

Hydro One announces third quarter net income

Toronto, November 13, 2008 – Hydro One Inc. today released its third quarter results with net income of \$367 million and revenues of \$3,403 million for the nine months ended September 30, 2008.

“We continue to make progress on a number of priorities,” said Laura Formosa, Hydro One President and CEO. “We are undertaking projects to enhance the performance of existing infrastructure, and help deliver clean and renewable generation into our system. We are advancing solidly towards our smart meter goals that will allow us to realize the vision of a Smart Grid – one that is modern and flexible and which will also support and drive consumer choices about electricity.”

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

- We received approval from the Ontario Energy Board (OEB) to build a \$635 million high-voltage line from the Bruce Power complex to our Milton Switching Station. The project involves the construction of a 180 kilometre, double-circuit 500 kilovolt transmission line on a widened existing corridor, and will transfer more than 3,000 megawatts of clean power from the Huron-Grey-Bruce area to Southern Ontario.
- In August, the OEB approved our application for adjustments to Ontario Uniform Transmission Rates to allow us to recover revenues consistent with the OEB-approved 2008 revenue requirement, commencing January 1, 2009. The adjustment provides an increase in current transmission rates, impacting an average residential customer total bill by less than 1%.
- In September, we achieved an increase in our overall residential and small business customers’ satisfaction scores, from 82% satisfied in 2007 to 86% satisfied in 2008. The results recognize the positive impact of our programs focusing on increasing reliability and our increased involvement in our communities.
- Our Smart Meter Project continues to gain international recognition. Our smart meter/network initiative was selected as a finalist for a prestigious Platts Global Energy Award in the category of “Sustainable Energy Initiative of the Year.” This award recognizes the organization that has demonstrated the strongest commitment to creating a world in which energy use and resources are sustainable.
- For the second consecutive year, *Corporate Knights* magazine selected Hydro One as one of Canada's top ten most diverse companies. This recognition is based on the achievement of the greatest visible minority and female representation among Board members and senior executives.
- On November 5, 2008, we successfully issued \$400 million of 5-year notes, at a coupon rate of 5.00% and a maturity date of November 12, 2013. The current financial market turmoil has not impacted the operations of the Company nor our ability to arrange sufficient and cost effective debt financing.

Net income of \$112 million in the third quarter and \$367 million on a year-to-date basis was higher by \$45 million, or 67%, and higher by \$58 million, or 19% respectively, compared to 2007 results. These increases in net income were primarily due to a reduction in our payments in lieu of corporate income taxes resulting from a lower effective tax rate and other net temporary differences. In the year-to-date period, our net income was further impacted by the pension asset transfer settlement with our service provider Inergi LP following approval from the Financial Services Commission of Ontario in the first quarter. The impact of these factors was partially offset in the year-to-date period by lower transmission revenues resulting from lower average monthly peak demands and the impacts associated with the August 16, 2007 transmission rate decision.

Capital expenditures of \$835 million for the first nine months were higher than in 2007 by \$70 million, or 9%. A significant portion of the increase is attributable to higher expenditures related to an entity-wide system improvement project to replace end of life information systems and increase productivity. We made investments

to expand and reinforce our transmission system as we continued work on our Bruce to Milton Transmission Reinforcement Project to connect wind generation and redeveloped nuclear sources in the Huron-Grey-Bruce area. We also invested in other lines and stations 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 approximately 662,000 smart meters in the first nine months of 2008.

Total revenues for the nine-month period were \$123 million, or 3%, lower than last year. This decrease reflects a number of factors within our transmission and distribution businesses. Transmission revenues were impacted by lower average monthly peak demands. We experienced lower distribution revenues, which mainly reflect lower purchased power costs. Revenues were also impacted by the completion of recovery of a distribution deferral account and by lower consumption. These impacts were partially offset in the year-to-date period by the impact of the OEB's 2007 decision on its combined smart meter proceeding, which allowed us to begin recording revenue related to our installed smart meters, and by increased distribution tariff rates.

Net cash from operating activities was \$850 million for the first nine months of 2008. During this period, we paid dividends and recorded payments in lieu of corporate income taxes to the Province of Ontario in the amount of \$186 million and \$83 million, respectively.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

<i>(Canadian dollars in millions, except as otherwise noted)</i>	Three months ended September 30				Nine months ended September 30			
	2008	2007	\$ Change	% Change	2008	2007	\$ Change	% Change
Revenues	1,126	1,128	(2)	-	3,403	3,526	(123)	(3)
Purchased power	526	533	(7)	(1)	1,605	1,696	(91)	(5)
Operating costs	393	391	2	1	1,131	1,138	(7)	(1)
Net income	112	67	45	67	367	309	58	19
Net cash from operations	363	335	28	8	850	878	(28)	(3)
Average Ontario 60-minute peak demand (MW) ¹	23,156	24,730	(1,574)	(6)	22,072	23,542	(1,470)	(6)
Distribution – units distributed to customers (TWh) ¹	7.0	7.1	(0.1)	(1)	22.1	22.5	(0.4)	(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 2008 Third Quarter Consolidated Financial Statements and Management Discussion and Analysis can be accessed through the following link: <http://www.hydroone.com/financials>.

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