Presentation to Standard and Poor's August 2002

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Overview

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



Business Risk

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Business Risk

- Low Allowed ROE
- Economic Growth
 - Service sector tempered
 - Regional diversity
- Competition from Alternative Energy Sources
- Hydro Rate Increase Impacts



Financial and Operating Highlights

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Financial Highlights (\$000s)

| | <u>2002(F)</u> | <u>2001</u> | <u>2000</u> |
|--------------------------------------|----------------|-------------|-------------|
| Revenue | 368,487 | 359,305 | 348,413 |
| Fixed Assets | 954,695 | 914,735 | 865,406 |
| Long-term Debt | 335,858 | 263,758 | 280,158 |
| Common Shareholders' Equity | 277,174 | 260,203 | 250,331 |
| Earnings Applicable to Common Shares | 26,465 | 28,862 | 26,473 |
| Earnings per Common Share (\$) | 2.56 | 2.80 | 2.57 |
| Capital Expenditures | 56,778 | 66,305 | 42,836 |
| Interest Coverage | 2.53 | 2.52 | 2.42 |
| Cashflow from Operations | 61,255 | 55,826 | 73,738 |



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Operating Highlights

| | <u>2002(F)</u> | <u>2001</u> | <u>2000</u> |
|---|-------------------------------------|-------------------------------------|-------------------------------------|
| Customers | 218,638 | 216,879 | 215,210 |
| Installed Generating Capacity (MW) Hydroelectric Diesel Gas Turbine Total | 94.5 8.4 <u>46.9</u> 149.8 | 94.5 6.9 <u>46.9</u> 148.3 | 94.8 6.9 <u>46.9</u> 147.6 |
| Peak One-hour Demand (MW) | 1,176 ¹ | 1,001 | 1,041 |
| Energy Sales (GWh) | 4,699 | 4,667 | 4,555 |

^{1.} On January 31, 2002.



Energy Supply and Distribution

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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.
- Newfoundland and Labrador Hydro rate increase. Flowthrough will result in 4.4% increase in customer rates. Effective Fall 2002.



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.
- Newfoundland & Labrador Hydro serves rural and Labrador customers.
- 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

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Newfoundland Economy

- The Conference Board of Canada forecasts Newfoundland to continue to lead the country in economic growth over the next two years.
- This strong performance is primary fuelled by an expanding offshore oil industry.
- Production at Hibernia continues to increase.
- First oil was produced from Terra Nova in early 2002.
- Development of the White Rose Project.
- Growth in the fishing industry is limited due to the poor outlook for crab and shrimp stocks.



Newfoundland Economy (continued)

- Growth in the manufacturing industry will be limited by restricted growth in the fishing industry, depressed newsprint prices and weakness in the U.S. economy.
- The construction industry will benefit from various offshore oil projects and the development of Voisey's Bay.
- The goods producing sector of the economy will grow by about 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 about 2% per year in the near term.



Newfoundland Economy (continued)

- Housing starts are forecast to average 1,675 units per year.
- Employment levels are forecast to increase and unemployment rates are expected to decline.
- While the level of net out-migration is slowing, total population will continue to decline as the number of deaths exceed births.
- Personal disposable income is forecast to increase as a result of wage increases, income tax cuts and higher levels of employment.
- Economic growth in the St. John's Metropolitan Area is very strong while rural economies continue to struggle.



Customers, Energy Sales and Revenue

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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 54% and 85%, respectively.
- Most major appliances have reached high levels of saturation.
- Energy usage is being positively impacted by increased personal disposable income and declining vacancy rates particularly in urban centres.
- Despite projected electricity prices increases over the next two years, electric space and water heating remains competitively positioned in the marketplace.



Commercial / Institutional

- Represents 10% of customers and 40% of energy sales.
- Approximately 80% of energy sales are to customers in the service sector.
- Primarily driven by the service sector portion of the economy.
- Energy sales in the fishing industry are expected to remain at current levels.
- Growth in 2002 will be negatively impacted by the completion of the construction phase of the Terra Nova Project in the 2nd half of 2001 while 2003 will be positively impacted by start of the White Rose Project.
- Service sector growth is particularly strong in the St. John's Metropolitan Area.



