9.0 percent and 13.1 percent during the third quarter of 2012 and 2011, respectively. During the nine months ended September 30, 2012, the EFOR was 7.3 percent compared to 9.5 percent during the same period of 2011. The decrease in EFOR for the three and nine month periods ended September 30, 2012 compared to the same periods in 2011 was primarily due to fewer unplanned outage days at the Nanticoke generating station. The unplanned outage days are managed through the implementation of a management strategy, which entails managing outage expenditures and duration while ensuring the units are available as required.

The Start Guarantee rate was 98.3 percent and 95.8 percent during the third quarter of 2012 and 2011, respectively. During the nine months ended September 30, 2012, the Start Guarantee rate was 97.8 percent compared to 95.1 percent for the same period in 2011. The high Start Guarantee rate for the three and nine month periods ended September 30, 2012 and 2011 reflects the ability of the thermal generating stations to respond to market requirements when needed.

The decrease in OM&A expense per MW during the third quarter of 2012 compared to the same quarter in 2011 reflected lower OM&A expenses, partially offset by the reduced thermal generating capacity resulting from the two unit closures at the Nanticoke generating station in late 2011. The increase in

OM&A expense per MW during the nine months ended September 30, 2012 compared to the same period in 2011 reflected the reduced thermal generating capacity, partially offset by lower OM&A expenses.

Other

(millions of dollars)	Three Months Ended September 30 2012	2011 *(adjusted)*	Nine Months Ended September 30 2012	2011 *(adjusted)*
Revenue	**12**	15	**43**	48
Operations, maintenance and administration	**3**	-	**4**	2
Depreciation and amortization	**4**	6	**14**	16
Property and capital taxes	**3**	2	**8**	7
Income before other income, interest and income taxes	**2**	7	**17**	23
Other income	**(12)**	(25)	**(17)**	(43)
Income before interest and income taxes	**14**	32	**34**	66

Income before interest and income taxes during the third quarter of 2012 was $14 million compared to $32 million during the same quarter in 2011. Income before interest and income taxes was $34 million during the nine months ended September 30, 2012 compared to $66 million during the same period in 2011. The decrease for the three and nine month periods ended September 30, 2012 was primarily due the recognition of other income of $15 million related to the review of the ARO estimate of the decommissioned thermal R.L. Hearn generating station in the third quarter of 2011. The 2011 review of the ARO estimate is discussed in the *Changes in Accounting Policies and Estimates* section. The decrease in income before interest and income taxes for the nine months ended September 30, 2012 was also a result of lower net income from OPG's equity investments compared to the same period in 2011.

Interconnected purchases and sales, including those to be physically settled, and unrealized mark-to-market gains and losses on energy trading contracts, are disclosed on a net basis in the consolidated statements of income. For the three months ended September 30, 2012, if disclosed on a gross basis, revenue and power purchases would have increased by $17 million (three months ended September 30, 2011 – $21 million). For the nine months ended September 30, 2012, if disclosed on a gross basis, revenue and power purchases would have increased by $43 million (nine months ended September 30, 2011 – $59 million).

Income Taxes

Income tax expense for the three months ended September 30, 2012 was $46 million compared to $52 million for the same period in 2011. Income tax expense for the nine months ended September 30, 2012 was $51 million compared to $80 million for the same period in 2011. The decrease in income tax expense for the three and nine month periods ended September 30, 2012 compared to the same periods in 2011 was primarily due to lower income before earnings from the Nuclear Funds in 2012. Earnings from the Nuclear Funds are not taxable until withdrawn.

Return on Equity

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

ROE for the twelve months ended September 30, 2012 was 6.6 percent compared to 4.0 percent for the twelve months ended December 31, 2011. ROE increased primarily due to a higher net income, partially offset by higher average shareholder's equity, excluding accumulated other comprehensive income, for the twelve months ended September 30, 2012 compared to the twelve months ended December 31, 2011. OPG's relatively low ROE is affected by a relatively high equity component in its capital structure.

ROE is not a measurement in accordance with US GAAP and should not be considered an alternative measure to net income, cash flows from operating activities, or any other performance measure under US GAAP. The definition of ROE can be found under the heading, *Supplementary Non-GAAP Financial Measures.*

LIQUIDITY AND CAPITAL RESOURCES

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

Changes in cash and cash equivalents for the three and nine month periods ended September 30, 2012, and 2011 are as follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
(millions of dollars)	**2012**	**2011** *(adjusted)*	**2012**	**2011** *(adjusted)*
Cash and cash equivalents, beginning of period	**353**	642	**630**	269
Cash flow provided by operating activities	**510**	429	**722**	983
Cash flow used in investing activities	**(353)**	(266)	**(988)**	(804)
Cash flow provided by (used in) financing activities	**81**	(2)	**227**	355
Net increase (decrease)	**238**	161	**(39)**	534
Cash and cash equivalents, end of period	**591**	803	**591**	803

Operating Activities

Cash flow provided by operating activities for the three months ended September 30, 2012 was $510 million compared to $429 million for the three months ended September 30, 2011. The increase in operating cash flow was primarily due to a decrease in OM&A expenses, lower pension contributions, and lower fuel purchases, partially offset by reduced revenues from isotope sales and lower cash receipts from electricity generation.

Cash flow provided by operating activities for the nine months ended September 30, 2012 was $722 million compared to $983 million for the same period in 2011. The decrease in operating cash flow was primarily due to lower cash receipts from electricity generation, an increase in pension contributions, and lower cash receipts resulting from a reduction in revenues from technical services provided to third parties and isotope sales. The decrease in operating cash flow was partially offset by a decrease in OM&A expenses and lower fuel purchases.

Investing Activities

Cash flow used in investing activities during the third quarter ended September 30, 2012 was $353 million compared to $266 million for the same quarter in 2011. The increase was primarily due to higher expenditures for the Lower Mattagami River, the Darlington Refurbishment, and the Atikokan biomass conversion projects.

Cash flow used in investing activities during the nine months ended September 30, 2012 was $988 million compared to $804 million for the same period in 2011. The increase was primarily due to higher expenditures for the Darlington Refurbishment, the Lower Mattagami River, and the Atikokan biomass conversion projects, partially offset by lower capital expenditures for the Niagara Tunnel project.

OPG's forecast capital expenditures for 2012 are approximately $1.5 billion, which includes amounts for hydroelectric development and nuclear refurbishment.

Financing Activities

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two $500 million multi-year term tranches. In May 2012, OPG renewed and extended both tranches to May 20, 2017. 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, 2012, no commercial paper was outstanding under this program, and there were no outstanding borrowings under the bank credit facility as at September 30, 2012.

As at September 30, 2012, OPG maintained $25 million of short-term, uncommitted overdraft facilities, and $353 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. As at September 30, 2012, there was a total of $308 million of Letters of Credit issued, which included $287 million for the supplementary pension plans, $20 million for general corporate purposes and $1 million related to the operation of the PEC.

The Company has an agreement to sell an undivided co-ownership interest up to $250 million in its current and future accounts receivable to an independent trust. As at September 30, 2012, there were no amounts outstanding under this agreement. As at December 31, 2011, short term debt included $50 million outstanding under this agreement. In the fourth quarter of 2012, the Company renegotiated and extended the agreement from August 31, 2013 to November 30, 2014.

OPG also maintains a Niagara Tunnel project credit facility for an amount up to $1.6 billion. As at September 30, 2012, advances under this facility were $995 million, including $45 million and $120 million of new borrowing during the three and nine month periods ended September 30, 2012, respectively.

The Lower Mattagami Energy Limited Partnership ("LME") maintains a $700 million bank credit facility to support the initial construction phase for the Lower Mattagami River project and the commercial paper program. In August 2012, the facility was divided into two tranches. The first tranche of $400 million has a maturity date of August 17, 2017 and the second tranche of $300 million has a maturity date of August 17, 2015. As at September 30, 2012, $144 million of commercial paper was outstanding under this program. In 2011, OPG executed a $700 million credit facility with the OEFC in support of the Lower Mattagami River project. As at September 30, 2012, there were no outstanding borrowings under this credit facility. In April 2012, the LME issued senior notes totalling $225 million with a maturity date of 2052. The effective interest rate and coupon interest rate of these notes were 4.3 percent and 4.2 percent, respectively. In October 2012, senior notes totalling $200 million were issued by the LME. These senior notes have an effective interest rate and coupon interest rate of 2.3 percent and 2.2 percent, respectively, and mature on October 23, 2017.

As at September 30, 2012, OPG's long-term debt outstanding was $4,887 million. OPG entered into an agreement with the OEFC in April 2012 for a $400 million refinancing credit facility. OPG refinanced $200 million of notes under this facility in the second quarter of 2012. This credit facility expired in the second quarter of 2012.

In April 2012, Standard & Poor's affirmed the long-term credit rating on OPG at A- with a stable outlook and the commercial paper rating at A-1 (low). In September 2012, Dominion Bond Rating Service reaffirmed the long-term credit rating on OPG at A (low) and the commercial paper rating at R-1 (low) with a stable outlook.

FFO Interest Coverage

FFO Interest Coverage is an indicator of OPG's ability to meet interest obligations from operating cash flows. FFO Interest Coverage for the twelve months ended September 30, 2012 and December 31, 2011 was 2.8 times and 3.1 times, respectively. The FFO Interest Coverage decreased primarily due to lower FFO before interest, partially offset by a slightly lower Adjusted Interest Expense. FFO before interest for the twelve months ended September 30, 2012 compared to the twelve months ended December 31, 2011 decreased primarily due to a lower cash flow provided by operating activities, excluding changes to non-cash working capital balances.

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

BALANCE SHEET HIGHLIGHTS

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

(millions of dollars)	As At **September 30 2012**	 **December 31 2011** *(adjusted)*	**Explanation of change**
Nuclear fixed asset removal and nuclear waste management funds *(current and non-current portions)*	**12,539**	11,898	The increase was primarily due to earnings on the Nuclear Funds and contributions to the Used Fuel Segregated Fund, partially offset by reimbursements of expenditures on nuclear fixed asset removal and nuclear waste management.
Regulatory assets *(current and non-current portions)*	**5,132**	5,017	The increase was primarily due to additions to the Pension and OPEB Cost Variance Account, the NLDA, details of which are provided below, the Impact for USGAAP Deferral Account ("US GAAP Deferral Account"), and the Bruce Lease Net Revenues Variance Account. This increase was partially offset by the amortization of regulatory assets based on the OEB's March 2011 decision, a decrease in the regulatory asset related to pension and OPEB for amounts that were reclassified from accumulated other comprehensive loss as components of benefit costs, and a decrease in the regulatory asset for deferred taxes.
Pension liabilities Other post employment benefit liabilities	**2,719** **2,737**	2,847 2,616	The decrease in the pension liabilities was primarily due to contributions to the pension funds, partially offset by the recognition of pension costs. The increase in OPEB liabilities was primarily due to the impact of costs recognized related to the OPEB plans during the first nine months of 2012.

