


**1999 Newfoundland Power Inc. Annual Report**

A man and a woman are shown in profile, looking intently at a computer monitor. The woman, on the left, has blonde hair and is wearing a green turtleneck. The man, on the right, has short brown hair and is wearing a white button-down shirt. The monitor displays a complex technical diagram with various colored lines and shapes. In the background, there are more screens or charts with similar diagrams.

1999 Annual Report

Quality  
Service  
Teamwork

NEWFOUNDLAND   
**POWER**  
A FORTIS COMPANY

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## Corporate Profile

Newfoundland Power operates an integrated generation, transmission and distribution system throughout the island of Newfoundland. With a workforce of approximately 700 employees, the Company serves 214,000 customers in 600 communities across Newfoundland. These customers constitute 85 per cent of all electrical consumers in the province. The balance of the population is served by Newfoundland and Labrador Hydro (“Hydro”), a Crown corporation that also serves several large industrial customers in Newfoundland.

Newfoundland Power generates approximately 10 per cent of its energy needs from 23 hydroelectric, five diesel and three gas turbine plants. These units have an installed capacity of approximately 150 megawatts (“MW”). The balance of energy required by Newfoundland Power is purchased from Hydro.

All common shares of Newfoundland Power are owned by Fortis Inc., a diversified holding company with assets exceeding \$1 billion. Newfoundland Power’s first preference shares series A, B and D are listed on the Montreal Exchange.

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### Cover

Nora Duke, Vice President, Customer & Corporate Services, and Larry Wall, Operator, Systems Operations & Security, assess system conditions through the use of world class System Control and Data Acquisition technology at Newfoundland Power’s System Control Centre.

*Photo by Ned Pratt*



## Financial & Operating Highlights

### Financial Highlights

	1999	1998
Revenue (\$000s)	342,001	335,751
Fixed Assets (\$000s)	899,944	870,348
Long-term Debt (\$000s)	283,208	286,258
Common Shareholder's Equity (\$000s)	242,848	229,485
Earnings Applicable to Common Shares (\$000s)	22,858	21,571
Earnings per Common Share (\$)	2.21	2.09

### Operating Highlights

	1999	1998
Customers	213,641	212,110
Installed Generating Capacity (MW)		
Hydroelectric	94.0	94.0
Diesel	7.4	7.4
Gas Turbine	47.0	47.0
Total	148.4	148.4
Peak One-hour Demand (MW)	1,025	1,063
Energy Sales (GWh)	4,500	4,440
Average Annual Usage per Residential Customer (kWh)	14,588	14,615
Gross Operating Cost per Customer (\$)	256	261
Revenue per Employee (\$)	492,088	476,243

### Comparison of Electrical Rates

Halifax, NS	\$112.20
Charlottetown, PEI	\$110.79
Fredericton, NB	\$100.76
Toronto, ON	\$99.46
St. John's, NF	\$98.42

*Rates as of January 1, 2000. Based on monthly average residential usage of 1,216 kWh per month. Includes basic customer charges and discounts. Excludes all applicable taxes.*

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## Letter to Shareholders

Nineteen ninety-nine was a pivotal year in our strategy to position Newfoundland Power for future growth and success. Through the dedication and skills of our employees, we successfully met challenges on a number of fronts and progressed toward our long-term business goals.

In 1999, Newfoundland Power significantly improved operating efficiency, provided a higher level of service to customers, increased earnings and implemented considerable measures to augment system reliability. These achievements play a vital role in positioning our Company for success in a rapidly changing marketplace.

*Operating cost per customer has decreased by more than 12 per cent since 1997. In three years, customer satisfaction has increased by 26 per cent.*

Newfoundland Power's employee team remains the most critical component of our business. Employees' skills, ideas and knowledge were invaluable throughout the year in identifying cost-reduction strategies and better ways to do business. We thank our employees for their diligence, dedication and initiative in 1999.

In 1999, gross operating cost per customer was reduced to \$256 from \$261 in 1998. Revenue per employee increased to \$492,088 in 1999 from \$476,243 in 1998. Since 1992, operating cost per customer has decreased by 17 per cent while revenue per employee has increased by 42 per cent.

Newfoundland Power increased earnings applicable to common shares in 1999 by six per cent. The Company's earnings per share were \$2.21 in 1999 compared to \$2.09 in 1998. Improved operating efficiencies, aggressive cost control and slightly higher energy sales contributed to this increase.

Throughout 1999, Newfoundland Power leveraged its use of technology to achieve productivity gains and enhance customer service. Investments in technology and training within our Customer Service Call Centre ("Call Centre") and System Control Centre have resulted in improved information access and more efficient work processes for our employees, and faster, more convenient and knowledgeable service for our customers. For example, our speed of response to phone customers increased by 100 per cent in 1999 over 1998 levels as Call Centre staff answered 80 per cent of customer calls within 40 seconds.

Newfoundland Power achieved a customer satisfaction rating of 88 per cent for 1999. This is the highest annual customer satisfaction rating ever achieved by our Company and demonstrates a 26 per cent increase over our 1996 customer satisfaction rating of 70 per cent. This improvement is the result of our commitment to solicit feedback from customers, respond to their service needs and provide a high quality of service.

In January 1999, Newfoundland Power's 1999 rates were set in an Order issued by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB"). In the same Order, the PUB gave final approval to a formula that will be used to adjust Newfoundland Power's electrical rates on an ongoing basis. This formula is based on changes in long-term Canada bond yields and the Company's capital. Electrical rates for 1999 were set based on a rate of return on equity of 9.25 per cent.

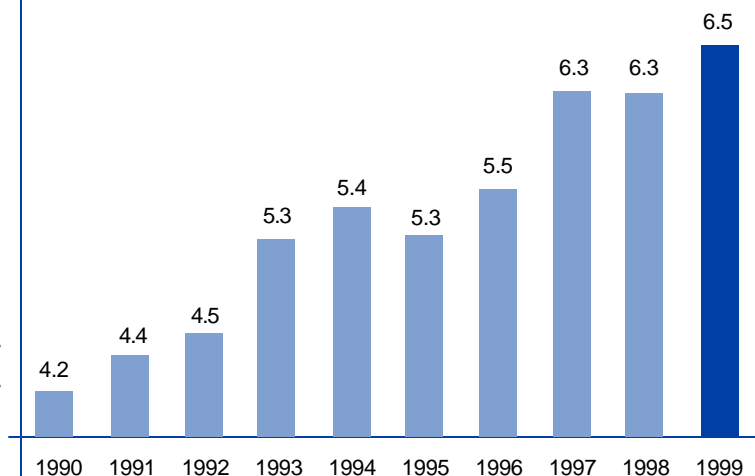
Due to increases in long-term Canada bond yields and increased investment in our business, the operation of the automatic adjustment formula resulted in a 0.7 per cent increase in electrical rates effective January 1, 2000. Newfoundland Power's 2000 electrical rates are based on a rate of return on equity of 9.59 per cent.

In 1999, Newfoundland Power invested \$42 million in capital projects. Throughout the year, we strived to increase the integrity and performance of our electrical system by replacing aging equipment, rebuilding distribution feeders with unacceptable reliability records and upgrading radial transmission lines. These investments will contribute to improved reliability of supply, enhanced power quality and superior service for our customers.

A number of capital programs were also completed in 1999 to maximize the safety of our communities. These programs include the replacement of the Petty Harbour penstock and two hydroelectric plant surge tanks on the Southern Shore of the Avalon Peninsula.

Newfoundland Power achieved a number of corporate milestones throughout 1999. For the first time in our Company's history, we were successful in negotiating a five-year agreement with our Union, IBEW Local 1620. This agreement will assist in further building positive relations with our labor partners as we work together to improve safety, operating efficiencies and customer service.

**Energy Sales per Employee**  
(millions of kWh)



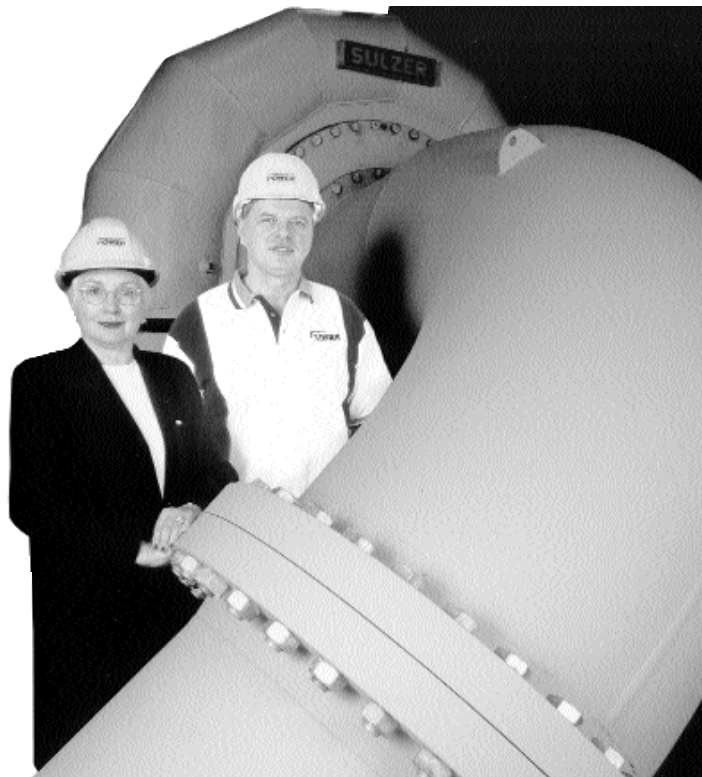
The successful migration of our Environmental Management System (“EMS”) in 1999 to ISO 14001 standards for generating facilities and related corporate functions is another achievement worthy of note. In our ongoing commitment to reduce the environmental impact of our business and safeguard the environment for future generations, our Company aims to ensure all remaining corporate activities and functions meet ISO 14001 standards by 2002. Through our employee-driven environmental program and our commitment to organizations and projects, such as the Atlantic Salmon Federation and the Energy Council of Canada’s *Action By Canadians* emissions reduction program, our Company will continue to promote the benefits of environmental protection in our communities.

Another noteworthy achievement of 1999 unfolded before millions of television viewers at the stroke of midnight on December 31 as Newfoundland Power became the first electric utility in North America to successfully enter the year 2000.

Three years of system assessment, testing and contingency planning ensured the dawn of the new century did not result in any disruption of service to our 214,000 customers. This achievement was possible only through the dedication of our employees and the support of their families. Our thanks are extended to the more than 350 employees who gave up their millennium celebrations and worked throughout the New Year’s weekend to ensure a smooth transition to the year 2000.

In the fourth quarter 1999, Newfoundland Power offered an Early Retirement Program to 62 qualifying employees. To-date, 40 employees have participated in this program. We thank each of these employees for their contributions and commitment to our Company over the years and wish them well in their retirements.

In 1999, Harold Wareham retired from our Board of Directors after providing seven years of distinguished service to our Company. On behalf of Newfoundland Power, we thank Mr. Wareham for his contributions and valued counsel.



*Dr. Linda Inkpen, Chair of Newfoundland Power’s Board of Directors, and Philip Hughes, President & Chief Executive Officer, partnered with local residents to officially open the Rose Blanche Hydroelectric Plant in August 1999.*

Bruce Chafe was elected to our Board of Directors at the 1999 Annual General Meeting. Mr. Chafe's extensive experience in business and the financial industry will further strengthen our Board of Directors.

The awards and praise received by Newfoundland Power in 1999, including the Canadian Cancer Society's *Certificate of Special Recognition* and the *John Cordoulis Memorial Award* for fire safety promotion, have been earned by and belong to every member of our employee team. We are proud of our employees' spirit of giving and thank them for their commitment to our Company, our communities and our customers.

