

**2001 Newfoundland Power Inc. Annual Report**



*Listening to Customers . . .  
Delivering Results.*



2001 Annual Report

NEWFOUNDLAND  
**POWER**  
A FORTIS COMPANY





## Corporate Profile

Newfoundland Power Inc. operates an integrated generation, transmission and distribution system throughout the island of Newfoundland. For almost 120 years, we have been committed to providing customers with safe, reliable electrical service in the most cost-efficient way possible.

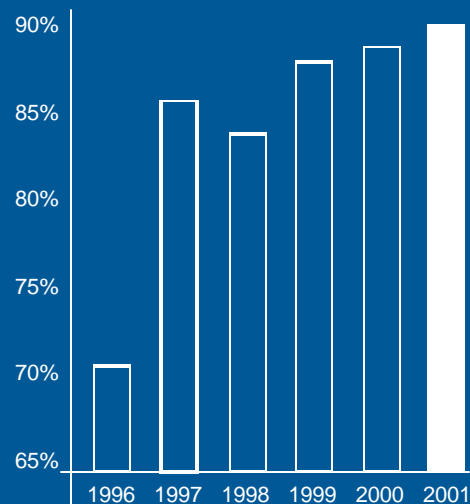
Our Company serves approximately 220,000 customers in more than 600 communities throughout Newfoundland. Our customers make up approximately 85 per cent of all electrical consumers in the Province.

Working together, Newfoundland Power and its employees are committed to providing customers with the service they expect and deserve in an environmentally and socially responsible manner.

Our vision is to be a leader among North American electrical utilities in terms of customer service, reliability and efficiency.

All the common shares of Newfoundland Power are owned by Fortis Inc. (TSE:FTS), a diversified holding company whose assets exceed \$1.6 billion.

### Customer Satisfaction Rating

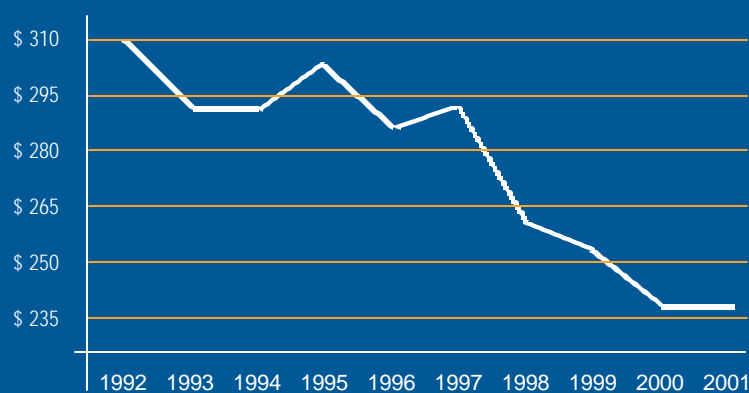


1	Financial & Operating Highlights
2	Letter to Shareholders
8	Report on Operations
17	Committed to Environmental Improvement
19	The Power of Partnerships
20	Management Discussion & Analysis
24	Management Report
25	Auditors' Report
26	Financial Statements
37	Ten Year Summary
38	Board of Directors
39	Executive Team
40	Investor Information
41	Partners in Progress

### Cover

Employee Larry Lundrigan visits with customer Anne Ryan at her home on the Southern Shore of the Avalon Peninsula, Newfoundland.

## Operating Cost per Customer



## Comparison of Electrical Rates

Calgary, AB*	\$128.22
Charlottetown, PEI	\$121.02
Halifax, NS	\$114.37
Toronto, ON	\$112.99
Fredericton, NB	\$105.27
St. John's, NF	\$98.32
Montreal, PQ	\$74.90

Rates as of January 1, 2002. Based on monthly average residential usage of 1,244 kWh.

\* Based on a one-year regulated rate option effective January 1, 2002.

## Financial Highlights

	2001	2000
Revenue (\$000s)	359,305	348,413
Property, Plant and Equipment (\$000s)	914,735	865,406
Long-term Debt (\$000s)	263,758	280,158
Common Shareholder's Equity (\$000s)	260,203	250,331
Earnings Applicable to Common Shares (\$000s)	28,862	26,473
Earnings per Common Share (\$)	2.80	2.57

## Operating Highlights

	2001	2000
Customers	216,879	215,210
Installed Generating Capacity (MW)		
Hydroelectric	94.5	93.8
Diesel	6.9	6.9
Gas Turbine	46.9	46.9
Total	148.3	147.6
Peak One-hour Demand (MW)	1,001	1,041
Energy Sales (GWh)	4,667	4,555
Average Annual kWh Used per		
Residential Customer	14,927	14,676
Operating Cost per Customer (\$)	237	237
Revenue per Employee (\$)	582,342	539,339



## Letter to Shareholders

*Newfoundland Power achieved many successes in 2001.  
We grew our business. We improved our customer service.  
We worked as a team. We delivered on the bottom line.*

These results come from the focused efforts and hard work of our 617 employees who are transforming our Company through a daily commitment to deliver the service our customers expect and deserve.

Despite difficulties posed in the first quarter of the year by a record breaking winter that brought with it more than 600 centimeters of snow, our employees set the pace for delivering an unprecedented level of service. Our customers in turn demonstrated their true Newfoundland spirit by offering support, shelter and many kind words as our team worked through the severe weather experienced over the past year.

Throughout the year, our employees continued to work to create new, more convenient ways of doing business for customers. This commitment has translated into Newfoundland Power achieving a customer satisfaction rating of 90 per cent for the year – our highest ever.

While improving customer service, we maintained our operating cost per customer at \$237 – its lowest level in a decade – and continued to offer customers the lowest electrical rates in Atlantic Canada.

Our focus on productivity, leveraging our use of technology and developing our employee team contributed to our successful cost management.

In 2002, our team will strive for further improvements to our customer service delivery while at the same time keeping costs down and delivering shareholder value.

In November, Newfoundland Power was presented with two Canadian Information Productivity Awards (CIPA) for our leadership in utilizing information technology and employee development to benefit customers. Our CIPA Award of Excellence and CIPA Best of Category premier award recognize our Company as having the best customer care solution in Canada. In December, we were honored to be presented with the St. John's Board of Trade Business Excellence Award and the Business Achievement Award for Productivity and Quality Improvements.

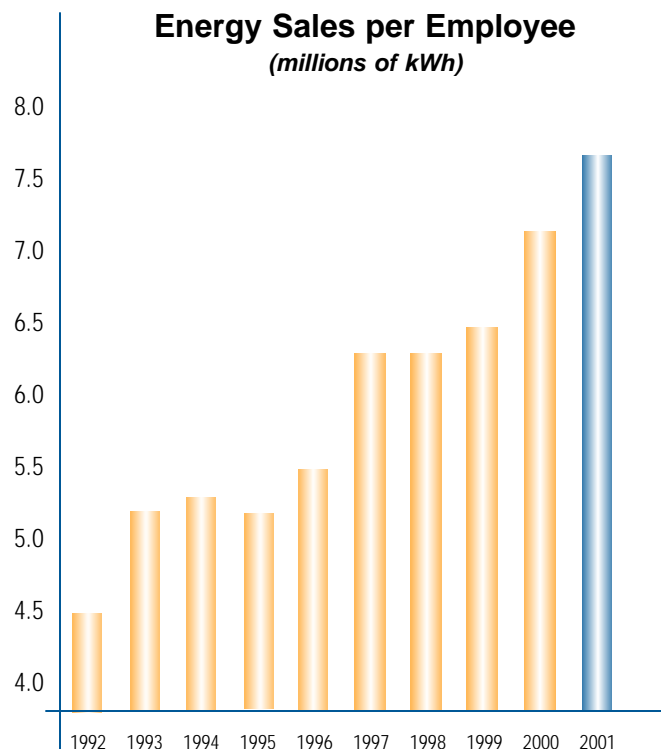
These awards have bolstered our team's pride in service and inspire us to continue our journey of customer care excellence with an even deeper commitment to listening to our customers and meeting their expectations.

*Our success over the past year was shared with our customers through low, stable electrical rates and our shareholders through improved earnings.*

In 2001, Newfoundland Power delivered \$28.9 million in earnings, an increase of 9.1 per cent from 2000. Our earnings were achieved through a relentless focus on operating efficiencies, increased pole rentals due to an acquisition, higher energy sales and the favorable resolution of an income tax issue.

In September, Newfoundland Power was successful in acquiring 70,000 joint-use poles from Aliant Telecom Inc. This \$40 million acquisition will be completed over a five-year period and represents approximately eight per cent growth in our Company's fixed assets.

With the purchase of these poles, Newfoundland Power now owns approximately 80 per cent of all distribution poles on the island of Newfoundland. This acquisition further strengthens our poles and wires business while accelerating Newfoundland Power's progress in delivering benefits to our shareholders and customers.







*Working together to deliver results. Jake Rideout, Lineperson; Michelle Murphy, Meter Reader; Bob Pike, Manager of Corporate Communications & Customer Service; and Sharon Stone, Customer Account Representative, proudly display several awards presented to Newfoundland Power employees in 2001.*

In 2001, energy sales increased by 2.5 per cent from 4,555 gigawatt hours (GWh) in 2000 to 4,667 GWh. This increase in energy sales, our largest since 1990, is a reflection of general economic activity and changes in our Company's competitive position in heating markets.

Through diligence and determination, Newfoundland Power has made progress on outstanding income tax issues. Our success in this area assisted our Company in rebating customers \$7.7 million on their April 2001 electrical bills.

In 2001, we invested approximately \$68 million in our business. This investment included improvements to our electrical system, refurbishing existing facilities to ensure their safe, efficient and environmentally sound operation, additions to the system to meet sales growth in our capital city and our pole acquisition from Aliant Telecom Inc.

Extensive system upgrades in rural areas of Newfoundland, such as the Burin Peninsula, utilized new standards in distribution line construction to better withstand ice, wind and snow. These upgrades will provide greater reliability for our customers across the island.

Newfoundland Power's electrical grid incorporates state-of-the-art technology to provide customers with safe, reliable electrical service. Through additional investments in electrical system technology over the past year, we are better able to protect our electrical system equipment and offer customers an enhanced level of reliability. In 2000, we were successful in providing electricity to our customers 99.93 per cent of the time. In 2001, we raised the bar and delivered power to our customers 99.96 per cent of the time despite the challenges of our often harsh environment.

Continued improvements in reliability coupled with low electrical rates allow our Company to contribute to our Provincial economy by making Newfoundland an attractive place to do business.

*At Newfoundland Power, we're working hard to make continual improvements to our quality of service.*

To keep pace with electrical industry developments, we continue our ongoing thrust to manage operating costs while enhancing the quality of our service. We will pursue additional opportunities to generate revenue utilizing our core competencies, such as engineering services, as well as new energy opportunities related to the natural gas industry and energy generation in our Province.

In 2001, Newfoundland Power participated in Newfoundland and Labrador Hydro's general rate hearing as an intervenor to express concerns over the proposed significant rate increases that would impact our customers and the Newfoundland economy. The results of this hearing will be known in early 2002.

In 2002, our Company anticipates that regulation will be a significant focus of management. Throughout the year we will continue to work diligently to ensure rates remain fair and reasonable.

Our Company anticipates developments in the Provincial Government's Energy Policy Review in 2002. We look forward to providing input into finalizing the Provincial energy strategy and incorporating its outcomes into our strategic long-term planning.

Throughout the year, we continued to place a corporate emphasis on employee health and safety. Employee, contractor and public safety will remain our uncompromised priority as we move our Company forward.

In 2001, Newfoundland Power's Environmental Management System (EMS) for all operations and related activities became consistent with ISO 14001 standard.



Newfoundland Power's EMS and employee-driven Environmental Commitment Program clearly communicate to Newfoundlanders that we are serious about protecting our environment over the long-term. In June, Newfoundland Power employees were honored with the Newfoundland and Labrador Provincial Environment Award for their outstanding environmental commitment.

## *We set our sights high for 2001 and never looked back.*

By listening to our customers and partnering with our communities, we are better able to meet the needs of those who depend on us. In 2001, Newfoundland Power contributed considerable financial, in-kind and hands-on support to the communities in which our customers and employees live and work. From educational scholarships to the fight against cancer, we're helping make our Province a better place to live.

Our employees form the foundation of our 120-year success and are shaping an exciting future for our Company. We are committed to developing our employees and recruiting staff in a way that grows our team and fosters leadership at all levels of our organization.

A photograph of two men, Philip G. Hughes and Bruce Chafe, standing side-by-side and smiling. They are both wearing dark blue polo shirts with the Newfoundland Power logo on the left chest. The background is a plain, light-colored wall.

*"The teamwork and support of our employees has contributed significantly to a higher level of customer service delivery."*

*Philip G. Hughes, President & Chief Executive Officer, and Bruce Chafe, Chair of the Board of Directors.*

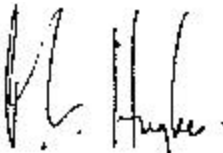
In 2001, Mr. John Evans, Vice President, Engineering and Energy Supply, left Newfoundland Power after 37 years of committed service to join our parent company, Fortis Inc. Under John's leadership, Newfoundland Power raised its electrical system to a world-class standard and achieved significant improvements in reliability. John's passion and dedication are greatly missed and we thank him for his vast contributions to Newfoundland Power and our employees.

We take this opportunity to thank our Board of Directors for its expert guidance and effectiveness throughout 2001 that has translated into shareholder value.

Mr. Frank Coleman and Mr. Derrick Gill will be retiring from our Board of Directors at our next annual meeting following six years of service. We thank Messrs. Coleman and Gill for their valuable contributions and commitment to the development of our Company.

Finally, we thank our employees for always rising to the challenges presented to them and for providing our customers with a record level of service, be it from the office, line trucks or in the field.

Together we are achieving our vision of becoming a leader among North American electrical utilities in terms of customer service, reliability and efficiency.



