

MEDIA RELEASE

Threats to Hydro One Disruptive

Toronto March 3, 2005 The recent appeal by southern distribution companies to have the government make Hydro One hand over 400,000 Hydro One customers should be ignored. Losing high density customers to other distribution companies would only lead to higher costs for rural (residential, recreational and agricultural) customers currently served by Hydro One and reduce the benefits provided by Hydro One to the province.

The PWU supports the principle that changes to service territory should come about only after a full discussion of all impacts to customers and employees and never as a result of arbitrary government direction.

As well as controlling the bulk of the province's electricity transmission system, Hydro One services 1.2 million customers with distribution services in every corner of the province, many of whom live in rural and remote areas of the province where service costs are extremely high.

In its submission to the recent government consultation on distribution and transmission service in Ontario, the PWU included a study reviewing Hydro One's current financial and operational performance. The report concludes that significant benefits are provided to the province's electricity customers through the synergies of Hydro One's combined transmission and distribution operations. Excerpts follow:

Excerpts from "The Future of Ontario's Electricity Transmission and Distribution Structure", Elenchus Research Associates Inc, 2005

Benefits of Hydro One's current structure and customer base include:

Improved Quality of Service at Lower Cost – Hydro One's integrated structure is conducive to maintaining high service standards that are provided in a cost effective way due to synergies between transmission and distribution operations and increased workforce scale economies.

Synergies Between Transmission and Distribution Operations - Hydro One's transmission and distribution operations enjoy natural synergies because both involve the management, construction, operations and maintenance of similar type assets (i.e., primarily transformer stations and lines) and both span the entire province of Ontario.

The integrated operations of Hydro One allows for sharing of skills, materials and equipment in engineering, operations, maintenance, and construction activities, sharing of resources in response to major emergency events and resource levelling, through the coordination of resources required to do the work such that work "valleys" or "peaks" in a particular business can be better managed.

Increased Workforce Scale Economies - The joint transmission and distribution operations provides a workforce of sufficient scale to achieve efficiencies in staffing of support functions associated with training, safety and work practices.

Value to province of Hydro One - Because the Government of Ontario owns Hydro One, it has a direct stake in the financial health of the Company. The province benefits from various payments received from Hydro One including the dividends that Hydro One pays out on its net income each year. Furthermore, the value of the Company as an asset of the province contributes to the overall financial strength of the province. It is prudent for the government to ensure that its policies do not arbitrarily or unnecessarily impair the financial health and potential market value of this important Ontario asset. Separating the transmission and distribution functions would increase costs, resulting in either higher rates or lower profitability.

Hydro One's profitability is a source of provincial revenue in the form of proxy income and capital taxes, and dividend payments.

Maintain Financial Viability - Hydro One's solid financial performance indicates that the current joint ownership of transmission and distribution under Hydro One will provide for the short and long term financial viability of its transmission and distribution businesses.

Hydro One borrows on behalf of both businesses and both therefore are able to access capital at reasonable rates given Hydro One's "A" credit rating for long term debt. If Hydro One's transmission and distribution businesses were to be separated (e.g., set up as separate legal entities outside of Hydro One), the individual entities would each tend to face a higher cost of capital since the overall financial base of each entity would be smaller, giving less resilience to negative financial events and therefore increased risk.

The financial strength of Hydro One and its ability to raise additional capital on behalf of Hydro One is essential to Hydro One's ability to "play a major role in ensuring that new transmission lines are built" as envisioned by government policy direction.

Summary of Conclusions

In summary, in order to maximize the value that the people of Ontario derive from Hydro One, it is appropriate for the government to allow Hydro One to take commercial initiatives that will allow it to enhance the value of its businesses and its assets. The synergies derived through operating Hydro One's transmission and distribution systems on an integrated basis allows Hydro One to capture synergies and enhance efficiency, thereby enhancing the Company's financial strength and performance. All of these factors contribute to increasing the value of Hydro One to the province.

It can therefore be concluded that the synergies created through Hydro One's joint operation of transmission and distribution systems enhance Hydro One's ability to effectively contribute to the legislated purposes of:

- protecting the interests of consumers with respect to prices, and the adequacy, reliability and quality of electricity service;
- promote economic efficiency and sustainability in the generation, transmission, distribution and sale of electricity;
- ensure that Ontario Hydro's debt is repaid in a prudent manner and that the burden of debt repayment is fairly distributed; and
- facilitate the maintenance of a financially viable electricity industry.

For further information contact the Power Workers' Union at 416 481-4491