2000 Dominion Bond Rating Service (DBRS) Report

Newfoundland Power Inc.

Current Report: March 31, 2000
Previous Report: March 26, 1999

RATING

Rating	Trend	Rating Action	Debt Rated
"A"	Stable	Confirmed	First Mortgage Bonds
Pfd-2	Stable	Confirmed	Preferred Shares – cumulative, redeemable

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RATING HISTORY (as at Dec. 31)	Current	1999	1998	1997	1996	1995	1994
First Mortgage Bonds	"A"	"A"	"A"	"A"	A (high)	A (high)	A (high)
Preferred Shares	Pfd-2	Pfd-2	Pfd-2	Pfd-2	Pfd-2	Pfd-2	Pfd-2

RATING UPDATE

DBRS is confirming the long-term debt and preferred share credit ratings of Newfoundland Power Inc. at "A" and Pfd-2 respectively, with a Stable trend based on the following considerations. (1) A comparatively strong balance sheet and favourable interest coverage ratios. DBRS expects that the Utility will continue to maintain the equity component of the capital structure at the regulated 45% level. (2) The island's geographic isolation and the unavailability of natural gas should limit competitive pressures as the electricity industry in North America continues to deregulate. (3) Earnings are less volatile than those of other utilities as a result of a weather variance deferral account and an approved ROE formula that allows for periodic rather than annual adjustments. In spite of a generally positive economic outlook, energy demand growth in the province remains relatively low, partially due to high unemployment and emigration. This will limit the Utility's future earnings growth potential. Other challenges Newfoundland Power Inc. must manage include: (1) Relatively high financing costs given some high coupon debt obligations. Early redemption of these particular debt issues remains uneconomic. (2) A $40 million potential future tax liability with respect to disallowed deductions in past years. The Utility may, however, have recourse to recover this liability through an application to the provincial regulator.

RATING CONSIDERATIONS

Strengths:
- Relatively strong balance sheet, 45% deemed equity
- Geographic isolation limits competitive pressures
- Approved ROE formula less sensitive to interest rates
- Weather variance account reduces s-t earnings volatility
- Power purchase costs flowed through to customers

Challenges:
- Industry restructuring increasing competitive pressures
- Low demand growth for electricity
- High coupon debt issues; early redemption uneconomic
- Potential $40 million tax liability

FINANCIAL INFORMATION

	Industry Avg.*	For years ended December 31					
	1998	1999	1998	1997	1996	1995	1994
Fixed Charges Coverage (times)	2.02	2.39	2.33	2.72	2.65	2.60	2.82
Net Debt in Capital Structure (incl debt equiv)	65.1%	56.3%	56.8%	55.1%	54.5%	52.3%	51.7%
Cash Flow/Total Debt (times) (incl debt equiv)	0.12	0.16	0.16	0.18	0.18	0.21	0.22
Cash Flow/Capital Expenditures (times)	0.90	1.19	1.09	1.73	1.84	1.89	1.67
Approved ROE	10.80%	9.25%	9.25%	11.00%	11.00%	13.25%	13.25%
Operating Income ($ millions)	-	67.9	63.5	72.3	68.4	64.1	70.5
Net Income (before extras.) ($ millions)	-	24.1	22.2	28.7	25.8	28.2	27.8
Operating Cash Flows ($ millions)	-	50.4	48.5	49.8	49.3	54.8	54.3
Electricity Sales (millions of kWh)	-	4,500	4,440	4,438	4,425	4,382	4,371

* Weighted average for gas distributors.

THE COMPANY

Newfoundland Power Inc. distributes electricity throughout the island of Newfoundland. The Utility purchases the bulk of its electricity needs from government owned Newfoundland and Labrador Hydro and generates the balance from owned facilities. Newfoundland Power is a wholly owned subsidiary of Fortis Inc.

REGULATION

Newfoundland Power Inc. is regulated by the Newfoundland & Labrador Board of Commissioners of Public Utilities ("PUB"), based on a cost of service methodology. The PUB increased the approved rate of return for 2000 to 9.59% from 9.25% for 1999. A formula based mechanism to adjust approved ROEs based on forecast long Canada bond yields was put into effect during 1999. The key difference between this mechanism and that used in other jurisdictions is that rather than fluctuating every year with the movement in interest rates, ROEs will be adjusted only if they fall outside a specified range. The Utility's deemed equity component remains unchanged at 45%, and is somewhat favourable compared to other regulated utilities in Canada.