Philip G. Hughes  
President  
& Chief Executive Officer



Bruce Chafe  
Chair,  
Board of Directors



## Report on Operations

*Everyone has an individualized image of customer service.*

*Some say it occurs at the point of contact when a customer meets a Lineperson or speaks with a Customer Account Representative. Others say that customer service is the behind the scenes work: the capital projects and upgrades that improve reliability and efficiency. And yet others will say that our community efforts – such as assisting the thousands of diverted passengers impacted by the terrorist attacks on September 11th – dedication to the environment and our passion for customer and employee safety are the essence of customer service.*

*The truth is, it's all these things and more. Everything is intertwined.*

Earl Ludlow  
Vice President, Engineering & Operations  
Employee Newsletter, Fall 2001

## Listening to our Customers

There's more to delivering safe, reliable electrical service at the lowest cost possible than meets the eye. It takes all our employees working together toward a common goal. It takes hard work and attention to detail in our generating plants, our line trucks and our offices. It takes a commitment to listening to customers and being responsive to their needs.

To deliver the programs and services our customers expect, we seek our customers' input and feedback. From customer research and on-line opinions, to informal discussions and customer visits, we realize that to truly understand our customers' changing expectations and achieve continual improvements in our service, we must listen.



But listening isn't enough. We must also be committed to acting on our customers' input and implementing new ways of doing business when it's beneficial to our overall customer group.

Our customers consistently tell us that they are most concerned with reliability of service and the price they pay for electricity. We are too.

Working with this knowledge, we strive to achieve a balance between the operational and business side of our Company. We do this by investing millions of dollars annually into capital and operating programs that improve the reliability and cost-efficient maintenance of our electrical system.

We also make strategic investments in technology that can assist us in increasing the efficiency of our work processes. And we invest in our employees to ensure they are among the best trained, most productive and customer-focused in the industry.

By achieving this balance, we are able to meet our customers' expectations of enhanced reliability and low, stable electrical rates.

However, there are still other factors besides reliability and price that are important to our customers. Customers tell us that they want more convenient ways of doing business with our Company. They want us to pay particular attention to safety, protecting the environment and how we contribute to our Newfoundland communities.

They want a Company that is responsive to their needs.

Throughout 2001, we were able to meet more of our customers' expectations on more fronts than ever before through our commitment to listening and responding. As a result, we are becoming a more customer-focused organization with each passing day.

## Improving our Business by Increasing Value

Everything we do at Newfoundland Power is about value.

Keeping our customers' power on in bad weather. Delivering faster, more convenient services. Implementing an Environmental Management System (EMS) consistent with ISO 14001 standard. Providing customers with advanced notice of planned outages. Offering customers higher quality service. All these initiatives and many more enabled our Company to deliver greater value to our customers throughout 2001.

Over the past year, our employees focused on making continued improvements to deliver an unprecedented level of service. Thanks to their efforts, we achieved an annual customer satisfaction rating of 90 per cent – our highest ever.

Our employees rose to the challenges presented by more than 600 centimeters of snow on the Avalon Peninsula during our harshest winter on record, as well as floods caused by Hurricane Gabrielle in September. Our customers in turn demonstrated their true Newfoundland spirit by offering support, shelter and many kind words as our team worked through the severe weather experienced over the past year.

As 2001 progressed, our Company continued its focus on delivering greater service value to customers through programs to improve our electrical system, increase the efficiency of our operations and leverage our use of technology.

In 2001, we spent approximately \$120 million in capital and operating programs to improve and enhance safety, reliability and customer service.

Over the year, we successfully reduced the number and length of interruptions by 20 per cent and 37 per cent, respectively, compared to 2000.



*Providing a high level of comfort and safe, reliable electricity at low cost is the basis of our business.*

Investments in system upgrades, vegetation management and electrical equipment such as maintenance-free reclosers, helped contribute to these reliability improvements.

Our ability to provide customers with electricity 99.96 per cent of the time in 2001 while keeping electrical rates the lowest in Atlantic Canada is a reflection of our commitment to support our growing Newfoundland economy and respond to our customers' two key service expectations.

Over half of our 2001 capital budget was allocated to rebuild distribution feeders, improve our generating plants, upgrade transmission lines and increase the performance of our substations.

In 2001, our Distribution Feeder Rebuild Program continued with upgrades to distribution feeders that performed below the average. For example, on the Burin Peninsula, the 40-km long Laurentian-02 distribution line from Lawn to Point May was

rebuilt to higher standards to better withstand high winds, ice and snow. On the Salmonier Line, a 23-km distribution line upgrade also took place. In total, sections of 20 distribution feeders were rebuilt in 2001 at a cost of \$5 million.

Newfoundland Power enhanced its inspection practices in 2001 to improve the recording and tracking of system repairs. The establishment of a new corporate Distribution Inspection Standard provides a more comprehensive schedule for inspection and maintenance procedures on all distribution lines and related infrastructure. This standard further enhances the safe and reliable operation of our Company's distribution system.

In 2001, approximately \$6 million was invested in enhancements at more than half our hydroelectric generating plants. Ongoing plant refurbishments are critical to maintaining the efficient operation of these assets.

The replacement of a penstock at our Cape Broyle Hydro Plant, the installation of a new runner at our Sandy Brook Hydro Plant, and an investment in up-dated start-up and control technology at our Greenhill Gas Turbine on the Burin Peninsula assisted in further strengthening our system in 2001.

To ensure the safety of our employees and the communities in which we operate, Newfoundland Power maintains a Hydro Dam Safety Program on an ongoing basis. This program, which was developed and implemented in accordance with the requirements of the Canadian Dam Association, aids in ensuring the safe and reliable operation of all our hydraulic structures.

In 2001, flood studies were completed at all Newfoundland Power hydroelectric facilities. As well, our Company's Hydro Dam Safety Emergency Preparedness Plan was updated and tested to ensure efficient response in the event of a potential hydraulic structure emergency.

Newfoundland Power continued its yearly inspection program for transmission lines in 2001. Projects to replace poles, crossarms and insulators, as well as to improve conductor sag and clearances, were carried out on a number of transmission lines across Newfoundland to ensure the continued reliability and safety of our Company's transmission system.

The construction of a new substation in the community of Lawn on the Burin Peninsula and substation rebuilds in communities such as Blaketown and Lewisporte were carried out in 2001 to maintain reliability and continuity of service to customers. These developments also assist in eliminating potential safety hazards to employees.

In 2001, Newfoundland Power received regulatory approval to relocate a gas turbine currently located on the Burin Peninsula to Bonavista North in 2002. This initiative will provide residents of Bonavista North, an area which is currently served by a long

radial transmission line and lacks emergency back-up generation, with a more reliable supply of power.

Although the Burin Peninsula is served by two transmission lines – a primary and back-up – Newfoundland Power invested approximately \$4.5 million in local system upgrades in 2001 to ensure customers in this area of the Province continue to have a secure and reliable supply of electricity. These upgrades include transmission line work, distribution line rebuilds, the construction of a new substation in Lawn and improvements to the Greenhill Gas Turbine.

By maximizing our use of existing resources through projects such as the relocation of the gas turbine from the Burin Peninsula to Bonavista North, Newfoundland Power is able to offer a greater number of customers improved reliability of supply while keeping costs to all customers down.

The broad use of technology within Newfoundland Power's business is critical to providing our customers with enhanced service in an increasingly cost-efficient manner. By leveraging existing technology and making strategic investments in new technologies, we are better able to offer more innovative, value-added programs and services to our approximately 220,000 customers.

In 2001, further reliability, operational and customer service gains were achieved through our Company's System Control and Data Acquisition (SCADA) system. SCADA technology and devices such as remote control units, oil and maintenance-free reclosers, water level monitoring systems and digital meters at hydro plants enable our Company to operate more of the electrical system on a remote basis.

By investing in automation technology, Newfoundland Power is able to improve customer service. Automatically isolating sections of a line experiencing an outage and restoring service to the remaining customers on that part of the system is one example of such an improvement.





*Transmission and distribution line inspections contribute to improved reliability and safety. Apprentice Lineperson, Troy Pittman, inspects a transmission pole line in Goulds.*

In addition, this technology enhances safety by enabling our System Control Centre to provide increased protection for workers and contribute to an overall safer working environment.

In 2001, Newfoundland Power also invested in technology to provide improved protection for feeders in urban substations. This technology, known as Human Machine Interface, enhances productivity and reliability by enabling System Control Centre and operational staff to remotely and automatically conduct activities that previously required site visits.

Moving forward, Newfoundland Power will continue to invest in technology and employee training to increase our ability to remotely control our electrical system, monitor operations, improve operational efficiencies and enhance the safety of our employees and communities.

In 2001, Newfoundland Power launched an upgraded website featuring more on-line service options than ever before. This website assists us in meeting customers' changing needs for information that can be accessed 24-hours a day. From reviewing account history on-line and learning how to get the most out of their energy dollar, to opening an account or submitting a meter reading with the simple click of a mouse, customers can now carry out more business when and where they want.

Technology used at our Customer Call Centre provides ease of interaction for both our employees and customers through seamless information sharing and one-stop shopping. Our focus on employee training and leveraging technology in this area has resulted in efficient customer service solutions and our Customer Call Centre being ranked in the top quartile of call centres in North America.



*Investments in employee development and technology enable employees like Garry Corbett, Customer Account Representative, to deliver service solutions that meet our customers' changing expectations.*

As one of the first utilities in North America to employ Telephony Video Data (TVD) technology, Newfoundland Power is able to offer customers access to a world-class outage communications system. TVD provides customers with computer-generated messages explaining the cause and expected duration of any outages in their geographic area. Because TVD can handle up to 2,000 simultaneous calls from eight service areas, customers can access their outage information within seconds.

Working together, our TVD and Customer Call Centre technologies provide greater value to customers through immediate information sharing.

As technology and customer requirements change, Newfoundland Power will be challenged to keep pace while continuing to keep costs down. In 2001, our Company's focus on cost management resulted

in our operating cost per customer being maintained at \$237 – its lowest level in a decade. This represents a 24 per cent reduction in operating cost per customer since 1992.

As we move forward, we will continue to aggressively manage costs while increasing service value to our customers.

## Investing in our Employees

At Newfoundland Power, our employee team defines our success. We recognize that investments in technology, safety and capital programs are of little value without first investing in our people.

Our Company aims to ensure that employees and our overall organization are better than the year before by providing a roadmap to align our people practices with our business objectives.

By sharing a common vision and focusing on an unwavering commitment to our customers, our employee team works together to deliver superior service. Our employees' willingness to try new things and provide upfront input into our programs and services translates into empowered employees, satisfied customers and a stronger Company.

We believe that investing in leadership is the first step in achieving a true growth environment for employees. Leadership training, job rotations and strategic recruitment practices help ensure that we contribute to our employees' and organization's growth in meaningful ways.

In 2001, Newfoundland Power placed considerable emphasis on providing employees with opportunities to develop and utilize their skills and expertise in a manner that provides personal and professional growth.

A number of engineering and technical employees, for example, were provided the opportunity to participate in both internal and external design, construction and maintenance projects that provided a deeper understanding of industry best practices and techniques. Employees, customers and our Company benefit from these projects as participating employees are able to apply their refined expertise to our Company's core business.

Through project leadership, special work assignments and job shadowing opportunities, we are able to expose a greater number of our employees to the various areas of our business and foster a more flexible workforce while providing ongoing challenges. When recruiting new employees, we will continue to seek candidates who possess solid leadership qualities, growth potential and a demonstrated team focus.

Working with electricity means we must have stringent safety practices in place that cannot be compromised. It also means that our Company must invest in the proper training of our employees on an ongoing basis.

Throughout 2001, our employees participated in safety training in a number of areas including

Standard Protection Code, grounding, aerial devices, confined space entry procedures and rubber glove techniques. In 2001, employees also received training in revised Critical Incident Protocol procedures.

These and other training sessions ensure our employees understand the key procedures for working on energized and de-energized equipment, as well as safe work practices for field, vehicle and office activities.

In 2001, Newfoundland Power's Safety Team replaced an obsolete Safety Management System with updated technology. This new technology enables our Company to manage safety aspects such as planning and accident investigation, as well as report on safety activities and trends. By ensuring accurate documentation and record keeping, this new system improves safety planning and implementation as well as accountability for our safety programs.

All Company employees received environmental training throughout 2001 as we evolved our EMS to be consistent with ISO 14001 standard.

Newfoundland Power's EMS focuses on continual improvement, prevention of pollution and meeting legal requirements. Our employees' commitment to ensure environmental compliance within our daily operations and the level of individual responsibility taken on by employees is truly praiseworthy.

## Delivering Results

From responding to customers' expectations to meeting the bottom line, Newfoundland Power delivered results in 2001.

Over the past year, our Company recorded solid earnings, improved reliability, implemented further safety measures and completed an aggressive capital program despite unprecedented weather challenges.





*Jennifer Walsh, Team Leader, Information Systems Operations, helps ensure our information systems run smoothly so we can offer uninterrupted customer service.*

In 2001, we achieved our highest customer satisfaction rating to-date of 90 per cent while keeping operating costs at their lowest level since 1992. At the same time, we continued to offer customers the lowest electrical rates in Atlantic Canada and lower rates than those in Calgary, Toronto and most major cities in the United States.

In 2001, we continued to focus on increasing our productivity in a way that will keep our operating costs low over the long-term. We achieved this by working smarter, leveraging technology, streamlining our work processes and making strategic investments in system maintenance. Revenue per employee increased by about eight per cent to \$582,342 in 2001 compared to \$539,339 in 2000.

Newfoundland Power was successful in acquiring 70,000 joint-use poles in September 2001 from

Aliant Telecom Inc. This \$40 million acquisition will be completed over a five-year period and represents approximately eight per cent growth in our fixed assets.

This acquisition will enable Newfoundland Power to do more for customers by contributing to stabilized electrical rates over the long-term and providing an increasingly efficient and productive process that contributes to our Company's core poles and wires business in Newfoundland.

In September 2001, our \$54.6 million capital budget for 2002 was approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities. In 2002, Newfoundland Power will further enhance customer service, reliability and safety by making continual improvements to the electrical system while minimizing costs over the long-term.