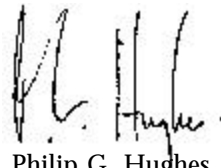
As our industry undergoes major changes, Newfoundland Power is dedicated to participating in the development of national electrical industry strategies. This is achieved through our Company's representation within the Canadian Electricity Association ("CEA"), the Energy Council of Canada ("ECC") and associated working groups and task forces. In 1999, Company President and Chief Executive Officer, Philip Hughes, served as Chair of the CEA. Mr. Hughes is the first President of Newfoundland Power to have held this appointment.

At Newfoundland Power, we look forward to meeting the challenges of the 21st century and further defining our Company as a leading Canadian electric utility in terms of customer service, reliability, operating efficiency and safety. We are committed to growing our business in a manner that reflects customers' changing needs and pursuing emerging market opportunities that are in the best interest of our customers and shareholders. We are further committed to building an increasingly strong and capable organization.

We will continue to demonstrate our commitment to deliver growth in shareholder value. And we will continue to make significant contributions to the economic, social and environmental prosperity of our province.



Linda L. Inkpen  
Chair  
Board of Directors



Philip G. Hughes  
President &  
Chief Executive Officer



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## Report on Operations

### Strategic investments in technology ...

Providing customers with service that exceeds their expectations at the lowest price possible is the cornerstone of Newfoundland Power's business.



*Jack Samson, Engineering Technician, uses state of the art technology on the job site. Our use of technology in the field promotes productivity and better service for our customers.*

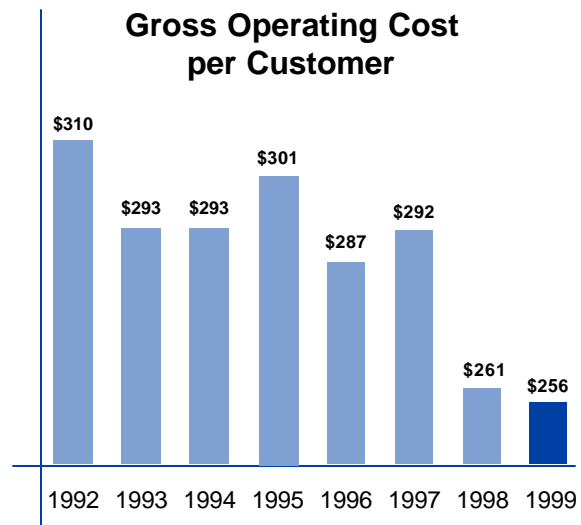
To build on this cornerstone, Newfoundland Power is committed to investing in technology that increases productivity, improves reliability and enhances customer service delivery.

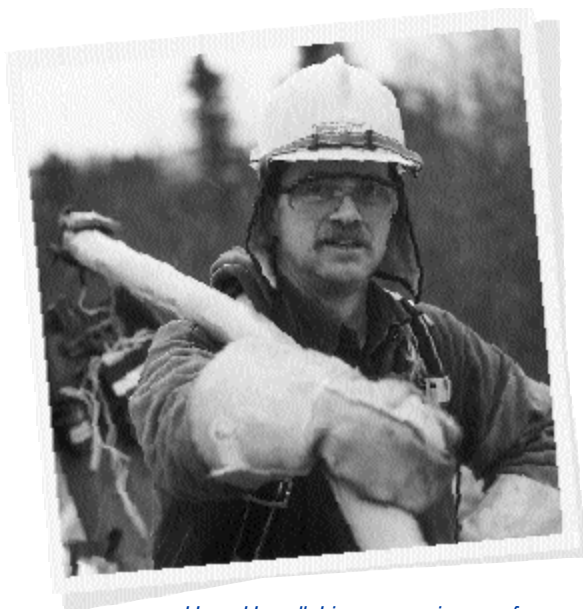
The Company aligns its technology investments with its goal to make prudent capital investments that support customer service and operational efficiencies over the long-term.

By leveraging its use of technology in 1999, the Company was able to streamline business practices through increased automation of manual processes, more efficient processing of transactions, and improved quality and timeliness of information. This translated into increased productivity for Newfoundland Power and lower operating costs in 1999.

In 1999, gross operating cost per customer was reduced to \$256, a 12 per cent decrease in just two years. Revenue per employee increased to \$492,088 in 1999. This represents a 42 per cent increase in revenue per employee since 1992.

**Gross Operating Cost  
per Customer**





*Harry Howell, Lineperson, is one of Newfoundland Power's many employees dedicated to responding to customers' needs 24-hours a day, seven days a week.*

Investments over the past two years in System Control and Data Acquisition ("SCADA") technology, Call Centre components, and upgrades to corporate infrastructure and software made technology benefits possible for both the Company and its customers throughout the year.

In 1999, Newfoundland Power invested \$2.6 million in the installation of a world class SCADA system. This system will provide customers with enhanced reliability through improved electrical system control and expanded automation. The system will also promote greater operating efficiencies and enhance customer service through fewer outages, faster service restoration and improved generating efficiencies.

Newfoundland Power's new SCADA system also enhances the capabilities of the Company's Telephony Video Data ("TVD") technology. TVD is a leading edge outage communications system connected directly to the Company's SCADA system. Within seconds of an outage

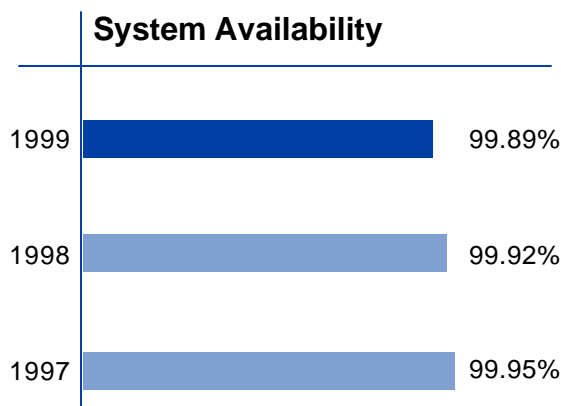
occurring, TVD is able to download an electronic voice message to inform customers of an outage, its cause and expected restoration time. With improved system monitoring made possible by SCADA technology, Newfoundland Power's TVD software provides customers with improved outage information in a more timely manner.

## Providing quality service ...

*"Of all major Canadian cities, St. John's is the foggiest, snowiest, wettest, windiest and cloudiest. It has more days of freezing rain and wet weather than any other city [in the nation]." (David Philips, The Climates of Canada, Supply & Services Canada, 1990, page 67.)*

Despite challenges associated with weather and the province's isolated electrical system, Newfoundland Power was successful in providing electricity to customers 99.89 per cent of the time in 1999. The main causes of outages during the year included a record snowfall of 82 centimetres on April 5 and 6, equipment failure, losses of supply from Hydro and wind storms.

Throughout 1999, the Company invested \$42 million in capital programs to substantially improve service.



To prevent outages in 1999 and into the future, Newfoundland Power worked aggressively to upgrade substations and strengthen distribution and transmission lines by replacing defective insulators and deteriorated equipment.

The continuation of the Company's Insulator and Distribution Transformer programs in 1999 will contribute to improved system performance through the replacement and strengthening of electrical system components.

In 1999, \$2.8 million was allocated to improve distribution feeders with poor performance records. This investment will improve service for customers in areas such as Burnt Islands, Riverhead, Dunville and Botwood that have experienced reliability challenges in the past.

Infra-red thermoscanning and vegetation management along the Company's 10,000 kilometres of transmission and distribution lines also contribute to reducing the number of preventable outages. In 1999, more than 250 outages were avoided through proactive thermoscanning.

To ensure the province and local businesses remain competitive, Newfoundland Power will continue to invest in capital projects that provide greater reliability of supply and higher quality electricity. These investments will be made in a manner that results in the greatest increase in reliability and the greatest reduction of operating and maintenance costs over the long-term.

Over a three year period, Newfoundland Power's Year 2000 Team worked to test, prioritize and make compliant more than 1,200 electronic items to ensure the Company's Y2K readiness. In addition, Newfoundland Power worked with business partners to confirm their ability to maintain a supply of products and services to the Company during the year 2000 transition.

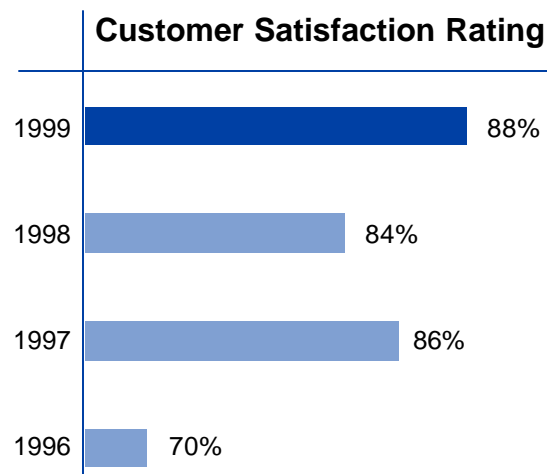
On October 8, 1999, Newfoundland Power tested its Y2K contingency plans for critical operations. This testing, which included the Company's energy and telecommunications suppliers, confirmed Newfoundland Power's ability to handle any Y2K-related incidents that could have occurred. Newfoundland Power's transition to the year 2000 was successful with no disruptions of service occurring.

## Listening to customers ...

Newfoundland Power achieved a customer satisfaction rating of 88 per cent in 1999 – its highest annual rating ever. This represents a 26 per cent improvement over the Company's 1996 customer satisfaction rating of 70 per cent.

This dramatic increase is the result of Newfoundland Power's commitment to solicit customer feedback, develop programs closely aligned with customers' expectations and make continual improvements in customer service delivery through its well-trained, committed workforce.

For example, to respond to customers' expectations for more convenient service, Newfoundland Power implemented a higher quality of one-stop service, call routing and 24-hour electronic account information in 1999.





*Through technology and training, employees like Jon Tizzard, Customer Account Representative, are able to meet our customers' expectations for faster, more convenient service.*

Throughout the year Newfoundland Power expanded its Internet site for the convenience of on-line customers by providing more electronic self-service options such as payment plan enrollment and account inquiry.

In addition, Newfoundland Power became the first Canadian utility to launch electronic billing and payment through *e-route inc.*'s national pilot program in November 1999. Throughout the six-month pilot, the Company will assess the benefits of transmitting electrical bills and payments via the Internet.

Customer expectations for faster service were met in 1999 as Call Centre staff successfully answered 80 per cent of customer calls within 40 seconds (an improvement of 100 per cent over 1998), reduced the number of hang-ups by 70 per cent and eliminated busy signals. These achievements are a direct result of technology and training investments made at the Company's Call Centre over the past two years.

As a result of these investments, Newfoundland Power's Call Centre is now

considered to be the most technologically advanced in Newfoundland and on par with the best in North America.

The expansion of bill payment options in 1999 provided customers with enhanced choice, convenience and budgeting options. Newfoundland Power's Redirect/Equal Payment Program demonstrated considerable success in 1999. This program, which is a partnership between the Provincial Department of Human Resources and Employment and Newfoundland Power, was designed to assist customers receiving financial assistance. In 1999, this program contributed to a 37 per cent reduction in the number of customers disconnected for non-payment compared to 1998 levels.

## Protecting our environment ...

Newfoundland Power is committed to operating in an environmentally responsible manner. In 1999, the Company implemented an EMS consistent with ISO 14001 standards for its generation facilities and all related corporate functions. By 2002, Newfoundland Power will implement an EMS consistent with ISO 14001 standards for all remaining sections of the Company.

In an effort to minimize the impact of its business on the environment, Newfoundland Power expanded its environmental planning throughout 1999. In addition to developing flood emergency preparedness plans, Newfoundland Power engaged in a fisheries issue study, enhanced public reporting and worked to minimize the use of fossil fuel for electrical generation during the year.

At the official launch of the Company's Rose Blanche Hydroelectric Plant in August 1999, Newfoundland Power's newest plant was referred to by the Provincial Minister of Mines and Energy as "a model hydro plant in terms of efficiency and environmental responsibility."