Nuclear Liability Deferral Account

In accordance with *Ontario Regulation 53/05* pursuant to the *Ontario Energy Board Act, 1998*, the OEB has authorized the NLDA in connection with changes to OPG's Nuclear Liabilities. The deferral account records the revenue requirement impact of the changes in the Nuclear Liabilities associated with the Pickering and Darlington nuclear generating stations arising from an approved reference plan, in accordance with the terms of the Ontario Nuclear Funds Agreement ("ONFA").

In 2011, the estimate for OPG's Nuclear Liabilities as at December 31, 2011 was updated as a result of the ONFA Reference Plan update process. During the fourth quarter of 2011, OPG submitted the final 2012 ONFA Reference Plan, which covers the period from 2012 to 2016, to the Province for approval. In June 2012, the Province approved the 2012 ONFA Reference Plan with an effective date of January 1, 2012. As a result, starting in the second quarter of 2012, OPG is recording increases to the regulatory asset for the NLDA, representing the revenue requirement impact associated with the increase in the liabilities for the nuclear facilities owned and operated by OPG arising from the approved 2012 ONFA Reference Plan for the period beginning January 1, 2012. During the three and nine month periods ended September 30, 2012, OPG recorded increases of $49 million and $147 million, respectively, to this regulatory asset with reductions to the corresponding expenses as detailed in Note 4 to the interim consolidated financial statements as at and for the period ended September 30, 2012. The balance in the account will be reviewed by the OEB as part of OPG's application to recover variance and deferral account balances as at December 31, 2012.

Off-Balance Sheet Arrangements

In the normal course of operations, OPG engages in a variety of transactions that, under US GAAP, are either not recorded in the Company's 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 undertaken by OPG include guarantees, which provide financial or performance assurance to third parties on behalf of certain subsidiaries, and long-term fixed price contracts.

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

OPG's significant accounting policies under Canadian GAAP are outlined in Note 3 to the audited annual consolidated financial statements as at and for the year ended December 31, 2011. As a result of the conversion to US GAAP effective January 1, 2012, significant changes to accounting policies and transition impacts are disclosed in Notes 2 and 18, respectively, to the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2012.

Certain policies are recognized as critical accounting policies by virtue of the subjective and complex judgment and estimates required around matters that are inherently uncertain and could result in materially different amounts being reported under different conditions or assumptions.

Thermal Asset Retirement Obligation

In September 2011, OPG completed a review of the ARO for OPG's operating thermal stations and the decommissioned R.L. Hearn generating station.

As a result of the review, the ARO estimate in accordance with US GAAP increased by $171 million primarily due to higher demolition cost estimates. The increase in the ARO resulted in the recognition of property, plant and equipment ("PP&E") of $90 million at September 30, 2011 and other loss of $81 million during the third quarter of 2011. The other loss reflected the write-down of asset retirement costs for the Atikokan, Lennox, and Thunder Bay generating stations that were not supported by the cash flows associated with those stations.

In addition, as a result of the review, the ARO estimate in accordance with US GAAP for the R.L. Hearn generating station decreased to $18 million. The decrease in the ARO resulted in the recognition of a

$3 million reduction to PP&E at September 30, 2011 and other income of $15 million for the decommissioned station.

The review of the ARO also resulted in changes to salvage value estimates for scrap metal recoveries for certain thermal stations. As a result of the ARO and salvage value estimate changes, depreciation expense is expected to decrease by $6 million annually until 2014.

Useful Lives of Long-Lived Assets

OPG reviews estimated station useful lives for its generating assets on a regular basis. As part of its Pickering Continued Operations initiative, during the fourth quarter of 2012, OPG expects to confirm its plans for the continued operation of the Pickering stations. The confirmation may result in the extension of the useful life for the Pickering generating stations, for the purposes of calculating depreciation. Consistent with the results of the Pickering Continued Operations initiative and other considerations, the depreciation life, for accounting purposes, for the Bruce generating stations, which are currently leased to Bruce Power, may also be extended. Possible extensions to the estimated service lives of these generating stations would result in an increase to the estimate of the Nuclear Liabilities, with a corresponding change in the fixed assets balance, and an increase in the derivative liability embedded in the Bruce lease agreement. The income statement impacts of the above are expected to be primarily offset by the impacts of regulatory variance and deferral accounts authorized by the OEB.

Recent Accounting Pronouncements

Presentation of Comprehensive Income

Effective January 1, 2012, OPG adopted the amendments to Accounting Standards Codification ("ASC") Topic 220, *Comprehensive Income.* The amended standard requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. OPG will continue to report the components of comprehensive income in a separate but consecutive statement.

Fair Value Measurements

Effective January 1, 2012, OPG adopted the amendments to ASC Topic 820, *Fair Value Measurements and Disclosures.* The amendment does not change the items measured at fair value but establishes common requirements for measuring fair value and for disclosing information about fair value measurements. The adoption did not have an impact on OPG's results of operations or financial position.

International Financial Reporting Standards ("IFRS")

As a result of OPG's 2011 decision to adopt US GAAP, as required by the FAA regulation, OPG's conversion to IFRS was discontinued. Prior to the adoption of US GAAP as the basis for OPG's financial reporting, the Company had planned to adopt IFRS effective January 1, 2012. OPG had substantively completed its IFRS conversion project, which included separate diagnostic, development, and implementation phases. OPG's IFRS conversion project involved, among other initiatives, a detailed assessment of the effects of IFRS on its financial statements, an update of information systems to meet IFRS requirements, an assessment of internal controls over financial reporting and disclosure controls and processes, as well as training of key finance and operational staff. If a future transition to IFRS is required, IFRS conversion work will be managed in such a way that it can effectively be restarted.

In September 2012, the International Accounting Standards Board ("IASB") decided to develop a Discussion Paper on accounting for rate regulated activities, which is expected to be released for comment in the second half of 2013. In addition, the IASB is expected to provide its initial views on issuing interim guidance on accounting for rate regulated activities during the fourth quarter of 2012. OPG continues to monitor major accounting developments arising from initiatives of the international standard setter, particularly as several major projects are joint efforts with the US Financial Accounting Standards Board.

RISK MANAGEMENT

A detailed discussion of OPG's governance structure, inherent risks and activities associated with identifying and managing risks can be found in the 2011 annual MD&A. This risk management disclosure should be read in conjunction with the *Risk Management* section included in OPG's 2011 annual MD&A. The following discussion provides an update of OPG's risk management activities since the 2011 annual disclosure.

Financial Risks

Commodity Markets

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

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

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

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

	2012[4]	2013	2014
Estimated generation output hedged [1]	83%	81%	82%
Estimated fuel requirements hedged [2]	96%	61%	66%
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 which is subject to regulated prices established by the OEB, agreements with the IESO, OEFC and OPA, or other electricity contracts which are used as hedges.
[2] Represents the approximate portion of megawatt-hours of expected generation production (and year end inventory targets) from each type of facility (thermal and nuclear) for which OPG has entered into contractual arrangements or obligations in order to secure the price of fuel. Excess fuel in inventories in a given year is attributed to the next year for the purpose of measuring hedge ratios.
[3] Represents the approximate portion of megawatt-hours of expected thermal production for which OPG has purchased, been allocated or granted emission allowances and Emission Reduction Credits to meet OPG's obligations under Ontario Environmental Regulations 397/01.
[4] Includes forecast for the remainder of the year.

Foreign Exchange and Interest Rate Markets

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

OPG's financial results are exposed to volatility in the Canadian/US foreign exchange rate as fuels purchased for nuclear generating stations are paid in United States dollars. The magnitude of the impact of this volatility is largely a function of the quantity of the fuels purchased. In addition to this exposure, the market price of electricity in Ontario is influenced by the exchange rate because of the interaction between the Ontario and neighbouring US interconnected electricity markets. In order to manage this risk, OPG employs various financial instruments such as forwards and other derivative contracts in accordance with approved risk management policies. As at September 30, 2012, OPG had total foreign exchange contracts outstanding with a notional value of USD $76 million.

The majority of OPG's existing debt is at fixed interest rates. Interest rate risk arises with the need to undertake new financing the potential addition of variable rate debt. The management of these risks is undertaken by using derivatives to hedge the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated new financing. As at September 30, 2012, OPG had total interest rate swap contracts outstanding with a notional principal of $440 million.

Trading

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

OPG's trading operations are closely monitored and total exposures are measured and reported to senior management on a daily basis. The metric used to measure the financial risk of this trading activity is known as "Value at Risk" or "VaR", which is defined as a probabilistic maximum potential future loss expressed in monetary terms for a portfolio based on normal market conditions over a set period of time. For the third quarter of 2012, the utilization of VaR ranged between $0.1 and $0.5 million, compared to nil and $0.5 million for the third quarter of 2011.

Credit

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

OPG manages its exposure from 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 relating to energy markets transactions as at September 30, 2012 was $351 million, including $327 million to the IESO. Over 74 percent of the remaining $24 million exposure is related to investment grade counterparties.

Enterprise-Wide Risks

Ownership by the Province

OPG's ability to maximize the return on the Shareholder's investment may compete with the obligation of the Shareholder to respond to a broad range of matters.

The Province owns all of OPG's issued and outstanding common shares. Accordingly, the Province can directly influence major decisions including those related to project development, rate applications, asset divestitures, financing, and capital structure. OPG could be subject to Shareholder directions that require OPG to undertake activities that result in increased expenditures, or that reduce revenues or earnings, relative to the business activities or strategies that would have otherwise been undertaken.

Regulatory and Legislative Risks

Rate Regulation

Significant uncertainties remain regarding the outcome of rate proceedings, which determine the regulated prices for OPG's rate regulated operations.

In September 2012, OPG filed an application with the OEB requesting approval to recover balances in the OEB authorized variance and deferral accounts and the approval for an extension of the Pension and OPEB Cost Variance Account, as discussed in the *Recent Developments* section. OPG's financial position could be significantly affected should the OEB's final decision disallow the recovery of any of the regulatory balances and/or the extension of the Pension and OPEB Cost Variance Account.

In April 2011, OPG filed a notice of appeal with the Divisional Court of Ontario (the "Court") related to the part of the OEB's March 2011 decision disallowing recovery of a portion of OPG's nuclear compensation costs in the regulated prices established effective March 1, 2011. In February 2012, the Court dismissed the appeal by a 2 to 1 majority. OPG was granted leave to file an appeal of the Court's decision to the

Court of Appeal for Ontario. Accordingly, the Company filed an appeal and has been granted a hearing in early 2013**.**

Legislative Risks

OPG is subject to extensive federal and provincial legislation and regulations that have an impact on OPG's operations and financial position.

