2000 Canadian Bond Rating Service (CBRS) Report

CBRS Inc.
CREDIT ANALYSIS

Newfoundland Power Inc.
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Security Rated	Current Rating Scale	Former Rating Scale	Rating Outlook	Rating Status
First Mortgage Bonds	A-	A(Low)	Positive	Reaffirmed
Preferred Shares	P-2	P-2	Stable	Reaffirmed

Replaces all previous reports

VOLUME II – UTILITIES: GAS & ELECTRIC

CBRS Rating Summary

Corporate Profile

Newfoundland Power, is the principal distributor of electricity in the Province of Newfoundland, providing service to approximately 214,000 customers or 85% of the electrical consumers in the Province. The Company owns and operates 23 small generating plants (total installed capacity of 148.4 MW) but approximately 90% of its energy requirement is directly purchased from Newfoundland and Labrador Hydro Corporation for distribution and resale. All of the common shares of Newfoundland Power are owned by Fortis Inc.

Credit Strengths

- Regulated electric distribution utility with little generation exposure
- Improved competitive position due to rising oil prices
- Improving operating efficiencies reinforces the Company's strong operating profile
- No immediate threat to deregulate the Provincial electrical system
- Newfoundland economy continues to perform well
- Favorable outcome (in one of two issues) in the reassessment of the Company's tax returns (1989-1993)

Credit Risks

- Coverage ratios currently measure below traditional levels
- Dependency on Newfoundland and Labrador Hydro for 90% of its energy requirements exposes Company to uncontrollable rate hikes
- Possible tax liabilities could impact future earnings performance
- Longer-term concerns include a possible change in rate setting methodology or industry deregulation

Outlook

The positive rating outlook on the long-term debt reflects the Company's sound operating profile, strong near-to-mid term outlook for the Newfoundland economy and positive outcome of the income tax reassessment. Total energy sales are forecast to grow by approximately 1% in the near term, which combined with a 0.7% rate increase (implemented on Jan. 1/00) and tight control over operating expenses should lead to a modest improvement in profitability. In addition, moderate capital expenditure requirements combined with good cash flow generation should allow the Company to modestly improve its balance sheet and debt coverage ratios over the near-to-mid term.

Key Credit Ratios	1999	1998	1997	1996
Interest Coverage	2.4x	2.4x	2.7x	2.7x
EBITDA Int. Coverage	3.5x	3.5x	3.7x	3.8x
Cashflow/Total Debt	16.7%	16.7%	18.6%	19.0%
Total Debt:Equity	55:45%	55:45%	53:47%	53:47%
Return on Equity	9.7%	9.4%	11.0%	10.9%

Rating Opinion

CBRS has reaffirmed the ratings on Newfoundland Power's First Mortgage Bonds and Preferred Shares at **A-** and **P-2**, respectively following completion of our 2000 annual review. However, CBRS has revised the rating outlook on the First Mortgage Bonds to ***Positive*** from Stable while retaining a ***Stable*** outlook on the Preferred Shares. The above rating decisions reflect a number of factors, which include, but are not limited to, the following:

- Newfoundland Power is the principal distributor of electricity in the province serving 85% of all electrical customers, of which the vast majority are residential and small to medium-size commercial/institutional customers. Large industrial customers represent less than 2% of total energy sales. The Company operates an efficient electric distribution business and continues to refurbish its hydroelectric generating facilities, which provide part of its base load. The Company generates approximately 10% of its energy requirements and purchases the remaining 90% from provincially owned Newfoundland and Labrador Hydro (Hydro). This arrangement makes Newfoundland Power a captive customer of Hydro and exposes the Company to uncontrollable rate increases, which is partially offset by a rate stabilization account.
- The Company's financial performance improved in 1999 following a weak performance in 1998 which was primarily attributable to relatively flat growth in energy sales and reduced electric rates (the outcome of the PUB decision to lower the Company's allowed ROE to 9.25% from 11%). Financial results continue to improve in the first half of 2000, reflecting a modest increase in energy sales, a 0.7% rate increase (effective Jan. 1/00) and reduced operating expenses. The debt to equity ratio improved to 53:47% in the first half of 2000, but will likely increase to its regulated level of 55:45% by year-end 2000.
- 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 rise in oil prices has helped reduce this concern.

