

**1997 Newfoundland Power Inc. Annual Report**



*DEDICATED TO CUSTOMERS... DEDICATED TO SERVICE*

## **Annual Report 1997**

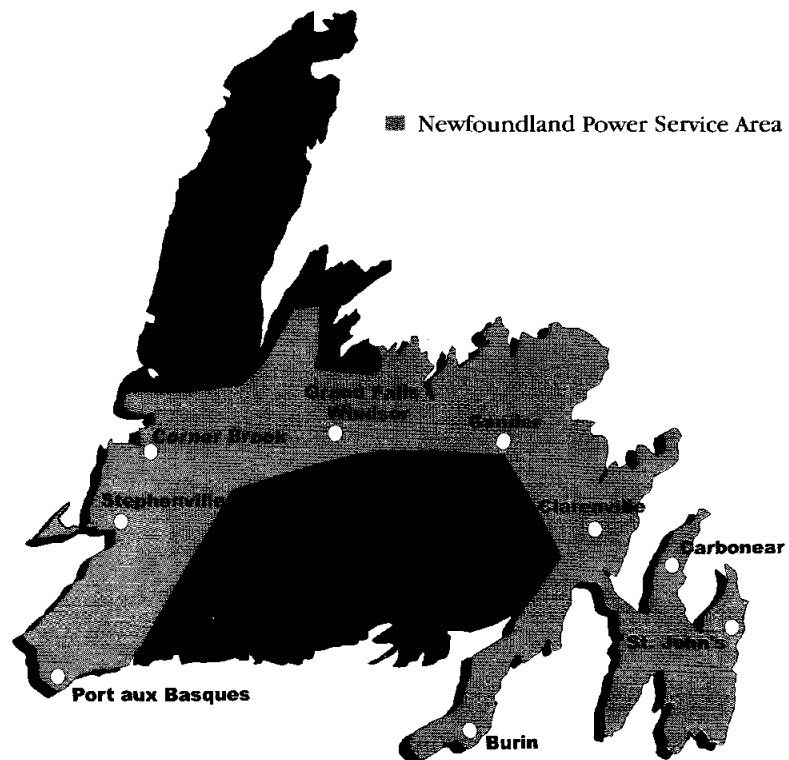
Board of Commissioners  
of Public Utilities  
of the Province of Newfoundland

**NEWFOUNDLAND**  
**POWER**  
A FORTIS COMPANY

## Corporate Profile

Newfoundland Light & Power Co. Limited ("Newfoundland Power" or the "Company") is a regulated investor owned electric utility which serves approximately 172,000 customers throughout the island portion of the province of Newfoundland. These customers constitute 85 per cent of all electrical consumers in the province. Sales to residential customers represent approximately 60 per cent of the Company's operating revenue. Newfoundland Power generates about 10 per cent of the energy sold to its customers, and purchases the balance from Newfoundland and Labrador Hydro ("Hydro"), a provincial Crown corporation. All of the common shares of Newfoundland Power are owned by Fortis Inc., a diversified holding company. Preference shares are listed on the Montreal Exchange.

## Newfoundland Power Major Service Areas



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## Cover

*Gander employees Wayne Lanning (left), Lineman, and Reginald Barnes, Linecrew Working Foreman, have been dedicated to serving the needs of Newfoundland Power customers for 22 and 24 years, respectively.*

# Financial & Operating Highlights

## Financial Highlights

	1997	1996
Revenue (\$000s)	343,677	341,560
Fixed Assets (\$000s)	841,775	819,522
Long Term Debt (\$000s)	238,808	241,323
Earnings Applicable to Common Shares (\$000s)	24,931	25,144
Common Shareholder's Equity (\$000s)	227,512	226,157
Earnings per Common Share (\$)	2.42	2.44

## Operating Highlights

	1997	1996
Customer Accounts	212,359	210,161
Installed generating capacity (MW)		
Hydroelectric	87.5	87.5
Diesel	12.3	13.4
Gas Turbine	47.0	47.0
Total (MW)	146.8	147.9
Peak one-hour demand (MW)	1,065	1,081
Energy sales (GWh)	4,438	4,425
Average annual kWh used per residential customer	14,934	14,440

## Report to Shareholders



**Dr. Linda L. Inkpen**  
*Chair, Board of Directors*



**Philip G. Hughes**  
*President  
& Chief Executive Officer*

Nineteen ninety-seven was both a rewarding and challenging year for Newfoundland Power. Increasing overall operational performance was a primary objective over the past twelve months as we continued to work to balance the short term results and long term growth of our business. A renewed focus on customer service and productivity resulted in 1997 being a year of transition.

The past fiscal year produced a return on equity of 11.0 per cent. Net earnings applicable to common shares declined slightly to \$24.9 million in 1997 compared to \$25.1 million in 1996. Earnings per common share were \$2.42 in 1997 compared to \$2.44 in 1996.

Revenue for 1997 totaled \$343.7 million. This represents a 0.8 per cent increase over 1996 revenue of \$341.6 million.

Our ability to increase customer satisfaction, control costs and achieve our earnings target during a year of transition, clearly demonstrates the capabilities of our Company and its employees. In 1998 and beyond, we will continue our pursuit to establish Newfoundland Power as the service provider of choice through an emphasis on customer service and efficiency.

Meeting the changing needs of our customers, increasing productivity and reorganizing our corporate structure were just a few of the challenges of 1997. We are proud of our accomplishments to date; however, we will continue to work towards operational improvements for the benefit of our customers, shareholders and employees.

Low, steady growth in our customer base and energy sales is expected in the upcoming years. The general economy, low housing starts, competition from the oil sector and maturation of the electric heating market will all have a direct effect on customer and energy sales growth.

The opening of an antimony mine in Glenwood, the development of an oil transshipment facility in Whiffen Head, oil production at Hibernia, the expansion of various fishery operations, and the development of the Terra Nova oilfield are expected to contribute to increased energy sales to larger customers over the next few years. However, the moratorium on major groundfish stocks is continuing to cause hardship to the people of Newfoundland, depress the economy and, as a result, limit energy sales growth.

## **Changing to Serve You Better**

Many challenges lie on the horizon for Newfoundland Power as transformation sweeps the North American electrical industry. Although we are not sure when or how trends toward deregulation and competition will affect Newfoundland, we do know that we must be more efficient and provide improved customer service to be successful.

We must listen to our customers more intently than ever before and be prepared to make appropriate changes.

We must blend our methods of traditional service with a more efficiency-driven, market-oriented approach.

We must understand and meet the changing needs of our customers, particularly in the areas of reliability and power quality.

Amidst the changes of the past year, our dedication to providing superior customer service has remained a constant focus. More than ever we recognize the need to meet and, when possible, exceed the expectations of our customers. Providing consumers with more value for their dollar is a daily focus. Balancing this with the need to ensure a reasonable return to our shareholders is a daily challenge.

Research indicates that we have been successful in improving customer service. Overall customer satisfaction increased in 1997 to 85.5 per cent compared to 70.7 per cent the previous year.

Reliability is of primary importance. However, total service extends far beyond ensuring the lights stay on. We believe superior customer service includes power quality, convenient programs and services that address our customers' needs, personalized service and timely communications.

## **Appointments and Retirements**

A number of changes took place in 1997 in the Company's management and Board of Directors. Most notable was the retirement of Aidan F. Ryan as Chair & Chief Executive Officer after 40 years of service with Newfoundland Power. Mr. Ryan, and the leadership and dedication he brought to our Company, will be greatly missed.

Gilbert G. Dalton retired from the Board of Directors at the Annual General Meeting in May 1997 after serving as a director for seven years. We would like to thank Mr. Dalton for his valued contribution.

*Our ability to control costs, increase customer satisfaction and achieve our earnings target during a year of transition, clearly demonstrates the capabilities of our Company and its employees.*

Dr. Linda L. Inkpen was appointed Chair of the Board upon Mr. Ryan's retirement at the Annual General Meeting in May 1997. A private medical practitioner in St. John's, Dr. Inkpen has been a Director of Newfoundland Power since 1990, is a Director of Fortis Inc., and is actively involved with many professional boards and committees.

We are pleased to have welcomed Derek F. Hiscock, Frank P. Howard and James A. Lea to our Board of Directors in 1997. Mr. Hiscock is a resident of St. John's and President of Robinson-Blackmore Printing and Publishing. Mr. Howard is President and owner of Riverview Motors and lives in Grand Falls-Windsor. Mr. Lea is the President & Chief Executive Officer of Newfoundland Power's affiliate, Maritime Electric, in Prince Edward Island. The Board and Company look forward to their participation and counsel in the years ahead.

Philip G. Hughes, who was appointed President & Chief Operating Officer on January 1, 1997, was appointed Chief Executive Officer at the 1997 Annual General Meeting.

Earl A. Ludlow returned to Newfoundland Power in March 1997 after two years at Maritime Electric to assume the duties of Vice President, Operations.

W. Wallace Pinhorn, Vice President, Technical Services, retired in February 1997 after 33 years with Newfoundland Power. We wish Mr. Pinhorn well in his retirement and thank him for his many years of dedicated service to our Company.

Mardon J. Erbland, Vice President, Customer Service, was appointed President & Chief Executive Officer of Canadian Niagara Power effective January 1, 1998. Mr. Erbland was employed with Newfoundland Power since 1975, serving as a Vice President for the last ten years. We thank Mr. Erbland for his commitment and leadership over the years and wish him much success in his new position.

One hundred and four employees participated in early retirement programs offered in 1997. We thank each of these people for their years of dedicated service and wish them an enjoyable retirement and good health.

### **Looking Ahead**

Newfoundland Power is a very different company than a year ago. As we look down the road, we are confident that we will again chronicle a stronger, more customer-focused organization a year from now.



The transformations of the past year have taught us that as a team, we are capable of progress in the face of adversity. Together we have been successful in turning the challenges associated with corporate reorganization and increasing efficiency, into opportunities to improve customer service and productivity.

As the transition of our workplace and industry environments continues, we intend to further demonstrate our talent for turning challenges into opportunities.

The price of electricity continues to be our customers' greatest concern. As rates to customers are based on the cost of providing service, we will continue our efforts to control rates by reducing costs and running our business more efficiently.

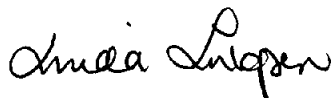
In 1998, our performance in six areas will play an integral role in determining our corporate success.

These areas are:

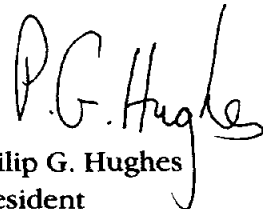
- customer service;
- reliability and power quality;
- productivity;
- safety;
- employee development; and
- community involvement.

Communicating with our employees, teamwork and a common vision will be fundamental in our pursuit of success.

On behalf of the Board of Directors and the Company, we thank all our employees for their hard work and commitment throughout 1997. We extend a special thank you to those employees called upon at all hours of the day and night, and in all weather, to maintain service. Their dedication to responding to the needs of our customers 24 hours a day, demonstrates the pride of service on which our Company was built.



Dr. Linda L. Inkpen  
Chair,  
Board of Directors



Philip G. Hughes  
President  
& Chief Executive Officer

# Report on Operations

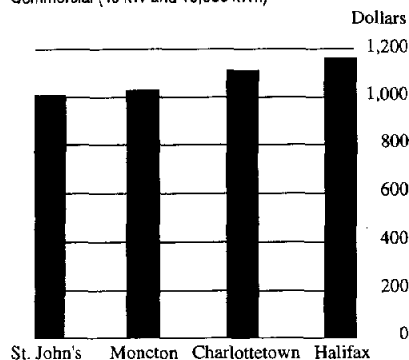
## Customer Service

In everything we do, we consider customers first.

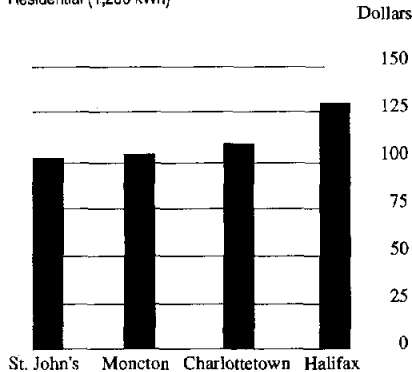
As a result, our 1997 operations centered around one common goal: to deliver superior customer service. To achieve this objective, we worked throughout the year to understand customers' needs; simplify and refocus business processes; empower employees; and measure results. The outcome has been improved service delivery and customer satisfaction.