During the second quarter of 2012, legislation associated with the Ontario Provincial budget included measures that affect OPG such as public sector pension reform, and compensation restraints for executives until Ontario ceases to have a budget deficit. These changes may adversely affect OPG's ability to retain or attract qualified employees and executives and, as a result, may affect OPG's operations.

In October 2012, the Premier of Ontario resigned, and the Legislative Assembly of Ontario (the "Legislature") was prorogued. As such, proposed legislation which may have significant implication to OPG was terminated and can only be re-introduced when the Legislature resumes. Examples of the proposed legislation changes that were terminated include measures that would further tighten compensation restraints for the Broader Public Sector.

OPG continues to monitor future changes to legislation.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

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

QUARTERLY FINANCIAL HIGHLIGHTS

The following tables set out selected financial information from OPG's unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This financial information has been prepared in accordance with US GAAP for quarters beginning on or after OPG's US GAAP transition date of January 1, 2011 and in accordance with Canadian GAAP for preceding quarters.

(millions of dollars – except where noted)	**September 30 2012**	**June 30 2012**	**March 31 2012**	**December 31 2011** *(adjusted)*
Revenue	**1,213**	1,125	1,199	1,228
Net income	**139**	43	154	230
Net income per share	**$0.54**	$0.17	$0.60	$0.90

(millions of dollars – except where noted)	**September 30 2011** *(adjusted)*	**June 30 2011** *(adjusted)*	**March 31 2011** *(adjusted)*	**December 31 2010** *(Canadian GAAP – unadjusted)*
Revenue	1,250	1,202	1,284	1,323
Net (loss) income	(154)	109	153	202
Net (loss) income per share	$(0.61)	$0.43	$0.60	$0.79

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

Additional items which affected net income (loss) in certain quarters above are described below and in OPG's 2011 annual MD&A under the heading, *Quarterly Financial Highlights*.

- A decrease in gross margin during the first quarter of 2012 primarily due to lower unregulated hydroelectric generation revenue due to lower electricity sales prices and lower generation, and lower revenue from the contingency support agreement primarily due to the closure of Units 1 and 2 at the Nanticoke generating station for the Unregulated – Thermal segment;
- Lower OM&A expenses for the first quarter of 2012 related to the impact of the recognition of a regulatory asset related to the US GAAP Deferral Account authorized by the OEB during the first quarter of 2012;
- Increase in depreciation and amortization expenses during the first quarter of 2012 due to amortization of regulatory balances as a result of the OEB's March 2011 decision and the impact on fixed assets of the 2011 update of the estimate for the Nuclear Liabilities, net of the impact of the Bruce Lease Net Revenues Variance Account;
- A decrease in gross margin during the second quarter of 2012 primarily due to lower electricity sales prices and lower unregulated hydroelectric generation revenue; and
- Decrease in depreciation expense during the second quarter of 2012 primarily due to the recognition of the NLDA regulatory asset as a result of the 2012 ONFA Reference Plan approval in June 2012.

Additional information about OPG, including its Annual Information Form, annual MD&A, and audited annual consolidated financial statements as at and for the year ended December 31, 2011 and notes thereto can be found on SEDAR at www.sedar.com.

SUPPLEMENTARY NON-GAAP FINANCIAL MEASURES

In addition to providing net income in accordance with US GAAP, OPG's MD&A, unaudited condensed interim consolidated financial statements as at and for the three and nine month periods ended September 30, 2012 and 2011, and the notes thereto, present certain non-GAAP financial measures. These non-GAAP measures do not have any standardized meaning prescribed by US GAAP and, therefore, may not be comparable to similar measures presented by other issuers. OPG utilizes these measures in making operating decisions and assessing its performance. Readers of the MD&A, consolidated financial statements and the notes thereto utilize these measures in assessing the Company's financial performance from ongoing operations. The Company believes that these indicators are important since they provide additional information about OPG's performance, facilitate comparison of results over different periods, and present a measure consistent with the corporate strategy to operate on a financially sustainable basis. These non-GAAP financial measures have not been presented as an alternative to net income in accordance with US GAAP, but as an indicator of operating performance. The definitions of the non-GAAP financial measures are as follows:

(1) **ROE** is defined as net income divided by average shareholder's equity excluding accumulated other comprehensive income, for the period. ROE is measured over a 12-month period and is calculated as follows:

	For the twelve months ended	
(millions of dollars – except where noted)	**September 30 2012**	**December 31 2011** *(adjusted)*
ROE		
Net income	**566**	338
Divided by: Average shareholder's equity excluding accumulated other comprehensive income	**8,569**	8,354
ROE *(percent)*	**6.6**	4.0

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

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

(millions of dollars – except where noted)	**For the twelve months ended September 30 2012**	**December 31 2011** *(adjusted)*
FFO before interest		
Cash flow provided by operating activities	**918**	1,179
Add: Interest paid	**240**	238
Less: Interest capitalized to fixed and intangible assets	**(114)**	(86)
Add: Changes to non-cash working capital balances	**24**	(166)
FFO before interest	**1,068**	1,165
Adjusted Interest Expense		
Net interest expense	**130**	154
Add: Interest income	**9**	9
Add: Interest capitalized to fixed and intangible assets	**114**	86
Add: Interest applied to regulatory assets and liabilities	**12**	9
Add: Interest on pension and OPEB projected benefit obligations less expected return on plan assets	**111**	120
Adjusted Interest Expense	**376**	378
FFO Interest Coverage *(times)*	**2.8**	3.1

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

(4) **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 2012	Three Months Ended September 30 2011 *(as adjusted – Note 18)*	Nine Months Ended September 30 2012	Nine Months Ended September 30 2011 *(as adjusted – Note 18)*
Revenue *(Note 13)*	**1,213**	1,250	**3,537**	3,736
Fuel expense *(Note 13)*	**199**	217	**556**	566
Gross margin *(Note 13)*	**1,014**	1,033	**2,981**	3,170
Expenses *(Note 13)*				
Operations, maintenance and administration	**610**	634	**1,914**	2,026
Depreciation and amortization *(Note 3)*	**164**	183	**495**	511
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 7)*	**181**	176	**544**	526
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds *(Note 7)*	**(161)**	16	**(481)**	(286)
Property and capital taxes	**13**	14	**40**	37
Restructuring *(Note 17)*	**1**	19	**3**	19
	808	1,042	**2,515**	2,833
Income (loss) before other (income) loss, interest and income taxes	**206**	(9)	**466**	337
Other (income) loss *(Note 16)*	**(5)**	56	**(10)**	36
Income (loss) before interest and income taxes	**211**	(65)	**476**	301
Net interest expense *(Note 6)*	**26**	37	**89**	113
Income (loss) before income taxes	**185**	(102)	**387**	188
Income tax expense *(Note 8)*	**46**	52	**51**	80
Net income (loss)	**139**	(154)	**336**	108
Basic and diluted income (loss) per common share *(dollars)*	**0.54**	(0.61)	**1.31**	0.42
Common shares outstanding *(millions)*	**256.3**	256.3	**256.3**	256.3

See accompanying notes to the interim consolidated financial statements

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

(millions of dollars)	Three Months Ended September 30 2012	Three Months Ended September 30 2011 *(as adjusted – Note 18)*	Nine Months Ended September 30 2012	Nine Months Ended September 30 2011 *(as adjusted – Note 18)*
Net income (loss)	**139**	(154)	**336**	108
Other comprehensive income (loss), net of income taxes				
Net loss on derivatives designated as cash flow hedges[1]	**(6)**	(64)	**(10)**	(78)
Reclassification to income of losses on derivatives designated as cash flow hedges[2]	**4**	2	**13**	5
Reclassification to income of amounts related to pension and other post employment benefits[3]	**7**	4	**21**	12
Other comprehensive income (loss) for the period	**5**	(58)	**24**	(61)
Comprehensive income (loss)	**144**	(212)	**360**	47

[1] Net of income tax recoveries of nil and $13 million for the three months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012 and 2011, net of income tax recoveries of $1 million and $14 million, respectively.

[2] Net of income tax expenses of nil for the three and nine month periods ended September 30, 2012 and 2011.

[3] Net of income tax expenses of $2 million and $1 million for the three months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012 and 2011, net of income tax expenses of $7 million and $4 million, respectively.

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(millions of dollars)	Nine Months Ended September 30 2012	2011 *(as adjusted – Note 18)*
Operating activities		
Net income	**336**	108
Adjust for non-cash items:		
Depreciation and amortization *(Note 3)*	**495**	511
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 7)*	**544**	526
Earnings on nuclear fixed asset removal and nuclear waste management funds *(Note 7)*	**(481)**	(286)
Pension and other post employment benefit costs *(Note 9)*	**299**	344
Deferred income taxes and other accrued charges	**22**	(71)
Provision for restructuring (*Note 17)*	**-**	19
Mark-to-market on derivative instruments	**26**	(1)
Provision for used nuclear fuel and low and intermediate level waste	**76**	39
Regulatory assets and liabilities	**(107)**	(78)
Other	**15**	47
	1,225	1,158
Contributions to nuclear fixed asset removal and nuclear waste management funds	**(182)**	(188)
Expenditures on fixed asset removal and nuclear waste management *(Note 7)*	**(144)**	(132)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	**51**	42
Contributions to pension funds and expenditures on other post employment benefits and supplementary pension plans	**(370)**	(283)
Expenditures on restructuring *(Note 17)*	**(14)**	(12)
Net changes to other long-term assets and liabilities	**15**	67
Net changes to non-cash working capital balances *(Note 14)*	**141**	331
Cash flow provided by operating activities	**722**	983
Investing activities		
Investment in property, plant and equipment and intangible assets	**(1,012)**	(811)
Proceeds from sale of property, plant and equipment	**24**	7
Cash flow used in investing activities	**(988)**	(804)
Financing activities		
Issuance of long-term debt *(Note 5)*	**545**	900
Repayment of long-term debt	**(402)**	(376)
Net increase (decrease) in short-term debt *(Note 6)*	**84**	(155)
Distribution to a third party on behalf of the shareholder	**-**	(14)
Cash flow provided by financing activities	**227**	355
Net (decrease) increase in cash and cash equivalents	**(39)**	534
Cash and cash equivalents, beginning of period	**630**	269
Cash and cash equivalents, end of period	**591**	803

