

**ONTARIO POWER GENERATION INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**2013 THIRD QUARTER REPORT**

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# ONTARIO POWER GENERATION INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. (OPG or Company) as at and for the three and nine month periods ended September 30, 2013. For a complete description of OPG's corporate strategies, risk management, corporate governance, related party transactions 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, 2012.

As required by Ontario Regulation 395/11, as amended, a regulation under the *Financial Administration Act* (Ontario) (FAA), OPG adopted United States generally accepted accounting principles (US GAAP) for the presentation of its consolidated financial statements, effective January 1, 2012. The Ontario Securities Commission also approved OPG's adoption of US GAAP for financial years that begin on or after January 1, 2012, but before January 1, 2015. OPG's unaudited interim consolidated financial statements are prepared in accordance with US GAAP and are presented in Canadian dollars. This MD&A is dated November 13, 2013.

### FORWARD-LOOKING STATEMENTS

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

All forward-looking statements involve inherent assumptions, risks and uncertainties, including those set out under the heading *Risk Management*, 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, generating station performance, cost of fixed asset removal and nuclear waste management, performance of investment funds, closure or conversion 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, electricity spot market prices, proposed new legislation, the ongoing evolution of the Ontario electricity industry, environmental and other regulatory requirements, health, safety and environmental developments, business continuity events, the weather, and the impact of regulatory decisions by the Ontario Energy Board (OEB). Accordingly, undue reliance should not be placed on any forward-looking statement. The forward-looking statements included in this MD&A are made only as of the date of this MD&A. Except as required by applicable securities laws, OPG does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise.

### THE COMPANY

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG was established under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (Province).

OPG operates two nuclear generating stations, five thermal generating stations, 65 hydroelectric generating stations, and two wind power turbines. OPG and TransCanada Energy Ltd. co-own the Portlands Energy Centre (PEC) gas-fired combined cycle generating station (GS). OPG and ATCO Power Canada Ltd. co-own the Brighton Beach gas-fired combined cycle GS. The income of the co-owned facilities is reflected in other income. OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power L.P. (Bruce Power). Income from these leased stations is included in revenue under the Regulated – Nuclear Generation segment. These co-owned facilities and leased stations are not included in the generation portfolio statistics set out in this report. A description of OPG's segments is provided in OPG's 2012 annual MD&A under the heading, *Business Segments*.

In August 2013, OPG received a five-year operating licence which combines the Pickering A and B generating stations' licences into a single-site licence. Since 2012, the Pickering station has operated as a single six-unit site.

The in-service generating capacity by business segment as of September 30, 2013 and December 31, 2012 was as follows:

<i>(MW)</i>	As at	
	September 30 2013	December 31 2012
Regulated – Nuclear Generation	6,606	6,606
Regulated – Hydroelectric	3,321	3,312
Unregulated – Hydroelectric	3,683	3,684
Unregulated – Thermal <sup>1</sup>	5,447	5,447
Other	2	2
<b>Total</b>	<b>19,059</b>	<b>19,051</b>

<sup>1</sup> Includes the capacity of the Atikokan GS, which is being converted to use biomass commencing in 2014, and the capacity of the Lambton GS, which is on an Independent Electricity System Operator approved outage.

In July 2013, the in-service capacity of the Regulated – Hydroelectric segment increased by 9 megawatts (MW) as a result of the completion of a major refurbishment at Unit 3 of the Sir Adam Beck 1 GS.

As a result of a Shareholder declaration issued in March 2013 mandating that OPG cease the use of coal at the Nanticoke GS and the Lambton GS by the end of 2013, the in-service generating capacity of the Unregulated – Thermal segment is expected to decrease by 2,830 MW by December 31, 2013.

## 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 segment is included under the heading, *Discussion of Operating Results by Business Segment*.

<i>(millions of dollars – except where noted)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Revenue	1,244	1,213	3,689	3,537
Fuel expense	186	199	541	556
Gross margin	1,058	1,014	3,148	2,981
<i>Expenses</i>				
Operations, maintenance and administration	684	610	2,027	1,914
Depreciation and amortization	243	164	727	495
Accretion on fixed asset removal and nuclear waste management liabilities	188	181	567	544
Earnings on nuclear fixed asset removal and nuclear waste management funds	(165)	(161)	(462)	(481)
Restructuring	46	1	48	3
Property and capital taxes	14	13	43	40
	1,010	808	2,950	2,515
Income before other income, interest and income taxes	48	206	198	466
Other income	(9)	(5)	(31)	(10)
Net interest expense	18	26	63	89
Income tax expense	9	46	35	51
Net income	30	139	131	336
<i>Electricity production (TWh)</i>	20.0	20.6	61.0	63.1
<i>Cash flow</i>				
Cash flow provided by operating activities	391	510	983	722

### Third Quarter

Net income decreased by \$109 million during the third quarter of 2013, compared to the same quarter in 2012. The following summarizes the significant items which caused the variance in net income:

*Significant factors that reduced income before other income, interest and income taxes:*

- Decrease in gross margin of \$67 million as a result of lower nuclear generation.
- Higher nuclear operations, maintenance and administration (OM&A) expenses of \$60 million as a result of an increase in outage and maintenance activities, primarily due to a second planned outage at the Darlington GS in 2013 as part of the three year outage cycle.
- Higher restructuring expense of \$45 million due to the recognition of severance costs, primarily related to the Shareholder declaration mandating that OPG cease the use of coal at the Lambton GS and the Nanticoke GS by December 31, 2013.

*Significant factors that increased income before other income, interest and income taxes:*

- Higher earnings of \$29 million from the Unregulated – Thermal segment, excluding the impact of restructuring expense, primarily as a result of higher contract revenue. The higher contract revenue includes \$32 million from the Thunder Bay Reliability Must Run contract related to the period from January 1, 2013 to September 30, 2013, recognized during the third quarter of 2013. The contract was approved by the OEB in July 2013.
- Higher gross margin of \$16 million from the Unregulated – Hydroelectric segment due to higher generation volume.
- Reduced headcount and the implementation of other operating efficiencies resulting in a reduction to OM&A expenses.

#### Year-To-Date

Net income decreased by \$205 million during the first nine months of 2013, compared to the same period in 2012. The following summarizes the significant items which caused the variance in net income:

*Significant factors that reduced income before other income, interest and income taxes:*

- Decrease in gross margin of \$155 million due to lower nuclear generation.
- Higher nuclear OM&A expenses of \$64 million as a result of an increase in outage and maintenance activities primarily due to a second planned outage at the Darlington GS during the fall of 2013.
- Higher OM&A expenses of \$49 million during the first nine months of 2013, compared to the same period in 2012, primarily due to lower OPEB expenses in 2012 resulting from the recognition of a regulatory asset for the Impact for USGAAP Deferral Account (US GAAP Deferral Account), established by the OEB in 2012.
- Higher restructuring expense of \$45 million due to the recognition of severance costs, primarily related to the Lambton GS and the Nanticoke GS.
- Decrease in earnings of \$19 million from the nuclear fixed asset removal and nuclear waste management funds (Nuclear Funds) primarily due to lower earnings from the Decommissioning Segregated Fund (Decommissioning Fund) as a result of it being in an overfunded position. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes by recording a payable to the Province.

*Significant factors that increased income before other income, interest and income taxes:*

- Increase in gross margin of \$80 million from the Unregulated – Hydroelectric segment primarily due to higher electricity spot market prices and higher generation volume.
- Higher earnings from the Unregulated – Thermal segment, excluding the impact of restructuring expense, primarily as a result of higher contract revenue.
- Reduced headcount and the implementation of other operating efficiencies resulting in a reduction to OM&A expenses.

## Segment Results

The following table summarizes OPG's income before interest and income taxes by segment for the three and nine month periods ended September 30, 2013 and 2012.

<i>(millions of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
<i>Income (loss) before interest and income taxes</i>				
Regulated – Nuclear Generation	23	167	25	333
Regulated – Hydroelectric	79	74	260	257
Unregulated – Hydroelectric	1	(6)	70	(11)
Unregulated – Thermal	(35)	(19)	(75)	(78)
Total electricity generation business segments	68	216	280	501
Regulated – Nuclear Waste Management	(22)	(19)	(100)	(59)
Other	11	14	49	34
Total income before interest and income taxes	57	211	229	476

OPG's income before interest and income taxes from the electricity generation business segments decreased by \$148 million for the three months ended September 30, 2013, and \$221 million for the nine months ended September 30, 2013, compared to the same periods in 2012. The decrease was primarily due to lower nuclear generation, higher OM&A expenses, and the recognition of severance costs related to the Lambton GS and the Nanticoke GS.

For the three months ended September 30, 2013, the lower earnings from the Regulated – Nuclear Waste Management business segment, compared to the same period in 2012, were primarily a result of higher accretion expense. The lower earnings from the Regulated – Nuclear Waste Management business segment for the nine months ended September 30, 2013, compared to the same period in 2012, were primarily a result of higher accretion expense and a decrease in earnings from the Nuclear Funds.

