ONTARIO POWER GENERATION

News
from Ontario Power Generation

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ONTARIO POWER GENERATION REPORTS SECOND QUARTER 2004 EARNINGS

[Toronto]: Ontario Power Generation Inc. ("OPG") today reported its financial and operating results for the second quarter and six months ended June 30, 2004. Net loss for the three months ended June 30, 2004 was $41 million or $0.16 per share, compared with net income of $8 million or $0.03 per share for the three months ended June 30, 2003. For the six months ended June 30, 2004, net income was $23 million or $0.09 per share compared to $81 million or $0.32 per share for the same period last year.

Significant factors contributing to the decrease in earnings for both the second quarter and six months ended June 30, 2004 compared to the same periods last year included higher depreciation related to the planned early shutdown of the coal fired generating stations, depreciation associated with an increase in fixed assets in service, and higher pension and other post employment benefit costs primarily due to changes in economic assumptions related to interest rates and inflation. The impact of these factors was partially offset by an increase in OPG's gross margin from the sale of electricity. The increase in margin was primarily due to a change in generation mix related to higher production from OPG's lower marginal cost hydroelectric and nuclear generating stations and lower fuel costs related to favourable foreign exchange rates. Lower average spot market prices and lower volume negatively impacted gross margin.

Second quarter 2004 electricity production was 24.7 terawatt-hours (TWh) compared to 26.0 TWh for the same period last year. Electricity production for the six months ended June 30, 2004 was 52.9 TWh compared to 55.1 TWh during the six months ended June 30, 2003. The decrease was primarily due to the addition of non-OPG low marginal cost baseload generation capacity in Ontario that displaced OPG's higher marginal cost fossil-fueled generation, and an increase in unplanned outages at the Nanticoke fossil-fueled generating station.

Cash flow used in operating activities during the second quarter of 2004 was $146 million compared to $508 million during the second quarter of 2003, a decrease of $362 million. The increase in cash flow was primarily due to lower payments of the Market Power Mitigation Agreement rebate and the timing of contributions to the nuclear fixed asset removal and nuclear waste management funds, partially offset by the impact of changes in non-cash working capital balances.

Cash flow provided by operating activities during the six months ended June 30, 2004 was $77 million compared to $568 million during the same period last year, a decrease of $491 million. The decrease in cash flow was primarily due to lower electricity prices and changes in the amount of the Market Power Mitigation Agreement rebate payable. Lower electricity prices reduce the amount of the Market Power Mitigation Agreement rebate. In addition, in the first quarter of 2003, OPG received proceeds of $225 million from the note receivable from Bruce Power.

Market Power Mitigation Agreement rebate payments to the Independent Electricity Market Operator during the six months ended June 30, 2004 were $652 million compared to $759 million for the same period last year. The total payments since the Ontario market opened to competition on May 1, 2002 were almost $2.7 billion.

In June 2004, OPG and the Government of Ontario (the “Government”) announced the decision to proceed with a new water diversion tunnel that will increase the amount of water flowing to existing turbines at the Sir Adam Beck generating station thereby increasing annual generation by about 1.6 TWh. In July, the Government endorsed the decision by OPG’s Board of Directors to return Unit 1 of the Pickering A nuclear generating station to service. The 515 megawatt (MW) Unit is expected to cost a total of $900 million, including costs incurred to date, and be returned to full service in September 2005. Total cumulative expenditures to the end of June 30, 2004 for Unit 1 were $411 million.

The Government introduced legislation in June 2004 to reorganize Ontario’s electricity sector. The proposed reforms are intended to address long-term supply of electricity, conservation, and private sector investment; and establish a pricing structure for electricity that is purchased and sold in Ontario that is based on a combination of regulated prices and competitive market prices. It is anticipated that legislation will be in place by the end of 2004.

HIGHLIGHTS

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003*	2004	2003*
(millions of dollars)				
Revenue before Market Power Mitigation Agreement rebate	1,349	1,467	3,140	3,800
Market Power Mitigation Agreement rebate (revenue reduction)	(208)	(221)	(649)	(1,074)
Fuel expense	(242)	(397)	(580)	(880)
Operations, maintenance and administration	(633)	(625)	(1,257)	(1,249)
Other expenses	(319)	(207)	(599)	(461)
Income taxes	12	(9)	(32)	(55)
Net (loss) income	(41)	8	23	81
Cash flow (used in) provided by operating activities	(146)	(508)	77	568
Market Power Mitigation Agreement rebate payments	338	759	652	759
Electricity generation (TWh)	24.7	26.0	52.9	55.1

* In 2003, OPG early adopted the new Canadian Institute of Chartered Accountants ("CICA") accounting standard for asset retirement obligations. In accordance with the CICA requirements, OPG has retroactively applied the new standard and accordingly restated the previously published financial results for the three and six months ended June 30, 2003.

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

Ontario Power Generation Inc.'s unaudited consolidated financial statements and management's discussion and analysis of financial condition and results of operations as at and for the three and six months ended June 30, 2004 can be accessed on OPG's website (www.opg.com), the Canadian Securities Administrators' website (www.sedar.com), or can be requested from the company.

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ONTARIO POWER GENERATION INC.

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ONTARIO POWER GENERATION INC.
SECOND QUARTER 2004 MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the three and six months ended June 30, 2004. It should also be read in conjunction with OPG's audited consolidated financial statements, accompanying notes, Management's Discussion and Analysis, and the Annual Information Form for the year ended December 31, 2003. OPG's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars. Certain 2003 comparative amounts have been reclassified to conform with the 2004 financial statement presentation. Also, certain 2003 amounts have been restated for the retroactive adoption of the new accounting standard on asset retirement obligations.

FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis 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", "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 will not, however, mean that a statement is not a forward-looking statement.

All forward-looking statements involve inherent assumptions, risks and uncertainties and, therefore, could be wrong to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's return to service of units at the Pickering A nuclear generating station, fuel costs and availability, nuclear decommissioning and waste management, pension and other post-employment benefit obligations, spot market electricity prices, the on-going evolution of the Ontario electricity industry, market power mitigation, environmental and other regulatory requirements, and the weather. Accordingly, undue reliance should not be placed on any forward-looking statement.

THE COMPANY

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario and to interconnected markets. OPG's focus is on the risk-managed production and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner. OPG was created under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the "Province"). As discussed in the section entitled "Changing Marketplace and Role of OPG", the nature of the Ontario electricity market and OPG's role in the market are under review. The implications for OPG could be material.

As at June 30, 2004, OPG's electricity generating portfolio consisted of three nuclear stations, six fossil-fueled generating stations, 36 hydroelectric generating stations and an EcoLogo[M] - certified green power portfolio including 29 small hydro and two wind generating stations. In addition, there is a wind generating facility which is co-owned by OPG and Bruce Power L.P. ("Bruce Power") and a gas-fired generating station which is co-owned with ATCO Power Canada Ltd. and ATCO Resources Ltd. OPG's Pickering A nuclear generating station was laid up in 1997. During 2003, OPG completed the return to service of Unit 4 of this four-unit station. OPG recently received approval to proceed with the return to service of a second Pickering A generating station unit (Unit 1). In addition to its electricity generating portfolio, OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power.

HIGHLIGHTS

This section provides an overview with respect to OPG's operating results. A detailed review of OPG's performance by business segment is included in a later section.

	Three Months Ended June 30		Six Months Ended June 30	
	2004	**2003***	**2004**	**2003***
(millions of dollars)				
Revenue before Market Power Mitigation Agreement rebate	**1,349**	1,467	**3,140**	3,800
Revenue after Market Power Mitigation Agreement rebate	**1,141**	1,246	**2,491**	2,726
(Loss) income before tax	**(53)**	17	**55**	136
Net (loss) income	**(41)**	8	**23**	81
Cash flow (used in) provided by operating activities	**(146)**	(508)	**77**	568
Physical Electricity Sales Volume (TWh)				
Electricity generation	**24.7**	26.0	**52.9**	55.1
Purchased power – Energy Marketing segment	**1.2**	1.4	**2.1**	2.1
Total	**25.9**	27.4	**55.0**	57.2

* In 2003, OPG early adopted the new Canadian Institute of Chartered Accountants ("CICA") accounting standard for asset retirement obligations. In accordance with the CICA requirements, OPG has retroactively applied the new standard and accordingly restated the previously published financial results for the three and six months ended June 30, 2003.