Customer and Energy Statistics 2001

| | Custor | ners | Energy | Sales | Reven | ue | |
|-----------------|----------|------|--------------|----------|---------------|----------|--|
| | <u>#</u> | % | <u>GWh</u> | <u>%</u> | <u>(\$ M)</u> | <u>%</u> | |
| Residential | 186,828 | 86 | 2,775 | 59 | 211.2 | 59 | |
| General Service | 20,661 | 10 | 1,857 | 40 | 130.3 | 36 | |
| Street Lighting | 9,390 | 4 | 35 | 1 | 10.5 | 3 | |
| | | | | | | | |
| Other | - | - | - | - | 7.3 | 2 | |
| Total | 216,879 | 100 | 4,667 | 100 | 359.3 | 100 | |
| | 210,079 | 100 | 4,007 | 100 | 557.5 | 100 | |
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Regulation and Income Tax

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Regulation

- Operates under cost of service regulation.
- In 1999 started utilizing automatic adjustment formula based on bond yields and company's capital.
- 2002 rates based on ROE of 9.05%.
- 2000/2001 rates based on ROE of 9.59%.
- Actual ROE was 11.31% in 2001 and 10.74% in 2000 (after excess revenue adjustment).
- Formula review and anticipated general rate proceeding to start in second half of 2002.



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 May 2000, Newfoundland Power Inc. won its appeal with respect to amounts capitalized (approximately 74% of total tax reassessed and realized interest revenue of \$6.8 million).



Income Tax (continued)

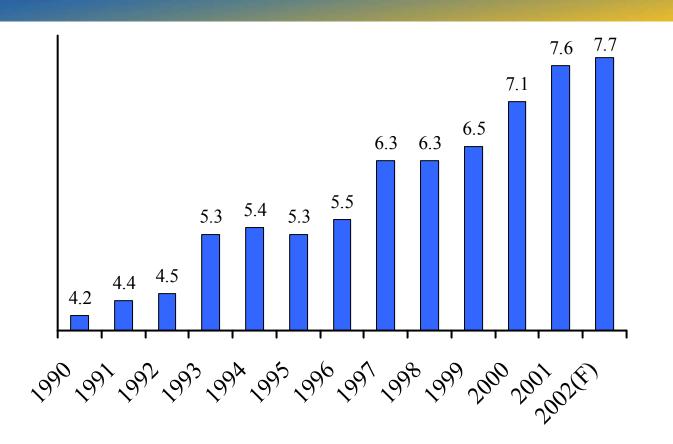
- In 2001, Newfoundland Power Inc. successfully applied to CCRA to apply the ruling to 1994-1998 and a refund of \$6 million was received.
- The unbilled revenue issue is still unresolved. Newfoundland Power Inc. has filed a notice of objection relating to this issue. If unsuccessful, the Company is able to make application to the PUB to have this liability considered in the rate making process.



Corporate Performance Indicators

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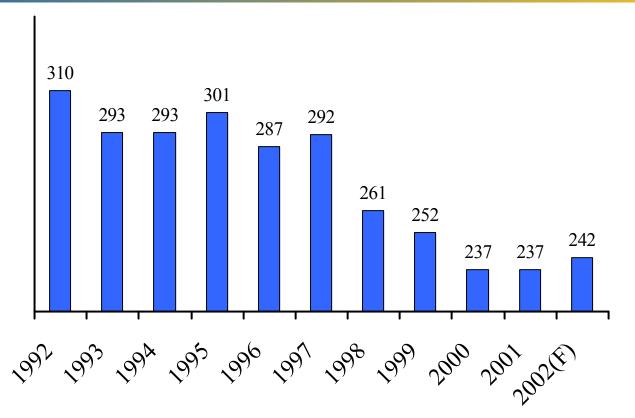
Energy Sales per Employee (millions of kWh)





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Gross Operating Cost per Customer (\$)

