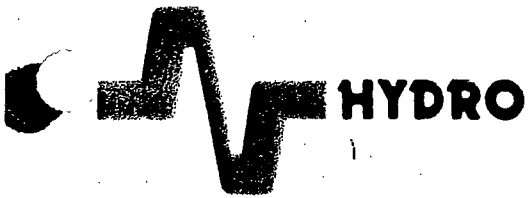


1 Q. Provide copies of Hydro's corporate operating budget document for each of
2 the years 1998 to 2003.

3

4

5 A. Attached are copies of Hydro's corporate operating budget document for
6 each of the years 1998 to 2003.



A Submission to the Minister of Mines and Energy

1998 Operating and Capital Budgets

NEWFOUNDLAND AND LABRADOR HYDRO

1998 BUDGET

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NEWFOUNDLAND AND LABRADOR HYDRO

STATEMENT OF INCOME

(\$ Thousands)

	Page Ref.	1996 Actual	1997 Budget	1997 Forecast	1998 Budget	Increase (Decrease)
Revenue						
Energy Sales	3 - 5	287,761	295,327	293,547	293,541	(6)
Expenses						
Net Operating	6 - 19	79,027	79,044	79,710	81,938	2,228
Fuels	20	41,682	46,089	45,646	45,989	343
Power Purchases	21	5,224	5,375	5,632	8,082	2,450
Depreciation	22	28,639	31,038	30,131	33,090	2,959
Interest	22	<u>113,062</u>	<u>110,237</u>	<u>106,739</u>	<u>105,779</u>	<u>(960)</u>
		267,634	271,783	267,858	274,878	7,020
Net Operating Income		<u>20,127</u>	<u>23,544</u>	<u>25,689</u>	<u>18,663</u>	<u>(7,026)</u>
Interest Cover on Net Operating Income		1.15	1.17	1.20	1.15	
Other Revenue (Expenses)						
Equity in CF(L)Co		8,166	8,781	8,574	9,963	1,389
Preferred Dividend		5,183	5,033	6,018	5,741	(277)
Interest Share Purchase						
Debt		<u>(4,494)</u>	<u>(4,575)</u>	<u>(2,702)</u>	<u>(2,741)</u>	<u>(39)</u>
		<u>8,855</u>	<u>9,239</u>	<u>11,890</u>	<u>12,963</u>	<u>1,073</u>
Net Income		<u>28,982</u>	<u>32,783</u>	<u>37,579</u>	<u>31,626</u>	<u>(5,953)</u>

NEWFOUNDLAND AND LABRADOR HYDRO

STATEMENT OF REVENUE BY MAJOR SOURCE

(\$ Thousands)

	1996 Actual	1997 Budget	1997 Forecast	1998 Budget	Increase (Decrease)
Industry					
Corner Brook Pulp & Paper Ltd. (Page 5)	11,049	12,949	12,211	13,224 ✓	1,013
Deer Lake Power Company	631	529	581	542 ✓	(39)
Albright and Wilson	442	431	445	-	(445)
Abitibi-Price - Stephenville (Page 5)	17,302	20,280	19,420	20,219 ✓	799
Abitibi-Price - Grand Falls	7,012	7,964	6,614	6,486 ✓	(128)
North Atlantic Refining	8,400	8,340	8,522	8,543 ✓	21
C.F.B. - Goose Bay	3,144	3,043	3,020	3,085 ✓	65
Iron Ore Company of Canada (Page 5)	2,739	2,683	2,850	2,560 ✓	(290)
Royal Oak Mines Inc. (Page 5)	<u>2,691</u>	<u>2,916</u>	<u>2,547</u>	<u>1,208</u>	<u>(1,339)</u>
Total Industry	<u>53,410</u>	<u>59,135</u>	<u>56,210</u>	<u>55,867</u>	<u>(343)</u>
Utility					
Newfoundland Power	189,689	190,633	192,449	191,802 ✓	(647)
Rural					
Interconnected and Diesel	44,320	44,222	44,547	45,532	985
Other					
	<u>342</u>	<u>1,337</u>	<u>341</u>	<u>340</u>	<u>(1)</u>
TOTAL REVENUE	<u>287,761</u>	<u>295,327</u>	<u>293,547</u>	<u>293,541</u>	<u>(6)</u>

NEWFOUNDLAND AND LABRADOR HYDRO**ENERGY SALES VOLUME ANALYSIS****(GWh.)**

	1996 ACTUAL	1997 BUDGET	1997 FORECAST	1998 BUDGET	INCREASE (DECREASE)
Industry					
Corner Brook Pulp & Paper	311.4	375.9	346.5	380.9	34.4
Deer Lake Power	16.6	15.5	15.9	15.5	(0.4)
Deer Lake Power - Emergency	1.7	-	0.6	-	(0.6)
Albright and Wilson	2.6	2.0	2.2	-	(2.2)
Abitibi-Price:					
Stephenville - Firm	457.4	565.7	544.2	576.5	32.3
- Wheeled	20.6	.9	2.0	0.9	(1.1)
Grand Falls - Firm	147.0	237.3	179.5	177.9	(1.6)
- Compensation	31.0	31.0	31.0	31.0	-
- Emergency	31.3	-	2.6	-	(2.6)
- Wheeled	11.1	-	-	-	-
North Atlantic Refining Limited	228.8	229.8	233.6	234.5	0.9
C.F.B. Goose Bay	120.4	122.0	109.6	111.9	2.3
Iron Ore Company	220.3	193.4	231.7	220.7	(11.0)
Royal Oak Mines Inc.	<u>67.2</u>	<u>72.0</u>	<u>58.7</u>	<u>21.3</u>	<u>(37.4)</u>
Total Industry	<u>1,667.4</u>	<u>1,845.5</u>	<u>1,758.1</u>	<u>1,771.1</u>	<u>13.0</u>
Utility					
Newfoundland Power	<u>4,186.5</u>	<u>4,207.3</u>	<u>4,271.7</u>	<u>4,265.7</u>	<u>(6.0)</u>
Rural					
Interconnected and Diesel	<u>769.0</u>	<u>786.5</u>	<u>794.2</u>	<u>810.4</u>	<u>16.2</u>
Total Sales	<u>6,622.9</u>	<u>6,839.3</u>	<u>6,824.0</u>	<u>6,847.2</u>	<u>23.2</u>

NEWFOUNDLAND AND LABRADOR HYDRO
ENERGY SALES VOLUME ANALYSIS (cont'd.)

CORNER BROOK PULP AND PAPER

Modifications to Number 7 paper machine will require extra energy in 1998.

ABITIBI-PRICE STEPHENVILLE

Upgrade of Thermal Mechanical Pulping (TMP) plant plus modifications to paper machine will require extra energy.

I.O.C.C.

Above average production in 1997 is not forecast for 1998.

ROYAL OAK MINES

Mine is now shut down but site clean-up on-going in 1998.

RURAL SALES

Increase primarily due to load growth in the Island Interconnected system and the Happy Valley/Goose Bay system.

RATES

The 1998 budgeted Net Operating Income of \$18.7 million, before earnings in CF(L)Co, reflect an overall projected interest coverage of 1.15. In addition our most recent projections indicate that the Rate Stabilization Plan (RSP) balance for Newfoundland Power will be approximately \$45 million at December 31, 1998.

At a Hydro rate referral in 1985 the PUB agreed with Hydro's recommendations "that it (Hydro) be required to initiate an appearance before the Board if the net balance of provisions created by the Rate Stabilization Plan, to the extent that they are applicable to retailers, reaches \$50 million (either positive or negative). At that appearance Hydro would either propose alternative rates or present facts relevant to examining the need for an alteration of rates in light of the circumstances at that time."

Based on the 1998 Budget it does not appear for financial reasons that Hydro will be required to appear before the Public Utilities Board in 1998 for a revision to its 1998 Retail or Industrial Rates.

NEWFOUNDLAND AND LABRADOR HYDRO

NET OPERATING EXPENSES

(\$ Thousands)

Expense Group	1996	1997	1997	1998	Increase
	Actual	Budget	Forecast	Budget	(Decrease)
Salaries & Fringe Benefits	56,793	55,791	53,387	54,654	1,267
System Equipment Maintenance	10,303	11,062	11,527	10,861	(666)
Office Supplies & Expenses	2,842	3,177	3,093	3,082	(11)
Professional Services	2,391	2,914	3,597	3,124	(473)
Insurance	1,169	1,229	1,281	1,078	(203)
Equipment Rentals	1,742	1,818	1,824	2,080	256
Travel	1,874	1,972	1,992	1,997	5
Miscellaneous	4,279	3,802	4,035	4,230	195
Bldg. Rentals & Maintenance	1,931	2,420	2,643	2,768	125
Transportation	3,513	3,756	3,752	3,790	38
Bad Debt Expenses	225	193	401	385	(16)
Loss (Gain) on Disposal of Fixed Assets	(110)	376	354	568	214
Amortization - Studies & Software	662	625	603	1,766	1,163
	87,614	89,135	88,489	90,383	1,894
Allocations					
Capitalized Expense	6,075	7,590	6,279	5,945	334
CF(L)Co Recoveries	2,447	2,501	2,500	2,500	-
Other Cost Recoveries	65	-	-	-	-
	8,587	10,091	8,779	8,445	334
Net Operating Expenses	79,027	79,044	79,710	81,938	2,228

An analysis of the individual expense groups is outlined in various tables on the following pages.

SALARIES AND FRINGE BENEFITS

The salary group of expenses is budgeted to increase by \$1,267,000 from the 1997 forecast. This increase is further explained in the table below.

SALARIES SUMMARY

(\$ Thousands)

	<u>1996 Actual</u>	<u>1997 Budget</u>	<u>1997 Forecast</u>	<u>1998 Budget</u>	<u>Increase (Decrease)</u>
Permanent Salaries	39,548	41,123	39,731	40,817 ✓	1,086
Vacancy Reduction	-	(213)	-	(675) ✓	(675)
Hourly Wages	5,391	5,620	4,364	4,807 ✓	443
Overtime	1,791	1,917	1,860	1,851	(9)
Fringe Benefits	6,521	6,799	6,799	7,228 ✓	429
Termination & Retirement Pay	2,289	-	-	-	-
Other	<u>1,253</u>	<u>545</u>	<u>633</u>	<u>626</u>	<u>(7)</u>
Total	<u>56,793</u>	<u>55,791</u>	<u>53,387</u>	<u>54,654</u>	<u>1,267</u>

The increase in permanent salaries is primarily due to a salary adjustment for both union (as per current collective agreement) and non-union staff.

The increase in hourly wages is primarily due to additional apprentices being hired in 1998.

Fringe Benefits will increase due to the higher permanent salaries and higher hourly wages as explained above.

SYSTEM EQUIPMENT MAINTENANCE

This group of expenses is budgeted at \$10,861,000 in 1998 which is a decrease of \$666,000 from 1997 mainly due to lower costs associated with the Holyrood Generating Station.

SYSTEM EQUIPMENT MAINTENANCE SUMMARY

(\$ Thousands)

	<u>1996 Actual</u>	<u>1997 Budget</u>	<u>1997 Forecast</u>	<u>1998 Budget</u>	<u>Increase (Decrease)</u>
System Equip. Mtnce.	8,765	9,698	10,180	9,547	(633)
Tools & Equipment	459	466	465	459	(6)
Freight Expense	315	332	316	299	(17)
Lubricants, Gases & Chemic	<u>764</u>	<u>566</u>	<u>566</u>	<u>556</u>	<u>(10)</u>
Total	<u><u>10,303</u></u>	<u><u>11,062</u></u>	<u><u>11,527</u></u>	<u><u>10,861</u></u>	<u><u>(666)</u></u>

OFFICE SUPPLIES AND EXPENSES

Office supplies and expenses are budgeted to decrease by \$11,000 from the 1997 forecast. There are some increases in costs which are basically offset by other decreases as outlined in the table below.

OFFICE SUPPLIES SUMMARY (\$ Thousands)

	<u>1996 Actual</u>	<u>1997 Budget</u>	<u>1997 Forecast</u>	<u>1998 Budget</u>	<u>Increase (Decrease)</u>
Heat & Light	569	632	632	601	(31)
Telephone & Fax	668	664	664	638	(26)
Printing, Forms & Supplies	444	554	488	529	41
Postage	299	297	297	302	5
Advertising	60	55	55	68	13
Janitorial	333	357	362	371	9
Office Equipment & Maintenance	232	287	269	271	2
Books & Subscriptions	57	73	76	82	6
Membership and Dues	<u>180</u>	<u>258</u>	<u>250</u>	<u>220</u>	<u>(30)</u>
Total	<u><u>2,842</u></u>	<u><u>3,177</u></u>	<u><u>3,093</u></u>	<u><u>3,082</u></u>	<u><u>(11)</u></u>

PROFESSIONAL SERVICES

The 1998 Budget has decreased by \$473,000 mainly because certain external consulting costs incurred in 1997 will not be required in 1998.

PROFESSIONAL SERVICES SUMMARY

(\$ Thousands)

	<u>1996 Actual</u>	<u>1997 Budget</u>	<u>1997 Forecast</u>	<u>1998 Budget</u>	<u>Increase (Decrease)</u>
Professional Services	1,287	1,640	2,335	1,606	(729)
Prof. Serv. Loss Adjustment	8	12	12	9	(3)
PUB Related Costs	346	550	538	690	152
Software Acquisitions & Mtnce.	<u>750</u>	<u>712</u>	<u>712</u>	<u>819</u>	<u>107</u>
Total	<u><u>2,391</u></u>	<u><u>2,914</u></u>	<u><u>3,597</u></u>	<u><u>3,124</u></u>	<u><u>(473)</u></u>

INSURANCE

Insurance markets continue to improve and insurance expense has decreased by \$203,000 from the 1997 forecast.

INSURANCE SUMMARY

(\$ Thousands)

	<u>1996 Actual</u>	<u>1997 Budget</u>	<u>1997 Forecast</u>	<u>1998 Budget</u>	<u>Increase (Decrease)</u>
Primary Liab. Deductible L.	3	5	5	5	-
All Risk	485	510	476	446	(30)
Boiler & Machinery	312	312	321	228	(93)
Primary Liabilities	33	34	34	34	-
Umbrella Liabilities	71	71	71	76	5
Non Owned Aircraft	5	5	5	5	-
Fidelity Bond	7	7	7	-	(7)
Automobile Liability	68	61	61	70	9
Travel Accident	7	8	8	7	(1)
Primary Liability Losses	-	4	4	-	(4)
Safe Berth Liability	15	14	14	14	-
Brokers Fee J&H	58	92	101	56	(45)
Risk Control J&H	26	29	61	35	(26)
Loss Adjust J&H	12	4	40	23	(17)
Auto-Deductable/Losses	18	24	24	24	-
Directors & Officers Liab.	<u>49</u>	<u>49</u>	<u>49</u>	<u>55</u>	<u>6</u>
Total	<u><u>1,169</u></u>	<u><u>1,229</u></u>	<u><u>1,281</u></u>	<u><u>1,078</u></u>	<u><u>(203)</u></u>

EQUIPMENT RENTALS

This expense is budgeted to increase by \$256,000 from the 1997 forecast due mainly to higher computer costs plus higher costs associated with rental of equipment for maintenance purposes.

EQUIPMENT RENTALS SUMMARY

(\$ Thousands)

	<u>1996 Actual</u>	<u>1997 Budget</u>	<u>1997 Forecast</u>	<u>1998 Budget</u>	<u>Increase (Decrease)</u>
Equipment Rentals	1,076	1,012	1,018	1,155	137
Equipment Rentals D.W.O.'s	1	-	-	-	-
Telecomm. Comp. Processing	180	186	186	186	-
Computer Costs	<u>485</u>	<u>620</u>	<u>620</u>	<u>739</u>	<u>119</u>
Total	<u><u>1,742</u></u>	<u><u>1,818</u></u>	<u><u>1,824</u></u>	<u><u>2,080</u></u>	<u><u>256</u></u>

TRAVEL

Travel expense is virtually unchanged from the 1997 forecast.