Income before tax and net income decreased during the three and six months ended June 30, 2004 compared to the same periods last year. The most significant factors contributing to the decrease in earnings included higher depreciation related to the planned early shutdown of the coal fired generating stations, depreciation associated with an increase in fixed assets in service, and higher pension and other post employment benefit costs primarily due to changes in economic assumptions related to interest rates and inflation rates. The impact of these factors was partially offset by an increase in OPG's gross margin from the sale of electricity. The increase in margin was primarily due to a change in generation mix related to higher production from OPG's lower marginal cost hydroelectric and nuclear generating stations and lower fuel costs related to favourable foreign exchange rates. Lower average spot market prices and lower volume negatively impacted gross margin.

The following is a summary of the factors impacting income in 2004 compared to 2003, on a before-tax basis:

(millions of dollars – before tax)	**Three Months**	**Six Months**
Income before tax for the periods ended June 30, 2003	17	136
Changes in gross margin		
Decrease in average energy prices after Market Power Mitigation Agreement rebate	(28)	(103)
Change in generation mix – higher hydroelectric and nuclear generation and lower fossil generation	96	185
Decrease in Generation segment sales volume	(40)	(80)
Lower coal costs and other changes in gross margin	22	63
	50	65
Lower Pickering A return to service expenses	14	46
Increased operations, maintenance and administration expenses primarily due to higher pension and other post employment benefit costs	(22)	(54)
Higher depreciation related to the planned early shut down of coal-fired generating stations and increase in fixed assets in service	(47)	(98)
Higher earnings on nuclear fixed asset removal and nuclear waste management funds	19	63
Decrease in other income due to gain on sale of long-term investments in 2003	(41)	(41)
Increase in net interest expense due to lower interest capitalized on construction in progress	(18)	(32)
Other net changes	(25)	(30)
Decrease in income before tax	(70)	(81)
(Loss) income before tax for the periods ended June 30, 2004	(53)	55

Cash flow used in operating activities during the second quarter of 2004 was $146 million compared to $508 million during the second quarter of 2003, a decrease of $362 million. The increase in cash flow compared to last year was primarily due to lower payments of the Market Power Mitigation Agreement rebate and the timing of contributions to the nuclear fixed asset removal and nuclear waste management funds, partially offset by the impact of changes in non-cash working capital balances. Cash flow provided by operating activities during the six months ended June 30, 2004 was $77 million compared to $568 million during the same period last year, a decrease of $491 million. The decrease in cash flow compared to last year was primarily due to lower electricity prices and changes in the Market Power Mitigation Agreement rebate payable. In addition, in the first quarter of 2003, OPG received proceeds of $225 million from the note receivable from Bruce Power.

Total production from OPG's generating stations during the three months ended June 30, 2004 was 24.7 TWh compared to 26.0 TWh during the three months ended June 30, 2003. For the six months ended June 30, 2004, total production from OPG's generating stations was 52.9 TWh compared to 55.1 TWh during the same period last year. The decrease in generation for the three and six month periods was primarily due to the addition of non-OPG low marginal cost baseload generation capacity that displaced OPG's higher marginal cost fossil-fueled generation, and an increase in unplanned outages at OPG's Nanticoke fossil-fueled generating station.

CORE BUSINESS AND STRATEGY

Changing Marketplace and Role of OPG

In December 2003, the Government of Ontario (the "Government") announced the formation of the OPG Review Committee to provide advice on long-term issues relating to OPG. The OPG Review Committee was given responsibility for making recommendations to the Government regarding: the appropriate role of OPG in the Ontario electricity market; the future structure of OPG; the appropriate corporate governance and senior management structure of OPG; and the potential restart of OPG's Pickering A Units 1, 2 and 3.

On March 15, 2004, the OPG Review Committee finalized its report on the future of OPG, entitled "Transforming Ontario's Power Generation Company". The report of the OPG Review Committee contained a number of detailed recommendations including those related to ownership of the generating stations, corporate structure, rate regulation and the return to service of the Pickering A units. Upon receipt of the report of the OPG Review Committee, the Government confirmed that the Minister of Energy would review the report in detail and bring forward a plan to reform Ontario's electricity sector.

On June 15, 2004, the Government introduced the *Electricity Restructuring Act, 2004* (Bill 100) to reorganize Ontario's electricity sector to address the growing gap between supply and demand. The following is proposed under this Act:

- A new Ontario Power Authority ("OPA"), that would ensure an adequate, long-term supply of electricity;
- A new Conservation Bureau led by the Province's first Chief Energy Conservation Officer;
- Incentives for more private sector investment in new generation to help meet growing demand;
- Regulated prices in parts of the electricity sector that would be adjusted and approved periodically by the Ontario Energy Board ("OEB") to ensure price stability for consumers;
- Provisions that the Ministry of Energy set targets for conservation, renewable energy, and the overall supply mix of electricity in Ontario; and
- A redefinition of the role played by the Independent Electricity Market Operator ("IMO"), as defined in its new name – the Independent Electricity System Operator ("IESO"). Some of the current responsibilities of the IMO would be moved to the OEB and the proposed OPA.

Under the proposed legislation, prices paid by residential and other low-volume consumers will be set by regulation until a date prescribed by a later regulation. After that date, these prices set by regulation will be determined by the OEB. Medium and large businesses will continue to purchase their electricity from the wholesale market. After a date set by regulation, the IESO will ensure that, over time, payments by market participants will reflect the mix of regulated, contract and market prices paid to generators. All Ontario consumers will have the option to purchase their electricity from licensed electricity retailers. It is expected that some or all of the electricity generated from OPG's nuclear and baseload hydroelectric assets will be regulated, and the remainder of OPG's generation will continue to be subject to competitive market pricing.

The Government will determine which of OPG's assets will be regulated and the rate that OPG will receive for electricity generated by OPG's regulated assets for the initial period. The rate regulation is expected to commence with effect from January 1, 2005. Once the affected assets and the initial rate have been established, rate-making authority will be handed over to the OEB.

As part of its redefined role, the IESO will continue to have the same responsibilities, except that its duties relating to the forecasting of electricity demand and resources will be limited to the short-term and the responsibilities for the Market Surveillance Panel will move to the OEB. The OPA will have the responsibility for long-term forecasting. The IESO Board will consist of the IESO Chief Executive Officer and 10 independent directors.

The Government intends to hold stakeholder sessions throughout the summer with respect to the proposed legislation. It is expected that final legislation will be in place by the end of 2004.

The Minister of Energy announced in April 2004 that the Honourable Jake Epp was confirmed as OPG's Chairman of the Board, and that the Government had asked the Board of Directors to commence a search for nine new members of OPG's Board of Directors, as well as a new Chief Executive Officer.

Strategic Initiatives and Future Direction

The proposed legislation tabled on June 15, 2004 will bring significant changes to Ontario's electricity market. In addition, further anticipated reforms and recommendations are expected to impact OPG's structure and the role of OPG within the market. The new reforms and other future changes are expected to alter the objectives, rules, regulations and operations of Ontario's electricity marketplace and significantly impact OPG and its role in the Ontario electricity market. As a result, the operating and financial position of OPG, as outlined in this Management's Discussion and Analysis, may not be indicative of the future on-going operations, financial position and prospects of OPG.