## Electricity Generation

Electricity generation for the three and nine month periods ended September 30, 2013 and 2012 was as follows:

<i>(TWh)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Regulated – Nuclear Generation	11.5	12.8	34.0	37.0
Regulated – Hydroelectric	4.9	4.4	14.1	14.1
Unregulated – Hydroelectric	2.6	2.0	10.3	8.9
Unregulated – Thermal	1.0	1.4	2.6	3.1
Total OPG electricity generation	20.0	20.6	61.0	63.1
Total electricity generation by all other generators in Ontario	18.6	18.1	54.4	50.3

The decrease in electricity generation of 0.6 terawatt hours (TWh) during the third quarter of 2013, compared to the same quarter in 2012, was due to lower electricity generation from the Regulated – Nuclear Generation and Unregulated – Thermal segments, partially offset by higher hydroelectric generation.

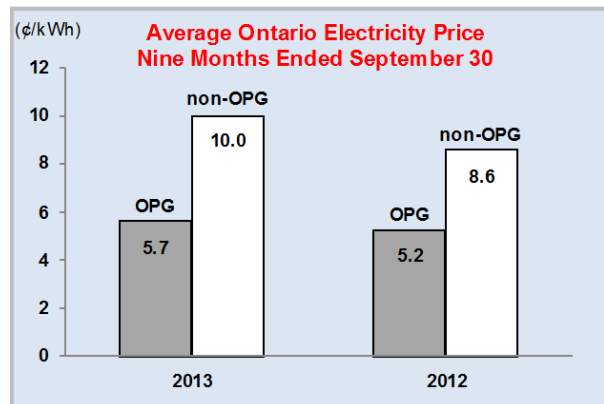
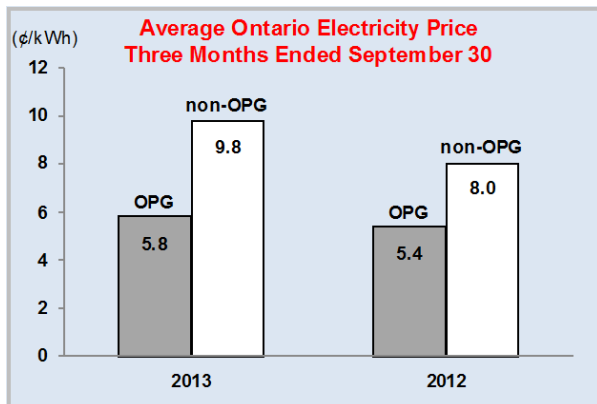
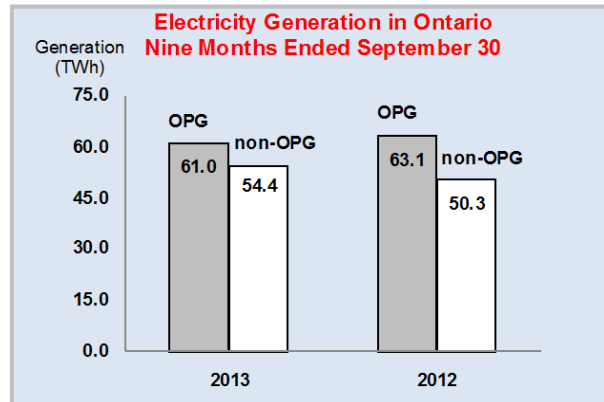
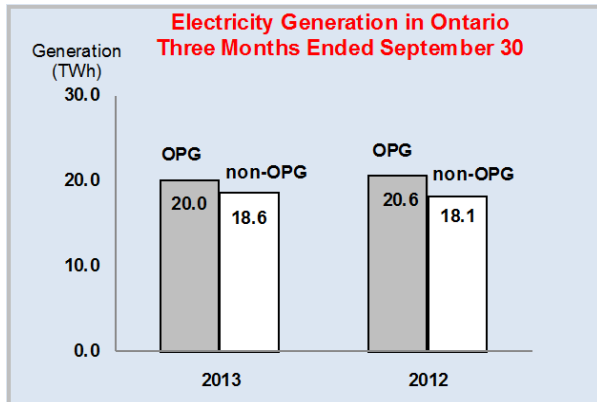
Electricity generation from the Regulated – Nuclear Generation segment decreased by 1.3 TWh during the third quarter of 2013, compared to the same quarter in 2012, primarily as a result of an increase in unplanned outage days at the Pickering GS and planned outage days at the Darlington GS.

The higher hydroelectric generation during the third quarter of 2013, compared to the same quarter in 2012, was primarily due to higher water levels on the Great Lakes, affecting the Regulated – Hydroelectric segment, and higher water levels on many river systems in Ontario affecting the Unregulated – Hydroelectric segment.

The decrease in generation of 2.1 TWh during the nine months ended September 30, 2013, compared to the same period in 2012, was primarily due to lower nuclear and thermal generation, partially offset by higher unregulated hydroelectric generation.

The decrease in nuclear generation during the nine months ended September 30, 2013, compared to the same period in 2012, was primarily a result of extensions to planned outages at the Pickering GS and the Darlington GS.

The increase in unregulated hydroelectric generation resulted from higher water levels on many river systems in Ontario.



## Average Sales Prices and Average Revenue

The average sales prices and average revenue were as follows:

(\$/kWh)	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Weighted average hourly Ontario electricity price (HOEP)	2.6	3.0	2.7	2.4
Regulated – Nuclear Generation <sup>1</sup>	5.7	5.6	5.7	5.5
Regulated – Hydroelectric <sup>1</sup>	4.0	3.5	4.0	3.5
Unregulated – Hydroelectric <sup>1</sup>	2.9	3.0	2.8	2.3
Unregulated – Thermal <sup>1</sup>	3.4	3.5	2.9	2.6
Average revenue for OPG <sup>2</sup>	5.8	5.4	5.7	5.2
Average revenue for all electricity generators, excluding OPG <sup>3</sup>	9.8	8.0	10.0	8.6

<sup>1</sup> Average sales prices are computed as net generation sales or spot market sales divided by net generation volume.

<sup>2</sup> Average revenue for OPG is comprised of regulated revenues, market based revenues, and other energy revenues primarily from agreements for the Nanticoke, Lambton, Thunder Bay, and Lennox generating stations, and revenue from hydroelectric Energy Supply Agreements.

<sup>3</sup> Revenues for other electricity generators are calculated as the sum of hourly Ontario demand multiplied by the HOEP, plus total global adjustment payments, plus the sum of hourly net exports multiplied by the HOEP, less OPG's generation revenue.

The increase in the average sales prices for OPG's regulated segments for the three and nine month periods ended September 30, 2013, compared to the same periods in 2012, was a result of the OEB's approval of new rate riders, effective January 1, 2013. These rate riders were established to collect amounts that were previously recorded in variance and deferral accounts and do not materially affect income.

Average sales prices for OPG's unregulated generation segments decreased slightly for the third quarter of 2013, compared to the same quarter in 2012, primarily due to the impact of a lower HOEP. During the nine months ended September 30, 2013, average sales prices for OPG's unregulated generation segments increased compared to the same period in 2012. This was largely due to the impact of higher natural gas prices which increased the HOEP, partially offset by the impact of higher non-OPG nuclear generation.

## Cash Flow from Operations

Cash flow provided by operating activities for the three months ended September 30, 2013 was \$391 million, compared to \$510 million for the same quarter in 2012. The decrease was primarily due to higher OM&A expenditures during the third quarter of 2013, and the receipt of an income tax refund in the third quarter of 2012.

Cash flow provided by operating activities for the nine months ended September 30, 2013 was \$983 million, compared to \$722 million for the same period in 2012. The increase was primarily due to the impact of higher cash receipts from generation revenue, and a higher contribution to the pension fund in the first quarter of 2012. This increase in operating cash flow was partially offset by higher OM&A expenditures in the third quarter of 2013.

## Funds from Operations Interest Coverage

Funds from Operations (FFO) Interest Coverage is an indicator of OPG's ability to meet interest obligations from operating cash flows. FFO Interest Coverage is measured over a 12-month period. FFO Interest Coverage was 2.8 times and 2.2 times for the twelve months ended September 30, 2013 and December 31, 2012, respectively. The FFO Interest Coverage increased primarily due to higher cash flows provided by operating activities.

## Return on Equity

Return on Equity (ROE) is an indicator of OPG's financial performance, consistent with its objectives to operate on a financially sustainable basis and to maintain value for the Shareholder. ROE is measured over a 12-month period.



ROE was 1.8 percent for the twelve months ended September 30, 2013 compared to 4.2 percent for the twelve months ended December 31, 2012. ROE decreased for the period primarily due to lower net income and higher average shareholder's equity, excluding accumulated other comprehensive income (AOCI). The lower net income was primarily due to lower earnings from the Regulated – Nuclear Generation segment.

OPG's ROE also reflects low levels of income primarily due to low electricity spot market prices, low payment amounts for the generation from the Regulated – Nuclear Generation segment, and a relatively high equity component in OPG's capital structure.

FFO Interest Coverage and ROE are not measurements in accordance with US GAAP and should not be considered an alternative measure to net income, cash flows from operating activities, or any other measure of performance under US GAAP. OPG believes that these non-GAAP financial measures are effective indicators of performance and are consistent with the corporate strategy to operate on a financially sustainable basis. The definitions and calculation of FFO Interest Coverage and ROE can be found under the heading, *Supplementary Non-GAAP Financial Measures*.

