

1997 Canadian Bond Rating Service (CBRS) Report

December 24, 1997

(For subsequent rating information, please refer to the CBRS Quarterly Update report.)

Volume II - Utilities - Gas & Electrical

Filing Instructions: Replaces Credit Analysis dated Oct. 7, 1996

RATING OPINION

CBRS has reaffirmed the ratings on Newfoundland Light and Power's (Newfoundland Power) securities and stable rating outlook. The first mortgage bonds remain at single A and the preferred shares are maintained at P-2(High).

Newfoundland Power's good quality ratings reflect its relatively low market risk, good operating performance and stable financial position. Partially offsetting factors include the company's relatively small size (compared to other utilities rated single "A"), high electric rates and weak franchise area. The province of Newfoundland has been amongst the lowest rated provincial credit in Canada (currently rated BBB with a Negative rating outlook) while the outlook is for continued low growth over the intermediate term, thereby impacting the company's rate base and revenue growth. The company's business risk remains relatively high, as the provincial economy's dependency on the natural resources and fisheries industry continues to hamper economic growth. In addition, the completion of construction at Hibernia's Bull Arm site earlier in the year will result in a decline in economic output in 1997 versus the previous year. Also, delays in the start up of the Voisey's Bay Nickel project in Labrador will impact economic activity in the near term. To partly offset the higher risk primarily associated with the provincial economic base, Newfoundland Power has traditionally maintained a strong level of financial ratios, which measure at the upper range of our financial benchmarks and are necessary to maintain its good quality credit standing.

Along with the continued weakness in the provincial economy, strong competition from oil and propane gas and improved energy efficiencies has resulted in slow sales growth in recent years. These factors combined with electricity rates that are already amongst the highest in the country, have forced Newfoundland Power to contain its consumer rates. As a result, notwithstanding minor annual adjustments for the Rate Stabilization Plan, basic electricity rates have remained relatively constant in recent years. Despite these challenges, Newfoundland Power has been able to maintain its financial performance due to its downsizing initiatives and strict control over operating expenses and capital expenditures.

Overall, the company's profitability, coverage and capitalization ratios continue to measure within the parameters of the current rating category, while the near term operating and financial outlook remains stable. Although, low sales growth and relatively flat earnings are expected to persist, strict control over operating expenses, low capital expenditure requirements combined with good cash flow should allow the company to maintain a sound balance sheet and satisfactory level of coverage ratios.

Capital expenditures have declined in recent years due to low load growth, and should average about \$25 to \$30 million annually over the intermediate term (excluding investment in any

CREDIT RATINGS

First Mortgage Bonds A
Preferred Shares P-2(High)

Rating Outlook: *Stable*.

PRELIMINARY RESULTS - Nine Months Ended Sept. 30

(\$000's)	1997	1996
Revenues	259.0	257.8
EBITDA	78.4	78.6
Net Earnings	22.8	23.7
Total Debt	263.1	255.1
EBITDA Margin	30.3%	30.5%
Net Margin	8.8%	9.2%
EBITDA Interest Cov.	4.2x	4.4x
Pre-tax Interest Coverage	3.1x	3.3x
Debt Ratio	52%	52%

CORPORATE PROFILE

Newfoundland Power, a wholly owned subsidiary of Fortis Inc., is the principal distributor of electricity in the Province of Newfoundland, providing service to more than 210,000 customers, representing approximately 85% of the electrical consumers in the Province. The customer base consists primarily of residential and small commercial establishments. The balance of the population live in more remote areas served by Newfoundland and Labrador Hydro ("Hydro"), a Crown Corporation which also serves several large industrial customers.

Newfoundland Power owns and operates 32 small generating plants, with a total installed capacity of about 141.2 MW. The company also owns some 2,100-km of transmission lines and 7,700-km of distribution lines. The company generates about 10% of the energy sold to its customers, and purchases the balance from Hydro. Newfoundland Power is regulated by the Board of Commissioners of Public Utilities of Newfoundland (PUB).

new plant facilities). The company expects to finance future capital expenditures primarily with internally generated funds. Capital spending will primarily be used to maintain the existing electrical system and enhancing its reliability. Also, in 1997, the company began construction of a 6.1 MW hydroelectric plant near Port Aux Basques, on the Province's southwest coast at a cost of approximately \$13 million. In addition to reducing the amount of energy purchased from Hydro, this plant will improve reliability for its customers in that area.

