

Hydro One announces third quarter net income

Toronto, November 8, 2007 - Hydro One Inc. today released its third quarter results with net income of \$309 million and revenues of \$3,526 million for the nine months ended September 30, 2007.

"The recent Ontario Energy Board approval of our 2007 and 2008 transmission rates lays the foundation for our most significant period of infrastructure renewal in more than two decades," said Laura Formusa, Acting Hydro One President and CEO. "The Board approved our entire capital and operating budgets, which will allow us to make major system improvements, including projects to reinforce and expand Ontario's transmission system and projects to deliver new clean generation."

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

- We are seeking approval to construct a 180 kilometre high-voltage transmission line from the Bruce Power complex to our Milton Switching Station that will bring needed power into southern Ontario. On August 20, 2007, the Ontario Energy Board (OEB) granted Hydro One Networks early access to land to conduct certain survey, testing, appraisal and investigative activities for the proposed line.
- We are strengthening the transmission links between Ontario and Quebec by constructing a new connection and adding a reinforcement line by Spring 2010. This interconnection will provide greater access to a reliable supply of renewable energy and reduce the use of fossil-fuels during peak periods.
- We are improving supply reliability in central Toronto by constructing two underground, 115-kV transmission circuits between John and Esplanade transformer stations. The tunnel will alleviate the growing electricity demand in the downtown Toronto core. Construction will be completed in January 2008.
- Our Smart Meter Project was selected as winner of a Utility Planning Networks (UPN) 2007 Metering Award recognizing exceptional metering initiatives worldwide in the category of Automated Meter Reading Initiative – North American Municipal or Cooperative. The UPN is a global organization enabling utilities to share best practices in business case development, implementation and operation of advanced metering systems.
- The OEB approved all our planned transmission operating and capital programs for 2007 and 2008, stating that it was "convinced that the Company has genuinely formed the judgement, based on its engineering expertise and its enhanced analytical capability, that increases of the nature applied for are needed to maintain a robust, safe, and reliable transmission system."
- *Corporate Knights* magazine recognized Hydro One as Canada's most diverse utility and ranked us 5th overall in corporate Canada, based on the composition of our Board, senior executives and the Company's practices and policies on diversity.

Net income of \$67 million was lower by \$36 million, or 35%, in the third quarter and was lower by \$45 million, or 13%, in the first nine months compared to 2006 results. Net income, both in the quarter and year-to-date, was impacted by the OEB's August 16, 2007 transmission rate decision. While the OEB approved all of our work program requirements for 2007 and 2008, our return on equity was reduced from 9.88% to 8.35%. Our net income levels in both the quarterly and year-to-date periods were also affected by higher distribution work program expenditures to maintain system reliability, the impact of a 2006 OEB decision on our distribution-related pension expenditures and by higher effective tax rates. The increased rates are related to temporary differences associated with amounts to be returned to customers as part of the OEB's transmission rate decision and a recovery of payments in lieu of corporate income taxes in the first quarter of last year. These impacts were partially offset by increased transmission revenues due to a higher average peak demand and distribution tariff revenues for the first nine months of 2007.

Capital expenditures of \$765 million for the first nine months were higher than in 2006 by \$172 million, or 29%. Expenditures made to expand our transmission system increased primarily as a result of four major initiatives: load and generation connections projects, the reconfiguration of our Lambton Transformer Station, construction on our new inter-connection with Quebec, and the continuation of our Downtown Toronto Cable Project. These projects will allow us to further increase the reliability and flexibility of our system, and the ability to import power. The impact of these increases was partially offset by expenditures on our Niagara Reinforcement Project, which was substantially completed last year. Within our Distribution business, significant capital investments were made to install smart meters, consistent with our planned installation of 240,000 meters in 2007.

Total revenues for the nine-month period were \$123 million, or 4%, higher than last year. This increase reflects a number of factors within our distribution business. We experienced increased distribution tariff revenues due to higher demand and the approval of new distribution rates effective May 1, 2006 and 2007. We also recovered increased purchased power costs. As a result of the OEB's decision on August 8, 2007 regarding the combined smart meter proceeding, we recognized an additional \$16 million in revenue and additional costs which we incurred in support of this program. Our transmission revenues increased marginally. A previous OEB decision that ordered the earnings sharing mechanism cease effective December 31, 2006, resulted in an increase in revenue by \$23 million on a year to date basis. We also experienced increased tariff revenues as a result of higher peak demands. However, these impacts were substantially offset by the recent OEB transmission rate decision which reduced revenues by \$38 million. Net cash from operating activities was \$868 million for the first nine months of 2007. During this period, we paid \$252 million in dividends to the Province of Ontario.

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			
	2007	2006	\$ Change	% Change	2007	2006	\$ Change	% Change
Revenues	1,128	1,165	(37)	(3)	3,526	3,403	123	4
Purchased power	533	564	(31)	(5)	1,696	1,667	29	2
Operating costs	391	365	26	7	1,138	1,029	109	11
Net income	67	103	(36)	(35)	309	354	(45)	(13)
Net cash from operations	331	351	(20)	(6)	868	715	153	21
Average Ontario 60-minute peak demand (MW) ¹	24,730	24,358	372	2	23,542	23,112	430	2
Distribution – units distributed to customers (TWh) ¹	7.1	7.0	0.1	1	22.5	21.6	0.9	4

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 2007 Third Quarter Consolidated Financial Statements and Management Discussion and Analysis can be accessed through the following link: www.hydroone.com/2007Q3financials.

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