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ONTARIO POWER GENERATION REPORTS 2002 FIRST QUARTER RESULTS

[Toronto]: Ontario Power Generation Inc. (OPG) today reported its financial and operating results for the first quarter ended March 31, 2002. The loss for the three months ended March 31, 2002 was $217 million or a loss of $0.85 per share compared with restated first quarter earnings in 2001 of $102 million or $0.40 per share.

“Ontario Power Generation’s first quarter results were not comparable to last year due to a charge related to its 2002 corporate restructuring program, a loss on transition rate option contracts for industrial customers after market opening, higher expenditures related to the return to service of the Pickering A nuclear generating station, and reduced operating assets and related returns resulting from decontrol activities. As a result of these factors, earnings for the full year 2002 are forecast to be lower than 2001,” said OPG President and CEO, Ron Osborne.

OPG’s generating stations performed well during the first quarter, particularly the nuclear generating stations, which achieved a nuclear capability factor of 90.4 per cent.

“The opening of Ontario’s electricity market to competition on May 1, marked a significant milestone in the industry’s evolution to customer choice. OPG welcomes this event and is ready to compete in Ontario’s electricity marketplace,” said Osborne.

In February, the Company commenced its restructuring program, which is designed to reduce its workforce by approximately 2,000 employees over a two to three year period. Approximately 1,200 employees have opted to take voluntary separation.

In March, the Company announced the sale of four hydroelectric generating stations located on the Mississagi River to Brascan Corporation for cash proceeds of approximately $340 million. The financial close is expected to take place in May 2002. The four stations have a combined generating capacity of approximately 490 MW. This sale is the first step towards meeting OPG’s mandated Market Power Mitigation requirements to decontrol 4,000 MW of price-setting generation within 42 months of market opening.

OPG continues to evaluate options associated with its other fossil-fueled stations that have been identified for decontrol, namely, the Thunder Bay, Atikokan, Lennox and Lakeview generating stations.

OPG obtained its FERC licence that allows the Company to market electricity directly to end-use customers in the U.S. effective May 1, 2002.

Ontario Power Generation is an Ontario based company, whose principal business is the generation and sale of electricity to customers in Ontario and to interconnected markets. OPG's goal is to be a premier North American energy company, while operating in a safe, open and environmentally responsible manner. Our focus is on producing reliable electricity from our competitive generation assets; power trading; and commercial energy sales activities.

Analysis of First Quarter 2002 Results

Highlights

Three Months Ended March 31
(millions of dollars unless otherwise stated)

	2002	**Restated 2001**
Revenues	**1,557**	1,539
Operating expenses	**1,846**	1,314
Operating (loss) income	**(289)**	225
Interest expense	**39**	34
Income taxes	**(111)**	89
Net (loss) income	**(217)**	102
(Loss) earnings per common share ($ per common share)	**(0.85)**	0.40
Total electricity sales volume (TWh)		
Ontario electricity sales	**34.9**	36.4
Interconnected electricity sales	**1.4**	0.7
Total	**36.3**	37.1
Total energy available (TWh)		
Total production	**30.8**	35.8
Purchased power	**5.7**	1.5
Other*	**(0.2)**	(0.2)
Total	**36.3**	37.1

*Represents deposits and withdrawals of electricity with utilities in neighbouring jurisdictions under energy banking arrangements

Operating Results

For the three months ended March 31, 2002, OPG had a net loss of $217 million compared with restated net income of $102 million for the same period in 2001, a decrease of $319 million. Significant factors impacting earnings in 2002 compared to 2001 included the following:

Change in Earnings ($ millions – after tax)	
Restructuring charge for costs related to a reduction in workforce	$134
Loss on Transition Rate Option contracts for industrial customers after market opening	137
Higher activity levels and expenditures related to the return to service of the Pickering A nuclear generating station	37
Impact of reduced operating assets and related returns resulting from decontrol activities	24
Other	(13)
Decrease in earnings	$319

Revenues

Total revenues of $1,557 million for the three months ended March 31, 2002 increased by $18 million compared to revenues of $1,539 million for the same period in 2001. Total revenues consist of Ontario energy revenues, interconnected sales and other non-energy based revenues.