## **Recent Developments**

### OPG's OEB Application for New Regulated Prices

In September 2013, OPG filed an application with the OEB for new cost-of-service regulated prices, proposed to be effective January 1, 2014, for production from its currently regulated nuclear and hydroelectric facilities. The requested regulated prices include the impact of the Niagara Tunnel.

The decision on OPG's application will be made by the OEB following a public hearing process, which commenced in the fourth quarter of 2013. New regulated prices resulting from the application are expected to remain in effect until the end of 2015.

In addition, OPG's application seeks new rate riders effective January 1, 2015 to recover balances in certain variance and deferral accounts as at December 31, 2013. OPG expects to request recovery of amounts recorded in other accounts in a future application.

The application also includes proposed regulated prices for production from 48 of OPG's currently unregulated hydroelectric generating facilities, following notice of the proposed amendment to Ontario Regulation 53/05 (Regulation 53/05) posted by the Province for public comment in September 2013. The comment period ended on October 28, 2013. The proposed amendment to the regulation, subject to Province approval, would require the OEB to regulate these hydroelectric generating facilities, which provide 3,110 MW of generating capacity. These facilities represent all of OPG's hydroelectric facilities that are not currently regulated or subject to an energy supply agreement (ESA) with the Ontario Power Authority (OPA). OPG currently receives electricity spot market prices for production from these facilities, the results of which are included in the Unregulated – Hydroelectric segment. OPG's application reflects an assumed effective date of July 1, 2014 for regulated prices for these facilities.

### Court of Appeal Decision on OEB Ruling

In June 2013, the Court of Appeal for Ontario granted OPG's appeal of the Divisional Court of Ontario's decision regarding the March 2011 OEB ruling, which disallowed recovery in regulated prices of a portion of OPG's nuclear compensation costs. As a result, the OEB's decision in this area was set aside, and the matter was to be sent back to the OEB for a re-hearing. In the third quarter of 2013, the OEB sought leave to appeal the decision to the Supreme Court of Canada. In October 2013, OPG made a submission on the matter. It is expected that the Supreme Court of Canada will decide whether leave is granted in early 2014.

## Minister of Energy Statement on New Nuclear Reactors at Darlington

The Minister of Energy provided a statement in October 2013 that the Ontario government will not include New Nuclear build at Darlington in the upcoming Long-Term Energy Plan (LTEP), but it may be re-considered in the future. OPG's future activities on New Nuclear, if any, will be informed by the details included in the LTEP. The LTEP is expected to be issued by the Province during the fourth quarter of 2013. Life-to-date non-capital expenditures on New Nuclear, as at September 30, 2013, were approximately \$180 million. As at September 30, 2013, OPG has recovered \$107 million for New Nuclear through payment amounts established by the OEB, and anticipates to recover amounts in the associated regulatory account that have not yet been recovered. No capital expenditures were incurred on New Nuclear.

## **CORE BUSINESS AND STRATEGY**

OPG's mandate is to reliably and cost-effectively produce electricity from its diversified portfolio of generating assets, while operating in a safe, open, and environmentally responsible manner. OPG's goal is to be Ontario's low-cost electricity generator of choice, while focusing on three corporate strategies:

- Performance Excellence.
- Project Excellence.
- Financial Sustainability.

The following sections provide an update to OPG's disclosures related to performance excellence, project excellence, and financial sustainability. A detailed discussion of OPG's three corporate strategies is included in the 2012 annual MD&A, under the headings *Performance Excellence*, *Project Excellence*, and *Financial Sustainability*.

### **Performance Excellence**

OPG is committed to performance excellence in the areas of generation, the environment, and safety.

#### Nuclear Generating Assets

In 2012, OPG applied to the Canadian Nuclear Safety Commission (CNSC) for a five-year operating licence, which combines the Pickering A and B generating stations' licences into a single-site licence. Following the CNSC public hearings on OPG's application, the CNSC approved the five-year single-site licence in August 2013. This represents the good progress OPG has made on inspection and maintenance activities that support the intention to operate the Pickering Units 5 to 8 to 2020. OPG has made investments to continue to improve Pickering's performance through to 2020. These investments will help to provide a reliable electricity supply for Ontario while the Darlington reactors are being refurbished. OPG is seeing positive results of that work, including engineering and research assessments that support the safe and reliable operation of the units for a longer operating period.

As part of the five-year single-site licence, a regulatory hold point has been added related to fuel channels and the original end-of-life dates for Pickering Units 5 to 8. To satisfy the requirements for removal of the hold point, OPG must conduct further safety assessments to demonstrate that Pickering GS can continue to operate within safety limit margins, incorporating Fukushima lessons learned for beyond design basis events, and conduct a risk assessment to demonstrate that the station can operate to 247,000 equivalent full power hours. The results of these assessments will be provided in a future proceeding with public participation, as required by the CNSC. The CNSC, in its record of decision, also directs OPG to produce an emergency management public information document for area residents by June 2014. OPG is progressing on the completion of these items.

In August 2013, the CNSC presented its Staff Integrated Safety Assessment of Canadian Nuclear Power Plants for 2012. Both the Pickering GS and the Darlington GS received positive safety ratings from the CNSC staff, with the Darlington GS achieving the highest possible safety rating.

During the third quarter of 2013, generation and reliability at the nuclear stations were primarily affected by an increase in unplanned outage days at the Pickering GS, which is discussed under the headings *Electricity Generation and Regulated – Nuclear Generation Segment*.

#### Hydroelectric Generating Assets

With the consideration of current and future electricity market conditions, OPG continues to evaluate and implement plans to increase capacity and maintain the hydroelectric generating assets. During the third quarter of 2013, OPG completed major equipment overhauls and rehabilitation work at several stations, including major refurbishment at Unit 3 of Sir Adam Beck 1 GS. The refurbishment increased the unit's capacity from 46 MW to 55 MW. In addition, an initiative to replace control and monitoring systems for 26 stations was completed during the third quarter of 2013.

#### Thermal Generating Assets

OPG is continuing activities related to placing the units at the Nanticoke GS and the Lambton GS in reserve status by the end of 2013, and preserving the option to convert these units to natural gas and/or biomass in the future, should they be required.

As a result of the Shareholder declaration issued in March 2013, mandating that OPG cease the use of coal at the Nanticoke GS and the Lambton GS by the end of 2013, existing coal inventory at the Lambton GS has been utilized as of September 30, 2013. The Nanticoke GS coal inventory is expected to be utilized by the end of the year. The Lambton GS is currently on an Independent Electricity System Operator (IESO) approved outage. The station is still available for service, if required, up until December 31, 2013. Both the Nanticoke GS and the Lambton GS will be taken out of service from the IESO-controlled grid by the end of 2013.

In 2009, OPG entered into a Contingency Support Agreement with the Ontario Electricity Financial Corporation (OEFC) to ensure that these generating stations receive sufficient revenue to recover their actual direct costs, and to provide reimbursement of capital expenditures through the recapture of depreciation up to December 31, 2014. As a result of the Shareholder declaration issued in March 2013, OPG and the OEFC executed an amendment to the Contingency Support Agreement to allow for early termination and for OPG to recover costs that cannot reasonably be avoided or mitigated during the period from the advanced shutdown date to the end of 2014. On November 1, 2013, the OEFC triggered the amendment allowing OPG to recover these costs during 2014.

#### Environmental Performance

During the third quarter of 2013, there were no significant changes to environmental legislation and environmental risks affecting the Company. For the nine months ended September 30, 2013, CO<sub>2</sub> and acid gas (SO<sub>2</sub> and NO<sub>x</sub>) emissions from OPG's coal-fired stations were as follows:

	<b>Nine Months Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
CO <sub>2</sub> (million tonnes)	<b>2.9</b>	3.4
SO <sub>2</sub> and NO <sub>x</sub> (gigagrams)	<b>11.8</b>	12.5

CO<sub>2</sub> and acid gas emissions decreased during the first nine months of 2013, compared to the same period in 2012, as a result of lower generation from OPG's coal-fired stations. Disclosures relating to environmental policies and procedures, and environmental risks are provided in the 2012 annual MD&A.

In June 2013, the Minister of Energy issued a Feed-in-Tariff Program Directive to the OPA regarding the Province's renewable energy program. Under this directive, OPG is permitted to compete in the procurement process for large renewable energy initiatives.

## Safety

In the third quarter of 2013, OPG completed the development work on a common and integrated health and safety management system, and consistent operational risk control procedures. The new system is expected to be implemented by the end of the first quarter in 2014. This initiative will leverage best practices across OPG, streamline safety governance, and standardize safety requirements across the corporation in alignment with OPG's business transformation objectives.

## **Project Excellence**

OPG is pursuing a number of projects, including several significant generation development projects. The status updates for OPG's major projects as of September 30, 2013 are outlined below.