TRAVEL SUMMARY

(\$ Thousands)

	<u>1996 Actual</u>	<u>1997 Budget</u>	<u>1997 Forecast</u>	<u>1998 Budget</u>	<u>Increase (Decrease)</u>
Travel Expenses	1,801	1,826	1,835	1,850	15
Conferences	<u>73</u>	<u>146</u>	<u>157</u>	<u>147</u>	<u>(10)</u>
<i>Total</i>	<u>1,874</u>	<u>1,972</u>	<u>1,992</u>	<u>1,997</u>	<u>5</u>

MISCELLANEOUS

This group of expenses covers a wide range of items which are not compatible with the other classifications that have been established. The main reasons for the increase in 1998 of \$195,000 are PCB Waste Disposal costs and higher staff training costs partially offset by lower inventory write-off.

MISCELLANEOUS SUMMARY

(\$ Thousands)

	<u>1996 Actual</u>	<u>1997 Budget</u>	<u>1997 Forecast</u>	<u>1998 Budget</u>	<u>Increase (Decrease)</u>
Staff Training	472	609	606	725	119
Contributions	149	163	163	120	(43)
Inventory Gain/Loss	219	103	300	100	(200)
Sundry Costs	164	115	116	140	24
Diesel Fuel Hydro	63	69	99	82	(17)
Donations	27	33	33	33	-
Tran of Salvage Material	11	-	-	-	-
PCB Waste Disposal	69	-	-	250	250
Demand Side Management	23	54	54	45	(9)
Privatization Costs	370	-	-	-	-
Holyrood Gain/Loss Invt	100	12	12	100	88
Bay d'Espoir Gain/Loss IV	-	3	3	-	(3)
Whitbourne Gain/Loss Invt	7	1	1	-	(1)
Employee Expenses	578	616	624	637	13
Mun/Prov. Business Tax	1,029	1,050	1,050	1,050	-
Payroll Tax	<u>998</u>	<u>974</u>	<u>974</u>	<u>948</u>	<u>(26)</u>
Total	<u><u>4,279</u></u>	<u><u>3,802</u></u>	<u><u>4,035</u></u>	<u><u>4,230</u></u>	<u><u>195</u></u>

BUILDING RENTALS AND MAINTENANCE

These costs have increased by \$125,000 over the 1997 forecast mainly due to higher property costs related to Transmission and Rural Operations partially offset by lower costs related to the Holyrood Thermal Plant.

BUILDING RENTALS SUMMARY

(\$ Thousands)

	<u>1996 Actual</u>	<u>1997 Budget</u>	<u>1997 Forecast</u>	<u>1998 Budget</u>	<u>Increase (Decrease)</u>
Building Rentals	120	161	158	160	2
Safety Equipment & Supplies	141	180	184	154	(30)
Property Costs	1,566	1,999	2,221	2,454	233
Siding Replacement & Repairs	<u>104</u>	<u>80</u>	<u>80</u>	<u>-</u>	<u>(80)</u>
Total	<u><u>1,931</u></u>	<u><u>2,420</u></u>	<u><u>2,643</u></u>	<u><u>2,768</u></u>	<u><u>125</u></u>

TRANSPORTATION

Transportation costs have increased by \$38,000 over the 1997 forecast mainly due to higher aircraft rental expense and higher vehicle rental expense.

TRANSPORTATION SUMMARY

(\$ Thousands)

	<u>1996 Actual</u>	<u>1997 Budget</u>	<u>1997 Forecast</u>	<u>1998 Budget</u>	<u>Increase (Decrease)</u>
Aircraft Rentals	1,127	1,232	1,230	1,248 ✓	18
Aircraft Rentals D.W.O.'s	27	-	-	-	-
Vehicle Expense Fuel	874	912	902	1,011 ✓	109
Vehicle Expense Repairs	798	829	840	742 ✓	(98)
Vehicle In House Labour	109	-	-	-	-
Unallocated Vehicle Costs	32	-	-	2 ✓	2
Vehicle Repairs Collision	1	-	-	-	-
Vehicle Repairs Comprehen	6	-	-	-	-
Vehicle Rentals	227	249	246	294 ✓	48
Vehicle Rentals D.W.O.'s	-	-	-	-	-
Mobile Equipment - Fuel	74	81	81	75 ✓	(6)
Mobile Equipment - Repairs	321	407	407	373 ✓	(34)
Transf. In Mechanic Labour	39	4	4	2 ✓	(2)
Unallocated Mobile Equipment	25	42	42	43 ✓	1
Trans. Mech.Llabour Vehicle	(108)	-	-	-	-
Trans Mech. Labour Mobile	(39)	-	-	-	-
Total	<u>3,513</u>	<u>3,756</u>	<u>3,752</u>	<u>3,790</u>	<u>38</u>

BAD DEBT EXPENSE

The 1998 amount of \$385,000 reflects a decrease of \$16,000 from 1997.

LOSS ON DISPOSAL OF FIXED ASSETS

The 1998 loss of \$568,000 has increased by \$214,000 over 1997 due to normal assets retirements, the more significant of which are the Upgrade of TL220 and the Microwave Radio Replacement.

AMORTIZATION - STUDIES AND SOFTWARE

Amortization expense has increased by \$1,163,000 over the forecast for 1997 mainly due to the amortization of the new Integrated Suite of Software Products for the P2000 project.

CAPITALIZED EXPENSE

Capitalized expense is a credit against operating expenses and represents the recovery of a portion of a department's time and costs which have been incurred related to the Capital Program.

The 1998 Budget is \$5,945,000 which is \$334,000 lower than the 1997 forecast mainly due to the 1998 capital program requiring less involvement of permanent staff.

CAPITALIZED EXPENSE SUMMARY

(\$ Thousands)

	<u>1996 Actual</u>	<u>1997 Budget</u>	<u>1997 Forecast</u>	<u>1998 Budget</u>	<u>Increase (Decrease)</u>
Capitalized Expense Salaries	(2,184)	(3,631)	(2,673)	(2,158)	515
Capitalized Expense Overtime	(693)	(108)	(123)	(165)	(42)
Capitalized Expense Overhead	(695)	(1,299)	(912)	(703)	209
Capitalized Expense Fleet	(177)	(66)	(85)	(100)	(15)
Capitalized Expense Salaries DWO	(868)	(812)	(812)	(854)	(42)
Capitalized Expense Travel DWO	(121)	(109)	(109)	(112)	(3)
Capitalized Expense Fleet DWO	(250)	(244)	(244)	(241)	3
Capitalized Expense % Hydro WO	(770)	(696)	(696)	(1,138)	(442)
Capitalized Expense % Rural WO	(316)	(625)	(625)	(474)	151
GIPCO Cost Recovery	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>(6,075)</u>	<u>(7,590)</u>	<u>(6,279)</u>	<u>(5,945)</u>	<u>334</u>

CF(L)CO RECOVERIES

Costs to be recovered from Churchill Falls (Labrador) Corporation Limited cover a wide range of services including, Accounting, Purchasing, Treasury, Insurance, Management Information Services, Legal, Operations, Construction, Environmental and Human Resources.

CF(L)CO ALLOCATIONS SUMMARY

(\$ Thousands)

	<u>1996 Actual</u>	<u>1997 Budget</u>	<u>1997 Forecast</u>	<u>1998 Budget</u>	<u>Increase (Decrease)</u>
CF(L)Co Cost Recoveries	(2,194)	(2,242)	(2,241)	(2,241)	-
CF(L)Co Direct Charges	(8)	(14)	(14)	(14)	-
CF(L)Co Cost Recovery - Bldg.	(265)	(265)	(265)	(265)	-
CF(L)Co Countercharge	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>-</u>
Total	<u>(2,447)</u>	<u>(2,501)</u>	<u>(2,500)</u>	<u>(2,500)</u>	<u>-</u>

FUEL EXPENSE AND RATE STABILIZATION PLAN

Fuel costs will increase from \$45,646,000 in the 1997 forecast to \$45,989,000 in 1998 as shown below.

	<u>1997 Budget</u>	<u>1997 Forecast</u>	<u>1998 Budget</u>	<u>Increase (Decrease)</u>
Barrels of Bunker "C" Fuel	3,419,645	2,860,462	3,322,662	462,200
Average Price per Barrel	\$18.92	\$21.45	\$21.21	\$(0.24)
	<u>(\$Thousands)</u>			
Bunker "C" Fuel	64,698	61,347	70,488	9,141
Other	<u>376</u>	<u>340</u>	<u>432</u>	<u>92</u>
Holyrood Thermal	65,074	61,687	70,920	9,233
Diesel Fuel	3,915	3,809	3,570	(239)
Gas Turbine Fuel	<u>257</u>	<u>195</u>	<u>278</u>	<u>83</u>
Sub-total fuels	69,246	65,691	74,768	9,077
Rate Stabilization Plan	<u>(23,157)</u>	<u>(20,045)</u>	<u>(28,779)</u>	<u>(8,734)</u>
	<u>46,089</u>	<u>45,646</u>	<u>45,989</u>	<u>343</u>

Bunker "C" Fuel expense will increase by \$9,141,000 mainly due to higher thermal production in 1998 which results in an increase in consumption of 0.5 million barrels. The amount budgeted in 1998 for Rate Stabilization Plan transactions represents the variations in load, fuel prices and hydro production between the budget and the estimate which was filed with the Public Utilities Board for the last test year.

The RSP is projected to reach \$65.1 million by December 31, 1998 of which approximately \$45.0 million will be attributable to the utility customer and \$20.1 million attributable to industrial customers. These estimates are based on projections from our fuel oil consultants in May of this year which resulted in an average price of fuel to be consumed of \$21.21 per barrel during 1998. The PUB in a previous Hydro rate referral agreed with Hydro's recommendation that Hydro will appear before the PUB should the balance in the RSP for our utility customer reach \$50 million.

FUEL EXPENSE AND RATE STABILIZATION PLAN (cont'd.)

If fuel prices were to average, for instance \$25 per barrel in 1998, the overall plan balance would increase to approximately \$78.0 million by December 31, 1998 of which \$55 million would be due from our utility customer. This is also assuming that Hydro has a normal water year in all of its hydraulic facilities. The RSP will continue to be monitored in 1998 due to the possibility that the \$50 million retail cap could be reached and then appropriate action can be taken.

POWER PURCHASES

Power purchase costs of \$8.1 million mainly represent the cost of power supplied by:

- (a) CF(L)Co for Labrador West and Happy Valley/Goose Bay;
- (b) Non-Utility Generators
- (c) Hydro-Québec for Labrador Straits area; and
- (d) Abitibi-Price for interruptible power.

The increase of \$2.5 million is mainly the result of power purchased from non-utility generators as a result of a proposal call in 1992.

DEPRECIATION

The budgeted expense for 1998 is \$33.1 million, an increase of \$3.0 million from the 1997 forecast, and is primarily the result of depreciation related to additional assets going in service plus higher expense associated with assets being depreciated by the sinking fund method of depreciation.

INTEREST EXPENSE

The interest expense is summarized as follows:

	(\$ Millions)		
	<u>1997 FORECAST</u>	<u>1998 BUDGET</u>	<u>INCREASE (DECREASE)</u>
Gross Interest	140.4	121.8	(18.6)
LESS: Interest earned and Interest During Construction	<u>44.4</u>	<u>26.5</u>	<u>(17.9)</u>
Net Interest	96.0	95.3	(0.7)
Guarantee Fee	<u>10.7</u>	<u>10.5</u>	<u>(0.2)</u>
	<u>106.7</u>	<u>105.8</u>	<u>(0.9)</u>

NEWFOUNDLAND AND LABRADOR HYDRO

STAFF COMPLEMENT

<u>Division</u>	<u>1997 Budget</u>	<u>1997 Forecast</u>	<u>1998 Budget</u>
Production	269	277	277
Finance	123	123	123
Internal Audit	4	4	4
Transmission and Rural Operations	422	420	418
Management	10	8	8
Human Resources and Legal	<u>75</u>	<u>72</u>	<u>72</u>
TOTAL	<u>903</u>	<u>904</u>	<u>902</u>

NEWFOUNDLAND AND LABRADOR HYDRO

BALANCE SHEET

(\$ Thousands)

ASSETS

	<u>PAGE REFERENCE</u>	<u>1997 FORECAST</u>	<u>1998 BUDGET</u>
Fixed Assets			
Property, plant and equipment		1,247,104	1,246,182
Current Assets			
Receivables		35,758	36,798
Fuel and supplies at average cost		31,075	34,997
Prepaid expenses		<u>2,491</u>	<u>1,937</u>
		69,324	73,732
Sinking Funds		256,996	159,918
Investment in Churchill Falls (Labrador) Corporation Limited	27	268,056	269,837
Rate Stabilization Plan	29-30	45,585	65,052
Investment in Lower Churchill Development Corporation Limited		15,400	15,400
Deferred Charges		<u>112,122</u>	<u>121,026</u>
		<u>2,014,587</u>	<u>1,951,147</u>

NEWFOUNDLAND AND LABRADOR HYDRO**BALANCE SHEET**

(\$ Thousands)

LIABILITIES AND SHAREHOLDER'S EQUITY

	<u>PAGE REFERENCE</u>	<u>1997 FORECAST</u>	<u>1998 BUDGET</u>
Long-term Debt		1,080,957	1,069,698
Current Liabilities			
Accounts payable and accrued liabilities		28,329	70,543
Due to affiliates		83	113
Accrued interest		35,702	31,447
Promissory notes		126,468	149,875
Long-term debt due within one year		<u>209,879</u>	<u>111,259</u>
		400,461	363,237
Unrealized foreign exchange loss provision		6,000	7,000
Shareholder's Equity			
Share capital			
Common shares of par value of \$1 each.			
Authorized 25,000,000 shares;			
issued 22,503,942 shares		22,504	22,504
Contributed capital			
Lower Churchill Development		15,400	15,400
Muskrat Falls		2,165	2,165
Retained earnings	30	<u>487,100</u>	<u>471,143</u>
		<u>527,169</u>	<u>511,212</u>
		<u>2,014,587</u>	<u>1,951,147</u>

INVESTMENT IN CF(L)Co

Hydro has owned 65.8% of CF(L)Co since 1975, and accounts for this investment on an equity basis as follows:

	<u>\$ Thousands</u>	
	<u>1997</u> <u>FORECAST</u>	<u>1998</u> <u>BUDGET</u>
Shares, at cost	167,255	167,255
Hydro's share of CF(L)Co retained earnings at beginning of the year	102,717	100,801
Hydro's share of CF(L)Co profits for the year	8,574	9,963
LESS: Common dividends from CF(L)Co	<u>(10,490)</u>	<u>(8,182)</u>
	<u>100,801</u>	<u>102,582</u>
TOTAL INVESTMENT IN CF(L)Co	<u>268,056</u>	<u>269,837</u>

The debt associated with this investment is projected to be \$35 million at December 31, 1998 compared with \$36 million at the end of the current year.

FINANCING

There is a provision in the 1998 Budget for a new long term debt issue of \$100 million. Funds from this issue will be used to refinance the non-callable 10.125% \$100 million Series U maturing in August 1998.

Short term debt outstanding at December 31, 1998 is projected to amount to \$150 million. Our total long term debt position (net of sinking funds) is projected to amount to \$1.021 billion. This is \$12.8 million less than our forecasted position as at December 31, 1997 of \$1.033 billion. Hydro has embarked upon taking advantage of the current favorable interest rate environment, by exercising all call features on existing debt. As a result, we are projecting calling \$105 million in face value of debt during 1998. Funding for much of this debt will be covered by related sinking funds with the balance funded by short term debt.

RATE STABILIZATION PLAN

On January 1, 1986 Hydro implemented a Rate Stabilization Plan which has the following components:

- (1) A water variation provision
- (2) A fuel cost variation provision
- (3) A load variation provision

RATE STABILIZATION PLAN (cont'd.)

The water variation provision is a mechanism to account for the variations from average hydro production. The provision is adjusted by using the base price per barrel for fuel, as used in setting the rates, multiplied by the number of barrels required to produce equivalent energy from thermal sources.

The fuel cost variation provision is used to account for variations between the base cost per barrel for Bunker "C" fuel used in setting rates and the actual fuel cost incurred.

Adjustments to the provision are calculated by multiplying the number of barrels of oil used for thermal production in a period by the fuel cost variation. The load variation provision is used to account for variations in earnings because of a difference between the estimated load used for setting rates and the actual load experienced during a year.

The balances in the water variation provision, fuel cost variation provision and load variation provision attract interest which is based on Hydro's average cost of borrowing. The annual balance in these provisions is amortized over a three year period. The amortization is billed to customers on the basis of the kWh sold in the previous twelve months. The rate adjustment mechanism is automatic, is authorized by the PUB, and does not require Hydro to make a rate referral to the PUB.