More than \$1 million was invested in the \$13.8 million facility to construct fish ladders, develop a habitat compensation channel and ensure minimal impact on the surrounding environment. The Rose Blanche Hydroelectric Plant will displace 19,000 metric tonnes of greenhouse gas emissions annually.

Throughout 1999, Newfoundland Power installed containment pans under oil containers and batteries in each of its hydro plants. In addition, containment pans were installed under power transformers in half of the Company's generating facilities. Containment pans will be installed under transformers in remaining facilities throughout 2000.

As a result of installing containment pans and proactively identifying and replacing deteriorated equipment, Newfoundland Power continues to minimize the environmental impact of spills. In 1999, the Company's volume of oil spills was below 1998 levels.

Newfoundland Power's employee-driven *Environmental Commitment Program* continued throughout 1999. In just over two years, Company employees have initiated more than 75 environmental projects in partnership with community groups and schools across Newfoundland.

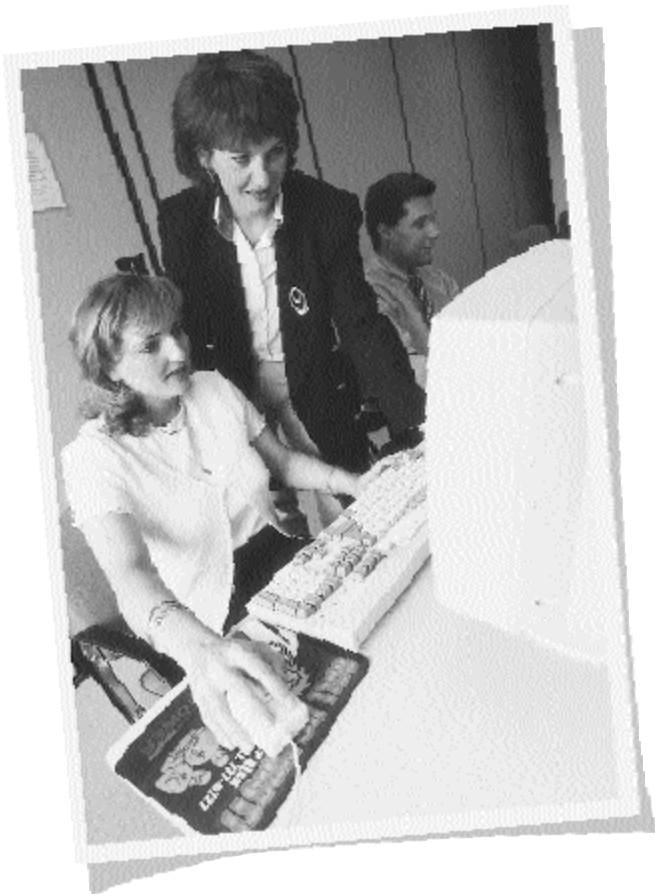
In June 1999, Newfoundland Power hosted its second annual *EnviroFest* in operating areas across the island. More than 2,500 community members and 100 community groups took part in the Company's celebration of the environment.

Throughout 1999, Newfoundland Power further demonstrated its commitment to the environment by becoming the corporate sponsor of the Atlantic Salmon Federation's *Fish Friends* public education program in Newfoundland.

Environmental Management Goals	
Program	Objective
<b>Generation Efficiency Improvement</b>	Maximize efficiency of available water for hydroelectric generation to reduce the use of fossil fuel for generation.
<b>Spill Prevention</b>	Minimize the release of petroleum products into the environment.
<b>Emissions Management</b>	Ensure fossil fuel fired plant emissions are within regulatory limits.
<b>Dam Safety Program</b>	Ensure dams, control structures and related facilities are maintained in a standard that minimizes environmental impact.
<b>Flood Emergency Preparedness Plans</b>	Develop flood emergency preparedness plans that minimize potential for environmental degradation in the event of a flood.
<b>Fish Habitat Study</b>	Minimize the impact of hydroelectric plant operations on fish habitat while supporting the principle of sustainable development.
<b>Enhanced Public Reporting</b>	Report environmental performance on an ongoing basis for the awareness of stakeholders.
<b>Recycling Program</b>	Ensure recycling programs exist in Company offices in areas of the province where there are recycling facilities.
<b>Community Programs</b>	Strive to support and participate in community-based projects that focus on the environment.

*Fish Friends* educates students in 74 schools throughout the province on the importance of caring for the environment through lessons on stewardship and freshwater ecology.





*Our highly skilled employees are dedicated to providing customers with superior service in a friendly, knowledgeable manner.*

*Elizabeth Hutchings, Customer Service Leader, coaches Philomena Hackett, Customer Service Representative, in the use of customer service techniques.*

In December 1999, Newfoundland Power announced its support for the Energy Council of Canada's *Action By Canadians* environmental program. *Action By Canadians* is a national public education program designed to engage individual Canadians in reducing greenhouse gas emissions.

### Planning for tomorrow ...

The development of a flexible, adaptable workforce plays a critical role in Newfoundland Power's ability to meet the challenges associated with a changing business environment.

For the first time in its history, Newfoundland Power negotiated a five-year agreement with its Union, IBEW Local 1620. This agreement will assist in further developing a positive labour relations climate that will enable the Company to improve safety, operating efficiency and service to customers.

Newfoundland Power is dedicated to providing an environment for employees to reach their full potential. To facilitate employee development, Newfoundland Power expanded its mentoring program to include 150 partnerships in 1999. This program assists in building employees' business, leadership and interpersonal skills.

A focus on environment, safety, customer service and technology training throughout the year assisted Newfoundland Power in maintaining a highly-skilled workforce. In addition, ongoing training provides employees with the opportunity to participate in job rotations and work assignments.

Newfoundland Power recruited a number of highly qualified individuals in 1999. The Company believes that effective recruitment and an increased focus on leadership skills play key roles in developing Newfoundland Power's workforce and successfully meeting its long-term business goals.

### Fostering a safety culture ...

Newfoundland Power is committed to making continual improvements in safety. In fulfilling this commitment, the Company will not compromise employee or public safety and will strive for excellence in safety management.

Newfoundland Power believes occupational injuries are preventable. In 1999, a corporate priority was placed on addressing the underlying causes of preventable accidents and injuries to improve Newfoundland Power's safety performance.

This priority included reinforcing safety accountability, responsibility and practices through improved safety communications and training, and an increase in the use of personal protective equipment to reduce employees' exposure to possible injuries. In addition, safe working practices were emphasized through crew visits, job hazard identification and safety assessments.

In 1999, 20 per cent of all safety incidents involved temporary, part-time and new employees. As a result, Newfoundland Power is developing a *Safety Orientation Program* to increase the level of safety awareness among temporary employees and those with less than one year of experience.

To ensure the safety of its customers and the public, Newfoundland Power invested in several public safety capital projects in 1999. The Petty Harbour penstock and surge tanks at the Mobile and Horsechops hydro plants were replaced at a total cost of \$3.5 million to ensure the safe and effective operation of these plants.

In 1999, Newfoundland Power also initiated a *Tree Smart* public safety campaign in conjunction with its vegetation management program. *Tree Smart* provides customers and the public with information on safe practices with respect to tree trimming and trees in proximity to power lines.

For 15 years the Company has partnered with provincial firefighters to deliver its

*Firefighter Electrical Safety Training Program* as a public service. In 1999, Newfoundland Power was awarded the first ever *John Cordoulis Memorial Award* by the Newfoundland & Labrador Federation of Fire Chiefs and Firefighters for its significant contribution to fire prevention and fire protection in Newfoundland and Labrador.

Newfoundland Power continued the delivery of its *School Electrical Safety Program* in 1999. More than 250,000 children have received electrical safety lessons through this program over the past 15 years.

## Our community ...

Newfoundland Power is deeply committed to its customers and the communities in which it operates. In 1999, the Company donated more than \$200,000 to support health, education, arts and culture, and environment programs in Newfoundland. In addition, Newfoundland Power makes significant in-kind contributions to its communities and encourages employee volunteerism by providing employees with time and support to contribute to organizations that are close to their hearts.

*Trina Troke, Mechanical Engineer, and John Curran, Civil Works Coordinator, Generation, review the new Petty Harbour penstock, a project that provides a higher quality of service and safety for our customers.*



Newfoundland Power is the proud corporate sponsor of the *Families Can Beat Cancer* campaign in Newfoundland and Labrador. In just two years, the Company and its employees have partnered with the local cancer society and customers to raise more than \$200,000 for the fight against cancer.

The Company supports education and the development of youth in Newfoundland in a number of ways, including: the provision of scholarships, providing formal input into post-secondary business and engineering curriculums, offering work term placements for co-op students and jobs for new graduates,



*Providing electrical safety training to our community firefighters is just one of the ways Newfoundland Power partners to save lives in our province.*

*Don Norman, Superintendent, Substations and Electrical Maintenance, and Sean Budgell, Lineperson, present Chief Thomas Lawlor and Chief Thomas Murphy with their training certificate.*

Newfoundland Power has also committed to providing the Newfoundland & Labrador Division of the Canadian Cancer Society with in-kind support, such as printing and distribution of public educational materials, to raise awareness on cancer prevention and early detection over a three year period. The Canadian Cancer Society has valued this commitment at more than \$600,000.

In November 1999, Newfoundland Power was presented with a national award by the Canadian Cancer Society for its commitment to the fight against cancer. The Canadian Cancer Society's *Certificate of Special Recognition* is awarded to individuals or organizations that significantly contribute to the Society's mission to eradicate cancer and enhance the quality of life of those living with cancer.

Newfoundland Power is dedicated to investing in the future leaders of our communities.

supporting educational capital campaigns, and providing funding and resources for public education programs in safety and the environment.

Newfoundland Power employees took their provincial pride to new heights in 1999. In February, employees helped to make the 1999 Canada Winter Games in Corner Brook the most successful Games ever through their community spirit and volunteer efforts.

Throughout the remainder of the year, Newfoundland Power and its employees contributed to the success of events such as the East Coast Music Awards, the International Triathlon in Corner Brook, Soiree'99, the Newfoundland Symphony Orchestra Gala, and the Waterfront Millennium Celebrations through funding, in-kind support, volunteer efforts and ensuring the reliable supply of electricity.

## Regulatory environment ...

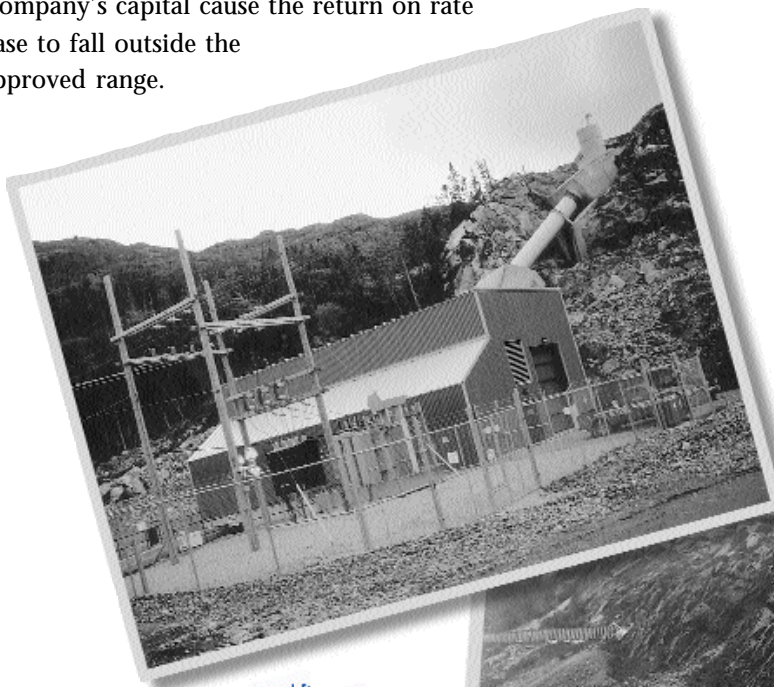
Newfoundland Power is regulated by the PUB on a traditional cost of service basis.

