

August 17, 2007

**ONTARIO POWER GENERATION REPORTS 2007 SECOND QUARTER
FINANCIAL RESULTS**

[Toronto]: Ontario Power Generation Inc. ("OPG" or the "Company") today reported its financial and operating results for the second quarter and six months ended June 30, 2007. Net income for the three months ended June 30, 2007 was \$125 million compared to net income of \$143 million for the same period in 2006. For the six months ended June 30, 2007, net income was \$296 million compared to \$342 million for the same period last year.

"Over the first half of 2007, the reliability of OPG's fossil and hydroelectric stations as well as the Darlington nuclear station continued to improve as a result of targeted performance improvement programs. Increased production at our fossil stations was largely offset by lower production at both Pickering nuclear stations due to a number of unplanned outages, and lower hydroelectric production," said President and CEO Jim Hankinson.

Electricity generated in the second quarter of 2007 was 26.0 terawatt hours ("TWh"), which exceeded second quarter 2006 production of 25.5 TWh. Nuclear production was essentially equal to the second quarter of 2006. Hydroelectric production of 8.6 TWh was marginally lower than production of 9.0 TWh in 2006, due to lower water levels in northern Ontario. Electricity production from OPG's fossil stations increased to 6.3 TWh in the second quarter of 2007 compared to 5.3 TWh in 2006. For the six months ended June 30, 2007, total production from OPG's generating stations was 54.2 TWh compared to 53.9 TWh for the same period in 2006.

The availability of OPG's fossil and hydroelectric stations, as well as the Darlington nuclear station continued to improve during the second quarter and on a year-to-date basis. Availability at OPG's fossil stations has improved considerably over the past four years while availability at the Company's hydroelectric stations and Darlington nuclear station is near historically high levels. As a result of unplanned outages at the Pickering A and B nuclear stations, availability for the six months ended June 30, 2007 was lower than 2006.

During the second quarter of 2007, OPG received an average price of 4.6¢/kilowatt hour ("kWh") for the output from all of its generating stations, which was the same as the weighted average Ontario spot market electricity price. In comparison, during the second quarter of 2006, OPG received an average price of 4.6¢/kWh compared to the weighted average Ontario spot market electricity price of 4.8¢/kWh. OPG's average price reflects regulated prices for production from its nuclear and baseload hydroelectric generating assets, as well as spot market prices, subject to a revenue limit, for the majority of its remaining production.

Earnings during the three and six months ended June 30, 2007 were unfavourably affected by a decrease in gross margin primarily due to lower generation from OPG's Pickering nuclear stations and its unregulated hydroelectric generating stations, and higher fuel costs. This effect was partly offset by an increase in generation from higher marginal cost fossil-fuelled generating stations. In addition, earnings were unfavourably affected by higher nuclear and fossil maintenance expenses compared to the same periods in 2006. Second quarter 2007 earnings were favourably affected by higher earnings from the nuclear fixed asset removal and nuclear waste management funds, and a decrease in depreciation expense primarily due to the extension of the service lives of the coal-fired generating stations.

During the second quarter of 2007, OPG continued to progress on the following electricity generation projects aimed at increasing Ontario's long-term electricity supply:

- The Niagara tunnel will increase the amount of water flowing to existing turbines at the Sir Adam Beck generating stations in Niagara Falls. Initial progress of the tunnel boring machine by the design-build contractor through a fractured rock formation has been slower than expected. As a result, the contractor's forecast completion date has been delayed from late 2009. Overall project completion is expected by mid-2010, within the original schedule approved by OPG's Board of Directors. The project is still expected to be completed within the budgeted cost estimate;
- Construction of a new 12.5 megawatt ("MW") Lac Seul hydroelectric generating station on the English River has been delayed as a result of the replacement of a major sub-contractor. The project is now expected to be in-service in the first quarter of 2008, rather than the end of 2007. Total project costs are still expected to be \$47 million;
- Construction of the Portlands Energy Centre ("PEC"), a limited partnership between OPG and TransCanada Energy Ltd is progressing well. The project remains on schedule and the station is expected to be operating in a simple cycle mode with a capacity of up to 340 MW beginning June 1, 2008, and providing up to 550 MW of power in a combined cycle mode in the second quarter of 2009;
- OPG is undertaking a business case examination for the potential refurbishment and life extension of its Pickering B nuclear generating station. The Canadian Nuclear Safety Commission ("CNSC") has notified OPG that a screening level environmental assessment will be required, and has issued environmental assessment requirements for the proposed refurbishment of the Pickering B nuclear station; and
- OPG initiated a federal approval process with the CNSC during 2006 for new nuclear generating units on the site of its Darlington nuclear generating station. A project description has been submitted to the CNSC as part of determining environmental assessment requirements for the project.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

<i>(millions of dollars – except where noted)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
<i>Earnings</i>				
Revenue after revenue limit rebate	1,373	1,345	2,897	2,853
Fuel expense	298	243	626	521
Gross margin	1,075	1,102	2,271	2,332
Operations, maintenance and administration	776	678	1,470	1,318
Other expenses	145	278	419	574
Income tax expenses (recoveries)	29	3	86	98
Net income	125	143	296	342
<i>Cash flow</i>				
Cash flow (used in) provided by operating activities	312	(435)	475	(1)
<i>Electricity Generation (TWh)</i>				
Regulated – Nuclear	11.1	11.2	22.7	23.9
Regulated – Hydroelectric	4.7	4.4	9.3	8.9
Unregulated – Hydroelectric	3.9	4.6	7.8	8.8
Unregulated – Fossil-Fuelled	6.3	5.3	14.4	12.3
Total electricity generation	26.0	25.5	54.2	53.9
<i>Average electricity sales price¹ (¢/kWh)</i>				
Regulated – Nuclear ¹	4.9	4.9	4.9	4.9
Regulated – Hydroelectric ¹	3.5	3.4	3.6	3.5
Unregulated – Hydroelectric ²	4.6	4.6	4.7	4.7
Unregulated – Fossil-Fuelled ²	4.7	4.7	4.8	4.8
OPG average sales price	4.6	4.6	4.6	4.6
<i>Nuclear unit capability factor (per cent)</i>				
Darlington	84.4	80.2	88.9	87.4
Pickering A	61.6	84.3	62.5	87.8
Pickering B	72.2	71.6	70.9	75.1
<i>Equivalent forced outage rate (per cent)</i>				
Unregulated– Fossil-Fuelled	11.6	15.7	11.7	12.9
<i>Availability (per cent)</i>				
Regulated – Hydroelectric	93.2	90.5	92.6	91.6
Unregulated– Hydroelectric	95.4	95.4	95.2	94.8

¹ After April 1, 2005, electricity generation from stations in the Regulated – Nuclear segment receives a fixed price of 4.95¢/kWh and electricity generation from stations in the Regulated – Hydroelectric segment receives a fixed price of 3.3¢/kWh for the first 1,900 MWh of generation in any hour, and the Ontario spot electricity market price for generation above this level.

² Eighty-five per cent of the electricity generation from unregulated stations, excluding the Lennox generating station and other contract volumes, is subject to a revenue limit. During the period from April 1, 2005 to April 30, 2006, the revenue limit was set at 4.7¢/kWh. Starting May 1, 2006, the revenue limit decreased to 4.6¢/kWh and increased to 4.7¢/kWh effective May 1, 2007.

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

Ontario Power Generation Inc.'s unaudited interim consolidated financial statements and Management's Discussion and Analysis as at and for the three and six months ended June 30, 2007, 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. MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the three and six months ended June 30, 2007. For a complete description of OPG's corporate strategies, risk management initiatives, and the effect of critical accounting policies and estimates on OPG's results of operations and financial condition, this MD&A should also be read in conjunction with OPG's audited consolidated financial statements, accompanying notes, and MD&A as at and for the year ended December 31, 2006. Certain of the 2006 comparative amounts have been reclassified to conform to the 2007 presentation. OPG's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This MD&A is dated August 16, 2007.

FORWARD-LOOKING STATEMENTS

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

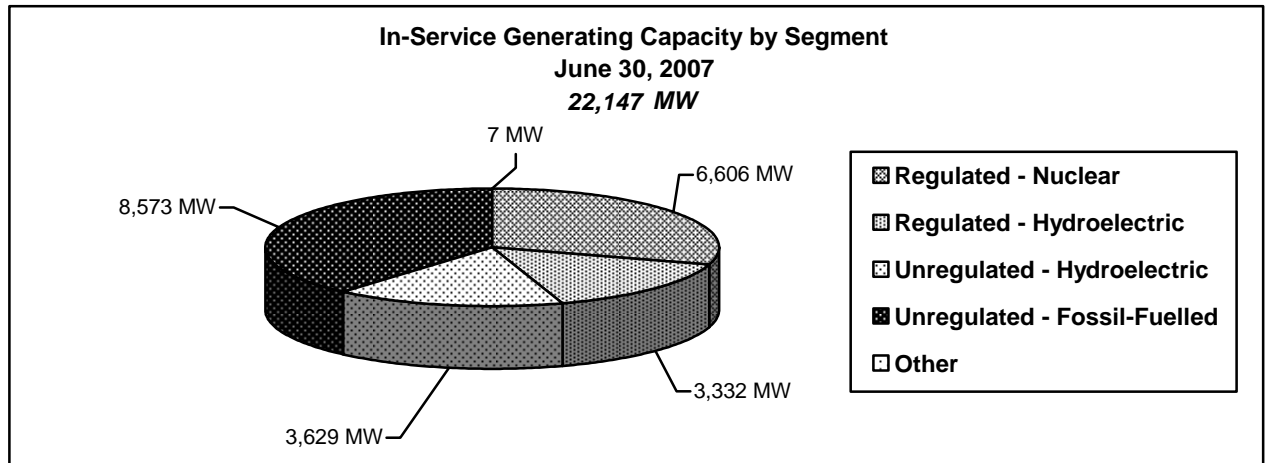
All forward-looking statements involve inherent assumptions, risks and uncertainties and, therefore, could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's fuel costs and availability, asset performance, nuclear decommissioning and waste management, closure of coal-fired generating stations, refurbishment of existing facilities, development and construction of new facilities, pension and other post employment benefit ("OPEB") obligations, income taxes, spot market electricity prices, the ongoing evolution of the Ontario electricity industry, environmental and other regulatory requirements, and the weather. Accordingly, undue reliance should not be placed on any forward-looking statement. The forward-looking statements included in this MD&A are made only as of the date of this MD&A. OPG does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise.

THE COMPANY

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG's focus is on the efficient production and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner. OPG was established under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the "Province").

At June 30, 2007, OPG's electricity generating portfolio had an in-service capacity of 22,147 megawatts ("MW"). OPG's electricity generating portfolio consists of three nuclear generating stations, five fossil-fuelled generating stations, 64 hydroelectric generating stations and three wind generating stations (including a 50 per cent interest in the Huron Wind joint venture). In addition, OPG, ATCO Power Canada Ltd. and ATCO Resources Ltd. co-own the Brighton Beach gas-fired generating station. OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power L.P. ("Bruce Power").

Effective April 1, 2005, the output from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that the Company operates became rate regulated. OPG continues to receive the spot market price for the output from its remaining hydroelectric, fossil-fuelled and wind generating stations, subject to a revenue limit on the majority of this output.



RATE REGULATION

A regulation was introduced pursuant to the *Electricity Restructuring Act, 2004* (Ontario), which provides that, effective April 1, 2005, OPG receives regulated prices for electricity generated from most of its baseload hydroelectric and all of the nuclear facilities that it operates. This comprises electricity generated from the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering A and B and Darlington nuclear facilities.

The regulated price received by OPG for the first 1,900 megawatt hours (“MWh”) of production from the regulated hydroelectric facilities in any hour is \$33.00/MWh (3.3¢/kWh). As an incentive to encourage maximum hydroelectric electricity production during peak demand periods, any production from these regulated hydroelectric facilities above 1,900 MWh in any hour receives the Ontario electricity spot market price. The regulated price received by OPG for production from the nuclear facilities is \$49.50/MWh (4.95¢/kWh). These regulated prices were established by the Province, based on a revenue requirement taking into account a forecast of production volumes and total operating costs, and a return on rate base, which assumed an average five per cent return on equity. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed assets and an allowance for working capital. These initial prices took effect April 1, 2005, and are expected to remain in effect until at least March 31, 2008, after which time it is anticipated that new regulated prices to be established by the Ontario Energy Board (the “OEB”) will take effect.

The regulation directed OPG to establish variance accounts for costs incurred and revenues earned or foregone on or after April 1, 2005 due to deviations from the forecast information provided to the Province for the purposes of establishing regulated prices. Variance accounts have been established for differences in hydroelectric electricity production due to differences between forecast and actual water conditions; unforeseen changes to nuclear regulatory requirements or unforeseen technological changes which directly affect the nuclear facilities; changes to revenues for ancillary services from the regulated facilities; acts of God (including severe weather events); and transmission outages and transmission restrictions. In addition, the regulation directed OPG to establish a deferral account for non-capital costs incurred on or after January 1, 2005 that are associated with the planned return to service of all units at the Pickering A nuclear generating station.

An amendment to the regulation was made by the Province in February 2007. The amendment clarified certain aspects of the regulation and directed OPG to establish a deferral account related to certain changes in its liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management. The amendment directed OPG to establish a deferral account to record, up to the effective date of the OEB’s first order establishing regulated prices, the revenue requirement impact of any changes in its nuclear liabilities arising from a new reference plan, approved after April 1, 2005, in accordance with the terms of the Ontario Nuclear Funds Agreement (“ONFA”).

The amendment also clarified that the OEB must ensure that OPG recovers, through future regulated prices, all capital and non-capital costs incurred by OPG in order to increase the output of, refurbish, or add operating capacity to a regulated facility, if these costs are within budgets approved by OPG's Board of Directors prior to the OEB's first order establishing regulated prices, or if the OEB is satisfied that these costs were prudently incurred.

The production from OPG's other generating assets remains unregulated and continues to be sold at the Ontario electricity spot market price. However, 85 per cent of the generation output from OPG's other generating assets, excluding the Lennox generating station and forward sales as of January 1, 2005, is subject to a revenue limit. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets are also excluded from the output covered by the revenue limit. In addition, until the Transition – Generation Corporation Designated Rate Options ("TRO") expired on April 30, 2006, volumes sold under such options were excluded from the revenue limit rebate. The revenue limit, which was originally established for a period of 13 months ending April 30, 2006, was subsequently extended for an additional three years. Starting May 1, 2006, the revenue limit decreased to 4.6¢/kWh from the previous limit of 4.7¢/kWh. On May 1, 2007, the revenue limit returned to 4.7¢/kWh and will increase to 4.8¢/kWh effective May 1, 2008. In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the Ontario Power Authority ("OPA") are subject to a revenue limit that is 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these limits are returned to the Independent Electricity System Operator ("IESO") for the benefit of consumers.

HIGHLIGHTS

Overview of Results

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

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
<i>Revenue</i>				
Revenue before revenue limit rebate	1,393	1,374	3,013	2,942
Revenue limit rebate	(20)	(29)	(116)	(89)
	1,373	1,345	2,897	2,853
<i>Earnings</i>				
Income before interest and income taxes	193	195	447	538
Net interest expense	39	49	65	98
Income before income taxes	154	146	382	440
Income tax expenses	29	3	86	98
Net income	125	143	296	342
<i>Electricity production (TWh)</i>	26.0	25.5	54.2	53.9
<i>Cash flow</i>				
Cash flow (used in) provided by operating activities	312	(435)	475	(1)

Net income for the three months ended June 30, 2007 was \$125 million compared to \$143 million for the same period in 2006, a decrease of \$18 million. Income before income taxes for the three months ended

June 30, 2007 was \$154 million compared to income before income taxes during the same period in 2006 of \$146 million, an increase of \$8 million.

Net income for the six months ended June 30, 2007 was \$296 million compared to \$342 million for the same period in 2006, a decrease of \$46 million. Income before income taxes for the six months ended June 30, 2007 was \$382 million compared to income before income taxes during the same period in 2006 of \$440 million, a decrease of \$58 million.

The following is a summary of the factors impacting OPG's results for the three and six months ended June 30, 2007 compared to results for the same periods in 2006, on a before-tax basis:

<i>(millions of dollars – before tax)</i>	Three Months	Six Months
Income before income taxes for the periods ended June 30, 2006	146	440
Changes in gross margin		
Change in electricity generation by segment:		
Regulated – Nuclear	(6)	(59)
Regulated – Hydroelectric	7	8
Unregulated – Hydroelectric	(29)	(43)
Unregulated – Fossil-Fuelled	23	44
Increase in fuel expense primarily due to higher costs for coal consumed in production	(23)	(32)
Other changes in gross margin	1	21
	(27)	(61)
Increase in operations, maintenance and repairs primarily due to higher maintenance expenditures related to OPG's nuclear and fossil-fuelled generating stations	(61)	(113)
Additional costs included in operations, maintenance and administration expenses related to past grievances by First Nations	(37)	(39)
Increase in earnings on nuclear fixed assets removal and nuclear waste management funds	106	108
Decrease in depreciation expense primarily due to extension of service lives of the coal-fired generating stations	31	61
Decrease in net interest expense primarily due to deferral of interest related to the Pickering A return to service deferral account	10	33
Increase in amortization of the Pickering A return to service deferral account balance	(15)	(41)
Other changes	1	(6)
Income before income taxes for the periods ended June 30, 2007	154	382

Earnings for the Three Months Ended June 30, 2007

Earnings for the three months ended June 30, 2007 were unfavourably impacted by a decrease in gross margin from electricity sales compared to the same period in 2006. The decrease in gross margin was primarily due to lower generation from OPG's nuclear and unregulated hydroelectric generating stations and higher fuel costs, partly offset by an increase in generation from higher marginal cost fossil-fuelled generating stations. The increase in fuel costs for the three months ended June 30, 2007 compared to the same period in 2006 was partly due to a higher average cost of coal consumed related to higher long-term contract prices.

Operations, maintenance and administration ("OM&A") expenses for the three months ended June 30, 2007 were \$776 million compared to \$678 million during the same period in 2006. The increase of \$98 million was primarily due to higher maintenance expenditures at OPG's nuclear generating stations

and new maintenance programs and projects related to the extension of service lives of the coal-fired generating stations, in combination with additional expenses during the second quarter of 2007 related to past grievances by First Nations.

Earnings from the nuclear fixed asset removal and nuclear waste management funds ("Nuclear Funds") for the three months ended June 30, 2007 were \$209 million compared to \$103 million for the same period in 2006. The increase in earnings from the Nuclear Funds was due to a higher Ontario Consumer Price Index during the second quarter of 2007 compared to the second quarter of 2006, which impacted the guaranteed return on the Used Fuel Segregated Fund ("Used Fuel Fund"). In addition, the increase in earnings also reflected a reimbursement from the Nuclear Funds for expenditures related to the safe storage of Pickering A Units 2 and 3.