Until further direction is obtained from the Government, OPG is continuing to pursue initiatives to ensure sufficient liquidity, increase productivity and the cost competitiveness of its generating assets, address the return to service of Unit 1 at OPG's Pickering A nuclear generating station, undertake sustainable development initiatives aimed at continuous and measurable improvement in environmental performance, and continue with initiatives related to corporate governance.

OPG is currently planning for the application of rate regulation to some or all of the production from its nuclear and baseload hydroelectric generating stations. Rate regulation may result in the establishment of certain rate regulated assets and liabilities intended to reflect the recoverability of incremental costs and revenues through the rate setting process, and ultimately passed on to consumers.

Pickering A Return To Service

In July 2004, OPG announced that the Government had endorsed the recommendation of OPG's Board of Directors to return to service Unit 1 of the Pickering A nuclear generating station. The Unit 1 return to service is expected to cost $900 million with the major construction phase scheduled to be complete by June 1, 2005. The unit would then be commissioned and tested for approximately a three-month period, prior to returning to full service in September 2005.

Total cumulative expenditures to the end of June 30, 2004 for Unit 1 were $411 million related to the planning, estimating, assessing, and completion of certain prerequisite and advance project construction to reduce the critical path. The total cumulative expenditures for the preparation and refurbishment of all four units to the end of June 30, 2004, including the common operating systems for the station, were $1,723 million.

OPG has incorporated the lessons learned from the return to service of Unit 4 at the Pickering A nuclear generating station into the Unit 1 project, and has carefully addressed all 18 recommendations on Pickering A by the OPG Review Committee, as well as the recommendations of the Pickering A Review Panel. OPG will issue regular public updates on construction progress of Unit 1 over the next year as major project milestones are reached. The following is a list of the scheduled target dates for the major milestones of the project:

- All planning and assessment for the entire project complete by October 15, 2004;
- All materials through to the end of the project have been placed into field execution kits, and all long-lead items are either on site or scheduled by December 1, 2004;
- Major construction on Unit 1 project is 50% complete by January 15, 2005, 75% complete by March 15, 2005 and 100% complete by June 1, 2005; and
- Unit 1 is returned to service by September 1, 2005

Other Electricity Supply Initiatives

In June 2004, OPG and the Government announced the decision to proceed with a new water diversion tunnel that will increase the amount of water flowing to existing turbines at the Sir Adam Beck generating station in Niagara. This third tunnel will allow the Beck generating station to take full advantage of available water and is expected to increase annual generation by about 1.6 TWh. OPG commenced a Request for Proposal process in July, with the expectation that construction can begin in 2005 subject to final Board approval. Construction of the tunnel is expected to take four to five years.

In July 2004, construction was completed on the 580 MW gas-fired Brighton Beach generating station near Windsor, Ontario by a limited partnership formed by OPG with ATCO Power Canada Ltd. and ATCO Resources Ltd., called Brighton Beach Power L. P. ("Brighton Beach"). In November 2001, the partnership signed an energy conversion agreement with Coral Energy Canada Inc. ("Coral") under which Coral will deliver natural gas to be used at the station and own, market, and trade all the electricity produced for a period of 20 years.

In December 2002, OPG entered into a partnership with TransCanada Energy Ltd., called Portlands Energy Centre L.P ("PEC"). The partnership is continuing to pursue the feasibility of developing a 550 MW gas-fired, combined cycle station on the site of the former R. L. Hearn generating station, near downtown Toronto. The generating station would help to meet the growing energy needs of Toronto's downtown core. On June 25, 2004, the Government issued a Request for Information/Request for Qualifications for up to 2,500 MW of new clean generation and demand side management projects. PEC intends to participate in this process.

Other Strategic Initiatives

OPG Ventures Inc., a wholly owned subsidiary of OPG, was incorporated on March 30, 2001 with the mandate to make energy related investments to optimize financial returns and growth opportunities for OPG. On April 27, 2004, the OPG Board of Directors approved the managed exit from this investment activity over a period not to exceed twenty-four months and to restrict future investments only to commitments and to follow-on investments which have an anticipated value growth within a twenty-four month time horizon. The carrying value of the investments held by OPG Ventures Inc., at cost, was $44 million as at June 30, 2004.

BUSINESS SEGMENTS

OPG has two reportable business segments: Generation and Energy Marketing. A separate category, Non-Energy and Other, includes revenue and certain costs that are not allocated to the business segments. Future changes in OPG's structure and operations, including the impact of rate regulation, could change the definition of business segments.

Generation Segment

OPG's principal business segment operates in Ontario, generating and selling electricity. All of OPG's electricity generation is sold into the IMO-administered real-time energy spot market. As such, the majority of OPG's revenue is derived from spot market sales. In addition to revenue earned from spot market sales, revenue is also earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control/reactive support, certified black start facilities and automatic generation control.

OPG has entered into various energy and related sales contracts with its customers to hedge commodity price exposure to changes in electricity prices associated with the spot market for electricity in Ontario. Contracts that are designated as hedges of OPG's generation revenues are included in Generation segment activities. Gains or losses on these hedging instruments are recognized in revenue over the term of the contract when the underlying hedged transactions occur.

Key Generation Performance Indicators

OPG's revenue is primarily dependent upon the quantity of electricity produced by OPG's generating stations and the price at which that electricity is sold. Generation is dependant on the availability of stations to deliver energy and upon demand for electricity in the case of non-baseload generating stations. Nuclear stations and some hydroelectric generating stations are used primarily to provide base load capacity as they have low marginal operating costs and, in the case of nuclear plants, are not designed for frequent variations in production level to meet peaking demand. Other hydroelectric and fossil stations provide the bulk of the intermediate and peaking capacity. OPG evaluates performance of stations using a number of key performance indicators which may vary depending on the generation technology. OPG has included certain of these indicators in the section entitled "Discussion of Operating Results":

- Nuclear Capability Factor - the amount of energy that the unit(s) generated over a period of time, adjusted for external energy losses such as transmission or demand limitations, as a percentage of the amount of energy that would have been produced over the same period had the unit(s) produced maximum generation.

- Fossil and Hydroelectric Equivalent Forced Outage Rate (EFOR) – an index of the reliability of the generating unit measured by the ratio of time a generating unit is forced out of service, including any forced deratings, compared to the amount of time the generating unit operates.

Energy Marketing Segment

The Energy Marketing segment derives revenue from various physical energy market and financial transactions with large and medium volume end-use customers and intermediaries such as utilities, brokers, aggregators, traders and other power marketers and retailers. OPG purchases and sells electricity through the IMO spot market and the interconnected markets of other provinces and the U.S. northeast and midwest. Energy marketing includes trading, the sale of financial risk management products and sales of energy-related products and services to meet customers' needs for energy solutions. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in Energy Marketing revenue as gains or losses.

Non-Energy and Other

OPG derives non-energy revenue under the terms of a lease arrangement with Bruce Power related to the Bruce nuclear generating stations. This includes lease revenue, interest income and revenue from engineering analysis and design, technical and other services. Non-energy revenue also includes isotope sales to the medical industry and real estate rentals.

