

## CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

### Three Months Ended March 31

(millions of dollars except where noted)

	2005	2004
<b>Revenue</b>		
Revenue before Market Power Mitigation Agreement rebate	1,770	1,791
Market Power Mitigation Agreement rebate (note 13)	(412)	(441)
	<u>1,358</u>	<u>1,350</u>
Fuel expense	310	338
<b>Gross margin</b>	<u>1,048</u>	<u>1,012</u>
<b>Expenses</b>		
Operations, maintenance and administration	587	624
Depreciation and amortization (note 4)	193	192
Accretion on fixed asset removal and nuclear waste management liabilities	119	113
Earnings on nuclear fixed asset removal and nuclear waste management funds	(71)	(98)
Property and capital taxes	21	28
	<u>849</u>	<u>859</u>
<b>Income before the following</b>	199	153
Impairment of long-lived assets (note 4)	202	-
Net interest expense	47	45
<b>(Loss) income before income taxes</b>	<u>(50)</u>	<u>108</u>
Income tax (recoveries) expenses		
Current	7	8
Future	(19)	36
	<u>(12)</u>	<u>44</u>
<b>Net (loss) income</b>	<u>(38)</u>	<u>64</u>
<b>Basic and diluted (loss) income per common share (dollars)</b>	<u>(0.15)</u>	<u>0.25</u>
<b>Common shares outstanding (millions)</b>	<u>256.3</u>	<u>256.3</u>

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (UNAUDITED)

### Three Months Ended March 31

(millions of dollars)

	2005	2004
<b>(Deficit) retained earnings, beginning of period</b>	(105)	(147)
Net (loss) income	(38)	64
<b>(Deficit), end of period</b>	<u>(143)</u>	<u>(83)</u>

See accompanying notes to the interim consolidated financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended March 31

(millions of dollars)

	2005	2004
<b>Operating activities</b>		
Net (loss) income	(38)	64
Adjust for non-cash items:		
Depreciation and amortization	193	192
Accretion on fixed asset removal and nuclear waste management liabilities	119	113
Earnings on nuclear fixed asset removal and nuclear waste management funds	(71)	(98)
Pension cost	28	23
Other post employment benefits and supplementary pension	45	40
Future income taxes	(19)	36
Transition rate option contracts	(9)	(17)
Mark-to-market on energy contracts (note 9)	2	1
Provision for used nuclear fuel	7	9
Impairment of long-lived assets	202	-
Other	(1)	4
	<b>458</b>	<b>367</b>
Contributions to nuclear fixed asset removal and nuclear waste management funds	(114)	(114)
Expenditures on fixed asset removal and nuclear waste management	(14)	(13)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	6	-
Contributions to pension fund	(39)	(38)
Expenditures on other post employment benefits and supplementary pension	(16)	(14)
Expenditures on restructuring (note 11)	(5)	(42)
Net changes to other long-term assets and liabilities	(9)	-
Changes in non-cash working capital balances (note 15)	33	77
<b>Cash flow provided by operating activities</b>	<b>300</b>	<b>223</b>
<b>Investing activities</b>		
Investment in regulatory asset (note 2)	(101)	-
Investment in fixed assets	(134)	(96)
<b>Cash flow (used in) investing activities</b>	<b>(235)</b>	<b>(96)</b>
<b>Financing activities</b>		
Issuance of long-term debt (note 6)	95	8
Repayment of long-term debt (note 6)	(1)	(2)
Net increase (decrease) in short-term notes (note 5)	(26)	-
<b>Cash flow provided by financing activities</b>	<b>68</b>	<b>6</b>
<b>Net increase in cash and cash equivalents</b>	<b>133</b>	<b>133</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>2</b>	<b>286</b>
<b>Cash and cash equivalents, end of period</b>	<b>135</b>	<b>419</b>

See accompanying notes to the interim consolidated financial statements

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at <i>(millions of dollars)</i>	March 31 2005	December 31 2004
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	135	2
Accounts receivable <i>(note 3)</i>	434	346
Future income taxes	44	44
Fuel inventory	470	569
Materials and supplies	106	92
	<u>1,189</u>	<u>1,053</u>
<b>Fixed assets <i>(note 4)</i></b>		
Property, plant and equipment	14,986	15,114
Less: accumulated depreciation	3,306	3,174
	<u>11,680</u>	<u>11,940</u>
<b>Other long-term assets</b>		
Deferred pension asset	535	524
Nuclear fixed asset removal and nuclear waste management funds <i>(note 7)</i>	6,155	5,976
Long-term materials and supplies	273	281
Regulatory asset <i>(note 2)</i>	101	-
Long-term accounts receivable and other assets	65	56
	<u>7,129</u>	<u>6,837</u>
	<u>19,998</u>	<u>19,830</u>

