

**Presentation to
Canadian Bond Rating Service
June 2000**

**Presentation to
Canadian Bond Rating Service**

June 2000

NEWFOUNDLAND
POWER
A FORTIS COMPANY

CONFIDENTIALITY NOTICE

This document contains confidential information that is propriety to Newfoundland Power Inc. This information is provided for the sole purpose of assisting the recipient's evaluation and grading of the credit rating of Fortis Inc. In consideration of receipt of this document, the recipient agrees to maintain such information in confidence, and to not reproduce or otherwise disclose this information to any person outside the group directly responsible for the evaluation of its contents.

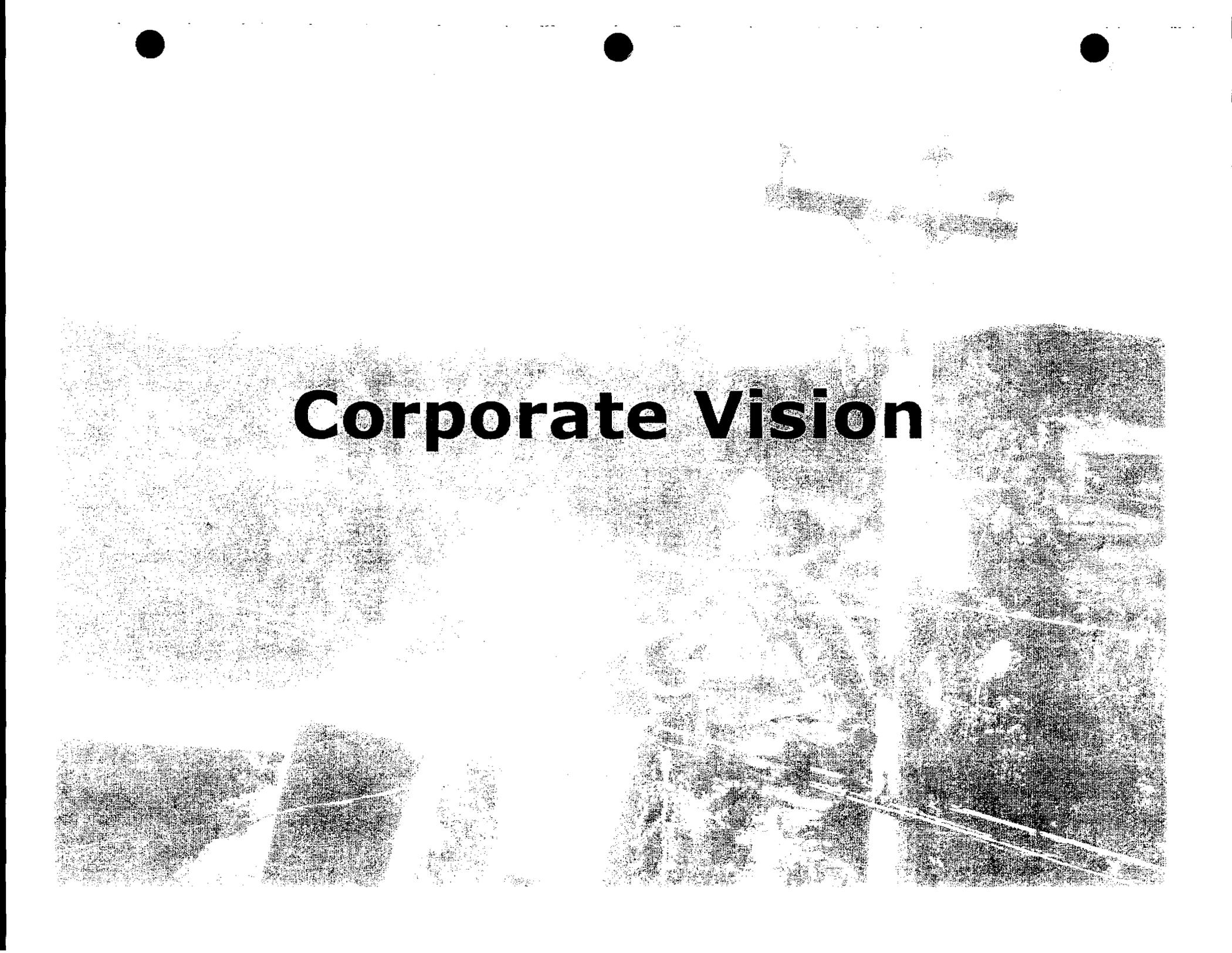
In consideration of receipt of this document, the recipient specifically agrees to use the information only in relation to Fortis Inc. for the purpose stated herein and for no other purpose.

Copyright

© 2000, Newfoundland Power Inc. All rights reserved.

Overview

- Corporate Vision
- Financial and Operating Highlights
- Energy Supply and Distribution
- Newfoundland Economy
- Customers, Energy Sales and Revenue
- Regulation and Income Tax
- Corporate Performance Indicators
- Financial Forecasts

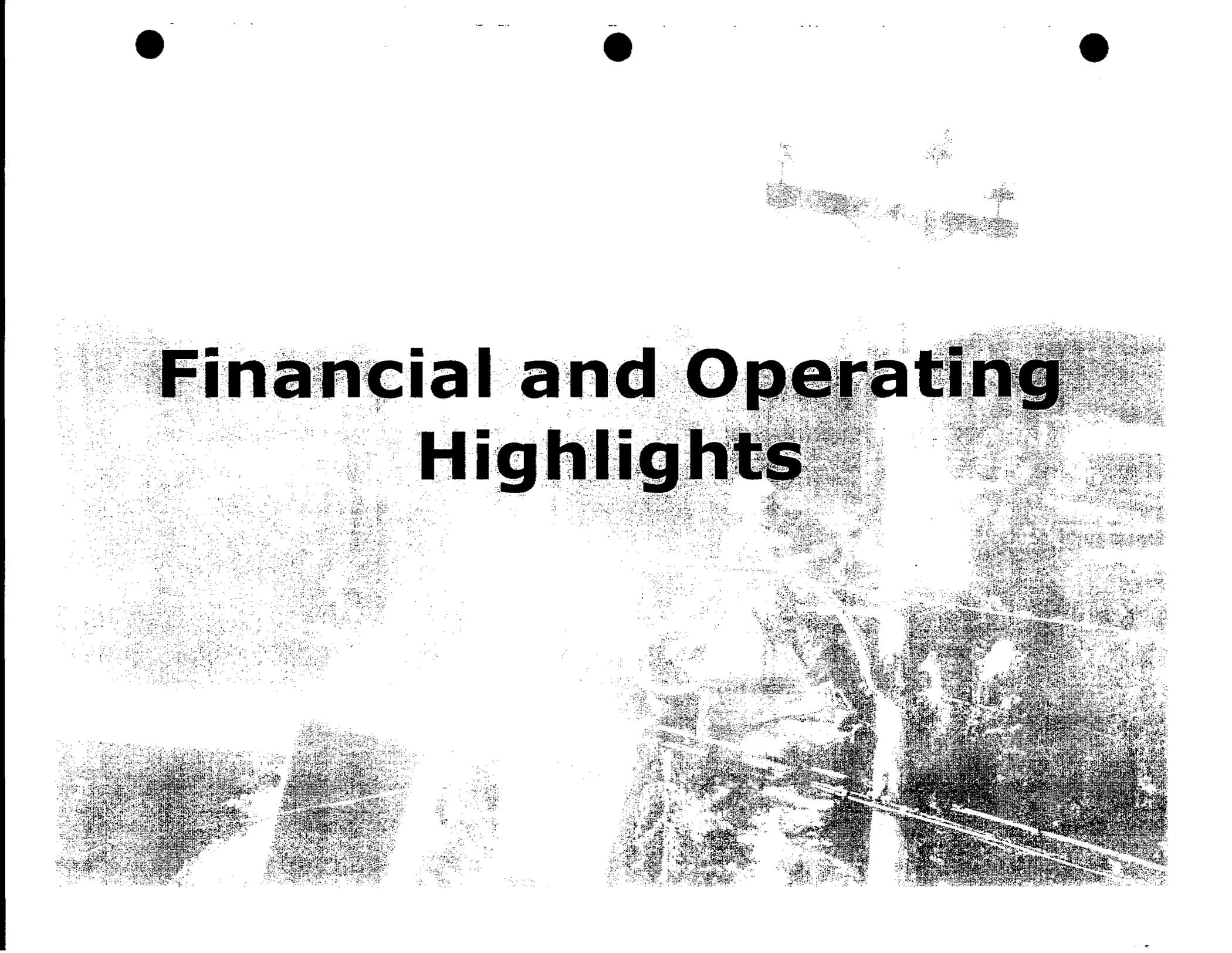


Corporate Vision

Corporate Vision

Lead Canadian electric utilities in:

- Customer Service;
- Reliability;
- Operating Efficiency;
- Safety; and
- Environment Initiatives.