RATING CONSIDERATIONS

Strengths: (1) *Strong balance sheet* - Newfoundland Power has one of the strongest balance sheets in the industry. In addition, parent Fortis Inc. is available to potentially provide financial support should the need arise. Debt maturities are well staggered with no repayments required until 2005.

(2) *Approved ROE mechanism reduces earnings sensitivity to interest rates* - The recently implemented mechanism provides for periodic adjustments in the approved ROE rather than annual adjustments directly linked to changes in interest rates. In addition, the formula-based ROE contributes to better earnings predictability and reduced regulatory lag over the long term.

(3) *Weather variance account reduces short-term earnings volatility* - The Utility is permitted to maintain a weather normalization account to adjust for variances in weather and water flows against long-term averages. Although the ultimate impact is small (less than 1.5% of revenues), it provides Newfoundland Power with a mechanism to stabilize earnings, particularly during periods of extreme weather conditions

(4) *All power costs are passed through to customers* - Newfoundland Power is permitted by the PUB to pass on any increase in power costs from Newfoundland and Labrador Hydro to customers.

(5) *Geographic isolation an effective barrier against external competitors* - The unavailability of natural gas also limits competitive pressures.

Challenges: (1) *Restructuring of the electricity industry in North America is increasing pricing pressures* - Although it does not appear to be a priority, the Provincial Government initiated a review of the electricity industry in 1998 that could result in the introduction of competitive elements in the market in the future.

(2) *Low electricity demand growth* - Over the short term, public sector restraint, the slow recovery of northern cod stocks, high unemployment and emigration will all contribute to relatively low demand growth for electricity. Over the longer term, the provincial economic outlook is more positive, given the resource based development and exploration in the region, including the Hibernia, Terra Nova and White Rose oil projects.

(3) *High cost of debt* - The Utility has the highest average coupon on its outstanding long-term debt of all investor-owned utilities. This high debt cost is not likely to change in the near future as there are no debt maturities prior to 2005, and early redemption remains uneconomic.

(4) *Potential $40.3 million tax liability* - In 1995, Revenue Canada issued a Notice of Reassessment disallowing certain deductions made by Newfoundland Power between 1988-93 for tax purposes. The Utility may have recourse to recover the costs through an application to the PUB.

EARNINGS

Net earnings before extraordinary items increased by 8.6% in 1999 to $24.1 million compared to $22.2 million last year. Two factors primarily accounted for the stronger results: (1) Higher electricity sales to the slowly recovering fishing industry and to service the oil based energy projects and; (2) Aggressive cost controls, including staff reductions that resulted in a $1.0 million extraordinary charge.

Outlook: Net earnings in 2000 are expected to improve given the 34 basis point increase in the approved ROE. Although the ongoing fishing moratorium and subsequent emigration are material constraints, the long-term provincial economic outlook is positive and electricity demand growth should also benefit from ongoing resource exploration and development.

FINANCIAL PROFILE

Operating cash flows improved slightly in 1999 along with earnings, but a suspension of common dividends between September 1998 and June 1999 allowed the Utility to reserve cash flows to maintain the equity component of the capital structure near the 45% regulated limit.

Stronger earnings during 1999 contributed to a slight improvement in interest coverage ratios. The slightly positive trend should continue in 2000.

Outlook: Capital expenditures are expected to remain in the $40 million range over the next few years, with initiatives underway to improve system reliability. While cash flows should improve slightly in 2000, the Utility may require a small amount of external financing now that common dividend payments have been resumed. DBRS expects that the Utility will manage its capital structure to maintain the debt-to-equity ratio in the 55% range.

OPERATING LINES OF CREDIT

180 ~~$80~~ million of uncommitted bank operating lines of credit.

DEBT MATURITY SCHEDULE

There are no debt maturities prior to 2005, although sinking fund requirements and installment payments amount to $3.050 million annually in each of the next five years.

Newfoundland Power Inc.

