

1998 Newfoundland Power Inc. Annual Report

A tradition of service.



A vision for the future.

NEWFOUNDLAND 
POWER
A FORTIS COMPANY

Corporate

Profile

Newfoundland Power Inc. is a regulated investor-owned electric utility which serves approximately 172,000 customers, or 85 per cent of all electric customers, on the island portion of the province of Newfoundland. 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, 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 changed its corporate name from Newfoundland Light & Power Co. Limited to Newfoundland Power Inc. effective October 1, 1998.

Newfoundland Power

Major Service Areas

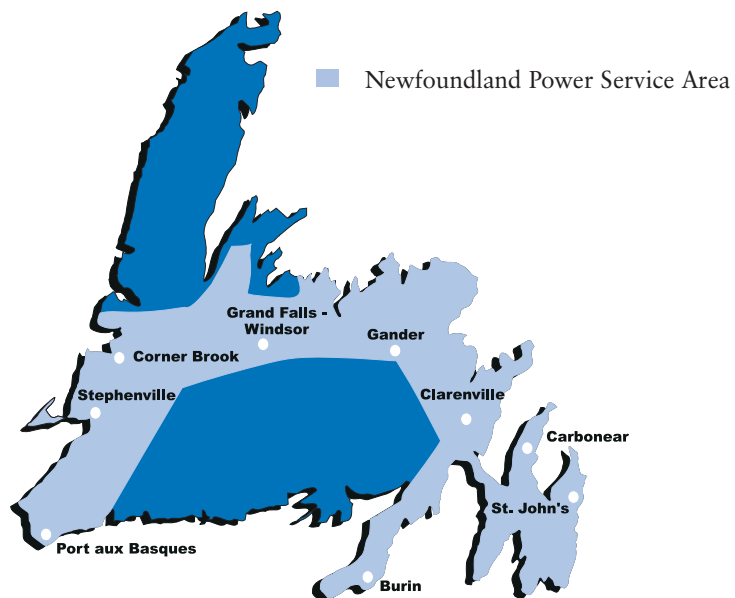


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Cover

Conrad Russell, Meter Reader, Stephenville, has been dedicated to serving the needs of Newfoundland Power customers for ten years.

Cover Photo: Ned Pratt

Financial & Operating Highlights

Financial Highlights

	1998	1997
Revenue (\$000s)	335,751	343,677
Fixed Assets (\$000s)	870,348	841,775
Long Term Debt (\$000s)	286,258	238,808
Common Shareholder's Equity (\$000s)	229,485	227,512
Earnings Applicable to Common Shares (\$000s)	21,571	24,931
Earnings per Common Share (\$)	2.09	2.42

Operating Highlights

	1998	1997
Customer Accounts	214,150	212,359
Installed Generating Capacity (MW)		
Hydroelectric	94.0	87.5
Diesel	7.4	12.3
Gas Turbine	47.0	47.0
Total	148.4	146.8
Peak One-Hour Demand (MW)	957	1,065
Energy Sales (GWh)	4,440	4,438
Average Annual kWh Used per Residential Customer	14,615	14,825
Gross Operating Costs per Customer (\$)	259	290

Reductions in the company's 1998 revenue and earnings were the result of regulatory decisions during the course of the year. Energy sales and operating costs reflect the overall economy in the company's service area and management's focus on improved productivity.

Letter to Shareholders

Customer expectations for increased operating efficiencies and lower electrical prices are the driving forces behind a rapidly changing electrical utility industry.

At Newfoundland Power, the importance of preparing for changes in our business environment is paralleled by our commitment to understanding and meeting our customers' expectations. To achieve these goals, listening to our customers has become a principal priority.

Quarterly research and personal feedback are invaluable tools in the strategic planning of our business. By listening to our customers, we are learning how to provide more effective programs, add value to our services and improve our customer relationships.

And we are becoming a better company as a result.

In December 1998, our company achieved a customer satisfaction rating of 86 per cent – a 23 per cent improvement from just two years ago. Our employees' dedication to provide customers with a high level of service has defined our company's success in this area. We thank our employees for their commitment to making our company a stronger, more customer-focused organization during what has been a challenging year.



Linda Inkpen, C.M., Chair, Board of Directors, and Philip Hughes, President & Chief Executive Officer, Newfoundland Power.

Newfoundland Power has a long standing tradition of service in our province. For more than 110 years our company and employees have played a vital role in the development of industry, business and community in Newfoundland. Building on this solid tradition of service, we are creating a vision for the future of our company, the people we employ and the customers we serve.

To guide our company, we have adopted strategic goals to secure our success in a more competitive environment. Our goals include enhanced customer service, increased power quality and reliability, and improved productivity. Effectively managing our operating costs and business processes, as well as developing a flexible, highly-skilled workforce, will remain critical elements in our business strategy.

In 1998, Newfoundland Power invested \$45 million in capital programs to enhance customer service through improved reliability and power quality.

An independent engineering audit prepared for the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) on Newfoundland Power's *Quality of Service and Reliability of Supply* positively outlines our success in this area. The October 1998 report concludes that Newfoundland Power is doing "an effective job in maintaining and operating its facilities in the provision of service to its customers."

Although Newfoundland Power is subject to traditional cost of service regulation, we believe it is prudent to conduct our business with a competitive mindset. We will continue to motivate our employees to think like customers and act like owners in an effort to realize cost savings while at the same time surpassing customers' expectations.

As our society becomes more dependent on technology and sensitive electronic equipment, power quality has become an increasingly important issue for our customers and company. In 1998, Newfoundland Power installed remote monitoring devices in approximately 60 customer premises and company facilities as part of a pilot project to monitor power quality aspects such as voltage. Continued use of infra-red thermoscan technology will further our efforts to improve power quality and reliability by detecting and eliminating potential power problems before they occur.

Managing the challenges associated with the year 2000 phenomenon is the highest priority in Newfoundland Power's corporate near-term information technology strategy. Throughout 1998, our company worked to inventory, assess, test and develop contingency plans for all corporate technology systems. In 1999, we will continue to deal with the year 2000 challenge, maintain installed technologies, provide new functionality to respond to changing customer needs and increase productivity within operations.

Continual improvements in safety and environmental practices were demonstrated by our company throughout 1998. In our pursuit to be a leader in workplace safety, we implemented a *Job Planning* component to our safety management program to promote greater risk assessment, hazard identification and communication between employees. In addition, safety campaigns to heighten awareness of the safe use of electricity and the dangers of recreational activities around hydroelectric plant reservoirs were targeted to primary and secondary school-aged children, home owners and the general public throughout the year.

At Newfoundland Power, we are dedicated to minimizing the impact of our operations on the environment. An aggressive environmental audit schedule was completed in 1998 in an effort to bring our company closer to the operating standards identified by ISO 14001.

In November 1998, the *Newfoundland Power Environmental Commitment Program*, an employee-driven program created to demonstrate our dedication to protecting and enhancing the environment, celebrated its first anniversary. This program has enjoyed great success with employees completing more than 50 environmental projects in partnership with schools and community groups.

Despite regulatory challenges of the past year, including a reduction in our allowed return on common equity and significantly increased regulatory costs, we succeeded in reducing operating costs and increasing customer satisfaction with Newfoundland Power's overall services.

A corporate emphasis on managing operating expenses has resulted in operating costs remaining stable over the past 10 years despite a 16 per cent increase in customers. Since 1990, gross operating costs per customer have decreased by approximately 12 per cent from \$294 per customer to \$259 per customer. Since 1996, gross operating costs have been reduced by approximately eight per cent or \$4.6 million.

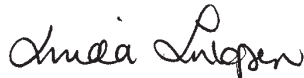
Our company will continue to move forward to provide our customers with the service they expect and our shareholders with the return they deserve.

In keeping with restructuring trends of the North American electrical industry, the Government of Newfoundland and Labrador announced a review of the province's energy policy in August 1998. This review will examine existing legislation and regulations, developments in other jurisdictions and the existing electricity industry structure of the province. Newfoundland Power will be an active participant in the review process.

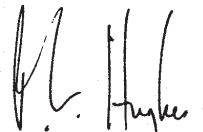
Newfoundland Power has a proud history of contributing to the economic and social well-being of fellow Newfoundlanders. In 1998, our company was awarded the St. John's Board of Trade *Business Excellence Award for Contribution to Community and Community Service* for our spirit of community giving. Newfoundland Power's commitment to help build a better quality of life in our province will continue with an emphasis on supporting improvements in education, culture and health care.

At Newfoundland Power we remain committed to assisting with the revitalization of our provincial economy. We will continue in our commitment to contribute to the development of the Newfoundland economy and business environment by providing a reliable electrical system, quality power and competitive rates to existing businesses and potential investors.

Newfoundland Power will continue to approach changes in our business environment as opportunities rather than threats. Building on our past successes and drawing on our strengths of effective leadership, a productive workforce and a tradition of proudly serving the people of Newfoundland, our company will strive to achieve increased operating efficiencies and better service for our customers in the years to come.



Linda L. Inkpen, C.M.
Chair,
Board of Directors

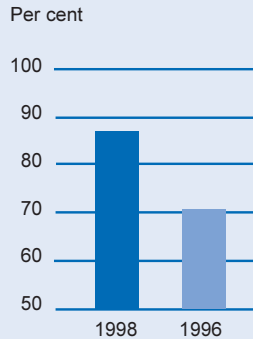


Philip G. Hughes
President
& Chief Executive Officer

February 17, 1999

Report on Operations

Customer Satisfaction Rating



Customer visits are a key component of Newfoundland Power's commitment to providing superior customer service.

Energy Consultant Jerry Pike conducts a personal visit with Murray Dicks to better understand Fisheries Products International's electrical needs.



Improving Service to Customers

Throughout 1998, Newfoundland Power provided more than 172,000 customers in 600 communities across Newfoundland with safe, reliable electrical service in a cost-efficient manner.

The objectives of Newfoundland Power's 1998 customer service strategy were to better understand customers' changing needs, to balance the use of customer service technology with traditional service values, and to improve the reliability and quality of our company's electrical supply.

To gain a better understanding of customers' needs, Newfoundland Power continued to seek customer input into our company's programs and services through quarterly research. In 1998, residential customers were asked to provide feedback on our quality of service through telephone surveys, customer call-backs and comment cards. In addition, a strong emphasis was placed on the importance of personal interaction.

To achieve our goal of increasing personal interaction with customers, managers established relationships with commercial customers to understand their businesses, identify their service needs and provide solutions to meet those needs. Approximately 300 personal visits were made to business and residential customers by members of Newfoundland Power's management team and board of directors last year.

Our energy consultants also met with residential and commercial customers to provide information and assistance with services ranging from energy advice to financing options. Feedback from research and personal interaction has proven invaluable, providing the information we need to better meet our customers' expectations.

In December 1998, our company achieved a customer satisfaction rating of 86 per cent – a 23 per cent improvement over our 1996 satisfaction rating. This dramatic increase is widely attributed to our renewed emphasis on customer relations and our efforts to improve overall service.

In 1998, Newfoundland Power's Customer Service Call Centre became the most technologically advanced in Newfoundland, significantly improving the level of customer service we are able to provide while controlling costs.