### Atlantic Provinces Monthly Bill Comparisons (Inclusive of Sales Tax)

Commercial (40 kW and 10,000 kWh)



Residential (1,200 kWh)



Results of customer research conducted in December 1997 indicate that 85.5 per cent of our customers were satisfied with overall service for the year. This is a significant increase over the previous year's rating of 70.7 per cent.

During 1997, more emphasis was placed on customer service research to better understand the needs of our customers. Results from this research will be used to further develop customer-focused programs and services. From financing for wiring improvements to in-person consultation on energy efficiency, we are dedicated to providing our 172,000 customers with relevant, practical services.

Various improvements were made to customer service throughout 1997. At the request of customers, we returned to monthly meter reading in July, extended our Call Centre hours to provide more personalized service, and introduced additional convenient payment options. Our desire to achieve a high level of customer satisfaction was supported by the on-going training of Call Centre and Field Services employees.

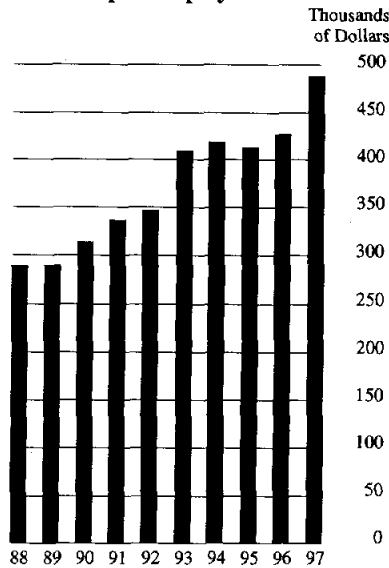
## Reliability and Power Quality

Our Company will continue to invest in the equipment, resources and training required to improve reliability in 1998 and beyond. Despite our commitment and efforts to improve reliability, customers experienced a slight increase in the number and length of power outages in 1997. This was due primarily to supply interruptions late in the year.

Insulators provide safety and continuity of power in our electrical system. Over the past decade, a quantity of insulators have been found to be subject to premature failure due to a manufacturers' defect. These insulators have caused many unscheduled outages. To address this problem, the Insulator Replacement Program continued across the island in 1997. Upon completion of this 12 year program in 2001, over 70,000 insulators will be replaced at a cost of \$10 million to provide customers with more reliable service.

*Our 1997 operations centered around one common goal: to deliver superior customer service. . .*

Revenue per Employee



*In 1997, we increased productivity with fewer employees while at the same time meeting customers' expectations and ensuring a reasonable return to shareholders.*

Weather conditions, such as high winds and salt spray, are also common causes of unscheduled outages. Although these elements cannot be prevented, higher level construction standards combined with preventative maintenance efforts assist in lowering weather related disturbances on our transmission and distribution systems.

In 1997, we increased the use of infra-red thermoscan technology to detect trouble areas and take preventative measures to eliminate potential problems which cause outages.

Over \$13 million has been allocated for the construction of a hydroelectric plant at Rose Blanche Brook. This plant will be the first generating facility constructed by our Company in 14 years. The 6.1 Megawatt (MW) plant will improve the reliability of supply for customers in southwestern Newfoundland while providing a cost-effective source of new generation. Approximately 70 jobs will be created throughout the plant's construction process.

A focus on improving power quality continued in 1997. To meet the changing needs of consumers, an emphasis has been placed on preventing disturbances to highly sensitive electronic equipment, such as computers. Through the use of power monitoring equipment, we are able to detect and analyze potential power quality problems before they affect our customers.

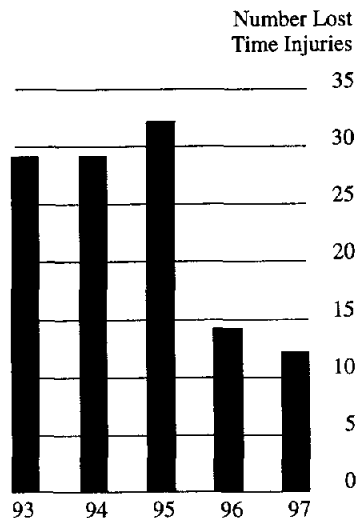
### **Productivity**

Working aggressively over the past year, we have succeeded in doing more with less. In 1997, we increased productivity with fewer employees while at the same time meeting customers' expectations and ensuring a reasonable return to shareholders.

Energy sales per employee increased in 1997 to approximately 6.3 million kilowatt hours (kWh) per employee compared to 5.5 million kWh per employee in 1996. In addition, revenue per employee increased from \$425,355 in 1996 to \$487,485, an increase of 14.2 per cent. Since 1992, revenue per employee has increased by 40.2 per cent.

Productivity was further enhanced in 1997 through efforts to reduce redundancies. Our Company partnered with NewTel Communications Ltd. to contract the same supplier for both the purchase and installation of poles. In addition, our Company established a centralized distribution transformer repair facility in Whitbourne to promote more efficient use of resources for the St. John's and Avalon regions.

## Lost Time Injuries



*Newfoundland Power will not compromise employee and public safety. We will continue to be relentless in our safety practices and initiatives.*

Outsourcing opportunities to increase cost savings were also explored in 1997. Our vehicle fleet is now managed by an outside supplier which provides fuel and maintenance services, analysis of vehicle expenditures and processing of fleet invoices. This arrangement is expected to result in cost savings for our Company through more effective vehicle maintenance and reduced administration costs.

## Safety

Newfoundland Power will not compromise employee and public safety. We will continue to be relentless in our safety practices and initiatives.

To achieve our goal of continual improvement in safety performance, our Company implemented several programs in 1997, including the Fall Protection System and the Fire Resistant Clothing Program. These programs are designed to protect front line personnel from the daily hazards of fall and burn injuries.

Our Company developed Contractor Health and Safety Management Procedures in 1997 to ensure the health and safety of contractors. Safety violations by contractors can now result in financial penalties, contract termination or possible removal from Newfoundland Power's tendering list.

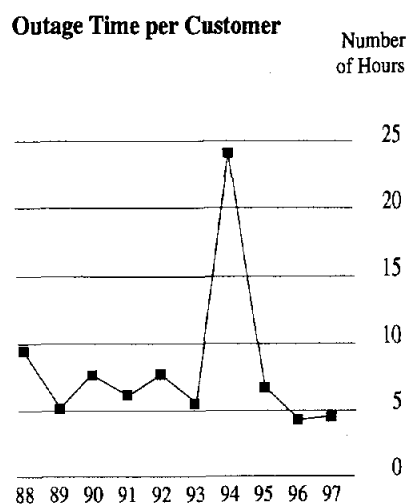
During 1997, the *Safety Leadership Recognition* awards were added to Newfoundland Power's Safety Management System to recognize safety in the workplace.

Our attention to safety was recognized in 1997 with employees from Grand Falls-Windsor, Burin, Whitbourne, St. John's and Corner Brook achieving one and two year milestones for time worked without a lost time injury.

Over the past 15 years, our Company has delivered electrical safety training to fire departments and safety demonstrations to children across Newfoundland. An increased focus on community and youth-related safety programs will be pursued in 1998.

## Employee Development

Our employees' commitment and desire to succeed are reflective of the tradition and pride of service on which our Company was built.



The 1994 outage time reflects a major December sleet storm.

During 1997, opportunities for employees to develop their skills, enhance personal development and improve job satisfaction increased by 30 per cent from the previous year.

Employee training and development is essential to meeting the business goals of our Company. In 1997, a mentoring program was introduced to provide employees with a greater broad base knowledge of the business, and to assist in career development and advancement. To ensure the success of our mentoring program, we will work to integrate the program into an overall career development strategy including academic development, job assignment and rotation, on-the-job coaching, formal training and promotions. To date, 87 employees have been partnered in mentoring relationships.

Approximately 20 job rotations took place throughout 1997 allowing employees to expand their knowledge and skills base. Job rotations are beneficial in increasing the efficiency of our organization by developing a flexible workforce possessing diverse skills and the ability to respond quickly to change.

Our Company continues to explore new methods of employee skills development. In March 1998, two Newfoundland Power engineers will travel to Zimbabwe to deliver a training presentation on Distribution Systems Planning to members of the Zimbabwe Electrical System Authority. Projects such as this provide opportunities for technical staff to increase their writing and presentation skills while at the same time interacting with a foreign utility.

In 1998, another engineer will have the opportunity to gain experience with a Canadian engineering firm in the design, development and implementation of a SCADA System.

In 1997, several cross-training programs were offered to our employees. Thirty-five non-technical employees participated in an Electric Utility System Operation course to increase their technical knowledge, and 36 technical employees improved their writing skills through an effective writing course.

Approximately 200 employees participated in the Company sponsored Computer Purchase Program in 1997. This program promotes the purchase of computers and software for home use in an effort to increase technical efficiency in the workplace. Our Company supported employee participation in this program by offering technology training to 318 employees and their family members in 1997. This program will continue in 1998 with an additional 180 employees scheduled to participate.

The Company places a high emphasis on investing in technology that increases efficiency and enhances customer service. As a result, computer and information technology training will continue to be a priority.

### **Community Involvement**

Newfoundland Power is dedicated to serving the people of Newfoundland. This dedication reaches beyond supplying power to contributing to the betterment of our communities. Through the allocation of financial resources and support of employee volunteerism, we are committed to improving the quality of life for the people of our province.

We are proud of the spirit of community giving that our employees demonstrated throughout 1997. For example, in August our Company and employees played an active role in building a home for a St. John's family through the *Habitat for Humanity — Ed Schreyer Work Project '97*. In addition, Newfoundland Power employees were presented with the *1997 Corporate Community Investment Award* for their participation in the Meals on Wheels program.

In the coming years, we will continue to encourage employee volunteerism and support active partnerships with the communities in which we live and operate. Some of the organizations our employees and Company have contributed to over the past year are listed on page 31 of this report.

Beginning in 1998, we will partner with the Newfoundland & Labrador Division of the Canadian Cancer Society in the fight against cancer. Newfoundland Power will directly support the Society's work in the areas of patient services, public education and cancer research through corporate and customer donations.

### **Environment**

Newfoundland Power continually strives to improve its environmental performance.

In 1997, more than 200 employees, their families and community members launched the Newfoundland Power Environmental Commitment Plan by cleaning-up the roadsides of Newfoundland. In 1998, employees will partner with schools and community groups to raise environmental awareness.

*In 1997, more than 200 employees, their families and community members launched the Newfoundland Power Environmental Commitment Plan.*

Newfoundland Power was once again recognized by St. John's Clean and Beautiful in 1997 for our long-standing contribution to their organization's efforts.

We commenced working towards achieving the standards of the ISO 14001 environmental management system over the past year. In early 1997, a five-year program designed to proactively identify and replace distribution transformers at risk for spills was implemented. Detection and removal of materials such as halon and asbestos from Company sites took place in 1997 and will continue throughout 1998. In addition, an aggressive environmental audit schedule has been established for the coming year.

### **Regulation**

Despite the growing trend towards deregulation and a move to price-cap regulation in the electrical industry, Newfoundland Power continues to be subject to traditional rate of return regulation. Newfoundland Power is accountable to the Board of Commissioners of Public Utilities of Newfoundland (PUB) which has jurisdiction over rates, capital expenditures and the issue of securities, among other things.

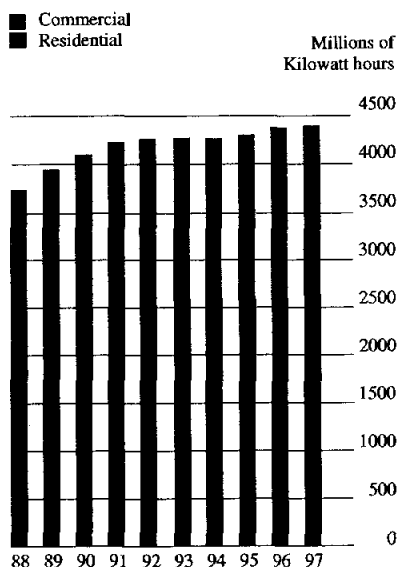
In 1996, the PUB stated a case requesting the opinion of the Newfoundland Court of Appeal on a number of matters relating to the PUB's regulatory jurisdiction over the Company. The principal issues raised apply to the scope of the PUB's ability to define excess revenue and to disallow expenses on a retroactive basis. Arguments on the stated case by the PUB, the Company and the government-appointed Consumer Advocate were heard by the Court in March 1997. The Court's opinion has not yet been given.

