More than energy

ONTARIO HYDRO FINAL ANNUAL REPORT
JANUARY 1998 – MARCH 1999

Ontario Hydro

CORPORATE PROFILE Ontario Hydro ceased operations on March 31, 1999; its assets and functions were transferred by provincial statute to two commercial successor corporations, Ontario Power Generation Inc. and Ontario Hydro Services Company Inc., as well as to two not-for-profit agencies, the Independent Electricity Market Operator and the Electrical Safety Authority.

Ontario Hydro, a self-sustaining corporation without share capital, was created by provincial statute and operated under the *Power Corporation Act* of Ontario, which has now been succeeded by the *Energy Competition Act, 1998*. Bonds and notes issued by Ontario Hydro prior to April 1, 1999, are guaranteed by the Province of Ontario.

Until the demerger of the company on April 1, 1999, Ontario Hydro served 108 direct industrial customers, almost one million retail customers and 255 municipal utilities, which in turn serve almost 3 million customers.

Ontario Power Generation (OPG) inherited Ontario Hydro's generating portfolio, making it one of the largest power producers in North America in terms of installed capacity. The OPG system includes 69 hydroelectric stations, three nuclear sites and six operating fossil-fueled stations. Total installed system capacity is approximately 31,000 megawatts. Ontario Hydro's total energy sales in 1998 were almost 139 terawatt-hours.

Ontario Hydro Services Company (OHSC), the other successor company, is an energy-services-based transmission and distribution company. It owns and maintains 29,000 kilometres of transmission lines, 114,700 kilometres of distribution lines, 240 kilometres of high-voltage underground cable, 256 transformer stations, 928 distribution and regulating stations and 20 microwave stations. OHSC also retains the retail business formerly held by Ontario Hydro, which serves over 950,000 customers, and the transmission and generating business for 23 remote communities in Northern Ontario.

LETTER TO THE MINISTER

To the Honourable Jim Wilson,
Minister of Energy, Science and Technology:

I am pleased to submit to you Ontario Hydro's report of the financial position of the Corporation, as of March 31, 1999, when operations ceased, in accordance with provincial statute. This 15-month report also contains discussion and analysis of issues and initiatives for 1998-99 and beyond.

We want to thank your staff at the Ministry of Energy, Science and Technology for their cooperation during this period of great change in Ontario's electricity sector.

WILLIAM A. FARLINGER
CHAIRMAN

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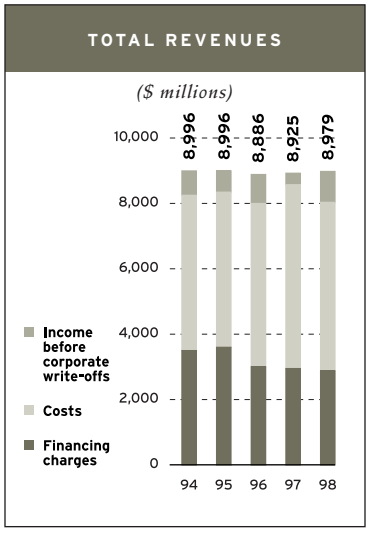
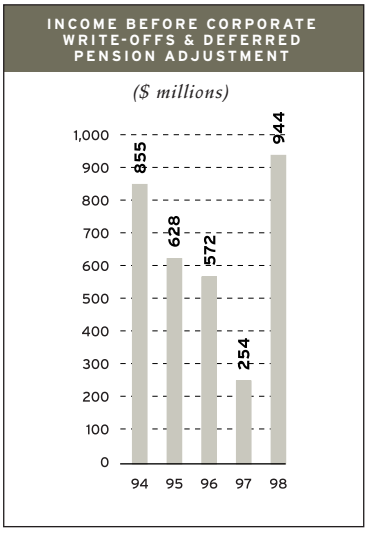
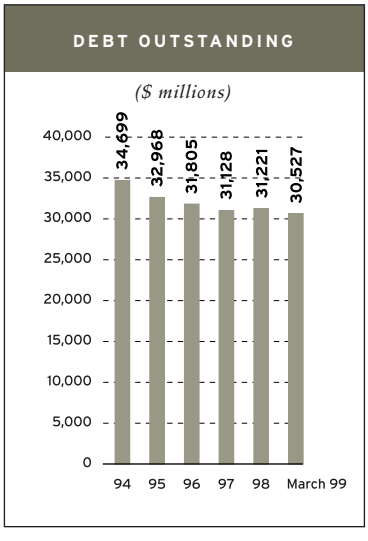
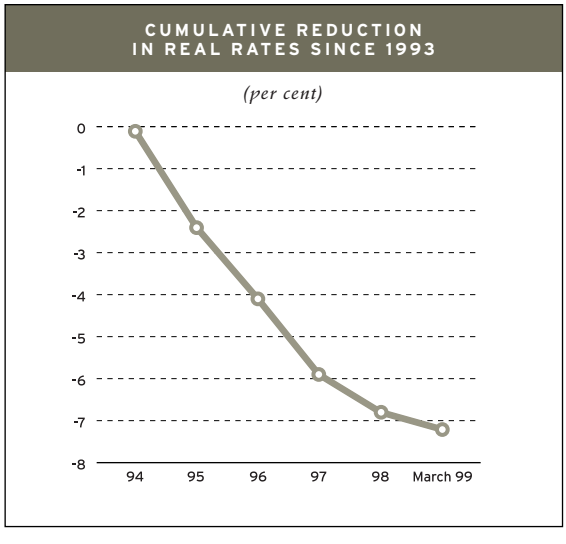
Ending on a High Note

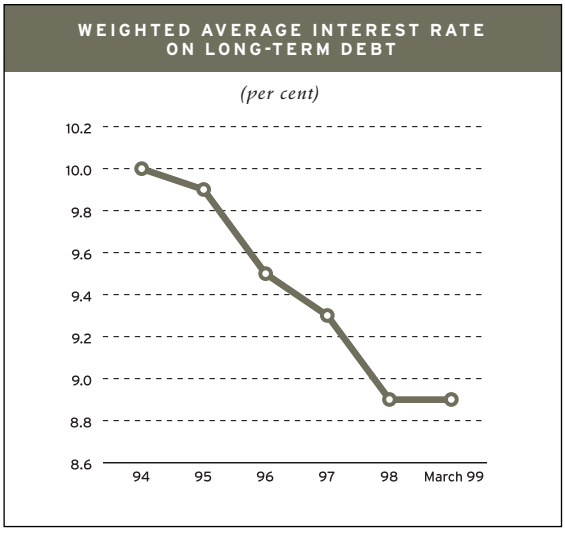
DESPITE THE MANY OPERATIONAL AND RESTRUCTURING CHALLENGES OF 1998 AND THE FIRST QUARTER OF 1999, ONTARIO HYDRO'S FINANCIAL HISTORY CONCLUDES ON A HIGH NOTE. REVENUES AND NET INCOME WERE STRONG AND SIX YEARS OF STABLE RATES HAVE SIGNIFICANTLY REDUCED ELECTRICITY COSTS AS A PROPORTION OF PROVINCIAL ECONOMIC ACTIVITY, BOOSTING ONTARIO'S ENERGY PRODUCTIVITY AND, AS A RESULT, ITS INDUSTRIAL COMPETITIVENESS.











A MESSAGE FROM THE CHAIRMAN AND THE PRESIDENT

Reliability and Commitment During Challenges and Change

WILLIAM FARLINGER
Chairman

RONALD OSBORNE
President & CEO

FROM WINTER ICE STORM TO SUMMER HEAT WAVE, FROM THE NEED TO RELIABLY MEET ONTARIO'S ELECTRICITY DEMAND TODAY TO THE MANDATE TO LOOK BEYOND ONTARIO TOMORROW, ONTARIO HYDRO'S FINAL 15 MONTHS AS AN OPERATING ENTITY WERE FILLED WITH GREAT CHALLENGES AND GREAT CHANGE. THROUGHOUT IT ALL, OUR EMPLOYEES DISPLAYED EQUAL MEASURES OF COOPERATION AND COMPETITIVENESS. THEY ARE ONTARIO HYDRO'S MOST VALUABLE LEGACY TO THE FUTURE.

We are preparing for competition; our aim is to make our commercial successor companies successful in the new energy services marketplace.

This is the Final Annual Report of Ontario Hydro, which ceased operations on March 31, 1999; its assets and functions have been transferred to successor companies and agencies. For this reason, the 1998 Annual Report was delayed to include a report on the company's final quarter.

The 15 months since our last Annual Report was a historic period for Ontario Hydro and the province's electricity industry. It began with the most devastating ice storm on record and the largest emergency power restoration effort ever undertaken by Ontario Hydro and its municipal utility allies in Eastern Ontario. Record summertime peak demand briefly approached the limits of our current in-service generating capacity. By the end of 1998, a new provincial statute, the *Energy Competition Act, 1998*, had rewritten the fundamental rules under which our industry has operated throughout most of this century. And these are only the major highlights of the period.

Despite unprecedented demands on Ontario Hydro's people, everything that happened during this period strengthened our conviction that we will be prepared for competition and that both commercial successor companies will be successful in the emerging North American energy services marketplace.

Our response to the ice storm showed how deep the reservoir of our organizational and technical skills really is and how committed our people are to the safety and well-being of our customers, regardless of the conditions that must be braved or workloads endured. They proved once again that reliability begins with people and that only people can sustain it.

But the wires networks are only one side – the delivery side – of the reliability equation. The other is supply reliability, and here too Ontario Hydro's generation staff, at our nuclear, hydroelectric and fossil-fueled stations, proved their resourcefulness and commitment to customers.

To replace the output of reactors laid up under the Nuclear Asset Optimization Program (NAOP), the Fossil business boosted its production to its highest level in more than a decade, and did so without exceeding provincial air emissions regulations. In Hydroelectric, production was constrained by low water levels, but staff nonetheless extracted every possible kilowatt out of their facilities. Both businesses, along with Central Market Operations, helped ensure that Ontario suffered no supply interruptions during the record spikes in summer peak demand that threatened shortages in other areas of North America.

The Nuclear business made substantial progress towards its multi-year goal of moving performance back to the top quartile of world nuclear industry standards. When Ontario Hydro's generating portfolio was assumed by Ontario Power Generation Inc. (OPG) on April 1, 1999, nuclear production and capability factors were up; forced outages were down; most performance targets were exceeded; and new agreements with our unions gave us more operational flexibility to speed the recovery to excellence and help position the company to seize more quickly the growing opportunities in the U.S. power marketplace.

All of the above was accomplished, moreover, during the restructuring of the corporation in line with the passage of the *Energy Competition Act, 1998*. This legislation marks Ontario as the first jurisdiction in North America to plan to introduce electricity competition at both the

wholesale and the retail level at the same time. The Act ended Ontario Hydro's statutory existence and replaced it with two legally separate, commercially oriented successor companies – OPG and Ontario Hydro Services Company Inc. (OHSC). At the same time, Ontario Hydro's Central Market Operator became yet another separate entity, the Independent Electricity Market Operator (IMO), which will not only oversee the marketplace but direct the operation of the transmission system owned by OHSC. Municipal electric utilities and the Ontario Hydro Services Company alike are required to separate their monopoly wires businesses from their competitive merchant functions. Finally, Ontario Hydro's responsibility for electrical inspection throughout the province was transferred to a not-for-profit public agency, the Electrical Safety Authority.

These changes, large as they are, define only the barest framework of what Ontario's electricity marketplace will look like once competition is introduced by the government, expected sometime in the year 2000. Rules to assure both suppliers and customers of a level playing field must be fully developed before competition can begin. Much of this work was done during 1998 by the multi-stakeholder Market Design Committee (MDC), established at the beginning of 1998 to advise the government on detailed marketplace rules.

The MDC proposed a ten-year, staged reduction of Ontario Power Generation's control over provincial electricity supply, accompanied by measures to ensure price stability during the transition period when competition is first being established. As part of the proposal, the Ontario Hydro Services Company will make every effort to increase the province's interconnection capacity by 50% over the next five years. This plan has been accepted by the government. The future has begun.

The two commercial successor companies will use the remainder of 1999 to finalize their preparations for the open marketplace. One of their critical tasks will be to help customers prepare as well. Public education programs, through advertising and other forms of customer outreach, will be prominent this year. It is important to the success of customer choice that they understand the marketplace and their own energy service needs. Both companies will work with others in the industry to promote that understanding among all customers, not just their own.

In 1999, Ontario Hydro's successors will also finalize plans to ensure that the province enters the new millennium on January 1, 2000, without any interruption of power. Analysis, remediation, testing and Y2K-readiness certification of all critical systems was complete by the end of 1998. Coordination with suppliers, customers and interconnected systems will take place throughout the first half of 1999. All signs point to a successful rollover into 2000, but contingency planning is under way for the sake of prudence and public reassurance.

Throughout these final months, even as we planned for the future, we were determined not to lose our focus on what is most critical to our customers every single day: safety, reliability, service and competitive prices. We looked forward to the future, but we lived and worked in the present. Our customers' needs always took precedence. No matter what else may change for our successor companies, this basic operating principle will not.

As our successors move closer to a competitive future, they will build on Ontario Hydro's historic achievements. We expect that the new companies will contribute to the prosperity of Ontario in the next century at least as much as Ontario Hydro did in this one.

Ontario Hydro's Successors

THE YEAR 1998 WAS THE 92ND AND LAST FULL YEAR OF OPERATIONS FOR ONTARIO HYDRO. ON APRIL 1, 1999, IT WAS SUCCEEDED BY FIVE NEW SUCCESSOR ENTITIES, TWO OF WHICH ARE SEPARATELY MANAGED, COMMERCIALLY ORIENTED COMPANIES. THESE SUCCESSORS WERE INCORPORATED IN LATE 1998.

ONTARIO POWER GENERATION INC.

Ontario Power Generation (OPG) inherits Ontario Hydro's 31,000 megawatts of installed generating capacity at its 80 hydroelectric, nuclear and fossil-fueled stations, making it one of North America's largest power producers. OPG is very cost-competitive with U.S. generators in our region of the continent – a growing market for low-unit-cost, low-emission energy.

OPG facilities now supply about 85% of the province's electricity demand. Under an agreement with the provincial government, that proportion will be gradually reduced so that by about 2010, OPG will control no more than 35% of the province's total supply options. The company will increasingly compete in the U.S., as markets there open to competition.

ONTARIO HYDRO SERVICES COMPANY INC.

Ontario Hydro Services Company (OHSC) is a holding company with two major holdings: the 29,000-kilometre transmission grid and the 114,700-kilometre distribution system. It serves almost one million customers, mostly in rural and remote communities.

OHSC plans to leverage its infrastructure assets and the expertise of its employees to enter new businesses that will contribute to the company's growth and shareholder value.

INDEPENDENT ELECTRICITY MARKET OPERATOR

The Independent Electricity Market Operator (IMO) will serve two major functions in Ontario's electricity market. It will manage the spot market, reconciling transactions among buyers and sellers; and direct the operation of the provincial transmission system to ensure reliability and fair access under market rules. The IMO will have no commercial connection to any market participant.

ELECTRICAL SAFETY AUTHORITY

The Electrical Safety Authority will continue Ontario Hydro's former inspection service. It is a stand-alone, self-funded entity with no commercial ties to any utility or other energy services company.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

The Ontario Electricity Financial Corporation is a Crown agent responsible for servicing and retiring Ontario Hydro's provincially guaranteed debt. It provides the risk management, cash management, banking and accounting services to manage and retire the debt. The OEFC is also responsible for administering the pension assets of Ontario Hydro until they can be allocated among the successor companies' pension plans.

More than energy

More than energy

Safety

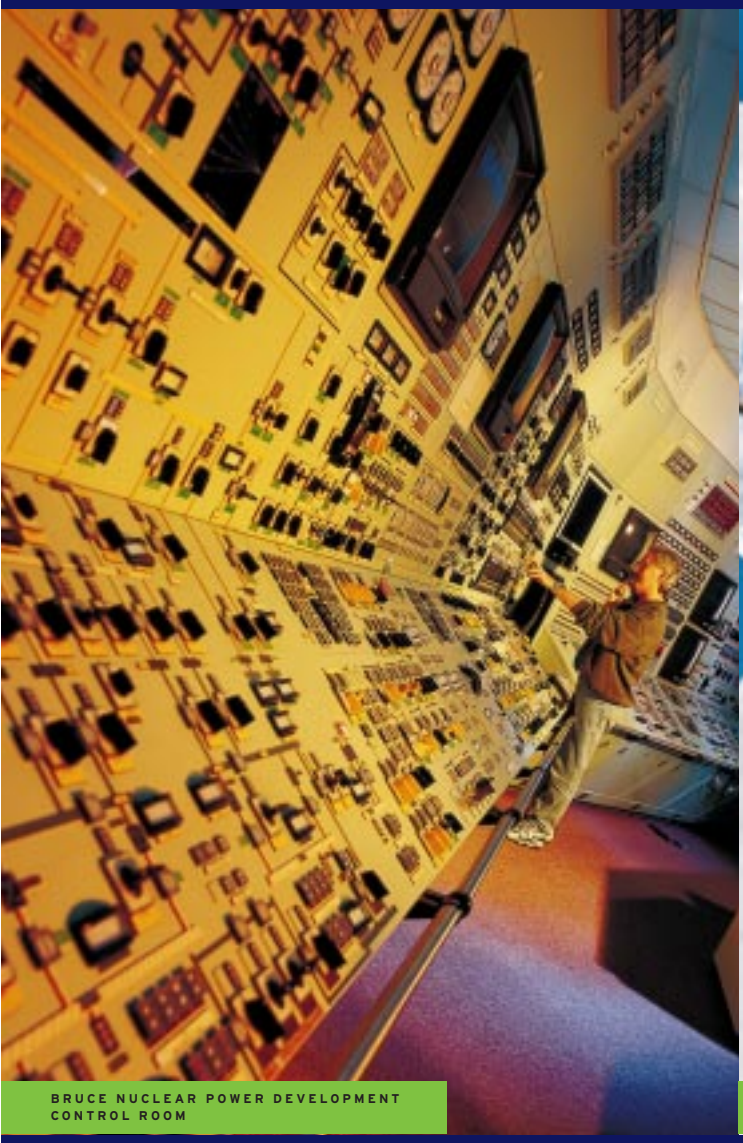
Reliability

Competitiveness

Customer Service

Safety

OUR PARAMOUNT DUTY TO ONTARIO



BRUCE NUCLEAR POWER DEVELOPMENT CONTROL ROOM

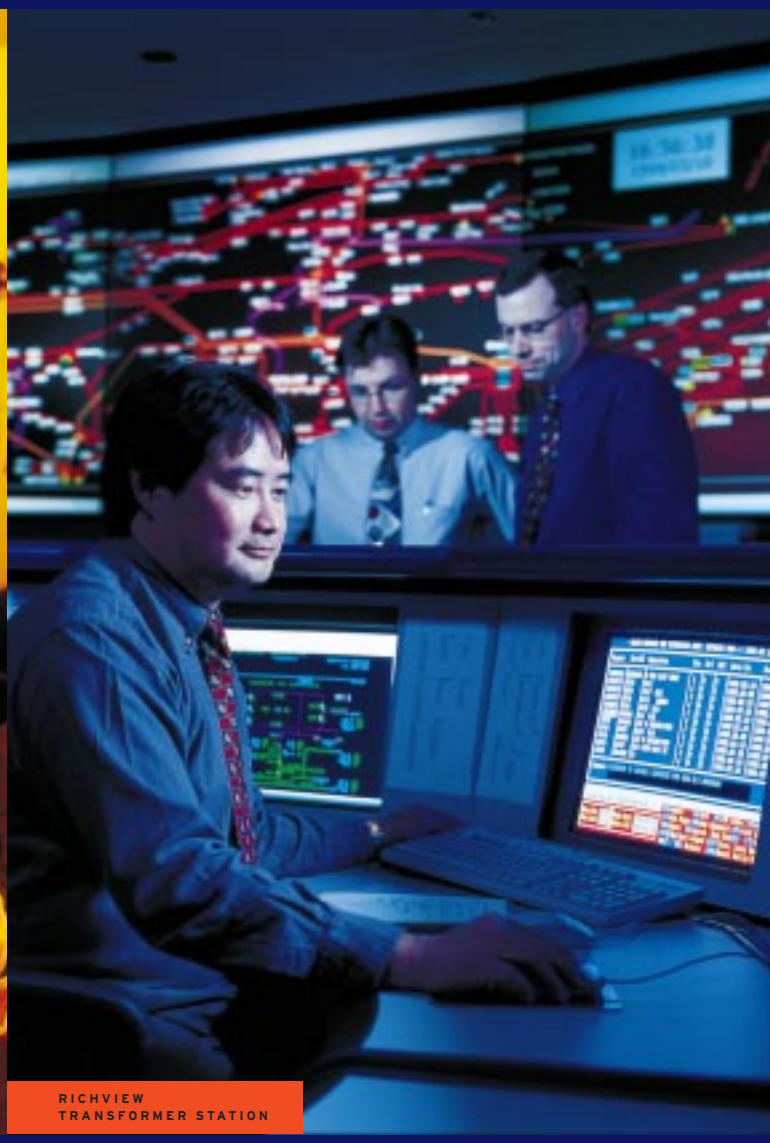
ONTARIO HYDRO CREW MEMBERS WORK TO RESTORE POWER DURING THE 1998 ICE STORM

MAKING ELECTRICITY SAFER TO PRODUCE, DELIVER AND USE HAS ALWAYS BEEN THE INNERMOST OF ONTARIO HYDRO'S CORE VALUES – THE EVER-PRESENT TOUCHSTONE AGAINST WHICH WE TEST EVERYTHING WE DO. We were never completely satisfied with anything less than a flawless record for employee and public safety in every aspect of Ontario's power system over which we have control. Nor will our successor companies be.