DISCUSSION OF OPERATING RESULTS

Generation Segment

	Three Months Ended June 30		Six Months Ended June 30	
(millions of dollars)	**2004**	**2003**	**2004**	**2003**
Revenue, net of Market Power Mitigation Agreement rebate	**1,047**	1,144	**2,303**	2,526
Fuel expense	**242**	397	**580**	880
Gross margin	**805**	747	**1,723**	1,646
Operations, maintenance and administration				
Expenses excluding Pickering A Return to Service	**559**	530	**1,114**	1,051
Pickering A Return to Service	**65**	79	**124**	170
Depreciation and amortization	**171**	119	**340**	233
Accretion on fixed asset removal and nuclear waste management liabilities	**114**	108	**227**	216
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(80)**	(61)	**(178)**	(115)
Property and capital taxes	**23**	24	**46**	49
(Loss) income before the following	**(47)**	(52)	**50**	42
Restructuring	**16**	-	**16**	-
(Loss) income before income taxes	**(63)**	(52)	**34**	42

Gross Margin

Gross margin from electricity sales in the Generation segment was $805 million for the three months ended June 30, 2004 compared to $747 million for the same period in 2003, an increase of $58 million. Gross margin was $1,723 million for the six months ended June 30, 2004 compared to $1,646 million for the same six-month period last year, an increase of $77 million. The increase in gross margin for both the second quarter and six-month period was mainly due to a change in generation mix related to higher production from OPG's lower marginal cost hydroelectric and nuclear generating stations and lower production from higher marginal cost fossil-fueled generating stations. In addition, gross margin increased as a result of lower fossil fuel costs. The impact of these factors on gross margin was partly offset by lower average electricity prices after taking into account the Market Power Mitigation Agreement rebate and lower electricity generation.

Revenue

	Three Months Ended June 30		Six Months Ended June 30	
(millions of dollars)	**2004**	**2003**	**2004**	**2003**
Spot market sales, net of hedging instruments	**1,229**	1,341	**2,895**	3,558
Market Power Mitigation Agreement rebate	**(208)**	(221)	**(649)**	(1,074)
Other	**26**	24	**57**	42
Total generation revenue	**1,047**	1,144	**2,303**	2,526

Generation revenue was $1,047 million for the three months ended June 30, 2004 compared to $1,144 million for the same period last year, a decrease of $97 million. Generation revenue was $2,303 million for the six months ended June 30, 2004 compared to $2,526 million for the same six month period in 2003, a decrease of $223 million. The decrease in generation revenue for both the three and six month periods was primarily due to lower electricity generation and lower average electricity sales prices.

Electricity Prices

OPG's average spot market sales price for the three months ended June 30, 2004 was 5.0¢/kWh compared to 5.1¢/kWh for the three months ended June 30, 2003. After taking into account the Market Power Mitigation Agreement rebate, OPG's average spot market sales price for the three months ended June 30, 2004 was 4.1¢/kWh compared to 4.3¢/kWh for the same period last year.

OPG's average spot market sales price for the six months ended June 30, 2004 was 5.5¢/kWh compared to 6.6¢/kWh for the six months ended June 30, 2003. After taking into account the Market Power Mitigation Agreement rebate, OPG's average spot market sales price for the six months ended June 30, 2004 was 4.3¢/kWh compared to 4.6¢/kWh for the same period last year. OPG's average spot market sales price for the three months and six months ended June 30, 2004 was lower compared to the same periods in 2003 due primarily to additional sources of lower marginal cost generation.

Market Power Mitigation Agreement Rebate

To address the potential for OPG to exercise market power in Ontario, OPG is required under its generation licence, issued by the OEB, to comply with prescribed market power mitigation measures, including a rebate mechanism. Under the Market Power Mitigation Agreement, for the first four years after May 1, 2002 ("market opening"), a significant portion of OPG's expected energy sales in Ontario is subject to an average annual revenue cap of 3.8¢/kWh. OPG is required to pay a rebate to the IMO equal to the excess, if any, of the average hourly spot energy price over 3.8¢/kWh for the amount of energy sales subject to the rebate mechanism. Energy sales volumes, subject to the rebate mechanism, were set based on expected generation availability and consumption.

Although the legislation and the related regulations governing the Ontario electricity market have been modified to fix prices for certain customers, these changes have not affected the calculation of the rebate payments made by OPG to the IMO. OPG continues to be responsible for a rebate commitment based on the existing Market Power Mitigation Agreement.

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 and six months ended June 30, 2004 and 2003 exceeded the 3.8¢/kWh revenue cap, OPG recorded a Market Power Mitigation Agreement rebate of $208 million during the second quarter of 2004 compared to $221 million during the same period last year. OPG recorded a Market Power Mitigation Agreement rebate of $649 million during the six months ended June 30, 2004 compared to $1,074 million during the six months ended June 30, 2003.

Under OPG's generation licence, the Company has the ability to reduce the amount of energy subject to the Market Power Mitigation Agreement rebate upon the transfer of effective control of certain of its generating facilities to other market participants. As OPG transfers effective control of facilities and meets certain milestones, it can apply to the OEB for an order determining that the transactions represent the transfer of effective control and thereby reduce a portion of the Market Power Mitigation Agreement rebate obligation. As a result of the transfer of effective control of the Bruce nuclear generating stations and four hydroelectric stations located on the Mississagi River, the amount of energy generated by OPG that is subject to the rebate mechanism was reduced to approximately 80 TWh.

The Government has stated that there will be no further sale of publicly owned generation assets. No additional details have been provided regarding the impact of this position on OPG's mandated requirement to decontrol and the impact on the Market Power Mitigation Agreement.

Volume

	Three Months Ended June 30		Six Months Ended June 30	
	2004	**2003**	**2004**	**2003**
Electricity generation (TWh):				
Nuclear	**10.0**	8.9	**20.4**	19.0
Fossil	**4.7**	9.2	**13.7**	21.0
Hydroelectric	**10.0**	7.9	**18.8**	15.1
Total electricity generation	**24.7**	26.0	**52.9**	55.1

In Ontario, there were 542 Heating Degree Days[1] during the three months ended June 30, 2004 compared to 596 Heating Degree Days during the same period last year. The ten-year weather normal average for this three month period is 533 Heating Degree Days. During the six months ended June 30, 2004, there were 2,500 Heating Degree Days compared to 2,687 Heating Degree Days during the same period last year. The ten-year weather normal average for this six month period is 2,393 Heating Degree Days.

OPG's electricity sales volume for the three months ended June 30, 2004 was 24.7 TWh compared to 26.0 TWh for the three months ended June 30, 2003. The decrease in volume was primarily due to the addition of non-OPG low marginal cost baseload generation capacity in Ontario that displaced OPG's higher marginal cost fossil-fueled generation, and higher unplanned outages at OPG's Nanticoke generating station.

Nuclear generation increased by 1.1 TWh during the three months ended June 30, 2004 compared to the same period last year. The increase was primarily due to generation of 0.7 TWh from the Pickering A nuclear generating station with the return to service of Unit 4 in September 2003. In addition, generation from the Pickering B and Darlington nuclear generating stations increased by 0.4 TWh as a result of a decrease in both planned and unplanned outage days. Hydroelectric generation increased by 2.1 TWh during the three months ended June 30, 2004 compared to the same period last year as a result of significantly higher water levels. Fossil generation decreased by 4.5 TWh in the second quarter of 2004 compared to the second quarter of 2003 as a result of higher hydroelectric and nuclear generation, additional non-OPG low marginal cost baseload generation, and higher unplanned outages at the Nanticoke generating station.

OPG's electricity sales volume for the six months ended June 30, 2004 was 52.9 TWh compared to 55.1 TWh for the six months ended June 30, 2003. The decrease in volume was primarily due to the addition of non-OPG low marginal cost baseload generation capacity in Ontario and increased unplanned outages at OPG's Nanticoke generating station.

Nuclear generation increased by 1.4 TWh during the six months ended June 30, 2004 compared to the same period last year. The increase was primarily due to generation of 1.7 TWh from the Pickering A nuclear generating station, partially offset by a net decrease in generation of 0.3 TWh from OPG's Pickering B and Darlington stations. A decrease in generation of 0.9 TWh for the Darlington nuclear generating station due to higher unplanned outage days, was largely offset by an increase in generation of 0.6 TWh from the Pickering B nuclear generating station as a result of improved performance. Hydroelectric generation increased by 3.7 TWh during the six months ended June 30, 2004 compared to the same period last year as a result of significantly higher water levels. Fossil generation decreased by 7.3 TWh in the six months ended June 30, 2004 compared to the same period in 2003 as a result of the higher hydroelectric and nuclear generation, additional non-OPG low marginal cost baseload generation, and increased unplanned outages at the Nanticoke generating station. Due to unforeseen equipment breakdowns at the Nanticoke generating station, OPG has taken action to mitigate these equipment issues.