A three year project to migrate Newfoundland Power's largest computer application, the Customer Service System, to a client server environment was completed in the second quarter of 1998. This project paved the way for the establishment of a state of the art telephone system in November.

Newfoundland Power's new call centre technology provides customers with 24 hour access to their account balance and payment information, and faster call routing to the service option of their choice.

A focus on traditional services, such as walk-in service, customer visits and energy efficiency counseling, was promoted in 1998 to provide a balance between technological and traditional service options. Traditional service values ensure that all our customers have access to the individual attention they deserve.

In 1998, Newfoundland Power improved the range and benefits of a number of payment options including Pre-Authorized Payment, Equal Payment plans, debit card payment, and telephone and internet banking, to provide greater convenience to customers.

Our company further achieved a new era in customer service delivery last year with the launch of an interactive website and the implementation of an innovative communications software known as Telephony Video Data (TVD). TVD combines the technical capabilities of computers, telecommunications and Newfoundland Power's System Control and Data Acquisition (SCADA) system to better manage customer outage calls and minimize busy signals. The TVD system provides up to 2,000 simultaneous callers with information on the cause, estimated duration and locations of outages.

Investing in Reliability and Power Quality

Newfoundland Power's reliability was negatively impacted in 1998 due to major sleet and lightning storms, and interruptions originating with our major electrical supplier. As a result, customers experienced an increase in the number and length of power outages in 1998 over that of the previous year. Our employees' dedication to respond quickly and effectively to outages when they did occur was exceptional throughout 1998. On behalf of the company and our customers, we extend our thanks to our employees for their commitment to customer service 24 hours a day, 365 days a year.

Despite falling short of our reliability target, an independent audit commissioned by the PUB on Newfoundland Power's *Quality of Service and Reliability of Supply* concluded that our company is providing reliable electrical service to customers by effectively maintaining and operating facilities. The October 1998 report indicates that Newfoundland Power, although slightly below the Canadian reliability average, performed favorably in comparison to other Atlantic Canadian utilities.

Our focus on improving reliability includes a strong emphasis on preventing outages from occurring in the first place. Throughout 1998, our employees completed an aggressive electrical system upgrade program which saw the replacement of equipment, improvements to the structural integrity of our system against extreme weather, and the construction of a 6.1 megawatt (MW) hydroelectric plant on the southwest coast of Newfoundland.

Investing in Reliability

Newfoundland Power invested \$45 million in capital projects in 1998 to improve the reliability of our electrical system.

A number of reliability projects, including the construction of the Rose Blanche Hydroelectric Plant and an aggressive upgrade program, were completed over the course of the year.

Contingency planning to ensure Newfoundland Power is properly prepared for emergency situations, such as major storms, was also completed in 1998

Civil Engineer Jennifer Meaney is pictured in front of the Rose Blanche hydroelectric dam in November 1998.



Ongoing vegetation management along our 10,000 kilometres of transmission and distribution lines plays a critical role in preventing outages and increasing public and employee safety. In addition, maintenance programs designed to extend the life of Newfoundland Power's facilities played a key role in reliability initiatives over the past year.

As customers become more dependent on technology and sensitive electronic equipment, power quality has become an increasingly important issue for utilities. Power quality describes the extent to which power delivered to customers is free of disturbances.

In 1998, approximately 60 remote monitoring devices were installed in customer premises and company facilities as part of a pilot project to monitor power quality. These devices provide our company with information on voltage fluctuations and power outages. In addition, Newfoundland Power continued to use infra-red thermoscan technology throughout the year to identify and eliminate potential system disturbances before they occurred.

In 1999, Newfoundland Power will further improve reliability through the installation of a new SCADA system. The new SCADA system will provide greater monitoring and control of our generation, transmission and distribution systems, while enhancing our ability to manage temporary supply shortages.

Newfoundland Power will continue to invest in the technology needed to ensure customers receive the reliability and quality of power they expect.

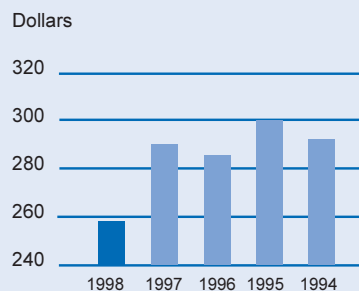
Increasing Our Productivity

Despite a year marked with weather and regulatory challenges, Newfoundland Power successfully reduced costs and improved customer service in 1998. These achievements furthered our efforts to establish 'operational efficiency' and 'exemplary customer service' as the defining traits of our business.

A corporate emphasis on managing operating expenses has resulted in operating costs remaining stable over the past 10 years despite a 16 per cent increase in the number of customers we serve. Since 1996, gross operating costs have been reduced by approximately eight per cent or \$4.6 million. In 1998, our company further succeeded in reducing gross operating costs per customer to \$259 from \$290 in 1997. Since 1990, gross operating costs per customer have decreased by approximately 12 per cent from \$294 per customer to \$259 per customer. In 1998, energy sales per employee remained consistent with 1997 sales of 6.3 million kilowatt hours (kWh).

By reducing the size of our vehicle fleet, outsourcing passenger fleet maintenance and using resources more efficiently, vehicle operating and maintenance costs have decreased by approximately \$0.5 million since 1996. In addition, the establishment of a centralized distribution transformer repair facility in Whitbourne resulted in deferred transformer purchases of approximately \$0.5 million in 1998.

**Gross Operating Costs
per Customer (\$)**



Our company achieved additional productivity gains throughout the year with the establishment of key business partnerships for services such as pole installations and system repairs.

Newfoundland Power continued an internal program in 1998 to motivate and encourage employees to creatively identify cost savings while directly improving customer service.

Placing Safety First and Foremost

Throughout 1998, Newfoundland Power aggressively pursued superior safety standards and performance in all its operations.

In 1998, our company's safety management program was further developed by implementing a *Job Planning* component. *Job Planning* provides employees with the skills needed to reduce the risk of accidents and improve communications between designers and builders. The three major components of *Job Planning* are risk assessment, hazard identification and control, and communication.

Field visits to inspect contractor safety practices were carried out in 1998 to ensure contractor compliance with *Newfoundland Power's Contractor Health and Safety Management Procedures*. In addition, a *Fire Resistant Clothing Program* was implemented to protect front line personnel from the daily hazards of burn injuries. Acoustic boom testing equipment was purchased in 1998 to measure the structural integrity of our bucket truck booms. Boom testing will take place throughout 1999.

Our company's involvement with the *Newfoundland and Labrador Association of Fire Chiefs and Firefighters* continued throughout 1998 in two capacities – by offering electrical safety training to more than 1,000 firefighters across Newfoundland and by becoming the corporate sponsor of the *Learn Not to Burn* public education program.

In 1998, our employees and retirees continued to donate their time and energy to teaching children about electrical safety through our *School Safety Program*. Thanks to their dedication, more than 100,000 children have received lessons in electrical safety over the past 15 years. Newfoundland Power will continue to inform the public of electrical safety through the use of signage, publications, advertising, presentations and displays.

Maximizing Our Potential

The development of Newfoundland Power's workforce is essential to achieving our company's strategic business goals. A corporate emphasis on employee development, with a particular focus on improving the technology, leadership and teamwork skills of our employees, was a continuing priority for Newfoundland Power in 1998.

To diversify Newfoundland Power's corporate culture, a priority has been placed on hiring people with experience from outside the utility business. In addition, our company has increased its recruitment efforts in areas of engineering, line personnel and information systems. These measures will assist in building a stronger, more capable organization and workforce in preparation for increased competition.

A Hero in Our Midst

In August 1998, Ralph Martin, a line worker from Corner Brook, saved an eleven-year-old girl from drowning by using his safety training in first aid and CPR to resuscitate the young girl.

Ralph's act of heroism took place in Prince Edward Island while on a work assignment with Maritime Electric.

In recognition of his heroic efforts, Newfoundland Power donated \$1,000 to Ralph's charity of choice – the Canadian Diabetes Association.

Ralph Martin was presented with the Canadian Electricity Association Lifesaving Award in December 1998.



Families Can Beat Cancer!

Newfoundland Power is more than a utility — it is a member of the Newfoundland community.

That's why when we had the opportunity to help fellow Newfoundlanders living with cancer, we took action.

In 1998, Newfoundland Power formed a partnership with the Newfoundland & Labrador Division of the Canadian Cancer Society that is the first of its kind in Canada.

Over the next three years, our company will join in the fight against cancer by providing cash and in-kind services, such as printing and distribution of public education materials, and collecting customer donations through our billing system.

The Canadian Cancer Society has valued our three year contribution to the *Families Can Beat Cancer* campaign at more than \$600,000.

Jodean Tobin, Chairperson, Families Can Beat Cancer campaign, and Philip Hughes, President & CEO, Newfoundland Power. Partners in the fight against cancer.



On September 30, 1998, the collective agreement with our company's unionized employees expired. Negotiations to reach a new collective agreement are ongoing. In collaboration with our union, Newfoundland Power will work to retain and motivate our employees to build the skills needed to succeed in a changing work environment.

In 1998, a number of our employees participated in professional development opportunities. At the request of a national consulting firm, two Newfoundland Power engineers developed and delivered training on *Distribution Systems Planning* to members of the Zimbabwe Electrical System Authority in Harare, Zimbabwe. In early 1998, a telecommunications engineer participated in a secondment to an international engineering firm to assist in the design, development and implementation of a SCADA system. This experience will prove invaluable in 1999 when Newfoundland Power purchases a new SCADA system.

In August, three Western Region line personnel participated in an employee development initiative with Maritime Electric in Prince Edward Island. This opportunity was designed to expose employees to the work practices of other utilities. Another work exchange with Maritime Electric is planned for 1999.

Newfoundland Power expanded its mentoring program in 1998 to include approximately 100 employees. This program matches employees with mentors to provide insight and guidance to assist with professional development and performance.

Partnering With Our Communities

Newfoundland Power's commitment to improving the quality of life of fellow Newfoundlanders has never been better demonstrated than in 1998.

We are proud to have been chosen as the recipients of the St. John's Board of Trade *1998 Business Excellence Award for Contribution to Community and Community Service* in recognition of our community partnerships. The honor of this award is a fitting tribute to the continuous goodwill and tireless efforts of our employees and retirees to improve the communities in which they live and work.

In January 1998, Newfoundland Power became the corporate sponsor of the Newfoundland and Labrador Division of the Canadian Cancer Society's *Families Can Beat Cancer* campaign. Our decision to join in the fight against cancer was made based on the feedback of our customers and employees.

Our company will assist in bettering the lives of fellow Newfoundlanders living with cancer through the donation of funds and in-kind support. Our contribution, which the Canadian Cancer Society has valued at more than \$600,000, will take place over three years. Customers have generously supported this partnership by contributing more than \$45,000 to the campaign since January 1998.

This innovative partnership is the first of its kind between the Canadian Cancer Society and a Canadian utility.

In 1998, Newfoundland Power, in partnership with the Fortis Group of Companies, became a Major Sponsor of the 1999 Canada Winter Games. The sponsorship of the Canada Winter Games is reflective of our company's dedication to the development of youth through sport and to supporting the dreams of our communities.

Newfoundland Power believes that an investment in education is an investment in the future of our province.