Reliability

YOU CAN COUNT ON US

NANTICOKE
GENERATING STATION



RICHVIEW
TRANSFORMER STATION

FOR OVER 90 YEARS, ONTARIO HYDRO WAS ONE OF NORTH AMERICA'S MOST RELIABLE SUPPLIERS OF ELECTRICITY, A REPUTATION FOR PERFORMANCE THAT ITS SUCCESSOR COMPANIES WILL UPHOLD. Our deeply embedded reliability culture was always evident in our ready adoption of new technologies and ongoing investments. But it was most vividly displayed during 1998's ice storm recovery.

Competitiveness

OUR BEST IS GETTING BETTER

Y2K TESTING AT THE MANBY TRANSFORMER STATION

GENERATOR UPGRADE AT SIR ADAM BECK 2 G.S.

PRICE, QUALITY, INNOVATION, SERVICE – THE HALLMARKS OF COMPETITIVENESS. Ontario Hydro's successor companies take pride in being among the worldwide utility industry leaders in all these areas. But we know that even the largest competitive advantage can be sustained only by continuous improvements in our knowledge, efficiency and responsiveness to customers. To hit our targets in future, we must aim even higher than we have in the past.

Customer Service

YOUR NEEDS DEFINE OUR GOALS

MARKHAM CALL CENTRE

AN ONTARIO HYDRO REPRESENTATIVE AT INCO SMELTING PLANT

ENSURING A RELIABLE SUPPLY OF POWER WAS LONG ONTARIO HYDRO'S DOMINANT CUSTOMER SERVICE VALUE. In the competitive marketplace, however, there are as many service objectives as there are customers; each relationship can be unique. OPG and OHSC, Ontario Hydro's commercial successors, see this new reality as an opportunity to provide an ever-expanding array of services that customers say they need and value.

ONTARIO HYDRO HAS FULFILLED THE AMBITIOUS MANDATE OF ITS VISIONARY FOUNDERS. A vast and sturdy network of wires brings electricity to everyone in Ontario. The hydroelectric potential of the province has largely been tapped. New technologies and processes have been readily embraced. Many major industries, the main source of Ontario's prosperity in this century, were attracted here by Ontario Hydro's low-cost, abundant power. These achievements are an enduring legacy to Ontario, as well as to the commercial corporations that succeed Ontario Hydro in the new era of customer choice. Bridging the accomplishments of the past and the opportunities of the future are four defining values: safety, reliability, competitiveness and customer service. Each of these is grounded in Ontario Hydro's traditional strengths. And each has been carried forward into the successor companies, guiding them to new achievements – beyond the imagination of Ontario Hydro's founders, perhaps, but not beyond their values.

Operations Report

IN A TIME OF CLIMATIC EXTREMES, UNPRECEDENTED OPERATIONAL CHALLENGES AND HISTORIC RESTRUCTURING LEGISLATION, THE PEOPLE OF ONTARIO HYDRO NEVER LOST FOCUS ON THEIR CORE MISSION: RELIABLY AND SAFELY MEETING PROVINCIAL ELECTRICITY DEMAND. AT THE SAME TIME, THEY IMPROVED ASSET VALUE, LAUNCHED NEW SERVICES, ENHANCED CUSTOMER RELATIONSHIPS AND RESPONDED TO EMERGENCIES WITH PROFESSIONALISM AND COMMITMENT.

The Demerger Project

ORCHESTRATING THE LARGEST CORPORATE DEMERGER IN CANADIAN HISTORY TO ENSURE ITS SUCCESSOR COMPANIES WERE FULLY OPERATIONAL ON APRIL 1, 1999, WAS ONTARIO HYDRO'S FINAL SUCCESS.

The seamless transition of Ontario Hydro into its successor companies without even a momentary interruption of critical activities was the mission of the Demerger Project launched in mid-1998. Nearly one hundred employees were directly assigned to the complex undertaking and over one thousand more were indirectly involved at some point. The project was guided by the provincial government's 1997 White Paper on electricity industry restructuring and its enabling legislation, the *Energy Competition Act, 1998*.

A Demerger Project Office was charged with coordinating, monitoring and expediting the approximately 800 separate project activities identified by a Task Implementation Committee and assigned to one of six Task Working Groups, each responsible for a key aspect of the transition. An overview of the project's accomplishments:

• **Corporate Finance Restructuring.** The financial architecture of the new business entities was defined, including their debt/equity structures, credit ratings, asset valuation, initial balance sheets and business plans. The approach taken for each successor business involved balancing three key considerations: establishing a competitive electricity marketplace; allowing for the enhancement of shareholder value; and optimizing the repayment of the provincially backed Ontario Hydro debt.

• **Governance/New Legislation.** Transfer Orders for transfer of assets, contracts, liabilities, litigation and staff to the successor companies were prepared for government execution, and operating licences for OPG and OHSC were obtained from the regulator, the Ontario Energy Board. This area of activity also involved coordinating Ontario Hydro's position on restructuring legislation and regulation and recommending a schedule for the proclamation of sections of the *Energy Competition Act, 1998 (ECA)* and repeal of corresponding sections of the law it superseded, the *Power Corporation Act (PCA)*.

• **Operations.** The specific functional requirements of each successor company were identified and addressed. These included each entity's organizational structure and staffing, initial operating plans and budgets, and due diligence in areas such as environment, contingency/emergency planning and First Nations considerations. Of particular importance in this area was coordinating the complex functional needs of large projects under way prior to demerger planning, such as the Nuclear Asset

The Demerger Project built the bridge between the achievements of our singular past and the opportunities that lie in our separate futures.

Optimization Plan, that were critical to the operation of a successor company.

• **Legal/Transition Issues.** All of Ontario Hydro's legislative and regulatory obligations under the *PCA* were transferred to a successor, in accordance with the new legislation. Some of these responsibilities, such as the regulation of municipal electric utilities, were assigned to regulatory bodies, such as the Ontario Energy Board.

• **Corporate Functions.** The necessary infrastructure for services and functions previously provided by a business unit in Ontario Hydro was developed for each successor. Services such as purchasing, health, security, telecom, real estate, information technology, corporate records, investment recovery and office space were provided through inter-company service agreements or make/buy decisions. Functions such as law, human resources, audit, finance, pension, treasury and corporate affairs were similarly addressed.

• **Human Resources.** Each employee of Ontario Hydro as of March 31, 1999, was transferred to a successor company, which had in place all necessary records and applicable labour agreements, as well as pension, compensation, benefits, and health and safety plans.

A full report on all the above activities was provided to each successor company prior to April 1. This report included an analysis of the subsequent work to be completed before the government declares the Ontario electricity market open to competition.

The success of the Demerger Project was twofold. Not only did it meet all its objectives, it also allowed everyone else in the corporation to continue devoting all their time and expertise to serving Ontario Hydro customers and, after the transition date, the customers of its successors. It built the bridge between the achievements of our singular past and the opportunities that lie in our separate futures.

Excellence Today Means Competitiveness Tomorrow

GETTING READY TO COMPETE AS ONTARIO POWER GENERATION IN WHAT WILL SOON BE ONE OF THE WORLD'S LARGEST POWER MARKETPLACES, THE GENERATION COMPANY INCREASED OPERATIONAL EFFICIENCIES, TECHNOLOGICALLY UPGRADED SEVERAL FACILITIES AND MADE SUBSTANTIAL PROGRESS TOWARDS ITS GOAL OF BECOMING ONE OF THE WORLD'S TOP PERFORMERS.

NUCLEAR

Ontario Hydro Nuclear (OHN) made substantial progress during the last 15 months towards its multi-year goal of bringing its operations back into the top quartile of global nuclear industry performance.

Early in 1998, the Board of Directors approved the Integrated Improvement Program (IIP), the operational underpinning of the Nuclear Asset Optimization Plan (NAOP) that had been recommended in 1997 by the Nuclear Performance Advisory Group. The NAOP called for the temporary lay-up of eight reactor units at Pickering A and Bruce A and the concentration of OHN resources on the remaining 12, four each at Pickering B, Bruce B and Darlington.

By the end of April 1998, the major elements of the IIP had been identified, including milestone dates and key deliverables. A team from the World Association of Nuclear Operators (WANO) visited Pickering, Bruce and Darlington in the spring of 1998 and confirmed that the IIP was a comprehensive statement of the problems needing correction in OHN and that the program was sound. Key areas for performance improvement included the planning and execution of planned outages; the implementation of standardized policies, procedures and processes; and the establishment of an organization needed to achieve all objectives.

By March 1998, the four Pickering A units were safely laid up, following some 100,000 hours of work. Most of the staff were then transferred to Pickering B to work on IIP projects on those four reactors. In March as well, the Board reconfirmed its August 1997 decision to temporarily lay up Bruce A units 3 and 4 in order to free up more resources for the IIP. The Bruce lay-up work began in April 1998 and will be completed in 1999. Some of the Bruce A staff moved over to the Bruce B units; others have been deployed to Darlington.

The most fundamental indicator of nuclear performance improvement is a composite index based on nine measures specified by WANO:

- Capability Factor
- Safety System Performance
- Chemistry Performance
- Unplanned Capability Loss Factor
- Thermal Performance
- Collective Radiation Exposure
- Reactor Trip Rate
- Fuel Reliability
- Industrial Safety Accident Rate

By the end of the first quarter of 1999, the OHN Performance Index had reached a level of 69.2

– out of a total index of 100 – exceeding its target for the fifth consecutive quarter and bettering by nearly 11 index points the level at the end of 1997.

Stakeholder Communications

In late 1997, OHN began issuing monthly performance report cards to keep government and other stakeholders apprised of nuclear recovery progress. These report cards continued throughout 1998 and into 1999. In addition to the WANO-specified OHN Performance Index, the card also reported on 14 other monthly performance indicators, grouped in the following four areas:

- Public Safety
- Production Performance
- Environment
- Employee Safety

Of the 15 indicators on the monthly report card, OHN had met or exceeded the target in 12 categories by the end of March 1999, compared with only six at the end of January 1998. In the area of Production Performance, for example, OHN's net electrical production for 1998 was 59.9 terawatt-hours, compared with the target, 56.3 terawatt-hours; and the capability factor was better than its target, as was the total of outage days per unit.

While these numbers were very encouraging, Nuclear is determined to accelerate IIP progress during the remainder of 1999, to improve its ability to supply competitively priced power in the Ontario and North American energy marketplaces as they open to competition.

Also in the Reporting Period

In March 1998, Pickering was granted a 12-month operating licence by the Atomic Energy Control Board, and in March 1999, the licence was renewed for a further two years. In November 1998, Darlington was granted a two-year licence renewal.

In the first quarter of 1998, the Bruce Heavy Water Plant was decommissioned.

Between June and December 1998, Pickering set a new employee safety record of 2.6 million person-hours worked without a lost-time injury.

Nuclear Waste Management

Ontario Hydro has always had responsibility for the management of nuclear waste in a manner that is safe, as well as environmentally, socially and financially responsible. Finding a safe and acceptable long-term way to manage Canada's nuclear fuel waste has been studied for several years by the federal government, with support from Ontario Hydro. In December, a major step towards this goal was taken when the government of Canada responded to the report of the Nuclear Fuel Waste Management and Disposal Concept Environmental Assessment Panel.

Ontario Hydro welcomed the federal government response and the direction it provided for the long-term management of nuclear fuel waste in Canada. Work is continuing with the federal and Ontario governments and other Canadian nuclear utilities to implement work programs designed to achieve the goals of the federal government's nuclear waste management policy.

Isotope Sales

Ontario Power Generation also succeeds Ontario Hydro as the world's largest supplier of the radioactive isotopes cobalt 60 and tritium, and is one of the largest suppliers of deuterium oxide (heavy water). These isotopes, which are byproducts of the company's Nuclear operations,

Despite facing unusual production demands during 1998, Fossil met or bettered all of its key performance targets.

are in great demand in the medical, industrial and research sectors. Isotope sales have consistently met business plan projections while contributing to Ontario Hydro's net income.

FOSSIL

The Fossil business was called on to dramatically increase its production during 1998 and the first quarter of 1999 to offset reductions in Nuclear. It delivered 35 terawatt-hours of energy in 1998 – its highest production level in over a decade. As a result, provincial electricity supply reliability and service to export customers was never compromised, even during the unprecedented surge in summer peak demand.

In the first quarter of 1999, even with strong secondary sales and January production that was the highest for any single month this decade, Fossil production was slightly below target because of higher than expected Hydroelectric and Nuclear production.

Despite facing unusual production demands during 1998, Fossil met or bettered all of its key performance targets, including those related to the environment. Generating-unit reliability was significantly better than targeted levels and, at the same time, both OM&A and fuel unit energy costs were kept under budget. Not only did the business meet its ambitious safety targets, but its performance in this area was the best ever.

To achieve this dramatic increase in production from previous years, Fossil stepped up virtually all its production plans. Throughout the period, reliability and flexibility were the hallmarks of Fossil's operation. When very favourable market conditions developed, Fossil was able to quickly change its plans – by realigning maintenance outages, fuel deliveries and staffing – to take advantage of higher prices.

Another key factor in Fossil's performance was its fuel supply program, which had to be ramped up quickly but economically. During 1998, the program not only provided the 15 million tons of coal and 3 million barrels of oil required to generate 35 terawatt-hours, it also was able to increase the proportion of low-sulphur, high-quality coal in the fuel mix. This helped ensure that the business met acid gas emission regulations and self-imposed emission rate targets for both acid gas and carbon dioxide emissions.

In December, the Thunder Bay plant achieved ISO 14001 certification, and at Lennox the return to service of two mothballed units was completed. Also late in the year, the Lennox plant celebrated the successful completion of its gas pipeline and boiler conversion project, enabling two of the plant's four units to burn both natural gas and oil. The conversion lowers the plant's operating costs by about 20%. It also reduces sulphur dioxide, nitrogen oxide and greenhouse gas emissions by about 25%.

The Nanticoke and Lambton plants made progress on major remedial programs, including a variety of turbine and boiler projects that will improve future reliability, operating efficiency and environmental performance. In addition, Nanticoke made modifications so it could use natural gas instead of oil in the furnace ignition system, as well as to fire a coal drying process to improve the combustion of lower-cost, low-sulphur coal from the western United States. The plant also completed installation of new burners on five of its eight generating units, reducing nitrogen oxide emissions from those units by about 30%.

HYDROELECTRIC

A shortened spring snow melt coupled with below-normal precipitation across the province

Hydroelectric invested $134 million on refurbishment programs and completed significant portions of its Environmental Management System ISO 14001 certification.

resulted in Hydroelectric's total 1998 energy production from its 69 generating stations being 2.7 terawatt-hours less than the target of 34.6. The lower water levels, however, gave the Hydroelectric business the opportunity to perform necessary facility maintenance and more aggressively implement its ongoing program of capital investments. During the year, the 14th unit of a 16-unit rehabilitation program was completed at Robert H. Saunders Generating Station. At the Sir Adam Beck 2 Generating Station, the third and fourth units of a 16-unit upgrade were completed, with new runners and major components replaced or refurbished. In total, Hydroelectric invested $134 million in 1998 on these and other refurbishment programs.

Also in 1998, Hydroelectric completed significant portions of a program leading to ISO 14001 certification of its Environmental Management System (EMS) for its production facilities. The EMS ensures that Hydroelectric facilities are operated in a manner that meets internationally recognized quality standards for environmental performance, which is increasingly important in a competitive marketplace.

Hydroelectric formed a Small Hydro Division in 1998, comprising 26 stations accounting for almost 2% of the total Hydroelectric capacity. The new division creates a more distinct business focus for these assets, providing a greater degree of operational flexibility and better positioning them for the growing consumer interest in environment-friendly power.

Hydroelectric had many occasions to celebrate both its past and present achievements in 1998. In March, Ear Falls G.S. was reopened after a fire in 1997 that badly damaged the powerhouse and the generators. The station was refurbished in record time, complete with a new powerhouse and four new generators.

In August, celebrations marked the 100th anniversary of DeCew Falls G.S. 1 in St. Catharines, Ontario's oldest operating hydroelectric station. Other significant service milestones this year were the 50th anniversary of Stewartville G.S. on the Madawaska River and the 40th anniversary of Robert H. Saunders G.S. on the St. Lawrence River. These celebrations were all reminders of the enduring value of our hydroelectric system and give greater meaning to our reinvestments to preserve and enhance our ability to produce safe and reliable energy from a renewable water resource.

WORKING WITH OUR CUSTOMERS

Our core product is electricity but our flexibility in pricing, supply conditions, energy services and account management allowed us to tailor offerings to best meet customer needs.

Here are some examples of how Ontario Hydro strengthened customer relationships through new services, communications and business initiatives.

- Customers learned how to understand and benefit from the coming competitive electricity marketplace through the *Quest – Learning Together* series of day-long sessions held throughout the year.
- Customers participating in the Interconnected Market Gain Sharing Program made money in June 1998 during a major price spike in the U.S. Northeast. The program allowed firm power customers to reduce their purchases in exchange for a share of OPG's gains from selling power at higher market prices.
- In response to customer demand, Ontario Hydro designed a wholesale green power offering that is EcoLogo certified. It includes new and existing renewables such as small hydro, landfill gas and wind.

Focused on Reliability – Poised for Growth

MAINTAINING AND IMPROVING WIRES NETWORKS THAT COULD CIRCLE THE GLOBE NEARLY FOUR TIMES WAS THE FIRST RESPONSIBILITY OF ONTARIO HYDRO SERVICES COMPANY. THE SECOND WAS THE GROWTH OF COMPETITIVE BUSINESSES THROUGH THE MARKETING OF ENERGY, NETWORK AND RELATED SERVICES THAT CUSTOMERS WANT, NEED AND VALUE.

ICE STORM SHOWCASES CRISIS CAPABILITIES

The fundamental strengths of Ontario Hydro Services Company (OHSC) were never more impressively illustrated than in January 1998, when over 600,000 people in an area of 25,000 square kilometres in Eastern Ontario lost power during the most severe ice storm on record. In five devastating days, the sheer weight of unprecedented accumulations of ice – nearly twice the typical amount for an entire year – literally crushed the electricity system. Hundreds of steel transmission towers crumpled. Seven thousand wooden distribution poles snapped like matchsticks, bringing 1,800 pole-top transformers down with them. By the time it was over, the storm had damaged 40% of Eastern Ontario's transmission and distribution systems.

Local OHSC and municipal crews began power restoration efforts even before the storm abated, and reinforcements quickly flowed into the region from across the province and beyond. At the peak of the effort, nearly 2,200 front-line workers laboured 16 hours a day, seven days a week, in piercing cold and sometimes blizzard-like snowstorms. Over half were Ontario Hydro staff; the rest were from other utilities in Ontario and elsewhere. Nearly 1,000 Canadian Armed Forces personnel worked tirelessly alongside the utility crews. Behind the scenes, hundreds more OHSC staff orchestrated the supply lines, answered a quarter-million calls from worried customers, and handled the countless details that went into speeding the recovery. Within two weeks, over 90% of all affected Ontario Hydro residential and business customers had their power restored, an incredible feat by any standards. A post-event analysis led to an updating and reorganization of OHSC emergency response procedures, so that if such an event occurs again, the recovery would be even quicker.

The historic response of Ontario Hydro Services Company staff to the ice storm will long serve as the reminder we all perhaps need occasionally that the most important element of power system reliability is the human one. The skill, dedication and professionalism brought by OHSC staff to this crisis are with us all year long. They are the reason OHSC is confident it can continue to maintain the transmission and distribution reliability standards Ontario has come to expect, and do so with increasing efficiency and continuously renewed sensitivity to our customers' needs.