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**September 30 2012**	**December 31 2011** *(as adjusted – Note 18)*
Assets		
Current assets		
Cash and cash equivalents	**591**	630
Receivables from related parties *(Note 15)*	**359**	468
Other accounts receivable and prepaid expenses	**177**	58
Nuclear fixed asset removal and nuclear waste management funds *(Note 7)*	**18**	20
Fuel inventory	**549**	655
Materials and supplies	**82**	82
Regulatory assets *(Note 4)*	**49**	299
Income taxes recoverable	**49**	58
Deferred income taxes *(Note 8)*	**61**	42
	1,935	2,312
Property, plant and equipment	**22,079**	21,110
Less: accumulated depreciation	**6,917**	6,477
	15,162	14,633
Intangible assets	**376**	363
Less: accumulated amortization	**324**	313
	52	50
Other assets		
Nuclear fixed asset removal and nuclear waste management funds *(Note 7)*	**12,521**	11,878
Long-term materials and supplies	**376**	380
Regulatory assets *(Note 4)*	**5,083**	4,718
Investments subject to significant influence	**375**	395
Other long-term assets	**58**	77
	18,413	17,448
	35,562	34,443

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**September 30 2012**	**December 31 2011** *(as adjusted – Note 18)*
Liabilities		
Current liabilities		
Accounts payable and accrued charges *(Note 15)*	**851**	825
Short-term debt *(Note 6)*	**144**	60
Deferred revenue due within one year	**12**	12
Long-term debt due within one year *(Note 5)*	**3**	403
Regulatory liabilities *(Note 4)*	**7**	130
	1,017	1,430
Long-term debt *(Note 5)*	**4,884**	4,341
Other liabilities		
Fixed asset removal and nuclear waste management liabilities *(Note 7)*	**14,905**	14,392
Pension liabilities	**2,719**	2,847
Other post employment benefit liabilities	**2,737**	2,616
Long-term accounts payable and accrued charges	**534**	546
Deferred revenue	**142**	120
Deferred income taxes *(Note 8)*	**600**	501
Regulatory liabilities *(Note 4)*	**38**	24
	21,675	21,046
Shareholder's equity		
Common shares[1]	**5,126**	5,126
Retained earnings	**3,726**	3,390
Accumulated other comprehensive loss	**(866)**	(890)
	7,986	7,626
	35,562	34,443

[1] 256,300,010 common shares outstanding at a stated value of $5,126 million as at September 30, 2012 and December 31, 2011; unlimited authorized shares without nominal or par value

Commitments and Contingencies *(Notes 5, 6, 9, 10, and 12)*

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)*	**2012**	**2011** *(as adjusted – Note 18)*
Common shares	**5,126**	5,126
Retained earnings		
Balance at beginning of period	**3,390**	3,066
Net income	**336**	108
Distribution to a third party on behalf of the shareholder	**-**	(14)
Balance at end of period	**3,726**	3,160
Accumulated other comprehensive loss, net of income taxes		
Balance at beginning of period	**(890)**	(567)
Other comprehensive income (loss) for the period	**24**	(61)
Balance at end of period	**(866)**	(628)
Total shareholder's equity at end of period	**7,986**	7,658

See accompanying notes to the interim consolidated financial statements

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 (UNAUDITED)

1. BASIS OF PRESENTATION

These condensed interim consolidated financial statements for the three and nine months ended September 30, 2012 have been prepared and presented in accordance with United States generally accepted accounting principles ("US GAAP") and the rules and regulations of the United States Securities and Exchange Commission for interim financial statements as required by Ontario Regulation 395/11, as amended, a regulation under the *Financial Administration Act* (Ontario) ("FAA") effective January 1, 2012. In addition to the regulation under the FAA, the Ontario Securities Commission also approved OPG's adoption of US GAAP for financial years that begin on or after January 1, 2012, but before January 1, 2015. For prior reporting periods up to and including the year ended December 31, 2011, Ontario Power Generation Inc. ("OPG" or the "Company") prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as determined in Part V of the Canadian Institute of Chartered Accountants Handbook – Accounting. These condensed interim consolidated financial statements do not contain all of the disclosures required by US GAAP for annual financial statements. Accordingly, they should be read in conjunction with the annual consolidated financial statements of OPG as at and for the year ended December 31, 2011, which were prepared in accordance with Canadian GAAP, and Note 18 to the Company's condensed interim consolidated financial statements as at and for the three months ended March 31, 2012, detailing the impact of OPG's transition from Canadian GAAP to US GAAP and related reconciliation information. Significant changes to accounting policies resulting from OPG's transition to US GAAP are disclosed in Note 2 to the Company's condensed interim consolidated financial statements as at and for the three months ended March 31, 2012. All dollar amounts are presented in Canadian dollars.

Certain of the 2011 comparative amounts have been reclassified from financial statements previously presented to conform to the 2012 consolidated financial statement presentation. These reclassifications, along with the US GAAP reconciliations, are presented in Note 18, *US GAAP Transition*.

Use of Management Estimates

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

Seasonal Operations

OPG's quarterly results are impacted by changes in demand resulting from variations in seasonal weather conditions. Primarily during the first and third quarters of a fiscal year, OPG's revenues are impacted 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 contingency support agreement with the Ontario Electricity Financial Corporation ("OEFC"), and OPG's hedging strategies significantly reduce the impact of seasonal price fluctuations on the results of operations.

Variable Interest Entities

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

2. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Thermal Asset Retirement Obligation

In September 2011, OPG completed a review of the asset retirement obligation ("ARO") for OPG's operating thermal generating stations and the decommissioned R.L. Hearn generating station.

As a result of the review, the ARO estimate in accordance with US GAAP increased by $171 million primarily due to higher demolition cost estimates. The increase in the ARO resulted in the recognition of property, plant and equipment ("PP&E") of $90 million at September 30, 2011 and other loss of $81 million during the third quarter of 2011. The other loss reflected the write-down of asset retirement costs for the Atikokan, Lennox, and Thunder Bay generating stations that were not supported by the cash flows associated with those stations.

In addition, as a result of the review, the ARO estimate in accordance with US GAAP for the R.L. Hearn generating station decreased to $18 million. The decrease in the ARO resulted in the recognition of a $3 million reduction to PP&E at September 30, 2011 and other income of $15 million for the decommissioned station.

The review of the ARO also resulted in changes to salvage value estimates for scrap metal recoveries for certain thermal stations. As a result of the ARO and salvage value estimate changes, depreciation expense is expected to decrease by $6 million annually until 2014.

Useful Lives of Long-Lived Assets

OPG reviews estimated station useful lives for its generating assets on a regular basis. As part of its Pickering Continued Operations initiative, during the fourth quarter of 2012, OPG expects to confirm its plans for the continued operation of the Pickering stations. The confirmation may result in the extension of the useful life for the Pickering generating stations, for the purposes of calculating depreciation. Consistent with the results of the Pickering Continued Operations initiative and other considerations, the depreciation life, for accounting purposes, for the Bruce generating stations, which are currently leased to Bruce Power, may also be extended. Possible extensions to the estimated service lives of these generating stations would result in an increase to the estimate of the nuclear fixed asset removal and nuclear waste management liabilities ("Nuclear Liabilities"), with a corresponding change in the fixed assets balance, and an increase in the derivative liability embedded in the Bruce lease agreement

("Bruce Lease"). The income statement impacts of the above are expected to be primarily offset by the impacts of regulatory variance and deferral accounts authorized by the Ontario Energy Board ("OEB").

Recent Accounting Pronouncements

Presentation of Comprehensive Income

Effective January 1, 2012, OPG adopted the amendments to Accounting Standards Codification ("ASC") Topic 220, *Comprehensive Income.* The amended standard requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. OPG will continue to report the components of comprehensive income in a separate but consecutive statement.

Fair Value Measurements

Effective January 1, 2012, OPG adopted the amendments to ASC Topic 820, *Fair Value Measurements and Disclosures.* The amendment does not change the items measured at fair value but establishes common requirements for measuring fair value and for disclosing information about fair value measurements. The adoption did not have an impact on OPG's results of operations or financial position.

3. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses for the three and nine month periods ended September 30, 2012 and 2011 consist of the following:

(millions of dollars)	**Three Months Ended September 30** **2012**	**2011** *(as adjusted – Note 18)*	**Nine Months Ended September 30** **2012**	**2011** *(as adjusted – Note 18)*
Depreciation	**118**	128	**357**	378
Amortization of intangible assets	**3**	3	**11**	11
Amortization of regulatory assets and liabilities *(Note 4)*	**43**	52	**127**	122
	164	183	**495**	511

Interest capitalized to construction and development in progress at an average rate of five percent during the three and nine month periods ended September 30, 2012 (three and nine month periods ended September 30, 2011 – five percent) was $33 million and $89 million, respectively (three and nine month periods ended September 30, 2011 – $23 million and $61 million, respectively).

4. Regulatory Assets and Liabilities

The regulatory assets and liabilities recorded as at September 30, 2012 and December 31, 2011 are as follows:

(millions of dollars)	**September 30 2012**	**December 31 2011** *(as adjusted – Note 18)*
Regulatory assets		
Variance and deferral accounts as authorized by the OEB		
Bruce Lease Net Revenues Variance Account	**153**	196
Tax Loss Variance Account	**333**	425
Pension and OPEB Cost Variance Account	**288**	96
Nuclear Liability Deferral Account	**153**	22
Impact for USGAAP Deferral Account	**62**	-
Other variance and deferral accounts	**50**	26
	1,039	765
Pension and OPEB Regulatory Asset	**3,437**	3,553
Deferred Income Taxes *(Note 8)*	**656**	699
Total regulatory assets	**5,132**	5,017
Less: current portion	**49**	299
Non-current regulatory assets	**5,083**	4,718
Regulatory liabilities		
Variance and deferral accounts as authorized by the OEB		
Income and Other Taxes Variance Account	**40**	49
Other variance and deferral accounts	**5**	105
Total regulatory liabilities	**45**	154
Less: current portion	**7**	130
Non-current regulatory liabilities	**38**	24

As at September 30, 2012 and December 31, 2011, regulatory assets for other variance and deferral accounts included the Ancillary Services Net Revenue Variance Account, the Nuclear Fuel Cost Variance Account, and other variance and deferral accounts authorized by the OEB. As at September 30, 2012, regulatory liabilities for other variance and deferral accounts included the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account and other variance and deferral accounts authorized by the OEB. As at December 31, 2011, regulatory liabilities for other variance and deferral accounts included the Nuclear Development Variance Account, the Hydroelectric Water Conditions Variance Account, the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account, and other variance and deferral accounts authorized by the OEB.

