

**RAPPORT DE DOMINION BOND RATING SERVICE LIMITED –  
HYDRO ONE INC.**



Hydro One Inc.

Current Report: February 28, 2002  
 Previous Report: February 28, 2001

RATING

<u>Rating</u>	<u>Trend</u>	<u>Rating Action</u>	<u>Debt Rated</u>	Geneviève Lavallée, CFA/Matthew Kolodzie, P.Eng.		
"A"	Positive	Trend Change	Senior Unsecured Debentures	416-593-5577 x2277/x2296		
R-1 (low)	Stable	Confirmed	Commercial Paper	glavallee@dbrs.com		

RATING HISTORY	<u>Current</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Senior Unsecured Debentures	"A"	"A"	"A"	NR	NR	NR	NR
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	NR	NR	NR	NR

RATING UPDATE

The trend change reflects the following factors: (1) DBRS expects Hydro One to benefit from its strategy of expanding its transmission operations into the U.S., where approved ROEs are significantly above those in Canada. Additional strategic municipal electric utilities (MEU) acquisitions would also offer opportunities to reduce unit costs, thus providing increased returns under the performance-based regulation (PBR) framework. (2) The "catch-up" capital expenditures (due to the deferral of asset maintenance by the former Ontario Hydro) have stabilized and the MEU acquisitions have closed. These transactions have only had a limited impact on Hydro One's leverage and key coverage ratios. (3) Given the small size of Hydro One's retail operations and the Company's growth strategy of focusing on transmission and distribution operations, the Company's exposure to competitive pressures and commodity price risk is expected to be limited. (4) The

upcoming privatization will allow Hydro One to access the equity markets in the future.

Going forward, DBRS does not expect Hydro One's business risk profile to change significantly given its growth strategy of focusing on transmission and distribution operations.

While the trend has been changed to Positive, Hydro One faces challenges over the near term. Its earnings and operating cash flows will remain weaker than normal over the next two years as distribution rate increases are phased in. Furthermore, Hydro One faces a number of uncertainties and risks related to the new operating environment. These include the risk of political interference in the electricity sector, which could undermine profitability in the near term, and continued operational and cultural challenges as Hydro One transforms itself into a commercially viable enterprise. If Hydro One successfully executes its stated strategies and the near-term uncertainties do not materialize, an upgrade may be warranted.

RATING CONSIDERATIONS

Strengths:

- Involved primarily in regulated activities
- Attractive Ontario-based business franchise
- Privatization offers significant opportunities to grow regulated businesses
- Cost savings and operating efficiencies from internal rationalization and MEU acquisitions

Challenges:

- Uncertainty related to new operating environment
- Free cash flow deficits projected over near term
- Subject to competitive pressures and commodity price risk following market opening
- Heavy debt refinancing schedule

FINANCIAL INFORMATION

	For the year ended December 31				
	2001	2000	1999*	1998*	1997*
Fixed-charges coverage (times)	2.45	2.30	2.32	1.46	1.50
% adj. debt in the capital structure (1)	56.1%	54.2%	54.6%	71.8%	75.0%
Cash flow/adj. total debt (times)(1)	0.14	0.15	0.15	0.09	0.09
Cash flow/capital expenditures (times)	1.25	1.53	1.34	1.43	1.86
Approved ROE	9.88%	9.88%	9.35%	-	-
Net income (\$ millions) (bef extras. after pfd.)	356	363	409	270	304
Operating cash flow (\$ millions)	708	684	709	546	538
Electricity sold - distribution (GWh)	21,300	17,600	18,100	18,300	18,800
Electricity throughputs - transmission (GWh)	146,900	146,900	144,100	143,000	144,800

\* 1999: 9 months Hydro One + 3-mos. allocation of Ontario Hydro results. 1997-1998: an allocation of Ontario Hydro results that reflect the operations of Hydro One. (1) Adjusted for equity treatment of hybrid debt securities.

