

ONTARIO POWER GENERATION INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
2017 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 interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. (OPG or Company) as at and for the three and nine months ended September 30, 2017. OPG's unaudited interim consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (US GAAP) and are presented in Canadian dollars.

For a complete description of OPG's corporate strategies, risk management, corporate governance, 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, the Annual Information Form, and the MD&A as at and for the year ended December 31, 2016.

As required by *Ontario Regulation 395/11*, as amended, a regulation under the *Financial Administration Act* (Ontario), OPG adopted US GAAP for the presentation of its consolidated financial statements, effective January 1, 2012. In 2014, the Ontario Securities Commission approved an exemption which allows OPG to apply US GAAP up to January 1, 2019. The term of the exemption is subject to certain conditions, which may result in the expiry of the exemption prior to January 1, 2019. For details, refer to the section, *Critical Accounting Policies and Estimates* under the heading, *Exemptive Relief for Reporting under US GAAP*, in OPG's 2016 annual MD&A. This MD&A is dated November 9, 2017.

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 in the section, *Risk Management*, and forecasts discussed in the section, *Core Business, Strategy, and Outlook*. All forward-looking statements could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's generating station performance and availability, fuel costs, surplus baseload generation (SBG), cost of fixed asset removal and nuclear waste management, performance and earnings of investment funds, refurbishment of existing facilities, development and construction of new facilities, pension and other post-employment benefit (OPEB) obligations and funds, income taxes, proposed new legislation, the ongoing evolution of Ontario's electricity industry, environmental and other regulatory requirements, health, safety and environmental developments, business continuity events, the weather, financing and liquidity, applications to the Ontario Energy Board (OEB) for regulatory prices, the impact of regulatory decisions by the OEB, Ontario's Fair Hydro Plan (Fair Hydro Plan or the Plan) and forecasts of earnings, cash flows, Funds from Operations (FFO) Adjusted Interest Coverage, Return on Common Equity Excluding Accumulated Other Comprehensive Income (ROE Excluding AOCI), Total Generating Cost (TGC) and capital expenditures. 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 (Province or Shareholder).

As at September 30, 2017, OPG's electricity generation portfolio had an in-service capacity of 16,210 megawatts (MW). OPG operates two nuclear generating stations, 66 hydroelectric generating stations, three thermal generating stations, and one wind power turbine. In addition, OPG and TransCanada Energy Ltd. co-own the 550 MW Portlands Energy Centre (PEC) gas-fired combined cycle generating station (GS). OPG and ATCO Power Canada Ltd. co-own the 560 MW Brighton Beach gas-fired combined cycle GS (Brighton Beach). OPG's 50 percent share of the in-service capacity and generation volume of these co-owned facilities is included in the generation portfolio statistics set out in this report. The income from the co-owned facilities is accounted for using the equity method of accounting, and OPG's share of income is presented as income from investments subject to significant influence in the Contracted Generation Portfolio segment.

OPG also owns two other nuclear generating stations, the Bruce A GS and the Bruce B GS, which are leased on a long-term basis to Bruce Power LP (Bruce Power). Income from these leased stations is included in revenue under the Regulated – Nuclear Generation segment. The leased stations are not included in the generation portfolio statistics set out in this report.

All of OPG's owned and co-owned generating facilities are located in Ontario. OPG does not operate PEC, Brighton Beach, the Bruce A GS and the Bruce B GS.

A description of OPG's segments is provided in OPG's 2016 annual MD&A in the section, *Business Segments*.

In-Service Generating Capacity

OPG's in-service generating capacity by business segment as at September 30, 2017 and December 31, 2016 was as follows:

(MW)	As at	
	September 30 2017	December 31 2016
Regulated – Nuclear Generation ¹	5,728	5,728
Regulated – Hydroelectric	6,426	6,421
Contracted Generation Portfolio ²	4,056	4,028
Total	16,210	16,177

¹ The in-service generating capacity as of September 30, 2017 and December 31, 2016 excludes Unit 2 of the Darlington GS. The unit, which has a generating capacity of 878 MW, was taken offline in mid-October 2016 and is currently undergoing refurbishment.

² Includes OPG's share of in-service generating capacity of 275 MW for PEC and 280 MW for Brighton Beach.

During the nine months ended September 30, 2017, the total in-service capacity increased by 33 MW. The increase was primarily due to the completion of the Peter Sutherland Sr. hydroelectric GS, which was placed in-service at the end of the first quarter of 2017, and the upgrade of Unit 10 of the Sir Adam Beck 1 hydroelectric GS, which was completed in June 2017.

HIGHLIGHTS

Overview of Results

This section provides an overview of OPG's unaudited interim consolidated operating results. Significant factors which contributed to OPG's results during the three and nine month periods ended September 30, 2017, compared to the same periods in 2016, are discussed below.

<i>(millions of dollars – except where noted) (unaudited)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Revenue	1,217	1,400	3,539	4,265
Fuel expense	185	187	518	541
Gross margin	1,032	1,213	3,021	3,724
Operations, maintenance and administration	635	666	2,054	2,061
Depreciation and amortization	178	313	517	941
Accretion on fixed asset removal and nuclear waste management liabilities	235	232	709	696
Earnings on nuclear fixed asset removal and nuclear waste management funds	(196)	(248)	(579)	(620)
Income from investments subject to significant influence	(11)	(11)	(29)	(28)
Property taxes	8	12	30	35
	849	964	2,702	3,085
Income before other losses (gains), interest and income taxes	183	249	319	639
Other losses (gains)	3	1	(380)	(23)
Income before interest and income taxes	180	248	699	662
Net interest expense	21	28	56	92
Income before income taxes	159	220	643	570
Income tax expense	19	22	128	109
Net income	140	198	515	461
Net income attributable to the Shareholder	131	194	498	449
Net income attributable to non-controlling interest ¹	9	4	17	12
Electricity production (TWh) ²	19.4	19.5	56.0	59.9
Cash flow provided by operating activities	485	530	698	1,211

¹ Relates to the 25 percent interest of the Amisk-oo-Skow Finance Corporation, a corporation wholly owned by the Moose Cree First Nation, in the Lower Mattagami Limited Partnership, the 33 percent interest of Coral Rapids Power Corporation, a corporation wholly owned by the Taykwa Tagamou Nation, in the PSS Generating Station Limited Partnership, and the 10 percent interest of a corporation wholly owned by the Six Nations of Grand River Development Corporation in the Nanticoke Solar LP.

² Includes OPG's share of generation volume from its 50 percent ownership interests in PEC and Brighton Beach.

Third Quarter

Net income attributable to the Shareholder was \$131 million for the third quarter of 2017, a decrease of \$63 million compared to the same quarter in 2016. Income before interest and income taxes for the third quarter of 2017 was \$180 million, a decrease of \$68 million compared to the same quarter in 2016.

Significant factors that reduced income before interest and income taxes:

- Lower earnings from the nuclear base regulated price of approximately \$24 million reflecting lower electricity generation of 0.4 terawatt hours (TWh) from the Regulated – Nuclear Generation segment and the continuation of existing base regulated prices set by the OEB in 2014. The lower nuclear generation was primarily due to the ongoing refurbishment of Unit 2 at the Darlington GS since October 2016, largely offset by an increase in generation from the Pickering GS. The increase in generation from the Pickering GS was primarily due to outage optimization, favourable unit conditions and execution of planned outage work resulting in fewer unplanned and planned outage days at the station. The base regulated prices set in 2014 continue to be in effect pending the OEB's decision on OPG's current application for new regulated prices, expected later in 2017. The existing nuclear base regulated price was set to allow the Company to recover its approved nuclear costs over a higher nuclear production volume, based on the 2014 and 2015 outage profile that did not include a refurbishment outage. OPG has requested January 1, 2017 as the effective date of the new regulated prices.
- Lower earnings of \$54 million from the Regulated – Nuclear Waste Management segment, primarily due to a decrease in earnings on the nuclear fixed asset removal and nuclear waste management funds (Nuclear Segregated Funds).
- Higher depreciation and amortization expense of \$16 million in the Regulated – Nuclear Generation segment, excluding amortization expense related to balances in OEB-authorized regulatory variance and deferral accounts (regulatory accounts), primarily due to new assets in service.

The expiry of rate riders for the recovery of approved balances in OEB-authorized regulatory accounts on December 31, 2016 contributed to the decrease in revenue for the three months ended September 30, 2017, compared to the same period in 2016, but was largely offset by a decrease in the amortization expense related to these balances. OPG has requested new rate riders in its current application to the OEB for new regulated prices, with a proposed effective date of January 1, 2017.

Significant factor that increased income before interest and income taxes:

- Lower operations, maintenance and administration (OM&A) expenses of \$31 million across all business segments.

Net interest expense decreased by \$7 million during the third quarter of 2017, compared to the same quarter in 2016, primarily due to a higher amount of interest costs capitalized for the Darlington Refurbishment project expenditures and a higher amount of interest income.

Income tax expense for the three months ended September 30, 2017 was \$19 million, compared to \$22 million for the same period in 2016. The decrease in income tax expense was primarily due to lower income before taxes and a higher change in reserves from the resolution of uncertainties, partially offset by a lower amount of income tax expense deferred in regulatory assets.

Year-To-Date

Net income attributable to the Shareholder was \$498 million for the first nine months of 2017, an increase of \$49 million compared to the same period in 2016. Income before interest and income taxes for the first nine months of 2017 was \$699 million, an increase of \$37 million compared to the same period in 2016.

Significant factor that increased income before interest and income taxes:

- The gain on the sale of OPG's head office premises and associated parking facility recorded in the Services, Trading, and Other Non-Generation segment in the second quarter of 2017. The sale of these non-core real estate assets was required by a Shareholder Declaration and a Shareholder Resolution. The gain on the sale was \$283 million, which is net of tax effects of \$95 million.

Significant factors that reduced income before interest and income taxes:

- Lower earnings from the nuclear base regulated price of approximately \$230 million, partially offset by a decrease in nuclear fuel expense of \$22 million, reflecting lower electricity generation of 4.0 TWh from the Regulated – Nuclear Generation segment and the continuation of existing base regulated prices set by the OEB in 2014. The lower nuclear generation was primarily due to the ongoing refurbishment of Unit 2 at the Darlington GS, partially offset by an increase in generation from the Pickering GS.
- Lower earnings of \$53 million from the Regulated – Nuclear Waste Management segment, primarily due to a decrease in earnings on the Nuclear Segregated Funds.
- Higher depreciation and amortization expense of \$30 million in the Regulated – Nuclear Generation segment, excluding amortization expense related to regulatory account balances, primarily due to new assets in service.
- A gain of \$22 million recorded in the first quarter of 2016 to reflect the OEB's decision on OPG's motion asking the OEB to review and vary parts of its November 2014 decision on OPG's regulated prices.
- Lower rental revenue of \$16 million from the Services, Trading, and Other Non-Generation segment, primarily as a result of the sale of the head office premises.

The expiry of rate riders for the recovery of approved balances in OEB-authorized regulatory accounts on December 31, 2016 contributed to the decrease in revenue for the nine months ended September 30, 2017, compared to the same period in 2016, but was primarily offset by a decrease in the amortization expense related to these balances.

Net interest expense decreased by \$36 million for the nine months ended September 30, 2017, compared to the same period in 2016, primarily due to a higher amount of interest costs capitalized for the Darlington Refurbishment project expenditures and a higher amount of interest costs deferred in OEB-authorized regulatory accounts.

Income tax expense for the nine months ended September 30, 2017 was \$128 million, compared to \$109 million for the same period in 2016. The increase in income tax expense was primarily due to higher income before income taxes.

Segment Results

The following table summarizes OPG's income before interest and income taxes by business segment. A detailed discussion of OPG's performance by reportable segment is included in the section, *Discussion of Operating Results by Business Segment*.