The changes in the regulatory assets and liabilities during the nine months ended September 30, 2012 and the year ended December 31, 2011 are as follows:

(millions of dollars)	**Bruce Lease Net Revenues Variance**	**Tax Loss Variance**	**Pension and OPEB Cost Variance**	**Nuclear Liability Deferral**	**Impact for USGAAP Deferral**	**Pension and OPEB Regulatory Asset**	**Deferred Income Taxes**	**Income and Other Taxes Variance**	**Other Variance and Deferral (net)**
Regulatory assets (liabilities), January 1, 2011 *(as adjusted – Note 18)*	250	492	-	39	-	2,254	727	(40)	(141)
Change during the year	56	33	95	-	-	1,299	(28)	(26)	18
Interest	3	7	1	1	-	-	-	(1)	(2)
Amortization during the year	(113)	(107)	-	(18)	-	-	-	18	46
Regulatory assets (liabilities), December 31, 2011 *(as adjusted – Note 18)*	196	425	96	22	-	3,553	699	(49)	(79)
Change during the period	57	-	190	146	61	(116)	(43)	(6)	53
Interest	2	4	2	1	1	-	-	(1)	-
Amortization during the period	(102)	(96)	-	(16)	-	-	-	16	71
Regulatory assets (liabilities), September 30, 2012	**153**	**333**	**288**	**153**	**62**	**3,437**	**656**	**(40)**	**45**

Nuclear Liability Deferral Account

The Nuclear Liability Deferral Account ("NLDA") records the revenue requirement impact associated with the changes in OPG's liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management associated with the nuclear facilities owned and operated by OPG arising from an approved reference plan, in accordance with the terms of the Ontario Nuclear Funds Agreement ("ONFA").

In 2011, the estimate for OPG's Nuclear Liabilities as at December 31, 2011 was updated as a result of the ONFA Reference Plan update process. In June 2012, the Province approved the 2012 ONFA Reference Plan with an effective date of January 1, 2012. As a result, OPG is recording increases to the regulatory asset for the NLDA for the period beginning January 1, 2012.

The following items have been recorded as components of the regulatory asset for the NLDA, with reductions to corresponding expenses, during the three and nine month periods ended September 30, 2012:

(millions of dollars)	Three Months Ended September 30 2012	Nine Months Ended September 30 2012
Fuel expense	**6**	**19**
Low and intermediate level waste management variable expenses[1]	**-**	**1**
Depreciation expense	**25**	**74**
Return on rate base[2]	**5**	**16**
Interest	**1**	**1**
Income taxes	**12**	**36**
	49	**147**

[1] Amount was recorded as a reduction to operations, maintenance and administration expenses.
[2] Amount was recorded as a reduction to accretion on fixed asset removal and nuclear waste management liabilities.

5. LONG-TERM DEBT

Long-term debt as at September 30, 2012 and December 31, 2011 consists of the following:

(millions of dollars)	September 30 2012	December 31 2011 *(as adjusted – Note 18)*
Notes payable to the OEFC	**3,895**	3,975
UMH Energy Partnership debt	**197**	198
Lower Mattagami Energy Limited Partnership debt	**795**	571
	4,887	4,744
Less: due within one year	**3**	403
Long-term debt	**4,884**	4,341

OPG maintains a Niagara Tunnel project credit facility for an amount up to $1.6 billion. As at September 30, 2012, advances under this facility were $995 million, including $45 million and $120 million of new borrowing during the three and nine month periods ended September 30, 2012, respectively.

OPG entered into an agreement with the OEFC in April 2012 for a $400 million refinancing credit facility to refinance notes as they mature, and refinanced $200 million of notes under this facility in the second quarter. This facility expired in the second quarter of 2012.

On April 23, 2012, the Lower Mattagami Energy Limited Partnership ("LME") issued senior notes totalling $225 million with a maturity date of 2052. The effective interest rate and coupon interest rate of these notes were 4.3 percent and 4.2 percent, respectively. In October 2012, senior notes totalling $200 million were issued by the LME. These senior notes have an effective interest rate and coupon interest rate of 2.3 percent and 2.2 percent, respectively, and mature on October 23, 2017.

6. SHORT-TERM DEBT AND NET INTEREST EXPENSE

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two $500 million multi-year term tranches. In May 2012, OPG renewed and extended both tranches to May 20, 2017. 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, 2012, no commercial paper was outstanding under this program, and there were no outstanding borrowings under the bank credit facility.

The LME maintains a $700 million bank credit facility to support the initial construction phase for the Lower Mattagami River project and the commercial paper program. In August 2012, the facility was divided into two tranches. The first tranche of $400 million has a maturity date of August 17, 2017 and the second tranche of $300 million has a maturity date of August 17, 2015. As at September 30, 2012, $144 million of commercial paper was outstanding under this program. In 2011, OPG executed a $700 million credit facility with the OEFC in support of the Lower Mattagami River project. As at September 30, 2012, there were no outstanding borrowings under this credit facility.

The Company has an agreement to sell an undivided co-ownership interest up to $250 million in its current and future accounts receivable to an independent trust. As at September 30, 2012, there were no amounts outstanding under this agreement. As at December 31, 2011, short-term debt included $50 million outstanding under this agreement and the corresponding accounts receivable of $50 million was recognized on OPG's consolidated balance sheet. In the fourth quarter of 2012, the Company renegotiated and extended the agreement from August 31, 2013 to November 30, 2014.

As at September 30, 2012, OPG maintained $25 million of short-term uncommitted overdraft facilities, and $353 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. As at September 30, 2012, there was a total of $308 million of Letters of Credit issued, which included $287 million for the supplementary pension plans, $20 million for general corporate purposes and $1 million related to the operation of the Portlands Energy Centre ("PEC").

In addition, as at September 30, 2012, the NWMO has issued a Letter of Credit of $3 million for its supplementary pension plan.

The following table summarizes the net interest expense for the three and nine month periods ended September 30, 2012 and 2011:

	Three Months Ended September 30		**Nine Months Ended September 30**	
(millions of dollars)	**2012**	**2011**	**2012**	**2011**
Interest on long-term debt	**64**	62	**189**	179
Interest on short-term debt	**2**	2	**4**	7
Interest income	**(2)**	(2)	**(6)**	(6)
Interest capitalized to property, plant and equipment and intangible assets *(Note 3)*	**(33)**	(23)	**(89)**	(61)
Interest applied to regulatory assets and liabilities	**(5)**	(2)	**(9)**	(6)
	26	37	**89**	113

7. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT LIABILITIES

The liabilities for fixed asset removal and nuclear waste management on a present value basis as at September 30, 2012 and December 31, 2011 consist of the following:

(millions of dollars)	**September 30 2012**	**December 31 2011** *(as adjusted – Note 18)*
Liability for nuclear used fuel management	**8,857**	8,523
Liability for nuclear decommissioning and low and intermediate level waste management	**5,706**	5,537
Liability for non-nuclear fixed asset removal	**342**	332
Fixed asset removal and nuclear waste management liabilities	**14,905**	14,392

The changes in the fixed asset removal and nuclear waste management liabilities for the nine months ended September 30, 2012 and the year ended December 31, 2011 are as follows:

(millions of dollars)	**Nine Months Ended September 30 2012**	**Year Ended December 31 2011** *(as adjusted – Note 18)*
Liabilities, beginning of period	**14,392**	12,718
Increase in liabilities due to accretion	**581**	704
Increase in liabilities resulting from the ONFA Reference Plan update process	**-**	934
Increase in liabilities due to nuclear used fuel and nuclear waste management variable expenses, and other expenses	**76**	55
Liabilities settled by expenditures on fixed asset removal and waste management	**(144)**	(172)
Change in the liabilities for non-nuclear fixed asset removal	**-**	153
Liabilities, end of period	**14,905**	14,392

For the nine months ended September 30, 2012, expenditures on fixed asset removal and waste management include $41 million in funding to the NWMO related to OPG's Nuclear Liabilities (December 31, 2011 – $53 million). OPG's cash and cash equivalents balance as at September 30, 2012 includes $4 million of cash and cash equivalents that are for the use of nuclear waste management activities (December 31, 2011 – $10 million).

Ontario Nuclear Funds Agreement

OPG sets aside and invests funds held in segregated custodian and trustee accounts specifically for discharging its Nuclear Liabilities in accordance with the ONFA and the federal NFWA.

The nuclear fixed asset removal and nuclear waste management funds ("Nuclear Funds") as at September 30, 2012 and December 31, 2011 consist of the following:

(millions of dollars)	**Fair Value** **September 30 2012**	**December 31 2011**
Decommissioning Segregated Fund	**5,642**	5,342
Due to Province – Decommissioning Segregated Fund	**(16)**	-
	5,626	5,342
Used Fuel Segregated Fund[1]	**7,076**	6,509
Due (to) from Province – Used Fuel Segregated Fund	**(163)**	47
	6,913	6,556
Total Nuclear Funds	**12,539**	11,898
Less: current portion	**18**	20
Non-current Nuclear Funds	**12,521**	11,878

[1] The Ontario NFWA Trust represented $2,546 million as at September 30, 2012 (December 31, 2011 – $2,296 million) of the Used Fuel Segregated Fund on a fair value basis.

As required by the terms of the ONFA, the Province has provided a Provincial Guarantee to the Canadian Nuclear Safety Commission ("CNSC") since 2003, on behalf of OPG. The *Nuclear Safety and Control Act* (Canada) requires OPG to have sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The Provincial Guarantee provides for any shortfall between the nuclear decommissioning and waste management liabilities and the current market value of the Used Fuel Segregated Fund and the Decommissioning Segregated Fund, up to the value of the Provincial Guarantee. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount of the Provincial Guarantee provided by the Province. The current value of the Provincial Guarantee of $1,545 million is in effect through to the end of 2012, when the next reference plan for the CNSC is planned to be approved. In January 2012, OPG paid a guarantee fee of $8 million based on a Provincial Guarantee amount of $1,545 million. In September 2012, OPG provided its final submission of the required documentation in support of the 2013 - 2017 CNSC Financial Guarantee to CNSC. A public hearing was held in October 2012, for which a decision is expected in the fourth quarter of 2012.

The earnings on the Nuclear Funds for the three and nine month periods ended September 30, 2012 and 2011 are as follows:

(millions of dollars)	**Three Months Ended September 30** **2012**	**2011**	**Nine Months Ended September 30** **2012**	**2011**
Decommissioning Segregated Fund	**151**	(227)	**314**	(98)
Used Fuel Segregated Fund	**14**	68	**196**	268
Bruce Lease Net Revenues Variance Account *(Note 4)*	**(4)**	143	**(29)**	116
Total earnings (losses)	**161**	(16)	**481**	286

8. INCOME TAXES

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

During the three and nine month periods ended September 30, 2012, OPG recorded a decrease of $35 million and $43 million, respectively, to the deferred income tax liability for the deferred income taxes that are expected to be recovered or refunded through regulated prices charged to customers. Since these deferred income taxes are expected to be refunded through future regulated prices, OPG has recorded a corresponding decrease to the regulatory asset for deferred income taxes. As a result, the deferred income taxes for the three and nine month periods ended September 30, 2012 were not impacted.

The amount of cash income taxes paid during the three months ended September 30, 2012 and 2011 was nil. For the nine months ended September 30, 2012, income taxes paid were $24 million (nine months ended September 30, 2011 – nil).

