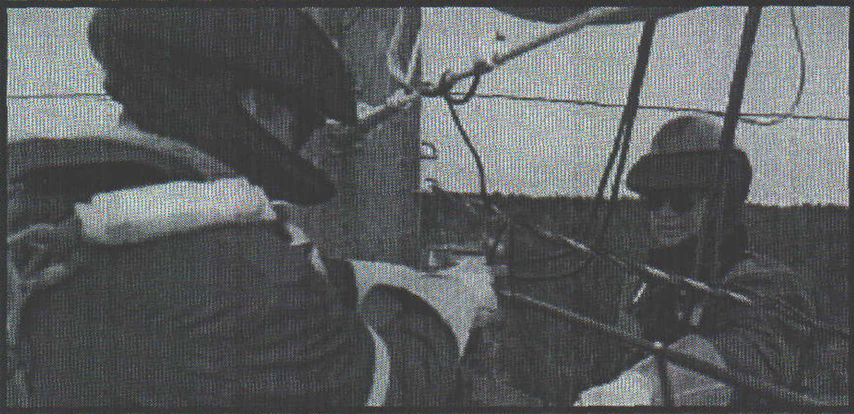
Weather Normalization Reserve Funds
Other Canadian Utilities

2001

Annual Report

Newfoundland and Labrador Hydro



HYDRO
THE POWER OF COMMITMENT

LCDC is incorporated under the laws of Newfoundland and Labrador and was established with the objective of developing all or part of the hydroelectric potential of the Lower Churchill River (the "Lower Churchill Development"), (see Note 4).

Cash Equivalents and Short-Term Investments

Cash equivalents and short-term investments consist primarily of Canadian treasury bills and banker's acceptances bearing interest rates of 2.15% to 6.09% per annum (2000 – 5.82% to 6.21%). Those with original maturities at date of purchase of three months or less are classified as cash equivalents whereas those with original maturities beyond three months and less than twelve months are classified as short-term investments. Both are stated at cost, which approximates market value.

Capital Assets and Depreciation

Expenditures for additions, improvements and renewals are capitalized and normal expenditures for maintenance and repairs are charged to operations.

Hydro, GIPCo and LCDC

Construction in progress includes the costs incurred in preliminary feasibility studies, engineering and construction of new generation, transmission and distribution facilities. Interest is charged to construction in progress at rates equivalent to the weighted average cost of funds borrowed.

Hydro has made no provision in its accounts to date for future removal and site restoration costs. The inclusion of these costs in the rate base is subject to the rate setting process.

Contributions in aid of construction are funds received from customers and governments toward the incurred cost of capital assets, or the fair value of assets contributed. Contributions are treated as a reduction to capital assets and the net capital assets are depreciated.

Depreciation is calculated on hydroelectric generating plant and on transmission plant in service on the sinking fund method using interest factors ranging from 5.25% to 15.79%. Depreciation on other plant in service is calculated on the straight-line method. These methods are designed to fully amortize the cost of the facilities, after deducting contributions in aid of construction, over their estimated service lives.

Estimated service lives of the major assets are as follows:

Generation Plant	
Hydroelectric	50, 75 and 100 years
Thermal	25 and 30 years
Diesel	20 years
Transmission	
Lines	40 and 50 years
Switching Stations	40 years
Distribution System	30 years
Other	3 to 50 years

CF(L)Co

CF(L)Co uses the group depreciation method for certain capital assets other than the generation plant, transmission and terminals and service facilities.

Depreciation is provided on a straight-line basis over the following estimated useful lives:

Generation Plant	
Hydroelectric	67 years
Transmission and Terminals	67 years
Service Facilities	67 years
Other	5 to 100 years

CF(L)Co has made no provision in its accounts for future removal and site restoration costs as they cannot be estimated at this time.

Losses on other than normal retirements are charged to operations in the year incurred as adjustments to depreciation expense.

Debt Discount and Financing Expenses

These costs are amortized on a straight-line basis over the lives of the respective debt issues.

