

## Hydro One Releases 2009 Second Quarter Financial Results

**Toronto, August 12, 2009** - Hydro One Inc. today released its second quarter results with net income of \$259 million and revenues of \$2,393 million for the six months ended June 30, 2009.

“We are pleased with our second quarter performance,” said Laura Formusa, President and CEO, Hydro One Inc. “We remain focused on improving productivity, while strengthening our core transmission and distribution business.”

The following are some of our recent key achievements:

- In total, in the first six months of the year, we successfully raised \$600 million of cost effective debt financing through our Medium-Term Note Program.
- On July 16, 2009, we successfully issued \$300 million of 31 year notes under our Medium-Term Note Program. The notes mature on July 16, 2040 and have a coupon rate of 5.49%.
- On July 27, 2009, we filed a base shelf prospectus to renew our Medium-Term Note Program for another 25 months. The maximum authorised principal amount of medium-term notes issuable under this program is \$3 billion, all of which currently remains available until August 2011.
- On July 13, 2009, our subsidiary Hydro One Networks Inc., filed a cost of service application for 2010 and 2011 distribution rates. The application includes investments in the distribution system necessary to achieve our company’s objectives regarding safety, regulatory and environmental compliance, reliability, and customer satisfaction. Further, this application includes our distribution investment plan to enable renewable generation consistent with the *Green Energy and Green Economy Act, 2009*.
- We were recognized by *Corporate Knights Magazine* as the top Corporate Citizen in Canada. The ranking is based on specific indicators including diversity, pension plan quality and health, Board of Directors independence and aboriginal relations.
- Our smart meter program reached the key milestone of one million smart meters installed in the homes and businesses of customers. This is one of the largest smart meter deployments by a utility in North America. We expect our customers will start to convert to time-of-use pricing in 2010.
- Our customers have achieved annual energy savings of more than 400 million kilowatt-hours. This is enough electricity to power approximately 35,000 homes for a year resulting in greenhouse gas emission savings of more than 260,000 tonnes of CO<sub>2</sub>. We have enlisted about 1.5 million participants in our energy conservation efforts to reduce peak demand, shift consumption to off-peak periods, and retrofit or install equipment and systems using more energy-efficient technologies.

Net income was \$82 million in the second quarter, lower by \$16 million, or 16%, compared with the second quarter of 2008, and \$259 million year-to-date, representing a \$4 million, or 2%, increase over the prior year. In the quarterly and year-to-date periods, net income was impacted by higher operation, maintenance and administration expenditures related to work programs necessary to sustain our transmission and distribution systems. On a year-to-date basis, operation, maintenance and administration expenditures were further impacted, in comparison to the prior year, by a one-time settlement credit in the first quarter of 2008 associated with the transfer of pension assets to the Inergi LP pension plan. The impact to net income of increased operation, maintenance and administration requirements on a year-to-date basis was more than offset by higher distribution tariff revenues associated with the December 18, 2008 and May 13, 2009 Ontario Energy Board (OEB) rate decisions in support of necessary work programs, combined with a reduction in our payments in lieu of corporate income taxes, primarily resulting from higher capital cost allowance deductions being available on our information system and smart meter investments.

Capital expenditures of \$719 million for the first six months were higher by \$205 million, or 40%, compared to the previous year. Expenditures to expand our transmission system increased primarily as a result of a number of significant inter-area network upgrade projects facilitating new generation or increased transfer capability from other jurisdictions. These projects include our Bruce to Milton Transmission Reinforcement Project; our Southwestern Ontario Capacitor Banks Project; and work on our Cherrywood to Claireville Transformer Station Connection. Our Bruce to Milton Project to connect wind generation and redeveloped nuclear sources in the Huron-Grey-Bruce area, demonstrates our commitment to connect clean and renewable generation. Expenditures to sustain our transmission system also increased primarily as a result of refurbishment and replacement of end-of-life equipment associated with various station projects and our Spare Transformer Purchase Program. We have continued our investment in our Claireville Transformer Station Project to improve reliability and to meet growing demand, which is expected to be completed this year. Increased capital expenditures within our Distribution Business reflect ongoing investments within our Smart Meter Program. We installed approximately 130,000 smart meters during the quarter, bringing our cumulative program total to about 1,025,000 meters.

Total revenues for the six-month period were \$2,393 million, which were \$116 million, or 5%, higher than the same period last year. Distribution revenues of \$1,789 million were higher primarily due to the recovery of higher pass through purchased power costs attributed to increases in the OEB's Regulated Price Plan for residential and other eligible customers. In addition, distribution revenues were positively impacted by the December 18, 2008 and May 13, 2009 OEB decisions which approved increases in the distribution tariff rates for our subsidiary, Hydro One Networks Inc. These tariff rate increases, were implemented on February 1, 2009, and June 1, 2009 respectively. Transmission revenues decreased by \$24 million year-to-date compared to last year primarily due to lower average monthly peak demands and following the August 28, 2008 and May 28, 2009 OEB transmission rate decisions.

During this period, we paid dividends and recorded payments in lieu of corporate income taxes to the Province of Ontario in the amount of \$135 million and \$27 million, respectively.

## CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

	Three months ended June 30				Six months ended June 30			
	2009	2008	\$ Change	% Change	2009	2008	\$ Change	% Change
<i>(Canadian dollars in millions, except as otherwise noted)</i>								
Revenues	1,090	1,055	35	3	2,393	2,277	116	5
Purchased power	518	483	35	7	1,184	1,079	105	10
Operating costs	281	255	26	10	524	476	48	10
Net income	82	98	(16)	(16)	259	255	4	2
Net cash from operations	194	255	(61)	(24)	379	484	(105)	(22)
Average Ontario 60-minute peak demand (MW) <sup>1</sup>	19,615	20,786	(1,171)	(6)	20,901	21,531	(630)	(3)
Distribution – units distributed to customers (TWh) <sup>1</sup>	6.4	6.7	(0.3)	(4)	14.8	15.2	(0.4)	(3)

<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 2009 Second Quarter Consolidated Financial Statements and Management Discussion and Analysis can be accessed through the following link: [www.hydroone.com/financials](http://www.hydroone.com/financials).

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