Financial and Operating Highlights

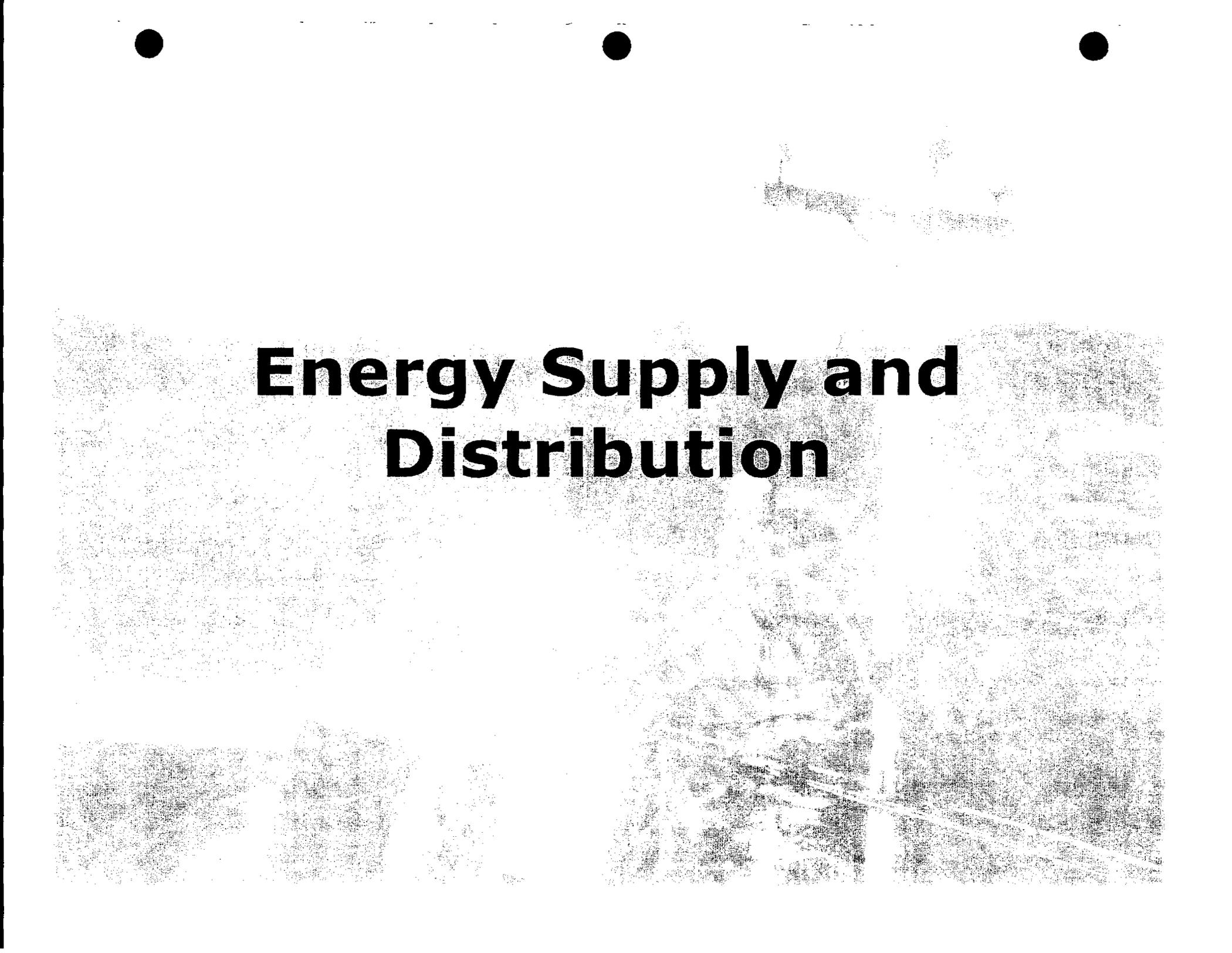
Financial Highlights

(\$000s)

	<u>1999</u>	<u>1998</u>
Revenue	342,001	335,751
Fixed Assets	899,944	870,348
Long-term Debt	283,208	286,258
Common Shareholders' Equity	242,848	229,485
Earnings Applicable to Common Shares	22,858	21,571
Earnings per Common Share (\$)	2.21	2.09
Capital Expenditures	42,282	45,245
Interest Coverage	2.5x	2.4x
Cashflow from Operations	46,404	49,738

Operating Highlights

	<u>1999</u>	<u>1998</u>
Customers	213,641	212,110
Installed Generating Capacity (MW)		
Hydroelectric	94.0	94.0
Diesel	7.4	7.4
Gas Turbine	<u>47.0</u>	<u>47.0</u>
Total	148.4	148.4
Peak One-hour Demand (MW)	1,025	1,063
Energy Sales (GWh)	4,500	4,440