ASSET MANAGEMENT BUSINESS MODEL

OHSC has adopted an asset management

The fundamental strengths of OHSC were illustrated in January 1998, during the most severe ice storm on record.

business model for its wires networks that separates decisions on the investments needed to maintain and improve assets from the actual work on those assets. Under this model, which is also in use at best-practice utilities worldwide, OHSC's Network Asset Management Group makes the investment decisions and the Network Services Group performs the work. This approach ensures reliability and optimum use of assets with the most efficient use of OHSC's human and financial resources.

At the transmission level, the new model has been implemented with the creation of the Transmission Operation Management (TOM) Centre – OHSC's link to other key electricity system participants: suppliers, customers, the Independent Electricity Market Operator (IMO) and Network Services. The centre also coordinates and implements emergency response plans during significant transmission system events. It also contains Outage Management, System Performance, Operating Effectiveness and Operating Strategy Implementation departments.

At the distribution level, OHSC has launched its new Distribution Operations Management Centre, which will take over responsibility for answering after-hours trouble calls for the entire province by September 15, 1999. The centre allows much better coordination of work crews and lets us inform customers when they can expect their power to be restored. Eventually, the Distribution Operations Management Centre will operate a sophisticated Distribution Outage Management System, which will further improve customer service.

OHSC has also initiated a major re-engineering of its business processes, with a new work management, material management and financial system and an upgrade of computer technology infrastructure.

NEW GENERATION PLANT IN REMOTE NORTHERN COMMUNITY

To ensure future reliability to the Northern logging community of Armstrong, the Remote Communities program installed a new diesel generating plant comprising three generators with a total capacity of 2,550 kilowatts (kW) and a prime rating of 1,450 kW. Peak load in the service area is now 900 kW, allowing community and local industry growth. The prime rating of the existing 25-year-old plant was being exceeded. With the old plant located close to a trout stream, relocation to another, lower-risk site was the preferred option.

The new installation incorporates the latest in operational and environmental controls, such as a SCADA system. It is housed in a diesel plant that employs the most up-to-date environmental technology for these remote applications.

As part of the legal separation of OPG and OHSC, a special legislative provision was put in place to keep the generation business within OHSC in remote Far North communities.

CUSTOMER COMMUNICATION CENTRES UPGRADED, EXPANDED

The centralized Customer Communication Centres (CCC), which celebrated their first full year of operation in 1998, experienced their "trial by ice" in January by fielding as many as 30,000 calls a day in round-the-clock operations. An analysis of the ice storm response led to the installation of new call flooding technologies that enable automated reporting of outages directly from the customer to the appropriate service centre.

During the year as well, a Customer Loyalty Centre was set up within CCC's operation. The centres handle billing and service inquiries and

issues for over 900,000 retail customers. The Customer Loyalty Centre works with customers to quickly resolve their concerns, taking corrective or compensatory action when necessary. By tracking complaints, the centre can help determine the nature and scope of service failures and assist in identifying policy and process changes that lead to improvements.

Consolidating the customer telephone service to the Customer Communication Centres allowed the extension of service hours: customers can now call from 7:30 a.m. until 6:00 p.m. This year the centres will increase availability to customers even more. Although 24-hour emergency outage response service has always been provided, a new call answering system will be brought on line, allowing a higher volume of outage emergency calls. As well, the centres will implement a further extension to hours, opening up our regular lines until 8:00 p.m.

OH TELECOM VENTURE

OHSC began preparing in 1998 to launch telecommunications. As a "carriers' carrier," OH Telecom may transmit data and voice communications through its optical fibre network in Ontario for clients such as long-distance telephone carriers, Internet service providers and corporations with large-scale data transfer requirements.

RETAIL MERCHANT COMPETITIVE SERVICES

Commercially oriented services were introduced by OHSC in 1998. Indeed, this is an example of the OHSC strategy of building competitive businesses by leveraging existing assets and expertise. All its non-regulated energy services are offshoots of its resident skills and are aimed at identified market opportunities that have been carefully analyzed for their growth potential.

PAYONE PROGRAM LAUNCHED

PayONE is a sophisticated bill consolidation and utility accounting service aimed at commercial and institutional customers with multiple sites, such as restaurant chains, property management companies, retailers and school boards. The program, piloted with McDonald's locations in Ontario, collects all the utility bills the customer receives (such as electricity, gas, water and sewage), verifies them, pays the utility and sends a single, electronic consolidated bill in a format that best suits the customer's needs. Besides freeing up accounting staff and saving customers money in other ways, the service provides utility usage and cost profiles, trending and benchmarking that will support operating decisions and help set budgets. PayONE signed up several clients in 1998 and more are expected in 1999.

CUSTOM SOLUTIONS

Commercial and industrial energy management is a growing business sector and Custom Solutions is already in this business, with some early notable successes under its belt. The largest was a project to identify, design, implement and finance utility cost-saving opportunities for Cadillac Fairview at 18 commercial properties across Ontario. Total savings of $1.1 million annually were identified on a one-time investment of $3.2 million.

Other services include PowerSelect, which addresses power quality requirements, and Utility Accounting and Analysis. This latter service, among other things, simplifies, compares and analyzes billing data for multi-site customers and gives them a historical view of their electricity consumption and operating costs.

NORTHWIND TORONTO PROJECT

OHSC, in a commercial alliance with Toronto

Hydro and Unicom Thermal Technologies of Chicago, is developing Canada's first major district cooling project, which will provide services in Toronto's downtown core.

OPEX 2000

In January 1999, OHSC's program to achieve operational excellence was launched. By overhauling old processes or introducing new ones, OpEx 2000 will enable OHSC to optimize capital and productivity, and deliver excellent customer service. In short, through OpEx 2000, we will ensure we are running effectively and efficiently – and that we have what it takes to thrive in the competitive marketplace.

Several key processes and initiatives, critical to business success, constitute OpEx 2000: Customer Service; Distribution Network Asset Management; Transmission Network Asset Management; Design and Construction; Resource Management (Scheduling and Bid/Work Ordering); Operations, Maintenance and Restoration; Logistical Support (Trades Training, Supply Management, Fleet Management); Facility Management; Performance Management; Health, Safety and Environment; and Change Management/Communications.

In 1998, OHSC Forestry achieved the type of productivity gains to be realized through OpEx 2000 process improvements. Through such measures as the consolidation of crews, use of temporary work headquarters to reduce traveling time and the establishment of clear performance objectives, more work was accomplished, more safely, in 1998 than in 1997. This achievement is even more significant given the fact that all regular forestry work had to be suspended for six weeks in early 1998 because of the ice storm restoration demands.

LARGE-SCALE YEAR 2000 TEST

On March 6, 1999, Ontario's first major test of Y2K readiness of OHSC's transmission network was successfully conducted without any interruption of power to the 180,000 customers of Toronto Hydro that might have been affected. At midnight, the SCADA system for Manby Transmission Station and the seven other transmission stations it controls, as well as all associated protection and communications equipment, underwent a simulated rollover to midnight, January 1, 2000. While each of these systems had been previously tested individually and certified Year 2000 ready, this was the first test of all the equipment working together. The test then continued until the clocks on the equipment successfully passed the simulated date of February 29, 2000, another critical date because next year is a leap year.

ARC2000 PROJECT

Another key program was launched in the first quarter of 1999 to develop an information technology architecture for OHSC that will govern how the business acquires, builds, modifies and uses information technology (IT) resources, from applications and databases, to network, software and hardware components. OHSC's independence, and the expanded information demands of an open marketplace, require considerable investment in these areas. Electronic interactions with the Independent Electricity Market Operator and generating companies, emerging regulatory requirements and both the OpEx 2000 and Market Ready initiatives are examples of significant IT-enabled projects either in progress or in the advanced planning stages. ARC2000 will establish an integrated framework of principles, specifications, standards and directions to guide these and all other such projects in OHSC's future.

Ontario Hydro's investment in Luz del Sur yielded a 16% dividend as the Peruvian electricity distribution company continued to grow and improve productivity.

PHASE SHIFTERS AUGMENT MICHIGAN-ONTARIO CONNECTION

Under the terms of the recently signed Michigan-Ontario Interconnection Facilities Expansion Agreement between OHSC and two Michigan utilities, two phase-shifting transformers will be installed and operational by mid-2000 at Lambton and another will be installed in Michigan by Detroit Edison, along with a new autotransformer. This joint project will enhance electricity transactions between the two jurisdictions and increase Ontario's capacity to import from the U.S. and relieve congestion on the east-to-west movement of power.

GREENCHOICE GENERATION

Some customers want to choose to have part of their electricity come from renewable energy sources. Through our GreenChoice Generation pilot, some of OHSC's retail customers have that option. Although "green" energy costs slightly more, some companies are willing to pay the extra dollars to know that green power is being added to the grid. GreenChoice Generation customers receive a plaque showing how much of their energy comes from environment-friendly sources and are authorized to use the EcoLogo symbol on company letterhead and promotional materials.

ONTARIO HYDRO INTERNATIONAL INC.

Ontario Hydro International's 15% investment in Luz del Sur yielded a 16% dividend for 1998 as the Peruvian electricity distribution company continued to grow and improve productivity. Although the Peruvian economy was hit by adverse El Niño weather and affected by the Asian economic slowdown, Luz del Sur's energy sales grew by 10% as the number of customers grew by 2%. Continuing efforts to improve the performance of the distribution system resulted in a 17% reduction in energy losses.

During 1998, Ontario Hydro assisted Luz del Sur to introduce a state-of-the-art thermovision unit for preventive maintenance on its transmission and distribution network. This technology will help LDS further reduce operations and maintenance costs.

In Central America, OHII directed Ontario Hydro's assistance to Honduras in the wake of Hurricane Mitch. Hydro pledged $500,000 for expertise and equipment to help restore electricity to the devastated country. Two technicians were quickly sent to work with the Honduran utility to assess reconstruction needs.

Gateway to the Electricity Marketplace

CENTRAL MARKET OPERATIONS' ROLE AS THE MINUTE-BY-MINUTE GUARDIAN OF ONTARIO'S TRANSMISSION SYSTEM SECURITY DID NOT CHANGE WHEN IT BECAME THE PROVINCE'S INDEPENDENT ELECTRICITY MARKET OPERATOR, BUT ITS MANDATE WAS GREATLY ENLARGED TO INCLUDE MANAGEMENT OF ONE OF NORTH AMERICA'S LARGEST POWER MARKETPLACES.

Ontario Hydro's Central Market Operations (CMO) has faced extraordinary challenges during the past 15 months, beginning with the January 1998 ice storm, which felled several large sections of the transmission system in Eastern Ontario. During the storm and its aftermath, CMO staff worked around the clock, and in close cooperation with both the Generation and Services companies, to deal with the numerous outages, adjust system equipment and minimize the impact of the storm on the rest of Ontario and on interconnections with other jurisdictions.

Six months later, another climatic extreme, this time a prolonged heat wave in several large areas of North America, shattered peak power demand records and put unprecedented pressures on the continental interconnected network. Again, CMO staff worked closely with the rest of Ontario Hydro and with other jurisdictions to not only meet the province's record demand but also export power to other jurisdictions. Despite these challenges posed by the heat wave and the ice storm, CMO met or exceeded all performance targets of the North American Electricity Reliability Council (NERC) throughout this period.

In addition to safeguarding bulk electricity system security, CMO staff played a key role in the development of Ontario's future competitive electricity marketplace. CMO specialists were represented on all technical panels of the government-appointed Market Design Committee, as well as on the rules drafting team and the Coordination Committee.

CMO TO IMO: THE TRANSITION

During 1998, work began on the infrastructure program to transform CMO into the Independent Electricity Market Operator (IMO) called for in the *Energy Competition Act, 1998,* the provincial legislation that restructures Ontario's electricity system. This program, which will continue throughout the rest of 1999, will deliver the design, development, documentation, testing, commissioning and implementation of the critical operational infrastructure of the IMO. By year-end, independent systems for financial and treasury management were already in place, and the entire program is on schedule to meet all deadlines required for the opening of the marketplace.

Ontario Hydro Corporate Activities

Sustainable Development: A Key Element of Future Competitive Success

Environmental performance is increasingly viewed as a key customer consideration that will grow in importance as the competitive power market matures. Given similar prices, many customers will prefer a supplier with a strong environmental track record. Market research shows that many customers are willing to pay at least a modest premium for power that they know has been produced in environmentally sensitive ways. Moreover, investors are becoming keenly interested in how environmental obligations are managed, ongoing compliance assured and potential liabilities avoided.

For these reasons, Ontario Hydro's commitment to sustainable development practices has laid the foundation for the competitive success of its successor companies. Sustainable development – conducting business in a way that meets current needs without compromising the ability of future generations to meet theirs – is not so much a specific program as a way of thinking about three "bottom lines": financial, social and environmental.

The financial aspects of sustainable development activities in both successor companies focus on two major objectives: getting more value from environmental expenditures and reducing future environmental risks and liabilities through sound environmental management programs and, where necessary, remediation efforts. The social bottom line, on the other hand, drives us to earn the respect and loyalty of our customers, including those in the communities within which we operate. There are many ways in which this objective is pursued, principal of which is an honest and transparent disclosure of the environmental impacts of our operations. OPG, for example, will continue to consult with established environmental advisory groups around its major generating stations and is actively engaging the local community, as did Ontario Hydro, on how it can better respond to their needs.

Ontario Hydro's environmental performance commitments were embodied in the adoption of the ISO 14001 standards for Environmental Management Systems by all of the businesses within the corporation.

The following are some of the many sustainable-development-oriented projects completed during the past 15 months.

Deer Lake Mini-Hydro

Deer Lake is one of the 23 communities served by OHSC's Remote Communities group. It is accessible only by air or winter road. Until recently, the community's electricity was supplied by three diesel generators. With the community load demand outstripping existing plant capability, Ontario Hydro Technologies installed two 245-kilowatt mini-hydroelectric generators at nearby Shoulderblade Falls. This project was partnered with the Remote Communities group, Deer Lake First Nation and the federal Department of Indian Affairs and Northern Development. This installation will provide nearly 90% of the community's power needs and significantly reduce dependence on diesel fuel.

Emissions Reduction Trading

Since 1996, Ontario Hydro has participated with other industries, government and non-governmental organizations in the Pilot Emissions Reduction Trading (PERT) Project. The goal of the project, in which Ontario Hydro's successors will continue to participate, is to provide market incentives to improve environmental

Ontario Hydro has helped reduce nitrogen oxide emissions in eastern North America, and its generation successor company will steadily add to that contribution.

performance. By voluntarily investing in equipment and practices that reduce emissions, PERT member companies earn credits, which can be bought or sold, for each tonne of emissions reduced. In 1998, Ontario Hydro purchased credits from Beaver Fuels, enabling that company to sell cleaner gasoline without raising prices at the pump, and sold nitrogen oxide credits to the Hartford Steam Boiler Company in Connecticut. Ontario Hydro's participation in this innovative program helped reduce nitrogen oxide emissions in eastern North America, and its generation successor company will steadily add to that contribution.

Restoring the Storm-Damaged Landscape

Thousands of trees in Eastern Ontario were killed by the January 1998 ice storm. Estimates placed tree damage as high as 70% in the Ottawa-Kingston corridor alone. To aid in environmental restoration, Ontario Hydro donated $50,000 to the Evergreen Foundation to fund a program enlisting volunteer support to plant new trees in the region. Three thousand trees – among them red maple, grey birch, green ash, white spruce, trembling aspen, white oak, white elm and linden – were distributed to 35 schools and 28 community groups.

Human Resources/Health and Safety Performance

To meet the needs of the business, including the unique requirements of the nuclear recovery program and the challenges associated with the demerger of Ontario Hydro, Corporate Human Resources:

- redefined the business relationship with 95% of 21,000 employees and greatly improved operational flexibility by successfully negotiating separate collective agreements for each of the successor businesses;
- allocated approximately 21,000 employees and 15,000 pensioners to the successor companies without a single grievance;
- due to excellent cooperation with the unions, resolved a backlog of more than 3,100 grievances with as few as 10% being resolved by a third party;
- defined new organizational structures, responsibilities and accountabilities;
- introduced a new, contemporary Code of Business Conduct designed to reinforce the culture required of the companies in a competitive marketplace;
- introduced a new and integrated payroll system designed to contribute to improved productivity and ensure Year 2000 compliance;
- enhanced recruitment systems for new and existing skills;
- developed succession planning and executive development programs to ensure effective leadership and management capability in the future; and
- organized and administered Ontario Hydro's 10th annual Corporate Awards program to recognize and celebrate the excellence, ingenuity and capability of employees in the areas of customer service, safety, environmental sustainability, technology and innovation; the various projects saved the corporation over $154 million.

Health and Safety

- The unfortunate death of an employee in a March 1999 motor vehicle accident was the corporation's first fatality since 1994.
- Although the number of days lost/charged per million hours worked (Accident Severity

Rate) was higher in 1998 than in 1997, this critical indicator of occupational health and safety has nevertheless improved by more than 200% over the last five years.
• The All Injury Frequency Rate, which tracks the number of incidents occurring within the corporation, improved in 1998.

Ontario Hydro Technologies

Throughout 1998, Ontario Hydro Technologies (OHT) supported a wide range of specialized needs from Hydro's business units. OHT achieved ISO 9001 certification in 1998. In April 1999, OHT was renamed Ontario Power Technologies, a wholly owned subsidiary of Ontario Power Generation.

Environmental Land Assessment: OHT conducted a major soils testing program for OHSC, sampling nearly 1,000 transmission, distribution and microwave communication sites in the province, and conducted comprehensive testing through its analytical chemistry laboratory. This project was part of OHSC's Land Assessment and Remediation Program and was one of the largest programs of its kind ever conducted in Canada.

Extensive assistance was provided to generating station operations including:
• a comprehensive review and predictions of corrosion and deuterium uptake in operating pressure tubes for Nuclear;
• new methods for flaw assessment in fuel channels at Bruce B and assessments for Bruce, Darlington and Pickering;
• leak detection technologies for steam generators;
• seismic testing of Darlington components;
• outage support for ultrasonic inspection of steam generator tubes at nuclear stations;
• engineering support for nuclear maintenance operations;
• generator stator chemical cleaning at Pickering;
• flow-induced vibration analysis of Bruce B preheater tubes;
• accident/impact/handling analysis of radioactive waste transportation containers;
• emission characterization and consultation on stack sampling methods for Fossil; and
• penstock repairs at High Falls and specialized concrete services at Saunders G.S. for Hydroelectric.

Strategic Research and Development focused on three program areas: Customer Power, including energy efficiency and power quality enhancement; Smart Systems, including advanced system monitoring technologies; and Distributed Generation, such as fuel cells and micro turbines.

Business Development: With its strategic partner, Babcock & Wilcox, OHT launched a new applications company in March 1999 named Integran Technologies Inc. The new company will market an advanced materials technology developed at OHT in collaboration with researchers at the University of Toronto and Queen's University. Applications vary from improved lead acid batteries to wear-resistant materials coatings.

OHT successfully negotiated an exclusive licence agreement with Sumitomo Corporation for the commercialization in Japan of OHT's proprietary technologies for the destruction of PCBs in mineral oil and askarels, as well as for the decontamination of electrical equipment containing PCBs.

Ready for Year 2000

Ontario Hydro's Year 2000 readiness program was always a top priority of the corporation since 1996, when it began. The scope of the program, which continues under the successor companies, includes all necessary remediation of computer-dependent systems, contingency planning and close cooperation with stakeholders and strategic partners. The Y2K team, at times more than 600 professionals, is working with a budget in excess of $100 million on the three-stage program.

Stage One – Operational Sustainability – included the analysis, remediation, testing and Y2K readiness certification of all critical systems. This stage had essentially been completed by year-end 1998. An independent assessment of the program early in 1999 confirmed its basic soundness.

Stage Two – Operational Readiness – tests how the individually certified systems work together. These large-scale integration tests have been successfully conducted at generation sites (Bruce nuclear site, two of four planned fossil generation sites, and at five of seven planned hydroelectric generation sites) as well as at a major representative grid location (a set of transformer stations in the Toronto area). Ontario Hydro and its successor companies have been working with the North American Electricity Reliability Council (NERC) to test interoperability within the continent's Eastern Interconnection, of which Ontario is a component. Also during this stage, which is expected to be completed by mid-1999, Ontario Hydro's successor companies will assess the Y2K readiness of external suppliers, direct customers, municipal electric utilities and independent power producer partners.

