

# HYDRO ONE

Scotia Capital -  
Montreal Investor Luncheon  
October 24, 2006



# Forward Looking Statements

This presentation may contain forward-looking statements, including statements regarding the business and anticipated financial performance of Hydro One Inc. Although Hydro One believes that such statements are based on reasonable assumptions, such statements are subject to certain risks, uncertainties and assumptions related to operating performance, regulatory developments, economic conditions etc. In the event that one or more of the risks or uncertainties materialize, or that an underlying assumption prove to be incorrect, actual results may vary significantly from those expected. Hydro One is not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

# Hydro One at a Glance

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- Own and operate one of the largest electricity delivery systems in North America



## Transmission

- \$6.8B in assets ~ 70% of net income
- 28,500 km network - over 97% of capacity in Ontario
- 51 LDCs, 66 large industrials
- 26 interconnection facilities



## Distribution

- \$4.9B in assets ~ 30% of net income
- 122,100 km system – spans 75% of Ontario
- 1.3M customers – 35 LDCs, 50 large industrials

# Hydro One 2010

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- Best transmission and distribution business in North America
- Best safety record in the world
- Top quartile reliability
- Customer satisfaction: 90% across all segments
- Shareholder returns:
  - Top quartile employee productivity
  - Top quartile capital/operating efficiency
  - Full regulated return on equity
  - “A” credit rating

# Key Regulatory Decisions

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Recent:

- Distribution rate decision - program levels approved as submitted
- Transmission earnings sharing

Near future:

- Distribution cost of capital review
- Transmission rate hearing



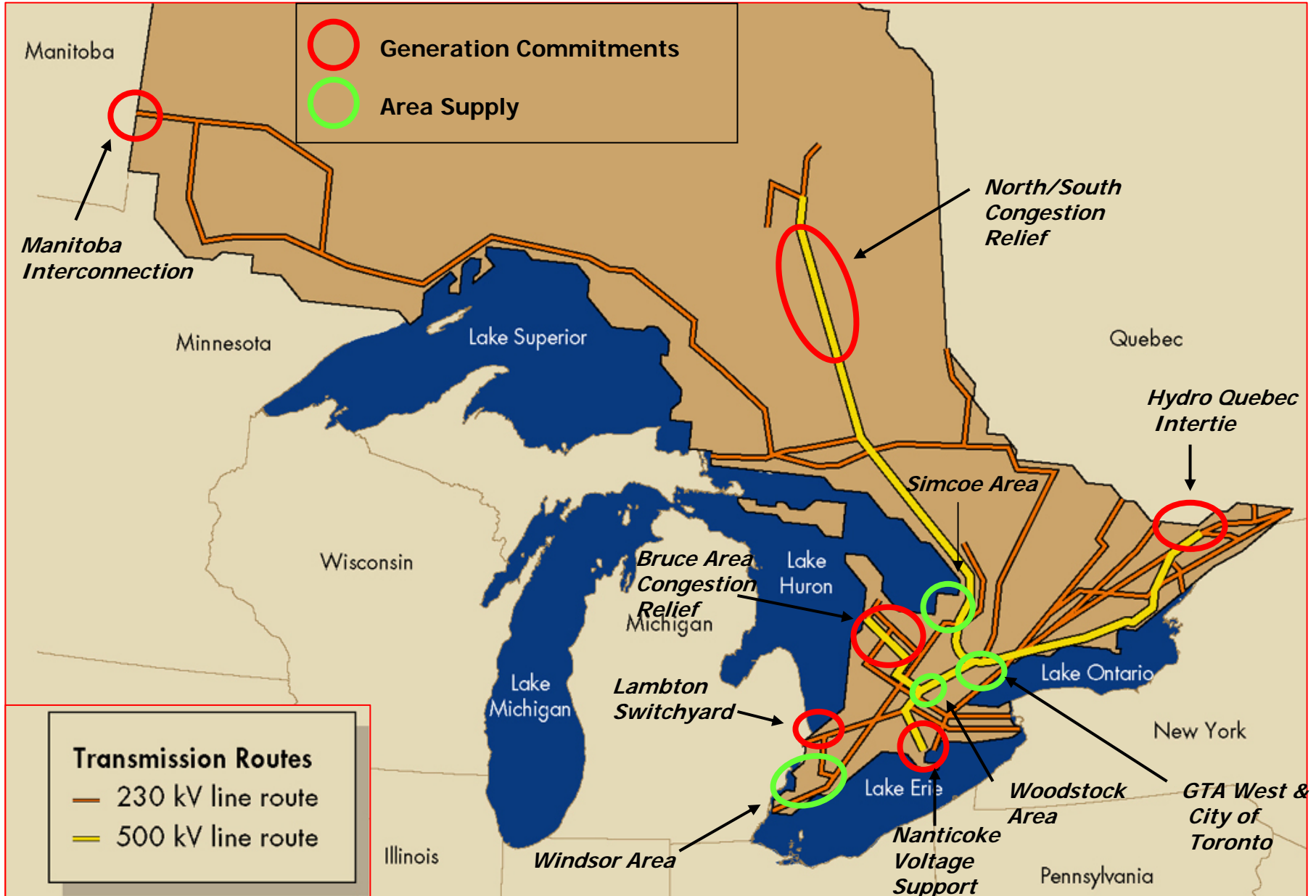
# Investment Drivers

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- Ongoing core capital expenditures
- Transmission system development
  - System growth and reliability
  - New and retiring generation facilities
  - Interconnections
- Conservation & Demand Management (CDM)
- Rationalization of Ontario electricity distribution sector



# Transmission System Development - Overview



# CDM & Distribution Rationalization

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- Conservation and demand management (CDM)
  - Smart meter technology
  - Conservation initiatives
- Distribution rationalization
  - Transfer tax exemption / lifting of moratorium

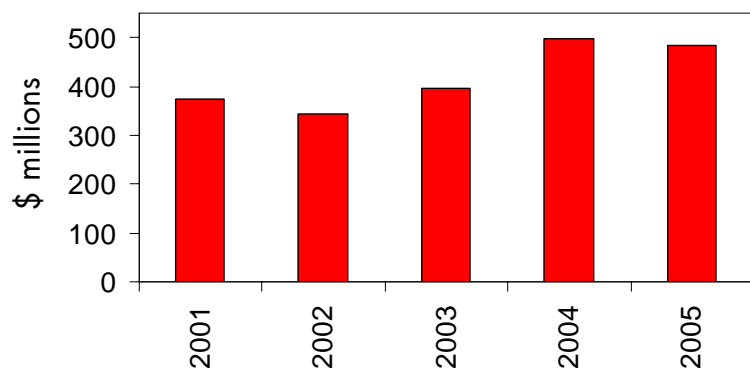
# Capital Expenditures

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- Planned to exceed \$1.2 B in 2007 & 2008
  - Core capital expenditures of \$750 M
  - Balance on system development / smart meters
- Up to \$5 B over next 10 yrs on non-core capital expenditures
- Likelihood and timing driven by:
  - Ontario Power Authority's Integrated Power System Plan
  - CDM / smart meter program
  - Distribution rationalization
  - Approval process / times

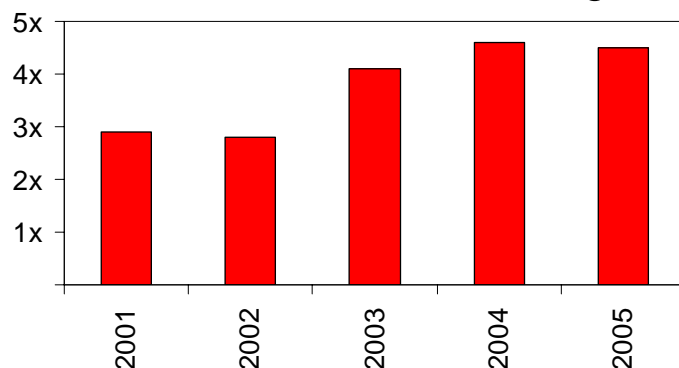
# Stable Financial Performance

## Net Income



- Stabilizing regulatory environment
- Continued focus on operations
- Organic growth opportunities
- Financial metrics support credit ratings

## FFO Interest Coverage



# 2006 Second Quarter Results

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(\$M)	six months ended June 30		
	<u>2006</u>	<u>2005</u>	<u>Change</u>
Revenues	2,238	2,212	+1%
Purchased power	1,103	1,102	-
Operating costs	664	611	+9%
Net income	251	246	+2%