Earnings for three months ended June 30, 2007 were favourably impacted by a decrease in depreciation expense of \$31 million compared to the same period in 2006. The decrease in depreciation expense was primarily due to the extension of the service lives of the coal-fired generating stations during the third quarter of 2006, for accounting purposes, as a result of delays in the plan to replace coal-fired generation announced by the Ministry of Energy in June 2006.

Net interest expense of \$39 million for the three months ended June 30, 2007 decreased by \$10 million compared to \$49 million for the same period in 2006. The decrease was primarily due to the deferral of interest expense related to the Pickering A return to service deferral account as required by the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario).

The amortization of the Pickering A return to service deferral account increased by \$15 million for the three months ended June 30, 2007 when compared to the same period in 2006, consistent with the method of recovery of costs included in regulated prices.

Earnings for the Six Months Ended June 30, 2007

Earnings for the six months ended June 30, 2007 were unfavourably impacted by a decrease in gross margin from electricity sales compared to the same period in 2006 primarily due to lower generation from OPG's nuclear and unregulated hydroelectric generating stations, partly offset by increased generation from higher marginal cost fossil-fuelled generating stations. The gross margin from electricity sales was further reduced by higher coal costs during the period. Other changes in gross margin included an increase in non-electricity revenue due to higher nuclear technical service activities, partially offset by a decrease in trading revenue related to higher mark-to-market losses and lower margins on trading transactions.

Although OPG's gross margin was reduced as a result of replacing lower marginal cost nuclear generation and unregulated hydroelectric generation with higher marginal cost generation from the fossil-fuelled generating stations, this did not result in a material increase in rates charged to consumers.

OM&A expenses for the six months ended June 30, 2007 were \$1,470 million compared to \$1,318 million during the same period in 2006. The increase of \$152 million was primarily due to higher maintenance expenditures at OPG's nuclear and fossil-fuelled generating stations, in combination with additional expenses during the second quarter of 2007 related to past grievances by First Nations.

Earnings from the Nuclear Funds for the six months ended June 30, 2007 were \$300 million compared to \$192 million during the same period in 2006, an increase of \$108 million. The increase in earnings from the Nuclear Funds was due to a higher Ontario Consumer Price Index in 2007 compared to 2006, which impacted the guaranteed return on the Used Fuel Fund, and the reimbursement from the Nuclear Funds for expenditures related to the safe storage of Pickering A Units 2 and 3.

Earnings were favourably impacted by a decrease in depreciation expense of \$61 million. The decrease in depreciation expense was primarily due to the extension of the service lives of the coal-fired generating stations for accounting purposes during the third quarter of 2006.

Net interest expense of \$65 million for the six months ended June 30, 2007 decreased by \$33 million compared to the \$98 million for the same period in 2006. The decrease was primarily due to the deferral of interest expense related to the Pickering A return to service deferral account as required by the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario).

The amortization of the Pickering A return to service deferral account increased by \$41 million for the six months ended June 30, 2007 when compared to the same period in 2006, consistent with the method of recovery of costs included in regulated prices.

Since April 1, 2005, upon the introduction of rate regulation, OPG has accounted for income taxes related to the rate regulated segments of its business using the taxes payable method. Under this method, future income tax assets and liabilities associated with these segments are not recognized where those future income taxes are expected to be recovered or refunded through future regulated prices charged to customers. As a result, OPG did not record a future tax expense of \$24 million and \$8 million for the rate regulated segments during the three months ended June 30, 2007 and June 30, 2006, respectively, which would have been recorded had OPG accounted for income taxes for the regulated segments using the liability method. Similarly, for the six months ended June 30, 2007 and 2006, OPG did not record a future tax expense of \$42 million and \$18 million, respectively, for the rate regulated segments, which would have been recorded had OPG accounted for income taxes for the regulated segments using the liability method.

Average Sales Prices

The weighted average Ontario spot electricity market price and OPG's average sales prices by reportable business segment, net of the revenue limit rebate for the three and six months ended June 30 were as follows:

<i>(¢/kWh)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Weighted average hourly Ontario spot electricity market price	4.6	4.8	5.0	5.0
Regulated – Nuclear	4.9	4.9	4.9	4.9
Regulated – Hydroelectric ¹	3.5	3.4	3.6	3.5
Unregulated – Hydroelectric ²	4.6	4.6	4.7	4.7
Unregulated – Fossil-Fuelled ²	4.7	4.7	4.8	4.8
OPG's average sales price	4.6	4.6	4.6	4.6

¹ Electricity generated from stations in the Regulated – Hydroelectric segment received a fixed price of 3.3¢/kWh for the first 1,900 MWh of generation in any hour, and the Ontario spot electricity market price for generation above this level.

² 85 per cent of the electricity generated from unregulated stations, excluding the Lennox generating station and other contract volumes, is subject to a revenue limit. During the period from April 1, 2005 to April 30, 2006, the revenue limit was set at 4.7¢/kWh. Starting May 1, 2006, the revenue limit decreased to 4.6¢/kWh and subsequently increased to 4.7¢/kWh effective May 1, 2007.

OPG's average sales price for the three and six month periods ended June 30, 2007 and June 30, 2006 remained unchanged at 4.6¢/kWh. The impact on OPG's average sales price of marginally lower Ontario spot market prices during the second quarter of 2007 compared to the same period in 2006 was offset by a higher revenue limit of 4.7¢/kWh for OPG's unregulated electricity generation, which became effective May 1, 2007. The impact of higher Ontario spot market prices during the first quarter of 2007 compared to the same period in 2006 was offset by a lower revenue limit of 4.6¢/kWh, which commenced in May 2006. Ontario spot market prices were marginally lower in the three month period ended June 30, 2007 compared to the same period last year primarily as a result of lower market prices for coal.

As a result of regulated prices and the revenue limit rebate, OPG's average sales price was lower than the weighted average hourly Ontario spot electricity market price, for the six months periods ended June 30, 2007 and June 30, 2006.

Electricity Generation

Total electricity generated during the three months ended June 30, 2007 from OPG's generating stations was 26.0 TWh compared to 25.5 TWh during the same period in 2006. For the six months ended June 30, 2007, total electricity generated from OPG's generating stations was 54.2 TWh compared to 53.9 TWh during the same period in 2006. The increase was primarily due to higher electricity generation from the fossil-fuelled generating stations, partly offset by lower generation from OPG's nuclear and unregulated hydroelectric generating stations.

Electricity generation from the fossil-fuelled generating stations during the three and six months ended June 30, 2007 increased compared to the same periods in 2006 by 1.0 TWh and 2.1 TWh, respectively. The increase was primarily due to higher electricity demand, lower generation from the nuclear and unregulated hydroelectric generating stations, and improved performance.

Nuclear generation during the three and six months ended June 30, 2007 decreased compared to the same periods last year by 0.1 TWh and 1.2 TWh, respectively. The decrease in generation during the three months ended June 30, 2007 was primarily due to the shutdown of the Pickering A nuclear generating station Units 1 and 4 in early June 2007 to perform modifications on a backup electrical system. The impact of the lower generation from the Pickering A nuclear generating station during the second quarter was largely offset by continued improvements in the strong performance at the Darlington nuclear generating station.

In addition to the factors affecting nuclear generation during the second quarter, lower nuclear generation during the six months ended June 30, 2007 also resulted from an unplanned outage during the first quarter of 2007 at the Pickering B nuclear generation station caused by an inadvertent release of resin by a third party contractor from the water treatment plant into the demineralized water system, and the requirement for maintenance related to the recovery of the resin. Nuclear generation in 2007 was also impacted by an extension to a planned outage during the first quarter of 2007 at the Pickering A nuclear generating station for significant additional repair work required as a result of a component failure during inspection.

Electricity generation from the Unregulated – Hydroelectric facilities during the three and six months ended June 30, 2007 decreased compared to the same periods in 2006 by 0.7 TWh and 1.0 TWh, respectively. The decrease in generation volume was primarily due to lower water levels in various parts of Ontario.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Heating Degree Days ¹				
Period	500	441	2,420	2,105
Ten-year average	490	500	2,320	2,328
Cooling Degree Days ²				
Period	127	100	127	100
Ten-year average	95	90	95	90

¹ Heating Degree Days are recorded on days with an average temperature below 18°C, and represent the aggregate of the differences between the average temperature and 18°C for each day during the period, as measured at Pearson International Airport in Toronto, Ontario.

² Cooling Degree Days are recorded on days with an average temperature above 18°C, and represent the aggregate of the differences between the average temperature and 18°C for each day during the period, as measured at Pearson International Airport in Toronto, Ontario.

Heating Degree Days for the three months ended June 30, 2007 increased compared to the same period in 2006 due to cooler weather during April 2007 compared to 2006. Heating Degree Days for the six months ended June 30, 2007 increased significantly compared to the same period in 2006 primarily due to weather that was colder than average during the first quarter of 2007 and much warmer than average during the first quarter of 2006. Cooling Degree Days for the three months ended June 30, 2007 increased compared to the same period in 2006, primarily due to warmer weather during June 2007 compared to 2006. The increase in the heating and cooling degree days contributed to the higher Ontario electricity demand of 36.3 TWh for the three months ended June 30, 2007 and 76.3 TWh for the six months ended June 30, 2007 compared to 36.0 TWh and 75.4 TWh for the same periods of last year, respectively.

Cash Flow from Operations

Cash flow provided by operating activities for the three months ended June 30, 2007 was \$312 million compared to cash flow used in operating activities of \$435 million during the same period in 2006. The increase in cash flow was primarily due to a lower revenue limit rebate payment and a higher reimbursement of expenditures for nuclear fixed asset removal and nuclear waste management during the second quarter of 2007 compared to the same period in 2006. The higher revenue limit rebate payment in the second quarter of 2006 was a result of making a payment of \$739 million related to the period April 1, 2005 to December 31, 2005. Revenue limit rebate payments are now made on a quarterly basis.

Cash flow provided by operating activities for the six months ended June 30, 2007 was \$475 million compared to cash flow used in operating activities of \$1 million during the same period in 2006. The increase in cash flow from operating activities was primarily due to lower revenue limit rebate payments during the six months ended June 30, 2007 and the higher reimbursement of expenditures for nuclear fixed asset removal and nuclear waste management. This increase in cash flow was partially offset by a decrease in cash receipts from electricity sales, higher operating and maintenance expenditures, and an increase in income tax payments.

The reimbursement of expenditures for nuclear fixed asset removal and nuclear waste management during the second quarter of 2007 related to the safe storage costs for Pickering A Units 2 and 3, which were approved under the ONFA for reimbursement from the Decommissioning Segregated Fund ("Decommissioning Fund") by the Province.

Recent Developments

Climate Change Plan

In June, 2007, aggressive targets to reduce greenhouse gas emissions were introduced by the Province as part of the Province's climate change plan. Among other initiatives, the plan identified a target reduction of greenhouse gases to six per cent below 1990 levels by 2014. To achieve its 2014 targets, the Province reiterated the goal of closing Ontario's coal plants by 2014. In July 2007, the Province issued a draft regulation on closing coal plants under the Environmental Protection Act for public comment. The draft regulation identifies OPG's coal-fired generating stations, which must stop using coal to generate electricity by December 31, 2014. The public comment period of the proposed regulation ended on August 11, 2007. The regulation has not yet been finalized. OPG will continue to monitor the Province's climate change plan and the proposed regulation to assess their impact on OPG's operations.

The Federal government, in April 2007, also announced targets for reducing both greenhouse gases and air pollutants from 2006 levels. Under the Federal proposal, OPG would be required to reduce its greenhouse gas emissions from 2006 levels by 18 per cent before 2010, with an eventual reduction of 26 per cent by 2015. With respect to air pollutants, the proposed targets for the electricity sector to be implemented during the period 2012 to 2015 are: nitrogen oxides – 59 per cent; sulphur oxides – 60 per cent; particulate matter – 55 per cent; and, mercury – 48 per cent. Consultations with the Federal government are ongoing and draft regulations are expected in the fall of 2007.

Long-Term Management of Used Nuclear Fuel

The Nuclear Waste Management Organization ("NWMO") was established in 2002 to recommend a long-term approach for managing used nuclear fuel produced by Canada's electricity generators. In November 2005, the NWMO submitted its report and recommendation on the long-term management of Canada's used nuclear fuel to the Minister of Natural Resources. The NWMO recommended an Adaptive Phased Management ("APM") approach requiring ultimate centralized containment and isolation of used nuclear fuel in an appropriate geological formation; phased and adaptive decision-making that is flexible in order to accommodate changes as they occur over time; optional shallow storage at the central site prior to placement in the repository; continuous monitoring; provision for retrievability; and citizen engagement.

In June 2007, the Minister of Natural Resources accepted the NWMO's recommendations. The NWMO will implement the Government of Canada's decision according to the Nuclear Fuel Waste Act ("NFWA"), using funds provided by the producers of nuclear waste. The NWMO is planning its next steps collaboratively with Canadians. It is expected that selection of a suitable site within an informed and willing host community will require a number of years.

The current assumption on the long-term management of used fuel in OPG's cost estimate is based on a used fuel repository with an in-service date of 2035. This cost estimate represents a conservative estimate of the cost of APM and is consistent with the government decision.

In accordance with the NFWA, the 2008 NWMO annual report will include a funding formula for used fuel management and supporting details. Trust fund contributions starting in 2008 will be calculated based on this funding formula. In 2007, a contribution of \$100 million was made to the NFWA Trust in accordance with the NFWA.

Deep Geologic Repository for Low and Intermediate Level Waste

In December 2005, OPG submitted a Project Description to the Canadian Nuclear Safety Commission for a Deep Geologic Repository ("DGR") at the Bruce Nuclear site in the Municipality of Kincardine, Ontario. This initiated the environmental assessment process, which is the first step in the regulatory approval process for the site preparation, construction and operation of a DGR facility for the management of low and intermediate level waste. The DGR would be designed to manage low and intermediate waste produced from the continued operation of OPG-owned nuclear generating stations.

Under the Nuclear Safety and Control Act (“NSCA”), OPG will require licences from the Canadian Nuclear Safety Commission (“CNSC”) for activities to be undertaken with respect to the DGR project. Before the CNSC can make licensing decisions for this proposal, an environmental assessment must be conducted in compliance with the requirements of the Canadian Environmental Assessment Act. The purpose of an environmental assessment is to identify the possible environmental effects of a proposed project, determine whether the project should be allowed to proceed or whether there is a need to incorporate mitigation measures into the project before it is allowed to proceed.

In June 2007, the Federal Minister of the Environment announced that the proposed DGR project for low and intermediate level waste has been referred to a review panel. The next steps include the preparation of a final scope and guidelines for the environmental assessment, and agreement on the panel review process.

Lennox Generating Station

The IESO recently completed a reliability impact study of deregistering the Lennox generating station. This study covered the period from October 2007 to September 2008. The analysis considered future demand growth consistent with the IESO’s 18-Month Outlook published on April 10, 2007, availability of hydroelectric generation and outage plans registered with the IESO. The IESO concluded that all four units at the Lennox generating station are required for the purpose of reliability, and recommended that all four units be covered by a reliability must-run (“RMR”) contract during the period October 2007 to September 2008. Currently, the Lennox generating station is operating under a RMR contract approved by the OEB for the period from October 1, 2006 to September 30, 2007. A RMR contract with the IESO for the period October 1, 2007 to September 30, 2008 has been finalized, and will be submitted to the OEB for approval.

Agency Review Panel Report on Ontario Electricity Sector Institutions

The Ontario Minister of Energy appointed an Agency Review Panel (“Panel”) to review certain practices within five of Ontario’s electricity-sector organizations, namely: Hydro One Inc., the IESO, the OPA, OPG and the OEB (collectively, the “Institutions”). The Panel was instructed to conduct its work in two phases. In the first phase, the Panel reviewed the methodologies for current executive compensation practices of the Institutions. This phase has been completed and recommendations from the first phase were accepted by the Province. In the second phase, the Panel will examine human resource and skills needs facing the sector and will provide advice on recruitment, training and related strategies to address future needs. In addition, the Panel will include a review of the roles and relationships of the Institutions to assess potential overlaps, minimize costs and maximize effectiveness. The second phase has not been completed.

2006 Report on the Safety Performance of the Canadian Nuclear Power Industry

In June 2007, the staff of the CNSC issued its 2006 report that assessed the safety performance of nuclear power plant licensees in the Canadian nuclear power industry. Through inspections and reviews, the CNSC staff observed that the nuclear power industry operated safely during 2006. No worker at any nuclear station or member of the public received a radiation dose in excess of the regulatory limits. Emissions from all plants were also below regulatory limits. The assessment of all safety areas confirmed that all the stations operated safely in 2006. Specifically, the staff of the CNSC noted that progress was made with respect to policies, programs, standards, and procedures required to manage each of OPG’s operated nuclear facilities safely.

VISION, CORE BUSINESS AND STRATEGY

OPG’s mandate is to cost effectively produce electricity from its diversified generating assets, while operating in a safe, open and environmentally responsible manner. To achieve its mandate, OPG is focused on four corporate strategies: improving the performance of its generating assets; increasing its generating capacity; achieving financial sustainability; and achieving excellence in corporate governance, safety, social responsibility, corporate citizenship and environmental stewardship. A detailed discussion

of these strategies is outlined in the 2006 annual MD&A under the heading, *Vision, Core Business and Strategy*.

Improving the Performance of Generating Assets

Nuclear Generating Assets

OPG's strategic objective is to operate the Darlington and Pickering A and B nuclear generating stations in a safe, efficient and cost effective manner, while undertaking prudent investments to improve their reliability and operating performance. Programs and initiatives have been implemented that will continue to improve safety performance, reduce forced outages through improvements in equipment reliability and reduction in maintenance backlogs, optimize planned outages, mitigate technological risks through comprehensive inspection and testing programs, focus on production unit energy costs, and address longer term resource planning issues.

During the second quarter of 2007, the Darlington nuclear generating station continued its strong operating performance. Generation at the Pickering A nuclear generating station decreased in the second quarter of 2007 primarily as a result of the outage to perform modifications on a backup electrical system. OPG's safety and environmental results continue to be strong at all nuclear generating stations.

OPG is progressing with the safe storage of Unit 2 at the Pickering A nuclear generating station. In the second quarter of 2007, OPG completed the de-fuelling of Unit 2 and is now preparing for dewatering of the unit. These initiatives are key steps in preparing the unit for long-term safe storage.

Work is proceeding on the feasibility study of the Pickering B nuclear generating station refurbishment project. This work includes a plant condition assessment, an environmental assessment, and an integrated safety review. OPG plans to make a recommendation to its Board of Directors in the first quarter of 2008. Work concerning the potential refurbishment of the Darlington nuclear generating station will commence during the third quarter of 2007.

In the second quarter of 2007, the CNSC issued its decision, establishing the requirements for the environmental assessment of the proposed refurbishment and continued operation of the Pickering B nuclear generating station.