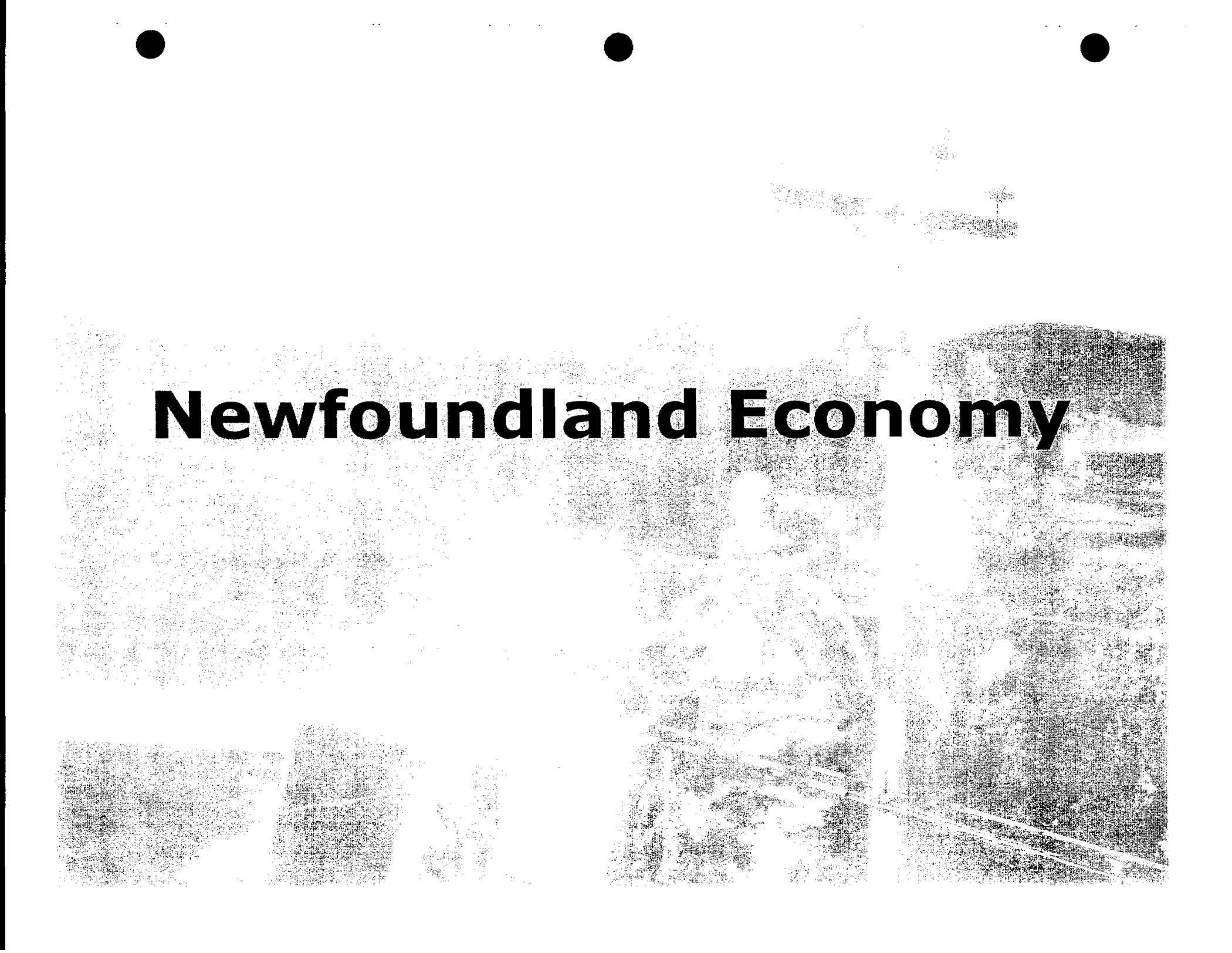
Energy Supply and Distribution

Energy Supply

- Generates approximately 10% of energy requirements from 23 small hydroelectric generating plants.
- In recent years, the Company has embarked on a program to refurbish its hydroelectric generating facilities.
- Purchases the remaining 90% from Newfoundland and Labrador Hydro, a Crown Corporation. Approximately 70% of island production is supplied by low cost hydraulic.
- No significant price increases in the foreseeable future.

Energy Distribution

- Principal distributor of electricity in the Province.
- Serves 85% of all customers in the Province.
- Large industrial customers either generate or purchase power from Newfoundland and Labrador Hydro.
- Primary customer base is residential and small to medium-size commercial / institutional customers.
- Largest customer account represents less than 2% of total energy sales.



Newfoundland Economy

Newfoundland Economy

- The Conference Board of Canada forecasts Newfoundland to continue to lead the country in economic growth over the next two years.
- This growth is fuelled by an expanding offshore oil industry.
- Production at Hibernia continues to increase.
- First oil from Terra Nova expected in 2001.
- Beyond 2001, the economy will benefit from White Rose, Hebron, and other offshore-related activity.
- After three strong years, growth in the fishing industry will be restricted as a result of crab quota cuts and continued problems with cod stocks.

Newfoundland Economy

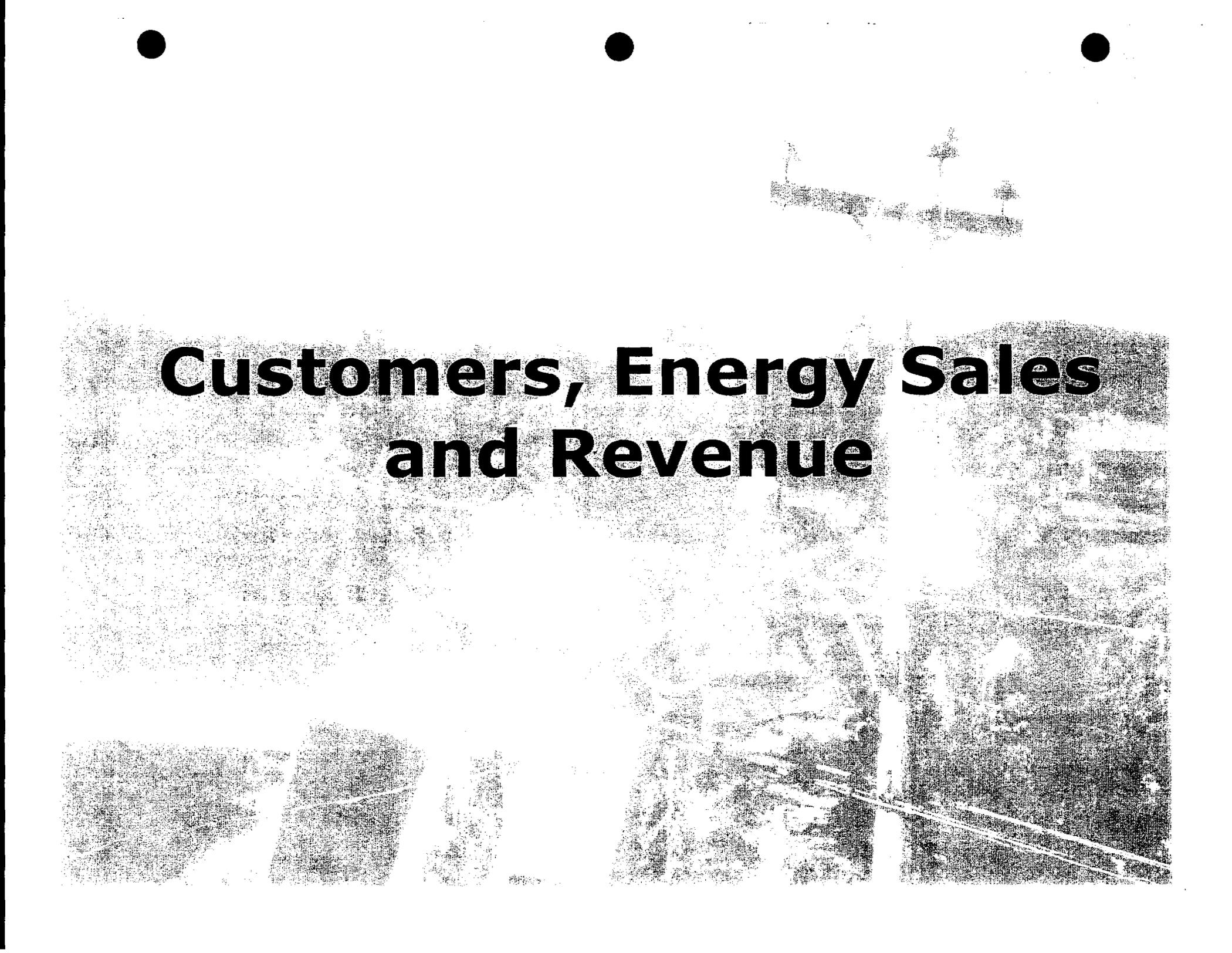
(continued)

- Growth in the manufacturing industry will be limited by restricted growth in the fishing industry.
- The construction industry will benefit from offshore developments and government expenditures on roads, schools and other projects.
- Both the construction and mining industries could receive a significant boost in the medium term if Voisey's Bay and Labrador power were to get the green light.
- The goods producing sector of the economy will grow by over 10% per year in the near term.
- The service producing sector, which is more indicative of Newfoundland Power's growth, is forecast to grow by 2% per year in the near term.

Newfoundland Economy

(continued)

- Tourism will continue to grow as a result of the Viking 1000th anniversary in 2000, the 100th anniversary of Marconi's first transatlantic communication in 2001 and the addition of a new high speed ferry between Newfoundland and Nova Scotia.
- Employment levels are forecast to increase.
- The level of net out-migration is slowing.
- Personal disposable income is forecast to increase as a result of wage increases and income tax cuts.
- Economic growth in the St. John's Metropolitan Area is very strong while rural economies continue to struggle.