<i>(millions of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
<i>Income (loss) before interest and income taxes</i>				
Regulated – Nuclear Generation	20	47	(267)	17
Regulated – Hydroelectric	122	117	474	500
Contracted Generation Portfolio	75	74	229	219
Total electricity generation business segments	217	238	436	736
Regulated – Nuclear Waste Management	(36)	18	(123)	(70)
Services, Trading, and Other Non-Generation	(1)	(8)	386	(4)
	180	248	699	662

Electricity Generation

Electricity generation for the three and nine month periods ended September 30, 2017 and 2016 was as follows:

(TWh)	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Regulated – Nuclear Generation	11.3	11.7	30.6	34.6
Regulated – Hydroelectric	7.3	6.9	23.5	22.8
Contracted Generation Portfolio ¹	0.8	0.9	1.9	2.5
Total OPG electricity generation	19.4	19.5	56.0	59.9
Total electricity generation by all other generators in Ontario ²	16.6	19.5	51.7	53.8

¹ Includes OPG's share of generation volume from its 50 percent ownership interests in PEC and Brighton Beach.

² Non-OPG generation is calculated as the Ontario electricity demand plus net exports, as published by the Independent Electricity System Operator (IESO), minus OPG electricity generation.

Total OPG electricity generation decreased by 0.1 TWh during the third quarter of 2017, compared to the same quarter in 2016, and by 3.9 TWh during the nine months ended September 30, 2017, compared to the same period in 2016. This was mainly due to lower electricity generation of 0.4 TWh and 4.0 TWh from the Regulated – Nuclear Generation segment for the three and nine month periods ended September 30, 2017, respectively. As expected, this was primarily the result of the removal from service of Unit 2 at the Darlington GS for the duration of the unit's refurbishment, which began in October 2016. This decrease in electricity generation was largely offset by an increase in generation from the Pickering GS, primarily due to outage optimization, favourable unit conditions and execution of planned outage work resulting in a lower number of unplanned and planned outage days at the station, as well as higher electricity generation from the Regulated – Hydroelectric segment.

The higher electricity generation of 0.4 TWh and 0.7 TWh from the Regulated – Hydroelectric segment for the three and nine month periods ended September 30, 2017, respectively, compared to the same periods in 2016, was due to higher water flows primarily on the eastern Ontario river systems, net of forgone electricity generation as a result of SBG conditions, discussed below.

The lower electricity generation of 0.6 TWh from the Contracted Generation Portfolio segment for the nine months ended September 30, 2017, compared to the same period in 2016, was primarily due to higher SBG conditions. The electricity generation from the Contracted Generation Portfolio segment for the three months ended September 30, 2017 was comparable to the same period in 2016.

OPG's operating results are impacted by changes in grid-supplied electricity demand resulting from variations in seasonal weather conditions, changes in economic conditions, the impact of small scale generation embedded in distribution networks, and the impact of conservation efforts in the province. For the three and nine month periods ended September 30, 2017, Ontario's electricity demand as reported by the IESO was 33.6 TWh and 98.5 TWh, respectively, compared to 36.7 TWh and 103.8 TWh for the same periods in 2016, excluding electricity exports out of the province.

Power that is surplus to the Ontario market is managed by the IESO, mainly through generation reductions at hydroelectric stations, other grid-connected renewable resources and nuclear stations. Reducing hydroelectric production is the first measure used by the IESO to manage SBG conditions. Baseload generation supply surplus in Ontario continued to be prevalent in 2017, resulting in forgone hydroelectric generation for OPG of 1.1 TWh and 4.5 TWh in the three and nine month periods ended September 30, 2017, respectively, compared to 0.5 TWh and 3.9 TWh during the corresponding periods in 2016. The gross margin impact of production forgone at OPG's regulated hydroelectric stations due to SBG conditions during these periods was offset by the impact of a regulatory variance account authorized by the OEB. OPG did not forgo any electricity production at its nuclear stations due to SBG conditions.

Average Sales Prices

The majority of OPG's generation is from the Regulated – Nuclear Generation and Regulated – Hydroelectric segments. The same base regulated prices for electricity generated by these segments, authorized by the OEB effective November 1, 2014, were in effect during the first nine months of 2017 as in 2016. These prices will remain in effect until such time as the OEB approves new regulated prices based on OPG's current application. The base regulated prices established in 2014 are discussed in OPG's 2016 annual MD&A in the section, *Revenue Mechanisms for Regulated and Non-Regulated Generation*.

The average sales price for the Regulated – Nuclear Generation segment was 5.8 cents per kilowatt hour (¢/kWh) during the three and nine month periods ended September 30, 2017, compared to 6.9 ¢/kWh during the same periods in 2016. The decrease in this average sales price was primarily due to the expiry, on December 31, 2016, of an OEB-authorized nuclear rate rider of \$10.84 per megawatt hour (MWh) for the recovery of variance and deferral account balances. The average sales price for the Regulated – Hydroelectric segment was 4.1 ¢/kWh during the three and nine month periods ended September 30, 2017, respectively, compared to 4.4 ¢/kWh during the same periods in 2016. The decrease in this average sales price was primarily due to the expiry, on December 31, 2016, of an OEB-authorized regulated hydroelectric rate rider of \$3.19/MWh for the recovery of variance and deferral account balances. The rate riders were established to recover approved balances recorded in the variance and deferral accounts in prior years. As such, the year-over-year changes in revenue from the rate riders were largely offset by changes in amortization expense related to these balances. There were no rate riders in effect during the nine months ended September 30, 2017 for either nuclear or regulated hydroelectric generation, pending the outcome of OPG's current application with the OEB for new regulated prices.

Cash Flow from Operations

Cash flow provided by operating activities was \$485 million for the three months ended September 30, 2017 and \$698 million for the nine months ended September 30, 2017, compared to \$530 million and \$1,211 million for the same periods in 2016, respectively. The decrease in cash flow provided by operating activities was expected and primarily due to lower generation revenue receipts reflecting lower generation from the Regulated – Nuclear Generation segment as a result of the ongoing refurbishment of Unit 2 at the Darlington GS and the expiry, on December 31, 2016, of the OEB-authorized rate riders for nuclear and regulated hydroelectric generation. The decrease in cash flow was also due to higher income tax instalments.

The decrease in cash flow provided by operating activities for the three and nine month periods ended September 30, 2017 was partly offset by lower OM&A expenditures and lower contributions to the Used Fuel Segregated Fund in 2017. Both the Used Fuel Segregated Fund and the Decommissioning Segregated Fund were determined to be fully funded based on an updated estimate of OPG's nuclear waste management and nuclear facilities decommissioning obligations pursuant to a reference plan approved by the Province under the Ontario Nuclear Funds Agreement (ONFA) between OPG and the Province, effective January 1, 2017. Pursuant to the ONFA, the reference plan is required to be updated at least once every five years. Contributions to either or both of the Nuclear Segregated Funds may be required in the future should the funds be in an underfunded position at the time of the next ONFA reference plan update. The decrease in cash flow for the nine months ended September 30, 2017 also was partially offset by lower pension plan contributions in 2017 reflecting an updated actuarial valuation of the OPG registered pension plan filed with the Financial Services Commission of Ontario, as well as the payment of a supplemental rent rebate to Bruce Power in the first quarter of 2016 in relation to a period in 2015. The lease agreement for the Bruce nuclear generating stations was amended in late 2015 to eliminate this rebate provision going forward.

Return on Common Equity Excluding Accumulated Other Comprehensive Income

ROE Excluding AOCI is an indicator of OPG's performance consistent with the Company's strategy to provide value to the Shareholder. ROE Excluding AOCI is measured over a 12-month period.

ROE Excluding AOCI was 4.4 percent for the 12 months ended September 30, 2017, compared to 4.2 percent for the 12 months ended December 31, 2016. The increase was primarily due to higher net income attributable to the Shareholder for the 12 months ended September 30, 2017, which reflected the gain on the sale of OPG's head office premises and associated parking facility recorded in the second quarter of 2017, partially offset by lower earnings from the decrease in nuclear electricity generation reflecting the Unit 2 refurbishment outage at the Darlington GS without a corresponding increase in the nuclear base regulated price, as expected. The lower nuclear generation as a result of the refurbishment outage will continue to negatively affect OPG's ROE Excluding AOCI until such time as new regulated prices are approved by the OEB.

Funds from Operations Adjusted Interest Coverage

FFO Adjusted Interest Coverage is an indicator of OPG's ability to meet interest obligations from operating cash flows. The indicator is measured over a 12-month period. FFO Adjusted Interest Coverage for the 12 months ended September 30, 2017 was 4.2 times, compared to 5.1 times for the 12 months ended December 31, 2016. FFO Adjusted Interest Coverage in 2017 reflected a year-over-year decrease in FFO before interest due to lower cash flow provided by operating activities, partially offset by the impact of a lower adjusted interest expense due to a decrease in the excess of interest on pension and OPEB projected benefit obligations over expected return on pension plan assets.

The decrease in the excess of interest on pension and OPEB benefit obligations over expected return on pension plan assets in the nine months of 2017 was primarily due to the change in the method used to estimate the interest cost and service cost components of pension and OPEB costs. Effective January 1, 2017, OPG adopted a full yield curve approach to the estimation of these cost components, by applying the specific spot rates along the yield curve used in the determination of the projected benefit obligations to the relevant projected cash flows. Under the previous method, these components of pension and OPEB costs were calculated using the same single weighted-average discount rates as reflected in the calculation of the benefit obligations. This change in the method was accounted for prospectively, as a change in estimate. The resulting reduction in pension and OPEB costs for the three and nine month periods ended September 30, 2017 did not have a material impact on net income, as it was largely offset by the impact of OEB-authorized variance and deferral accounts in the regulated business segments. Further details on the full yield curve approach can be found in the 2016 annual MD&A in the section, *Critical Accounting Policies and Estimates* under the heading, *Pension and Other Post-Employment Benefits*.

Enterprise Total Generating Cost per MWh

The Enterprise TGC per MWh decreased to \$46.65 for the three months ended September 30, 2017, compared to \$50.72 for the same quarter in 2016. The decrease was mainly due to lower OM&A expenses before the impact of regulatory accounts and higher SBG-adjusted hydroelectric electricity generation reflecting higher water flows, partly offset by the expected reduction in nuclear electricity generation due to the Unit 2 refurbishment outage at the Darlington GS.

The Enterprise TGC per MWh was \$47.77 for the nine months ended September 30, 2017, an increase compared to \$46.74 for the same period in 2016. The increase was expected and mainly a result of lower electricity generation due to the Unit 2 refurbishment outage at the Darlington GS, largely offset by lower OM&A expenses before the impact of regulatory accounts and higher SBG-adjusted hydroelectric electricity generation reflecting higher water flows.

If Unit 2 at the Darlington GS was not currently undergoing refurbishment and had continued to operate in a manner consistent with the performance of the remaining units at the station, adjusting for generation constraints on these units related to the transition of the station toward refurbishment, the Enterprise TGC would have been approximately \$4 per MWh lower for both the three and nine month periods ended September 30, 2017. This sensitivity was calculated using the estimated incremental electricity generation and associated fuel cost that are expected to have resulted in the absence of the refurbishment.

Nuclear Total Generating Cost per MWh

The Nuclear TGC per MWh of \$58.75 for the three months ended September 30, 2017 was comparable to \$58.55 for the same quarter in 2016, as the higher electricity generation at the Pickering GS and the impact of lower OM&A expenses before the impact of regulatory accounts was largely offset by the expected decrease in nuclear electricity generation reflecting the Unit 2 refurbishment outage at the Darlington GS and higher sustaining capital expenditures. The Nuclear TGC per MWh was \$67.87 for the nine months ended September 30, 2017, compared to \$61.07 for the same period in 2016. The increase was expected and primarily due to the decrease in nuclear electricity generation, partially offset by lower OM&A expenses before the impact of regulatory accounts.

Hydroelectric Total Generating Cost per MWh

The Hydroelectric TGC per MWh was \$26.20 for the three months ended September 30, 2017, compared to \$31.01 for the same quarter in 2016. The decrease was primarily due to higher SBG-adjusted hydroelectric electricity generation reflecting higher water flows net of higher fuel expense, lower OM&A expenses before the impact of regulatory accounts and lower sustaining capital expenditures. The Hydroelectric TGC per MWh was \$21.74 for the nine months ended September 30, 2017, compared to \$23.99 for the same period in 2016. The decrease was primarily due to lower OM&A expenses before the impact of regulatory accounts and lower sustaining capital expenditures.