Rate Stabilization Plan

On January 1, 1986, Hydro, having received the concurrence of the PUB, implemented a rate stabilization plan which primarily provides for the deferral of cost variances resulting from changes in fuel prices, levels of precipitation and load. The balance in the plan is amortized over a three-year period. Adjustments required in retail rates to cover the amortization of the balance in the plan do not require a reference to the PUB and are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

NORTHWEST TERRITORIES
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benefits, not as employees rendered service. In keeping with changes to the recommendations of the Canadian Institute of Chartered Accountants, the Corporation has accrued termination benefits in 2000/01 based on the service rendered by employees and management's best estimate of the employees' future eligibility for these benefits.

This change has been applied retroactively, without restatement of prior years. The impact on the 2001 financial statements is a reduction in opening retained earnings of $566 thousand with an increase in employee termination benefits and no impact to net income. Depending on management's estimates of termination benefits in future years, this change in accounting policy may or may not have an impact on net income in future years.

2001/03 General Rate Application

On May 9, 2001 the Corporation submitted Phase I of a General Rate Application (GRA) for the Test Years 2001/02 and 2002/03. The Application identifies a revenue requirement deficiency of $16.3 million for 2001/02. The Corporation is anticipating a decision from the PUB on the Phase I revenue requirement by the end of the calendar year. The 2001/02 and 2002/03 Revenue Requirements account for a number of changes since the last Phase I including:

- *Fuel*

  The average per litre fuel price has increased by over 60% since the last GRA that related to the 1997/98 Test Year. Although the Corporation has been able to reduce its dependency on diesel fuel, the market price of fuel has risen significantly over the last few years. During this time the Corporation has recovered the additional cost from customers through the Fuel Stabilization Fund that was established in the last GRA.

- Depreciation

  In the PUB's Decision arising from the last GRA, the Corporation was directed to complete a new depreciation study in five year's time. The Corporation has completed a study of its depreciation and the results are reflected in the current Application. New rates of depreciation have contributed to the overall revenue requirement shortfall. As well, additions to capital over the period, adds to the overall value of the Corporation's rate base and increases depreciation expense.

- Operations

  Inflation has increased the overall cost of doing business since the Corporation's last GRA. As well, because of Division and the subsequent loss of the Nunavut customer base, there are now fewer customers to share the cost of services that benefit all customers but are not specific to any one community.

- Reduction in sales

  Projected sales of electricity in the NWT are significantly lower than forecast at the last GRA in 1995/96. Economic growth in the region has not happened as previously anticipated and no substantial future growth in electricity sales is forecast for the two Test Years.

In conjunction with filing the Phase I GRA for the Test Years 2001/02 and 2002/03, the Corporation also applied for interim refundable rates until the PUB makes its decision on rates in Phase II of the Application. Interim refundable rates were approved June 25, 2001 and will become effective July 1, 2001. The Corporation expects to collect an additional $5 million from the interim refundable rates to offset increased expenses in 2001/02.

Financing Costs

Financing costs increased $1.2 million (9.8%). This was due to increased borrowings to finance the $20.4 million capital plan. During the year $20 million in short-term debt was replaced by a floating rate Capital Loan Facility. During *2001/02 it is anticipated that the floating rate will be converted to a fixed rate.*

Liquidity and Capital Resources

Cash Flows in General

Cash flows from operating activities were $15 million lower than last year. This coupled with the capital plan resulted in the Corporation increasing its debt by $22.4 million.

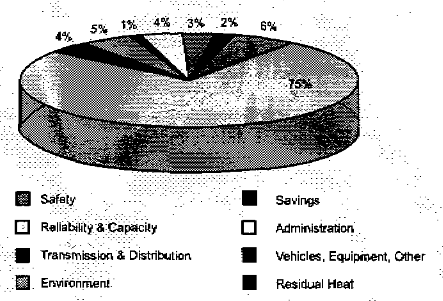
Capital Expenditures

Capital expenditures for 2000/01 totaled $21.9 million (1999/00 capital expenditures were $21.4 million) and the majority (75%) of these expenditures were made to maintain or improve the reliability and capacity of the Corporation's plants.