The dedication and focus demonstrated by our employees' throughout 2001 resulted in national and provincial recognition of our Company through several prestigious awards.

In recognition of our innovative use of technology to improve productivity and strengthen our customer-focus, Newfoundland Power was presented with two Canadian Information Productivity Awards (CIPA) in 2001. Our CIPA Award of Excellence for Customer Care and CIPA Best of Category premier award signify that our Company's customer care solution is recognized as the best in Canada.

We were also honored to be presented with the St. John's Board of Trade Business Excellence Award and the Business Achievement Award for Productivity and Quality Improvements in 2001. These awards are presented on an annual basis to an organization that demonstrates improvements in customer service, reliability, productivity, quality and overall excellence in its field.

These awards were achieved as a result of our employees who's passion for delivering superior service and willingness to take on new challenges make us proud. As we move our Company

forward, we remain committed to our employees and their personal and professional development.

A number of employee groups achieved safety milestones in 2001. Burin Area employees celebrated five years without a lost-time accident; engineering employees celebrated two years injury free; and St. John's Area employees achieved two years without any lost-time accidents.

As we move forward, Newfoundland Power is committed to delivering ongoing results for customers, employees and shareholders. Investments in technology and employee development that increase productivity, improve reliability and enhance customer service are critical to achieving our Company's vision of being a leader in the North American electrical industry. Together we will work to continue to strengthen our infrastructure and expertise to deliver safe, reliable electricity at the lowest cost possible.

And in keeping with our customer service commitment, we will continue to listen to our customers, seek their input into how we can achieve continual service improvements and be responsive to their changing expectations.

## Committed to Environmental Improvement

Newfoundland Power's EMS is based on a commitment to continual improvement. All our employees are trained in how to conduct business in an environmentally responsible manner.



*Jerome Bennett, Power Plant Maintenance; Trina Troke, Mechanical Engineer; and Dave Laing, District Supervisor, are three members of our employee team who helped us achieve consistency with ISO 14001 standard in 2001.*

In 2001, our Company's EMS achieved consistency with ISO 14001 standard, a full year ahead of our corporate target.

Newfoundland Power took part in several environmental audits in 2001. In June, we participated in an Environmental Commitment and Responsibility (ECR) audit as part of an industry-wide Canadian Electricity Association initiative. The report from this audit was positive and indicated that no corrective action was required for our Company.

In September and October, Newfoundland Power participated in an audit to ensure the EMS for our total Company met the requirements of ISO 14001 standard. This auditor indicated that our employees' commitment, interest and knowledge towards the environment was very impressive.

Throughout 2001, our Company demonstrated its commitment to investing in environmental system improvements by installing equipment such as stainless steel transformers to assist with reducing the release



## Newfoundland Power's Corporate Environment Policy *Committed to the Environment*

Newfoundland Power is committed to providing electrical service to its customers in an environmentally responsible manner. In fulfilling this commitment, the Company will incorporate environmental issues into decision-making to meet present needs without compromising future generations.

- ◆ The Company is committed to meeting the requirements of all applicable environmental legislation, regulations and accepted standards of environmental protection.
- ◆ The Company is committed to managing its activities in a way that is consistent with industry practice including the Environmental Commitment and Responsibility Program and in ways that support the environmental policies of the federal, provincial and municipal governments.
- ◆ Environmental monitoring and audits of our operations and environmental management system will be conducted regularly.
- ◆ The Company is committed to the prevention of pollution and the conservation of natural resources.
- ◆ The Company will set and review environmental objectives, targets and programs annually.
- ◆ The Company is committed to continual improvement in environmental performance.
- ◆ The Company will make available its policy and knowledge on environmental issues to customers, employees and the general public.
- ◆ The Company is committed to supporting and participating in community-based projects that focus on the environment. The Company recognizes the contribution environmental groups can offer on environmental issues and will participate in meaningful dialogue with these groups.
- ◆ The environment is the responsibility of all employees. The Company will provide training for employees to enable them to fulfill their duties in an environmentally responsible manner.

Philip G. Hughes, President & Chief Executive Officer

of substances into the environment. Newfoundland Power is currently in the second year of a comprehensive six-year program to reduce PCBs in its distribution system.

In keeping with the philosophy of continual improvement, Newfoundland Power worked throughout 2001 to maximize the efficiency of available water for hydroelectric generation in an effort to reduce the use of fossil fuel for generation. Other activities our Company remains committed to include minimizing the impact of hydroelectric operations on fish habitat, spill

prevention, recycling, enhancing environmental reporting and continuing our strong support of community-based environment projects.

In June 2001, Newfoundland Power employees were honored with the Newfoundland and Labrador Provincial Environment Award for outstanding contributions to preserve and protect our Province's environment. Also, in June our employees hosted their fourth annual EnviroFest celebrations across the island with a record number of participants in attendance.

Our Company continued to partner with the Atlantic Salmon Federation, the Newfoundland and Labrador Conservation Corps and Tree Canada throughout 2001. By working with these and other environmental organizations, Newfoundland Power is able to contribute to public education on protecting our environment, the individual and environmental benefits of energy efficiency, and how trees can help reduce greenhouse gas emissions.

### Environmental Management Goals

Initiative	Goals
<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>	Reduce the amount of substances released into the environment.
<b>PCB Management</b>	Reduce the amount of PCB contaminated material within the Company.
<b>Fish Habitat</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.

## The Power of Partnerships

Newfoundland Power employees from across Newfoundland are committed to making their communities prosper and grow. Our belief in the power of partnerships is demonstrated through our strong relationships with organizations, community groups, schools and individuals from across Newfoundland.



*Lynn Mowbray, Director, Materials Management and Habitat for Humanity volunteer, is an employee leader whose spirit of community giving makes us proud.*

By working together, we are able to strengthen the communities in which we live and work, while creating a brighter future for the people of our Province. In 2001, our Company contributed significant financial, in-kind and hands-on support to hundreds of partners. From our support of the Provincial Marconi Celebrations to providing scholarships for our future leaders, we worked together to make a difference in the lives of thousands of Newfoundlanders.

Since partnering with the Newfoundland and Labrador Division of the Canadian Cancer Society in 1998, our Company has helped raise more than \$300,000 to better the lives of Newfoundlanders living with cancer. We hope to expand this partnership in 2002 to further assist with raising funds to help the people of our Province.

In 2001, we proudly built on our partnership with Cabot Habitat for Humanity by helping construct a 16th Habitat home in St. John's. Our partnership with this organization has provided our Company and employees with many rewarding opportunities to experience true community spirit at its best.



# Management Discussion & Analysis

## Financial Results

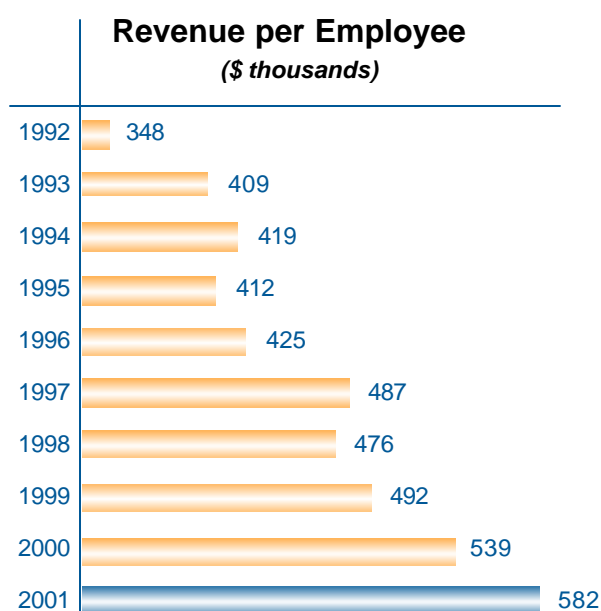
In 2001, Newfoundland Power earned \$2.80 per common share, an increase of \$0.23 per share over 2000 earnings per common share of \$2.57.

Earnings were \$28.9 million, up \$2.4 million or 9.1 per cent from 2000. Although the Company's allowed return on its rate base for 2001, as ordered by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), remained unchanged from 2000, higher plant investment in 2001 increased allowed earnings. The higher plant investment in 2001 focused on customer service and reliability projects, including the Aliant Telecom Inc. pole purchase. The increase in earnings was primarily attributable to operating efficiencies, increased pole rentals, higher energy sales and the favourable resolution of an income tax issue.

The Company's revenues increased by 3.1 per cent to \$359.3 million compared to \$348.4 million in 2000. This increase was a result of higher energy sales, \$3.4 million in increased pole rentals and \$1.7 million in interest received as a result of the retroactive application to the 1994 to 1998 taxation years of the May 2000 tax reassessment with respect to general expenses capitalized (GEC). These increases were partially offset by a provision for excess revenue of \$0.9 million, the disposition of which will be addressed by the PUB in accordance with Provincial legislation respecting utility regulation.

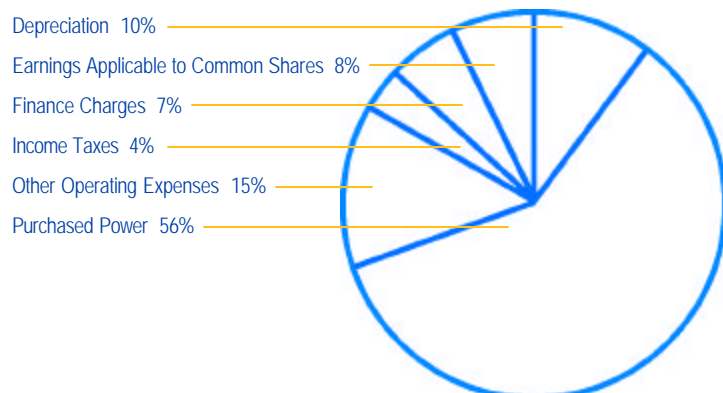
In 2001, Newfoundland Power experienced a 2.5 per cent increase in overall energy sales from

4,555 gigawatt hours (GWh) in 2000 to 4,667 GWh. This increase in energy sales, the largest since 1990, is a reflection of general economic growth and changes in the Company's competitive position in heating markets. Residential energy sales were 2,775 GWh, up 2.5 per cent or 68 GWh, while commercial energy sales were 1,892 GWh, up 2.4 per cent or 44 GWh. The increase in residential energy sales resulted from the improved competitive position of electricity versus oil in heating markets and general growth in average use, while commercial energy sales reflect growth in the service sector of the economy and the continued development of the oil industry in the Province.





## Allocation of Revenue



Purchased power expense in 2001 increased by 1.6 per cent, or \$3.2 million, over 2000. This increase was primarily the result of higher energy sales.

Other operating expenses for 2001 were comparable to 2000 levels. To facilitate further reductions in operating expenses, the Company once again offered early retirement programs in 2001. These programs help position the Company to continue to deliver positive operating results into the future.

On September 13, 2001, the Company closed a \$40 million transaction to acquire approximately 70,000 joint-use distribution poles from Aliant Telecom Inc. Effective January 1, 2001, Aliant Telecom Inc. rented space on these poles from Newfoundland Power. The rental of pole space under this transaction increased revenues in 2001 by approximately \$3.4 million. The transaction will be completed over a five-year period with approximately 70 per cent of the transaction having occurred by January 1, 2002.

Also, on September 13, 2001, Fortis Inc. purchased approximately 30,000 single-use distribution poles through a subsidiary from Aliant Telecom Inc. Newfoundland Power and Fortis Inc. now own approximately 90 per cent of the distribution poles on the island of Newfoundland.

The Company maintained its operating cost per customer at \$237 in 2001, its lowest level in a decade and down 24 per cent from 1992.

Depreciation has increased over 2000 levels reflecting the Company's continued investment in the electrical system to improve reliability of supply and service to customers. Also, in 2000, a five-year

depreciation expense adjustment previously ordered by the PUB was completed. In 2000, the last year for this adjustment, annual depreciation expense was reduced by \$3.3 million. In December 2001, the Company filed a new depreciation study with the PUB updating depreciation accruals and rates through December 31, 2000. The Company expects to further update this study to December 31, 2001 in advance of a 2002 regulatory hearing.

## Income Taxes

Further to reassessments issued by the Canada Customs and Revenue Agency (CCRA) in 2000, which confirmed the deductibility of GEC, the Company received a further \$6 million refund in the first quarter of 2001 related to GEC for the 1994 through 1998 taxation years. The refund was comprised of interest of \$1.7 million and tax of \$4.3 million.

The Company records income taxes in accordance with PUB orders, which results in 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 variation from the statutory rate. Tax refunds related to the resolution of the GEC tax case have reduced the Company's effective tax rate in 2001 to 31.8 per cent.

In May 2001, Newfoundland Power received \$6.6 million from CCRA representing 50 per cent of the deposit held by CCRA related to the revenue recognition issue. Since its inception the Company has recorded revenue as customers are billed. CCRA is asking the Company to report its revenue on an accrual basis.

The Company's method of recording revenue is in accordance with PUB orders. As a result, the Company believes it has reported its tax position appropriately. However, should the Company be unsuccessful in supporting its position, a liability of approximately \$14.4 million would arise. Should this occur, the Company would file the appropriate application with the PUB to recover this cost in rates.

## Capital Resources & Liquidity

Cash from operations totaled \$55.8 million in 2001, a decrease of \$17.9 million from 2000. Timing differences in working capital items, offset by the refund of an income tax deposit, contributed to the reduction.

The Company has bank credit facilities of \$110 million available, of which \$75 million was drawn as of December 31, 2001. Favourable short-term interest rates have allowed the Company to effectively manage the cost of financing its capital program and ongoing operations through short-term facilities.

On August 15, 2001, the Company's 11.50 per cent Series AB bonds, originally due 2005, were redeemed in light of more favourable financing rates available. The Company's remaining bond issues do not have similar favourable redemption terms.

