Q. Provide a financial forecast including a statement of all assumptions, planning criteria, perceived changes in the revenue requirement and required rate action for the next five years. Include a column showing the surplus/deficit in the Rate Stabilization Plan.

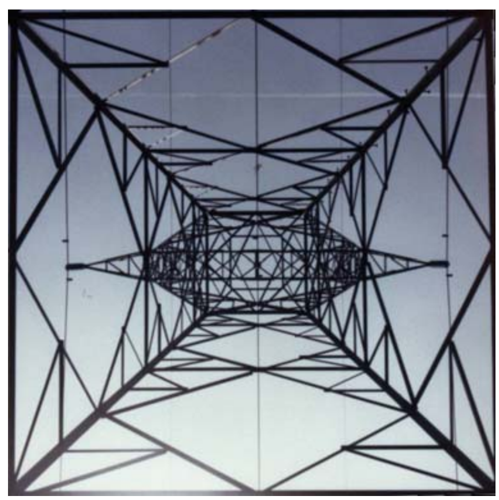
A. Please see the attached Financial Projection 2003 to 2007.

CA-3 NLH

NEWFOUNDLAND AND LABRADOR HYDRO

FINANCIAL PROJECTION
2003 TO 2007

. . . to be recognized as an innovative provider of quality energy services . . .



August 2003

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EXECUTIVE SUMMARY

This document outlines Newfoundland and Labrador Hydro's (Hydro's) financial projection for 2003 to 2007.

The highlights are:

- The year 2003 is based on forecast results and 2004 is based on the revised "Test Year" as filed with the Board of Commissioners of Public Utilities on August 12, 2003, as part of the 2003 rate application.
- The years 2004 onward are projected to be "Test Years" meaning that rates will be adjusted annually to recover each year's costs.
- Target rate of return on regulated equity is set at 9.75 percent for 2004 through 2007.
- A 75 percent dividend payout for the Hydro dividend portion is targeted during the period 2004 to 2007. Over the 2003 to 2007 time frame $260 million in dividends are projected to be paid to the Province of Newfoundland and Labrador consisting of $212 million from Hydro and $48 million from Churchill Falls (Labrador) Corporation Limited (CF[L]Co).
- Granite Canal's estimated total cost is $135 million. This new source of generation began production during midyear 2003.
- Power purchases for 2003 are forecast to increase over 2002 by $9 million. Power purchases for 2004 are estimated to further increase by $8 million over 2003. These increases result from new purchase agreements with non-utility generators that commenced during 2003. There are no forecast purchases included from the wind demonstration project.
- Operating and maintenance expenses are predicted to increase by the rate of inflation after 2004.
- New debt issues totalling $225 million have been forecast during the projection period primarily to replace mature debt issues and to finance capital expenditures.
- At the end of the forecast period in 2007, the combined balance in the Rate Stabilization Plans (RSPs) is projected to be $14 million. It has been projected that fuel price rebasing will occur as part of the rate revisions forecast to occur on January 1, 2004, and each year thereafter.
- Excluding the Labrador Hydro Project, total capital expenditures are $207 million during the period.
- Total revenue is projected to increase from $381 million in 2003 to $464 million in 2007. Regulated energy sales increase from $327 million in 2003 to $396 million in 2007 with the majority of the increase occurring in 2004.
- Average compound annual growth of one percent is forecast in energy sales to Newfoundland Power and in total energy sales over the period.
- Excluding the effects of the Rate Stabilization Plan, wholesale rates to Newfoundland Power and Island Industrial rates are projected to increase at 14 percent in 2004 over 2002. From 2005 to 2007 these rates are expected to increase at an annual compound rate of one percent.

INTRODUCTION

Purpose

This report outlines the financial results for Newfoundland and Labrador Hydro (Hydro) based on the assumptions and hypotheses outlined on pages four through nine. This financial projection was prepared for internal management use and accordingly may not be appropriate for general or other purposes.

Scope

The information provided for 2003 is based on Hydro's short-term forecast and 2004 is based on the revised "Test Year" as filed with the Board of Commissioners of Public Utilities (Board) on August 12, 2003 (Newfoundland and Labrador Hydro [Hydro], 2003).

Detailed cost of service studies have not been prepared for 2005 to 2007; forecasts for these years were prepared using Hydro's other computerized planning models.

Future Oriented Financial Information

This financial projection reflects certain future oriented financial information that involves substantial known and unknown risks and uncertainties some of which are beyond the Company's control. The Company's actual results, performance or achievement will differ from those expressed in, or implied by, this financial projection, and these differences could be material. Accordingly, no assurances can be given that the events anticipated by this projection will transpire or occur.

BACKGROUND

Corporate Mission Statement

Newfoundland and Labrador Hydro is a crown corporation committed to providing cost-effective and reliable energy services to our customers for the benefit of all people of the province.

Our skilled and committed employees will use innovative methods and technologies, and will maintain high standards of safety and health, and environmental responsibility.

Electricity Market Environment

Hydro's outlook and financial performance is predicated on a number of market factors and assumptions as they affect the power industry's operating environment for Hydro through the forecast period. The general levels of economic activity in the Province, including the operating levels of locally based firms competing in international markets, directly affect the electricity market. Hydro receives historical and forecast economic data for the Province from the Department of Finance of the Government of Newfoundland and Labrador, and for the Canadian economy from the Conference Board of Canada. In addition, Hydro consults directly with its major customers.