Rating Outlook - *Positive*

The positive rating outlook reflects the Company's sound operating profile, strong near-to-mid term outlook for the Newfoundland economy and positive outcome of its income tax reassessment. Total energy sales are forecast to grow by approximately 1% in the near term, which combined with a 0.7% rate increase (implemented in 2000) and tight control over operating expenses and improved operating efficiencies should lead to a modest improvement in profitability. In addition, good cash flow generation combined with moderate capital expenditure requirements should allow the Company to modestly improve its balance sheet and debt coverage ratios over the near-to-mid term. In the past, the Company has used special dividends to maintain the common equity component of its capital structure at its 45% regulated limit. That said, the Company will assess if a special dividend payout is possible in 2001.

The strong growth experienced by the Newfoundland economy in 1998-1999 will likely continue in 2000 and 2001. The Conference Board of Canada predicts Newfoundland will lead the country in economic growth with real GDP expected to increase by 5.0% in 2000. This growth is a direct result of large resource based projects in the oil industry such as Hibernia and Terra Nova; however, other sectors such as fishing, construction and manufacturing are also expected to contribute. The service sector component of GDP, which is more predictive of Newfoundland Power's energy sales, is forecast to grow by 2% per year in the near term. As a result, the Company's rate base and revenue stream will also grow at a modest pace over the same period.

The positive rating outlook also reflects the Company's strong competitive position, which continues to be enhanced by relatively stable electric rates and raising oil prices. Rates in Newfoundland are amongst the lowest in Atlantic Canada and should remain competitive, as the Company does not expect any significant rate increase in the foreseeable future. Furthermore, CBRS expects the Company to remain the pre-eminent electric distribution utility in the Province, as we do not foresee any immediate threat of deregulation in the Newfoundland market.

Capital Plan

Net capital expenditures were $42 million in 1999 compared to $45 million in 1998. Capital Expenditures for 1998 included a $13 million investment in the construction of a 6.1Megawatt hydroelectric plant at Rose Blanche Brook on the south-west 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 2000-2001 capital program is budgeted at approximately $40 million per year and will focus on increasing system reliability and reducing associated operating and maintenance costs over the long-term. 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.

Debt Structure/Liquidity

At June 30, 2000, Newfoundland Power's total long-term debt was $293.9 million, lower than the 1999 year-end figure of $302.9 million. The debt to equity ratio improved to 53:47% as at June 30, 2000, but should move back to its 55:45% regulated level by year-end 2000. The Company maintains good cash flow generating capabilities, which combined with a modest capital spending program and no significant maturities except for sinking fund payments and 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 $180 million in operating and short-term money market lines of credit available for short term liquidity purposes.

First Mortgage Bonds (At Dec. 31, 1999)

SER	CPN	MATURITY	O/S($MM)	OPTION	RATING
AB	11.500	01-Dec-2005	13.7	PP/CALL/SF	A-
AC	11.875	16-Dec-2007	34.7	CALL/SF	A-
AD	10.550	01-Aug-2014	34.6	CALL/SF	A-
AE	10.900	02-May-2016	36.8	CALL/SF	A-
AF	10.125	15-Jun-2022	37.2	CALL/SF	A-
AG	9.000	01-Oct-2020	38.0	CALL/SF	A-
AH	8.900	07-May-2026	38.8	CALL/SF	A-
AI	6.800	- 2028	49.5	CALL/SF	A-
			283.2		
		Current Portion	(3.1)		
		Total FMBs Outstanding	280.1		

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 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.

Cum. Red. Voting 1st Preferred Shares (At Dec. 31, 1999)

SER	DIVIDEND	SHARE O/S	O/S($MM)	RATING
A	5.50%	179,225	1.8	P-2
B	5.25%	337,983	3.4	P-2
D	7.25%	229,765	2.3	P-2
G	7.60%	241,950	2.4	P-2
			9.9 MM	

Operations

For the six-month period ended June 30, 2000, energy sales were 2,656 GWh, up 1.9% from the same period last year. This growth was primarily due to the improved Newfoundland economy and a modest increase in the number of customers. Revenue for the period was $197.9 million, 2.2% higher than for the corresponding period in 1999. Revenue growth resulted from higher energy sales combined with a 0.7% increase in electricity rates effective January 1, 2000. Overall, higher revenues, reduced operating expenses (lower labour costs, aggressive cost control measures and productivity improvements) and the successful resolution of an income tax issue have combined to increase earnings to $19.0 million in the first half of 2000 compared to $16.4 million in the corresponding period in 1999.