THE COMPANY

Hydro One Inc., one of the successor companies of the former Ontario Hydro, holds and operates transmission and distribution assets, as well as a fibre-optic network across most of Ontario. Hydro One is the second largest electricity distributor in Ontario based on distribution throughputs and the largest based on the number of customers. The Company is currently wholly owned by the Province of Ontario, although debt issued directly by Hydro One Inc. is not guaranteed by the province. The province has announced its intention to privatize Hydro One. This is expected to take place by mid-2002.

AUTHORIZED PAPER AMOUNT

Program currently limited to Cdn\$750 million, but in process of raising to Cdn\$1 billion (have Board authorization to increase to \$1 billion).

Energy

DOMINION BOND RATING SERVICE LIMITED

## REGULATION

Hydro One's distribution and transmission subsidiary (Hydro One Networks) is regulated by the Ontario Energy Board (OEB) based on a cost of service/rate of return methodology. Deemed common equity has been set at 36% and deemed preferred equity at 4%. The 2001 approved ROE has not changed at 9.88%, except for the acquired municipal electric utilities' (MEUs) as they remain subject to phasing in the 9.88% market rate of return like other local distribution companies (LDCs) in Ontario.

**Distribution operations:** For customers served by Hydro One Networks before the MEU acquisitions, rate adjustments in 2002 and 2003 will include the phasing in of the cost of power increases to Hydro One in 2001 plus the adjustments related to the performance-based regulatory (PBR) price cap mechanism. For customers served by the MEUs that were acquired by Hydro One, rate adjustments in each of 2002 and 2003 will include one-third of the rate increase necessary to achieve the 9.88% market rate of return, adjustments necessary to recover the payments-in-lieu of taxes (PILs) paid in 2001 (covering the October-December 2001 period), plus the adjustments related to the first-generation PBR mechanism. The first-generation PBR rate adjustments are calculated as: (1) an inflation factor (the change in the cost of inputs for a typical utility) – set at 0.4% for 2002 rate-making purposes, less (2) a benchmark productivity factor (cost of service reductions as a result of achieved operating efficiencies) – set at 1.5% for 2002 rate-making purposes, plus (3) a z-factor to address any extraordinary events that affect the cost of service. For the

2002 rates, the z-factor should include certain transition costs to separate "wires" and energy retailing operations, and expenses to prepare for the new competitive environment. Incorporation and business re-organization costs related to the development of energy marketing operations are to be borne by the shareholder and cannot be passed through to rate payers. Acquisition premiums (of other MEUs) cannot be passed through to ratepayers. The cost of electricity and PILs will be passed through directly to customers.

The price cap mechanism operates as a price ceiling. A utility whose input costs increase more than the inflation factor (0.4% in 2002) and/or whose productivity gains are less than the benchmark (1.5% in 2002) will experience an earnings reduction. However, a utility that exceeds these defined targets is currently permitted to retain all of the excess earnings. DBRS views PBR mechanisms favourably as they encourage operating efficiencies and reduce a utility's regulatory burden over the longer term. The next generation PBR mechanism (beginning in 2004) is expected to consist of a "yardstick" approach where utilities may be measured against peer groups (i.e., based on similar characteristics such as size, customers and geographic location) rather than a typical benchmark.

**Transmission operations:** Transmission operations do not currently operate under a PBR framework. Hydro One is currently developing a PBR proposal for implementation beginning in 2004.

## RATING CONSIDERATIONS

**Strengths:** (1) Currently, regulated businesses comprise more than 100% of net earnings (its non-regulated businesses are operating at a loss) and its strategy is to focus on growing its transmission and distribution operations. This provides a high degree of stability to Hydro One's earnings and financial profile. Furthermore, the implementation of a PBR mechanism and the use of formula-based ROEs minimize the related cost burden and regulatory lag, streamline the regulatory process, and encourage utilities to improve operating efficiencies.

(2) Hydro One's transmission franchise area is one of the strongest in Canada, given that it covers virtually all of Ontario. The distribution/retail franchise is less attractive as it includes a large geographic area (basically most of rural Ontario outside major urban centres) with a low population density/high cost of service, although the acquisition of 88 MEUs has improved the density and reduced unit costs. Ontario continues to have some of the strongest economic fundamentals in Canada.