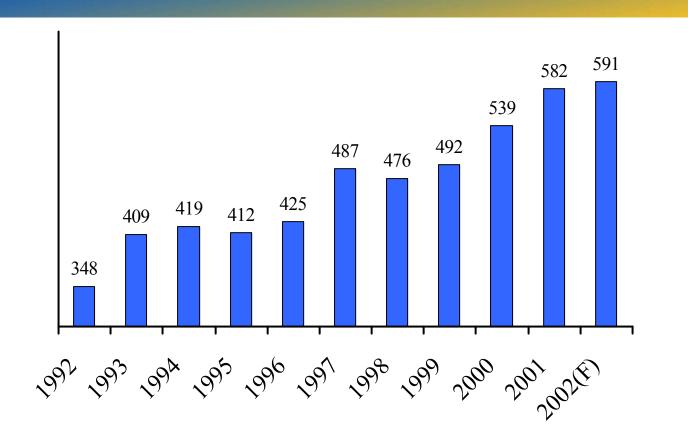


Note: Early Retirement costs are removed.



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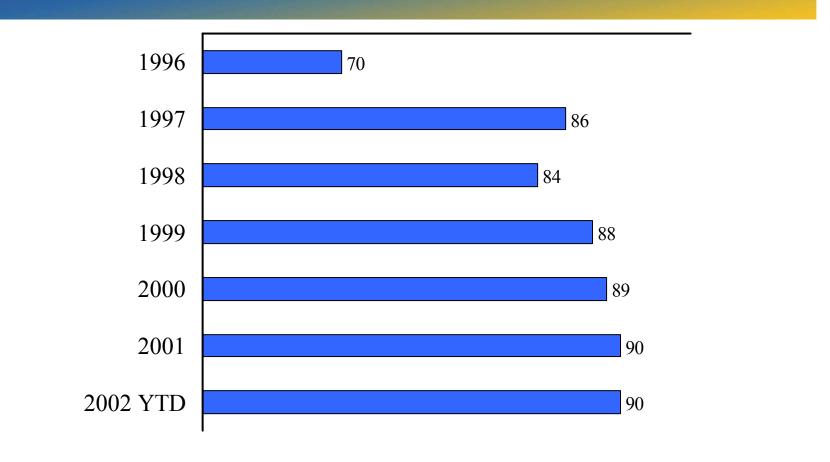
Revenue per Employee (\$000's)





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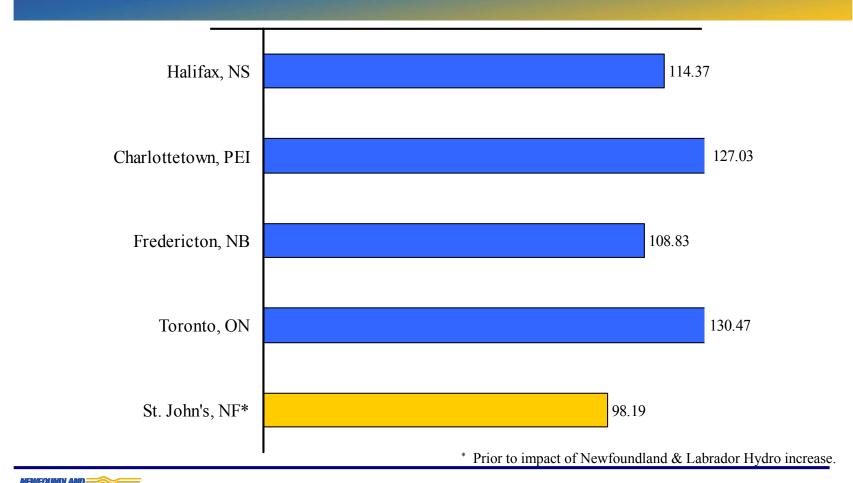
Customer Satisfaction Rating (%)





Comparison of Electricity Costs (\$)

