1999 Canadian Bond Rating Service (CBRS) Report

NEWFOUNDLAND POWER INC.

November 30, 1999 — Volume II – Utilities – Gas & Electric

	Current Ratings	Rating Outlook	Rating Status
First Mortgage Bonds	A(Low)	Stable	Reaffirmed
Preferred Shares	P-2	Stable	Reaffirmed

***Filing Instructions:** Replaces all previous credit reports and credit news.*

RATING OPINION

CBRS' has reaffirmed the ratings on Newfoundland Power's First Mortgage Bonds and Preferred Shares at **A(Low)** and **P-2,** respectively following completion of our 1999 annual review. The rating outlook remains **Stable**.

- In reaffirming the good quality ratings of Newfoundland Power, CBRS considered a number of factors which include, but are not limited to, the following:

CBRS RATING SUMMARY

Credit Strengths

- Regulated electric distribution utility with little generation exposure
- sound operating performance
- Improved competitive position due to rising oil prices
- Strong economic growth in Newfoundland
- Modest projected growth in electric sales

Credit Risks

- Uncertainty regarding deregulation and outcome of the Energy Review Policy
- Increased leverage
- Reduced earnings resulting primarily from a lower regulated return
- Reduced coverage ratios
- Dependency on Newfoundland and Labrador Hydro for 90% of its energy requirements
- Possible tax liabilities could impact future earnings performance

Credit Evaluation

The company's operating metrics are improving, which should lead to modest improvements in its earnings performance in the near future. In addition, moderate capital expenditure requirements combined with good cash flow should allow the company to maintain a sound balance sheet and satisfactory level of coverage ratios required to maintain its present ratings.

Key Ratios

	1998	1997	1996	1995
Interest Coverage	2.4x	2.7x	2.7x	2.7x
EBITDA Int. Coverage	3.5x	3.7x	3.8x	3.8x
Cash flow/Total Debt	16.7x	18.6%	19.0%	22.3%
Total Debt : Equity	55:45%	53:47%	53:47%	50:50%
Return on Equity	9.4%	11.0%	10.9%	12.0%

- Newfoundland Power is the principal distributor of electricity in the province serving 85% of all electrical customers. The company generates approximately 10% of its energy requirements and purchases the remaining 90% from provincially owned Newfoundland and Labrador Hydro (Hydro). This makes Newfoundland Power a captive customer of Hydro's electric power and exposes the company to uncontrollable rate increases.

- The company's financial profile has gradually weakened since 1995. Net earnings declined from $28.2 million in 1995 to $22.2 million in 1998. The debt:equity ratio increased from 50:50% to 55:45% while the interest coverage ratio declined from 2.7x to 2.4x. As well, the cash flow/total debt ratio dropped from 22% to about 17% in 1998. The company's weakening credit profile is attributable to slow to flat growth in energy sales and lower electric rates in 1998 – the outcome of the PUB decision to lower the company's allowed ROE to 9.25% from 11%. In response to the company's weakening credit profile, CBRS downgraded the first mortgage bonds and preferred shares in 1998.

- Based on Newfoundland Power's current ratings, the capital structure and the level of coverage ratios are considered satisfactory and measure within the parameters of the current rating category.

- Although, the deregulation of the Canadian electric industry is on going, Newfoundland Power remains somewhat sheltered due to its remote geography and population characteristics. The company does face competition in the space and water heating markets from other energy sources, however, the recent rise in oil prices has helped reduce this concern somewhat.

- The provincial government's Energy Policy Review will examine five elements which affect Newfoundland Power's business including: legislation and regulation; existing electrical industry structure; pricing; electrical supply in the province; and electricity as a tool for economic development. This review process may result in a fundamental shift in

220 Bay Street, Suite 901, Toronto, Ontario M5J 2W4 - Tel.: (416) 956-4870 Fax: (416) 956-4902 E-Mail: info@cbrs.com Website www.cbrs.com

the company's business, thereby resulting in some uncertainty and increased risk profile.

RATING OUTLOOK STABLE

The strong growth experienced by the Newfoundland economy in 1998 will continue in 1999 and 2000. The Conference Board of Canada predicts Newfoundland will lead the country in growth in 1999 with a real GDP of 5.6%. This growth will be led by the goods-producing sector, particularly the mining and offshore oil industries. Rising oil prices and steadily increasing oil production at Hibernia and the development of the Terra Nova oil field are the principal contributors to this growth. The fishing industry also contributed to growth in 1998 based on a limited cod fishery and higher quotas for both crab and shrimp. Despite the strong economy, lack of customer diversity, flat to declining population base and limited expansion opportunities will limit the company's ability to materially grow its rate base and revenue sources.