The Company's normal approach is to convert short-term borrowings to long-term debt through the issue of first mortgage bonds when average short-term borrowings are in excess of \$50 million. In light of the redemption of the Series AB bonds, the pole acquisition from Aliant Telecom Inc., the ongoing capital program and very low current interest rates, Newfoundland Power will evaluate the appropriateness of a first mortgage bond issue in 2002.

The Company's \$54.6 million 2002 capital budget was approved by the PUB on September 21, 2001, and will be financed using a combination of internally generated funds, existing credit facilities and the proceeds of the expected long-term first mortgage bond issue.

## Regulation

Newfoundland Power operates under cost of service regulation as prescribed by Provincial legislation. Earnings are regulated on the basis of rate of return on rate base. In 1998, the PUB established an automatic adjustment formula to determine the annual allowed rate of return on rate base.

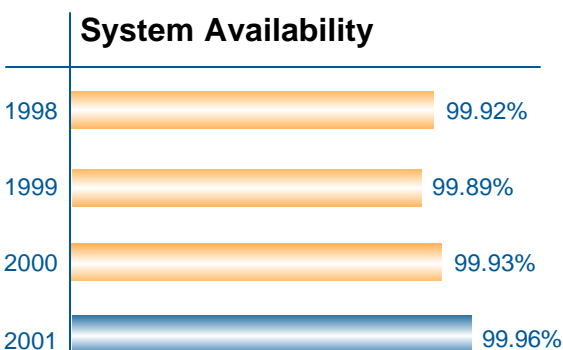
In accordance with the automatic adjustment formula, the allowed rate of return on rate base for 2001 remained unchanged from the 2000 level of 10.28 per cent, allowing the Company to earn within a range of 10.10 per cent to 10.46 per cent. A review of the operation of the automatic adjustment formula will occur in 2002.

Largely due to the impact of interest received on a corporate tax deposit refund, the Company exceeded the maximum allowed rate of return on rate base for 2000 of 10.46 per cent. On March 15, 2001, the PUB ordered that excess revenue of \$6.7 million and \$1 million in Harmonized Sales Tax be rebated to customers. In April 2001, customers received a rebate of 1.9 per cent of their 2000 electrical charges.

As a result of interest received in 2001 due to the retroactive application to the 1994 to 1998 taxation years of the May 2000 tax reassessment with respect to GEC, the Company also exceeded the maximum allowed rate of return in 2001. A reserve account has been established by previous orders of the PUB to account for excess revenue. A provision of \$0.9 million has been made to this account arising from the 2001 excess revenue. The disposition of this account will be determined in 2002.

On November 28, 2001, the PUB ordered that the application of the automatic adjustment formula would reduce Newfoundland Power's allowed return on rate base for 2002 to 10.06 per cent, with a range of 9.88 per cent to 10.24 per cent, to reflect a return on equity of 9.05 per cent. This change resulted in a 0.6 per cent reduction in electrical rates to customers in 2002.

Newfoundland Power's current allowed rate of return on equity of 9.05 per cent is at the lower end of rates of return for gas and electrical utilities in Canada.



## Risk Analysis

The Company operates an integrated generation, transmission and distribution system throughout the island of Newfoundland, serving approximately 220,000 customers in 600 communities. These customers constitute 85 per cent of all electrical customers 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.

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

Newfoundland will continue to experience strong economic growth in 2002. The Conference Board of Canada predicts the Province will post real Gross Domestic Product (GDP) growth of 6.3 per cent, the highest of all provinces. This growth is directly related to the offshore oil industry, particularly oil production from Terra Nova and construction on the White Rose project.

The service sector GDP, which is more indicative of Newfoundland Power's energy sales, is forecast to grow at a more modest rate of 0.8 per cent in 2002. Other economic indicators such as personal disposable income, employment and retail sales are also forecast to grow but at somewhat lower rates than those experienced in recent years.

Tourism is expected to be adversely affected by the events of September 11<sup>th</sup> and the resulting impact on travel. Manufacturing output is forecast to decline slightly as a result of the recession in the United States and continued challenges in the fishing industry.

A slowing North American economy, lower than expected transfer payments and public sector wage increases, has prompted the Provincial Government to defer a planned tax cut in 2002 and impose a freeze on all non-essential hiring.

The Provincial Government initiated an Energy Policy Review in 1998. This review is examining 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. The Company expects the results of the Energy Policy Review to be released for consultation early in 2002.

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.

The Company generates approximately 10 per cent of its energy needs, primarily from its hydroelectric facilities, and purchases the remainder from Hydro. In 2001, purchased power cost represented 56 per cent of the Company's annual revenues. On the island portion of the Province, Hydro generates approximately 65 per cent of its energy needs from its hydroelectric facilities with the balance largely generated by an oil-fired generating plant located in Holyrood, Newfoundland. The fuel costs associated with the Holyrood generating facility represent approximately 15 per cent of the Company's purchased power costs.

The Company's electrical rates include the operation of a Rate Stabilization Account that flows through to customers any changes in the fuel cost associated with both the purchase price of fuel and the volume of fuel consumed. This account acts to smooth the impact of changing fuel prices on both the Company's earnings and customers' electrical rates.

On May 31, 2001, Hydro filed an application with the PUB which, if approved, would result in an increase in the rate charged to Newfoundland Power's customers in 2002 of approximately 6.4 per cent. Purchased power from Hydro represents approximately 65 per cent of Newfoundland Power's operating expenses. The Company is concerned with the impact of these increases on its customers and the economy. As a result, Newfoundland Power fully participated in regulatory hearings that started on September 24, 2001 on the issue. The final arguments related to the hearings concluded on January 29, 2002.

Although the island's small customer base and geographic isolation from the North American grid makes full retail choice unlikely, competition for future generation developments and a separation of the wires business are possible options.



# Management Report

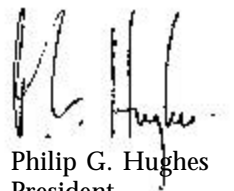
The accompanying financial statements of Newfoundland Power Inc. and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts that are based on management's best estimates and judgments.

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.

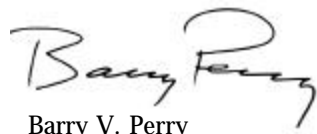
Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of financial information and that the assets of the company are properly safeguarded. The effectiveness of these internal controls is evaluated on an ongoing basis by the external and internal auditors.

The Audit, Risk & Environment Committee reviews the annual financial statements and recommends their approval to the Board of Directors. This 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.



Philip G. Hughes  
President  
& Chief Executive Officer



Barry V. Perry  
Vice President, Finance  
& Chief Financial Officer

# Auditors' Report

To the Shareholders,  
Newfoundland Power Inc.

We have audited the balance sheets of Newfoundland Power Inc. as at December 31, 2001 and 2000 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 Canadian 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, 2001 and 2000 and the results of its operations and cashflows for the years then ended in accordance with Canadian generally accepted accounting principles.

St. John's, Newfoundland  
January 18, 2002



Chartered Accountants

# Statements of Income

For the Years Ended December 31

	<u>2001</u>	<u>2000</u>
	<i>(in thousands)</i>	
Revenue (Note 2)	<u>\$ 359,305</u>	<u>\$ 348,413</u>
Operating Expenses		
Purchased power	202,479	199,266
Other operating expenses	49,414	48,926
Early retirement program costs	3,494	3,560
Depreciation	34,003	29,625
Finance charges (Note 3)	<u>26,700</u>	<u>26,641</u>
	<u>316,090</u>	<u>308,018</u>
Income Before Income Taxes	43,215	40,395
Income Taxes (Note 4)	<u>13,730</u>	<u>13,296</u>
Net Income for the Year	29,485	27,099
Dividends on Preference Shares	<u>623</u>	<u>626</u>
Earnings Applicable to Common Shares	<u>\$ 28,862</u>	<u>\$ 26,473</u>
Earnings per Common Share	<u>\$ 2.80</u>	<u>\$ 2.57</u>

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# Statements of Retained Earnings

For the Years Ended December 31

	<u>2001</u>	<u>2000</u>
	<i>(in thousands)</i>	
Balance at Beginning of the Year	\$ 180,010	\$ 172,527
Net income for the year	29,485	27,099
	<u>209,495</u>	<u>199,626</u>
Dividends		
Preference shares	623	626
Common shares	18,990	18,990
	<u>19,613</u>	<u>19,616</u>
Balance at End of the Year	<u>\$ 189,882</u>	<u>\$ 180,010</u>

*See accompanying notes to financial statements.*



# Balance Sheets


As at December 31

	<u>2001</u>	<u>2000</u>
	(in thousands)	
<b>Assets</b>		
Fixed Assets (Note 5)		
Property, plant and equipment	\$ 914,735	\$ 865,406
Less: accumulated depreciation	<u>369,659</u>	<u>353,078</u>
	<u>545,076</u>	<u>512,328</u>
Corporate Income Tax Deposit (Note 14)	<u>6,949</u>	<u>13,636</u>
Deferred Charges (Note 6)	<u>68,804</u>	<u>58,969</u>
Current Assets		
Accounts receivable	35,420	35,033
Materials and supplies at average cost	4,458	3,910
Rate stabilization account	<u>4,288</u>	<u>4,376</u>
	<u>44,166</u>	<u>43,319</u>
	<u>\$ 664,995</u>	<u>\$ 628,252</u>

## Shareholders' Equity and Liabilities

Shareholders' Equity		
Common shares (Note 7)	\$ 70,321	\$ 70,321
Retained earnings	<u>189,882</u>	<u>180,010</u>
Common shareholder's equity	<u>260,203</u>	<u>250,331</u>
Preference shares (Note 7)	<u>9,709</u>	<u>9,890</u>
	<u>269,912</u>	<u>260,221</u>
Long-term Debt (Note 8)	<u>260,858</u>	<u>277,108</u>
Current Liabilities		
Bank indebtedness	140	-
Short-term borrowings (Note 9)	75,109	19,224
Accounts payable and accrued charges (Note 2)	56,076	68,649
Current installments of long-term debt	<u>2,900</u>	<u>3,050</u>
	<u>134,225</u>	<u>90,923</u>
	<u>\$ 664,995</u>	<u>\$ 628,252</u>

APPROVED ON BEHALF OF THE BOARD:

  
Derek Hiscock  
Director

  
Bruce Chafe  
Director

See accompanying notes to financial statements.

# Statements of Cashflows

For the Years Ended December 31

	<u>2001</u>	<u>2000</u>
	<i>(in thousands)</i>	
Cash From (Used in) Operations		
Net income for the year	\$ 29,485	\$ 27,099
Reduction in income tax deposit	6,687	1,959
Items not affecting cash		
Depreciation	34,003	29,625
Weather normalization account	(1,160)	(1,378)
Amortization of deferred charges	231	233
Change in non-cash working capital	<u>(13,420)</u>	<u>16,200</u>
	<u>55,826</u>	<u>73,738</u>
Cash From (Used in) Financing		
Repayment and redemption of long-term debt	(16,400)	(3,050)
Redemption of preference shares	(181)	-
Short-term borrowings	55,885	3,198
Contributions in aid of construction	1,330	1,819
Dividends		
Preference shares	(623)	(626)
Common shares	<u>(18,990)</u>	<u>(18,990)</u>
	<u>21,021</u>	<u>(17,649)</u>
Cash (Used in) Investing		
Capital expenditures (net of salvage)	(68,081)	(43,680)
Increase in deferred charges	<u>(8,906)</u>	<u>(8,809)</u>
	<u>(76,987)</u>	<u>(52,489)</u>
(Decrease) Increase in Cash	(140)	3,600
Bank Indebtedness, Beginning of the Year	-	(3,600)
Bank Indebtedness, End of the Year	<u>\$ (140)</u>	<u>\$ -</u>

*See accompanying notes to financial statements.*

December 31, 2001

## SUMMARY OF ACCOUNTING POLICIES

### Regulation

Accounting policies conform to Canadian generally accepted accounting principles and to accounting requirements established from time to time by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB). In order to achieve proper matching of revenues and expenses, Newfoundland Power Inc. (the Company) follows accounting practices prescribed by the PUB. Accordingly, the timing of recognition of certain revenues and expenses may differ from that otherwise expected under Canadian generally accepted accounting principles applicable to non-regulated operations.

### Revenue

Revenue is derived 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. On certain construction projects, interest, as set out by the PUB, is capitalized and included as a cost in the appropriate property accounts.

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 3.7 per cent (2000 - 3.8 per cent) before reduction for the amortization of contributions in aid of construction and accrued depreciation reserve adjustments as approved by the PUB from time to time.

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 and Labrador carry conditional options allowing the Province to reacquire the plant so contributed.

### 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 amortized according to Canadian generally accepted accounting principles, unless otherwise ordered by the PUB. The cumulative difference between pension fund contributions and pension costs is recorded in the Company's accounts as deferred pension costs.

### Other Post-employment Benefits

The Company also provides extended health care and life insurance benefits for all retired employees. In accordance with regulatory requirements, the cost of these benefits is recorded in the year incurred.





### 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 ending in 2001.

### 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.

### 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 be approximately \$76.8 million at December 31, 2001 (2000 - \$72.0 million).

### Use of Accounting Estimates

The preparation of financial statements in conformity with Canadian 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.

## 1. Description of Business

Newfoundland Power operates an integrated generation, transmission and distribution system throughout the island of Newfoundland. The Company's customers make up approximately 85 per cent of all electrical consumers in the Province of Newfoundland and Labrador. The Company generates approximately 10 per cent of its energy needs and purchases the remainder from Newfoundland and Labrador Hydro.

## 2. Revenue

Newfoundland Power operates under cost of service regulation as prescribed by orders of the PUB. Earnings are regulated on the basis of rate of return on rate base. In 2000 and 2001, the approved range of return on rate base allowed under PUB orders was 10.10 per cent to 10.46 per cent. The impact of interest received on a corporate tax deposit refund caused the Company to exceed the maximum allowed rate of return in 2000 resulting in excess revenue of \$6.7 million and \$1.0 million in Harmonized Sales Tax being subsequently refunded to customers (approximately \$36.00 per customer).