Stage Three – Event Readiness. Based on the findings in Stage Two, emergency response and preparedness plans will be developed to ensure safety and reliability across Ontario and to minimize the potential risk from external suppliers and from other external entities. Drills and event simulations will be conducted in cooperation with NERC, and Ontario Hydro's successor companies will work with provincial and municipal agencies to pre-establish responses to unplanned power interruptions. Plans will be put in place to operate the electricity system in a conservative, precautionary posture during the Year 2000 rollover. This stage will be completed by November 1999.

Throughout the entire program, Ontario Hydro shared information with other utilities and participated in cross-industry programs to identify common risks and help find solutions. Moreover, information on Y2K readiness progress is made available to customers and other stakeholders through frequent publications and on the OPG and OHSC websites.

As this overview shows, Ontario Hydro took all possible actions to ensure the reliability of Ontario's power system when the clock ticks over at the end of 1999. As a result of these precautions, which the successor companies are completing, the direct impact of this unique event in human history is expected to be manageable in Ontario.

Financial Section

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Financial Review and Analysis

FINANCIAL HIGHLIGHTS FOR THE THREE MONTHS ENDED MARCH 31, 1999

Ontario Hydro carried on business for the three months ended March 31, 1999, before operations were transferred to one of the successor entities upon the restructuring of the Corporation. During the three months, operations were typical compared to previous years' experiences, and were in accordance with plan. There were no significant, unforeseen events that affected the Corporation's operating results or financial position.

A summary of the financial highlights for the three months ended March 31, 1999, and March 31, 1998, is as follows:

(millions of dollars)	MARCH 31 1999	1998 *(unaudited)*
Revenues	**2,594**	2,484
Costs	**1,463**	1,250
Financing charges	**687**	734
Net income	**444**	500
Cash provided from operations	**806**	719
Cash used for investing activities	**149**	228
Cash used for financing activities	**587**	401
Interest coverage	**1.66**	1.71
Debt ratio	**1.086**	1.135

Net income for the first three months of 1999 was $444 million, down $56 million from 1998's first quarter. While revenue for the three months ended March 31, 1999, was $110 million higher and financing charges were $47 million lower, these were more than offset by a $213 million increase in costs.

Total revenue of $2,594 million for the first three months of 1999 is $110 million higher than revenue during the first quarter of 1998. Primary power and energy revenue of $2,511 million for the three months ended March 31, 1999, is $86 million higher than the $2,425 million revenue for the first three months of 1998. Energy sales increased in 1999 because warmer than usual weather conditions during the first quarter of 1998 lowered demand during that period.

Secondary power and energy revenue of $21 million for the three months ended March 31, 1999, is $16 million higher than the same period in 1998 because of increased energy sales outside the Province.

Other revenue of $62 million for the three months ended March 31, 1999, is $8 million higher than the $54 million for the first three months of 1998 because of a gain on investments.

Costs of $1,463 million for the three months ended March 31, 1999, are $213 million higher than the $1,250 million of costs for the first three months of 1998. The changes are as follows:

- $167 million increase in operation, maintenance & administration (OM&A) costs,
- $44 million increase in fuel used for electric generation,
- $17 million decrease in power purchased, and
- $19 million increase in depreciation and amortization.

OM&A costs are higher by $167 million for the three months ended March 31, 1999, compared to the same period in 1998. Significant variances are as follows:

- $50 million for repairs resulting from the 1998 ice storm, which were charged to the provision for future costs, lowered the costs charged to OM&A in 1998 compared to 1999,
- $30 million for increased integrated improvement program work in nuclear operations,
- $15 million preparing the Electricity Production, Merchant Function and Business Services groups to operate in the new business environment beginning April 1, 1999.

Included in OM&A costs for the three months ended March 31, 1999, is $37 million attributable to the final closing of Ontario Hydro's financial records, and a $23 million adjustment for obsolete nuclear materials inventory. This is dissimilar to March 31, 1998, because the prior year's first quarter results are on the basis of operations continuing as usual for the remainder of 1998.

The cost of $141 million for fuel used for electric generation during the first three months of 1999 is $44 million higher than the cost for the first three months of 1998, which is consistent with increased fossil generation and higher energy sales. Power

purchased costs are $17 million less for the three months ended March 31, 1999, compared to the same period last year, because some of the purchases during the first three months of 1999 supported the Nuclear Asset Optimization Plan (NAOP) and the costs were charged to the provision for future costs.

Depreciation costs of $402 million are $19 million higher for the three months ended March 31, 1999, compared to the same period in 1998, which is consistent with fixed assets in service being higher as at March 31, 1999.

Financing charges of $687 million decreased $47 million for the first three months of 1999 compared to the same period in 1998, because of lower debt outstanding and lower interest rates on refinancings.

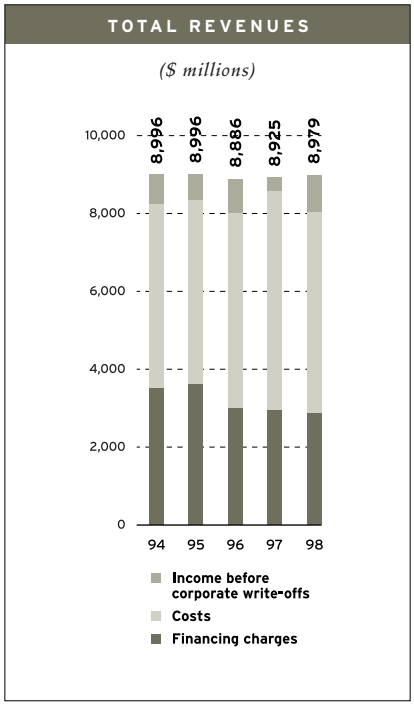
During the three months ended March 31, 1999, there was a $587 million reduction in debt compared to a $401 million reduction in the first quarter of 1998.

$149 million of cash from operations was invested in fixed and other assets during the three months ended March 31, 1999, compared to $228 million during the first quarter of 1998. Debt outstanding was reduced to $30,527 million as at March 31, 1999 from $31,221 million as at December 31, 1998.

FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 1998

Ontario Hydro's net income for 1998 was $1,831 million, compared with a net loss of $6,326 million in 1997. The results for the two years are not comparable due to the following significant items, which affected net income in each year. In 1997, the Board of Directors approved a number of charges and write-offs to current year's operations totaling $6,580 million, while in 1998 there were no write-offs. In 1998, there was a $887 million favourable adjustment to income to recognize the benefit associated with the Corporation having access to pension fund surplus. Access to the pension fund surplus arose as the result of changes included in the *Energy Competition Act, 1998*, enacted by the Government of Ontario (Government) in October 1998.

Ontario Hydro's 1998 income, before adjustment for the impact of the future employer pension contribution holidays, was $944 million. While this is $690 million higher than the corresponding figure for 1997, again, the results are not completely comparable because, in 1998, costs totaling $1,486 million were charged against a provision established at the end of 1997 for future costs, related principally to the nuclear recovery program, which could not be recovered through existing rates. In 1997, similar expenditures at a lower level were charged to operations.



Total revenues for 1998 were $8,979 million, $54 million higher than in 1997. This is the result of an $88 million increase in primary sales, partially offset by lower secondary sales and other revenues. Operating costs for 1998, excluding financing charges, amounted to $5,159 million, a decrease of $423 million from 1997. This reduction primarily reflects use of the 1997 provision for future costs. Financing charges of $2,876 million were $213 million lower than in 1997 mainly due to lower interest and foreign exchange costs.

Cash provided from operations decreased to $1,488 million in 1998 from $2,026 million in 1997. Proceeds of $5,698 million were received from the issuance of debt for long-term financing in 1998, compared to $2,321 million in 1997. The 1998 proceeds include three Canadian dollar domestic issues,

a global market United States dollar bond issue, a global market Canadian dollar bond issue, a Canadian dollar Euro medium-term note issue, a private placement with the Province of Ontario (Province) and the issuance of Canadian dollar short-term notes and United States dollar-denominated commercial paper. In 1998, $5,899 million of cash was used to retire debt issued for long-term financing, compared with $3,257 million in 1997. Cash paid on settlement of swaptions amounted to $142 million in 1998, compared with $292 million in 1997.

Cash invested in fixed assets during 1998 was $823 million, compared with $881 million in 1997. Including changes in non-cash balances related to fixed assets, investment in fixed assets was $865 million in 1998 and $852 million in 1997.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1998

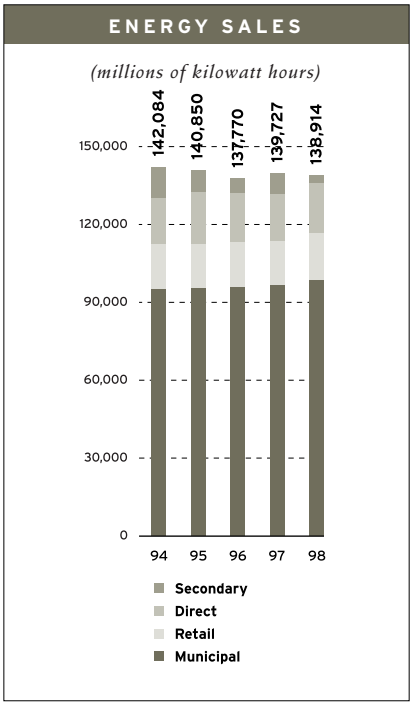
REVENUES

Primary Revenues

Primary revenues for 1998 amounted to $8,524 million, an increase of $88 million over 1997. The increase reflects broadly based growth in demand in the municipal, commercial and industrial sectors. Demand was sufficiently robust to offset the impact of the January ice storm, negative winter weather effects due to El Niño, and strikes affecting two large industrial customers. Municipal sales revenues rose by $145 million or 2.5 per cent over 1997, primarily due to higher sales volumes from air conditioning load in the warmer summer months and an increased level of commercial activity. Sales to retail customers in 1998 fell by $50 million or 3.1 per cent, reflecting milder winter weather and the continuing impact of moving customers to lower rate classes, as well as a reduction in late payment and service charges. Sales to direct industrial customers remained fairly steady at $917 million, compared with $924 million in 1997.

Secondary Revenues

Secondary power and energy revenues, mainly from surplus energy exports to utilities in the United States, amounted to $148 million in 1998, a $25 million or



14.4 per cent decrease from 1997. The lower sales are primarily due to a lack of available generation as a result of the nuclear recovery program, partially offset by very favourable spot market prices during the June to September period due to tight supply conditions in the midwestern portion of the United States, and hotter than normal weather.

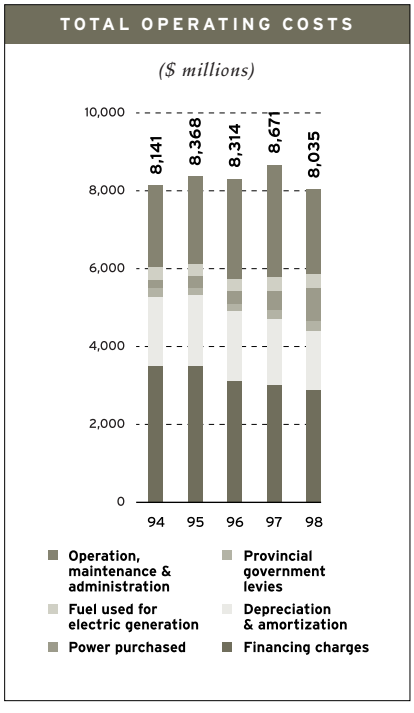
Other Revenues

Other revenues of $307 million in 1998 decreased by $9 million from 1997, due mainly to lower heavy water and isotope sales and a decrease in consulting revenues, partially offset by a gain on the sale of surplus land.

COSTS

In 1997, Ontario Hydro's Board of Directors used its rate-setting authority to establish a provision for future costs against which certain expenditures, primarily related to the nuclear recovery program, would be charged as incurred from 1998 to 2001. This provision included an allowance for additional fuel costs expected to be incurred by having to place greater reliance upon fossil generation and purchased power, as well as related financing costs. The provision is more fully described in note 7 to the 1998 Consolidated Financial Statements. In 1998, a total

of $1,486 million was charged to the provision for future costs. $1,231 million of this was related to the nuclear recovery program and the remainder was related to other costs.



Ontario Hydro's operating costs for 1998, excluding financing charges, totaled $5,159 million, $423 million lower than in 1997. This is primarily the result of the use in 1998 of the provision for future costs established at the end of 1997. Fixed operating costs of $4,662 million, consisting of provincial government levies, depreciation and amortization and financing charges, decreased by $282 million or 5.7 per cent from $4,944 million for 1997, mainly as a result of lower interest and foreign exchange costs.

Operation, Maintenance and Administration

OM&A costs of $2,178 million for the year ended December 31, 1998, decreased by $13 million from 1997. As indicated earlier, this variance results principally from the fact that preliminary costs of the nuclear recovery program in 1997 were charged to operations. In 1998, OM&A costs of $589 million, relating mainly to the nuclear recovery program, were charged to the 1997 provision for future costs.

Fuel Used For Electric Generation

The cost of fuel used for electric generation comprises the costs for coal, uranium, oil and water rental payments other than those made to the Province. The cost of fuel used for electric generation in 1998 was $350 million, a decrease of $347 million or 49.8 per cent from 1997, after charging $690 million in costs related to the replacement of nuclear production by higher-cost fossil production to the 1997 provision for future costs. Overall, internal generation in 1998 of 125,972 million kilowatt-hours was lower than generation in 1997 of 131,005 million kilowatt-hours, due to the nuclear recovery program. The shortfall in generation was compensated for by higher power purchases.

Power Purchased

Electricity purchases in 1998 amounted to $845 million, an increase of $6 million over 1997, after charging $78 million in costs related to the replacement of nuclear production by increased power purchases to the 1997 provision for future costs. The amount of power purchased in 1998 amounted to 16,992 million kilowatt-hours compared to 13,750 million kilowatt-hours in 1997, an increase of 24 per cent. The increase reflects a rise in power purchases from utilities in Canada and the United States as a result of lower internal generation due to the nuclear recovery program, and an increase in contracted generation from independent power producers. Ontario Hydro also buys electricity when it is economical to do so, during periods of peak demand or in emergencies, and to manage acid gas emission levels.

Provincial Government Levies

Provincial government levies totaled $274 million in 1998, a slight reduction from $277 million in 1997.

Ontario Hydro is required to pay to the Province an annual debt guarantee fee equal to one half of one per cent on the total debt guaranteed by the Province outstanding on the preceding December 31. The fee for 1998, based on guaranteed debt outstanding as at December 31, 1997, was relatively unchanged at $155 million compared with $156 million in 1997, as the year-over-year guaranteed debt level remained stable.

Provincial water rental payments, related to

Ontario Hydro's use of provincial waters in the operation of its hydroelectric stations, also remained relatively stable at $119 million in 1998 compared with $121 million in 1997.

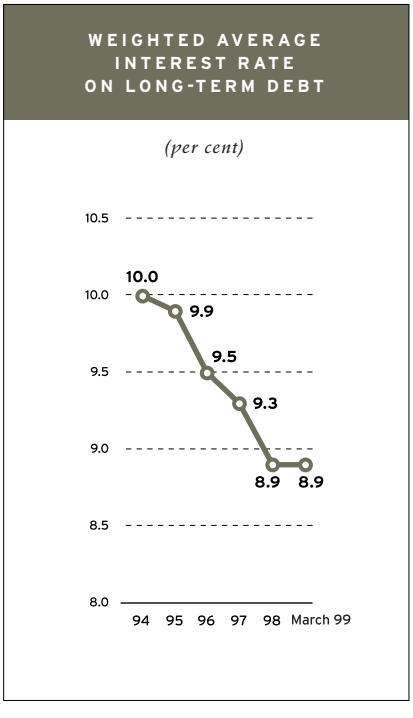
In 1998, Ontario Hydro paid approximately $224 million to various government agencies for provincial sales taxes, employment insurance premiums, Canada Pension Plan contributions, employer health tax payments and payments in lieu of realty taxes.

Depreciation and Amortization

Depreciation and amortization charged to operations totaled $1,512 million in 1998, a decrease of $66 million or 4.2 per cent from 1997 mainly due to reversals in 1998 of decommissioning and rehabilitation provisions for certain generating stations. In 1998, depreciation and amortization of $83 million, relating to the nuclear recovery program, was charged to the 1997 provision for future costs.

Financing Charges

Financing charges comprise interest charged to operations and foreign exchange costs. Interest charged to operations represents gross interest costs reduced by capitalized interest and interest earned on investments.



Foreign exchange costs comprise amounts related primarily to the amortization of exchange gains or losses on the principal amount of foreign debt and foreign exchange risk management activities.

Interest and foreign exchange charged to operations was $2,876 million in 1998, $213 million or 6.9 per cent lower than in 1997, after charging $46 million in interest costs related to the nuclear recovery program to the 1997 provision for future costs. Favourable impacts, due to a net reduction in the average level of long and short-term debt outstanding and a lower net weighted average interest rate on debt and accumulated provisions for fixed asset removal and used nuclear fuel disposal costs, were partially offset by an increase in the level of accrued provisions and a reduction in interest capitalized. Foreign exchange costs for 1998 decreased by $88 million, primarily due to favourable results from foreign exchange risk management activities.

Financial Indicators

The Corporation's financial performance is monitored using two main indicators: interest coverage ratio and debt ratio.

The level of interest coverage measures the extent to which net income enables Ontario Hydro to meet its gross interest payments. An increase in the interest coverage ratio indicates a strengthening in the Corporation's financial condition. The 1998 level of interest coverage was 1.34 based on income before the deferred pension asset adjustment, compared to the 1997 interest coverage level of 1.09 based on income before corporate write-offs.

The debt ratio measures the extent to which Hydro's assets are financed by debt. A reduction in the debt ratio indicates a strengthening in financial position, as a relative increase in equity provides additional financial flexibility. The debt ratio at the end of 1998 was 1.100, compared to the 1997 ratio of 1.153. The improvement is due primarily to net income.

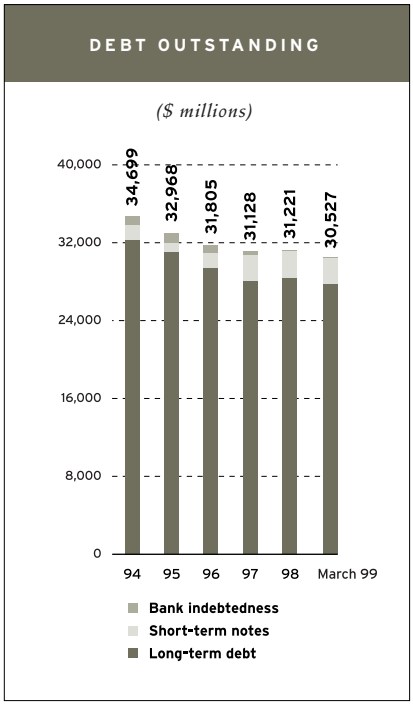
FINANCING AND INVESTING ACTIVITIES

Financing and Capital Markets

Ontario Hydro's cash from operations in 1998 was sufficient to cover capital expenditures for 1998 and

to reduce the level of outstanding debt. Gross borrowing was required primarily for refinancing maturing issues and taking advantage of opportunities to minimize interest expense.

In 1998, on a cash basis, there was a net debt reduction of $343 million, compared to a net debt reduction of $458 million in 1997.



Proceeds of $5,698 million were received from the issuance of debt for long-term financing in 1998, compared to $2,321 million in 1997. The 1998 proceeds include three Canadian dollar domestic issues totaling $675 million; a global market United States dollar bond issue of $750 million (Cdn. $1,092 million); a global market Canadian dollar bond issue of $1,350 million; a Canadian dollar Euro medium-term note issue of $250 million; a $500 million private placement with the Province; and the issuance of Canadian dollar short-term notes and United States dollar-denominated commercial paper.

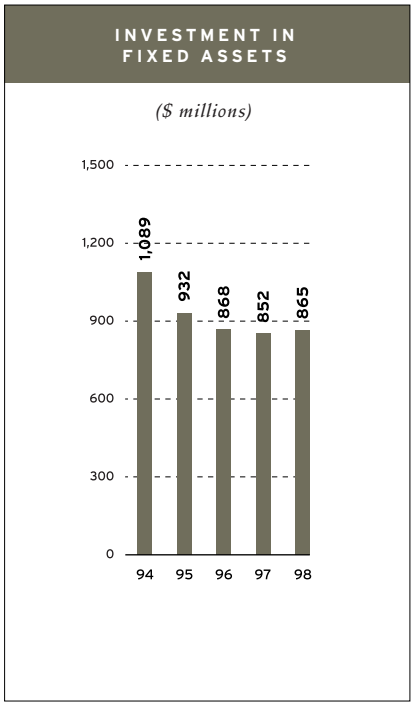
In 1998, $5,899 million of cash was used to retire debt issued for long-term financing, compared to $3,257 million in 1997. Cash paid on settlement of swaptions amounted to $142 million in 1998, compared to $292 million in 1997.