<b>Project</b> <i>(millions of dollars)</i>	<b>Capital expenditures</b>		<b>Approved budget</b>	<b>Planned in-service date</b>	<b>Status</b>
	<b>Year-to-date</b>	<b>Life-to-date</b>			
Darlington Refurbishment	306	668			This project is part of the 2010 Ontario LTEP. A detailed cost and schedule estimate for the refurbishment of the four units is expected to be completed by the fourth quarter of 2015. See update below.
Niagara Tunnel	79	1,454	1,600	December 2013	Completed and declared in-service in March 2013 below the approved budget and ahead of the approved project completion date.
Lower Mattagami	491	1,844	2,600	June 2015	Construction continues. Project is on budget and on schedule. See update below.
Deep Geologic Repository for Low and Intermediate Level Waste <sup>1</sup>	14 <sup>1</sup>	160 <sup>1</sup>			The public hearing for the Environmental Assessment and a site preparation and construction licence was conducted during September and October of 2013 in Kincardine and Port Elgin, Ontario. OPG made a number of presentations to the Joint Review Panel at the public hearing and responded to a number of inquiries coming from the panel members including questions arising from the public's participation. Design activities are suspended pending a decision from the Joint Review Panel on the construction licence.
Atikokan Biomass Conversion	68	127	170	August 2014	Construction continues. Project is on budget and on schedule. See update below.

<sup>1</sup> Expenditures are funded by the nuclear fixed asset removal and nuclear waste management liabilities.

## Darlington Refurbishment

The Darlington Refurbishment project is currently in the definition phase. The Global Assessment Report and Integrated Implementation Plan, which present the significant Environmental Assessment and Integrated Safety Review results are on track to be submitted to the CNSC in the fourth quarter of 2013.

Engineering is an integral part of the definition phase of the project. The preliminary and detailed engineering work to be completed within each of the major contracts is specified in approximately 190 Modification Definition Packages (MDPs), of which approximately 150 were completed as at September 30, 2013. The remaining MDPs are on track to be completed by August 2014. The completion of these MDPs establishes the basis for the completion of detailed engineering. This forms a key input to preparation of the release quality estimate by the fourth quarter of 2015, which will include detailed scope, cost, and schedule estimates for the execution phase of the Darlington Refurbishment project.

During the third quarter of 2013, OPG completed the identification of all long-lead materials required for the turbine generator work. OPG expects that the remaining major contracts, including the steam generator cleaning contract and the turbine generator engineering and execution contract will be awarded by the first quarter of 2014.

OPG is progressing with the design and construction of facilities and infrastructure projects required at the Darlington site for the refurbishment continued operation of the station. This includes the construction of water and sewer upgrades, site electrical system modifications, project and contractor facilities, as well as the addition of heavy water storage capacity. All prerequisite facility and infrastructure projects are expected to be completed prior to the start of the first unit's refurbishment in the fourth quarter of 2016.

Construction of the Darlington reactor full-scale mock-up facility within the Darlington Energy Complex commenced in May 2013. Significant progress has been made in the installation of structural steel and the fabrication of fuel channel components. The mock-up facility is planned to be completed by the second quarter of 2014, to allow tool testing and training to commence. Retube and feeder replacement tooling design and fabrication is progressing in parallel with mock-up facility construction, and remains on track for completion in 2015.

#### New Nuclear

The Minister of Energy provided a statement in October 2013 that the Ontario government will not include New Nuclear build at Darlington in the upcoming LTEP, but it may be re-considered in the future. OPG's future activities related to New Nuclear, if any, will be informed by the details included in the upcoming LTEP. Pending the details of the upcoming LTEP, OPG only continues to undertake minimum activities required to support project approvals and existing licences. In 2012, the Power Reactor Site Preparation Licence and Darlington New Nuclear Project Environmental Assessment were challenged by way of judicial review. A two-day hearing for the judicial review of the licence and the environmental assessment is being conducted commencing November 12, 2013. The decision on the judicial review is expected in early 2014.

#### Lower Mattagami

The Lower Mattagami River project is expected to be completed on schedule by June 2015 within the approved budget of \$2.6 billion. The incremental unit at the Little Long GS is expected to be declared in-service ahead of schedule during the fourth quarter of 2013. As incremental units are placed in-service, the Amisk-oo-Skow Finance Corporation, a corporation wholly owned by the Moose Cree First Nation, is expected to obtain a 25 percent interest in the assets through its investment in the Lower Mattagami Limited Partnership.

#### Atikokan Biomass Conversion

The Atikokan Biomass Conversion project is expected to be completed on schedule by August 2014 within the approved budget of \$170 million. As of September 30, 2013, construction of two storage silos was completed. In addition, all 15 redesigned burners were installed and commissioning of the combustion systems has begun.

## Financial Sustainability

OPG's financial priority, as a commercial enterprise, is to consistently achieve a level of financial performance that will ensure its long-term financial sustainability, and increase the value of its assets for its Shareholder – the Province of Ontario. Inherent in this priority are three objectives:

- Enhance profitability by increasing revenue.
- Improve efficiency and reduce costs.
- Ensure a strong financial position that improves OPG's ability to cost effectively finance its operations and projects.

### Revenue Growth

OPG's revenue strategy focuses on revenue growth, while taking into account the impact on Ontario electricity ratepayers. Currently, OPG has multiple sources of revenue, including:

- Regulated revenue from nuclear and most baseload hydroelectric generating facilities (Prescribed Facilities);
- Unregulated revenue based on electricity spot market prices for production from certain unregulated hydroelectric facilities;
- Contract revenue from energy supply and cost recovery agreements for the remaining unregulated facilities; and
- Non-generation revenues.

Current regulated prices do not fully recover the costs of regulated operations, and do not provide an appropriate return, thereby negatively affecting OPG's financial performance. OPG has made substantial investments in new generating capacity over the last decade, and significantly transformed its operations in the last few years to achieve higher efficiency. In order to generate an acceptable return on its assets and future investments, maintain its credit rating, and continue to contribute positively to the Province's financial position, an increase in regulated prices will be required. OPG's average revenue per unit of generation is expected to remain significantly below the average revenue received by its competitors.

In the first quarter of 2013, the OEB approved a settlement agreement that allows OPG to recover \$633 million over the 2013/2014 period related to balances in variance and deferral accounts as at December 31, 2012. The remaining balances in the variance and deferral accounts as at December 31, 2012 are expected to be recovered over a number of years. The additional revenue from the settlement agreement reflects the collection of balances related to prior periods.

The OEB issued an order establishing the following new rate riders over the period from March 1, 2013 to December 31, 2014.

(\$/MWh)	Nuclear	Hydroelectric
2013 rate riders	6.27	3.04
2013 interim period rate riders <sup>1</sup>	0.41	0.58
Rate riders for the period March 1, 2013 to December 31, 2013	6.68	3.62
Rate riders for 2014	4.18	2.02

<sup>1</sup> The interim period rate riders were authorized by the OEB to allow for the recovery of the retroactive increase in the riders to January 1, 2013, resulting in a revenue accrual during the first quarter for the period from January 1, 2013 to February 28, 2013.

OPG also filed an application with the OEB in September 2013, as discussed under the heading, *Recent Developments*. This application seeks new regulated prices for OPG's nuclear and hydroelectric facilities to allow them to recover their costs and earn an appropriate rate of return as allowed by the OEB.

A portion of OPG's electricity production is unregulated and sold at the Ontario electricity spot market price. Despite an increase in the average spot market price during the first nine months of 2013, compared to the same period in 2012, unregulated revenues remain insufficient to fully recover costs and provide an appropriate return. OPG has negotiated energy supply and cost recovery agreements for certain of its unregulated hydroelectric and thermal assets.

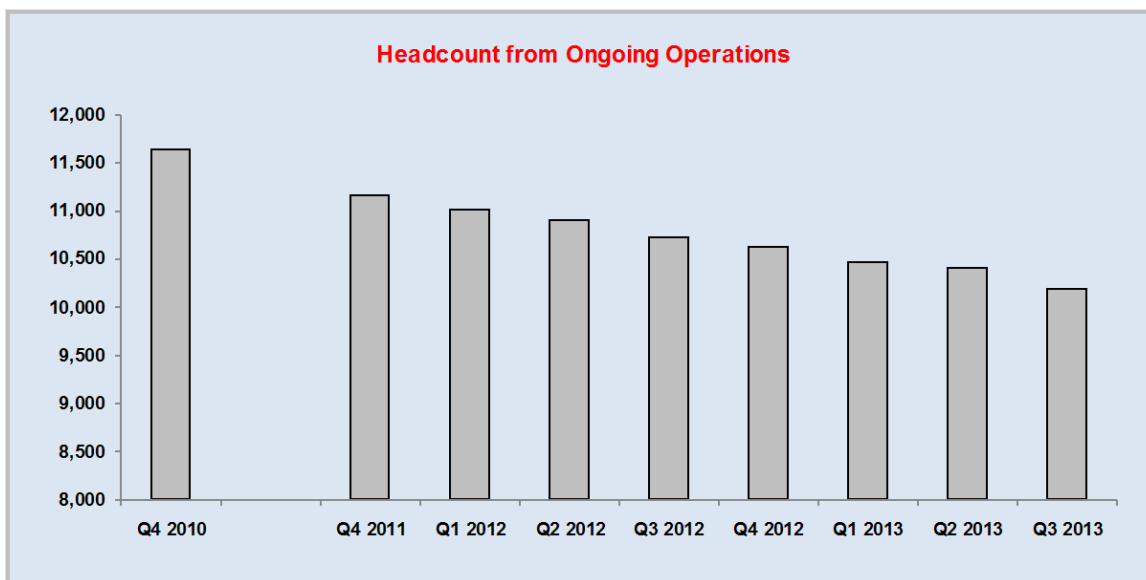
During the third quarter of 2013, notice of a proposed amendment to Regulation 53/05 was issued for comment. The proposed amendment, subject to Province approval, would require OPG's currently unregulated hydroelectric generating stations that are not under an ESA contract with the OPA to be regulated by the OEB. The comment period for the proposed amendment closed on October 28, 2013.