Balance Sheet
($ millions)

	As at December 31				As at December 31		
Assets:	1999	1998	1997	Liabilities & Equity:	1999	1998	1997
Cash + equivalents	0.0	0.0	0.0	S-T debt	19.6	5.0	30.6
Accounts rec	33.1	33.0	36.9	A/P + accr'd liab	52.6	55.0	57.6
Materials + supplies	5.5	3.7	3.7	LTD due in 1 year	3.1	3.1	2.6
Prepaids + stab acct	4.8	4.5	3.9	Current Liabilities	75.2	63.1	90.7
Current Assets	43.4	41.2	44.5	Def'd credits	12.2	15.0	17.1
Corp tax deposit	15.6	15.6	15.6	Long-term debt	280.2	283.2	236.3
Net fixed assets	519.7	507.4	491.8	Preferred shares	9.9	9.9	9.9
Deferred charges	41.7	36.5	29.6	Shlders' equity	242.8	229.5	227.5
Total	620.3	600.7	581.5	Total	620.3	600.7	581.5

Ratio Analysis

	For years ended December 31							
Liquidity Ratios	1999	1998	1997	1996	1995	1994	1993	1992
Current Ratio	0.58	0.65	0.49	0.53	0.49	0.60	0.77	0.86
Accumulated depreciation/Gross fixed assets	42.3%	41.7%	41.6%	40.3%	38.9%	37.0%	35.2%	33.5%
Cash flow/Total debt (incl debt equiv)	0.16	0.16	0.18	0.18	0.21	0.22	0.23	0.21
Cash flow/Capital expenditures (1)	1.19	1.09	1.73	1.84	1.89	1.67	1.69	1.32
Cash flow-dividends/Capital expenditures (1)	0.97	0.65	0.91	0.58	1.27	0.77	1.19	0.93
Net debt in capital structure (incl debt equiv)	56.3%	56.8%	55.1%	54.5%	52.3%	51.7%	50.5%	53.5%
Average coupon on l-t debt	9.66%	9.66%	10.26%	10.26%	10.54%	10.67%	10.67%	10.67%
Common equity in capital structure	43.7%	43.2%	44.9%	45.5%	47.7%	48.1%	48.5%	45.7%
Deemed equity	45%	45%	45%	45%	45%	45%	45%	45%
Common dividend payout (before extras.)	40.5%	90.9%	84.0%	134.3%	65.0%	108.4%	59.2%	56.6%
Coverage Ratios (2)								
EBIT interest coverage	2.45	2.39	2.80	2.72	2.64	2.92	2.92	2.87
EBITDA interest coverage	3.52	3.45	3.84	3.77	3.83	4.08	4.04	3.98
Fixed charges coverage (3)	2.39	2.33	2.72	2.65	2.60	2.82	2.69	2.56
Earnings Quality / Operating Efficiency								
Power purchases/Revenues	56.3%	57.0%	55.5%	56.2%	56.4%	55.7%	55.8%	53.7%
Operating margin	19.9%	18.9%	21.0%	20.0%	18.9%	20.8%	21.1%	20.3%
Net margin (before extras.) (after pfd)	6.9%	6.4%	8.2%	7.4%	8.2%	8.0%	8.3%	8.4%
Return on avg equity (before extras.)	9.9%	9.4%	12.4%	10.9%	12.0%	12.0%	12.6%	13.4%
Approved ROE (mid point)	9.25%	9.25%	11.00%	11.00%	13.25%	13.25%	13.25%	13.25%
GWh sold/Employee	6.5	6.3	6.3	5.5	5.3	5.4	5.3	4.5
Customers/Employee	307	301	299	260	251	254	247	209
Degree days (% normal)	85%	93%	103%	94%	101%	101%	107%	108%
Rate base (millions)	$506	$488	$477	$473	$470	$465	$460	$450
Generating Capacity								
Installed capacity (Megawatts)	148	148	147	147	147	147	147	147
Generated	450	429	424	423	423	420	420	417
Purchased	4,292	4,259	4,244	4,236	4,186	4,178	4,093	4,066
Energy generated + purchased (GWh)	4,742	4,688	4,668	4,659	4,609	4,598	4,513	4,483
LESS: Transmission losses + internal use	242	248	230	234	227	227	227	239
Total (GWh sold)	4,500	4,440	4,438	4,425	4,382	4,371	4,286	4,244
Energy sales growth	1.4%	0.0%	0.3%	1.0%	0.3%	2.0%	1.0%	1.1%
Energy lost + used/Energy gen + purch	5.1%	5.3%	4.9%	5.0%	4.9%	4.9%	5.0%	5.3%
Peak demand (Megawatts)	1,025	1,063	996	1,123	1,031	1,098	1,026	1,100

(1) Capital expenditures are net of customer contributions.
(2) Before capitalized interest, AFUDC, debt amortizations and interest income.
(3) Includes interest income.