On January 15, 1999, the PUB issued an Order that finalized 1998 rates and set 1999 rates. This Order provided Newfoundland Power with an increase in rates of 1.1 per cent effective February 1, 1999 and reflected an allowed return on equity of 9.25 per cent in 1999.

In addition, the PUB gave final approval to a formula that will be used to adjust Newfoundland Power's rates on an ongoing basis. This formula adjusts rates when changes in long-term Canada bond yields and the Company's capital cause the return on rate base to fall outside the approved range.

Due to increases in long-term Canada bond yields and investment in the business, the operation of the automatic adjustment formula resulted in a 0.7 per cent increase in rates effective January 1, 2000. Electrical rates for 2000 reflect an allowed return on equity of 9.59 per cent.

The Energy Policy Review initiated by the Provincial Government in 1998 remains outstanding. In keeping with the global trend of lighter-handed regulation, Newfoundland Power supports a move to more flexible, incentive-based regulation that is better aligned with customers' expectations.



*The official opening of the Rose Blanche Hydroelectric Plant in August 1999 marked a century of hydroelectric plant construction that began in Petty Harbour in 1899.*



*Petty Harbour Hydroelectric Plant*



## Management Discussion & Analysis

### Financial Results

Newfoundland Power's earnings per share for 1999 were \$2.21, an increase of \$0.12, or six per cent over 1998 earnings per share of \$2.09.

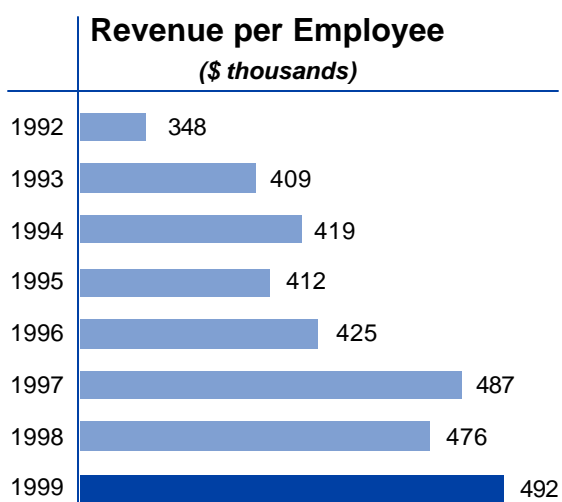
Net earnings applicable to common shares for 1999 were \$22.9 million, an increase of \$1.3 million over \$21.6 million in 1998. The Company's increase in earnings is a result of a combination of factors that include higher energy sales, aggressive cost control measures and increased production at the Company's hydroelectric plants.

Newfoundland Power's energy sales are directly affected by Newfoundland's economic growth. In 1999, Newfoundland led the nation in economic growth for the second consecutive year.

While the provincial economy experienced broad based growth, the goods producing sector provided the greatest activity for the provincial economy. In particular, the oil industry, which has limited impact on Newfoundland Power's energy sales, led Newfoundland's economic growth in 1999.

During 1999, residential energy sales increased by 0.8 per cent, or 20 gigawatt hours ("GWh") compared to 1998. Commercial energy sales for 1999 increased by 2.2 per cent, or 40 GWh over 1998 levels. Increased energy sales to customers in the fishing and oil industries contributed to approximately one-third of the Company's increase in commercial energy sales for the year. Overall, Newfoundland Power experienced an increase in energy sales from 4,440 GWh in 1998 to 4,500 GWh, or approximately 1.4 per cent, in 1999.

In 1999, Newfoundland Power's revenues increased by 1.9 per cent to \$342.0 million compared to \$335.8 million in 1998.



In 1999, Newfoundland Power had a total of 4,742 GWh of energy available for distribution. The Company's normalized production was 450 GWh with the remainder being purchased from Hydro. Newfoundland Power increased energy production as a result of the commissioning of the new Rose Blanche Hydroelectric Plant and generating efficiencies.

Strategies to leverage the Company's use of technology for service and productivity improvements, and actions to streamline business processes contributed to a reduction in operating cost per customer in 1999.



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Gross operating cost per customer was \$256 in 1999 compared to \$292 in 1997. This represents a 12 per cent reduction in gross operating cost per customer in two years.

Operating expenses, including the cost of purchased power, were \$245.5 million in 1999 compared to \$244.2 million in 1998. Reductions in operating costs resulting from efficiency improvements at the Company's hydro plants, cost control measures and more efficient business processes were offset by higher purchased power costs in 1999 due to increased energy sales and approximately \$0.9 million relating to the Company's 1999 Early Retirement Program.

An increase in depreciation expense of \$1.6 million, as well as a \$1.3 million increase in finance charges over 1998 levels, was directly related to the Company's capital programs aimed at improving reliability and customer service.

### **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 reassessment 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 representing one-half of the amount in dispute. The Company believes it has solid arguments that it has reported its tax position appropriately.

However, should the Company be unsuccessful, a liability of approximately \$40.3 million, including interest to December 31, 1999, 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 1999, the effective tax rate was 41.9 per cent, the same as in 1998. However, the effective tax rate is expected to increase in future years.

### **Regulation**

In January 1999, Newfoundland Power's 1999 rates were set in an Order issued by the PUB. In this Order, electrical rates were increased by 1.1 per cent effective February 1, 1999. In the same Order, the PUB gave final approval to a formula that will be used to adjust Newfoundland Power's electrical rates on an ongoing basis. This formula is based on changes in long-term Canada bond yields and the Company's capital. Electrical rates for 1999 were set based on a rate of return on equity of 9.25 per cent.

Due to increases in long-term Canada bond yields and investment in the Company, the operation of the automatic adjustment formula resulted in an increase in Newfoundland Power's allowed rate of return on rate base for 2000. In November and December 1999, the PUB issued Orders to adjust the Company's 2000 rate of return on rate base to reflect a return on equity of

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9.59 per cent and increased rates by 0.7 per cent effective January 1, 2000.

### **Capital Resources and Liquidity**

Capital expenditures were \$42 million in 1999 compared to \$45 million in 1998. Newfoundland Power's 1999 capital program focused on improving reliability of the electrical system in areas where the system has deteriorated due to age or exposure to Newfoundland's harsh environment.

The Company's 2000 capital budget has been approved at \$42 million and will continue to focus on improving system reliability and reducing associated operating and maintenance costs over the long-term.

Cash from operations totalled \$46.4 million in 1999 providing a substantial portion of the Company's cash requirements. Interim financing of \$180 million is available through bank lines of credit. Newfoundland Power converts short-term borrowings to long-term debt through the issue of first mortgage bonds when average short-term borrowings are in the range of \$40 million to \$50 million. The 2000 capital program is expected to be financed using internally generated funds.

In July 1999, Newfoundland Power resumed regular quarterly dividend payments following a suspension of dividends on its common shares in September 1998. The Company suspended dividends in response to a 1998 PUB Order that resulted in a significant reduction to the Company's allowed rate of return on equity. The suspension of dividends was required to ensure the common equity component of the Company's capital structure

was maintained close to the 45 per cent regulated limit.

### **Year 2000**

At midnight on December 31, 1999, Newfoundland Power successfully made the transition to the year 2000.

All Company systems and operations functioned in the expected manner with no disruption of service to customers. The success of Newfoundland Power's transition to the new century is reflective of the efforts of employees over a three-year period to evaluate all Y2K-related risks, repair necessary items, conduct testing and develop comprehensive contingency plans to effectively handle any potential Y2K scenario.

Throughout 1999, Newfoundland Power's Y2K Team worked with customers and suppliers to ensure external Y2K preparedness. All costs incurred in preparation for Y2K have been reflected in the Company's financial statements.

Although results to-date have been extremely positive, the Company continues to closely monitor systems for any impacts that may not yet have been detected.

### **Risk Analysis**

The principal long-term risk facing Newfoundland Power is the recovery of current and past expenses incurred in the delivery of electrical service. 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.

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The strong economic growth experienced by the Newfoundland economy in 1999 will continue in 2000. The Conference Board of Canada predicts the province will lead the country in economic growth for the third consecutive year with real GDP expected to increase by 5.2 per cent in 2000. This growth is a direct result of large resource-based projects, such as Hibernia and Terra Nova. However, other sectors such as fishing, construction and manufacturing are also expected to contribute.

Service sector GDP, which is more predictive of Newfoundland Power's energy sales, is forecast to grow at a more modest rate of 2.2 per cent in 2000. The slow recovery of northern cod stocks and its impact on the inshore fishery, as well as high levels of unemployment and out-migration in rural parts of the province, are contributing factors to lower service sector GDP growth.

Overall, the growing oil industry, a strong shellfish processing sector, and increased construction activity will lead to increased employment and personal disposable income.

Newfoundland Power continues to be a participant in the Energy Policy Review initiated by the Provincial Government in 1998. This review will examine five elements that 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.

Newfoundland Power supports a move to more flexible, incentive-based regulation that is reflective of global regulatory trends and better aligned with customers' expectations regarding reliability and price.

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## Management Report

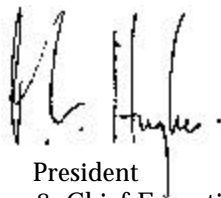
The accompanying financial statements of Newfoundland Power Inc. and all information in the annual report, are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts that are based on management's best estimates and judgments.

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



Manager, Finance

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## Auditors' Report

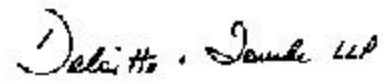
To the Shareholders,  
Newfoundland Power Inc.

We have audited the balance sheets of Newfoundland Power Inc. as at December 31, 1999 and 1998 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, 1999 and 1998 and the results of its operations and cashflows for the years then ended in accordance with generally accepted accounting principles.

St. John's, Newfoundland  
February 1, 2000

  
Chartered Accountants



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## Statement of Income

For the Year Ended December 31

	<u>1999</u>	<u>1998</u>
	<i>(in thousands)</i>	
Revenue	\$ 342,001	\$ 335,751
Purchased Power	<u>192,755</u>	<u>191,586</u>
	<u>149,246</u>	<u>144,165</u>
Other Expenses		
Operating expenses	51,679	52,641
Retirement allowances (Note 6)	1,030	-
Depreciation	29,638	28,067
Finance charges (Note 7)	<u>26,488</u>	<u>25,233</u>
	<u>108,835</u>	<u>105,941</u>
Income Before Income Taxes	40,411	38,224
Income Taxes (Note 8)	<u>16,927</u>	<u>16,027</u>
Net Income for the Year	23,484	22,197
Dividends on Preference Shares	626	626
Earnings Applicable to Common Shares	<u>\$ 22,858</u>	<u>\$ 21,571</u>
Earnings per Common Share	<u>\$ 2.21</u>	<u>\$ 2.09</u>

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## Statement of Retained Earnings

For the Year Ended December 31

	<u>1999</u>	<u>1998</u>
	<i>(in thousands)</i>	
Balance at Beginning of the Year	\$ 159,164	\$ 157,191
Net income for the year	<u>23,484</u>	<u>22,197</u>
	<u>182,648</u>	<u>179,388</u>
Dividends		
Preference shares	626	626
Common shares - regular	9,495	9,598
- special	-	10,000
	<u>10,121</u>	<u>20,224</u>
Balance at End of the Year	<u>\$ 172,527</u>	<u>\$ 159,164</u>

See accompanying notes to financial statements.