To support this belief, Newfoundland Power invests approximately \$250,000 annually in Newfoundland's post secondary institutions. In 1998, our company pledged \$100,000 to Memorial University of Newfoundland's *Opportunity Fund*. It is our hope that these contributions will provide students with access to a high quality education and the knowledge, tools and preparation needed to become leaders in our community.

Newfoundland Power's dedication to our communities reaches beyond partnerships with non-profit organizations to strengthening our local economy.

We will continue our commitment to contribute to the development of the Newfoundland economy and business environment by providing a reliable electrical system, quality power and competitive rates to businesses and potential investors. In 1998, our confidence in Newfoundland-based suppliers was demonstrated by purchasing approximately 65 per cent of our annually required goods and services from local businesses.

Protecting Our Environment

Newfoundland Power is committed to protecting and improving the environment in a responsible manner. In fulfilling this commitment, our company incorporates environmental issues into decision-making to meet present needs without compromising future generations.

In 1998, Newfoundland Power implemented an *Environmental Stewardship Program* aimed at meeting the standards identified by ISO 14001 or its equivalent. Through this program our company will strive to reduce environmental risk, improve internal environmental management methods, prevent pollution and save resources and energy.

Newfoundland Power completed an aggressive environmental audit schedule in 1998, with audits being carried out on fuel and waste storage systems, oil-filled electrical equipment, substations in environmentally sensitive areas and line truck hydraulic systems. In addition, our company continued a four year, \$2.6 million program to proactively identify and replace distribution transformers at risk of spills.

Pledging our Commitment to the Environment

In 1997, Newfoundland Power employees launched an *Environmental Commitment Program* in an effort to protect our environment and better the communities in which we live and work.

In just over a year, employees in communities across Newfoundland have held more than 50 environment events in partnership with local schools and community groups. These events range from roadside cleanups and community beautification to recycling days and environment presentations.

In June 1998, Newfoundland Power hosted *EnviroFest'98*, a day long celebration of the environment designed to promote environmental awareness and leadership. More than 2,500 community members and 100 community groups took part in the celebration.

A Newfoundland Power crew works to relocate an osprey nest.



Other notable environmental targets achieved in 1998 include: the removal of friable asbestos and halon from company facilities; the destruction or decontamination of PCB waste in storage; training of approximately 150 employees in spill response and the transportation of dangerous goods; and the development and update of environmental emergency contingency plans.

Throughout 1998, employees promoted environmental awareness through the *Newfoundland Power Environmental Commitment Program*. This program has quickly grown into a corporate success story with employees holding more than 50 environmental projects in partnership with community groups and schools across Newfoundland in just one year.

Newfoundland Power's first annual *EnviroFest'98*, a day-long celebration of the environment, was held in eight operating areas across Newfoundland and attracted more than 2,500 community members and 100 community groups in support of environmental awareness. The overwhelming response to this event assures us that environmental protection is a customer priority.

In 1998, Newfoundland Power joined forces with the Atlantic Salmon Federation to sponsor the *Fish Friends* public education program. *Fish Friends* teaches elementary students about the life cycle of salmon and the importance of conservation and environmental management through hands-on learning. Currently more than 70 schools in Newfoundland participate in the *Fish Friends* program which allows students to care for eggs and young fish in their classrooms and release salmon fry into local streams and rivers.

Operating Under Cost of Service Regulation

Newfoundland Power continues to be subject to traditional cost of service regulation administered by the PUB. The PUB has far reaching jurisdiction over electrical rates, capital expenditures, rate of return and the issue of securities, among other things.

Regulatory challenges intensified for our company throughout 1998. In addition to regulatory costs of \$4.1 million resulting from hearing procedures and preparation, the company was negatively impacted by a July 1998 PUB decision to reduce Newfoundland Power's allowed rate of return on common equity from 11 per cent to 9.25 per cent. This decision directly impacted our company's creditworthiness and resulted in the Canadian Bond Rating Service (CBRS) lowering Newfoundland Power's first mortgage bonds and preferred share ratings from Single A to A (Low) and P-2 (High) to P-2, respectively.

In January 1999, the PUB finalized 1998 rates and set 1999 rates on the basis of a return on equity of 9.25 per cent. This leaves Newfoundland Power at the lower end of allowed rates of return on equity for Canadian gas and electric utilities for 1999.

Newfoundland Power believes that the time is right for regulatory change in the province of Newfoundland. The relatively high cost of current regulation is inconsistent with our customers' primary interests – namely reliability and price. Newfoundland Power is hopeful the Energy Policy Review announced by the provincial government in 1998 will provide a catalyst for such change.

Despite regulatory challenges of the past year, our company has maintained its focus on meeting customers' expectations. In 1998, Newfoundland Power succeeded in reducing operating costs and increasing customer satisfaction with overall services.

Management

Discussion & Analysis

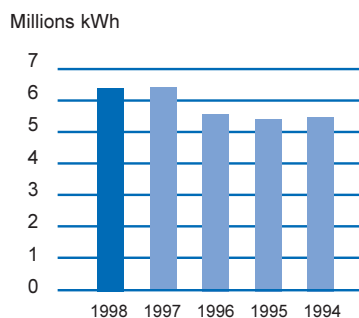
Financial Results

Earnings applicable to common shares for 1998 were \$21.6 million, a \$3.3 million decline from \$24.9 million in 1997. This decline is a direct result of the July 31, 1998 regulatory decision which reduced Newfoundland Power's allowed rate of return on common equity from 11 per cent to 9.25 per cent, and the resulting 2.1 per cent decrease in electrical rates.

Energy sales are directly affected by economic growth and other changes in the provincial economy. In 1998, Newfoundland's economic performance was strong with the goods producing sector, particularly the oil industry, leading the way. However, energy sales in 1998 totalled 4,440 gigawatt hours (GWh), relatively unchanged from 1997 energy sales of 4,438 GWh.

During 1998, residential energy sales decreased by 0.6 per cent, or 17 GWh. However, commercial energy sales for 1998 were 1,788 GWh, an increase of 1.1 per cent, or 19 GWh, over 1997 levels. The completion of construction at Hibernia Management and Development Co. Limited's Bull Arm site resulted in an 18 GWh reduction in sales. However, sales to customers in the fishing industry increased by 15 GWh and sales to other medium to large customers increased by 22 GWh.

**Energy Sales per Employee
(in Millions of kWh)**



Revenue from energy sales was directly impacted by the 2.1 per cent reduction in electrical rates, retroactive to January 1, 1998, ordered in the July 31, 1998 ruling by the PUB. Revenues were \$335.8 million in 1998, compared to \$343.7 million in 1997. Another contributing factor to the decline in revenues is the higher rates which were in effect during the first three months of 1997. On April 1, 1997, a 1.0 per cent decrease in rates resulted from the introduction of the Harmonized Sales Tax.

The impact of the decline in rates during 1998 has been partially offset by a significant reduction in operating expenses achieved during the year. Despite higher than normal regulatory costs, operating expenses, including the cost of purchased power, were \$244.2 million in 1998 compared to \$248.3 million in 1997. This decrease is attributed to reductions in labor costs and retirement allowances resulting from early retirement programs offered in 1997.

A corporate emphasis on managing operating expenses has resulted in gross operating costs being reduced by approximately eight per cent or \$4.6 million since 1996. Since 1990, gross operating expenses per customer have decreased by approximately 12 per cent from \$294 per customer to \$259 per customer. A number of productivity initiatives undertaken in 1998, such as contracting out vehicle fleet maintenance and the establishment of a centralized distribution transformer repair facility, have contributed to a reduction in operating expenses.

The decrease in operating expenditures is somewhat offset by a \$0.9 million increase in purchased power and an increase in depreciation expense of \$1.3 million over the 1997 level. The increase in depreciation is a result of the 1998 capital program aimed at improving customer service and reliability.

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 expenses 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 is to record revenue on a billed basis.

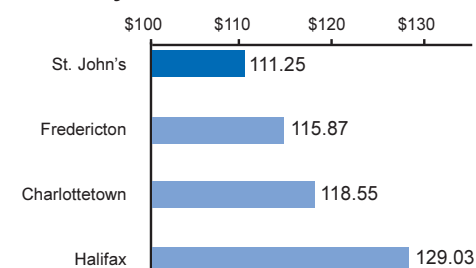
The company filed Notices of Objection with the Minister of National Revenue in October 1995 and paid \$15.6 million which represents one-half of the amount of taxes in dispute. The company believes it has solid arguments supporting its position. However, should the company be unsuccessful, a liability of approximately \$38.3 million, including interest to December 31, 1998, would arise. This would be offset by approximately \$16.7 million related to recording electricity revenue on the accrual basis. An application by the company to the PUB to have the liability considered in the rate making process will be made should this occur.

The company records deferred income taxes in accordance with PUB orders. The method used results in deferred taxes being recorded only on certain differences between the books of account and the tax return. As a result, the effective tax rate is subject to fluctuation. In 1998, the effective tax rate was 41.9 per cent compared to 41.5 per cent in 1997. The effective tax rate is expected to continue to increase in future years.

Regulation

On June 15, 1998, the Newfoundland Court of Appeal gave its opinion on a case stated by the PUB regarding a number of items relating to the PUB's regulatory jurisdiction over Newfoundland Power. In its opinion, the Court found that the PUB is required to regulate Newfoundland Power's rate of return on rate base as opposed to its rate of return on common equity as had been the practice since the late 1980s. The Court also reaffirmed the supervisory role of the PUB and recognized the right of Newfoundland Power's management to make decisions regarding expenses and capital structure in light of changing circumstances and business risks.

Comparison of Atlantic Canadian Electricity Costs



Costs based on average residential monthly use of 1,218 kWh. Bills computed in February 1999 and include Basic Customer Charge, energy charge, discounts and taxes.

On July 31, 1998, following a public hearing into the company's cost of capital, the PUB issued an Order approving an automatic adjustment formula to annually adjust rate of return on common equity in response to changes in long term Government of Canada bond yields. In its Order, the PUB allowed a 1998 rate of return on equity of 9.25 per cent. As a result of the Order, Newfoundland Power was required to reduce electrical rates on an interim basis by approximately 2.1 per cent, or \$7.1 million, in 1998.

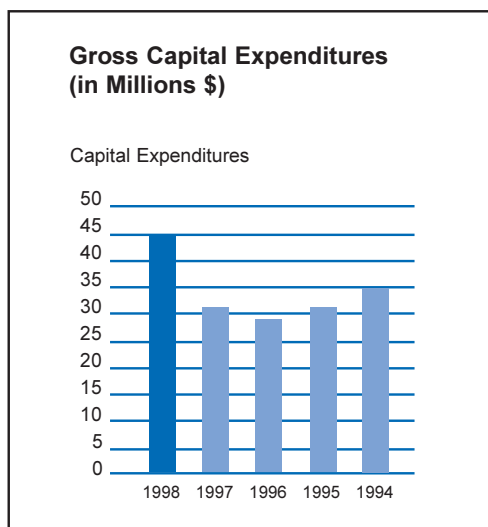
On January 15, 1999, the PUB issued an Order which finalized 1998 rates and set 1999 rates. This Order provided for an overall increase in rates of 1.16 per cent, effective February 1, 1999. This reflects an allowed return on equity of 9.25 per cent for 1999. In addition, the PUB approved a range of return on rate base of 9.80 per cent to 10.16 per cent for 1999.