The strong provincial economy and the rise in oil prices has improved Newfoundland Power's prospects and competitive position. The company is projecting sales growth of about 1.5% in 1999 and modest improvements in net earnings. The company's capitalization and interest coverage ratios are projected to remain comparable to 1998 levels.

In prior years, the company was challenged by a raditionally weak franchise area, high electric rates and slow sales growth. In addition, low oil prices also challenged the company's competitive position. As a result, the company was forced to minimize electric rate increases and maintain strict control over operating expenses – in order to maintain its market share and financial position. Over the past ten years, operating costs have remained stable despite a 16% increase in the number of customers served. In 1998, some of the company's operating metrics started to improve, which should lead to modest improvements in its earnings performance in the near future. In addition, moderate capital expenditure requirements combined with good cash flow should allow the company to maintain a sound balance sheet and satisfactory level of coverage ratios required to maintain its present ratings.

DEBT STRUCTURE/LIQUIDITY

The Company maintains good cash flow generating capabilities, which combined with a modest capital spending program and no major refinancing requirements except for the terming out of some short-term debt should result in little external borrowing activity and little change to its capitalization ratios over the intermediate term. In addition, the Company has $220 million in operating and short-term money market lines of credit available for short term liquidity purposes.

CAPITAL PLAN

Net capital expenditures were $45 million in 1998 compared to $31 million in 1997. This increase is mainly attributable to a $13 million investment in the construction of a 6.1Megawatt hydroelectric plant at Rose Blanche Brook on the southwest coast of Newfoundland. The Rose Blanche Hydroelectric Plant, became commercially available in December 1998 and is the first generating facility constructed by the company in 14 years. The company's 1999 capital program is budgeted at $40 million and will focus on increasing customer service through improved electrical system reliability and

Preferred Shares (At Dec. 31, 1998)

SER	DESCRIPTION	DIVIDEND	FREQ	CRNCY	ISSUED	SHARE O/S	O/S($MM)	TRADING	RATING
A	CUM. RED. VOT. 1ST PREF.	5.50%	Q	CDN	1956	179,225	1.8	MTL	P-2
B	CUM. RED. VOT. 1ST PREF.	5.25%	Q	CDN	1956	337,983	3.4	MTL	P-2
D	CUM. RED. VOT. 1ST PREF.	7.25%	Q	CDN	1973	229,765	2.3	CDN	P-2
G	CUM. RED. VOT. 1ST PREF.	7.60%	Q	CDN	1979	241,950	2.4	TO/MTL/V	P-2

Long Term Debt (At Dec. 31, 1998)

SER	TYPE	CUSIP	CPN	MATURITY	CRNCY	FREQ	DAY CNT	ISSUED	O/S($MM)	OPTION	LEAD	RATING
AB	FMB	6513508U7	11.500	01-Dec-2005	C$	S	ACT/ACT	1985	13.8	PP/CALL/SF	ML	A(Low)
AC	FMB	651350BC3	11.875	16-Dec-2007	C$	S	ACT/ACT	1987	35.1	CALL/SF	WG	A(Low)
AD	FMB	651350BD1	10.550	01-Aug-2014	C$	S	ACT/ACT	1989	35.0	CALL/SF	WG	A(Low)
AE	FMB	651350BE9	10.900	02-May-2016	C$	S	ACT/ACT	1991	37.2	CALL/SF	WG	A(Low)
AF	FMB	651350BF6	10.125	15-Jun-2022	C$	S	ACT/ACT	1992	37.6	CALL/SF	WG	A(Low)
AG	FMB	651350BG4	9.000	01-Oct-2020	C$	S	ACT/ACT	1992	38.4	CALL/SF	WG	A(Low)
AH	FMB	651350BH2	8.900	07-May-2026	C$	S	ACT/ACT	1996	39.2	CALL/SF	WG	A(Low)
AI	FMB		6.800	- 2028	C$	S	ACT/ACT	1998	50.0	CALL/SF	WG	A(Low)

PROTECTIVE COVENANTS – FIRST MORTGAGE BONDS

- Negative Pledge
- New Issue Test:

arnings 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 charge 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.

enhanced power quality. The company's capital program will be financed using internally generated funds, and as a result we do not expect any material change to the company's capitalization ratios.