## Balance Sheet

As at December 31

	<u>1999</u>	<u>1998</u>
	<i>(in thousands)</i>	
<b>Assets</b>		
Fixed Assets (Note 1)		
Property, plant and equipment	\$ 899,944	\$ 870,348
Less: accumulated depreciation	<u>380,287</u>	<u>362,933</u>
	<u>519,657</u>	<u>507,415</u>
Current Assets		
Accounts receivable	33,108	33,044
Materials and supplies at average cost	5,492	3,711
Rate stabilization account	<u>4,828</u>	<u>4,482</u>
	<u>43,428</u>	<u>41,237</u>
Corporate Income Tax Deposit (Note 11)	<u>15,595</u>	<u>15,595</u>
Deferred Charges (Note 2)	<u>41,653</u>	<u>36,455</u>
	<u>\$ 620,333</u>	<u>\$ 600,702</u>

### Shareholders' Equity and Liabilities

Shareholders' Equity		
Common shares (Note 3)	\$ 70,321	\$ 70,321
Retained earnings	<u>172,527</u>	<u>159,164</u>
Common shareholder's equity	<u>242,848</u>	<u>229,485</u>
Preference shares (Note 3)	<u>9,890</u>	<u>9,890</u>
	<u>252,738</u>	<u>239,375</u>
Long-term Debt (Note 4)	<u>280,158</u>	<u>283,208</u>
Short-term Borrowings	<u>16,026</u>	<u>4,496</u>
Current Liabilities		
Bank indebtedness	3,600	545
Accounts payable and accrued charges	52,558	55,002
Current installments of long-term debt	<u>3,050</u>	<u>3,050</u>
	<u>59,208</u>	<u>58,597</u>
Deferred Credits (Note 5)	<u>12,203</u>	<u>15,026</u>
	<u>\$ 620,333</u>	<u>\$ 600,702</u>

APPROVED ON BEHALF OF THE BOARD:



Derek Hiscock  
Director



Bruce Chafe  
Director

See accompanying notes to financial statements.

## Statement Of Cashflows

For the Year Ended December 31

	<u>1999</u>	<u>1998</u>
	<i>(in thousands)</i>	
Cash From (Used in) Operations		
Net income for the year	\$ 23,484	\$ 22,197
Items not affecting cash		
Depreciation	29,638	28,067
Deferred income taxes	-	(79)
Weather normalization account	(2,340)	(1,316)
Amortization of deferred charges	257	240
Change in non-cash working capital	(4,635)	629
	<u>46,404</u>	<u>49,738</u>
Cash From (Used in) External Financing		
Net proceeds from long-term debt	-	49,198
Repayment of long-term debt	(3,050)	(2,550)
Short-term borrowings	11,530	(30,357)
Contributions in aid of construction	1,429	1,038
	<u>9,909</u>	<u>17,329</u>
Cash From (Used in) Investing		
Capital expenditures (net)	(43,792)	(45,391)
Increase in deferred charges	(5,455)	(6,260)
	<u>(49,247)</u>	<u>(51,651)</u>
Dividends		
Preference shares	(626)	(626)
Common shares - regular	(9,495)	(9,598)
- special	-	(10,000)
	<u>(10,121)</u>	<u>(20,224)</u>
Decrease in Cash	(3,055)	(4,808)
Cash (Bank Indebtedness) Beginning of the Year	( 545)	4,263
Bank Indebtedness, End of the Year	<u>\$ (3,600)</u>	<u>\$ (545)</u>

See accompanying notes to financial statements.

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## Notes To Financial Statements

December 31, 1999

### 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 (the "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 the estimated service life of plant and equipment, as approved by the PUB. The composite rate is 3.8 per cent (1998 - 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 ending in 2000, as approved by the PUB.

#### 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.

#### 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.

#### 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.

### **Deferred Charges**

Deferred charges are amortized as follows:

- Debt discount and expense: over the life of each issue.
- 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 to 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.

### **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.

### **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 \$89.0 million at December 31, 1999 (1998 - \$87.9 million).

### **Financial Instruments**

The company's financial instruments consist primarily of accounts receivable, accounts payable and accrued liabilities and long-term debt. Accounts receivable do not represent a significant concentration of credit risk because the accounts are owed by a large number of customers on normal credit terms. These financial instruments have a fair value which approximates carrying value, unless otherwise disclosed.

### **Use of Accounting Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates, however, such differences would not be expected to have a material impact on these financial statements.

## 1. Fixed Assets

	December 31, 1999			December 31, 1998	
	(in thousands)				
	Cost	Accumulated Depreciation	Net Book Value	Composite Depreciation Rate	Net Book Value
Distribution	\$ 496,617	\$ 207,976	\$ 288,641	3.6%	\$ 287,315
Transmission and substations	171,604	76,225	95,379	3.0%	93,996
Generation	106,313	41,209	65,104	2.1%	59,025
Land, buildings and equipment	85,983	29,464	56,519	6.2%	52,366
Transportation and communications	39,427	25,413	14,014	9.3%	14,713
	<u>\$ 899,944</u>	<u>\$ 380,287</u>	<u>\$ 519,657</u>	<u>3.8%</u>	<u>\$ 507,415</u>

## 2. Deferred Charges

	1999	1998
	(in thousands)	
Deferred pension costs	\$ 36,986	\$ 31,170
Unamortized debt discount and expense	2,913	3,157
Unamortized capital stock issue expense	669	746
Deferred regulatory costs and other	1,085	1,382
	<u>\$ 41,653</u>	<u>\$ 36,455</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

	1999	1998
	(in thousands)	
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>1999</u>	<u>1998</u>
	<i>(in thousands)</i>	
First mortgage sinking fund bonds		
11.500% Series AB, due 2005	\$ 13,650	\$ 13,800
11.875% Series AC, due 2007	34,670	35,070
10.550% Series AD, due 2014	34,553	34,953
10.900% Series AE, due 2016	36,800	37,200
10.125% Series AF, due 2022	37,200	37,600
9.000% Series AG, due 2020	38,000	38,400
8.900% Series AH, due 2026	38,835	39,235
6.800% Series AI, due 2028	49,500	50,000
	<u>283,208</u>	<u>286,258</u>
Less: current installments	3,050	3,050
	<u>\$ 280,158</u>	<u>\$ 283,208</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 \$334 million at December 31, 1999 (1998 - \$358 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>1999</u>	<u>1998</u>
	<i>(in thousands)</i>	
Contributions in aid of construction	\$ 19,565	\$ 20,048
Weather normalization account	(7,362)	(5,022)
	<u>\$ 12,203</u>	<u>\$ 15,026</u>

#### 6. Retirement Allowances

Retirement Allowances for 1999 are the result of an Early Retirement Program. No similar amounts were incurred in 1998.

## 7. Finance Charges

	<u>1999</u>	<u>1998</u>
		(in thousands)
Interest - long-term debt	\$ 27,577	\$ 24,824
- short-term debt	166	1,740
Amortization - debt discount and expense	179	158
- capital stock issue expense	78	80
Interest earned	(1,103)	(1,006)
Interest charged to construction	<u>(409)</u>	<u>(563)</u>
	<u>\$ 26,488</u>	<u>\$ 25,233</u>

Long-term and short-term interest payments made during the year totalled \$27.7 million (1998 - \$25.7 million).

## 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>1999</u>	<u>1998</u>
		(in percentages)
Statutory income tax rate	43.1	43.1
Large corporations tax	2.1	2.1
General expenses capital	(0.4)	(1.2)
Pension costs	(6.2)	(6.1)
Timing difference not recorded	<u>3.3</u>	<u>4.0</u>
Effective income tax rate	<u>41.9</u>	<u>41.9</u>

Income tax payments made during the year totalled \$11.5 million (1998 - \$17.0 million).

## 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 \$138.5 million (1998 - \$131.3 million) and the market value of the pension plan assets is \$148 million (1998 - \$126.2 million).

Pension costs charged to income and capital in 1999 were \$3.7 million (1998 - \$3.8 million).

## 10. Related Party Transactions

The company is a wholly-owned subsidiary of Fortis Inc. In 1999, net charges to related companies were \$487,000 (net charges from related companies in 1998 - \$225,000). Terms of these transactions were the same as those with unrelated parties.

## 11. Contingent Liability

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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 reassessment 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 \$40.3 million including interest to December 31, 1999 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.

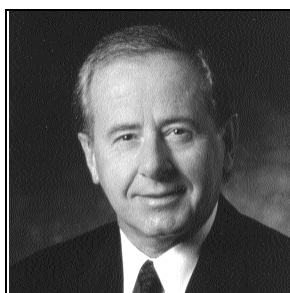
## 12. Uncertainty Due to the Year 2000 Issue

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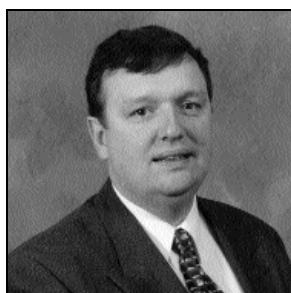
The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the company, including those related to customers, suppliers, or other third parties, have been fully resolved.

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## Board of Directors



**Bruce Chafe**  
*Corporate Director*  
St. John's, Newfoundland



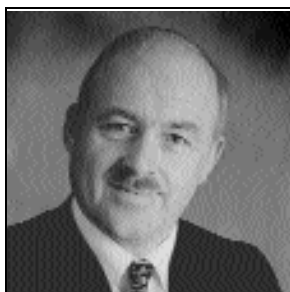
**Frank J. Coleman**  
*President*  
Coleman Management  
Services Ltd.  
Corner Brook, Newfoundland



**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



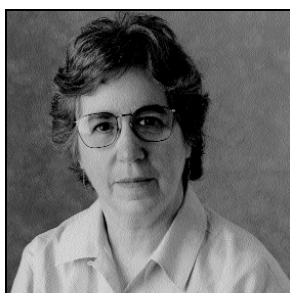
**Frank P. Howard**  
*President*  
Riverview Chev-Olds Ltd.  
Grand Falls-Windsor, Newfoundland



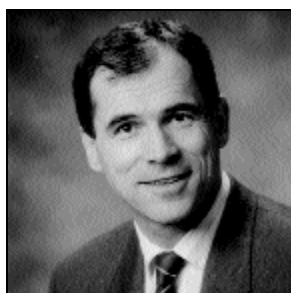
**Philip G. Hughes**  
*President & Chief Executive Officer*  
Newfoundland Power Inc.  
St. John's, Newfoundland



**Linda L. Inkpen, C.M.**  
*Medical Practitioner*  
Wedgewood Medical Centre  
St. John's, Newfoundland  
Chair, Board of Directors  
Newfoundland Power Inc.



