

## Hydro One announces first quarter net income

**Toronto, May 10, 2007** - Hydro One Inc. today released its first quarter results with net income of \$149 million and revenues of \$1,278 million for the three months ended March 31, 2007.

"Investing in Ontario's transmission system is critical to ensuring a reliable, robust electricity transmission system for the people of Ontario," said Acting Hydro One President and CEO Laura Formusa. "The recently announced project to construct a new high-voltage line between the Bruce region and our Milton Switching Station is an important step in ensuring Ontarians have a reliable and cost-effective supply of power. Building the 180 km line represents the largest expansion of Ontario's transmission system in over 20 years and a \$635 million investment in the system."

The following are some of the key achievements in the first quarter:

- On March 26, 2007, the Ontario Power Authority recommended commencement of the planning and approval process required to build a new 500kV transmission line between the Bruce region and our Milton Switching Station. On March 29, 2007, we filed a leave-to-construct application with the Ontario Energy Board (OEB). The project is expected to be completed in late 2011. In addition, we have recently filed applications with, or received approvals from, the OEB for other projects that will improve reliability and quality of service.
- The OEB approved our distribution rate submission, which includes an increase in the monthly amount per metered customer to contribute toward smart meter costs. The OEB issued a similar decision for our subsidiary Hydro One Brampton Networks Inc. The OEB has also approved our request to have Hydro One Networks' 2008 distribution rates rebased under the multi-year distribution rate-setting plan.
- We filed our 2006 Conservation and Demand Management (CDM) Annual Report with the OEB, highlighting our substantial results since 2005. Approximately 880,000 customers have participated in one or more of our 20 CDM initiatives and programs, saving the equivalent of the electricity consumption of 53,000 homes over the life of energy efficient equipment and reducing peak demand by almost 11 MW.
- The Ontario government lifted the moratorium on us relative to the sale and purchase of electric distribution assets and customer service territories. The government has approved our plan of being open to voluntary and commercially beneficial opportunities.
- We issued \$400 million of 30-year notes at a coupon rate of 4.89%, maturing March 13, 2037. This is our first issue under the Medium-Term Note Program in 2007. On March 26, 2007, Standard & Poor's Ratings Services Inc. affirmed our "A" long-term debt rating and revised its outlook on the company to positive from stable.

Net income of \$149 million was lower by \$3 million, or 2%, compared to 2006 first quarter results. We experienced higher tariff revenues this year, primarily as a result of OEB decisions removing the transmission earnings sharing mechanism effective January 1, 2007 and approving new distribution rates effective May 1, 2006. However, these increases were more than offset by the impact of an increase in our effective tax rate in the period due to the recognition of a tax benefit in the first quarter of last year,

combined with higher operation, maintenance and administration expenditures on our work programs and the impact of a 2006 OEB decision on our distribution-related pension expenditures.

Revenues for the quarter were \$118 million, or 10%, higher than last year, primarily reflecting the recovery of increased purchased power costs and an OEB-approved tariff increase within our Distribution business. Transmission revenues also increased due to the OEB's decision to eliminate the earnings sharing mechanism, effective January 1, 2007, and higher peak demands for electricity due to weather conditions. Net cash from operations was \$299 million for the first three months of 2007. During the quarter, we paid \$107 million in dividends to the Province of Ontario.

During the first quarter, we invested \$187 million in capital expenditures, representing an increase of \$10 million, or 6%, over last year. Within our Distribution business, significant capital investments were made to install smart meters, consistent with our planned installation of 240,000 meters in 2007. We also increased our asset component replacement work in our lines work program. We maintained our focus on critical infrastructure programs to expand Ontario's transmission system. We substantially completed the Niagara Reinforcement in 2006 and are now working on an important new inter-connection with Quebec which will increase capacity by 1,250 MW and we continue construction work on our downtown Toronto cable project.

## CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

Three months ended March 31 <i>(Canadian dollars in millions) (except as otherwise noted)</i>	2007	2006	\$ change	% change
Revenues	1,278	1,160	118	10
Purchased power	641	598	43	7
Operating costs	359	303	56	18
Net income	149	152	(3)	(2)
Net cash from operations	299	146	153	105
Average Ontario 60-minute Peak Demand (MW) <sup>1</sup>	23,480	22,382	1,098	5
Distribution – units distributed to customers (TWh) <sup>1</sup>	8.6	8.0	0.6	8

<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 2007 First Quarter Consolidated Financial Statements and Management Discussion and Analysis can be accessed through the following link: [www.hydroone.com/2007Q1financials](http://www.hydroone.com/2007Q1financials).

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