RATE STABILIZATION PLAN (cont'd.)

The following table shows the activity in the plan for the 1997 forecast and the 1998 budget:

RATE STABILIZATION PLAN

(\$ Thousands)

	<u>1997 FORECAST</u>	<u>1998 BUDGET</u>
Balance January 1st.	30,162	45,585
Activity	<u>15,423</u>	<u>19,467</u>
Balance December 31st.	<u>45,585</u>	<u>65,052</u>

RETAINED EARNINGS

The following table depicts the changes in Retained Earnings since 1990:

	<u>HYDRO</u>			<u>CE(L)Co</u>		
	<u>Net Income</u>	<u>Dividend</u>	<u>Retained Earnings</u>	<u>Net Income⁽¹⁾</u>	<u>Dividend</u>	<u>Retained Earnings</u>
	<u>\$ Thousands</u>					
1990	10,861	0	199,777	10,814	0	161,319
1991	8,431	0	208,208	14,567	0	175,886
1992	16,249	0	220,455	8,416	0	184,302
1993	13,717	0	234,172	11,230	0	195,532
1994	8,274	0	242,446	8,794	0	204,326
1995	22,617	(14,500)	250,563	10,281	(5,000)	209,607
1996	20,127	(9,688)	261,000	8,855	(3,221)	215,241
1997	25,689	(15,282)	271,407	11,890	(11,438)	215,693
1998	18,663	(31,438)	258,632	12,963	(16,145)	212,511

RETAINED EARNINGS (cont'd.)

- (1) Hydro's share of CF(L)Co earnings is recognized in Hydro's accounts each year. The cash received from CF(L)Co, in the form of dividends is used to pay the interest and principal on debt incurred by Hydro in the purchase of CF(L)Co shares and to pay a dividend to the Province.

DEBT/EQUITY

The projection for the debt/equity ratio is 81/19 at December 31, 1998, unchanged from 1997.

NEWFOUNDLAND & LABRADOR HYDRO

1998 CAPITAL BUDGET - OVERVIEW

(\$,000)

	Exp To 1997	1998	FUTURE	Total
GENERATION	479	8,492	1,463	10,434
TRANSMISSION	2,220	20,178	17,209	39,607
RURAL SYSTEMS	2,403	8,566	1,126	12,095
GENERAL PROPERTIES	4,969	7,379	1,025	13,373
CONTINGENCY FUND		750		750
<hr/>				
TOTAL CAPITAL BUDGET	<u>10,071</u>	<u>45,365</u>	<u>20,823</u>	<u>76,259</u>

NEWFOUNDLAND & LABRADOR HYDRO

1998 CAPITAL BUDGET - SUMMARY BY CATEGORY

(\$,000)

	Exp To 1997	1998	FUTURE	Total
GENERATION				
HYDRO PLANTS				
Construction Projects	0	1,956	0	1,956
Property Additions	0	44	0	44
Tools & Equipment	0	106	0	106
THERMAL PLANT				
Construction Projects	0	1,661	1,032	2,693
Property Additions	0	10	0	10
Tools & Equipment	0	141	0	141
TELECONTROL & ENERGY MANAGEMENT SYSTEM				
Construction Projects	13	4,197	431	4,641
Property Additions	0	51	0	51
Tools & Equipment	0	132	0	132
ENVIRONMENTAL ASSESSMENTS	<u>466</u>	<u>194</u>	<u>0</u>	<u>660</u>
TOTAL GENERATION	<u>479</u>	<u>8,492</u>	<u>1,463</u>	<u>10,434</u>
TRANSMISSION				
REGIONAL OPERATIONS				
Construction Projects	845	1,451	138	2,434
Property Additions	0	28	18	46
Tools & Equipment	0	643	0	643
SYSTEM TRANSMISSION ADDITIONS	738	1,727	0	2,465
SYSTEM SECURITY & RELIABILITY IMPROVEMENTS	637	15,782	17,053	33,472
SYSTEM PERFORMANCE & PROTECTION	<u>0</u>	<u>547</u>	<u>0</u>	<u>547</u>
TOTAL TRANSMISSION	<u>2,220</u>	<u>20,178</u>	<u>17,209</u>	<u>39,607</u>

NEWFOUNDLAND & LABRADOR HYDRO**1998 CAPITAL BUDGET - SUMMARY BY CATEGORY****(\$,000)**

	Exp To 1997	1998	FUTURE	Total
RURAL SYSTEMS				
REGIONAL OPERATIONS				
Construction Projects	288	3,687	446	4,421
Property Additions	0	145	0	145
Tools & Equipment	0	223	0	223
NEW POWER PLANTS	360	970	0	1,330
MAJOR UPGRADING				
Power Plants	1,755	2,341	0	4,096
Distribution Systems	0	30	680	710
Fuel Systems	0	1,007	0	1,007
METERING	0	163	0	163
TOTAL RURAL SYSTEMS	<u>2,403</u>	<u>8,566</u>	<u>1,126</u>	<u>12,095</u>
GENERAL PROPERTIES				
MANAGEMENT INFORMATION SYSTEMS	4,969	5,980	1,025	11,974
ADMINISTRATIVE	0	1,399	0	1,399
TOTAL GENERAL PROPERTIES	<u>4,969</u>	<u>7,379</u>	<u>1,025</u>	<u>13,373</u>
CONTINGENCY FUND		750		750
TOTAL CAPITAL BUDGET	<u>10,071</u>	<u>45,365</u>	<u>20,823</u>	<u>76,259</u>

NEWFOUNDLAND & LABRADOR HYDRO
GENERATION
1998 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1997	1998	FUTURE	Total	In-Ser Date
<u>HYDRO PLANTS</u>					
<u>CONSTRUCTION PROJECTS</u>					
Replace Guide Curve Program - System Operations		262		262	Aug. 98
Replace Static Exciters, Units No. 1 and 4 - Bay D'Espoir		725		725	Oct. 98
Replace Diesel Battery Banks - Ebbegunbaeg		8		8	Sep. 98
Install Mini Trashracks - Hinds Lake		22		22	Sep. 98
Replace Sump Pump Unit # 1 - Bay D'Espoir		30		30	Jul. 98
Install Dynamic Air Gap Monitoring on Unit No.7 - Bay D' Espoir		91		91	Aug. 98
Replace Low Pressure Air Compressor - Cat Arm		17		17	Sep. 98
Replace High Pressure Compressor #1- Hinds Lake		32		32	Sep. 98
Replace Battery Bank & Battery Charger - Upper Salmon		97		97	Oct. 98
Replace Compressor For Unit#7 Sync Condense - Bay D' Espoir		22		22	Jun. 98
Replace Water Level System -Intake #3 - Bay D' Espoir		11		11	Aug. 98
Replace Alarms/Diesel Controls & Gate Control - Ebbegunbaeg		86		86	Aug. 98
Build Arm Chair Dam - Snook's Arm		115		115	Sep. 98
Provide Legal Survey Of Property - Venams Bight/Snook Arms		30		30	Dec. 98
Replace Control System - Paradise River		408		408	Nov. 98
TOTAL CONSTRUCTION PROJECTS	0	1,956	0	1,956	
<u>PROPERTY ADDITIONS</u>					
Replace Road Trailer - Bay D' Espoir -V#8754		23		23	May. 98
Construct Compressed Gas Storage Shelter - Bay D' Espoir		11		11	Jul. 98
Construct Salt/Sand Storage Building - Bay D' Espoir		10		10	Oct. 98
TOTAL PROPERTY ADDITIONS	0	44	0	44	
<u>TOOLS & EQUIPMENT</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	106		106	
TOTAL TOOLS & EQUIPMENT	0	106	0	106	

NEWFOUNDLAND & LABRADOR HYDRO
GENERATION
1998 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1997	1998	FUTURE	Total	In-Ser Date
<u>THERMAL PLANT</u>					
<u>CONSTRUCTION PROJECTS</u>					
Upgrade Boiler Feed Pump Recirculation System on Unit No. 3 - Holyrood		401		401	Dec. 98
Replace Battery Banks & Battery Chargers on Unit Nos. 1 and 2 - Holyrood		218		218	Oct. 98
Replace Self Dyked Lube Oil Transfer Tanks - Holyrood		34		34	Jul. 98
Upgrade Gas Turbine Switchgear - Stephenville		292		292	Aug. 98
Construct Solid Waste Disposal Facility - Holyrood		605	263	868	Aug. 99
Replace Exciter - Unit # 1 - Holyrood		23	769	792	Aug. 99
Install Acoustic Leak Detector on Unit No.1 - Holyrood		88		88	Sep. 98
TOTAL CONSTRUCTION PROJECTS	0	1,661	1,032	2,693	
<u>PROPERTY ADDITIONS</u>					
Purchase Central File Mobile Shelving System - Holyrood		10		10	Sep. 98
TOTAL PROPERTY ADDITIONS	0	10	0	10	
<u>TOOLS & EQUIPMENT</u>					
Purchase Ion Chromatography Analyser		97		97	Jun. 98
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	44		44	
TOTAL TOOLS & EQUIPMENT	0	141	0	141	

NEWFOUNDLAND & LABRADOR HYDRO
GENERATION
1998 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1997	1998	FUTURE	Total	In-Ser Date
<u>TELECONTROL & ENERGY MANAGEMENT SYSTEM</u>					
<u>CONSTRUCTION PROJECTS</u>					
Replace Microwave Radio - Hinds Lake to Bay D' Espoir	13	2,619		2,632	Dec. 98
Upgrade Data Network System		227		227	Dec. 98
Replace SSR-46 Radios - Hinds Lake		434		434	Oct. 98
Replace Ormat Generator - Gull Pond Hill		311		311	Oct. 98
Replace Air Conditioner - Come By Chance		14		14	Oct. 98
Replace Battery System - Sunnyside		60		60	Oct. 98
Replace Battery System - Western Avalon		60		60	Oct. 98
Replace Maintenance Shop Battery & Charger - Hydro Place		6		6	Jun. 98
Install VHF Repeater - Blue Mountain		72		72	Oct. 98
Consolidate Digital Data Services - Hydro Place		52		52	May. 98
Replace Power Line Carrier Systems - TL204, TL231, TL202 and TL206		342	431	773	Oct. 99
TOTAL CONSTRUCTION PROJECTS	13	4,197	431	4,641	
<u>PROPERTY ADDITIONS</u>					
Install Chain Link Fence - Hinds Lake		5		5	Oct. 98
Install Chain Link Fence - Deer Lake		6		6	Oct. 98
Replace Fence - Mary March Hill		40		40	Sep. 98
TOTAL PROPERTY ADDITIONS	0	51	0	51	
<u>TOOLS & EQUIPMENT</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	132		132	
TOTAL TOOLS & EQUIPMENT	0	132	0	132	
<u>ENVIRONMENTAL ASSESSMENTS</u>					
Provide Environmental Assessment - Granite Canal -(CWO#7015)	466	194		660	Apr. 98
TOTAL ENVIRONMENTAL ASSESSMENTS	466	194	0	660	
TOTAL GENERATION	479	8,492	1,463	10,434	

NEWFOUNDLAND & LABRADOR HYDRO
TRANSMISSION
1998 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1997	1998	FUTURE	Total	In-Ser Date
<u>REGIONAL OPERATIONS</u>					
<u>CONSTRUCTION PROJECTS</u>					
<u>EASTERN</u>					
Upgrade Suspension Insulators - TL212(Sunnyside - Linton Lake)	2	310		312	May. 98
Upgrading of Wood Pole Line - TL212 - (138kv Sunnyside - Linton Lake)	796	490		1,286	Sep. 98
Install Conductor Vibration Protection - Transmission Lines	47	123		170	May. 98
Install Conductor Vibration Protection - Transmission Lines)		129	138	267	Dec. 99
Replace Circuit Breaker B8T4 - Hardwoods		89		89	Oct. 98
<u>CENTRAL</u>					
Extend Switchyard - Farewell Head		56		56	Aug. 98
Replace System Air Dryer - Buchans		38		38	Aug. 98
Replace Instrument Transformers/Surge Arrestors		92		92	Dec. 98
Extend Switchyard - Glenburnie		62		62	Aug. 98
Extend Switchyard - Wiltendale		62		62	Aug. 98
TOTAL CONSTRUCTION PROJECTS	845	1,451	138	2,434	
<u>PROPERTY ADDITIONS</u>					
<u>CENTRAL</u>					
Install Protective Siding - Line Camps -TL 202 & TL 206		18	18	36	Oct. 99
<u>WESTERN</u>					
Replace 100m Chain Link Fence - Stephenville Complex		10		10	Jun. 98
TOTAL PROPERTY ADDITIONS	0	28	18	46	

**NEWFOUNDLAND & LABRADOR HYDRO
TRANSMISSION
1998 CAPITAL BUDGET - DETAIL
(\$,000)**

PROJECT DESCRIPTION	Exp To 1997	1998	FUTURE	Total	In-Ser Date
<u>REGIONAL OPERATIONS</u>					
<u>TOOLS & EQUIPMENT</u>					
<u>EASTERN</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	141		141	
<u>CENTRAL</u>					
Replace Heavy Duty All Terrain Vehicle No. 8734		62		62	Sep. 98
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	71		71	
<u>WESTERN</u>					
Replace Heavy Duty All Terrain Vehicle No.7534		181		181	Sep. 98
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	73		73	
<u>Northern</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	91		91	
<u>Labrador</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	24	0	24	
<u>TOTAL TOOLS & EQUIPMENT</u>					
	0	643	0	643	

NEWFOUNDLAND & LABRADOR HYDRO
TRANSMISSION
1998 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1997	1998	FUTURE	Total	In-Ser Date
<u>SYSTEM TRANSMISSION ADDITIONS</u>					
Provide Interconnection for - Star Lake/Buchans -(CWO#7017)	1,008	548		1,556	Jul. 98
Cost Recovery	(1,008)	(548)		(1,556)	
Replace T1 Transformer - Massey Drive (CWO#7018)	738	1,727		2,465	Sep. 98
Provide Revenue Metering For Interconnection - Southwest River		35		35	Nov. 98
Cost Recovery		(35)		(35)	
Provide Interconnection To Grid For (NP) - Southwest River		307		307	Nov. 98
Cost Recovery		(307)		(307)	
Provide Interconnection To Grid For (NP) - Rattle Brook		289		289	Nov. 98
Cost Recovery		(289)		(289)	
TOTAL SYSTEM TRANSMISSION ADDITIONS	738	1,727	0	2,465	

<u>SYSTEM SECURITY & RELIABILITY IMPROVEMENTS</u>					
Upgrade - TL220 (66kv Bay d' Espoir - Harbour Breton)	351	5,646		5,997	Oct. 98
Provide Additional Capacitors - Hardwoods & Oxen Pond	43	1,269		1,312	Oct. 98
Upgrade - TL217 (230kv Western Avalon - Holyrood)	221	7,577	7,608	15,406	Oct. 99
Upgrade - TL228 (230kv Buchans - Corner Brook)	22	940		962	Oct. 98
Upgrading of TL#202/206 (230Kv Bay D'Espoir - Sunnyside)		81	1,792	1,873	Oct. 99
Upgrading - TL207 (230kv Sunnyside to Come-by-Chance)		48	2,521	2,569	Sep. 99
Upgrading - TL218 & TL218/236 (Holyrood to Hardwoods)		181	5,132	5,313	Oct. 99
Install TL Monitoring System - Hawke Hill		40		40	Oct. 98
TOTAL SECURITY & RELIABILITY IMPROVEMENTS	637	15,782	17,053	33,472	

SYSTEM PERFORMANCE & PROTECTION

Purchase and Install 125vDC Battery Bank - Daniels Harbour		27		27	Aug. 98
Purchase and Install 125vDC battery Bank - Cow Head		27		27	Aug. 98
Purchase and Install Automatic Voltage System - Hardwoods & Oxen Pond		169		169	Sep. 98
Upgrade Meter Test Console - Meter Shop - Hydro Place		40		40	Dec. 98
Upgrade 230KV Backup Protection - TL203,TL205,TL232 and TL217		224		224	Oct. 98
Purchase Relay Coordination Software - Hydro Place		38		38	Apr. 98
Purchase Metering Spares - Meter Shop - Hydro Place		22		22	Dec. 98
TOTAL SYSTEM PERFORMANCE & PROTECTION	0	547	0	547	
TOTAL TRANSMISSION	2,220	20,178	17,209	39,607	