Investment in Fixed Assets

Ontario Hydro invests in fixed assets to maintain service, reliability, safety and environmental performance and to meet regulatory requirements. The total assets of the Corporation at the end of 1998 were $40,023 million, 88 per cent of which represented fixed assets in service or under construction.

The cash required by Ontario Hydro, to finance its investment in fixed assets, has historically come from two major sources; operations and financing through borrowing. As was the case in 1997, sufficient cash was generated from operations in 1998 to finance investment in fixed assets.

Investment in fixed assets was $865 million in 1998 and $852 million in 1997. Of this total investment, $503 million (1997: $591 million) was spent on generating facilities and $362 million (1997: $261 million) was invested in major transmission and distribution facilities.



Management Report

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Ontario Hydro are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. Ontario Hydro chooses accounting principles appropriate to its circumstances. The significant accounting policies followed by Ontario Hydro are described in the Summary of Significant Accounting Policies contained in note 2 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 23, 1999.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable financial information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluated the effectiveness of these internal controls on an ongoing basis and reported its findings to management and the Audit Committee of the Ontario Hydro Board of Directors.

The financial statements have been examined by Ernst & Young LLP, independent external auditors appointed by the Lieutenant Governor in Council of Ontario. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report, which appears below, outlines the scope of their examination and their opinion.

For the three months ended March 31, 1999 and year ended December 31, 1998, the Ontario Hydro Board of Directors, through the Audit Committee, was responsible for ensuring that management fulfilled its responsibilities for financial reporting and internal controls. The Audit Committee met periodically with management, the internal auditors and the external auditors to satisfy itself that each group had properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of Ontario Hydro's financial reporting and the effectiveness of the system of internal controls.

As at April 1, 1999, the Board of Directors of Ontario Hydro was dissolved and Ontario Hydro continues as the Ontario Electricity Financial Corporation (OEFC) with a new Board of Directors appointed pursuant to the *Electricity Act, 1998*.

On behalf of Ontario Hydro Management,

President & Chief Executive Officer, Ontario Hydro, as at March 31, 1999

Chief Financial Officer, Ontario Hydro, as at March 31, 1999

Toronto, Canada,
June 23, 1999

Auditors' Report

TO THE BOARD OF DIRECTORS OF ONTARIO ELECTRICITY FINANCIAL CORPORATION:

We have audited the consolidated statement of financial position of Ontario Hydro as at March 31, 1999 and December 31, 1998, and the consolidated statements of operations and (deficit) retained earnings, and cash flows for the three months ended March 31, 1999 and year ended December 31, 1998. These financial statements are the responsibility of Ontario Hydro's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Ontario Hydro as at March 31, 1999 and December 31, 1998, and the results of its operations and its cash flows for the three months ended March 31, 1999 and year ended December 31, 1998, in accordance with generally accepted accounting principles.

Ontario Hydro's accounting policies differ from those followed by enterprises that are not rate-regulated as described in note 2(a) to these financial statements.

Ernst & Young LLP

Chartered Accountants

Toronto, Canada,
June 23, 1999

Consolidated Statement of Operations and (Deficit) Retained Earnings

(millions of dollars)

	THREE MONTHS ENDED MARCH 31 1999	YEAR ENDED DECEMBER 31 1998	1997
REVENUES			
Primary power and energy			
Municipal utilities	**1,790**	6,019	5,874
Retail customers	**456**	1,588	1,638
Direct industrial customers	**265**	917	924
	2,511	8,524	8,436
Secondary power and energy *(note 3)*	**21**	148	173
Other revenues	**62**	307	316
	2,594	8,979	8,925
COSTS			
Operation, maintenance and administration	**619**	2,178	2,191
Fuel used for electric generation	**141**	350	697
Power purchased	**232**	845	839
Provincial government levies *(note 4)*	**69**	274	277
Depreciation and amortization *(note 5)*	**402**	1,512	1,578
	1,463	5,159	5,582
INCOME BEFORE FINANCING CHARGES, CORPORATE WRITE-OFFS AND DEFERRED PENSION ASSET ADJUSTMENT	**1,131**	3,820	3,343
Financing charges *(note 6)*	**687**	2,876	3,089
INCOME BEFORE CORPORATE WRITE-OFFS AND DEFERRED PENSION ASSET ADJUSTMENT	**444**	944	254
Corporate write-offs *(note 7)*	**–**	–	(6,580)
Deferred pension asset adjustment *(note 18)*	**–**	887	–
NET INCOME (LOSS)	**444**	1,831	(6,326)
OPENING (DEFICIT) RETAINED EARNINGS	**(3,166)**	(4,537)	2,552
Other post-employment benefits *(note 16)*	**–**	(460)	(763)
Net refunds on annexation by municipalities	**(16)**	–	–
CLOSING DEFICIT	**(2,738)**	(3,166)	(4,537)

See accompanying notes to financial statements.

Consolidated Statement of Financial Position

(millions of dollars)

ASSETS	AS AT MARCH 31 1999	AS AT DECEMBER 31 1998	1997
FIXED ASSETS *(note 8)*			
Fixed assets in service	**50,441**	50,447	49,678
Less accumulated depreciation	**16,473**	16,158	14,934
	33,968	34,289	34,744
Construction in progress	**1,107**	1,023	1,248
	35,075	35,312	35,992
CURRENT ASSETS			
Temporary investments	**245**	225	–
Accounts receivable	**1,106**	1,113	1,104
Fuel for electric generation *(note 10)*	**374**	456	367
Materials and supplies, at cost	**342**	359	322
	2,067	2,153	1,793
OTHER ASSETS			
Deferred debt costs	**1,176**	1,267	971
Deferred pension asset *(note 18)*	**972**	979	112
Long-term accounts receivable and other assets	**310**	312	313
	2,458	2,558	1,396
	39,600	40,023	39,181
LIABILITIES			
Long-term debt *(note 11)*	**26,194**	25,856	24,920
CURRENT LIABILITIES			
Bank indebtedness	**10**	60	37
Accounts payable and accrued charges	**1,315**	1,255	1,233
Short-term notes payable	**2,751**	2,837	2,870
Accrued interest	**744**	687	725
Long-term debt payable within one year *(note 11)*	**1,572**	2,468	3,301
	6,392	7,307	8,166
OTHER LIABILITIES			
Other post-employment benefits	**1,316**	1,292	760
Unamortized swaption premiums *(note 13)*	**11**	21	92
Long-term accounts payable and accrued charges	**593**	608	548
Accrued fixed asset removal and used nuclear fuel disposal costs *(note 14)*	**3,307**	3,201	2,842
Provision for future costs *(note 7)*	**4,525**	4,904	6,390
	9,752	10,026	10,632
CONTINGENCIES & COMMITMENTS *(notes 12 & 15)*			
DEFICIENCY			
Deficit *(note 16)*	**(2,738)**	(3,166)	(4,537)
	39,600	40,023	39,181

See accompanying notes to financial statements.

Consolidated Statement of Cash Flows

(millions of dollars)

	THREE MONTHS ENDED MARCH 31 1999	YEAR ENDED DECEMBER 31 1998	1997
OPERATING ACTIVITIES			
Net income (loss)	**444**	1,831	(6,326)
Adjust for non-cash items			
Depreciation and amortization	**402**	1,512	1,578
Corporate write-offs	**–**	–	6,580
Deferred pension asset adjustment	**–**	(887)	–
Amortization of foreign exchange gains and losses	**25**	113	125
Provision for used nuclear fuel disposal costs	**23**	52	55
Interest on accrued provisions	**45**	160	164
Other	**12**	96	(34)
	507	1,046	8,468
	951	2,877	2,142
Provision for future costs			
Change in NAOP provision	**(326)**	(1,231)	–
Change in other provisions	**(53)**	(255)	–
	(379)	(1,486)	–
	572	1,391	2,142
Net change in non-cash balances related to operations *(note 17)*	**234**	97	(116)
	806	1,488	2,026
INVESTING ACTIVITIES			
Fixed assets	**(136)**	(865)	(852)
Other assets	**(13)**	(78)	(109)
	(149)	(943)	(961)
Change in cash position before financing activities	**657**	545	1,065
FINANCING ACTIVITIES			
Debt for long-term financing			
Issued	**1,000**	5,698	2,321
Retired	**(1,587)**	(5,899)	(3,257)
Net financing activities	**(587)**	(201)	(936)
Re-issuance of debt for long-term financing previously redeemed	**–**	–	770
Cash paid on settlement of swaptions	**–**	(142)	(292)
	(587)	(343)	(458)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**70**	202	607
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**165**	(37)	(644)
CASH AND CASH EQUIVALENTS AT END OF PERIOD *(note 9)*	**235**	165	(37)

See accompanying notes to financial statements.

Signed only as to the year ended December 31, 1998, on behalf of the Ontario Hydro Board of Directors

Chairman
Toronto, Canada, February 25, 1999

President & Chief Executive Officer

Signed only as to the three months ended March 31, 1999, on behalf of the Ontario Electricity Financial Corporation Board of Directors

Chair
Toronto, Canada, June 23, 1999

Vice-Chair

Supplementary Statement* – Restatement of Consolidated Statement of Operations and (Deficit) Retained Earnings

(Isolating the effect of 1997 provision for future costs)
(millions of dollars)

	THREE MONTHS ENDED MARCH 31 1999	YEAR ENDED DECEMBER 31 1998	1997
REVENUES			
Primary power and energy			
Municipal utilities	**1,790**	6,019	5,874
Retail customers	**456**	1,588	1,638
Direct industrial customers	**265**	917	924
	2,511	8,524	8,436
Secondary power and energy	**21**	148	173
Other revenues	**62**	307	316
	2,594	8,979	8,925
COSTS			
Operation, maintenance and administration	**763**	2,767	2,191
Fuel used for electric generation	**308**	1,040	697
Power purchased	**259**	923	839
Provincial government levies	**69**	274	277
Depreciation and amortization	**418**	1,595	1,578
	1,817	6,599	5,582
INCOME BEFORE FINANCING CHARGES, CORPORATE WRITE-OFFS AND DEFERRED PENSION ASSET ADJUSTMENT AND TRANSFER TO 1997 PROVISION FOR FUTURE COSTS	**777**	2,380	3,343
Financing charges	**712**	2,922	3,089
INCOME BEFORE CORPORATE WRITE-OFFS, DEFERRED PENSION ASSET ADJUSTMENT AND TRANSFER TO 1997 PROVISION FOR FUTURE COSTS	**65**	(542)	254
Corporate write-offs		–	(6,580)
Deferred pension asset adjustment	**–**	887	–
Transfer to 1997 provision for future costs	**379**	1,486	–
NET INCOME (LOSS)	**444**	1,831	(6,326)
OPENING (DEFICIT) RETAINED EARNINGS	**(3,166)**	(4,537)	2,552
Other post-employment benefits	**–**	(460)	(763)
Net refunds on annexation by municipalities	**(16)**	–	–
CLOSING DEFICIT	**(2,738)**	(3,166)	(4,537)

* In 1997, Ontario Hydro's Board of Directors used its rate-setting authority to establish a provision for future costs against which certain expenditures, primarily related to the nuclear recovery program, would be charged as incurred from 1998 to 2001. This Supplementary Statement isolates the effect upon the 1999 and 1998 results of operations of charging certain costs of the year to the 1997 provision for future costs.

See accompanying notes to financial statements.

Notes to Financial Statements

1. RESTRUCTURING OF THE ONTARIO ELECTRICITY INDUSTRY AND EVENTS SUBSEQUENT TO MARCH 31, 1999

The North American electrical utility industry has undertaken initiatives to move away from traditional monopolies towards competitive models that are more conducive to customer choice. On October 30, 1998, the Government of Ontario (Government) enacted the *Energy Competition Act, 1998* (ECA) to restructure the Ontario electricity industry and introduce competition during the year 2000.

Prior to the restructuring, Ontario Hydro was a vertically integrated, rate-regulated electricity utility. On April 1, 1999, Ontario Hydro was restructured into a number of successor entities, as follows:

- Ontario Power Generation Inc. (OPG) is a generation company;
- Ontario Hydro Services Company Inc. (OHSC) is a regulated transmission and distribution business, and operates certain energy service businesses in an unregulated business environment;
- Independent Electricity Market Operator (IMO) is a non-profit corporation, which is the independent system co-ordinator responsible for directing system operations and operating the electricity market;
- Electrical Safety Authority (ESA) is a non-profit corporation, which will carry out electrical inspections previously conducted by Ontario Hydro; and
- Ontario Electricity Financial Corporation (OEFC) is the continued Ontario Hydro entity with the objectives of managing debt, administering assets, liabilities, rights and obligations not transferred to a successor entity, and acting as administrator of the existing pension plan until arrangements are completed to transfer assets and liabilities to the new pension plans of the successor entities.

On April 1, 1999, each successor entity acquired Ontario Hydro's respective business operations in exchange for debt and equity securities equal to the fair values. The fair values were based on the present value of expected future operating results. Ontario Hydro's debt remained with OEFC.

Stranded debt is defined as debt that the successor entities could not service as commercial entities in a competitive market. Stranded debt has been determined, on a preliminary basis, by assigning fair values to OPG, OHSC, and the IMO, and subtracting these values from Ontario Hydro's total debt and liabilities. Using this methodology, the stranded debt is estimated at $21 billion as per the Ministry of Finance announcement of April 1, 1999. The actual stranded debt will be known once a final determination can be made for other items; principally valuing power purchase obligations (note 15).

The government has identified that certain of the OEFC's revenue streams in the new electricity market (e.g. payments-in-lieu of corporate income and capital taxes made by the new restructured companies and local distribution utilities) will be dedicated to service stranded debt.

The Province of Ontario (Province) continues to guarantee all existing Ontario Hydro debt.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in Canada, applied on a basis consistent with that of the preceding year. The significant accounting policies followed by Ontario Hydro are described below.

a) Rate setting

Up to March 31, 1999, Ontario Hydro had broad powers to generate, supply and deliver electric power

throughout the Province of Ontario. The Corporation operated under the *Power Corporation Act* (PCA) and was subject to the provisions of the *Ontario Energy Board Act*.

Under the provisions of the PCA, the price payable by municipal and other Ontario power customers was the cost of supplying the power. Such cost was defined in the PCA to include the cost of operating and maintaining the power system, the cost of energy conservation programs, depreciation, interest and the annual amounts for statutory debt retirement (SDR) and stabilization of rates and contingencies.

Under the provisions of the *Ontario Energy Board Act*, a public hearing before the Ontario Energy Board (OEB) was required to review any changes in electricity rates proposed by Ontario Hydro which affect its municipal utilities, direct industrial customers, or, if the Minister of Energy so directed, rural retail customers. The OEB tabled its recommendations with the Minister of Energy, Science and Technology. After considering the recommendations of the OEB, Ontario Hydro's Board of Directors, under the authority of the PCA, established the electricity rates to be charged to customers.

The Board of Directors may have specified for rate-setting purposes that an amount be included in the determination of the operating results of a period which differed from the period in which it would have been recognized under generally accepted accounting principles for enterprises operating in a non-rate-regulated environment. If so, the accounting treatment given the amount was the same as its treatment for rate-setting purposes. This authority of the Board of Directors could have been used in respect of a specific transaction or an accounting policy.

Ontario Hydro's accounting policies relating to the deferral of discounts and premiums arising from the acquisition of debt prior to maturity and foreign exchange gains and losses on United States dollar-denominated short-term financing replacing United States dollar-denominated long-term debt ,which has been redeemed prior to maturity, reflected the rate-setting treatment of these items as specified by the Board of Directors. Under generally accepted accounting principles for enterprises operating in a non-rate-regulated environment, these amounts would have been included as gains or losses of the current period (see note 2g).

In 1994, the Board of Directors used its rate-setting authority to specify that costs of the rehabilitation program for steam generators at Pickering A and B and Bruce A Nuclear Generating Stations be deferred for recovery in future periods. Under generally accepted accounting principles for enterprises operating in a non-rate-regulated environment these costs would have been expensed as incurred.

In 1996, the Board of Directors used its rate-setting authority to charge the nuclear recovery expenditures planned to be incurred over the period 1997 to 2001 to operations in 1996. In 1997, as a result of the Nuclear Asset Optimization Plan (NAOP), which included the planned nuclear recovery expenditures, the Board of Directors used its rate-setting authority to specify that the incremental costs associated with improving nuclear performance, specifically NAOP and other related costs, to be incurred over the period 1998 to 2001, be charged to operations in 1997. This rate-setting treatment was selected to enable Ontario Hydro to meet its SDR requirement over the period 1998 to 2001. As a result of the Board's decision, the related costs were not recovered through rates and represented a loss which was provided for in 1997. Under generally accepted accounting principles for enterprises operating in a non-rate-regulated environment, these costs would have been expensed as incurred (see note 7).

The Board of Directors also used its rate-setting authority to specify that certain additional future costs be charged to operations in 1997 (see note 7). Under generally accepted accounting principles for enterprises operating in a non-rate-regulated environment, these costs would have been expensed as incurred.

b) Consolidation

The consolidated financial statements include the financial statements of Ontario Hydro and its wholly-owned subsidiaries Ontario Hydro International Inc. (OHI Inc.) and Ontario Hydro Interconnected Markets

Inc. (OHIM Inc.). OHI Inc. was incorporated under the *Business Corporations Act* (Ontario) and was established as a subsidiary of Ontario Hydro in September 1993. OHIM Inc. was incorporated on July 9, 1996, under the *General Corporation Law* of the State of Delaware in the United States. Both OHI Inc. and OHIM Inc. publish separate financial statements.

c) Fixed assets

Fixed assets in service include operating facilities, non-operating reserve facilities, and heavy water contained in nuclear generating stations. Construction in progress includes fixed assets under construction.

Fixed assets are capitalized at cost which comprises material, labour, engineering costs, overheads, depreciation on service equipment, interest applicable to capital construction activities, and for new facilities, the costs of training initial operating staff. In the case of generating facilities, the cost also includes the net cost of commissioning which comprises the cost of start-up less the value attributed to energy produced by generation facilities during their commissioning period. For multi-unit facilities, a proportionate share of the cost of common facilities is placed in service with each major operating unit. The cost of heavy water comprises the direct cost of production plus applicable overheads, as well as interest and depreciation on the heavy water production facilities and the estimated removal costs of these facilities. Leases which transfer the benefits and risks of ownership of assets to Ontario Hydro are capitalized.

Interest is capitalized on construction in progress at rates, which approximate the average cost of long-term debts, as follows:

1999	9.2%
1998	9.4%
1997	9.6%

If the construction period of a project is extended and the construction activities are continued, interest is capitalized during the period of extension provided that the project has a reasonable expectation of being completed.

If a project is deferred as a result of a management decision and there is a reasonable expectation of completion, interest capitalization ceases and amortization for any loss in value commences.

If a project is cancelled or deferred indefinitely with a low probability of construction being resumed, all costs, including the costs of cancellation, are written off to operations.

If fixed assets are removed from operations and mothballed for future use, mothballing costs are charged to operations. These assets are classified as non-operating reserve facilities.

d) Depreciation

The capital costs of fixed assets in service are depreciated on a straight-line basis. Depreciation rates for the various classes of assets are based on their estimated service lives. Major components of fossil and nuclear generating stations are depreciated over the lesser of the service life expectancy of the major component or the remaining service life of the associated generating station. Hydroelectric generating stations are assumed to have a perpetual life. Major components of hydroelectric generating stations are depreciated over the service life expectancy of the component, ranging from 25 to 100 years. Heavy water in nuclear generating stations is depreciated over the remaining service life of the associated station with the exception of heavy water in Pickering Nuclear Generating Station (NGS) A, which is depreciated to the year 2032, since this heavy water is planned to be used to maintain operating levels in the remaining nuclear plants once Pickering NGS A has completed its useful life. The estimated service lives of assets in the major classes are:

Generating Stations	
fossil	40 years
nuclear	40 years
Transmission and distribution facilities	10 to 100 years
Administration and service facilities	5 to 50 years

In accordance with group depreciation practices, the costs of normal fixed asset retirements are charged to accumulated depreciation. However, gains and losses on sales of fixed assets and losses on premature retirements are charged to operations as adjustments to depreciation expense.