The Canada Customs and Revenue Agency (CCRA) reversed one of the two issues contained in its reassessment of the Company's tax returns for the years 1989-1993. As a result, the year end 1999 contingent liability of $40.3 million has been significantly reduced to $10.6 million and income tax expense for the second quarter has been reduced by $1.5 million. During the quarter, the Company received a partial refund of its corporate income tax deposit totalling $8.8 million. The remaining outstanding issue with CCRA is Newfoundland Power's practice of recording revenue as customers are billed. CCRA contends that the Company should record revenue as customers consume power.

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's market share of the electric space and water heating market remains sound at approximately 50% and 80%, respectively. Other primary uses of electricity are lighting and major appliances such as electric ranges and refrigerators.

Stable electricity prices combined with higher oil prices have improved the competitive position of electric space and water heating in the marketplace. Furthermore, the Rate Stabilization Plan shields customers from large electricity rate increases caused by increases in the price of oil, which is used to generate approximately 25% of the Province's electricity. Meanwhile, the balance of the Province's energy supply is derived from low cost hydroelectric generation.

Electric rates in Newfoundland are the lowest in Atlantic Canada and about average when compared to the rest of the country. Therefore to maintain its competitive position, the Company's principal objective is to minimize future power rate increases. The average cost of electricity to customers is approximately 7.6 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.

Regulatory Matters

Newfoundland Power is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) on a traditional cost of service basis.

Rating History

First Mortgage Bonds
- Oct 1998 – present .... A-
- 1981 – Oct 1998 .... A
- 1972 – 1980 .... BBB

Preferred Shares
- Oct 1998 – present P-2
- Sep 1990 – Oct 1998 .... P-2(High)
- 1983 – 1990 .... P-2

The Company's rates are set based on 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. This formula resulted in a 0.7% increase in rates effective January 1, 2000 reflecting an allowed return on common equity of 9.59%. compared to 9.25% in 1999).

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

	2000	1999	1998	1997	1996
Avg. Rate Base ($MM)	N/A	506	488	477	473
Return on Rate Base (mid-pt.)	10.28%	10.04%	9.86%	10.71%	10.63%
Deemed Common Equity	45%	45%	45%	45%	45%
Approved Return on Equity (mid pt.)	9.59%	9.25%	9.25%	11%	11%
Actual Return on Equity	N/A	9.68%	9.44%	10.99%	10.91%

Corporate Profile

Newfoundland Power, is the principal distributor of electricity in the Province of Newfoundland, providing service to about 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 23 small generating plants (total installed capacity of about 148.4 MW) but approximately 90% of its energy requirement is purchased from Newfoundland and Labrador Hydro Corporation for distribution and resale. The Board of Commissioners of Public Utilities of Newfoundland (PUB) regulates the principal terms governing Hydro's supply of power to the Company. The Company owns and operates approximately 9,800 kilometres of transmission and distribution lines. All of the common shares of Newfoundland Power are owned by Fortis Inc. c b r s

Operating Statistics		1999	1998	1997	1996	1995
Customers (year-end)		213,641	212,110	212,359	210,161	207,780
Sources of energy (mm of KWh)	Purchased	4,292	4,259	4,244	4,236	4,186
	Generated	450	429	424	423	423
Installed generating capacity (MW)						
	Hydroelectric	94.0	94.0	87.5	87.5	N/A
	Diesel	7.4	7.4	12.3	13.4	N/A
	Gas turbine	47.0	47.0	47.0	47.0	N/A
	Total	148.4	148.4	146.8	147.9	N/A
Peak one-hour demand (MW)		1,025	1,063	996	1123	1031
Energy sales per employee (MM of KWh)		6.5	6.3	6.3	5.5	5.3
Gross operating cost/customer ($)		256	261	274	287	297
Revenue per employee ($000's)		492	476	487	425	412
Electricity system availability (%)		99.89	99.92	99.95	99.95	99.92

NEWFOUNDLAND POWER INC.