(3) The upcoming privatization of Hydro One offers significant opportunities for the Company to grow outside Ontario (and within Ontario), without necessarily pressuring the balance sheet and key coverage ratios, as it will now have access to the equity markets for funding. Hydro One's growth strategy (expanding primarily into the U.S.) offers increased earnings growth potential, as approved ROEs are significantly higher than in Canada, but with a limited

impact on its risk profile. Further acquisitions of MEUs would also further enhance operating efficiencies and spread fixed costs over a larger asset/customer base.

(4) Hydro One has implemented significant cost reduction and cost control measures since 1999, and it has realized cost savings and synergies from the acquisition and integration of the 88 MEUs. All of these measures have improved operating efficiencies and unit costs. The process began with a voluntary retirement program that resulted in a reduction of 1,400 employees by the end of 2000. Union concessions that will allow for an increase in the use of seasonal hirings and the bundling of the transmission and distribution work force should also contribute to a reduction in labour costs. Other productivity initiatives currently under way include consolidation to one operating centre, a reduction in inventory levels, decreases in back office and schedule meter read costs. While these measures are positive for the Company's cost structure going forward, Hydro One will likely find it increasingly difficult to achieve ongoing cost savings.

**Challenges:** (1) Given that the market has not yet opened, various uncertainties and risks related to the new operating environment remain. First, political risk exists. Depending on what happens to electricity prices following market opening, political pressures may result in the imposition of additional restrictions on Hydro One and other LDCs that



would adversely affect the profitability and cash flow generation of Hydro One. Second, the Ontario electricity distribution industry remains highly fragmented, despite the mergers and acquisitions that have already occurred. Further significant rationalizations are expected over the next few years as the industry continues to consolidate. Third, the transition towards operating as a commercially viable enterprise will require a change in culture and will take time to fully implement.

(2) As a result of the projected weaker earnings over the near term as Hydro One continues to phase-in distribution rate increases, operating cash flows are not expected to be sufficient to fully cover dividend payments and capital expenditures, despite the fact that "catch-up" capital expenditures (due to the deferral of asset maintenance by the former Ontario Hydro) have stabilized Hydro One's annual capital expenditures, projected at about \$500

million-\$600 million over the medium term. The cash shortfalls will have to externally financed. Access to the equity markets should help minimize the negative impact on Hydro One's leverage.

(3) Following market opening, Hydro One's retail energy marketing business will be exposed to commodity price risk and competitive pressures. Retail competition will create some earnings pressures, although the impact should be minimal given the small size of the operations relative to Hydro One's consolidated operations. Commodity price risk will be mitigated by securing wholesale fixed-price contracts to match the retail contracts.

(4) Although debt maturities are reasonably well staggered, Hydro One needs to refinance between \$450 million - \$700 million annually over the next five years. The heavy maturity schedule increases the Company's refinancing risk.

## EARNINGS AND OUTLOOK

(\$ millions)	For years ended December 31 (1)				
	2001	2000	1999	1998	1997
Net revenues	2,199	2,136	2,186	1,883	1,849
EBITDA	1,375	1,278	1,339	1,129	1,190
EBIT	991	930	997	829	888
Net interest expense	350	340	381	559	584
Net income (before preferred dividends)	374	378	375	474	225
Net income (after preferred dividends)	356	360	362	474	225

### Segmented Information

(\$ millions)	%	For years ended December 31 (1)				
		2001	2000	1999	1998	1997
Transmission	59%	1,259	1,260	1,237	1,178	1,095
Distribution	40%	893	846	893	564	596
Other	1%	47	30	56	141	158
Net revenues		2,199	2,136	2,186	1,883	1,849
Transmission	68%	686	631	641	621	625
Distribution	34%	339	318	368	202	281
Other	-2%	(34)	(19)	(13)	6	(18)
Operating income (EBIT)		991	930	997	829	888