When the net costs of removal of fixed assets can be reasonably estimated and are significant, provisions for these costs are charged to depreciation expense on an annuity basis prospectively over the remaining service life of the related fixed assets. Removal costs that are provided for include the estimated costs of decommissioning nuclear and fossil stations and the estimated costs of removing certain nuclear reactor fuel channels. Other removal costs are charged to depreciation expense as incurred.

The estimated service lives of fixed assets and the significant assumptions underlying the estimates of fixed asset removal costs are subject to periodic review. Any changes arising out of such a review are implemented on a remaining service life basis from the year the changes can first be reflected in electricity prices.

Non-operating reserve facilities are amortized so that any estimated loss in value during the non-operating period is charged to depreciation expense on a straight-line basis over their expected non-operating period.

e) Fuel for electric generation

Fuel used for electric generation comprises the average inventory costs of fuel consumed, less the value attributed to energy produced during the commissioning phase of placing a new or refurbished unit (i.e., after replacement of fuel channels or steam generators) in service, plus provisions for disposal of nuclear fuel used during the period. The cost of fuel inventory comprises fuel purchases, transportation and handling costs.

The provision for disposal of used nuclear fuel is charged to operations based on estimated future expenditures and interest accumulating to the estimated date of disposal. Effective January 1, 1998, estimates of disposal costs which do not vary with the amount of fuel to be disposed of ("fixed" disposal costs) are charged to operations on an annuity basis over the estimated service lives of the associated nuclear stations. Estimates of disposal costs which vary with the amount of fuel to be disposed of ("variable" disposal costs) are charged to operations based on the present value of the future estimated disposal costs attributable to the fuel bundles used in that period. Prior to 1998, nuclear fuel provisions were charged to operations based on the present value of the future estimated disposal costs, fixed and variable, attributable to the fuel bundles used in that period. The impact of this change is an increase in costs of approximately $83 million per year plus interest on the increase in accumulated provision.

Estimates of expenditures, interest and escalation rates, and the date of disposal are subject to periodic review. Adjustments resulting from changes in any of these factors are charged to operations on an annuity basis prospectively over the remaining years the nuclear units will be in operation.

f) Foreign currency translation

Current monetary assets and liabilities denominated in foreign currencies are translated to Canadian currency at year-end rates of exchange and the resulting exchange gains or losses are credited or charged to operations. Long-term debt payable in foreign currencies is translated to Canadian currency at year-end rates of exchange. Resulting unrealized exchange gains or losses are deferred and included in deferred debt costs, and are

amortized to operations on an annuity basis over the remaining life of the related debt.

Foreign exchange gains or losses on hedges of long-term debt payable in foreign currencies are deferred and included in deferred debt costs. The deferred gains or losses on hedges are amortized to operations on an annuity basis in the periods the hedges provide benefit.

Foreign exchange gains or losses on early redemption of long-term debt, including subsequent gains and losses on short-term replacement financing, are deferred and included in deferred debt costs if the exposure in the foreign currency related to the redeemed debt is continued by refinancing the redeemed debt in the same currency. These deferred gains or losses are amortized on an annuity basis over the period to the original maturity date of the redeemed debt (see note 2a).

If the foreign currency exposure is reduced as a result of the early redemption of debt, the resulting foreign exchange gains or losses related to the redeemed debt are credited or charged to operations.

g) Deferred debt costs

Deferred debt costs include the unamortized amounts related to unrealized foreign exchange gains or losses resulting from the translation of foreign currency long-term debt; deferred foreign exchange gains or losses on hedges; deferred foreign exchange gains or losses on the early redemption of long-term debt; discounts or premiums arising from the issuance of debt or the acquisition of debt prior to maturity; discounts or premiums accrued on foreign currency hedges; and net unamortized premiums on settled, exercised or expired swaption contracts.

Discounts or premiums arising from the issuance of debt are amortized over the period to maturity of the debt on an annuity basis when the term of the debt exceeds one year and on a straight-line basis when the term is one year or less. Discounts or premiums on debt acquired prior to the date of maturity are amortized on an annuity basis over the period from the acquisition date to the original maturity date of the debt (see note 2a). Discounts or premiums on foreign currency hedges are credited or charged to operations on an annuity basis over the terms of the individual hedges. Net unamortized premiums on settled, exercised or expired swaption contracts are amortized on an annuity basis over the period from the settlement, exercise or expiry date to the original maturity date of the related debt.

h) Pension plan

The pension plan is a contributory, defined benefit plan covering all regular employees of Ontario Hydro. Pension costs for accounting purposes are actuarially determined using the projected benefit method prorated on services and based on assumptions that reflect management's best estimate of the effect of future events on the actuarial present value of accrued pension benefits. Pension plan assets are valued using current fair values and pension plan adjustments are amortized on a straight-line basis over the expected average remaining period of service of the employees covered by the Ontario Hydro pension plan (see note 18).

In the last quarter of 1998, Ontario Hydro adopted the new method of accounting for pension costs recently approved by the Canadian Institute of Chartered Accountants (CICA). The effect of this was to change the discount rate used to determine pension costs and obligations from a long-term average rate to a current market settlement rate. This change had no significant impact on the financial statements for the year ended December 31, 1998.

i) Other post-employment benefits

In addition to pension benefits, Ontario Hydro provides group life insurance and health-care benefits to its retired employees and, in certain cases, their surviving spouses and unmarried dependents. As well, Ontario Hydro provides long-term disability benefits to qualifying employees during extended absences from work due to sickness or injury.

Prior to January 1, 1997, the costs of other post-employment benefits (OPEB) were charged to operations

as the benefits were paid. Effective January 1, 1997, Ontario Hydro implemented accrual accounting for OPEB whereby the expected costs of providing those benefits are charged to operations as employees render services. Accordingly, the costs of OPEB are actuarially determined for accounting purposes based on assumptions that reflect management's best estimates of the effect of future events on the actuarial present value of the accrued benefits. The transition obligation arising on conversion to accrual accounting was charged to retained earnings on January 1, 1997 (see note 16). In 1998, the Corporation changed the discount rate used to measure the OPEB obligation from a long-term average rate to a current market settlement rate. The transition amount resulting from this change was charged to the deficit in 1998 (see note 16).

j) Research and development

Research and development (R&D) costs related directly to the design or construction of a specific fixed asset are capitalized as part of the cost of the asset. R&D costs incurred to discharge long-term obligations, and for which specific provision has already been made, are charged to the related provision. All other R&D costs are charged to operations in the year incurred.

k) Applications software and the Year 2000 expenditures

Ontario Hydro capitalizes major applications software acquisition costs when future benefit is reasonably assured. Expenditures incurred to address the Year 2000 Issue are charged to operations as incurred, unless existing assets are replaced with new versions or completely new systems. In this case, the expenditures are capitalized consistent with the accounting for any acquisition project.

3. SECONDARY POWER AND ENERGY

Secondary power and energy revenues include $10 million for the three months ended March 31, 1999 (1998: $111 million, 1997: $158 million) from sales of electricity to United States utilities.

4. PROVINCIAL GOVERNMENT LEVIES

(millions of dollars)	THREE MONTHS ENDED MARCH 31, 1999	YEAR ENDED DECEMBER 31 1998	1997
Provincial water rentals	**30**	119	121
Provincial debt guarantee fee	**39**	155	156
	69	274	277

Provincial water rentals are paid to the Province for the use of water for hydroelectric generation. The debt guarantee fee, equal to one half of one percent on the total debt guaranteed by the Province outstanding as of the preceding December 31, is a legislated payment made by Ontario Hydro to the Province.

5. DEPRECIATION AND AMORTIZATION

(millions of dollars)	THREE MONTHS ENDED MARCH 31, 1999	YEAR ENDED DECEMBER 31 1998	1997
Depreciation of fixed assets in service	**398**	1,447	1,438
Fixed asset removal costs	**4**	65	140
	402	1,512	1,578

6. FINANCING CHARGES

(millions of dollars)	THREE MONTHS ENDED MARCH 31, 1999	YEAR ENDED DECEMBER 31 1998	1997
Interest on bonds, notes and other debt:			
Long-term	**611**	2,603	2,778
Short-term	**34**	155	114
Interest on accrued fixed asset removal and used nuclear fuel disposal costs	**45**	160	164
	690	2,918	3,056
LESS:			
Interest charged to:			
Construction in progress	**7**	39	51
Fuel for electric generation	**–**	–	1
Interest earned on investments	**14**	33	33
	21	72	85
Interest charged to operations	**669**	2,846	2,971
Foreign exchange	**18**	30	118
	687	2,876	3,089

7. CORPORATE WRITE-OFFS

(millions of dollars)	YEAR ENDED DECEMBER 31 1997
Nuclear recovery	4,595
Other future expenditures	1,495
Staff reduction and employee relocation costs	238
Bruce Nuclear Generating Station A	170
Surplus buildings and equipment and associated business exit costs	82
	6,580

There were no corporate write-offs during the three months ended March 31, 1999, and year ended December 31, 1998. In 1997, the Board of Directors of Ontario Hydro approved a number of charges and write-offs to operations, totalling $6,580 million, to 1997 operations. Two of these charges were for future costs expected to be incurred over the 1998 to 2001 period, which, under GAAP for enterprises operating in a non-rate-regulated environment, would be expensed as incurred. Accordingly, these charges required use of the Board's rate-setting authority, to establish a provision for future costs. The first such charge was for additional future costs associated with improving nuclear performance, specifically the Nuclear Asset Optimization Plan (NAOP) and other related costs such as replacement energy and interest. While Ontario Hydro expects to incur additional costs of $4,895 million for the improvement of nuclear performance, the charge to 1997 operations was $4,595 million, before using a $300 million provision made in a previous year for planned nuclear recovery expenditures. The second charge, of $1,495 million, was for additional future costs associated with transmission and distribution assets, nuclear decommissioning and used fuel disposal provisions.

The remaining $490 million in charges to 1997 operations did not require use of the Board's rate-setting authority and related to the following:

• A charge of $238 million to cover the costs associated with a targeted reduction of 850 staff, including those expected to become surplus to Corporate needs before the end of 1998, and costs associated with the large-scale staff relocations required under the NAOP.
• A write-off of $170 million in capital project expenditures associated with the three units of Bruce Nuclear Generating Station A that were laid-up in 1998. Management's assessment was that the related capital projects would have no future benefit due to the lengthy duration of the lay-up.
• A write-off of $82 million associated with certain buildings and equipment identified as surplus due to Hydro's transition towards a more competitive environment and to reflect the wind-up of several small ancillary business ventures.

The following table shows the extent to which the provision for future costs was used in 1998 and the three months ended March 31, 1999.

(millions of dollars)	THREE MONTHS ENDED MARCH 31 1999	YEAR ENDED DECEMBER 31 1998
Opening balance	**4,904**	6,390
Charges		
Operation, maintenance and administration	**144**	589
Fuel used for electric generation	**167**	690
Power purchased	**27**	78
Depreciation and amortization	**16**	83
Financing charges	**25**	46
	379	1,486
CLOSING BALANCE	**4,525**	4,904

8. FIXED ASSETS

(millions of dollars)	AS AT MARCH 31 1999		AS AT DECEMBER 31 1998		1997	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Generating stations						
Hydroelectric	**2,755**	**901**	2,755	881	2,723	898
Fossil	**5,462**	**2,896**	5,457	2,854	5,377	2,658
Nuclear	**24,868**	**6,984**	24,850	6,792	24,591	6,082
Heavy water	**3,946**	**986**	3,946	961	3,946	863
Transmission and distribution facilities	**11,493**	**3,674**	11,525	3,615	11,252	3,094
Administration and service facilities	**1,917**	**1,032**	1,914	1,055	1,789	1,339
FIXED ASSETS IN SERVICE	**50,441**	**16,473**	50,447	16,158	49,678	14,934

Nuclear steam generator rehabilitation costs

Ontario Hydro has undertaken a major program to rehabilitate steam generators at the Pickering A and B Nuclear Generating Stations. The costs of the program, which will continue until 2001, are being deferred and amortized over the remaining service lives of the individual generators commencing as each generator is returned to service.

The deferred nuclear steam generator rehabilitation amounts included in fixed assets, construction in progress and accumulated depreciation are detailed as follows:

(millions of dollars)	AS AT MARCH 31 1999	AS AT DECEMBER 31 1998	1997
Fixed assets	**152**	152	116
Less: accumulated depreciation	**23**	19	14
	129	133	102
Construction in progress	**–**	–	24
	129	133	126

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of investments in money market instruments (temporary investments with original maturities of less than three months), and outstanding cheques (bank indebtedness). Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

(millions of dollars)	AS AT MARCH 31 1999	AS AT DECEMBER 31 1998	1997
Temporary investments	**245**	225	–
Bank indebtedness	**(10)**	(60)	(37)
	235	165	(37)

10. FUEL FOR ELECTRIC GENERATION

(millions of dollars)	AS AT MARCH 31 1999	AS AT DECEMBER 31 1998	1997
INVENTORIES			
Uranium	**154**	151	161
Coal	**187**	261	188
Oil	**33**	44	18
	374	456	367

11. LONG-TERM DEBT

(millions of dollars)	AS AT MARCH 31 1999	AS AT DECEMBER 31 1998	1997
Bonds and notes payable	**27,735**	28,291	28,188
Capital lease obligations	**31**	33	33
	27,766	28,324	28,221
Less: Payable within one year	**1,572**	2,468	3,301
	26,194	25,856	24,920

Bonds and notes payable, are summarized by years of maturity in the following table:

(millions of dollars)	AS AT MARCH 31 1999				AS AT DECEMBER 31 1998				1997	
	Principal Outstanding			Weighted Average Interest Rate	Principal Outstanding			Weighted Average Interest Rate	Principal Outstanding	Weighted Average Interest Rate
	CDN	FOREIGN	TOTAL	PERCENT	CDN	FOREIGN	TOTAL	PERCENT	TOTAL	PERCENT
YEARS OF MATURITY										
									3,297	
1 year	**1,150**	**419**	**1,569**		2,050	415	2,465		2,504	
2 years	**2,077**	**153**	**2,230**		1,551	–	1,551		1,552	
3 years	**2,000**	**755**	**2,755**		1,525	932	2,457		2,426	
4 years	**3,097**	**–**	**3,097**		4,448	–	4,448		4,447	
5 years	**1,148**	**64**	**1,212**		1,398	–	1,398		–	
SUBTOTAL	**9,472**	**1,391**	**10,863**	**9.2**	10,972	1,347	12,319	9.1	14,226	8.9
6 – 10 years	**5,198**	**1,132**	**6,330**	**7.0**	4,198	1,216	5,414	7.2	2,363	8.5
11 – 15 years	**2,164**	**1,132**	**3,296**	**9.9**	2,164	1,148	3,312	9.9	3,219	10.6
16 – 20 years	**648**	**–**	**648**	**10.0**	648	–	648	10.0	1,997	8.9
21 – 25 years	**3,633**	**–**	**3,633**	**10.0**	3,633	–	3,633	10.0	2,675	10.3
26 years and over	**2,965**	**–**	**2,965**	**8.9**	2,965	–	2,965	8.9	3,708	9.1
	24,080	**3,655**	**27,735**	**8.9**	24,580	3,711	28,291	8.9	28,188	9.3

The weighted average interest rate represents the effective rate of interest on fixed-rate bonds and notes and the current interest rate in effect at March 31, 1999, for floating-rate bonds and notes, all before considering the effect of derivative financial instruments used to manage interest rate risk. Bonds and notes payable are either held, or guaranteed as to principal and interest, by the Province.

Bonds and notes payable include:

(millions of dollars)	AS AT MARCH 31 1999	AS AT DECEMBER 31 1998	1997
BONDS AND NOTES PAYABLE			
Ontario Hydro bonds [1]			
Canadian	**1,500**	500	–
US	**–**	–	193
Callable bonds [2]			
Canadian	**2,765**	2,765	3,116
US	**–**	–	253
Weighted average coupon rates	**11.5%**	11.7%	11.4%

[1] These are held by the Province having terms identical with those of the Province of Ontario issues sold on behalf of Ontario Hydro.
[2] Bonds callable by Ontario Hydro are at fixed prices on dates before their stated maturities, which are over the period 2002 to 2012. These bonds are callable at a weighted average call price equal to 100% of the bond's principal amounts callable on specific dates within the period 1999 to 2005.

As described in note 12, Ontario Hydro has used various derivative financial instruments to hedge the foreign exchange exposure related to long-term debt denominated in foreign currencies and to manage the interest rate risk associated with its outstanding long-term debt.

12. DERIVATIVE FINANCIAL INSTRUMENTS

Ontario Hydro has used a variety of derivative financial instruments to manage foreign exchange and interest rate risk. The table below summarizes outstanding positions in foreign exchange derivative financial instruments:

(millions of stated currency)	MARCH 31 1999			DECEMBER 31 1998			1997
	Maturing within 12 months	Maturing beyond 12 months	Total	Maturing within 12 months	Maturing beyond 12 months	Total	Notional Principal Outstanding
FORWARD EXCHANGE CONTRACTS							
Purchased forward	–	–	–	US $95	–	US $95	US $1,242
	CHF 7	–	CHF 7	CHF 10	–	CHF 10	CHF 11
Sold forward	–	–	–	US $51	–	US $51	US $55
CROSS-CURRENCY SWAP CONTRACTS							
Ontario Hydro receives:							
United States dollar	US $202	US $105	US $307	US $202	US $105	US $307	US $307
Swiss franc	–	CHF 150	CHF 150	–	CHF 150	CHF 150	CHF 150
Japanese yen	–	¥ 5,000	¥ 5,000	–	¥ 5,000	¥ 5,000	¥ 5,000
New Zealand dollar	–	–	–	–	–	–	NZ $100
Australian dollar [1]	AU $568	–	AU $568	AU $568	–	AU $568	AU $568
Canadian dollar	–	CDN $423	CDN $423		CDN $423	CDN $423	CDN $423
ONTARIO HYDRO PAYS:							
United States dollar	US $441	US $363	US $804	US $441	US $363	US $804	US $873
Australian dollar [1]	AU $260	–	AU $260	AU $260	–	AU $260	AU $260
Canadian dollar	–	CDN $279	CDN $279	–	CDN $279	CDN $279	CDN $280

[1] Periodic swaps denominated in Japanese yen.

FORWARD EXCHANGE CONTRACTS. Ontario Hydro has entered into forward exchange contracts to hedge against the impact of a potential decline in the value of the Canadian dollar in 1999, and to manage the foreign exchange risk associated with its long-term debt. Forward exchange contracts have also been entered into to hedge firm commitments for future purchases and sales denominated in a foreign currency.

CROSS CURRENCY SWAP CONTRACTS. Ontario Hydro has entered into cross currency swap contracts to effectively convert principal and interest payments on selected debt issues into Canadian or United States dollars.

The following table summarizes the currencies in which Ontario Hydro's long-term debt, bank indebtedness and short-term notes are payable, before and after giving effect to Ontario Hydro's foreign exchange risk management activities related to debt:

(millions of dollars)	MARCH 31 1999		DECEMBER 31 1998		1997	
	Principal Outstanding		Principal Outstanding		Principal Outstanding	
	Before Hedging	After Hedging	Before Hedging	After Hedging	Before Hedging	After Hedging
Canadian dollars	**26,311**	**26,147**	26,941	26,786	26,691	26,817
United States dollars	**3,704**	**4,380**	3,756	4,435	3,865	4,311
Australian dollars [1]	**295**	**–**	289	–	287	–
Swiss francs	**153**	**–**	167	–	147	–
New Zealand dollars	**–**	**–**	–	–	83	–
Japanese yen	**64**	**–**	68	–	55	–
	30,527	**30,527**	31,221	31,221	31,128	31,128

[1] Coupon payments denominated in Japanese yen.