(CDN$ millions)

Abbreviated Financial Statements	1999	1998	1997	1996	1995	3 Year Trend
	Year ended December 31					
Revenues	$343.1	$336.8	$344.6	$342.8	$340.6	+0%
Cost of Goods Sold	192.8	191.6	190.7	192.1	191.1	+0%
EBITDA	97.6	92.5	96.3	96.0	94.7	+1%
EBIT	68.0	64.5	69.5	69.6	65.8	-1%
Interest expense	27.6	26.2	25.9	25.3	24.4	+3%
Net earnings before unusual items	23.5	22.2	25.6	25.8	28.2	-3%
Net earnings after unusual items	23.5	22.2	25.6	25.8	28.2	-3%
Current assets	43.4	41.2	44.5	42.1	49.2	+1%
less current liabilities	75.2	63.1	90.7	79.3	99.9	-2%
Net current assets	(31.8)	(21.9)	(46.3)	(37.2)	(50.7)	+5%
Fixed + other assets	576.9	559.5	537.1	531.4	519.3	+3%
Total net assets	545.1	537.6	490.8	494.2	468.7	+3%
less other liabilities	12.2	15.0	17.1	19.4	22.7	-14%
less long-term debt	280.2	283.2	236.3	238.8	201.3	+5%
Equity: share capital	80.2	80.2	80.2	80.2	80.2	+0%
retained earnings	172.5	159.2	157.2	155.8	164.5	+3%
Total assets	620.3	600.7	581.5	573.5	568.6	+3%
Cash flow from operations	50.6	48.5	50.2	49.7	55.1	+1%
Proceeds from LT debt	0.0	49.2	0.0	39.5	0.0	-100%
Proceeds from equity issues	0.0	0.0	0.0	0.0	0.0	N/A
Sales of investments/assets	0.0	0.0	0.0	0.0	0.0	N/A
Capital expenditure (net)	43.8	45.4	30.9	28.2	30.8	+16%
Investments/acquisitions	0.0	0.0	0.0	0.0	0.0	N/A
Repayment of debt	3.1	2.6	2.5	2.2	13.6	+12%
Dividends paid	10.1	20.2	24.2	34.4	18.6	-33%

Capitalization ($ - %)	1999	1998	1997	1996	1995	3 Year Avg.
Short term debt	22.7- 4	8.1- 2	33.1- 6	22.4- 4	46.0- 9	21.3- 4
Long term debt	280.2- 50	283.2- 53	236.3- 47	238.8- 48	201.3- 41	266.5- 50
Deferred taxes	0.0- 0	0.0- 0	0.1- 0	1.7- 0	3.1- 1	0.0- 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	9.9- 2	9.9- 2
- Common	242.8- 44	229.5- 43	227.5- 45	226.2- 45	234.8- 47	233.3- 44
Total capitalization	555.6-100	530.7-100	506.9-100	498.9-100	495.1-100	531.0- 100

Coverage & Liquidity Ratios	1999	1998	1997	1996	1995	3 Year Avg.
Net tangible assets	1.7x	1.7x	1.9x	1.9x	2.1x	1.8x
Total debt:equity	55:45%	55:45%	53:47%	53:47%	50:50%	54:46%
Total debt:EBITDA	3.1x	3.1x	2.8x	2.7x	2.6x	3.0x
Interest coverage	2.4x	2.4x	2.7x	2.7x	2.7x	2.5x
EBITDA interest coverage	3.5x	3.5x	3.7x	3.8x	3.8x	3.5x
Cashflow / total debt	16.7%	16.7%	18.6%	19.0%	22.3%	17.3%
Preferred dividend coverage	37.5x	35.5x	40.8x	41.2x	47.5x	37.9x
All fixed charges coverage	2.3x	2.3x	2.6x	2.6x	2.6x	2.4x
Current ratio	0.58-1	0.65-1	0.49-1	0.53-1	0.49-1	0.57-1

Profitability Ratios	1999	1998	1997	1996	1995	3 Year Avg.
Net margin	6.9%	6.6%	7.4%	7.5%	8.4%	7.0%
Asset turnover	0.6x	0.6x	0.6x	0.6x	0.6x	0.6x
EBIT % total assets	11.0%	10.7%	12.0%	12.1%	11.6%	11.2%
Return on average common equity	9.7%	9.4%	11.0%	10.9%	12.0%	10.0%