See accompanying notes to the interim consolidated financial statements

**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

**As at**  
*(millions of dollars)*

**March 31**      **December 31**  
**2005**              **2004**

**Liabilities**

**Current liabilities**

Accounts payable and accrued charges <i>(notes 11 and 12)</i>	<b>782</b>	949
Market Power Mitigation Agreement rebate payable <i>(note 13)</i>	<b>631</b>	439
Short-term notes payable <i>(note 5)</i>	-	26
Long-term debt due within one year <i>(note 6)</i>	<b>305</b>	5
Deferred revenue due within one year	<b>12</b>	12
Income and capital taxes payable	<b>20</b>	12
	<b>1,750</b>	1,443

**Long-term debt** *(note 6)*

**3,193**              3,399

**Other long-term liabilities**

Fixed asset removal and nuclear waste management <i>(note 7)</i>	<b>8,452</b>	8,339
Other post employment benefits and supplementary pension	<b>1,134</b>	1,105
Long-term accounts payable and accrued charges	<b>197</b>	212
Deferred revenue	<b>153</b>	156
Future income taxes	<b>136</b>	155
	<b>10,072</b>	9,967

**Shareholder's equity**

Common shares	<b>5,126</b>	5,126
Deficit	<b>(143)</b>	(105)
	<b>4,983</b>	5,021
	<b>19,998</b>	19,830

Commitments and Contingencies *(notes 1, 4, 5, 9, and 10)*

*See accompanying notes to the interim consolidated financial statements*

## **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (UNAUDITED)**

### **1. BASIS OF PRESENTATION**

These interim consolidated financial statements were prepared following the same accounting policies and methods as in the most recent annual consolidated financial statements. However, these interim financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles for annual financial statements. Accordingly, the interim consolidated financial statements should be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended December 31, 2004.

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

The consolidated financial statements include the accounts of Ontario Power Generation Inc. and its subsidiaries. OPG accounts for its interests in jointly controlled entities using the proportionate consolidation method. All significant inter-company transactions have been eliminated on consolidation.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Impairment of Fixed Assets**

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

#### **Changes in Accounting Policies**

##### *Rate Regulated Accounting*

In December 2004, the *Electricity Restructuring Act, 2004 (Bill 100)* received Royal Assent. A regulation made pursuant to that statute prescribes that OPG's nuclear and baseload hydroelectric facilities will receive regulated prices for their output. Accounting standards recognize that rate regulation can create economic benefits and obligations, which are reported in the consolidated financial statements as regulatory assets and liabilities. If regulation provides assurance that incurred costs will be recovered in the future, then a regulated entity may defer those costs and report them as a regulatory asset. If current recovery is provided for costs expected to be incurred in the future, then a regulated entity reports a regulatory liability.

Effective January 1, 2005, in accordance with regulations pursuant to the *Electricity Restructuring Act, 2004*, OPG is required to establish a deferral account in connection with non-capital costs that are associated with the return to service of units at the Pickering A nuclear generating station. Since the regulation became effective January 1, 2005, the change in accounting was prospectively adopted on that date, with no basis for retroactive adoption. As at March 31, 2005, the deferral account was \$101 million, consisting of non-capital costs of \$98 million relating to Unit 1 and \$2 million relating to Units 2 and 3, and interest accreted at the average cost of debt of 5.75 per cent of \$1 million. Upon OPG becoming regulated by the Ontario Energy Board ("OEB") in 2008, the OEB is directed by the regulation to ensure that OPG recovers any balance in the deferral account on a straight-line basis over a period not to exceed 15 years.

## New Accounting Recommendations

### *Consolidation of Variable Interest Entities*

In September 2004, the CICA amended Accounting Guideline 15, *Consolidation of Variable Interest Entities*, originally issued in June 2003, to harmonize with the revised Financial Accounting Standards Board ("FASB") Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46R"). The new guideline requires the consolidation of variable interest entities ("VIEs") by the primary beneficiary. A VIE is an entity where (a) its equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others and/or where certain essential characteristics of a controlling financial interest are not met, and (b) it does not meet specified exemption criteria. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIEs' expected losses, expected residual returns, or both.