Interest rate risk management instruments

The following table summarizes outstanding positions in interest rate derivative financial instruments:

(millions of stated currency)	MARCH 31 1999			DECEMBER 31 1998			1997
	Notional Principal Outstanding			Notional Principal Outstanding			Notional Principal Outstanding
	Maturing within 12 months	Maturing beyond 12 months	Total	Maturing within 12 months	Maturing beyond 12 months	Total	Total
SWAPTION CONTRACTS SOLD							
Ontario Hydro potentially	**–**	**CDN $496**	**CDN $496**	CDN $100	CDN $496	CDN $596	CDN $692
pays fixed	**–**	**–**	**–**	–	–	–	US $193
INTEREST RATE SWAP CONTRACTS							
Ontario Hydro receives fixed	**CDN $765**	**CDN $1,648**	**CDN $2,413**	CDN $765	CDN $1,648	CDN $2,413	CDN $3,591
	US $323	**US $403**	**US $726**	US $323	US $403	US $726	US $826
Ontario Hydro pays fixed	**CDN $726**	**CDN $2,433**	**CDN $3,159**	CDN $2,576	CDN $2,487	CDN $5,063	CDN $7,215
	US $466	**US $613**	**US $1,079**	US $466	US $613	US $1,079	US $1,893
FORWARD RATE AGREEMENTS							
Ontario Hydro pays forward rate	**–**	**–**	**–**	–	–	–	CDN $450
	–	**–**	**–**	US $175	–	US $175	US $850
BOND OPTIONS PURCHASED	**–**	**–**	**–**	–	–	–	CDN $150
	–	**–**	**–**	–	–	–	US $105
Forward bond purchases	**–**	**–**	**–**	CDN $160	–	CDN $160	–

SWAPTION CONTRACTS. In 1993, Ontario Hydro converted future potential interest savings, related to call options embedded in certain of its bonds to cash by selling offsetting swaption contracts. These contracts permit holders to require Ontario Hydro to enter into interest rate swaps commencing on the call date. If exercised, the swaptions result in Ontario Hydro making payments based on a fixed interest rate equal to the related bonds' coupon rates, and receiving floating rate payments.

United States dollar-denominated swaptions may be cash settled on their exercise dates. Premiums received from the sale of these contracts are being amortized to income, as a reduction of interest expense, over the remaining terms of the related bond issues.

INTEREST RATE SWAP CONTRACTS. As at March 31, 1999, the outstanding receive-fixed interest rate swap contracts have effectively converted fixed interest rates on long-term debt to floating interest rates. These contracts have maturity dates over the period 1999 to 2026 (1998: 1999 to 2026; 1997: 1998 to 2026). The outstanding pay-fixed interest rate swap contracts have effectively converted floating interest rates on outstanding debt into fixed interest rates. These contracts have maturity dates over the period 1999 to 2027 (1998: 1999 to 2027; 1997: 1998 to 2027).

FORWARD RATE AGREEMENTS. Prior to 1999, Ontario Hydro had entered into forward rate agreements to manage its exposure to short-term interest rates.

BOND OPTIONS. Prior to 1999, Ontario Hydro had purchased options to buy long-term government bonds to mitigate the adverse impact of a potential decline in long-term interest rates on its fixed-rate debt.

FORWARD BOND PURCHASES. Prior to 1999, Ontario Hydro had entered into forward purchase contracts for Government of Canada bonds to manage its exposure to short-term interest rates.

The following table summarizes the total amount of long-term debt, short-term notes and bank indebtedness maturing or subject to interest rate resetting within one year and after one year, before and after giving effect to Ontario Hydro's interest rate risk management activities:

(millions of dollars)

	AS AT MARCH 31, 1999			
	Before interest rate risk management activities	Weighted average interest rate (percent)	After interest rate risk management activities	Weighted average interest rate (percent)
MATURES OR REPRICES:				
Within one year	4,334	6.2	3,232	6.3
After one year	26,193	9.1	27,295	9.3
	30,527	8.7	30,527	8.9

(millions of dollars)

	AS AT DECEMBER 31, 1998			
	Before interest rate risk management activities	Weighted average interest rate (percent)	After interest rate risk management activities	Weighted average interest rate (percent)
MATURES OR REPRICES:				
Within one year	5,365	5.8	4,273	5.8
After one year	25,856	9.1	26,948	9.2
	31,221	8.5	31,221	8.7

(millions of dollars)	AS AT DECEMBER 31, 1997			
	Before interest rate risk management activities	Weighted average interest rate (percent)	After interest rate risk management activities	Weighted average interest rate (percent)
MATURES OR REPRICES:				
Within one year	7,104	5.8	3,619	6.6
After one year	24,024	9.6	27,509	9.0
	31,128	8.7	31,128	8.7

13. FAIR VALUE OF FINANCIAL INSTRUMENTS AND CREDIT RISK

Fair value

The following table presents the carrying amounts and fair values of Ontario Hydro's financial instruments:

(millions of dollars)	AS AT MARCH 31 1999		AS AT DECEMBER 31 1998		1997	
	Carrying Value	Fair Value[1]	Carrying Value	Fair Value[1]	Carrying Value	Fair Value[1]
FINANCIAL ASSETS						
Forward exchange contracts	–	–	–	–	53	55
Cross currency swap contracts	**69**	**79**	93	116	53	55
Interest rate swap contracts	**33**	**222**	25	258	33	238
Bond options	–	–	–	–	–	1
FINANCIAL LIABILITIES						
Forward exchange contracts	–	**1**	1	1	–	–
Long-term debt	**27,735**	**34,062**	28,291	35,073	28,188	34,700
Swaption contracts	**11**	**63**	21	97	92	245
Cross currency swap contracts	**197**	**131**	224	193	188	129
Interest rate swap contracts	**98**	**458**	94	503	111	428
Forward rate agreements	–	–	–	1	–	1

1 Period-end and year-end quoted market prices for specific or similar instruments are used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value. For over-the-counter derivative financial instruments, the fair value is determined using pricing models that take into account the current value of the underlying instruments, the time value of money, and mid-market yield curve and volatility factors. The carrying values of cash, temporary investments, accounts receivable, bank indebtedness, short-term notes payable and accounts payable and accrued charges approximate fair value because of the short maturity of those instruments.

Credit risk

Financial assets expose Ontario Hydro to credit risk and concentration of credit risk. As at March 31, 1999, there were no significant concentrations of credit risk with respect to any class of financial assets. Derivative financial instruments expose Ontario Hydro to credit risk, since there is a risk of counter party default. This risk is limited to the cost of replacing contracts in which Ontario Hydro has an unrealized gain.

Credit risk is monitored and minimized by dealing only with a diverse group of highly rated counter parties. In addition, as a means of further reducing its credit exposure on derivative financial instruments, Ontario Hydro enters into master netting agreements with its counter parties to enable it to settle derivative financial

assets and liabilities with the counter party on a net basis in the event that the counter party defaults. The existence of these master netting agreements had the effect of reducing Ontario Hydro's current credit risk exposure on derivative financial assets from $437 million to $86 million as at March 31, 1999 (1998: from $374 million to $152 million; 1997: from $349 million to $142 million).

14. ACCRUED FIXED ASSET REMOVAL AND USED NUCLEAR FUEL DISPOSAL COSTS

(millions of dollars)	AS AT MARCH 31 1999	AS AT DECEMBER 31 1998	1997
ACCRUED FIXED ASSET REMOVAL COSTS			
Accrued decommissioning costs	**1,059**	1,042	962
Accrued fuel channel removal costs	**699**	674	616
	1,758	1,716	1,578
ACCRUED USED NUCLEAR FUEL DISPOSAL COSTS	**1,549**	1,485	1,264
	3,307	**3,201**	2,842

Accrued fixed asset removal costs

Accrued fixed asset removal costs are the costs of decommissioning nuclear and fossil generating stations and heavy water production facilities after the end of their service lives, and the costs of removing certain fuel channels and steam generators, which are expected to be replaced during the life of the nuclear reactors. The significant assumptions used in estimating future fixed asset removal costs are consistent with 1998:

• decommissioning of nuclear generating stations in the 2042 to 2071 period on a deferred dismantlement basis (dismantlement following storage with surveillance for a 30-year period after shutdown of the reactors), and an average transportation distance of 1,000 kilometres from nuclear generating facilities to disposal facilities;

• interest and cost escalation rates through to 2071 ranging from:

	1999	1998	1997
Interest rates	**6% to 8%**	6% to 8%	6% to 9%
Cost escalation rates	**2% to 4%**	2% to 4%	2% to 5%

• removal and replacement of certain fuel channels and steam generators in nuclear generating stations during the following periods :

	AS AT MARCH 31 1999	AS AT DECEMBER 31 1998	1997
Bruce A Units 3 & 4	**2001–2008**	2006–2008	2005–2008
Pickering B	**2008–2012**	2009–2014	2013–2017
Bruce B	**2010–2013**	2011–2017	2015–2018
Darlington	**2016-2019**	2016-2022	2022-2024

• decommissioning of fossil generating stations in the 2006 to 2025 period.

The significant assumptions underlying the estimates of accrued fixed asset removal costs are subject to periodic review. These assumptions, as well as, the existing methods and technology used for decommissioning, fuel channel removal and replacement, and steam generator replacement are subject to change which could result in changes to these costs.

Accrued used nuclear fuel disposal costs

The significant assumptions used in estimating the future used nuclear fuel disposal costs are consistent with 1998:

- an in-service date of the year 2025 for permanent disposal facilities;
- an average transportation distance of 1,000 kilometres from nuclear generating facilities to disposal facilities;
- interest and cost escalation rates through to 2071 ranging from:

	1999	1998	1997
Interest rates	**6% to 8%**	6% to 8%	6% to 9%
Cost escalation rates	**2% to 4%**	2% to 4%	2% to 5%

The significant assumptions underlying the estimates of accrued used nuclear fuel disposal costs are subject to periodic review. These assumptions, as well as the existing methods and technology used for used fuel disposal, are subject to change which could result in changes to these costs.

15. CONTINGENCIES & COMMITMENTS

Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in 1999 in some systems which use the digits "99" in a date field to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations.

The Corporation is in the process of completing a significant program designed to upgrade or replace affected systems on which it and its customers depend, prior to the year 2000. However, it is not possible to be certain that all aspects of the Year 2000 Issue affecting Ontario Hydro, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Renewable Energy Technology Program Class Action

In 1997, a class action suit was commenced on behalf of all bidders in the renewable energy technology program based on allegations of misrepresentation and bad faith in requesting bids and carrying on discussions with bidders prior to cancellation of the project. The plaintiffs named Ontario Hydro, as well as, certain individual officers of Ontario Hydro as defendants. The plaintiffs seek declaratory relief and damages in the amount of $250 million for loss of income and profits, loss of opportunity, conversion of trade secrets, and exemplary, aggravated and punitive damages. A motion to certify the class was argued in November 1998 and in December the Court refused to certify the action. Subject to appeal rights, the action may now proceed as a claim by the named plaintiff, and the damages claimed would be reduced substantially. At this time, the outcome of this claim is not determinable, and as such, no provision has been accrued in Ontario Hydro's financial statements with respect to any amounts in dispute. However, Ontario Hydro believes it has no liability, and that the damages claimed are, in any event, excessive.

Municipal electric utilities' lawsuit

On April 24, 1997, three municipal electric utilities (Applicants) issued a notice of application against Ontario Hydro for which they have since received certification as a class proceeding on behalf of all municipal electric

utilities in Ontario. No supporting affidavit materials have been served. The Applicants seek declarations that certain rates and pricing options offered by Ontario Hydro to corporations contravene the provisions of the PCA and that these rates and pricing options have improperly increased costs to the municipal electric utilities who purchase their power from Ontario Hydro. They also seek recovery of these increased costs in the amount of $145 million. They further seek a declaration that Ontario Hydro has improperly diverted, from revenues derived from the sale of power to municipal electric utilities, monies, of an indeterminate amount, which should have been used to reduce the cost of power being supplied to these municipal electric utilities. They are also seeking declarations that Ontario Hydro has breached legislative provisions prescribing the operation of the Reserve for Stabilization of Rates and Contingencies and the equity account, and an order requiring Ontario Hydro to replenish the equity account in the amount of $5.0 billion. Ontario Hydro has denied the allegations, and believes that it has valid and meritorious defences against such allegations and will, in due course, file responding materials. At this time, the outcome of these claims is not determinable.

Bruce Nuclear Generating Station A

As a result of the NAOP, Ontario Hydro laid up the three operating units at Bruce Nuclear Generating Station A over the Spring of 1998. Consistent with the phased recovery approach adopted for NAOP, these three units plus Bruce A Unit 2, which was shut down in 1995, are currently planned to be returned to service within the period 2003 to 2009.

In the event that a future decision is made not to return the four Bruce A units to service, a loss would have to be recognized. The current estimate of such a loss is about $1,050 million, which takes into account the undepreciated book value of the generating and heavy water assets, the carrying value of remaining construction in progress amounts, and the impact of recognizing unaccrued net fixed asset removal provisions.

Power Purchase Agreements

Ontario Hydro has committed to the purchase of a portion of its electricity requirements, pursuant to long-term contractual Power Purchase Agreements (PPAs), with various power producers.

The PPAs expire on various dates from 1999 to 2048. Other details are:

	AS AT MARCH 31	AS AT DECEMBER 31	
	1999	1998	1997
In-service capacity *(megawatts)*	**1,670**	1,864	1,584
Net present value of purchase obligations over 20 years *(millions of dollars)*	**6,689**	6,910	6,203

Estimated annual payments for purchase obligations range from $755 million to $865 million over the next five years.

Deliveries in the aggregate for the first three months of 1999 account for approximately 8.0% of Ontario Hydro's total electric energy requirements (1998: 7.6%; 1997: 7.2%). The amount of energy received and the total payments made under these agreements are:

	THREE MONTHS ENDED MARCH 31	YEAR ENDED DECEMBER 31	
	1999	1998	1997
Gigawatthours received	**3,043**	11,108	10,366
Power purchases *(millions of dollars)*	**217**	680	642

Ontario Hydro has issued a Request for Expressions of Interest for the financial restructuring of its power purchase contracts with independent power producers in Ontario.

Loan guarantees

Ontario Hydro is contingently liable under guarantees given to third-party lenders who have provided long-term financing to certain independent power producers. These guarantees total approximately $157 million as at March 31, 1999 (1998: $160 million, 1997: $171 million).

Fuel used for electric generation

Ontario Hydro has entered into firm fuel supply agreements, some of which extend beyond 2000. The future obligation as at March 31, 1999, under these agreements for the remainder of 1999 is estimated to be $504 million. Beyond 1999, the estimated amount is $228 million (1998: $639 million).

16. (DEFICIT) RETAINED EARNINGS

On January 1, 1997, the opening retained earnings balance of $2,552 million was reduced by $763 million as a result of charging the transition obligation associated with the change in accounting for other post-employment benefits (see note 2i). The change was introduced as a first step to the early implementation of accounting recommendations from the Canadian Institute of Chartered Accountants (CICA), effective January 1, 2000. The future OPEB obligation was discounted using a long-term average rate, consistent with the rate used to determine pension costs and obligations.

In 1998, the CICA approved new recommendations on accounting for employees' future benefits. To complete the implementation of the new accounting recommendations, the Corporation changed the discount rate used to measure the OPEB obligation from a long-term average rate to a current market settlement rate. As a result, a transition amount of $460 million was charged to the deficit in 1998.

17. CONSOLIDATED STATEMENT OF CASH FLOWS

The changes in non-cash balances related to operations consisted of the following:

(millions of dollars)	AS AT MARCH 31 1999	AS AT DECEMBER 31 1998	1997
Accounts receivable – decrease (increase)	**7**	(9)	(22)
Fuel for electric generation, materials and supplies – decrease (increase)	**99**	(126)	(10)
Accounts payable and accrued charges – increase	**47**	68	200
Accrued interest – increase (decrease)	**57**	(38)	(47)
Long-term accounts payable and accrued charges – increase (decrease)	**24**	202	(237)
	234	97	(116)
Interest paid	**606**	2,772	2,903
Interest received	**9**	29	14

18. BENEFIT PLANS

Pension plan

Effective November 7, 1998, certain sections of the *Energy Competition Act, 1998,* came into force whereby Ontario Hydro and its successor entities were allowed to adopt funding practices that are more consistent with Canadian business practices. The Plan has a substantial surplus. As agreed in the Union negotiation processes,

Ontario Hydro ceased remitting employer contributions effective April 1, 1998. Also, commencing November 7, 1998, the direct costs of investment management and administration of the Plan have been absorbed as a cost of the Plan. Information about Ontario Hydro's pension plan is as follows:

(millions of dollars)	AS AT MARCH 31 1999	AS AT DECEMBER 31 1998	1997
Pension costs	**7**	23	116
Pension costs charged to operations	**7**	18	93
Pension costs capitalized as part of fixed assets	**–**	5	23
Pension fund assets at fair market value	**10,853**	10,816	10,173
Accrued pension benefits at actuarial present value	**9,830**	9,707	6,455
Plan surplus for accounting purposes	**1,023**	1,109	3,718
Deferred pension asset	**972**	979	112
Expected return on plan assets	**7.25%**	9%	9%
Rate used to discount future pension benefits	**6%**	6%	8.25%
Salary schedule escalation rate	**3.5%**	3.5%	3.5%
Rate of cost of living increases to pensions	**2.5%**	2.5%	1.88%
Average remaining service life for employee *(years)*	**12**	12	14

The actuarial present value of the accrued pension benefits was based on a projection of the valuation at December 31, 1997. Estimated accrued pension benefits increased dramatically in 1998 as a result of an accounting change. The Canadian Institute of Chartered Accountants has recommended that the rate used for discounting future pension benefits should be based on the current market interest rate. Previously, Ontario Hydro used its best estimate as to the long-term average interest rate of corporate bonds for this computation.

The deferred pension asset of $972 million as at March 31, 1999 (1998: $979 million, 1997: $112 million), represents the cumulative difference between funding contributions and pension costs. The $7 million decline to March 31, 1999, is the pension cost charged to operations. The $887 million increase to the deferred pension asset in 1998 results from recognizing the access to the pension fund surplus. Ontario Hydro also recognized a corresponding credit to the 1998 operating statement.

The $51 million difference as at March 31, 1999 (1998: $130 million), between the $1,023 million pension fund surplus and the $972 million deferred pension asset represents experience gains and losses, which will be amortized over the average remaining service period of employees.

The Ontario Electricity Pension Services Corporation was established effective April 1, 1999, to assume transitional responsibility, as an agent for OEFC, for administering the pension benefits and investing pension assets on behalf of the successor entities of Ontario Hydro.

Group life insurance, health care plans, and other post-employment benefits

Ontario Hydro's costs are detailed as follows:

(millions of dollars)	THREE MONTHS ENDED MARCH 31 1999	YEAR ENDED DECEMBER 31 1998	1997
Group life insurance premiums basic coverage	**1**	5	4
Health-care plan	**13**	60	58
Post-employment benefits			
Retiree group life insurance & health-care	**26**	92	71
Long-term disability	**10**	32	17

Group life premiums for additional coverage, if requested, are remitted by the employee. In certain cases, retiree group life insurance and health care costs include payments for surviving spouses, as well as unmarried dependents. Long-term disability applies to qualifying employees in extended absence from work due to sickness or injury.

19. RESEARCH AND DEVELOPMENT

Research and development costs are detailed as follows:

(millions of dollars)	AS AT MARCH 31 1999	AS AT DECEMBER 31 1998	1997
Charged to operations	**18**	58	80
Capitalized	**–**	3	2
Charged to accrued provisions	**2**	7	19
	20	68	101

20. FEDERAL ENVIRONMENTAL REVIEW PANEL

On March 13, 1998, a Federal Government Panel issued its report (known as the Seaborn Report) on Atomic Energy of Canada Limited's concept for nuclear waste disposal. On December 3, 1998, the Federal Government responded to the Panel's recommendations, concurring with the Panel's major recommendations that:

- the search for a specific disposal site not proceed at this time because broad public support has not been demonstrated;
- a separately incorporated waste management organization be formed by waste producers to manage used fuel;
- a segregated fund be established; and
- a study of alternatives for long-term disposal be commissioned.

The Federal Government has defined the parameters within which each of these recommendations will be implemented, and has charged Natural Resources Canada with initiating and reporting back on a consultative process with the appropriate stakeholders to develop options to meet the key objectives of :

- establishing a dedicated fund;
- specifying the reporting relationships between the government, the waste management organization and stakeholders; and
- establishing a federal review and approval mechanism to provide oversight and access to funds.

Note 14 outlines Ontario Hydro's estimation of future costs and timing of used nuclear fuel disposals.

21. SEGMENT INFORMATION

Ontario Hydro's reportable electricity segments are generation (Generation); transmission, distribution and other electricity services (Distribution); and all other activities (Other). The reportable segments are strategic business units that produce or deliver the same product to the customer. The production of the product is managed separately from the transmission and distribution of the product. The accounting policies followed by the segments are the same as those described in the summary of significant accounting policies (see note 2).

Ontario Hydro accounts for intersegment sales and transfers at cost. These segments are confirmed by the Government of Ontario through its passage of the *Energy Competition Act, 1998,* which establishes five successor entities as described in Note 1.