[1] Heating Degree Days represent the aggregate of the average daily temperatures below 18^0C, as measured at Pearson International Airport in Toronto.

The unit capability factor for nuclear generating stations and the equivalent forced outage rates for fossil-fueled and hydroelectric generating stations are shown below:

	Three Months Ended June 30		Six Months Ended June 30	
	2004	**2003**	**2004**	**2003**
Nuclear unit capability factor (per cent)				
Darlington	**86.3**	82.8	**86.0**	89.9
Pickering A	**54.2**[1]	-	**74.0**[1]	-
Pickering B	**62.8**	60.5	**67.2**	62.2
Equivalent Forced Outage Rate (per cent)				
Nanticoke	**45.6**	19.5	**40.1**	16.7
Fossil generating stations excluding Nanticoke	**15.1**	24.7	**19.9**	30.7
Hydroelectric	**2.0**	1.5	**1.6**	1.1

[1] OPG completed the return to service of the first unit (Unit 4) of the Pickering A generating station in September 2003.

Fuel Expense

Fuel expense for the three months ended June 30, 2004 was $242 million compared to $397 million for the same period last year, a decrease of $155 million. Fuel expense for the six months ended June 30, 2004 was $580 million compared to $880 million for the same period last year, a decrease of $300 million. The decrease during the both the second quarter and six months ended June 30, 2004 was primarily due to a change in generation mix related to higher production from OPG's hydroelectric and nuclear generating stations and lower production from fossil-fueled generating stations. In addition, fuel expense decreased due to favourable foreign exchange rates that reduced the cost of fossil fuel.

Current market prices for coal have increased and, at these levels, would have a significant impact on fuel prices in future years. OPG's current hedge position for expected coal-fired generation is approximately 95 per cent in 2004 and 50 per cent in 2005.

Operations, Maintenance and Administration

Operations, maintenance and administration ("OM&A") expenses, excluding the Pickering A return to service initiative, were $559 million for the second quarter of 2004 compared to $530 million for the second quarter of 2003, an increase of $29 million. The increase was mainly due to higher pension and other post employment benefit expenses of $33 million, primarily the result of changes in economic assumptions related to discount rates and the inflation rate, increases for nuclear maintenance and repairs for planned outages and other improvements of $29 million, and higher wages and salaries of $7 million in accordance with the collective agreements with the unions. These increases were partially offset by savings of $8 million related to OPG's restructuring initiative, reduced spending on information technology and systems of $10 million, decreases for fossil station work programs of $12 million, and other reductions of $10 million.

OM&A expenses, excluding the Pickering A return to service initiative, were $1,114 million for the six months ended June 30, 2004 compared to $1,051 million for the same period in 2003, an increase of $63 million. The increase was mainly due to higher pension and other post employment benefit expenses of $62 million, primarily the result of changes in economic assumptions related to discount rates and the inflation rate, increases for nuclear maintenance and repairs for planned outages and other improvements of $40 million, and higher wages and salaries of $13 million in accordance with the collective agreements with the unions. These increases were partially offset by restructuring savings of $16 million, reduced spending on information technology and systems of $12 million, decreases for fossil station work programs of $14 million and other reductions of $10 million.

Pickering A Return To Service

OM&A expenses related to the Pickering A return to service initiative were $65 million during the second quarter of 2004 compared to $79 million for the same period in 2003, a decrease of $14 million. OM&A expenses related to the Pickering A return to service initiative were $124 million during the six months ended June 30, 2004 compared to $170 million for the first six months of 2003, a decrease of $46 million.

The decrease in both the second quarter and six months ended June 30, 2004 was primarily due to a reduction in the level of construction activities compared to the same periods last year. During the second quarter and six months ended June 30, 2003, OPG was continuing with the construction of Unit 4, which was returned to service in September 2003. During the second quarter and six months ended June 30, 2004, activities were focused on planning, assessing and other activities required to finalize the cost estimate and schedule for Unit 1, and a limited amount of prerequisite and advance project construction activity.

Depreciation and Amortization

Depreciation and amortization expense for the three months ended June 30, 2004 was $171 million compared to $119 million for the same period in 2003, an increase of $52 million. Depreciation and amortization expense for the six months ended June 30, 2004 was $340 million compared to $233 million for the same period in 2003, an increase of $107 million. The higher depreciation during the second quarter and six months ended June 30, 2004 compared to the same periods last year was primarily due to a decrease in the estimated useful lives of the coal-fired generating stations as a result of the Government's commitment to close these stations by the end of 2007. As well, depreciation expense was higher due to an increase in the value of assets in service with the completion of Unit 4 at the Pickering A nuclear generating station and the completion of the selective catalytic reduction equipment at the Nanticoke and Lambton fossil-fueled generating stations. Depreciation expense is expected to increase by approximately $500 million during the period from 2004 to 2007, compared to what would otherwise be recorded during that period if the coal-fired generating stations remained in service until the end of their previously estimated useful lives.

Concurrent with the decision to proceed with the return to service of Pickering A Unit 1, OPG has estimated, for purposes of calculating depreciation, that the remaining service life of Pickering A Unit 4 should be extended by five years. This will lead to a reduced depreciation charge of approximately $20 million annually.

Accretion

Accretion arises because liabilities for fixed asset removal and nuclear waste management are reported on a net present value basis, using a credit-adjusted risk-free rate of 5.75 per cent to discount the expected cash flows. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time. Accretion expense for the three months ended June 30, 2004 was $114 million compared with $108 million for the three months ended June 30, 2003. Accretion expense for the six months ended June 30, 2004 was $227 million compared with $216 million for the six months ended June 30, 2003. The increase of $6 million in the second quarter and $11 million for the six months ended June 30, 2004 was due to the higher liability base during the second quarter and first six months of 2004 compared to the same periods last year, to which the credit-adjusted risk-free rate is applied.

Prior to the third quarter of 2003, OPG reported a revalorization expense that was comprised of accretion expense, net of the interest earned on the receivable from the OEFC and earnings on the nuclear fixed asset removal and nuclear waste management funds. Beginning in the third quarter of 2003, earnings on the funds and accretion expense are disclosed separately. Comparable amounts for the second quarter and first six months of 2003 have been reclassified.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

In July 2003, OPG and the Province completed arrangements pursuant to the Ontario Nuclear Funds Agreement ("ONFA"), which required the establishment of a segregated custodial funds arrangement to hold the nuclear fixed asset removal and nuclear waste management funds. To comply with ONFA, OPG transferred the assets in the nuclear fixed asset removal and nuclear waste management funds to segregated custodial funds called the Decommissioning Fund and the Used Fuel Fund (together the "Funds").

Prior to the establishment of the new segregated funds, investments were primarily made in fixed income securities. Assets in the new segregated funds are invested in fixed income and equity securities. The segregated fund assets are treated as long-term investments and accounted for at amortized cost. As such, there may be unrealized gains and losses at each reporting date.

Earnings on the nuclear fixed asset removal and nuclear waste management funds for the three months ended June 30, 2004 were $80 million compared to $61 million for the three months ended June 30, 2003, an increase of $19 million. Earnings on the nuclear fixed asset removal and nuclear waste management funds for the six months ended June 30, 2004 were $178 million compared to $115 million for the six months ended June 30, 2003, an increase of $63 million. Earnings have increased during the second quarter and six months ended June 30, 2004 due to a higher asset base due to contributions and favourable capital market conditions. At June 30, 2004, net unrealized gains in the Decommissioning Fund totaled approximately $240 million (fund assets at amortized cost of $3,772 million and market value of $4,012 million), compared to net unrealized gains at December 31, 2003 of $160 million (fund assets at amortized cost of $3,641 million and market value of $3,801 million).