OPG is involved with various joint venture and other arrangements and has sold trade receivables under an asset securitization arrangement. The Company assessed these arrangements in advance of the guideline becoming effective January 1, 2005. OPG concluded that the joint venture arrangements with which it is involved are not VIEs, and that it is not the primary beneficiary of, nor does it have a significant variable interest in, the trust to which it sold trade receivables. OPG has completed the review of its other arrangements and determined that there is no impact on OPG's existing accounting for these arrangements.

### 3. SALE OF ACCOUNTS RECEIVABLE

On October 1, 2003, the Company signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the "receivables") to an independent trust. The Company also retains an undivided co-ownership interest in the receivables sold to the trust. Under the agreement, OPG continues to service the receivables. The transfer provides the trust with ownership of a share of the payments generated by the receivables, computed on a monthly basis. The trust's recourse to the Company is generally limited to its income earned on the receivables.

OPG reflected the initial transfer to the trust of the co-ownership interest, and subsequent transfers required by the revolving nature of the securitization, as sales in accordance with CICA Accounting Guideline 12, *Transfer of Receivables*. In accordance with this Guideline, the proceeds of each sale to the trust were deemed to be the cash received from the trust net of the undivided co-ownership interest retained by the Company. For the three months ended March 31, 2005, the Company has recognized pre-tax charges of \$2 million (three months ended March 31, 2004 - \$2 million) on such sales at an average cost of funds of 2.9 per cent (three months ended March 31, 2004 - 2.7 per cent). As at March 31, 2005, OPG had sold receivables of \$300 million from its total portfolio of \$582 million.

### 4. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for the three months ended March 31, 2005 and 2004 consists of the following:

<i>(millions of dollars)</i>	<b>2005</b>	<b>2004</b>
Depreciation and amortization	<b>192</b>	190
Nuclear waste management costs	<b>1</b>	2
	<b>193</b>	192

Interest capitalized to construction in progress at 6.0 per cent (three months ended March 31, 2004 - 6.0 per cent) during the three months ended March 31, 2005 was \$8 million (three months ended March 31, 2004 - \$8 million).

## **Impairment of Long-Lived Assets**

The accounting estimates related to asset impairment require significant management judgement to identify factors such as short and long-term forecasts for future sales prices, the supply of electricity in Ontario, the return to service dates of laid-up generating stations, inflation, fuel prices and station lives. The amount of the future cash flow that OPG will ultimately realize with respect to these assets could differ materially from the carrying values recorded in the consolidated financial statements.

### *Lennox Generating Station*

As a result of the Government's "Request for Information/Request for Proposal for 2500 MW of New Clean Generation and Demand Side Management Projects" released in September 2004 and the related contractual arrangements, future wholesale electricity market revenue is expected to be lower. As a relatively high variable cost plant, the Lennox generating station will not be able to recover its fixed operating costs and its carrying value from the wholesale electricity market in the future. Given these factors, OPG had initiated discussions with the Province, with the expectation of entering into a contractual arrangement for the recovery of the annual fixed operating costs and the carrying value of the Lennox generating station. Subsequently, OPG has been advised that the Province will continue to support OPG in negotiating an arrangement that would allow for the recovery of fixed operating costs, but would not support the recovery of costs related to the carrying value of the Lennox generating station. As a result of this change in circumstance, OPG has recorded the impairment loss of \$202 million.

### *Pickering A Nuclear Generation Station*

In July 2004, the Government endorsed the recommendation of OPG's Board of Directors to return to service Unit 1 of the Pickering A nuclear generating station. Plans to return Units 2 and 3 to service have been deferred, until such time as OPG has conducted a full assessment of the cost and schedule to return these units to service. The carrying amount of fixed assets in service and construction in progress for Units 2 and 3 was \$61 million at March 31, 2005 (\$61 million at December 31, 2004).

Under legislation passed in February 2005, OPG is required to establish a deferral account in connection with non-capital costs incurred on or after January 1, 2005 that are associated with the return to service of units at the Pickering A station. As at March 31, 2005, the deferral account relating to Units 2 and 3 was \$2 million, consisting of OM&A costs relating to these units.