ROE Excluding AOCI, FFO Adjusted Interest Coverage, Enterprise TGC per MWh, Nuclear TGC per MWh and Hydroelectric TGC per MWh are not measurements in accordance with US GAAP and should not be considered alternative measures to net income, cash flow provided by operating activities, or any other performance measure under US GAAP. OPG believes that these non-GAAP financial measures are effective indicators of its performance and are consistent with the Company's strategic imperatives and related objectives. The definition and calculation of ROE Excluding AOCI, FFO Adjusted Interest Coverage, Enterprise TGC per MWh, Nuclear TGC per MWh and Hydroelectric TGC per MWh are found in the section, *Supplementary Non-GAAP Financial Measures*.

Recent Developments

Ontario's 2017 Long-Term Energy Plan

On October 26, 2017, Ontario's Ministry of Energy issued the 2017 Long-Term Energy Plan (2017 LTEP) that outlines the Province's plans for the future development of Ontario's electricity system. The 2017 LTEP focuses on the affordability, reliability and flexibility of a clean energy supply in the province. The 2017 LTEP replaces the previous Long-Term Energy Plan issued in 2013.

As it relates to the supply of electricity, the 2017 LTEP recognizes the refurbishment of Ontario's nuclear generating stations as the most cost-effective option for producing emission-free baseload generation to meet Ontario's needs and reaffirms the Province's support for the refurbishment of the four units at the Darlington GS and the six units at the Bruce generating stations, subject to the principles established in the 2013 Long-Term Energy Plan. The 2017 LTEP also recognizes the value to customers of continuing to operate the Pickering GS until 2024, as planned. With respect to hydroelectric electricity generation, the 2017 LTEP highlights the opportunity to continue to invest in optimizing existing hydroelectric facilities, noting that pumped hydroelectric storage could play an important role in the reliability of the electricity system.

Additionally, the 2017 LTEP discusses the potential impact of a number of innovative technologies on the future of the electricity system. Among others, these include the increased electrification of the transportation sector, the emergence of energy storage, and the opportunity for Ontario to foster nuclear innovation technologies. OPG continues to assess how best to capitalize on potential business growth opportunities in these and other areas. The 2017 LTEP also recognizes the importance of Indigenous peoples' continuing role in shaping Ontario's energy planning, projects and policies.

Ontario's Fair Hydro Plan

The *Ontario Fair Hydro Plan Act, 2017* (the Act) received Royal Assent on June 1, 2017 and the associated general regulation came into force in June 2017. The Act established a framework under which the costs and benefits associated with the Government of Ontario's clean energy initiative are to be allocated between present and future consumers of electricity under the Fair Hydro Plan. The aim of the Plan is to reduce electricity bills for residential, farm, small businesses and other eligible consumers by refinancing a portion of the Global Adjustment costs over a longer time period. The legislation appointed OPG as the Financial Services Manager of the Fair Hydro Plan and provides for a financing entity to be established by OPG. The regulation provides details on the structural, operational and financial elements required to implement the Fair Hydro Plan.

OPG's Board of Directors, which had established a Special Committee to provide oversight on behalf of the Board of Directors, has conditionally approved OPG's involvement with the Fair Hydro Plan on commercial terms. OPG is in the process of establishing the Fair Hydro Trust (the Trust) as the financing entity contemplated by the Act. The majority unitholder and beneficiary of the Trust will be a wholly-owned subsidiary of OPG. The Trust is structured to be bankruptcy remote and ring fenced from OPG in order to protect the Company's assets and operations. Through this ownership and OPG's control over the key activities of the Trust, the Company expects to consolidate the financial results of the Trust in accordance with US GAAP, commencing in the fourth quarter of 2017.

In order for the Trust to finance the deferred portion of the Global Adjustment costs, it will incur senior debt from capital markets and subordinated debt from OPG, which it will use to periodically purchase an investment interest in the deferred Global Adjustment costs from the IESO. The Trust's investment will attract a financing amount and other related fees, which will be payable by the eligible consumers in the future.

Through an equity injection in OPG, the Province is expected to provide 44 percent of the total funding requirement related to the Trust's investment interest in the deferred Global Adjustment costs. OPG will invest the proceeds from the equity injection into subordinated debt issued to the Trust. A plan to amend the Company's Articles of Amalgamation to allow for the creation and issuance of Class A shares to be issued to the Province is in progress. OPG's Board of Directors' approval and a Shareholder Resolution are expected later in the year to authorize the amendment.

OPG expects to provide five percent of the total funding requirement related to the Trust's investment interest in the deferred Global Adjustment costs, through its subordinated debt investment in the Trust. OPG issued senior notes payable in October 2017 under a short form base shelf prospectus for general corporate purposes and to fund its portion of the subordinated debt investment. Further details of the debt offering can be found in the section, *Liquidity and Capital Resources* under the heading, *Financing Activities*.

The first set of transactions of the Trust is expected to take place in the fourth quarter of 2017.

Canadian Nuclear Safety Commission Safety Rating for the Darlington GS and the Pickering GS

The Canadian Nuclear Safety Commission (CNSC) publishes an annual report on the safety performance of Canada's nuclear power plants. The report assesses how well plant operators are meeting regulatory requirements and program expectations in the areas of operational performance, safety analysis, radiation protection, waste management and conventional health and safety. On September 8, 2017, the CNSC issued an executive summary of its 2016 annual report, giving both the Darlington GS and the Pickering GS the highest possible safety rating of "Fully Satisfactory". The Darlington GS achieved this rating for the eighth consecutive year, while the Pickering GS achieved this rating for the second consecutive year.

CORE BUSINESS, STRATEGY, AND OUTLOOK

The discussion in this section is qualified in its entirety by the cautionary statements included in the section, *Forward-Looking Statements*, at the beginning of the MD&A.

OPG's mission is to provide low cost power in a safe, clean, reliable and sustainable manner for the benefit of customers and its Shareholder. OPG also seeks to pursue, on a commercial basis, generation development projects and other business growth opportunities.

The following sections provide an update to OPG's disclosures in the 2016 annual MD&A related to its four key strategic imperatives – operational excellence, project excellence, financial strength, and social licence. A detailed discussion of these strategic imperatives is included in the 2016 annual MD&A in the section, *Core Business, Strategy, and Outlook*.

Operational Excellence

Operational excellence at OPG is accomplished by the safe and environmentally responsible generation of reliable and cost-effective electricity from the Company's generating assets through a highly trained and engaged workforce.

Electricity Generation Production and Reliability

- As part of the plan to extend Pickering operations, OPG is continuing to undertake the required technical work to confirm that the station's pressure tubes, a key life-limiting component of the station, will remain fit for service for operation to 2024. OPG is also finalizing completion of component condition assessments to identify the work required to support the continued operation of the station. The accounting end-of-life assumptions for the Pickering GS are currently set at the end of 2020. These assumptions are expected to be reassessed in line with OPG's plans to extend the station's operation to 2024 when the work on the fuel channel analysis, other technical feasibility assessments and safety case consistent with submissions for the CNSC's approval, discussed below, provides the necessary technical confidence to support a change in the accounting end-of-life date. The technical work undertaken to date has yielded positive results, which will go toward supporting a change in the accounting end-of-life assumptions. OPG's current application with the OEB for new base regulated prices, presently pending the OEB's decision, reflects OPG's plans to extend Pickering operations to 2024 and requests inclusion of the corresponding cost and generation impacts in the determination of the nuclear regulated price.
- OPG's current five-year operating licence for the Pickering GS was approved by the CNSC in 2013 and expires on August 31, 2018. This licence was issued assuming that the station would shut down in 2020. On June 28, 2017, OPG confirmed to the CNSC that it intends to cease commercial operation of all Pickering units on December 31, 2024. On August 28, 2017, OPG submitted a ten-year licence renewal application to the CNSC. The requested licence term spans the planned extended commercial operations period, through to the planned period of de-fuelling, de-watering and beginning to place the station in a safe storage state in 2028. In support of the licence renewal, OPG is undertaking a Periodic Safety Review (PSR), which will confirm that extending operations of the Pickering units will continue to pose minimal risk to the health, safety and security of workers, the public and the environment. The PSR consists of Safety Factor Reports (SFRs), a Global Assessment Report (GAR) and the Integrated Implementation Plan (IIP). SFRs and GAR have been submitted to the CNSC, with the IIP on track for CNSC submission in November 2017.
- Work continues on the overhaul and upgrade of Unit 2 of the DeCew Falls hydroelectric GS, with completion of the power assembly, refurbishment of the turbine and final delivery of the major components, and the rehabilitation and overhaul of Unit 2 of the Lower Notch hydroelectric GS.

- During the third quarter, as part of a continued focus on operating performance and efficiency improvement, OPG opened an amalgamated control room located at the Saunders hydroelectric GS that will control all operational activities at ten hydroelectric stations along the Madawaska, Ottawa and St. Lawrence rivers.
- As part of the process to decommission the Nanticoke and Lambton generating stations, OPG has begun executing demolition plans that will ensure that the stations are closed safely, securely and in an environmentally responsible manner. The demolition of the Nanticoke coal yard equipment and structures is in progress, with a contract issued in July 2017 for the demolition of the Nanticoke powerhouse and associated structures. Project milestones for the Nanticoke site during the remainder of 2017 include completing the removal of coal yard equipment and structures, demolition of the ash silos, and mobilization of the contractor to prepare for the removal of the powerhouse and associated structures. A competitive bidding process for the demolition of the Lambton GS is in progress, with a contract for the removal of the powerhouse and associated structures expected to be awarded in 2018. An update of the associated asset retirement obligations related to the Nanticoke and Lambton sites is expected to be finalized in the fourth quarter of 2017.

Environmental Performance

There were no significant changes to environmental legislation affecting the Company during the third quarter of 2017. Disclosures related to the Company's environmental policy and environmental risks can be found in OPG's 2016 annual MD&A.

Project Excellence

OPG is pursuing a number of generation development and other major projects in support of Ontario's electricity planning initiatives. OPG remains focused on delivering projects safely, on time, on budget and with high quality. The status updates for OPG's major projects as at September 30, 2017 are outlined in the following table, with further details below.

Project <i>(millions of dollars)</i>	Capital expenditures		Approved budget	Expected in-service date	Current status
	Year-to-date	Life-to-date			
Darlington Refurbishment	924	4,109	12,800 ¹	First unit - 2020 Last unit - 2026	The setup of specialized tooling and equipment needed for the removal of Unit 2 reactor components was completed in the third quarter of 2017. All feeder tubes have been removed safely, and the removal of fuel channel assemblies is in progress. Construction activities on the Heavy Water Storage and Drum Handling Facility will recommence following the substantial completion of the Re-tube Waste Processing Building in November 2017. Planning and procurement activities for the refurbishment of Unit 3 are continuing. The overall project is tracking on schedule and on budget.
Peter Sutherland Sr. Hydroelectric GS	38	274	300	2017	The station was placed in-service on March 31, 2017, ahead of the originally planned schedule, and is expected to close below the approved budget. Project close-out activities are in progress.
Ranney Falls Hydroelectric GS	17	20	77	2019	Work is progressing on the expanded forebay, forebay wall concrete replacement, powerhouse and spillway. The project is tracking on schedule and on budget.
Nanticoke Solar Facility	1	2	107	2019	Project definition work is continuing, with construction planned to commence in the first quarter of 2018.
Deep Geologic Repository (DGR) for low and intermediate level radioactive waste (L&ILW)	7 ²	202 ²			On August 21, 2017, the federal Minister of Environment and Climate Change requested further information related to the project's environmental assessment (EA). OPG is assessing the new request.

¹ The total project budget of \$12.8 billion is for the refurbishment of all four units at the Darlington GS, including the costs of the pre-requisite projects in support of the execution phase of the refurbishment.

² Expenditures are charged against the nuclear fixed asset removal and nuclear waste management liabilities (Nuclear Liabilities).