Under ONFA, the Province guarantees the rate of return in the Used Fuel Fund at 3.25 per cent per annum plus the change in the Ontario Consumer Price Index ("committed return"). OPG recognizes the committed return on the Used Fuel Fund as earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of the fund assets, which includes realized and unrealized returns, is due to or due from the Province. As a result of the committed return, the recognized income of the Used Fuel Fund, using either amortized cost of investments or market values, is the same.

At June 30, 2004 and December 31, 2003, the Decommissioning Fund was fully funded. All realized gains on the investments held in the fund were recognized under the amortized cost method of accounting. In the event that the realized gains result in over funding of the Decommissioning Fund, based on the estimate of costs to complete decommissioning under the Current Approved ONFA Reference Plan, the earnings recognized on the investments in the Decommissioning Fund would be limited such that the amortized cost balance of the fund would equate to the cost estimate of the liability. These realized gains may be recognized in subsequent periods provided the fund balance does not exceed that cost estimate.

Energy Marketing Segment

OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate primarily to physical energy that is purchased and sold at the Ontario border, the sale of financial risk management products and sales of energy-related products and services to meet customers' needs for energy solutions.

	Three Months Ended June 30		**Six Months Ended June 30**	
(millions of dollars)	**2004**	**2003**	**2004**	**2003**
Revenue, net of power purchases	**9**	21	**24**	42
Operations, maintenance and administration	**1**	2	**3**	4
Income before income taxes	**8**	19	**21**	38

Revenue

For the three months ended June 30, 2004, Energy Marketing revenue was $9 million compared to $21 million during the same period last year. Energy Marketing revenue was $24 million during the six months ended June 30, 2004 compared to $42 million during the six months ended June 30, 2003. The decrease in the second quarter of 2004 was primarily due to changes in the fair value of open positions. The decrease in the six months ended June 30, 2004 was primarily due to changes in the fair value of open positions and reduced physical trading opportunities in the interconnected markets in the first three months of 2004.

Interconnected purchases and sales (including those to be physically settled) and mark-to-market gains and losses (realized and unrealized) on energy trading contracts are disclosed on a net basis in the consolidated statements of income. On a gross basis, revenue and power purchases for the three and six months ended June 30, 2004 would have increased by $56 million and $95 million respectively (three and six months ended June 30, 2003 - $54 million and $91 million respectively), with no impact on net income.

Non-Energy and Other

	Three Months Ended June 30		**Six Months Ended June 30**	
(millions of dollars)	**2004**	**2003**	**2004**	**2003**
Revenue	**85**	81	**164**	158
Operations, maintenance and administration	**8**	14	**16**	24
Depreciation and amortization	**23**	28	**46**	55
Property and capital taxes	**7**	3	**12**	6
Operating income before the following	**47**	36	**90**	73
Other income	**-**	41	**-**	41
Net interest expense	**45**	27	**90**	58
Income before income taxes	**2**	50	**-**	56

Revenue

Non-energy revenue primarily consists of lease and other revenue derived under the lease agreement with Bruce Power. Under this agreement, the Company leased its Bruce A and Bruce B nuclear generating stations until 2018, with options to renew for up to another 25 years. Non-energy revenue for the three months ended June 30, 2004 was $85 million compared to $81 million for the three months ended June 30, 2003. For the six months ended June 30, 2004 Non-energy revenue was $164 million compared to $158 million for the same six month period last year.

Revenue from the energy conversion agreement between Brighton Beach and Coral, which commenced in July 2004 with completion of construction of the generating station, will be recorded in non-energy revenue from the third quarter of 2004.

Other Income

Other income for the three and six months ended June 30, 2004 was nil compared to $41 million for the same periods last year. During the second quarter of 2003, OPG recorded a gain on sale of long-term investments.

Net Interest Expense

Net interest expense for the three months ended June 30, 2004 was $45 million compared to $27 million for the three months ended June 30, 2003. Net interest expense for the six months ended June 30, 2004 was $90 million compared to $58 million for the six months ended June 30, 2003. The increase in expense of $18 million and $32 million during the second quarter and first six months of 2004 respectively, was mainly due to a reduction in interest capitalized on construction in progress and a decrease in interest income.

Income Tax

For the second quarter of 2004, the effective income tax recoverable rate was 22.6 per cent compared to an effective income tax payable rate of 52.9 per cent in the second quarter of 2003. The change in the effective income tax rate was primarily due to the impact of Large Corporations Tax, which is not dependent on earnings, and thereby reduced the income tax recoverable rate in 2004, but increased the income tax payable rate in 2003.

For the six months ended June 30, 2004, the effective income tax payable rate was 58.2 per cent compared to an effective income tax payable rate of 40.4 per cent in 2003. The increase in the effective income tax payable rate was primarily due to the impact of Large Corporations Tax.

A valuation allowance of $93 million was established in 2003 to recognize that based on prospects at that time, it was more likely than not that a portion of income taxes recoverable would not be realized. The pending establishment of regulated electricity rates in Ontario may impact this valuation allowance.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow used in operating activities during the second quarter of 2004 was $146 million compared to $508 million during the second quarter of 2003, a decrease of $362 million. The increase in cash flow compared to last year was primarily due to lower payments of the Market Power Mitigation Agreement rebate and the timing of contributions to the nuclear fixed asset removal and nuclear waste management funds, partially offset by the impact of changes in non-cash working capital balances. Cash flow provided by operating activities during the six months ended June 30, 2004 was $77 million compared to $568 million during the same period last year, a decrease of $491 million. The decrease in cash flow compared to last year was primarily due to lower electricity prices and changes in the Market Power Mitigation Agreement rebate payable. In addition, in the first quarter of 2003, OPG received proceeds of $225 million from the note receivable from Bruce Power.

Electricity prices exhibit seasonal variations related to changes in demand. Prices are normally expected to be 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. Although the Market Power Mitigation Agreement rebate and the Company's hedging strategies significantly reduce the impact of the seasonal price fluctuations on the Company's results from operations, there can be significant volatility in earnings resulting from fluctuations in prices related to weather and other factors such as natural gas prices.

OPG is in a capital-intensive business that requires OPG to continue to invest in plant and technologies to improve operating efficiencies, increase generating capacity of its existing plant and to maintain and improve service, reliability, safety and environmental performance. In addition, the Company has other significant disbursement requirements including Market Power Mitigation Agreement rebate payments, annual funding obligations under ONFA, pension funding, and continuing debt maturities with the OEFC.

Capital expenditures during the second quarter of 2004 were $127 million compared with $162 million during the same period last year. Capital expenditures during the six months ended June 30, 2004 were $223 million compared with $320 million during the same period last year. The decrease during the second quarter of 2004 and the six months ended June 30, 2004 was primarily due to the completion of the return to service of Unit 4 at the Pickering A nuclear generating station and completion of the installation of selective catalytic reduction equipment at the Nanticoke and Lambton fossil-fueled generating stations. OPG's anticipated capital expenditures for 2004 are approximately $600 million. These expenditures will be funded from existing available cash and short-term bank credit facilities.

OPG made contributions of $38 million to the pension plan during the three months ended June 30, 2004 compared to $27 million during the three months ended June 30, 2003. OPG made contributions of $76 million to the pension plan during the six months ended June 30, 2004 compared to $80 million during the six months ended June 30, 2003.

As required under ONFA, which came into effect in July 2003, OPG made contributions of $113 million and $227 million respectively during the three and six months ended June 30, 2004 to the nuclear fixed asset removal and nuclear waste management funds. OPG made contributions of $259 million during both the second quarter of 2003 and during the six months ended June 30, 2003.

OPG has not paid any dividends to the Province during the six months ended June 30, 2004, compared with $17 million of dividend payments during the six months ended June 30, 2003. Dividends are declared and paid to achieve an effective 35 per cent pay-out based on annual net income.