9. PENSION AND OTHER POST EMPLOYMENT BENEFIT COSTS

OPG's total benefit costs for the three and nine month periods ended September 30, 2012 and 2011 are presented in the following tables:

	For the three months ended September 30					
	Registered Pension Plans		**Supplementary Pension Plans**		**Other Post Employment Benefits**	
(millions of dollars)	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Components of Cost Recognized						
Current service costs	**66**	52	**2**	2	**26**	20
Interest on projected benefit obligation	**156**	150	**4**	3	**35**	33
Expected return on plan assets net of expenses	**(167)**	(156)	**-**	-	**-**	-
Amortization of past service costs[1]	**-**	3	**-**	-	**-**	-
Amortization of net actuarial loss[1]	**38**	17	**2**	1	**8**	6
Recognition of long-term disability net actuarial loss	**-**	-	**-**	-	**8**	7
Cost recognized [2]	**93**	66	**8**	6	**77**	66

[1] The amortization of past service costs and net actuarial loss is recognized as an increase to other comprehensive income ("OCI"). This increase is partially offset by the impact of the Pension and OPEB Regulatory Asset.

[2] These pension and OPEB costs for the three months ended September 30, 2012 exclude the reduction of costs resulting from the recognition of additions to the regulatory assets for the Pension and OPEB Cost Variance Account and the Impact for USGAAP Deferral Account of $57 million and $6 million, respectively (three months ended September 30, 2011 - $23 million and nil, respectively).

	For the nine months ended September 30					
	Registered Pension Plans		**Supplementary Pension Plans**		**Other Post Employment Benefits**	
(millions of dollars)	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Components of Cost Recognized						
Current service costs	**199**	157	**6**	6	**68**	59
Interest on projected benefit obligation	**469**	452	**10**	10	**104**	100
Expected return on plan assets net of expenses	**(501)**	(471)	**-**	-	**-**	-
Amortization of past service costs[1]	**-**	7	**-**	-	**1**	1
Amortization of net actuarial loss[1]	**116**	50	**4**	2	**24**	17
Recognition of long-term disability net actuarial loss	**-**	-	**-**	-	**8**	7
Cost recognized[2]	**283**	195	**20**	18	**205**	184

1 The amortization of past service costs and net actuarial loss is recognized as an increase to OCI. This increase is partially offset by the impact of the Pension and OPEB Regulatory Asset.

2 These pension and OPEB costs for the nine months ended September 30, 2012 exclude the reduction of costs resulting from the recognition of additions to the regulatory assets for the Pension and OPEB Cost Variance Account and the Impact for USGAAP Deferral Account of $163 million and $46 million, respectively (nine months ended September 30, 2011 - $53 million and nil, respectively).

An actuarial valuation for funding purposes of the OPG registered pension plan was completed as of January 1, 2011. For 2012, OPG's contribution is expected to be $370 million. The estimated contribution for 2013 is $380 million. The amount of OPG's additional voluntary contribution, if any, is revisited on an annual basis. OPG will continue to assess the requirements for contributions to the pension plan. The next actuarial valuation for funding purposes must have an effective date no later than January 1, 2014.

10. DERIVATIVES

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

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

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

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

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

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

The majority of OPG's revenues are derived from sales through the Independent Electricity System Operator ("IESO") administered spot market. Although the credit exposure to the IESO represents a significant portion of OPG's accounts receivable, the Company's management accepts this risk due to the IESO's primary role in the Ontario electricity market. The remaining receivables exposure is to a diverse group of generally high quality counterparties. OPG's allowance for doubtful accounts at September 30, 2012 was less than $1 million.

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

(millions of dollars except where noted)	**Notional Quantity**	**Terms**	**Fair Value**	**Balance Sheet Line Item**
As at September 30, 2012				
Commodity derivative instruments	**3.0 TWh**	**1 - 2 years**	**7**	Other accounts receivable and prepaid expenses
Foreign exchange derivative instruments	**76**	**within 1 year**	**(2)**	Accounts payable and accrued charges
Commodity derivative instruments	**2.0 TWh**	**1 - 2 years**	**(6)**	Accounts payable and accrued charges
Cash flow hedges – Forward start interest rate swaps	**440**	**1 - 12 years**	**(73)**	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	**n/a**[1]	**2 years**	**(213)**	Long-term accounts payable and accrued charges
Total derivatives			**(287)**	
As at December 31, 2011 *(as adjusted – Note 18)*				
Commodity derivative instruments	2.3 TWh	2 - 3 years	3	Other accounts receivable and prepaid expenses
Commodity derivative instruments	0.2 TWh	2 - 3 years	(1)	Accounts payable and accrued charges
Cash flow hedges – Forward start interest rate swaps	760	1 - 13 years	(115)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	n/a[1]	3 years	(186)	Long-term accounts payable and accrued charges
Total derivatives			(299)	

[1] Not applicable

The following table shows the amount related to derivatives recorded in accumulated other comprehensive income ("AOCI") and income for the three and nine month periods ended September 30:

(millions of dollars)	Three Months Ended September 30 2012	Three Months Ended September 30 2011	Nine Months Ended September 30 2012	Nine Months Ended September 30 2011
Cash flow hedges				
Loss in OCI	**(6)**	(77)	**(11)**	(92)
Reclassification of losses to net interest expense	**4**	2	**13**	5
Commodity derivatives				
Realized (losses) gains in revenue	**(1)**	1	**(2)**	-
Unrealized gains (losses) in revenue	**-**	1	**(1)**	1
Embedded derivative				
Unrealized gains (losses) in revenue[1]	**16**	13	**(27)**	(1)

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

Existing net losses of $13 million deferred in AOCI as at September 30, 2012 are expected to be reclassified to net income within the next 12 months.

11. FAIR VALUE MEASUREMENTS

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

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

Level 1: Valuation of inputs is based on unadjusted quoted market prices observed in active markets for identical assets or liabilities

Level 2: Valuation is based on inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Valuation is based on inputs for the asset or liability that are not based on observable market data

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

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

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

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

The Company is required to determine the fair value of all its financial instruments. The following is a summary of OPG's financial instruments as at September 30, 2012 and December 31, 2011:

(millions of dollars except where noted)	**Fair Value**	**Carrying Value[1]**	**Balance Sheet Line Item**
As at September 30, 2012			
Commodity derivative instruments	**7**	**7**	Other accounts receivable and prepaid expenses
Investment in OPG Ventures Inc.	**10**	**10**	Other long-term assets
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	**12,539**	**12,539**	Nuclear fixed asset removal and nuclear waste management funds
Foreign exchange derivative instruments	**(2)**	**(2)**	Accounts payable and accrued charges
Commodity derivative instruments	**(6)**	**(6)**	Accounts payable and accrued charges
Forward start interest rate swaps	**(73)**	**(73)**	Long-term accounts payable and accrued charges
Payable related to cash flow hedges	**(24)**	**(24)**	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	**(213)**	**(213)**	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	**(5,586)**	**(4,887)**	Long-term debt
As at December 31, 2011 *(as adjusted – Note 18)*			
Commodity derivative instruments	3	3	Other accounts receivable and prepaid expenses
Investment in OPG Ventures Inc.	32	32	Other long-term assets
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	11,898	11,898	Nuclear fixed asset removal and nuclear waste management funds
Commodity derivative instruments	(1)	(1)	Accounts payable and accrued charges
Forward start interest rate swaps	(115)	(115)	Long-term accounts payable and accrued charges
Payable related to cash flow hedges	(4)	(4)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	(186)	(186)	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	(5,273)	(4,744)	Long-term debt

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

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

The following tables present financial assets and liabilities measured at fair value in accordance with the fair value hierarchy as at September 30, 2012 and December 31, 2011:

(millions of dollars)	Level 1	Level 2	Level 3	Total
		September 30, 2012		
Assets				
Decommissioning Segregated Fund	**2,465**	**3,026**	**135**	**5,626**
Used Fuel Segregated Fund	**192**	**6,711**	**10**	**6,913**
Commodity derivative instruments	**2**	**4**	**1**	**7**
Investment in OPG Ventures Inc.	**-**	**-**	**10**	**10**
Total	**2,659**	**9,741**	**156**	**12,556**
Liabilities				
Derivative embedded in the Bruce Lease	**-**	**-**	**(213)**	**(213)**
Forward start interest rate swaps	**-**	**(73)**	**-**	**(73)**
Commodity derivative instruments	**(4)**	**(2)**	**-**	**(6)**
Foreign exchange derivative instruments	**-**	**(2)**	**-**	**(2)**
Total	**(4)**	**(77)**	**(213)**	**(294)**
Net assets (liabilities)	**2,655**	**9,664**	**(57)**	**12,262**

(millions of dollars)	Level 1	Level 2	Level 3	Total
		December 31, 2011 *(as adjusted – Note 18)*		
Assets				
Decommissioning Segregated Fund	2,294	2,950	98	5,342
Used Fuel Segregated Fund	131	6,419	6	6,556
Commodity derivative instruments	-	1	2	3
Investment in OPG Ventures Inc.	16	-	16	32
Total	2,441	9,370	122	11,933
Liabilities				
Derivative embedded in the Bruce Lease	-	-	(186)	(186)
Forward start interest rate swaps	-	(115)	-	(115)
Commodity derivative instruments	-	(1)	-	(1)
Total	-	(116)	(186)	(302)
Net assets (liabilities)	2,441	9,254	(64)	11,631

During the nine month period ended September 30, 2012, there were no transfers between Level 1 and Level 2. In addition, there were no transfers into and out of Level 3.