In recent years the Province has recorded strong growth in GDP and employment. Exports, notably offshore oil production, have been the main driver of GDP growth and Hydro adjusts for this significant factor when analyzing local economic growth. Notwithstanding, personal income growth has been sustained in recent years, which when combined with low interest rates and broader employment gains, has resulted in consumer spending being quite strong. For example, despite regional variation in economic activity, the recent surge in housing starts has increased overall load growth owing to electricity's place as a space heating fuel of choice in the vast majority of new construction. The same can be said for commercial construction. Another important market aspect in recent years is relatively high oil prices since they serve to increase electricity demand through even further installation preference for electric heat and fuel oil substitution. These factors have combined during a period when space heating and related loads have been returning to normal levels following a warmer weather cycle. This is the general market environment that has impacted Hydro's wholesale and retail utility sales load of late. Hydro's sales to the mature, large international-industrial customers in the Province in recent years have remained steady overall, despite some cyclical weakness in both iron ore and newsprint markets.

Looking forward across the next few years to Hydro's expected operating environment, the outlook is presently positive. Resource developments remain prominent sources of economic growth. Investment spending will again grow as the Voisey's Bay and White Rose construction and development projects gear up. An expansion of offshore oil production at Terra Nova has also been announced. The prognosis for the crab and shrimp fisheries, while guarded in some circles, remains favourable, in sharp contrast with the outlook for the ground fish sector. The Province's existing heavy industry base, while not expanding or contracting, is dealing with resource and/or cost constraints in an ongoing effort to remain competitive in the international market place. Such factors, in concert with a general economic environment of low inflation, low interest rates, reduced net out-migration, and stimulative Government expenditures, can be expected to continue the Province along the path of real economic growth through the medium term. The economic outlook beyond this medium term to 2006 is presently less sanguine with more modest economic gains over time. As is well known, there are many local and international uncertainties that can and will impact Hydro's financial and operating environment going forward. Hydro's direct international risks primarily relate to conditions impacting pricing in capital and oil markets. Local upside risks for the economy of the Province include additional oil and gas developments offshore, growth in the existing recoverable reserves of offshore oil, Labrador power developments, etc. Alternatively, local downside risks are shellfish stock collapse, resource constraints for the newsprint sector, government fiscal constraints, etc.

Fuel Prices

Hydro's Rate Stabilization Plan (RSP) was designed to protect electricity consumers from monthly billing adjustments resulting from fluctuating fuel prices. The currently approved price of No. 6 fuel in the RSP is $25.91 Canadian per barrel (Board of Commissioners of Public Utilities, 2002, p. 60). Any differential between market prices and the approved price accumulates in the RSP and is collected from or returned to Hydro's customers over a two-year period.

Order No. P.U.7 (2002-2003)

During the Fall 2001, in response to Hydro's application, a General Rate Review was conducted by the Board. The Board delivered its decision in Order No. P.U.7 (2002-2003) (P.U.7) dated June 7, 2002. The details of this order are available on the Board Web site at:

http://pub.colabnet.com/decision.htm

Although it is beyond the scope of this projection to provide a detailed discussion of the aforementioned Board decision and order, the significant changes that directly affect the assumptions and calculations used to prepare this financial projection are highlighted. Items that have a major impact on Hydro's financial projection calculations and assumptions (in P.U.7) include but are not limited to:

- Hydro is required to use 4,425 GWh as the "Test Year" hydraulic production forecast (p. 48).
- Holyrood's 2002 thermal efficiency factor was set at 615 kWh per barrel of No. 6. fuel (p. 52).
- The price of No. 6 fuel was rebased to $25.91 per barrel for 2002 (p. 60).
- Hydro was directed to create two RSP funds, a new fund to be recovered over a two-year term and the existing balance, of the old fund, to be collected over a five-year period on a straight-line basis. The interest rate to be applied to both plans is Hydro's weighted average cost of capital (WACC) (pp. 87-88).
- RSP customer splits are now based on invoiced-bulk transmission energy and the test year Rural deficit allocation (p. 90).
- Hydro must present a plan to phase out preferential rural rates (p. 130).
  (Subsequent to P.U.7, during July 2003 the Lieutenant Governor in Council directed the Board to maintain these preferential rural rates.)
- Hydro must present " . . . a plan which phases in to the Labrador Interconnected customers, the impact of applying the credit for secondary energy sales to the rural deficit" (p. 141).

Relevant Legislation

Relevant legislation governing Hydro's activities include the:

- Public Utilities Act (http://www.gov.nf.ca/hoa/statutes/p47.htm)
- Electrical Power Control Act, 1994 (http://www.gov.nf.ca/hoa/statutes/E05-1.htm)
- Hydro Corporation Act (http://www.gov.nf.ca/hoa/statutes/h16.htm)

Relevant Contracts and Agreements

Effective March 9, 1998, Newfoundland and Labrador Hydro entered into a three-year contract for the resale of the remaining recall in Labrador to Hydro-Québec (Purchase and Sale Agreement, 1998). This contract was amended with an effective date of March 9, 2001, extending the contract termination date to March 31, 2004 (Amended and Restated Purchase and Sale Agreement, 2001).

Hydro has agreements with Corner Brook Pulp and Paper Limited (15 MW) and the Exploits River Hydro Partnership (32 MW) to purchase power from these two non-utility generators (NUGs). Power and energy from these NUGS commenced during 2003. There are existing power purchase agreements as well with Star Lake Hydro Partnership (15 MW) and Algonquin Power Inc. (Rattle Brook, 4 MW).

