

Hydro One announces first quarter net income

Toronto, May 12, 2005 - Hydro One Inc. today released its first quarter results with net income of \$131 million and revenues of \$1,194 million for the three months ended March 31, 2005.

“Our performance remains on target. The new Parkway Transformer Station (TS), that went into service in late March, significantly strengthened the transmission system supplying power to the Greater Toronto Area (GTA),” said Hydro One President and CEO Tom Parkinson. “Parkway TS is part of our efforts to ensure power supply reliability to the GTA and to accommodate future growth. Also, it strengthens the transmission system and supports the shutdown of the Lakeview Generating Station. The design, construction and introduction to service of this project on time and budget is a tribute to the excellence of Hydro One staff.”

Net income of \$131 million for the first three months of 2005 was \$11 million, or 9%, higher than in the same period last year. This increase is primarily associated with higher transmission revenues and the Ontario Energy Board's (OEB) July 2004 decision allowing deferral of pension contribution costs for our distribution business. Higher depreciation expense, primarily related to higher investments in our transmission system, partially mitigated the increase in net income.

Revenues for the first quarter were \$93 million, or 8%, higher compared to last year primarily due to higher distribution revenues reflecting the introduction of the interim pricing structure on April 1, 2004. Net cash from operations was \$242 million for the first three months of 2005. During the first quarter, the company paid \$89 million in dividends to the Province of Ontario and invested \$156 million in capital expenditures, primarily in the transmission and distribution systems.

Recent Developments

- On March 11, 2005, the OEB approved our application to reinforce our electricity transmission facilities in downtown Toronto by constructing two new underground cable circuits between the John and Esplanade transformer stations.
- The Province has established targets for the installation of 800,000 smart meters in Ontario by 2007, and replacement of all remaining meters by 2010. In its proposed implementation plan, the OEB had concluded that distributors should be responsible for procurement and installation of smart meters. The Province is examining various options for smart metering and no decisions have been made as to the OEB's proposals. We anticipate that the Province will hold public consultations in advance of introducing framework legislation. As a result, we are reevaluating our smart meter progress to date, as well as future plans on this initiative.
- On April 1, 2005, new electricity prices for low volume and designated customers were implemented based on the OEB's new Regulated Price Plan. We also incorporated adjustments to delivery rates to include the next phase of Market Adjusted Revenue Requirement (MARR) and the OEB-approved rate riders for recovery of certain regulatory asset balances.

- In March 2005, the Power Workers' Union members ratified a three-year collective agreement. The current collective agreement between Hydro One and the Society of Energy Professionals expired on March 31, 2005. A two party settlement was not reached during either the negotiation or conciliation process. Hydro One's latest offer was rejected after a final offer vote conducted by the Ontario Labour Relations Board. Currently, discussions continue between the two parties. Robust contingency plans are in place in the event of an extended work stoppage.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

Three months ended March 31

<i>(Canadian dollars in millions) (except as otherwise noted)</i>	2005	2004	\$ Change	% Change
Revenues	1,194	1,101	93	8
Purchased power	618	540	78	14
Operating costs	301	297	4	1
Net income	131	120	11	9
Net cash from operations	242	274	(32)	(12)
Average Ontario 60-minute peak demand (MW) ¹	23,136	23,060	76	-
Distribution - units distributed to customers (TWh) ¹	8.4	8.3	0.1	1

¹system-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 2005 First Quarter Consolidated Financial Statements and Management's Discussion and Analysis can be accessed through the following link: www.hydroone.com/2005Q1financials.

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