Further to reassessments issued by Canada Customs and Revenue Agency (CCRA) in 2000, that confirmed the deductibility of general expenses capitalized (GEC), the Company received a refund related to GEC for the 1994 through 1998 taxation years. This refund contributed to the excess earnings of \$0.9 million in 2001 (approximately \$4.00 per customer). This amount has been set aside in an Excess Revenue Account and will be accounted for as ordered by the PUB.

### 3. Finance Charges

	<u>2001</u>	<u>2000</u>
	<i>(in thousands)</i>	
Interest - long-term debt	\$ 26,400	\$ 27,281
- short-term debt	1,526	717
Amortization - debt discount and expense	161	161
- capital stock issue expense	70	72
Interest earned	(1,110)	(1,252)
Interest charged to construction	(347)	(338)
	<u>\$ 26,700</u>	<u>\$ 26,641</u>

Long-term and short-term interest payments made during the year totaled \$28.0 million (2000 - \$27.9 million).

### 4. Income Tax Rate

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

	<u>2001</u>	<u>2000</u>
	<i>(in percentages)</i>	
Statutory income tax rate	42.1	43.1
Large corporations tax	2.2	2.3
GEC	(3.0)	(3.0)
Pension costs	(8.6)	(10.1)
Prior year adjustment for GEC	(8.4)	(2.4)
Timing differences not recorded	7.5	3.0
Effective income tax rate	<u>31.8</u>	<u>32.9</u>

Income tax payments made during the year totaled \$17.2 million (2000 - \$11.4 million).

During 2001, CCRA confirmed the deductibility of GEC for the 1994 through 1998 taxation years for income tax purposes. The resultant impact for prior years has been recorded as a reduction in income taxes in 2001.

## 5. Fixed Assets

December 31, 2001

(in thousands)

	Cost	Accumulated Depreciation	Net Book Value	Composite Depreciation Rate
Distribution	\$ 553,580	\$ 232,738	\$ 320,842	3.4%
Transmission and substations	181,928	82,892	99,036	3.0%
Generation	110,202	37,328	72,874	2.2%
Land, buildings and equipment	90,754	33,595	57,159	6.7%
Transportation and communications	<u>36,765</u>	<u>21,614</u>	<u>15,151</u>	<u>9.3%</u>
	973,229	408,167	565,062	<u>3.7%</u>
Contributions in Aid of Construction	<u>(58,494)</u>	<u>(38,508)</u>	<u>(19,986)</u>	
	<u>\$ 914,735</u>	<u>\$ 369,659</u>	<u>\$ 545,076</u>	

December 31, 2000

(in thousands)

	Cost	Accumulated Depreciation	Net Book Value	Composite Depreciation Rate
Distribution	\$ 512,979	\$ 220,699	\$ 292,280	3.5%
Transmission and substations	176,144	78,844	97,300	3.0%
Generation	106,457	36,206	70,251	2.2%
Land, buildings and equipment	90,362	33,308	57,054	6.6%
Transportation and communications	<u>36,629</u>	<u>21,351</u>	<u>15,278</u>	<u>9.3%</u>
	922,571	390,408	532,163	<u>3.8%</u>
Contributions in Aid of Construction	<u>(57,165)</u>	<u>(37,330)</u>	<u>(19,835)</u>	
	<u>\$ 865,406</u>	<u>\$ 353,078</u>	<u>\$ 512,328</u>	

## 6. Deferred Charges

2001

(in thousands)

2000

Deferred pension costs	\$ 55,536	\$ 46,469
Weather normalization account	9,900	8,740
Unamortized debt discount and expense	2,828	2,752
Unamortized capital stock issue expense	527	597
Deferred regulatory costs and other	<u>13</u>	<u>411</u>
	<u>\$ 68,804</u>	<u>\$ 58,969</u>

## 7. Capital Stock

### Authorized

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

### Issued and outstanding

	<u>2001</u>	<u>2000</u>
	<i>(in thousands)</i>	
Common shares		
<u>10,320,270</u> Class A Common Shares	<u>\$ 70,321</u>	<u>\$ 70,321</u>
Preference shares		
179,225 5 1/2% Series A	\$ 1,792	\$ 1,792
337,983 5 1/4% Series B	3,380	3,380
229,765 7 1/4% Series D	2,298	2,298
<u>223,950</u> 7.60% Series G	<u>2,239</u>	<u>2,420</u>
<u>970,923</u> First Preference Shares	<u>\$ 9,709</u>	<u>\$ 9,890</u>
(2000 - 988,923 shares)		

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. During 2001, the Company redeemed 18,000 Series G Preference Shares for cash consideration of \$181,000.

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.

## 8. Long-term Debt

	<u>2001</u>	<u>2000</u>
	<i>(in thousands)</i>	
First mortgage sinking fund bonds		
11.500% Series AB	\$ -	\$ 13,500
11.875% Series AC, due 2007	33,870	34,270
10.550% Series AD, due 2014	33,753	34,153
10.900% Series AE, due 2016	36,000	36,400
10.125% Series AF, due 2022	36,400	36,800
9.000% Series AG, due 2020	37,200	37,600
8.900% Series AH, due 2026	38,035	38,435
6.800% Series AI, due 2028	<u>48,500</u>	<u>49,000</u>
	263,758	280,158
Less: current installments	<u>2,900</u>	<u>3,050</u>
	<u>\$ 260,858</u>	<u>\$ 277,108</u>



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 required to meet sinking fund payments, installments and maturities of long-term debt are as follows:

2002	\$2,900,000
2003	\$2,900,000
2004	\$2,900,000
2005	\$2,900,000
2006	\$2,900,000

The estimated fair value of the Company's first mortgage bonds was \$325.0 million at December 31, 2001 (2000 - \$343.0 million). Fair value was estimated using present value techniques based on borrowing rates at year-end for debt with similar terms and maturities. The fair value estimate does not include exchange or settlement costs, as the Company does not intend to retire the debt prior to maturity.

#### 9. Short-term Borrowings

Short-term borrowings consist of bankers' acceptances and a demand loan issued against unsecured bank lines of credit and bear interest at rates ranging from 2.5 per cent to 4.0 per cent (2000 - 6.0 per cent to 7.5 per cent). The Company had authorized lines of credit of \$110.0 million, of which \$35.0 million were unused at year-end.

#### 10. Employee Future Benefits

The Company provides extended health care and life insurance benefits for all retired employees. In accordance with regulatory requirements the cost of these benefits is recorded in the year incurred.

Costs associated with the Company's defined benefit pension plan are determined annually by independent actuaries using management's best estimates of expected plan investment performance, salary escalation and retirement ages of employees.

Information about the defined benefit plan, which represents a contractual obligation of the Company, is as follows:

	2001	2000
	<i>(in thousands)</i>	
Accrued benefit obligation		
Balance, beginning of the year	\$ 148,304	\$ 126,353
Assumption changes	-	7,837
Current service costs	3,372	2,708
Interest costs	10,139	9,784
Benefits paid	(10,410)	(10,316)
Actuarial losses	3,957	9,259
Plan amendments	3,079	2,679
Balance, end of the year	<u>\$ 158,441</u>	<u>\$ 148,304</u>
Plan assets		
Fair value, beginning of the year	\$ 162,500	\$ 148,008
Expected return on assets	13,039	11,871
Benefits paid	(10,410)	(10,316)
Actuarial losses	(17,529)	(1,133)
Contributions to the plan	13,926	14,070
Fair value, end of the year	<u>\$ 161,526</u>	<u>\$ 162,500</u>

(continued)

	<u>2001</u>	<u>2000</u>
Funded status		
Surplus at year-end	\$ 3,085	\$ 14,196
Unamortized amounts	31,858	10,392
Transitional assets	<u>20,593</u>	<u>21,881</u>
Deferred pension costs	<u>\$ 55,536</u>	<u>\$ 46,469</u>
Significant assumptions used		
Discount rate during year	7.00%	7.50%
Discount rate at December 31	6.75%	7.00%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of compensation increases	4.50%	5.00%
Average remaining service year of active employees	18	18
Net benefit expense for the year		
Current service costs	\$ 2,194	\$ 1,499
Interest costs	10,139	9,784
Expected return on plan assets	(13,039)	(11,871)
Amortization of transitional obligation and amendments	<u>4,366</u>	<u>3,966</u>
Net benefit expense	<u>\$ 3,660</u>	<u>\$ 3,378</u>

#### 11. Related Party Transactions

The Company is a wholly-owned subsidiary of Fortis Inc. In 2001, net charges to related companies were \$3,743,000 (2000 - \$648,000). Terms of these transactions were the same as those with unrelated parties.

#### 12. Financial Instruments

The Company's financial instruments consist primarily of accounts receivable, bank indebtedness, short-term borrowings, accounts payable and accrued charges, and long-term debt. These financial instruments have a fair value which approximates carrying value, unless otherwise disclosed.

##### **Credit Risk**

Accounts receivable do not represent a significant concentration of credit risk because amounts are owed by a large number of customers on normal credit terms.

##### **Exchange Risk**

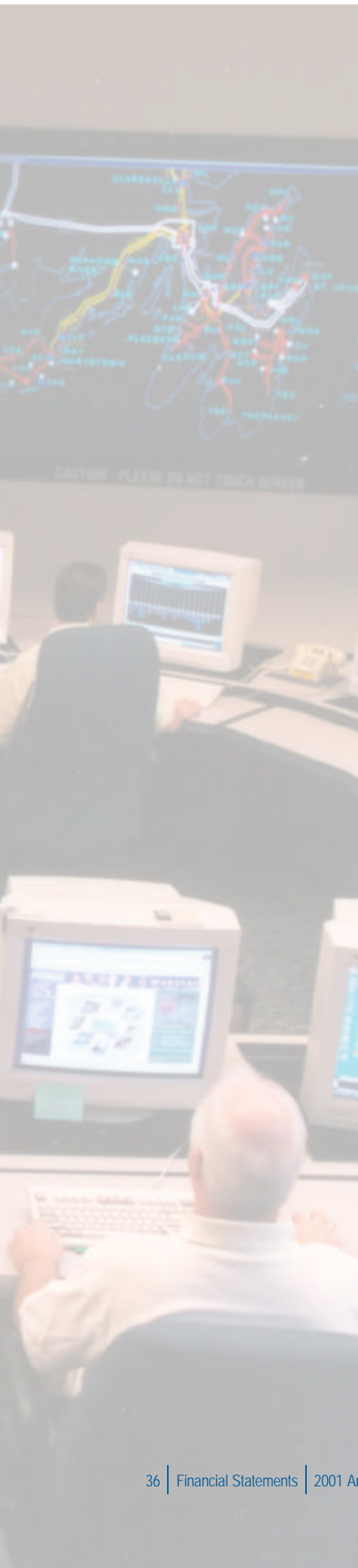
The Company realizes all of its sales in Canadian dollars and is not exposed to foreign exchange rate fluctuations.

##### **Interest Rate Risk**

Long-term debt bears fixed interest rates, thereby minimizing cash flow and interest rate exposures.

##### **Weather Normalization Account**

The Company operates a weather normalization account, the balance of which is approved by the PUB annually, to adjust for the effect of variations in weather and streamflows compared to long-term averages. This account minimizes the impact of changing weather conditions on the Company's financial results.



### 13. Commitments

On September 13, 2001, the Company entered into an agreement to acquire 70,000 joint-use poles. The agreement will result in the Company owning virtually all of the joint-use poles within its service territory. The acquisition will be completed over a five-year period. Payments to December 31, 2001 totaled \$20.2 million. Remaining payments are as follows:

January 1, 2002	\$ 8,088,000
January 1, 2003	4,044,000
January 1, 2004	4,044,000
January 1, 2005	4,044,000

### 14. Contingent Liability

In 2000, CCRA issued Notices of Reassessment to the Company confirming the deductibility of certain amounts capitalized by the Company for regulatory and accounting purposes, and reconfirming a 1995 reassessment which 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 and has filed a Notice 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 \$14.4 million, including accrued interest, would arise. In this event the Company would apply to the PUB to include the amount in the rate making process. This application may include a request to change the current accounting practice of recognizing revenue when billed. If the PUB approves this change in accounting practice, electricity, valued at approximately \$20.6 million, consumed in December but not billed until January would be included in revenue.

The provisions of the Income Tax Act require the Company to deposit one half of the amount in dispute with CCRA. The amount currently deposited with CCRA arising from the 2000 reassessment is approximately \$7.0 million.