General Assumptions and Hypotheses

General assumptions and hypotheses are as follows:

- No major changes will occur with respect to accounting policies for Hydro.
- No major changes will occur with respect to current legislation governing Hydro.
- For projection purposes, the years 2004 through 2007 will be "Test Years" during which Hydro will design rates to achieve a target-regulated rate of return on rate base pegged at Hydro's WACC.
- The Canadian Forces Base Goose Bay secondary revenue credit will be applied to the Rural deficit over a five-year period beginning in 2004. The secondary credit available to be applied against the Rural deficit is forecast to be 2004, $.1 million; 2005, $.6 million; 2006, $1 million; and 2007, $1.9 million.
- Other key financial assumptions are presented in **Table 1**, on the following page.

Table 1: Key Financial Assumptions

	2003	2004	2005	2006	2007
Fuel Purchase Prices					
No. 6 ($ per Barrel)	34.03 (1)	29.20 (2)	28.20 (2)	28.95 (2)	30.40 (2)
Gas turbine ($ per gallon)	1.65 (1)	1.51 (2)	1.48 (2)	1.48 (2)	1.48 (2)
Diesel ($ per gallon)	1.65 (1)	1.51 (2)	1.48 (2)	1.48 (2)	1.48 (2)
Interest Rates					
Short-term	3.4%	5.0%	5.2% (3)	5.2% (3)	5.2% (3)
Long-term	6.7%	6.5%	7.1% (3)	7.1% (3)	7.1% (3)
Debt guarantee fee	1.0%	1.0%	1.0%	1.0%	1.0%
Inflation Rates	1.6% (3)	1.4% (3)	1.5% (3)	1.7% (3)	1.7% (3)
Return on Equity	-	9.75%	9.75%	9.75%	9.75%
Weighted Average Cost of Capital	7.6%	8.3%	8.3%	8.5%	8.5%
Debt to Capital	86%	86%	85%	84%	84%

(1) PIRA Energy Group, 2002
(2) PIRA Energy Group, 2003
(3) Hall, 2002

Specific Assumptions and Hypotheses

Fixed Assets and Capital Expenditures

Fixed asset balances and associated depreciation expenses are provided in the **Financial Statements**.

Capital expenditures excluding the Labrador Hydro Project are presented graphically in **Figure 1** and numerically in **Table 2**.

Figure 1: Capital Expenditures
($ 000,000)

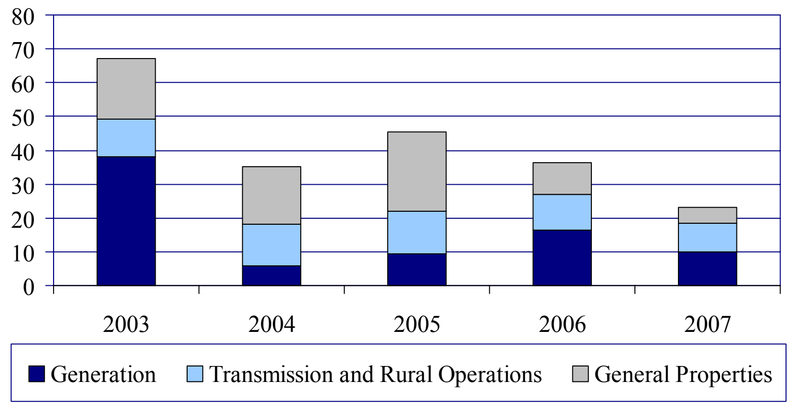


Table 2: Capital Expenditures
($ 000,000)

	2003	2004	2005	2006	2007	Total
Generation	38.1	5.9	9.5	16.3	9.9	79.6
Transmission and Rural Operations	11.0	12.4	12.5	10.7	8.7	55.3
General Properties	18.1	16.9	23.4	9.2	4.5	72.1
Total Capital Expenditures	67.1	35.2	45.4	36.2	23.1	206.9

Rate Stabilization Plan and No. 6 Fuel

The price of No. 6 fuel for 2003 is rebased to $25.91 Canadian per barrel in the RSP, with any variance from the market price accumulating in the RSP.

For projection purposes, the years 2004 through 2007 are projected to be "Test Years" during which rates are adjusted annually; the price of No. 6 fuel is projected to be rebased at the prices shown in **Table 1**.

Holyrood's thermal efficiency factor is set at 624 kWh per barrel of No. 6. fuel for 2004 and beyond.

Average hydraulic production is assumed for 2004 to 2007.

The RSP is financed at the WACC.

Energy Sales

Table 3, on the following page, discloses projected energy sales in GWh over the forecast time horizon.

Export Revenues

Export revenues from the sale of the remaining recall to Hydro-Québec for 2003 and 2004 are as included in the latest forecasts. For 2005 onward, export revenues are based on existing rates applied to the latest energy sales projections.

Operating and Administration Expenses

Excluding extraordinary items, operating and administration expenses for 2005 onward are expected to increase at the rate of inflation.

Production

Provincial production requirements, including power purchases, are provided in **Table 4**, on the next page. These production levels, supplemented by power purchases, are necessary to meet the projected energy sales provided in **Table 3**.