In March 1998, Newfoundland Power paid a $10 million special dividend on its common shares to Fortis Inc. Meanwhile in mid-1998, the company suspended the payment of regular dividends (for four consecutive quarters) due to the unfavourable outcome of its 1998 PUB rate decision. These actions were used to maintain the common equity component of the company's capital structure close to the 45% maximum allowed by the PUB.

Operations

For the nine-month period ended September 30, 1999, energy sales were 3,371 GWh, a 1.2% percent increase over the same period last year. This growth was primarily due to the improved Newfoundland economy and a 0.8% increase in the number of customers. Revenue for the period was $255.9 million, 1.8% higher than for the corresponding period in 1998. Revenue growth was primarily driven by an average 1.0% increase in electricity rates, effective February 1, 1999, combined with increased energy sales. Earnings for the nine month period were $18.6 million, a $0.8 million increase over the same period in the previous year.

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. Despite the increased competitive threat, Newfoundland Power continues to maintain its strong market share position by controlling cost and delivering reliable service while holding the line on consumer rates. As a result, the company continues to capture over 70% of the new housing market, and currently services over 50% of the total heating market in the province. In addition, the recent rise in oil prices has reinforced the choice of electricity has the preferred choice for most applications.

Electric rates in Newfoundland are amongst the lowest in Atlantic Canada but high when compared to the rest of the country, and therefore, the company's principal objective is to minimize future power rate increases. 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 and 15% is attributable to finance charges. The remaining 30% is related to the cost of operations within Newfoundland Power.

Power Supply

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

Rating History

First Mortgage Bonds	
Oct 1998 – present	A(Low)
1981 – Oct 1998	A
1972 – 1980	B++
Preferred Shares	
Oct 1998 – present	P-2
Sep 1990 – Oct 1998	P-2(High)
1983 – 1990	P-2

Regulatory Matters

Newfoundland Power is regulated by the Board of Commissioners of Public Utilities of Newfoundland with respect to its 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.

On July 31, 1998, following a public hearing into the company's cost of capital, the PUB issued an Order approving an automatic adjustment formula to annually adjust rate of return on common equity in response to changes in long term Government of Canada bond yields.

Based on the current long-term Canada bond yield, the automatic adjustment formula is expected to result in a rate of return on equity of 9.59% in 2000 (compared to 9.25% in 1999). As a result, Newfoundland Power is expected to increase rates by approximately 0.7% in January 2000. In addition, the PUB approved a range of return on rate base of 10.10% to 10.46% for 2000 (compared to 9.80% to 10.16% for 1999).

Corporate Profile

Newfoundland Power, is the principal distributor of electricity in the Province of Newfoundland, providing service to more than 214,000 residential, commercial and industrial accounts. The Company serves 85% of the electrical consumers in the Province of Newfoundland and approximately three-quarters of all sales are to residential and small general service customers. The Company owns and operates 32 small generating plants (total installed capacity of about 141.2 MW) but approximately 90% of its energy requirement is purchased from Newfoundland and Labrador Hydro Corporation for distribution and resale. The Company owns and operates approximately 9,800 kilometres of transmission and distribution lines. Newfoundland Power is a wholly owned subsidiary of Fortis Inc. CBRS

Damian Di Perna, (416) 956-4870
ddiperna@cbrs.com
Zaheer H. Khan, (514) 937-8239
zkhan@cbrs.com

NEWFOUNDLAND POWER INC.

(CDN$ millions)