Customers, Energy Sales and Revenue

Residential

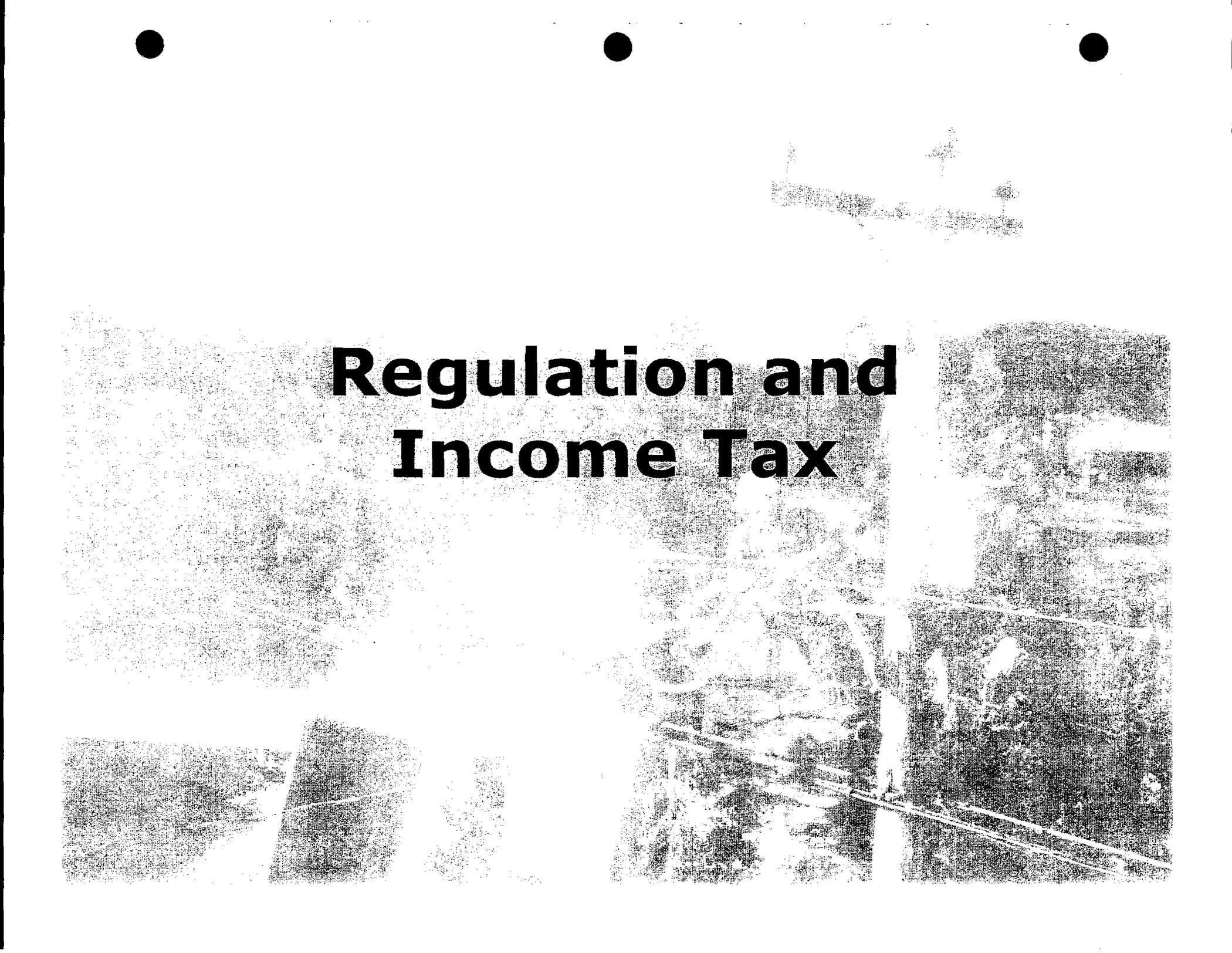
- Represents 86% of customers and 59% of energy sales.
- Primary uses of electricity are space heating, water heating, lighting and other major appliances such as electric ranges and refrigerators.
- Electric space and water heating market shares are steady at approximately 50% and 80%, respectively.
- Most major appliances have reached high levels of saturation.
- Stable electricity prices combined with higher oil prices have improved the competitive position of electric space and water heating in the marketplace.
- The Rate Stabilization Plan shields customers from large electricity rate increases caused by increases in the price of oil, which is used to generate 30% of the Province's electricity.

Commercial / Institutional

- Represents 10% of customers and 40% of energy sales.
- Approximately 84% of energy sales are to customers in the service sector.
- Energy sales primarily drive the service sector portion of the economy.
- Energy sales in the fishing industry are higher than pre-moratorium levels.
- Service sector growth is particularly strong in the St. John's Metropolitan Area.

Customer and Energy Statistics 1999

	<u>Customers</u>		<u>Energy Sales</u>		<u>Revenue</u>	
	<u>#</u>	<u>%</u>	<u>GWh</u>	<u>%</u>	<u>(\$ M)</u>	<u>%</u>
Residential	183,921	86	2,672	59	203.4	59
General Service	20,465	10	1,793	40	126.0	37
Street Lighting	9,255	4	35	1	10.3	3
Other	-	-	-	-	2.3	1
Total	213,641	100	4,500	100	342.0	100



Regulation and Income Tax

Regulation

- PUB Order in January 1999 resulted in the following changes:
 - Electricity rates increased by 1.1% effective February 1, 1999.
 - Final approval was given for the use of an automatic adjustment formula to determine allowed return on equity.
 - Formula is based on long-term Canada bond yields and the Company's capital.
 - Rates for 1999 provided for a rate of return on equity of 9.25%.
- Rates increased by 0.7% on January 1, 2000 increasing the return on equity to 9.59%.

