

Standard & Poor's Summary Report
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Research:

Summary: Newfoundland Power Inc.

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Credit Rating: A-/Negative/--

■ Rationale

On Oct. 16, 2002, Standard & Poor's Ratings Services assigned its single-'A' rating to Newfoundland Power Inc.'s C\$75 million mortgage bonds, due October 2032.

At the same time, the ratings outstanding on the company, including the single-'A'-minus long-term corporate credit and 'P-2' Canadian national scale preferred share ratings, were affirmed. The outlook is negative following recent ratings actions taken on parent Fortis Inc. Because of the high degree of financial interdependence between Fortis and Newfoundland Power, the corporate credit rating on Newfoundland Power has been equalized with that on Fortis. As a result, any change in the ratings on Fortis will be mirrored by identical ratings actions on Newfoundland Power.

The consolidated business risk profile of Fortis incorporates the business risk of its largest subsidiary, Newfoundland Power. The Newfoundland-based electricity distribution operation accounted for about 42% of consolidated assets and 46% of net earnings in 2001. Newfoundland Power's relatively low business risk profile is supported by cost-of-service/rate-of-return regulation; the ability to flow through all power costs; a weather normalization mechanism; and no exposure to cyclical industrial customers, which are serviced directly by the provincial government-owned utility, Newfoundland & Labrador Hydro. These factors, together with a stable balance sheet subject to regulatory directives that require the utility to maintain a 40%-45% common equity component, contribute to relatively stable cash flows over the longer term. The utility's financial position is, however, adversely affected by one of the lowest approved ROEs in the country and the fact that unlike any other Canadian utility, it must return to customers all excess earnings.

Although Newfoundland Power's key debt-related ratios are expected to remain relatively stable, with a debt-to-capital ratio of about 55% and FFO to interest coverage in the 2.8 times (x) to 3.0x range, it is the consolidated financial profile of Fortis that will influence ratings actions on Newfoundland Power in the future. Fortis' financial profile has remained relatively stable over the past six years with consolidated debt-to-capital in the 60%-65% range and FFO to interest coverage in the 2.25x-2.50x range. Nevertheless, key financial ratios presently are outside the acceptable range for the current rating and consolidated business risk profile.

Liquidity.

Newfoundland Power has C\$110 million in operating lines of credit with nonrestrictive financial covenants. At the end of September 2001, the company had about C\$30 million in available lines. A proposed C\$75 million debt issue will be used to repay outstanding bank debt, thereby materially increasing available lines of credit. Together with debt maturities of less than C\$3 million per year, and the possibility of financial support from parent Fortis, Newfoundland Power's liquidity should be adequate to meet day-to-day operating needs.

■ Outlook

Future ratings actions on Newfoundland Power will be directly determined by ratings actions on Fortis. The negative outlook on Fortis reflects a financial profile that inadequately supports Fortis' growing business risk and the current ratings. The ratings outcome on Fortis is expected to be resolved within the next year as part of Standard & Poor's ongoing assessment of global utility ratings criteria in light of some uniquely Canadian characteristics, including low deemed equity allowances and comparatively low ROEs that largely dictate a Canadian utility's financial profile. Nevertheless, adverse ratings actions

are highly likely if there is no reduction in Fortis' consolidated business risk or improvement in key debt-related ratios.

Ratings List

Fortis Inc.

Corporate credit rating A-/Negative/--

Senior unsecured debt rating BBB+

Preferred stock rating

Canadian national scale P-2

Global scale BBB

Newfoundland Power Inc.

Corporate credit rating A-/Negative/--

Senior secured debt rating A

Preferred stock rating

Canadian national scale P-2

Global scale BBB

Maritime Electric Co. Ltd.

Corporate credit rating A-/Negative/--

Senior secured debt rating A-

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