NEWFOUNDLAND & LABRADOR HYDRO
RURAL SYSTEMS
1998 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1997	1998	FUTURE	Total	In-Ser Date
<u>REGIONAL OPERATIONS</u>					
<u>CONSTRUCTIONS PROJECTS</u>					
<u>CENTRAL</u>					
Provide Service Extensions - Central		419		419	Dec. 98
Upgrade Distribution Systems - Central		370		370	Dec. 98
Replace Poles - Farewell Head System		90		90	Sep. 98
Install Mid Span Poles - Farewell Head System		66		66	Sep. 98
Install Mid Span Poles - Simmons Site		166		166	Sep. 98
Install 22Km of Neutral on TL246 (L-7) - South Brook		60		60	Sep. 98
Procure and Install Water Cooling System - McCallum		95		95	Oct. 98
<u>NORTHWEST</u>					
Provide Service Extensions - Northwest		219		219	Dec. 98
Upgrade Distribution Systems - Northwest		325		325	Dec. 98
Reconductor Distribution Line - St. Barbe - Forrester's Point		407		407	Oct. 98
Upgrade Distribution Line - Englee		175		175	Oct. 98
<u>WESTERN</u>					
Provide Service Extensions - Western Rural		34		34	Dec. 98
Upgrade Distribution Systems - Western Rural		80		80	Dec. 98
<u>NORTHERN</u>					
Provide Service Extensions - Northern		180		180	Dec. 98
Upgrade Distribution Systems - Northern		225		225	Dec. 98
Install Diesel Unit - Charlottetown	40	61		101	Jul. 98
<u>LABRADOR EASTERN</u>					
Provide Service Extensions - Labrador East		270		270	Dec. 98
Upgrade Distribution Systems - Labrador East		150		150	Dec. 98
Install Engine Monitor on Units - Postville		23		23	Sep. 98
Install 820kw Diesel Unit - Nain	248	135		383	Aug. 98
<u>WABUSH</u>					
Provide Service Extensions - Wabush		18		18	Dec. 98
Upgrade Distribution Systems - Wabush		25		25	Dec. 98
<u>LABRADOR CITY</u>					
Provide Service Extensions - Lab City		35		35	Dec. 98
Upgrade Distribution Systems - Lab City		30		30	Dec. 98
Upgrade Distribution System - Harrie Lake		29	446	475	Oct. 99
TOTAL CONSTRUCTION PROJECTS	288	3,687	446	4,421	

NEWFOUNDLAND & LABRADOR HYDRO
RURAL SYSTEMS
1998 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1997	1998	FUTURE	Total	In-Ser Date
<u>REGIONAL OPERATIONS cont'd</u>					
<u>PROPERTY ADDITIONS</u>					
<u>NORTHWEST</u>					
Purchase Modular Furniture - Port Saunders		23		23	Jun. 98
Construction of Pole Ramps & Yard Extension - Port Saunders		80		80	Nov. 98
<u>NORTHERN</u>					
Construct Lube Oil/Antifreeze Ramp - Port Hope Simpson		2		2	May. 98
<u>WABUSH</u>					
ifications to Warehouse and Shelving - Wabush		17		17	Aug. 98
Construct Storage Bldg - Wabush		23		23	Jun. 98
TOTAL PROPERTY ADDITIONS	0	145	0	145	

**NEWFOUNDLAND & LABRADOR HYDRO
RURAL SYSTEMS
1998 CAPITAL BUDGET - DETAIL
(\$,000)**

PROJECT DESCRIPTION	Exp To 1997	1998	FUTURE	Total	In-Ser Date
<u>REGIONAL OPERATIONS cont'd</u>					
<u>TOOLS & EQUIPMENT</u>					
<u>CENTRAL</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	94		94	
<u>NORTHWEST</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	36		36	
<u>WESTERN</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	21		21	
<u>NORTHERN</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	27		27	
<u>LABRADOR EASTERN</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	29		29	
<u>RURAL SUPPORT</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	4		4	
<u>METERING</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	<u>0</u>	<u>12</u>		<u>12</u>	
TOTAL TOOLS & EQUIPMENT	<u>0</u>	<u>223</u>	<u>0</u>	<u>223</u>	

NEWFOUNDLAND & LABRADOR HYDRO
RURAL SYSTEMS
1998 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1997	1998	FUTURE	Total	In-Ser Date
<u>NEW POWER PLANTS</u>					
Construct New Powerhouse - Mud Lake	360	970		1,330	Oct. 98
TOTAL NEW POWER PLANTS	360	970	0	1,330	
<u>MAJOR UPGRADING</u>					
<u>POWER PLANTS</u>					
Retrofit Diesel Plant - Ramea (CWO#7535)	1,755	1,195		2,950	Aug. 98
Replace Obsolete Diesel Units		750		750	Dec. 98
Purchase and Install HVLN Modifications - Black Tickle		240		240	Oct. 98
Install Fire Alarm Systems - Cartwright/Charlottetown		156		156	Nov. 98
TOTAL POWER PLANTS	1,755	2,341	0	4,096	
<u>DISTRIBUTION SYSTEMS</u>					
Upgrade Distribution Line - Anchor Point to St. Barbe		30	680	710	Oct. 99
TOTAL DISTRIBUTION SYSTEMS	0	30	680	710	
<u>FUEL SYSTEMS</u>					
Increase Fuel Storage - Nain		423		423	Sep. 98
Increase Fuel Storage - St. Lewis		290		290	Sep. 98
Increase Fuel Storage - Postville		76		76	Sep. 98
Increase Fuel Storage - Charlottetown		218		218	Oct. 98
TOTAL FUEL SYSTEMS	0	1,007	0	1,007	
<u>METERING</u>					
Purchase Meters and Equipment - TRO System		114		114	Dec. 98
Purchase & Install Metering Tanks - TRO System		49		49	Dec. 98
TOTAL METERING	0	163	0	163	
TOTAL RURAL SYSTEMS	2,403	8,566	1,126	12,095	

NEWFOUNDLAND & LABRADOR HYDRO
GENERAL PROPERTIES
1998 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1997	1998	FUTURE	Total	In-Ser Date
<u>MANAGEMENT INFORMATION SYSTEMS</u>					
Purchase Treasury Management System		69	59	128	Dec. 99
Purchase Geographic Information System Software		31		31	Dec. 98
Upgrade Office Technology	0	373		373	
Mainframe Software					
- Lan Electronic Mail System		30		30	Dec. 98
MainFrame & Network Hardware					
-Upgrade Memory for Existing System		120		120	Dec. 98
-Upgrade AS400 DASD System		50		50	Dec. 99
- Provide Imaging System - Hydro Place		40		40	Dec. 98
- Upgrade Token Ring Network System		150		150	Dec. 99
- Router and Network Management System		60		60	Dec. 98
Applications Development					
Install Integrated Applications Suite (Hardware & Software) - W/O 7010 Cost Recovery -(CFLCO)	4,969	5,057	3,494 (2,528)	13,520 (2,528)	Apr 99
TOTAL MANAGEMENT INFORMATION SYSTEMS	4,969	5,980	1,025	11,974	
<u>ADMINISTRATIVE</u>					
<u>VEHICLES</u>					
Replace Vehicles - Generation and Transmission System		550		550	Dec. 98
Replace Vehicles - Rural System		570		570	Dec. 98
Replace Vehicles - Corporate		144		144	Dec. 98
ADMINISTRATION					
Purchase & Replace Admin Office Equip less than \$50,000	0	114		114	
<u>MATERIALS MANAGEMENT</u>					
Purchase Wire Re-Winder - Stores/B Ishop's Falls		21		21	Jun. 98
TOTAL ADMINISTRATIVE	0	1,399	0	1,399	
TOTAL GENERAL PROPERTIES	4,969	7,379	1,025	13,373	



A Submission to the Minister of Mines and Energy

1999 Operating and Capital Budgets

NEWFOUNDLAND AND LABRADOR HYDRO

NEWFOUNDLAND AND LABRADOR HYDRO

1999 BUDGET

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NEWFOUNDLAND AND LABRADOR HYDRO
STATEMENT OF INCOME & RETAINED EARNINGS
(\$ Thousands)

	Page Ref.	1997 <u>Actual</u>	1998 <u>Budget</u>	1998 <u>Forecast</u>	1999 <u>Budget</u>	Increase (Decrease)
Revenue						
Energy Sales	3 - 5	292,658	293,541	301,633	324,466	22,833
Expenses						
Net Operating	7 - 18	75,400	81,938	83,894	87,264	3,370
Fuels	19	43,900	45,989	28,555	46,627	18,072
Power Purchases	20	5,692	8,082	12,555	19,451	6,896
Depreciation	20	29,880	33,090	32,223	34,705	2,482
Interest	20	<u>106,876</u>	<u>105,779</u>	<u>100,061</u>	<u>100,148</u>	<u>87</u>
		261,748	274,878	257,288	288,195	30,907
Net Operating Income		30,910	18,663	⁽¹⁾ 44,345	⁽²⁾ 36,271	(8,074)
Other Revenue (Expenses)						
Equity in CF(L)Co		9,391	9,963	10,896	9,194	(1,702)
Preferred Dividend		5,883	5,741	6,670	5,612	(1,058)
Interest Share						
Purchase Debt		<u>(2,760)</u>	<u>(2,741)</u>	<u>(1,905)</u>	<u>(2,250)</u>	<u>(345)</u>
		12,514	12,963	15,661	12,556	(3,105)
Net Income		43,424	31,626	60,006	48,827	(11,179)
Retained Earnings, beginning of year		<u>476,243</u>	<u>487,100</u>	<u>498,747</u>	<u>541,953</u>	<u>43,206</u>
		519,667	518,726	558,753	590,780	32,027
Dividends						
- Hydro Portion		12,357	31,438	12,000	49,000	37,000
- CF(L)Co Portion		<u>8,563</u>	<u>16,145</u>	<u>4,800</u>	<u>20,000</u>	<u>15,200</u>
Retained Earnings, end of year		<u>498,747</u>	<u>471,143</u>	<u>541,953</u>	<u>521,780</u>	<u>(20,173)</u>
Interest Coverage on Net Operating Income		1.23	1.15	1.37	1.36	
Interest Coverage without Recapture		-	-	1.19	1.15	

Net operating Income includes profit related to recapture energy sold to Hydro-Québec. Net Operating Income in 1998 without the recall would be \$22,800.

⁽²⁾ Net Operating Income in 1999 without the recall would be \$14,155.

NEWFOUNDLAND AND LABRADOR HYDRO
STATEMENT OF REVENUE BY MAJOR SOURCE
(\$ Thousands)

	<u>1997</u> <u>Actual</u>	<u>1998</u> <u>Budget</u>	<u>1998</u> <u>Forecast</u>	<u>1999</u> <u>Budget</u>	<u>Increase</u> <u>(Decrease)</u>
Industry					
Corner Brook Pulp & Paper Ltd.	11,809	13,224	14,102	14,976	874
Deer Lake Power Company	803	542	617	538	(79)
Albright and Wilson	423	-	-	-	-
Abitibi Consolidated - Stephenville	18,293	20,219	12,372	19,581	7,209
Abitibi Consolidated - Grand Falls	5,441	6,486	3,741	6,602	2,861
North Atlantic Refining	8,767	8,543	8,162	8,734	572
C.F.B. - Goose Bay	3,051	3,085	2,967	2,739	(228)
Iron Ore Company of Canada	2,957	2,560	3,463	5,031	1,568
Royal Oak Mines Inc.	<u>2,155</u>	<u>1,208</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Industry	53,699	55,867	45,424	58,201	12,777
Hydro-Québec Recall	-	-	24,806	25,174	368
Utility					
Newfoundland Power	193,997	191,802	185,777	194,276	8,499
Rural					
Interconnected and Diesel	43,764	44,668	44,450	45,691	1,241
Other	<u>1,198</u>	<u>1,204</u>	<u>1,176</u>	<u>1,124</u>	<u>(52)</u>
Total Revenue	<u>292,658</u>	<u>293,541</u>	<u>301,633</u>	<u>324,466</u>	<u>22,833</u>

Please refer to Page 5 for explanations.

NEWFOUNDLAND AND LABRADOR HYDRO
ENERGY SALES VOLUME ANALYSIS
(GWh.)

	<u>1997 Actual</u>	<u>1998 Budget</u>	<u>1998 Forecast</u>	<u>1999 Budget</u>	<u>Increase (Decrease)</u>
Industry					
Corner Brook Pulp & Paper	326.0	380.9	401.5	434.9 ^{II}	33.4
Deer Lake Power	16.8	15.5	19.1	15.5 ^{II}	(3.6)
Deer Lake Power - Emergency	2.4	-	-	-	-
Albright and Wilson	2.5	-	-	-	-
Abitibi Consolidated:					
Stephenville - Firm	497.0	576.5	341.8	563.9 ^{II}	222.1
- Wheeled	23.9	0.9	7.1	1.0 ^{II}	(6.1)
Grand Falls - Firm	129.3	177.9	89.2	183.0 ^{II}	93.8
- Compensation	31.0	31.0	26.8	31.0 ^{II}	4.2
- Emergency	2.9	-	1.0	-	(1.0)
- Wheeled	10.8	-	5.5	-	(5.5)
North Atlantic Refining Limited	244.8	234.5	217.8	246.5 ^{II}	28.7
C.F.B. Goose Bay	111.4	111.9	112.9	117.7 ^{II}	4.8
Iron Ore Company	252.0	220.7	289.3	506.5 ^{II}	217.2
Royal Oak Mines Inc.	<u>43.8</u>	<u>21.3</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Industry	1,694.6	1,771.1	1,512.0	2,100.0	588.0
Hydro-Québec Recall	-	-	1,037.9	1,053.3 ^{II}	15.4
Utility					
Newfoundland Power	4,306.2	4,265.7	4,133.0	4,320.3 ^{II}	187.3
Rural					
Interconnected and Diesel	<u>803.1</u>	<u>810.4</u>	<u>829.2</u>	<u>844.6 ^{II}</u>	<u>15.4</u>
Total Sales	<u>6,803.9</u>	<u>6,847.2</u>	<u>7,512.1</u>	<u>8,318.2</u>	<u>806.1</u>

Please refer to Page 5 for explanations.

NEWFOUNDLAND AND LABRADOR HYDRO
ENERGY SALES VOLUME ANALYSIS (cont'd.)

CORNER BROOK PULP AND PAPER

Sales are lower in 1998 mainly because of higher generation at the customers facilities in 1998 which results in increased purchases from Hydro in 1999.

ABITIBI CONSOLIDATED

1998 energy sales were lower due to a shutdown as the result of a strike. In 1999 production is back to a more normal level.

I.O.C.C.

There is a forecasted increase in production from 1998 to 1999. The extra production began in the fall of 1998.

NORTH ATLANTIC REFINING LTD.

Energy sales in 1998 was lower mainly due to an extended downtime after a fire in March, 1998. In 1999 production is back to a more normal level.

HYDRO QUÉBEC RECALL

The 1999 Recall is for a twelve month period compared to a nine month period in 1998.

NEWFOUNDLAND POWER

The increase in sales is primarily due to low 1998 actuals resulting from a warmer than average winter in 1998.

RURAL SALES

Increase primarily due to load growth in the Island Interconnected system and the Happy Valley/Goose Bay system as well as low 1998 actuals due to a warmer than average winter in 1998.

RATES

The 1999 budgeted Net Operating Income of \$14.2 million before recapture and earnings in CF(L)Co result in a projected interest coverage of 1.15. The 1999 budgeted Net Operating Income of \$36.3 million including recapture before earnings in CF(L)Co, reflect an overall interest coverage of 1.36. Overall Net Income will be \$48.8 million. In addition our most recent projections indicate that the Rate Stabilization Plan (RSP) balance at December 31, 1999 will be approximately \$43 million (of which \$30 million is attributable to Newfoundland Power) a decrease of \$4 million from the December 1998 forecast of \$47 million. This decrease is primarily due to above average hydraulic generation in 1999 resulting from higher water levels experienced in 1998.