$2.2 million of capital expenditures in 2000/01 was spent on completing a *number of major capital projects started in the previous year such as lightning* protection work on the Yellowknife/Snare system transmission line, construction of a modular power plant in Paulatuk, a tank farm upgrade in Deline, a study of the Snare Water License Requirements, a powerhouse upgrade in Repulse Bay and various smaller projects. $5.0 million was spent in 2000/01 on two capital projects that are forecast to be completed by Nunavut Power Corporation in 2001/02 –construction of new powerhouses in Sanikiluaq and Clyde River. The remaining $14.8 million in capital expenditures was for capital projects initiated and completed in 2000/01. The largest project initiated and completed in 2000/01 was the upgrade and redesign of the generating plant in Iqaluit. This upgrade included the addition of 4.3MW of generation to meet the increasing demand for electricity in Nunavut's capital.

The 2001/02 capital program for the Northwest Territories is budgeted at $5.9 million. This includes upgrades and remediation to the Snare Hydro system, installation of engines in Colville Lake and Nahanni Butte, repairs to the *transformer at Pine Point and the purchase of two emergency generators.*

2000/01 CAPITAL EXPENDITURES BY CATEGORY



Rate Stabilization Funds

The Corporation has six stabilization funds – two water funds and four fuel stabilization funds. These funds were approved in January 1997 by the PUB to mitigate the impact on utility rates of unexpected changes in fuel prices, *changes from average water levels and fluctuations in hydro generation.* The balance in the funds are accounted for by excesses and deficiencies in fuel price and water levels, which accumulate until specified limits are reached, at which time riders are applied to bring the funds to approved levels.

Due to an increase in world fuel prices, the Diesel Communities Fuel Stabilization Fund balance, reached its $2 million trigger in the first quarter of 2000/01. A rider of 3.4¢/kWh was applied to all customers in the fund effective June 2000. As a result of fuel prices continuing to rise, the Diesel Communities Fuel Stabilization Fund balance, rose faster than the balance was being drawn down with the existing rider, therefore the PUB approved a rider increase in December to 9.9¢/kWh for NWT customers only. *In preparation for transferring the assets and* responsibilities of the Corporation's operation in Nunavut to the Nunavut Government, the GN decided that customers in Nunavut would not be subject to the 6.5¢/kWh increase in the rate rider and the Corporation continued to collect 3.4¢/kWh from these customers against the balance in the Diesel Communities *Fuel Stabilization Fund. The NWT rider was terminated in April 2001.*

The Norman Wells Diesel Stabilization Fund hit its $100 thousand trigger in the second quarter of 2000/01. A rider of 2.72¢/kWh was approved by the PUB for September 2000. As with the Diesel Communities Fuel Stabilization, the world price of fuel continued to rise in 2000/01 such that the fund balance was growing faster than the fund was being drawn down and the PUB approved a rider increase for February 2001 to 7.57¢/kWh. The Corporation continues to collect this rider in the 2001/02. The rider amount will be adjusted downward once interim rates are in place and will be terminated once the Fund's balance reaches the approved level.

Neither the Snare/Yellowknife water or diesel rate stabilization funds hit their trigger amounts during the 2000/01 fiscal year nor is it anticipated these funds will exceed their trigger amounts in 2001/02.