A description of OPG's revenue sources is provided in OPG's 2012 annual MD&A under the heading, *Financial Sustainability*.

#### Improving Efficiency and Reducing Costs

OPG is aggressively pursuing opportunities to implement efficiency and productivity improvements, while reducing costs. To accomplish this objective, OPG launched a multi-year business transformation initiative to streamline the company and implement a sustainable cost structure. This will support OPG's ability to continue moderating consumer electricity prices, and attract new generation development opportunities in alignment with Ontario's LTEP.

Headcount from ongoing operations continues to decrease primarily through attrition and vacancy management. Business transformation initiatives continued to progress during the third quarter of 2013. OPG's non-surplus staff redeployment processes continue with both the Power Workers' Union and the Society of Energy Professionals, to move to the centre-led business model implemented under business transformation.



#### Strengthening Financial Position

OPG's initiatives to increase revenue, achieve efficiencies, and reduce costs will serve to strengthen its financial position. To operate on a financially sustainable basis and maintain the value of its assets for its Shareholder, OPG strives to strengthen its financial position by: maintaining an investment grade credit rating; ensuring economic and prudent allocation of capital; ensuring sufficient liquidity; ensuring all major generation development projects are economic; and providing for recovery of costs and an appropriate return on investment.

## DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

### Regulated – Nuclear Generation Segment

<i>(millions of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Regulated generation sales	659	711	1,941	2,051
Variance accounts	23	(7)	31	43
Other	68	96	214	199
Total revenue	750	800	2,186	2,293
Fuel expense	79	81	224	233
Variance and deferral accounts	(17)	(13)	(43)	(37)
Total fuel expense	62	68	181	196
Gross margin	688	732	2,005	2,097
Operations, maintenance and administration	500	438	1,490	1,386
Depreciation and amortization	159	120	470	358
Property and capital taxes	6	8	21	21
Income before other income, interest and income taxes	23	166	24	332
Other income	-	(1)	(1)	(1)
Income before interest and income taxes	23	167	25	333

Income before interest and income taxes was \$23 million during the three months ended September 30, 2013, compared to \$167 million for the same quarter in 2012. This decrease was primarily due to higher OM&A expenses and lower gross margin primarily due to lower generation.

Gross margin for the third quarter of 2013, compared to the same quarter in 2012, decreased primarily due to lower generation of 1.3 TWh, which resulted in a \$67 million reduction to gross margin. This decrease in gross margin was partially offset by an increase in revenue of \$22 million, resulting from the new rate riders for nuclear generation, effective January 1, 2013. The rate riders were established to collect amounts previously recorded in variance and deferral accounts. The collection of these amounts does not materially affect income, as it is largely offset by higher amortization expense related to the regulatory variance and deferral accounts. The rate riders also include a refund to ratepayers for the impact of the lower depreciation expense related to the changes in the station lives of the Pickering GS.

The \$62 million increase in OM&A expenses during the third quarter of 2013, compared to the same quarter in 2012, was primarily due to a second planned outage at the Darlington GS in 2013, and increased maintenance activities at the Darlington GS and the Pickering GS. Pension and OPEB costs increased in the third quarter of 2013 due to lower discount rates. However, this increase was largely offset by amounts recorded in the Pension and OPEB Cost Variance Account.

Depreciation and amortization expenses increased by \$39 million during the third quarter of 2013, compared to the same quarter in 2012, primarily due to the increase from the amortization of regulatory variance and deferral accounts related to the establishment of the new rate riders, effective January 1, 2013. The amortization impact of the regulatory balances was largely offset by a corresponding increase in the revenue related to the new rate riders, as discussed above. The increase in depreciation and amortization expenses was partially offset by lower depreciation expense resulting from the change in station lives at the Pickering GS, net of the impact of the Nuclear Liability Deferral Account. The benefit of the Pickering GS decrease in depreciation expense is being refunded to ratepayers through the new rate rider for nuclear.

The decrease in other revenue was primarily due to the increase in the fair value of the derivative liability, during the third quarter of 2013, embedded in the terms of the Bruce Power lease agreement. The change in the fair value of



this derivative is recorded in other revenue, with a corresponding change in the regulatory asset related to the Bruce Lease Net Revenues Variance Account. As such, there was no income impact related to the change in the fair value of the derivative liability.

Income before interest and income taxes during the nine months ended September 30, 2013 decreased by \$308 million primarily due to lower generation and an increase in OM&A expenses.

The increase in OM&A expenses during the nine months ended September 30, 2013, compared to same period in 2012, was primarily due to a second planned outage at the Darlington GS in the fall of 2013, and lower OPEB expenses during 2012 resulting from the recognition of a regulatory asset for the US GAAP Deferral Account.

The unit capability factors for the Darlington GS and the Pickering GS, and the Production Unit Energy Cost (PUEC) for the three and nine month periods ended September 30, 2013 and 2012 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Unit Capability Factor (%)				
Darlington GS	87.1	92.4	85.7	91.2
Pickering GS	75.7	90.1	73.5	82.1
Nuclear PUEC (\$/MWh)	47.50	38.27	48.18	41.59

The unit capability factor at the Darlington GS for the three months ended September 30, 2013 decreased compared to the same period in 2012 as a result of an increase in planned outage days. The increase is largely a result of a second planned outage in the fall of 2013, in accordance with the 3-year outage schedule for the units at the Darlington GS. The unit capability factor at the Pickering GS for the three months ended September 30, 2013 decreased, compared to the same period in 2012. The decrease was primarily due to an increase in unplanned outage days.

The decrease in the unit capability factors at the Pickering GS and the Darlington GS for the nine months ended September 30, 2013, compared to the same period in 2012, was primarily a result of extensions to planned outages during the first half of the year.

Nuclear PUEC increased during the three months ended September 30, 2013 compared to the same period in 2012, primarily due to an increase in OM&A expenses and lower generation. Nuclear PUEC increased during the nine months ended September 30, 2013, compared to the same period in 2012, primarily due to lower generation and an increase in OM&A expenses.

### Regulated – Nuclear Waste Management Segment

	Three Months Ended September 30		Nine Months Ended September 30	
<i>(millions of dollars)</i>	2013	2012	2013	2012
Revenue	31	27	84	77
Operations, maintenance and administration	33	29	90	83
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	185	178	556	534
Earnings on nuclear fixed asset removal and nuclear waste management funds	(165)	(161)	(462)	(481)
Loss before interest and income taxes	(22)	(19)	(100)	(59)

The loss before interest and income taxes increased for the three months ended September 30, 2013, compared to the same period in 2012, primarily as a result of higher accretion expense. The loss was partially offset by an

increase in earnings from the Nuclear Funds. The increase in Nuclear Fund earnings was due to higher Used Fuel Segregated Fund (Used Fuel Fund) earnings as a result of an increase in the Ontario consumer price index, which affects the committed return on the fund related to the first 2.23 million fuel bundles. The increased earnings in the Used Fuel Fund were partially offset by lower earnings from the Decommissioning Fund. The reduced earnings for the Decommissioning Fund resulted from it being in an overfunded position. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes by recording a payable to the Province.

The loss before interest and income taxes increased for the nine months ended September 30, 2013, compared to the same period in 2012, due to higher accretion expense and lower earnings from the Decommissioning Fund as a result of its overfunded status. The impact of these factors was partially offset by higher earnings from the Used Fuel Fund.

### Regulated – Hydroelectric Segment

<i>(millions of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Regulated generation sales <sup>1</sup>	194	155	557	491
Variance accounts	6	22	38	40
Other	10	7	32	19
Total revenue	210	184	627	550
Fuel expense	71	62	182	181
Variance accounts	2	8	12	11
Total fuel expense	73	70	194	192
Gross margin	137	114	433	358
Operations, maintenance and administration	27	27	77	72
Depreciation and amortization	30	8	94	25
Property and capital taxes	1	1	2	-
Income before other loss, interest and income taxes	79	78	260	261
Other loss	-	4	-	4
<b>Income before interest and income taxes</b>	<b>79</b>	<b>74</b>	<b>260</b>	<b>257</b>

<sup>1</sup> During the three months ended September 30, 2013 and 2012, the Regulated – Hydroelectric segment generation sales included revenue of \$6 million and \$4 million, respectively, related to the hydroelectric incentive mechanism. During the nine months ended September 30, 2013 and 2012, the Regulated – Hydroelectric segment generation sales included revenue of \$13 million and \$11 million, respectively, related to the hydroelectric incentive mechanism.

The income before interest and income taxes for the three and nine month periods ended September 30, 2013 was slightly higher, compared to the income for the same periods in 2012.

The increase in gross margin for the three and nine month periods ended September 30, 2013, compared to the same periods in 2012, was primarily due to an increase in revenue of \$23 million and \$66 million, respectively, as a result of the new rate riders, effective January 1, 2013. The revenue impact of the new rate riders was largely offset by a corresponding increase in amortization expense related to the regulatory variance and deferral accounts. The higher depreciation expense associated with the Niagara Tunnel being declared in-service in March 2013 was offset by a regulatory asset related to the Capacity Refurbishment Variance Account.