Good cash flow generating capabilities combined with a modest capital spending program and no major refinancing

Analysis

requirements except for the terming out of some short-term debt will result in little external borrowing activity over the intermediate term. In addition, the Company has \$300 million in operating and short-term money market lines of credit available for short term liquidity purposes. In June 1997, the company paid a \$5 million special dividend to Fortis Inc. to maintain the common equity component of Newfoundland Power's capital structure within regulated limits. Since 1994, the company has paid \$32.5 million in special dividends to Fortis. The PUB ordered that, for the purpose of determining the regulated return, the average common equity cannot exceed 45%.

Competition: The space and water heating markets continue to face competition from other energy sources, with the oil companies, in particular, attempting to convert people away from electricity. Currently, both low oil prices combined with traditionally high electricity rates in Newfoundland, have compelled Newfoundland Power to control costs and deliver reliable service while holding the line on consumer rates. Electric rates in Newfoundland are amongst the highest in Canada, and therefore, the company's principal objective is to minimize future power rate increases. Since 1991, the company has had the second lowest increase in electrical rates in Canada, including annual adjustments on July 1st of each year reflecting the operation of the Rate Stabilization Plan. The average cost of electricity to customers is approximately 7.7 cents per kWh. Of this, 55% is attributable to the expense of purchased power from Newfoundland and Labrador Hydro ("Hydro") and 15% is attributable to finance charges. The remaining 30% is related to the cost of operations within Newfoundland Power. Although the commodity cost of oil is currently cheaper than electricity for space and water heating, electricity still remains the preferred choice for most applications, due to the cheaper capital cost of an electric heating system. Newfoundland Power continues to capture over 70% of the new housing market, and currently services over 50% of the total heating market in the province.

RATING HISTORY

First Mortgage Bonds

1981-present	A
1972-80	B++

Preferred Shares

Sept/90 -present	P-2(High)
1983-90	P-2

POWER SUPPLY

Newfoundland Power purchases approximately 90% of its requirements from Newfoundland and Labrador Hydro and obtains the remainder from its own generating facilities. The Board of Commissioners of Public Utilities of Newfoundland regulates the principal terms governing Hydro's supply of power to the company.

REGULATORY MATTERS

The company is regulated under the provisions of The Public Utilities Act (Newfoundland) in respect of rates, capital expenditures, issuance of securities, terms of service and related matters. The company operates under traditional rate of return regulation whereby rates to customers are based on the cost of providing service, including a reasonable return.

In a 1996 Decision, the Board of Commissioners of Public Utilities of Newfoundland determined that the allowed return on average common equity should be in the range of 10.75% to 11.25%. It also approved an increase in rates of approximately 1.0% effective January 1, 1997, based on a rate of return on average common equity of 11.0%.

PREFERRED SHARES (AS AT DEC 31, 1996)

SER	DESCRIPTION	DIVIDEND	FREQ	CURR	ISSUED	SHARES O/S	O/S\$ (000)	TRADING	RATING
A	CUM. RED. VOT. 1st PREF.	5.50%	Q	CDN	1956	179,225	1,792	MTL	P-2(High)
B	CUM. RED. VOT. 1st PREF.	5.25%	Q	CDN	1956	337,983	3,380	MTL	P-2(High)
D	CUM. RED. VOT. 1st PREF.	7.25%	Q	CDN	1973	229,765	2,298	CDN	P-2(High)
G	CUM. RED. VOT. 1st PREF.	7.60%	Q	CDN	1979	241,950	2,420	TO/MTLV	P-2(High)

LONG TERM DEBT (AS AT DEC 31, 1996)

SER	TYPE	CUSIP	CPN	MATURITY	CURR	FREQ	DAY CNT	ISSUED	O/S(MM)	OPTIONS	LEAD	RATING
AB	FMB	6513508U7	11.500	01-Dec-2005	C\$	S	ACT/ACT	1985	14.1	PP/CALL/SF	ML	A
AC	FMB	651350BC3	11.875	16-Dec-2007	C\$	S	ACT/ACT	1987	35.9	CALL/SF	WG	A
AD	FMB	651350BD1	10.550	01-Aug-2014	C\$	S	ACT/ACT	1989	35.8	CALL/SF	WG	A
AE	FMB	651350BE9	10.900	02-May-2016	C\$	S	ACT/ACT	1991	38.0	CALL/SF	WG	A
AF	FMB	651350BF6	10.125	15-Jun-2022	C\$	S	ACT/ACT	1992	38.4	CALL/SF	WG	A
AG	FMB	651350BG4	9.000	01-Oct-2020	C\$	S	ACT/ACT	1992	39.2	CALL/SF	WG	A
AH	FMB	651350BH2	8.900	07-May-2026	C\$	S	ACT/ACT	1996	40.0	CALL/SF	WG	A

Protective Covenants - First Mortgage Bonds

- Negative Pledge
- New Issue Test:

Earnings Test - No Additional Bonds shall be issued unless the Net Earnings of the Company for the Earnings Period selected by the Directors shall have been at least 2.0 times the maximum annual

interest charges on all Bonds to be outstanding after the proposed issue of Additional Bonds.