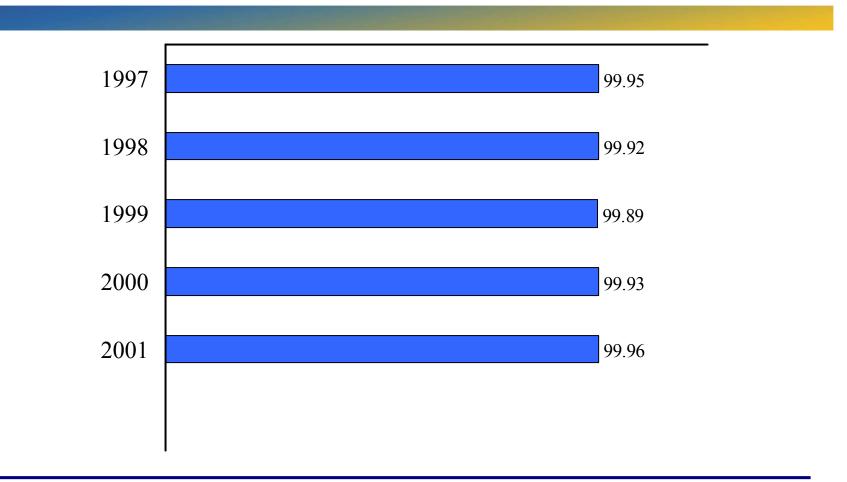
Rates as of July 1, 2002 with Usage of 1,244 kWh/month





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Electricity System Availability (%)





Financial Forecasts

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Forecast 2003

- Residential energy sales are forecast to grow by approximately 0.9%.
- Commercial / Institutional energy sales are forecast to grow by approximately 1.9%.
- Total energy sales are forecast to grow by approximately 1.3%.



Income Statement

(\$millions)

| | 2000 Actual | 2001 Actual | 2002 Forecast |
|--------------------------------------|----------------|----------------|------------------|
| | Actual | Actual | TUICCASt |
| Total Revenues | 348.4 | 359.3 | 368.5 |
| Operating Expenses | 251.8 | 255.4 | 261.7 |
| EBITDA | 96.6 | 103.9 | 106.8 |
| Depreciation & Amortization | 29.6 | 34.0 | 35.6 |
| EBIT | 67.0 | 69.9 | 71.2 |
| Interest & Preferred Dividends | 27.2 | 27.3 | 27.9 |
| Income Taxes | 13.3 | 13.7 | 16.8 |
| Earnings Applicable to Common Shares | 26.5 | 28.9 | 26.5 |



Balance Sheet

(\$millions)

| | Actual | Actual | Forecast |
|--|--------|--------|----------|
| Current Assets | 43.3 | 44.2 | 47.0 |
| Corporate Income Tax Deposit | 13.6 | 6.9 | 6.9 |
| Deferred Charges ¹ | 59.1 | 68.8 | 79.9 |
| Property, Plant & Equipment ² | 512.3 | 545.1 | 566.4 |
| | 628.3 | 665.0 | 700.2 |
| Current Liabilities ³ | 90.0 | 134.2 | 80.3 |
| Long Term Debt | 277.2 | 260.9 | 333.0 |
| Deferred Credits | - | - | - |
| Shareholders' Equity | 260.2 | 269.9 | 286.9 |
| | 628.3 | 665.0 | 700.2 |

^{1.} Is net of weather normalization

² Is net of contributions

³ Includes short term debt



Cash Flow Statement

(\$millions)

| | 2000 | 2001 | 2002 |
|---|--------|--------|----------|
| | Actual | Actual | Forecast |
| | | | |
| | | | |
| Cash From Operations | 73.7 | 55.8 | 61.3 |
| Cash (Used in) Financing | (22.6) | (36.0) | 61.3 |
| Cash (Used in) Investing | (50.7) | (75.7) | (66.2) |
| Change in Short Term Borrowings | 0.4 | (55.9) | 56.4 |
| Short Term Borrowings - Beginning of Year | (19.6) | (19.2) | (75.3) |
| Short Term Borrowings - End of Year | (19.2) | (75.1) | (18.9) |



Ratio Analysis (\$millions)