Hydro does not have a requirement to revise its retail or industrial rates in 1999, however retail and industrial rates will be required to be revised in the year 2000. The Public Utilities Board has scheduled a pre-hearing conference for May 1999 to discuss the timing of a generic hearing into several outstanding matters involving both Hydro and Newfoundland Power which would address matters related to marginal cost concepts, innovative rates and a demand/energy rate structure for sales to Newfoundland Power.

The review of the "Provincial Power Policy" which was announced by Government this Fall is intended to address many long term rates related issues including marginal cost vs average cost based rates, existing pricing methodologies and practices, current pricing structures on the Island and in Labrador, future prices and future system expansion. The results of this review will provide the future direction for rate design, the implementation of which may require a hearing by Hydro.

NEWFOUNDLAND AND LABRADOR HYDRO
NET OPERATING EXPENSES
(\$ Thousands)

Expense Group	1997 <u>Actual</u>	1998 <u>Budget</u>	1998 <u>Forecast</u>	1999 <u>Budget</u>	Increase (Decrease)
Salaries & Fringe Benefits	45,489	48,900	47,426	50,606	3,180
System Equipment Maintenance	11,511	10,861	10,999	14,101	3,102
Office Supplies & Expenses	2,716	3,082	3,096	3,029	(67)
Professional Services	2,883	3,124	3,588	3,175	(413)
Insurance	1,223	1,078	1,078	1,130	52
Equipment Rentals	1,530	2,080	2,077	1,770	(307)
Travel	1,911	1,997	2,037	2,107	70
Miscellaneous	3,752	4,230	6,303	4,378	(1,925)
Bldg. Rentals & Maintenance	2,210	2,768	3,391	2,439	(952)
Transportation	2,793	3,599	3,599	3,255	(344)
Bad Debt Expenses	298	385	385	270	(115)
Loss on Disposal of Fixed Assets	691	568	1,354	1,396	42
Amortization - Studies & Software	<u>806</u>	<u>1,766</u>	<u>933</u>	<u>1,908</u>	<u>975</u>
	77,813	84,438	86,266	89,564	3,298
Allocations					
CF(L)Co Recoveries	<u>2,413</u>	<u>2,500</u>	<u>2,372</u>	<u>2,300</u>	<u>72</u>
Net Operating Expenses	<u>75,400</u>	<u>81,938</u>	<u>83,894</u>	<u>87,264</u>	<u>3,370</u>

An analysis of the individual expense groups is outlined in various tables on the following pages.

SALARIES AND FRINGE BENEFITS

The salary group of expenses is budgeted to increase by \$3,180,000 from the 1998 forecast. This increase is further explained in the table below.

SALARIES SUMMARY

(\$ Thousands)

	<u>1997 Actual</u>	<u>1998 Budget</u>	<u>1998 Forecast</u>	<u>1999 Budget</u>	<u>Increase (Decrease)</u>
Permanent Salaries	38,485	40,817	40,502	41,042	540
Transferred Salaries	(6,408)	(5,754)	(7,030)	(4,638)	2,392
Vacancy Reduction	-	(675)	(675)	(675)	-
Hourly Wages	4,210	4,807	4,798	4,991	193
Overtime	2,827	2,315	2,541	2,398	(143)
Fringe Benefits	6,272	7,310	7,211	7,406	195
Other	<u>103</u>	<u>80</u>	<u>79</u>	<u>82</u>	<u>3</u>
Total	<u>45,489</u>	<u>48,900</u>	<u>47,426</u>	<u>50,606</u>	<u>3,180</u>

The increase in permanent salaries is primarily due to a salary adjustment for both union and non-union staff partially offset by reductions in staff complement.

The increase in costs resulting from lower transferred salaries is mainly due to lower capital recoveries in 1999.

SYSTEM EQUIPMENT MAINTENANCE

This group of expenses is budgeted at \$14,101,000 in 1999 which is an increase of \$3,102,000 from 1998 mainly due to higher costs associated with maintaining the Holyrood Thermal Plant and the Cat Arm Hydro Plant.

SYSTEM EQUIPMENT MAINTENANCE SUMMARY

(\$ Thousands)

	<u>1997 Actual</u>	<u>1998 Budget</u>	<u>1998 Forecast</u>	<u>1999 Budget</u>	<u>Increase (Decrease)</u>
System Equip. Mtnce.	10,349	9,547	9,681	12,887	3,206
Tools & Equipment	402	459	463	461	(2)
Freight Expense	322	299	299	204	(95)
Lubricants, Gases & Chemic	<u>438</u>	<u>556</u>	<u>556</u>	<u>549</u>	<u>(7)</u>
Total	<u>11,511</u>	<u>10,861</u>	<u>10,999</u>	<u>14,101</u>	<u>3,102</u>

OFFICE SUPPLIES AND EXPENSES

Office supplies and expenses are budgeted to decrease by \$67,000 from the 1998 forecast. There are some increases in costs which are basically offset by other decreases as outlined in the table below.

OFFICE SUPPLIES SUMMARY **(\$ Thousands)**

	<u>1997 Actual</u>	<u>1998 Budget</u>	<u>1998 Forecast</u>	<u>1999 Budget</u>	<u>Increase (Decrease)</u>
Heat & Light	546	601	601	565	(36)
Telephone & Fax	562	638	635	585	(50)
Printing, Forms & Supplies	420	529	530	529	(1)
Postage	296	302	302	320	18
Advertising	61	68	68	76	8
Janitorial	337	371	371	375	4
Office Equipment & Maintenance	261	271	279	269	(10)
Books & Subscriptions	67	82	91	82	(9)
Membership and Dues	<u>166</u>	<u>220</u>	<u>219</u>	<u>228</u>	<u>9</u>
Total	<u>2,716</u>	<u>3,082</u>	<u>3,096</u>	<u>3,029</u>	<u>(67)</u>

PROFESSIONAL SERVICES

The 1999 Budget has decreased by \$413,000 mainly because certain external consulting costs incurred in 1998 will not be required in 1999.

PROFESSIONAL SERVICES SUMMARY

(\$ Thousands)

	<u>1997</u> <u>Actual</u>	<u>1998</u> <u>Budget</u>	<u>1998</u> <u>Forecast</u>	<u>1999</u> <u>Budget</u>	<u>Increase</u> <u>(Decrease)</u>
Professional Services	1,807	1,606	2,085	1,574	(511)
Professional Services Loss Adjust.	-	9	-	-	-
PUB Related Costs	429	690	684	1,020	336
Software Acquisitions & Mtnc.	<u>647</u>	<u>819</u>	<u>819</u>	<u>581</u>	<u>(238)</u>
<i>Total</i>	<u>2,883</u>	<u>3,124</u>	<u>3,588</u>	<u>3,175</u>	<u>(413)</u>

INSURANCE

Insurance markets are close to where they were in 1998 with only a modest increase in premiums.

INSURANCE SUMMARY

(\$ Thousands)

	<u>1997 Actual</u>	<u>1998 Budget</u>	<u>1998 Forecast</u>	<u>1999 Budget</u>	<u>Increase (Decrease)</u>
All Risk	456	446	446	456	10
Boiler & Machinery	321	228	228	300	72
Primary Liabilities	44	34	34	34	-
Umbrella Liabilities	75	76	76	76	-
Non Owned Aircraft	5	5	5	5	-
Fidelity Bond	2	-	-	-	-
Automobile Liability	69	70	69	68	(1)
Travel Accident	7	7	7	7	-
Safe Berth Liability	12	14	14	14	-
Brokers Fee J&H	96	56	56	97	41
Risk Control J&H	42	35	35	-	(35)
Loss Adjust J&H	27	23	24	-	(24)
Deductible/Losses	14	29	29	19	(10)
Directors & Officers Liab.	<u>53</u>	<u>55</u>	<u>55</u>	<u>54</u>	<u>(1)</u>
Total	<u>1,223</u>	<u>1,078</u>	<u>1,078</u>	<u>1,130</u>	<u>52</u>

EQUIPMENT RENTALS

This expense is budgeted to decrease by \$307,000 from the 1998 forecast due mainly to lower computer costs as a result of switching to a new computer plus computer processing costs are lower as a result of the implementation of a new customer information system.

EQUIPMENT RENTALS SUMMARY

(\$ Thousands)

	<u>1997</u> <u>Actual</u>	<u>1998</u> <u>Budget</u>	<u>1998</u> <u>Forecast</u>	<u>1999</u> <u>Budget</u>	<u>Increase</u> <u>(Decrease)</u>
Equipment Rentals	969	1,155	1,152	1,102	(50)
Telecomm. Comp. Processing	158	186	186	91	(95)
Computer Costs	<u>403</u>	<u>739</u>	<u>739</u>	<u>577</u>	<u>(162)</u>
Total	<u>1,530</u>	<u>2,080</u>	<u>2,077</u>	<u>1,770</u>	<u>(307)</u>

TRAVEL

Travel has increased slightly from the 1998 Forecast.

TRAVEL SUMMARY

(\$ Thousands)

	<u>1997 Actual</u>	<u>1998 Budget</u>	<u>1998 Forecast</u>	<u>1999 Budget</u>	<u>Increase (Decrease)</u>
Travel Expenses	1,786	1,850	1,891	1,889	(2)
Conferences	<u>125</u>	<u>147</u>	<u>146</u>	<u>218</u>	<u>72</u>
Total	<u>1,911</u>	<u>1,997</u>	<u>2,037</u>	<u>2,107</u>	<u>70</u>

MISCELLANEOUS

This group of expenses covers a wide range of items which are not compatible with the other classifications that have been established. The main reasons for the decrease in 1999 of \$1,925,000 are the 1998 payment to non-utility generators of \$1,350,000 (included in sundry) plus PCB Waste Disposal costs incurred in 1998 and higher inventory write-offs incurred in 1998.

MISCELLANEOUS SUMMARY

(\$ Thousands)

	<u>1997 Actual</u>	<u>1998 Budget</u>	<u>1998 Forecast</u>	<u>1999 Budget</u>	<u>Increase (Decrease)</u>
Staff Training	526	725	772	1,100	328
Inventory Gain/Loss	258	200	625	264	(361)
Sundry Costs	221	140	1,490	119	(1,371)
Diesel Fuel Hydro	91	82	82	98	16
Donations	184	153	153	153	-
Tran of Salvage Material	(24)	-	-	-	-
PCB Waste Disposal	-	250	350	-	(350)
Demand Side Management	39	45	45	48	3
Employee Expenses	480	637	788	612	(176)
Taxes	<u>1,977</u>	<u>1,998</u>	<u>1,998</u>	<u>1,984</u>	<u>(14)</u>
Total	<u>3,752</u>	<u>4,230</u>	<u>6,303</u>	<u>4,378</u>	<u>(1,925)</u>

BUILDING RENTALS AND MAINTENANCE

These costs have decreased by \$952,000 from the 1998 forecast mainly due to higher property costs in 1998 as a result of renovations at Holyrood, Bay d'Espoir and Bishops Falls.

BUILDING RENTALS SUMMARY

(\$ Thousands)

	<u>1997 Actual</u>	<u>1998 Budget</u>	<u>1998 Forecast</u>	<u>1999 Budget</u>	<u>Increase (Decrease)</u>
Building Rentals	131	160	160	172	12
Safety Equipment & Supplies	121	154	173	157	(16)
Property Costs	<u>1,958</u>	<u>2,454</u>	<u>3,058</u>	<u>2,110</u>	<u>(948)</u>
Total	<u>2,210</u>	<u>2,768</u>	<u>3,391</u>	<u>2,439</u>	<u>(952)</u>

TRANSPORTATION

Transportation costs have decreased by \$344,000 from the 1998 forecast mainly due to lower aircraft rentals and lower vehicle expenses.

TRANSPORTATION SUMMARY (\$ Thousands)

	<u>1997 Actual</u>	<u>1998 Budget</u>	<u>1998 Forecast</u>	<u>1999 Budget</u>	<u>Increase (Decrease)</u>
Aircraft Rentals	1,112	1,249	1,247	1,115	(132)
Vehicle Expenses	1,397	1,905	1,905	1,672	(233)
Capital Fleet	(268)	(341)	(341)	(292)	49
Vehicle Rentals	198	294	296	268	(28)
Mobile Equipment - Expenses	<u>354</u>	<u>492</u>	<u>492</u>	<u>492</u>	<u>-</u>
Total	<u>2,793</u>	<u>3,599</u>	<u>3,599</u>	<u>3,255</u>	<u>(344)</u>

BAD DEBT EXPENSE

The 1999 amount of \$270,000 reflects a decrease of \$115,000 from 1998.

LOSS ON DISPOSAL OF FIXED ASSETS

The 1999 loss of \$1,396,000 is due to normal assets retirements, the more significant of which are upgrades on transmission lines \$690,000, air compressor replacements \$93,000, and PBX installation \$110,000.

AMORTIZATION - STUDIES AND SOFTWARE

Amortization expense has increased by \$975,000 over the forecast for 1998 mainly due to the extra amortization related to the new Integrated Suite of Software Products for the P2000 project.

CF(L)CO RECOVERIES

Costs to be recovered from Churchill Falls (Labrador) Corporation Limited cover a wide range of services including, Accounting, Purchasing, Treasury, Insurance, Management Information Services, Legal, Operations, Construction, Environmental and Human Resources.

FUEL EXPENSE AND RATE STABILIZATION PLAN

Fuel costs will increase from \$28,555,000 in the 1998 forecast to \$46,627,000 in 1999 as shown below.

	<u>1998 Budget</u>	<u>1998 Forecast</u>	<u>1999 Budget</u>	<u>Increase (Decrease)</u>
Barrels of Bunker "C" Fuel	3,322,662	2,036,737	2,739,157	702,420
Average Price per Barrel	\$21.21	\$18.37	18.42	0.05
	<u>(\$Thousands)</u>			
Bunker "C" Fuel	70,488	37,415	50,466	13,051
Other	<u>432</u>	<u>412</u>	<u>459</u>	<u>47</u>
Holyrood Thermal	70,920	37,827	50,925	13,098
Diesel Fuel	3,570	4,013	2,956	(1,057)
Gas Turbine Fuel	<u>278</u>	<u>221</u>	<u>240</u>	<u>19</u>
Sub-total fuels	74,768	42,061	54,121	12,060
Rate Stabilization Plan	<u>(28,779)</u>	<u>(13,506)</u>	<u>(7,494)</u>	<u>6,012</u>
Total Fuel	<u>45,989</u>	<u>28,555</u>	<u>46,627</u>	<u>18,072</u>

Bunker "C" Fuel expense will increase by \$13,051,000 mainly due to higher thermal production in 1999 which results in an increase in consumption of 0.7 million barrels. The amount budgeted in 1999 for Rate Stabilization Plan transactions represents the variations in load, fuel prices and hydro production between the budget and the estimate which was filed with the Public Utilities Board for the last test year which was 1992.

The RSP is projected to reach \$42.8 million by December 31, 1999 of which approximately \$29.1 million will be attributable to the utility customer and \$13.7 million attributable to industrial customers. These estimates are based on projections from our fuel oil consultants in May of this year which resulted in an average price of fuel to be consumed of \$18.42 per barrel during 1999. The PUB in a previous Hydro rate referral agreed with Hydro's recommendation that Hydro will appear before the PUB should the balance in the RSP for our utility customer reach \$50 million.

POWER PURCHASES

Power purchase costs of \$19.5 million mainly represent the cost of power supplied by:

- (a) CF(L)Co for recall
- (b) Non-Utility Generators
- (c) Hydro-Québec for Labrador Straits area; and
- (d) Abitibi Consolidated for interruptible power.

The increase of \$6.9 million is mainly the result of extra power purchases from non-utility generators which came in service late in 1998.

DEPRECIATION

The budgeted expense for 1999 is \$34.7 million, an increase of \$2.5 million from the 1998 forecast, and is primarily the result of depreciation related to additional assets going in service plus higher depreciation expense associated with assets being depreciated by the sinking fund method of depreciation.