Hydroelectric Generating Assets

OPG's strategic objective is improving production from its existing hydroelectric generating assets in a cost effective and efficient manner. Prudent investments will be undertaken to maintain and/or improve the condition, reliability and efficiency of the hydroelectric generating assets. Programs and initiatives are underway to increase the availability of existing stations by replacing aging and obsolete equipment, upgrading turbine runners with more efficient equipment, and ensuring that maintenance is performed in a timely and cost effective manner. These performance improvement initiatives are being pursued while maintaining OPG's focus on employee and public safety, dam safety, environmental stewardship, and community relations.

During the second quarter of 2007, OPG hydroelectric generating assets continued to achieve a high availability of 94 per cent, thus maximizing production from available water flows. Initiatives to increase the capacity at OPG's existing hydroelectric generating stations continued with upgrades of turbine runner equipment at two stations, which included a runner upgrade at the Ranney Falls generating station that added 1 MW of capacity. Major rehabilitations of generating units were completed at DeCew Falls and Otto Holden generating stations. Rehabilitation of the Abitibi Canyon generating station has started and is expected to be completed in the third quarter of 2007. Safety performance continues to be strong with no lost time accidents in 2007. Hydroelectric operations achieved 1.8 years without a lost time accident to the end of the second quarter.

Fossil-Fuelled Generating Assets

OPG will maintain the productive capability of its coal-fired generating facilities, while continuing to operate in compliance with all applicable environmental laws and emission regulations. Maintenance programs have been implemented to mitigate the impacts of increased unit starts and stops on the equipment, which results from the role the fossil-fuelled generating stations perform as intermediate and peaking facilities.

In 2007, production from OPG's fossil-fuelled stations increased compared to the same period in 2006. Reliability, as measured by equivalent forced outage rates significantly improved during the six months ended June 30, 2007, compared to performance during the six months ended June 30, 2006. Emissions performance was well within regulatory limits. A focus on maintenance, environmental and recruitment programs will enable the continued operation of the coal-fired generating stations until their planned shut-down.

Increasing OPG's Generating Capacity

OPG's strategy with respect to increasing its generating capacity is to expand, develop, and/or improve its hydroelectric generating capacity by expanding and redeveloping its existing sites, as well as pursuing new projects where feasible. In addition, OPG, in consultation with its shareholder, plans to increase its generating capacity by exploring and developing, where feasible, natural gas and nuclear opportunities in Ontario. OPG will undertake these investments on its own or through partnerships. OPG is currently involved in the following hydroelectric, natural gas and nuclear generation projects.

Niagara Tunnel

The Niagara tunnel project will increase the amount of water flowing to existing turbines at OPG's Sir Adam Beck generating stations in Niagara Falls, allowing the stations to utilize available water more effectively. Upon the completion of the 10.4 km tunnel, the average annual generation from the Sir Adam Beck generating stations is expected to increase by approximately 1.6 TWh.

Work at the intake area is progressing ahead of schedule. At June 30, 2007, the tunnel boring machine had advanced 855 metres. Initial progress of the tunnel boring machine by the design-build contractor through a fractured rock formation has been slower than expected. As a result, the contractor's forecast completion date has been delayed from late 2009. Overall project completion is expected by mid-2010, within the original schedule approved by OPG's Board of Directors. However, considerable uncertainty remains with respect to the schedule until the tunnel boring machine advances through the current rock formation and establishes consistent tunnelling performance. The revised contractor's schedule is not anticipated to result in an increase in the overall project cost. The project is still expected to be completed within the budgeted cost estimate of \$985 million.

The net capital project expenditures for the three months ended June 30, 2007 were \$12 million and life-to-date net capital expenditures were \$271 million. The project is debt financed through the Ontario Electricity Financial Corporation ("OEFEC").

Lac Seul

OPG is constructing a new 12.5 MW hydroelectric generating station on the English River. The new Lac Seul generating station will utilize a majority of the spill currently passing the existing Ear Falls generating station, thus increasing the overall efficiency, capacity and energy generated from this location. A design-build contract was awarded and construction started during the first quarter of 2006. In accordance with the contractor's original schedule, the project was expected to be in-service in the fourth quarter of 2007. However, the contractor replaced a major sub-contractor during the second quarter of 2007 and a new sub-contractor has now been mobilized. As a result, the contractor advised OPG that the project is now expected to be in-service in the first quarter of 2008. Total project costs are still expected to be \$47 million.

During the three months ended June 30, 2007, the equipment sub-contractor completed the installation of the embedded turbine, draft tube and generator parts. Capital project expenditures for the three months ended June 30, 2007 were approximately \$3 million and life-to-date capital expenditures were approximately \$34 million. The project is debt financed through the OEFC. OPG is continuing negotiations with the OPA for a contract for electricity produced from the new facility and the existing Ear Falls generating station.

Lower Mattagami

In May 2006, OPG provided development alternatives to the Province to increase the generating capacity of four hydroelectric generating stations on the Lower Mattagami River. The incremental capacity associated with these alternatives ranged from approximately 140 to 450 MW.

In May 2006, OPG received a letter from the Minister of Energy, which directed OPG to proceed with the definition phase for a 450 MW development which includes the replacement of the Smoky Falls generating station and the expansion of Little Long, Harmon and Kipling generating stations, all of which are located on the Lower Mattagami River. OPG was also directed to initiate discussions with Ministry staff on a hydroelectric energy supply agreement.

OPG is continuing its consultations with First Nation stakeholders regarding an agreement to address past issues and establish a new commercial relationship.

After consultation with the Canadian Environmental Assessment Agency ("CEAA"), it has been determined that a comprehensive study process must be followed under CEAA regulations. The scoping document for this process has been posted on the CEAA website for public comment.

Small Hydroelectric Projects

OPG is currently pursuing the redevelopment of four existing end-of-life hydroelectric generation stations, consisting of three stations on the Upper Mattagami River (Wawaitin, Sandy Falls and Lower Sturgeon) and the Hound Chute generation station on the Montreal River. In addition, OPG is pursuing an expansion of the existing Healey Falls generating station on the Trent-Severn Waterway (collectively, the "Small Hydroelectric Projects"). The installed capacity will increase from 23 MW to 50 MW and the average annual energy generated will increase from 134 gigawatt hours ("GWh") per year to 248 GWh per year. These projects are subject to approval by OPG's Board of Directors.

Portlands Energy Centre

OPG entered into a partnership with TransCanada Energy Ltd. ("TransCanada"), through the Portlands Energy Centre L.P. ("PEC"), to pursue the development of a 550 MW gas-fired, combined cycle station on the site of the former R.L. Hearn generating station, near downtown Toronto. OPG has a 50 per cent ownership interest in the joint venture.

Construction of PEC started in 2006 and is expected to be operational in a simple cycle mode with a capacity of up to 340 MW by June 1, 2008. In 2007, two gas turbine generator sets and bypass stacks have been installed. The erection of the heat recovery steam generators is underway. The critical path activities through the intake structure concrete work are on schedule and the first structural steel was erected in early July.

The plant is expected to be completed and fully operational in the second quarter of 2009, providing up to 550 MW of power in a combined cycle mode. Project costs are expected to be within the approved budget of \$730 million excluding capitalized interest. A significant proportion of this capital cost relates to an engineer-procure-construct ("EPC") contract to construct the facility.

OPG's share of capital expenditures for the three months ended June 30, 2007 was \$54 million. OPG's share of the life-to-date capital expenditures was \$197 million. OPG has negotiated debt financing for its share of the project with the OEFC.

Lakeview Site

OPG is continuing with the decommissioning and demolition of the Lakeview coal-fired generating station, having closed the station in 2005 after more than 40 years of service. Subsequent to the closure, the stacks were taken down in 2006, the turbine hall has been demolished, and the remainder of the powerhouse was imploded in June 2007. OPG is exploring the potential development of a gas-fired electricity generating station at the site. Construction of a new plant would proceed only after the required approvals and the completion of a clean energy supply agreement.

New Nuclear Generating Units

As directed by the Minister of Energy in June of 2006, OPG initiated a federal approvals process with the CNSC in September of 2006 by filing with the CNSC an Application for a Site Preparation Licence for new nuclear generating units at OPG's Darlington nuclear generating site.

During the first quarter of 2007, OPG proceeded with initiatives in support of an environmental assessment for new nuclear units at Darlington including geology, hydrogeology, archeology and terrestrial studies. During the second quarter of 2007, OPG continued to the second step in the federal approvals process by filing a Project Description that will be used by the CNSC to determine the type of environmental assessment that is required.

Achieving Financial Sustainability

OPG's financial priority, as a commercial enterprise, is to operate on a financially sustainable basis by optimizing the utilization of available resources, maximizing funds from operations, implementing effective cost management initiatives, and maintaining the value of its assets for its shareholder.

In March, OPG met its debt retirement obligation by repaying \$200 million of maturing notes held by the OEFC. In May, OPG reached an agreement with its bank lending group to renew its \$1 billion bank credit facility with a commitment to extend the term of the \$500 million tranche from three to five years. During the second quarter of 2007, OPG also reached an agreement with the OEFC for a \$500 million general corporate facility that is available for the period June 1, 2007 to March 31, 2008, and for a \$950 million credit agreement to refinance senior notes as they mature over the period September 2007 to September 2009. These facilities serve to ensure that adequate financing resources are available beyond OPG's \$1 billion bank credit facility and will allow OPG to fix the term of notes issued for periods of up to ten years, thereby extending the Company's overall debt profile.

ONTARIO ELECTRICITY MARKET TRENDS

The five year anniversary of the opening of Ontario's wholesale electricity market occurred on May 1, 2007. In May, the IESO published the 2007 Ontario Market Outlook (Volume 1) which reviewed trends and results from the past five years. In addition, this publication identified future opportunities and challenges for the continued development of the electricity market in Ontario. The decrease in the market price of electricity since market opening was identified. Increased market transparency, specifically wholesale market price signals, has contributed to more informed decision making on behalf of all industry participants including electricity suppliers and consumers. According to the IESO's document, Ontario's overall electricity supply has improved significantly since the market opening in 2002. For example, more than 4,400 MW of new or refurbished generation has come on line since 2002 and approximately 7,000 MW of additional generation is planned to be in service by 2011. A challenge identified by the IESO focused on advanced price signals in the Ontario wholesale electricity market to promote efficient decisions by generators and consumers.

In its 18-Month Outlook published in June 2007, the IESO indicated that Ontario's existing installed electricity generating capacity was 31,214 MW. OPG's in-service electricity generating capacity at the end of the second quarter of 2007 was 22,147 MW or 71 per cent of Ontario's capacity. The expected peak electricity demand in the summer of 2007, under normal weather conditions, is forecast to be 25,773 MW. Peak demand in 2007 is forecast to be slightly higher than the IESO's April 2007 forecast of 25,762 MW.

However, energy demand in 2007 is now forecasted to be 153.7 TWh, which is slightly lower than the IESO's April 2007 forecast of 154.0 TWh. This primarily results from lower industrial demand. The IESO reported that over the next 18 months, the outlook for Ontario's supply/demand balance remains generally positive. Over the next 18 months, more than 2,300 MW of new supply is expected.

Fuel prices can have a significant impact on revenue and gross margin, both in terms of the underlying commodity price and the United States dollar ("USD") to Canadian dollar exchange rate. Uranium spot market prices have increased by 43 per cent to \$US 136 per pound during the second quarter of 2007 and by 89 per cent since January of this year. Prices have increased more than tenfold since the beginning of 2003. Some industry analysts believe that the price may increase to beyond \$US 150 per pound by the end of this year. This rapid increase in the price of uranium is the result of many supply and demand factors that will persist and continue to support higher prices. Any significant impact on OPG's fuel costs has been delayed as the Company draws down on inventories purchased at lower prices. However, fuel costs for nuclear operations will be significantly higher in the near future. During the second quarter of 2007, market prices for natural gas were about 15 per cent higher than in the same period of 2006, and coal prices have fallen significantly since 2006. The outlook for gas prices remains volatile, though the longer term trend is firming in the futures markets. Coal prices are expected to stabilize in the current trading range. With the Federal Government's proposed EcoAction regulations, emission credit costs associated with the use of fossil fuels in the electricity sector could increase after 2009.

Ontario's Integrated Power System Plan ("IPSP"), being prepared by the OPA, has been delayed and is now expected to be submitted later in August of 2007 to the OEB for its review and approval. The plan will: identify conservation, generation and transmission initiatives; provide details on phasing out coal-fired generation; identify options for wind generation; and address issues regarding retiring and replacing or refurbishing existing nuclear units as well as developing hydroelectric sites in northern Ontario.

BUSINESS SEGMENTS

OPG has four reportable business segments. The business segments are Regulated – Nuclear, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Fossil-Fuelled.

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 the Unregulated – Hydroelectric and Unregulated – Fossil-Fuelled generation segments. Gains or losses from these hedging transactions are recognized in revenue over the terms of the contract when the underlying transaction occurs.

Regulated – Nuclear Segment

OPG's Regulated – Nuclear business segment operates in Ontario, generating and selling electricity from the nuclear generating stations that it owns and operates. The business segment includes electricity generated by the Pickering A and B, and Darlington nuclear generating stations. This business segment also includes revenue under the terms of a lease arrangement with Bruce Power related to the Bruce nuclear generating stations. This arrangement includes lease revenue and revenue from engineering analysis and design, technical and other services. Revenue is also earned from isotope sales and ancillary services. Ancillary revenues are earned through voltage control/reactive support.

Regulated – Hydroelectric Segment

OPG's Regulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from most of the Company's baseload hydroelectric generating stations. The business segment is comprised of electricity generated by the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and the R.H. Saunders hydroelectric facilities. The Regulated – Hydroelectric business segment also includes ancillary revenues related to these stations 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.

Unregulated – Hydroelectric Segment

The Unregulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from its hydroelectric generating stations that are not subject to rate regulation. The Unregulated – Hydroelectric business segment also includes ancillary revenues 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, and revenues from other services.

Unregulated – Fossil-Fuelled Segment

The Unregulated – Fossil-Fuelled business segment operates in Ontario, generating and selling electricity from its fossil-fuelled generating stations, which are not subject to rate regulation. The Unregulated – Fossil-Fuelled business segment also includes ancillary revenues earned through offering available generating capacity as operating reserve, and through the supply of other ancillary services including voltage control/reactive support and automatic generation control, and revenues from other services.

Other

The Other category includes revenue that OPG earns from its 50 per cent joint venture share of the Brighton Beach Power Limited Partnership (“Brighton Beach”) related to an energy conversion agreement between Brighton Beach and Coral Energy Canada Inc. (“Coral”). The revenue and expenses related to OPG’s trading and other non-hedging activities are also included in the Other category. As part of these activities, 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, sales of financial risk management products and sales of energy-related products. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in other revenue as gains or losses. In addition, the Other category includes revenue from real estate rentals.

KEY GENERATION AND FINANCIAL PERFORMANCE INDICATORS

Key performance indicators that directly pertain to OPG’s mandate and corporate strategies are measures of production efficiency, cost effectiveness, and environmental performance. OPG evaluates the performance of its generating stations using a number of key performance indicators, which vary depending on the generating technology. These indicators are defined in this section and are discussed in the *Discussion of Operating Results by Business Segment* section.

Nuclear Unit Capability Factor

OPG’s nuclear stations operate as baseload facilities as they have low marginal costs and are not designed for fluctuating production levels to meet peaking demand. The nuclear unit capability factor is a key measure of nuclear station performance. It is the amount of energy that the unit(s) generated over a period of time, adjusted for externally imposed constraints 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. Capability factors are primarily affected by planned and unplanned outages. Capability factors by industry definition exclude grid-related unavailability.

Fossil-Fuelled and Hydroelectric Equivalent Forced Outage Rate (“EFOR”)

OPG’s fossil-fuelled stations provide a flexible source of energy and operate as baseload, intermediate and peaking facilities, depending on the characteristics of the particular stations. OPG’s hydroelectric stations operate primarily as baseload facilities and provide a reliable and low-cost source of renewable energy. A key measure of the reliability of the fossil-fuelled and hydroelectric generating stations is the

proportion of time they are available to produce electricity when required. EFOR is an index of the reliability of the generating unit measured by the ratio of time a generating unit is forced out of service, including any forced deratings, compared to the amount of time the generating unit was available to operate.

Hydroelectric Availability

Hydroelectric availability is a measure of the reliability of a hydroelectric generating unit represented by the percentage of time the generating unit is capable of providing service, whether or not it is actually in-service, compared to the total time for a respective period.

Nuclear Production Unit Energy Cost (“PUEC”)

Nuclear PUEC is used to measure the operations-related costs of production of OPG’s nuclear generating assets. Nuclear PUEC is defined as nuclear fuel, OM&A expenses including allocated corporate costs, and variable costs related to used fuel disposal and storage and the disposal of low and intermediate level radioactive waste materials, divided by nuclear electricity generation.

Hydroelectric OM&A Expense per MWh

Hydroelectric OM&A expense per MWh is used to measure the cost effectiveness of the hydroelectric generating stations. It is defined as total hydroelectric OM&A expenses, including allocated corporate costs, divided by hydroelectric electricity generation.

Fossil-Fuelled OM&A Expense per MW

Since fossil-fuelled generating stations are primarily employed during periods of intermediate and peak demand, the cost effectiveness of these stations is measured by their annualized OM&A expenses for the period, including allocated corporate costs, divided by total station nameplate capacity.

Other Key Indicators

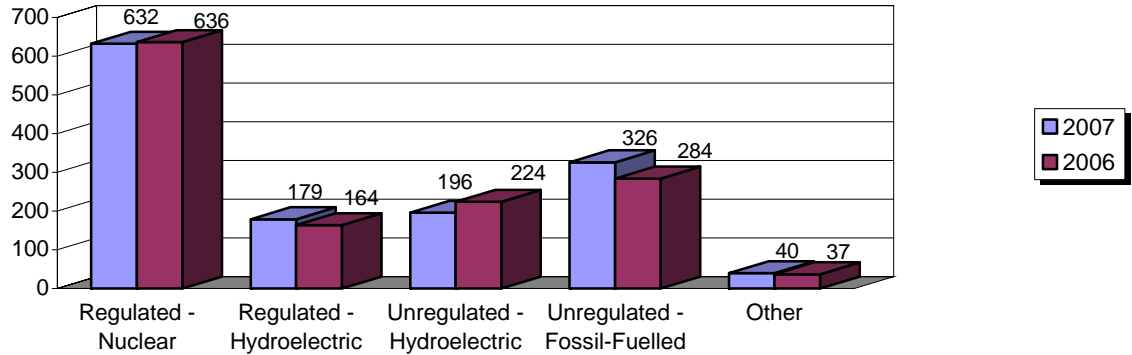
In addition to performance and cost effectiveness indicators, OPG has identified certain environmental indicators. These indicators are discussed under the heading, *Risk Management*.