Darlington Refurbishment

The Darlington generating units are approaching their originally designed end-of-life. Refurbishment of the four generating units is expected to extend the operating life of the station by approximately 30 years. The approved budget for the four-unit refurbishment is \$12.8 billion, which includes the costs of the pre-requisite projects in support of the execution phase of the refurbishment.

In 2016, the Darlington Refurbishment project transitioned from the planning phase to the execution phase, as OPG commenced the refurbishment of the first unit, Unit 2, in October 2016, as planned. The unit was taken offline on October 15, 2016. De-fuelling of the reactor was completed safely in January 2017, with a total of 480 fuel channels de-fuelled. Islanding of Unit 2, the physical separation of the unit under refurbishment from the three operating units, was completed in April 2017, signifying the completion of the first major segment of the project.

The second major segment includes preparatory work to support the removal of feeder tubes and fuel channel assemblies, followed by the removal of reactor components. The preparatory work was completed in the second quarter of 2017. The Re-tube Tooling Platform for hosting the tooling for the removal, inspection and installation activities, and the setup of specialized tooling and equipment needed for the removal and replacement of the reactor components were completed in the third quarter of 2017. The disassembly of reactor components commenced in August 2017, with the removal of all 960 feeder tubes completed safely in September 2017. The removal of fuel channel assemblies is in progress and expected to continue through the first quarter of 2018. Other key project activities executed during the second segment include the completion of the primary side steam generator layup, installation of steam generator access ports to support future inspections, continuation of the major turbine generator overhaul and continued execution of the major electrical scope. OPG is also continuing to execute work to support the requirements set out in the CNSC-approved IIP for the station.

Most of the pre-requisite projects, including construction of facilities, infrastructure upgrades and installation of safety enhancements, have been completed and placed in service. The Re-tube Waste Processing Building is expected to be completed in November 2017. Completion of the Heavy Water Storage and Drum Handling Facility (HWSF) has been delayed due to challenges with construction. OPG suspended the project in the second quarter of 2017 to evaluate the best approach to optimize cost and schedule and complete the project. Construction activities for the HWSF will recommence following the substantial completion of the Re-tube Waste Processing Building. This sequencing ensures that the necessary resources are available for both projects and, through resource levelling, supports improved execution and cost efficiency of these projects.

The HWSF is expected to be completed by early 2019 and is not on the critical path for the Darlington Refurbishment project, which continues to track on schedule. OPG is in the process of finalizing the increased cost estimate for the HWSF. The change in the cost estimate for the HWSF will not impact the overall Darlington Refurbishment budget of \$12.8 billion, as it will be accommodated within that budget. Taking into account the execution performance of the Unit 2 refurbishment, the overall Darlington Refurbishment project continues to track on budget.

OPG's current application with the OEB for new regulated prices seeks an increase in the nuclear rate base, effective in the first quarter of 2020, to reflect the planned placement in service of the \$4.8 billion in capital expenditures upon return to service of Unit 2, which includes expenditures incurred during the definition and planning phase of the project. Based on OPG's proposal in the application, the revenue requirement impact of the differences between the forecast Unit 2 in-service amount included in the regulated prices and the actual amounts placed in service would be subject to true up via the Capacity Refurbishment Variance Account established by the OEB pursuant to *Ontario Regulation 53/05*. OPG's application proposes that the recovery of the HWSF's costs through regulated prices be subject to a separate prudence review by the OEB, to be conducted as part of a future OEB application.

In addition to the execution of refurbishment activities on Unit 2, OPG is continuing planning activities for the refurbishment of the second unit, Unit 3, and is entering into associated commitments to procure major components that require long lead times. As of September 30, 2017, \$70 million has been invested in planning activities related to

the refurbishment of the second unit, Unit 3. These planning activities are being undertaken in accordance with the refurbishment project schedule.

Ranney Falls Hydroelectric GS

During the third quarter of 2017, OPG continued construction work for a 10 MW single-unit powerhouse on the existing Ranney Falls GS site, as part of the Regulated – Hydroelectric segment. The new unit will replace an existing unit that reached its end of life in 2014. The existing forebay structure demolition has been completed and the upstream cofferdam has been constructed ahead of schedule. Construction continues on the expanded forebay, powerhouse and spillway. Excavation work has been substantially completed and forebay wall concrete replacement is in progress. The project's expected in-service date is in the fourth quarter of 2019, with a budget of \$77 million. The project is tracking on schedule and on budget.

Nanticoke Solar Facility

The construction of a 44 MW solar facility at OPG's Nanticoke GS site and adjacent lands under a Large Renewable Procurement contract with the IESO, through Nanticoke Solar LP, a partnership between OPG and a subsidiary of the Six Nations of Grand River Development Corporation, is planned to commence in the first quarter of 2018. During the third quarter of 2017, the partnership continued work to obtain approvals and permits required to enable the commencement of construction, and progressed procurement activities for equipment and for engineering and construction services. The facility is expected to be completed in the first quarter of 2019, with a budget of \$107 million.

Deep Geologic Repository for Low and Intermediate Level Waste

OPG has proposed a deep geologic repository as the preferred solution for the safe long-term management of the L&ILW produced from the continued operation of OPG-owned nuclear generating stations. Agreement has been reached with local municipalities for OPG to develop the L&ILW DGR on lands adjacent to the Western Waste Management Facility (WWMF) in Kincardine, Ontario. The environmental effects of the proposed L&ILW DGR were examined by the CNSC and Canadian Environmental Assessment Agency (CEAA)-appointed Joint Review Panel (JRP) to meet the requirements of the *Canadian Environmental Assessment Act*. The JRP submitted its report on the EA to the federal Minister of Environment in May 2015, concluding that, given mitigation, there is unlikely to be significant environmental impact from the project and recommending that the Minister approve the EA. In December 2016, at the request of the federal Minister of Environment and Climate Change, OPG submitted additional information on certain aspects of the EA, including information related to alternate locations for the project. Following its review of OPG's submission and a period of public comment, the CEAA requested further information that OPG subsequently provided in May 2017. In June 2017, the CEAA notified OPG that it had sufficient and adequate information to proceed with the next step of the environmental assessment process and advised that a draft report and updated terms and conditions would be prepared for public review.

On August 21, 2017, the federal Minister of Environment and Climate Change requested OPG to update its analysis of potential cumulative effects of the project on the Saugeen Ojibway Nation's (SON) physical and cultural heritage, including a description of the potential effects of the project on the Nation's spiritual and cultural connection to the land, taking into account the results of the SON Community Process. OPG is assessing the request. The L&ILW DGR at the WWMF site remains OPG's preferred solution for the safe long-term management of the L&ILW.

OPG continues its engagement with the SON toward securing community support for the L&ILW DGR. The in-service date of the L&ILW DGR is expected to be approximately six to seven years from the start of construction.

Financial Strength

As a commercial enterprise, OPG's financial priority is to achieve a consistent level of strong financial performance that delivers an appropriate level of return on the Shareholder's investment and positions the Company for future growth.

Increase Revenue, Reduce Costs and Achieve Appropriate Return

In May 2016, OPG filed a 5-year application with the OEB for new regulated prices for production from its regulated hydroelectric and nuclear facilities, with a proposed effective date of January 1, 2017. Consistent with the requirements of *Ontario Regulation 53/05*, the application incorporates a rate smoothing proposal that would defer, for future collection, a portion of the approved annual nuclear revenue requirement for the period from January 1, 2017 to the end of the Darlington Refurbishment project, with a view to making changes in OPG's regulated prices more stable year over year. The application seeks to ensure that nuclear regulated prices under the rate smoothing approach allow for sufficient cash flow to meet the Company's liquidity needs, support cost effective funding for the Darlington Refurbishment project and other expenditures, and maintain the Company's investment grade credit rating, while taking into account both near-term and future impacts on customers. OPG expects to recognize amounts deferred under rate smoothing as income in the periods to which the underlying approved revenue requirements relate.

The application will challenge and incentivize OPG to find additional cost reductions and efficiencies within its operations, as a result of greater de-coupling of nuclear and hydroelectric regulated prices from costs and a longer rate-setting period under the OEB's incentive ratemaking framework, which forms the basis for the ratemaking methodologies reflected in the application.

In addition to an increase in the nuclear rate base to reflect the planned placement in service of capital expenditures for the Darlington Refurbishment project, the application seeks an increase in the deemed capital structure applied to the total regulated rate base to 49 percent equity and 51 percent debt, from 45 percent equity and 55 percent debt reflected in the existing regulated prices, effective in 2017. The application also requests new rate riders, effective January 1, 2017, to recover or repay the December 31, 2015 balances in all of the Company's OEB-authorized variance and deferral accounts, with the exception of the Pension & OPEB Cash Versus Accrual Differential Deferral Account and the portion of these balances previously approved for recovery or repayment through rate riders that were in effect during 2016.

The public hearing process for the application was completed in the second quarter of 2017. The OEB's decision on the application, including the effective date of the new regulated prices, is expected in the fourth quarter of 2017. Following the decision, the OEB is expected to issue an order establishing and implementing the new regulated prices, including rate riders, based on the findings in the decision.

Ensure Availability of Cost Effective Funding

In April 2017, DBRS Limited (DBRS) re-affirmed the long-term credit rating on OPG's debt at 'A (low)' and OPG's commercial paper rating at 'R-1 (low)'. All ratings from DBRS have a stable outlook. In July 2017, S&P Global Ratings (S&P) re-affirmed OPG's long-term credit rating at 'BBB+' with a stable outlook. S&P's commercial paper rating for OPG is 'A-1 (low)'.

Social Licence

As the largest electricity generator in Ontario with diverse operations across the province, OPG holds itself accountable to the public and its employees, and continues to focus on maintaining public trust. OPG is committed to maintaining high standards of public safety and corporate citizenship, including environmental stewardship, transparency, community engagement, and Indigenous relations.

OPG is focused on building long-term, mutually beneficial working relationships with Indigenous communities, businesses and organizations across Ontario, and continues to support procurement, employment and educational opportunities with its Indigenous community partners. The Company seeks to establish these relationships based on a foundation of respect for the languages, customs, and political, social and cultural organizations of the Indigenous communities.

In June 2017, OPG launched an Indigenous Business Engagement (IBE) Initiative. The purpose of this initiative is to increase access to procurement opportunities for Indigenous businesses interested in supplying materials and services to OPG. The IBE Initiative is based on a strategy that will identify opportunities in contracts, scopes of work and business plans for potential Indigenous business engagement; include criteria related to suppliers' ability to engage or partner with Indigenous people or businesses in assessing procurement proposals; and invest in relationships with Indigenous communities by increasing outreach efforts to enhance understanding of how to do business with OPG. OPG continues to engage with Indigenous businesses and communities as well as its suppliers to promote the IBE Initiative. In September 2017, OPG presented the IBE to the Mohawk Council of Akwesasne (Akwesasne). As a result, the Akwesasne plan to create a database of businesses in the community that will participate in contracting and supply opportunities with OPG. In September 2017, OPG hosted a similar presentation to the Williams Treaties First Nations, located proximate to the Pickering and Darlington nuclear generating stations.

OPG is also developing recruitment plans targeting Indigenous peoples and, in October 2017, participated in several Indigenous-specific career fairs.

OPG has a strategy to help position the Company as a leader in transportation electrification in the province. The strategy aims to leverage the Company's clean, reliable and cost-effective electricity to power transportation, capitalize on future commercial growth opportunities, and enhance the Company's social licence. OPG is pursuing initiatives to increase the use of electric vehicles within its operations, and is assessing vehicle grid integration and hydrogen applications for the transportation sector.

Outlook

The financial performance of OPG's regulated operations is driven, in large part, by the outcome of applications for regulated prices to the OEB. The existing base regulated prices were established by the OEB effective November 1, 2014 based on a forecast of costs and production for the regulated facilities for the 2014 to 2015 period. The future outcome of OPG's current application for new regulated prices, presently pending the OEB's decision, is expected to provide substantial price certainty for the regulated business for the 2017 to 2021 period. The continuation of existing regulated prices during 2017 prior to the issuance of the OEB's decision has reduced income, particularly from the Regulated – Nuclear Generation segment, and lowered ROE Excluding AOCI.