The increase in OM&A expenses during the first nine months of 2013, compared to the same period in 2012, was mainly a result of an increase in maintenance activities. The increase in OM&A expenses was also due to a decrease in OPEB expenses during the first quarter of 2012, due to the recognition of a regulatory asset for the US GAAP Deferral Account.

The Regulated – Hydroelectric availability, Equivalent Forced Outage Rate (EFOR) and OM&A expense per megawatt hour (MWh) for the three and nine month periods ended September 30, 2013 and 2012 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Availability (%)	<b>91.0</b>	92.8	<b>90.7</b>	91.7
EFOR (%)	<b>0.9</b>	2.4	<b>0.5</b>	2.3
Regulated – Hydroelectric OM&A expense per MWh (\$/MWh)	<b>5.51</b>	6.14	<b>5.46</b>	5.11

The decrease in availability for the three months ended September 30, 2013, compared to the same period in 2012, was primarily due to an increase in planned outage days at the DeCew Falls GS. The decrease in availability for the nine months ended September 30, 2013, compared to the same period in 2012, was primarily due to an increase in planned outage days at the Sir Adam Beck 1 GS and the DeCew Falls GS. The high availability and low EFOR for the three and nine month periods ended September 30, 2013 reflected the continued good performance of these regulated generating stations.

The decrease in OM&A expense per MWh for the third quarter of 2013, compared to the same quarter in 2012, was primarily due to higher generation. The increase in OM&A expense per MWh during the nine months ended September 30, 2013, compared to the same period in 2012, was a result of higher OM&A expenses.

#### Unregulated – Hydroelectric Segment

<i>(millions of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Spot market sales	<b>78</b>	60	<b>294</b>	205
Other	<b>21</b>	22	<b>67</b>	64
Total revenue	<b>99</b>	82	<b>361</b>	269
Fuel expense	<b>18</b>	11	<b>59</b>	47
Gross margin	<b>81</b>	71	<b>302</b>	222
Operations, maintenance and administration	<b>61</b>	57	<b>174</b>	175
Depreciation and amortization	<b>18</b>	17	<b>55</b>	55
Property and capital taxes	-	(1)	-	(1)
Income (loss) before other loss, interest and income taxes	<b>2</b>	(2)	<b>73</b>	(7)
Other loss	<b>1</b>	4	<b>3</b>	4
Income (loss) before interest and income taxes	<b>1</b>	(6)	<b>70</b>	(11)

Earnings before interest and income taxes increased for the three months ended September 30, 2013, compared to the same period in 2012, primarily due to higher generation resulting from higher water levels. The increase was partially offset by higher OM&A expenses, primarily related to an increase in maintenance activities.

During the nine months ended September 30, 2013, the increase in earnings before interest and income taxes was primarily due to a higher weighted average HOEP, compared to the same period in 2012. Gross margin also increased as a result of higher generation during the nine months ended September 30, 2013, compared to the same period in 2013.

For the three and nine month periods ended September 30, 2013 and 2012, prices received for generation from the unregulated hydroelectric stations remained at low levels, due to the low HOEP.

The Unregulated – Hydroelectric availability, EFOR and OM&A expense per MWh for the three and nine month periods ended September 30, 2013 and 2012 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Availability (%)	88.8	87.4	92.0	91.1
EFOR (%)	3.8	3.1	2.3	2.4
Unregulated – Hydroelectric OM&A expense per MWh (\$/MWh)	23.46	29.00	16.89	19.44

The increase in EFOR during the third quarter of 2013, compared to the same quarter in 2012, was primarily due to additional unplanned outage days at the Aguasabon GS to repair the turbine runner, and at the Caribou GS to repair a damaged headcover. EFOR for the nine months ended September 30, 2013 remained comparable to the same period in 2012.

The increase in availability for the three and nine month periods ended September 30, 2013, compared to the same periods in 2012, was primarily due to a decrease in planned outage days. The high availability for the three and nine month periods ended September 30, 2013 reflected the continued strong performance of the unregulated hydroelectric stations.

The decrease in OM&A expense per MWh during the three and nine month periods ended September 30, 2013, compared to the same periods in 2012, was primarily due to the impact of higher generation.

### Unregulated – Thermal Segment

<i>(millions of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Spot market sales	34	49	76	83
Contingency support agreement	80	54	269	205
Other	59	31	121	92
Total revenue	173	134	466	380
Fuel expense	33	50	107	121
Gross margin	140	84	359	259
Operations, maintenance and administration	91	82	272	269
Depreciation and amortization	31	15	94	43
Accretion on fixed asset removal liabilities	3	3	11	10
Property and capital taxes	4	2	11	12
Restructuring	46	1	48	3
Loss before other income, interest and income taxes	(35)	(19)	(77)	(78)
Other income	-	-	(2)	-
Loss before interest and income taxes	(35)	(19)	(75)	(78)

The increase in the loss before interest and income taxes for the third quarter of 2013, compared to the same quarter in 2012, was largely due to the recognition of severance costs of \$46 million. The severance costs relate primarily to the Lambton GS and the Nanticoke GS, as a result of the Shareholder declaration mandating that OPG cease the use of coal at these stations by December 31, 2013. The increase in loss was partially offset by higher contract revenue from the Thunder Bay GS, Lambton GS and Nanticoke GS, and Lennox GS.

OM&A expenses increased during the third quarter of 2013 compared to the same period in 2012, primarily due to the installation of an auxiliary boiler at the Nanticoke GS, and other costs incurred to preserve the station for possible future conversion, if required.

The slight decrease in the loss before interest and income taxes for the nine months ended September 30, 2013, compared to the same period in 2012, was primarily due to higher contract revenue, partially offset by the recognition of severance costs of \$48 million.

The increase in depreciation and amortization expenses of \$16 million and \$51 million for the three and nine month periods ended September 30, 2013, compared to the same periods in 2012, was primarily due to the recognition of accelerated depreciation during 2013, as a result of the expected shutdown of all remaining units at the Lambton and Nanticoke generating stations by the end of 2013. The increase in depreciation and amortization expense for the Lambton and Nanticoke generating stations is offset by higher payments under the Contingency Support Agreement.

The Unregulated – Thermal Start Guarantee rate, EFOR, and OM&A expense per MW for the three and nine month periods ended September 30, 2013 and 2012 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Start Guarantee rate (%)	99.1	98.3	98.3	97.8
EFOR (%)	5.7	9.0	8.7	7.3
Unregulated – Thermal OM&A expense per MW (\$000/MW)	66.80	60.20	66.60	65.80

OPG continues its strategy to cease the use of coal at the Nanticoke GS and the Lambton GS by December 31, 2013 as mandated by the Ministry of Energy's declaration issued in March 2013. The increase in EFOR for the nine months ended September 30, 2013, compared to the same period in 2012, is a reflection of this strategy. The improvement in EFOR for the third quarter of 2013, compared to the same quarter in 2012, is a result of an unexpected performance improvement at the Nanticoke GS, given OPG's strategy to cease operations by the end of the year.

The high Start Guarantee rate for the three and nine month periods ended September 30, 2013 and 2012 reflected the ability of the thermal generating stations to respond to market requirements when needed.

The increase in OM&A expense per MW during the third quarter of 2013, compared to the same quarter in 2012, was primarily due to higher OM&A expenses related to placing the assets at the Lambton GS and the Nanticoke GS in reserve status.

#### Other

<i>(millions of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Revenue	11	12	46	43
Operations, maintenance and administration	2	3	5	4
Depreciation and amortization	5	4	14	14
Property and capital taxes	3	3	9	8
Income before other income, interest and income taxes	1	2	18	17
Other income	(10)	(12)	(31)	(17)
Income before interest and income taxes	11	14	49	34

Income before interest and income taxes in the Other category decreased for the three months ended September 30, 2013, compared to the same quarter in 2012. The decrease was primarily due to lower earnings from OPG's investments in joint ventures. Income before interest and income taxes in the Other category increased for the nine months ended September 30, 2013, compared to the same period in 2012. The increase was primarily due to higher earnings from OPG's investments in joint ventures during the first half of 2013 compared to the same period in 2012.

Interconnected purchases and sales, including those to be physically settled, and unrealized mark-to-market gains and losses on energy trading contracts, are disclosed on a net basis in the consolidated statements of income. For the three months ended September 30, 2013, if disclosed on a gross basis, revenue and power purchases would have increased by \$7 million (three months ended September 30, 2012 – \$17 million). For the nine months ended September 30, 2013, if disclosed on a gross basis, revenue and power purchases would have increased by \$34 million (nine months ended September 30, 2012 – \$43 million).

### Income Taxes

Income tax expense for the three months ended September 30, 2013 was \$9 million, compared to \$46 million, for the same period in 2012. Income tax expense for the nine months ended September 30, 2013 was \$35 million compared to \$51 million for the same period in 2012. The decrease in income tax expense for the three and nine month periods ended September 30, 2013, was primarily due to a reduction in income.

### LIQUIDITY AND CAPITAL RESOURCES

OPG's primary sources of liquidity and capital are funds generated from operations, bank financing, credit facilities provided by the OEFC, and capital market financing. These sources are utilized for multiple purposes including: investments in plants and technologies; funding obligations such as contributions to the pension fund and the Nuclear Funds; and to service and repay long-term debt.