Additional Property Test - Additional Bonds shall not be issued in an aggregate principal amount which shall exceed 60% of the Fair Value of Additional Property.

NEWFOUNDLAND LIGHT & POWER CO. LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

For the Period Ending December 31 (\$ 000s)

	1992	1993	1994	1995	1996
REVENUE					
Sales	344,293	329,024	334,224	335,334	337,930
Other Income	1,773	6,259	5,535	5,280	4,875
	346,066	335,283	339,759	340,614	342,805
EXPENSES					
Operating Expenses	251,384	236,305	239,707	245,946	246,849
Depreciation & Amortization	25,878	26,921	28,141	28,896	26,314
Interest - Long Term Debt	21,319	23,563	23,473	22,559	23,867
- Other	2,082	645	891	1,860	1,388
Allowance for Funds	0	0	0	0	0
Other Expenses (Net)	18	0	0	0	0
	300,681	287,434	292,212	299,261	298,418
PRE-TAX INCOME	45,385	47,849	47,547	41,353	44,387
Income Taxes	15,723	18,667	19,745	13,120	18,617
Minority Interest	0	0	0	0	0
Unusual Items	0	0	0	0	0
Equity in Earnings	0	0	0	0	0
NET EARNINGS (LOSS)	29,662	29,182	27,802	28,233	25,770

TRENDS

Compound Annual Growth

1YR	3YR	5YR
0.8%	0.9%	0.6%
-7.7%	-8.0%	25.3%
0.6%	0.7%	0.7%
0.4%	1.5%	0.5%
-8.9%	-0.8%	1.4%
5.8%	0.4%	3.3%
-25.4%	29.1%	-13.0%
N/A	N/A	N/A
N/A	N/A	N/A
-0.3%	1.3%	0.7%
7.3%	-2.5%	0.8%
41.9%	-0.1%	4.7%
N/A	N/A	N/A
N/A	N/A	N/A
N/A	N/A	N/A
-8.7%	-4.1%	-1.5%

CONSOLIDATED BALANCE SHEET

As at December 31 (\$ 000s)

ASSETS

	1992	1993	1994	1995	1996
CURRENT ASSETS					
Cash & Short Term Investments	7,610	9,543	2,080	0	0
Accounts Receivable	33,291	31,914	36,303	38,052	32,630
Inventories	4,897	4,192	4,416	4,236	4,293
Other	12,132	8,478	7,569	6,921	5,169
TOTAL CURRENT ASSETS	57,930	54,127	50,368	49,209	42,092
Fixed Assets (Net)	477,711	483,220	489,400	489,418	489,552
Investments	0	0	0	0	0
Other Assets	11,393	11,817	13,204	29,923	41,894
TOTAL ASSETS	547,034	549,164	552,972	568,550	573,538

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES					
Short Term Debt	11,275	12,288	24,351	46,020	22,428
Accounts Payable	47,597	44,918	48,955	45,465	43,913
Other	8,452	13,098	10,714	8,397	12,964
TOTAL CURRENT LIABILITIES	67,324	70,304	84,020	99,882	79,305
Long Term Debt	218,906	216,631	207,706	201,323	238,773
Deferred Income Taxes	8,360	7,097	5,689	3,053	1,668
Minority Interest	0	0	0	0	0
Other Liabilities	17,244	18,173	19,557	19,623	17,745
SHAREHOLDERS' EQUITY					
Share Capital - Preferred	22,296	10,905	10,902	9,890	9,890
- Common	67,172	69,007	70,321	70,321	70,321
Retained Earnings	145,732	157,047	154,777	164,458	155,836
	235,200	236,959	236,000	244,669	236,047
TOTAL LIABILITIES & EQUITY	547,034	549,164	552,972	568,550	573,538

SELECTED SOURCES AND USES OF FUNDS

For the Period Ending December 31 (\$ 000s)

	1992	1993	1994	1995	1996
Cash Flow From Operations	54,740	57,079	54,752	55,111	49,667
Proceeds from L.T. Debt	78,973	0	0	0	39,486
Proceeds from Equity Issues	1,758	1,835	1,314	0	0
Sales of Investments/Assets	0	0	0	0	0
Capital Expenditure (Net)	40,327	34,072	36,048	30,759	28,203
Investments/Acquisitions	0	0	0	0	0
Repayment of Debt	56,505	2,281	1,875	13,558	2,150
Conversion/Redemption of Pfd. Shares	7,593	11,391	3	925	0
Dividends Paid	17,598	17,867	30,072	18,552	34,392
Net Change in Working Capital	50,340	(6,783)	(17,475)	(17,021)	13,460