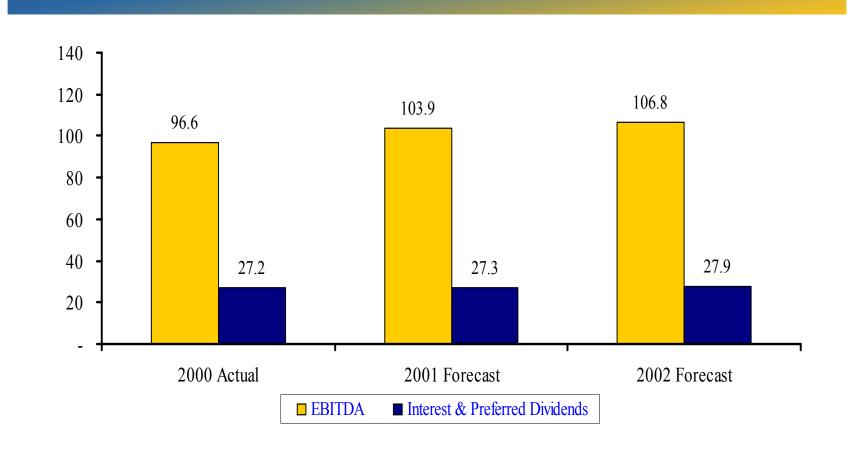
| | 2000 2000 | | 2001 2001 | | 2002 2002 | |
|-----------------------------|--------------|----------|--------------|----------|--------------|--------|
| | Actu | | Actua | | Foreca | |
| Capitalization | \$ | <u>%</u> | \$ | <u>%</u> | \$ | % |
| Short Term Debt | 22.3 | 4.0 | 78.1 | 12.8 | 21.8 | 3.4 |
| Long Term Debt | 277.1 | 49.5 | 260.9 | 42.9 | 333.0 | 51.9 |
| Equity: - Preferred | 9.9 | 1.8 | 9.7 | 1.6 | 9.7 | 1.5 |
| - Common | 250.3 | 44.7 | 260.2 | 42.7 | 277.2 | 43.2 |
| Total Capitalization | 559.6 | 100.0 | 608.9 | 100.0 | 641.6 | 100.0 |
| Coverage & Liquidity Ratios | | | | | | |
| Net Tangible Assets | | 1.8 | | 1.8 | | 1.7 |
| Total Debt: Equity | 53.3 : | 46.7 | 55.7 : | 44.3 | 55.3 | : 44.7 |
| Total Debt: EBITDA | | 3.0 | | 3.3 | | 3.3 |
| Interest Coverage | | 2.5 | | 2.5 | | 2.5 |
| EBITDA Interest Coverage | | 3.6 | | 3.8 | | 3.8 |
| Cashflow/Total Debt (%) | | 21.5 | | 18.4 | | 17.3 |
| Preferred Dividend Coverage | | 40.6 | | 47.3 | | 44.2 |
| All Fixed Charges Ratio | | 2.4 | | 2.4 | | 2.4 |
| Current Ratio | | 0.55 | | 0.38 | | 0.67 |
| Profitability Ratios | | | | | | |
| Net Margin (%) | | 7.3 | | 8.2 | | 7.3 |
| Asset Turnover | | 0.6 | | 0.5 | | 0.5 |
| EBIT Total Assets (%) | | 10.8 | | 9.5 | | 9.8 |



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Interest Coverage

(\$millions)





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Capital Expenditures

- 2000 Actual \$43 million
 2001 Actual \$66 million*
 2002 Forecast \$57 million*
 2003 Forecast \$59 million*
- Focus of capital program is on improving system reliability and reducing associated operating and maintenance costs over the long-term.

*Includes Aliant Pole purchase



Dividends

- 2000 Actual \$19.6 million
 2001 Actual \$19.6 million
 2002 Forecast \$10.1 million
 2003 Forecast \$19.6 million
- In 2002 the Company temporarily reduced its quarterly dividend. The debt financed acquisition of Aliant Telecom Inc.'s joint use poles required the Company to reduce its common share dividend to maintain equity close to the 45% maximum permitted by its regulator.



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