If OPG discontinues the refurbishment work required to place Units 2 and 3 in service, an impairment loss equal to the carrying amount of these units and the amount of the deferral account would be recognized, including any expenditures incurred subsequent to March 31, 2005. In such an event, OPG would also have to assess the prospect of providing for additional charges, including the costs associated with preparing the units for safe storage.

## **5. SHORT-TERM CREDIT FACILITIES**

OPG's current 364-day term \$1,000 million revolving committed bank credit facility will mature May 24, 2005. The Company obtained a commitment from its bank lending group in early April for renewal of the \$1,000 million facility with certain modifications. The new facility will be divided into two tranches – a \$500 million 364-day term tranche maturing May 23, 2006, and a \$500 million three year term tranche maturing May 23, 2008. The total credit facility will continue to be used primarily as support for notes issued under OPG's commercial paper program. As at March 31, 2005, OPG had no borrowings outstanding under this commercial paper program (December 31, 2004 - \$26 million). As at March 31, 2005 and December 31, 2004, OPG had no other outstanding borrowing under this facility.

OPG also maintains \$26 million (December 31, 2004 - \$26 million) in short-term uncommitted overdraft facilities as well as \$213 million (December 31, 2004 - \$200 million) of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG is required to post the Letters of Credit as collateral with Local Distribution Companies ("LDCs") as prescribed by the Ontario Energy Board's ("OEB") Retail Settlement Code, and to support the supplementary pension plan. At March 31, 2005,

there were approximately \$172 million (December 31, 2004 - \$155 million) of Letters of Credit issued for supplementary pension plan and collateral requirements to the LDC's.

## 6. LONG-TERM DEBT

Long-term debt consists of the following:

<i>(millions of dollars)</i>	<b>March 31 2005</b>	<b>December 31 2004</b>
Notes payable to the OEFC	<b>3,295</b>	3,200
Capital lease obligations	<b>2</b>	3
Share of non-recourse limited partnership debt	<b>201</b>	201
	<b>3,498</b>	3,404
Less: due within one year		
Notes payable to the OEFC	<b>300</b>	-
Capital lease obligations	<b>2</b>	3
Share of limited partnership debt	<b>3</b>	2
	<b>305</b>	5
<b>Long-term debt</b>	<b>3,193</b>	3,399

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

In December 2004, OPG reached an agreement with the OEFC to defer payment on \$500 million principal amount of senior notes maturing in March and September 2005 by extending the maturity dates by five years. The interest rates remain unchanged. In March 2005, the Company reached an agreement with the OEFC to obtain additional financing up to \$600 million, which is available until March 31, 2006. In April 2005, \$400 million was drawn down under this facility with a seven year term.

The Company also reached an agreement with the OEFC to satisfy, via additional senior notes of \$95 million and \$98 million respectively, to mature in 2010, its \$95 million interest obligation due in March 2005 and \$98 million interest obligation due in September 2005 related to the debt owing to the OEFC of \$3.2 billion.

Interest paid during the three months ended March 31, 2005 was \$103 million (three months ended March 31, 2004 - \$104 million), of which \$100 million relates to interest paid on long-term debt (three months ended March 31, 2004 - \$101 million). Interest on the notes payable to the OEFC is paid in the first and third quarters of the year.

## 7. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

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

<i>(millions of dollars)</i>	<b>March 31 2005</b>	<b>December 31 2004</b>
Liability for nuclear used fuel management	<b>4,760</b>	4,693
Liability for nuclear decommissioning and low and intermediate level waste management	<b>3,502</b>	3,457
Liability for non-nuclear fixed asset removal	<b>190</b>	189
<b>Fixed asset removal and nuclear waste management liability</b>	<b>8,452</b>	8,339

The change in the fixed asset removal and nuclear waste management liability for the three months ended March 31, 2005 and year ended December 31, 2004, is as follows:

<i>(millions of dollars)</i>	<b>March 31 2005</b>	<b>December 31 2004</b>
Liability, beginning of period	<b>8,339</b>	7,921
Increase in liability due to accretion	<b>119</b>	453
Increase in liability due to nuclear used fuel and nuclear waste management variable expenses	<b>8</b>	35
Fixed asset removal of partnership interests	<b>-</b>	1
Liabilities settled by expenditures on waste management	<b>(14)</b>	(71)
<b>Liability, end of period</b>	<b>8,452</b>	8,339