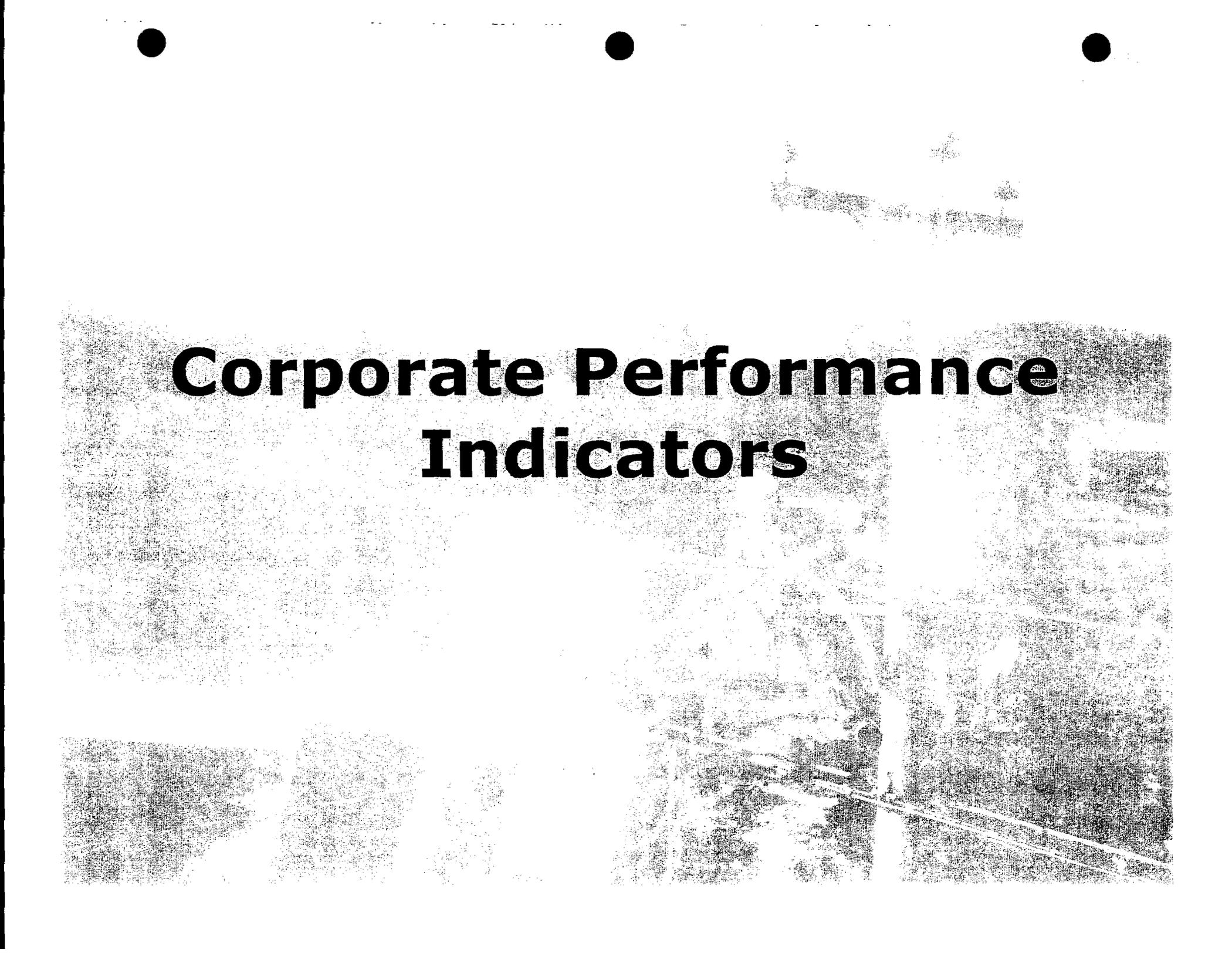
Income Tax

- In July 1995, Canada Customs & Revenue Agency issued a notice of Reassessment for years 1989 through 1993 which:
 - disallowed certain amounts capitalized for regulatory and accounting purposes but claimed as expenses for income tax purposes; and
 - included in income for 1993 the value of electricity consumed in December 1993 but not billed until January 1994.
- In October 1995, Newfoundland Power Inc. filed Notices of Objection and paid one half of the amount of taxes reassessed as required by the Income Tax Act.
- In May 2000, Newfoundland Power Inc. won its appeal with respect to amounts capitalized (approximately 74% of total tax reassessed). A refund of a portion of the initial payment plus accrued interest is expected in early June 2000.

Income Tax

(continued)

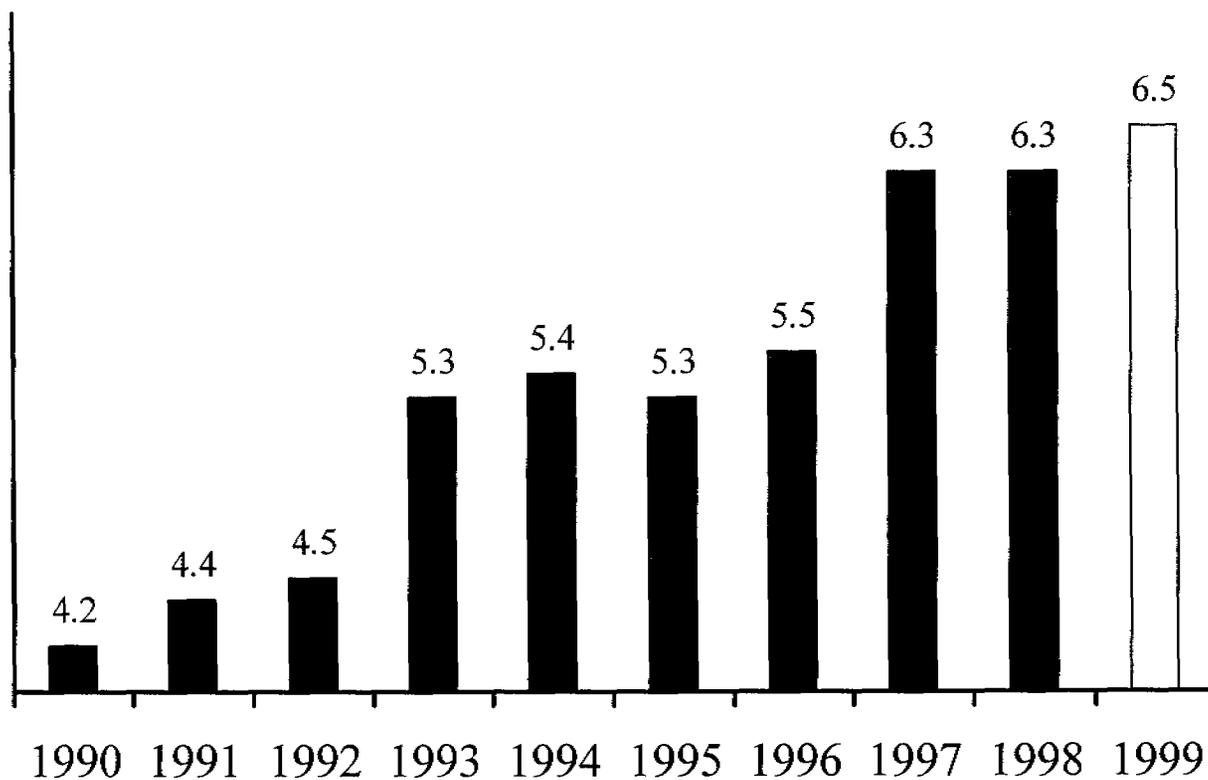
- The 2000 forecast for income tax expense reflects the full deductibility of amounts capitalized for accounting and regulatory purposes and deducted for tax purposes for 1999 and 2000.
- The unbilled revenue issue is still unresolved. Newfoundland Power Inc. will file a notice of objection relating to this issue. If unsuccessful, the Company is able to make application to the PUB to have this liability considered in the rate making process.



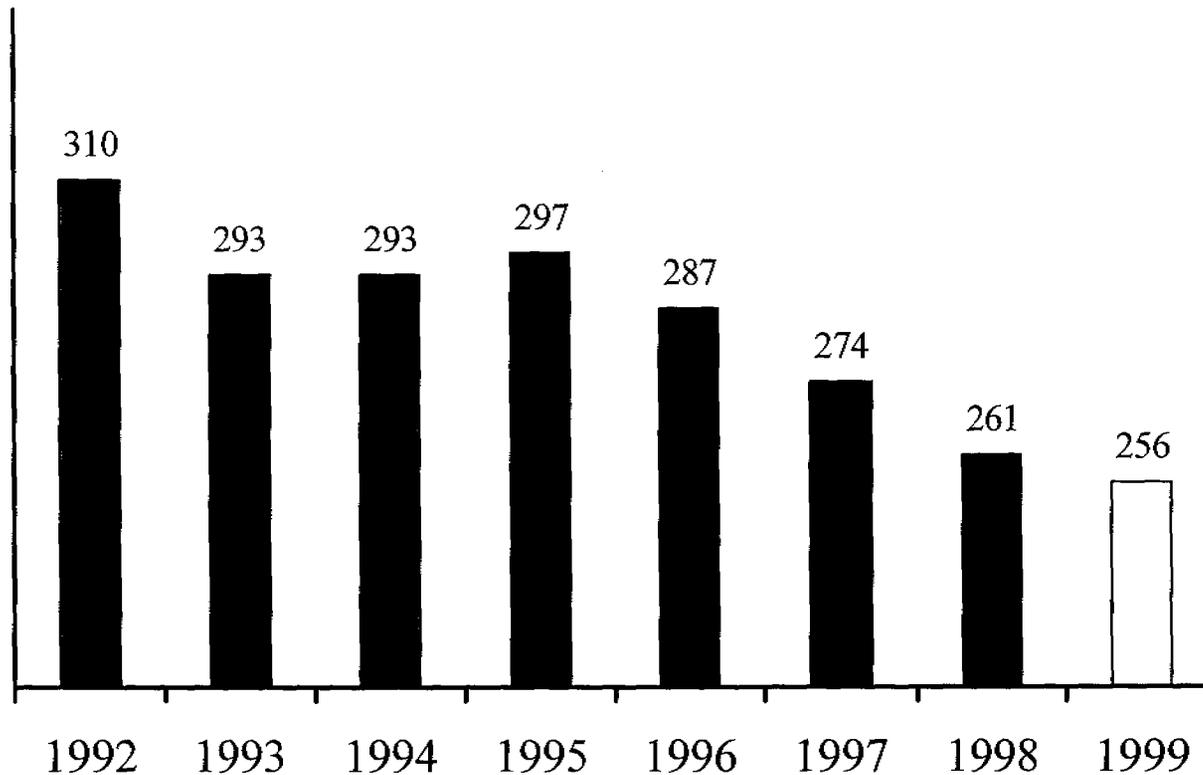
Corporate Performance Indicators

Energy Sales per Employee

(millions of kWh)