Changes in cash and cash equivalents for the three and nine month periods ended September 30, 2013 and 2012 are as follows:

<i>(millions of dollars)</i>	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Cash and cash equivalents, beginning of period	<b>699</b>	353	<b>413</b>	630
Cash flow provided by operating activities	<b>391</b>	510	<b>983</b>	722
Cash flow used in investing activities	<b>(379)</b>	(353)	<b>(1,168)</b>	(988)
Cash flow provided by financing activities	<b>40</b>	81	<b>523</b>	227
Net increase (decrease)	<b>52</b>	238	<b>338</b>	(39)
Cash and cash equivalents, end of period	<b>751</b>	591	<b>751</b>	591

For a discussion regarding cash flow provided by operating activities and FFO Interest Coverage, refer to the *Overview of Results* section.

### Investing Activities

Cash flow used in investing activities during the three months ended September 30, 2013 increased by \$26 million, compared to the same quarter in 2012. The increase for the three months ended September 30, 2013 was primarily due to higher expenditures for the Darlington Refurbishment project and the Atikokan Biomass Conversion project, partially offset by lower expenditures with the completion of the Niagara Tunnel project. Cash flow used in investing activities during the nine months ended September 30, 2012 increased by \$180 million, compared to the same period in 2012. The increase for the nine months ended September 30, 2013 was primarily due to higher expenditures for the Darlington Refurbishment, Lower Mattagami River, and Atikokan Biomass Conversion projects, partially offset by lower expenditures for the Niagara Tunnel project.

OPG's forecast capital expenditures for 2013 are approximately \$1.6 billion, which includes amounts for hydroelectric development and nuclear refurbishment.

## Financing Activities

OPG maintains a \$1 billion revolving committed bank credit facility, which is divided into two \$500 million multi-year term tranches. During the second quarter of 2013, OPG renewed and extended both tranches by one year, to May 2018. As at September 30, 2013, there were no outstanding borrowings under the bank credit facility.

As at September 30, 2013, OPG maintained \$25 million of short-term, uncommitted overdraft facilities, and \$390 million of short-term uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans, and for other general corporate purposes. As at September 30, 2013, a total of \$349 million of Letters of Credit had been issued, including \$324 million for the supplementary pension plans, \$24 million for general corporate purposes, and \$1 million related to the operation of the PEC.

The Company has an agreement, which expires November 30, 2014, to sell an undivided co-ownership interest of up to \$250 million in its current and future accounts receivable to an independent trust. As at September 30, 2013, of the \$324 million of Letters of Credit issued for the supplementary pension plans, \$55 million were issued under this agreement.

OPG also maintains a Niagara Tunnel project credit facility with the OEFC for an amount up to \$1.6 billion. As at September 30, 2013, advances under this facility were \$1,065 million, including new borrowings of \$40 million during the first half of 2013.

The Lower Mattagami Energy Limited Partnership (LME) maintains a \$600 million bank credit facility to support the funding requirements for the Lower Mattagami River project. The facility consists of two tranches. The first tranche of \$400 million was reduced to \$300 million during the third quarter of 2013, and the maturity date was extended by one year, to August 17, 2018. The second tranche of \$300 million has a maturity date of August 17, 2015. As at September 30, 2013, \$10 million of commercial paper was outstanding under this program. In 2011, OPG executed a \$700 million credit facility with the OEFC in support of the Lower Mattagami River project. As at September 30, 2013, there were no outstanding borrowings under this credit facility. In February 2013, the LME issued senior notes totalling \$275 million with a maturity date of 2046. The effective interest rate for these notes was 4.3 percent and the coupon interest rate was 4.2 percent. In September 2013, the LME issued senior notes totalling \$200 million with a maturity date of 2043. The effective interest rate for these notes was 5.1 percent and the coupon interest rate was 4.9 percent.

As at September 30, 2013, OPG's long-term debt outstanding was \$5,627 million, including \$5 million due within one year.

In February 2013, Standard & Poor's re-affirmed OPG's commercial paper rating at A-1 (low), and long-term credit rating at A- with a negative outlook. In March 2013, Dominion Bond Rating Service (DBRS) re-affirmed the long-term credit rating on OPG's debt at A (low), and the commercial paper rating at R-1 (low). All ratings from DBRS have a stable outlook.

## BALANCE SHEET HIGHLIGHTS

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

<i>(millions of dollars)</i>	As At	
	September 30 2013	December 31 2012
Property, plant and equipment - net	16,510	15,860
The increase was primarily due to additions related to the Lower Mattagami River project and the refurbishment of the Darlington GS. The increase was partially offset by depreciation expense.		
Nuclear fixed asset removal and nuclear waste management funds <i>(current and non-current portions)</i>	13,279	12,717
The increase was primarily due to earnings on the Nuclear Funds, and contributions to the Used Fuel Fund, partially offset by reimbursements of expenditures on nuclear fixed asset removal and nuclear waste management.		
Fixed asset removal and nuclear waste management liabilities	16,077	15,522
The increase was primarily a result of accretion expense due to the passage of time, partially offset by expenditures on nuclear fixed asset removal and waste management activities.		

### Off-Balance Sheet Arrangements

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

### CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

OPG's significant accounting policies are outlined in Note 3 to the audited 2012 annual consolidated financial statements as at and for the year ended December 31, 2012. A discussion of recent accounting pronouncements is included in OPG's interim consolidated financial statements for the third quarter of 2013 under the heading *Changes in Accounting Policies and Estimates*. Disclosure regarding OPG's critical accounting policies is included in OPG's 2012 annual MD&A.

### International Financial Reporting Standards (IFRS)

As a result of OPG's 2011 decision to adopt US GAAP, as required by the FAA regulation, OPG's plan to convert to IFRS, effective January 1, 2012, was discontinued. Prior to the adoption of US GAAP as the basis for OPG's financial reporting, the Company had planned to adopt IFRS effective January 1, 2012. OPG had substantively completed its IFRS conversion project, which included separate diagnostic, development, and implementation phases, when it suspended the project and began the evaluation of converting to US GAAP in the fourth quarter of 2011. OPG's IFRS conversion project involved, among other initiatives, a detailed assessment of the effects of IFRS on OPG's financial statements, an update of information systems to meet IFRS requirements as of January 1, 2011, an assessment of internal controls over financial reporting and disclosure controls and processes, as well as training



of key finance and operational staff. If a future transition to IFRS is required, conversion work can effectively be restarted with sufficient lead time to evaluate and conclude on changes that occurred subsequent to the decision to suspend the project.

## **RISK MANAGEMENT**

This risk management disclosure should be read in conjunction with the Risk Management section included in OPG's 2012 annual MD&A which provides a detailed discussion of OPG's governance structure, inherent risks, and activities associated with identifying and managing risks. The following discussion provides an update of OPG's risk management activities.

### **Operational Risks**

#### Risks Associated with Major Development Projects

*The risks associated with the cost, schedule, and technical aspects of the major development projects could adversely impact OPG's financial performance and its corporate reputation.*

##### *Darlington Refurbishment*

As part of the project planning process, regulatory approvals, cost estimates and contracts continue to be developed to reduce risks associated with the refurbishment cost and schedule. OPG continues to work with its Shareholder to determine an appropriate cost recovery mechanism in connection with the project, while considering the impact to electricity consumers.

#### Risks Associated with Existing Generation Operations

*OPG is exposed to uncertain output from its existing generating stations that could adversely impact its financial performance.*

##### *Pickering Continued Operations*

In August 2013, the CNSC extended the operating license of Pickering GS to August 31, 2018, subject to OPG meeting several conditions. These conditions include conducting further safety assessments to demonstrate that Pickering GS can continue to operate within safety limit margins, incorporating Fukushima lessons learned for beyond design basis events, and conducting a risk assessment to demonstrate that the station can operate to 247,000 equivalent full power hours. Inability to meet these conditions in a timely manner could have an impact on the operating strategy for continued operation of Pickering GS. The regulatory hold point, if not addressed by the spring of 2014, may require one unit to be shutdown. The remaining units will not be affected. This risk is being mitigated by completing the required actions on schedule and with senior level oversight.

### **Financial Risks**

#### Commodity Markets

*Changes in the market price of electricity or of the fuels used to produce electricity can adversely impact OPG's earnings and cash flow from operations.*

To manage the risk of unpredictable increases in the price of fuels, the Company has fuel hedging programs, which include the use of fixed price and indexed contracts.

OPG's revenue from its unregulated assets is also affected by changes in the market or spot price of electricity.

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

	2013 <sup>4</sup>	2014	2015
Estimated generation output hedged <sup>1</sup>	82%	82%	84%
Estimated fuel requirements hedged <sup>2</sup>	78%	69%	56%
Estimated nitric oxide emission requirement hedged <sup>3</sup>	100%	100%	100%
Estimated SO <sub>2</sub> emission requirement hedged <sup>3</sup>	100%	100%	100%

<sup>1</sup> Represents the portion of MWh of expected future generation production which is currently subject to regulated prices established by the OEB, agreements with the IESO, OEFC and OPA, or other electricity contracts which are used as hedges.

<sup>2</sup> Represents the approximate portion of MWh of expected generation production for which OPG has entered into contractual arrangements or obligations in order to secure the price of fuel. Excess fuel in inventories in a given year is attributed to the next year, if applicable, for the purpose of measuring hedge ratios.