Capital Resources and Liquidity

Net capital expenditures were \$45 million in 1998 compared to \$31 million in 1997. The increase in the company's 1998 capital program is mainly the result of the construction of a 6.1 MW hydroelectric generating plant at Rose Blanche Brook. This hydroelectric plant will provide increased reliability of supply to customers on the southwest coast of Newfoundland. The Rose Blanche Hydroelectric Plant, the first generating facility constructed by the company in 14 years, was energized on December 22, 1998.

Newfoundland Power's 1999 capital program is budgeted at \$37 million and will focus on increasing customer service through improved electrical system reliability and enhanced power quality. The company's capital program will be financed using internally generated funds.

In March 1998, the company paid a \$10 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. Newfoundland Power's regulated limit stands at 45 per cent.



The July 31, 1998 regulatory decision resulted in Newfoundland Power suspending dividends on its common shares. This action was taken to ensure the company's common equity is maintained close to the 45 per cent maximum allowed by the PUB.

Subsequent to the same July 31, 1998 regulatory ruling, Newfoundland Power's credit rating was downgraded by CBRS. CBRS cited "the adoption of a formula for setting annual rates of return on common equity [that will] consistently grant Newfoundland Power a regulated return on equity measuring below industry norms" and "a lack of customer diversity" as reasons for lowering the company's first mortgage bonds and preferred shares from Single A to A (Low) and P-2 (High) to P-2, respectively.

On November 20, 1998, the company issued \$50 million of 6.8 per cent First Mortgage Sinking Fund Bonds, Series AI, due 2028. Proceeds from this bond issue were used to finance Newfoundland Power's ongoing capital programs.

The Year 2000 Challenge

Addressing the issues associated with the year 2000 challenge was a continuing corporate priority for Newfoundland Power throughout 1998.

An extensive program to identify resources potentially affected by the year 2000 was implemented during the past year. A step-by-step action plan to deal with year 2000 challenges and the development of a comprehensive inventory of electronic items were major components of this program. Inventoried items were individually evaluated to establish their level of year 2000 risk and identify necessary remediation steps to avoid possible problems.

As of year-end 1998, 80 per cent of moderate to high risk items considered critical to Newfoundland Power's efficient business operations had been made year 2000 ready.

Newfoundland Power contracted external support in 1998 to address various year 2000 specific items. This support allowed internal resources to be available for operational imperatives while at the same time ensuring sufficient resources remain committed to the year 2000 project.

Throughout 1998, Newfoundland Power worked with key business partners and suppliers to ensure they are prepared for the year 2000.

Newfoundland Power will continue to seek confirmation from its suppliers, clients and partners that they are addressing year 2000 challenges in a manner that will not affect Newfoundland Power's operations. In 1999, a joint audit with Newfoundland and Labrador Hydro, which supplies approximately 90 per cent of the electricity Newfoundland Power delivers to customers, will be conducted.

Results to date have been extremely positive giving Newfoundland Power confidence that it is well prepared for the year 2000 transition. However, the company has established a June 30, 1999 deadline for contingency plans to be in place in the event of any component failure related to the year 2000. Corporate responsibility for year 2000 operations lies at the executive level.

Risk Analysis

The principal long term risk facing Newfoundland Power 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 market.

The strong growth experienced by the Newfoundland economy in 1998 will continue in 1999. The Conference Board of Canada predicts Newfoundland will lead the country in growth in 1999 with a real GDP of 5.6 per cent. This growth will be led by the goods-producing sector, particularly the mining and offshore oil industries. Steadily increasing oil production at Hibernia and the development of the Terra Nova oil field are the principal contributors to this growth. The fishing industry also contributed to growth in 1998 based on a limited cod fishery and higher quotas for both crab and shrimp.

On the downside, the development of the nickel deposit at Voisey's Bay and the construction of a refinery and smelter complex at Argentia have been delayed indefinitely. In addition, Newfoundland continues to experience record levels of out-migration particularly in rural areas of the province. Out-migration is due to continued high levels of unemployment and the elimination of fishery support programs.

Over 50 per cent of Newfoundland Power's energy sales are subject to competitive end use in the space and water heating markets. In recent years the number of conversions from electric space heating to oil has declined while the number of customers installing electric space heating in new homes has remained strong. However, if the price of oil remains at current low levels the company could be faced with increased competition in these markets.

Newfoundland Power will be an active participant in the Government of Newfoundland and Labrador's Energy Policy Review. This review will examine five elements which affect Newfoundland Power's business including: legislation and regulation; existing electrical industry structure; electrical supply in the province; pricing; and electricity as a tool for economic development.

As the electrical utility industry changes, Newfoundland Power remains committed to preparing for, and succeeding in, a more competitive marketplace.

Management Report

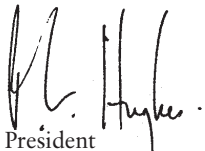
The accompanying financial statements of Newfoundland Power Inc. and all information in the annual report, are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts that are based on management's best estimates and judgments.

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 Audit 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 LLP, and their report follows.



President
& Chief Executive Officer



Vice President, Finance
& Chief Financial Officer

Auditors' Report

To the Shareholders,
Newfoundland Power Inc.

We have audited the balance sheets of Newfoundland Power Inc. as at December 31, 1998 and 1997 and the statements of income, retained earnings and cashflows 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, 1998 and 1997 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.



Deloitte & Touche LLP

St. John's, Newfoundland
January 20, 1999

Balance Sheet

As at December 31


	<u>1998</u>	<u>1997</u>
	<i>(in thousands)</i>	
Assets		
Fixed Assets (Note 1)		
Property, plant and equipment	\$ 870,348	\$ 841,775
Less: accumulated depreciation	<u>362,933</u>	<u>349,934</u>
	<u>507,415</u>	<u>491,841</u>
Current Assets		
Accounts receivable	33,044	36,893
Materials and supplies at average cost	3,711	3,691
Rate stabilization account	<u>4,482</u>	<u>3,874</u>
	<u>41,237</u>	<u>44,458</u>
Corporate Income Tax Deposit (Note 11)	<u>15,595</u>	<u>15,595</u>
Deferred Charges (Note 2)	<u>36,455</u>	<u>29,633</u>
	<u>\$ 600,702</u>	<u>\$ 581,527</u>

Shareholders' Equity and Liabilities

Shareholders' Equity		
Common shares (Note 3)	\$ 70,321	\$ 70,321
Retained earnings	<u>159,164</u>	<u>157,191</u>
Common shareholder's equity	229,485	227,512
Preference shares (Note 3)	<u>9,890</u>	<u>9,890</u>
	<u>239,375</u>	<u>237,402</u>
Long-term Debt (Note 4)	<u>283,208</u>	<u>236,258</u>
Current Liabilities		
Short-term borrowings	5,041	30,590
Accounts payable and accrued charges	55,002	57,594
Current installments of long-term debt	<u>3,050</u>	<u>2,550</u>
	<u>63,093</u>	<u>90,734</u>
Deferred Credits (Note 5)	<u>15,026</u>	<u>17,133</u>
	<u>\$ 600,702</u>	<u>\$ 581,527</u>

APPROVED ON BEHALF OF THE BOARD:


Director


Director

See accompanying notes to financial statements.

Statement Of Income

For the Year Ended December 31

	<u>1998</u>	<u>1997</u>
	<i>(in thousands)</i>	
Revenue	\$ 335,751	\$ 343,677
Purchased Power	<u>191,586</u>	<u>190,711</u>
	<u>144,165</u>	<u>152,966</u>
Other Expenses		
Operating expenses (Note 6)	52,641	57,555
Depreciation	28,067	26,800
Finance charges (Note 7)	<u>25,233</u>	<u>24,949</u>
	<u>105,941</u>	<u>109,304</u>
Income Before Income Taxes	38,224	43,662
Income Taxes (Note 8)	<u>16,027</u>	<u>18,105</u>
Net Income for the Year	22,197	25,557
Dividends on Preference Shares	<u>626</u>	<u>626</u>
Earnings Applicable to Common Shares	<u>\$ 21,571</u>	<u>\$ 24,931</u>

Statement Of Retained Earnings

For the Year Ended December 31

	<u>1998</u>	<u>1997</u>
	<i>(in thousands)</i>	
Balance at Beginning of the Year	\$ 157,191	\$ 155,836
Net income for the year	<u>22,197</u>	<u>25,557</u>
	<u>179,388</u>	<u>181,393</u>
Dividends		
Preference shares	626	626
Common shares - regular	9,598	18,576
- special	<u>10,000</u>	<u>5,000</u>
	<u>20,224</u>	<u>24,202</u>
Balance at End of the Year	<u>\$ 159,164</u>	<u>\$ 157,191</u>

See accompanying notes to financial statements.

Statement

Of Cashflows

For the Year Ended December 31

	<u>1998</u>	<u>1997</u>
	<i>(in thousands)</i>	
Cash From (Used in) Operations		
Net income for the year	\$ 22,197	\$ 25,557
Items not affecting cash		
Depreciation	28,067	26,800
Deferred income taxes	(79)	(1,589)
Weather normalization account	(1,316)	(1,001)
Amortization of deferred charges	240	688
Change in non-cash working capital	629	(1,649)
	<u>49,738</u>	<u>48,806</u>
Cash From (Used in) External Financing		
Net proceeds from long-term debt (Note 4)	49,198	
Repayment of long-term debt	(2,550)	(2,515)
	<u>46,648</u>	<u>(2,515)</u>
Cash From (Used in) Investing		
Capital expenditures (net)	(45,391)	(30,907)
Contributions in aid of construction	1,038	2,128
Increase in deferred charges	(6,260)	(4,022)
	<u>(50,613)</u>	<u>(32,801)</u>
Dividends		
Preference shares	(626)	(626)
Common shares - regular	(9,598)	(18,576)
- special	(10,000)	(5,000)
	<u>(20,224)</u>	<u>(24,202)</u>
Decrease (Increase) in Short-term Borrowings	25,549	(10,712)
Short-term Borrowings, Beginning of the Year	(30,590)	(19,878)
Short-term Borrowings, End of the Year	<u>\$ (5,041)</u>	<u>\$ (30,590)</u>

See accompanying notes to financial statements.

Notes

To Financial Statements

December 31, 1998

SUMMARY OF ACCOUNTING POLICIES

General

Accounting policies conform to generally accepted accounting principles and to accounting requirements established from time to time by the Newfoundland and Labrador Board of Commissioners of Public Utilities (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 salvage, is charged to accumulated 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 per cent (1997 - 3.7 per cent) before reduction for the amortization of contributions in aid of construction 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 were amortized over five years ending 1997.
Capital stock issue expense:	over 20 years from date of issue.
Deferred regulatory costs:	costs billed to the company by the PUB with respect to 1998 regulatory proceedings are amortized over three years beginning in 1999.

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.

Contributions in Aid of Construction

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 re-acquire the plant so 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 deferred income tax liability would have increased by approximately \$87.9 million at December 31, 1998 (1997 - \$86.7 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 compared to long-term averages. The balance in the weather normalization account is subject to annual approval by the PUB.

