

Hydro One announces first quarter net income

Toronto, May 14, 2008 - Hydro One Inc. today released its first quarter results with net income of \$157 million and revenues of \$1,222 million for the three months ended March 31, 2008.

“Our people are key to enabling our critical build of new transmission infrastructure and operating a heavily utilized electricity network. As a result, Hydro One continues to invest strategically not only in physical assets but also in our people,” said Laura Formusa, President and CEO. “We face challenges, as does our industry, with the changing demographics of our workforce. To address these challenges we have been aggressive in our approach to building our future workforce. We are pursuing this strategy through sponsorships, curriculum development and partnerships with universities and colleges.”

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

- On March 31, 2008, James Arnett was appointed the new Chair of our Board of Directors. Mr. Arnett recently chaired a provincial panel that recommended significant changes to the way compensation is set for senior executives in Ontario's public electricity sector and which made recommendations on how Ontario's five electricity sector institutions can work together more efficiently.
- We successfully reached agreements with the Power Workers' Union, Canadian Auto Workers and International Brotherhood of Electrical Workers, with three-year terms effective April 1, 2008. All three collective agreements were ratified.
- On March 3, 2008, we successfully issued \$250 million of 3-year notes, at a coupon rate of 4.08% and a maturity date of March 3, 2011, and \$300 million through a reopening of our notes originally issued in October 2007 with a coupon rate of 5.18% and a maturity date of October 18, 2017. On January 28, 2008, we increased our committed revolving credit facility with a syndicate of banks to \$1,000 million from \$750 million.
- We announced our recommendations regarding the potential route refinements on our Bruce to Milton Transmission Reinforcement Project in mid-March 2008. The assessments we conducted included input we received from public consultation in the potentially affected areas. Based on our assessments, we have recommended moving the proposed line section in the Halton Hills area from the east to the west side of the existing transmission corridor. The route recommendations will be further examined in the environmental assessment study, which is subject to approval by the Ministry of the Environment as part of the environmental assessment process. The terms of reference for the environmental assessment were approved by the Minister of the Environment on April 4, 2008.
- We filed our 2007 Conservation and Demand Management (CDM) Annual Report with the Ontario Energy Board (OEB), highlighting our substantial results since 2005. We have had approximately 1.1 million participants in our CDM initiatives and programs, saving the equivalent of electricity consumption of about 120,000 homes and reducing peak demand by about 64 MW.

Net income of \$157 million was higher by \$8 million, or 5%, compared to 2007 first quarter results. This increase was mainly due to the impact of a pension asset transfer settlement with our service provider Inergi LP following approval from the Financial Services Commission of Ontario. We also experienced an increase in our distribution tariff revenues, reflecting increased smart meter revenues as a result of the August 8, 2007 OEB decision following the combined proceeding. The impact of these factors was partially offset by lower transmission revenues resulting from the OEB's August 16, 2007 transmission rate decision, lower average monthly peak demands and increased work program requirements.

Capital expenditures of \$211 million for the quarter were higher than in 2007 by \$24 million, or 13%. A significant portion of the increase is attributable to higher expenditures related to an entity-wide system improvement project to replace soon to be retired assets and increase productivity. We also continued our investments to expand and reinforce our transmission system as we commenced work on our Bruce to Milton Transmission Reinforcement Project to connect redeveloped nuclear and wind generation sources in the Huron-Grey-Bruce area. We increased work on our lines and station development projects including our Essa Transformer Station to Stayner Transformer Station connection, which will improve the adequacy and reliability of supply to the Southern Georgian Bay Region in recognition of the growing needs of our customers. These increased expenditures were offset by lower expenditures on other projects such as our Downtown Toronto Cable Project that we completed in the fourth quarter of last year. Within our Distribution business, significant capital investments were also made to install 98,000 smart meters in the quarter.

Total revenues of \$1,222 million for the first quarter were \$56 million, or 4%, lower than last year. This decrease reflects a number of factors within our transmission and distribution businesses. We experienced decreased transmission revenues as a result of the OEB's transmission rate decision and lower average monthly peak demands. We experienced lower distribution revenues which reflect recovery of lower purchased power costs, partially offset by the impact of the OEB's decision on its combined smart meter proceeding, which allowed us to begin recording revenue related to our installed smart meters. Net cash from operating activities was \$232 million for the first three months of 2008. During this period, we paid \$41 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)

	2008	2007	\$ change	% change
Revenues	1,222	1,278	(56)	(4)
Purchased power	596	641	(45)	(7)
Operating costs	351	359	(8)	(2)
Net income	157	149	8	5
Net cash from operations	232	294	(62)	(21)
Average Ontario 60-minute Peak Demand (MW) ¹	22,275	23,480	(1,205)	(5)
Distribution – units distributed to customers (TWh) ¹	8.5	8.6	(0.1)	(1)

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 2008 First Quarter Consolidated Financial Statements and Management Discussion and Analysis can be accessed through the following link: www.hydroone.com/2008Q1financials.

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