Newfoundland Power Inc.

Income Statements ($ millions)	For years ended December 31 1999	1998	1997	1996	1995	1994	1993	1992
Revenues:								
Residential	203.3	198.4	203.4	199.7	197.1	196.2	192.3	-
General Service	136.4	134.5	137.3	138.2	138.2	138.0	136.7	-
Electricity revenues	339.7	332.9	340.7	337.9	335.3	334.2	329.0	325.3
Other	2.3	2.9	3.0	3.6	3.6	4.1	4.5	4.9
Total revenues	342.0	335.8	343.7	341.6	338.9	338.4	333.6	330.2
Expenses:								
Power purchases	192.7	191.5	190.6	192.1	191.1	188.4	186.1	177.4
Operating + administration	51.7	52.6	53.9	54.6	54.8	51.2	50.1	59.9
Fuel	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Depreciation	29.6	28.1	26.8	26.3	28.9	28.1	26.9	25.9
Total operating costs	274.1	272.3	271.4	273.2	274.8	267.8	263.2	263.3
Operating income	67.9	63.5	72.3	68.4	64.1	70.5	70.3	67.0
LESS: Interest expense	27.7	26.6	25.8	25.2	24.3	24.2	24.1	23.3
Other financial charges	(0.2)	(0.3)	0.0	0.1	0.1	0.2	0.1	0.1
Interest/dividend income	(1.1)	(1.0)	(0.9)	(1.2)	(1.7)	(1.4)	(1.7)	(1.8)
Net interest costs	26.5	25.2	24.9	24.0	22.7	23.0	22.5	21.6
Net income before taxes	41.4	38.2	47.4	44.4	41.4	47.5	47.8	45.3
Income taxes	17.4	16.0	18.7	18.6	13.1	19.7	18.7	15.7
Net income before extras.	24.1	22.2	28.7	25.8	28.2	27.8	29.2	29.6
LESS: Extraordinary items	0.6	0.0	3.1	0.0	0.0	0.0	0.0	0.0
Net income	23.5	22.2	25.6	25.8	28.2	27.8	29.2	29.6
Preferred dividends	0.6	0.6	0.6	0.6	0.6	0.7	1.5	1.9
Net income available to common shldrs	22.9	21.6	24.9	25.1	27.6	27.1	27.7	27.7
Net income	22.9	21.6	24.9	25.1	27.6	27.1	27.7	27.7
Depreciation	29.6	28.1	26.8	26.3	28.9	28.1	26.9	25.9
Other non-cash adjustments	(2.1)	(1.2)	(1.9)	(2.2)	(1.8)	(0.9)	1.4	(0.4)
Operating Cash Flow	50.4	48.5	49.8	49.3	54.8	54.3	56.0	53.2
LESS: Common dividends	9.5	19.6	23.6	33.8	18.0	29.4	16.4	15.7
Capital expenditures (net of contrib)	42.4	44.4	28.8	26.8	29.0	32.5	33.2	40.3
Cash before working capital changes	(1.4)	(15.5)	(2.5)	(11.2)	7.8	(7.6)	6.4	(2.8)
LESS: Working capital	4.6	(0.6)	1.6	(10.1)	6.7	2.1	(7.6)	(5.5)
Free Cash Flow	(6.1)	(14.8)	(4.2)	(1.1)	1.1	(9.6)	14.1	2.7
LESS: Other investments	5.5	6.3	4.0	12.3	17.5	2.3	1.4	2.9
PLUS: Net financing	8.5	16.3	12.3	12.6	14.4	4.4	(10.8)	7.4
Net Change in Cash Flows	(3.1)	(4.8)	4.1	(0.8)	(2.1)	(7.5)	1.9	7.1
Electricity Sold - Breakdown								
Residential	2,672	2,652	2,669	2,635	2,600	2,594	2,540	2,509
General Service	1,828	1,788	1,769	1,790	1,782	1,777	1,746	1,735
Total - GWh sold	4,500	4,440	4,438	4,425	4,382	4,371	4,286	4,244