(millions of dollars)

	MARCH 31, 1999			
	Generation	Distribution	Other	Total Company
Revenue from external customers	1,758	817	19	2,594
Intersegment revenue	264	31	–	295
Depreciation and amortization	338	76	4	418
Operation, maintenance & administration	551	185	27	763
Segment profit before use of 1997 provision for future costs	(64)	151	(22)	65
Use of 1997 provision for future costs	365	14	–	379
Segment profit	301	165	(22)	444
Segment assets	30,204	9,203	193	39,600

(millions of dollars)

	DECEMBER 31, 1998			
	Generation	Distribution	Other	Total Company
Revenue from external customers	5,879	2,896	204	8,979
Intersegment revenue	1,159	127	–	1,286
Depreciation and amortization	1,267	304	24	1,595
Operation, maintenance & administration	1,861	676	230	2,767
Segment profit before deferred pension asset adjustment and use of 1997 provision for future costs	(824)	364	(82)	(542)
Use of 1997 provision for future costs	1,389	96	1	1,486
Segment profit before deferred pension asset adjustment	563	462	(81)	944
Segment assets	30,412	9,436	175	40,023

(millions of dollars)

	DECEMBER 31, 1997			
	Generation	Distribution	Other	Total Company
Revenue from external customers	5,990	2,809	126	8,925
Intersegment revenue	1,225	127	–	1,352
Depreciation and amortization	1,263	282	33	1,578
Operation, maintenance & administration	1,418	570	203	2,191
Segment profit before corporate write-offs	(45)	295	4	254
Segment assets	29,947	9,059	175	39,181

Reconciliation of reportable segment revenues, segment profit and segment assets

(millions of dollars)	THREE MONTHS MARCH 31, 1999	TWELVE MONTHS 1998	1997
REVENUES			
Total revenues for reportable segments	**2,870**	10,061	10,151
Other revenues	**19**	204	126
Elimination of intersegment revenues	**(295)**	(1,286)	(1,352)
Total company revenues	**2,594**	8,979	8,925
PROFIT			
Total profit for reportable segments, before deferred pension asset adjustment	**444**	944	254
ASSETS			
Total assets for reportable segments	**39,407**	39,848	39,006
Other assets	**193**	175	175
Company total	**39,600**	40,023	39,181

22. COMPARATIVE FIGURES

Certain of the 1998 and 1997 comparative figures in the financial statements have been reclassified to conform with the March 31, 1999, financial statement presentation.

Five-Year Summary of Financial and Operating Statistics

(millions of dollars)

	1998	1997	1996	1995	1994
REVENUES					
Primary power and energy					
Municipal utilities	**6,019**	5,874	5,857	5,899	5,829
Retail customers	**1,588**	1,638	1,647	1,635	1,688
Direct industrial customers	**917**	924	903	914	866
	8,524	8,436	8,407	8,448	8,383
Secondary power and energy	**148**	173	172	233	349
Other revenues	**307**	316	307	315	264
	8,979	8,925	8,886	8,996	8,996
COSTS					
Operation, maintenance and administration[1]	**2,178**	2,191	2,008	1,916	1,913
Fuel used for electric generation[1]	**350**	697	615	607	608
Power purchased	**845**	839	571	495	341
Provincial government levies	**274**	277	282	283	284
Depreciation and amortization	**1,512**	1,578	1,656	1,640	1,595
	5,159	5,582	5,132	4,941	4,741
INCOME BEFORE FINANCING CHARGES, CORPORATE WRITE-OFFS AND DEFERRED PENSION ASSET ADJUSTMENT	**3,820**	3,343	3,754	4,055	4,255
FINANCING CHARGES					
Gross interest	**2,918**	3,056	3,206	3,574	3,544
Capitalized interest	**(39)**	(52)	(54)	(78)	(123)
Investment income	**(33)**	(33)	(52)	(123)	(63)
Foreign exchange	**30**	118	82	54	42
	2,876	3,089	3,182	3,427	3,400
INCOME BEFORE CORPORATE WRITE-OFFS AND DEFERRED PENSION ASSET ADJUSTMENT	**944**	254	572	628	855
Corporate write-offs	**–**	(6,580)	(2,560)	–	(268)
Deferred pension asset adjustment	**887**	–	–	–	–
NET INCOME (LOSS)	**1,831**	(6,326)	(1,988)	628	587

Five-Year Summary of Financial and Operating Statistics

continued (millions of dollars)

	1998	1997	1996	1995	1994
FINANCIAL POSITION					
Total assets	**40,023**	39,181	39,870	42,984	44,100
Fixed assets	**35,312**	35,992	36,818	39,299	39,907
Long-term debt [2]	**28,324**	28,221	30,070	31,430	32,967
(Deficit) retained earnings	**(3,166)**	(4,537)	2,552	4,540	3,912
CASH FLOWS					
Cash provided from operating activities	**1,488**	2,026	2,228	2,479	2,256
Cash used for financing activities	**343**	458	1,533	1,686	1,245
Cash used for investment in fixed assets	**823**	881	844	881	1,164
Investment in fixed assets	**865**	852	868	932	1,089
FINANCIAL INDICATORS					
Interest coverage before corporate write-offs and deferred pension asset adjustment [3]	**1.34**	1.09	1.19	1.19	1.25
Debt ratio [4]	**1.100**	1.153	0.930	0.886	0.904
ENERGY SALES [5] *millions of kilowatt-hours*					
Primary energy sales					
Municipal utilities	**98,289**	95,276	94,565	94,606	93,405
Retail customers	**18,383**	18,846	18,603	18,390	18,499
Direct industrial customers	**19,200**	19,209	18,490	18,651	17,552
	135,872	133,331	131,658	131,647	129,456
Secondary energy sales [5]	**3,042**	6,396	6,112	9,203	12,628
	138,914	139,727	137,770	140,850	142,084

Five-Year Summary of Financial and Operating Statistics

continued (millions of dollars)

	1998	1997	1996	1995	1994
ENERGY AND DEMAND					
In-service capacity *megawatts* [6]	**26,861**	30,284	29,844	29,244	30,135
December primary peak demand *megawatts*	**22,067**	21,494	20,895	22,613	21,849
Primary energy made available *millions of kilowatt-hours* [7]	**139,931**	138,371	137,418	137,038	134,874
NUMBER OF PRIMARY CUSTOMERS [5]					
Municipal utilities	**275**	305	306	306	306
Retail customers	**961,260**	973,547	963,043	962,426	954,502
Direct industrial customers	**108**	108	103	103	103
AVERAGE REVENUE [5] *in cents per kilowatt-hour of total energy sales*					
Primary power and energy					
Municipal utilities	**6.124**	6.165	6.194	6.235	6.241
Retail customers	**8.662**	9.396	9.431	9.376	9.684
Direct industrial customers	**4.774**	4.810	4.884	4.901	4.934
All primary customers combined	**6.273**	6.395	6.441	6.464	6.529
Secondary power and energy	**6.155**	2.705	2.814	2.532	2.764
All classifications combined	**6.271**	6.224	6.279	6.205	6.192
AVERAGE RATE INCREASES (DECREASES) *expressed as a per cent*					
Municipal utilities	**0.0**	0.0	0.0	0.0	0.0
Retail customers	**0.0**	0.0	(0.6)	0.0	0.0
Direct industrial customers	**0.0**	0.0	(0.2)	(0.7)	0.0
All primary customers combined	**0.0**	0.0	(0.1)	(0.1)	0.0

Five-Year Summary of Financial and Operating Statistics

continued (millions of dollars)

	1998	1997	1996	1995	1994
AVERAGE COST [1,5,8] *in cents per kilowatt-hour of energy generated*					
Hydroelectric					
Operation, maintenance and administration	**0.402**	0.318	0.312	0.316	0.318
Water rentals	**0.404**	0.362	0.335	0.344	0.336
Depreciation, debt guarantee fee and financing charges	**0.294**	0.274	0.313	0.415	0.543
Other revenues	**(0.002)**	(0.003)	(0.006)	(0.003)	(0.011)
	1.098	0.951	0.954	1.072	1.186
Nuclear					
Operation, maintenance and administration	**2.151**	1.533	1.228	1.066	1.032
Uranium	**0.436**	0.277	0.255	0.268	0.285
Depreciation, debt guarantee fee and financing charges	**5.203**	4.526	4.143	3.946	3.530
Other revenues	**(0.069)**	(0.098)	(0.118)	(0.103)	(0.118)
	7.721	6.238	5.508	5.177	4.729
Fossil					
Operation, maintenance and administration	**0.917**	0.905	1.051	1.166	1.331
Coal, gas and oil	**2.225**	2.113	2.218	2.394	2.378
Depreciation, debt guarantee fee and financing charges	**1.169**	1.860	2.496	3.229	3.732
Other revenues	**(0.018)**	(0.023)	(0.073)	(0.121)	(0.020)
	4.293	4.855	5.692	6.668	7.421
AVERAGE NUMBER OF EMPLOYEES					
Regular	**20,875**	21,130	21,313	21,505	22,525
Non-regular [9]	**2,089**	2,438	1,873	1,573	2,082

1 Operation, maintenance and administration and fuel costs have been restated to exclude other revenues.
2 Long-term debt includes long-term debt payable within one year.
3 Interest coverage represents net income plus interest on bonds, notes, and other debt divided by interest on bonds, notes and other debt.
4 Debt ratio represents debt (bonds and notes payable, short-term notes payable, other post-employment benefits, other long-term debt, unamortized swaption premiums, accrued fixed asset removal and used nuclear fuel disposal costs and bank lines of credit less unamortized foreign exchange gains and losses) divided by debt plus equity.
5 Figures for 1998 are preliminary.
6 In-service capacity represents the net output power supplied by all generating units, net firm power purchase contracts and purchases from non-utility generators. Excluded are non-operating reserve facilities of: 1998 – 5,100 MW; 1997 – 4,516 MW; 1996 – 4,300 MW; 1995 – 5,043 MW; and 1994 – 4,297 MW.
7 Primary energy made available represents primary energy sales plus transmission losses and energy used for heavy water production and generation projects.
8 Average cost per kilowatt-hour represents the costs attributable to generation but excludes the costs related to transmission, distribution and corporate administrative activities. These figures reflect the historical accounting costs of operating facilities and the actual energy generated by these facilities during the year.
9 The majority of non-regular staff are construction trades persons.

Customers Served by Ontario Hydro and Associated Municipal Utilities

	1998[1]	1997	1996	1995	1994
TOTAL NUMBER OF CUSTOMERS *in thousands*					
Residential	**3,466**	3,420	3,369	3,329	3,293
Farm	**98**	100	101	103	103
Commercial and industrial	**441**	441	439	441	437
	4,005	3,961	3,909	3,873	3,833
AVERAGE ANNUAL USE *in kilowatt-hours per customer*					
Residential	**9,761**	10,394	10,318	10,421	10,763
Farm	**23,126**	23,048	23,933	22,432	23,138
Commercial and industrial	**210,570**	210,114	204,103	205,123	201,265
AVERAGE REVENUE[2] *in cents per kilowatt-hour*					
Residential	**8.65**	8.51	8.87	8.84	8.83
Farm	**8.77**	8.81	9.33	8.96	8.93
Commercial and industrial	**6.41**	6.53	6.54	6.80	6.75
All customers	**7.04**	7.10	7.23	7.27	7.37

[1] Figures are preliminary.
[2] Includes rural rate assistance.

Corporate Governance Practices

Under the *Power Corporation Act (PCA)*, Ontario Hydro was governed by a Board of Directors consisting of up to 22 members. Included in this membership was the Deputy Minister of Energy, Science and Technology, a Director who did not vote at any meeting of the Board. The Chairman and Directors of the Board were appointed by the Lieutenant Governor in Council, and the President was appointed by the Board. The Board of Directors recommended to the Government of Ontario that it appoint either the Chairman or the President as the Chief Executive Officer. In 1998 and the first quarter of 1999, Ontario Hydro had a 12-member Board. Ten of the Corporation's 12 directors were independent of management. External Board members were provided the opportunity to meet in executive session with the Chairman, and the Chief Executive Officer, during each Board meeting, and to meet in executive session without the Chief Executive Officer and members of management several times during the year and/or as required.

As stipulated in the *PCA* [Section 4(1)], the Board supervised management who managed the affairs of the Corporation, and it was consequently involved in considering significant issues facing the Corporation. The Chairman of the Board and the Chairs of the Board Committees, in working with management, determined which matters were put before the Board.

The Hydro Board also recognized that it may supervise, direct or oversee the business and affairs of the Corporation, but that it should not manage them, at least not in a day-to-day sense. This kind of management was delegated to the CEO and other senior Hydro officers, who were accountable to, and reported back to, the Board from time to time and who operated within prescribed limits of authority.

The Board of Directors discharged its responsibilities directly and through committees. While there were 12 meetings of the Board of Directors in 1998 – including three site visits of Bruce, Pickering and Darlington nuclear generating facilities – and three Board meetings in the first quarter of 1999, the number of Committee meetings varied. The following is a brief description of the mandate of each Board Committee, its composition, and the number of meetings held in the past year.

AUDIT/FINANCE COMMITTEE

The mandate of the Audit/Finance Committee was to advise the Board and to make recommendations for its consideration with respect to: the review of financial reporting matters, the system of internal accounting and financial controls and procedure, and the audit procedures and audit plans; the nomination, remuneration, function and performance of the external auditors; the form and content of the Corporation's annual financial statements, the annual report and any interim or ad hoc documents required by regulatory authorities; the review, on an annual basis, of the financial plans and objectives of the Corporation; the review of matters relating to the funding and investment of funds of the Corporation's pension plan; an annual review of the risks inherent in the Corporation's business and related risk-management programs; the Corporation's policies with respect to debt management, money market activities and the Corporation's banking resolutions; and the Corporation's policies with respect to debt management, foreign exchange management and corporate financial investments.

As defined in the *PCA*, the President and CEO was a member of the Committee for that section of the mandate related specifically to financial matters.

In carrying out its responsibilities, the Committee could meet with both the external and internal auditors, without the Chief Executive Officer and members of management present.

The Audit/Finance Committee met nine times during 1998, and three times in the first quarter of 1999.

ENVIRONMENT & PUBLIC POLICY COMMITTEE

The mandate of the Environment and Public Policy Committee was to advise the Board and to make recommendations for its consideration with respect to the Corporation's strategic focus and direction on

matters relating to: health and safety; social obligations; relations with Aboriginal peoples; and sustainable development and the environment. Specifically, the Committee ensured that the Corporation's actions reflected the interests of governments, non-governmental organizations, the people of Ontario and the employees of Ontario Hydro.

The Environment and Public Policy Committee met five times during 1998.

HUMAN RESOURCES & CORPORATE GOVERNANCE COMMITTEE

The mandate of the Human Resources & Corporate Governance Committee was to advise the Board and to make recommendations for its consideration with respect to: the strategic prospects and options for the future of Ontario's electric power industry in general, and Ontario Hydro specifically; the review of written objectives of the CEO and the provision of guidance for the development and placement, including promotion, of senior management; the annual review and assessment of the performances of the Chairman and the President & CEO; the annual review of organizational structure matters; the monitoring of the quality of the relationship between management and the Board; and the responsibility for Board governance of the Corporation, including the mandate to review the Board Committee structure and to undertake such other initiatives as required to ensure the Board has exemplary corporate governance.

The Human Resources & Corporate Governance Committee met nine times in 1998, and twice in the first quarter of 1999.

NUCLEAR REVIEW COMMITTEE

The mandate of the Nuclear Review Committee was to advise the Board and make recommendations for its consideration with respect to the safe performance of the Corporation's nuclear operations and its effectiveness in achieving desired results. Specifically, the Committee ensured that Ontario Hydro's nuclear facilities were operated and maintained in a rigorous and vigilant manner to ensure that the radiological risk to workers, the public and the environment is acceptably low, and in keeping with the best practices in the international nuclear community.

The Nuclear Review Committee met 12 times during 1998, and twice in the first quarter of 1999.

Board of Directors

as at March 31, 1999

SEATED
(LEFT TO RIGHT)

RADCLIFFE LATIMER
Former Chairman of the Board, Prudential Corporation Canada

NUALA BECK
President, Nuala Beck & Associates Inc.

CARL ANDERSON
Alternating Chair, North York Hydro-Electric Commission

STANDING
(LEFT TO RIGHT)

DONA HARVEY
Management Consultant, The Talaria Group

DR. MOHAN MATHUR
Dean, Faculty of Engineering Science, University of Western Ontario

RONALD W. OSBORNE[1]
President & Chief Executive Officer, Ontario Hydro

SIR GRAHAM DAY
Counsel to the Atlantic Canada Law Firm, Stewart McKelvey Stirling Scales

WILLIAM A. FARLINGER[1]
Chairman, Board of Directors, Ontario Hydro

KENNETH KNOX[2]
Deputy Minister of Energy, Science and Technology, Province of Ontario

JOHN D. MURPHY[1]
President, Power Workers' Union, Ontario Hydro

DOUG McCAIG
Former Chairman, Municipal Electric Association

JAMES R. BULLOCK[1]
President and Chief Executive Officer, Laidlaw Inc.

ABSENT

ARTHUR SAWCHUK
Chairman, The Manufacturers Life Insurance Company; President & Chief Executive Officer, Avenor Inc.

DAVID KERR[1]
Vice-Chairman, Board of Directors, Ontario Hydro; Chairman & Chief Executive Officer, Noranda Inc.

[1] *Member of the Audit/ Finance Committee*
[2] *Non-voting member*

Organization and Corporate Officers

as at March 31, 1999

WILLIAM FARLINGER
Chairman

RON OSBORNE
President and Chief Executive Officer

G. CARL ANDOGNINI
Executive Vice-President and Chief Nuclear Officer, Ontario Hydro Nuclear

DEV CHOPRA
Vice-President, Finance – Nuclear

BRIAN DEBS
Vice-President, Human Resources – Nuclear

RICHARD MACHON
Nuclear Chief Operating Officer

BRIAN MacTAVISH
Vice-President, Regulatory Affairs – Nuclear

ROBERT MORRISON
Vice-President, Managed Systems – Nuclear

KEN NASH
Vice-President, Nuclear Waste Management and Technology

ROBERT NIXON
Site Vice-President, Bruce

CHARLES PACKER
Site Vice-President, Darlington

WARREN PEABODY
Vice-President and Chief Nuclear Engineer, Station Engineering and Support

GENE PRESTON
Senior Vice-President, NAOP and Pickering

PAUL SPEKKENS
Vice-President, Technical Support – Nuclear

CAROLYN STOCK
Executive Advisor, Ombudsman – Nuclear

BOB STRICKERT
Site Vice-President, Pickering

PIERRE TREMBLAY
Vice-President, Training and Services – Nuclear

JOHN FOX
Executive Vice-President and Managing Director, Genco

BOB BRYNIAK
Vice-President, Business Services – Genco

JIM BURPEE
Senior Vice-President, Electricity Production

DAVE COMISSIONG
Vice-President, Marketing and Sales – Genco

LARRY DORAN
Vice-President, Business Development – Genco

ELEANOR CLITHEROE
Executive Vice-President and Managing Director, Servco

JIM BROWN
Vice-President, Technology Services and New Product Development

IAN LONDON
Senior Vice-President, Diversified Operations

MALEN NG
Chief Financial Officer, Servco

GERRY O'HEARN
Senior Vice-President, Network Services

RON STEWART
Executive Vice-President, Transmission and Distribution

VIPIN SURI
General Manager, Distribution Network Asset Management, and Acting Vice-President, Customer Service & Commercial Relations

ROD TAYLOR
Senior Vice-President, Network Asset Management

BRUCE BENNETT
General Auditor

TED CLARK
Vice-President, Year 2000 Project

RICHARD DICERNI
Senior Vice-President, Corporate and Environmental Affairs

DAVE GOULDING
Senior Vice-President, Central Market Operations

CHUCK GYLES
Senior Vice-President, Corporate Human Resources

STEVE STROME
Vice-President, Labour Relations

PATRICK McNEIL
Vice-President, Corporate Planning

BARRY NICOL
Chief Financial Officer

JOHN MULLIGAN
Treasurer

DON VEINOT
Executive Director, Corporate Finance

JIM WILBEE
Executive Director, Pension Fund

JOAN PRIOR
Acting Senior Vice-President, Corporate General Counsel and Secretary

Ontario Hydro

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Ce rapport est également publié en français.

Ontario Hydro's former head office is now the head office of Ontario Power Generation Inc. and is located at 700 University Avenue, Toronto, Ontario M5G 1X6.

The Ontario Hydro Services Company head office is located at 483 Bay Street, Toronto, Ontario M5G 2P5.

Visit Ontario Hydro's site on the World Wide Web at www.hydro.on.ca

Also visit the websites of Ontario Hydro's successor companies:
Ontario Power Generation Inc. – www.ontariopowergeneration.com
Ontario Hydro Services Company – www.ohsc.com

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