

Hydro One Releases 2010 First Quarter Financial Results

For Immediate Release – May 13, 2010

Toronto - Hydro One Inc. today released its 2010 first quarter results with net income for the quarter of \$169 million and revenues of \$1,319 million.

“This quarter we continued to make advances in a number of key areas,” said Laura Formusa, President and CEO, Hydro One Inc. “We remain focused on improving the performance of our existing assets, managing our costs, and delivering new clean and renewable energy generation to Ontario homes and businesses.”

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

- On March 15, 2010, we successfully issued \$300 million of 10.2 year notes, at a coupon rate of 4.40% and a maturity date of June 1, 2020, and \$200 million through a re-opening of our notes originally issued in July 2009 with a coupon rate of 5.49% and a maturity date of July 16, 2040. In total, in the first quarter, we successfully raised \$1,000 million of cost effective debt financing through our Medium-Term Note Program.
- We commenced certain preliminary construction activities with respect to the Bruce to Milton Transmission Reinforcement Project. The project involves constructing a new 180 kilometre double-circuit 500-kilovolt transmission line from the Bruce Power facility to Hydro One’s Milton Switching Station. The Bruce to Milton line is expected to be in service by the end of 2012 and is intended to provide capability to safely and reliably transmit power from approximately 1,700 megawatts (MW) of renewable generation identified in the area, as well as about 1,500 MW of power from refurbished units at the Bruce Power Facility.
- Our smart meter program, representing one of the largest smart meter deployments in North America, reached the 1,253,900 mark with respect to meter installations, with over 951,000 meters enabled for meter reading by the end of March. We commenced the cut-over to time-of-use pricing for about 10,000 customers in the Municipality of Clarington.
- We released our 2009 Conservation and Demand Management (CDM) results. Last year, Hydro One customers across Ontario saved more than 450 million kilowatt hours annually through CDM programs. That’s enough electricity to power approximately 38,000 homes for a year, resulting in greenhouse gas emission savings of more than 300,000 tonnes of carbon dioxide.
- We continue our focus on cost reduction and productivity initiatives, including building upon our enterprise-wide information system to deliver streamlined reporting and analytics, efficient time reporting capability, improved work and power outage management and further enabling strategic sourcing. We are also focused on minimizing all discretionary expenditures.

Net income of \$169 million was lower by \$8 million, or 5%, compared to 2009 first quarter results. Net income was lower due to higher operating requirements primarily relating to our work program, and an increase in depreciation attributable to new assets coming into service. We also experienced higher financing charges reflecting the higher average level of debt to support capital expenditures, partially offset by lower average effective interest rates. The factors that resulted in lower net income were partially mitigated by higher revenues due primarily to the Ontario Energy Board (OEB)-approved transmission tariff rate increases that were effective July 1, 2009 and January 1, 2010 which support investments in respect of the supply mix policy, including the phase-out of coal-fired generation and investments to address aging infrastructure. Our provision for payments in lieu of corporate income taxes was also lower due to a reduction in the statutory rate from 33.0% to 31.0%, as well as the impact of lower pre-tax income compared to prior year.

Capital expenditures of \$322 million in the quarter were lower by \$14 million, or 4%, compared to the prior 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 in support of government supply mix objectives for generation. These projects include our Bruce to Milton Transmission Reinforcement Project, to connect wind generation and refurbished nuclear sources in the Huron-Grey-Bruce area, our Northeast Transmission Reinforcement Project and our Static Var Compensator installations at Nanticoke and Detweiller Transformer stations, which, respectively, will enhance the North-South Interface transfer capability to access available northern generation and the transfer capability between South Western Ontario and the Greater Toronto Area. We experienced reduced capital expenditures within our Distribution Business primarily as a result of the substantial completion of our smart meter installations by the end of last year. Our ongoing investment in the Smart Meter Program is currently focused on the development and integration of the systems required for time-of-use billing, including meter reading capability and integration with the Independent Electricity System Operator meter data repository. Our capital expenditures in both businesses were impacted by the completion of the second phase of our information system replacement and improvement project in the third quarter of last year.

Total revenues for the first quarter of 2010 were \$1,319 million, which were \$16 million, or 1%, higher than the same period last year. Transmission revenues of \$320 million were higher by \$18 million primarily due to the OEB-approved transmission tariff rate increases that were effective July 1, 2009 and January 1, 2010, partially offset by lower revenues associated with the lower average annual Ontario 60-minute peak demand and the lower overall related load. Distribution revenues of \$983 million were marginally lower compared to the prior period.

Net cash from operating activities was \$287 million in the first quarter of 2010. During the quarter, we paid dividends and recorded payments in lieu of corporate income taxes to the Province of Ontario in the amount of \$14 million and \$13 million, respectively.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

<i>Three months ended March 31</i> <i>(Canadian dollars in millions)</i>	2010	2009	Change	% Change
Revenues	1,319	1,303	16	1
Purchased power	655	666	(11)	(2)
Operating costs	397	367	30	8
Net income	169	177	(8)	(5)
Net cash from operations	287	181	106	59

STATISTICS

Average annual Ontario 60-minute peak demand (<i>MW</i>) ¹	20,935	22,186	(1,251)	(6)
Distribution – units distributed to our customers (<i>TWh</i>) ¹	8.0	8.4	(0.4)	(5)

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 2010 First Quarter Consolidated Financial Statements and Management's Discussion and Analysis can be accessed through the following link:

www.hydroone.com/financials

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