In 1996, the PUB began preparation of a strategic plan to guide its future direction. Input supplied by Newfoundland Power in 1997 focused on improving overall customer value through more efficient regulation.

Newfoundland Power will continue to monitor regulatory evolution in other areas and prepare for possible changes in Newfoundland. We believe our pursuit of exemplary customer service and overall operational efficiency will serve us well in preparing for any changes the future may bring.

# Management Discussion & Analysis

## Energy Sales



## Financial Results

Sales of electricity are directly affected by economic growth and other changes in the provincial economy. While there are positive indications for the future, the economic performance of the province during 1997 was weak. Energy sales totaled 4,438 GWh compared to 4,425 GWh in 1996. This represents a 0.3 per cent increase.

During 1997, residential energy sales increased by 34.7 GWh, or 1.3 per cent as a result of adding 1,793 customers.

Commercial energy sales declined 19.2 GWh, or 1.1 per cent due to the completion of construction at Hibernia's Bull Arm site and the closure of a significant mining customer on the Baie Verte Peninsula. Together, these two factors accounted for a 59.8 GWh reduction in commercial sales. Sales to a number of other large customers, including those in the fishing industry, increased by 40.6 GWh over 1996 levels.

Revenue from energy sales was \$340.7 million in 1997 compared to \$337.9 million in 1996, an increase of 0.8 per cent. This increase is due to higher rates in effect during the first quarter of the year and growth in the percentage of total energy sales to residential customers.

Operating expenses, including the cost of purchased power, were \$248.3 million in 1997 compared to \$246.8 million in 1996. The cost of purchased power declined by \$1.4 million in 1997. This decline reflects a \$1.1 million credit from Newfoundland & Labrador Hydro (Hydro) which passed on expected savings from the implementation of the Harmonized Sales Tax (HST).

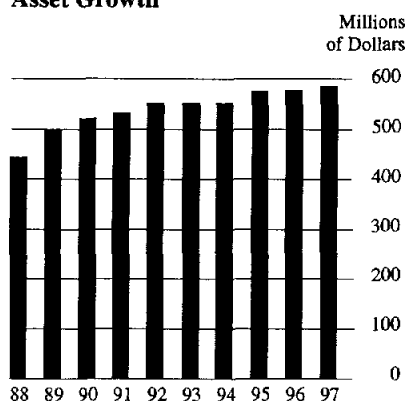
A \$2.8 million increase in other operating expenses in 1997 is primarily the result of retirement allowances paid to employees who participated in early retirement programs during the year, and the transition to a new basis of capitalizing general overhead expenses. This accounting transition began in 1995 and will end in 1999.

Finance charges were \$0.9 million higher in 1997 compared to 1996 as a result of increased debt levels resulting from a \$40 million bond issue in May 1996.

Earnings applicable to common shares declined slightly to \$24.9 million in 1997 from \$25.1 million in 1996.



## Asset Growth



## Income Taxes

In July 1995, Revenue Canada issued *Notices of Reassessment* to Newfoundland Power for the years 1988 to 1993. These notices disallowed certain amounts capitalized by the Company for regulatory and accounting purposes but claimed as operating expenses for tax purposes. In addition, Revenue Canada also included in income the value of electricity consumed in December but not billed until January.

The Company filed *Notices of Objection* with the Minister of National Revenue in October 1995 and paid approximately \$15.6 million which represents one-half of the amount of taxes in dispute. The Company believes it has solid arguments supporting its position; however, should the Company be unsuccessful in defending its position, a liability of approximately \$36.4 million, including interest to December 31, 1997, would arise. This would be offset by approximately \$16.6 million related to recording electricity revenue on the accrual basis. An application by the Company to the PUB to have the amount considered in the rate making process will be made should this occur.

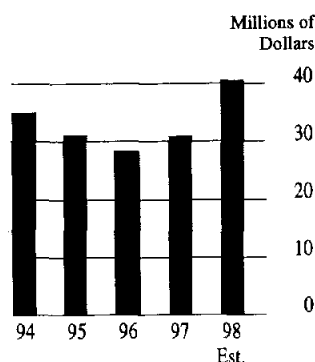
The Company continued to record deferred income taxes in accordance with PUB orders in 1997; however, the method used will begin to have a negative impact in 1998. The Company's effective income tax rate is expected to increase beginning in 1998 due to past accounting treatment for deferred taxes. The 1998 effective tax rate is expected to increase to approximately 45 per cent compared to 41 per cent in 1997. This increase will further emphasize the need for the Company to reduce expenses in order to maintain earnings.

## Rates

During 1996, the Company applied to the PUB for an increase in rates and was awarded an average rate increase of just under one per cent effective January 1, 1997. This increase was offset by a one per cent reduction in rates on April 1, 1997 as HST savings experienced by the Company were passed on to customers.

On July 1, 1997, rates increased by 1.2 per cent as a result of the operation of the Rate Stabilization accounts maintained by Hydro and the Company.

### Capital Expenditures



### Capital Resources and Liquidity

Net capital expenditures were \$30.9 million in 1997 compared to \$28.2 million in 1996. The Company's capital program in 1998 is budgeted at \$40.6 million and will focus on improving customer service and electrical system reliability.

The increase in the capital budget over that of previous years is the result of the construction of a 6.1 MW hydroelectric generating plant at Rose Blanche Brook on the southwest coast of Newfoundland.

The 1998 capital program will be financed using internally generated funds.

On June 1, 1997, the Company paid a \$5 million special dividend on its common shares. Special dividends are used to maintain the common equity component of the Company's capital structure within regulated limits. The PUB has ruled that the regulated return on average common equity be calculated based on a maximum common equity ratio of 45 per cent. In 1997, the Company achieved a 45.2 per cent average common equity ratio, down from the 1996 level of 46.5 per cent.

### Year 2000 Issues

The principal risks faced by the Company in respect of Year 2000 are associated with its major computer applications, particularly those used in delivery of customer service. In 1997, all major Company applications were assessed and potential problems identified. Necessary corrective measures in respect of these major applications are scheduled to be completed and tested by June 1999.

In 1998, the Company shall assess the remaining risks associated with Year 2000, including those risks involving third parties. These risks will be prioritized and associated action plans developed in 1998 to permit corrective measures and testing in 1999.

The remediation of Year 2000 risks associated with major system applications are included in planned Company technology improvements. Costs associated with Year 2000 corrective measures for these major applications are not segregated.

There was no special accounting treatment for costs associated with corrective action arising out of Year 2000 issues in 1997.

## **Risk Analysis**

The principal long term risk facing the Company is the recovery of current and past expenses incurred in the delivery of electrical services. This risk is affected by a number of factors including general economic conditions in the Company's service territory, potential changes in regulation and the regulatory system, and competition in the energy marketplace.

The Newfoundland economy experienced minimal growth in 1997. In contrast, 1998 and future years look more promising. The Newfoundland economy is expected to exhibit strong growth, with the goods-producing sector leading the way. The expected growth in the goods-producing sector will be driven primarily by the mining and offshore oil industries, based on oil production at Hibernia and the development of the Voisey's Bay nickel deposit and the Terra Nova oilfield.

The fishing industry is expected to grow as the result of a limited commercial cod fishery on the south coast and higher quotas for crab and shrimp. While the goods-producing sector is expected to exhibit strong growth, the impact on Company sales is expected to be minimal.

The energy industry in North America is undergoing significant change. Deregulation continues to be driven by a number of market forces – the most significant of which is customer demand. Reciprocal market rules being imposed by the Federal Energy Regulatory Commission in the United States are also contributing to the demand for deregulation and competition.

While Newfoundland Power is not able to predict what changes may occur regarding deregulation and competition, the Company is committed to remaining an active participant in the Newfoundland electrical marketplace.

## Management Report

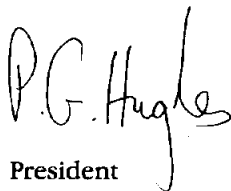
The accompanying financial statements of Newfoundland Light & Power Co. Limited and all information in the annual report, are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts that are based on management's best estimates and judgments.

The financial statements have been prepared by management with accounting principles generally accepted in Canada. Financial information contained elsewhere in the annual report is consistent with that in the financial statements.

Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of financial information and that the assets of the Company are properly safeguarded. The effectiveness of these internal controls is evaluated on an ongoing basis by the external and internal auditors.

The Audit Committee reviews the annual financial statements and recommends their approval to the Board of Directors. The Committee meets with the internal and external auditors, with and without management present, to discuss the results of the audits, the adequacy of the internal accounting controls and financial reporting matters.

The financial statements have been audited by Deloitte & Touche, Chartered Accountants, and their report follows.



President  
& Chief Executive Officer



Vice President, Finance  
& Chief Financial Officer

## Auditors' Report

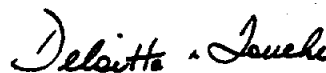
To the Shareholders,  
Newfoundland Light & Power Co. Limited

We have audited the balance sheets of Newfoundland Light & Power Co. Limited as at December 31, 1997 and 1996 and the statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

St. John's, Newfoundland  
January 16, 1998



Chartered Accountants

**Newfoundland Light & Power Co. Limited**  
*(Incorporated under the laws of the Province of Newfoundland)*  
**BALANCE SHEET AS AT DECEMBER 31, 1997**

	<u>1997</u>	<u>1996</u>
	<i>(in thousands)</i>	
<b>ASSETS</b>		
Fixed Assets (Note 1)		
Property, plant and equipment	\$ 841,775	\$ 819,522
Less: accumulated depreciation	<u>349,934</u>	<u>329,970</u>
	<u>491,841</u>	<u>489,552</u>
Current Assets		
Accounts receivable	36,893	33,906
Materials and supplies at average cost	3,691	4,293
Rate stabilization account	<u>3,874</u>	<u>3,893</u>
	<u>44,458</u>	<u>42,092</u>
Corporate Income Tax Deposit (Note 11)	<u>15,595</u>	<u>15,595</u>
Deferred Charges (Note 2)	<u>29,633</u>	<u>26,299</u>
	<u>\$ 581,527</u>	<u>\$ 573,538</u>

**SHAREHOLDERS' EQUITY AND LIABILITIES**

Shareholders' Equity		
Common shares (Note 3)	\$ 70,321	\$ 70,321
Retained earnings	157,191	155,836
Common shareholder's equity	<u>227,512</u>	<u>226,157</u>
Preference shares (Note 3)	9,890	9,890
	<u>237,402</u>	<u>236,047</u>
Long Term Debt (Note 4)	<u>236,258</u>	<u>238,773</u>
Current Liabilities		
Short term borrowings	30,590	19,878
Accounts payable and accrued charges	57,594	56,877
Current instalments of long term debt	<u>2,550</u>	<u>2,550</u>
	<u>90,734</u>	<u>79,305</u>
Deferred Credits (Note 5)	<u>17,133</u>	<u>19,413</u>
	<u>\$ 581,527</u>	<u>\$ 573,538</u>

APPROVED ON BEHALF OF THE BOARD:



Director



Director

*See accompanying notes to financial statements.*

**Newfoundland Light & Power Co. Limited**  
**STATEMENT OF RETAINED EARNINGS**  
**FOR THE YEAR ENDED DECEMBER 31, 1997**

	<u>1997</u>	<u>1996</u>
	<i>(in thousands)</i>	
Balance at beginning of the year	\$ 155,836	\$ 164,458
Net income for the year	<u>25,557</u>	<u>25,770</u>
	181,393	190,228
Dividends		
Preference shares	626	626
Common shares - regular	18,576	18,266
- special	<u>5,000</u>	<u>15,500</u>
	24,202	34,392
Balance at end of the year	<u>\$ 157,191</u>	<u>\$ 155,836</u>

**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 1997**

	<u>1997</u>	<u>1996</u>
	<i>(in thousands)</i>	
Revenue	\$ 343,677	\$ 341,560
Purchased power	<u>190,711</u>	<u>192,114</u>
	152,966	149,446
Other expenses		
Operating expenses (Note 6)	57,555	54,735
Depreciation	26,800	26,314
Finance charges (Note 7)	<u>24,949</u>	<u>24,010</u>
	109,304	105,059
Income before income taxes	43,662	44,387
Income taxes (Note 8)	<u>18,105</u>	<u>18,617</u>
Net income for the year	25,557	25,770
Dividends on preference shares	626	626
Earnings applicable to common shares	<u>\$ 24,931</u>	<u>\$ 25,144</u>

*See accompanying notes to financial statements.*

**Newfoundland Light & Power Co. Limited**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 1997**

	<u>1997</u>	<u>1996</u>
	<i>(in thousands)</i>	
Cash from operations		
Net income for the year	\$ 25,557	\$ 25,770
Items not requiring (generating) cash		
Depreciation	26,800	26,314
Deferred income taxes	(1,589)	(1,385)
Weather normalization account	(1,001)	(1,571)
Amortization of deferred charges	688	795
Change in non-cash working capital	(1,649)	10,132
	<u>48,806</u>	<u>60,055</u>
Cash from (used in) external financing		
Net proceeds from long term debt	-	39,486
Repayment of long term debt	(2,515)	(2,150)
	<u>(2,515)</u>	<u>37,336</u>
Cash from (used in) investing		
Capital expenditures (net)	(30,907)	(28,203)
Contributions in aid of construction	2,128	1,448
Increase in deferred charges	(4,022)	(12,252)
	<u>(32,801)</u>	<u>(39,007)</u>
Dividends		
Preference shares	(626)	(626)
Common shares - regular	(18,576)	(18,266)
- special	(5,000)	(15,500)
	<u>(24,202)</u>	<u>(34,392)</u>
(Increase) decrease in short term borrowings	(10,712)	23,992
Short term borrowings, beginning of the year	(19,878)	(43,870)
Short term borrowings, end of the year	\$ <u>(30,590)</u>	\$ <u>(19,878)</u>

*See accompanying notes to financial statements.*

**Newfoundland Light & Power Co. Limited**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 1997**

**SUMMARY OF ACCOUNTING POLICIES**

**General**

Accounting policies conform to generally accepted accounting principles and to accounting requirements established from time to time by the Board of Commissioners of Public Utilities of Newfoundland (PUB).

