

## Hydro One announces second quarter net income

**Toronto**, August 11, 2006 - Hydro One Inc. today released its second quarter results with net income of \$251 million and revenues of \$2,238 million for the six months ended June 30, 2006.

"Hydro One again performed very well both operationally and financially. We continue to deliver electricity safely and reliably to our customers and maintain the financial performance that supports our credit ratings and enables our work programs to meet system infrastructure requirements," said Hydro One President and CEO Tom Parkinson. "Improving customer satisfaction is another area where we have made significant progress. Our efforts to make customer service a priority and part of our culture at Hydro One have recently resulted in the achievement of a 91% satisfaction level for our large industrial customers."

There were several industry developments and company initiatives, some of which are highlighted below:

- We have successfully faced some significant operational challenges this year. On May 30, 2006, the Ontario Market Hourly Demand peaked at 24,857 MW, representing a new record for May, and on August 1 we reached a new all-time peak of 27,005 MW, exceeding the previous record of 26,160 MW set on July 13, 2005. Our systems performed well in both cases, reflecting the investments we have made over the past few years. On July 17, 2006, a severe summer storm in the southern and eastern parts of the province caused the most damage to Ontario's electricity system since the ice storm of 1998. On August 2, 2006, we faced another large storm in central Ontario. Thanks to the skill and dedication of our staff, we were able to rapidly respond to the system's needs and restore power to over 320,000 customers.
- On June 23, 2006, Dominion Bond Rating Service raised our long-term debt rating to A (high), with a stable trend, from A with a positive trend. In addition, our short-term debt rating was upgraded to R-1 (middle) from R-1 (low).
- We continue to prepare a transmission rate application for filing with the Ontario Energy Board (OEB). Stakeholder consultation sessions were held and we introduced our proposed revenue requirements for 2007 and 2008, representing transmission rate increases of approximately 4.3% and 2.7%, respectively. The average annual increase on total customer bills of less than 0.5% supports increased transmission system infrastructure investments in the public interest, reflecting the needs of our aging transmission system and additions to accommodate new generation consistent with Government policy.
- In support of the Government's decision to install smart meters throughout Ontario by 2010, we have re-launched our smart meter project. Our project will aim for the installation of approximately 45,000 meters by the end of 2006 and will focus on developing and testing the processes, tools, and network infrastructure to support the mass deployment of meters over the period 2007 to 2010.

Net income was lower by \$16 million, or 14%, in the second quarter, but higher by \$5 million, or 2%, in the first six months compared to 2005 results. Net income levels in the quarter and year-to-date periods reflect higher distribution tariff revenues associated with recent OEB-approved tariff rate increases and

lower financing charges. These results were partially offset by the impacts of higher expenditures required to operate and maintain our transmission and distribution systems in the second quarter and the OEB's transmission earnings sharing mechanism in the first quarter. We also experienced a higher effective tax rate in the second quarter which was more than mitigated on a year-to-date basis by the recognition in the first quarter of a tax benefit associated with prior years' recoveries and the enactment of lower tax rates and regulations.

Capital expenditures of \$375 million for the first six months were higher than in 2005 by \$38 million, or 11%. Expenditures made to expand our transmission system increased primarily as a result of two critical investment programs: the Niagara Reinforcement Project and the Downtown Toronto Cable Project, which will improve reliability when completed. Increases in asset replacement requirements, including increases resulting from storm activity in north-central Ontario in early February 2006, also contributed to higher capital expenditures on our low-voltage distribution system.

Total revenues for the six-month period were \$26 million, or 1%, higher than last year primarily due to OEB-approved distribution tariff increases and the recovery of increased purchased power costs. This increase was partially offset by the combined effects of milder weather and the OEB's earnings sharing mechanism in reducing our transmission revenues. Net cash from operations was \$364 million for the first six months of 2006. During this period we paid \$223 million in dividends to the Province of Ontario.

## CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

<i>(Canadian dollars in millions) (except as otherwise noted)</i>	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Revenues	1,078	1,018	2,238	2,212
Purchased power	505	484	1,103	1,102
Operating costs	361	310	664	611
Net income	99	115	251	246
Net cash from operations	218	227	364	469
Average Ontario 60-minute Peak Demand (MW) <sup>1</sup>	22,596	21,502	22,489	22,319
Distribution – units distributed to customers (TWh) <sup>1</sup>	6.6	6.6	14.6	15.1

<sup>1</sup> 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 Second Quarter Consolidated Financial Statements and Management Discussion and Analysis can be accessed through the following link: [www.hydroone.com/2006Q2financials](http://www.hydroone.com/2006Q2financials).

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