2001/02 Forecast

The Corporation anticipates earning a full return on equity in 2001/02. In heading towards this goal the Corporation will be undertaking the following:

- submitting a GRA in May 2001 and obtaining a PUB decision on Phase I of the revenue requirement
- fulfilling the Corporation's obligations under its Engineering Services contract with the Nunavut Power Corporation
- assisting in the process of dividing the assets and liabilities of the Corporation between the NWT and Nunavut
- reorganizing the Corporation
- broadening the investments allowed under the sinking fund policy
- searching out new sources of revenue through business development initiatives
- maintaining a clear focus on Safety and continuing towards a goal of zero lost time accidents
- implementing any required changes as a result of the GNWT decisions from the Robertson Report recommendations
- strengthening communications and relationships with the Corporation's customers
- evaluating new technology that has the promise to reduce costs, reduce overhead, or improve efficiency

Key Financial Targets and Ratios

The Corporation has identified several key indicators against which to measure corporate performance, as follows:

	Target	2001	2000	1999
Total Return on Regulated Equity	10.0%	8.2%	10.0%	11.2%
Debt/Debt+ Equity Ratio	55/45	59/41	57/43	55/45
Plant Efficiency (kWh/litre)*	3.58	3.59	3.59	3.60

*Plant efficiencies have been restated and no longer include the diesel engines in Inuvik

Total Return on Regulated Equity (RORE) is a measurement of the relationship between profit and equity invested in the Corporation. In 2000/01, this ratio decreased as a result of changes in net income and equity. Net income decreased as a result of increased salary and wages costs and an increase in interest costs. The increase in equity was dampened as a result of changes in the Corporation's accounting policy with respect to accounting for termination benefits based on service rather than as employee earned benefits, as was *done in prior years.*

Debt/Debt+Equity Ratio measures the amount of debt the Corporation has as compared to the equity invested in the Corporation. The Corporation is striving towards a long-term target of 50 to 55% debt compared to 45 to 50% equity. For the fiscal year 2000/01, a ratio of 59/41 was achieved. The amount of debt compared to equity increased over the previous year due to the size of the capital program.

Plant Efficiency measures the number of diesel kWh generated per litre of fuel consumed. This efficiency ratio is instrumental in the setting of rates. The efficiency ratio for prior years has been restated to exclude changes in the operations in Inuvik. In 1999/00 gas engines were installed in Inuvik. These highly efficient engines are not directly comparable to diesel engine efficiencies and thus have been excluded from the calculation. The plant efficiency ratio shown above is based on diesel production only. For the third year in a row, the Corporation has exceeded its plant efficiency target of 3.58kWh/litre, thus reducing its fuel consumption per kWh of electricity generated.

Judith Goucher, MA
Director, Finance & CFO

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

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Property, plant and equipment

Acquisitions, replacements and improvements are recorded at cost, including direct costs, general and administrative expenses and an allowance on funds used for certain construction projects as accepted by regulatory authorities. The historical cost of retired properties related to the distribution system and the retirement costs are applied against accumulated depreciation when the properties are retired. Under this method, no gain or loss on disposal of assets is realized.

Depreciation is calculated using mainly the straight-line method based on the residual useful lives of the existing assets. The rates are periodically revised and approved by the Régie and include recovery of the unamortized cost of existing assets, estimates of the future costs of retiring the properties and the profit and loss upon disposal of properties already retired.

Deferred charges

GMCLP defers certain charges that are amortized and recovered in its rates over various periods not exceeding ten years depending on the nature of such charges.

To alleviate the effect of unpredictable and uncontrollable factors on its operations, the principal one being the impact of temperature fluctuations on its revenues, GMCLP-QDA is authorized by the Régie to maintain various rate stabilization accounts. Beginning in the second subsequent year, annual fluctuations are amortized over five years and recovered in rates.

Goodwill

Management reviews goodwill annually to determine the possible loss in value by comparing the real value of its investments in its subsidiaries and joint ventures with undiscounted future cash flows. If economic factors and related conditions appeared to indicate a permanent loss of value, GMCLP would then recognize the loss of value in the current year.

Development activities

The costs related to development activities are capitalized except in cases where GMCLP does not have reasonable assurance that these costs will be recovered in the future.

Foreign currency translation

Long-term debt payable in foreign currency is translated into Canadian dollars at the rate of exchange prevailing at year-end or, as the case may be, at rates prescribed in forward exchange contracts used for hedging purposes. Unrealized gains and losses on exchange are deferred and amortized over the balance of the refund periods.

