

Hydro One announces second quarter net income

Toronto, August 5, 2005 - Hydro One Inc. today released its second quarter results with net income of \$246 million and revenues of \$2,212 million for the six months ended June 30, 2005.

"Our company continues to perform well financially and operationally. A succession of record temperatures and the resulting record June peak, as well as storms, tested the resiliency of our systems. The transmission and distribution grids performed well, allowing us to continue to provide reliable service to our customers," said Hydro One President and CEO Tom Parkinson. "We continue to keep the lights on and serve Ontario well."

During the quarter there were several industry developments and company initiatives, some of which are highlighted below:

Replacement of Coal-fired Generation - On June 15, 2005, the Government of Ontario announced its plan to replace coal-fired generation with cleaner sources of energy and conservation. In order to ensure system reliability, and to support the replacement of coal-fired generation, transmission upgrades will be required, primarily to facilitate the closure of Nanticoke Generating Station in 2009.

Niagara Reinforcement Project - On July 8, 2005, the Ontario Energy Board (OEB) issued a Decision and Order granting us leave to construct transmission facilities in the Niagara region. Cost recovery will be subject to the provision of evidence regarding the economic benefits of this project. With this decision, the OEB raised important questions about the need to clarify roles of the various organizations in the industry. We look forward to taking part in this process.

Preparation for Distribution Rate Application - During the second quarter of 2005, we continued to prepare our distribution rate application. Stakeholder consultation sessions were held to share understanding of our application and to introduce our revenue requirement. We expect to file our evidence to support our revenue requirement in August 2005. On June 24, 2005, the OEB advised that a review of cost allocation will commence in 2005 and local distribution companies will be required to submit cost allocation studies in fall of 2006.

Credit Ratings - On July 8, 2005, Moody's Investors Service raised Hydro One's long-term debt rating to Aa3 from A2 to reflect the application of a new rating methodology for government-related issuers. On July 15, 2005, Standard & Poor's Ratings Services raised Hydro One's short-term debt rating to A-1 from A-2 and affirmed our A long-term rating.

Net income increased by \$56 million in the second quarter and by \$67 million in the first six months compared to 2004 results. These increases reflect higher tariff revenues and lower operating, maintenance and administration costs, including the OEB's July 2004 decision allowing deferral of pension contribution costs for our distribution business. Our effective tax rate was also lower as a result of the recognition of tax losses from one of our subsidiaries. These increases were partially offset by higher depreciation charges related to our ongoing transmission and distribution investments. Capital expenditures of \$337 million for the first six months of 2005 were comparable to the 2004 level of \$345 million.

For the six months to June 30, 2005, total revenue increased by \$151 million compared to last year, primarily due to higher transmission tariff revenues reflecting higher peak demand in the early winter and summer months, including a record Ontario peak demand reached in June. In addition, distribution revenues were higher primarily due to recovery of higher purchase power costs. Net cash from operations was \$469 million for the first six months of 2005. During this period, the Company paid \$146 million in dividends to the Province of Ontario and invested \$337 million in capital expenditures, primarily in the transmission and distribution systems.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

<i>(Canadian dollars in millions) (except as otherwise noted)</i>	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Revenues	1,018	960	2,212	2,061
Purchased power	484	455	1,102	995
Operating costs	310	337	611	634
Net income	115	59	246	179
Net cash from operations	227	210	469	484
Average Ontario 60-minute Peak Demand (MW) ¹	21,502	21,134	22,319	22,097
Distribution – units distributed to customers (TWh) ¹	6.6	6.3	15.1	14.6

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 2005 Second Quarter Consolidated Financial Statements and Management Discussion and Analysis can be accessed through the following link: www.hydroone.com/2005Q2financials.

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