In its application, OPG has requested January 1, 2017 as the effective date of the new regulated prices. In December 2016, the OEB issued an order declaring the existing base regulated prices interim, which preserves the OEB's ability to make the new regulated prices effective as early as January 1, 2017. Considering the timing of OPG's application and OPG's procedural adherence throughout the proceeding, the Company believes that the OEB could make the new regulated prices effective January 1, 2017. This would allow OPG to recover the difference between the approved new regulated prices and the existing regulated prices for the period between January 1, 2017 and the implementation date of the new prices based on the OEB's order. The OEB's decision on the application, including the effective date of the new regulated prices, is expected in the fourth quarter of 2017. The issuance of the decision in the fourth quarter of 2017 would result in OPG's revenue for that quarter reflecting the impact of the new regulated prices, including the impact of any retrospective change in the regulated prices for the period between their effective date and their implementation date. As such, the OEB's decision on the effective date, as well as the timing of the decision issuance, could have a significant impact on OPG's financial results for the fourth quarter of 2017.

Nuclear base regulated prices resulting from OPG's current application will be subject to a rate smoothing mechanism that defers collection of a portion of OEB-approved revenues to future periods. As expected, combined

with the expiry of rate riders in effect to the end of 2016, the year-over-year reduction in nuclear generation due to the Unit 2 refurbishment outage at the Darlington GS and the continuation of existing regulated prices until such time as new prices are implemented by the OEB, this will result in lower cash flow from operating activities in 2017, compared to 2016. OPG expects to continue to have the necessary financial capacity and sufficient access to cost effective financing sources to continue to fund its capital requirements and other disbursements.

Lower nuclear generation due to the Darlington Refurbishment outages will continue, as planned, to negatively impact the Enterprise TGC metric for the duration of the refurbishment project. Variability in sustaining capital investment expenditures, including major sustaining projects for the hydroelectric operations, also will impact the Enterprise TGC in future periods.

Several OEB-authorized regulatory variance and deferral accounts currently in place contribute to reducing the relative variability of the Company's income and ROE Excluding AOCI. Among others, the regulatory accounts include those related to the revenue impact of variability in water flows and forgone production due to SBG conditions at the regulated hydroelectric stations. As there are no variance or deferral accounts in place related to the impact of generation performance of the nuclear stations on revenue from base regulated prices, the Regulated – Hydroelectric segment generally is expected to produce overall more predictable earnings. OPG continues to operate and maintain its nuclear facilities with a view to optimize their performance and availability, while focusing on improving the overall reliability and predictability of the fleet.

Electricity generated from most of OPG's non-regulated assets is subject to Energy Supply Agreements with the IESO. Based on these agreements, OPG expects the Contracted Generation Portfolio segment to continue to contribute a generally stable level of earnings and cash flow from operations going forward.

OPG's total forecast capital expenditures for the 2017 year are approximately \$2.0 billion. This includes amounts for the Darlington Refurbishment project, hydroelectric and other development projects including the completion of the Peter Sutherland Sr. GS and work on the Ranney Falls GS expansion, and sustaining capital investments across the generating fleet. OPG's major projects are discussed in the section, *Project Excellence*.

In addition to the operating and financial performance of the electricity generation business, OPG's results are affected by the earnings on the Nuclear Segregated Funds, which are reported in the Regulated – Nuclear Waste Management segment. While the Nuclear Segregated Funds are managed to achieve, in the long term, the target rate of return based on the discount rate specified in the ONFA, the rates of return earned in a given period can be subject to various external factors including financial market conditions and, for the portion of the Used Fuel Segregated Fund guaranteed by the Province under the ONFA, changes in the Ontario consumer price index (CPI). In the near term, these factors can be volatile and cause fluctuations in the Company's income. This volatility is partially mitigated by the impact of the OEB-authorized Bruce Lease Net Revenues Variance Account and the funded status of the two segregated funds, discussed below.

As OPG does not have the right to withdraw surplus amounts from the Nuclear Segregated Funds, OPG limits the amount of Nuclear Segregated Funds assets reported on the balance sheet to the present value of the underlying life cycle funding liabilities per the most recently approved ONFA Reference Plan. This reduces the volatility of earnings on the Nuclear Segregated Funds reflected in net income when the funds are in a fully funded or overfunded position. As at September 30, 2017, the Decommissioning Segregated Fund was overfunded by approximately 23 percent, and the Used Fuel Segregated Fund was marginally overfunded, by less than one percent, based on the 2017 ONFA Reference Plan. Variability in asset performance due to volatility inherent in financial markets and changes in Ontario CPI, or changes in funding liability estimates, may result in either or both funds becoming underfunded in the future.

The Fair Hydro Plan is not expected to have a material impact on the Company's net income for the year ended December 31, 2017.

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

Regulated – Nuclear Generation Segment

	Three Months Ended September 30		Nine Months Ended September 30	
<i>(millions of dollars) (unaudited)</i>	2017	2016	2017	2016
Revenue	739	885	2,000	2,631
Fuel expense	81	79	217	239
Gross margin	658	806	1,783	2,392
Operations, maintenance and administration	511	521	1,693	1,665
Depreciation and amortization	116	230	333	691
Property taxes	7	6	20	19
Income (loss) before other losses, interest, and income taxes	24	49	(263)	17
Other losses	4	2	4	-
Income (loss) before interest and income taxes	20	47	(267)	17

For the three and nine month periods ended September 30, 2017, the segment earnings decreased by \$27 million and \$284 million, respectively, compared to the same periods in 2016. The decrease in earnings was expected and primarily due to reduced revenue from the nuclear base regulated price of approximately \$24 million and \$230 million, respectively. The decrease for the nine months ended September 30, 2017 was partially offset by an associated year-over-year decrease in fuel expense. The decrease in revenue during the three and nine month periods ended September 30, 2017, compared to the same periods in 2016, reflected lower electricity generation of 0.4 TWh and 4.0 TWh, respectively, primarily due to the ongoing Unit 2 refurbishment outage at the Darlington GS that began in October 2016, without a corresponding increase in the base regulated price. The existing nuclear base regulated price set by the OEB in 2014 continues to be in effect pending the OEB's decision on OPG's application for new regulated prices, proposed to be effective on January 1, 2017. The existing price does not reflect the lower generation as a result of the Darlington Refurbishment project, as it was set to allow the Company to recover its approved nuclear costs over a higher nuclear production volume, based on the 2014 and 2015 outage profile that did not include a refurbishment outage. The reduction in nuclear electricity generation for the three months ended September 30, 2017 was largely offset by the higher electricity generation from the Pickering GS.

OM&A expenses decreased by \$10 million during the third quarter of 2017, compared to the same period in 2016, as a result of a higher materials and supplies obsolescence charge recognized in 2016. OM&A expenses increased by \$28 million during the nine months ended September 30, 2017, compared to the same period in 2016, mainly due to planned maintenance activities in 2017.

Depreciation and amortization expense, excluding amortization expense related to regulatory account balances, increased by \$16 million and \$30 million during the three and nine month periods ended September 30, 2017, respectively, compared to the same periods in 2016, primarily due to new assets in service.

The expiry of an OEB-authorized nuclear rate rider on December 31, 2016 contributed to the decrease in segment revenue for the three and nine month periods ended September 30, 2017, compared to the same periods in 2016. As the rate rider allowed for the recovery of approved balances in OEB-authorized regulatory accounts, this decrease in revenue was largely offset by a decrease in amortization expense related to these balances. There was no rate rider in effect during the nine months ended September 30, 2017, pending the outcome of OPG's current application to the OEB for new regulated prices.

The Unit Capability Factors for the Darlington and Pickering generating stations were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Unit Capability Factor (%) ¹				
Darlington GS	96.2	89.6	82.1	87.6
Pickering GS	88.7	77.3	83.8	73.8

¹ The nuclear Unit Capability Factor excludes unit(s) during the period in which they are undergoing refurbishment. Accordingly, Unit 2 of the Darlington GS was excluded from the measure effective October 15, 2016, when the unit was taken offline for refurbishment.

The Unit Capability Factor at the Darlington GS increased in the third quarter of 2017, compared to the same quarter in 2016, primarily due to the lower number of planned outage days in 2017. The lower Unit Capability Factor at the Darlington GS for the nine months ended September 30, 2017, compared to the same period in 2016, reflected the higher number of planned outage days in the first half of 2017, largely driven by constraints related to the transition of the station toward refurbishment.

The increase in the Unit Capability Factor at the Pickering GS for the three and nine month periods ended September 30, 2017 was primarily due to outage optimization, favourable unit conditions and execution of planned outage work resulting in a lower number of unplanned and planned outage days at the station compared to 2016.

Regulated – Nuclear Waste Management Segment

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars) (unaudited)	2017	2016	2017	2016
Revenue	33	36	90	102
Operations, maintenance and administration	35	38	96	108
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	230	228	696	684
Earnings on nuclear fixed asset removal and nuclear waste management funds	(196)	(248)	(579)	(620)
(Loss) Income before interest and income taxes	(36)	18	(123)	(70)

The segment loss before interest and income taxes was \$36 million and \$123 million during the three and nine month periods ended September 30, 2017, respectively, a decrease in earnings of \$54 million and \$53 million compared to the same periods in 2016. The decline in earnings was primarily due to lower earnings from the Nuclear Segregated Funds, net of the impact of the Bruce Lease Net Revenues Variance Account, reflecting earnings from market returns on fund assets and the CPI-adjusted rate of return guaranteed by the Province for the portion of the Used Fuel Segregated Fund related to the initial 2.23 million used fuel bundles (rate of return guarantee) in the third quarter of 2016.

As both the Decommissioning Segregated Fund and the Used Fuel Fund were in an overfunded position during the three and nine month periods ended September 30, 2017, compared to the underlying funding liabilities per the approved ONFA Reference Plan, the earnings on the funds recognized in net income during these periods reflected the growth rate in the present value of the funding liabilities and were not impacted by market returns and the rate of return guarantee. The higher earnings on both funds during the three and nine month periods ended September 30, 2016 reflected market returns and the rate of return guarantee, as the Decommissioning Segregated Fund became over 120 percent funded during the third quarter of 2016 while the Used Fuel Fund was underfunded. Market returns and the rate of return guarantee in the third quarter of 2016 were higher than the funding liabilities' growth rate reflected in fund earnings during 2017, resulting in a year-over-year decrease in the amount of earnings recognized in

net income. Further details on the accounting for the Nuclear Segregated Funds can be found in OPG's 2016 annual MD&A in the section, *Critical Accounting Policies and Estimates* under the heading, *Nuclear Fixed Asset Removal and Nuclear Waste Management Funds*.

As of December 31, 2016, OPG recorded a decrease of approximately \$1,570 million to the Nuclear Liabilities and associated asset retirement costs capitalized as part of the carrying value of the nuclear generating stations. The resulting year-over-year decreases in accretion on fixed asset removal and nuclear waste management liabilities recorded in the Regulated – Nuclear Waste Management segment and depreciation and fuel expenses recorded in the Regulated – Nuclear Generation segment during the three and nine month periods ended September 30, 2017, compared to the same periods in 2016, were offset by the impact of the Bruce Lease Net Revenues Variance Account and the Nuclear Liability Deferral Account authorized by the OEB.

Under the current OEB-approved cost recovery methodology, these changes in expenses also are not expected to materially affect OPG's income during the fourth quarter of 2017, as they are expected to continue to be offset by the impact of the regulatory accounts until such time as the OEB implements corresponding changes to OPG's regulated prices, and thereafter by the impact of such new regulated prices. Further details on the change in the estimate of the Nuclear Liabilities as of December 31, 2016 are described in OPG's 2016 annual MD&A in the section, *Critical Accounting Policies and Estimates* under the heading, *Asset Retirement Obligation*.

