ONTARIO POWER GENERATION

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News
from Ontario Power Generation

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ONTARIO POWER GENERATION REPORTS 2010 FINANCIAL RESULTS

[Toronto]: Ontario Power Generation Inc. ("OPG" or the "Company") today reported its financial and operating results for the year ended December 31, 2010. Net income for the year was $649 million compared to net income of $623 million for the year ended December 31, 2009.

Tom Mitchell, President and CEO of OPG, said, "Our generating stations safely and reliably produced about 60% of Ontario's primary electricity demand. OPG was again the low cost provider of electricity in the province in 2010. I am proud of this accomplishment. OPG is committed to providing low cost electricity to Ontarians through a continuing focus on cost reduction initiatives, completing projects on time and on budget, and doing more for less without compromising safety or the environment."

Mr. Mitchell continued, "We completed the public hearing process for our application with the Ontario Energy Board for new regulated prices in December 2010. The OEB's decision is expected in March. After taking into account the proposed rate increases, OPG will continue to provide electricity at the lowest rates in the province."

"OPG is also focused on project excellence. In 2010, we successfully completed a series of major projects that included the Pickering Vacuum Building Outage, the Safe Storage of Pickering A Units 2 and 3, and the Upper Mattagami-Hound Chute hydroelectric project. We began planning for the refurbishment of the Darlington nuclear generating station. We moved forward with plans to convert our coal-fired stations with biomass and natural gas, and we launched the Lower Mattagami project – Northern Ontario's first major hydroelectric project in 40 years."

"OPG's income before income taxes from our electricity generating segments was $679 million for the year ended December 31, 2010 compared to $827 million for the same period in 2009. This decrease of $148 million was mainly due to lower generation from the hydroelectric and nuclear generating stations, and a reduction in revenue related to a regulatory asset established as a result of a 2009 decision by the Ontario Energy Board."

Highlights

Net income of $649 million in 2010 improved slightly over net income of $623 million in 2009 despite a reduction in gross margin from OPG's electricity generation segments. Net income increased in 2010 primarily as a result of a decrease in depreciation expense due to an extension of the Darlington nuclear generating station's operating life, and a reduction in income tax liabilities as a result of the resolution of a number of tax uncertainties related to the completion of a tax audit

12. PENSION AND OTHER POST EMPLOYMENT BENEFIT COSTS

The pension and OPEB obligations, and the pension fund assets, are measured as at December 31, 2010. Details of OPG's pension and OPEB obligations, pension fund assets and costs are presented in the following tables.

	Registered and Supplementary Pension Plans		**Other Post Employment Benefits**	
	2010	**2009**	**2010**	**2009**
Weighted Average Assumptions – Benefit Obligation at Year End				
Rate used to discount future benefits	**5.80%**	6.80%	**5.67%**	6.69%
Salary schedule escalation rate	**3.00%**	3.00%	**-**	-
Rate of cost of living increase to pensions	**2.00%**	2.00%	**-**	-
Initial health care trend rate	**-**	-	**6.53%**	6.61%
Ultimate health care trend rate	**-**	-	**4.69%**	4.70%
Year ultimate rate reached	**-**	-	**2030**	2030
Rate of increase in disability benefits	**-**	-	**2.00%**	2.00%

	Registered and Supplementary Pension Plans		**Other Post Employment Benefits**	
	2010	**2009**	**2010**	**2009**
Weighted Average Assumptions – Cost for the Year				
Expected return on plan assets net of expenses	**7.00%**	7.00%	**-**	-
Rate used to discount future benefits	**6.80%**	7.50%	**6.69%**	7.46%
Salary schedule escalation rate	**3.00%**	3.00%	**-**	-
Rate of cost of living increase to pensions	**2.00%**	2.00%	**-**	-
Initial health care trend rate	**-**	-	**6.62%**	6.58%
Ultimate health care trend rate	**-**	-	**4.69%**	4.70%
Year ultimate rate reached	**-**	-	**2030**	2018
Rate of increase in disability benefits	**-**	-	**2.00%**	2.00%
Average remaining service life for employees (years)	**12**	12	**11**	11

(millions of dollars)	Registered Pension Plans 2010	2009	Supplementary Pension Plans 2010	2009	Other Post Employment Benefits 2010	2009
Changes in Plan Assets						
Fair value of plan assets at beginning of year	**8,216**	7,254	**-**	-	**-**	-
Contributions by employer	**272**	271	**5**	7	**77**	74
Contributions by employees	**80**	86	**-**	-	**-**	-
Actual return on plan assets net of expenses	**973**	1,051	**-**	-	**-**	-
Settlement	**(10)**	-	**-**	-	**-**	-
Benefit payments	**(413)**	(446)	**(5)**	(7)	**(77)**	(74)
Fair value of plan assets at end of year	**9,118**	8,216	**-**	-	**-**	-
Changes in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	**8,610**	7,440	**179**	142	**1,910**	1,591
Employer current service costs	**160**	120	**6**	5	**52**	40
Contributions by employees	**80**	86	**-**	-	**-**	-
Interest on projected benefit obligation	**583**	554	**12**	11	**128**	118
Benefit payments	**(413)**	(446)	**(5)**	(7)	**(77)**	(74)
Settlement	**(10)**	-	**-**	-	**(2)**	-
Past service costs	**-**	-	**-**	-	**-**	8
Net actuarial loss	**1,365**	856	**27**	28	**330**	227
Projected benefit obligation at end of year	**10,375**	8,610	**219**	179	**2,341**	1,910
Funded Status – Deficit at end of year	**(1,257)**	(394)	**(219)**	(179)	**(2,341)**	(1,910)

Pension fund assets are allocated among three principal investment categories. Furthermore, equity investments are diversified across Canadian, U.S. and non-North American stocks. There is also a small real estate portfolio that is less than one percent of pension fund assets.