Ontario energy revenues were $1,417 million for the first quarter of 2002 compared with revenues of $1,471 million for the same period in 2001, a decrease of $54 million or four per cent. The decrease in Ontario energy revenues was primarily due to higher electricity generation from other Ontario generators as gas prices declined, and to the warmer winter weather which resulted in lower demand from municipal utility customers. OPG's electricity sales in Ontario were 34.9 TWh for the first quarter of 2002, a decrease of 1.5 TWh compared with the same period last year.

Revenues from interconnected markets during the first quarter of 2002 were $53 million compared with revenues of $39 million in 2001, an increase of $14 million. This reflected an increase in sales volume from 0.7 TWh in 2001 to 1.4 TWh in 2002, partially offset by lower average prices in 2002.

Non-energy revenues were $87 million for the first quarter of 2002 compared with $29 million in 2001, an increase of $58 million. Non-energy revenues include revenues from engineering analysis, design and related services, and lease revenue and interest income related to the lease agreement with Bruce Power L.P. ("Bruce Power") for the Bruce nuclear generating stations, which commenced in May 2001. Non-energy revenues also include isotope sales and other miscellaneous revenue items.

Operating Expenses

Operating, maintenance and administration ("OM&A") expenses were $592 million for the first quarter of 2002 compared with restated OM&A expenses of $632 million for the same period in 2001, a decrease of $40 million. This decrease was primarily due to a reduction in operating costs resulting from the decontrol of the Bruce nuclear generating stations in the second quarter of 2001 ($82 million) and other decreases in expenditures ($19 million), partially offset by increased activity and expenditures related to the return to service of the Pickering A nuclear generating station ($61 million).

Fuel expense for the first quarter of 2002 was $317 million compared to a fuel expense of $286 million for the same period in 2001, an increase of $31 million or 11 per cent. The increase in fuel expense for the first quarter was mainly due to increased production at OPG's fossil-fuelled generating stations and higher coal prices, partially offset by lower nuclear fuel expense due to the decontrol of the Bruce nuclear generating stations.

Total Energy Available (TWh)

	2002	2001
Production		
Nuclear:		
Darlington & Pickering	**10.8**	11.0
Bruce [1]	**-**	6.3
Total Nuclear	**10.8**	17.3
Fossil	**10.7**	10.3
Hydroelectric	**9.3**	8.2
Total Production	**30.8**	35.8
Power Purchased [2]	**5.7**	1.5
Other [3]	**(0.2)**	(0.2)
Total Energy Available	**36.3**	37.1

(1) Represents generation from Bruce nuclear generating stations prior to decontrol.
(2) OPG had a commitment to purchase all of Bruce Power's electricity generation up to May 1, 2002, the date of market opening, as part of the lease agreement for the Bruce nuclear generating stations.
(3) Represents deposits and withdrawals of electricity with utilities in neighbouring jurisdictions under energy banking arrangements.

Power purchased during the first quarter of 2002 was $219 million compared with $102 million for the same period in 2001, an increase of $117 million. The increase in power purchased was primarily due to the agreement, in conjunction with the terms of the lease transaction with Bruce Power, to purchase all of Bruce Power's electricity generation up to the date of market opening. This increase was partially offset by lower purchases in 2002 due to increased production at OPG's hydroelectric and fossil-fuelled generating stations. For the three months ended March 31, 2002, OPG purchased 5.1 TWh of electricity from Bruce Power.

Property and capital taxes for the first quarter of 2002 were $113 million compared with $98 million for the same period in 2001, an increase of $15 million. The increase was mainly due to higher gross revenue charges, payable to the Province, resulting from increased hydroelectric generation volumes in 2002 compared to last year.

Loss on Transition Rate Options

Under a regulation known as Transition – Generation Corporation Rate Options ("TRO"), OPG is required to provide transitional price relief upon market opening to certain large power customers based on the consumption and average price paid by each customer during a reference period from July 1, 1999 to June 30, 2000. The maximum anticipated volume subject to the transitional price relief is approximately 5.4 TWh in the first year after market opening, 3.6 TWh in the second year and 1.8 TWh in each of the third and fourth years. The maximum length of the program is four years, with the possibility that it will expire after only two years if certain decontrol targets are met.

A provision of $210 million on the TRO contracts was recorded in the first quarter of 2002 related to the future loss on these contracts. The provision was determined using management's best estimates of the forward price curve for electricity, wholesale electricity market fees, impact of decontrol on the contracts, interruptions of volume, and the recovery of market power mitigation rebates. These estimates are subject to measurement uncertainty.