Regulated – Hydroelectric Segment

(millions of dollars) (unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
	327	350	1,069	1,148
	88	88	258	259
Gross margin	239	262	811	889
Operations, maintenance and administration	81	87	232	238
Depreciation and amortization	34	56	103	169
Property tax	1	1	1	1
Income before other losses (gains), interest and income taxes	123	118	475	481
Other losses (gains)	1	1	1	(19)
Income before interest and income taxes	122	117	474	500

¹ During the three and nine month periods ended September 30, 2017, the Regulated – Hydroelectric segment revenue included incentive payments of \$4 million and \$9 million, respectively, related to the OEB-approved hydroelectric incentive mechanism (three and nine month periods ended September 30, 2016 – incentive payments of \$6 million and \$8 million, respectively). The mechanism provides a pricing incentive to OPG to shift hydroelectric production from lower market price periods to higher market price periods, reducing the overall costs to customers. The incentive payments are reduced to remove incentive revenues arising in connection with SBG conditions.

The increase in segment income before interest and income taxes of \$5 million during the third quarter of 2017, compared to the same quarter in 2016, was primarily the result of a decrease in OM&A expenses, mainly due to the deferral of outages and repairs and maintenance work during the high water period in 2017.

The decrease in segment income before interest and income taxes of \$26 million during the nine months ended September 30, 2017, compared to the same period in 2016, was primarily due to a gain of \$22 million recognized during the first quarter of 2016 to reflect the OEB's January 2016 decision reversing a portion of an earlier capital cost disallowance related to the Niagara Tunnel project expenditures, in response to a motion by OPG. The income impact of OEB-approved variance accounts also contributed to the year-over-year decrease in income for the period. These factors were partially offset by lower OM&A expenses in the third quarter of 2017.

The decrease in revenue from the segment for the three and nine month periods ended September 30, 2017, compared to the same periods in 2016, was largely due to the expiry of an OEB-authorized hydroelectric rate rider on December 31, 2016. As the rate rider allowed for the recovery of approved balances in OEB-authorized regulatory

accounts, this decrease in revenue was largely offset by lower amortization expense related to these balances. There was no rate rider in effect during the first nine months of 2017, pending the outcome of OPG's current application to the OEB for new regulated prices.

The Hydroelectric Availability for the stations included in the Regulated – Hydroelectric segment was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Hydroelectric Availability (%)	87.6	84.1	89.0	89.8

The Hydroelectric Availability in the third quarter of 2017 was higher compared to the same period in 2016, primarily due to a higher number of planned outage days in 2016 as a result of the refurbishment of the Sir Adam Beck Pump GS reservoir between April 2016 and February 2017. The marginal decrease in the Hydroelectric Availability during the nine months ended September 30, 2017, compared to the same period in 2016, was primarily due to a higher number of unplanned outage days at the Northwestern Ontario and Niagara region hydroelectric stations, partially offset by higher availability from the Sir Adam Beck Pump GS.

Contracted Generation Portfolio Segment

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars) (unaudited)	2017	2016	2017	2016
Revenue	141	149	431	431
Fuel expense	15	19	42	42
Gross margin	126	130	389	389
Operations, maintenance and administration	39	44	118	129
Depreciation and amortization	20	19	59	56
Accretion on fixed asset removal liabilities	3	2	7	6
Property taxes	-	1	5	6
Income from investments subject to significant influence	(11)	(11)	(29)	(28)
Income before other loss, interest and income taxes	75	75	229	220
Other loss	-	1	-	1
Income before interest and income taxes	75	74	229	219

Income before interest and income taxes from the segment increased by \$1 million and \$10 million during the three and nine month periods ended September 30, 2017, respectively, compared to the same periods in 2016. The increase in earnings for the three months ended September 30, 2017 mainly resulted from revenues from the Peter Sutherland Sr. GS that was placed in-service at the end of the first quarter of 2017 and lower OM&A expenses, partially offset by lower revenue from the Atikokan GS. The decrease in revenue from the Atikokan GS was primarily due to higher revenues in 2016, when the station was called upon to provide the needed support to the electricity system in Northwestern Ontario as a result of an outage at a local transformer station. For the nine months ended September 30, 2017, the increase in earnings was primarily due to lower OM&A expenses. The lower OM&A expenses for the three and nine month periods ended September 30, 2017 were mainly due to the prospective adoption of the full yield curve approach to the estimation of the service and interest cost components of pension and OPEB costs starting in 2017.

The Hydroelectric Availability and the Thermal Equivalent Forced Outage Rate (EFOR) for the Contracted Generation Portfolio segment were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Hydroelectric Availability (%)	66.1	68.2	76.9	79.6
Thermal EFOR (%)	2.6	2.1	6.0	1.3

Lower Hydroelectric Availability during the three and nine month periods ended September 30, 2017, compared to the same periods in 2016, was primarily due to an increase in the number of planned outage days at the Lower Mattagami River hydroelectric generating stations.

The higher Thermal EFOR during the three and nine month periods ended September 30, 2017, compared to the same periods in 2016, was primarily due to a higher number of unplanned outage days at a Lennox GS unit as a result of a transmission outage and a generator-related outage in 2017.

Services, Trading, and Other Non-Generation Segment

	Three Months Ended September 30		Nine Months Ended September 30	
<i>(millions of dollars) (unaudited)</i>	2017	2016	2017	2016
Revenue	9	15	36	52
Fuel expense	1	1	1	1
Gross margin	8	14	35	51
Operations, maintenance and administration	1	11	2	20
Depreciation and amortization	8	8	22	25
Accretion on fixed asset removal liabilities	2	2	6	6
Property taxes	-	4	4	9
(Loss) income before other gains, interest, and income taxes	(3)	(11)	1	(9)
Other gains	(2)	(3)	(385)	(5)
(Loss) income before interest and income taxes	(1)	(8)	386	(4)

Segment earnings improved by \$7 million during the third quarter of 2017, compared to the same quarter in 2016. The improvement in earnings reflected higher OM&A expenses in the third quarter of 2016 as a result of a write-off of project expenditures and the decision taken in the fourth quarter of 2016 to proceed with the decommissioning of the Lambton GS. Expenditures incurred in connection with the decommissioning activities at the Lambton GS are charged against a previously established decommissioning provision.

Segment income before interest and income taxes increased by \$390 million for the nine months ended September 30, 2017, compared to the same period in 2016. The increase in earnings mainly reflected the gain on the sale of OPG's head office premises and associated parking facility recorded during the second quarter of 2017 as well as lower OM&A expenses, partially offset by a decrease in rental revenue due to the sale of the head office premises.

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), long-term corporate debt, and capital market financing. These sources are used for multiple purposes including: to invest in plants and technologies, to undertake major projects, to fund long-term obligations such as contributions to the pension fund and the Nuclear Segregated Funds, to make payments under the OPEB plans, to fund expenditures on the Nuclear Liabilities not reimbursable from the Nuclear Segregated Funds, to service and repay long-term debt, to provide general working capital, and to fund OPG's investment in the Fair Hydro Plan.

Changes in cash and cash equivalents for the three and nine month periods ended September 30 were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
<i>(millions of dollars) (unaudited)</i>	2017	2016	2017	2016
Cash and cash equivalents, beginning of period	242	295	186	464
Cash flow provided by operating activities	485	530	698	1,211
Cash flow used in investing activities	(463)	(390)	(720)	(1,253)
Cash flow provided by (used in) financing activities	16	(9)	116	4
Net increase (decrease)	38	131	94	(38)
Cash and cash equivalents, end of period	280	426	280	426

For a discussion of cash flow provided by operating activities and the FFO Adjusted Interest Coverage ratio, refer to the details in the section, *Highlights* under the heading, *Overview of Results*.

Investing Activities

Electricity generation is a capital-intensive business. It requires continued investment in plants and technologies to maintain and improve operating performance including asset reliability, safety and environmental performance, to increase the generating capacity of existing stations, and to invest in the development of new generating stations, emerging technologies and other business growth opportunities.

Cash flow used in investing activities during the third quarter of 2017 was \$463 million, compared to \$390 million for the same period in 2016. The increase in cash flow used for investing activities mainly resulted from higher expenditures on the Darlington Refurbishment project in the third quarter of 2017.

Cash flow used in investing activities decreased by \$533 million for the nine months ended September 30, 2017, compared to the same period in 2016. The decrease in net cash flow used in investing activities was primarily due to the receipt of proceeds from the sale of OPG's head office premises and associated parking facility in the second quarter of 2017 and the acquisition of nine million common shares of Hydro One Limited (Hydro One) in the second quarter of 2016, partially offset by higher expenditures on the Darlington Refurbishment project in 2017. OPG acquired the Hydro One shares for investment purposes, to mitigate the risk of future price volatility related to the Company's future share delivery obligations under the current collective agreements with the Power Workers' Union and The Society of Energy Professionals.

Pursuant to a Shareholder Declaration and a Shareholder Resolution, and as prescribed in the *Trillium Trust Act, 2014*, OPG is required to transfer the proceeds from the sale of head office premises and associated parking facility, net of prescribed deductions under the Act, into the Province's Consolidated Revenue Fund. OPG expects that the amount of designated proceeds to be transferred into the Consolidated Revenue Fund will be largely consistent with the after-tax gain on sale. The transfer is expected to take place as early as in the fourth quarter of 2017.

Financing Activities

OPG maintains a \$1 billion revolving committed bank credit facility, which is divided into two \$500 million multi-year term tranches. In the second quarter of 2017, OPG renewed and extended the expiry date of both tranches from May 2021 to May 2022. There were no amounts outstanding under the bank credit facility as at September 30, 2017.

There was \$160 million of commercial paper outstanding under OPG's commercial paper program as at September 30, 2017.

As at September 30, 2017, OPG also maintained \$25 million of short-term, uncommitted overdraft facilities, and a further \$463 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 general corporate purposes. As at September 30, 2017, a total of \$388 million of Letters of Credit had been issued under these facilities. This included \$349 million for the supplementary pension plans, \$38 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 in its current and future accounts receivable to an independent trust, expiring on November 30, 2018. The maximum amount of co-ownership interest that can be sold under this agreement is \$150 million. As at September 30, 2017, no borrowings were issued under this agreement and there were Letters of Credit outstanding under this agreement of \$150 million, which were issued in support of OPG's supplementary pension plans.

As at September 30, 2017, Lower Mattagami Energy Limited Partnership (LME) maintained a \$400 million bank credit facility to support the funding requirements for the Lower Mattagami River project including support for LME's commercial paper program and the issuance of the Letters of Credit. The facility consists of a \$300 million tranche which, in the third quarter of 2017, was extended to mature in August 2022 and a \$100 million tranche which, in the third quarter of 2017, was reduced from \$200 million and extended to mature in August 2018. As at September 30, 2017, there was no external commercial paper outstanding under LME's commercial paper program. A letter of credit of \$55 million was issued in July 2017 and remains outstanding as at September 30, 2017 under the \$300 million tranche of LME's credit facility.

In June 2016, OPG entered into a \$700 million general corporate credit facility agreement with the OEFC, with an expiry date of December 31, 2017. In the third quarter of 2017, the agreement was amended to increase the credit facility to \$2,350 million and to extend its expiry date to December 31, 2018. As at September 30, 2017, there were long-term borrowings of \$800 million outstanding under this credit facility.

In February 2017, OPG issued senior notes payable to the OEFC totalling \$200 million and maturing in February 2047. The effective interest rate and coupon interest rate of these notes was 4.12 percent. In June 2017, OPG issued senior notes payable to the OEFC totalling \$100 million and maturing in June 2047. The effective interest rate and coupon interest rate of these notes was 3.65 percent. In August 2017, OPG issued senior notes payable to the OEFC totalling \$100 million and maturing in August 2047. The effective interest rate and coupon interest rate of these notes was 3.86 percent. In September 2017, OPG issued senior notes payable to the OEFC totalling \$400 million and maturing in September 2047. The effective interest rate and coupon interest rate of these notes was 4.07 percent.

In October 2017, OPG issued \$500 million of senior notes payable under a Medium Term Note Program. The notes bear a coupon interest rate of 3.32 percent and an effective rate of 3.43 percent, payable semi-annually until maturity on October 4, 2027. The offering was made under OPG's \$2 billion short form base shelf prospectus dated September 12, 2017. The net proceeds will be used for general corporate purposes and the financing of OPG's subordinated debt investment in the Fair Hydro Plan.