**Revenue**

The Company's revenue is derived primarily from the sale of electricity in Newfoundland and is recognized as bills are rendered to customers. Other revenues are recognized as earned.

**Fixed Assets**

Property, plant and equipment is stated at values approved by the PUB as at June 30, 1966 with subsequent additions at cost. The cost of plant and equipment retired, less net salvage, is charged to accumulated depreciation.

**Depreciation**

Depreciation is provided in the accounts on the straight line method based on estimated service life of plant and equipment, as approved by the PUB. The composite rate is 3.7% (1996 - 3.7%) before reduction for the amortization of contributions in aid of construction, contributions from government and accrued depreciation reserve adjustments. Accrued depreciation reserve adjustments are being amortized over five years, as approved by the PUB.

**Pension Costs**

Pension costs are actuarially determined using the projected benefit method prorated on service and management's best estimate assumptions. Adjustments arising from plan amendments, experience gains and losses, changes in actuarial assumptions and the difference between the actuarial present value of accrued pension obligations and the market value of pension plan assets are amortized on a straight line basis over the expected average remaining service life of the employee group, except for pension liabilities created by early retirement offerings. The pension liabilities created by these offerings are being amortized on a straight line basis over ten years.

The cumulative difference between pension fund contributions and pension costs recorded in the Company's accounts is recorded as deferred pension costs.



## **Interest Charged to Construction**

On certain construction projects interest at varying rates as set out by the PUB is capitalized and included as a cost in the appropriate property accounts.

## **Deferred Charges**

Deferred charges are amortized as follows:

Debt discount and expense - over the life of each issue, except for realized exchange losses which are amortized over five years ending 1997.

Capital stock issue expense - over a 20 year period from date of issue.

Demand side management programs - on a straight line basis over five years.

## **Rate Stabilization Account**

The Company's rate schedule includes a rate stabilization clause which permits the Company to recover charges in the Rate Stabilization Account (the "Account") from customers. The rate is recalculated on July 1 of each year to reflect changes in the Account from year to year and any changes in the rates charged to the Company by Newfoundland and Labrador Hydro as the result of the operation of its Rate Stabilization Plan.

## **Customer and Government Contributions**

Contributions represent the cost of property, plant and equipment contributed by customers and governments. These accounts are being reduced by an amount equal to the annual charge for depreciation provided on the related assets. Certain contributions by the Province of Newfoundland carry conditional options allowing the Province to reacquire the plant contributed.

## **Deferred Income Taxes**

The PUB specifies the method of accounting for income taxes. Commencing January 1, 1981, the PUB allowed the tax allocation method with respect to the timing difference between depreciation and capital cost allowances for all depreciable assets. If the full tax allocation method of accounting had always been followed, the cumulative amount of the deferred income tax credit would have been increased by approximately \$86.7 million at December 31, 1997 (1996 - \$85.3 million).

## **Weather Normalization Account**

The PUB has ordered provision of a weather normalization account to adjust for the effect of variations in weather and streamflow when measured against long term averages. The balance in the weather normalization account as at December 31, 1997 is subject to PUB approval.

## 1. Fixed Assets

	December 31, 1997					December 31, 1996
	(in thousands)					
	Cost	Accumulated Depreciation	Construction In Progress	Net Book Value	Composite Depreciation Rate	Net Book Value
Distribution	\$ 473,842	\$ 185,630	\$ 329	\$ 288,541	3.6%	\$ 290,596
Transmission and substations	162,864	70,837	170	92,197	3.0%	91,194
Generation	87,021	42,378	1,523	46,166	2.1%	44,422
Land, buildings and equipment	77,213	27,861	814	50,166	5.1%	48,019
Transportation and communication	37,408	23,228	591	14,771	9.3%	15,321
	<u>\$ 838,348</u>	<u>\$ 349,934</u>	<u>\$ 3,427</u>	<u>\$ 491,841</u>	<u>3.7%</u>	<u>\$ 489,552</u>

## 2. Deferred Charges

	1997	1996
	(in thousands)	
Deferred pension costs	\$ 26,056	\$ 21,745
Unamortized debt discount and expense	2,514	3,090
Unamortized capital stock issue expense	827	937
Demand side management programs	236	527
	<u>\$ 29,633</u>	<u>\$ 26,299</u>

## 3. Capital Stock

### Authorized

- (a) an unlimited number of Class A and Class B Common Shares without nominal or par value. The shares of each class are inter-convertible on a share for share basis and rank equally in all respects including dividends. The Board of Directors may provide for the payment, in whole or in part, of any dividends to Class B shareholders by way of a stock dividend;
- (b) an unlimited number of First Preference Shares without nominal or par value except that Series A, B, D and G First Preference Shares have a par value of \$10 each;
- (c) an unlimited number of Second Preference Shares without nominal or par value.

### 3. Capital Stock (continued)

Issued and outstanding

		<u>1997</u>	<u>1996</u>
		<i>(in thousands)</i>	
Common shares			
<u>10,320,270</u>	Class A common shares	<u>\$ 70,321</u>	<u>\$ 70,321</u>
First preference shares			
179,225	5 1/2% Series A	\$ 1,792	\$ 1,792
337,983	5 1/4% Series B	3,380	3,380
229,765	7 1/4% Series D	2,298	2,298
<u>241,950</u>	7.60% Series G	<u>2,420</u>	<u>2,420</u>
988,923	Preference shares	\$ 9,890	\$ 9,890

Series A, B, D and G first preference shares are cumulative redeemable voting shares. Each series of first preference shares is redeemable at the option of the Company at a premium not in excess of the annual dividend rate. Series D and G first preference shares are subject to the operation of purchase funds and the Company has the right to purchase limited amounts of Series D and G at or below par.

### 4. Long Term Debt

	<u>1997</u>	<u>1996</u>
	<i>(in thousands)</i>	
First mortgage sinking fund bonds		
11.500% Series AB, due 2005	\$ 13,950	\$ 14,100
11.875% Series AC, due 2007	35,470	35,870
10.550% Series AD, due 2014	35,353	35,753
10.900% Series AE, due 2016	37,600	38,000
10.125% Series AF, due 2022	38,000	38,400
9.000% Series AG, due 2020	38,800	39,200
8.900% Series AH, due 2026	39,635	40,000
	<u>238,808</u>	<u>241,323</u>
Less: current instalments	2,550	2,550
	<u>\$ 236,258</u>	<u>\$ 238,773</u>

The first mortgage bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company and by a floating charge on all other assets.

Annual payments of \$2,550,000 are required to meet sinking fund payments and instalments of long term debt in each of the next five years.

The estimated fair value of the Company's first mortgage bonds was \$339.5 million at December 31, 1997 (1996 - \$315.0 million). Fair value was estimated using present value techniques based on borrowing rates at year end for debt with similar terms and maturities. The fair value estimate does not include exchange or settlement costs as the Company does not intend to retire the debt prior to maturity.

## 5. Deferred Credits

	<u>1997</u>	<u>1996</u>
	<i>(in thousands)</i>	
Contributions in aid of construction	\$ 17,073	\$ 15,772
Contributions from government	3,687	4,678
Deferred income taxes	79	1,668
Weather normalization account	(3,706)	(2,705)
	<u>\$ 17,133</u>	<u>\$ 19,413</u>

## 6. Operating Expenses

Operating expenses include \$3.7 million of retiring allowances paid to employees who participated in early retirement programs in 1997.

## 7. Finance Charges

	<u>1997</u>	<u>1996</u>
	<i>(in thousands)</i>	
Interest - long term debt	\$ 25,107	\$ 24,123
- short term debt	722	1,029
Amortization - debt discount and expense	179	229
- capital stock issue expense	109	130
Interest earned	(928)	(1,245)
Interest charged to construction	(240)	(256)
	<u>\$ 24,949</u>	<u>\$ 24,010</u>

## 8. Income Tax Rate

Taxes on income vary from the amount that would be determined by applying the combined statutory Canadian federal and Newfoundland provincial income tax rates to earnings. The following is a reconciliation of the combined statutory rates to the effective income tax rate.

	<u>1997</u>	<u>1996</u>
	<i>(in %)</i>	
Statutory income tax rate	43.1	43.1
Large corporations tax	1.7	1.7
General expenses capital	(2.6)	(4.0)
Pension costs	(4.0)	(2.7)
Timing differences not recorded	3.3	3.8
Effective income tax rate	<u>41.5</u>	<u>41.9</u>

## 9. Pensions

The Company has a contributory defined benefit pension plan that provides pensions based on length of service and final average earnings.

The present value of the accrued pension benefits is \$119.3 million (1996 - \$109.4 million) and the value of the pension plan assets is \$115.7 million (1996 - \$103.1 million). The unfunded liability has not been provided for in the Company's accounts.

Pension costs charged to income and capital in 1997 were \$4.6 million (1996 - \$5.3 million).

## **10. Related Party Transactions**

The Company is a wholly-owned subsidiary of Fortis Inc. Charges incurred during the year by the Company on transactions with Fortis Inc. and affiliated companies, net of expense recoveries, was \$495,000 (1996 - \$912,000) including interest expense of \$63,000 (1996 - \$331,000). Terms of these transactions were the same as those with unrelated parties.

## **11. Contingent Liability**

In July 1995 Revenue Canada issued Notices of Reassessment to the Company for the years 1988 to 1993, disallowing certain amounts capitalized for regulatory and accounting purposes but claimed as an expense for tax purposes. The reassessments also included in income the value of electricity consumed in December but not billed until January. The Company's practice, which has always been consistent and in accordance with regulatory requirements, is to record revenue on a billed basis.

The Company believes it has reported its tax position appropriately. In October 1995 the Company filed Notices of Objection with the Minister of National Revenue. No provision has been made in the accounts for additional income taxes, if any, which may be determined to be payable. Should the Company be unsuccessful in defending its position a liability of approximately \$36.4 million including interest to December 31, 1997 would arise, offset by approximately \$16.6 million related to recording electricity revenue on the accrual basis. An application by the Company to the PUB to have the amount considered in the rate making process will be made should this occur.

In accordance with provisions of the Income Tax Act the Company has paid \$15,595,000, representing one-half of the amount in dispute, pending resolution of this matter.

## **12. Comparative Figures**

Certain comparative figures have been changed to conform with the current year's presentation.

# **Corporate Governance Report**

The Board acknowledges the importance of good corporate governance practices in the conduct of the Company's affairs. The following commentary summarizes the more significant principles, structures and processes which characterize the Company's approach to corporate governance.

## **Overall Board Responsibility**

The Board appreciates and, by its conduct, has consistently demonstrated an awareness of its responsibility for the stewardship of the Company.

## **Composition of the Board**

The Board considers a range of 10 to 12 members to be an appropriate size. In 1997, the Board consisted of 11 members.