### Distribution throughputs

Residential	10,437	9,240	9,412	9,882	10,152
Commercial	4,899	3,960	3,982	4,209	4,324
Industrial	3,195	1,760	2,172	1,647	1,692
Other	2,769	2,640	2,534	2,562	2,632
Total (GWh)	21,300	17,600	18,100	18,300	18,800
Growth in volume throughputs	21.0%	(2.8%)	(1.1%)	(2.7%)	1.1%

**Transmission throughputs (GWh)** 146,900 146,900 144,100 143,000 144,800

(1) 1999 consists of 9-mos. Hydro One + 3-mos. allocation of Ontario Hydro results. 1996-1998 is an allocation of Ontario Hydro results that reflect the operations of Hydro One operations.

Consolidated EBIT was up 6.6% in 2001 to \$991 million due to: (1) the 20.6% growth in distribution throughputs driven primarily by the acquisition of 71 MEUs in 2001 and the full-year impact of the 16 MEUs acquired in 2000; (2) the first phase-in on October 1, 2001, of the OEB-approved distribution rate increase to recover the increases

in the cost of power to Hydro One; and (3) significant reductions in operating, maintenance and administration costs, despite the one-time integration costs related to the MEU acquisitions. Despite the strong growth in EBIT, net earnings were down slightly due to higher net interest costs as a result of the MEU acquisitions. Interest costs related to

the financing of the acquisitions cannot be recovered through distribution rates. The acquisitions were largely financed through a combination of internally generated cash flows (causing a significant drop in interest earned on investments relative to the previous year) and short-term debt financing.

**Outlook:** Over the near term, Hydro One's earnings will be negatively impacted by the continued phase-in of the OEB-approved distribution rate increase to recover the increase in the cost of power to Hydro One effective October 1, 2001. The Company has implemented a rate mitigation plan (mostly cost savings measures) to address part of the revenue shortfall. The Company will fully recover the cost of power increase beginning in 2003, when the final phase-in is implemented. The timing of the cost of power increase and the distribution rate increases are such that Hydro One's 2002 net earnings are expected to be the most negatively impacted by this transition measure. Earnings will be further negatively impacted if the measures outlined in the rate mitigation plan cannot be achieved. The cost savings from the integration of the acquired MEUs plus continued improvements in asset utilization should offset some of the negative effect of the distribution rate phase-in. Following market opening on May 1, 2002, Hydro One will face volume variance risk for its transmission and distribution operations. While this increases its risk profile somewhat relative to the previous environment, it is in line with the business risk profile of other regulated electricity transmission and distribution companies.

Over the medium and long term, the Company's earnings growth potential will be favourably impacted by the privatization, expected to take place by mid-2002, as well as by the proposed Lake Erie Link, for which Hydro One and its partner, TransÉnergie U.S., have received approval from the FERC authorizing the sale of transmission rights. This transmission project will not be rate regulated and will provide an increase in transmission capability of up to 975 MW between the electric control areas of the IMO, the MISO and the PJM.

The privatization allows the Company to access the equity markets, thus allowing it to grow beyond internally generated cash flows without necessarily negatively impacting leverage and coverage ratios. Hydro One's business risk profile should not change significantly given its growth strategy of focussing on expanding its transmission (primarily regulated) and distribution operations. Increased earnings growth potential is expected to come primarily from opportunities in the U.S., where approved ROEs are significantly above those in Canada. Additional strategic MEU acquisitions would also offer opportunities to increase the system's efficiency and reduce unit costs, thus providing increased returns under the PBR framework. While Hydro One will be subject to competitive pressures and commodity price risk (retail energy marketing division only) following market opening, the impact should be limited given the small size of the operations relative to the Company's regulated operations and given the hedging strategies being employed.