Restructuring Costs

In 2001, OPG approved a restructuring plan designed to improve OPG's future cost competitiveness. Completion of significant decontrol activities and completion of other major initiatives over the next two years requires the restructuring of areas within OPG that support these operations. Restructuring charges are related to an anticipated reduction in the workforce of approximately 2,000 employees over a two to three year period. During the first quarter of 2002, voluntary severance packages for approximately 1,200 employees were accepted.

Restructuring charges include severance costs and related pension and other post employment benefit expenses. The provision for restructuring costs recorded in the first quarter of 2002 was $210 million. This amount is in addition to a restructuring charge of $67 million recorded in the fourth quarter of 2001. The total cost of the restructuring plan is expected to be approximately $400 million.

Income Tax

For the first quarter ended March 31, 2002, the effective income tax rate decreased to 33.8 per cent from an effective income tax rate of 46.6 per cent in 2001. The decrease in the effective income tax rate is primarily due to the impact of Large Corporations Tax, which reduces the amount of the income tax recoverable.

Restatement of First Quarter 2001 for Pensions and Other Post Employment Benefits (OPEB)

In 2001, OPG changed its policy of accounting for changes in the net actuarial gain or loss for pension and OPEB. This change in accounting policy results in amortization of the net cumulative unamortized gain or loss in excess of 10 per cent of the greater of the benefit obligation and the market-related value of the plan assets. Previously, the entire change in the net actuarial gain or loss was amortized over the employee average remaining service life and plan assets were valued at market for purposes of determining actuarial gains and losses. The change in accounting policy for pensions and OPEB was applied retroactively to April 1, 1999. As a result of this change, the operating results for the first quarter 2001 have been restated to reflect an increase in employee benefit expenses of $32 million and a decrease in net income of $21 million.

Liquidity and Capital Resources

Cash flow provided from operating activities for the first quarter of 2002 was $127 million compared to cash flow provided from operating activities of $83 million for the same period in 2001. The increase in cash flows was mainly due to a decrease in cash contributions made to the fixed asset removal and nuclear waste management fund as a result of excess contributions in a prior year, and changes in working capital requirements.

During the three months ended March 31, 2002, the fixed asset removal and nuclear waste management fund increased by a total of $51 million compared with $122 million for the same period in 2001. The balance in the fund at March 31, 2002 was $1,259 million.

Capital expenditures for the first quarter of 2002 were $156 million compared to $115 million for the same period in 2001. The increase was primarily due to higher activity related to the return to service of the Pickering A nuclear generating station and expenditures related to the installation of selective catalytic reduction equipment associated with emission reductions at OPG's Lambton and Nanticoke fossil generating stations.

OPG is progressing with the safety and environmental upgrades and other refurbishment work which is required prior to the return to service of the four units at the Pickering A nuclear generating station. To date, expenditures on the return to service initiative total approximately $730 million, the majority of which has been expensed. OPG expects to begin commissioning the first of the four units at the Pickering A nuclear generating station towards the end of 2002. The estimated additional cost to complete the first unit is $230 million. The remaining three units are estimated to be returned to service at an additional cost of approximately $300 million to $400 million per unit. The cost estimate for the three remaining units will be further refined based upon completion of the detailed engineering and related assessments, and the results of inspections of these units. Pickering A will add 2,060 MW of reliable, low cost electricity and will make a significant contribution towards improving environmental performance within the Ontario electricity sector.

In March 2002, OPG renewed its revolving short-term committed credit facility. The amount of the credit facility was increased from $600 million to $1,000 million. The credit facility can be extended for a two-year term. Notes issued under the Company's Commercial Paper ("CP") program are supported by this credit facility. During the first quarter of 2002, OPG issued $200 million of short-term notes from its CP program.

The Company paid dividends of $134 million during the three months ended March 31, 2002 compared with $86 million for the same period in 2001. The increase in dividends reflected a dividend related to proceeds received from the decontrol of the Bruce generating stations and other dividends to achieve a 35 per cent pay out of actual 2001 earnings.

Risk Management

Ontario's electricity market opened to competition on May 1, 2002. With market opening, OPG will be subject to increased risk, including market and credit risk inherent in a deregulated market. The Board of Directors has approved governance policies and structures to facilitate the management of the increased risk. A Risk Oversight Committee, which consists of senior officers of OPG, has been established to approve products, monitor policies and compliance issues, and ensure the continuing effectiveness of overall corporate governance under the direction of the Board of Directors.