As at September 30, 2017, OPG's long-term debt outstanding was \$5,482 million, including \$628 million due within one year.

OPG continues to evaluate arrangements that would appropriately support the Company's financing needs and capital expenditure programs.

Contractual and Commercial Commitments

Pension Plan Actuarial Valuation

A new actuarial valuation of the OPG registered pension plan was filed with the Financial Services Commission of Ontario in September 2017, with an effective date of January 1, 2017. The annual funding requirements in accordance with the new actuarial valuation are \$212 million for 2017, \$215 million for 2018, and \$219 million for 2019. The next actuarial valuation must have an effective date no later than January 1, 2020.

BALANCE SHEET HIGHLIGHTS

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

<i>(millions of dollars) (unaudited)</i>	As At	
	September 30 2017	December 31 2016
Property, plant and equipment - net	20,801	19,998
The increase was primarily due to capital expenditures on the Darlington Refurbishment project, partially offset by depreciation expense.		
Nuclear fixed asset removal and nuclear waste management funds (current and non-current portions)	16,534	15,984
The increase was primarily due to earnings on the Nuclear Segregated Funds, partially offset by reimbursements of eligible expenditures on nuclear fixed asset removal and nuclear waste management activities.		
Short-term debt	160	2
The increase was due to commercial paper issued under OPG's commercial paper program during the third quarter of 2017.		
Fixed asset removal and nuclear waste management liabilities	20,075	19,484
The increase was primarily a result of accretion expense representing the increase in the liabilities due to the passage of time, partially offset by expenditures on nuclear fixed asset removal and waste management activities.		

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 interim consolidated financial statements or are recorded in the Company's interim consolidated financial statements using amounts that differ from the full contract amounts. Principal off-balance sheet activities for OPG include guarantees and long-term contracts.

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

OPG's significant accounting policies are outlined in Note 3 to the audited consolidated financial statements as at and for the year ended December 31, 2016. A discussion of recent accounting pronouncements and change in accounting estimate are included in Note 2 to OPG's unaudited interim consolidated financial statements as at and for the three and nine month periods ended September 30, 2017 under the heading, *Significant Accounting Policies and Estimates*. Disclosure regarding OPG's critical accounting policies is included in OPG's 2016 annual MD&A.

RISK MANAGEMENT

The following provides an update to the discussion of the Company's risks and risk management activities included in OPG's 2016 annual MD&A. As such, the disclosure in this section should be read in conjunction with the *Risk Management* section included in the annual MD&A.

Risks to Achieving Project Excellence

Deep Geologic Repository for Low and Intermediate Level Waste

In August 2017, the federal Minister of Environment and Climate Change requested OPG to update its analysis of the potential cumulative effects of the L&ILW DGR project on the physical and cultural heritage of the SON, taking into account the results of the SON Community Process. OPG continues to work with the SON; however, the timing and outcome of the SON Community Process and the EA decision by the Minister are uncertain.

Risks to Maintaining Financial Strength

Commodity Markets

Changes in the market price of 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 fixed price and indexed contracts.

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

	2017 ¹	2018	2019
Estimated fuel requirements hedged ²	73%	73%	69%

¹ Based on actual fuel requirements hedged for the nine months ended September 30, 2017 and forecast for the remainder of the year.

² Represents the approximate portion of megawatt-hours of expected generation production (and year-end inventory targets) from each type of OPG-operated facility (nuclear, hydroelectric and thermal) for which the Company has entered into contractual arrangements or obligations in order to secure the price of fuel, or which is subject to regulation. In the case of hydroelectric generation, this represents the gross revenue charge and water rental charges. Excess fuel inventories (nuclear and thermal) in a given year are attributed to the next year for the purpose of measuring hedge ratios.

Foreign Exchange

OPG's earnings and cash flow can be affected by movements in the United States dollar (USD) relative to the Canadian dollar.

OPG's financial results are exposed to volatility in the Canadian/US foreign exchange rate as fuels and certain supplies and services purchased for generating stations and major development projects are denominated in, or tied to, USD. To manage this risk, OPG periodically employs various financial instruments such as forwards and other

derivative contracts, in accordance with approved risk management policies. As at September 30, 2017, OPG had no foreign exchange contracts outstanding.

Trading

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

OPG's electricity trading operations are closely monitored, with total exposures measured and reported to senior management on a daily basis. The main metric used to measure the financial risk of trading activity is Value at Risk (VaR). VaR 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 2017, the VaR utilization ranged between \$0.2 million and \$0.3 million.

Credit

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

OPG manages its exposure to suppliers or counterparties by evaluating their financial condition and negotiating appropriate collateral or other forms of security. OPG's credit exposure relating to energy markets transactions as at September 30, 2017 was \$356 million, including \$346 million with the IESO. Management considers the Company's risk exposure relating to electricity sales through the IESO-administered spot market to be low as the IESO oversees the credit worthiness of all market participants. In accordance with the IESO's prudential support requirements, market participants are required to provide collateral to cover funds that they might owe to the market. Of the \$10 million remaining exposure as at September 30, 2017, over 95 percent was related to investment grade counterparties.

Ontario's Fair Hydro Plan

OPG's role in connection with the Fair Hydro Plan could have reputational impacts on the Company.

The *Ontario Fair Hydro Plan Act, 2017* received Royal Assent on June 1, 2017 and the associated general regulation came into force in June 2017. As the Financial Services Manager of the Fair Hydro Plan, OPG's reputation could potentially be adversely impacted through this involvement and through stakeholder opinions related to this involvement.

Recovery of Pension and OPEB Costs

On September 14, 2017, the OEB issued its final report on the guiding principles and the policy for recovery mechanisms of pension and OPEB costs of rate regulated utilities in the electricity and natural gas sectors. The report reaffirmed the conclusions of the initial report issued in May 2017, including the establishment of the accrual basis of accounting as the default rate-setting method and the establishment of a variance account to record asymmetric carrying charges in favour of ratepayers on the differences between the accrual costs recovered and cash payments made by a utility in respect of pension and OPEB plans. The report requires OPG to continue to record differences between pension and OPEB accrual costs and cash payments in the Pension & OPEB Cash Versus Accrual Differential Deferral Account that has been in effect since November 1, 2014, until such time as the OEB approves the resumption of the accrual basis of recovery. The future recovery of amounts recorded in the account will be subject to this approval. The final report confirmed that OPG would become subject to the carrying charges on the differences between accrual costs and cash payments going back to November 1, 2014, with the charges calculated on the portion of such differences that have been recovered through regulated prices. The carrying charges will be determined at a prescribed interest rate set quarterly by the OEB based on the quarterly return of a mid-term corporate bond index yield. This outcome has reduced OPG's risk related to the recovery of actual pension and OPEB accrual costs and the recovery of the balance in the Pension & OPEB Cash Versus Accrual Differential Deferral Account, which is recognized as a regulatory asset on the Company's consolidated

balance sheet. OPG's financial results for the three and nine month periods ended September 30, 2017 were not impacted by the issuance of the OEB's report.

RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province and other entities controlled by the Province.

The related party transactions summarized below include transactions with the Province and the principal successors to the former Ontario Hydro's integrated electricity business, including Hydro One, the IESO and the OEFC. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. As one of several wholly owned government business enterprises of the Province, OPG also has transactions in the normal course of business with various government ministries and organizations in Ontario that fall under the purview of the Province.

The related party transactions are summarized below:

<i>(millions of dollars) (unaudited)</i>	Three Months Ended September 30			
	2017 Revenue	2017 Expense	2016 Revenue	2016 Expense
Hydro One				
Electricity sales	2	-	1	-
Services	-	3	-	3
Dividends	2	-	2	-
Province of Ontario				
Decommissioning Fund excess funding ¹	-	(44)	-	201
Used Fuel Fund rate of return guarantee and excess funding ¹	-	(39)	-	295
Gross revenue charges	-	27	-	28
ONFA guarantee fee	-	2	-	2
Other	-	2	-	-
OEFC				
Gross revenue charges	-	62	-	57
Interest expense on long-term notes	-	40	-	42
Income taxes, net of investment tax credits	-	23	-	28
IESO				
Electricity related revenue	1,126	4	1,293	7
	1,130	80	1,296	663

(millions of dollars) (unaudited)	Nine Months Ended September 30			
	2017 Revenue	2017 Expense	2016 Revenue	2016 Expense
Hydro One				
Electricity sales	7	-	4	-
Services	1	8	1	12
Dividends	6	-	4	-
Province of Ontario				
Decommissioning Fund excess funding ¹	-	164	-	137
Used Fuel Fund rate of return guarantee and excess funding ¹	-	217	-	190
Gross revenue charges	-	84	-	91
ONFA guarantee fee	-	6	-	6
Other	-	3	-	-
OEFC				
Gross revenue charges	-	156	-	147
Interest expense on long-term notes	-	122	-	127
Income taxes, net of investment tax credits	-	132	-	112
IESO				
Electricity related revenue	3,228	11	3,894	22
	3,242	903	3,903	844

¹ The Nuclear Segregated Funds are reported on the consolidated balance sheets net of amounts recognized as due to the Province in respect of excess funding and, for the Used Fuel Segregated Fund, the Province's rate of return guarantee. As at September 30, 2017 and December 31, 2016, the Nuclear Segregated Funds were reported net of amounts due to the Province of \$3,796 million and \$3,415 million, respectively. The details of accounting for the Nuclear Segregated Funds are described in OPG's 2016 annual MD&A in the section, *Critical Accounting Policies and Estimates* under the heading, *Nuclear Fixed Asset Removal and Nuclear Waste Management Funds*.

The receivable, available-for-sale securities, payable and long-term debt balances between OPG and its related parties are summarized below:

(millions of dollars) (unaudited)	September 30 2017	December 31 2016
Receivables from related parties		
Hydro One	1	1
IESO	346	421
OEFC	3	1
PEC	2	4
Province of Ontario	5	2
Available-for-sale securities		
Hydro One shares	190	212
Accounts payable and accrued charges		
OEFC	37	61
Province of Ontario	6	2
IESO	2	2
Long-term debt (including current portion)		
Notes payable to OEFC	3,245	3,295

OPG may hold interest-bearing Province of Ontario bonds in the Nuclear Segregated Funds and the OPG registered pension fund. As at September 30, 2017, the Nuclear Segregated Funds held \$1,498 million of interest-bearing Province of Ontario bonds, while the registered pension fund had no such holdings. As at December 31, 2016, the Nuclear Segregated Funds and the registered pension fund held \$1,652 million and \$284 million of interest-bearing Province of Ontario bonds, respectively. These bonds are publicly traded securities and are measured at fair value. OPG jointly oversees the investment management of the Nuclear Segregated Funds with the Province.

There have been no related party transactions related to the Fair Hydro Plan and associated financing activities. The first transaction between the Trust and the IESO is expected in the fourth quarter of 2017.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

The Company maintains a comprehensive system of policies, procedures, and processes that represents its framework for internal controls over financial reporting and for its disclosure controls and procedures (together, ICFR). There were no changes in the Company's internal control system during the current interim period that has or is reasonably likely to have a material impact to the ICFR.

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.