#### FINANCIAL PROFILE AND SENSITIVITY ANALYSIS

(\$ millions)	For years ended December 31 (1)				Stress Testing		
	2001	2000	1999R	1998R	Year 1	Year 2	Year 3
<b>EBITDA</b>	1,375	1,278	1,339	1,129	1,238	1,238	1,238
Net income (before extras., after pfd.)	356	363	409	270	291	277	263
Depreciation	352	324	324	276	399	406	413
Other non-cash charges	0	(3)	(24)	0	0	0	0
<b>Operating cash flow</b>	708	684	709	546	690	683	676
Capital expenditures	(566)	(446)	(529)	(383)	(550)	(550)	(550)
Dividends	(240)	(371)	0	0	(240)	(240)	(240)
Gross free cash flow	(98)	(133)	180	163	(100)	(107)	(114)
Change in working capital	188	23	118	(26)	0	0	0
<b>Free cash flow</b>	90	(110)	298	137	(100)	(107)	(114)
Other investments	(447)	(92)	288	0	(100)	(100)	(100)
Net debt financing	357	(281)	(170)	(98)	200	207	214
Net equity/other financing	0	(9)	13	0	0	0	0
Net change in cash	0	(492)	429	39	0	0	0
Cash flow/capital expenditures (times)	1.25	1.53	1.34	1.43	1.25	1.24	1.23
Cash flow/total adj. debt (times) (2)	0.14	0.15	0.15	0.09	0.13	0.13	0.12
% adj. debt in the capital structure (2)	56.1%	54.2%	54.6%	71.8%	56.8%	57.5%	58.4%
Fixed-charges coverage (times)	2.45	2.30	2.32	1.46	2.07	1.98	1.89

(1) 1999 consists of 9 months Hydro One and 3 months allocation of Ontario Hydro results. 1998 is an allocation of

Ontario Hydro results that reflect the operations of Hydro One operations.

(2) Adjusted for equity treatment of hybrid debt securities.

Although operating cash flows increased in 2001 due to higher depreciation charges, they were insufficient to fully cover the Company's capital expenditures and dividend payments. The positive cash flow from working capital changes provided the necessary funding. Despite the free

cash flow surplus recorded in 2001, Hydro One had to use debt financing to fund the significant number of MEU acquisitions that closed in 2001 (71 out of the total 88). As a result, its leverage (DBRS-adjusted) increased to 56.2%



from 54.2% the previous year. Key debt and coverage ratios, however, remained relatively strong in 2001.

**Outlook:** Operating cash flows should remain sufficient to internally fund projected annual capital expenditures of about \$500 million-\$600 million (mostly maintenance capex for transmission and distribution, but also some telecom capex), although they will probably be insufficient to also fund dividend payments, assuming the dividend payout policy does not change following the IPO. External financing will also be required to fund additional investments, including the project to increase the intertie capacity with Québec and the proposed Lake Erie Link, which will increase the intertie capacity with the U.S. It is expected that Hydro One's leverage will remain near

current levels (55%-60%) following the IPO, as the Company will be able to access equity markets to finance its expansion plans, including any additional acquisitions. In the near term, key coverage ratios will likely remain weaker than normal as distribution rate increases are phased in. Competitive pressures following market opening could also pressure coverage ratios, although not significantly as Hydro One's retail operations are expected to remain small. Over the longer term, the Company's expansion into other jurisdictions with higher approved ROEs should favourably impact the Company's cash flow generation, and its key debt and coverage ratios. Hydro One's strategic focus on growing its transmission and distribution operations will continue to provide a high degree of financial stability.

#### Stress Testing:

DBRS stress tests the financial strength of companies analyzed to measure their sensitivity under various adverse scenarios. Assumptions: Hydro One's EBITDA declines 10% in Year 1 and remains flat thereafter; capital expenditures are \$550 million per year and other investments are \$100 million per year; the dividend payout remains at \$240 million per year.

DBRS stress tests financial results to measure earnings and cash flow sensitivities and their impact on key debt ratios. Under the above scenario, the Company would continue to generate a free cash flow deficit of about \$100 million. The free cash flow deficit and the additional \$100 million in investments would require external financing, which if it were all debt financed, would result in a deterioration in the

Company's financial profile (although not a significant deterioration). However, given the upcoming IPO, it is expected that the Company would access the equity markets to ensure its target capital structure was maintained, given that almost all of the Company's activities are regulated. Furthermore, Hydro One could reduce its capital investments or reduce dividend payments.