# Ten Year Summary

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
<b>Income Statement Items</b> (in \$000s)										
Revenue	359,305	348,413	342,001	335,751	343,677	341,560	338,934	338,367	333,570	330,221
Operating expenses	255,387	251,752	245,464	244,227	248,266	246,849	245,946	239,707	236,307	237,345
Finance charges	26,700	26,641	26,488	25,233	24,949	24,010	22,739	22,972	22,494	21,628
Depreciation	34,003	29,625	29,638	28,067	26,800	26,314	28,896	28,141	26,921	25,878
Income taxes	13,730	13,296	16,927	16,027	18,105	18,617	13,120	19,745	18,666	15,708
Earnings applicable to common shares	28,862	26,473	22,858	21,571	24,931	25,144	27,638	27,090	27,702	27,731
<b>Balance Sheet Items</b> (in \$000s)										
Property, plant and equipment	914,735	865,406	844,598	817,820	790,290	770,165	752,597	730,649	703,513	676,980
Accumulated depreciation	369,659	353,078	344,506	330,453	319,209	301,063	283,936	262,085	239,332	219,060
Net fixed assets	545,076	512,328	500,092	487,367	471,081	469,102	468,661	468,564	464,181	457,920
Total assets	664,995	628,252	608,130	585,676	564,394	554,125	545,874	527,726	523,894	521,430
Long-term debt	263,758	280,158	283,208	286,258	238,808	241,323	203,473	217,031	218,906	221,181
Preference shares	9,709	9,890	9,890	9,890	9,890	9,890	9,890	10,902	10,905	22,296
Common equity	260,203	250,331	242,848	229,485	227,512	226,157	234,779	225,098	226,054	212,904
Total capital	533,670	540,379	535,946	525,633	476,210	477,370	448,142	453,031	455,865	456,381
<b>Operating Statistics</b>										
<b>Sources of Energy</b> (in millions of kWh)										
Purchased	4,495	4,432	4,292	4,259	4,244	4,236	4,186	4,178	4,093	4,066
Generated	416	423	450	429	424	423	423	420	420	417
Total	4,911	4,855	4,742	4,688	4,668	4,659	4,609	4,598	4,513	4,483
<b>Sales</b> (in millions of kWh)										
Residential	2,775	2,707	2,672	2,652	2,669	2,635	2,600	2,594	2,540	2,509
Commercial and street lighting	1,892	1,848	1,828	1,788	1,769	1,790	1,782	1,777	1,746	1,735
Total	4,667	4,555	4,500	4,440	4,438	4,425	4,382	4,371	4,286	4,244
Energy sales per employee	7.6	7.1	6.5	6.3	6.3	5.5	5.3	5.4	5.3	4.5
<b>Customers</b> (year-end)										
Residential	186,828	185,287	183,921	182,324	181,168	179,375	177,431	175,797	172,942	170,418
Commercial and street lighting	30,051	29,923	29,720	29,786	29,518	29,421	29,243	29,103	28,686	28,518
Total	216,879	215,210	213,641	212,110	210,686	208,796	206,674	204,900	201,628	198,936
Operating cost per customer (\$)	237	237	252	261	292	287	301	293	293	310
Revenue per employee (\$)	582,342	539,339	492,088	476,243	487,485	425,355	412,328	419,290	409,288	347,601
Number of regular employees (year-end)	617	646	695	705	705	803	822	807	815	950



# Board of Directors



Mr. Bruce Chafe  
*Chair, Board of Directors  
Newfoundland Power Inc.  
St. John's, Newfoundland*



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



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



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



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



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



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



Ms. Dell Texmo  
*President  
Living Rooms Limited  
St. John's, Newfoundland*



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



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



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



Mr. Lynn R. Young  
*President &  
Chief Executive Officer  
Belize Electricity Limited  
Belize City, Belize*

*Congratulations are extended to Director, Frank Coleman, on Colemans Food Centre in Mount Pearl, Newfoundland, receiving 1st Place Recognition from the Canadian Federation of Independent Grocers for the best small service, independently-run supermarket in Canada.*

*Congratulations are also extended to Directors, Stan Marshall, on being named one of Atlantic Canada's Top 50 CEO's for the second consecutive year, and to Philip Hughes, for also being named one of Atlantic Canada's Top 50 CEO's for the second consecutive year as well as being elected Chair of the Energy Council of Canada.*

# Executive Team



*Pictured from left to right: Barry V. Perry, Vice President, Finance & Chief Financial Officer; Earl A. Ludlow, Vice President, Engineering & Operations; Nora M. Duke, Vice President, Customer & Corporate Services; Peter S. Alteen, Corporate Counsel & Secretary; and Philip G. Hughes, President & Chief Executive Officer.*

# Investor Information

## Head Office

55 Kenmount Road  
P.O. Box 8910  
St. John's, Newfoundland A1B 3P6  
Tel: (709) 737-5600  
Fax: (709) 737-5300

## Share Transfer Agent and Registrar

Computershare Trust Company of Canada  
1800 McGill College Avenue  
Montreal, Quebec H3A 3K9  
Tel: (514) 982-7000  
Fax: (514) 982-7635  
[www.computershare.com](http://www.computershare.com)

## 2001 Annual General Meeting

Thursday, April 18, 2002 at 8:00 a.m.  
Main Boardroom, 3rd Floor  
Newfoundland Power Inc.  
55 Kenmount Road  
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](mailto:palteen@newfoundlandpower.com)

## Website

[www.newfoundlandpower.com](http://www.newfoundlandpower.com)

## E-mail

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

## Fortis Websites

Fortis Inc.  
[www.fortisinc.com](http://www.fortisinc.com)  
Maritime Electric Company, Limited  
[www.maritimeelectric.com](http://www.maritimeelectric.com)  
Canadian Niagara Power Company, Limited  
[www.cnpower.com](http://www.cnpower.com)  
Belize Electricity Limited  
[www.bel.com.bz](http://www.bel.com.bz)  
Caribbean Utilities Company, Ltd.  
[www.cuc-cayman.com](http://www.cuc-cayman.com)  
Fortis Properties Corporation  
[www.fortisproperties.com](http://www.fortisproperties.com)

## Industry Websites

Energy Council of Canada  
[www.energy.ca](http://www.energy.ca)  
Canadian Electricity Association  
[www.canelect.ca](http://www.canelect.ca)

# Partners in Progress . . .

*Our Company is committed to making Newfoundland a better place to live. Through financial, in-kind and hands-on contributions, Newfoundland Power is able to support the growth and progress of our communities and fellow Newfoundlanders.*

*Listed below are just a few of the organizations that we've proudly partnered with throughout 2001.*

## Education & Development of Youth

*Memorial University of Newfoundland, College of the North Atlantic, Newfoundland School for the Deaf, Newfoundland & Labrador School Chess Association, Junior Achievement of Newfoundland & Labrador, Forum for Young Canadians, Eastern Newfoundland Science Fair Council, Newfoundland Science Centre, Newfoundland & Labrador High School Athletic Federation, Scouts Canada*

## Health

*The Burin Peninsula Health Care Foundation, The Newfoundland & Labrador Division of the Canadian Cancer Society, The Western Memorial Health Care Foundation, The Newfoundland & Labrador Cancer Treatment Centre, The Children's Wish Foundation, The Newfoundland & Labrador Down Syndrome Society, Canadian Diabetes Association, Alzheimer Society of Newfoundland & Labrador, Trinity Conception Health Foundation, Janeway Children's Hospital Foundation, St. John Ambulance, Mazol Shriners, Coats for Kids*

## Safety

*Newfoundland & Labrador Fire Chiefs and Firefighters Association, Fire Fighter Electrical Safety Training, Child Find Newfoundland & Labrador, School Electrical Safety Program, Safe Communities, Newfoundland & Labrador Safety Council*

## Environment

*Atlantic Salmon Federation, Tree Canada, Action By Canadians, Newfoundland & Labrador Conservation Corps, Newfoundland & Labrador Home Builders Association, Hughes Brook Aquatic Centre, Thomas Howe Demonstration Forest, Trans Canada Trail Foundation*

## Arts & Culture

*Newfoundland Symphony Orchestra, Newfoundland Symphony Youth Choir, Kittiwake Dance Theatre, Marconi Celebrations*





[www.newfoundlandpower.com](http://www.newfoundlandpower.com)



NEWFOUNDLAND POWER INC.  
P. O. Box 8910  
St. John's, Newfoundland A1B 3P6

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**IN THE MATTER OF**  
the 2001 Annual Returns  
of Newfoundland Power  
Inc. filed pursuant to  
Section 59(2) of the  
*Public Utilities Act*.

**AFFIDAVIT**

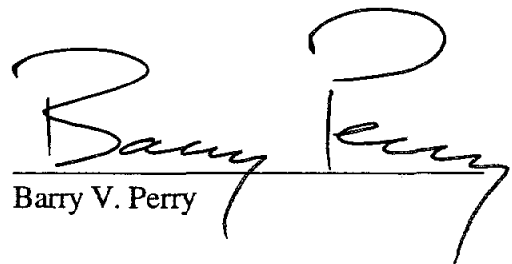
I, Barry V. Perry, of St. John's, Newfoundland make oath and say as follows:

1. That I am Vice President, Finance and Chief Financial Officer of Newfoundland Power Inc.
2. That to the best of my knowledge, information and belief, the information contained in the 2001 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 25<sup>th</sup> day of March, 2002



Peter Alteen  
Barrister



Barry V. Perry

<p><b>Newfoundland Power Inc.</b> <b>Names and Addresses of Officers and Directors</b> <b>as of December 31, 2001</b></p>
---

<b>Name</b>	<b>Address</b>	<b>Position Held</b>
<b>Peter S. Alteen</b>	17 Burton St. St. John's, NF A1E 5M1	Corporate Counsel and Secretary
<b>Bruce Chafe</b>	Unit 602 Brentwood 156 Portugal Cove Road St. John's, NF A1B 4H9	Chair of the Board of Directors
<b>Frank J. Coleman</b>	25 Hamilton Place Corner Brook, NF A2H 7C1	Director
<b>Nora M. Duke</b>	18 Jacaranda Place St. John's, NF A1H 1A2	Vice President, Customer and Corporate Services
<b>Rex V. Gibbons</b>	34 Spratt Place St. John's, NF A1E 4M2	Director
<b>Derrick E. Gill</b>	98 Waterford Bridge Road St. John's, NF A1E 1C8	Director
<b>Derek F. Hiscock</b>	31 Baker Street St. John's, NF A1A 5C3	Director

<p><b>Newfoundland Power Inc.</b> <b>Names and Addresses of Officers and Directors</b> <b>as of December 31, 2001</b></p>
---

<b>Name</b>	<b>Address</b>	<b>Position Held</b>
<b>Frank P. Howard</b>	7 Hill Road Grand Falls - Windsor, NF A2A 1G9	Director
<b>Philip G. Hughes</b>	128 Logy Bay Road St. John's, NF A1A 1J6	President and Chief Executive Officer; Director
<b>James A. Lea</b>	84 Greenfield Avenue Charlottetown, P.E.I. C1A 3N8	Director
<b>Earl A. Ludlow</b>	33 Ortega Drive P.O. Box 481 Paradise, NF A1L 1C8	Vice President, Engineering and Operations
<b>H. Stanley Marshall</b>	P.O. Box 2590 Topsail, NF A1W 1A2	Director
<b>Barry V. Perry</b>	14 Collingwood Crescent Mount Pearl, NF A1N 5C6	Vice President, Finance and Chief Financial Officer
<b>Dell Texmo</b>	34 Kings Bridge Road St. John's, NF A1C 3K6	Director



<p><b>Newfoundland Power Inc.</b> <b>Names and Addresses of Officers and Directors</b> <b>as of December 31, 2001</b></p>
---

<b>Name</b>	<b>Address</b>	<b>Position Held</b>
<b>Peter Woodward</b>	Tupper Drive P.O. Box 913, Stn. "A" Happy Valley-Goose Bay, NF A0P 1S0	Director
<b>Lynn R. Young</b>	2 Saint Mark Street Belize City Belize, C. A.	Director

**Newfoundland Power Inc.**  
**Computation of Rate Base**  
**For The Year Ended December 31, 2001**  
**(000s)**

	<u>2001</u>	<u>2000</u>
Plant Investment - Return 4	\$ 971,294	\$ 921,557
<u>Deduct:</u>		
Accumulated Depreciation - Return 5	408,167	390,408
Contributions in Aid of Construction - Return 9	19,986	19,835
Deferred Income Taxes - Return 6	-	68
Weather Normalization Reserve - Return 14	(9,900)	(8,740)
	<u>418,253</u>	<u>401,571</u>
	<u>553,041</u>	<u>519,986</u>
<u>Add:</u>		
Contributions - Country Homes	545	489
	<u>\$ 553,586</u>	<u>\$ 520,475</u>
Average	537,031	512,982
Adjustment for Duffy Place Land <sup>1</sup>	-	(243)
Cash Working Capital Allowance - Return 7	4,561	4,493
Materials and Supplies - Return 7A	3,570	3,747
	<u>\$ 545,162</u>	<u>\$ 520,979</u>

<sup>1</sup> Reduction of \$243,361 (50% of \$486,722) in 2000 to conform to reduction from rate base as ordered by Order No. P.U. 36 (1998-99).

**Newfoundland Power Inc.**  
**Plant Investment**  
**For The Year Ended December 31, 2001**  
**(000s)**

	<u>Balance January 1 2001</u>	<u>Adjustments During 2001</u>	<u>Additions During 2001</u>	<u>Retirements During 2001</u>	<u>Balance December 31 2001</u>
Power Generation:					
Hydro	\$ 94,577	\$ (31)	\$ 3,876	\$ 519	\$ 97,903
Diesel	1,856	1	94	7	1,944
Gas Turbine	9,608	-	625	11	10,222
	<u>106,041</u>	<u>(30)</u>	<u>4,595</u>	<u>537</u>	<u>110,069</u>
Substations	94,448	226	3,861	572	97,963
Transmission	76,053	(188)	2,921	350	78,436
Distribution	495,685	(38)	46,238	5,599	536,286
General Properties	44,573	(1)	1,059	187	45,444
Transportation	20,773	-	2,078	2,176	20,675
Communications	15,853	31	1,530	1,413	16,001
Computer Software	24,620	110	1,876	4,141	22,465
Computer Hardware	10,666	-	1,226	672	11,220
Government Contributions	<u>23,328</u>	<u>(110)</u>	<u>-</u>	<u>-</u>	<u>23,218</u>
Total Depreciable Plant	912,040	-	65,384	15,647	961,777
Non Depreciable Land	9,517	-	-	-	9,517
	<u>\$ 921,557</u>	<u>\$ -</u>	<u>\$ 65,384</u>	<u>\$ 15,647</u>	
Plant Investment - Return 3					971,294
Work in Progress					1,935
Total Plant Investment - Return 1					<u>\$ 973,229</u>

<b>Newfoundland Power Inc.</b> <b>Capital Expenditure</b> <b>For The Year Ended December 31, 2001</b> <b>(000s)</b>			
	<b>Approved By Board Order *</b>	<b>Actual</b>	<b>Variance Over (Under)</b>
Energy Supply	\$ 5,619	\$ 5,871	\$ 252
Substations	2,863	3,542	679
Transmission	2,419	2,765	346
Distribution	41,586	43,257	1,671
General Property	1,723	944	(779)
Transportation	1,866	2,061	195
Telecommunications	683	530	(153)
Computing Equipment	3,619	4,124	505
General Expenses Capital	2,650	3,211	561
	<b>\$ 63,028</b>	<b>\$ 66,305</b>	<b>\$ 3,277</b>

\* As per Board Orders P.U. 24 (2000-2001), P.U. 12 (2001-2002) and P.U. 17 (2001-2002).