INTEREST EXPENSE

The interest expense is summarized as follows:

	(\$ Millions)		
	<u>1998 Forecast</u>	<u>1999 Budget</u>	<u>Increase (Decrease)</u>
Gross Interest	119.5	99.7	(19.8)
LESS: Interest earned and Interest During Construction	<u>30.5</u>	<u>10.7</u>	<u>19.8</u>
Net Interest	89.0	89.0	-
Guarantee Fee	<u>11.2</u>	<u>11.1</u>	<u>(0.1)</u>
Total Interest	<u>100.2</u>	<u>100.1</u>	<u>(0.1)</u>

NEWFOUNDLAND AND LABRADOR HYDRO

STAFF COMPLEMENT

Division	<u>1997 Actual</u>	<u>1998 Budget</u>	<u>1998 Forecast</u>	<u>1999 Budget</u>	
Production	277	277	278	278	
Finance	123	123	124	124	
Internal Audit	4	4	4	4	✓
Transmission and Rural Operations	420	418	405	407	
Management	8	8	9	9	✓
Human Resources and Legal	<u>72</u>	<u>72</u>	<u>71</u>	<u>71</u>	✓
Total	<u>904</u>	<u>902</u>	<u>891</u>	<u>893</u>	

NEWFOUNDLAND AND LABRADOR HYDRO**BALANCE SHEET**

(\$ Thousands)

ASSETS

	<u>Page Reference</u>	<u>1998 Forecast</u>	<u>1999 Budget</u>
Fixed Assets			
Property, plant and equipment		1,247,781	1,241,374
Current Assets			
Receivables		36,839	39,254
Fuel and supplies at average cost		30,967	33,124
Prepaid expenses		<u>2,256</u>	<u>1,565</u>
		70,062	73,943
Sinking Funds		160,817	55,787
Investment in Churchill Falls (Labrador) Corporation Limited	24	267,142	269,755
Rate Stabilization Plan	25-26	47,110	42,805
Investment in Lower Churchill Development Corporation Limited		15,400	15,400
Deferred Charges		<u>111,611</u>	<u>118,769</u>
		<u>1,919,923</u>	<u>1,817,833</u>

NEWFOUNDLAND AND LABRADOR HYDRO**BALANCE SHEET**

(\$ Thousands)

LIABILITIES AND SHAREHOLDER'S EQUITY

	<u>Page Reference</u>	<u>1998 Forecast</u>	<u>1999 Budget</u>
Long-term Debt		1,065,818	1,059,862
Current Liabilities			
Accounts payable and accrued liabilities		6,698	553
Accrued interest		31,263	26,304
Promissory notes		110,804	149,534
Long-term debt due within one year		<u>116,318</u>	<u>11,731</u>
		265,083	188,122
Unrealized foreign exchange loss provision		7,000	8,000
Shareholder's Equity			
Share capital			
Common shares of par value of \$1 each.			
Authorized 25,000,000 shares;			
issued 22,503,942 shares		22,504	22,504
Contributed capital			
Lower Churchill Development		15,400	15,400
Muskrat Falls		2,165	2,165
Retained earnings	27	<u>541,953</u>	<u>521,780</u>
		<u>582,022</u>	<u>561,849</u>
		<u>1,919,923</u>	<u>1,817,833</u>

INVESTMENT IN CF(L)CO

Hydro has owned 65.8% of CF(L)Co since 1975, and accounts for this investment on an equity basis as follows:

	<u>\$ Thousands</u>	
	<u>1998</u> <u>Forecast</u>	<u>1999</u> <u>Budget</u>
Shares, at cost	167,255	167,255
Hydro's share of CF(L)Co retained earnings at beginning of the year	101,615	99,887
Hydro's share of CF(L)Co profits for the year	10,896	9,194
LESS: Common dividends from CF(L)Co	<u>(12,624)</u>	<u>(6,581)</u>
	<u>99,887</u>	<u>102,500</u>
TOTAL INVESTMENT IN CF(L)Co	<u>267,142</u>	<u>269,755</u>

The debt associated with this investment is projected to be \$30 million at December 31, 1999 compared with \$15 million at the end of the current year, an increase of \$15 million.

FINANCING

There is no requirement in the 1999 Budget for a new long-term debt issue.

Short term debt outstanding at December 31, 1999 is projected to increase by \$39 million to \$149 million. Our total long-term debt position (net of sinking funds) is projected to amount to \$1,016 million. This is \$5 million less than our forecasted position as at December 31, 1998 of \$1,021 million. Hydro continues to take advantage of the favourable interest rate environment, by planning to exercise all remaining call features on existing debt. As a result, we are projecting calling \$105 million in face value of debt during 1999. Funding for all of this debt will be covered by related sinking funds.

The 13 3/8% \$75 million issue, dated January 30, 2001 will be called January 30, 1999 with estimated proceeds of \$78 million and the 10% \$30 million issue dated May 09, 2002 will be called May 09, 1999 with estimated proceeds of \$40 million.

RATE STABILIZATION PLAN

On January 1, 1986 Hydro implemented a Rate Stabilization Plan which has the following components:

- (1) A water variation provision
- (2) A fuel cost variation provision
- (3) A load variation provision

The water variation provision is a mechanism to account for the variations from average hydro production. The provision is adjusted by using the base price per barrel for fuel, as used in setting the rates, multiplied by the number of barrels required to produce equivalent energy from thermal sources.

The fuel cost variation provision is used to account for variations between the base cost per barrel for Bunker "C" fuel used in setting rates and the actual fuel cost incurred.

RATE STABILIZATION PLAN (cont'd.)

Adjustments to the provision are calculated by multiplying the number of barrels of oil used for thermal production in a period by the fuel cost variation. The load variation provision is used to account for variations in earnings because of a difference between the estimated load used for setting rates and the actual load experienced during a year.

The balances in the water variation provision, fuel cost variation provision and load variation provision attract interest which is based on Hydro's average cost of borrowing. The annual balance in these provisions is amortized over a three year period. The amortization is billed to customers on the basis of the kWh sold in the previous twelve months. The rate adjustment mechanism is automatic, is authorized by the PUB, and does not require Hydro to make a rate referral to the PUB.

The following table shows the activity in the plan for the 1998 forecast and the 1999 budget:

RATE STABILIZATION PLAN

(\$ Thousands)

	<u>1998 Forecast</u>	<u>1999 Budget</u>
Balance January 1st.	41,337	47,110
Activity	<u>5,773</u>	<u>(4,305)</u>
Balance December 31st.	<u>47,110</u>	<u>42,805</u>

The plan balance reflects above average hydraulic production of 377 gWh in 1999.

RETAINED EARNINGS

The following table depicts the changes in Retained Earnings since 1990:

	<u>HYDRO</u>			<u>CF(L)Co</u>		
	<u>Net Income</u>	<u>Dividend</u>	<u>Retained Earnings</u>	<u>Net Income⁽¹⁾</u>	<u>Dividend</u>	<u>Retained Earnings</u>
	<u>\$ Thousands</u>					
1990	10,861	0	199,777	10,814	0	161,319
1991	8,431	0	208,208	14,567	0	175,886
1992	16,249	0	220,455	8,416	0	184,302
1993	13,717	0	234,172	11,230	0	195,532
1994	8,274	0	242,446	8,794	0	204,326
1995	22,617	(14,500)	250,563	10,281	(5,000)	209,607
1996	20,127	(9,688)	261,002	8,855	(3,221)	215,241
1997	30,910	(12,357)	279,555	12,514	(8,563)	219,192
1998	44,345	(12,000)	311,900	15,661	(4,800)	230,053
1999	36,271	(49,000)	299,171	12,556	(20,000)	222,609

(1) Hydro's share of CF(L)Co earnings is recognized in Hydro's accounts each year. The cash received from CF(L)Co, in the form of dividends is used to pay the interest and principal on debt incurred by Hydro in the purchase of CF(L)Co shares and to pay a dividend to the Province.

DEBT/EQUITY

The projection for the debt/equity ratio is 79/21 at December 31, 1999, compared to 78/22 for 1998.

NEWFOUNDLAND & LABRADOR HYDRO**1999 CAPITAL BUDGET - OVERVIEW****(\$,000)**

	Exp To 1998	1999	Future	Total
GENERATION	668	6,983	1,513	9,164
TRANSMISSION	1,922	13,061	13,917	28,900
RURAL SYSTEMS	29	13,947	1,700	15,676
GENERAL PROPERTIES	10,026	3,151		13,177
CONTINGENCY FUND		1,000		1,000
TOTAL CAPITAL BUDGET	12,645	38,142	17,130	67,917

NEWFOUNDLAND & LABRADOR HYDRO**1999 CAPITAL BUDGET - SUMMARY BY CATEGORY**

(\$,000)

	Exp To 1998	1999	Future	Total
GENERATION				
HYDRO PLANTS				
Construction Projects		509		509
Property Additions		59		59
Tools & Equipment		178		178
THERMAL PLANT				
Construction Projects	85	2,950	702	3,737
Tools & Equipment		165		165
GAS TURBINE PLANT				
Construction Projects		785		785
TELECONTROL & ENERGY MANAGEMENT SYSTEM				
Construction Projects	583	2,263	811	3,657
Tools & Equipment		74		74
TOTAL GENERATION				
	<u>668</u>	<u>6,983</u>	<u>1,513</u>	<u>9,164</u>
TRANSMISSION				
REGIONAL OPERATIONS				
Construction Projects		939		939
Property Additions		227		227
Tools & Equipment		290		290
SYSTEM SECURITY & RELIABILITY IMPROVEMENTS				
	1,922	10,603	13,917	26,442
SYSTEM PERFORMANCE & PROTECTION				
		<u>1,002</u>		<u>1,002</u>
TOTAL TRANSMISSION				
	<u>1,922</u>	<u>13,061</u>	<u>13,917</u>	<u>28,900</u>

NEWFOUNDLAND & LABRADOR HYDRO**1999 CAPITAL BUDGET - SUMMARY BY CATEGORY**

(\$,000)

	Exp To 1998	1999	Future	Total
RURAL SYSTEMS				
REGIONAL OPERATIONS				
Construction Projects	29	6,024		6,053
Property Additions		334		334
Tools & Equipment		766		766
NEW POWER PLANTS		2,005	1,113	3,118
INTERCONNECTIONS		1,975		1,975
MAJOR UPGRADING				
Power Plants		1,066	587	1,653
Distribution Systems		847		847
Fuel Systems		693		693
METERING		237		237
TOTAL RURAL SYSTEMS	<u>29</u>	<u>13,947</u>	<u>1,700</u>	<u>15,676</u>
GENERAL PROPERTIES				
MANAGEMENT INFORMATION SYSTEMS	10,026	1,398		11,424
ADMINISTRATIVE		1,753		1,753
TOTAL GENERAL PROPERTIES	<u>10,026</u>	<u>3,151</u>		<u>13,177</u>
CONTINGENCY FUND		1,000		1,000
TOTAL CAPITAL BUDGET	<u>12,645</u>	<u>38,142</u>	<u>17,130</u>	<u>67,917</u>

**NEWFOUNDLAND & LABRADOR HYDRO
GENERATION
1999 CAPITAL BUDGET - DETAIL
(\$,000)**

PROJECT DESCRIPTION	Exp To 1998	1999	Future	Total	In-Ser Date
HYDRO PLANTS					
CONSTRUCTION PROJECTS					
Replace Battery Bank at Paradise River		37		37	Oct. 99
Install New Log Boom at Paradise River Intake		62		62	Aug. 99
Replace Lower Weir at Cat Arm River		60		60	Aug. 99
Replace High Pressure Air Compressor No. 2 at Upper Salmon		30		30	Jul. 99
Replace High Pressure Air Compressor No. 1 at Cat Arm		40		40	Aug. 99
Replace High Pressure Air Comp on Unit No. 7 - Powerhouse No. 2 at Bay D'Espoir		34		34	Sep. 99
Replace Battery Bank "A" at Cat Arm		49		49	Oct. 99
Replace Sump Pump No. 2 - Powerhouse No. 1 at Bay D'Espoir		30		30	Jul. 99
Replace Water Level System at Cat Arm Intake		11		11	Aug. 99
Replace Air Compressor No. 3 - Powerhouse No. 1 at Bay D'Espoir		25		25	Aug. 99
Rebuild Dump Pond Dyke/Dam at Venam's Bight		131		131	Aug. 99
TOTAL CONSTRUCTION PROJECTS		509		509	
PROPERTY ADDITIONS					
Install Welding Shop Ventilation System at Bay D'Espoir Welding Shop		49		49	Jun. 99
Replace Two Fleet Fuel Dispenser Units - Bay D'Espoir		10		10	Jul. 99
TOTAL PROPERTY ADDITIONS		59		59	
TOOLS & EQUIPMENT					
Purchase Electromagnetic Core Imperfection Detector		113		113	Apr. 99
Cost Recovery - CF(L)CO		(56)		(56)	
Purchase & Replace Tools & Equipment Less than \$ 50,000		121		121	Dec. 99
TOTAL TOOLS & EQUIPMENT		178		178	

**NEWFOUNDLAND & LABRADOR HYDRO
GENERATION
1999 CAPITAL BUDGET - DETAIL
(\$,000)**

PROJECT DESCRIPTION	Exp To 1998	1999	Future	Total	In-Ser Date
<u>THERMAL PLANT</u>					
<u>CONSTRUCTION PROJECTS</u>					
Replace Exciter - Unit No. 2 - Holyrood	85	707		792	Jul. 99
Upgrade Waste Water Treatment Plant - Holyrood		500		500	Oct. 99
Replace Power Cables For Motor Control Centres - Holyrood		155		155	Oct. 99
Purch and Install Turbine/Generator Bearings Sprinkler System Units No. 1, 2 and 3 - Holyrood		221		221	Aug. 99
Replace Exciter - Unit No. 1 - Holyrood		23	702	725	Oct. 00
Replace Turbine Electrohydraulic Control Sys and Bearing Thermocouples - Unit No. 2 - Holyrood		772		772	Oct. 99
Install Visible Emissions Monitors on Units No. 1 to 3 - Holyrood		403		403	Aug. 99
Purchase & Install Turbo Generator Analysis Equip on Unit No. 2 Gen - Holyrood		169		169	Oct. 99
TOTAL CONSTRUCTION PROJECTS	85	2,950	702	3,737	

TOOLS & EQUIPMENT

Purchase Laser Alignment Equipment - Holyrood		56		56	Feb. 99
Replacement of Backhoe/ Front End Loader - Holyrood		70		70	Sep. 99
Purchase & Replace Tools & Equipment Less than \$ 50,000		39		39	Dec. 99
TOTAL TOOLS & EQUIPMENT		165		165	

GAS TURBINE PLANT

CONSTRUCTION PROJECTS

Replace Control System - Stephenville Gas Turbine		785		785	Nov. 99
TOTAL CONSTRUCTION PROJECTS		785		785	

**NEWFOUNDLAND & LABRADOR HYDRO
GENERATION
1999 CAPITAL BUDGET - DETAIL
(\$,000)**

PROJECT DESCRIPTION	Exp To 1998	1999	Future	Total	In-Ser Date
<u>TELECONTROL & ENERGY MANAGEMENT SYSTEM</u>					
<u>CONSTRUCTION PROJECTS</u>					
Replace Power Line Carrier Systems - TL204, TL231, TL202 and TL206	583	191		774	Apr. 99
Replace Mini-Quics System - Upper Salmon		233		233	Oct. 99
Replace Battery System - Burnt Hilltop		7		7	Oct. 99
Rep Battery & Battery Charger Sys at Mary March, Buchans, Sandy Brook, BDE Hill & Stony Bk		350		350	Oct. 99
Provide Security Imp for EMS/OIS Lan - Energy Management Systems - E.C.C		220		220	Sep. 99
Replace Private Branch Exchange System - Bay D Espoir		344		344	Oct. 99
Upgrade Remote Terminal Unit Mockup - Hydro Place		8		8	Jun. 99
Provide Bay D'Espoir Frequency Display at Energy Control Centre		13		13	Mar. 99
Upgrade of Meridian Mall - Hydro Place		42		42	Aug. 99
Replace Powerline Carrier Equipment - Transmission System - West Coast		855	811	1,666	Dec. 00
TOTAL CONSTRUCTION PROJECTS	583	2,263	811	3,657	
<u>TOOLS & EQUIPMENT</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000		74		74	Dec. 99
TOTAL TOOLS & EQUIPMENT		74		74	
TOTAL GENERATION	668	6,983	1,513	9,164	

NEWFOUNDLAND & LABRADOR HYDRO
TRANSMISSION
1999 CAPITAL BUDGET - DETAIL
(\$,000)