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

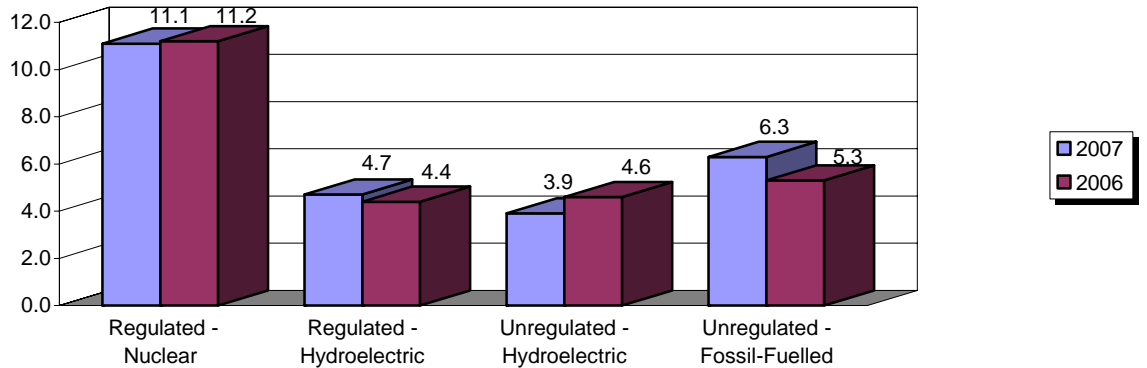
This section summarizes OPG's key results by segment for the three and six months ended June 30, 2007 and 2006. The following table provides a summary of revenue, earnings and key generation and financial performance indicators by business segment:

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
<i>Revenue, net of revenue limit rebate</i>				
Regulated – Nuclear	632	636	1,314	1,345
Regulated – Hydroelectric	179	164	355	339
Unregulated – Hydroelectric	196	224	387	428
Unregulated – Fossil-Fuelled	326	284	774	665
Other	40	37	67	76
	1,373	1,345	2,897	2,853
<i>Income (loss) before interest and income taxes</i>				
Regulated – Nuclear	65	18	54	92
Regulated – Hydroelectric	41	61	121	142
Unregulated – Hydroelectric	98	135	206	263
Unregulated – Fossil-Fuelled	(34)	(43)	33	(9)
Other	23	24	33	50
	193	195	447	538
<i>Electricity Generation (TWh)</i>				
Regulated – Nuclear	11.1	11.2	22.7	23.9
Regulated – Hydroelectric	4.7	4.4	9.3	8.9
Unregulated – Hydroelectric	3.9	4.6	7.8	8.8
Unregulated – Fossil-Fuelled	6.3	5.3	14.4	12.3
Total electricity generation	26.0	25.5	54.2	53.9
<i>Nuclear unit capability factor (per cent)</i>				
Darlington	84.4	80.2	88.9	87.4
Pickering A	61.6	84.3	62.5	87.8
Pickering B	72.2	71.6	70.9	75.1
<i>Equivalent forced outage rate (per cent)</i>				
Regulated – Hydroelectric	0.7	1.0	1.0	0.7
Unregulated – Hydroelectric	1.4	1.2	1.3	1.2
Unregulated – Fossil-Fuelled	11.6	15.7	11.7	12.9
<i>Availability (per cent)</i>				
Regulated – Hydroelectric	93.2	90.5	92.6	91.6
Unregulated – Hydroelectric	95.4	95.4	95.2	94.8
<i>Nuclear PUEC (\$/MWh)</i>	47.23	44.24	45.46	40.90
<i>Regulated – Hydroelectric OM&A expense per MWh (\$/MWh)</i>	5.11	5.23	5.05	4.94
<i>Unregulated – Hydroelectric OM&A expense per MWh (\$/MWh)</i>	11.28	8.48	10.77	8.52
<i>Unregulated – Fossil-Fuelled OM&A expense per MW (\$000/MW)</i>	71.9	66.7	66.3	60.6

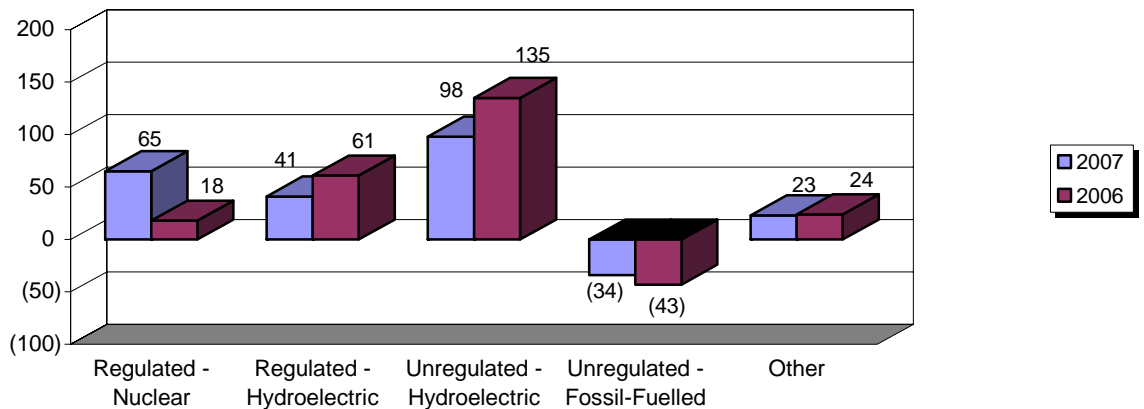
Revenue, Net of Revenue Limit Rebate by Segment
Three Months Ended June 30
(millions of dollars)



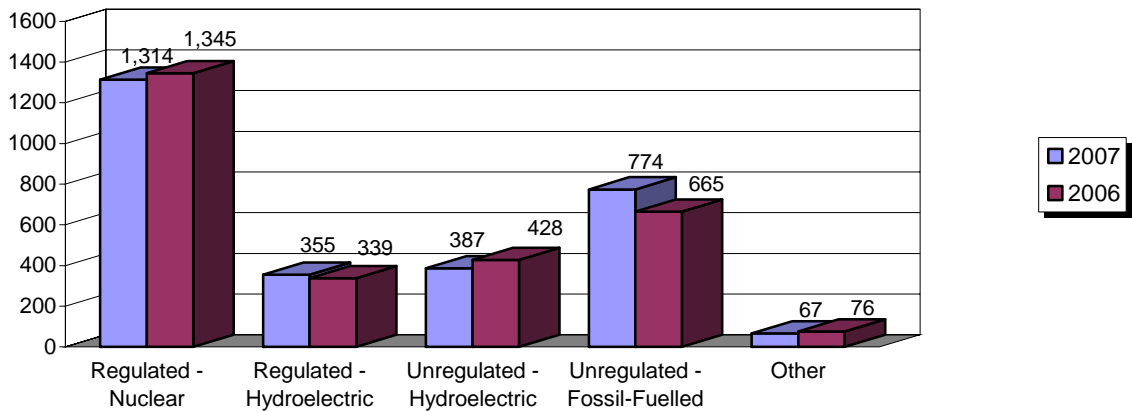
Electricity Production by Segment
Three Months Ended June 30
(TWh)



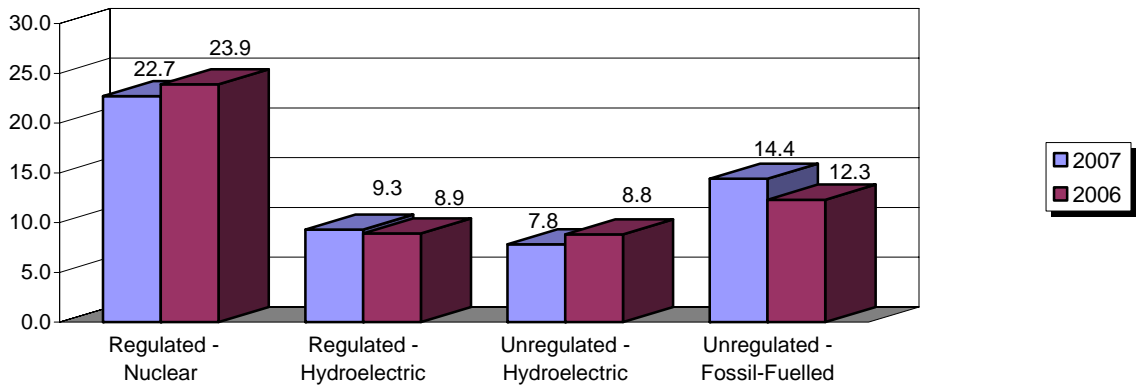
Income (Loss) Before Interest and Income Taxes by Segment
Three Months Ended June 30
(millions of dollars)



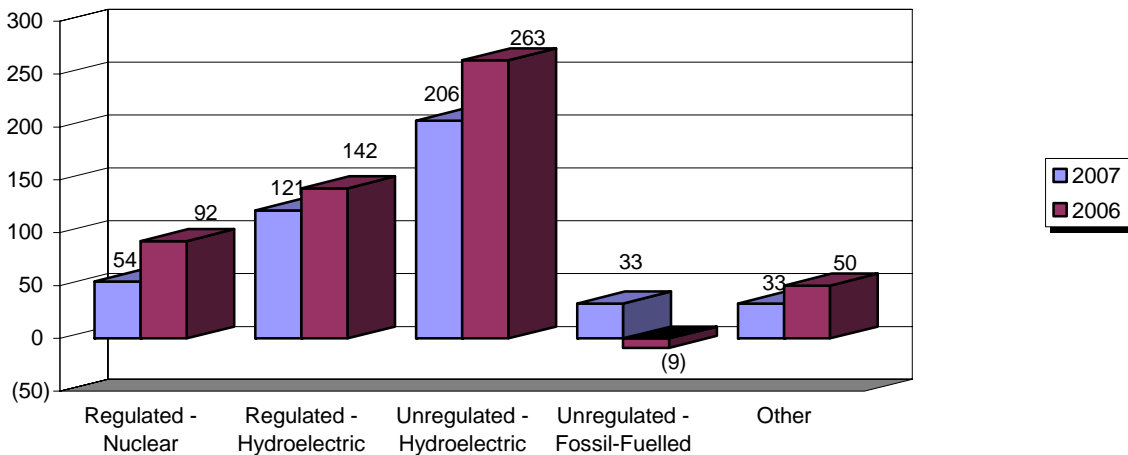
Revenue, Net of Revenue Limit Rebate by Segment
Six Months Ended June 30
(millions of dollars)



Electricity Production by Segment
Six Months Ended June 30
(TWh)



Income (Loss) Before Interest and Income Taxes by Segment
Six Months Ended June 30
(millions of dollars)



Regulated – Nuclear Segment

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Revenue	632	636	1,314	1,345
Fuel expense	33	28	65	59
Gross margin	599	608	1,249	1,286
Operations, maintenance and administration	510	473	1,009	938
Depreciation and amortization	100	89	216	184
Accretion on fixed asset removal and nuclear waste management liabilities	124	122	250	245
Earnings on nuclear fixed asset removal and nuclear waste management funds	(209)	(103)	(300)	(192)
Property and capital taxes	9	9	20	19
Income before interest and income taxes	65	18	54	92

Revenue

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Regulated generation sales	545	550	1,114	1,175
Other	87	86	200	170
Total revenue	632	636	1,314	1,345

Regulated – Nuclear revenue was \$632 million for the three months ended June 30, 2007 compared to \$636 million during the same period in 2006. The decrease in revenue was due to lower electricity generation of 0.1 TWh compared to the same period in 2006.

Regulated – Nuclear revenue was \$1,314 million for the six months ended June 30, 2007 compared to \$1,345 million during the same period in 2006. The decrease of \$31 million was primarily due to lower electricity generation of 1.2 TWh, partially offset by higher non-electricity revenue from nuclear technical services.

Electricity Prices

Electricity generation from stations in the Regulated – Nuclear segment received a fixed price of 4.95¢/kWh since the introduction of rate regulation effective April 1, 2005.

Volume

Electricity generation from stations in the Regulated – Nuclear segment for the three months ended June 30, 2007 was 11.1 TWh compared to 11.2 TWh for the same period in 2006. The decrease in generation was primarily due to the shut-down of the Pickering A nuclear generating station Units 1 and 4 in early June 2007 to perform modifications on a backup electrical system. This system provides a redundant electrical connection for Pickering A from the Pickering B station. A strict safety protocol dictated that the two units remain off-line while modifications to the backup system are completed. The required system modifications are expected to be completed in late August 2007. The impact of the lower generation from the Pickering A station during the second quarter was largely offset by continued strong performance at the Darlington nuclear generating station. Electricity generation from the Pickering B nuclear generating station during the three months ended June 30, 2007 was relatively unchanged from the same period in 2006.

Total nuclear generation for the six months period ended June 30, 2007 was 22.7 TWh compared to 23.9 TWh for the same period in 2006. In addition to the factors that affected nuclear generation during the second quarter, lower nuclear generation during the six months ended June 30, 2007 was a result of an unplanned outage during the first quarter of 2007 at the Pickering B nuclear generation station caused by an inadvertent release of resin by a third party contractor from the water treatment plant into the demineralized water system, and the requirement for maintenance related to the recovery of the resin. Nuclear generation during the six months ended June 30, 2007 was also impacted by an extension to a planned outage during the first quarter of 2007 at the Pickering A nuclear generating station for significant additional repair work required as a result of a component failure during inspection.

The Darlington nuclear generating station's unit capability factor for the three months ended June 30, 2007 was 84.4 per cent compared to 80.2 per cent for the same period in 2006, primarily due to a decrease in planned outage days.

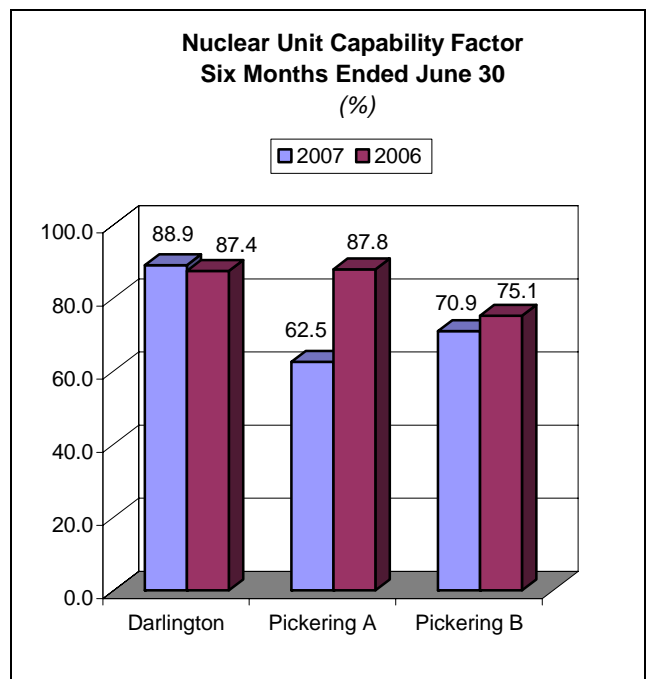
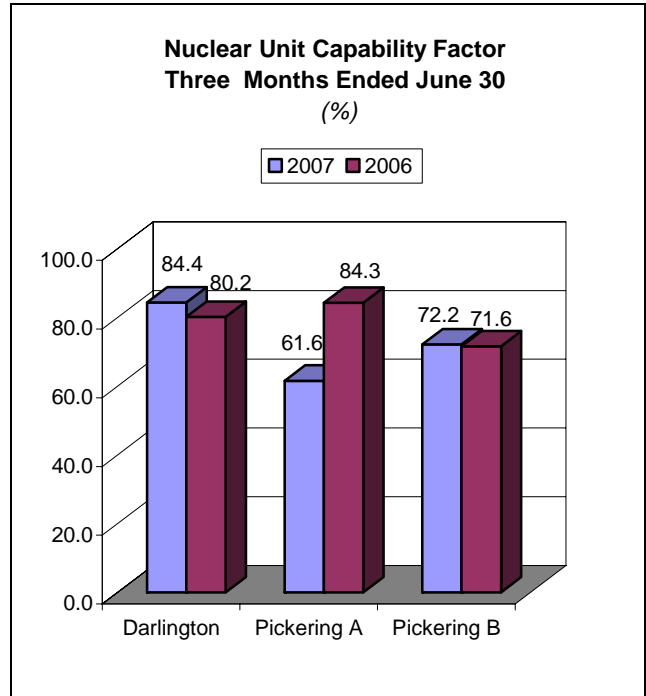
The Pickering A nuclear generating station's unit capability factor was 61.6 per cent for the three months ended June 30, 2007 compared to 84.3 per cent during the same period last year. The decrease primarily reflects the shut down of the operating units in early June of 2007.

The Pickering B nuclear generating station's unit capability factor was 72.2 per cent for the three months ended June 30, 2007 compared to 71.6 per cent for the same period in 2006.

For the six months ended June 30, 2007, the unit capability factor for the Darlington nuclear generating station was 88.9 per cent compared to 87.4 per cent for the same period in 2006. The increase reflects fewer unplanned outage days during the six months ended June 30, 2007 compared to the same period in 2006.

The Pickering A nuclear generating station's unit capability factor was 62.5 per cent for the six months ended June 30, 2007 compared to 87.8 per cent during the same period in 2006. The decrease was primarily due to significantly higher outage days as a result of the component failure during inspection during the first quarter of 2007 and the shutdown of the operating units in early June 2007.

For the six months ended June 30, 2007, the Pickering B nuclear generating station unit capability factor was 70.9 per cent compared to 75.1 per cent during the same period in 2006. The decrease was primarily due to higher unplanned outage days related to the release of resin into the demineralized water system during the first quarter of 2007.



Fuel Expense

Fuel expense for the three months ended June 30, 2007 was \$33 million compared to \$28 million during the same period in 2006. Fuel expense for the six months ended June 30, 2007 was \$65 million compared to \$59 million in 2006. The increase in fuel expense during the three and six months ended June 30, 2007 was primarily due to higher uranium prices compared to the same period in 2006.

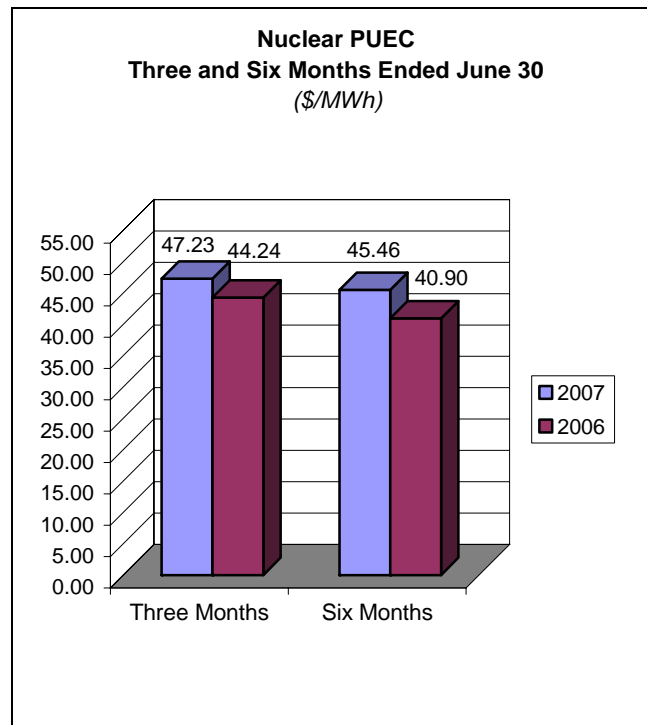
Operations, Maintenance and Administration

OM&A expenses for the three months ended June 30, 2007 were \$510 million compared to \$473 million during the same period in 2006. OM&A expenses were \$1,009 million for the six months ended June 30, 2007 compared to \$938 million during the same period in 2006. The increase in OM&A expenses was primarily due to higher expenditures for outages and other maintenance activities, and costs to support the increase in nuclear technical services revenue.