The Board has examined the relationships which exist between each director and the Company and has concluded that a majority of the current directors (eight) are "unrelated directors" in that they are independent of management and are free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the directors' abilities to act with a view to the best interests of the Company. Three of the 11 directors are not "unrelated directors". They are Mr. Hughes, who is a member of management, Mr. Marshall who is President and Chief Executive Officer of Fortis Inc., and Mr. Lea who is President and Chief Executive Officer of Maritime Electric Company, Limited.

## **Independent Functioning of the Board**

The Board considers itself able to function independently.

As a result of changes undertaken in 1997, the positions of Chair of the Board and Chief Executive Officer ("CEO") of the Company are no longer combined.

## **New Directors' Orientation Programme**

Each new director takes part in an orientation session designed to provide a broad overview of the Company. As part of that process each new director is provided with comprehensive information including:

1. a brief history of the Company;
2. a five-year financial record of the performance of the Company;
3. a copy of the current business plan for the Company;

4. copies of Board and committee minutes for the last year; and
5. management's assessment of the most important opportunities and challenges currently facing the Company.

To ensure that directors remain current on important issues, Board meeting agendas provide for senior executives to review the operating results of the Company and for managers to make presentations on departmental activities, on a rotational basis.

### **Position Descriptions For The Board And CEO**

As indicated above, the positions of Chair of the Board and CEO of the Company are no longer combined. Position descriptions will be developed by the Nominating & Corporate Governance Committee in light of this change.

### **Strategic Planning And Risk Management**

There exists in the Company a strategic planning process led by management which culminates annually in management's presentation to the Board of a five-year business plan. The plan focuses on long term goals, identifies the principal opportunities and business risks confronting the Company in the pursuit of its goals and sets out the strategies and systems proposed to be employed to exploit the opportunities and manage the risks. The Board engages in an objective and detailed assessment of the plan and requests any changes or additions which the Board considers to be appropriate. After the plan has received Board approval, the Board monitors management's implementation of the plan.

### **Communications**

The Board endeavors to ensure that Company communications provide full, plain and true disclosure of all material matters related to the business as required by regulatory authorities.

### **Use Of Committees**

The Board annually appoints from amongst its non-management members a number of standing Committees. Each Committee has a written mandate which sets out in detail the activities or areas of the Company's business to which the Committee is required to devote its attention. With minor exceptions, decisions made by Committees are brought to the full Board for approval. All Committees are composed of a majority of "unrelated" directors.

Mr. Marshall serves on the Nominating & Corporate Governance and Human Resources Committees and Mr. Lea on the Pension and Environment Committees. The Board believes that it is in the interest of the Corporation to have Messrs. Marshall and Lea serve on these Committees because of the expertise that they bring.

In 1997, the Board reviewed and, where appropriate, revised the mandates of all Committees. Each of the revised mandates provides that the respective Committee review its mandate annually with a view to proposing necessary changes to the Board. Both the 1997 mandate review and future annual mandate reviews are supervised by the Nominating & Corporate Governance Committee with a view to ensuring continued effective operation of the Board as a whole.

### **Nominating And Corporate Governance Committee**

The Nominating and Corporate Governance Committee of the Board is responsible for, amongst other things:

1. proposing to the Board new nominees for election to the Board;
2. carrying out processes specified by the Board for assessing the effectiveness of the Board;
3. reviewing and making recommendations to the Board with respect to the adequacy and form of the compensation of directors; and
4. developing and recommending to the Board, the Company's approach to corporate governance issues.

The Board believes that the pre-eminent consideration in corporate governance is the effectiveness of the Board as a whole. The Board does recognize the value of assessment of its work collectively and of the contribution of individual members of the Board. The Board continues to evaluate potential means of conducting such assessments with a view to enhancing the Board's overall effectiveness.

### **Audit Committee**

The Audit Committee of the Board functions under a mandate which imposes on the Audit Committee responsibility for, amongst other things:

1. overseeing management reporting on internal controls; and
2. communicating regularly and directly with the external and internal auditors concerning matters of interest to the Audit Committee or the auditors.



In general, the Board relies on the Audit Committee to endeavour to ensure that the Company maintains the systems needed to manage the Company's business effectively and to generate reliably the information required by the Board to discharge its responsibilities.

### **Human Resources Committee**

The mandate of the Human Resources Committee includes, amongst other things, the Committee's responsibility to advise and assist the Board and the CEO with respect to succession planning, including the compensation, selection and training of senior executives.

### **Environment Committee**

The Environmental Committee is charged with the responsibility of monitoring the systems used to prevent damage to the environment and, at a minimum, ensure compliance with all regulations.

### **Pension Committee**

The Pension Committee oversees and makes recommendations to the Board upon Company pension arrangements.

### **Conclusion**

With the assistance of the Nominating and Corporate Governance Committee, members of the Board and management continue to assess the effectiveness of the Board and its committees. At this time, the Board and management are of the view that the principles, structures and processes summarized above combine to provide the Company with a high standard of corporate governance.

# TEN YEAR SUMMARY

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
<b>Income Statement Items (in \$000s)</b>										
Revenue	343,677	341,560	338,934	338,367	333,570	330,221	319,143	307,076	277,895	265,870
Operating expenses	248,266	246,849	245,946	239,707	236,307	237,345	230,423	222,610	202,512	193,380
Finance charges	24,949	24,010	22,739	22,972	22,494	21,628	21,485	20,357	17,646	17,870
Depreciation	26,800	26,314	28,896	28,141	26,921	25,878	24,555	24,046	20,955	19,046
Income taxes	18,105	18,617	13,120	19,745	18,666	15,708	14,881	13,828	12,336	13,342
Earnings applicable to common shares	24,931	25,144	27,638	27,090	27,702	27,731	25,483	23,775	21,897	19,548
<b>Balance Sheet Items (in \$000s)</b>										
Property, plant and equipment	841,775	819,522	800,507	776,792	746,132	718,712	685,004	649,288	587,647	536,591
Accumulated depreciation	349,934	329,970	311,089	287,392	262,912	241,001	220,104	200,503	180,532	163,671
Net fixed assets	491,841	489,552	489,418	489,400	483,220	477,711	464,900	448,785	407,115	372,920
Total assets	581,527	573,538	568,550	552,972	549,164	547,034	522,075	500,025	455,528	419,277
Long term debt	238,808	241,323	203,473	217,031	218,906	221,181	197,686	163,154	178,239	140,552
Preference shares	9,890	9,890	9,890	10,902	10,905	22,296	29,889	30,938	32,595	33,670
Common equity	227,512	226,157	234,779	225,098	226,054	212,904	199,082	187,814	162,143	152,518
Total capital	476,210	477,370	448,142	453,031	455,865	456,381	426,657	381,906	372,977	326,740
<b>Operating Statistics</b>										
<b>Sources of Energy (in millions of kWh)</b>										
Purchased	4,244	4,236	4,186	4,178	4,093	4,066	4,008	4,008	3,772	3,606
Generated	424	423	423	420	420	417	417	411	415	415
Total	4,668	4,659	4,609	4,598	4,513	4,483	4,425	4,419	4,187	4,021
Peak one-hour demand (MW)	1,065	1,081	1,123	1,031	1,098	1,027	1,101	1,074	1,106	969
<b>Sales (in millions of kWh)</b>										
Residential	2,669	2,635	2,600	2,594	2,540	2,509	2,462	2,404	2,254	2,124
Commercial and street lighting	1,769	1,790	1,782	1,777	1,746	1,735	1,734	1,770	1,706	1,649
Total	4,438	4,425	4,382	4,371	4,286	4,244	4,196	4,174	3,960	3,773
Energy sales per employee (in millions kWh)	6.3	5.5	5.3	5.4	5.3	4.5	4.4	4.2	4.1	4.1
<b>Customer Accounts (year-end)</b>										
Residential	181,168	179,375	177,431	175,797	172,942	170,418	167,217	164,019	160,537	156,907
Commercial and street lighting	31,191	30,786	30,349	29,919	29,304	28,874	28,513	28,346	28,038	27,148
Total	212,359	210,161	207,780	205,716	202,246	199,292	195,730	192,365	188,575	184,055
Revenue per employee	487,485	425,355	412,328	419,290	409,288	347,601	333,483	312,069	288,572	287,117
Number of regular employees	705	803	822	807	815	950	957	984	963	926

*Habitat for Humanity  
Janeway Children's Hospital  
Junior Achievement of  
Newfoundland & Labrador  
YMCA/YWCA  
Memorial University  
of Newfoundland  
Canadian Breast Cancer  
Research Foundation  
Cabot 500 Celebrations  
Conception Bay South  
Sports Hall of Fame  
Girl Guides of Canada  
Citizens Crime  
Prevention Association  
St. John Ambulance  
The VOCM Happy Tree  
Bonavista Historical Society  
Victorian Order of Nurses  
Art Gallery of Nfld. & Labrador*

*Newfoundland & Labrador  
Environmental Network  
South & Central Health Foundation  
Newfoundland Symphony Orchestra  
Scouts Canada  
Stephenville Theatre Festival  
Women's Association of Memorial  
University of Newfoundland  
Canadian Mental Health Association  
Tim Horton's Children's Camp  
Foodbank Network of Newfoundland  
Burin Peninsula Health  
Care Foundation  
Easter Seals  
Laubach Literacy of Canada  
The Arthritis Society  
The Canadian Red Cross Society  
Virginia River Conservation Society  
St. John's Jaycees  
Child Find Nfld. & Labrador*

## Partnering

## with Our Community

*Holy Trinity Elementary MusicFest  
Western Newfoundland Regional  
Science Fair  
Royal Canadian Legion  
The Children's Centre Association  
Canadian Crossroads International  
Canadian Liver Foundation  
Crimestoppers  
Community Services Council  
Duke of Edinburgh's Award  
Y Enterprise Centre  
Canada World Youth  
Nfld. & Labrador Special Olympics  
Western Memorial Regional  
Hospital Foundation  
Trees Canada Foundation  
Canadian Cancer Society  
St. John's Maple Leafs Foundation  
Newfoundland Library Association  
The War Amps  
Protected Areas Association  
Downtown Development Commission  
Canadian Wheelchair  
Sports Association  
Nfld. Association for the Deaf  
Multiple Sclerosis Society of Canada  
Canadian Society of Safety Engineering  
Oxfam Canada  
St. John's Rowing Club  
Kiwanis Music Festival Association*

*Canadian National Institute  
for the Blind  
St. John's Regatta  
The General Hospital  
Canadian Diabetes Association  
RCMP Veteran's Association  
Southern Shore Minor Hockey  
Placentia Historical Society  
Trans Canada Trail Association  
Froude Avenue Community Centre  
Nfld. Brain Injury Association  
Canadian Paraplegic Association  
Canadian Association of  
Burn Nurses  
Wabana Volunteer Fire Department  
Victoria Community Development  
Lifesaving Society  
Newfoundland Writers Guild  
Trinity Conception  
Health Foundation  
Church Lads Brigade  
Newfoundland & Labrador  
Sailing Association  
Clarenville Winter Carnival  
G.B. Cross Memorial Health Foundation  
Crohns & Colitis  
Foundation of Canada  
Clarenville Rotary Club  
Stephenville Lions Club  
Theatre Newfoundland & Labrador*

*Serving the people of  
Newfoundland means  
more than supplying  
power.*

*Helping one another has  
always been a part of our  
Newfoundland culture. Our  
directors and employees  
deeply value this tradition  
and are committed to  
working together to  
improve the quality of life  
for community members  
through financial and  
volunteer resources. Over  
the past year we have had  
the opportunity to  
contribute to hundreds of  
organizations across  
Newfoundland, some of  
which are listed on this  
page.*

# Corporate Directory

## Directors

**FRANK J. COLEMAN \*■**

President  
Coleman Group of Companies  
Corner Brook, NF

**DERRICK E. GILL ♦♦**

Executive Vice President  
Voisey's Bay Nickel Company Ltd.  
St. John's, NF

**DEREK F. HISCOCK \* +**

President  
Robinson-Blackmore  
Printing and Publishing  
St. John's, NF

**FRANK P. HOWARD ♦♦**

President  
Riverview Motors  
Grand Falls-Windsor, NF

**PHILIP G. HUGHES**

President & Chief Executive Officer  
Newfoundland Power  
St. John's, NF

**LINDA L. INKPEN ♦♦**

Medical Practitioner  
St. Phillips, NF

**JANET KELLY ■+**

President  
McGrath-Kelly Company Incorporated  
Portugal Cove, NF

**JAMES A. LEA ■+**

President & Chief Executive Officer  
Maritime Electric Company, Limited  
Charlottetown, PEI

**H. STANLEY MARSHALL ♦♦**

President & Chief Executive Officer  
Fortis Inc.  
St. John's, NF

**JOHN E. MOORE \* +**

President  
Westpine Property Ltd.  
Grand Falls-Windsor, NF

**HAROLD L. WAREHAM \*♦**

President & Chief Executive Officer  
Atlantis Corporation  
St. John's, NF

- \* Audit Committee
- Environment Committee
- Human Resources Committee
- ♦ Nominating and  
Corporate Governance Committee
- + Pension Committee

## Senior Management

**PETER S. ALTEEN**

Corporate Counsel & Secretary

**NORA M. DUKE**

Manager, Human Resources

**JOHN G. EVANS**

Vice President,  
Engineering & Energy Supply

**PHILIP G. HUGHES**

President & Chief Executive Officer

**EARL A. LUDLOW**

Vice President, Operations

**KARL W. SMITH**

Vice President,  
Finance & Chief Financial Officer

# Investor Information

## Head Office

55 Kenmount Road,  
P.O. Box 8910  
St. John's, Newfoundland,  
A1B 3P6  
Tel: (709) 737-5600  
Fax: (709) 737-2974

## Market Trading

Preference Shares Series A, B, and D  
are traded on the Montreal Exchange.