<u>PROJECT DESCRIPTION</u>	<u>Exp To 1998</u>	<u>1999</u>	<u>Future</u>	<u>Total</u>	<u>In-Ser Date</u>
<u>REGIONAL OPERATIONS</u>					
<u>CONSTRUCTION PROJECTS</u>					
<u>EASTERN</u>					
Install Conductor Vibration Protection - TL212 -(138kV, Sunnyside -Linton Lake)		261		261	Nov. 99
Replace 125V Battery Bank at Oxen Pond		21		21	May. 99
Upgrade Suspension Insulators - TL212 - (138kV Sunnyside - Linton Lake)		197		197	Nov. 99
Replace Circuit Breaker - B8T4 - Hardwoods		94		94	Oct. 99
Replace 66kV Potheads - Holyrood		76		76	Sep. 99
<u>CENTRAL</u>					
Replace Air Compressors - Stony Brook		50		50	Oct. 99
Replace Instrument Transformers/Surge Arrestors		92		92	Dec. 99
<u>WESTERN</u>					
Purchase and Install Oil/Water Separator - Stephenville Complex		67		67	Oct. 99
Replace 125V Battery Bank - Doyles Terminal Station		23		23	Apr. 99
Purchase and Install 66kV By-Pass Disconnect - Howley		58		58	Oct. 99
TOTAL CONSTRUCTION PROJECTS		<u>939</u>		<u>939</u>	
<u>PROPERTY ADDITIONS</u>					
<u>CENTRAL</u>					
Install Protective Siding - Line Camps -TL202 and TL206		18		18	Oct. 99
Provide Modifications to Fire Pump Controls - Bishop Falls Complex		52		52	Sep. 99
Replace Heating, Ventilation and Air Conditioning System - Bishop Falls Office		157		157	Dec. 99
TOTAL PROPERTY ADDITIONS		<u>227</u>		<u>227</u>	
<u>TOOLS & EQUIPMENT</u>					
<u>EASTERN</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000		14		14	Dec. 99
<u>CENTRAL</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000		115		115	Dec. 99
<u>WESTERN</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000		83		83	Dec. 99
<u>Northern</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000		74		74	Dec. 99
<u>Labrador</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000		4		4	Dec. 99
TOTAL TOOLS & EQUIPMENT		<u>290</u>		<u>290</u>	

NEWFOUNDLAND & LABRADOR HYDRO
TRANSMISSION
1999 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1998	1999	Future	Total	In-Ser Date
<u>SYSTEM SECURITY & RELIABILITY IMPROVEMENTS</u>					
Upgrade TL217 - (230kv Western Avalon - Holyrood)	1,857	7,285	6,264	15,406	Nov. 00
Upgrade TI228 - (230kv Buchans - Corner Brook)	22	940		962	Oct. 99
Upgrade Suspension Insulators - TL239 (Deer Lake /Berry Hill)		864		864	Oct. 99
Install Additional Capacitors - Hardwoods and Oxen Pond	43	1,285		1,328	Oct. 99
Upgrade TL207 - (230kv Sunnyside - Come By Chance)		48	2,521	2,569	Nov. 00
Upgrade TL218 and TL218/236 - (Holyrood - Hardwoods)		181	5,132	5,313	Nov. 00
TOTAL SECURITY & RELIABILITY IMPROVEMENTS	1,922	10,603	13,917	26,442	
<u>SYSTEM PERFORMANCE & PROTECTION</u>					
Purchase Metering Spares - Meter Shop - Hydro Place		26		26	Dec. 99
Purchase Revenue Metering Software		113		113	Jun. 99
Purchase and Install Motor Operators for Disconnect L22-1 & L22-2 - South Brook		47		47	Aug. 99
Purchase and Install Motor Operators for Disconnect L12-1 & L12-2 - Bay L'Argent		67		67	Aug. 99
Purchase and Install Motor Operators for Disconnect L12-1 & L12-2 - Monkstown		73		73	Aug. 99
Purchase and Install Motor Operator for Disconnect at Southeast Hill - TL226		128		128	Aug. 99
Purchase and Install Motor Operators for Disc Switch BIL27-1 at Cow Head		29		29	Aug. 99
Purchase Fault Locator on TL 240 - Happy Valley Terminal Station		49		49	Aug. 99
Purchase and Install Digital Fault Recorder - Sunnyside		91		91	Aug. 99
Provide 66Kv Backup Protection at Hardwoods and Oxen Pond		123		123	Nov. 99
Upgrade 230KV Backup Protection - TL 201, 218, 233 & 228		256		256	Nov. 99
TOTAL SYSTEM PERFORMANCE & PROTECTION		1,002		1,002	
TOTAL TRANSMISSION	1,922	13,061	13,917	28,900	

NEWFOUNDLAND & LABRADOR HYDRO
RURAL SYSTEMS
1999 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1998	1999	Future	Total	In-Ser Date
REGIONAL OPERATIONS					
CONSTRUCTIONS PROJECTS					
CENTRAL					
Provide Service Extensions - Central		375		375	Dec. 99
Upgrade Distribution Systems - Central		450		450	Dec. 99
Install Mid Span Poles - Sandyville		96		96	Sep. 99
Replace Poles - Bottom Waters System		72		72	Nov. 99
Replace Sectionalizer - Hermitage		50		50	Jul. 99
Install Midspan Poles - Simmons Sites		217		217	Sep. 99
Replace Main Output Breaker at Harbour Deep Diesel Plant		80		80	Nov. 99
Upgrade Diesel Plant Graphic User Interface Systems (GUI) at Ramea		32		32	Nov. 99
Replace 250kW Diesel Unit No. 242 at Francois		238		238	Oct. 99
Replace 250kW Diesel Unit No. 283 at St. Brendan's		265		265	Oct. 99
Purchase Diesel Overspeed Protection - Central Diesel Plants		152		152	Nov. 99
NORTHWEST					
Provide Service Extensions - Northwest		190		190	Dec. 99
Upgrade Distribution Systems - Northwest		300		300	Dec. 99
WESTERN					
Provide Service Extensions - Western Rural		30		30	Dec. 99
Upgrade Distribution Systems - Western Rural		80		80	Dec. 99
NORTHERN					
Provide Service Extensions - Northern		150		150	Dec. 99
Upgrade Distribution Systems - Northern		290		290	Dec. 99
Upgrade Diesel Plant Graphic User Interface Systems (GUI) - Northern Region		167		167	Nov. 99
Purchase & Install Neutral Resistors on Unit No. 246,247,&285 - L'anse au Loup		33		33	Oct. 99
Replace 75kW Diesel Unit No. 260 - William's Harbour		191		191	Oct. 99
Purchase Diesel Overspeed Protection - Northern Diesel Plants		169		169	Nov. 99
LABRADOR EASTERN					
Provide Service Extensions - Labrador East		200		200	Dec. 99
Upgrade Distribution Systems - Labrador East		100		100	Dec. 99
Replace Plant Lifting Devices at Makkovik, Postville & Black Tickle		145		145	Oct. 99
Replace Plant Lifting Devices - Mary's Harbour & Port Hope Simpson		86		86	Dec. 99
Replace Three Diesel Generating Panels at Rigolet		90		90	Nov. 99
Upgrade Diesel Plant Graphic User Interface Systems (GUI) at Hopedale & Cartwright		159		159	Oct. 99
Purchase Lifting Device - Rigolet Diesel Plant		50		50	Nov. 99
Replace Lifting Device - Hopedale Diesel Plant		104		104	Dec. 99
Install Air Dryer - Cartwright		18		18	Dec. 99
Remove Unit No. 252 at Mud Lake to Paradise River		10		10	Jul. 99
Purchase 425kw Generating Unit - Hopedale		386		386	Nov. 99
Purchase Diesel Overspeed Protection - Labrador Diesel Plants		356		356	Nov. 99
WABUSH					
Provide Service Extensions - Wabush		50		50	Dec. 99
Upgrade Distribution Systems - Wabush		50		50	Dec. 99
Purchase and Install Digital Metering Unit - Labrador West		6		6	Nov. 99
LABRADOR CITY					
Provide Service Extensions - Labrador City		55		55	Dec. 99
Upgrade Distribution Systems - Labrador City		30		30	Dec. 99
Upgrade Distribution Systems - Harrie Lake	29	446		475	Oct. 99
Purchase and Install Five - Three Phase Operated Disconnect Switches - Labrador City		56		56	Jul. 99
TOTAL CONSTRUCTION PROJECTS	29	6,024		6,053	

NEWFOUNDLAND & LABRADOR HYDRO
RURAL SYSTEMS
1999 CAPITAL BUDGET - DETAIL
(\$,000)

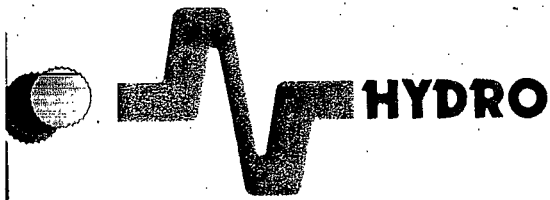
PROJECT DESCRIPTION	Exp To 1998	1999	Future	Total	In-Ser Date
<u>REGIONAL OPERATIONS cont'd</u>					
<u>PROPERTY ADDITIONS</u>					
<u>NORTHERN</u>					
Provide Property Improvements - St. Lewis		10		10	Aug. 99
Relocate and Provide Fencing - St. Anthony Plant		31		31	Aug. 99
<u>LABRADOR EASTERN</u>					
Replacement of Roof at North Plant - Happy Valley		66		66	Oct. 99
Purchase and Install Chain Link Fencing - Black Tickle		48		48	Sep. 99
Construct Ten Spill Material Storage Sheds - Power Plants		40		40	Oct. 99
Construct Storage Shed - Cartwright		15		15	Oct. 99
Construct New and Extend Trl Storage Ramps - Hopedale, Black Tickle, Nain and Postville		56		56	Dec. 99
<u>WABUSH</u>					
Provide Modifications to Office Bldg - Wabush		-68		-68	Aug. 99
TOTAL PROPERTY ADDITIONS		334		334	
<u>TOOLS & EQUIPMENT</u>					
<u>CENTRAL</u>					
Replace Muskeg Carrier complete with Boom & Backhoe - Unit No. 7546		239		239	Jul. 99
Replace Muskeg Trailers - Unit No. 8652, 8682 and 8683		80		80	Jul. 99
Purchase & Replace Tools & Equipment Less than \$ 50,000		47		47	Dec. 99
<u>NORTHWEST</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000		157		157	Dec. 99
<u>WESTERN</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000		8		8	Dec. 99
<u>NORTHERN</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000		119		119	Dec. 99
<u>LABRADOR EASTERN</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000		76		76	Dec. 99
<u>WABUSH</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000		14		14	Dec. 99
<u>RURAL SUPPORT</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000		14		14	Dec. 99
<u>METERING</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000		-12		-12	Dec. 99
TOTAL TOOLS & EQUIPMENT		766		766	

**NEWFOUNDLAND & LABRADOR HYDRO
RURAL SYSTEMS
1999 CAPITAL BUDGET - DETAIL
(\$,000)**

PROJECT DESCRIPTION	Exp To 1998	1999	Future	Total	In-Ser Date
<u>NEW POWER PLANTS</u>					
Construct New Diesel Plant - Nain		2,005	1,113	3,118	Oct. 00
TOTAL NEW POWER PLANTS		2,005	1,113	3,118	
<u>INTERCONNECTIONS</u>					
Interconnect Diesel System to Island Grid - La Poile		1,975		1,975	Oct. 99
TOTAL INTERCONNECTIONS		1,975		1,975	
<u>MAJOR UPGRADING</u>					
<u>POWER PLANTS</u>					
Purchase and Install HVLN Modifications - Charlottetown		227		227	Dec. 99
Install Fire Alarm Systems - St. Brendan's/Little Bay Islands		158		158	Nov. 99
Provide Bulk Fuel Storage - Fuel Metering Program - Central, Northern & Labrador Plants		681	587	1,268	Oct. 00
TOTAL POWER PLANTS		1,066	587	1,653	
<u>DISTRIBUTION SYSTEMS</u>					
Relocate Distribution Line - Red Bay		425		425	Oct. 99
Upgrading of Distribution Line - Snook's Arm to Tilt Cove		422		422	Oct. 99
TOTAL DISTRIBUTION SYSTEMS		847		847	
<u>FUEL SYSTEMS</u>					
Upgrade Fuel Storage - Postville		64		64	Oct. 99
Upgrade Fuel Storage - Nain		504		504	Oct. 99
Upgrade Fuel Storage - Rigolet		125		125	Sep. 99
TOTAL FUEL SYSTEMS		693		693	
<u>METERING</u>					
Purchase Meters and Equipment - TRO System		209		209	Dec. 99
Purchase and Install Metering Tanks - TRO System		28		28	Dec. 99
TOTAL METERING		237		237	
TOTAL RURAL SYSTEMS	29	13,947	1,700	15,676	

**NEWFOUNDLAND & LABRADOR HYDRO
GENERAL PROPERTIES
1999 CAPITAL BUDGET - DETAIL
(\$,000)**

PROJECT DESCRIPTION	Exp To 1998	1999	Future	Total	In-Ser Date
MANAGEMENT INFORMATION SYSTEMS					
Purchase Treasury Management System		128		128	Dec. 99
Upgrade Office Technology		100		100	Dec. 99
MainFrame & Network Hardware					
- Increase AS400 DASD System		54		54	Dec. 99
- Upgrade Token Ring Network System		150		150	Dec. 99
Applications Development					
Install Integrated Application Suite (Hardware & Software)	10,026	3,494		13,520	Mar. 99
Cost Recovery - GF(L)GG		(2,528)		(2,528)	
TOTAL MANAGEMENT INFORMATION SYSTEMS	10,026	4,308		14,334	
ADMINISTRATIVE					
VEHICLES					
Replace Vehicles - Generation and Transmission System		800		800	Dec. 99
Replace Vehicles - Rural System		600		600	Dec. 99
Replace Vehicles - Corporate		145		145	Dec. 99
ADMINISTRATION					
Replace Cash Processing Equipment for Customer Information System - Treasury		50		50	Jan. 99
Purchase & Replace Admin Office Equip less than \$50,000		158		158	Dec. 99
TOTAL ADMINISTRATIVE		1,763		1,763	
TOTAL GENERAL PROPERTIES	10,026	6,071		16,097	



A Submission to the Minister of Mines and Energy

2000 Operating and Capital Budgets

**NEWFOUNDLAND AND LABRADOR HYDRO
2000 OPERATING AND CAPITAL BUDGET**

**FOR PRESENTATION TO
THE BOARD OF DIRECTORS
OCTOBER 29, 1999**

NEWFOUNDLAND AND LABRADOR HYDRO

2000 BUDGET

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NEWFOUNDLAND AND LABRADOR HYDRO
STATEMENT OF INCOME & RETAINED EARNINGS

(\$ Thousands)

	Page Ref.	1998 <u>Actual</u>	1999 <u>Budget</u>	1999 <u>Forecast</u>	2000 <u>Budget</u>	Increase (Decrease)
Revenue						
Energy Sales	3 - 5	304,196	324,466	319,177	311,642	(7,535)
Expenses						
Net Operating	7 - 18	80,958	85,356	86,026	85,343	(683)
Fuels	19	26,880	46,627	33,300	54,335	21,035
Power Purchases	20	13,472	19,451	20,426	19,748	(678)
Depreciation & Amortization	20	32,843	36,613	35,784	37,965	2,181
Interest	20	<u>98,786</u>	<u>100,148</u>	<u>93,867</u>	<u>96,025</u>	<u>2,158</u>
		252,939	288,195	269,403	293,416	24,013
Net Operating Income		51,257	36,271	⁽¹⁾ 49,774	⁽²⁾ 18,226	(31,548)
Other Revenue (Expenses)						
Equity in CF(L)Co		14,105	9,194	11,547	14,105	2,558
Preferred Dividend		6,161	5,612	8,822	8,123	(699)
Interest Share						
Purchase Debt		<u>(1,896)</u>	<u>(2,250)</u>	<u>(1,094)</u>	<u>(2,266)</u>	<u>(1,172)</u>
		18,370	12,556	19,275	19,962	687
Net Income		69,627	48,827	69,049	38,188	(30,861)
Retained Earnings, beginning of year		<u>498,745</u>	<u>541,953</u>	<u>551,572</u>	<u>603,621</u>	<u>52,049</u>
		568,372	590,780	620,621	641,809	21,188
Dividends						
- Hydro Portion		12,000	49,000	12,000	52,065	40,065
- CF(L)Co Portion		<u>4,800</u>	<u>20,000</u>	<u>5,000</u>	<u>33,835</u>	<u>28,835</u>
Retained Earnings, end of year		<u>551,572</u>	<u>521,780</u>	<u>603,621</u>	<u>555,909</u>	<u>(47,712)</u>
Overall Interest Coverage on Net Operating Income		1.42	1.36	1.52	1.19	
Regulated Interest Coverage		1.19	1.15	1.15	1.06	

⁽¹⁾ Net operating Income includes profit related to I.O.C.C. and recapture energy sold to Hydro-Québec. Regulated Net Operating Income in 1999 would be \$14,584.