<sup>3</sup> Represents the approximate portion of MWh of expected thermal production for which OPG has purchased, been allocated or granted emission allowances and Emission Reduction Credits to meet OPG's obligations under Ontario Environmental Regulations 397/01.

<sup>4</sup> Includes forecast for the remainder of the year.

#### Foreign Exchange and Interest Rate Markets

*OPG's earnings and cash flows can be affected by movements in the United States (US) dollar relative to the Canadian dollar, and by prevailing interest rates on its borrowings and investment programs.*

OPG's financial results are exposed to volatility in the Canadian/US foreign exchange rate, as certain procurement transactions are in US dollars. The market price of electricity in Ontario is influenced by the exchange rate due to the interaction between the Ontario and neighbouring US interconnected electricity markets. The Ontario electricity spot market is also influenced by US dollar denominated commodity prices, such as for natural gas and coal which are used in electricity generation. To manage this risk, OPG employs various financial instruments such as derivative contracts, in accordance with approved risk management policies. As at September 30, 2013, OPG had total foreign exchange contracts outstanding with a notional value of US \$66 million.

The majority of OPG's existing debt is at fixed interest rates. Interest rate risk arises with the need to refinance existing debt and/or undertake new financing. The management of these risks is undertaken by using derivatives to hedge the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated new financing. As at September 30, 2013, OPG had interest rate swap contracts outstanding for hedging interest rate risk with a notional principal of \$100 million.

#### Trading

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

OPG's trading operations are closely monitored, and total exposures are measured and reported to senior management on a daily basis. One of the metrics used to measure the financial risk of this trading activity is Value at Risk (VaR). For the third quarter of 2013, the utilization of VaR averaged \$0.5 million, compared to an average of \$0.3 million for the third quarter of 2012.

#### Credit

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

OPG manages its exposure to various suppliers or counterparties by evaluating their financial condition and ensuring that appropriate collateral, or other forms of security, are held by OPG. OPG's credit exposure relating to energy markets transactions as at September 30, 2013, was \$339 million, including \$315 million to the IESO. Over 95 percent of the remaining \$24 million exposure is related to investment grade counterparties.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

During the most recent interim period, there have been no changes in the Company's policies and procedures and other processes that comprise its internal controls over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## QUARTERLY FINANCIAL HIGHLIGHTS

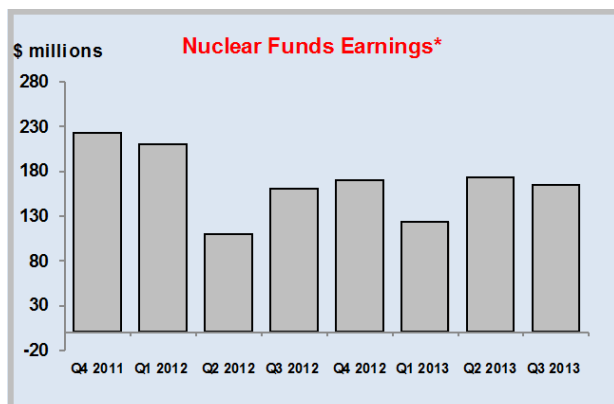
The following tables set out selected financial information from OPG's unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This financial information has been prepared in accordance with US GAAP.

<i>(millions of dollars – except where noted) (unaudited)</i>	<b>September 30 2013</b>	<b>June 30 2013</b>	<b>March 31 2013</b>	<b>December 31 2012</b>
Revenue	<b>1,244</b>	1,190	1,255	1,195
Net income	<b>30</b>	73	28	31
Net income per share <i>(dollars)</i>	<b>\$0.12</b>	\$0.28	\$0.11	\$0.12

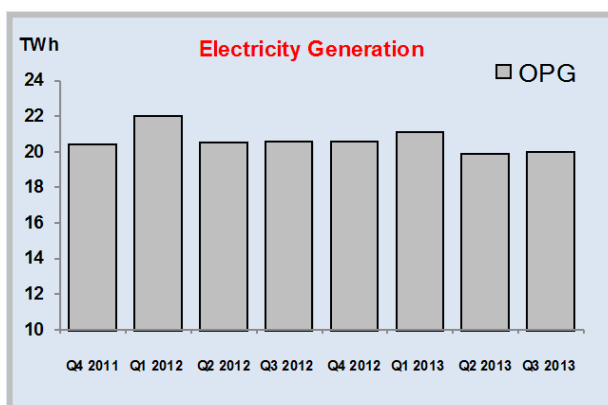
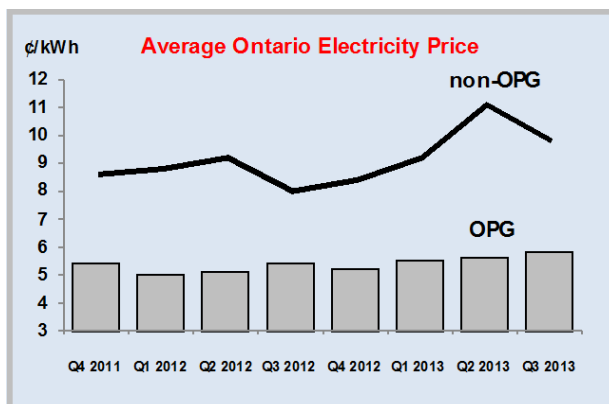
<i>(millions of dollars – except where noted) (unaudited)</i>	<b>September 30 2012</b>	<b>June 30 2012</b>	<b>March 31 2012</b>	<b>December 31 2011</b>
Revenue	1,213	1,125	1,199	1,128
Net income	139	43	154	230
Net income per share <i>(dollars)</i>	\$0.54	\$0.17	\$0.60	\$0.90

## Trends

OPG's quarterly results are affected by changes in demand primarily resulting from variations in seasonal weather conditions. Historically, OPG's revenues are higher in the first quarter of a fiscal year as a result of winter heating demands, and in the third quarter due to air conditioning and cooling demands. In addition to average revenue and generation volume, OPG's income is affected by earnings from the Nuclear Funds.



\*net of regulatory variance account



Additional items which affected net income (loss) in certain quarters above are described below and in OPG's 2012 annual MD&A under the heading, *Quarterly Financial Highlights*.

- At December 31, 2012, the Decommissioning Fund became overfunded. When the Decommissioning Fund becomes overfunded, OPG limits the earnings it recognizes by recording a payable to the Province.

## SUPPLEMENTARY NON-GAAP FINANCIAL MEASURES

In addition to providing net income in accordance with US GAAP, certain non-GAAP financial measures are also presented in OPG's MD&A and unaudited interim consolidated financial statements. These non-GAAP measures do not have any standardized meaning prescribed by US GAAP and, therefore, may not be comparable to similar measures presented by other issuers. OPG utilizes these measures to make operating decisions and assess performance. Readers of the MD&A, interim consolidated financial statements and the notes thereto utilize these measures in assessing the Company's financial performance from ongoing operations. The Company believes that these indicators are important since they provide additional information about OPG's performance, facilitate comparison of results over different periods, and present a measure consistent with the corporate strategy to operate

on a financially sustainable basis. These non-GAAP financial measures have not been presented as an alternative to net income in accordance with US GAAP, but as an indicator of operating performance. The definitions of the non-GAAP financial measures are as follows:

(1) **ROE** is defined as net income divided by average shareholder's equity excluding AOCI, for the period. ROE is measured over a 12-month period.

(2) **FFO Interest Coverage** is defined as FFO before interest divided by Adjusted Interest Expense. FFO before interest is defined as cash flow provided by operating activities adjusted for interest paid, interest capitalized to fixed and intangible assets, and changes to non-cash working capital balances for the period. Adjusted Interest Expense includes net interest expense plus interest income, interest capitalized to fixed and intangible assets, interest related to regulatory assets and liabilities, and interest on pension and OPEB projected benefit obligations less expected return on plan assets for the period.

**FFO Interest Coverage** is measured over a period of twelve months and is calculated as follows:

	For the twelve months ended	
	September 30 2013	December 31 2012
<i>(millions of dollars – except where noted)</i>		
FFO before interest		
Cash flow provided by operating activities	1,137	876
Add: Interest paid	251	246
Less: Interest capitalized to fixed and intangible assets	(131)	(126)
Add: Changes to non-cash working capital balances	(202)	(172)
<b>FFO before interest</b>	<b>1,055</b>	<b>824</b>
Adjusted Interest Expense		
Net interest expense	91	117
Add: Interest income	8	7
Add: Interest capitalized to fixed and intangible assets	131	126
Add: Interest related to regulatory assets and liabilities <sup>1</sup>	51	17
Add: Interest on pension and OPEB projected benefit obligation less expected return on plan assets	92	103
<b>Adjusted Interest Expense</b>	<b>373</b>	<b>370</b>
<b>FFO Interest Coverage (times)</b>	<b>2.8</b>	<b>2.2</b>

<sup>1</sup> The twelve months ended December 31, 2012 number has been adjusted to include all adjustments to interest expense related regulatory assets and liabilities

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

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

Additional information about OPG, including its Annual Information Form, annual MD&A, and audited annual consolidated financial statements as at and for the year ended December 31, 2012 and notes thereto can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

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