1. Fixed Assets

	December 31, 1998 (in thousands)				December 31, 1997
	Cost	Accumulated Depreciation	Net Book Value	Composite Depreciation Rate	Net Book Value
Distribution	\$ 485,136	\$ 197,821	\$ 287,315	3.6%	\$ 288,541
Transmission					
and substations	167,328	73,332	93,996	3.0%	92,197
Generation	100,473	41,448	59,025	2.1%	46,166
Land, buildings					
and equipment	78,474	26,108	52,366	5.2%	50,166
Transportation and					
communications	38,937	24,224	14,713	9.3%	14,771
	<u>\$ 870,348</u>	<u>\$ 362,933</u>	<u>\$ 507,415</u>	<u>3.7%</u>	<u>\$ 491,841</u>

2. Deferred Charges

	December 31 1998	December 31 1997
	(in thousands)	(in thousands)
Deferred pension costs	\$ 31,170	\$ 25,740
Unamortized debt discount and expense	3,157	2,514
Unamortized capital stock issue expense	746	827
Deferred regulatory costs and other	1,382	552
	<u>\$ 36,455</u>	<u>\$ 29,633</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.

Issued and outstanding

	<u>1998</u>	<u>1997</u>
	<i>(in thousands)</i>	
Common shares		
<u>10,320,270</u> Class A common shares	<u>\$ 70,321</u>	<u>\$ 70,321</u>
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>
<u>988,923</u> First preference shares	<u>\$ 9,890</u>	<u>\$ 9,890</u>

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>1998</u>	<u>1997</u>
	<i>(in thousands)</i>	
First mortgage sinking fund bonds		
11.500% Series AB, due 2005	\$ 13,800	\$ 13,950
11.875% Series AC, due 2007	35,070	35,470
10.550% Series AD, due 2014	34,953	35,353
10.900% Series AE, due 2016	37,200	37,600
10.125% Series AF, due 2022	37,600	38,000
9.000% Series AG, due 2020	38,400	38,800
8.900% Series AH, due 2026	39,235	39,635
6.800% Series AI, due 2028	50,000	
	<u>286,258</u>	<u>238,808</u>
Less: current installments	3,050	2,550
	<u>\$ 283,208</u>	<u>\$ 236,258</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 \$3,050,000 are required to meet sinking fund payments and installments of long term debt in each of the next five years.

The estimated fair value of the company's first mortgage bonds was \$358 million at December 31, 1998 (1997 - \$340 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>1998</u>	<u>1997</u>
	<i>(in thousands)</i>	
Contributions in aid of construction	\$ 20,048	\$ 20,760
Deferred income taxes		79
Weather normalization account	(5,022)	(3,706)
	<u>\$ 15,026</u>	<u>\$ 17,133</u>

6. Operating Expenses

Operating expenses for 1997 include \$3.7 million of retiring allowances paid to employees who participated in early retirement programs in 1997. No similar amounts were incurred in 1998.

7. Finance Charges

	<u>1998</u>	<u>1997</u>
	<i>(in thousands)</i>	
Interest - long-term debt	\$ 24,824	\$ 25,107
- short-term debt	1,740	722
Amortization - debt discount and expense	158	179
- capital stock issue expense	80	109
Interest earned	(1,006)	(928)
Interest charged to construction	(563)	(240)
	<u>\$ 25,233</u>	<u>\$ 24,949</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>1998</u>	<u>1997</u>
	<i>(in percentages)</i>	
Statutory income tax rate	43.1	43.1
Large corporations tax	2.1	1.7
General expenses capital	(1.2)	(2.6)
Pension costs	(6.1)	(4.0)
Timing difference not recorded	4.0	3.3
Effective income tax rate	<u>41.9</u>	<u>41.5</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 actuarial present value of the accrued pension benefits is \$131.3 million (1997 - \$128.1 million) and the market value of the pension plan assets is \$126.2 million (1997 - \$115.7 million).

Pension costs charged to income and capital in 1998 were \$3.8 million (1997 - \$4.6 million).

10. Related Party Transactions

The company is a wholly-owned subsidiary of Fortis Inc. In 1998, net charges from related companies were \$225,000 (1997 - \$495,000). 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 \$38.3 million including interest to December 31, 1998 would arise, offset by approximately \$16.7 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 would be made should this occur.

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

12. Year 2000

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations.

Management is addressing the Year 2000 issue; however, it is not possible to be certain that all aspects of the Year 2000 issue affecting the company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Ten Year

Summary

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Income Statement Items (in \$000s)										
Revenue	335,751	343,677	341,560	338,934	338,367	333,570	330,221	319,143	307,076	277,895
Operating expenses	244,227	248,266	246,849	245,946	239,707	236,307	237,345	230,423	222,610	202,512
Finance charges	25,233	24,949	24,010	22,739	22,972	22,494	21,628	21,485	20,357	17,646
Depreciation	28,067	26,800	26,314	28,896	28,141	26,921	25,878	24,555	24,046	20,955
Income taxes	16,027	18,105	18,617	13,120	19,745	18,666	15,708	14,881	13,828	12,336
Earnings applicable to common shares	21,571	24,931	25,144	27,638	27,090	27,702	27,731	25,483	23,775	21,897
Return on Equity (%)	9.44	10.99	10.91	12.02	12.01	12.62	13.46	13.17	13.59	13.92
Balance Sheet Items (in \$000s)										
Property, plant and equipment	870,348	841,775	819,522	800,507	776,792	746,132	718,712	685,004	649,288	587,647
Accumulated depreciation	362,933	349,934	329,970	311,089	287,392	262,912	241,001	220,104	200,503	180,532
Net fixed assets	507,415	491,841	489,552	489,418	489,400	483,220	477,711	464,900	448,785	407,115
Total assets	600,702	581,527	573,538	568,550	552,972	549,164	547,034	522,075	500,025	455,528
Long term debt	286,258	238,808	241,323	203,473	217,031	218,906	221,181	197,686	163,154	178,239
Preference shares	9,890	9,890	9,890	9,890	10,902	10,905	22,296	29,889	30,938	32,595
Common equity	229,485	227,512	226,157	234,779	225,098	226,054	212,904	199,082	187,814	162,143
Total capital	525,633	476,210	477,370	448,142	453,031	455,865	456,381	426,657	381,906	372,977
Operating Statistics										
Sources of Energy (in millions of kWh)										
Purchased	4,259	4,244	4,236	4,186	4,178	4,093	4,066	4,008	4,008	3,772
Generated	429	424	423	423	420	420	417	417	411	415
Total	4,688	4,668	4,659	4,609	4,598	4,513	4,483	4,425	4,419	4,187
Peak one-hour demand (MW)	957	1,065	1,081	1,123	1,031	1,098	1,027	1,101	1,074	1,106
Sales (in millions of kWh)										
Residential	2,652	2,669	2,635	2,600	2,594	2,540	2,509	2,462	2,404	2,254
Commercial and street lighting	1,788	1,769	1,790	1,782	1,777	1,746	1,735	1,734	1,770	1,706
Total	4,440	4,438	4,425	4,382	4,371	4,286	4,244	4,196	4,174	3,960
Energy sales per employee (in millions kWh)	6.3	6.3	5.5	5.3	5.4	5.3	4.5	4.4	4.2	4.1
Customer Accounts (year-end)										
Residential	182,324	181,168	179,375	177,431	175,797	172,942	170,418	167,217	164,019	160,537
Commercial and street lighting	31,826	31,191	30,786	30,349	29,919	29,304	28,874	28,513	28,346	28,038
Total	214,150	212,359	210,161	207,780	205,716	202,246	199,292	195,730	192,365	188,575
Gross operating costs per customer (\$)	259	290	285	300	292	292	309	296	294	303
Revenue per employee (\$)	476,243	487,485	425,355	412,328	419,290	409,288	347,601	333,483	312,069	288,572
Number of regular employees	705	705	803	822	807	815	950	957	984	963

Junior Achievement of
Newfoundland & Labrador
Memorial University of Newfoundland
Canadian Cancer Society,
Newfoundland & Labrador Division
Citizens Crime Prevention Association
Salvation Army
Central Northeast Health Foundation
Canada World Youth
FoxEye Environmental Coalition
St. John's Maple Leafs Foundation
Downtown Development Commission

Newfoundland Symphony Orchestra
Scouts Canada
Burin Peninsula Health Care Foundation
The Canadian Red Cross Society
Janeway Children's Hospital Foundation
St. John's Regatta
Boys and Girls Clubs of
Newfoundland & Labrador
The Learning Disabilities Association
Children's Food Foundation of
Newfoundland and Labrador
Art Gallery of Newfoundland

Partnering With Our Community



Fish Friends
Corner Brook



Mobile Fire Hydrant Project
Mobile



RCMP Safe Driving Program
Grand Falls



MUN Opportunity Fund
St. John's

Newfoundland & Labrador Association
of Fire Chiefs and Firefighters
Marystown-Burin Area
Chamber of Commerce
Mothers Against Drunk Driving
Atlantic Salmon Federation
Coats for Kids
Corner Brook Stream
Development Corporation
St. John's Clean and Beautiful
The Canadian Diabetes Association
Charles R. LeGrow Hospital
Alzheimer Society of
Newfoundland & Labrador
Child Find Newfoundland & Labrador
Newfoundland Lung Association
1999 Canada Winter Games
Winterland EcoMuseum
Newfoundland Science Centre
Community Services Council
Newfoundland & Labrador
Special Olympics
Newfoundland Association for the Deaf

Health and Community Services,
Eastern Region
St. John's Jaycees
The Arthritis Society
Disabled Athletes Foundation of
Newfoundland & Labrador
Newfoundland & Labrador
Home Builders Association
Waterford Hospital Foundation
Health Care Corporation of St. John's
Newfoundland Brain Injury Association
Triathlon World Cup
Argentia Area Chamber of Commerce
Heart and Stroke Foundation of
Newfoundland & Labrador
Mazol Shriner's Patient
Transportation Fund
Crimestoppers
Cerebral Palsy
Association of Newfoundland
Cross Memorial Health Care Foundation
The Duke of Edinburgh's Award
Avalon West School District

*At Newfoundland Power,
we have the energy to
make a difference.*

*Newfoundland Power's employees
and directors are deeply
committed to providing financial,
in-kind and volunteer support to
enhance social and economic
programs throughout our province.*

*Over the past year, we have had
the opportunity to partner with,
and contribute to, hundreds of
organizations across Newfoundland
— some of which are listed on this
page.*



We Care Nature Trail
Stephenville



Coats for Kids
Clareville



Newfoundland Science Centre
St. John's



Burin Peninsula
Health Care Foundation

Board of Directors

*Pictured from left to right:
(Front Row) Derrick Gill,
Peter Woodward, Linda Inkpen,
Rex Gibbons, Harold Wareham.
(Back Row) James Lea,
Philip Hughes, Stan Marshall,
Frank Coleman, Frank Howard,
Janet Kelly, Derek Hiscock.*



Newfoundland Power's Board of Directors is comprised of experienced leaders with various backgrounds.

Our company is pleased to have welcomed Rex Gibbons and Peter Woodward to our Board of Directors in 1998.

In April 1998, John Moore retired from Newfoundland Power's Board of Directors. We thank Mr. Moore for his valued contribution to our organization over the past six years.