	Year ended December 31					
	1998	1997	1996	1995	1994	3 Year Trend
Abbreviated Financial Statements						
Revenues	$336.8	$344.6	$342.8	$340.6	$339.8	-0%
Cost of Goods Sold	191.6	190.7	192.1	191.1	188.4	+0%
EBITDA	92.5	96.3	96.0	94.7	100.1	-1%
EBIT	64.5	69.5	69.6	65.8	71.9	-1%
Interest expense	26.2	25.9	25.3	24.4	24.4	+2%
Net earnings before unusual items	22.2	25.6	25.8	28.2	27.8	-8%
Net earnings after unusual items	22.2	25.6	25.8	28.2	27.8	-8%
Current assets	41.2	44.5	42.1	49.2	50.4	-6%
less current liabilities	63.1	90.7	79.3	99.9	84.0	-14%
Net current assets	(21.9)	(46.3)	(37.2)	(50.7)	(33.7)	+24%
Fixed + other assets	559.5	537.1	531.4	519.3	502.6	+3%
Total net assets	537.6	490.8	494.2	468.7	469.0	+5%
less other liabilities	15.0	17.1	19.4	22.7	25.2	-13%
less long-term debt	283.2	236.3	238.8	201.3	207.7	+12%
Equity: share capital	80.2	80.2	80.2	80.2	81.2	+0%
retained earnings	159.2	157.2	155.8	164.5	154.8	-1%
Total assets	600.7	581.5	573.5	568.6	553.0	+2%
Cash flow from operations	48.5	50.2	49.7	55.1	54.8	-4%
Proceeds from LT debt	49.2	0.0	39.5	0.0	0.0	N/A
Proceeds from equity issues	0.0	0.0	0.0	0.0	1.3	N/A
Sales of investments/assets	0.0	0.0	0.0	0.0	0.0	N/A
Capital expenditure (net)	45.4	30.9	28.2	30.8	36.0	+14%
Investments/acquisitions	0.0	0.0	0.0	0.0	0.0	N/A
Repayment of debt	2.6	2.5	2.2	13.6	1.9	-43%
Dividends paid	20.2	24.2	34.4	18.6	30.1	+3%
Capitalization ($ - %)						3 Year Avg.
Short term debt	8.1- 2%	33.1- 6%	22.4- 4%	46.0- 9%	24.4- 5%	21.2- 4
Long term debt	283.2- 53%	236.3- 47%	238.8- 48%	201.3- 41%	207.7- 44%	252.7- 49
Deferred taxes	0.0- 0%	0.1- 0%	1.7- 0%	3.1- 1%	5.7- 1%	0.6- 0
Minority interest	0.0- 0%	0.0- 0%	0.0- 0%	0.0- 0%	0.0- 0%	0.0- 0
Equity - Preferred	9.9- 2%	9.9- 2%	9.9- 2%	9.9- 2%	10.9- 2%	9.9- 2
- Common	229.5- 43%	227.5- 45%	226.2- 45%	234.8- 47%	225.1- 48%	227.7- 44
Total capitalization	530.7-100%	506.9-100%	498.9-100%	495.1-100%	473.7-100%	512.2- 100
Coverage & Liquidity Ratios						
Net tangible assets	1.7x	1.9x	1.9x	2.1x	2.1x	1.8x
Total debt:equity	55:45%	53:47%	53:47%	50:50%	50:50%	54:46%
Total debt:EBITDA	3.1x	2.8x	2.7x	2.6x	2.3x	2.9x
Interest coverage	2.4x	2.7x	2.7x	2.7x	2.9x	2.6x
EBITDA interest coverage	3.5x	3.7x	3.8x	3.8x	4.1x	3.6x
Cashflow / total debt	16.7%	18.6%	19.0%	22.3%	23.6%	18.1%
Preferred dividend coverage	35.5x	40.8x	41.2x	47.5x	39.0x	39.2x
All fixed charges coverage	2.3x	2.6x	2.6x	2.6x	2.8x	2.5x
Current ratio	0.65-1	0.49-1	0.53-1	0.49-1	0.60-1	0.56-1
Profitability Ratios						
Net margin	6.6%	7.4%	7.5%	8.4%	8.3%	7.2%
Asset turnover	0.6x	0.6x	0.6x	0.6x	0.6x	0.6x
EBIT % total assets	10.7%	12.0%	12.1%	11.6%	13.0%	11.6%
Return on average common equity	9.4%	11.0%	10.9%	12.0%	12.0%	10.4%
Operating Statistics						
Average rate base ($MM)	488.2	477.4	473.1	469.7	465.3	479.6
Return on average rate base	9.86%	10.71%	10.63%	10.94%	10.97%	10.40%
Sources of energy (mm of KWh)-Purchased	4,259.0	4,244.0	4,236.0	4,186.0	4,178.0	4,246.3
-Generated	429.0	424.0	423.0	423.0	420.0	425.3
Sales (mm of KWh) - Residential	2,652.0	2,669.0	2,635.0	2,600.0	2,594.0	2,652.0
- Commercial	1,788.0	1,769.0	1,790.0	1,782.0	1,777.0	1,782.3
Customers (year-end)	214,150	212,359	210,161	207,780	205,716	212,223.3
Employees	705	705	803	822	807	737.7