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

	For the three months ended September 30, 2012				
(millions of dollars)	**Decom-missioning Segregated Fund**	**Used Fuel Segregated Fund**	**Investment in OPG Ventures Inc.**	**Derivative Embedded in the Bruce Lease[1]**	**Commodity Derivative Instruments**
Balance, June 30, 2012	**128**	**9**	**11**	**(229)**	**2**
Unrealized losses included in earnings on nuclear fixed asset removal and nuclear waste management funds[1]	**(1)**	**-**	**-**	**-**	**-**
Unrealized (losses) gains included in revenue	**-**	**-**	**(1)**	**16**	**-**
Realized losses included in revenue	**-**	**-**	**-**	**-**	**(1)**
Purchases	**8**	**1**	**-**	**-**	**-**
Balance, September 30, 2012	**135**	**10**	**10**	**(213)**	**1**

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

	For the nine months ended September 30, 2012				
(millions of dollars)	**Decom-missioning Segregated Fund**	**Used Fuel Segregated Fund**	**Investment in OPG Ventures Inc.**	**Derivative Embedded in the Bruce Lease[1]**	**Commodity Derivative Instruments**
Balance, January 1, 2012	**98**	**6**	**16**	**(186)**	**2**
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds[1]	**5**	**-**	**-**	**-**	**-**
Unrealized losses included in revenue	**-**	**-**	**(5)**	**(27)**	**-**
Realized losses included in revenue	**-**	**-**	**-**	**-**	**(2)**
Purchases	**32**	**4**	**-**	**-**	**1**
Settlements	**-**	**-**	**(1)**	**-**	**-**
Balance, September 30, 2012	**135**	**10**	**10**	**(213)**	**1**

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

Derivative Embedded in the Bruce Lease

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

The following table presents the quantitative information about the Level 3 fair value measurement of the Bruce Lease embedded derivative as at September 30, 2012:

(millions of dollars except where noted)	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range**
Derivative embedded in the Bruce Lease	(213)	Option model	Risk premium[1]	0% - 30%

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

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

Decommissioning Segregated Fund and Used Fuel Segregated Fund

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

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

The following are the classes of investments within the Nuclear Funds that are reported on the basis of net asset value as at September 30, 2012:

Fund Class *(millions of dollars except where noted)*	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice**
Infrastructure	183	157	n/a	n/a
Real Estate	111	535	n/a	n/a
Pooled Funds				
Short-term Investments	21	-	Daily	1-5 days
Fixed Income	767	-	Daily	1-5 days
Equity	1,245	-	Daily	1-5 days
Total	2,327	692		

Infrastructure

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

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

The investments can never be redeemed with the respective infrastructure funds. However, the Nuclear Funds may transfer any of its partnership interests/shares to another party as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each infrastructure fund will be received based on the operations of the underlying investments and/or as the underlying investments of the infrastructure funds are liquidated. It is not possible to estimate when the underlying assets of the infrastructure funds will be liquidated, however, the infrastructure funds have a maturity end period ranging from 2019 to 2023.

Real Estate

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

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

These investments can never be redeemed by the partnership. However, the Nuclear Funds may transfer any of its partnership interests to another party as stipulated in the partnership agreement with prior written consent of the other limited partners. It is not possible to estimate when the underlying assets in this class will be liquidated.

Pooled Funds

This class represents investments in pooled funds which primarily include a diversified portfolio of fixed income securities issued mainly by Canadian corporations and diversified portfolios of United States and Emerging Market listed equity and fixed income securities. The investment objective of the pooled funds is to achieve capital appreciation and high interest income through professionally managed portfolios consisting of equity and fixed income securities issued by high quality long-term growth companies based in Canada, United States and Emerging Markets.

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

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

Investment in OPG Ventures Inc.

Significant Level 3 inputs used in the fair value measurement of the OPG Ventures Inc. investments include recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors. Significant increases (decreases) in any of those inputs in isolation would result in significantly higher (lower) fair value measurement.

12. COMMITMENTS AND CONTINGENCIES

Litigation

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

On August 9, 2006, a Notice of Action and Statement of Claim filed with the Ontario Superior Court of Justice in the amount of $500 million was served on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited (together "British Energy"). 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 defending an arbitration commenced by some of the current owners of Bruce Power L.P. regarding an alleged breach of British Energy's representations and warranties to the claimants when they purchased British Energy's interest in Bruce Power L.P. (the "Arbitration"). In the second quarter of 2012, the arbitrator released an interim award. The arbitrator found that British Energy was liable to the claimants for some of the damages they claimed. The arbitrator determined what elements of the claim British Energy was liable for but did not award a specific amount in damages as it was found that further evidence from the parties is necessary to quantify the exact amount of the damages. If the parties to the Arbitration cannot agree on the quantum of damages, there will be further proceedings before the arbitrator to determine the amount. British Energy counsel has indicated that the damages payable to the claimants will likely be less than $70 million.

British Energy previously indicated that they did not require OPG or Bruce Power L.P. to actively defend the court action until the conclusion of the Arbitration. Although the Arbitration had not concluded, British Energy requested that OPG file a Statement of Defense. OPG and Bruce Power L.P. advised British Energy that if British Energy wishes the court action to proceed prior to the conclusion of the Arbitration, the defendants would bring a motion for a Stay of proceedings, a Dismissal of the current action or, in the alternative, a motion to extend the time for service of the Statement of Defense until the conclusion of the Arbitration. That motion was scheduled to be heard on March 5, 2010 but was adjourned at the request of British Energy. The return date of that motion is yet to be set.

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

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

Environmental

Current operations are subject to regulation with respect to emissions to air, water, and land as well as other environmental matters by federal, provincial, and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in OPG's consolidated financial statements to meet certain other environmental obligations. During 2011, a reduction of $19 million to the environmental liabilities was recognized related to the Regulated – Hydroelectric segment. As at September 30, 2012, OPG's environmental liabilities were $17 million (December 31, 2011 – $19 million).

Guarantees

The Company and its joint venture partners have jointly guaranteed the financial performance of jointly owned entities related primarily to the payment of liabilities. As at September 30, 2012, the total amount of guarantees OPG provided to these entities is $73 million. OPG may terminate some of these guarantees within a short time frame by providing written notice to the counterparties at any time. Other guarantees have terms ending between 2016 and 2018. The fair value of these guarantees has been estimated as at September 30, 2012 to be negligible. As at September 30, 2012, OPG does not expect to make any payments associated with these guarantees.

Contractual and Commercial Commitments

The Company's contractual obligations and other significant commercial commitments as at September 30, 2012 are as follows:

(millions of dollars)	2012[1]	2013	2014	2015	2016	Thereafter	Total
Contractual obligations:							
Fuel supply agreements	50	197	164	163	105	220	899
Contributions under the ONFA[2]	58	157	94	96	84	578	1,067
Long-term debt repayment	3	5	5	593	273	4,008	4,887
Interest on long-term debt	48	234	234	228	214	1,871	2,829
Unconditional purchase obligations	25	99	98	97	8	-	327
Operating lease obligations	4	17	16	17	18	-	72
Operating licence	10	36	36	1	1	-	84
Pension contributions[3]	77	380	-	-	-	-	457
Other	27	43	94	45	48	112	369
	302	1,168	741	1,240	751	6,789	10,991
Significant commercial commitments:							
Niagara Tunnel	40	39	-	-	-	-	79
Lower Mattagami	192	425	331	139	-	-	1,087
Total	534	1,632	1,072	1,379	751	6,789	12,157

[1] Contractual obligations for 2012 cover the period from October 1, 2012 to December 31, 2012.

[2] Contributions under the ONFA are based on the 2007 - 2011 reference plan approved in 2006. The contributions based on the 2012 ONFA Reference Plan are under review.

[3] The pension contributions include ongoing funding requirements, and additional funding requirements towards the deficit, in accordance with the actuarial valuations of the OPG registered pension plan as at January 1, 2011 and the NWMO registered pension plan as at January 1, 2012. The next actuarial valuations of the OPG and NWMO plans must have effective dates no later than January 1, 2014 and 2013, respectively. The pension contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, changes in the pension regulatory environment, and the timing of funding valuations. Funding requirements after 2013 for the OPG registered pension plan are excluded due to significant variability in the assumptions required to project the timing of future cash flows. Funding requirements after 2012 for the NWMO registered pension plan are also excluded. The amount of OPG's additional voluntary contribution, if any, is revisited on an annual basis.

13. BUSINESS SEGMENTS

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

Segment Income (Loss) for the Three Months Ended September 30, 2011 *(millions of dollars) (as adjusted – Note 18)*	**Regulated** **Nuclear Generation**	**Regulated** **Nuclear Waste Manage-ment**	**Regulated** **Hydro-electric**	**Unregulated** **Hydro-electric**	**Unregulated** **Thermal**	**Other**	**Elimination**	**Total**
Revenue	793	18	176	94	171	15	(17)	1,250
Fuel expense	66	-	71	13	67	-	-	217
Gross margin	727	18	105	81	104	15	(17)	1,033
Operations, maintenance and administration	451	19	25	60	96	-	(17)	634
Depreciation and amortization	128	-	8	20	21	6	-	183
Accretion on fixed asset removal and nuclear waste management liabilities	-	175	-	-	1	-	-	176
Losses on nuclear fixed asset removal and nuclear waste management funds	-	16	-	-	-	-	-	16
Property and capital taxes	6	-	(1)	3	4	2	-	14
Restructuring	-	-	-	-	19	-	-	19
Other loss (income)	-	-	-	-	81	(25)	-	56
Income (loss) before interest and income taxes	142	(192)	73	(2)	(118)	32	-	(65)

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

Segment Income (Loss) for the Nine Months Ended September 30, 2011 *(millions of dollars) (as adjusted – Note 18)*	**Regulated** **Nuclear Generation**	**Regulated** **Nuclear Waste Manage-ment**	**Regulated** **Hydro-electric**	**Unregulated** **Hydro-electric**	**Unregulated** **Thermal**	**Other**	**Elimination**	**Total**
Revenue	2,293	42	550	392	451	48	(40)	3,736
Fuel expense	179	-	190	55	142	-	-	566
Gross margin	2,114	42	360	337	309	48	(40)	3,170
Operations, maintenance and administration	1,475	47	76	168	298	2	(40)	2,026
Depreciation and amortization	345	-	30	56	64	16	-	511
Accretion on fixed asset removal and nuclear waste management liabilities	-	521	-	-	5	-	-	526
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(286)	-	-	-	-	-	(286)
Property and capital taxes	20	-	(2)	-	12	7	-	37
Restructuring	-	-	-	-	19	-	-	19
Other (income) loss	(3)	-	-	-	82	(43)	-	36
Income (loss) before interest and income taxes	277	(240)	256	113	(171)	66	-	301

14. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	Nine Months Ended September 30 2012	2011 (as adjusted – Note 18)
Receivables from related parties	**109**	108
Other accounts receivable and prepaid expenses	**(115)**	8
Fuel inventory	**106**	55
Materials and supplies	**-**	6
Accounts payable and accrued charges	**32**	(41)
Income taxes recoverable	**9**	195
	141	331

15. RELATED PARTY TRANSACTIONS

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

As at September 30, 2012, receivables from related parties included nil (December 31, 2011 – $3 million) due from Hydro One, $290 million (December 31, 2011 – $375 million) due from the IESO, $59 million (December 31, 2011 – $74 million) due from the OEFC, $9 million (December 31, 2011 – $16 million) due from the OPA, and $1 million (December 31, 2011 – nil) due from PEC. Accounts payable and accrued charges at September 30, 2012 included $2 million (December 31, 2011 – $7 million) due to Hydro One, $27 million (December 31, 2011 – $53 million) due to the OEFC, $3 million (December 31, 2011 – $3 million) due to the Province, and nil (December 31, 2011 – $1 million) due to Infrastructure Ontario.