The cash requirements currently anticipated beyond the next twelve-month period could exceed OPG's current credit facilities. In order to meet these longer-term liquidity requirements and funding commitments, OPG must successfully access extended or additional sources of liquidity. OPG is currently examining options that could include additional payment deferrals, incremental borrowings, or other forms of financial or operating restructuring. Changes to OPG's financial structure could occur as a consequence of rate regulation and could impact OPG's cash flow and capital structure.

OPG's ability to arrange third-party financing is dependent on a number of factors including: general economic and capital market conditions; credit and capital availability from the Province (OPG's Shareholder), banks and other financial institutions; maintenance of acceptable credit ratings; and the status of electricity market restructuring in Ontario and changes directly impacting OPG .

The Company's liquidity is highly dependent on its debt rating. A downward change in the rating could result in additional collateral requirements with counterparties, depending on the mark-to-market value of the contracts between OPG and these counterparties, as well as limiting OPG's ability to access funding in the commercial paper market. At June 30, 2004, OPG's long term debt rating was BBB+ by Standard & Poor's and A (low) by Dominion Bond Rating Service. Maintaining an investment grade credit rating is essential for corporate liquidity, capital market access and to facilitate energy and financial product sales and trading activities.

In May 2004, OPG renewed its $1,000 million revolving short-term committed bank credit facility with its bank lending group for a further 364-day term. As at June 30, 2004, OPG had no outstanding borrowing under this facility.

Notes issued under the Company's commercial paper program are supported by the bank credit facility. During the six months ended June 30, 2004, $185 million of commercial paper was issued to cover intra-month short-term funding requirements (six months ended June 30, 2003 - $390 million). During the six months ended June 30, 2004, $185 million of commercial paper was repaid (six months ended June 30, 2003 - $467 million). At June 30, 2004 and December 31, 2003, OPG had no commercial paper outstanding under its program.

OPG also maintains $27 million (December 31, 2003 - $28 million) in short-term uncommitted overdraft facilities as well as $173 million (December 31, 2003 - $173 million) of short-term uncommitted credit facilities, in the form of Letters of Credit. OPG is required to post the Letters of Credit as collateral with Local Distribution Companies ("LDCs") as prescribed by the OEB's Retail Settlement Code, and to support the supplementary pension plan. At June 30, 2004, there were approximately $127 million (December 31, 2003 - $125 million) of Letters of Credit issued for collateral requirements to support the supplementary pension plan, and with the LDCs.

RECENT DEVELOPMENTS

Standby Generator Capacity

As a follow-up to the August 14, 2003 blackout, some modifications are likely to be required to improve the ability of OPG's generating stations to respond to transmission system instability and withstand extended transmission system interruptions. The most significant impact is expected to be at OPG's Pickering B nuclear generating station. OPG plans to install a temporary standby generator off-site at a cost of approximately $40 to $50 million. The standby generator is expected to be in-service by September 30, 2004 for a period of operation of approximately two years while a permanent solution is investigated. It is expected that the cost of the permanent solution could be in the range of $100 to $200 million.

Fuel Channels

OPG has comprehensive inspection and testing programs in place in order to ascertain the physical condition of its nuclear generating stations. As a result of recent inspections of fuel channels, conditions were identified that will require acceleration of planned remediation programs at the Pickering B station. These findings will result in additional inspections of the fuel channels, lengthening previously planned outages, and will advance certain maintenance procedures from 2007 and 2008 to 2004 through 2006.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

OPG's significant accounting policies are outlined in Note 3 to the consolidated financial statements as at and for the year ended December 31, 2003. Certain of these policies are recognized as critical accounting policies by virtue of the subjective and complex judgments and estimates required around matters that are inherently uncertain and could result in materially different amounts being reported under different conditions or assumptions. The critical accounting policies and estimates that affect the Company's financial statements, the likelihood that materially different amounts would be reported under varied conditions and estimates and the impact of changes in certain conditions or assumptions, are highlighted on pages 20 to 23 of the Management's Discussion and Analysis for the year ended December 31, 2003. There have not been any significant changes in the critical accounting policies or estimates during the six months ended June 30, 2004.

RISK MANAGEMENT

OPG's portfolio of generation assets and its electricity trading and marketing operations are subject to inherent risks, including financial, operational, regulatory and strategic risks, as defined on page 24 of the Management's Discussion and Analysis for the year ended December 31, 2003. To manage these risks, OPG has implemented an enterprise-wide risk management framework, which includes policies governing organizational structure and segregation of duties, and risk identification, measurement, monitoring and reporting processes. While OPG believes it is pursuing appropriate risk management strategies, there can be no assurance that one or more of the risks outlined will not have a material adverse impact on OPG. The results following from the proposed legislation announced by the Government on June 15, 2004 and other future changes to the Ontario electricity marketplace and OPG's role in it could have a material impact on these issues.

Commodity Price Risk

Commodity price risk is the risk that changes in the market price of electricity or of the fuels used to produce electricity, will adversely impact OPG's earnings and cash flow from operations. A variable portion of both OPG's electricity production and overall fuel requirements are exposed to fluctuating spot market prices. To manage this risk, the Company maintains a balance between the commodity price risk inherent in its electricity production and plant fuel portfolios. To manage the input risk, OPG has implemented a fuel hedging program. In addition to fixed price contracts for fossil and nuclear fuels, OPG periodically employs derivative instruments to hedge its fuels price risk.

The percentage of OPG's generation and fuel requirements hedged over the next three years is shown below:

	2004	2005	2006
Estimated generation output hedged [1]	80%	78%[3]	74%[3]
Estimated fuel requirements hedged [2]	99%	83%	79%

[1] Represents the portion of megawatt-hours of expected future generation production, including power purchases, for which the Company has sales commitments and contracts including the obligations under its Market Power Mitigation Agreement rebate and transition rate option contracts.

[2] Represents the approximate portion of megawatt-hours of expected generation production from all types of facilities (fossil, nuclear and hydroelectric) for which OPG has entered into some form of contractual arrangements or obligations in order to secure either the expected availability and/or price of fuel and/or fuel related services. Fuel inventories are included. Year-end inventory targets at coal stations are respected. Excess fuel in inventory is carried into future years. The percentage hedged by fuel type varies considerably and therefore a change in circumstances could have a significant impact on OPG's overall position.

[3] Estimated generation output hedged for 2005 and 2006 may be impacted by the proposed regulation of OPG's nuclear and baseload hydroelectric generating stations.

Open trading positions are subject to measurement against Value at Risk (VaR) limits. VaR is a measure of the potential change in a portfolio's market value due to price changes over a one-day holding period, with a 95 per cent confidence interval. VaR utilization ranged between $0.5 million and $0.8 million during the second quarter of 2004, and $0.4 million and $1.5 million during the same period in 2003. VaR utilization ranged between $0.5 million and $1.0 million during the six months ended June 30, 2004, and $0.4 million and $1.6 million during the same period in 2003. VaR utilization is within the risk tolerance of the Company, under approved VaR limits.

Trading liquidity continues to be constrained in Ontario and interconnected markets due to broader energy market fundamentals as well as uncertainty with the direction of the Ontario electricity market structure. Constrained liquidity continues to limit portfolio hedging and optimization opportunities.

Credit Risk

Credit risk is the financial risk of non-performance by contractual counterparties. Credit risk does not include any operational risk resulting from a third party failing to deliver a product or service as expected. The majority of OPG's revenues are derived from sales through the IMO-administered spot market. OPG also derives revenue from several other sources including the sale of financial risk management products to third parties.