The assets and liabilities of foreign subsidiaries that are self-sustaining with respect to financing and operations are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Revenues and expenses are translated at the average rate prevailing during the fiscal year. Gains and losses are shown under the caption "Translation adjustment" in the consolidated Partners' equity.

Revenues

Revenues include estimated volumes delivered but not billed at the end of the year as well as the impact of rate stabilization accounts resulting from temperature fluctuations. Overearnings, if any, which are recognized following the Régie's decision, are deducted from revenues.

Income taxes

GMCLP as well as its subsidiaries and joint ventures formed as limited partnerships do not show income tax expense since under existing legislation it is the Partners who are taxable.

Subsidiaries and joint ventures formed as corporations use the tax liability method to record income taxes, with the exception of one subsidiary that uses the taxes payable method, as authorized by the NEB.

BC Gas Utility Ltd.

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Significant Accounting Policies

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and the disclosure of contingent assets and liabilities. A significant area requiring the use of management estimates relates to the determination of useful lives for depreciation and amortization. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, including Squamish Gas Co. Ltd. ("Squamish Gas").

REGULATION

The Company and Squamish Gas are primarily engaged in the transmission and retail distribution of natural gas for residential, commercial and large industrial customers in British Columbia and are subject to the regulation of the British Columbia Utilities Commission ("the Commission"). The Commission exercises statutory authority over such matters as rate of return, construction and operation of facilities, accounting practices and rates.

INVENTORIES OF GAS IN STORAGE AND SUPPLIES

Inventories of gas in storage and supplies are valued at cost determined mainly on a moving-average basis.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost which includes all direct costs, betterments, an allocation of overhead costs and an allowance for funds used during construction.

Depreciation of assets is provided on a straight-line basis on plant in service at rates approved by the Commission. The cost of depreciable property retired, together with removal costs less salvage, is charged to accumulated depreciation.

No provision for future removal and site restoration costs has been accrued for regulated operations as the extent of such costs is not currently determinable. Management expects that such costs would be recoverable through future rates.

RATE STABILIZATION ACCOUNTS

The Company is authorized by the Commission to maintain two rate stabilization accounts to mitigate the effect on its earnings of unpredictable and uncontrollable factors, principally temperature and cost of natural gas fluctuations.

The gas cost reconciliation account ("GCRA") accumulates unforecasted changes in natural gas costs and natural gas cost recoveries. The revenue stabilization adjustment mechanism ("RSAM") accumulates the margin impact of variations in the actual use for residential and commercial customers from forecast use. The balances are amortized as approved by the Commission.

DEFERRED CHARGES

The Company defers certain charges which the Commission requires or permits to be recovered through future rates. Deferred charges are amortized over various periods depending on the nature of the charges and include financing costs such as long-term debt issue costs which are amortized over the original lives of the related debt.

REVENUES

Revenues are recorded when products have been delivered or services have been performed.

Revenues from natural gas sales are recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the reporting period and adjusted for the RSAM and other approved Commission orders.

EMPLOYEE BENEFIT PLANS

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets, as the underlying services are provided. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on services and reflects management's best estimates of expected plan investment performance, salary growth, future terminations, expected health care costs, mortality rates and retirement ages of plan members. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Adjustments that result from plan amendments, changes in assumptions and experience gains and losses are amortized over the expected average remaining service life of the employee group covered by the plan. A current settlement discount rate is used to measure the accrued pension benefit obligation instead of using a long-term rate of return.

The costs of providing pension and post employment benefits match the recovery of these costs in rates.

INCOME TAXES

The Company and Squamish Gas account for income taxes for regulated operations as prescribed by the Commission. This includes following the taxes payable method of accounting for income taxes and accounting for certain assets and the rate stabilization accounts on a net of realized tax savings basis as approved by the Commission. Under the taxes payable method, future income taxes are not recorded for temporary differences between the tax basis of an asset or liability and its carrying amount in the balance sheet. The taxes payable method is followed as there is reasonable expectation that all taxes payable in future years will be recoverable from customers at that time.