## Share Transfer Agent and Registrar

Montreal Trust Company,  
St. John's, Montreal, Toronto

P.O. Box 1900, Station B  
Montreal, Quebec  
H3B 3L6

## Annual Meeting - 1998

Main Boardroom  
Newfoundland Light & Power  
Co. Limited  
55 Kenmount Road,  
3rd. Floor  
St. John's, Newfoundland  
Thursday, April 16, 1998 at 8:00 a.m.

## Investor Information

Peter S. Alteen  
Corporate Counsel & Secretary  
P.O. Box 8910  
St. John's, Newfoundland  
A1B 3P6  
(709) 737-5859  
e-mail: palteen@nfpower.nf.ca

## Web Site

www.nfpower.nf.ca

*Shareholders requiring  
changes to share registrations  
should contact  
Montreal Trust Company.*

AFFIDAVIT

PROVINCE OF NEWFOUNDLAND

CITY OF ST. JOHN'S

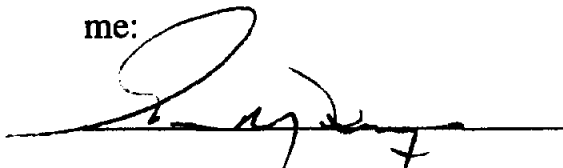
TO WIT:

I, Karl Smith of St. John's do swear that I am Vice President, Finance and Chief Financial Officer of Newfoundland Light & Power Co. Limited (the "Company") and have a personal knowledge of the system of books, accounts, papers and records of the Company; that the attached returns, 1 to 19 inclusive (return number 1 being the Company's annual report to shareholders, together with the report of the auditors) have been compiled under my direction from the system of books, accounts, papers and records of the Company; that I have carefully examined the financial statements contained in return number 1 and that they are in accord with the system of books, accounts, papers and records of the Company; and, that the allegations of fact made in return number 1 are true, to the best of my knowledge, information and belief.


SWORN to at St. John's this

31<sup>st</sup> day of March, 1998 before

me:



GERARD M. HAYES  
Barrister-Newfoundland

  
Karl Smith

<p align="center"><b>Newfoundland Light &amp; Power Co. Limited</b>  <b>Names and Addresses of Officers and Directors</b>  <b>as of December 31, 1997</b></p>
---

<b>Name</b>	<b>Address</b>	<b>Position Held</b>
<b>Peter Alteen</b>	17 Burton St. St. John's, NF A1E 5M1	Corporate Counsel and Secretary
<b>Frank J. Coleman</b>	25 Hamilton Place Corner Brook, NF A2H 7C1	Director
<b>John G. Evans</b>	36 Baker Street St. John's, NF A1A 5C3	Vice President, Engineering and Energy Supply
<b>Derrick E. Gill</b>	98 Waterford Bridge Road St. John's, NF A1E 1C8	Director
<b>Derek F. Hiscock</b>	31 Baker Street St. John's, NF A1A 5C3	Director
<b>Frank P. Howard</b>	7 Hill Road Grand Falls - Windsor, NF A2A 1G9	Director
<b>Phillip G. Hughes</b>	94 Waterford Bridge Road St. John's, NF A1E 1C6	President and Chief Executive Officer
<b>Linda L. Inkpen</b>	P. O. Box 432 R. R. #1 St. Phillips, NF A1L 1C1	Chair of the Board

<p><b>Newfoundland Light &amp; Power Co. Limited</b> <b>Names and Addresses of Officers and Directors</b> <b>as of December 31, 1997</b></p>
--

<u>Name</u>	<u>Address</u>	<u>Position Held</u>
<b>Janet Kelly</b>	Box 6, R. R. #1 Portugal Cove, NF A0A 3K0	Director
<b>James A. Lea</b>	84 Greenfield Avenue Charlottetown, P.E.I. C1A 3N8	Director
<b>Earl A. Ludlow</b>	33 Ortega Drive P.O. Box 481 Paradise, NF A1L 1C8	Vice President, Operations
<b>H. Stanley Marshall</b>	19 Conway Crescent St. John's, NF A1A 2A8	Director
<b>John E. Moore</b>	23 Dunn Place Grand Falls - Windsor, NF A2A 2M2	Director
<b>Karl W. Smith</b>	45 Hyde Park Drive St. John's, NF A1A 5G3	Vice President, Finance and Chief Financial Officer
<b>Harold L. Wareham</b>	156 Portugal Cove Road Apt. 605 St. John's, NF A1B 4H9	Director

<b>Newfoundland Light &amp; Power Co. Limited</b> <b>Computation of Rate Base</b> <b>For The Year Ended December 31, 1997</b> <b>(000's)</b>		
	<u>1997</u>	<u>1996</u>
Plant Investment - Return 4	<u>\$ 838,348</u>	<u>\$ 816,257</u>
<u>Deduct:</u>		
Accumulated Depreciation - Return 5	349,934	329,970
Contributions in Aid of Construction - Return 9	20,760	20,450
Deferred Income Taxes - Return 6	79	1,668
Weather Normalization Reserve - Return 14	(3,706)	(2,705)
	<u>367,067</u>	<u>349,383</u>
	<u>471,281</u>	<u>466,874</u>
<u>Add:</u>		
Contributions - Country Homes	223	267
	<u>471,504</u>	<u>467,141</u>
Average	469,323	465,097
Cash Working Capital Allowance - Return 7	4,545	4,527
Materials and Supplies - Return 7A	3,551	3,498
	<u>\$ 477,419</u>	<u>\$ 473,122</u>
Average Rate Base at Year End - Return 10		



<b>Newfoundland Light &amp; Power Co. Limited</b> <b>Plant Investment</b> <b>For The Year Ended December 31, 1997</b> <b>(000's)</b>					
	<b>Balance</b> <b>January 1,</b> <b>1997</b>	<b>Adjustments</b> <b>During</b> <b>1997</b>	<b>Additions</b> <b>During</b> <b>1997</b>	<b>Retirements</b> <b>During</b> <b>1997</b>	<b>Balance</b> <b>December 31,</b> <b>1997</b>
Power Generation:					
Steam	\$ 5,006	\$ -	\$ -	\$ (30)	\$ 5,036
Hydro	67,566	6	2,170	555	69,187
Diesel	4,043	(4)	16	27	4,028
Gas Turbine	8,606	-	147	(106)	8,859
	<u>85,221</u>	<u>2</u>	<u>2,333</u>	<u>446</u>	<u>87,110</u>
Substations	83,093	416	2,625	479	85,655
Transmission	68,534	(109)	2,921	192	71,154
Distribution	444,712	(22)	15,119	3,244	456,565
General Properties	39,351	97	1,866	502	40,812
Transportation	19,497	-	1,878	1,878	19,497
Communications	19,409	(250)	720	1,956	17,923
Computer Software	15,402	93	1,891	-	17,386
Computer Hardware	6,560	(7)	1,143	15	7,681
Government Contributions	23,873	(220)	5	-	23,658
PCB Disposal	849	-	-	-	849
	<u>806,501</u>	<u>-</u>	<u>30,501</u>	<u>8,712</u>	<u>828,290</u>
Total Depreciable Plant					
Non Depreciable Land	9,756	-	306	4	10,058
	<u>\$ 816,257</u>	<u>\$ -</u>	<u>\$ 30,807</u>	<u>\$ 8,716</u>	
Plant Investment - Returns 1 and 3					\$ 838,348
Work in Progress					<u>3,427</u>
Total Plant Investment					<u>\$ 841,775</u>

**Newfoundland Light & Power Co. Limited**  
**Capital Expenditure**  
**For The Year Ended December 31, 1997**  
**(000's)**

	<u>Approved By Board Order</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Energy Supply	\$ 3,726	\$ 3,225	\$ (501)
Substations	1,992	2,102	110
Transmission	2,008	1,855	(153)
Distribution	12,794	11,580	(1,214)
General Property	2,247	2,213	(34)
Transportation	2,286	1,639	(647)
Telecommunications	1,074	562	(512)
Computing Equipment	2,054	2,775	721
General Expenses Capital	5,023	5,014	(9)
	<u>\$ 33,204</u>	<u>\$ 30,965</u>	<u>\$ (2,239)</u>

**Newfoundland Light & Power Co. Limited**  
**Accumulated Depreciation**  
**For The Year Ended December 31, 1997**  
(000's)

(A) Balance - January 1, 1997	\$ 329,970
<u>Add:</u>	
Depreciation - Appropriated from Income	26,800
Amortization of Contributions - Government	887
Amortization of Contributions - Customers	931
Salvage	935
	29,553
<u>Deduct:</u>	
Cost of Removal (Net of Income Tax)	877
Retirements	8,712
	9,589
(B) Balance - December 31, 1997 - Return 3	\$ 349,934

(C) Depreciation Rates - 1997	Before True-up	After True-up
Steam	0.00%	0.00%
Hydro	2.02%	2.02%
Diesel	3.55%	0.76%
Gas Turbine	3.55%	-1.71%
Substations	2.75%	0.72%
Transmission	3.38%	5.05%
Distribution	3.62%	3.62%
General Properties	2.80%	3.60%
Transportation	10.84%	6.63%
Telecommunications	7.57%	7.57%
Computer Software	10.00%	7.40%
Computer Hardware	20.00%	20.00%
(D) Percentage of Accumulated Depreciation to Total Depreciable Plant :		42.25%
(E) Percentage of Current Depreciation, Including the Provision for True-up and Amortization of Contributions, to Total Depreciable Plant :		3.46%

<b>Newfoundland Light &amp; Power Co. Limited</b> <b>Accumulated Deferred Income Tax</b> <b>For The Year Ended December 31, 1997</b> <b>(000's)</b>		
Balance - January 1, 1997	\$	1,668
Increase for the Year - Timing Differences:		
CCA Claimed on all property, plant and equipment	\$ 20,160	
Depreciation expense on all property, plant and equipment (GEC excluded from post-1986 additions)	23,944	
	<u>(3,784)</u>	
Income Tax @ 42.0%		(1,589)
Balance - December 31, 1997 - Return 3	\$	<u>79</u>

**Newfoundland Light & Power Co. Limited**  
**Working Capital**  
**For The Year Ended December 31, 1997**  
**(000's)**

(A) Calculation of Cash Working Capital Allowance

Operating Expenses for the Year - Return 12	\$ 248,266
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Less: Non Regulated Expenses (Net of Income Tax)	627
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	247,639
--	---------

Add: Current Income Tax Expense - Return 18	19,694
---	--------

	\$ 267,333
--	------------

1997 Working Capital Allowance ( @ 1.7% ) - Return 3	\$ 4,545
--	----------

1996 Working Capital Allowance	\$ 4,527
--------------------------------	----------

(B) In general the Company's billing and collection procedures are consistent with the preceding year.

