

Hydro One announces first quarter net income

Toronto, May 10, 2006 - Hydro One Inc. today released its first quarter results with net income of \$152 million and revenues of \$1,160 million for the three months ended March 31, 2006.

"Hydro One remains on track to achieve our 2006 financial targets. Strong and stable financial performance enables us to make the necessary investments to ensure the reliable supply of electricity to the people of Ontario," said Hydro One President and CEO Tom Parkinson. "Projects such as the \$116 million investment we are making to reinforce the transmission system in the Niagara region are needed to provide access to new sources of generation in the public interest. The Niagara upgrades will increase our ability to import electricity by up to 800 megawatts and accommodate the expansion of the Sir Adam Beck facility in Niagara Falls."

During the quarter there were several industry developments and company initiatives, some of which are highlighted below:

- On February 21, 2006, the Ontario Energy Board (OEB) announced a decision to apply an earnings sharing mechanism to equally share, between Hydro One's shareholder and customers, any transmission earnings in excess of the approved return of 9.88%, for the period January 1, 2006 until new transmission rates are set. Our application for transmission rates will be based on a funding level sufficient to enable critical transmission expansion projects to proceed and to ensure the secure operation of the province-wide system.
- Relying on our comprehensive written and oral evidence, the OEB approved an increase of approximately \$160 million in our distribution revenue requirement. This decision is expected to provide the foundation for maintaining and supporting the safe and reliable operation of the distribution system. The OEB's decision demonstrates their confidence that we will appropriately prioritize our work and spend our customers' money wisely.
- We continue to make investments in our distribution business in order to maintain and improve system reliability. Our program to install sectionalizers, which will help to reduce outage frequency and duration, is proceeding as planned and is expected to be completed in 2008. Increasing investment is also expected to be made in our wood pole replacement program.
- On March 3, 2006, we issued \$300 million of 10-year notes at a coupon rate of 4.64% and with a maturity date of March 3, 2016. On April 24, 2006, we issued \$250 million of 30-year notes at a coupon rate of 5.36%, a maturity date of May 20, 2036, and at a yield of 5.412%. This issue is a re-opening of the notes originally issued in May 2005. Both issues were under our Medium Term Note Program.

Net income of \$152 million for the first quarter was \$21 million, or 16% higher than last year. This increase reflects higher distribution tariff revenues and a reduction in our effective tax rate due to the recognition of a tax benefit in the quarter. Lower financing costs and depreciation expense also contributed to the higher level of net income. These impacts were partially offset by reduced transmission revenues resulting from the implementation of the OEB's transmission earnings sharing mechanism and mild weather.

Capital expenditures of \$177 million for the first three months were higher than the comparative period by \$21 million, or 13%. Expenditures made to expand the transmission system increased as a result of higher demand for customer connections and two critical investment programs: the Niagara Reinforcement Project and a project to construct an underground transmission line in downtown Toronto that will improve reliability. Asset replacement costs related to storm activity in north-central Ontario in early February 2006 also contributed to the increase.

Total revenues for the period were \$34 million, or 3% lower than last year primarily due to the reduction in our transmission tariff revenues. Distribution revenues were marginally lower, reflecting lower purchased power costs, partially offset by improved tariff revenues attributable to a previously deferred rate increase effective April 1, 2005. Net cash from operations was \$146 million for the first three months of 2006. During this period we paid \$159 million in dividends to the Province of Ontario.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

Three months ended March 31

(Canadian dollars in millions) (except as otherwise noted)

	2006	2005	\$ change	% change
Revenues	1,160	1,194	(34)	(3)
Purchased power	598	618	(20)	(3)
Operating costs	303	301	2	1
Net income	152	131	21	16
Net cash from operations	146	236	(90)	(38)
Average Ontario 60-minute Peak Demand (MW) ¹	22,382	23,136	(754)	(3)
Distribution – units distributed to customers (TWh) ¹	8.0	8.4	(0.4)	(5)

¹ System related statistics are preliminary.

Hydro One Inc. is a holding company that operates through its subsidiaries in electricity transmission and distribution and telecom businesses. One of its subsidiaries, Hydro One Networks Inc., operates one of the largest transmission and distribution systems in North America. Hydro One Inc. is wholly owned by the Province of Ontario.

Hydro One's 2006 First Quarter Consolidated Financial Statements and Management Discussion and Analysis can be accessed through the following link: www.hydroone.com/2006Q1financials.

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