

Hydro One announces third quarter net income

Toronto, November 14, 2006 - Hydro One Inc. today released its third quarter results with net income of \$354 million and revenues of \$3,403 million for the nine months ended September 30, 2006.

"Hydro One's financial performance remains on target while at the same time we have taken aggressive steps to improve overall supply reliability in Ontario by increasing transmission capacity," said Tom Parkinson, President and CEO of Hydro One. "We have concluded a milestone agreement with Hydro-Québec to connect our two provincial high voltage systems. This project, together with the substantial completion of our Niagara Reinforcement Project and the rebuilding of an interconnection circuit to the U.S., represent key investments to improve supply reliability in the public interest."

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

- In September, the North American Electric Reliability Council (NERC) gave our transmission operations facilities, work processes and staff a grading of excellence for their abilities to reliably operate and maintain Ontario's electricity transmission system. The report singled out our industry leading physical security procedures, infrastructure and program management as well as our innovative and fully integrated, multi-functional communications system.
- On October 16, 2006, we signed an agreement with Hydro-Québec TransÉnergie for the construction of a new 1,250 MW interconnection between our systems that will allow us to commence construction before the end of 2006. This project provides Ontario with more reliability and flexibility in supply with access to emission-free hydroelectric power, in support of government policy.
- We rebuilt a two-kilometre 230kV interconnection circuit to the U.S. that was removed after gale-force winds brought down a transmission tower in the Sarnia, Ontario area. This interconnection will provide about 100 MW of import capacity to our transmission system.
- On October 17, 2006, the Ontario Government announced that publicly-owned utilities will be exempt for two-years from paying electricity transfer tax when they sell electricity assets to other publicly-owned utilities in Ontario. In addition, the Government has lifted a moratorium on our purchase or sale of electricity distribution assets. We will be open to voluntary and commercially beneficial opportunities.

Net income was lower by \$30 million, or 23%, in the third quarter, and by \$25 million, or 7%, on a year-to-date basis compared to 2005 results. Net income levels in the quarter and year-to-date periods reflect the impacts of higher expenditures required to operate and maintain our transmission and distribution systems, particularly as a result of the damaging storms experienced over the summer months, and lower transmission tariff revenues, including the impact of the Ontario Energy Board's (OEB's) transmission earnings sharing mechanism. We also experienced a higher effective tax rate in the quarter due to timing differences. The impact of these factors was partially offset by higher distribution tariff revenues associated with OEB-approved tariff rate increases and, for the year-to-date period, a reduction in our

effective tax rate. This rate reduction resulted from the relative size of tax benefits recognized in the first quarter of 2006 and in the second quarter of 2005.

Capital expenditures of \$593 million for the first nine-months were higher than in 2005 by \$112 million, or 23%. Expenditures made to expand our transmission system increased primarily as a result of two critical investments: the Niagara Reinforcement Project and the Downtown Toronto Cable Project, both of which will improve reliability when completed. Increases in asset replacements, including those resulting from significant storm activity in early February and the summer of 2006, also contributed to higher capital expenditures on our low-voltage distribution system.

Total revenues for the nine-month period were \$12 million higher than last year. Revenues increased primarily due to OEB-approved distribution tariff increases. However, this increase was substantially offset by the effects of milder weather and the impact of the OEB's earnings sharing mechanism on our transmission revenues. Net cash from operating activities was \$715 million for the first nine months of 2006. During this period we paid \$286 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		Nine months ended	
	September 30		September 30	
	2006	2005	2006	2005
Revenues	1,165	1,179	3,403	3,391
Purchased power	564	581	1,667	1,683
Operating costs	365	317	1,029	928
Net income	103	133	354	379
Net cash from operating activities	351	337	715	794
Average Ontario 60-minute Peak Demand (MW) ¹	24,358	25,297	23,112	23,312
Distribution – units distributed to customers (TWh) ¹	7.0	7.1	21.6	22.2

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 Third Quarter Consolidated Financial Statements and Management Discussion and Analysis can be accessed through the following link: www.hydroone.com/2006Q3financials.

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