**Newfoundland Power Inc.**  
**Accumulated Depreciation**  
**For The Year Ended December 31, 2001**  
**(000s)**

(A) Balance - January 1, 2001 \$ 390,408

Add:

Depreciation - Appropriated from Income	34,003
Amortization of Contributions - Government	77
Amortization of Contributions - Customers	1,101
Salvage	765

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35,946

Deduct:

Cost of Removal (Net of Income Tax)	2,540
Retirements	15,647

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18,187

(B) Balance - December 31, 2001 - Return 3 \$ 408,167

(C) Depreciation Rates - 2001

Steam	0.00%
Hydro	2.02%
Diesel	3.55%
Gas Turbine	3.55%
Substations	2.75%
Transmission	3.38%
Distribution	3.62%
General Property	2.77%
Transportation	10.84%
Telecommunications	7.57%
Computer Software	10.00%
Computer Hardware	20.00%

(D) Percentage of Accumulated Depreciation to Total Depreciable Plant : 42.44%

(E) Percentage of Current Depreciation, Including Amortization of Contributions,  
to Total Depreciable Plant : 3.66%

**Newfoundland Power Inc.**  
**Accumulated Deferred Income Tax**  
**For The Year Ended December 31, 2001**  
**(000s)**

Balance - January 1, 2001	\$	68
---------------------------	----	----

Increase for the Year - Timing Differences:

CCA claimed on all property, plant  
and equipment

\$ 25,588

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

30,882

\$ (5,294)

Income Tax @ 41.0%

(2,171)

Balance - December 31, 2001 - Return 3 (If negative, enter zero)	\$	<u>-</u>
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**Newfoundland Power Inc.**  
**Working Capital**  
**For The Year Ended December 31, 2001**  
**(000s)**

(A) Calculation of Cash Working Capital Allowance

Operating Expenses for the Year - Return 12	\$ 255,387
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Less: Non Regulated Expenses (Net of Income Tax)	837
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	254,550
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Add: Current Income Tax Expense - Return 18	13,730
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	\$ 268,280
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2001 Working Capital Allowance ( @ 1.7% ) - Return 3	\$ 4,561
--	----------

2000 Working Capital Allowance	\$ 4,493
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(B) In general, the Company's billing and collection procedures are consistent with those in place during the preceding year.

<b>Newfoundland Power Inc.</b> <b>Materials and Supplies</b> <b>For The Year Ended December 31, 2001</b> <b>(000s)</b>						
	2001			2000		
	<u>Balance Sheet</u>	<u>Expansion</u>	<u>Rate Base</u>	<u>Balance Sheet</u>	<u>Expansion</u>	<u>Rate Base</u>
Materials and Supplies - Jan.	\$ 4,111	\$ 752	\$ 3,359	\$ 5,106	\$ 934	\$ 4,172
Feb.	4,155	760	3,395	4,949	906	4,043
Mar.	4,481	820	3,661	5,079	929	4,150
Apr.	4,545	832	3,713	4,734	866	3,868
May	4,540	831	3,709	4,939	904	4,035
Jun.	4,630	847	3,783	4,900	897	4,003
Jul.	4,453	815	3,638	4,781	875	3,906
Aug.	4,552	833	3,719	4,501	824	3,677
Sep.	4,400	805	3,595	4,297	786	3,511
Oct.	3,989	730	3,259	3,986	729	3,257
Nov.	4,117	753	3,364	3,856	706	3,150
Dec.	4,458	816	3,642	3,910	716	3,194
			<u>\$ 42,837</u>			<u>\$ 44,966</u>
Materials and Supplies			<u>\$ 3,570</u>			<u>\$ 3,747</u>
Monthly Average - Return 3						



<b>Newfoundland Power Inc.</b> <b>Deferred Expenses</b> <b>For The Year Ended December 31, 2001</b> <b>(000s)</b>				
	<b>Balance</b> <b>January 1</b> <b>2001</b>	<b>Additions</b> <b>During</b> <b>2001</b>	<b>Reductions</b> <b>During</b> <b>2001</b>	<b>Balance</b> <b>December 31</b> <b>2001</b>
Debt Discount & Expenses	\$ 2,752	\$ 237	\$ 161	\$ 2,828
Capital Stock Issue Expense	597	-	70	527
Deferred Pension Costs	46,469	12,727	3,660	55,536
Deferred Regulatory Costs	384	-	384	-
Other <sup>1</sup>	27	-	14	13
Deferred Expenses <sup>2</sup>	<u>\$ 50,229</u>	<u>\$ 12,964</u>	<u>\$ 4,289</u>	<u>\$ 58,904</u>

<sup>1</sup> Other Deferred Expenses include deferred work orders.

<sup>2</sup> Represents deferred expenses not included in rate base.

**Newfoundland Power Inc.**  
**Contributions In Aid Of Construction**  
**For The Year Ended December 31, 2001**  
**(000s)**

	<u>Customers</u>	<u>Government</u>	<u>Total</u>
(A) Gross Contributions - January 1, 2001	\$ 33,836	\$ 23,328	\$ 57,165
Less: Amortization to December 31, 2000	15,434	21,895	37,330
	<hr/>	<hr/>	<hr/>
Unamortized Contributions - January 1, 2001	18,402	1,433	19,835
Repayment of Contribution	-	(110)	(110)
Contributions Received During 2001	1,439	-	1,439
Less: Amortization - 2001	1,101	77	1,178
	<hr/>	<hr/>	<hr/>
	338	(187)	151
	<hr/>	<hr/>	<hr/>
(B) Balance - December 31, 2001 - Return 3	<u>\$ 18,740</u>	<u>\$ 1,246</u>	<u>\$ 19,986</u>

**Newfoundland Power Inc.**  
**Amortization of Contributions In Aid Of Construction - Customers**  
**For The Year Ended December 31, 2001**  
**(000s)**

	<u>Gross Contributions</u>	<u>Amortized During 2001</u>	<u>Amortized To Date</u>	<u>Unamortized Contributions</u>
Prior 1970	\$ 2,132	\$ -	\$ 2,132	\$ -
1970	234	-	234	-
1971	201	-	201	-
1972	150	-	150	-
1973	512	-	512	-
1974	537	13	537	-
1975	760	28	751	9
1976	430	16	409	21
1977	657	24	601	56
1978	431	16	380	51
1979	536	19	486	50
1980	655	24	545	110
1981	653	24	515	138
1982	693	25	517	176
1983	1,090	39	774	316
1984	849	31	561	288
1985	1,090	39	681	409
1986	1,010	37	593	417
1987	936	34	514	422
1988	1,493	54	754	739
1989	1,774	64	833	941
1990	1,411	51	611	800
1991	1,421	51	564	857
1992	1,720	62	622	1,098
1993	997	36	324	673
1994	1,314	48	380	934
1995	1,875	68	475	1,400
1996	1,422	51	308	1,114
1997	2,232	81	405	1,827
1998	1,153	166	166	987
1999	1,539	-	-	1,539
2000	1,929	-	-	1,929
2001	1,439	-	-	1,439
	<u>\$ 35,275</u>	<u>\$ 1,101</u>	<u>\$ 16,535</u>	<u>\$ 18,740</u>

**Newfoundland Power Inc.**  
**Return on Rate Base**  
**For The Year Ended December 31, 2001**  
**(000s)**

	<u>2001</u>	<u>2000</u>
(A) Net Income - Return 1	\$ 29,485	\$ 27,099
Provision for Excess Earnings - Net of Income Tax	559	3,800
Non Deductible Expenses - Net of Income Tax	837	764
	<u>30,881</u>	<u>31,663</u>
<u>Add:</u>		
Interest on Long Term Debt	26,400	27,281
Other Interest	1,526	717
Interest Earned	(1,110)	(1,252)
Interest Charged to Construction	(347)	(338)
Amortization of Debt Discount & Expenses	161	161
Amortization of Capital Stock Issue Expenses	70	72
	<u>26,700</u>	<u>26,641</u>
(B) Regulated Earnings - Before Adjustment for Excess Revenue	<u>\$ 57,581</u>	<u>\$ 58,304</u>
(C) Average Rate Base - Return 3	<u>\$ 545,162</u>	<u>\$ 520,979</u>
(D) Rate of Return on Average Rate Base	<u>10.56%</u>	<u>11.19%</u>
(E) Maximum Rate of Return on Average Rate Base <sup>1</sup>	10.46%	10.46%
(F) Rate of Return on Average Rate Base Above Maximum	0.10%	0.73%
(G) Excess Revenue - Net of Income Tax <sup>2</sup>	<u>\$ 557</u>	<u>\$ 3,810</u>

<sup>1</sup> As per Board Order P.U. 20 (1999-2000).

<sup>2</sup> As per Board Order P.U. 25 (1999-2000).



**Newfoundland Power Inc.**  
**Determination of Excess Revenue**  
**For The Year Ended December 31, 2001**  
**(000s)**

	<u>2001</u>	<u>2000</u>
(A) Average Rate Base - Return 3	<u>\$ 545,162</u>	<u>\$ 520,979</u>
(B) Upper Limit of the Allowed Range of Return on Average Rate Base <sup>1</sup>	<u>10.46%</u>	<u>10.46%</u>
(C) Upper Limit of Allowed Regulated Earnings	\$ 57,024	\$ 54,494
(D) Regulated Earnings - Before Adjustment for Excess Revenue	57,581	58,304
(E) Excess Revenue - Net of Income Tax <sup>2</sup>	<u>557</u>	<u>3,810</u>
(F) Income Tax	387	2,759
(G) Excess Revenue	<u>\$ 944</u>	<u>\$ 6,569</u>

<sup>1</sup> As per Board Order P.U. 20 (1999-2000).

<sup>2</sup> As per Board Order P.U. 25 (1999-2000).

**Newfoundland Power Inc.**  
**Analysis of Revenue - Normalized**  
**For The Year Ended December 31, 2001**

		2001				2000			
		Gigawatt Hours	Year End Customer Accounts	Revenue (000s)	Adjusted* Revenue (000s)	Gigawatt Hours	Year End Customer Accounts	Revenue (000s)	Adjusted** Revenue (000s)
Residential	1.1	2,774.7	186,828	\$ 210,232	\$ 209,667	2,707.0	185,287	\$ 205,723	\$ 201,825
General Service:									
0 - 10 kW	2.1	98.3	11,939	10,783	10,755	96.6	11,919	10,600	10,400
10 - 100 kW	2.2	571.5	7,721	46,001	45,878	566.0	7,721	45,793	44,926
110 - 1000 kVA	2.3	809.1	948	52,604	52,462	802.0	926	52,173	51,185
1000 kVA and Over	2.4	377.9	53	20,660	20,605	347.8	48	18,971	18,612
Street & Area Lighting	4.1	35.2	9,390	10,512	10,483	35.4	9,309	10,469	10,270
Forfeited Discounts				2,164	2,158			2,142	2,101
Revenue From Rates		4,666.7	216,879	352,956	352,008	4,554.8	215,210	345,871	339,319
Wheeling				448	448			470	470
Non Electrical Revenue				6,849	6,849			8,624	8,624
Other Revenue				7,297	7,297			9,094	9,094
Total Revenue - Return 1		<u>4,666.7</u>	<u>216,879</u>	<u>\$ 360,253</u>	<u>\$ 359,305</u>	<u>4,554.8</u>	<u>215,210</u>	<u>\$ 354,965</u>	<u>\$ 348,413</u>

\* Revenue from rates has been adjusted by \$0.948 million to reflect the provision for excess revenue for 2001.

\*\* Revenue from rates has been adjusted by \$6.552 million to reflect the provision for excess revenue for 2000.

**Newfoundland Power Inc.**  
**Statement of Expenses**  
**For The Year Ended December 31, 2001**  
**(000s)**

	<u>2001</u>	<u>2000</u>
<b><u>Operating Expenses</u></b>		
Purchased Power	\$ 202,479	\$ 199,266
Power Produced	2,668	2,808
Administrative and Engineering Support	8,557	7,236
Environmental Policy	939	1,006
Substations	1,493	2,118
Transmission	646	619
Distribution	6,262	7,191
Communications	802	748
Fleet Operating and Maintenance Expense	1,481	1,592
	<u>225,327</u>	<u>222,584</u>
<b><u>General Expenses</u></b>		
Customer Service	9,020	8,866
Financial Services	1,249	1,412
Information Systems	3,114	3,036
Company Pension Plan	4,420	4,199
Retirement Allowances	1,022	694
Corporate and Employee Services	13,410	12,941
	<u>32,235</u>	<u>31,148</u>
Total Operating & General Expenses	257,562	253,732
Less: Transfers to General Expenses Capital	2,175	1,980
Total - Return 1	<u><u>\$ 255,387</u></u>	<u><u>\$ 251,752</u></u>

**Newfoundland Power Inc.**  
**Explanation of Significant Operating Expense Variances**  
**For The Year Ended December 31, 2001**  
**( 2001 vs. 2000 )**  
**(000s)**

	<u>2001</u>	<u>2000</u>	<u>Increase (Decrease)</u>
<b>Total Operating Expenses</b>	<u>\$ 255,387</u>	<u>\$ 251,752</u>	<u>\$ 3,635</u>

Operating expenses for 2001 increased by \$3.6 million, or 1.4%, over 2000 levels. \$3.2 million of this increase is related to increased purchased power costs with the remainder spread over all other operating expense classes. Following is an explanation of significant variances for individual operating expense classes.

<b>Purchased Power</b>	<u>\$ 202,479</u>	<u>\$ 199,266</u>	<u>\$ 3,213</u>
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The increase in purchased power costs was a result of higher energy sales.

<b>Power Produced</b>	<u>\$ 2,668</u>	<u>\$ 2,808</u>	<u>\$ (140)</u>
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Costs in 2000 were higher due to the completion of a hydrology study by Acres International.