On behalf of the employees and Board of Directors of Newfoundland Power, we congratulate Linda Inkpen, Chair of our Board of Directors, on becoming a Member of the Order of Canada in 1998.

Frank J. Coleman
President
Coleman Management Services Ltd.
Corner Brook, Newfoundland

Rex V. Gibbons
Executive Vice President
& Senior Geoscience Consultant
Jacques Whitford Environment Ltd.
St. John's, Newfoundland

Derrick E. Gill
Executive Vice President
Voisey's Bay Nickel Company Ltd.
St. John's, Newfoundland

Derek F. Hiscock
President
Robinson-Blackmore
Printing and Publishing
St. John's, Newfoundland

Frank P. Howard
President
Riverview Chev-Olds Ltd.
Grand Falls-Windsor, Newfoundland

Philip G. Hughes
President
& Chief Executive Officer
Newfoundland Power Inc.
St. John's, Newfoundland

Linda L. Inkpen, C.M.
Medical Practitioner
East End Health Centre
St. John's, Newfoundland

Janet Kelly
President
McGrath-Kelly Company Inc.
St. John's, Newfoundland

James A. Lea
President
& Chief Executive Officer
Maritime Electric Company, Limited
Charlottetown, Prince Edward Island

H. Stanley Marshall
President
& Chief Executive Officer
Fortis Inc.
St. John's, Newfoundland

Harold L. Wareham
President
& Chief Executive Officer
Atlantis Corporation Ltd.
St. John's, Newfoundland

Peter Woodward
Vice President, Operations
Woodward Group of Companies
Goose Bay, Labrador

Corporate Directory

Philip G. Hughes	President & Chief Executive Officer
Nora M. Duke	Vice President, Customer & Corporate Services
John G. Evans	Vice President, Engineering & Energy Supply
Earl A. Ludlow	Vice President, Operations
Karl W. Smith	Vice President, Finance & Chief Financial Officer
Peter S. Alteen	Corporate Counsel & Secretary

In February 1999, Nora Duke was appointed Vice President, Customer & Corporate Services by the Board of Directors. Ms. Duke was previously the company's Manager, Human Resources.

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

1999 Annual General Meeting

Main Boardroom
Newfoundland Power Inc.
55 Kenmount Road, 3rd Floor
St. John's, Newfoundland
Wednesday, April 21, 1999 at 8:00 a.m.

Investor Information

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

Website

www.newfoundlandpower.com

E-mail

contactus@newfoundlandpower.com

Shareholders requiring changes to share registration should contact Montreal Trust Company at (514) 982-7555 or through their website www.montrealtrust.com.



Proud to be a Major Sponsor
of the 1999 Canada Winter Games



AFFIDAVIT

PROVINCE OF NEWFOUNDLAND

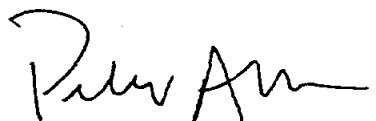
CITY OF ST. JOHN'S

TO WIT:

I, Karl Smith of St. John's do swear that I am Vice President, Finance and Chief Financial Officer of Newfoundland Power Inc. (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

31st day of March, 1999 before
me:


a barrister (N.F.)


Karl W. Smith

<p>Newfoundland Power Inc. Names and Addresses of Officers and Directors as of December 31, 1998</p>

<u>Name</u>	<u>Address</u>	<u>Position Held</u>
Peter S. Alteen	17 Burton St. St. John's, NF A1E 5M1	Corporate Counsel and Secretary
Frank J. Coleman	25 Hamilton Place Corner Brook, NF A2H 7C1	Director
John G. Evans	36 Baker Street St. John's, NF A1A 5C3	Vice President, Engineering and Energy Supply
Rex V. Gibbons	34 Spratt Place St. John's, NF A1E 4M2	Director
Derrick E. Gill	98 Waterford Bridge Road St. John's, NF A1E 1C8	Director
Derek F. Hiscock	31 Baker Street St. John's, NF A1A 5C3	Director
Frank P. Howard	7 Hill Road Grand Falls - Windsor, NF A2A 1G9	Director

<p>Newfoundland Power Inc. Names and Addresses of Officers and Directors as of December 31, 1998</p>

<u>Name</u>	<u>Address</u>	<u>Position Held</u>
Philip G. Hughes	128 Logy Bay Road St. John's, NF A1A 1J6	President and Chief Executive Officer
Linda L. Inkpen	P. O. Box 432 R. R. #1 St. Phillips, NF A1L 1C1	Chair of the Board
Janet Kelly	Box 6, R. R. #1 Portugal Cove, NF A0A 3K0	Director
James A. Lea	84 Greenfield Avenue Charlottetown, P.E.I. C1A 3N8	Director
Earl A. Ludlow	33 Ortega Drive P.O. Box 481 Paradise, NF A1L 1C8	Vice President, Operations
H. Stanley Marshall	P.O. Box 2590 Topsail, NF A1W 1A2	Director
Karl W. Smith	45 Hyde Park Drive St. John's, NF A1A 5G3	Vice President, Finance and Chief Financial Officer

<p>Newfoundland Power Inc. Names and Addresses of Officers and Directors as of December 31, 1998</p>

<u>Name</u>	<u>Address</u>	<u>Position Held</u>
Harold L. Wareham	156 Portugal Cove Road Apt. 605 St. John's, NF A1B 4H9	Director
Peter Woodward	Tupper Drive P.O. Box 913, Stn. "A" Goose Bay, Labrador A0P 1S0	Director

Newfoundland Power Inc. Computation of Rate Base For The Year Ended December 31, 1998 (000s)		
	1998	1997
Plant Investment - Return 4	\$ 867,270	\$ 838,348
<u>Deduct:</u>		
Accumulated Depreciation - Return 5	362,933	349,934
Contributions in Aid of Construction - Return 9	20,048	20,760
Deferred Income Taxes - Return 6	-	79
Weather Normalization Reserve - Return 14	(5,022)	(3,706)
	<u>377,959</u>	<u>367,067</u>
	<u>489,311</u>	<u>471,281</u>
<u>Add:</u>		
Contributions - Country Homes	333	223
	<u>489,644</u>	<u>471,504</u>
Average	480,574	469,323
Cash Working Capital Allowance - Return 7	4,413	4,545
Materials and Supplies - Return 7A	3,217	3,551
	<u>Average Rate Base at Year End - Return 10</u>	<u>\$ 477,419</u>
	<u>\$ 488,204</u>	

Newfoundland Power Inc.
Plant Investment
For The Year Ended December 31, 1998
(000s)

	Balance January 1, 1998	Adjustments during 1998	Additions during 1998	Retirements during 1998	Balance December 31, 1998
Power Generation:					
Steam	\$ 5,036	\$ -	\$ -	\$ 91	\$ 4,945
Hydro	69,187	-	13,727	276	82,638
Diesel	4,028	-	17	1,694	2,351
Gas Turbine	8,859	-	179	5	9,033
	<u>87,110</u>	<u>-</u>	<u>13,923</u>	<u>2,066</u>	<u>98,967</u>
Substations	85,655	-	3,085	410	88,330
Transmission	71,154	-	2,605	523	73,236
Distribution	456,565	-	16,665	5,708	467,522
General Properties	40,812	-	1,386	696	41,502
Transportation	19,497	-	1,944	1,173	20,268
Communications	17,923	-	1,431	735	18,619
Computer Software	17,386	110	2,620	32	20,084
Computer Hardware	7,681	-	1,938	4,483	5,136
Government Contributions	23,658	(110)	-	-	23,548
PCB Disposal	849	-	-	849	-
	<u>828,290</u>	<u>-</u>	<u>45,597</u>	<u>16,675</u>	<u>857,212</u>
Total Depreciable Plant					
Non-depreciable Land	10,058	-	-	-	10,058
	<u>\$ 838,348</u>	<u>\$ -</u>	<u>\$ 45,597</u>	<u>\$ 16,675</u>	
Plant Investment - Returns 1 and 3					\$ 867,270
Work in Progress					<u>3,078</u>
Total Plant Investment					<u>\$ 870,348</u>

Newfoundland Power Inc.
Capital Expenditure
For The Year Ended December 31, 1998
(000s)

	Approved by Board Order	Actual	Variance Over (Under)
Energy Supply	\$ 13,121	\$ 12,888	\$ (233)
Substations	2,660	3,029	369
Transmission	2,640	2,425	(215)
Distribution	13,402	15,422	2,020
General Property	2,193	1,294	(899)
Transportation	1,415	1,521	106
Telecommunications	1,173	1,121	(52)
Computing Equipment	3,439	4,080	641
General Expenses Capital	3,417	3,465	48
	<u>\$ 43,460</u>	<u>\$ 45,245</u>	<u>\$ 1,785</u>

Newfoundland Power Inc.
Accumulated Depreciation
For The Year Ended December 31, 1998
(000s)

(A) Balance - January 1, 1998 \$ 349,934

Add:

Depreciation - Appropriated from Income	28,067
Amortization of Contributions - Government	708
Amortization of Contributions - Customers	1,047
Salvage	1,212

31,034

Deduct:

Cost of Removal (Net of Income Tax)	1,360
Retirements	16,675

18,035

(B) Balance - December 31, 1998 - Return 3 \$ 362,933

(C) Depreciation Rates - 1998

	Before True-up	After True-up
Steam	0.00%	0.00%
Hydro	2.02%	2.02%
Diesel	3.55%	-1.24%
Gas Turbine	3.55%	-1.47%
Substations	2.75%	0.91%
Transmission	3.38%	4.89%
Distribution	3.62%	3.62%
General Properties	2.80%	3.38%
Transportation	10.84%	6.79%
Telecommunications	7.57%	7.57%
Computer Software	10.00%	6.10%
Computer Hardware	20.00%	20.00%

(D) Percentage of Accumulated Depreciation to Total Depreciable Plant : 42.34%

(E) Percentage of Current Depreciation, including the Provision for True-up and
Amortization of Contributions, to Total Depreciable Plant : 3.48%

Newfoundland Power Inc.
Accumulated Deferred Income Tax
For The Year Ended December 31, 1998
(000s)

Balance - January 1, 1998	\$	79
---------------------------	----	----

Increase for the Year - Timing Differences:

CCA claimed on all property, plant
and equipment

\$ 22,720

Depreciation expense on all property,
plant and equipment (GEC excluded
from post-1986 additions)

25,072

(2,352)

Income Tax @ 42.0%

(988)

Balance - December 31, 1998 - Return 3 (If negative, enter zero)	\$	<u>-</u>
--	----	----------

Newfoundland Power Inc.
Working Capital
For The Year Ended December 31, 1998
(000s)

(A) Calculation of Cash Working Capital Allowance

Operating Expenses for the Year - Return 12	\$ 244,227
---	------------

Less: Non-regulated Expenses (Net of Income Tax)	728
--	-----

243,499

Add: Current Income Tax Expense - Return 18	16,106
---	--------

\$ 259,605

1998 Working Capital Allowance (@ 1.7%) - Return 3	<u>\$ 4,413</u>
--	-----------------

1997 Working Capital Allowance	<u>\$ 4,545</u>
--------------------------------	-----------------

(B) In general, the Company's billing and collection procedures are consistent with those in place during the preceding year.