Table 3: Electricity Sales by Customer Classes
(GWh)

	2003	2004	2005	2006	2007
Island Interconnected Load					
Newfoundland Power	4,658.0	4,741.4	4,766.6	4,829.3	4,902.4
Island Industrial	1,378.5	1,368.6	1,367.2	1,364.5	1,367.4
Island Rural Interconnected	366.0	368.0	368.7	361.1	362.4
Total Island	6,402.5	6,478.0	6,502.5	6,554.9	6,632.2
Labrador Interconnected Load					
Canadian Forces Base Goose Bay	76.8	77.2	82.8	79.6	78.6
Labrador Rural Interconnected	468.5	479.1	485.3	491.4	497.6
Total Labrador	545.3	556.3	568.1	571.0	576.2
Rural Isolated Load	61.1	63.7	65.2	66.6	67.8
Non-regulated	1,668.7	1,689.5	1,672.9	1,669.1	1,663.5
Total Load	8,677.6	8,787.5	8,808.7	8,861.6	8,939.7

Table 4: Electricity Production Plan Including Power Purchases
(GWh)

	2003	2004	2005	2006	2007
Hydraulic					
Bay D'Espoir	2,351.0	2,657.0	2,657.0	2,657.0	2,657.0
Granite Canal	119.0	224.0	224.0	224.0	224.0
Hinds Lake	321.0	352.0	352.0	352.0	352.0
Upper Salmon	505.0	572.0	572.0	572.0	572.0
Cat Arm	817.0	733.0	733.0	733.0	733.0
Paradise River	37.0	37.0	37.0	37.0	37.0
Mini Hydro	7.2	7.2	7.2	7.2	7.2
Total Hydraulic	4,157.2	4,582.2	4,582.2	4,582.2	4,582.2
Other					
Holyrood Thermal	2,259.9	1,790.2	1,814.2	1,867.2	1,946.7
Gas Turbines	3.7	3.3	3.4	3.5	3.9
Diesel	53.9	55.6	53.3	54.3	55.0
Total Other	2,317.4	1,849.0	1,870.9	1,925.0	2,005.5
Churchill Falls (Labrador) Corp. Ltd.	2,362.0	2,362.0	2,362.0	2,362.0	2,362.0
Hydro-Québec (L'Anse au Loup)	16.2	16.8	17.4	17.9	18.4
Non-Utility Generators					
Star Lake	141.2	141.2	141.2	141.2	141.2
Rattle Brook	15.6	15.6	15.6	15.6	15.6
Corner Brook Pulp and Paper	90.6	100.2	100.2	100.2	100.2
Exploits River Hydro Partnership	27.1	137.0	137.0	137.0	137.0
Total Power Purchases	2,652.7	2,772.8	2,773.3	2,773.9	2,774.3
Total Production and Power Purchases	9,127.2	9,203.9	9,226.4	9,281.0	9,362.0

Power Purchases

NUGs included in the current generation forecast are Star Lake (15 MW), Rattle Brook (4 MW), Corner Brook Pulp and Paper cogeneration project (15 MW), and Exploits River Hydro Partnership projects (32.3 MW).

Interest Rates

Interest rate assumptions (provided in **Table 1**) for 2003 and 2004 were developed by using averages of forecasts from various investment dealers. This two-year set was extended to provide five years of interest rate assumptions by merging it with a long-term series constructed by adding judgementally determined spreads to rates selected from a current long-term Conference Board of Canada projection (Hall, 2002).

FINANCIAL MANAGEMENT STRATEGY

Financial Objectives

It is the public policy of the Province that the rates charged by Hydro, as an energy producer and retailer:

> . . . should provide sufficient revenue to the producer or retailer of the power to enable it to earn a just and reasonable return as construed under the *Public Utilities Act* so that it is able to achieve and maintain a sound credit rating in the financial markets of the world . . . (Electrical Power Control Act, 1994, Part I, 3[a][iii])

In addition, Hydro must conduct its business activities in such a manner:

> . . . that would result in power being delivered to consumers in the province at the lowest possible cost consistent with reliable service . . . (Electrical Power Control Act, 1994, Part I, 3[b][iii])

Consistent with this public policy, Hydro's mission statement states its commitment to providing cost-effective and reliable energy services.

Therefore, as provided earlier in **Table 1**, Hydro has set the following targets over the next five years:

- Rates for 2004 are designed to achieve a target return on regulated equity of 9.75 percent.
- Forecasted new debt maturities are aimed at a target weighted average term to maturity (WATM) range of between 13.2 years and 16.0 years.
- A 75 percent dividend payout for the Hydro dividend portion is targeted during the period 2004 to 2007. (The Hydro dividend for 2003 is as contained in the latest forecast.)

New Long-Term Debt

Once the promissory notes balance in any given year reaches $300 million, Hydro is required to issue long-term debt. Given these guidelines, Hydro anticipates issuing a total of $225 million in new debt over the projection period.

This financial projection provides for a new issue of $125 million during 2003 and $100 million in 2006. This total new debt of $225 million is primarily required to replace matured issues, Series Z and AC, and to finance capital expenditures.

The denominations and features of these new debt issues, although provided on a forecast basis in the explanatory notes to the enclosed financial statements, will ultimately be subject to the capital market conditions at the time of issue.

Overall Interest Coverage Ratios

Table 5, on the following page, presents Hydro's overall interest coverage ratios (corporate and regulated) over the time frame 2003 through 2007.