**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.  
Paradise, Newfoundland



**Peter Woodward**  
*Vice President, Operations*  
Woodward Group of Companies  
Happy Valley-Goose Bay, Labrador

## Corporate Directory

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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
Peter S. Alteen	Corporate Counsel & Secretary
Lisa A. Hutchens	Manager, Finance

## Investor Information

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### **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

### **2000 Annual General Meeting**

Wednesday, April 19, 2000  
8:00 a.m.  
Main Boardroom  
Newfoundland Power Inc.  
55 Kenmount Road, 3rd Floor  
St. John's, Newfoundland

### **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](http://www.newfoundlandpower.com)

### **Related Websites**

Fortis Inc.	<a href="http://www.fortisinc.com">www.fortisinc.com</a>
Maritime Electric	<a href="http://www.maritimeelectric.com">www.maritimeelectric.com</a>
Canadian Niagara Power	<a href="http://www.cnpower.com">www.cnpower.com</a>
Belize Electricity	<a href="http://www.bel.com.bz">www.bel.com.bz</a>

### **E-mail**

[contactus@newfoundlandpower.com](mailto:contactus@newfoundlandpower.com)

*Congratulations to Board member Frank Coleman on Coleman's Food Centre receiving the 1999 Independent Grocer of the Year Award.*

*This award is presented by the Canadian Federation of Independent Grocers to recognize outstanding grocers across Canada.*



## Ten Year Summary

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
<b>Income Statement Items (in \$000s)</b>										
Revenue	342,001	335,751	343,677	341,560	338,934	338,367	333,570	330,221	319,143	307,076
Operating expenses	245,464	244,227	248,266	246,849	245,946	239,707	236,307	237,345	230,423	222,610
Finance charges	26,488	25,233	24,949	24,010	22,739	22,972	22,494	21,628	21,485	20,357
Depreciation	29,638	28,067	26,800	26,314	28,896	28,141	26,921	25,878	24,555	24,046
Income taxes	16,927	16,027	18,105	18,617	13,120	19,745	18,666	15,708	14,881	13,828
Earnings applicable to common shares	22,858	21,571	24,931	25,144	27,638	27,090	27,702	27,731	25,483	23,775
Return on equity (%)	9.68	9.44	10.99	10.91	12.02	12.01	12.62	13.46	13.17	13.59
Regulated return on equity midpoint (%)	9.25	9.25	11.00	11.00	13.25	13.25	13.25	13.25	13.25	13.95
<b>Balance Sheet Items (in \$000s)</b>										
Property, plant and equipment	899,944	870,348	841,775	819,522	800,507	776,792	746,132	718,712	685,004	649,288
Accumulated depreciation	380,287	362,933	349,934	329,970	311,089	287,392	262,912	241,001	220,104	200,503
Net fixed assets	519,657	507,415	491,841	489,552	489,418	489,400	483,220	477,711	464,900	448,785
Total assets	620,333	600,702	581,527	573,538	568,550	552,972	549,164	547,034	522,075	500,025
Long-term debt	283,208	286,258	238,808	241,323	203,473	217,031	218,906	221,181	197,686	163,154
Preference shares	9,890	9,890	9,890	9,890	9,890	10,902	10,905	22,296	29,889	30,938
Common equity	242,848	229,485	227,512	226,157	234,779	225,098	226,054	212,904	199,082	187,814
Total capital	535,946	525,633	476,210	477,370	448,142	453,031	455,865	456,381	426,657	381,906
<b>Operating Statistics</b>										
<b>Sources of Energy (in millions of kWh)</b>										
Purchased	4,292	4,259	4,244	4,236	4,186	4,178	4,093	4,066	4,008	4,008
Generated	450	429	424	423	423	420	420	417	417	411
Total	4,742	4,688	4,668	4,659	4,609	4,598	4,513	4,483	4,425	4,419
<b>Sales (in millions of kWh)</b>										
Residential	2,672	2,652	2,669	2,635	2,600	2,594	2,540	2,509	2,462	2,404
Commercial and street lighting	1,828	1,788	1,769	1,790	1,782	1,777	1,746	1,735	1,734	1,770
Total	4,500	4,440	4,438	4,425	4,382	4,371	4,286	4,244	4,196	4,174
Energy sales per employee	6.5	6.3	6.3	5.5	5.3	5.4	5.3	4.5	4.4	4.2
<b>Customers (year-end)</b>										
Residential	183,921	182,324	181,168	179,375	177,431	175,797	172,942	170,418	167,217	164,019
Commercial and street lighting	29,720	29,786	29,518	29,421	29,243	29,103	28,686	28,518	28,513	28,346
Total	213,641	212,110	210,686	208,796	206,674	204,900	201,628	198,936	195,730	192,365
Gross operating cost per customer (\$)	256	261	292	287	301	293	293	310	296	294
Revenue per employee (\$)	492,088	476,243	487,485	425,355	412,328	419,290	409,288	347,601	333,483	312,069
Number of regular employees	695	705	705	803	822	807	815	950	957	984

# We put a lot of energy into making a difference.

*We believe that being a power company means more than keeping the lights on . . .*

*In addition to providing safe, reliable electricity in a cost efficient manner, we are also committed to the welfare of the people of our province.*

*Our partnerships throughout Newfoundland remind us everyday that it is the power of the people that makes the real difference.*

*Listed on this page are some of our partners who, like us, are committed to making Newfoundland a better place to live.*

Mothers Against Drunk Driving  
School Lunch Association Inc.  
Junior Achievement of  
Newfoundland & Labrador  
Memorial University of Newfoundland  
Canadian Cancer Society,  
Newfoundland & Labrador Division  
Big Brothers/Big Sisters  
Salvation Army  
The Bel Canto Singers  
The Children's Wish Foundation  
Downtown Development Commission  
Newfoundland & Labrador Association  
of Fire Chiefs and Firefighters  
Marystown-Burin Area  
Chamber of Commerce  
Atlantic Salmon Federation  
Coats for Kids  
Corner Brook Stream  
Development Corporation  
Multi-Materials Stewardship Board  
The Kidney Foundation  
Corduoy Brook  
Enhancement Association  
Alzheimer Society of  
Newfoundland & Labrador  
Child Find Newfoundland & Labrador  
Newfoundland Lung Association  
1999 Canada Winter Games  
West Lane Recycling

Newfoundland Science Centre  
Community Services Council  
Newfoundland Association for the Deaf  
Burin Peninsula Health Care Foundation  
The Canadian Red Cross Society  
Janeway Children's Hospital Foundation  
Newfoundland Symphony Orchestra  
Scouts Canada  
The Vera Perlin Foundation  
Boys and Girls Clubs of  
Newfoundland & Labrador  
College of the North Atlantic  
Health Care Corporation of St. John's  
Newfoundland & Labrador  
Home Builders Association  
Cerebral Palsy  
Association of Newfoundland  
Newfoundland Society for the  
Physically Disabled  
Cross Memorial Health Foundation  
Newfoundland & Labrador  
Brain Injury Association  
Heart and Stroke Foundation of  
Newfoundland & Labrador  
Crimestoppers  
World Cup Triathlon  
Mazol Shriner's Patient  
Transportation Fund  
St. John's Jaycees  
The Arthritis Society

## Photos from top to bottom

1. A picture's worth a thousand words! In 1999, we were proud to support the Newfoundland & Labrador Down's Syndrome Society.
2. In October we were presented with the Canadian Cancer Society's Certificate of Special Recognition for our contribution to the fight against cancer.
3. Our recycling van collected more than 32,000 beverage containers at the 1999 Canada Winter Games.
4. In July we received the John Cordoulis Memorial Award from the Newfoundland & Labrador Association of Fire Chiefs and Firefighters for our long-term commitment to fire prevention.
5. With our partners, the Atlantic Salmon Federation and elementary students, we released thousands of salmon fry back into Newfoundland waterways in 1999.





# ***Our Family Believes ...***



***Families can beat Cancer***



IN THE MATTER OF  
the 1999 Annual  
Return of Newfoundland  
Power Inc. filed pursuant  
to Section 59(2) of the  
*Public Utilities Act.*

**AFFIDAVIT**

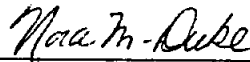
I, Nora M. Duke, of St. John's, Newfoundland make oath and say as follows:

1. That I am Vice President, Customer and Corporate Services of Newfoundland Power Inc.
2. That to the best of my knowledge, information and belief, the information contained in the 1999 Annual Report and accompanying returns of Newfoundland Power Inc., filed with the Board of Commissioners of Public Utilities pursuant to section 59(2) of the *Public Utilities Act* is true and accurate.

SWORN to before me at  
St. John's, Newfoundland,  
This 30<sup>th</sup> day of March, 2000



Peter Alteen  
Barrister



Nora M. Duke

<p><b>Newfoundland Power Inc.</b> <b>Names and Addresses of Officers and Directors</b> <b>as of December 31, 1999</b></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
Bruce Chafe	Unit 602 Brentwood 156 Portugal Cove Road St. John's, NF A1B 4H9	Director
Frank J. Coleman	25 Hamilton Place Corner Brook, NF A2H 7C1	Director
Nora M. Duke	18 Jacaranda Place St. John's, NF A1H 1A1	Vice President, Customer and Corporate Services
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



<p><b>Newfoundland Power Inc.</b> <b>Names and Addresses of Officers and Directors</b> <b>as of December 31, 1999</b></p>
---

<u>Name</u>	<u>Address</u>	<u>Position Held</u>
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
Philip G. Hughes	128 Logy Bay Road St. John's, NF A1A 1J6	President and Chief Executive Officer; Director
Linda L. Inkpen, C.M.	P. O. Box 432, R. R. #1 St. Phillips, NF A1L 1C1	Chair of the Board of Directors
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	P.O. Box 481 Paradise, NF A1L 1C8	Vice President, Operations

**Newfoundland Power Inc.**  
**Names and Addresses of Officers and Directors**  
**as of December 31, 1999**

<u>Name</u>	<u>Address</u>	<u>Position Held</u>
H. Stanley Marshall	P.O. Box 2590 Topsail, NF A1W 1A2	Director
Peter Woodward	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, 1999  
(000s)

	<u>1999</u>	<u>1998</u>
Plant Investment - Return 4	\$ 897,666	\$ 867,270
<u>Deduct:</u>		
Accumulated Depreciation - Return 5	380,287	362,933
Contributions in Aid of Construction - Return 9	19,565	20,048
Deferred Income Taxes - Return 6	-	-
Weather Normalization Reserve - Return 14	(7,362)	(5,022)
	<u>392,490</u>	<u>377,959</u>
	<u>505,176</u>	<u>489,311</u>
<u>Add:</u>		
Contributions - Country Homes	312	333
	<u>\$ 505,488</u>	<u>\$ 489,644</u>
Average	497,566	480,574
Cash Working Capital Allowance - Return 7	4,447	4,413
Materials and Supplies - Return 7A	3,675	3,217
	<u>\$ 505,688</u>	<u>\$ 488,204</u>
Average Rate Base at Year End - Return 10	<u>\$ 505,688</u>	<u>\$ 488,204</u>

**Newfoundland Power Inc.**  
**Plant Investment**  
**For The Year Ended December 31, 1999**  
**(000s)**

	<u>Balance January 1 1999</u>	<u>Adjustments During 1999</u>	<u>Additions During 1999</u>	<u>Retirements During 1999</u>	<u>Balance December 31 1999</u>
Power Generation:					
Steam	\$ 4,945	\$ -	\$ -	\$ -	\$ 4,945
Hydro	82,638	3	7,682	784	89,539
Diesel	2,351	-	5	145	2,211
Gas Turbine	9,033	-	399	52	9,380
	<u>98,967</u>	<u>3</u>	<u>8,086</u>	<u>981</u>	<u>106,075</u>
Substations	88,330	(9)	3,581	1,058	90,844
Transmission	73,236	(470)	2,443	304	74,905
Distribution	467,522	476	17,824	7,340	478,482
General Properties	41,502	-	2,083	269	43,316
Transportation	20,268	-	1,766	1,249	20,785
Communications	18,619	-	437	604	18,452
Computer Software	20,084	110	3,341	643	22,892
Computer Hardware	5,136	-	3,517	156	8,497
Government Contributions	23,548	(110)			23,438
Total Depreciable Plant	857,212	-	43,078	12,604	887,686
Non Depreciable Land	10,058	-	-	78	9,980
	<u>\$ 867,270</u>	<u>\$ -</u>	<u>\$ 43,078</u>	<u>\$ 12,682</u>	
Plant Investment - Return 3					897,666
Work in Progress					2,278
Total Plant Investment - Return 1					<u>\$ 899,944</u>

<b>Newfoundland Power Inc.</b> <b>Capital Expenditure</b> <b>For The Year Ended December 31, 1999</b> <b>(000s)</b>			
	<b>Approved By Board Order *</b>	<b>Actual</b>	<b>Variance Over (Under)</b>
Energy Supply	\$ 7,710	\$ 8,359	\$ 649
Substations	2,989	3,529	540
Transmission	2,114	2,149	35
Distribution	16,143	17,171	1,028
General Property	2,876	2,298	(578)
Transportation	1,946	1,797	(149)
Telecommunications	453	344	(109)
Computing Equipment	4,174	3,953	(221)
General Expenses Capital	2,626	2,682	56
	<u>\$ 41,031</u>	<u>\$ 42,282</u>	<u>\$ 1,251</u>

\* As per Board Orders P.U. 36 (1998-1999), P.U. 6 (1999-2000) and P.U. 18 (1999-2000).