Newfoundland Power Inc. Materials and Supplies For The Year Ended December 31, 1998 (000s)							
	1998			1997			
	Balance Sheet	Expansion	Rate Base	Balance Sheet	Expansion	Rate Base	
Materials and Supplies - Jan.	\$ 3,806	\$ 696	\$ 3,110	\$ 4,408	\$ 807	\$ 3,601	
Feb.	4,013	734	3,279	4,653	851	3,802	
Mar.	4,117	753	3,364	4,550	833	3,717	
Apr.	4,085	748	3,337	4,786	876	3,910	
May	4,099	750	3,349	4,854	888	3,966	
Jun.	3,668	671	2,997	4,586	839	3,747	
Jul.	4,176	764	3,412	4,369	800	3,569	
Aug.	3,775	691	3,084	4,234	775	3,459	
Sep.	4,007	733	3,274	4,281	783	3,498	
Oct.	4,009	734	3,275	3,946	722	3,224	
Nov.	3,776	691	3,085	3,793	694	3,099	
Dec.	3,711	679	3,032	3,691	675	3,016	
			<u>\$38,598</u>			<u>\$42,608</u>	
Materials and Supplies Monthly Average - Return 3			<u>\$ 3,217</u>			<u>\$ 3,551</u>	

Newfoundland Power Inc.
Deferred Expenses
For The Year Ended December 31, 1998
(000s)

	Balance January 1, 1998	Additions during 1998	Reductions during 1998	Balance December 31, 1998
Debt Discount & Expenses	\$ 2,514	\$ 801	\$ 158	\$ 3,157
Capital Stock Issue Expense	827	-	80	747
Deferred Pension Costs	25,740	8,653	3,224	31,169
Deferred Regulatory Costs	-	1,150	-	1,150
Other*	552	-	320	232
Deferred Expenses - Return 1	<u>\$ 29,633</u>	<u>\$ 10,604</u>	<u>\$ 3,782</u>	<u>\$ 36,455</u>

* Other Deferred Expenses includes deferred work orders.

Newfoundland Power Inc.
Contributions In Aid Of Construction
For The Year Ended December 31, 1998
(000s)

	<u>Customers</u>	<u>Government</u>	<u>Total</u>
(A) Gross Contributions - January 1, 1998	\$ 29,215	\$ 22,270	\$ 51,485
Less: Amortization to December 31, 1997	12,142	18,583	30,725
	<hr/>	<hr/>	<hr/>
Unamortized Contributions - January 1, 1998	17,073	3,687	20,760
Repayment of Contribution	-	(110)	(110)
Contributions received during 1998	1,153	-	1,153
Less: Amortization - 1998	1,047	708	1,755
	<hr/>	<hr/>	<hr/>
	106	(818)	(712)
	<hr/>	<hr/>	<hr/>
(B) Balance at December 31, 1998 - Return 3	<u>\$ 17,179</u>	<u>\$ 2,869</u>	<u>\$ 20,048</u>

Newfoundland Power Inc. Amortization of Contributions In Aid Of Construction - Customers For The Year Ended December 31, 1998 (000s)				
	<u>Gross Contributions</u>	<u>Amortized During 1998</u>	<u>Amortized To Date</u>	<u>Unamortized Contributions</u>
Prior to 1965	\$ 797	\$ -	\$ 797	\$ -
1965	202	-	202	-
1966	348	-	348	-
1967	233	-	233	-
1968	223	-	223	-
1969	329	-	329	-
1970	234	4	233	1
1971	201	7	197	4
1972	150	5	142	8
1973	512	19	475	37
1974	537	19	484	53
1975	760	28	669	91
1976	430	16	363	67
1977	657	24	531	126
1978	431	16	334	97
1979	536	19	427	109
1980	655	24	475	180
1981	653	24	445	208
1982	693	25	442	251
1983	1,090	39	655	435
1984	849	31	470	379
1985	1,090	39	562	528
1986	1,010	37	484	526
1987	936	34	412	524
1988	1,493	54	592	901
1989	1,774	64	639	1,135
1990	1,411	51	458	953
1991	1,421	51	409	1,012
1992	1,720	62	434	1,286
1993	997	36	216	781
1994	1,314	48	238	1,076
1995	1,875	271	271	1,604
1996	1,422	-	-	1,422
1997	2,232	-	-	2,232
1998	1,153	-	-	1,153
Total	<u>\$ 30,368</u>	<u>\$ 1,047</u>	<u>\$ 13,189</u>	<u>\$ 17,179</u>

Newfoundland Power Inc.
Return on Rate Base
For The Year Ended December 31, 1998
(000s)

	<u>1998</u>	<u>1997</u>
(A) Net Income - Return 1	\$ 22,197	\$ 25,557
Non-deductible Expenses - Net of Income Tax	728	627
	<u>22,925</u>	<u>26,184</u>
<u>Add:</u>		
Interest on Long Term Debt	24,824	25,107
Other Interest	1,740	722
Interest Earned	(1,006)	(928)
Interest Charged to Construction	(563)	(240)
Amortization of Debt Discount & Expenses	158	179
Amortization of Capital Stock Issue Expenses	80	109
	<u>25,233</u>	<u>24,949</u>
(B) Regulated Earnings	<u>48,158</u>	<u>51,133</u>
(C) Average Rate Base - Return 3	<u>488,204</u>	<u>477,419</u>
(D) Rate of Return on Average Rate Base	<u>9.86%</u>	<u>10.71%</u>

Newfoundland Power Inc.
Analysis of Revenue - Normalized
For The Year Ended December 31, 1998

		1998			1997		
		Gigawatt Hours	Year End Customer Accounts	Revenue (000s)	Gigawatt Hours	Year End Customer Accounts	Revenue (000s)
Residential	1.1	2,652.1	182,324	\$ 198,361	2,669.3	181,168	\$ 203,436
General Service:							
0 - 10 kW	2.1	91.3	11,764	9,908	91.4	11,500	10,104
10 - 100 kW	2.2	551.3	7,809	44,236	550.7	7,881	45,761
110 - 1000 kVA	2.3	773.4	940	49,830	769.5	930	51,098
over 1000 kVA	2.4	336.1	49	18,143	321.2	45	17,631
Street & Area Lighting	4.1	35.4	11,264	10,140	35.9	10,835	10,353
Forfeited Discounts				2,262			2,314
Revenue From Rates		4,439.6	214,150	\$ 332,880	4,438.0	212,359	\$ 340,697
Wheeling				443			436
Non Electrical Revenue				2,428			2,544
Other Revenue				\$ 2,871			\$ 2,980
Total Revenue - Return 1		<u>4,439.6</u>	<u>214,150</u>	<u>\$ 335,751</u>	<u>4,438.0</u>	<u>212,359</u>	<u>\$ 343,677</u>

Newfoundland Power Inc. Statement of Expenses For The Year Ended December 31, 1998 (000s)		
	1998	1997
<u>Operating Expenses</u>		(Note 1)
Purchased Power	\$ 191,586	\$ 190,711
Power Produced	2,089	1,978
Administrative and Engineering Support	6,972	7,060
Environmental Policy	621	384
Substations	2,048	1,903
Transmission	607	778
Distribution	7,254	6,761
Communications	1,203	1,545
Fleet Operating and Maintenance Expense	2,183	2,418
	<u>214,563</u>	<u>213,538</u>
<u>General Expenses</u>		
Customer Service	9,900	10,270
Financial Services	1,286	2,001
Information Systems	3,264	3,389
Company Pension Plan	3,833	4,159
Retirement Allowances	19	3,829
Corporate and Employee Services	14,080	15,056
	<u>32,382</u>	<u>38,704</u>
Total Operating & General Expenses	246,945	252,242
Less: Transfers to General Expenses Capital	2,718	3,976
Total - Return 1	<u><u>\$ 244,227</u></u>	<u><u>\$ 248,266</u></u>

Note 1: 1997 expenses have been recategorized for comparative purposes in accordance with approved changes to the system of accounts.

Newfoundland Power Inc.
Explanation of Significant Operating Expense Variances
For The Year Ended December 31, 1998
(1998 vs 1997)
(000s)

	<u>1998</u>	<u>1997</u>	<u>Increase (Decrease)</u>
Purchased Power	<u>\$ 191,586</u>	<u>\$ 190,711</u>	<u>\$ 875</u>

Increased purchased power resulted from higher water storage levels at the Company's hydro plants, increased sales, and adjustments resulting from the operation of the weather normalization reserve.

Power Produced	<u>\$ 2,089</u>	<u>\$ 1,978</u>	<u>\$ 111</u>
-----------------------	-----------------	-----------------	---------------

In 1998, increased maintenance was required at the Company's hydro plants. The majority of these plants are in excess of 50 years old and require increased maintenance to ensure a safe, reliable power supply.

Environmental Policy	<u>\$ 621</u>	<u>\$ 384</u>	<u>\$ 237</u>
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Ongoing compliance with legislative requirements, environmental risk assessments, and increased spill detection and response are resulting in increased environmental costs.

Substations	<u>\$ 2,048</u>	<u>\$ 1,903</u>	<u>\$ 145</u>
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Increased substation maintenance and associated replacement parts resulted in higher substation costs.

Transmission	<u>\$ 607</u>	<u>\$ 778</u>	<u>\$ (171)</u>
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The Company's transmission line insulator replacement program has resulted in fewer outages and the associated costs. Also, the contracting out of transmission line inspections resulted in reduced costs to complete inspections.

Distribution	<u>\$ 7,254</u>	<u>\$ 6,761</u>	<u>\$ 493</u>
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Lightning and sleet storm damage in 1998 resulted in increased distribution line repairs. Tree trimming requirements in residential areas, especially those utilizing back-lot construction, have increased. Also, 1998 costs increased as a result of increased use of infra-red thermoscanning technology and the associated repair of problems discovered.

Newfoundland Power Inc.
Explanation of Significant Operating Expense Variances
For The Year Ended December 31, 1998
(1998 vs 1997)
(000s)

	<u>1998</u>	<u>1997</u>	<u>Increase (Decrease)</u>
Communications	<u>\$ 1,203</u>	<u>\$ 1,545</u>	<u>\$ (342)</u>

The reorganization of the telecommunications function in 1997 resulted in a decrease in the number of staff working in that area in 1998. The change to frame relay technology from the more expensive leased line technology in 1998 has also reduced costs. Also, 1997 costs were increased by the purchase of small telephone equipment.

Fleet Operating and Maintenance Expense	<u>\$ 2,183</u>	<u>\$ 2,418</u>	<u>\$ (235)</u>
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More effective vehicle maintenance and reduced administration costs reduced vehicle fleet costs. In late 1997, the Company reduced the size of its vehicle fleet, and contracted out fuel and maintenance services, vehicle expenditure reporting, and fleet invoice processing.

Customer Service	<u>\$ 9,900</u>	<u>\$ 10,270</u>	<u>\$ (370)</u>
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Cross-training and development of employees, combined with new call centre technologies, has facilitated improved customer service with reduced staffing levels. Additionally, the cost of customer billing stationary moved from Customer Service to Corporate and Employee Services in 1998.