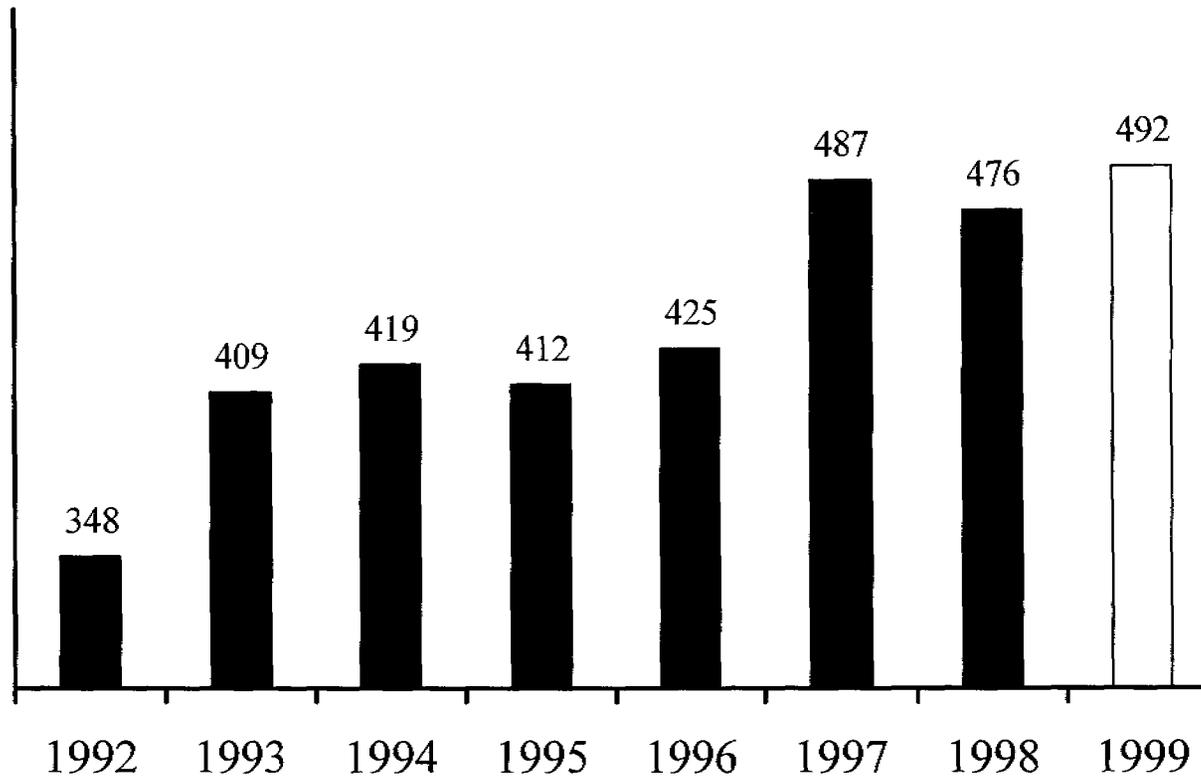
Gross Operating Cost per Customer (\$)



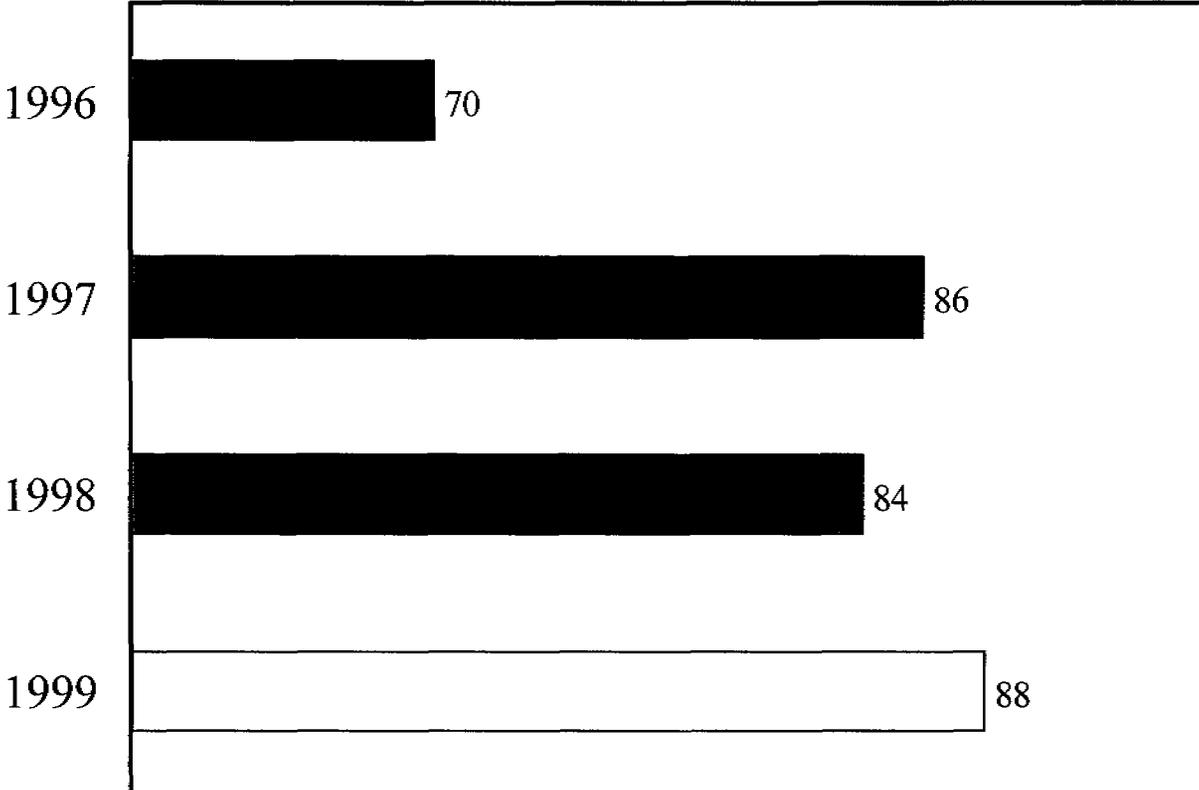
Note: Retirement allowances were removed for 1995 and 1997.

Revenue per Employee

(\$000's)