	2010	2009
Registered pension plan fund asset investment categories		
Equities	**60%**	62%
Fixed income	**35%**	34%
Cash and short-term investments	**5%**	4%
Total	**100%**	100%

Based on the most recently filed actuarial valuation of the OPG registered pension plan, as at January 1, 2008, there was an unfunded liability on a going-concern basis of $239 million and a deficiency on a wind-up basis of $2,846 million. In the previously filed actuarial valuation, as at January 1, 2005, there was an unfunded liability on a going-concern basis of $465 million and a deficiency on a wind-up basis of $1,979 million. The deficit disclosed in the next filed funding valuation, which must have an effective date no later than January 1, 2011, could be significantly different.

Based on the most recently filed actuarial valuation of the NWMO registered pension plan, as at January 1, 2010, there was a surplus on a going-concern basis of $4 million and a deficiency on a wind-up basis of $5 million. Based on the filed initial actuarial valuation of the NWMO registered pension plan, as at January 1, 2009, there was a surplus on a going-concern basis of $2 million and a deficiency on a wind-up basis of $4 million. The next filed funding valuation must have an effective date no later than January 1, 2011.

The supplementary pension plans are not funded, but are secured by Letters of Credit totalling $256 million (2009 – $211 million).

	Registered Pension Plans		**Supplementary Pension Plans**		**Other Post Employment Benefits**	
(millions of dollars)	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Reconciliation of Funded Status to Accrued Benefit Asset (Liability)						
Funded status – deficit at end of year	**(1,257)**	(394)	**(219)**	(179)	**(2,341)**	(1,910)
Unamortized net actuarial loss	**2,393**	1,365	**51**	25	**487**	157
Unamortized past service costs	**10**	28	**-**	1	**17**	19
Accrued benefit asset (liability) at end of year	**1,146**	999	**(168)**	(153)	**(1,837)**	(1,734)
Short-term portion	**-**	-	**(8)**	(7)	**(89)**	(84)
Long-term portion	**1,146**	999	**(160)**	(146)	**(1,748)**	(1,650)

	Registered Pension Plans		**Supplementary Pension Plans**		**Other Post Employment Benefits**	
(millions of dollars)	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Components of Cost Recognized						
Current service costs	**160**	120	**6**	5	**52**	40
Interest on projected benefit obligation	**583**	554	**12**	11	**128**	118
Expected return on plan assets net of expenses	**(636)**	(623)	**-**	-	**-**	-
Settlement	**-**	-	**-**	-	**(2)**	-
Amortization of past service costs	**18**	18	**1**	1	**2**	5
Amortization of net actuarial loss	**-**	-	**1**	-	**-**	-
Cost recognized	**125**	69	**20**	17	**180**	163

(millions of dollars)	Registered Pension Plans 2010	2009	Supplementary Pension Plans 2010	2009	Other Post Employment Benefits 2010	2009
Components of Cost Incurred and Recognized						
Current service costs	**160**	120	**6**	5	**52**	40
Interest on projected benefit obligation	**583**	554	**12**	11	**128**	118
Actual return on plan assets net of expenses	**(973)**	(1,051)	**-**	-	**-**	-
Settlement gain	**-**	-	**-**	-	**(2)**	-
Past service costs	**-**	-	**-**	-	**-**	8
Net actuarial loss	**1,365**	856	**27**	28	**330**	227
Cost incurred in year	**1,135**	479	**45**	44	**508**	393
Differences between costs incurred and recognized in respect of:						
Actual return on plan assets net of expenses	**337**	428	**-**	-	**-**	-
Past service costs	**18**	18	**1**	1	**2**	(3)
Net actuarial loss	**(1,365)**	(856)	**(26)**	(28)	**(330)**	(227)
Cost recognized	**125**	69	**20**	17	**180**	163

A one percent increase or decrease in the health care trend rate would result in an increase in the service and interest components of the 2010 OPEB cost recognized of $30 million (2009 – $24 million) or a decrease in the service and interest components of the 2010 OPEB cost recognized of $23 million (2009 – $19 million), respectively. A one percent increase or decrease in the health care trend rate would result in an increase in the projected OPEB obligation at December 31, 2010 of $394 million (2009 – $270 million) or a decrease in the projected OPEB obligation at December 31, 2010 of $307 million (2009 – $217 million).

13. FINANCIAL INSTRUMENTS

The Risk Oversight Committee ("ROC") assists the Board of Directors to fulfill its oversight responsibilities for matters relating to identification and management of the Company's key business risks. Risk management activities are coordinated by a centralized Corporate Risk Management group led by the Chief Risk Officer ("CRO"). Risks that would prevent business units from achieving business plan objectives are identified at the business unit level. Senior management sets risk limits for the financing, procurement, and trading activities of the Company and ensures that effective risk management policies and processes are in place to ensure compliance with such limits in order to maintain an appropriate balance between risk and return. OPG's risk management process aims to continually evaluate the effectiveness of risk mitigation activities for identified key risks. The findings from this evaluation process are reported quarterly to the ROC.

OPG is exposed to risks related to changes in electricity prices associated with a wholesale spot market for electricity in Ontario, changes in interest rates, and movements in foreign currency that affect its assets, liabilities, and forecast transactions. Select derivative instruments are used to limit such risks. Derivatives are used as hedging instruments, as well as for trading purposes.