**Newfoundland Power Inc.**  
**Accumulated Depreciation**  
**For The Year Ended December 31, 1999**  
**(000s)**

(A) Balance - January 1, 1999	\$ 362,933
<u>Add:</u>	
Depreciation - Appropriated from Income	29,638
Amortization of Contributions - Government	871
Amortization of Contributions - Customers	1,041
Salvage	1,013
	32,563
<u>Deduct:</u>	
Cost of Removal (Net of Income Tax)	2,527
Retirements	12,682
	15,209
(B) Balance - December 31, 1999 - Return 3	\$ 380,287

(C) Depreciation Rates - 1999	Before True-up	After True-up
Steam	0.00%	0.00%
Hydro	2.02%	2.02%
Diesel	3.55%	-1.48%
Gas Turbine	3.55%	-1.28%
Substations	2.75%	0.96%
Transmission	3.38%	4.86%
Distribution	3.62%	3.62%
General Property	2.77%	3.37%
Transportation	10.84%	6.89%
Telecommunications	7.57%	7.57%
Computer Software	10.00%	7.09%
Computer Hardware	20.00%	20.00%

(D) Percentage of Accumulated Depreciation to Total Depreciable Plant :	42.84%
(E) Percentage of Current Depreciation, Including the Provision for True-up and Amortization of Contributions, to Total Depreciable Plant :	3.55%

**Newfoundland Power Inc.**  
**Accumulated Deferred Income Tax**  
**For The Year Ended December 31, 1999**  
**(000s)**

Balance - January 1, 1999		\$ -
Increase for the Year - Timing Differences:		
CCA Claimed on all property, plant and equipment	\$ 25,660	
Depreciation expense on all property, plant and equipment (GEC excluded from post-1986 additions)	26,283	
	<u>(623)</u>	
Income Tax @ 42.0%		(262)
Balance - December 31, 1999 - Return 3 (If negative, enter zero)		<u>\$ -</u>

Newfoundland Power Inc.  
Working Capital  
For The Year Ended December 31, 1999  
(000s)

(A) Calculation of Cash Working Capital Allowance

Operating Expenses for the Year - Return 12	\$ 245,464
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Less: Non Regulated Expenses (Net of Income Tax)	781
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244,683

Add: Current Income Tax Expense - Return 18	16,927
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\$ 261,610

1999 Working Capital Allowance ( @ 1.7% ) - Return 3	<u>\$ 4,447</u>
--	-----------------

1998 Working Capital Allowance	<u>\$ 4,413</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, 1999  
(000s)

	1999			1998		
	Balance Sheet	Expansion	Rate Base	Balance Sheet	Expansion	Rate Base
Materials and Supplies - Jan.	\$ 3,719	\$ 681	\$ 3,038	\$ 3,806	\$ 696	\$ 3,110
Feb.	3,713	679	3,034	4,013	734	3,279
Mar.	3,383	619	2,764	4,117	753	3,364
Apr.	3,808	697	3,111	4,085	748	3,337
May	3,865	707	3,158	4,099	750	3,349
Jun.	3,800	695	3,105	3,668	671	2,997
Jul.	5,377	984	4,393	4,176	764	3,412
Aug.	5,749	1,052	4,697	3,775	691	3,084
Sep.	4,500	824	3,676	4,007	733	3,274
Oct.	5,098	933	4,165	4,009	734	3,275
Nov.	5,469	1,001	4,468	3,776	691	3,085
Dec.	5,492	1,005	4,487	3,711	679	3,032
			<u>\$44,096</u>			<u>\$38,598</u>
Materials and Supplies Monthly Average - Return 3			<u>\$ 3,675</u>			<u>\$ 3,217</u>

**Newfoundland Power Inc.**  
**Deferred Expenses**  
**For The Year Ended December 31, 1999**  
**(000s)**

	Balance January 1 1999	Additions During 1999	Reductions During 1999	Balance December 31 1999
Debt Discount & Expenses	\$ 3,157	\$ -	\$ 244 *	\$ 2,913
Capital Stock Issue Expense	747	-	78	669
Deferred Pension Costs	31,169	8,813	2,996	36,986
Deferred Regulatory Costs	1,150	-	383	767
Other**	232	160	74	318
Deferred Expenses - Return 1	<u>\$ 36,455</u>	<u>\$ 8,973</u>	<u>\$ 3,775</u>	<u>\$ 41,653</u>

\* Includes a one-time adjustment of \$65,000 to reflect the difference between actual and accrued issue costs for bond series A1.

\*\* Other Deferred Expenses includes deferred work orders.

**Newfoundland Power Inc.**  
**Contributions In Aid Of Construction**  
**For The Year Ended December 31, 1999**  
**(000s)**

	<u>Customers</u>	<u>Government</u>	<u>Total</u>
(A) Gross Contributions - January 1, 1999	\$ 30,368	\$ 22,160	\$ 52,528
Less: Amortization to December 31, 1998	13,189	19,291	32,480
	<hr/>	<hr/>	<hr/>
Unamortized Contributions - January 1, 1999	17,179	2,869	20,048
Repayment of Contribution	-	(110)	(110)
Contributions Received During 1999	1,539	-	1,539
Less: Amortization - 1999	1,041	871	1,912
	<hr/>	<hr/>	<hr/>
	498	(981)	(483)
	<hr/>	<hr/>	<hr/>
(B) Balance - December 31, 1999 - Return 3	<u>\$ 17,677</u>	<u>\$ 1,888</u>	<u>\$ 19,565</u>



**Newfoundland Power Inc.**  
**Amortization of Contributions In Aid Of Construction - Customers**  
**For The Year Ended December 31, 1999**  
**(000s)**

	<u>Gross Contributions</u>	<u>Amortized During 1999</u>	<u>Amortized To Date</u>	<u>Unamortized Contributions</u>
Prior 1965	\$ 797	\$ -	\$ 797	\$ -
1965	202	-	202	-
1966	348	-	348	-
1967	233	-	233	-
1968	223	-	223	-
1969	329	-	329	-
1970	234	1	234	-
1971	201	4	201	-
1972	150	6	148	2
1973	512	18	493	19
1974	537	20	504	33
1975	760	27	696	64
1976	430	15	378	52
1977	657	23	554	103
1978	431	15	349	82
1979	536	20	447	89
1980	655	23	498	157
1981	653	23	468	185
1982	693	25	467	226
1983	1,090	40	695	395
1984	849	30	500	349
1985	1,090	40	602	488
1986	1,010	36	520	490
1987	936	34	446	490
1988	1,493	54	646	847
1989	1,774	65	704	1,070
1990	1,411	51	509	902
1991	1,421	52	461	960
1992	1,720	63	497	1,223
1993	997	36	252	745
1994	1,314	47	285	1,029
1995	1,875	68	339	1,536
1996	1,422	205	205	1,217
1997	2,232	-	-	2,232
1998	1,153	-	-	1,153
1999	1,539	-	-	1,539
	<u>\$ 31,907</u>	<u>\$ 1,041</u>	<u>\$ 14,230</u>	<u>\$ 17,677</u>

**Newfoundland Power Inc.**  
**Return on Rate Base**  
**For The Year Ended December 31, 1999**  
**(000s)**

	<u>1999</u>	<u>1998</u>
(A) Net Income - Return 1	\$ 23,484	\$ 22,197
Non Deductible Expenses - Net of Income Tax	781	728
	<u>24,265</u>	<u>22,925</u>
<u>Add:</u>		
Interest on Long Term Debt	27,577	24,824
Other Interest	166	1,740
Interest Earned	(1,103)	(1,006)
Interest Charged to Construction	(409)	(563)
Amortization of Debt Discount & Expenses	179	158
Amortization of Capital Stock Issue Expenses	78	80
	<u>26,488</u>	<u>25,233</u>
(B) Regulated Earnings	<u>\$ 50,753</u>	<u>\$ 48,158</u>
(C) Average Rate Base - Return 3	<u>\$ 505,688</u>	<u>\$ 488,204</u>
(D) Rate of Return on Average Rate Base	<u>10.04%</u>	<u>9.86%</u>

**Newfoundland Power Inc.**  
**Analysis of Revenue - Normalized**  
**For The Year Ended December 31, 1999**

		1999			1998		
		Gigawatt Hours	Year End Customer* Accounts	Revenue (000s)	Gigawatt Hours	Year End Customer* Accounts	Revenue (000s)
Residential	1.1	2,671.9	183,921	\$ 202,069	2,652.1	182,324	\$ 198,361
General Service:							
0 - 10 kW	2.1	95.1	11,763	10,342	91.3	11,764	9,908
10 - 100 kW	2.2	558.0	7,732	44,739	551.3	7,809	44,236
110 - 1000 kVA	2.3	781.1	921	50,651	773.4	940	49,830
over 1000 kVA	2.4	358.3	49	19,454	336.1	49	18,143
Street & Area Lighting	4.1	35.3	9,255	10,311	35.4	9,224	10,140
Forfeited Discounts				2,180			2,262
Revenue From Rates		4,499.7	213,641	339,746	4,439.6	212,110	332,880
Wheeling				456			443
Non Electrical Revenue				1,799			2,428
Other Revenue				2,255			2,871
Total Revenue - Return 1		<u>4,499.7</u>	<u>213,641</u>	<u>\$ 342,001</u>	<u>4,439.6</u>	<u>212,110</u>	<u>\$ 335,751</u>

\* A change in the methodology used to count the number of Street and Area Lighting services has resulted in a reduction in the number of these customers of approximately 2,000.

**Newfoundland Power Inc.**  
**Statement of Expenses**  
**For The Year Ended December 31, 1999**  
**(000s)**

	<u>1999</u>	<u>1998</u>
<b><u>Operating Expenses</u></b>		
Purchased Power	\$ 192,755	\$ 191,586
Power Produced	2,232	2,089
Administrative and Engineering Support	7,753	6,972
Environmental Policy	721	621
Substations	2,188	2,048
Transmission	417	607
Distribution	7,318	7,254
Communications	1,086	1,203
Fleet Operating and Maintenance Expense	1,866	2,183
	<u>216,336</u>	<u>214,563</u>
<b><u>General Expenses</u></b>		
Customer Service	9,627	9,900
Financial Services	1,448	1,286
Information Systems	3,350	3,264
Company Pension Plan	3,674	3,833
Retirement Allowances	1,030	19
Corporate and Employee Services	12,072	14,080
	<u>31,201</u>	<u>32,382</u>
Total Operating & General Expenses	247,537	246,945
Less: Transfers to General Expenses Capital	2,073	2,718
Total - Return 1	<u><u>\$ 245,464</u></u>	<u><u>\$ 244,227</u></u>

**Newfoundland Power Inc.**  
**Explanation of Significant Operating Expense Variances**  
**For The Year Ended December 31, 1999**  
**( 1999 vs 1998 )**  
**(000s)**

	<u>1999</u>	<u>1998</u>	<u>Increase (Decrease)</u>
<b>Purchased Power</b>	<u>\$ 192,755</u>	<u>\$ 191,586</u>	<u>\$ 1,169</u>

Increased purchased power resulted from higher energy sales partially offset by additional hydro production associated with the Rose Blanche hydroelectric plant.

<b>Power Produced</b>	<u>\$ 2,232</u>	<u>\$ 2,089</u>	<u>\$ 143</u>
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Increased costs in this class relate to the implementation of an environmental management system for generating facilities consistent with the ISO 14001 standard, and to the mechanical balancing of the turbine shaft at the Pierre's Brook hydroelectric plant to eliminate vibration resulting from age and wear.

<b>Administrative and Engineering Support</b>	<u>\$ 7,753</u>	<u>\$ 6,972</u>	<u>\$ 781</u>
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Increased costs in this class are the result of a number of factors, including labour and consulting fees related to Y2K preparation, salary changes related to increased job qualifications for Control Room Operators, environmental management system implementation costs, and the reallocation of labour costs from Corporate and Employee Services.

<b>Environmental Policy</b>	<u>\$ 721</u>	<u>\$ 621</u>	<u>\$ 100</u>
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This increase resulted from clean-up costs associated with oil spills.