### Ontario Nuclear Funds Agreement

OPG sets aside funds to be used specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities. The nuclear fixed asset removal and nuclear waste management funds as at March 31, 2005 and December 31, 2004, consist of the following:

<i>(millions of dollars)</i>	<b>Amortized Cost Basis</b>		<b>Fair Value</b>	
	<b>March 31 2005</b>	<b>December 31 2004</b>	<b>March 31 2005</b>	<b>December 31 2004</b>
Decommissioning Fund	<b>3,911</b>	3,858	<b>4,216</b>	4,131
Used Fuel Fund <sup>1</sup>	<b>2,244</b>	2,118	<b>2,244</b>	2,118
	<b>6,155</b>	5,976	<b>6,460</b>	6,249

<sup>1</sup> The Ontario NFWA Trust represents \$807 million as at March 31, 2005 (December 31, 2004 - \$794 million) of the Used Fuel Fund on an amortized cost basis.

## 8. BENEFIT PLANS

The post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The 2005 costs are based on a measurement of the pension and other post employment benefits obligations and the pension fund assets, at December 31, 2004.

Total benefit costs for the three months ended March 31, 2005 and 2004, are as follows:

	2005	2004
<i>(millions of dollars)</i>		
Registered pension plan	28	23
Supplementary pension plan	4	4
Other post employment benefits	41	36

## 9. FINANCIAL INSTRUMENTS

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

Trading activities and liquidity in the Ontario electricity market have been limited as companies are generally entering only into short-term contracts. As a result, forward pricing information for contracts may not accurately represent the cost to enter into these contracts. For Ontario-based contracts that are not entered into for hedging purposes, OPG established liquidity reserves against the fair market value of the assets and liabilities equal to the gain or loss on these contracts. These reserves increased Energy Marketing revenue by \$5 million during the three months ended March 31, 2005 (three months ended March 31, 2004 - decreased by \$3 million). Contracts for transactions outside of Ontario continue to be carried on the consolidated balance sheets as assets or liabilities at fair value, with changes in fair value recorded in Energy Marketing revenue as gains or losses.

### *Derivative Instruments Used for Hedging Purposes*

The following table provides the estimated fair value of derivative instruments designated as hedges. The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized upon settlement when the underlying transactions occur. OPG holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity.

<i>(millions of dollars except where noted)</i>	<b>Notional Quantity</b>	<b>Terms</b>	<b>Fair Value</b>	<b>Notional Quantity</b>	<b>Terms</b>	<b>Fair Value</b>
	<b>March 31, 2005</b>			<b>December 31, 2004</b>		
(Loss)/gain						
Electricity derivative instruments	<b>8.2 TWh</b>	<b>1-3 yrs</b>	<b>(92)</b>	10.4 TWh	1-3 yrs	(71)
Foreign exchange derivative instruments	<b>US \$10</b>	<b>Apr/05</b>	-	US \$10	Jan/05	-

Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. The weighted average fixed exchange rate for contracts outstanding at March 31, 2005 was US \$0.82 (December 31, 2004 - US \$0.81) for every Canadian dollar.

### *Derivative Instruments Not Used for Hedging Purposes*

The carrying amount (fair value) of derivative instruments not designated for hedging purposes is as follows:

<i>(millions of dollars except where noted)</i>	<b>Notional Quantity March 31, 2005</b>	<b>Fair Value</b>	<b>Notional Quantity December 31, 2004</b>	<b>Fair Value</b>
Commodity derivative instruments				
Assets	<b>8.4 TWh</b>	<b>6</b>	7.9 TWh	12
Liabilities	<b>2.0 TWh</b>	<b>(13)</b>	1.3 TWh	(12)
		<b>(7)</b>		-
Ontario market liquidity reserve		<b>(2)</b>		(7)
Total		<b>(9)</b>		(7)

## **10. COMMITMENTS AND CONTINGENCIES**

### **Litigation and Claims**

Various lawsuits are pending against OPG or its subsidiaries covering a wide range of matters that arise in the ordinary course of its business activities. In July 2004, OPG was charged with criminal negligence causing death and criminal negligence causing bodily harm in relation to a 2002 accident at Barrett Chute. Also, certain First Nations have commenced actions for interference with reserve and traditional land rights. The claims by some of these First Nations total approximately \$50 million and claims by others are for unspecified amounts. Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably with respect to OPG. These contingencies are provided for when they are likely to occur and are reasonably estimable. Management believes that the ultimate resolution of these matters will not have a material effect on OPG's financial position.