Based on the amendment to the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) made in February 2007, OPG recorded as a regulatory asset \$5 million of non-capital costs for nuclear generation development initiatives during the three months ended June 30, 2007. During the six months ended June 30, 2007, OPG recorded \$14 million as a regulatory asset.

Nuclear PUEC for the three months ended June 30, 2007 was \$47.23/MWh compared to \$44.24/MWh during the same period in 2006. The increase was primarily due to higher outage and other maintenance expenditures.

Nuclear PUEC for the six months ended June 30, 2007 was \$45.46/MWh compared to \$40.90/MWh during the same period in 2006. The increase was primarily due to higher outage and other maintenance expenditures and lower generation volume.



Depreciation and Amortization

Depreciation and amortization expense for the three months ended June 30, 2007 was \$100 million compared to \$89 million during the three months ended June 30, 2006. Depreciation and amortization expense was \$216 million for the six months ended June 30, 2007 compared to \$184 million for the six months ended June 30, 2006. The increase in expense in 2007 was primarily due to the amortization of the Pickering A return to service deferral account. The amortization expense related to this deferral account was \$20 million for the second quarter of 2007 compared to \$5 million during the same period in 2006. For the six months ended June 30, 2007, the amortization expense was \$56 million compared to \$15 million for the same period last year. The amortization expense is consistent with the method of recovery of the deferred costs included in regulated prices.

At December 31, 2006, OPG increased the estimate of the present value of the asset retirement obligation for nuclear fixed asset removal and nuclear waste management by \$1,386 million, based on an approved reference plan in accordance with the terms of the ONFA (the "2006 Approved Reference Plan"). Asset retirement costs are capitalized by increasing the carrying value of the related fixed assets. As a result, OPG recorded an increase in the carrying value of the nuclear fixed assets of \$1,386 million at December 31, 2006. For the three and six months ended June 30, 2007, OPG recognized additional depreciation expense of \$14 million and \$28 million, respectively, related to this increase. The increase in depreciation expense was offset by the impact of establishing a deferral account, effective January 1, 2007, related to the change in the liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management, as prescribed by the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario).

Accretion

Accretion expense was \$124 million for the three months ended June 30, 2007 compared to \$122 million for the same period in 2006. Accretion expense for the six months ended June 30, 2007 was \$250 million compared to \$245 million during 2006. The increase of \$2 million and \$5 million, respectively, was due to the higher nuclear fixed asset removal and nuclear waste management liability compared to the same periods in 2006 primarily as a result of the increase in the present value of the liability due to the passage of time. For the three and six months ended June 30, 2007, OPG recorded additional accretion expense related to the increase in the estimate of the liability. This increase in accretion expense was largely offset by the impact of establishing the deferral account effective January 1, 2007 relating to the change in estimate of the liabilities, as prescribed by the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario).

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

For the three months ended June 30, 2007, the earnings on the nuclear fixed asset removal and nuclear waste management funds were \$209 million compared to \$103 million during the same period in 2006. This increase was due in part to higher returns on the Used Fuel Fund as a result of a higher increase in the Ontario CPI during the second quarter of 2007 compared to the same period in 2006. Under ONFA, the Province guarantees the rate of return in the Used Fuel Fund at 3.25 per cent plus the change in the Ontario CPI. The increase in earnings was also due to a reimbursement from the Decommissioning Fund of safe storage costs for Pickering A Units 2 and 3, which were approved under ONFA by the Province during the second quarter of 2007.

The Decommissioning Fund is currently overfunded compared to the estimated completion costs for nuclear fixed asset removal and the disposal of low and intermediate level nuclear waste materials as per the most recently approved ONFA reference plan. The balance in the Decommissioning Fund is limited to the cost estimate under ONFA of the related liability, since the Province has a right to the excess funding in the Decommissioning Fund. The disbursement from the Decommissioning Fund for the safe storage costs during the second quarter of 2007 resulted in a decrease in the amount of the excess funding amount payable to the Province, and a corresponding increase in earnings.

Earnings on the nuclear fixed asset removal and nuclear waste management funds for the six months ended June 30, 2007 were \$300 million compared to \$192 million during the same period in 2006. Earnings increased during the six months ended June 30, 2007 due to the impact of the change in the Ontario CPI on the Used Fuel Fund compared to the same period in 2006, and the reimbursement of the safe storage costs for Pickering A Units 2 and 3 of \$46 million.

Commencing January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, Financial Instruments – Recognition and Measurement. As a result, the investments in the funds and the corresponding payables to the Province are measured at fair value. The impact of the new handbook section is described under the heading *Nuclear Fixed Asset Removal and Nuclear Waste Management Funds* in the *Balance Sheet Highlights* section.

Regulated – Hydroelectric Segment

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Revenue	179	164	355	339
Fuel expense	67	60	119	112
Gross margin	112	104	236	227
Operations, maintenance and administration	51	23	74	44
Depreciation and amortization	18	17	34	33
Property and capital taxes	2	3	7	8
Income before interest and income taxes	41	61	121	142

Revenue

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Regulated generation sales ¹	165	141	332	304
Variance accounts	1	(7)	(1)	(4)
Other	13	30	24	39
Total revenue	179	164	355	339

¹ Regulated generation sales included revenue of \$43 million that OPG received at the Ontario spot market price for generation over 1,900 MWh in any hour during the three months ended June 30, 2007 (three months ended June 30, 2006 – \$23 million). Regulated generation sales included revenue of \$90 million that OPG received at the Ontario spot market price for generation over 1,900 MWh in any hour during the six months ended June 30, 2007 (six months ended June 30, 2006 – \$69 million).

Regulated – Hydroelectric revenue was \$179 million for the three months ended June 30, 2007 compared to \$164 million during the same period in 2006. During the six months ended June 30, 2007, Regulated – Hydroelectric revenue was \$355 million compared to \$339 million during the same period in 2006. The increase in revenue for the three and six month periods of \$15 million and \$16 million, respectively, was primarily due to higher electricity generation volume combined with a higher spot market price for generation in excess of 1,900 MWh in any hour, partly offset by lower ancillary revenue compared to the same periods in 2006. The lower ancillary revenue for the three and six months ended June 30, 2007 compared to the same periods in 2006 was primarily due to a retroactive ancillary revenue amount recorded in the second quarter of 2006 related to a new contract.

Electricity Prices

During the three months ended June 30, 2007 and 2006, the average electricity sales price for the Regulated – Hydroelectric segment was 3.5¢/kWh and 3.4¢/kWh, respectively. The average electricity sales price for the six months ended June 30, 2007 was 3.6¢/kWh compared to 3.5¢/kWh during the same period in 2006. The average sales price is based on the fixed price of 3.3¢/kWh for generation up to 1,900 MWh in any hour, and the spot electricity market price for generation above this level.

Volume

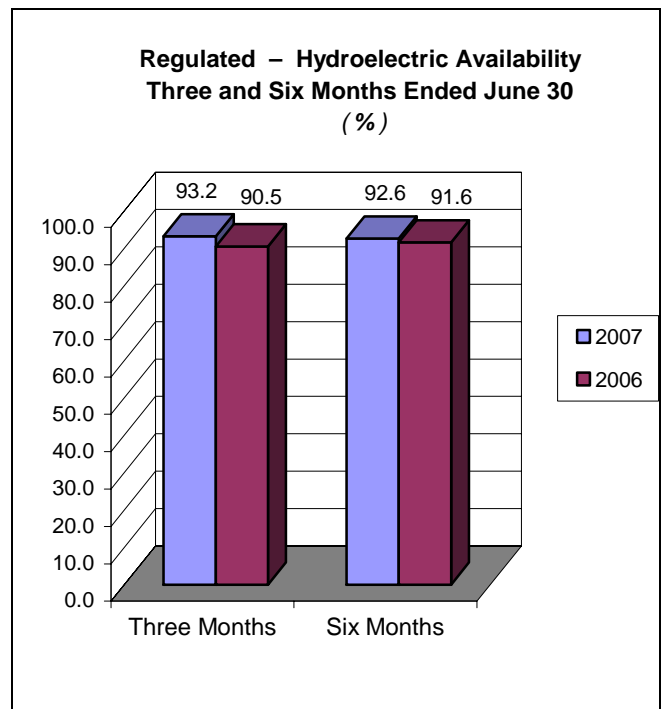
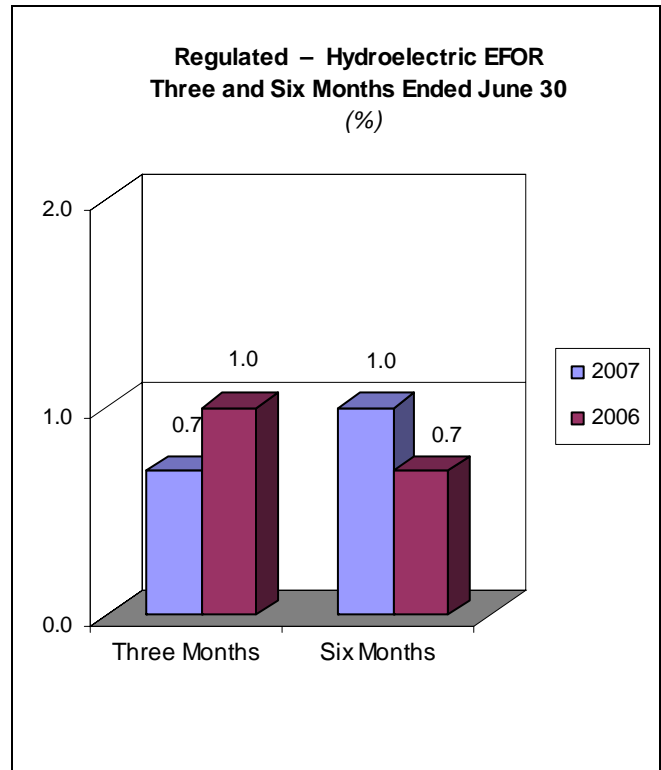
Electricity sales volume for the second quarter of 2007 was 4.7 TWh compared to 4.4 TWh during the same period in 2006. For the six months ended June 30, 2007, electricity sales volume was 9.3 TWh compared to 8.9 TWh for the same period in 2006. The increase in electricity sales volume in 2007 was primarily due to higher water levels in the Niagara and St. Lawrence Rivers, combined with an increase in station availability.

Volume related to production levels above 1,900 MWh in any hour was 1.0 TWh during the second quarter of 2007 compared to 0.7 TWh for the same period in 2006. During the six months ended June 30, 2007 and 2006, electricity generation of 1.8 TWh and 1.6 TWh, respectively, related to production levels above 1,900 MWh in any hour.

The EFOR for the Regulated – Hydroelectric stations during the three months ended June 30, 2007 was 0.7 per cent compared to 1.0 per cent during the same period in 2006.

During the six months ended June 30, 2007 and 2006, the EFOR for the Regulated – Hydroelectric stations was 1.0 per cent and 0.7 per cent, respectively. The increase in EFOR was due to additional unplanned outage days in the first quarter of 2007 related primarily to trapped debris in the units, and the performance of certain equipment. The EFOR for the second quarter and six month periods reflect the high reliability of these generating stations.

The availability for the Regulated – Hydroelectric stations was 93.2 per cent for the three months ended June 30, 2007 compared to 90.5 per cent during the same period in 2006. During the six months ended June 30, 2007, availability for the Regulated – Hydroelectric stations was 92.6 per cent compared to 91.6 per cent in the same period in 2006. The higher availability for the three and six months ended June 30, 2007 compared to the same periods in 2006 was primarily due to shortening of major planned outages to maximize generation from available water flows.



Variance Accounts

OPG is required under a regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) to establish variance accounts for the Regulated – Hydroelectric segment to capture the impact of differences in hydroelectric electricity production due to differences between forecast and actual water conditions and differences between forecast and actual ancillary service revenue. For the three months ended June 30, 2007, OPG recorded revenue of \$1 million as a result of ancillary services revenue and actual water conditions that were unfavourable compared to the forecast provided to the Province for the purpose of establishing regulated prices. For the six months ended June 30, 2007, OPG recorded a reduction of revenue and a corresponding increase in OPG's regulatory liability of \$1 million as a result of actual water conditions that were favourable compared to the forecast provided to the Province for the purpose of establishing regulated prices.

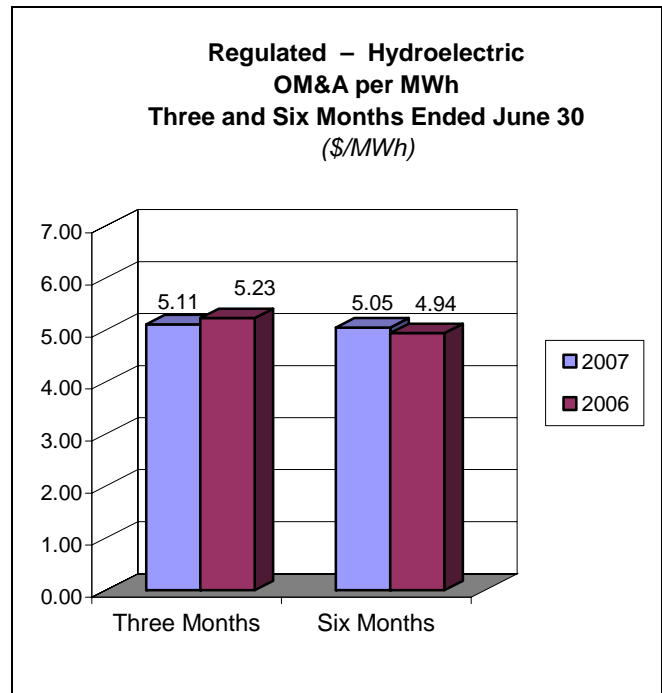
Fuel Expense

OPG pays charges to the Province and the OEFC on gross revenue derived from the annual generation of electricity from its hydroelectric generating assets. The gross revenue charge ("GRC") includes a fixed percentage charge applied to the annual hydroelectric generation derived from stations located on provincial Crown lands, in addition to graduated rate charges applicable to all hydroelectric stations. GRC costs are included in fuel expense. Fuel expense for the three months ended June 30, 2007 and 2006 was \$67 million and \$60 million, respectively. During the six months ended June 30, 2007, fuel expense was \$119 million compared to \$112 million in 2006. The increase in fuel expense during the three and six months ended June 30, 2007 compared to the same periods in 2006 was due to higher generation volumes.

Operations, Maintenance and Administration

OM&A expenses for the second quarter of 2007 were \$51 million compared to \$23 million for the same period in 2006. For the six months ended June 30, 2007, OM&A expenses were \$74 million compared to \$44 million during the same period in 2006. The increase in the OM&A expense for the three and six months ended June 30, 2007 compared to the same periods in 2006 was primarily due to an increase in expense related to past grievances by First Nations.

OM&A expense per MWh for the regulated hydroelectric stations was \$5.11/MWh during the three months ended June 30, 2007 compared to \$5.23/MWh during the same period in 2006. The decrease in OM&A expense per MWh for the three months ended June 30, 2007 compared to the same period in 2006 was primarily due to the impact of higher generation during the second quarter of 2007.



For the six months ended June 30, 2007, OM&A expense per MWh for the regulated hydroelectric stations was \$5.05/MWh compared to \$4.94/MWh during the same period in 2006 primarily due to higher OM&A expenses.

OM&A expense per MWh excludes expenses related to past grievances by First Nations.

Depreciation and Amortization

Depreciation expense for the three months ended June 30, 2007 and 2006 was \$18 million and \$17 million, respectively. During the six months ended June 30, 2007 and 2006, depreciation expense was \$34 million and \$33 million, respectively.

Unregulated – Hydroelectric Segment

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Revenue net of revenue limit rebate	196	224	387	428
Fuel expense	20	25	39	45
Gross margin	176	199	348	383
Operations, maintenance and administration	60	45	102	81
Depreciation and amortization	17	16	35	32
Property and capital taxes	1	3	5	7
Income before interest and income taxes	98	135	206	263

Revenue

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Spot market sales, net of hedging instruments	184	221	399	440
Revenue limit rebate	(1)	(6)	(32)	(26)
Other	13	9	20	14
Total revenue	196	224	387	428

Unregulated – Hydroelectric revenue was \$196 million for the three months ended June 30, 2007 compared to \$224 million for the same period in 2006. The \$28 million decrease in revenue during the second quarter of 2007 compared to the same period in 2006 was primarily due to lower electricity generation volume of 0.7 TWh.

Unregulated – Hydroelectric revenue was \$387 million for the six months ended June 30, 2007 compared to \$428 million during the same period in 2006. The decrease in revenue of \$41 million during the six months ended June 30, 2007 compared to the same period in 2006 was primarily due to lower electricity generation volume of 1.0 TWh.

Electricity Prices

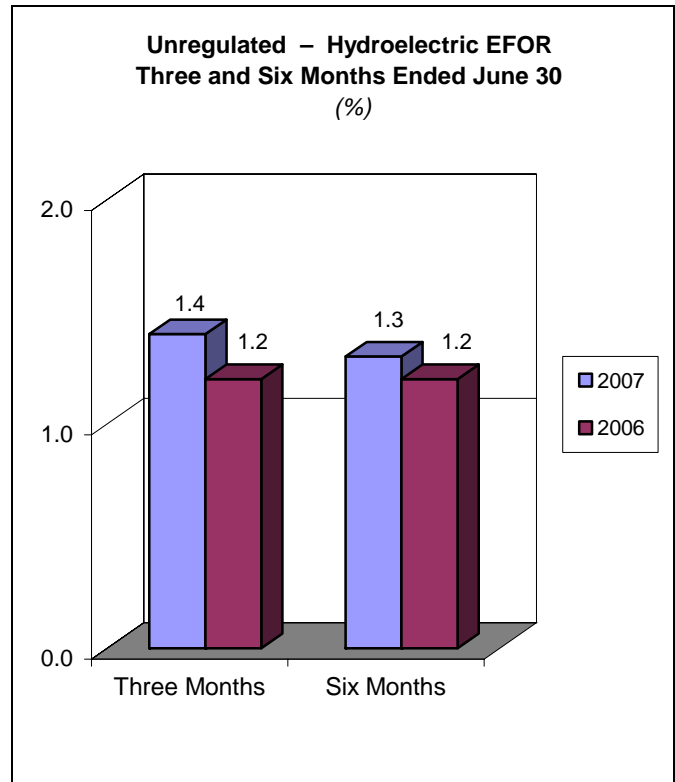
After taking into account the revenue limit rebate, OPG's average sales price for its unregulated hydroelectric generation for the three months ended June 30, 2007 and 2006 was 4.6¢/kWh. OPG's average sales price for its unregulated hydroelectric generation for the six months ended June 30, 2007 and 2006 was 4.7¢/kWh.