Financial Services	<u>\$ 1,286</u>	<u>\$ 2,001</u>	<u>\$ (715)</u>
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The amortization of DSM charges declined in 1998. Also, a reclassification of insurance and printing costs to Corporate and Employee Services occurred in 1998.

Information Systems	<u>\$ 3,264</u>	<u>\$ 3,389</u>	<u>\$ (125)</u>
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Reductions in leasing and maintenance costs associated with the move to Alpha based systems from a VAX environment are being partially offset by increased outside assistance required to deal with Y2K issues.

Newfoundland Power Inc.
Explanation of Significant Operating Expense Variances
For The Year Ended December 31, 1998
(1998 vs 1997)
(000s)

	<u>1998</u>	<u>1997</u>	<u>Increase (Decrease)</u>
Company Pension Plan	<u>\$ 3,833</u>	<u>\$ 4,159</u>	<u>\$ (326)</u>

The unfunded liability of the pension plan is declining as a result of ongoing special contributions. This decline results in reduced pension expense.

Retirement Allowances	<u>\$ 19</u>	<u>\$ 3,829</u>	<u>\$ (3,810)</u>
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Significantly higher retirement allowance costs were incurred in 1997 as a result of the early retirement program.

Corporate and Employee Services	<u>\$ 14,080</u>	<u>\$ 15,056</u>	<u>\$ (976)</u>
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Reductions in costs have resulted from both the early retirement program offered in 1997 and a reduction in the number of senior management positions. In addition, building maintenance costs have been reduced through a streamlining of staff requirements for St. John's building maintenance and reduced snowclearing costs in 1998. These decreases are partially offset by a reclassification of insurance, customer billing stationary and printing costs to Corporate and Employee Services and increased rate hearing costs in 1998.

Transfers to General Expenses Capital	<u>\$ 2,718</u>	<u>\$ 3,976</u>	<u>\$ (1,258)</u>
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Transfers to GEC declined from 1997 to 1998 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).

Newfoundland Power Inc. Production and Sales Statistics - Normalized For The Year Ended December 31, 1998		
	<u>1998</u>	<u>1997</u>
Gigawatt Hours - Purchased	4,258.9	4,243.5
Gigawatt Hours - Produced	429.4	424.2
Total Purchased and Produced	4,688.3	4,667.7
Gigawatt Hours - Sold & Used	4,451.1	4,450.2
Gigawatt Hours - Losses	<u>237.2</u>	<u>217.5</u>
Losses - Expressed as a % of Total Purchased and Produced	<u>5.1%</u>	<u>4.7%</u>

Newfoundland Power Inc.
Weather Normalization Reserve
For The Year Ended December 31, 1998
(000s)

Degree Day Normalization Reserve

Revenue Adjustment

Heating Degree Days	\$ 5,665
Cooling Degree Days	(6)
Wind Speed Adjustments	1,230
Total Revenue Adjustment	6,889

Less : Power Purchased Adjustment

Heating Degree Days	4,628
Cooling Degree Days	(4)
Wind Speed Adjustments	802
Total Power Purchased Adjustment	5,426

Net Adjustment (Before Tax)

1,463

Less: Income Tax @ 42%

614

Plus: 1997 Year End Adjustments - Processed in 1998

44

Net Transfer (To) From Reserve

\$ 893

Hydro Production Equalization Reserve

Transfer (To) From Reserve (Before Tax)

\$ 729

Less: Income Tax @ 42%

306

Net Transfer (To) From Reserve

\$ 423

Net Transfer (To) From Weather Normalization Reserve

\$ 1,316

General Ledger Accounts

	Hydro Production Equalization Reserve Dr (Cr)	Degree Day Normalization Reserve Dr (Cr)	
Balance of Reserve - December 31, 1997	\$ 6,622	\$ (2,916)	\$ 3,706
Net Transfer	423	893	1,316
Balance of Reserve - December 31, 1998	<u>\$ 7,045</u>	<u>\$ (2,023)</u>	<u>\$ 5,022</u>

Newfoundland Power Inc.
Rate Stabilization Account
For The Year Ended December 31, 1998
(000s)

Month	Opening Balance	Revenue Billed During Month	Municipal Taxes	Excess Fuel Costs	Secondary Energy Costs	Interest Costs	Transfer To (From) Nfld. Hydro	Closing Balance
January	\$ (565.1)	\$ (819.6)	\$ -	\$ 1.7	\$ -	\$ (5.0)	\$ 868.2	\$ (519.8)
February	\$ (519.8)	\$ (738.2)	\$ -	\$ 1.7	\$ -	\$ (4.6)	\$ 725.0	\$ (535.9)
March	\$ (535.9)	\$ (689.0)	\$ -	\$ 1.3	\$ -	\$ (4.7)	\$ 718.1	\$ (510.2)
April	\$ (510.2)	\$ (644.5)	\$ -	\$ 14.1	\$ -	\$ (4.5)	\$ 585.3	\$ (559.8)
May	\$ (559.8)	\$ (526.3)	\$ -	\$ 2.3	\$ -	\$ (4.9)	\$ 470.9	\$ (617.8)
June	\$ (617.8)	\$ (458.3)	\$ -	\$ 2.3	\$ -	\$ (5.5)	\$ 418.5	\$ (660.8)
July	\$ (660.8)	\$ (507.9)	\$ -	\$ 11.4	\$ (0.4)	\$ (5.9)	\$ 508.3	\$ (655.3)
August	\$ (655.3)	\$ (354.3)	\$ -	\$ 0.8	\$ -	\$ (5.8)	\$ 480.1	\$ (534.5)
September	\$ (534.5)	\$ (477.3)	\$ -	\$ 0.9	\$ (12.0)	\$ (4.7)	\$ 526.2	\$ (501.4)
October	\$ (501.4)	\$ (575.6)	\$ -	\$ 1.7	\$ (0.1)	\$ (4.4)	\$ 678.9	\$ (400.9)
November	\$ (400.9)	\$ (709.3)	\$ -	\$ 0.1	\$ -	\$ (3.5)	\$ 791.1	\$ (322.5)
December	\$ (322.5)	\$ (834.7)	\$ 386.8	\$ 1.2	\$ (15.2)	\$ (2.8)	\$ 1,060.5	\$ 273.3
		<u>\$ (7,335.0)</u>	<u>\$ 386.8</u>	<u>\$ 39.5</u>	<u>\$ (27.7)</u>	<u>\$ (56.3)</u>	<u>\$ 7,831.1</u>	

Newfoundland Power Inc.
Cost of Embedded Debt
For The Year Ended December 31, 1998
(000s)

	December 31 1998	December 31 1997	Total
Bonds	\$ 286,258	\$ 238,808	\$ 525,066
Bank Loans	5,041	34,853	39,894
Other	-	8	8
	<u>\$ 291,299</u>	<u>\$ 273,669</u>	<u>\$ 564,968</u>
Average Debt			<u>\$ 282,484</u>
Interest Expense - 1998 *			<u>\$ 25,629</u>
Cost of Embedded Debt			<u>9.07%</u>

*** Interest Expense - 1998**

Interest on Long Term Debt	\$ 24,824
Bank & Other Interest	1,740
Amortization of Debt Discount & Expense	158
	<u>26,722</u>
Less: Interest on Customer Deposits	87
Interest Earned	1,006
	<u>\$ 25,629</u>

Newfoundland Power Inc.
Capital Structure
For The Year Ended December 31, 1998
(000s)

	Average		Year-End	
	Amount	Percent	Amount	Percent
Debt - Return 16	\$ 282,484	54.23%	\$ 291,299	54.89%
Preference Shares - Return 1	9,890	1.90%	9,890	1.87%
Common Equity - Return 1	228,499	43.87%	229,485	43.24%
	<u>\$ 520,873</u>	<u>100.00%</u>	<u>\$ 530,674</u>	<u>100.00%</u>

Newfoundland Power Inc.
Regulated Average Capital
For The Year Ended December 31, 1998
(000s)

	Average	
	Amount	Percent
Debt - Return 16	\$ 282,484	53.80%
Preference Shares - Return 1	9,890	1.88%
Common Equity - Return 19	232,657	44.32%
	<u>\$ 525,031</u>	<u>100.00%</u>

Newfoundland Power Inc. Calculation of Taxable Income and Income Tax Expense For The Year Ended December 31, 1998 (000s)			
Net Income			\$ 22,197
Add: Income Tax - Current	\$ 15,381		
- Deferred	(79)		
- Adjustments to Prior Years	(228)		
- Weather Normalization	953		16,027
Net Income Before Income Taxes			38,224
Add: Depreciation	28,067		
Amortization of Debt Discounts & Expenses	158		
Amortization of Capital Stock Issue Expenses	80		
Business Meals & Related Expenses	180		
Special Pension Liability	(17)		
Amortization of Prior Years' DSM Expenses	162		
Small Tools in Excess of \$200	226		
Transferred from Weather Normalization Reserve	(2,268)		26,588
			64,812
Less: Capital Cost Allowance	22,720		
Cumulative Eligible Capital	23		
General Expenses Capitalized	1,031		
Interest Charged to Construction	563		
Expenses re: Issue of Bonds	122		
Difference in Pension Funding and Accounting Costs	5,430		
Site Investigation Expenses	10		
Canadian Renewable and Conservation Expenses	1,192		31,091
Taxable Income			\$ 33,721
Income Tax - Part 1 @ 42%			14,163
- Part 1.3 Large Corporation Tax			1,218
			15,381
Adjustment to Prior Years			(228)
Adjustment for Weather Normalization			953
Current Income Tax Expense			\$ 16,106

Newfoundland Power Inc. Return on Regulated Average Common Equity For The Year Ended December 31, 1998 (000s)		
	<u>1998</u>	<u>1997</u> (Note 1)
Regulated Common Equity:		
December 31, 1998, as per Balance Sheet	\$ 229,485	
Add: Non-regulated Expenses - net of Income Tax		
Cumulative to December 31, 1997	\$ 3,794	
1998 Expense	<u>728</u>	
Total Net Non-regulated Expenses, December 31, 1998	<u>4,522</u>	
Regulated Common Equity, December 31, 1998	\$ 234,007	
Regulated Common Equity, December 31, 1997	231,306	\$ 231,306
Regulated Common Equity, December 31, 1996		229,324
	<u>\$ 465,313</u>	<u>\$ 460,630</u>
Regulated Average Common Equity	\$ 232,657	\$ 230,315
Excess Common Equity	<u>-</u>	<u>1,841</u>
Regulated Average Common Equity	<u>\$ 232,657</u>	<u>\$ 228,474</u>
Earnings Applicable to Common Shares - Return 1	\$ 21,571	\$ 24,931
Add: Non-regulated Expenses - net of Income Tax	<u>728</u>	<u>627</u>
	22,299	25,558
Less: Deemed Dividends on Excess Common Equity @ 6.33%	<u>-</u>	<u>117</u>
Regulated Earnings	<u>\$ 22,299</u>	<u>\$ 25,441</u>
Rate of Return on Regulated Average Common Equity	<u>9.58%</u>	<u>11.14%</u>

Note 1: The adjustment for cumulative deemed dividends has been removed from the calculation of regulated common equity for 1997 in response to the findings of the Board's Financial Consultants, Grant Thornton, in their report to the Board of Commissioners of Public Utilities dated October 23, 1998.