### **Guarantees**

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

OPG has provided limited guarantees in connection with its share of the Brighton Beach financing, whereby it is responsible for contributing its share of equity related to cost overruns associated with the construction of the generating station. As at March 31, 2005, OPG met its obligations for contributing its share of equity related to cost overruns. As Brighton Beach commenced commercial operation in July 2004, any cost overruns are now primarily limited to settlement of construction liens registered by some contractors associated with the construction project. Brighton Beach arranged an independent third party review of the claims and is now actively negotiating final settlement of these liens.

## 11. RESTRUCTURING

The change in the restructuring liability for termination benefits for the three months ended March 31, 2005 and year ended December 31, 2004 is as follows:

<i>(millions of dollars)</i>	2005	2004
Liability, beginning of period	20	52
Restructuring charges	-	19
Payments	(5)	(51)
Liability, end of period	15	20

OPG recorded restructuring charges of \$16 million, which consisted of \$15 million for termination benefits and \$1 million in related pension and other post employment benefits expenses associated with its Lakeview generating station during 2004. OPG also recorded restructuring charges of \$4 million related to its Energy Marketing segment during 2004.

## 12. TRANSITION RATE OPTION CONTRACTS

Under regulation known as Transition - Generation Corporation Designated Rate Options ("TRO"), OPG has been required to provide transitional price relief since market opening to certain power customers for up to four years based on the consumption and average price paid by each customer during a reference period of July 1, 1999 to June 30, 2000. The TRO is treated as a hedge of generation revenue. The maximum anticipated volume subject to the transitional price relief was approximately 5.4 TWh in the first year after market opening and 3.6 TWh in the second year. The maximum anticipated volume in each of the third and fourth years is 1.8 TWh. The maximum length of the program is four years.

A provision of \$210 million on the TRO contracts was recorded in the first quarter of 2002 based on the estimated future loss on these contracts. The provision was determined at that time using management's best estimates of the forward price curve for electricity, wholesale electricity market fees, impact of decontrol on these contracts, interruptions of volume, and the recovery of Market Power Mitigation Agreement rebates. The provision for the TRO contracts was established based on meeting decontrol targets within three years of market opening. An additional charge of \$30 million related to the fourth year of the TRO contracts was recorded in 2003, based on OPG's expectation that the Company would not meet the decontrol targets necessary for TRO contracts to expire after three years.

During the three months ended March 31, 2005 - \$9 million (three months ended March 31, 2004 - \$17 million) was charged against the provision and included in Generation revenue.

## 13. MARKET POWER MITIGATION AGREEMENT REBATE

Until April 1, 2005, OPG was required under its generating licence to comply with prescribed market power mitigation measures to address the potential for OPG to exercise market power in Ontario. The market power mitigation measures included both a rebate mechanism and the requirement to decontrol generating capacity. Under the rebate mechanism, a majority of OPG's expected energy sales in Ontario were subject to an average annual revenue cap of 3.8¢/kWh. During the term of the MPMA, OPG was required to pay a rebate to the Independent Electricity System Operator equal to the excess, if any, of the average hourly spot energy price over 3.8¢/kWh for a 12-month settlement period, multiplied by the amount of energy subject to the rebate mechanism. The Market Power Mitigation Agreement was replaced effective April 1, 2005 by a regulated price for baseload hydroelectric and nuclear generation. In addition, eighty-five per cent of unregulated OPG electricity generation, excluding generation from the Lennox generating station and volumes relating to existing contracts, is subject to a revenue limit based on an average price of 4.7¢/kWh. This revenue limit will be in place for a period of 13 months.

In accordance with the Market Power Mitigation Agreement, the rebate is calculated after taking into account the amount of energy sales subject to the rebate mechanism for only those generating stations that OPG continues to control. Since the average hourly spot price during the three months ended March 31, 2005 exceeded the 3.8¢/kWh revenue cap, OPG provided \$412 million (three months ended March 31, 2004 - \$441 million) as a Market Power Mitigation Agreement rebate.