16. OTHER (INCOME) LOSS

(millions of dollars)	Three Months Ended September 30 2012	2011	Nine Months Ended September 30 2012	2011
Income from investments subject to significant influence	**(11)**	(10)	**(16)**	(27)
Thermal asset retirement obligation estimate change *(Note 2)*	**-**	66	**-**	66
Other loss (income)	**6**	-	**6**	(3)
Other (income) loss	**(5)**	56	**(10)**	36

17. RESTRUCTURING

In 2009, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations in 2010. Restructuring charges, primarily severance costs, related to these closures were $27 million. These costs were recognized in the consolidated financial statements in 2010 and 2011.

In 2011, OPG announced its decision to close two additional coal-fired units at the Nanticoke generating station, consistent with Ontario's Long-Term Energy Plan and Supply Mix Directive. Total restructuring costs, primarily severance costs, expected to be incurred related to these closures are $23 million. Restructuring costs of $21 million have been recognized to date in the consolidated financial statements and OPG expects to recognize $2 million in 2012 and 2013. During the three and nine month periods ended September 30, 2012, restructuring charges of $1 million and $3 million, respectively, were recorded to expense due to the recognition of relocation costs of staff. OPG conducted discussions with key stakeholders, including the Society of Energy Professionals and the Power Workers' Union, in accordance with their respective collective bargaining agreements. Given collective agreement provisions allowing deferral of severance payout to future periods, the restructuring liability is expected to be fully drawn down by 2015.

OPG has ceased using coal at the Atikokan generating station which has an impact on staff requirements. As a result, in August 2012, OPG notified key stakeholders of the potential impact in accordance with their respective collective bargaining agreements. The total restructuring costs, primarily severance costs, are estimated to be $3 million and are expected to be recorded in 2013 and 2014 when they are finalized.

The changes in the restructuring liability for severance costs for the nine months ended September 30, 2012 and for the year ended December 31, 2011 are as follows:

(millions of dollars)	
Liability, January 1, 2011	15
Restructuring charges during the year	21
Payments during the year	(13)
Liability, December 31, 2011	23
Payments during the period	(14)
Liability, September 30, 2012	**9**

18. US GAAP TRANSITION

OPG is required to report under US GAAP beginning January 1, 2012. Financial information derived from the consolidated financial statements for the 2011 comparative periods has been adjusted to be in accordance with US GAAP. These adjustments are described in Note 18 of OPG's March 31, 2012 interim consolidated financial statements. In addition, certain of the 2011 comparative amounts have been reclassified to conform to the 2012 financial statement presentation.

US GAAP Reconciliation

The effects of transition from Canadian GAAP to US GAAP are identified within this note with references to descriptions of material transition impacts provided in the *Notes to Transitional Adjustments* section. The adoption of US GAAP is on a retrospective basis with a restatement of prior period financial statements. Reconciliations for consolidated statements of income and comprehensive income for the three and nine month periods ended September 30, 2011 are provided along with material differences impacting net income. A reconciliation of the consolidated statement of cash flows for the nine months ended September 30, 2011 is also provided.

Prior to 2012, OPG filed its financial statements under Canadian GAAP. Refer to OPG's 2011 annual consolidated financial statements for disclosures under Canadian GAAP and OPG's March 31, 2012 interim consolidated financial statements for a discussion of material differences between US GAAP and Canadian GAAP.

Reconciliation of the Consolidated Statement of Income from Canadian GAAP to US GAAP for the three months ended September 30, 2011

(millions of dollars except where noted)	**Notes**	**Canadian GAAP**	**Effect of Transition to US GAAP**	**US GAAP**
Revenue	A	1,275	(25)	1,250
Fuel expense		217	-	217
Gross margin		1,058	(25)	1,033
Expenses				
Operations, maintenance and administration	A,B,C	628	6	634
Depreciation and amortization	A,B	197	(14)	183
Accretion on fixed asset removal and nuclear waste management liabilities	D	177	(1)	176
Losses on nuclear fixed asset removal and nuclear waste management funds		16	-	16
Property and capital taxes	A	15	(1)	14
Restructuring		19	-	19
		1,052	(10)	1,042
Income (loss) before other (income) loss, interest and income taxes		6	(15)	(9)
Other (income) loss	A,D	(2)	58	56
Income (loss) before interest and income taxes		8	(73)	(65)
Net interest expense	A	39	(2)	37
Loss before income taxes		(31)	(71)	(102)
Income tax expense	B,D	65	(13)	52
Net loss		(96)	(58)	(154)
Basic and diluted loss per common share *(dollars)*		(0.38)	(0.23)	(0.61)
Common shares outstanding *(millions)*		256.3	-	256.3

Reconciliation of the Consolidated Statement of Income from Canadian GAAP to US GAAP for the nine months ended September 30, 2011

(millions of dollars except where noted)	**Notes**	**Canadian GAAP**	**Effect of Transition to US GAAP**	**US GAAP**
Revenue	A	3,809	(73)	3,736
Fuel expense		566	-	566
Gross margin		3,243	(73)	3,170
Expenses				
Operations, maintenance and administration	A,B,C	2,026	-	2,026
Depreciation and amortization	A,B	550	(39)	511
Accretion on fixed asset removal and nuclear waste management liabilities		526	-	526
Earnings on nuclear fixed asset removal and nuclear waste management funds		(286)	-	(286)
Property and capital taxes	A	38	(1)	37
Restructuring		19	-	19
		2,873	(40)	2,833
Income before other (income) loss, interest and income taxes		370	(33)	337
Other (income) loss	A,D	(5)	41	36
Income before interest and income taxes		375	(74)	301
Net interest expense	A	121	(8)	113
Income before income taxes		254	(66)	188
Income tax expense	B,D	85	(5)	80
Net income		169	(61)	108
Basic and diluted income per common share *(dollars)*		0.66	(0.24)	0.42
Common shares outstanding *(millions)*		256.3	-	256.3

Reconciliation of the Condensed Consolidated Statement of Cash Flows from Canadian GAAP to US GAAP for the nine months ended September 30, 2011

(millions of dollars)	Notes	Canadian GAAP	Effect of Transition to US GAAP	US GAAP
Cash flow provided by operating activities	A	993	(10)	983
Cash flow used in investing activities		(804)	-	(804)
Cash flow provided by financing activities	A	346	9	355
Net increase in cash and cash equivalents		535	(1)	534
Cash and cash equivalents, beginning of period	A	280	(11)	269
Cash and cash equivalents, end of period	A	815	(12)	803

Reconciliation of the Consolidated Statement of Comprehensive Income from Canadian GAAP to US GAAP for the three months ended September 30, 2011

(millions of dollars)	Notes	Canadian GAAP	Effect of Transition to US GAAP	US GAAP
Net income		(96)	(58)	(154)
Other comprehensive loss, net of income taxes				
Net loss on derivatives designated as cash flow hedges[1]		(64)	-	(64)
Reclassification to income of losses on derivatives designated as cash flow hedges[2]		2	-	2
Reclassification to income of amounts related to pension and other post employment benefits[3]	C	-	4	4
Other comprehensive loss for the period		(62)	4	(58)
Comprehensive income		(158)	(54)	(212)

1 Net of income tax recovery of $13 million for the three months ended September 30, 2011.
2 Net of income tax expense of nil for the three months ended September 30, 2011.
3 Net of income tax expense of $1 million for the three months ended September 30, 2011.

Reconciliation of the Consolidated Statement of Comprehensive Income from Canadian GAAP to US GAAP for the nine months ended September 30, 2011

(millions of dollars)	Notes	Canadian GAAP	Effect of Transition to US GAAP	US GAAP
Net income		169	(61)	108
Other comprehensive loss, net of income taxes				
Net loss on derivatives designated as cash flow hedges[1]		(78)	-	(78)
Reclassification to income of losses on derivatives designated as cash flow hedges[2]		5	-	5
Reclassification to income of amounts related to pension and other post employment benefits[3]	C	-	12	12
Other comprehensive loss for the period		(73)	12	(61)
Comprehensive income		96	(49)	47

1 Net of income tax recovery of $14 million for the nine months ended September 30, 2011.
2 Net of income tax expense of nil for the nine months ended September 30, 2011.
3 Net of income tax expense of $4 million for the nine months ended September 30, 2011.

Notes to Transitional Adjustments

(A) Accounting for Joint Ventures

Under Canadian GAAP, OPG proportionately consolidated its interests in joint ventures. Under US GAAP, OPG is required to account for its interests using the equity method. This difference has resulted in the derecognition of OPG's 50 percent interest in the assets, liabilities, revenues and expenses of its joint ventures, PEC and Brighton Beach. The investment balances are presented under the heading *Investments subject to significant influence* on OPG's consolidated balance sheets under US GAAP.

The pre-tax adjustments of significant items on the consolidated statements of income as a result of the use of the equity method are as follows:

(millions of dollars)	Three Months Ended September 30 2011	Nine Months Ended September 30 2011
Revenue	(24)	(71)
Operations, maintenance and administration	(5)	(14)
Depreciation and amortization	(6)	(21)
Property and capital taxes	(1)	(1)
Other income	(10)	(27)
Net interest expense	(2)	(8)

(B) Other

To conform with the financial statement presentation under US GAAP and the 2012 financial statement presentation, certain comparative figures were reclassified in 2011.

(C) Pension and OPEB

In accordance with US GAAP, OPG recognizes gains or losses and past service costs or credits in respect of pension and other post retirement benefits that arise during the period and are not recognized immediately as components of benefit costs as increases or decreases in OCI in the period incurred. These unamortized amounts in AOCI are subsequently reclassified and recognized as components of benefit costs, net of the corresponding change in the Pension and OPEB Regulatory Asset. For the three and nine month periods ended September 30, 2011, the reclassification of AOCI amounts to income, net of tax, was $4 million and $12 million, respectively.

Under US GAAP, all actuarial gains and losses and past service costs related to long-term disability benefits must be recognized immediately. For the three and nine month periods ended September 30, 2011 the increase to OM&A expenses was $7 million and $6 million, respectively, of which $5 million for both periods related to regulated operations and was recorded in the first quarter of 2012 as a regulatory asset for the Impact for US GAAP Deferral Account authorized by the OEB.

(D) Thermal Asset Retirement Obligation

In September 2011, OPG completed a review of the ARO for OPG's operating thermal generating stations and the decommissioned R.L. Hearn generating station.

As a result of the review, the ARO estimate in accordance with US GAAP increased by $171 million primarily due to higher demolition cost estimates. The increase in the ARO resulted in the recognition of PP&E of $90 million at September 30, 2011 and other loss of $81 million during the third quarter of 2011. The other loss reflected the write-down of asset retirement costs for the Atikokan, Lennox, and Thunder Bay generating stations that were not supported by the cash flows associated with those stations.

In addition, as a result of the review, the ARO estimate in accordance with US GAAP for the R.L. Hearn generating station decreased to $18 million. The decrease in the ARO resulted in the recognition of a $3 million reduction to PP&E at September 30, 2011 and other income of $15 million for the decommissioned station.

The ARO adjustments resulted in related deferred tax impacts.