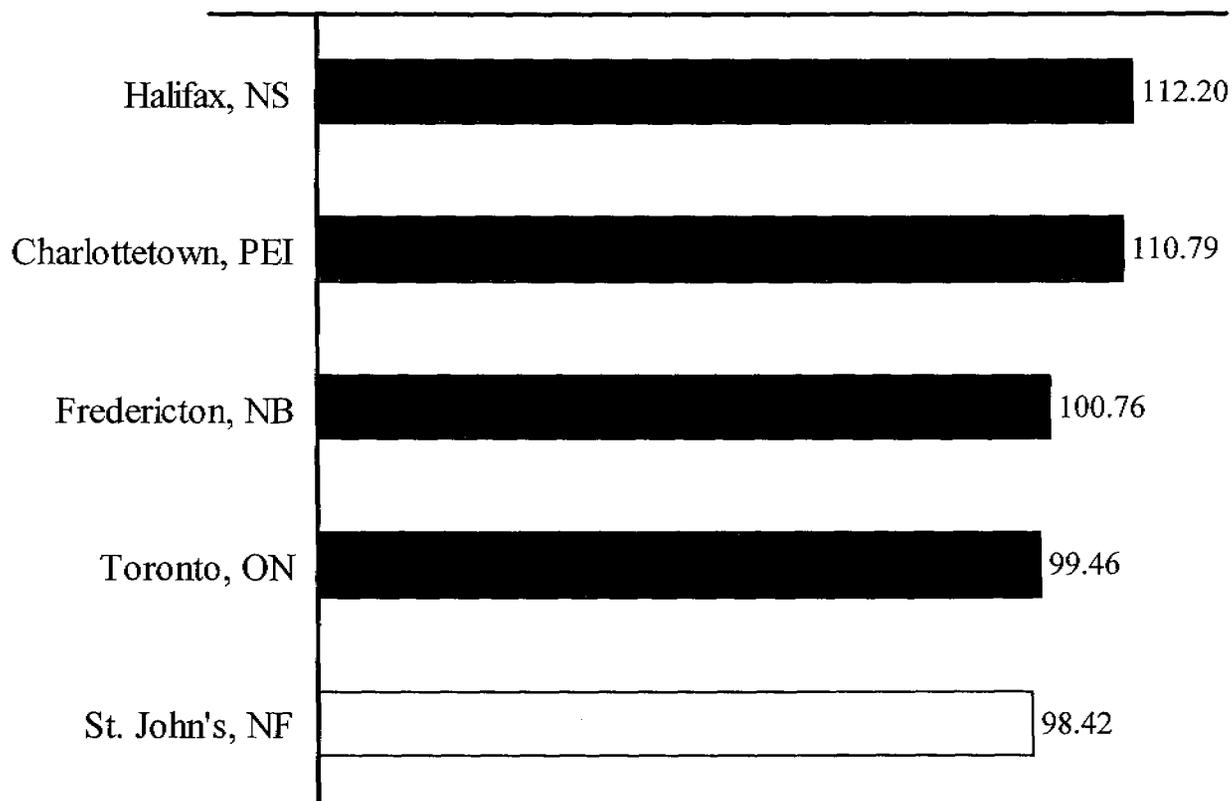


Customer Satisfaction Rating (%)

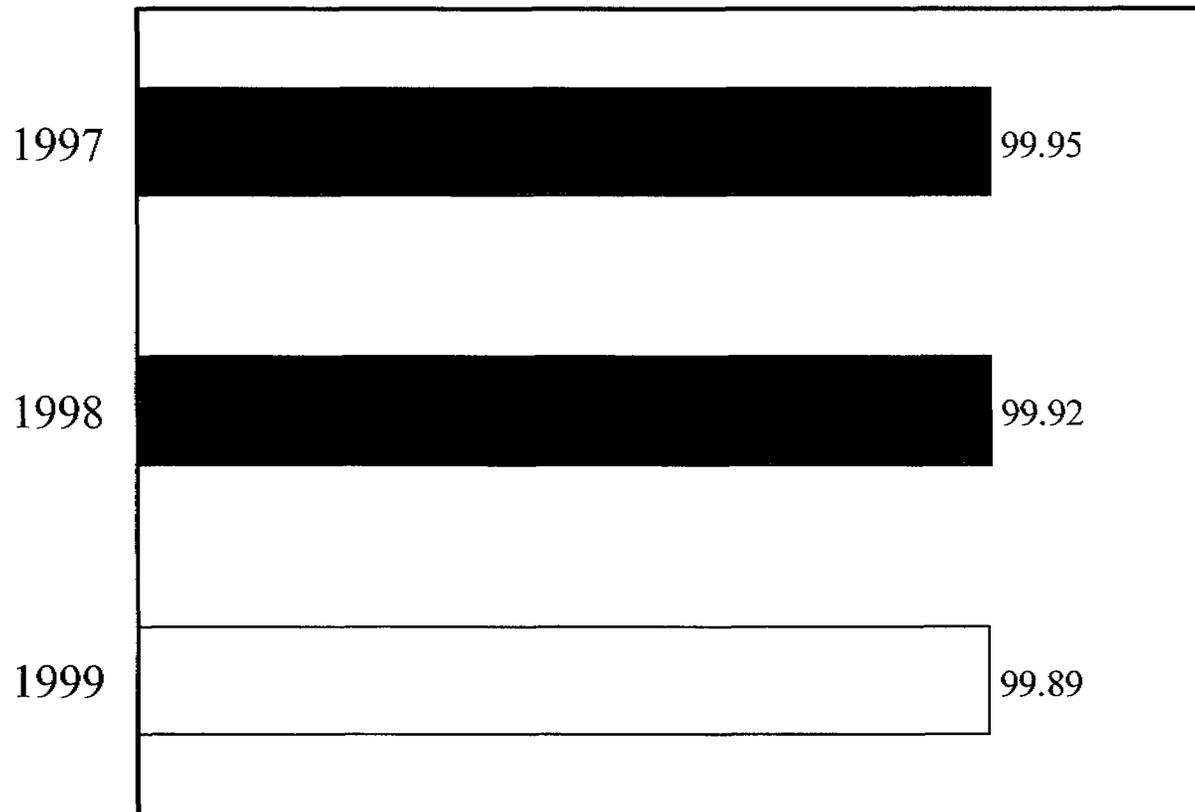


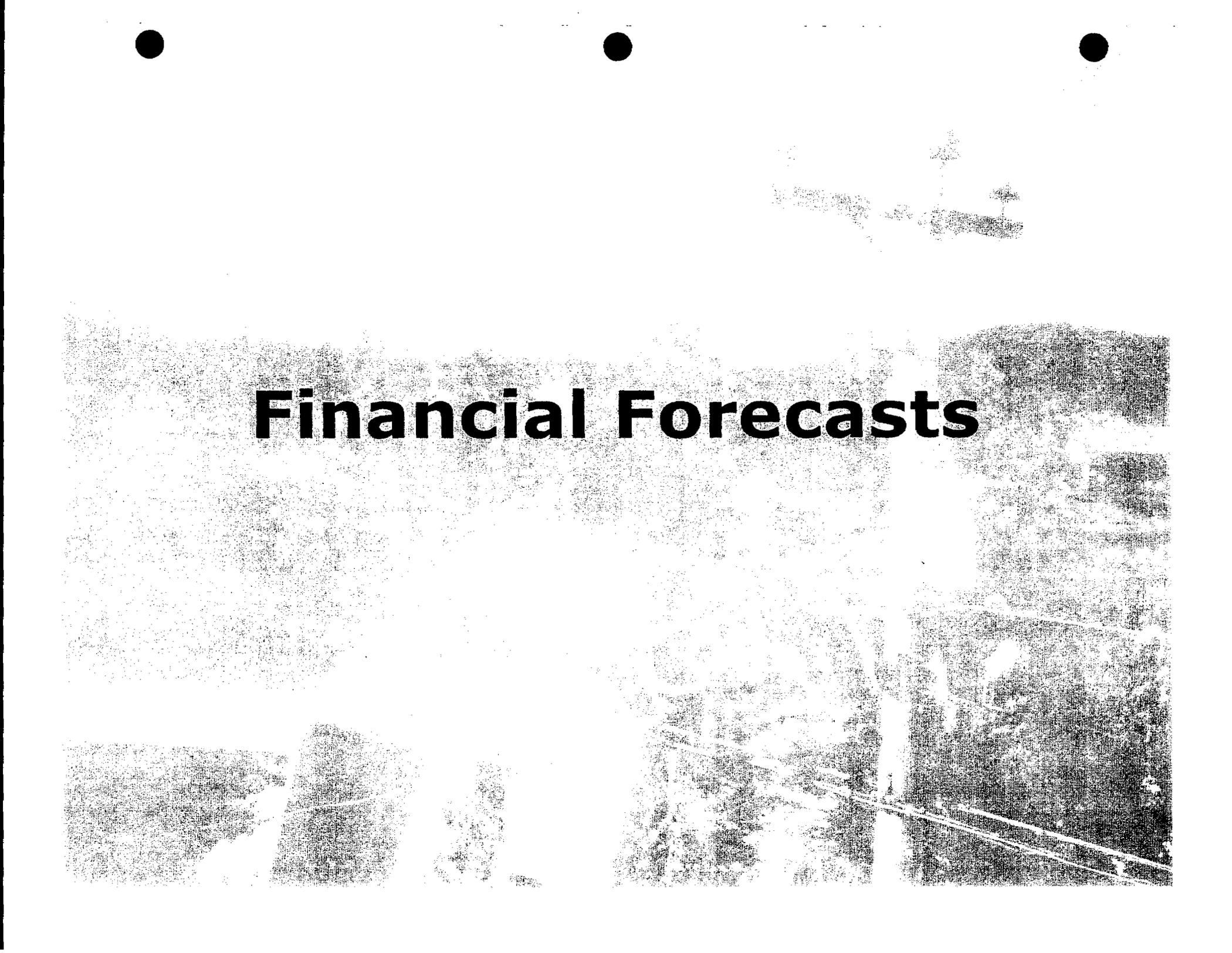
Comparison of Electricity Costs (\$)

Rates as of January 1, 2000 with Usage of 1,216 kWh/month



Electricity System Availability (%)





Financial Forecasts

Forecasts

- Residential energy sales are forecast to grow in the range of 0.5% to 1.0% over the next three years.
- Commercial / Institutional energy sales are forecast to grow by approximately 1.5%.
- Total energy sales are forecast to grow by approximately 1.0%.