<b>Substations</b>	<u>\$ 2,188</u>	<u>\$ 2,048</u>	<u>\$ 140</u>
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This increase is due to increased maintenance in substations.

<b>Transmission</b>	<u>\$ 417</u>	<u>\$ 607</u>	<u>\$ (190)</u>
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The decrease in operating costs in this class is the result of fewer outages as a consequence of the transmission line insulator replacement program.

**Newfoundland Power Inc.**  
**Explanation of Significant Operating Expense Variances**  
**For The Year Ended December 31, 1999**  
**( 1999 vs 1998 )**  
**(000s)**

	<u>1999</u>	<u>1998</u>	<u>Increase (Decrease)</u>
<b>Communications</b>	<u>\$ 1,086</u>	<u>\$ 1,203</u>	<u>\$ (117)</u>

The decrease in communication costs resulted from lower long distance and 1-800 rates, and a reduction in the use of leased lines.

<b>Fleet Operating and Maintenance Expense</b>	<u>\$ 1,866</u>	<u>\$ 2,183</u>	<u>\$ (317)</u>
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Increased utilization of vehicles on capital projects resulted in lower operating expense.

<b>Customer Service</b>	<u>\$ 9,627</u>	<u>\$ 9,900</u>	<u>\$ (273)</u>
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The decrease in costs in this class is a reflection of a number of factors, including the transfer of damage claims payments and risk management administration to the Financial Services class, lower bad debt costs, increased collection costs, and increased postage.

<b>Financial Services</b>	<u>\$ 1,448</u>	<u>\$ 1,286</u>	<u>\$ 162</u>
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This increase was the result of the inclusion in this class of damage claims payments and risk management administration, which were previously recorded in the Customer Service class.

<b>Company Pension Plan</b>	<u>\$ 3,674</u>	<u>\$ 3,833</u>	<u>\$ (159)</u>
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The decrease in pension expense was a result of the market performance and funding of the pension plan.

<b>Retirement Allowances</b>	<u>\$ 1,030</u>	<u>\$ 19</u>	<u>\$ 1,011</u>
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Retirement allowance costs increased as a result of the 1999 early retirement program.



**Newfoundland Power Inc.**  
**Explanation of Significant Operating Expense Variances**  
**For The Year Ended December 31, 1999**  
**( 1999 vs 1998 )**  
**(000s)**

	<u>1999</u>	<u>1998</u>	<u>Increase (Decrease)</u>
<b>Corporate and Employee Services</b>	<u>\$ 12,072</u>	<u>\$ 14,080</u>	<u>\$ (2,008)</u>

This decrease was a reflection of the discontinuance of the Short Term Incentive plan for unionized and managerial staff, and the transfer of labour costs to other operating classes.

<b>Transfers to General Expenses Capital</b>	<u>\$ 2,073</u>	<u>\$ 2,718</u>	<u>\$ (645)</u>
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Transfers to General Expenses Capital declined from 1998 to 1999 due to the ongoing phase-in of the incremental method of accounting for general expenses capital, as required by Order No. P.U. 3 (1995-96).

<b>Newfoundland Power Inc.</b> <b>Production and Sales Statistics - Normalized</b> <b>For The Year Ended December 31, 1999</b>		
	<u>1999</u>	<u>1998</u>
Gigawatt Hours - Purchased	4,291.9	4,258.9
Gigawatt Hours - Produced	450.0	429.4
Total Purchased and Produced	4,741.9	4,688.3
Gigawatt Hours - Sold & Used	4,510.9	4,451.1
Gigawatt Hours - Losses	<u>231.0</u>	<u>237.2</u>
Losses Expressed as % of Total Purchased and Produced	<u>4.9%</u>	<u>5.1%</u>

**Newfoundland Power Inc.**  
**Weather Normalization Reserve**  
**For The Year Ended December 31, 1999**  
**(000s)**

**Degree Day Normalization Reserve**

Revenue Adjustment

Heating Degree Days	\$ 12,622
Cooling Degree Days	(2)
Wind Speed Adjustments	720

Total Revenue Adjustment	<u>13,340</u>
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Less : Power Purchased Adjustment

Heating Degree Days	10,299
Cooling Degree Days	(1)
Wind Speed Adjustments	648

Total Power Purchased Adjustment	<u>10,946</u>
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Net Adjustment (Before Tax)	2,394
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Less: Income Tax @ 42%	1,005
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Net Transfer (To) From Reserve	<u>\$ 1,389</u>
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**Hydro Production Equalization Reserve**

Transfer (To) From Reserve (Before Tax)	\$ 1,640
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Less: Income Tax @ 42%	689
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Net Transfer (To) From Reserve	<u>\$ 951</u>
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Net Transfer (To) From Weather Normalization Reserve	<u>\$ 2,340</u>
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**General Ledger Accounts**

	Hydro Production Equalization Reserve Dr (Cr)	Degree Day Normalization Reserve Dr (Cr)	
Balance of Reserve - December 31, 1998	\$ 7,046	\$ (2,024)	\$ 5,022
Net Transfer	<u>951</u>	<u>1,389</u>	<u>2,340</u>
Balance of Reserve - December 31, 1999	<u>\$ 7,997</u>	<u>\$ (635)</u>	<u>\$ 7,362</u>

Newfoundland Power Inc.  
Rate Stabilization Account  
For The Year Ended December 31, 1999  
(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	\$ 273.3	\$ (991.1)	\$ -	\$ 0.9	\$ (0.3)	\$ 2.4	\$ 1,053.9	\$ 339.1
February	339.1	(905.6)	-	(2.1)	(0.1)	3.0	865.3	299.6
March	299.6	(835.1)	-	20.4	(0.1)	2.6	842.3	329.7
April	329.7	(792.4)	-	9.2	-	2.9	746.0	295.4
May	295.4	(653.7)	-	-	(0.5)	2.6	568.2	212.0
June	212.0	(550.6)	-	10.7	-	1.8	522.7	196.6
July	196.6	(675.3)	-	13.6	-	1.7	667.5	204.1
August	204.1	(613.6)	-	3.7	(1.9)	1.8	650.1	244.2
September	244.2	(637.2)	-	4.9	-	2.2	668.6	282.7
October	282.7	(739.9)	-	7.3	-	2.5	894.7	447.3
November	447.3	(1,051.1)	-	1.1	(0.6)	4.0	1,009.9	410.6
December	410.6	(1,049.4)	(40.5)	5.7	(0.2)	3.6	1,236.5	566.3
		<u>\$ (9,495.0)</u>	<u>\$ (40.5)</u>	<u>\$ 75.4</u>	<u>\$ (3.7)</u>	<u>\$ 31.1</u>	<u>\$ 9,725.7</u>	

**Newfoundland Power Inc.**  
**Cost of Embedded Debt**  
**For The Year Ended December 31, 1999**  
**(000s)**

	December 31 1999	December 31 1998	Total
Bonds	\$ 283,208	\$ 286,258	\$ 569,466
Bank Loans	19,626	5,041	24,667
Other	-	-	-
	<u>\$ 302,834</u>	<u>\$ 291,299</u>	<u>\$ 594,133</u>
Average Debt			<u>\$ 297,067</u>
Interest Expense - 1999 *			<u>\$ 26,753</u>
Cost of Embedded Debt			<u>9.01%</u>
<b>* Interest Expense - 1999</b>			
Interest on Long Term Debt	\$ 27,577		
Bank & Other Interest	166		
Amortization of Debt Discount & Expense	179		
	<u>27,922</u>		
Less: Interest on Customer Deposits	66		
Interest Earned	1,103		
	<u>\$ 26,753</u>		
Interest Expense - 1999			

**Newfoundland Power Inc.**  
**Capital Structure**  
**For The Year Ended December 31, 1999**  
**(000s)**

	Average		Year-End	
	Amount	Percent	Amount	Percent
Debt - Return 16	\$ 297,067	54.70%	\$ 302,834	54.51%
Preference Shares - Return 1	9,890	1.82%	9,890	1.78%
Common Equity - Return 1	236,167	43.48%	242,848	43.71%
	<u>\$ 543,124</u>	<u>100.00%</u>	<u>\$ 555,572</u>	<u>100.00%</u>

**Newfoundland Power Inc.**  
**Regulated Average Capital**  
**For The Year Ended December 31, 1999**  
**(000s)**

	Average	
	Amount	Percent
Debt - Return 16	\$ 297,067	54.21%
Preference Shares - Return 1	9,890	1.80%
Common Equity - Return 19	241,079	43.99%
	<u>\$ 548,036</u>	<u>100.00%</u>



<b>Newfoundland Power inc.</b> <b>Calculation of Taxable Income and Income Tax Expense</b> <b>For The Year Ended December 31, 1999</b> <b>(000s)</b>			
Net Income			\$ 23,484
Add: Income Tax - Current	\$ 15,244		
- Adjustments to Prior Years	(273)		
- Adjustment for Unbilled Revenue Increase Reserve	262		
- Adjustment for Weather Normalization	1,694		16,927
Net Income Before Income Taxes			40,411
Add: Depreciation	29,638		
Amortization of Debt Discounts & Expenses	179		
Amortization of Capital Stock Issue Expenses	78		
Business Meals & Related Expenses	247		
Special Pension Liability	50		
Deferred PUB Expenses	216		
ITC From Previous Year	10		
Amortization of Prior Years' DSM Expenses	75		
Small Tools in Excess of \$200	209		
Reserve For Unbilled Revenue	(624)		
Transferred from Weather Normalization Reserve	(4,034)		26,044
			66,455
Less: Capital Cost Allowance	25,660		
Cumulative Eligible Capital	21		
General Expenses Capitalized	329		
Gain on Sale of Land	382		
Landscaping	11		
Interest Charged to Construction	409		
Bond Issue Expenses	224		
Difference in Pension Funding and Accounting Costs	5,817		
Canadian Renewable and Conservation Expenses	181		33,034
Taxable Income			<u>\$ 33,421</u>
Income Tax - Part 1 @ 42%		14,037	
- Part 1.3 Large Corporation Tax		1,278	
- Manufacturing & Processing Tax Credit		(71)	
		15,244	
Adjustment to Prior Years		(273)	
Adjustment for Unbilled Revenue Increase Reserve		262	
Adjustment for Weather Normalization		1,694	
Current Income Tax Expense			<u>\$ 16,927</u>

**Newfoundland Power Inc.**  
**Return on Regulated Average Common Equity**  
**For The Year Ended December 31, 1999**  
**(000s)**

	<u>1999</u>	<u>1998</u>
Regulated Common Equity:		
December 31, 1999, As Per Balance Sheet	\$ 242,848	
Add: Non-Regulated Expenses - Net of Income Tax		
As of December 31, 1998	\$ 4,522	
1999 Expense	<u>781</u>	
Total Net Non-Regulated Expenses, December 31, 1999	<u>5,303</u>	
Regulated Common Equity, December 31, 1999	248,151	
Regulated Common Equity, December 31, 1998	234,007	\$ 234,007
Regulated Common Equity, December 31, 1997		231,306
	<u>\$ 482,158</u>	<u>\$ 465,313</u>
Regulated Average Common Equity	\$ 241,079	\$ 232,657
Excess Common Equity - Return 17	<u>-</u>	<u>-</u>
Regulated Average Common Equity	<u>\$ 241,079</u>	<u>\$ 232,657</u>
Earnings Applicable to Common Shares - Return 1	\$ 22,858	\$ 21,571
Add: Non Regulated Expenses - Net of Income Tax	<u>781</u>	<u>728</u>
	23,639	22,299
Less: Deemed Dividends on Excess Common Equity @ 6.33%	<u>-</u>	<u>-</u>
Regulated Earnings	<u>\$ 23,639</u>	<u>\$ 22,299</u>
Rate of Return on Regulated Average Common Equity	<u>9.81%</u>	<u>9.58%</u>