

Hydro One Releases 2006 Year-End Financial Results

For Immediate Release – February 14, 2007

Toronto - Hydro One Inc. today released its 2006 year-end results with net income for the year of \$455 million and revenues of \$4,545 million.

“In 2006, Hydro One met all of its financial targets while remaining focused on the core job of delivering electricity safely and reliably to Ontario homes and businesses,” said Laura Formusa, President and CEO (Acting), Hydro One. “As stewards of this province’s massive and complex electricity transmission and delivery system, we made significant progress on a number of critical system investment initiatives. This year also saw our assets and our people perform well through a series of summer storms and during peaks, including an all-time peak demand for electricity of 27,005 MW.”

The following are some of the key achievements in 2006:

- 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 the company’s industry leading physical security procedures, infrastructure and program management as well as its innovative and fully integrated, multi-functional communications system.
- We became the first utility based outside of the United States to receive the prestigious Edison Electric Institute *Emergency Recovery Award* recognizing the company’s outstanding efforts in restoring power to more than 500,000 customers following four severe storms.
- We signed an agreement with Hydro Quebec TransÉnergie Inc. for construction of state-of-the-art power transmission equipment including new circuits across the Ottawa River connecting the two provincial high voltage power systems. This \$124 million investment will add an important new connection between the two grids.
- Construction crews completed a new interconnection in the Sarnia area with the transmission operator in Michigan. This connection improves overall supply reliability in Ontario by increasing electricity import/export capacity and maximizes the effectiveness of the existing high-voltage transmission system. This new circuit will increase our import capacity by about 100 MW, enough power to serve the average needs of about 30,000 homes.
- We completed the excavation of a 2.1-kilometre tunnel beneath the streets of Toronto. This innovative \$46 million investment will carry an array of electricity transmission lines to tie the east and west sides of the city together, with minimal disruption to traffic or residents. Installing these new transmission lines will let power flow more freely across the city, giving Toronto increased flexibility, reliability and supply.
- In the spring of 2006, the Ontario Energy Board (OEB) approved an increase of approximately \$160 million in the company's distribution revenue requirement. This decision provides the foundation for maintaining and supporting the safe and reliable operation of the electricity distribution system. In the fall, the company filed a rate application for its transmission business requesting a revenue requirement of \$1,263 million for 2007 and \$1,298 million for 2008 with a view to expanding and enhancing Ontario’s vital transmission system.
- We support the Provincial Government’s goal to have a smart meter in every Ontario home and small business. In 2006, we made significant inroads in developing and testing the processes, tools, and network infrastructure to support the mass deployment of smart meters in 2007 through 2010. During 2006, we installed approximately 28,000 meters towards our final installation target of 1.3 million meters by 2010.

- In 2006, we launched several new conservation and demand management (CDM) programs in line with the Province's goal to create a culture of conservation in Ontario. These programs provide a range of incentives for our diverse customer base to help them save electricity and money, and ease strain on the provincial electricity grid during peak demand periods.
- Dominion Bond Rating Service raised our long-term debt rating to A (high), with a stable trend, from A with a positive trend. Our short-term debt rating was upgraded to R-1 (middle) from R-1 (low).

Net income of \$455 million was lower by \$28 million, or 6%, compared to 2005 results. Net income levels reflect higher expenditures required to operate and maintain our transmission and distribution systems, particularly as a result of the damaging storms we experienced this year, and lower transmission tariff revenues resulting from lower demand and the effects of the OEB's transmission earning sharing mechanism. The impact of these factors was partially offset by higher distribution tariff revenues associated with OEB-approved tariff rate increases, and a marginal reduction in our effective tax rate. This tax rate reduction resulted from the relative size of tax benefits recognized in the first quarter of 2006 and in the second quarter of 2005.

Revenues increased by \$129 million, or 3%, compared to 2005 primarily due to OEB-approved distribution tariff increases and recovery for purchased power. The impact from these increases was partially offset by the effects of milder weather and the OEB's earning sharing mechanism on our transmission revenues. Net cash from operations was \$896 million in 2006. During the year, the Company paid \$350 million in dividends to the Province of Ontario.

In 2006, we invested \$823 million in capital expenditures, including our investments in the Niagara Reinforcement Project and the Downtown Toronto Cable Project, both of which will improve reliability when completed, as well as increased investments in generation and customer loads connections. Higher asset replacements resulting from increased storm activity also contributed to the higher capital expenditure level on our low-voltage distribution system. In addition, our capital expenditures included our smart meter program.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

<i>Year ended December 31 (Canadian dollars in millions)</i>	2006	2005	Change	% Change
Revenues	4,545	4,416	129	3
Purchased power	2,221	2,131	90	4
Operating costs	1,395	1,279	116	9
Net income	455	483	(28)	(6)
Net cash from operations	896	1,169	(273)	(23)
Average annual Ontario 60-minute peak demand (MW) [†]	22,650	23,074	(424)	(2)
Distribution – units distributed to our customers (TWh) [†]	29.0	29.7	(0.7)	(2)

[†]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 Annual Consolidated Financial Statements and Management's Discussion and Analysis can be accessed through the following link:

www.hydroone.com/2006financials

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