Volume

During the three months ended June 30, 2007, electricity sales volume was 3.9 TWh compared to 4.6 TWh for the three months ended June 30, 2006. The decrease of 0.7 TWh was primarily due to lower water levels in Northeastern, Northwestern, and Eastern Ontario.

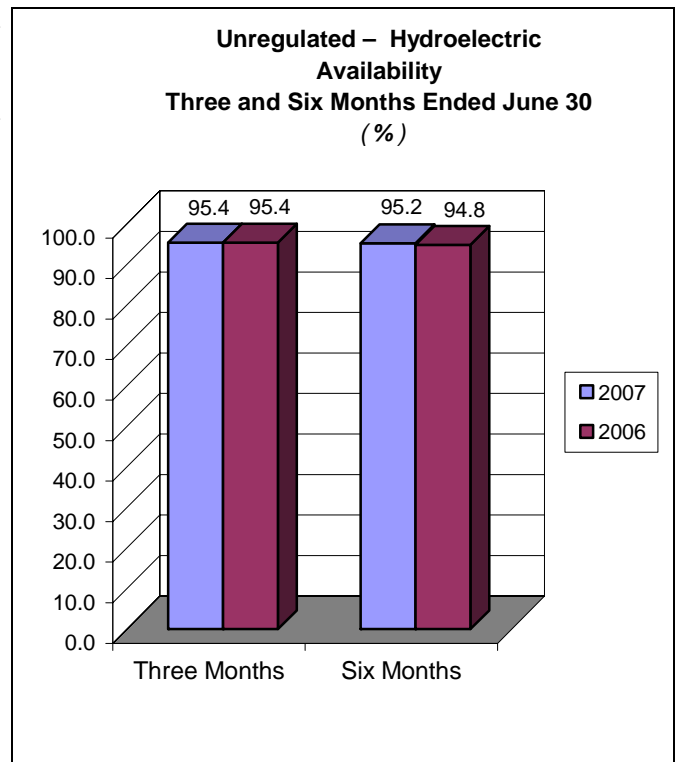
Electricity sales volume for the six months ended June 30, 2007 was 7.8 TWh compared to 8.8 TWh during the same period in 2006. The decrease in volume for the six months ended June 30, 2007 compared to the same period in 2006 was primarily due to lower water levels in Eastern and Northeastern Ontario during the second quarter of 2007, and Northwestern Ontario during the first and second quarter of 2007.

The EFOR for the Unregulated – Hydroelectric stations was 1.4 per cent in the second quarter of 2007 compared to 1.2 per cent during the same quarter in 2006. For the six months ended June 30, 2007, EFOR was 1.3 per cent compared to 1.2 per cent for the six months ended June 30, 2006.



The availability for the Unregulated – Hydroelectric stations was 95.4 per cent for the three month periods ended June 30, 2007 and 2006. The availability for the Unregulated – Hydroelectric stations was 95.2 per cent for the six months ended June 30, 2007 compared to 94.8 per cent for the six months ended June 30, 2006.

The low EFOR and high availability reflect the continuing strong performance of the Unregulated – Hydroelectric stations.



Fuel Expense

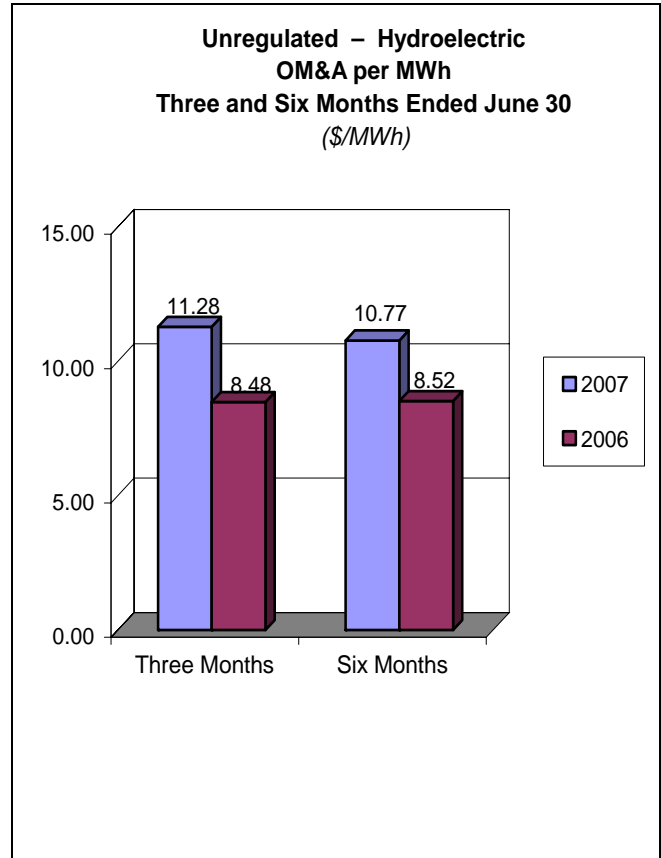
Generating stations within this segment are subject to the gross revenue charge. Fuel expense was \$20 million during the three months ended June 30, 2007 compared to \$25 million during the same period in 2006. During the six months ended June 30, 2007 and 2006, fuel expense was \$39 million and \$45 million, respectively. The decrease in fuel expense was a result of lower generation volume.

Operations, Maintenance and Administration

OM&A expenses for the three months ended June 30, 2007 were \$60 million compared to \$45 million for the same period in 2006. During the six months ended June 30, 2007, OM&A expenses were \$102 million compared to \$81 million for the same period last year. The increase in OM&A expenses for the three and six months ended June 30, 2007 compared to the same periods in 2006 was primarily due to an increase in expense related to past grievances by First Nations.

OM&A expense per MWh for the unregulated hydroelectric stations was \$11.28/MWh in the second quarter of 2007 compared to \$8.48/MWh for the same period in 2006. During the six months ended June 30, 2007, OM&A expense per MWh for the unregulated hydroelectric stations was \$10.77/MWh compared to \$8.52/MWh for the same period in 2006. The higher OM&A expense per MWh for the three and six month periods ended June 30, 2007 was primarily due to the impact of lower generation in 2007 compared to the same periods in 2006.

OM&A expense per MWh excludes expense related to past grievances by First Nations.



Depreciation and Amortization

Depreciation expense for the three months ended June 30, 2007 and 2006 was \$17 million and \$16 million, respectively. Depreciation expense for the six months ended June 30, 2007 and 2006 was \$35 million and \$32 million, respectively.

Unregulated – Fossil-Fuelled Segment

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Revenue, net of revenue limit rebate	326	284	774	665
Fuel expense	178	130	403	305
Gross margin	148	154	371	360
Operations, maintenance and administration	154	143	284	260
Depreciation and amortization	21	47	39	96
Accretion on fixed asset removal	2	3	4	5
Property and capital taxes	5	4	11	8
Loss (income) before interest and income taxes	(34)	(43)	33	(9)

Revenue

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Spot market sales, net of hedging instruments	324	279	787	657
Revenue limit rebate	(19)	(23)	(84)	(63)
Other	21	28	71	71
Total revenue	326	284	774	665

Unregulated – Fossil-Fuelled revenue was \$326 million for the three months ended June 30, 2007 compared to \$284 million for the same period in 2006, an increase of \$42 million. The higher revenue was primarily a result of an increase in electricity generation of 1.0 TWh during the three months ended June 30, 2007 compared to the same period in 2006.

Unregulated – Fossil-Fuelled revenue was \$774 million for the six months ended June 30, 2007 compared to \$665 million for the same period in 2006. The increase in revenue during the first half of 2007 compared to the same period in 2006 of \$109 million was primarily due to higher electricity generation volume. The increase in revenue during the six months ended June 30, 2007 was partially offset by the impact of a lower revenue limit in 2007 during the January to April 2007 period.

Electricity Prices

OPG's average sales price net of the revenue limit rebate for its unregulated fossil-fuelled generation was 4.7¢/kWh for the three months ended June 30, 2007 and 2006. During the six months ended June 30, 2007 and 2006, OPG's average sales price net of the revenue limit rebate for its unregulated fossil-fuelled generation was 4.8¢/kWh.

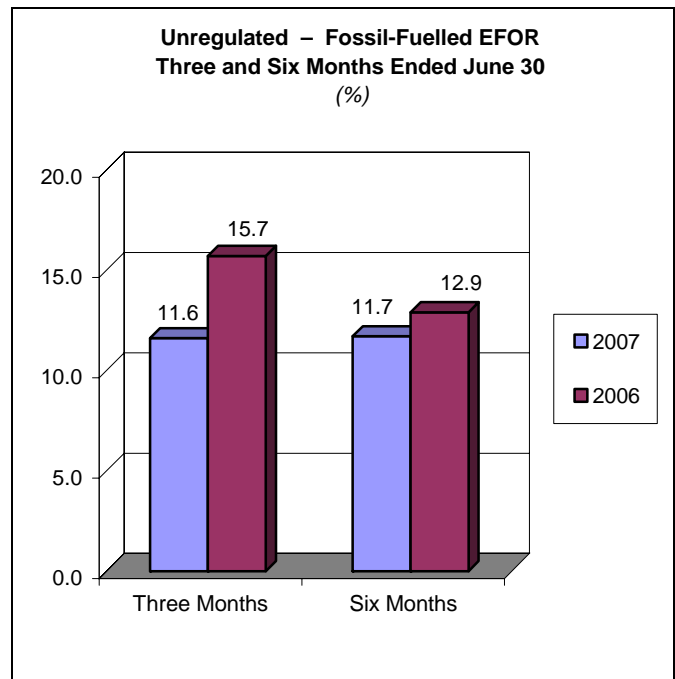
Volume

Electricity sales volume for the three months ended June 30, 2007 was 6.3 TWh compared to 5.3 TWh during the same period in 2006. The increase of 1.0 TWh was primarily due to higher electricity demand and lower generation from the nuclear and unregulated-hydroelectric generating stations.

Electricity sales volume for the six months ended June 30, 2007 was 14.4 TWh compared to 12.3 TWh during the same period in 2006. The increase of 2.1 TWh in 2007 was primarily due to lower nuclear generation in Ontario in the first quarter and lower generation from OPG's unregulated hydroelectric facilities when compared to 2006.

The EFOR for the Unregulated – Fossil-Fuelled stations during the three months ended June 30, 2007 was 11.6 per cent compared to 15.7 per cent during the same period in 2006. During the six months ended June 30, 2007 and

2006, the EFOR for the Unregulated – Fossil-Fuelled stations was 11.7 per cent and 12.9 per cent, respectively. The decrease in EFOR during the three and six month periods was due to a reduction in unplanned outage days and reflected continued improvements in the reliability of the fossil-fuelled stations.



Fuel Expense

Fuel expense was \$178 million for the three months ended June 30, 2007 compared to \$130 million for the same period in 2006. The increase of \$48 million was primarily due to higher electricity generation and higher coal purchase costs under long-term supply contracts.

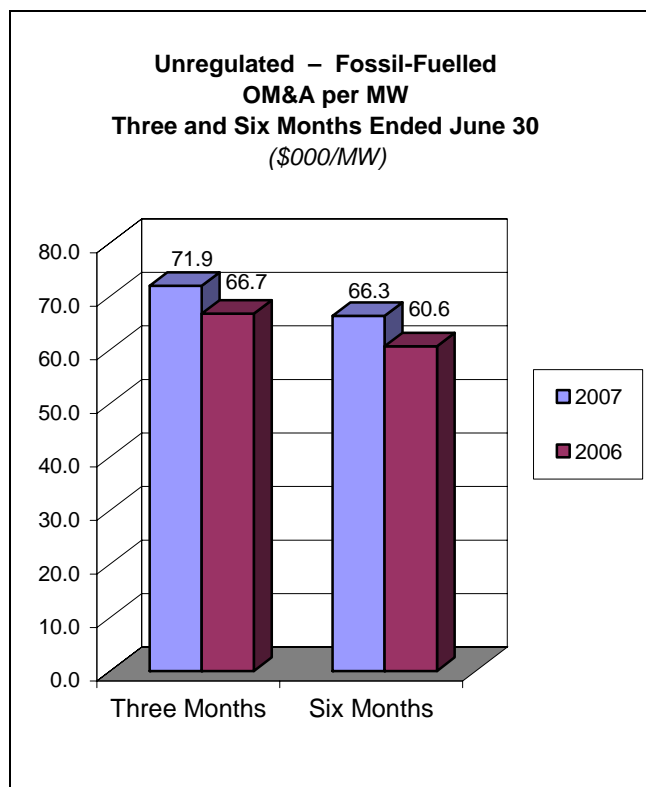
During the six months ended June 30, 2007, fuel expense was \$403 million compared to \$305 million during the six months ended June 30, 2006. The increase of \$98 million in 2007 compared to 2006 was primarily due to higher electricity generation volume and higher coal prices.

Operations, Maintenance and Administration

OM&A expenses for the three months ended June 30, 2007 were \$154 million compared to \$143 million for the same period in 2006. The increase of \$11 million was mainly due to new maintenance programs and projects related to the extension of the service lives of the coal-fired generating stations. This impact was partially offset by the write-off of unrecoverable costs related to the Thunder Bay generating station gas conversion project during the three months ended June 30, 2006, upon cancellation of the project.

OM&A expenses for the six months ended June 30, 2007 were \$284 million compared to \$260 million during the six months ended June 30, 2006. The increase of \$24 million was primarily due to new maintenance programs and projects related to the extension of the service lives of the coal-fired generating stations, partially offset by the write-off of unrecoverable costs in 2006 related to the cancellation of the Thunder Bay generating station gas conversion project.

Annualized OM&A expense per MW (\$/MW) for the unregulated fossil-fuelled stations increased to \$71,900/MW for the three months ended June 30, 2007 compared to \$66,700/MW for the three months ended June 30, 2006. During the six months ended June 30, 2007, annualized OM&A expense per MW was \$66,300/MW compared to \$60,600/MW for the same period in 2006. The increase primarily reflected the impact of the higher OM&A expenses related to the extension of the service lives of the coal-fired generating stations.



Depreciation and Amortization

Depreciation expense for the three months ended June 30, 2007 was \$21 million, compared to \$47 million for the same period in 2006. Depreciation expense for the six months ended June 30, 2007 and 2006 was \$39 million and \$96 million, respectively. The decrease in depreciation expense in 2007 was primarily due to the extension of the service lives of the coal-fired generating stations, for the purpose of calculating depreciation, due to the delay in the coal replacement program announced by the Ministry of Energy in June 2006. OPG will continue to assess the service lives of the coal-fired stations upon release of the IPSP, and the subsequent approval by the OEB, and on the basis of other available information.

Other

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Revenue	40	37	67	76
Operations, maintenance and administration	1	(6)	1	(5)
Depreciation and amortization	13	16	27	26
Property and capital taxes	3	3	6	5
Income before interest and income taxes	23	24	33	50

Other revenue was \$40 million for the three months ended June 30, 2007 compared to \$37 million for the same period in 2006. Other revenue for the six months ended June 30, 2007 was \$67 million compared to \$76 million in the same period in 2006. The decrease of \$9 million for the six months ended June 30, 2007 was primarily due to lower net trading revenue, partly offset by an increase in investment income from OPG's equity investments.

OM&A expenses of the generation business segments include an inter-segment service fee for the use of certain property, plant and equipment held within the Other category. The total service fee is recorded as a reduction to the Other category's OM&A expenses. For the three months ended June 30, 2007, the service fee was \$6 million for Regulated – Nuclear, \$1 million for Regulated – Hydroelectric, \$1 million for Unregulated – Hydroelectric, \$2 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$10 million for the Other category. For the three months ended June 30, 2006, the service fee was \$10 million for Regulated – Nuclear, \$1 million for Regulated – Hydroelectric, \$2 million for Unregulated – Hydroelectric, \$3 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$16 million for the Other category.

For the six months ended June 30, 2007, the service fee was \$14 million for Regulated – Nuclear, \$1 million for Regulated – Hydroelectric, \$2 million for Unregulated – Hydroelectric, \$4 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$21 million for the Other category. For the six months ended June 30, 2006, the service fee was \$14 million for Regulated – Nuclear, \$1 million for Regulated – Hydroelectric, \$2 million for Unregulated – Hydroelectric, \$5 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$22 million for the Other category.

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. If disclosed on a gross basis, revenue and power purchases for the three months ended June 30, 2007 would have increased by \$20 million (three months ended June 30, 2006 – \$40 million). For the six months ended June 30, 2007, if disclosed on a gross basis, revenue and power purchases would have increased by \$64 million (six months ended June 30, 2006 – \$89 million).

The changes in the fair value of derivative instruments not qualifying for hedge accounting are recorded in Other revenue, and are carried on the consolidated balance sheets as assets or liabilities at fair value. The carrying amounts and notional quantities of the derivative instruments are disclosed in Note 11 in the unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2007.

Net Interest Expense

The net interest expense for the three months ended June 30, 2007 was \$39 million compared to \$49 million for the same period in 2006. The net interest expense for the six months ended June 30, 2007 was \$65 million compared to \$98 million for the same period in 2006. The decrease in interest expense for the three and six month periods ended June 30 2007 was primarily due to the deferral of additional interest related to the Pickering A return to service deferral account. Additional interest was deferred in accordance with the requirements of the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario).

Income Tax

OPG follows the liability method of tax accounting for its unregulated operations. Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Commencing April 1, 2005, with the introduction of rate regulation, OPG accounts for income taxes relating to the rate regulated segments of its business using the taxes payable method. Under the taxes payable method, OPG does not recognize future income taxes relating to the rate regulated segments of its business to the extent those future income taxes are expected to be recovered or refunded through future regulated prices charged to customers.

Income Tax expense for the second quarter of 2007 was \$29 million compared to \$3 million for the same period in 2006. The lower tax expense in 2006 was primarily due to a reduction in the future taxes recognized as a result of a reduction in future income tax rates enacted in the Federal Budget of 2006. In addition, income tax expense during the second quarter of 2006 reflected a reversal of Large Corporations Tax that had been recognized in 2006 before the elimination of Large Corporations Tax, which was also enacted in the Federal Budget of 2006. During the second quarter of 2007 and 2006, the income tax expense was lower than what would otherwise have been recorded had OPG accounted for income tax for the regulated segments using the liability method by \$24 million and \$8 million, respectively.

Income tax expense for the six months ended June 20, 2007 was \$86 million compared to \$98 million for the same period in 2006, primarily due to lower income before tax in 2007. This was partly offset by the impact of the reduction in future income tax rates enacted in 2006. For the six months ended June 30, 2007 and 2006, income tax expense was lower than what would otherwise have been recorded had OPG accounted for income tax for the regulated segment using the liability method by \$42 million and \$18 million, respectively.

The transition adjustment to the accumulated other comprehensive income on adoption of the financial instruments accounting standards was lower by \$4 million than what would otherwise have been recorded had OPG utilized the liability method of tax accounting for the regulated segments. Other comprehensive income for the three and six months ended June 30, 2007 was higher by \$6 million and \$8 million, respectively, than what would otherwise have been recorded using the liability method of tax accounting.