# Financing

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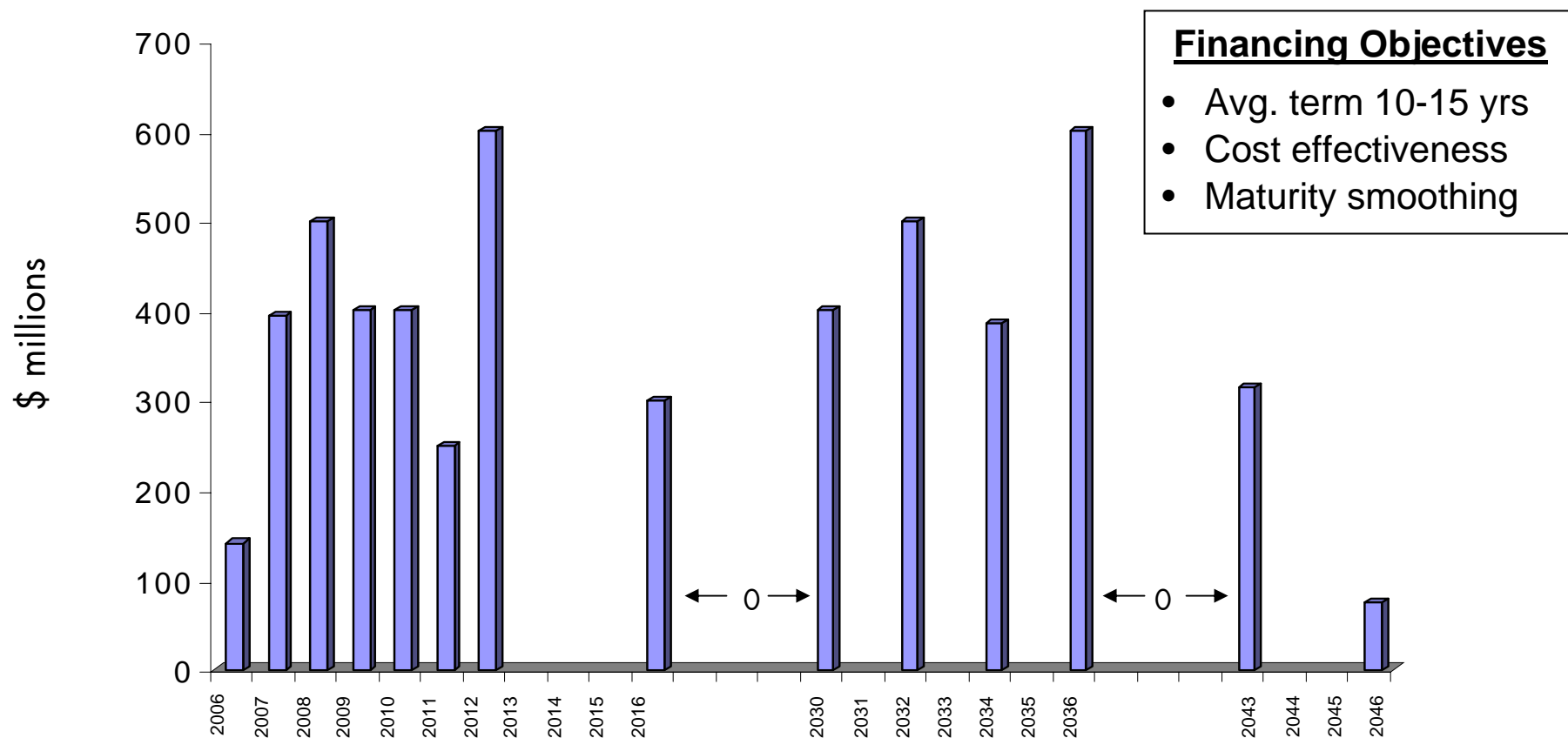
- Borrowing requirements driven by:
  - Debt maturities
  - Non-core capital expenditures
- MTN shelf main platform maturing July/07
  - \$1.7B remaining
- \$1B CP program to bridge requirements

<b>Long-term Credit Ratings</b>	
S&P	A
Moody's	Aa3
DBRS	A (high)

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Moody's	Aa3
DBRS	A (high)



# Long-term Debt Maturities



Note: 2006 maturities for the remainder of the year

# Summary

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- 99% regulated – experienced and supportive regulator
- Stable financial performance
- Going forward:
  - Continued focus on core wires business
  - Organic growth opportunities through infrastructure investments
  - Maintain credit quality



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