Income Statement

(\$millions)

	1999 Actual	2000 Forecast	2001 Forecast
Total Revenues	342.0	346.3	350.0
Operating Expenses	245.5	248.1	246.4
EBITDA	96.5	98.2	103.6
Depreciation & Amortization	29.6	30.4	34.2
EBIT	66.9	67.8	69.4
Interest & Preferred Dividends	27.1	27.2	27.9
Income Taxes	16.9	15.8	16.5
Earnings Applicable to Common Shares	22.9	24.8	25.0

Balance Sheet

(\$millions)

	1999 Actual	2000 Forecast	2001 Forecast
Current Assets	43.4	41.2	40.9
Corporate Income Tax Deposit	15.6	6.5	6.5
Deferred Charges	41.6	47.2	52.6
Property, Plant & Equipment	519.7	530.8	533.9
	<u>620.3</u>	<u>625.7</u>	<u>633.9</u>
Current Liabilities	75.2	75.4	85.7
Long Term Debt	280.2	277.1	274.1
Deferred Credits	12.2	14.5	14.5
Shareholders' Equity	252.7	258.7	259.6
	<u>620.3</u>	<u>625.7</u>	<u>633.9</u>

Cash Flow Statement

(\$millions)

	1999 Actual	2000 Forecast	2001 Forecast
Cash From Operations	46.4	70.9	59.3
Cash (Used in) Financing	(13.2)	(22.7)	(27.7)
Cash (Used in) Investing	<u>(47.8)</u>	<u>(43.8)</u>	<u>(43.0)</u>
Change in Short Term Borrowings	(14.6)	4.4	(11.4)
Short Term Borrowings - Beginning of Year	<u>(5.0)</u>	<u>(19.6)</u>	<u>(20.2)</u>
Short Term Borrowings - End of Year	<u><u>(19.6)</u></u>	<u><u>(15.2)</u></u>	<u><u>(31.6)</u></u>

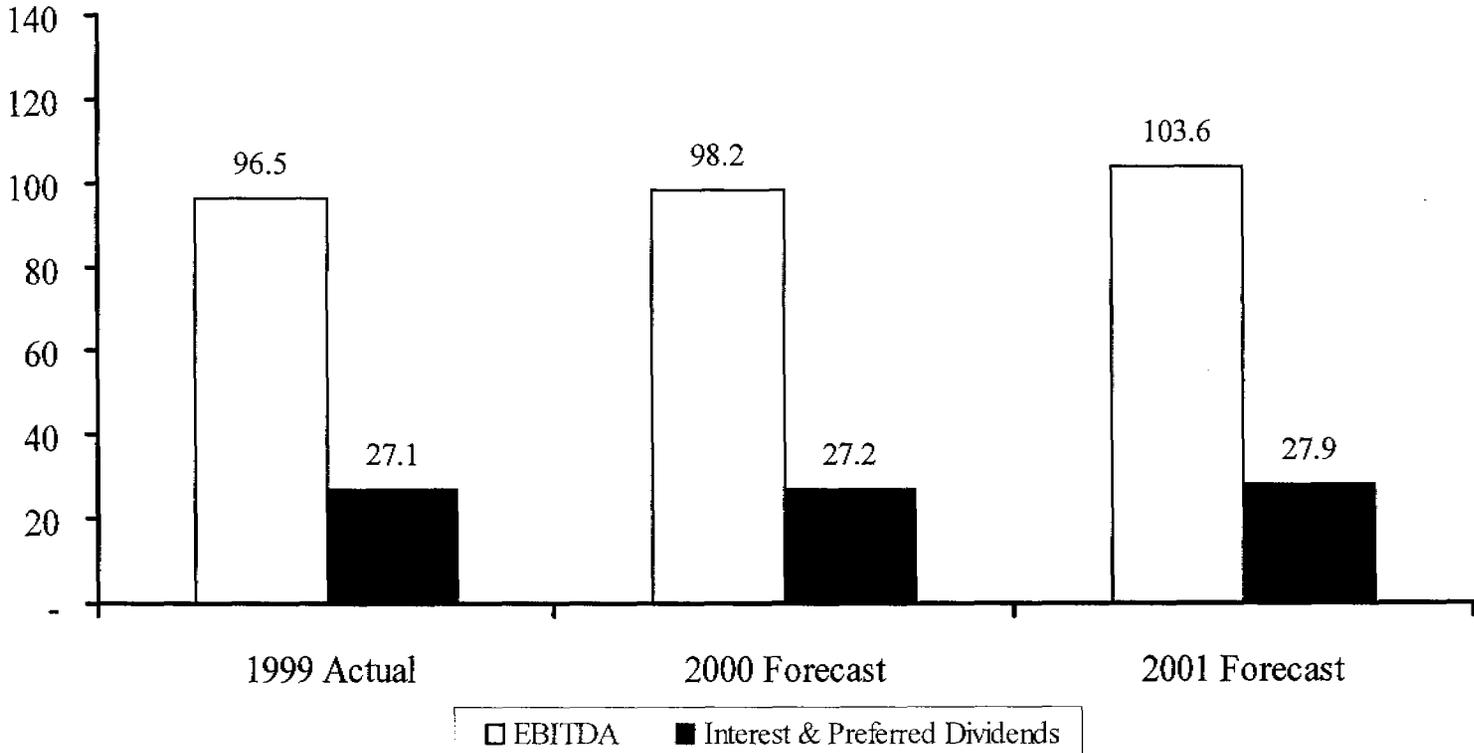
Ratio Analysis

(\$millions)

	1999		2000		2001	
	Actual		Forecast		Forecast	
Capitalization	\$	%	\$	%	\$	%
Short Term Debt	22.7	4.1	18.2	3.3	29.5	5.2
Long Term Debt	280.2	50.4	277.1	50.0	274.1	48.7
Equity: - Preferred	9.9	1.8	9.9	1.8	9.9	1.8
- Common	242.8	43.7	248.8	44.9	249.7	44.3
Total Capitalization	555.6	100.0	554.0	100.0	563.2	100.0
Coverage & Liquidity Ratios						
Net Tangible Assets		1.7		1.8		1.8
Total Debt: Equity	54.5	: 45.5	53.3	: 46.7	53.9	: 46.1
Total Debt: EBITDA		3.1		3.0		2.9
Interest Coverage		2.5		2.5		2.5
EBITDA Interest Coverage		3.6		3.6		3.7
Cashflow/Total Debt (%)		16.6		21.5		20.0
Preferred Dividend Coverage		37.5		40.6		40.9
All Fixed Charges Ratio		2.3		2.4		2.4
Current Ratio		0.58		0.55		0.48
Profitability Ratios						
Net Margin (%)		6.9		7.3		7.3
Asset Turnover		0.6		0.6		0.6
EBIT Total Assets (%)		10.8		10.8		11.0
Return on Average Common Equity (%)		9.7		10.1		10.0

Interest Coverage

(\$millions)



Capital Expenditures

- 1999 Actual \$42 million
2000 Forecast \$43 million
2001 Forecast \$38 million
- Focus of capital program is on improving system reliability and reducing associated operating and maintenance costs over the long-term.

Common Share Dividends

- 1999 Actual \$ 9.495 million
2000 Forecast \$18.989 million
2001 Forecast \$23.989 million
- In July 1999, the company resumed regular quarterly dividend payments following a suspension of dividends on its common shares in September 1998.