In the third quarter of 2006, OPG received a preliminary communication from the Provincial Tax Auditors ("Tax Auditors") with respect to their initial findings from their audit of OPG's 1999 taxation year. Many of the issues raised through the audit are unique to OPG and relate either to start-up matters and positions taken on April 1, 1999 upon commencement of operations, or matters that were not adequately addressed through the Electricity Act, 1998. Although OPG has subsequently resolved some of these issues, there is uncertainty as to how the remaining issues will be resolved. OPG expects to receive a reassessment for its 1999 taxation year. The Company would defend its position through the tax appeals process.

OPG has previously recorded income tax charges related to certain income tax positions that the Company has taken in prior years that may be disallowed. Given the uncertainty as to how these income tax matters will be resolved, OPG has not adjusted its income tax liabilities. Should the ultimate outcome differ from OPG's recorded income tax liabilities, the Company's effective tax rate and its net income could be materially affected either negatively or positively in the period in which the matters are resolved.

LIQUIDITY AND CAPITAL RESOURCES

OPG's primary sources of liquidity and capital are funds generated from operations, bank financing and credit facilities provided by OPG's shareholder. These sources are utilized for continued investment in plant and technologies, and to meet other significant funding obligations including contributions to the pension fund, the Used Fuel Segregated Fund ("Used Fuel Fund") and Decommissioning Segregated Fund ("Decommissioning Fund") (together, the "Nuclear Funds"), and to service and repay long-term debt and revenue limit rebate obligations.

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Cash and cash equivalents, beginning of the period	15	919	6	908
Cash flow provided by (used in) operating activities	312	(435)	475	(1)
Cash flow (used in) investing activities	(171)	(122)	(335)	(244)
Cash flow provided by (used in) financing activities	(18)	(2)	(8)	(303)
Net increase (decrease)	123	(559)	132	(548)
Cash and cash equivalents, end of the period	138	360	138	360

Operating Activities

Cash flow provided by operating activities for the three months ended June 30, 2007 was \$312 million compared to cash flow used in operating activities of \$435 million during the same period in 2006. The increase in cash flow was primarily due to a lower revenue limit rebate payment and a higher reimbursement of expenditures for nuclear fixed asset removal and nuclear waste management during the second quarter of 2007 compared to the same period in 2006. The higher revenue limit rebate payment in the second quarter of 2006 was related to a payment of \$739 million for the period April 1, 2005 to December 31, 2005. Revenue limit rebate payments are now made on a quarterly basis.

Cash flow provided by operating activities for the six months ended June 30, 2007 was \$475 million compared to cash flow used in operating activities of \$1 million during the same period in 2006. The increase in cash flow was primarily due to a lower revenue limit rebate payment during the six months ended June 30, 2007 and a higher reimbursement of expenditures for nuclear fixed asset removal and nuclear waste management. This increase in cash flow was partially offset by a decrease in cash receipts from electricity sales, higher OM&A expenditures and an increase in income tax payments.

The reimbursement of expenditures for nuclear fixed asset removal and nuclear waste management during the second quarter of 2007 related to the safe storage costs for Pickering A Units 2 and 3, which were approved under ONFA for reimbursement from the Decommissioning Fund by the Province.

As required under the Ontario Nuclear Funds Agreement ("ONFA") between the Province and OPG, OPG made contributions of \$113 million to the nuclear fixed asset removal and nuclear waste management funds during the three months ended June 30, 2007. For the six months ended June 30, 2007, OPG made contributions of \$227 million. Contributions were the same during the three and six months ended June 30, 2006.

Investing Activities

OPG is in a capital-intensive business that requires continued investment in plant and technologies to improve operating efficiencies, increase generating capacity of its existing stations, invest in new generating stations and to maintain and improve service, reliability, safety and environmental performance.

Investment in fixed assets during the three months ended June 30, 2007 was \$163 million compared with \$120 million during the same period in 2006. For the six months ended June 30, 2007, investment in fixed assets was \$297 million compared with \$234 million for the six months ended June 30, 2006. The increase in capital expenditures for the three and six months ended June 30, 2007 was primarily due to increased investment in Portlands Energy Centre and nuclear related projects, partially offset by a lower investment in the Niagara Tunnel project compared to the same periods in 2006.

OPG's forecast capital expenditures for 2007 are approximately \$830 million, which include amounts for the Niagara Tunnel project, Portlands Energy Centre and the Lac Seul project.

For the three months ended June 30, 2007, investing activities included costs related to OPG's regulatory assets of \$8 million compared to \$2 million during the same period in 2006. The amount deferred during the three months ended June 30, 2007, and reflected in the investing activities, included interest expense of \$5 million related to the Pickering A return to service deferral account, and \$3 million related to non-capital costs incurred for nuclear generation development initiatives.

For the six months ended June 30, 2007, investing activities included costs deferred as regulatory assets of \$38 million compared to \$12 million during the same period in 2006. The amount deferred during the six months ended June 30, 2007, and reflected in the investing activities, included interest expense of \$24 million related to the Pickering A return to service deferral account, and \$14 million related to non-capital costs incurred for nuclear generation development initiatives.

Financing Activities

OPG maintains a \$1 billion revolving committed bank credit facility which is divided into two tranches – a \$500 million 364-day term tranche maturing May 21, 2008 and a \$500 million five-year term tranche maturing May 22, 2012. The longer term tranche was extended from a three-year term to a five-year term, upon renewal of the bank credit facility in May 2007. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at June 30, 2007, no commercial paper was outstanding (December 31, 2006 – \$15 million). OPG had no other outstanding borrowings under the bank credit facility.

OPG also maintains \$26 million (2006 – \$26 million) in short-term uncommitted overdraft facilities and \$240 million (2006 – \$240 million) of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans, and for other purposes including the requirement to post Letters of Credit as collateral with Local Distribution Companies ("LDCs") as prescribed by the OEB's Retail Settlement Code. At June 30, 2007, there were a total of \$184 million of Letters of Credit issued (December 31, 2006 – \$185 million), which included \$159 million for the supplementary pension plans (December 31, 2006 – \$159 million) and \$16 million related to the construction of the Portlands Energy Centre (December 31, 2006 – \$16 million).

OPG negotiated an agreement with the OEFC to finance the Niagara Tunnel project for up to \$1 billion over the duration of the project. The funding is advanced in the form of 10-year notes, on commercial terms and conditions. Advances under this facility commenced in October 2006, and amounted to \$240 million as at June 30, 2007, including \$30 million of new borrowing during the three months ended June 30, 2007. Similarly, debt financing has been negotiated with the OEFC for OPG's interest in the Portlands Energy Centre and the Lac Seul project for up to \$400 million and \$50 million, respectively. Advances under these facilities commenced in December 2006, and totalled \$120 million for the Portlands Energy Centre and \$20 million for the Lac Seul projects as at June 30, 2007. This included \$30 million of new borrowing under the Portlands Energy Centre facility during the three months ended June 30, 2007. OPG did not draw on additional borrowing under the Lac Seul facility during the second quarter of 2007.

In March 2007, OPG met its debt retirement obligation by repaying \$200 million of maturing notes held by the OEFC. As at June 30, 2007, OPG's long-term debt outstanding with the OEFC was \$3.2 billion. Although the new financing added in 2006 and 2007 has extended the maturity profile, approximately \$2.7 billion of long-term debt must be repaid or refinanced within the next five years. To ensure that adequate financing resources are available beyond its \$1 billion commercial paper program backed by

the bank credit facility, OPG reached an agreement with the OEFC for a \$500 million general corporate facility that is available for the period June 1, 2007 to March 31, 2008. In June 2007, OPG issued a \$100 million note under the general corporate facility, which will mature in 2017. OPG also reached an agreement with the OEFC for a \$950 million credit agreement to refinance senior notes as they mature over the period September 2007 to September 2009.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Changes in Accounting Policies and Estimates

The accounting policies used in preparing the unaudited interim consolidated financial statements are consistent with those used in the preparation of the 2006 annual consolidated financial statements, except as disclosed in Note 2 to the unaudited interim consolidated financial statements.

Certain of the accounting policies disclosed in OPG's 2006 annual audited consolidated financial statements are recognized as critical by virtue of the subjective and complex judgements 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 relate to rate regulated accounting, income taxes, business segments, impairment of generating stations and other fixed assets, pension and other post employment benefits, asset retirement obligations and depreciation. For further details, refer to the 2006 annual MD&A under the heading, *Critical Accounting Policies and Estimates*.

On January 1, 2007, the Company adopted the CICA Handbook Sections 3855, *Financial Instruments – Recognition and Measurement*, 3865, *Hedges*, 1530, *Comprehensive Income*, 3251 *Equity*, and 3861, *Financial Instruments – Disclosure and Presentation*. These standards have been applied prospectively with transition adjustments to opening retained earnings of \$513 million and accumulated other comprehensive income ("AOCI") of \$21 million. The impact of adoption is further disclosed in Note 2 to the unaudited interim financial statements.

Future Changes in Accounting Policies and Estimates

Capital Disclosures

The CICA issued an accounting standard, Section 1535, *Capital Disclosures*, in December 2006, which requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The standards also require companies to disclose if the company has complied with any capital requirements, and, if it has not complied, the consequences of such non-compliance. This new accounting standard will be effective for the Company beginning January 1, 2008. OPG is evaluating the impact of this new standard on its consolidated financial statements.

Financial Instruments – Disclosure and Presentation

OPG will be required to adopt Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These standards were issued in December 2006 and will replace Section 3861, *Financial Instruments – Disclosure and Presentation*. The new disclosure standard increases the emphasis on the risk associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements under the existing Section 3861. These new accounting standards will be effective for OPG beginning January 1, 2008. OPG is assessing the impact of the new standards on its consolidated financial statements.

Inventories

The CICA issued a new accounting standard, Section 3031, *Inventories*, in March 2007, which is based on International Accounting Standard ("IAS") 2. The new section replaced the existing Section 3030,

Inventories. Under the new section, inventories are required to be measured at the “lower of cost and net realizable value”, which is different from the existing guidance of the “lower of cost and market”. The new section also allows the reversal of any write-downs previously recognized. Further, due to the changes in the section and the consequential amendments, some of OPG’s critical spare parts currently reported as materials and supplies on OPG’s consolidated balance sheet may be accounted for in the future as property, plant and equipment. The new accounting standard and any consequential amendments will be effective for OPG beginning January 1, 2008. OPG is in the process of assessing the impact of the new standard.

BALANCE SHEET HIGHLIGHTS

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

Selected balance sheet data <i>(millions of dollars)</i>	As at	
	June 30 2007	December 31 2006
Assets		
Accounts receivable	329	256
Property, plant and equipment – net	12,737	12,761
Nuclear fixed asset removal and nuclear waste management funds	8,554	7,594
Regulatory assets	299	251
Liabilities		
Accounts payable and accrued charges	862	989
Revenue limit rebate payable	108	40
Long-term debt (including debt due within one year)	3,366	3,359
Fixed asset removal and nuclear waste management	10,729	10,520
Other post employment benefits and supplementary pension plans (long-term portion)	1,484	1,396

Accounts Receivable

As at June 30, 2007, accounts receivable were \$329 million compared to \$256 million as at December 31, 2006. The increase was primarily due to higher electricity generation volumes in June 2007 compared to December 2006.

Property, Plant and Equipment – Net

Net property, plant and equipment as at June 30, 2007 was \$12,737 compared to \$12,761 as at December 31, 2006. The decrease of \$24 million was primarily due to depreciation expense, partially offset by additions to fixed assets.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

OPG is responsible for the ongoing long-term management and disposal of radioactive waste materials and used fuel resulting from operations and future decommissioning of its nuclear generating stations. OPG’s obligations relate to the Pickering and Darlington nuclear generating stations that are operated by OPG, as well as the Bruce A and B nuclear generating stations that are leased by OPG to Bruce Power.

To fund these liabilities, OPG established and manages, jointly with the Province, a Used Fuel Fund and a Decommissioning Fund, which are funded by OPG in accordance with the ONFA. The Used Fuel Fund is primarily intended to fund future expenditures associated with the disposal of highly radioactive used nuclear fuel bundles. The Decommissioning Fund was established to fund future expenditures associated with nuclear fixed asset removal and the disposal of low and intermediate level nuclear waste materials. OPG maintains the Nuclear Funds in third party custodial and trustee accounts that are segregated from the rest of OPG’s assets.

Assets in the Nuclear Funds are invested in fixed income and equity securities. The Nuclear Funds are referred to as the nuclear fixed asset removal and nuclear waste management funds in OPG's consolidated financial statements. Until December 31, 2006, OPG recorded the assets in the Nuclear Funds as long-term investments at their amortized cost. Up to and including December 31, 2006, gains and losses were recognized only upon the sale of an underlying security. As such, any unrealized gains and losses associated with the investments in the Nuclear Funds were not recognized in OPG's consolidated financial statements. As at December 31, 2006, the value of the Nuclear Funds on an amortized cost basis was \$7,594 million.

Effective January 1, 2007, OPG adopted the CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. As a result of the adoption of this new section, the investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading and are measured at fair value with realized and unrealized gains and losses recognized in OPG's consolidated financial statements.

Decommissioning Fund

Upon termination of the ONFA, the Province has a right to any excess funding in the Decommissioning Fund, which is the excess of the fair market value of the Decommissioning Fund over the estimated completion costs as per the most recently approved ONFA reference plan. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes in its consolidated financial statements, through a charge to the Decommissioning Fund with a corresponding payable to the Province, such that the balance of the Decommissioning Fund would equal the cost estimate of the liability based on the most recently approved ONFA reference plan. The payable to the Province could be reduced in subsequent periods in the event that the Decommissioning Fund earns less than its target rate of return or in the event that a new ONFA reference plan is approved with a higher estimated decommissioning liability. At December 31, 2006, based on the estimate of costs to complete under the 2006 Approved Reference Plan, the Decommissioning Fund was overfunded on a fair value basis, and underfunded on an amortized cost basis.

As a result of the adoption of the financial instruments accounting standards on January 1, 2007, OPG adjusted the investments and the related payables in the Decommissioning Fund, to fair value and recorded a transition adjustment of \$519 million to increase opening retained earnings. Subsequently, the investments and the related payables in the Decommissioning Fund are measured at fair value and any changes to the fair values are recognized in income.

On January 1, 2007, because the fair value of the investments in the Decommissioning Fund exceeded the estimated completion costs under the 2006 Approved Reference Plan, the Decommissioning Fund balance was reduced by the amount of the excess funding through the recording of a payable to the Province. The Province's right to any excess funding in the Decommissioning Fund upon termination of the ONFA results in OPG capping its earnings at 5.15 per cent, which is the rate of growth in the liability for the estimated completion cost, as long as the Decommissioning Fund is in an overfunded status. If the Decommissioning Fund were underfunded, the earnings for the Decommissioning Fund would reflect actual fund returns based on the market value of the assets.

At June 30, 2007, the Decommissioning Fund asset value on a fair value basis was \$5, 215 million, which continued to exceed the value of the liability as per the 2006 Approved Reference Plan. As a result of the overfunded status, OPG reported a payable to the Province of \$243 million. Under the ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the most recently approved ONFA reference plan, are at least 120 per cent funded, OPG may direct up to 50 per cent of the surplus over 120 per cent to be treated as a contribution to the used Fuel Fund, and the OEFC is entitled to a distribution of an equal amount.

Used Fuel Fund

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 per cent plus the change in the Ontario Consumer Price Index ("committed return") for funding related to the first 2.23 million used fuel bundles. OPG recognizes the committed return on the Used Fuel Fund and

includes it in 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 assets, which includes realized and unrealized returns, is recorded as due to or due from the Province.

Up until December 31, 2006, OPG accounted for the investments in the Used Fuel Fund on an amortized cost basis, with the amount due to or due from the Province being recorded in the consolidated financial statements as the difference between the committed return and the actual return based on realized returns. At December 31, 2006, the Used Fuel Fund included an amount due to the Province of \$100 million. The Used Fuel Fund asset value, after taking into account the committed return and the amount due to the Province, was \$3,238 million at December 31, 2006. In addition, under the ONFA, the Province is entitled to any surplus in the Used Fuel Fund, subject to a threshold funded ratio of 110 per cent compared to the value of the associated liabilities.

Commencing January 1, 2007, the value of the investments held in the Used Fuel Fund is measured at fair value. Accordingly, the Used Fuel Fund balance increased to \$3,876 million to reflect the fair value measurement. The Province guarantees OPG's annual return in the Used Fuel Fund related to the initial 2.23 million used fuel bundles at the committed return, such that any difference between the committed return and the actual return based on fair value would be offset by the change in the related payable or receivable to the Province in the Used Fuel Fund. As a result, OPG did not record a transition adjustment to opening retained earnings for the Used Fuel Fund.

As at June 30, 2007, the Used Fuel Fund asset value on a fair value basis was \$4,193 million. The asset value was offset by a payable to the Province of \$611 million related to the committed return adjustment.

Regulatory Assets

As at June 30, 2007, regulatory assets were \$299 million compared to \$251 million as at December 31, 2006. In accordance with the amendment to the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario), during the six months ended June 30, 2007, OPG recorded \$66 million in the deferral account related to the increase in OPG's liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management arising from the 2006 Approved Reference Plan. The recognition of the regulatory asset for this deferral account reduced additional expenses resulting from the increase in the nuclear liabilities. These expenses included accretion on the fixed asset removal and nuclear waste management liabilities and depreciation of the carrying value of the related fixed assets. During the six months ended June 30, 2007, OPG also deferred \$14 million of non-capital costs incurred for nuclear generation development initiatives.

The increase in the regulatory assets was partially offset by the reduction in the balance of the Pickering A return to service deferral account due to amortization expense of \$56 million during the six months ended June 30, 2007. The impact of the amortization related to the Pickering A return to service deferral account was partly offset by the deferral of \$24 million of interest expense related to the balance in the deferral account as prescribed by the amended regulation.

Accounts Payable and Accrued Charges

Accounts payable and accrued charges as at June 30, 2007 were \$862 million compared to \$989 million as at December 31, 2006, a decrease of \$127 million. The decrease was primarily due to reduced trade accounts payable and accrued charges, including lower uranium purchases.

Revenue Limit Rebate Payable

The revenue limit rebate payable as at June 30, 2007 was \$108 million compared to \$40 million as at December 31, 2006. The increase was due to a revenue limit rebate of \$116 million for the six months ended June 30, 2007, net of rebate payments of \$48 million during the first and second quarter of 2007.

Long-Term Debt (including debt due within one year)

Long-term debt as at June 30, 2007 was \$3,366 million compared to \$3,359 million as at December 31, 2006. The increase was primarily due to the issuance of long-term debt of \$100 million under the general corporate facility and \$110 million related to committed capital projects, largely offset by repayment of long-term debt of \$203 million.