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#### LONG TERM DEBT MATURITIES AND BANK LINES

(As at December 31, 2001 - \$ millions)			
<u>Years to Maturity</u>	<u>Public Debentures</u>	<u>Notes Payable to OEFC</u>	<u>Average Coupon</u>
1 year	-	443	11.0%
2 years	-	651	7.2%
3 years	-	682	6.8%
4 years	200	307	7.7%
5 years	-	589	10.3%
<b>SUB TOTAL</b>	<b>200</b>	<b>2,672</b>	<b>8.4%</b>
6-10 years	650	300	7.6%
Over 10 years	700	-	7.2%
<b>TOTAL</b>	<b>1,550</b>	<b>2,972</b>	<b>8.0%</b>

Following the IPO, Hydro One will continue to repay notes payable to OEFC as they mature using internally generated cash flows or by debt issuance in its own name. While the Company has a relatively heavy refinancing schedule over the next five years, debt maturities are reasonably well staggered and the refinancing of high coupon debt issues in 2002 should reduce financing costs. Note that currently PILs (payments in lieu of income taxes), common dividends to the province and a portion of interest expenses are paid directly or indirectly to the OEFC to service the outstanding debt of the former Ontario Hydro.

Hydro One currently has a total of \$750 million in syndicated committed bank lines to backstop its \$750 million commercial paper program. The bank lines include a \$500 million 364-day line maturing in 2002 and a \$250 million five-year bank line maturing in 2005. Hydro One is in the process of increasing its bank lines to \$1 billion in order to increase its commercial paper program to \$1 billion. Hydro One has a Board-authorized \$1 billion commercial paper borrowing limit.

**Hydro One Inc.**

(formerly Ontario Hydro Services Company Inc.)

**Balance Sheet** (1)

(\$ millions)

	As at December 31				As at December 31		
	2001	2000	1999R		2001	2000	1999R
<b>Assets</b>				<b>Liabilities &amp; Equity</b>			
Cash + short-term investments	0	0	468	Short-term debt	434	154	0
Accounts receivable	538	511	536	L.T. debt due 1 year	443	474	1,399
Material and supplies	56	65	81	A/P + accr'ds	748	421	475
Current assets	594	576	1,085	Current liabilities	1,625	1,049	1,874
Net fixed assets	9,103	8,519	8,359	Long-term debt	4,079	3,972	3,446
Post employment benefits	847	452	241	Post employ. benefits	510	509	496
Def'd debt costs + long-term rec.	35	92	22	L.T. pay. + other liab.	1,023	467	250
Regulatory asset	519	352	383	Conv. preferred equity	323	323	0
Goodwill	133	6	0	Shareholders' equity	3,671	3,677	4,024
<b>Total</b>	<b>11,231</b>	<b>9,997</b>	<b>10,090</b>	<b>Total</b>	<b>11,231</b>	<b>9,997</b>	<b>10,090</b>

**Ratio Analysis** (1)

For years ended December 31

	2001	2000	1999R	1998R	1997	1996
<b>Liquidity Ratios</b>						
Current ratio	0.37	0.55	0.58	0.35	0.27	0.41
Acc. depreciation/gross fixed assets	33.5%	32.5%	31.5%	31.3%	30.4%	29.2%
Cash flow/total debt (2)	0.14	0.15	0.15	0.09	0.09	0.11
Cash flow/adj. total debt (2)	0.14	0.15	0.15	0.09	0.09	0.11
Cash flow/capital expenditures	1.25	1.53	1.34	1.43	1.86	2.23
Cash flow-dividends/capital expenditures	0.83	0.70	1.34	1.43	1.86	2.23
% debt in the capital structure (2)	55.4%	53.5%	54.6%	71.8%	75.0%	75.9%
% adj. debt in the capital structure (2)	56.1%	54.2%	54.6%	71.8%	75.0%	75.9%
Average coupon on long-term debt	8.05%	8.13%	7.70%	9.00%	-	-
Hybrids/common equity	8.8%	8.8%	0.0%	0.0%	0.0%	0.0%
Deemed common equity	36.0%	36.0%	36.0%	-	-	-
Common dividend payout (before extras.)	67.4%	58.7%	38.6%	0.0%	0.0%	0.0%