<i>(millions of dollars - except where noted) (unaudited)</i>	September 30 2017	June 30 2017	March 31 2017	December 31 2016
Revenue	1,217	1,146	1,176	1,388
Net income (loss)	140	307	68	(8)
Less: Net income attributable to non-controlling interest	9	4	4	5
Net income (loss) attributable to the Shareholder	131	303	64	(13)
Per common share, attributable to the Shareholder (dollars)	\$0.51	\$1.18	\$0.25	(\$0.05)

<i>(millions of dollars - except where noted) (unaudited)</i>	September 30 2016	June 30 2016	March 31 2016	December 31 2015
Revenue	1,400	1,387	1,478	1,312
Net income (loss)	198	135	128	(100)
Less: Net income attribute to the non-controlling interest	4	3	5	1
Net income (loss) attributable to the Shareholder	194	132	123	(101)
Per common share, attributable to the Shareholder (dollars)	\$0.76	\$0.51	\$0.48	(\$0.39)

Trends

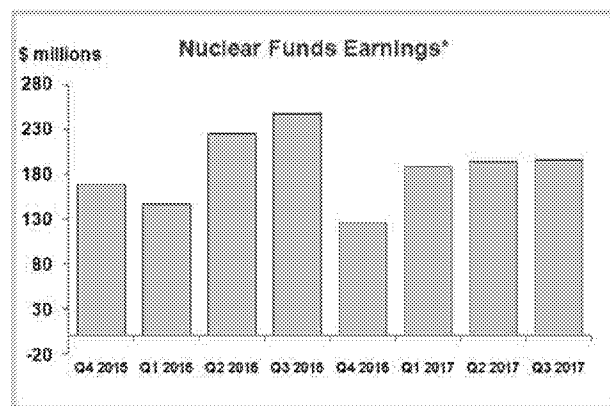
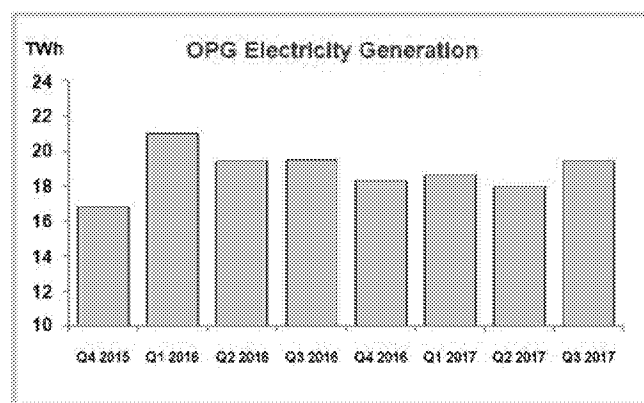
OPG's quarterly results are affected by changes in grid-supplied electricity demand, primarily resulting from variations in seasonal weather conditions, changes in economic conditions, the impact of small scale generation embedded in distribution networks, and the impact of conservation efforts in the province. Weather conditions affect water flows, electricity demand and prevalence of SBG conditions. Historically, OPG's revenues have been 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. The financial impact of forgone production due to SBG conditions at the regulated hydroelectric stations and the financial impact of differences between forecast water flows reflected in OEB-approved regulated prices and the actual water flows are mitigated by regulatory variance accounts authorized by the OEB.

The timing of planned outages at a nuclear generating station during the year can cause variability in year-over-year operating results for partial periods of a fiscal year, including the impact on revenue and OM&A expenses, but is not a significant driver of variability for full fiscal year results.

OPG's electricity generation has been reduced as a result of the Unit 2 refurbishment outage at the Darlington GS, which began in October 2016 and is scheduled to continue until early 2020.

OPG's financial results are also affected by the earnings on the Nuclear Segregated Funds, net of the impact of the Bruce Lease Net Revenues Variance Account. The volatility of the earnings on the Nuclear Segregated Funds is mitigated by their funded status.



*net of regulatory variance account

Additional items that affected net income in certain quarters above are described in OPG's 2016 annual MD&A under the section, *Quarterly Financial Highlights*.

SUPPLEMENTARY NON-GAAP FINANCIAL MEASURES

In addition to providing net income and other financial information in accordance with US GAAP, certain non-GAAP financial measures are also presented in OPG's MD&A. 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 to make operating decisions and assess performance. Readers of the MD&A would 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 measures consistent with the Company's strategies to provide value to the Shareholder, improve cost performance, and ensure availability of cost effective funding. These non-GAAP financial measures have not been presented as an alternative to net income, cash flow provided by operating activities, or any other measure in accordance with US GAAP, but as indicators of operating performance.

The definitions of the non-GAAP financial measures are as follows:

(1) **ROE Excluding AOCI** is defined as net income attributable to the Shareholder divided by average equity attributable to the Shareholder excluding AOCI, for the period. ROE Excluding AOCI is measured over a 12-month period and is calculated as follows:

	Twelve Months Ended	
	September 30 2017	December 31 2016
<i>(millions of dollars – except where noted) (unaudited)</i>		
ROE Excluding AOCI		
Net income attributable to the Shareholder	485	436
Divided by: Average equity attributable to the Shareholder, excluding AOCI	11,055	10,442
ROE Excluding AOCI (percent)	4.4	4.2

(2) **FFO Adjusted 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 is calculated as net interest expense plus interest income, interest capitalized to fixed and intangible assets, interest related to regulatory assets and liabilities, and the excess of interest on pension and OPEB projected benefit obligations over expected return on pension plan assets, for the period.

FFO Adjusted Interest Coverage is measured over a 12-month period and is calculated as follows:

	Twelve Months Ended	
	September 30 2017	December 31 2016
<i>(millions of dollars – except where noted) (unaudited)</i>		
FFO before interest		
Cash flow provided by operating activities	1,082	1,595
Add: Interest paid	270	269
Less: Interest capitalized to fixed and intangible assets	(161)	(141)
Less: Changes to non-cash working capital balances	38	42
FFO before interest	1,229	1,765
Adjusted interest expense		
Net interest expense	84	120
Add: Interest income	8	7
Add: Interest capitalized to fixed and intangible assets	161	141
Add: Interest related to regulatory assets and liabilities	43	30
Add: Excess of interest on pension and OPEB projected benefit obligations over expected return on pension plan assets ¹	-	45
Adjusted interest expense	296	343
FFO Adjusted Interest Coverage (times)	4.2	5.1

¹ A value of nil is used in the calculation when interest on pension and OPEB projected benefit obligations is equal to, or lower than, expected return on pension plan assets.

(3) **Enterprise Total Generating Cost per MWh** is used to measure OPG's overall organizational cost performance. Enterprise TGC per MWh is defined as OM&A expenses (excluding the Darlington Refurbishment project and other generation development project costs, the impact of regulatory variance and deferral accounts, and expenses ancillary to OPG's electricity generation business), fuel expense for OPG-operated stations including hydroelectric gross revenue charge and water rental payments (excluding the impact of regulatory variance and deferral accounts), and capital expenditures (excluding the Darlington Refurbishment project and other generation development projects) incurred during the period, divided by total electricity generation from OPG-operated generating stations plus electricity generation forgone due to SBG conditions during the period.

	Three Months Ended September 30		Nine Months Ended September 30	
(millions of dollars – except where noted) (unaudited)	2017	2016	2017	2016
Enterprise TGC				
Total OM&A expenses	635	666	2,054	2,061
Total fuel expense	185	187	518	541
Total capital expenditures	476	444	1,335	1,162
Less: Darlington Refurbishment capital and OM&A costs	(328)	(269)	(943)	(717)
Less: Other generation development project capital and OM&A costs	(17)	(42)	(53)	(121)
Add (Less): OM&A and fuel expenses deferred in (refundable through) regulatory variance and deferral accounts	4	35	(19)	76
Less: Nuclear fuel expense for non OPG-operated stations	(13)	(18)	(42)	(50)
Add: Hydroelectric gross revenue charge and water rental payments for electricity generation forgone due to SBG conditions	13	5	47	38
Less: OM&A expenses ancillary to electricity generation business	(4)	(5)	(13)	(17)
Other adjustments	(3)	(12)	(7)	(15)
	948	991	2,877	2,958
Adjusted electricity generation (TWh)				
Total OPG electricity generation	19.4	19.5	56.0	59.9
Adjust for electricity generation forgone due to SBG conditions and OPG's share of electricity generation from co-owned facilities	0.9	0.1	4.2	3.4
	20.3	19.6	60.2	63.3
Enterprise TGC per MWh (\$/MWh) ¹	46.65	50.72	47.77	46.74

¹ Amounts may not calculate due to rounding.

(4) **Nuclear Total Generating Cost per MWh** is used to measure the cost performance of OPG's nuclear generating assets. Nuclear TGC per MWh is defined as OM&A expenses of the Regulated – Nuclear Generation segment (excluding the Darlington Refurbishment project costs, the impact of regulatory variance and deferral accounts, and expenses ancillary to the nuclear electricity generation business), nuclear fuel expense for OPG-operated stations (excluding the impact of regulatory variance and deferral accounts), and capital expenditures of the Regulated – Nuclear Generation segment (excluding the Darlington Refurbishment project costs) incurred during the period, divided by nuclear electricity generation for the period.

	Three Months Ended September 30		Nine Months Ended September 30	
<i>(millions of dollars – except where noted) (unaudited)</i>	2017	2016	2017	2016
Nuclear TGC				
Regulated – Nuclear Generation OM&A expenses	511	521	1,693	1,665
Regulated – Nuclear Generation fuel expense	81	79	217	239
Regulated – Nuclear Generation capital expenditures	409	339	1,150	896
Less: Darlington Refurbishment capital and OM&A costs	(328)	(269)	(943)	(717)
Add: Regulated – Nuclear Generation OM&A and fuel expenses deferred in regulatory variance and deferral accounts	5	31	6	84
Less: Nuclear fuel expense for non OPG-operated stations	(13)	(18)	(42)	(50)
Less: Regulated – Nuclear Generation OM&A expenses ancillary to electricity generation business	(1)	(1)	(3)	(4)
Other adjustments	1	3	(1)	(1)
	665	685	2,077	2,112
Nuclear electricity generation (TWh)	11.3	11.7	30.6	34.6
Nuclear TGC per MWh (\$/MWh) ¹	58.75	58.55	67.87	61.07

¹ Amounts may not calculate due to rounding.

(5) **Hydroelectric Total Generating Cost per MWh** is used to measure the cost performance of OPG's hydroelectric generating assets. Hydroelectric TGC per MWh is defined as OM&A expenses of the Regulated – Hydroelectric segment and the hydroelectric facilities included in the Contracted Generation Portfolio segment (excluding generation development project costs, the impact of regulatory variance and deferral accounts, and expenses ancillary to the hydroelectric electricity generation business), hydroelectric gross revenue charge and water rental payments (excluding the impact of regulatory variance and deferral accounts), and capital expenditures of the Regulated – Hydroelectric segment and the hydroelectric facilities included in the Contracted Generation Portfolio segment (excluding expenditures related to the Peter Sutherland Sr. GS, Ranney Falls GS, and other hydroelectric generation development projects) incurred during the period, divided by total hydroelectric electricity generation plus hydroelectric electricity generation forgone due to SBG conditions during the period. OPG reports hydroelectric gross revenue charge and water rental payments as fuel expense.

	Three Months Ended September 30		Nine Months Ended September 30	
<i>(millions of dollars – except where noted) (unaudited)</i>	2017	2016	2017	2016
Hydroelectric TGC				
Regulated – Hydroelectric OM&A expenses	81	87	232	238
Regulated – Hydroelectric fuel expense	88	88	258	259
Contracted Generation Portfolio OM&A expenses	39	44	118	129
Contracted Generation Portfolio fuel expense	15	19	42	42
Regulated – Hydroelectric and Contracted Generation Portfolio capital expenditures	56	92	141	231
Less: Regulated – Hydroelectric and Contracted Generation Portfolio generation development project capital and OM&A costs	(17)	(41)	(52)	(117)
Less: Thermal OM&A and fuel expenses and capital expenditures in the Contracted Generation Portfolio	(39)	(51)	(119)	(126)
(Less) Add: Regulated – Hydroelectric OM&A and fuel expenses (refundable through) deferred in regulatory variance and deferral accounts	(1)	4	(25)	(8)
Add: Hydroelectric gross revenue charge and water rental payments for electricity generation forgone due to SBG conditions	13	5	47	38
Other adjustments	(1)	(1)	-	(1)
	234	246	642	685
Adjusted hydroelectric electricity generation (TWh)				
Regulated – Hydroelectric electricity generation	7.3	6.9	23.5	22.8
Contracted Generation Portfolio electricity generation	0.8	0.9	1.9	2.5
Adjust for hydroelectric electricity generation forgone due to SBG conditions and non-hydroelectric electricity generation of the Contracted Generation Portfolio, including OPG's share of electricity generation from co-owned facilities	0.8	0.1	4.1	3.4
	8.9	7.9	29.5	28.7
Hydroelectric TGC per MWh (\$/MWh) ¹	26.20	31.01	21.74	23.99

¹ Amounts may not calculate due to rounding.

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

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