<b>Newfoundland Light &amp; Power Co. Limited</b> <b>Materials and Supplies</b> <b>For The Year Ended December 31, 1997</b> <b>(000's)</b>						
	1997			1996		
	<u>Balance Sheet</u>	<u>Expansion</u>	<u>Rate Base</u>	<u>Balance Sheet</u>	<u>Expansion</u>	<u>Rate Base</u>
Materials and Supplies - Jan.	\$ 4,408	\$ 807	\$ 3,601	\$ 4,156	\$ 761	\$ 3,395
Feb.	4,653	851	3,802	4,134	757	3,377
Mar.	4,550	833	3,717	4,261	780	3,481
Apr.	4,786	876	3,910	4,558	834	3,724
May	4,854	888	3,966	4,411	807	3,604
Jun.	4,586	839	3,747	4,216	772	3,444
Jul.	4,369	800	3,569	4,239	776	3,463
Aug.	4,234	775	3,459	4,228	774	3,454
Sep.	4,281	783	3,498	4,342	795	3,547
Oct.	3,946	722	3,224	4,370	800	3,570
Nov.	3,793	694	3,099	4,170	763	3,407
Dec.	3,691	675	3,016	4,293	786	3,507
			<u>\$42,608</u>			<u>\$41,973</u>
Materials and Supplies Monthly Average - Return 3			<u>\$ 3,551</u>			<u>\$ 3,498</u>

<b>Newfoundland Light &amp; Power Co. Limited</b> <b>Deferred Expenses</b> <b>For The Year Ended December 31, 1997</b> <b>(000's)</b>				
	<b>Balance</b> <b>January 1,</b> <b>1997</b>	<b>Additions</b> <b>During</b> <b>1997</b>	<b>Amortization</b> <b>During</b> <b>1997</b>	<b>Balance</b> <b>December 31,</b> <b>1997</b>
Debt Discount & Expenses	\$ 3,090	\$ 3	\$ 579	\$ 2,514
Capital Stock Issue Expense	937	-	110	827
Deferred Pension Costs	21,656	4,084	-	25,740
Demand Side Management Programs	527	-	291	236
Other Deferred Charges*	89	227	-	316
Deferred Expenses - Return 1	<u>\$ 26,299</u>	<u>\$ 4,314</u>	<u>\$ 980</u>	<u>\$ 29,633</u>

\* Other Deferred Charges includes deferred work orders.

**Newfoundland Light & Power Co. Limited**  
**Contributions In Aid Of Construction**  
**For The Year Ended December 31, 1997**  
**(000's)**

	<u>Customers</u>	<u>Government</u>	<u>Total</u>
(A) Gross Contributions - January 1, 1997	\$ 26,983	\$ 22,374	\$ 49,357
Less: Amortization to December 31, 1996	11,211	17,696	28,907
	<hr/>	<hr/>	<hr/>
Unamortized Contributions - January 1, 1997	15,772	4,678	20,450
Repayment of Contribution	-	(110)	(110)
Contributions Received During 1997	2,232	6	2,238
Less: Amortization - 1997	931	887	1,818
	<hr/>	<hr/>	<hr/>
	1,301	(991)	310
	<hr/>	<hr/>	<hr/>
(B) Balance: December 31, 1997 - Return 3	<u><u>\$ 17,073</u></u>	<u><u>\$ 3,687</u></u>	<u><u>\$ 20,760</u></u>



**Newfoundland Light & Power Co. Limited**  
**Amortization of Contributions In Aid Of Construction - Customers**  
**For The Year Ended December 31, 1997**  
**(000's)**

	<u>Gross Contributions</u>	<u>Amortized During 1997</u>	<u>Amortized To Date</u>	<u>Unamortized Contributions</u>
Prior 1965	\$ 797	\$ -	\$ 797	\$ -
1965	202	-	202	-
1966	348	-	348	-
1967	233	-	233	-
1968	223	-	223	-
1969	329	9	329	-
1970	234	8	229	5
1971	201	7	190	11
1972	150	5	137	13
1973	512	19	456	56
1974	537	19	465	72
1975	760	28	641	119
1976	430	16	347	83
1977	657	24	507	150
1978	431	16	318	113
1979	536	19	408	128
1980	655	24	451	204
1981	653	24	421	232
1982	693	25	417	276
1983	1,090	39	616	474
1984	849	31	439	410
1985	1,090	39	523	567
1986	1,010	37	447	563
1987	936	34	378	558
1988	1,493	54	538	955
1989	1,774	64	575	1,199
1990	1,411	51	407	1,004
1991	1,421	51	358	1,063
1992	1,720	62	372	1,348
1993	997	36	180	817
1994	1,314	190	190	1,124
1995	1,875	-	-	1,875
1996	1,422	-	-	1,422
1997	2,232	-	-	2,232
	<u>\$ 29,215</u>	<u>\$ 931</u>	<u>\$ 12,142</u>	<u>\$ 17,073</u>

<b>Newfoundland Light &amp; Power Co. Limited</b> <b>Return on Rate Base</b> <b>For The Year Ended December 31, 1997</b> <b>(000's)</b>		
	<u>1997</u>	<u>1996</u>
(A) Net Income - Return 1	\$ 25,557	\$ 25,770
Non Deductible Expenses - Net of Income Tax	627	531
	<u>26,184</u>	<u>26,301</u>
<u>Add:</u>		
Interest on Long Term Debt *	25,107	24,123
Other Interest	722	1,029
Interest Earned	(928)	(1,245)
Interest Charged to Construction	(240)	(256)
Amortization of Debt Discount & Expenses	179	229
Amortization of Capital Stock Issue Expenses	109	130
	<u>24,949</u>	<u>24,010</u>
(B) Regulated Earnings	<u>51,133</u>	<u>50,311</u>
(C) Average Rate Base - Return 3	<u>477,419</u>	<u>473,122</u>
(D) Rate of Return on Average Rate Base	<u>10.71%</u>	<u>10.63%</u>
* Includes Amortization of Loss on Foreign Exchange		

**Newfoundland Light & Power Co. Limited**  
**Analysis of Revenue - Normalized**  
**For The Year Ended December 31, 1997**

		1997			1996		
		<u>Gigawatt Hours</u>	<u>Year End Customers</u>	<u>Revenue (000's)</u>	<u>Gigawatt Hours</u>	<u>Year End Customers</u>	<u>Revenue (000's)</u>
Residential	1.1	2,669.3	181,168	\$203,436	2,634.6	179,375	\$199,668
General Service:							
0 - 10 kW	2.1	91.4	11,500	10,104	89.4	11,291	9,870
10 - 100 kW	2.2	550.7	7,881	45,761	538.1	7,884	45,901
110 - 1000 kVA	2.3	769.5	930	51,098	784.0	950	51,612
over 1000 kVA	2.4	321.2	45	17,631	340.5	29	18,137
Street & Area Lighting	4.1	35.9	10,835	10,353	38.5	10,632	10,502
Forfeited Discounts				2,314			2,240
Revenue From Rates		4,438.0	212,359	<u>\$340,697</u>	4,425.1	210,161	<u>\$337,930</u>
Wheeling				436			385
Non Electrical Revenue				2,544			3,245
Other Revenue				<u>\$ 2,980</u>			<u>\$ 3,630</u>
Total Revenue - Return 1		<u>4,438.0</u>	<u>212,359</u>	<u>\$343,677</u>	<u>4,425.1</u>	<u>210,161</u>	<u>\$341,560</u>

<b>Newfoundland Light &amp; Power Co. Limited</b> <b>Statement of Expenses</b> <b>For The Year Ended December 31, 1997</b> <b>(000's)</b>		
	<u>1997</u>	<u>1996</u>
<b><u>Operating Expenses</u></b>		
Purchased Power	\$ 190,711	\$ 192,114
Power Produced	2,133	2,263
Miscellaneous Operations	7,601	7,959
Environmental Policy	399	395
Substations	2,098	2,097
Transmission	859	859
Distribution	7,545	7,403
Telecommunications	1,570	1,593
	<u>212,916</u>	<u>214,683</u>
<b><u>General Expenses</u></b>		
Customer Accounting	8,094	7,657
Uncollectible Bills	1,257	1,400
Financial Services	1,245	1,150
Planning and Effectiveness	2,682	4,261
Management Information Systems	3,409	3,735
Human Resources & Employee Related Costs	7,544	3,827
Company Pension Plan	4,619	5,394
Administration and Miscellaneous	8,165	8,042
Municipal Taxes & PUB Assessments	372	105
Property Maintenance	1,775	1,543
Demand Side Management Programs - Amortized Costs	291	369
	<u>39,453</u>	<u>37,483</u>
Total Operating & General Expenses	252,369	252,166
Less: Transfers to General Expenses Capital & Stores	4,103	5,317
Total - Return 1	<u><u>\$ 248,266</u></u>	<u><u>\$ 246,849</u></u>

**Newfoundland Light & Power Co. Limited**  
**Explanation of Significant Operating Expense Variances**  
**For The Year Ended December 31, 1997**  
**( 1997 vs 1996 )**  
**(000's)**

	<u>1997</u>	<u>1996</u>	<u>Increase (Decrease)</u>
<b>Purchased Power</b>	<u>\$ 190,711</u>	<u>\$ 192,114</u>	<u>\$ (1,403)</u>

HST credits from Newfoundland & Labrador Hydro during 1997 (Apr. - Dec.) account for a \$1.1 million decrease in purchased power expense from 1996 to 1997. The remaining decrease is the result of a reduction in hydro storage levels during 1997.

<b>Power Produced</b>	<u>\$ 2,133</u>	<u>\$ 2,263</u>	<u>\$ (130)</u>
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This reflects a decrease in labour costs for 1997 resulting from increased productivity realized in conjunction with corporate reorganization and early retirement programs.

<b>Miscellaneous Operations</b>	<u>\$ 7,601</u>	<u>\$ 7,959</u>	<u>\$ (358)</u>
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This reflects a decrease in labour costs for 1997 resulting from productivity gains realized in conjunction with corporate reorganization and early retirement programs.

<b>Customer Accounting</b>	<u>\$ 8,094</u>	<u>\$ 7,657</u>	<u>\$ 437</u>
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Additional costs were incurred during 1997 in association with the implementation of route optimization and the move from bi-monthly to monthly meter reading.

<b>Uncollectible Bills</b>	<u>\$ 1,257</u>	<u>\$ 1,400</u>	<u>\$ (143)</u>
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Continued emphasis on credit and collection activities during 1997 resulted in a reduction in bad debt expense.

<b>Financial Services</b>	<u>\$ 1,245</u>	<u>\$ 1,150</u>	<u>\$ 95</u>
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Labour costs of \$45,000 with respect to staff assigned to Financial Services in 1997, charged elsewhere in 1996.

Additional software maintenance required during 1997 totaling \$20,000.

**Newfoundland Light & Power Co. Limited**  
**Explanation of Significant Operating Expense Variances**  
**For The Year Ended December 31, 1997**  
**( 1997 vs 1996 )**  
**(000's)**

	<u>1997</u>	<u>1996</u>	<u>Increase (Decrease)</u>
<b>Planning and Effectiveness</b>	<u>\$ 2,682</u>	<u>\$ 4,261</u>	<u>\$ (1,579)</u>

A shift in focus during 1997 resulted in a reduction in costs with respect to energy advertising and consulting totaling \$1.1 million.

1996 expenses were also higher due to costs associated with the 1996 rate hearing.

<b>Management Information Systems</b>	<u>\$ 3,409</u>	<u>\$ 3,735</u>	<u>\$ (326)</u>
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The termination of computer leases during 1997 resulted in cost reductions of \$388,000.

<b>Human Resources &amp; Employee Related Costs</b>	<u>\$ 7,544</u>	<u>\$ 3,827</u>	<u>\$ 3,717</u>
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Retirements, severance and terminations during 1997 resulted in the payment of retiring allowances totaling \$3.7 million.

<b>Company Pension Plan</b>	<u>\$ 4,619</u>	<u>\$ 5,394</u>	<u>\$ (775)</u>
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Costs were reduced in 1997 due to pension funding of \$9.8 million in 1996 and improved overall plan performance.

<b>Municipal Taxes &amp; PUB Assessments</b>	<u>\$ 372</u>	<u>\$ 105</u>	<u>\$ 267</u>
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1996 costs were unusually low for two reasons:

(i) A 1996 adjustment to the assessment rate charged by the PUB, retroactive to 1995, resulted in a \$100,000 reduction in costs for that year.

(ii) After a successful appeal to the Minister of Finance, an adjustment of \$160,000 was processed in 1996 to reduce previous years' Retail Sales Tax assessments.