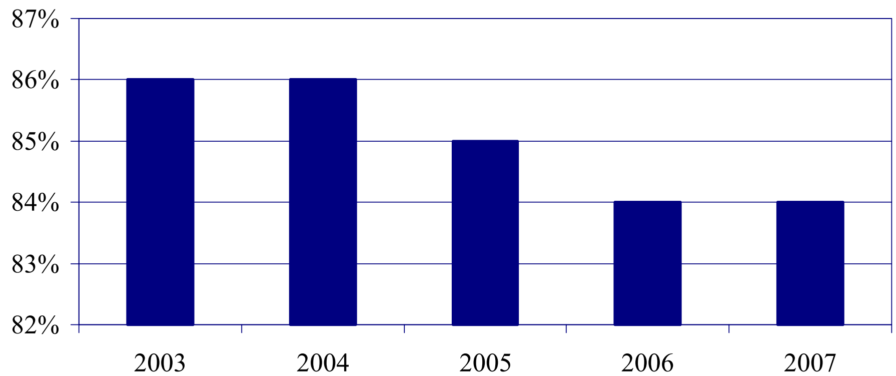
Table 5: Overall Interest Coverage and Debt to Equity Ratios

Year	Interest Coverage		Debt to Capital Ratio (%)
	Corporate	Regulated	
2003	1.2	0.9	86
2004	1.4	1.2	86
2005	1.5	1.2	85
2006	1.4	1.2	84
2007	1.5	1.2	84

Debt to Capital Ratios

Figure 2, below, depicts the debt to capital ratios for the period 2003 to 2007. **Table 5**, above, presents Hydro's projected debt to capital ratios over the same time horizon.

Figure 2: Debt to Capital Ratios



Rates of Return

Commencing in 2002, Hydro began to be regulated on a rate of return on rate base methodology. Under this methodology, a WACC is applied to the rate base to calculate a regulated return.

In this report, return is expressed as a rate of return on equity.

Rate of return on equity in Hydro's case is net income before other revenue relative to Hydro's average corporate equity (that is excluding its equity in CF[L]Co).

Figure 3 shows Hydro's projected rate of return on equity (corporate and regulated) and **Table 6** presents rates of return on equity percentages and income from operations for 2003 through 2007.

Figure 3: Rates of Return on Equity (Percentage)

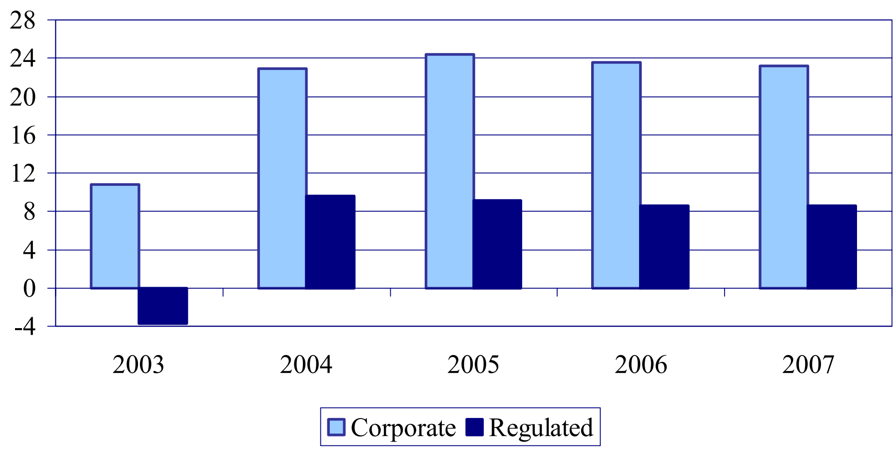


Table 6: Rates of Return on Equity and Income from Operations

Year	Rate of Return on Equity (Percent) Corporate	Rate of Return on Equity (Percent) Regulated	Income from Operations ($ 000,000) Corporate	Income from Operations ($ 000,000) Regulated
2003	10.8	(3.8)	22.5	(7.8)
2004	22.9	9.6	46.5	19.4
2005	24.4	9.1	50.8	18.9
2006	23.6	8.6	50.1	18.2
2007	23.2	8.6	50.4	18.6

RATES

This financial projection is prepared on the basis that 2004 through 2007 will be “Test Years,” meaning there are annual rate adjustments. Detailed cost of service studies have not been completed for 2005 and beyond, however, rates have been estimated using Hydro’s planning models that use simplifying assumptions. Projected rates and rate changes are believed to be indicative based on the assumptions used but not as precise as if detailed cost of service studies were available.

Hydro’s current rate application was filed during 2003 and is based on a 2004 “Test Year.” This application addresses requirements primarily related to new NUG purchases, the 2003 in service of Granite Canal, and the realignment of target returns on equity. The timing of the new supply options will impact Hydro’s revenue requirements in 2003. As outlined in **Table 7**, and based on the assumptions included in this projection, Newfoundland Power’s wholesale rate is projected to be 14 percent higher in 2004 over 2003. Excluding the effects of the RSP, this represents an increase of approximately 7.4 percent at the retail customer level. This increase is primarily due to financing requirements of the Granite Canal project and to increasing power purchases.

In Hydro’s revised evidence submitted to the Board on August 12, 2003, the Island Industrial average base rate is estimated to increase by 13.5 percent in 2004 (Hydro, 2003, Rates and Customer Services, p. 4).

Table 7: Average Mill Rates by Customer Classes
(Mills per kWh)

	2003	2004	2005	2006	2007
Island Interconnected Rates					
Newfoundland Power	47.9	54.5	54.2	55.6	56.4
Island Industrial	33.9	38.1	38.0	38.9	39.7
Island Rural Interconnected (1)	87.2	94.9	98.0	97.4	95.4
Labrador Interconnected Rates					
Department of National Defense	39.8	39.0	37.3	36.9	36.9
Labrador Rural Interconnected	24.6	26.6	28.7	30.4	32.7
Rural Isolated Rates (1)	121.9	139.7	144.2	143.2	140.3

(1) Includes RSP adjustments at the retail level

The Newfoundland Power and Island Industrial rates, provided in **Table 7**, exclude the effects of the Rate Stabilization Plan (RSP); other rates are as outlined in **Table 7**.