OPG's credit exposure is concentrated in the physical electricity market with the IMO. Credit exposure to the IMO fluctuates based on timing and is reduced each month upon settlement of the accounts. Credit exposure to the IMO peaked at $901 million during the six months ended June 30, 2004, and at $1,134 million during the six months ended June 30, 2003. OPG's management believes that the IMO is an acceptable credit risk due to its primary role in the Ontario market. The IMO manages its own credit risk and its ability to pay generators by mandating that all registered IMO spot market participants meet specific IMO standards for creditworthiness and collateralization. Additionally, in the event of an IMO participant default, each market participant shares the exposure pro rata. Given OPG's position in the marketplace, the Company would bear approximately 40 per cent of the exposure, residual of collateral and recovery. OPG also measures its credit concentrations with counterparties. OPG's management believes these are within acceptable limits and does not anticipate any material effect on its results of operations or cash flows arising from potential defaults.

The following table provides information on credit risk from energy sales and trading activities as at June 30, 2004:

			Potential Exposure [4] for Largest Counterparties	
Credit Rating [1]	Number of [2] Counterparties	Potential Exposure	Number of Counterparties	Counterparty Exposure
		(millions of dollars)		*(millions of dollars)*
AAA to AA-	17	14	-	-
A+ to A-	43	82	4	51
BBB+ to BBB-	88	62	-	-
BB+ to BB-	30	86	6	86
Below BB-	24	3	-	-
Subtotal	202	247	10	137
IMO[3]	1	405	1	405
Total	203	652	11	542

[1] Credit ratings are based on OPG's own analysis, taking into consideration external rating agency analysis where available, as well as recognizing explicit credit support provided through guarantees and letters of credit or other security.
[2] Each master agreement is treated as a unique Counterparty.
[3] Maximum potential exposure to the IMO during the six months ended June 30, 2004 was $901 million, which occurred January 21, 2004.
[4] Potential exposure represents OPG's assessment of the maximum exposure over the life of each transaction at 95 per cent confidence.

For all other counterparties, OPG's contracts allow for active collateral management to mitigate credit exposures. The contracts provide for a counterparty to post Letters of Credit or cash for exposure in excess of the established threshold. This could happen as a result of market moves or upon the occurrence of credit-related events. The threshold amount represents credit limits established in accordance with the corporate credit policy. Inability to post collateral is sufficient cause to terminate a contract and liquidate all positions.

CORPORATE GOVERNANCE AND CONTINUOUS DISCLOSURE

OPG is a reporting issuer under the *Ontario Securities Act*. Commencing in 2004, reporting issuers became subject to amended continuous disclosure rules that were published in December 2003, and subject to three separate rules that were finalized in January 2004, regulating auditor oversight, certification of disclosure and audit committees.

OPG has continued to enhance corporate governance and related controls over the past two years following the initiatives introduced in the United States and the more recently released requirements in Canada. While OPG is exempt from certain of these initiatives as a venture issuer, OPG's controls and governance over annual and interim filings are adapted to follow enhanced practices. The following is a summary of certain controls, procedures and other enhancements implemented by OPG:

- Disclosure controls over financial reporting were enhanced to include a comprehensive internal certification process and due diligence procedures. These controls support the certification of disclosure controls over financial reporting by OPG's CEO and CFO;
- OPG has initiated a project to review and update business process documentation, identify risk areas related to internal controls, assess the effectiveness of controls and conduct detailed testing;
- OPG has established a Disclosure Committee to review annual and interim filings and other disclosures to ensure compliance with legal and regulatory requirements;
- The Audit Committee charter has been revised and a Public Markets Disclosure Committee charter drafted for implementation, subject to approval by the Board of Directors;
- OPG's Board, acting as an Audit Committee, pre-approves audit and non-audit services by OPG's external auditor; and
- OPG has a practice of early adopting required changes in disclosure where practical.

OPG has implemented the new audit committee rules given that these rules are effective for OPG for the first audit committee meeting after July 1, 2004. The new rules require OPG to have an audit committee to which the external auditors must directly report. The audit committee must have at least three members, each of whom is independent and financially literate. The rules also stipulate certain responsibilities of the audit committee, including recommending to the Board of Directors the appointment of the external auditor and their compensation, pre-approving all non-audit services, and reviewing financial information before it is released.

Summary of Quarterly Results

The following tables set out certain unaudited consolidated financial statement information for each of the eight most recent quarters ended June 30, 2004. The information reflects the retroactive change in accounting for asset retirement obligations adopted during 2003. The information has been derived from OPG's unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements. These operating results are not necessarily indicative of results for any future period.

	2003 Quarters Ended		**2004 Quarters Ended**	
(millions of dollars)	**September 30**	**December 31**	**March 31**	**June 30**
Revenue after Market Power Mitigation Agreement rebate	**1,224**	**1,228**	**1,350**	**1,141**
Net income (loss)	**34**	**(606)**[1]	**64**	**(41)**
Net income (loss) per share	**$0.13**	**$(2.36)**	**$0.25**	**$(0.16)**

	2002 Quarters Ended		**2003 Quarters Ended**	
(millions of dollars)	**September 30**	**December 31**	**March 31**	**June 30**
Revenue after Market Power Mitigation Agreement rebate	1,612	1,314	1,480	1,246
Net income (loss)	220	(10)	73	8
Net income (loss) per share	$0.86	$(0.04)	$0.28	$0.03

[1] OPG recorded an impairment loss on the coal-fired generating stations of $473 million after tax ($576 million before tax) due to the expected early shutdown of the coal-fired generating stations by 2007.

Off-Balance Sheet Arrangements

Securitization

In October 2003, OPG completed a revolving securitization agreement with an independent trust. Under the securitization agreement, the Company sold an undivided co-ownership interest in certain current and future accounts receivable generated in the normal course of business. The amount of the co-ownership interest sold is removed from the balance sheet with each revolving securitization. The Company also retains an undivided co-ownership interest in the receivables sold to the trust. This retained interest is accounted for at cost on OPG's balance sheet. The independent trust is not controlled by OPG and as such, results are not consolidated.

The securitization provides OPG with an opportunity to obtain an alternative source of cost effective funding. For the six months ended June 30, 2004, the average all-in cost of funds was 2.5 per cent and the pre-tax charges on sales to the trust were $4 million. The initial net cash proceeds from this transaction of $300 million were used by OPG in the operation of its business. Termination of the arrangement, which in the absence of early termination, occurs in August 2006, would likely require OPG to pursue alternative liquidity arrangements to meet the ongoing operations of the business.

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 the Brighton Beach financing. If the partnership fails to complete the project or meet certain performance tests by September 30, 2006, OPG may be required to repurchase its proportionate share of the outstanding debt, up to a total of $202 million. As at June 30, 2004, OPG remains responsible for contributing its share of equity related to cost overruns, up to $13 million. OPG has provided guarantees relating to gas transport and other energy-based charges if the commercial operations date is delayed in certain circumstances; and debt service if the energy conversion agreement is terminated, from the date of such termination to the earlier of the entry into a replacement agreement and September 30, 2006. In July 2004, Brighton Beach was commercially operational.

Derivative Instruments

The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized upon settlement when the underlying transactions occur. The Company holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity. Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. When such derivative instrument ceases to exist or when designation of a hedging relationship is terminated, any associated deferred gains or losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period's consolidated statement of income. The deferred loss on electricity derivative instruments treated as hedges was $182 million as at June 30, 2004, compared to a deferred loss on electricity and foreign exchange derivatives of $16 million as at December 31, 2003. See Note 9 to the Consolidated Financial Statements for more information.

All contracts not designated as hedges are recorded as assets or liabilities at fair value with changes in fair value recorded in Energy Marketing revenue.

SUPPLEMENTAL EARNINGS MEASURES

In addition to providing earnings measures in accordance with Canadian generally accepted accounting principles, OPG presents gross margin as a supplemental earnings measure. This measure does not have any standardized meaning prescribed by Canadian generally accepted accounting principles and is, therefore, unlikely to be comparable to similar measures presented by other companies. This measure is provided to assist readers of the financial statements in assessing income performance from on-going operations, and has been consistently applied as in prior years and throughout these financial statements and management's discussion and analysis.

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