In anticipation of increased levels of risk and complexity of market activities, OPG implemented a comprehensive trade capture and risk management system with related processes and controls. OPG's commercial activities are separated into portfolios to capture the risks inherent in each transaction for each portfolio. This process facilitates the effective identification and measurement of risks, and the application of appropriate position and risk limits for performance and risk management purposes. The methodology used to measure these risks includes the use of consistent and recognized risk measures for monitoring trading activities and the generation portfolio. Open positions will be subject to measurement against value at risk ("VaR") limits, which measure the potential loss in a portfolio's market value due to market volatility over a one day holding period, with a 95 per cent confidence interval.

Electricity Price Risk

Electricity price risk is the risk that changes in the market price of electricity will adversely impact OPG's earnings and cash flow from operations. OPG will face price risk directly related both to the demand and supply of generation in the open market and transmission constraints. OPG's production will be exposed to spot market prices. However, derivative instruments and related risk management products may be used to mitigate OPG's exposure to volatile electricity prices.

Credit Risk

Credit risk is the risk of non-performance by contractual counterparties. With an open market, substantially all of OPG's revenues will be derived from sales through the Independent Electricity Market Operator ("IMO") administered spot market. Participants in the IMO spot market must meet IMO-mandated standards for creditworthiness. Other revenues will be derived from several sources, including the sale of financial risk management products to third parties.

OPG actively manages credit risk through an established counterparty credit policy, and has implemented credit evaluation and collection procedures to monitor its credit exposures. OPG manages counterparty credit risk by monitoring and limiting its exposure to counterparties with lower credit ratings, evaluating its counterparty credit exposure on an integrated basis, and by performing periodic reviews of the credit-worthiness of all counterparties, including obtaining credit security for all transactions beyond approved limits.

Generation Risk

OPG is exposed to the market impacts of uncertain output from its generating units or generation risk. The amount of electricity generated by OPG is affected by such risks as fuel supply, equipment malfunction, maintenance requirements, and regulatory and environmental constraints. To mitigate earnings volatility due to generation risk, OPG enters into multiple short-term and long-term fuel supply agreements and long-term water use agreements, manages fuel supply inventories, and follows industry practices for maintenance and outage scheduling. In addition, OPG ensures regulatory requirements are met, particularly with respect to licencing of its nuclear facilities, and manages environmental constraints utilizing programs such as emission reduction credits to manage the supply of generation.

Liquidity Risk

OPG operates in a capital-intensive business and its initiative to return its Pickering A station back to service requires significant financial resources. Furthermore, any acquisition or development projects may require access to capital from outside sources on acceptable terms. OPG may also require external financing to fund capital expenditures necessary to comply with air emission or other regulatory requirements.

OPG's ability to arrange debt financing and the costs of debt capital are dependent on a number of factors including: general economic and capital market conditions; credit availability from banks and other financial institutions; maintenance of acceptable credit ratings; the relationship with the Province as the sole shareholder of OPG; and the status of electricity market deregulation in Ontario.

Foreign Exchange and Interest Rate Risk

OPG's foreign exchange risk exposure is attributable primarily to U.S. dollar-denominated transactions such as the purchase of fossil fuel and the purchase and sale of electricity in U.S. markets. OPG currently manages its exposure by periodically hedging portions of its U.S. dollar cash flows according to approved risk management policies.

Interest rate exposure for OPG is limited by the fixed rates on its long-term debt. Interest rate risk arises with the need to undertake new financing and with the potential addition of variable rate debt. Interest rate risk may be hedged using derivative instruments. The management of these risks is undertaken by selectively hedging in accordance with corporate risk management policies.

Forward-looking Statements

Certain statements contained in this press release are forward-looking and reflect the Company's views with respect to future events. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Forward-looking statements are not guarantees of the Company's future performance or results and are subject to various factors, including, but not limited to, assumptions regarding the nuclear recovery plan, nuclear waste management and decommissioning, fuel procurement, fuel costs, Ontario electricity industry restructuring, market power mitigation, environmental regulations, spot market electricity prices, and effects of weather. Although the Company believes that assumptions inherent in forward-looking statements are reasonable, undue reliance should not be placed on these statements, which apply only as of their dates. The Company is not obligated to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

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