Table 8 presents Wholesale and Island Industrial rates after the RSP adjustment.

Table 8: Wholesale and Island Industrial Rates
(Mills per kWh)

	2003	2004	2005	2006	2007
Basic Rate					
Wholesale	47.9	54.5	54.2	55.6	56.4
Island Industrial	33.9	38.1	38.0	38.9	39.7
After RSP Adjustment					
Wholesale	50.4	60.3	63.6	62.9	60.7
Island Industrial	38.0	48.5	49.8	44.4	46.0

FINANCIAL STATEMENTS

Non-Consolidated Pro-Forma Statements for 2003 to 2007

Balance Sheets

Income Statements

Cash Flow Statements

Explanatory Notes

Non-Consolidated Pro-Forma
Balance Sheets
(Unaudited)

	2003	2004	2005	2006	2007
As at December 31					
($ 000,000)					
Assets					
Net Fixed Assets					
Regulated	1,426.7	1,431.1	1,444.5	1,446.2	1,460.5
Non-regulated	2.0	2.0	2.0	2.0	2.0
	1,428.7	1,433.1	1,446.6	1,448.2	1,462.5
Current Assets					
Receivables	42.5	48.0	51.0	52.4	53.6
Fuel	35.8	31.6	31.0	32.3	35.0
Prepaid expenses	2.1	2.0	2.6	2.6	2.7
	80.3	81.5	84.6	87.3	91.3
Sinking Funds	55.5	64.6	74.3	84.7	95.8
Investment in CF(L)Co	297.9	305.0	316.5	329.2	344.2
Investment in LCDC	15.4	15.4	15.4	15.4	15.4
RSP					
RSP, August 2002	94.1	79.3	61.5	39.6	12.7
RSP, New	67.0	52.0	17.5	1.2	0.8
	161.1	131.3	79.0	40.8	13.5
Deferred Charges	77.3	74.2	71.5	68.8	66.5
	2,116.3	2,105.1	2,087.7	2,074.3	2,089.1
Liabilities and Shareholder's Equity					
Long-Term Debt					
Regulated	1,320.9	1,312.9	1,114.7	1,202.9	990.3
Non-regulated	28.6	23.6	22.3	20.9	19.6
	1,349.5	1,336.6	1,137.0	1,223.8	1,009.8
Current Liabilities					
Accounts payable	41.6	35.4	36.8	36.9	37.6
Accrued interest	28.0	29.8	30.8	31.9	31.4
Promissory notes	162.3	148.6	122.1	199.5	204.4
Long-term debt due in one year	15.8	16.4	202.7	2.7	202.9
	247.7	230.3	392.4	271.0	476.2
Employee Future Benefits	27.5	29.9	32.4	34.9	37.4
Shareholder's Equity					
Share capital	22.5	22.5	22.5	22.5	22.5
LCDC capital	15.4	15.4	15.4	15.4	15.4
Muskrat Falls contributed capital	2.2	2.2	2.2	2.2	2.2
Retained Earnings					
Regulated	200.7	205.5	210.3	214.8	219.5
Non-regulated	250.8	262.7	275.6	289.7	306.1
	491.6	508.3	525.9	544.6	565.7
	2,116.3	2,105.1	2,087.7	2,074.3	2,089.1

Non-Consolidated Pro-Forma
Income Statements
(Unaudited)

	2003	2004	2005	2006	2007
For the years ended December 31					
($ 000,000)					
Revenue					
Regulated energy sales	326.5	371.8	375.0	386.3	396.2
Non-regulated energy sales	37.3	33.8	38.6	38.6	38.6
Recovery of costs in RSP	17.5	41.9	60.9	42.7	29.6
	381.4	447.4	474.6	467.6	464.3
Expenses					
Operating and admin					
Regulated	88.7	90.4	93.0	93.3	94.9
Non-regulated	3.2	2.9	2.9	3.0	3.0
	91.9	93.3	95.9	96.2	97.9
Fuels	91.2	92.5	90.5	94.3	102.2
Amortization of RSP	17.5	41.9	60.9	42.7	29.6
Power purchases					
Regulated	25.3	33.2	33.3	33.4	33.7
Recapture purchases	3.9	3.9	3.8	3.8	3.7
	29.2	37.1	37.1	37.2	37.5
Depreciation	32.8	33.9	36.5	40.7	42.2
Interest and guarantee fee	95.8	101.7	102.3	105.9	104.1
Loss on disposal	0.6	0.5	0.5	0.5	0.5
	358.9	401.0	423.8	417.5	413.9
Income from Operations	22.5	46.5	50.8	50.1	50.4
Other Revenue					
Equity in CF(L)Co net income	12.2	11.7	16.1	18.0	20.3
Preferred dividends CF(L)Co	7.1	7.5	9.1	10.1	11.3
Interest on share purchase debt	(2.3)	(2.4)	(2.2)	(2.1)	(2.0)
	17.0	16.8	23.0	26.0	29.5
Net Income	39.5	63.2	73.8	76.1	80.0
Retained Earnings, beginning	453.4	451.5	468.2	485.8	504.5
Dividends					
Hydro	(5.6)	(16.0)	(15.4)	(14.9)	(15.2)
CF(L)Co	(6.3)	(5.2)	(10.5)	(12.3)	(13.5)
Other	(29.6)	(25.3)	(30.2)	(30.2)	(30.1)
	(41.4)	(46.5)	(56.2)	(57.4)	(58.9)
Retained Earnings, ending	451.5	468.2	485.8	504.5	525.6