**Coverage Ratios** (3)

EBIT interest coverage	2.65	2.50	2.45	1.46	1.50	1.64
EBITDA interest coverage	3.67	3.42	3.29	1.98	2.02	2.17
Fixed charges coverage	2.45	2.30	2.32	1.46	1.50	1.64

**Earnings Quality/Operating Efficiencies & Statistics**

Operating margin	45.1%	43.5%	45.6%	44.0%	48.0%	50.9%
Net margin (before extras., after pfd)	16.2%	17.0%	18.7%	14.3%	16.4%	20.0%
Return on avg. common equity (before extras.)	9.7%	9.4%	12.7%	12.0%	14.9%	20.9%
Approved ROE	9.88%	9.88%	9.35%	-	-	-
Rate base - Transmission (millions)	\$5,900	\$5,707	\$5,638	-	-	-
Rate base - Distribution (millions)	\$2,800	\$2,445	\$2,467	-	-	-
Distribution lines (km)	122,400	113,880	113,400	116,947	119,182	118,985
Transmission lines (km)	28,387	28,490	28,889	29,066	29,080	29,080
GWh throughputs/employee	34.9	36.8	28.8	30.9	31.3	29.5
Customers/employee (4)	248	214	166	187	186	176
Customers/distribution lines	10	8	8	8	8	8
Growth in customer base (distribution)	24.6%	2.5%	-4.5%	0.5%	1.1%	-
Operating costs/avg. customer (4)	\$515	\$561	\$559	\$437	-	-

(1) 1999 consists of 9-mos. Hydro One + 3-mos. allocation of Ontario Hydro results. 1996-1998 ratios reflect the allocation of Ontario Hydro results which represent Hydro One operations.

(2) Convertible preferred equity given 80% common equity treatment.

(3) EBIT includes interest income; interest expense excludes capitalized interest, AFUDC and debt amortizations.

(4) For distribution operations only. Includes depreciation.

## Hydro One Inc.

(formerly Ontario Hydro Services Company Inc.)

### Income Statement

	For years ended December 31 (1)					
(\$ millions)	2001	2000	1999R	1998R	1997	1996
Distribution	2,158	1,703	1,793	1,729	1,846	1,880
Transmission	1,259	1,260	1,237	1,178	1,095	1,112
Other	49	32	95	141	158	137
Gross revenues	3,466	2,995	3,125	3,048	3,099	3,129
Purchased power	1,267	859	939	1,165	1,250	1,218
Net revenues	2,199	2,136	2,186	1,883	1,849	1,911
Expenses:						
OM&A	824	858	839	723	627	602
Debt guarantee fee	0	0	8	31	32	31
Depreciation + amortization	384	348	342	300	302	305
Total operating costs	1,208	1,206	1,189	1,054	961	938
Operating income	991	930	997	829	888	973
Interest expense	376	379	411	569	580	583
Non-cash financial charges	(21)	(22)	(18)	(10)	(12)	(8)
Other (income)/expense	(5)	(17)	(12)	0	16	15
Net interest costs	350	340	381	559	584	590
Income before tax	641	590	616	270	304	383
Payments in lieu of income taxes (normalized)	267	209	194	0	0	0
Net income bef. extraordinary items	374	381	422	270	304	383
Non-recurring/one-time items	0	3	47	(204)	79	0
Net income before pfd. div	374	378	375	474	225	383
Preferred dividends	18	18	13	0	0	0
Net income	356	360	362	474	225	383

(1) 1999 consists of 9 months Hydro One and 3 months allocation of Ontario Hydro results. 1996-1998 is an allocation of Ontario Hydro results that reflect the operations of Hydro One operations.