The change in the Market Power Mitigation Agreement rebate liability for the three months ended March 31, 2005 and year ended December 31, 2004 is as follows:

<i>(millions of dollars)</i>	<b>2005</b>	<b>2004</b>
Liability, beginning of period	439	409
Increase to provision during the year	412	1,154
Payments	<b>(220)</b>	(1,124)
Liability, end of period	<b>631</b>	439

#### 14. BUSINESS SEGMENTS

<b>Segment Income for three months ended March 31, 2005</b>	<b>Generation</b>	<b>Energy Marketing</b>	<b>Non-Energy and Other</b>	<b>Total</b>
<i>(millions of dollars)</i>				
Revenues				
Revenue before Market Power Mitigation Agreement rebate	1,672	2	96	1,770
Market Power Mitigation Agreement rebate	<b>(412)</b>	-	-	<b>(412)</b>
	1,260	2	96	1,358
Fuel expense	310	-	-	310
Gross margin	950	2	96	1,048
Operations, maintenance and administration	575	2	10	587
Depreciation and amortization	164	-	29	193
Accretion on fixed asset removal and nuclear waste management liabilities	119	-	-	119
Earnings on nuclear fixed asset removal and nuclear waste management funds	<b>(71)</b>	-	-	<b>(71)</b>
Property and capital taxes	18	-	3	21
Income before the following:	145	-	54	199
Impairment of long-lived assets	202	-	-	202
Net interest expense	-	-	47	47
(Loss) income before income taxes	<b>(57)</b>	-	7	<b>(50)</b>

<b>Segment Income for three months ended March 31, 2004</b>	<b>Generation</b>	<b>Energy Marketing</b>	<b>Non-Energy and Other</b>	<b>Total</b>
<i>(millions of dollars)</i>				
Revenues				
Revenue before Market Power Mitigation Agreement rebate	1,697	15	79	1,791
Market Power Mitigation Agreement rebate	(441)	-	-	(441)
	1,256	15	79	1,350
Fuel expense	338	-	-	338
Gross margin	918	15	79	1,012
Operations, maintenance and administration excluding Pickering A return to service	555	2	8	565
Pickering A return to service	59	-	-	59
Depreciation and amortization	169	-	23	192
Accretion on fixed asset removal and nuclear waste management liabilities	113	-	-	113
Earnings on nuclear fixed asset removal and nuclear waste management funds	(98)	-	-	(98)
Property and capital taxes	23	-	5	28
Income before the following:	97	13	43	153
Net interest expense	-	-	45	45
Income (loss) before income taxes	97	13	(2)	108

<b>Selected Balance Sheet Information</b>	<b>Generation</b>	<b>Energy Marketing</b>	<b>Non-Energy and Other</b>	<b>Total</b>
<i>(millions of dollars)</i>				
March 31, 2005				
Segment property, plant and equipment, net	<b>10,808</b>	-	<b>872</b>	<b>11,680</b>
December 31, 2004				
Segment property, plant and equipment, net	11,065	-	875	11,940

**Selected Cash Flow Information**  
*(millions of dollars)*

Three months ended March 31, 2005				
Capital expenditures	<b>134</b>	-	-	<b>134</b>
Three months ended March 31, 2004				
Capital expenditures	81	-	15	96

## 15. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

For the three months ended March 31  
(millions of dollars)

	2005	2004
Accounts receivable	(89)	20
Income taxes recoverable	-	12
Fuel inventory	99	116
Materials and supplies	(14)	(16)
Market Power Mitigation Agreement rebate payable	192	127
Accounts payable and accrued charges	(163)	(182)
Income and capital taxes payable	8	-
	<b>33</b>	<b>77</b>

The amount of cash income taxes paid in the three months ended March 31, 2005 was \$4 million (three months ended March 31, 2004 - \$2 million).

## 16. SEASONAL OPERATIONS

OPG's quarterly results are impacted by changes in demand resulting from variations in seasonal weather conditions. Historically, OPG's revenues are higher in the first and third quarters of a fiscal year as a result of winter heating demands in the first quarter and air conditioning/cooling demands in the third quarter. The Market Power Mitigation Agreement rebate and OPG's hedging strategies significantly reduced the impact of seasonal price fluctuations on the results of operations. Commencing April 1, 2005, regulated prices for the baseload hydroelectric and nuclear facilities and the revenue limit related to the generation from OPG's other generating assets will further reduce the impact of seasonal price fluctuations on operating results.