Non-Consolidated Pro-Forma
Cash Flow Statements
(Unaudited)

	2003	2004	2005	2006	2007
For the years ended December 31					
($ 000,000)					
Operating Activities					
Net Income	39.5	63.2	73.8	76.1	80.0
Items Not Involving a Cash Flow					
Depreciation	32.8	33.9	36.5	40.7	42.2
Amortization	11.5	3.1	2.7	2.7	2.2
Employee benefits provision	2.5	2.5	2.5	2.5	2.5
Equity in CF(L)Co	(12.2)	(11.7)	(16.1)	(18.0)	(20.3)
Rate stabilization plan	(53.9)	(12.1)	(8.6)	(4.6)	(2.3)
Adjusted Net Income	20.2	79.0	90.8	99.5	104.4
Net Changes in Working Capital	(4.9)	(5.5)	(0.7)	(1.5)	(3.8)
Cash from Operating Activities	15.4	73.5	90.2	98.0	100.5
Rate Stabilization Plan					
Utility	11.8	27.6	44.8	35.2	21.0
Industrial	5.8	14.3	16.1	7.5	8.6
Cash provided by RSP	17.5	41.9	60.9	42.7	29.6
Dividends	(41.4)	(46.5)	(56.2)	(57.4)	(58.9)
Financing Activities					
Debt issued	125.0	-	-	100.0	-
Debt retired	(7.2)	(3.3)	(3.6)	(202.7)	(2.7)
Cash provided by Financing	117.8	(3.3)	(3.6)	(102.7)	(2.7)
Investing Activities					
Increasing in sinking funds	(16.3)	(18.1)	(19.4)	(20.8)	(22.2)
Change in fixed assets	(71.1)	(38.3)	(50.0)	(42.4)	(56.4)
Dividends from CF(L)Co	2.0	4.6	4.6	5.3	5.3
Cash used for Investing	(85.4)	(51.8)	(64.8)	(57.9)	(73.4)
Net Decrease (Increase) in Debt	23.9	13.7	26.5	(77.3)	(4.9)
Promissory Notes, beginning	186.2	162.3	148.6	122.1	199.5
Promissory Notes, ending	162.3	148.6	122.1	199.5	204.4

Explanatory Notes to Non-Consolidated Pro-Forma Financial Statements

Basis of Accounting

These unaudited pro-forma financial statements have not been prepared on a consolidated basis. Hydro's investments in its subsidiary companies are accounted for by the equity method of accounting.

In compliance with P.U.7, where applicable, the pro-forma financial statements disclose estimated "regulated" items relating to Hydro's financial activities (Board of Commissioners of Public Utilities, 2002, p. 156).

Deferred Charges

Total deferred charges are disclosed for the projection period in **Table 9**.

Table 9: Total Deferred Charges
($ 000,000)

	2003	2004	2005	2006	2007
Unamortized debt discount, financing expenses, and other	(4.7)	(5.6)	(6.2)	(6.7)	(6.8)
Foreign exchange losses realized	82.0	79.8	77.7	75.5	73.3
Total Deferred Charges	77.3	74.2	71.5	68.8	66.5

Long-Term Debt

Long-term debt, promissory notes, and other loans are unsecured. Annually, Hydro pays to the Government of Newfoundland and Labrador a debt guarantee fee of one percent on its total debt in return for an unconditional guarantee from the Province.

Total long-term debt details are presented in **Table 10**, on the following page.

Energy Sales

Detailed disclosures of electricity sales in GWh and in dollars are provided in **Table 3** and **Table 11** (on the next page), respectively.

Table 10: Total Long-Term Debt
($ 000,000)

Series	Interest Rate %	Year of Issue	Year of Maturity	2003	2004	2005	2006	2007
AC	5.05	2001	2006	200.0	200.0	200.0	-	-
AA	5.50	1998	2008	200.0	200.0	200.0	200.0	200.0
V (1)	10.50	1989	2014	125.0	125.0	125.0	125.0	125.0
X (1)	10.25	1992	2017	150.0	150.0	150.0	150.0	150.0
Y (1)	8.40	1996	2026	300.0	300.0	300.0	300.0	300.0
AB	6.65	2001	2031	300.0	300.0	300.0	300.0	300.0
F (1) (2)	6.65	2003	2031	125.0	125.0	125.0	125.0	125.0
F (2) (3)	7.13	2006	-				100.0	100.0
Total debentures				1,400.0	1,400.0	1,400.0	1,300.0	1,300.0
Less sinking fund investments in own debentures				55.5	64.6	74.3	84.7	95.8
				1,344.5	1,335.4	1,325.7	1,215.3	1,204.2
Government of Canada loans at 5.25% to 7.91% maturing in 2006 to 2014				18.8	16.4	13.9	11.2	8.5
Other				2.0	1.1	-	-	-
				1,365.3	1,353.0	1,339.6	1,226.6	1,212.7
Less payments due within one year				15.8	16.4	202.7	2.7	202.9
Total Long-Term Debt				1,349.5	1,336.6	1,137.0	1,223.8	1,009.8

(1) Sinking funds are associated with these issues.
(2) "F" denotes a forecast series.
(3) This issue has an indefinite maturity date.