<b>Administrative and Engineering Support</b>	<u>\$ 8,557</u>	<u>\$ 7,236</u>	<u>\$ 1,321</u>
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The increase in charges to Administrative and Engineering Support stems from a number of factors. First, vacation and other payroll overheads were not fully allocated to specific cost centres in 2001. This resulted in an unallocated balance of approximately \$900,000 which was charged to this operating expense class at year-end. The higher allocation to this class has resulted in lower allocations of these overheads across a range of other expense classes in 2001. Second, 2001 saw increased employee relocation costs as a result of corporate reorganization and employee development initiatives. Finally, increased emphasis on employee safety, through the *Back to Basics* safety program, resulted in increased costs to replace tools (i.e.; rubber gloves, hot sticks) and for the acquisition of fire retardant rainwear for line staff.

<b>Substations</b>	<u>\$ 1,493</u>	<u>\$ 2,118</u>	<u>\$ (625)</u>
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The variance is primarily the result of a reduction in expenditures on substation yard enhancements from 2000 levels. Expenditures were higher in 2000 as the Company undertook to upgrade its substation properties as part of an overall public safety initiative.



**Newfoundland Power Inc.**  
**Explanation of Significant Operating Expense Variances**  
**For The Year Ended December 31, 2001**  
**( 2001 vs. 2000 )**  
**(000s)**

	<u>2001</u>	<u>2000</u>	<u>Increase (Decrease)</u>
<b>Distribution</b>	<u>\$ 6,262</u>	<u>\$ 7,191</u>	<u>\$ (929)</u>

The reduction in distribution expenditures in 2001 results from a number of factors. First, major initiatives were ongoing in 2000 to identify rusty transformers requiring replacement and to upgrade distribution system grounding. As these initiatives were substantially completed in 2000, expenditures in these areas were reduced in 2001. Second, favourable results from the meter testing program meant fewer meters had to be removed from service thus reducing related costs. Finally, increased expenditures on upgrades to the electrical system to improve reliability have resulted in fewer unscheduled outages and a subsequent reduction in related operating costs.

<b>Fleet Operating and Maintenance Expense</b>	<u>\$ 1,481</u>	<u>\$ 1,592</u>	<u>\$ (111)</u>
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The decrease reflects increased utilization of vehicles on capital projects in 2001.

<b>Customer Service</b>	<u>\$ 9,020</u>	<u>\$ 8,866</u>	<u>\$ 154</u>
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The increase is principally the result of the transfer of the cost for billing stationery (bills and envelopes) from the Corporate and Employee Services class to the Customer Service class.

<b>Financial Services</b>	<u>\$ 1,249</u>	<u>\$ 1,412</u>	<u>\$ (163)</u>
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The decrease reflects reduced operating labour as a result of resources being utilized on capital work related to the Back Office Support Systems (BOSS) project and an overall decrease in staff.

<b>Company Pension Plan</b>	<u>\$ 4,420</u>	<u>\$ 4,199</u>	<u>\$ 221</u>
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Increased pension expense resulted from charges related to the 2001 early retirement programs being higher than those of the 2000 early retirement program.

<b>Retirement Allowances</b>	<u>\$ 1,022</u>	<u>\$ 694</u>	<u>\$ 328</u>
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Costs in 2001 were higher due to the inclusion of severance payments. In 2000, severance payments were charged to the Corporate and Employee Services class.

**Newfoundland Power Inc.**  
**Explanation of Significant Operating Expense Variances**  
**For The Year Ended December 31, 2001**  
**( 2001 vs. 2000 )**  
**(000s)**

	<u>2001</u>	<u>2000</u>	<u>Increase (Decrease)</u>
<b>Corporate and Employee Services</b>	<u>\$ 13,410</u>	<u>\$ 12,941</u>	<u>\$ 469</u>

The increase results primarily from higher snow clearing costs in 2001 resulting from the record snowfall on the Avalon Peninsula, increased costs associated with the Company's intervention in the Newfoundland & Labrador Hydro general rate proceeding, and an increase in the annual assessment of the P.U. Board. These costs were partially offset by the transfer of costs for billing stationary to the Customer Service class and by the fact that severance payments were included in this expense class in 2000.

<b>General Expenses Capital</b>	<u>\$ 2,175</u>	<u>\$ 1,980</u>	<u>\$ 195</u>
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The increase in General Expenses Capital (GEC) relates to an increase in those expense classes from which the indirect allocation to GEC is derived (e.g.; Administrative and Engineering Support, Corporate and Employee Services).

<b>Newfoundland Power Inc.</b> <b>Production and Sales Statistics - Normalized</b> <b>For The Year Ended December 31, 2001</b>		
	<u>2001</u>	<u>2000</u>
Gigawatt Hours - Purchased	4,494.9	4,432.3
Gigawatt Hours - Produced	416.1	423.1
Total Purchased and Produced	4,911.0	4,855.4
Gigawatt Hours - Sold & Used	4,678.5	4,566.3
Gigawatt Hours - Losses	<u>232.5</u>	<u>289.1</u>
Losses Expressed as % of Total Purchased and Produced	<u>4.7%</u>	<u>6.0%</u>

**Newfoundland Power Inc.**  
**Weather Normalization Reserve**  
**For The Year Ended December 31, 2001**  
**(000s)**

**Degree Day Normalization Reserve**

Revenue Adjustment

Heating Degree Days	\$ 3,694
Cooling Degree Days	(57)
Wind Speed Adjustments	1,874

Total Revenue Adjustment	5,511
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Less : Power Purchased Adjustment

Heating Degree Days	3,796
Cooling Degree Days	(54)
Wind Speed Adjustments	1,728

Total Power Purchased Adjustment	5,470
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Net Adjustment (Before Tax)	41
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Less: Income Tax @ 41%	17
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<b>Net Transfer (To) From Reserve</b>	<b>\$ 24</b>
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**Hydro Production Equalization Reserve**

Transfer (To) From Reserve (Before Tax)	\$ 1,926
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Less: Income Tax @ 41%	790
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<b>Net Transfer (To) From Reserve</b>	<b>\$ 1,136</b>
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<b>Net Transfer (To) From Weather Normalization Reserve</b>	<b>\$ 1,160</b>
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General Ledger Accounts

	Hydro Production Equalization Reserve Dr (Cr)	Degree Day Normalization Reserve Dr (Cr)	
Balance of Reserve - December 31, 2000	\$ 8,234	\$ 506	\$ 8,740
Net Transfer	1,136	24	1,160
Balance of Reserve - December 31, 2001	<b>\$ 9,370</b>	<b>\$ 530</b>	<b>\$ 9,900</b>

<b>Newfoundland Power Inc.</b> <b>Rate Stabilization Account</b> <b>For The Year Ended December 31, 2001</b> <b>(000s)</b>								
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	\$ 1.7	\$ (999.2)	\$ -	\$ 1.7	\$ (0.1)	\$ -	\$ 902.2	\$ (93.7)
February	(93.7)	(924.8)	-	3.0	-	(0.8)	848.4	(167.9)
March	(167.9)	(880.0)	-	0.4	-	(1.4)	826.0	(222.9)
April	(222.9)	(797.0)	-	5.5	-	(1.9)	701.6	(314.7)
May	(314.7)	(712.6)	-	2.3	-	(2.7)	588.2	(439.5)
June	(439.5)	(596.2)	-	3.0	-	(3.8)	448.6	(587.9)
July	(587.9)	(479.8)	-	24.0	-	(5.0)	450.8	(597.9)
August	(597.9)	(439.5)	-	2.4	-	(5.1)	457.6	(582.5)
September	(582.5)	(424.2)	-	19.9	(0.1)	(5.0)	461.9	(530.0)
October	(530.0)	(503.6)	-	2.3	-	(4.5)	539.4	(496.4)
November	(496.4)	(626.3)	-	18.0	-	(4.3)	711.0	(398.0)
December	(398.0)	(692.9)	(115.3)	2.8	-	(3.4)	843.9	(362.9)
		<u>\$ (8,076.1)</u>	<u>\$ (115.3)</u>	<u>\$ 85.3</u>	<u>\$ (0.2)</u>	<u>\$ (37.9)</u>	<u>\$ 7,779.6</u>	



**Newfoundland Power Inc.**  
**Cost of Embedded Debt**  
**For The Year Ended December 31, 2001**  
**(000s)**

	<u>December 31 2001</u>	<u>December 31 2000</u>	<u>Total</u>
Bonds	\$ 263,758	\$ 280,158	\$ 543,916
Bank Loans	75,249	19,224	94,473
	<u>\$ 339,007</u>	<u>\$ 299,382</u>	<u>\$ 638,389</u>
Average Debt			<u>\$ 319,195</u>
Interest Expense - 2001 *			<u>\$ 26,927</u>
Cost of Embedded Debt			<u>8.44%</u>
<b>* Interest Expense - 2001</b>			
Interest on Long Term Debt	\$ 26,400		
Bank & Other Interest	1,526		
Amortization of Debt Discount & Expense	161		
	<u>28,087</u>		
Less: Interest on Customer Deposits	50		
Interest Earned	1,110		
	<u>\$ 26,927</u>		
Interest Expense - 2001			<u>\$ 26,927</u>

<b>Newfoundland Power Inc.</b> <b>Capital Structure</b> <b>For The Year Ended December 31, 2001</b> <b>(000s)</b>				
	<b>Average</b>		<b>Year-End</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Debt - Return 16	\$ 319,195	54.63%	\$ 339,007	55.67%
Preference Shares - Return 1	9,800	1.68%	9,709	1.60%
Common Equity - Return 1	255,267	43.69%	260,203	42.73%
	<u>\$ 584,262</u>	<u>100.00%</u>	<u>\$ 608,919</u>	<u>100.00%</u>

<b>Newfoundland Power Inc.</b> <b>Regulated Average Capital</b> <b>For The Year Ended December 31, 2001</b> <b>(000s)</b>		
	<b>Average</b>	
	<b>Amount</b>	<b>Percent</b>
Debt - Return 16	\$ 319,195	54.03%
Preference Shares - Return 1	9,800	1.66%
Common Equity - Return 19	261,753	44.31%
	<u>\$ 590,748</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, 2001</b> <b>(000s)</b>		
Net Income		\$ 29,485
Add: Income Tax - Current	\$ 16,972	
- Adjustments to Prior Years	(3,638)	
- Adjustment for 2000 Excess Revenue Provision	(21)	
- Adjustment for 2001 Excess Revenue Provision	(389)	
- Adjustment for Weather Normalization	806	13,730
Net Income Before Income Taxes		43,215
Add: Depreciation	34,003	
Amortization of Debt Discounts & Expenses	161	
Amortization of Capital Stock Issue Expenses	70	
Business Meals & Related Expenses	217	
Special Pension Liability	207	
Non Deductible Interest Expense	46	
Deferred PUB Expenses	384	
ITC From Previous Year	25	
Small Tools in Excess of \$200	274	
Provision for 2000 Excess Revenue	51	
Provision for 2001 Excess Revenue	948	
Transferred from Weather Normalization Reserve	(1,966)	34,420
		77,635
Less: Capital Cost Allowance	25,588	
Cumulative Eligible Capital	19	
General Expenses Capitalized	3,211	
Gain on Sale of Land	130	
Interest Charged to Construction	347	
Bond Issue Expenses	339	
Difference in Pension Funding and Accounting Costs	9,067	
Repayment of ACOA loan (portion applicable to R&D)	26	38,727
Taxable Income		<u>\$ 38,908</u>
Income Tax - Part 1		16,012
- Part 1.3 Large Corporation Tax		1,394
- Manufacturing & Processing Tax Credit		(434)
		16,972
Adjustment to Prior Years		(3,638)
Adjustment for Excess Revenue Provision		(410)
Adjustment for Weather Normalization		806
Current Income Tax Expense		<u>\$ 13,730</u>

**Newfoundland Power Inc.**  
**Return on Regulated Average Common Equity**  
**For The Year Ended December 31, 2001**  
**(000s)**

	<u>2001</u>	<u>2000</u>
Regulated Common Equity:		
December 31, 2001, As Per Balance Sheet	\$ 260,203	
Add: Non-Regulated Expenses - Net of Income Tax		
As of December 31, 2000	\$ 6,067	
2001 Expense	<u>837</u>	
Total Net Non-Regulated Expenses, December 31, 2001	<u>6,904</u>	
Regulated Common Equity, December 31, 2001	267,107	
Regulated Common Equity, December 31, 2000	256,398	\$ 256,398
Regulated Common Equity, December 31, 1999		248,151
	<u>\$ 523,505</u>	<u>\$ 504,549</u>
<b>Regulated Average Common Equity</b>	<b><u>\$ 261,753</u></b>	<b><u>\$ 252,275</u></b>
Earnings Applicable to Common Shares - Return 1	\$ 28,862	\$ 26,473
Add: Non Regulated Expenses - Net of Income Tax	<u>837</u>	<u>764</u>
Regulated Earnings	<u>\$ 29,699</u>	<u>\$ 27,237</u>
<b>Rate of Return on Regulated Average Common Equity</b>	<b><u>11.35%</u></b>	<b><u>10.80%</u></b>

**Newfoundland Power Inc.**  
**Assessable Revenue**  
**(s. 13 of the *Public Utilities Act*)**  
**2001**  
**(000s)**

Electrical Revenue:

Revenue From Rates	(Return 11)	\$ 352,008 <sup>1</sup>	
Weather Normalization Adjustment	(Return 14)	(5,511)	
		<hr/>	
		346,497	
Municipal Taxes Billed		8,953 <sup>2</sup>	
Revenue Billed - Rate Stabilization Account	(Return 15)	<hr/> 8,076	
Total Electrical Revenue Billed			\$ 363,526
Other Revenue	(Return 11)		7,297
			<hr/>
Assessable Revenue			<hr/> <hr/> \$ 370,823

<sup>1</sup> Revenue from rates has been adjusted by \$948,000 to reflect the provision for excess revenue for 2001.

<sup>2</sup> Municipal taxes billed has been adjusted by \$23,700 to reflect the MTA portion of excess revenue for 2001.