<p align="center"><b>Newfoundland Light &amp; Power Co. Limited</b>  <b>Explanation of Significant Operating Expense Variances</b>  <b>For The Year Ended December 31, 1997</b>  <b>( 1997 vs 1996 )</b>  <b>(000's)</b></p>
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	<u>1997</u>	<u>1996</u>	<u>Increase (Decrease)</u>
<b>Property Maintenance</b>	<b><u>\$ 1,775</u></b>	<b><u>\$ 1,543</u></b>	<b><u>\$ 232</u></b>

Staff movements on Kenmount Road and Duffy Place during 1997 to accommodate organizational changes resulted in additional costs of \$157,000.

Increased snowclearing requirements in early 1997 resulted in additional costs of \$53,000.

<b>Demand Side Management Programs - Amortized Costs</b>	<b><u>\$ 291</u></b>	<b><u>\$ 369</u></b>	<b><u>\$ (78)</u></b>
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1996 expenses include the amortization of 1992 deferred demand side management costs. These costs were fully amortized as of December 31, 1996.

<b>Transfers to General Expenses Capital &amp; Stores</b>	<b><u>\$ 4,103</u></b>	<b><u>\$ 5,317</u></b>	<b><u>\$ (1,214)</u></b>
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Transfers to General Expenses Capital & Stores for 1996 and 1997 are broken down as follows:

	<u>1997</u>	<u>1996</u>	<u>Increase (Decrease)</u>
GEC	3,976	5,192	(1,216)
Stores	127	125	2
	<u>4,103</u>	<u>5,317</u>	<u>(1,214)</u>

Transfers to GEC declined from 1996 to 1997 due to the phase-in of the incremental method of accounting for general expenses capital, as approved by the PUB in Board Order P.U. 3 (1995-96).

<b>Newfoundland Light &amp; Power Co. Limited</b> <b>Production and Sales Statistics - Normalized</b> <b>For The Year Ended December 31, 1997</b>		
	<u>1997</u>	<u>1996</u>
Gigawatt Hours - Purchased	4,243.5	4,236.3
Gigawatt Hours - Produced	424.2	422.6
Total Purchased and Produced	4,667.7	4,658.9
Gigawatt Hours - Sold & Used	4,450.2	4,438.3
Gigawatt Hours - Losses	<u>217.5</u>	<u>220.7</u>
Losses Expressed as %	<u>4.7%</u>	<u>4.7%</u>



<b>Newfoundland Light &amp; Power Co. Limited</b> <b>Weather Normalization Reserve</b> <b>For The Year Ended December 31, 1997</b> <b>(000's)</b>			
<b>Degree Day Normalization Reserve</b>			
Revenue Adjustment			
Heating Degree Days		\$	(2,395)
Cooling Degree Days			6
Wind Speed Adjustments			894
Total Revenue Adjustment			(1,495)
Less : Power Purchased Adjustment			
Heating Degree Days			(2,426)
Cooling Degree Days			3
Wind Speed Adjustments			841
Total Power Purchased Adjustment			(1,582)
Net Adjustment (Before Tax)			88
Less: Income Tax @ 42%			37
1996 Year End Adjustments - Processed in 1997			(1)
1997 Year End Adjustments - Processed in 1998			44
Net Transfer (To) From Reserve		\$	8
<b>Hydro Production Equalization Reserve</b>			
Transfer (To) From Reserve (Before Tax)		\$	1,712
Less: Income Tax @ 42%			719
Net Transfer (To) From Reserve		\$	993
Net Transfer (To) From Weather Normalization Reserve		\$	1,001
General Ledger Accounts			
	Hydro Production Equalization Reserve Dr (Cr) (Acct # 27400)	Degree Day Normalization Reserve Dr (Cr) (Acct # 27500)	
Balance of Reserve - December 31, 1996	\$ 5,629	\$ (2,924)	\$ 2,705
Net Transfer	993	8	1,001
Balance of Reserve - December 31, 1997	\$ 6,622	\$ (2,916)	\$ 3,706

<b>Newfoundland Light &amp; Power Co. Limited</b> <b>Rate Stabilization Account</b> <b>For The Year Ended December 31, 1997</b> <b>(000's)</b>								
<b>Month</b>	<b>Opening Balance</b>	<b>Revenue Billed During Month</b>	<b>Municipal Taxes</b>	<b>Excess Fuel Costs</b>	<b>Secondary Energy Costs</b>	<b>Interest Costs</b>	<b>Transfer To (From) Nfld. Hydro</b>	<b>Closing Balance</b>
January	\$ (225.4)	\$ (297.6)	\$ -	\$ 1.8	\$ (0.4)	\$ 3.6	\$ 272.8	\$ (245.2)
February	\$ (245.2)	\$ (292.9)	\$ -	\$ 2.3	\$ -	\$ (2.2)	\$ 253.9	\$ (284.1)
March	\$ (284.1)	\$ (295.3)	\$ -	\$ 6.8	\$ (0.1)	\$ (2.5)	\$ 267.5	\$ (307.7)
April	\$ (307.7)	\$ (269.8)	\$ -	\$ 4.4	\$ (0.1)	\$ (2.7)	\$ 216.7	\$ (359.2)
May	\$ (359.2)	\$ (226.5)	\$ -	\$ 1.4	\$ (0.2)	\$ (3.2)	\$ 174.2	\$ (413.5)
June	\$ (413.5)	\$ (192.8)	\$ -	\$ 0.8	\$ (0.3)	\$ (3.6)	\$ 139.7	\$ (469.7)
July	\$ (469.7)	\$ (406.0)	\$ -	\$ 30.2	\$ (0.5)	\$ (4.1)	\$ 389.5	\$ (460.6)
August	\$ (460.6)	\$ (366.0)	\$ -	\$ 4.8	\$ (0.2)	\$ (4.0)	\$ 398.9	\$ (427.1)
September	\$ (427.1)	\$ (389.0)	\$ -	\$ 4.9	\$ (4.8)	\$ (3.8)	\$ 413.7	\$ (406.1)
October	\$ (406.1)	\$ (458.0)	\$ -	\$ 9.3	\$ (0.4)	\$ (3.6)	\$ 546.6	\$ (312.2)
November	\$ (312.2)	\$ (554.6)	\$ -	\$ 2.3	\$ (0.4)	\$ (2.7)	\$ 642.6	\$ (225.0)
December	\$ (225.0)	\$ (677.2)	\$ (439.4)	\$ 1.3	\$ (0.1)	\$ (2.0)	\$ 777.3	\$ (565.1)
		<u>\$ (4,425.7)</u>	<u>\$ (439.4)</u>	<u>\$ 70.3</u>	<u>\$ (7.5)</u>	<u>\$ (30.8)</u>	<u>\$ 4,493.4</u>	

**Newfoundland Light & Power Co. Limited**  
**Cost of Embedded Debt**  
**For The Year Ended December 31, 1997**  
**(000's)**

	<u>December 31, 1997</u>	<u>December 31, 1996</u>	<u>Total</u>
Bonds	\$ 238,808	\$ 241,323	\$ 480,131
Bank Loans	34,853	20,016	54,869
Other	8	23	31
	<u>\$ 273,669</u>	<u>\$ 261,362</u>	<u>\$ 535,031</u>
Average Debt			<u>\$ 267,516</u>
Interest Expense - 1997 *			<u>\$ 25,051</u>
Cost of Embedded Debt			<u>9.36%</u>
<b>* Interest Expense - 1997</b>			
Interest on Long Term Debt	\$ 25,107		
Bank & Other Interest	722		
Amortization of Debt Discount & Expense	179		
	<u>26,008</u>		
Less: Interest on Customer Deposits	29		
Interest Earned	928		
	<u>\$ 25,051</u>		
Interest Expense - 1997			

<b>Newfoundland Light &amp; Power Co. Limited</b> <b>Capital Structure</b> <b>For The Year Ended December 31, 1997</b> <b>(000's)</b>				
	<b>Average</b>		<b>Year-End</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Debt - Return 16	\$ 267,516	53.05%	\$ 273,669	53.55%
Preference Shares - Return 1	9,890	1.96%	9,890	1.93%
Common Equity - Return 1	226,835	44.99%	227,512	44.52%
	<u>\$ 504,241</u>	<u>100.00%</u>	<u>\$ 511,071</u>	<u>100.00%</u>

<b>Newfoundland Light &amp; Power Co. Limited</b> <b>Regulated Average Capital &amp; Deemed Equity</b> <b>For The Year Ended December 31, 1997</b> <b>(000's)</b>				
	<b>Before Deeming</b>		<b>After Deeming</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Debt - Return 16	\$ 267,516	52.75%	\$ 267,516	52.75%
Preference Shares - Return 1	9,890	1.95%	9,890	
Excess Common Equity			1,499	
Deemed Preferred Equity			<u>11,389</u>	2.25%
Common Equity - Return 19	229,694	45.30%	228,195	45.00%
	<u>\$ 507,100</u>	<u>100.00%</u>	<u>\$ 507,100</u>	<u>100.00%</u>

<b>Newfoundland Light &amp; Power Co. Limited</b> <b>Calculation of Taxable Income and Income Tax Expense</b> <b>For The Year Ended December 31, 1997</b> <b>(000's)</b>		
Net Income		\$ 25,557
Add: Income Tax - Current	\$ 19,088	
- Deferred	(1,589)	
- Adjustments to Prior Years	(119)	
- Weather Normalization	725	
		<u>18,105</u>
Net Income Before Income Taxes		43,662
Add: Depreciation	26,800	
Amortization of Debt Discounts & Expenses	178	
Amortization of Capital Stock Issue Expenses	110	
Amortization of Exchange Loss - Series "U" Bonds	400	
Business Meals & Related Expenses	146	
Special Pension Liability	41	
Amortization of Prior Years' DSM Expenses	290	
Non-deductible Expenses	-	
Loss on Investment - Power Smart	-	
Small Tools in Excess of \$200	165	
Transferred from Weather Normalization Reserve	(1,720)	
		<u>26,410</u>
		70,072
Less: Capital Cost Allowance	20,160	
Cumulative Eligible Capital	24	
General Expenses Capitalized	2,624	
Interest Charged to Construction	240	
Expenses Re: Issue of Bonds	103	
Difference in Pension Funding and Accounting Costs	4,084	
Site Investigation Expenses	96	
Canadian Renewable and Conservation Expenses	125	
		<u>27,456</u>
Taxable Income		<u>\$ 42,616</u>
		17,899
Income Tax - Part 1 @ 42%		1,189
- Part 1.3 Large Corporation Tax		
		<u>19,088</u>
Adjustment to Prior Years		(119)
Adjustment for Weather Normalization		725
		<u>\$ 19,694</u>
Current Income Tax Expense		

<b>Newfoundland Light &amp; Power Co. Limited</b> <b>Return on Regulated Average Common Equity</b> <b>For The Year Ended December 31, 1997</b> <b>(000's)</b>		
	<u>1997</u>	<u>1996</u>
Regulated Common Equity:		
December 31, 1997, As Per Balance Sheet	\$ 227,512	
Add: Non-Regulated Expenses - Net of Income Tax		
As of December 31, 1996	\$ 3,167	
1997	<u>627</u>	
Total Net Non-Regulated Expenses, December 31, 1997	<u>3,794</u>	
	231,306	
Less: Deemed Dividends on Excess Common Equity - 1996	\$ 574	
Less: Deemed Dividends on Excess Common Equity - 1997	<u>95</u>	
Regulated Common Equity, December 31, 1997 (Before Deeming)	\$ 230,637	
Regulated Common Equity, December 31, 1996	228,750	\$ 228,750
Regulated Common Equity, December 31, 1995		237,415
	<u>\$ 459,387</u>	<u>\$ 466,165</u>
Regulated Average Common Equity (Before Deeming)	\$ 229,694	\$ 233,083
Excess Common Equity - Return 17	<u>1,499</u>	<u>9,074</u>
<b>Deemed Regulated Average Common Equity</b>	<b><u>\$ 228,195</u></b>	<b><u>\$ 224,009</u></b>
Earnings Applicable to Common Shares - Return 1	\$ 24,931	\$ 25,144
Add: Non Regulated Expenses - Net of Income Tax	<u>627</u>	<u>531</u>
	25,558	25,675
Less: Deemed Dividends on Excess Common Equity @ 6.33%	<u>95</u>	<u>574</u>
Regulated Earnings	<u>\$ 25,463</u>	<u>\$ 25,101</u>
Rate of Return on Deemed Regulated Average Common Equity	<u>11.16%</u>	<u>11.21%</u>