Table 11: Energy Sales by Customer Classes
($ 000,000)

	2003	2004	2005	2006	2007
Island Interconnected Sales					
Newfoundland Power	223.0	258.2	258.6	268.6	276.7
Island Industrial	46.7	52.1	51.9	53.1	54.3
Island Rural Interconnected	32.3	34.9	36.1	35.2	34.6
Total Island	301.9	345.2	346.6	356.9	365.5
Labrador Interconnected Sales					
Canadian Forces Base Goose Bay	3.1	3.0	3.1	2.9	2.9
Labrador Rural Interconnected	11.5	12.7	13.9	15.0	16.3
Total Labrador	14.6	15.7	17.0	17.9	19.2
Rural Isolated Sales	8.2	8.9	9.4	9.5	9.5
Non-regulated	37.3	33.8	38.6	38.6	38.6
Miscellaneous	1.9	1.9	2.0	2.0	2.0
Total Energy Sales	363.9	405.6	413.6	424.9	434.8

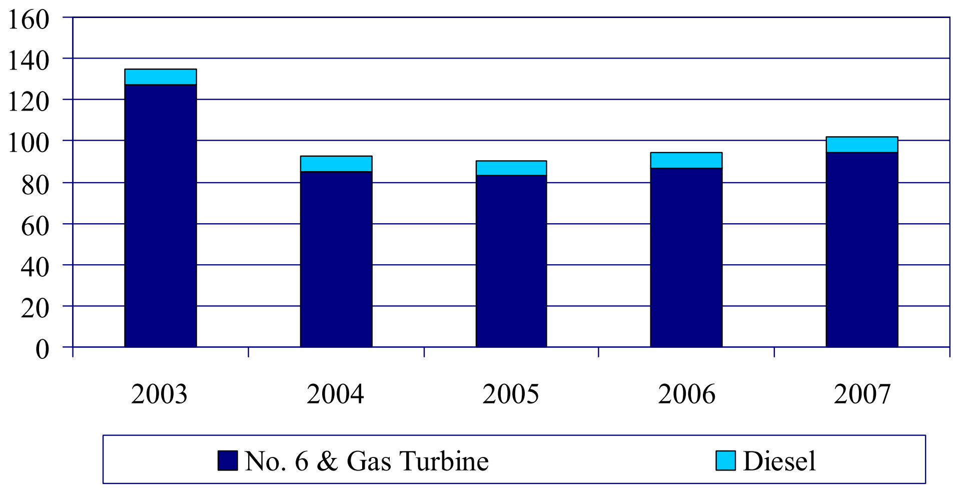
Fuels Expenses

Fuels expenses are provided net of any applicable RSP adjustments. Fuel price rebasing is forecast as part of the rate revisions projected to occur on January 1, 2004. **Table 12** presents annual fuels expense details including the RSP adjustment while **Figure 4** depicts annual fuels expense information excluding the annual RSP adjustment.

Table 12: Fuels
($ 000,000)

	2003	2004	2005	2006	2007
Fuels Expense					
No. 6	126.8	84.8	82.8	86.4	94.2
Gas Turbine	0.4	0.4	0.4	0.4	0.4
Diesel	7.5	7.4	7.3	7.5	7.5
RSP Adjustment	(43.6)				
Total Fuels Expense	91.2	92.5	90.5	94.3	102.2

Figure 4: Fuels Excluding RSP Adjustments
($ 000,000)



Hydro's electricity production plan for the Island and Labrador including power purchases is outlined in **Table 4**.

Depreciation Expenses

A detailed disclosure of depreciation expenses by asset classes is presented in **Table 13**.

Table 13: Depreciation Expenses by Asset Classes
($ 000,000)

	2003	2004	2005	2006	2007
Depreciation Expense					
Hydraulic	3.2	3.7	4.1	4.3	4.9
Thermal	3.1	3.2	3.4	4.0	4.8
Diesel	2.5	2.5	2.5	2.6	2.6
Transmission Lines	4.6	5.1	5.6	6.3	6.6
Terminal Stations	4.0	4.5	4.9	5.0	3.9
Distribution Substations	0.5	0.5	0.5	0.5	0.5
Distribution	3.5	3.6	3.8	3.9	4.0
General Plant	5.5	5.7	6.6	8.4	9.0
Telecontrol	3.5	4.4	4.4	4.9	4.5
Feasibility Studies	0.1	0.1	0.2	0.3	0.3
Computer Software	2.4	0.6	0.5	0.6	1.1
Total Depreciation Expense	32.8	33.9	36.5	40.7	42.2

Interest and Guarantee Fee

Commencing in 2002, realized foreign exchange losses are amortized over a 40-year period.

RSP and construction in progress are financed based on the forecast WACC.

Interest and guarantee fee details are provided in **Table 14**, on the next page.

Table 14: Interest and Guarantee Fee
($ 000,000)

	2003	2004	2005	2006	2007
Gross Interest					
Long-term debt	99.6	103.9	104.2	103.7	100.8
Promissory notes	6.8	8.0	7.0	8.4	10.5
	106.5	111.9	111.3	112.0	111.3
Amortization of debt discount and financing expenses	0.8	0.6	0.6	0.6	0.1
Amortization of realized foreign exchange losses	2.2	2.2	2.2	2.2	2.2
	109.4	114.6	114.0	114.7	113.5
Less					
Allowance for funds used during construction	7.4	5.1	5.9	5.5	6.6
Interest earned	17.9	20.2	18.0	15.3	14.5
	84.1	89.4	90.1	93.9	92.5
Less					
Interest attributable to CF(L)Co share purchase debt	2.0	2.1	1.8	1.8	1.7
Net interest attributable to Hydro	82.1	87.3	88.3	92.1	90.9
Debt guarantee fee	13.6	14.4	14.1	13.8	13.2
Net Interest and Guarantee Fee	95.8	101.7	102.3	105.9	104.1

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