Fixed Asset Removal and Nuclear Waste Management

The liability for fixed asset removal (for nuclear and fossil-fuelled generating stations) and nuclear waste management as at June 30, 2007 was \$10,729 million compared to \$10,520 million as at December 31, 2006. The increase was primarily due to accretion due to the passage of time, partially offset by expenditures on nuclear waste management activities.

OPEB and Supplementary Pension Plans

The long-term portion of the liability for OPEB and supplementary pension plans was \$1,484 as at June 30, 2007 compared to \$1,396 million as at December 31, 2006. The increase of \$88 million was due to costs recognized in the first six months of 2006, net of benefit payments.

Accumulated Other Comprehensive Income

Effective January 1, 2007, OPG adopted the CICA Handbook Section 3865 – *Hedges*, and recognized hedging instruments designated as cash flow hedges in opening AOCI on a net of tax basis. At the same time, the fair value of the hedging instruments was recorded on OPG's interim consolidated balance sheets. Subsequent adjustments arising due to these hedging instruments are also recognized in AOCI on a net of tax basis. Prior to January 1, 2007, hedging instruments that qualified for hedge accounting were not carried at fair value on the consolidated balance sheets and were disclosed as off-balance sheet items.

The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized in income upon settlement of the underlying transactions. OPG 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 USD denominated purchases. Interest rate derivative contracts are used to hedge exposure to changes in market interest rates on variable debt and on debt expected to be issued in the future. When a derivative instrument is expired, the designation of a hedging relationship is terminated, or a portion of the hedging instrument is no longer effective, any associated gains or losses included in AOCI are recognized in the current period's consolidated statement of income. As at June 30, 2007, OPG reported AOCI of \$50 million.

For additional information, refer to Note 11 of OPG's unaudited interim consolidated financial statements for the three and six months ended June 30, 2007.

Off-Balance Sheet Arrangements

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

Securitization

In October 2003, OPG completed a revolving securitization agreement with an independent trust. The independent trust is not controlled by OPG, nor is OPG the primary beneficiary. As such, the results of the trust are not consolidated. The securitization provides OPG with an opportunity to obtain an alternative source of cost effective funding. For the three months ended June 30, 2007, the average all-in cost of funds was 4.7 per cent (three months ended June 30, 2006 – 4.3 per cent) and the pre-tax charges on sales to the trust were \$4 million (three months ended June 30, 2006 – \$3 million).

For the six months ended June 30, 2007, the average all-in cost of funds was 4.8 per cent (six months ended June 30, 2006 – 4.3 per cent) and the pre-tax charges on sales to the trust were \$7 million (three months ended June 30, 2006 – \$6 million).

The current securitization agreement extends to August 2009. Refer to Notes 3 and 4 of OPG's 2006 annual consolidated financial statements for additional information.

Guarantees

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

RISK MANAGEMENT

A detailed discussion of OPG's inherent risks, including operational, financial, and strategic risks are included in the 2006 annual MD&A under the heading, *Risk Management*. The sections which follow provide updates to this disclosure.

Operational Risks

OPG is exposed to the financial impacts of uncertain output from its generating stations. The amount of electricity generated by OPG is affected by a number of factors including fuel supply, equipment malfunction or deterioration, maintenance requirements, and regulatory and environmental constraints. The primary impacts of these factors are higher cost of operations, reduced revenues and the potential derating of a generating unit below its normal level of output.

Nuclear Segment Generation Risks

The uncertainty associated with the volume of electricity produced by OPG's nuclear generating units is driven by equipment performance and by degradation in the condition of the plant components and systems. Management of these risks is primarily through the execution of an extensive maintenance program, aligned with industry practices, and through detailed plant condition assessments and lifecycle equipment management programs designed to maintain the equipment in safe working order until the end of its design life.

In some cases, deterioration progresses or materials change properties in an unexpected way, resulting in the potential for increased monitoring of a condition, extensive repairs, additional remedial measures or the derating of the units in order to maintain a safe operating margin. When such a technology risk first appears or is suspected, a specific monitoring program is established. If the risk exposure materializes, a resolution program is initiated. The primary impact of these technology risks is an increase to the cost of operations. One resolution program currently underway is the replacement of piping components, known as feeders. Feeders are part of the system that transports heat from the reactors to the steam generators that feed the turbines producing electricity. Certain feeders have shown degradation beyond expectations, and will be replaced under a multi-year program.

In addition to remediation measures, monitoring and inspections, OPG's management programs with respect to technology and plant deterioration risks also involve the sharing of operating experiences and

information with other nuclear operators, participating in industry-wide or shared research programs, as well as the development of investigation methods and remediation tools or methods.

Nuclear Regulatory Uncertainty

Another effect of plant deterioration or technology risks is their impact on nuclear regulation and the changes they bring to technical codes. Operating experience around the world also contributes new knowledge and understanding of both nuclear operations and safety issues, resulting in continually evolving regulatory rules and the refinement of safety measurements and assessments. Remaining current with and addressing these unexpected changes adds to the cost of operations and in some instances, it may result in a reduction in the productive capacity of a plant, or in the premature replacement of a plant component. As there is currently no single, uniform, prescribed methodology to assess nuclear safety, OPG and its regulator may develop differing expectations about the timing or extent of any remediation needed. While such situations are normally resolved through subsequent detailed reviews and discussions, they contribute to the uncertainty of the regulatory requirements.

OPG manages regulatory uncertainty risk by maintaining close contact with the regulator and issuers of standards and codes. Together with other industry members, OPG is pursuing the use of a common, risk-based mode of assessment and regulation.

Hydroelectric Segment Generation Risks

OPG's hydroelectric generating performance is partially dependent on the availability of water, which can vary from year to year due in large part to the weather. The inherent uncertainty in forecasting water levels introduces a significant degree of uncertainty in the capability of hydroelectric generation. OPG manages the risk with production forecasting models, which consider unit efficiency characteristics, water flow conditions and outage plans. Water flows and outage conditions are assessed and monitored on a monthly basis.

The hydroelectric generating stations vary in age from 13 to 108 years, with an average age of over 72 years. Over 75 per cent of the hydroelectric generating capacity is over 50 years old. Due to the variability and age of some of the equipment and civil components, there is a risk that some facilities will require significant work and funding to sustain their reliability. OPG manages the reliability risks by conducting ongoing maintenance of critical components, engineering reviews, plant condition assessments, and inspections to identify future work necessary to sustain and, if necessary, upgrade the plant and its equipment. The business plan for the next five years includes substantial continued reinvestment in the hydroelectric assets to address issues associated with the age of the equipment and to improve the performance of the assets. The success of the program is monitored through the measurement of reliability improvements. OPG hydroelectric assets continue to significantly outperform relevant North American benchmarks.

The hydroelectric business segment operates 238 dams across the province. To mitigate and manage the risks associated with the operation of these dams, OPG has a dam safety program that performs ongoing maintenance, upgrades and rehabilitation work. OPG also undertakes ongoing dam safety reviews and monitoring, and ad hoc peer reviews. Emergency preparedness and response plans have been established for all facilities to mitigate losses in the event of a dam failure or uncontrolled release of water.

Unregulated – Fossil-Fuelled Segment Risks

The fossil-fuelled generation units can be interrupted by plant and equipment failures. OPG manages and mitigates the risks associated with its fossil-fuelled stations by performing ongoing maintenance and undertaking engineering reviews, condition assessments and critical reviews of maintenance processes. OPG uses the results of these reviews and assessments to make changes to inspection, maintenance, and capital project programs. The risks associated with plant and equipment failures and unplanned outages at OPG's fossil-fuelled generating stations are measured by their availability to produce electricity when called upon. In the second quarter of 2007, improved reliability performance has been achieved while generating 6.3 TWh of electricity.

Major Project Risk

OPG is involved with several major development projects, including: the Niagara Tunnel, Lac Seul, Portlands Energy Centre, other projects supporting operating units, hydroelectric development projects, the potential refurbishment of existing nuclear generation, and the consideration of new nuclear units at OPG's Darlington nuclear generation site. There is a risk that OPG will have insufficient resources and ability to implement several large projects concurrently. This risk is especially critical given the complexity, long project timelines, and inherent risks related to these projects.

OPG has taken many steps that address the unique challenges relating to the various development projects. OPG utilizes Owner's Representative services to acquire the necessary technical expertise to monitor and control projects. Also, major projects have been contracted on a "design and build" basis, which provides OPG with greater certainty over costs, and certain projects have liquidated damages built into the contracts to mitigate late in-service by the respective contractor.

For nuclear related projects, OPG established a new division to evaluate the viability of refurbishment of existing nuclear facilities in order to extend their life. The activities of this division include completing plant condition and environmental assessments, developing appropriate project infrastructures and confirming various industry regulatory requirements.

Human Resources Risk

OPG continues to identify demographic risks, assess resourcing gaps, and review plans and programs to meet business needs for human resources and critical skills. Business leaders are actively involved in the review of workforce needs and plans to resource critical skills and jobs in their functional lines of business. Initiatives continue in support of OPG's employment brand, youth outreach and educational relations. In addition, in the second quarter of 2007, OPG's continued commitment to the building and strengthening of internal capabilities was evidenced by the introduction of an integrated leadership competency model, focused efforts in terms of succession planning, and the introduction of a new supervisory training program.

Environmental Risk

OPG's Environmental Policy commits OPG to meet all legal requirements and voluntary environmental commitments, integrate environmental factors into business planning and decision-making, and contribute to environmental protection, pollution prevention, and energy and resource use efficiency. This policy also commits OPG to maintain comprehensive environmental management systems ("EMSs") at its generating facilities consistent with the ISO 14001 standard.

OPG monitors emissions into the air and water and regularly reports the results to various regulators, including the Ministry of the Environment, Environment Canada and the Canadian Nuclear Safety Commission. The public also receives ongoing communications regarding OPG's environmental performance through community-based advisory groups, annual environmental reports, community newsletters, open houses and OPG's website. OPG has developed and implemented internal monitoring, assessment and reporting programs to manage environmental risks such as air and water emissions, discharges, spills, the treatment of radioactive emissions and radioactive wastes. OPG also continues to address historical land contamination through its voluntary land assessment and remediation program.

In the second quarter of 2007, the Federal government introduced a plan to reduce both greenhouse gases and air pollutants, whereas the Ontario government introduced a plan to reduce greenhouse gases. OPG is assessing the implications of these announcements on its operations. In order to meet the proposed emission targets, there is a risk that OPG will be required to either reduce certain emissions or purchase offsets, which could have a material adverse impact to OPG.

Financial Risks

Commodity Price Risk

Commodity price risk (the risk of 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. To manage this risk, the Company seeks to maintain a balance between the commodity price risk inherent in its electricity production and plant fuel portfolios to the extent that trading liquidity in the relevant commodities markets provides the economic opportunity to do so. To manage the input risk, OPG has a fuel hedging program, which includes fixed price and indexed contracts for fossil and nuclear fuels, as well as commodity derivatives.

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

	2007	2008	2009
Estimated generation output hedged ¹	93%	92%	70%
Estimated fuel requirements hedged ²	99%	89%	77%
Estimated nitric oxide (NO) emission requirement hedged ³	100%	100%	100%
Estimated SO ₂ emission requirement hedged ³	100%	100%	100%

¹ Represents the portion of megawatt hours of expected future generation production, including power purchases, for which the Company has sales commitments and contracts including the obligations under regulated pricing commitments, agreements with the IESO, OPA auction sales and the revenue limit on OPG's non-prescribed assets.

² Represents the approximate portion of megawatt hours of expected generation production (and fossil year-end inventory target) 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. Excess fuel in inventories in a given year is attributed to the next year for the purpose of measuring hedge ratios. Since production from hydroelectric facilities is primarily influenced by expected weather and weather patterns, fuel hedge ratios for hydroelectric facilities are assumed to be 100 per cent.

³ Represents the approximate portion of megawatt hours of expected fossil production for which OPG has purchased, been allocated or granted emission allowances and Emission Reduction Credits to meet OPG's obligations under Ontario Environmental Regulation 397/01.

Trading Risk

Open trading positions are subject to measurement against Value at Risk ("VaR") limits. For a given portfolio, VaR measures the possible future loss in terms of market value, which under normal market conditions will not be exceeded within a defined probability and time period. VaR utilization ranged between \$0.5 million and \$0.8 million during the three months ended June 30, 2007, compared to \$1.9 million and \$3.0 million during the three months ended June 30, 2006. VaR utilization is closely monitored in order to ensure compliance with approved limits.

Liquidity Risk

OPG operates in a capital intensive business. Significant financial resources are required to fund capital improvement projects and related maintenance programs at generating stations. In addition, the Company has other significant disbursement requirements including investment in new generating capacity, rebate payments associated with the revenue limit, annual funding obligations under the ONFA, pension funding and continuing debt maturities with the OEFC. A discussion of corporate liquidity is included in the *Liquidity and Capital Resources* section.

Credit Risk

OPG's credit risk exposure is comprised of two major components: the first is derived from its sales of electricity and the second is derived from its purchases of services and products. As the majority of OPG's sales are derived through the IESO administered spot market, OPG management accepts this credit risk due to the IESO's primary role in the Ontario electricity market. This confidence is based on the IESO's own credit risk management policies and practices, which require all spot market participants

to meet specific standards for creditworthiness. Additionally, in the event of a participant default, the loss is shared on a pro-rata basis among all participants thus reducing the specific exposure to OPG.

The following table provides information on credit risk from energy sales and trading activities as at June 30, 2007:

Credit Rating ¹	Number of Counterparties ²	Potential Exposure ³ <i>(millions of dollars)</i>	Potential Exposure for Largest Counterparties	
			Number of Counterparties	Counterparty Exposure <i>(millions of dollars)</i>
Investment grade	165	127	9	114
Below investment grade	47	18	1	5
IESO ⁴	1	464	1	464
Total	213	609	11	583

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 OPG's counterparties are defined by each master agreement.

³ Potential exposure is OPG's assessment of maximum exposure over the life of each transaction at 95 per cent confidence.

⁴ Credit exposure to the IESO peaked at \$883 million during the six months ended June 30, 2007 and at \$1,029 million during the year ended December 31, 2006.

OPG's second element of credit risk relates to the exposures created by companies ("counterparties") who are contracted to provide services or products. OPG manages this risk using a comprehensive credit risk management function that independently evaluates all major counterparties and provides continuous input to business units who acquire these services.

Strategic Risks

Regulatory Risk

Effective April 1, 2005, OPG receives regulated prices for electricity generated from most of its baseload hydroelectric facilities and all of the nuclear facilities that it operates. These prices are expected to remain in effect until at least March 31, 2008. If there are changes to the fundamental assumptions on which these regulated prices were developed, the Province may amend them.

Effective some time after March 31, 2008, the OEB is expected to establish new regulated prices for electricity generated by OPG's regulated facilities. The process of setting new regulated prices is inherently uncertain. The new prices established by the OEB may not provide for recovery of all of OPG's costs, or may not provide an appropriate rate of return. Despite the fact that some costs may not be included within the new prices, these expenditures may still be necessary to maintain the reliability and safety of OPG's regulated generating assets.

Following a consultation process throughout 2006, the OEB has concluded that a limited cost of service form of regulation for OPG is appropriate for establishing prices to be effective on or after April 1, 2008. Under cost of service regulation, a rate application process leads to the implementation of new prices based on the total revenue requirement and forecast production. The OEB has stated that its first order for prices is expected to be in effect until December 31, 2009. OPG expects to file an application for new prices during 2007. The prices ultimately established by the OEB can have significant implications on OPG's future financial performance and operating plans. A delay in the effective date of new prices beyond April 1, 2008 may result in a continuation of current prices. To the extent that these prices do not reflect current costs and operating plans, this could negatively impact the Company's financial performance.

OPG has recorded certain regulatory assets and liabilities pursuant to the *Electricity Restructuring Act, 2004* (Ontario), which it expects to recover or refund through future regulated prices to be established by the OEB. In accordance with the regulation, the accuracy and prudence of certain of these balances must be demonstrated to the OEB as part of the process to establish new regulated prices. In the event that some of the amounts recorded as regulatory assets or liabilities are disallowed by the OEB, amounts disallowed will be reflected in the results of operations in the period that the OEB decision occurs.

QUARTERLY FINANCIAL HIGHLIGHTS

The following tables set out selected financial information from OPG's unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This financial information has been prepared in accordance with Canadian GAAP.

<i>(millions of dollars)</i>	June 30 2007	March 31 2007	December 31 2006	September 30 2006
Revenue after revenue limit rebate	1,373	1,524	1,276	1,435
Net income (loss)	125	171	(19)	167
Net income (loss) per share	\$0.48	\$0.67	\$(0.08)	\$0.65

<i>(millions of dollars)</i>	June 30 2006	March 31 2006	December 31 2005	September 30 2005
Revenue after revenue limit rebate	1,345	1,508	1,496	1,571
Net income	143	199	160	181
Net income per share	\$0.56	\$0.78	\$0.62	\$0.71

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

Additional items which impacted net income (loss) in certain quarters above include the following:

- Write-off of \$22 million and \$35 million of excess inventory as a result of not returning Pickering A generating station Units 2 and 3 to service recorded in the third and fourth quarters of 2005 respectively;
- Higher depreciation expense related to the return to service of Unit 1 at the Pickering A generating station in the fourth quarter of 2005;
- Decrease in depreciation expense primarily due to the extension of service lives, for accounting purposes, of the Nanticoke generating station, Pickering B generating station and Unit 4 of the Pickering A generating station beginning in the first quarter of 2006;
- Higher pension and OPEB costs during 2006 and 2007 mainly due to changes in economic assumptions used to measure the costs;
- Write-off of \$13 million for costs incurred on the Thunder Bay conversion project due to a Shareholder Declaration that effectively cancelled the project during the second quarter of 2006;
- Decrease in depreciation expense primarily due to extension of the service life, for accounting purposes, of all coal-fired generating stations to December 31, 2012, beginning in the third quarter of 2006;
- Impairment loss on the Thunder Bay and Atikokan coal-fired generating stations of \$22 million, reflecting the carrying value of the stations, during the fourth quarter of 2006;
- Decrease in gross margin from electricity sales primarily due to lower generation from OPG's nuclear generating stations, partially offset by increased generation from higher marginal cost fossil-fuelled generating stations in the first quarter of 2007;

- Higher OM&A expense in the first and second quarters of 2007 primarily due to higher outage and other maintenance expenditures at OPG's nuclear and fossil-fuelled generating stations, and expenses related to past grievances by First Nations.

SUPPLEMENTAL EARNINGS MEASURES

In addition to providing net income in accordance with Canadian GAAP, OPG's MD&A, unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2007 and 2006 and the notes thereto, present non-GAAP financial measures. These financial measures do not have standard definitions prescribed by Canadian GAAP and therefore, may not be comparable to similar measures disclosed by other companies. OPG utilizes these measures in making operating decisions and assessing its performance. Readers of the MD&A, consolidated financial statements and notes thereto utilize these measures in assessing the Company's financial performance from ongoing operations. These non-GAAP financial measures have not been presented as an alternative to net income in accordance with Canadian GAAP as an indicator of operating performance. The definitions of the non-GAAP financial measures are as follows:

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

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

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