1YR	3YR	5YR
-9.9%	-4.5%	-1.3%
N/A	N/A	0.0%
N/A	N/A	N/A
N/A	N/A	N/A
-8.3%	-6.1%	-7.9%
N/A	N/A	N/A
-84.1%	-2.0%	-17.0%
N/A	N/A	N/A
85.4%	24.4%	14.2%
N/A	N/A	N/A

NEWFOUNDLAND LIGHT & POWER CO. LIMITED

	CAPITALIZATION (\$ 000,000s)									
	1992 %		1993 %		1994 %		1995 %		1996 %	
Short Term Debt	11.3-	2%	12.3-	3%	24.4-	5%	46.0-	9%	22.4-	4%
Long Term Debt	218.9-	46%	216.6-	46%	207.7-	44%	201.3-	41%	238.8-	48%
Deferred Taxes	8.4-	2%	7.1-	2%	5.7-	1%	3.1-	1%	1.7-	0%
Minority Interest	0.0-	0%	0.0-	0%	0.0-	0%	0.0-	0%	0.0-	0%
Equity - Preferred	22.3-	5%	10.9-	2%	10.9-	2%	9.9-	2%	9.9-	2%
- Common	212.9-	45%	226.1-	48%	225.1-	48%	234.8-	47%	226.2-	45%
TOTAL	473.7-	100%	473.0-	100%	473.7-	100%	495.1-	100%	498.9-	100%

FINANCIAL RATIOS

COVERAGE RATIOS

Net Tangible Assets	2.0x	2.1x	2.1x	2.1x	1.9x
Total Debt:Equity	49:51%	49:51%	50:50%	50:50%	53:47%
Interest Coverage	2.9x	2.9x	2.9x	2.7x	2.7x
Cash Flow % Total Debt	23.8%	24.9%	23.6%	22.3%	19.0%
Preferred Dividend Coverage	15.4x	19.7x	39.0x	47.5x	41.2x
Pft. & Common Dividend Coverage	1.7x	1.6x	0.9x	1.5x	0.7x
All Fixed Charges	2.6x	2.7x	2.8x	2.6x	2.6x

LIQUIDITY RATIOS

STD % Total Debt	4.9%	5.4%	10.5%	18.6%	8.6%
Current Liabilities % Revenue	19.5%	21.0%	24.7%	29.3%	23.1%
Available Cash Flow % Construction	-66.8%	75.0%	63.3%	71.8%	46.5%

PROFITABILITY RATIOS

Net Margin	8.6%	8.9%	8.3%	8.4%	7.6%
Asset Turnover	0.63x	0.60x	0.60x	0.59x	0.59x
E.B.I.T. % of Total Assets	12.2%	13.0%	12.8%	11.2%	11.9%
Return on Avg. Common Equity	13.5%	12.6%	12.0%	12.0%	10.9%

OTHER STATISTICS

	1992	1993	1994	1995	1996
REGULATORY DATA					
Average rate base (\$ millions)	450.4	459.6	465.3	469.7	473.1
Return on avg. rate base	11.43%	11.37%	10.97%	10.94%	10.63%
OPERATING STATISTICS					
Sources of energy (in millions of kWh)					
Purchased	4,066	4,093	4,178	4,186	4,236
Generated	417	420	420	423	423
Total	4,483	4,513	4,598	4,609	4,659
Sales (in millions of kWh)					
Residential	2,509	2,540	2,594	2,600	2,635
Commercial and street lighting	1,735	1,746	1,777	1,782	1,790
Total	4,244	4,286	4,371	4,382	4,425
Customers (year-end)	199,292	202,246	205,716	207,780	210,161
Annual degree days - % normal	108	107	101	101	94
Number of employees	950	815	807	805	805

NEWFOUNDLAND LIGHT & POWER CO. LIMITED

Head Office:
55 Kenmount Road
P.O. Box 8910
St. John's, Nfld.

Inquiries: Karl W. Smith
V.P. Finance & CFO
Tel: (709) 737-2488
Fax: (709) 737-5832

For more information on this report, contact:

Damian Di Perna, CBRS Inc. (Toronto)
Tel: (416) 956-4870 Fax: (416) 956-4902
or
Zaheer H. Khan, CBRS Inc. (Montreal)
Tel: (514) 937-8239 Fax: (514) 937-0676