⁽²⁾ Regulated Net Operating Income in 2000 would be \$5,766.

NEWFOUNDLAND AND LABRADOR HYDRO
STATEMENT OF REVENUE BY MAJOR SOURCE
(\$ Thousands)

	<u>1998 Actual</u>	<u>1999 Budget</u>	<u>1999 Forecast</u>	<u>2000 Budget</u>	<u>Increase (Decrease)</u>
Industry					
Corner Brook Pulp & Paper Ltd.	13,778	14,976	12,471	15,285	2,814
Deer Lake Power Company	642	538	542	480	(62)
Abitibi Consolidated Inc.- Stephenville	11,053	19,581	18,935	17,486	(1,449)
Abitibi Consolidated Inc. - Grand Falls	3,156	6,602	5,554	5,847	293
North Atlantic Petroleum Ltd.	7,640	8,734	8,670	7,800	(870)
C.F.B. - Goose Bay	2,871	2,739	2,873	3,308	435
Iron Ore Company of Canada	<u>2,805</u>	<u>5,031</u>	<u>2,250</u>	<u>3,739</u>	<u>1,489</u>
Total Industry	41,945	58,201	51,295	53,945	2,650
Hydro-Québec Recall	29,864	25,174	37,737	13,568	(24,169)
Utility					
Newfoundland Power	186,861	194,276	184,194	197,796	13,602
Rural					
Interconnected and Diesel	43,856	45,691	44,862	45,253	391
Other	<u>1,670</u>	<u>1,124</u>	<u>1,089</u>	<u>1,080</u>	<u>(9)</u>
<u>Total Revenue</u>	<u>304,196</u>	<u>324,466</u>	<u>319,177</u>	<u>311,642</u>	<u>(7,535)</u>

Please refer to Page 5 for explanations.

NEWFOUNDLAND AND LABRADOR HYDRO
ENERGY SALES VOLUME ANALYSIS
(GWh.)

	<u>1998 Actual</u>	<u>1999 Budget</u>	<u>1999 Forecast</u>	<u>2000 Budget</u>	<u>Increase (Decrease)</u>
Industry					
Corner Brook Pulp & Paper Ltd.	386.6	434.9	342.4	497.7	155.3
Deer Lake Power	19.4	15.5	15.6	15.5	(0.1)
Deer Lake Power - Emergency	0.1	-	0.1	-	(0.1)
Abitibi Consolidated Inc.:					
Stephenville - Firm	297.1	563.9	537.7	571.4	33.7
- Wheeled	14.8	1.0	15.3	1.0	(14.3)
Grand Falls - Firm	67.6	183.0	141.8	180.7	38.9
- Compensation	21.7	31.0	30.9	31.0	0.1
- Emergency	1.5	-	0.2	-	(0.2)
- Wheeled	6.4	-	4.9	-	(4.9)
North Atlantic Petroleum Limited	193.7	246.5	244.6	246.8	2.2
C.F.B. Goose Bay	107.4	117.7	116.2	133.7	17.5
Iron Ore Company of Canada	<u>191.2</u>	<u>506.5</u>	<u>48.6</u>	<u>334.7</u>	<u>286.1</u>
Total Industry	1,307.5	2,100.0	1,498.3	2,012.5	514.2
 Hydro-Québec Recall	 1,249.5	 1,053.3	 1,578.9	 1,298.1	 (280.8)
 Utility					
Newfoundland Power	4,157.3	4,320.3	4,097.8	4,398.0	300.2
 Rural					
Interconnected and Diesel	<u>802.3</u>	<u>844.6</u>	<u>813.0</u>	<u>823.1</u>	<u>10.1</u>
Total Sales	<u>7,516.6</u>	<u>8,318.2</u>	<u>7,988.0</u>	<u>8,531.7</u>	<u>543.7</u>

Please refer to Page 5 for explanations.

NEWFOUNDLAND AND LABRADOR HYDRO
ENERGY SALES VOLUME ANALYSIS (cont'd.)

HYDRO RURAL DEFICIT

At the end of 1999, Hydro will be eliminating that portion of the rural deficit which had been allocated to island industrial customers. For 2000, this results in approximately a \$5.0 million reduction in island industrial revenue when compared to 1999.

CORNER BROOK PULP AND PAPER LTD.

Sales are higher in 2000 mainly because of a shutdown in 1999 as a result of a labour dispute.

ABITIBI CONSOLIDATED INC.

1999 energy sales were lower due to lower production at both plants. In 2000 production is back to a more normal level.

I.O.C.C.

There is a forecasted increase in production from 1999 to 2000.

NORTH ATLANTIC PETROLEUM LTD.

Energy sales in 2000 are almost equivalent to the 1999 Budget up slightly from the 1999 Forecast.

HYDRO-QUÉBEC RECALL

The 2000 Recall is 280.8 GWh lower than 1999 mainly due to the extra energy requirements of I.O.C.C. Revenue is \$24.2 million less than in 1999 because the cap of \$78.9 million on resale to Hydro-Québec will be reached in March of 2000 and sales for the balance of 2000 are deemed to be at the purchase price until the contract is renegotiated effective April 1, 2001.

NEWFOUNDLAND POWER

The increase in sales is primarily due to low 1999 actuals resulting from a warmer than average winter in 1999.

RURAL SALES

Increase primarily due to a small load growth in almost all rural areas.

RATES

The 2000 budgeted Regulated Net Operating Income of \$5.8 million results in a projected interest coverage of 1.06. The 2000 budgeted Net Operating Income of \$18.2 million including recapture before earnings in CF(L)Co, reflects an overall interest coverage of 1.19. Overall Net Income will be \$38.2 million.

Our most recent projections indicate that the Rate Stabilization Plan (RSP) balance at December 31, 2000 will be approximately \$55.2 million (of which \$37 million is attributable to Newfoundland Power) an increase of \$17.1 million from the December 1999 forecast of \$38.1 million. This increase is primarily due to higher thermal production as a result of assumed average hydro production in 2000 compared to 1999 and higher fuel prices.

At the end of 1999 Hydro will be moving ahead with the elimination of the rural deficit presently being allocated to island industrial customers. The elimination of this deficit, in the amount of \$4.9 million, will result in a rate decrease of 10.7% in the island industrial rate effective January 1, 2000 and will be absorbed by Hydro until an application to adjust the rates for Newfoundland Power is made to the Public Utilities Board (PUB). An application for an interim order to adjust the island industrial rate will have to be made to the PUB prior to January 1, 2000.

The PUB's recommendation as a result of the 1991 rate application was "Hydro be allowed the opportunity to earn interest coverage of 1.08 times gross interest, excluding Rural Isolated Systems". Hydro's overall interest coverage is projected to be 1.19 in 2000 and regulated interest coverage is 1.06. Except for the interim order referred to above, it is not anticipated that Hydro will be making an application to the PUB to revise 2000 rates to utility and industrial customers. An assessment as to the exact timing of Hydro's next rate application will be determined over the next three to four months.

The review of the "Provincial Power Policy" which was announced by Government in the Fall of 1998 is still ongoing. This review is intended to address many long-term rates related issues including marginal cost vs average cost based rates, existing pricing methodologies and practices, current pricing structures on the Island and in Labrador, future prices and future system expansion. The results of this review may affect future rate design.

NEWFOUNDLAND AND LABRADOR HYDRO
NET OPERATING EXPENSES
(\$ Thousands)

Expense Group	1998 <u>Actual</u>	1999 <u>Budget</u>	1999 <u>Forecast</u>	2000 <u>Budget</u>	Increase (Decrease)
Salaries & Fringe Benefits	46,765	50,606	50,114	52,168	2,054
System Equipment Maintenance	11,325	14,101	14,458	12,298	(2,160)
Office Supplies & Expenses	2,715	3,029	3,026	2,983	(43)
Professional Services	3,398	3,175	3,524	4,018	494
Insurance	1,056	1,130	1,128	1,124	(4)
Equipment Rentals	2,001	1,770	1,770	1,373	(397)
Travel	2,121	2,107	2,099	2,037	(62)
Miscellaneous	5,927	4,378	4,403	4,319	(84)
Bldg. Rentals & Maintenance	3,226	2,439	2,679	2,776	97
Transportation	3,261	3,255	3,254	3,330	76
Bad Debt Expenses	333	270	270	333	63
Loss on Disposal of Fixed Assets	<u>1,137</u>	<u>1,396</u>	<u>1,535</u>	<u>884</u>	<u>(651)</u>
	83,264	87,656	88,260	87,643	(617)
Allocations					
CF(L)Co Recoveries	<u>2,306</u>	<u>2,300</u>	<u>2,234</u>	<u>2,300</u>	<u>66</u>
Net Operating Expenses	<u>80,958</u>	<u>85,356</u>	<u>86,026</u>	<u>85,343</u>	<u>(683)</u>

An analysis of the individual expense groups is outlined in various tables on the following pages.

SALARIES AND FRINGE BENEFITS

The salary group of expenses is budgeted to increase by \$2,054,000 from the 1999 forecast. This increase is further explained in the table below.

SALARIES SUMMARY

(\$ Thousands)

	<u>1998 Actual</u>	<u>1999 Budget</u>	<u>1999 Forecast</u>	<u>2000 Budget</u>	<u>Increase (Decrease)</u>
Permanent Salaries	39,640	41,042	41,076	42,830	1,754
Transferred Salaries	(8,499)	(4,638)	(5,241)	(4,350)	891
Vacancy Reduction	-	(675)	(675)	(1,000)	(325)
Hourly Wages	4,681	4,991	4,981	4,766	(215)
Overtime	4,124	2,398	2,486	2,282	(204)
Fringe Benefits	6,711	7,406	7,405	7,578	173
Other	<u>108</u>	<u>82</u>	<u>82</u>	<u>62</u>	<u>(20)</u>
Total	<u>46,765</u>	<u>50,606</u>	<u>50,114</u>	<u>52,168</u>	<u>2,054</u>

The increase in permanent salaries is primarily due to a salary adjustment for both union and non-union staff.

The increase in costs resulting from lower transferred salaries is mainly due to lower capital recoveries in 2000.

EMPLOYEE FUTURE BENEFITS

The Company currently pays a retirement allowance to retiring employees and also provides Group Life Insurance and Health Care benefits on a cost shared basis to retired employees and in certain cases, their surviving spouses. The cost of providing these benefits has been charged to operations as the benefits are incurred.

The Canadian Institute of Chartered Accountants has now issued a new standard with an implementation date of January 1, 2000, which will drastically affect the way these benefits are recorded. The new standard will require that these benefits

EMPLOYEE FUTURE BENEFITS (cont'd.)

be accounted for on an accrual basis. Accordingly, the benefits provided by the Company should be recognized as costs in the period in which the company is receiving the benefit of the employee's services. The components of the employee plan expense to be recognized in the statement of income are the current and past service costs and the amortization of actuarial gains and losses. The standard can be applied prospectively or retroactively and will require significant more disclosure in the annual financial statements.

We have presently engaged an actuarial consultant to assist us in this matter and the results of their work will not be finalized until December. Consequently, no provision has been included in the 2000 Budget for the adoption of this new accounting standard.

SYSTEM EQUIPMENT MAINTENANCE

This group of expenses is budgeted at \$12,298,000 in 2000 which is a decrease of \$2,160,000 from 1999 mainly due to lower costs associated with maintaining the Holyrood Thermal Plant and the Cat Arm Hydro Plant, since major repairs were incurred on these two facilities in 1999.

SYSTEM EQUIPMENT MAINTENANCE SUMMARY

(\$ Thousands)

	<u>1998 Actual</u>	<u>1999 Budget</u>	<u>1999 Forecast</u>	<u>2000 Budget</u>	<u>Increase (Decrease)</u>
System Equip. Mtnce.	10,361	12,887	13,244	11,064	(2,180)
Tools & Equipment	320	461	461	465	4
Freight Expense	313	204	204	204	-
Lubricants, Gases & Chemic	<u>331</u>	<u>549</u>	<u>549</u>	<u>565</u>	<u>16</u>
Total	<u>11,325</u>	<u>14,101</u>	<u>14,458</u>	<u>12,298</u>	<u>(2,160)</u>

OFFICE SUPPLIES AND EXPENSES

Office supplies and expenses are budgeted to decrease by \$43,000 from the 1999 forecast. There are some increases in costs which are basically offset by other decreases as outlined in the table below.

OFFICE SUPPLIES SUMMARY

(\$ Thousands)

	<u>1998 Actual</u>	<u>1999 Budget</u>	<u>1999 Forecast</u>	<u>2000 Budget</u>	<u>Increase (Decrease)</u>
Heat & Light	497	565	565	566	1
Telephone & Fax	500	585	585	582	(3)
Printing, Forms & Supplies	440	529	512	509	(3)
Postage	286	320	320	322	2
Advertising	67	76	76	69	(7)
Janitorial	313	375	375	362	(13)
Office Equipment & Maintenance	371	269	269	267	(2)
Books & Subscriptions	76	82	82	82	-
Membership and Dues	<u>165</u>	<u>228</u>	<u>242</u>	<u>224</u>	<u>(18)</u>
Total	<u><u>2,715</u></u>	<u><u>3,029</u></u>	<u><u>3,026</u></u>	<u><u>2,983</u></u>	<u><u>(43)</u></u>

PROFESSIONAL SERVICES

The 2000 Budget has increased by \$494,000 mainly due to higher PUB related costs and higher software acquisitions partially offset by a lower requirement for external consulting costs.

PROFESSIONAL SERVICES SUMMARY

(\$ Thousands)

	<u>1998 Actual</u>	<u>1999 Budget</u>	<u>1999 Forecast</u>	<u>2000 Budget</u>	<u>Increase (Decrease)</u>
Professional Services	2,050	1,574	2,352	1,973	(379)
PUB Related Costs	519	1,020	600	1,050	450
Software Acquisitions & Mtnc.	<u>829</u>	<u>581</u>	<u>572</u>	<u>995</u>	<u>423</u>
Total	<u><u>3,398</u></u>	<u><u>3,175</u></u>	<u><u>3,524</u></u>	<u><u>4,018</u></u>	<u><u>494</u></u>

INSURANCE

Insurance markets are close to where they were in 1999 with a slight overall decrease in premiums.

INSURANCE SUMMARY

(\$ Thousands)

	<u>1998 Actual</u>	<u>1999 Budget</u>	<u>1999 Forecast</u>	<u>2000 Budget</u>	<u>Increase (Decrease)</u>
All Risk	446	456	456	461	5
Boiler & Machinery	217	300	295	298	3
Primary Liabilities	34	34	37	41	4
Umbrella Liabilities	67	76	63	69	6
Non Owned Aircraft	5	5	5	5	-
Fidelity Bond	4	-	8	-	(8)
Automobile Liability	70	68	72	72	-
Travel Accident	8	7	8	7	(1)
Safe Berth Liability	15	14	15	15	-
Brokers Fee J&H	74	97	72	94	22
Deductible/Losses	67	19	53	18	(35)
Directors & Officers Liab.	<u>49</u>	<u>54</u>	<u>45</u>	<u>44</u>	<u>(1)</u>
Total	<u><u>1,056</u></u>	<u><u>1,130</u></u>	<u><u>1,128</u></u>	<u><u>1,124</u></u>	<u><u>(4)</u></u>

EQUIPMENT RENTALS

This expense is budgeted to decrease by \$397,000 from the 1999 forecast due mainly to lower computer costs as a result of decommissioning of the Amdahl computer plus computer processing costs are lower as a result of the full year's effect of the implementation of a new customer information system in 1999 which was previously run at Newfoundland Power.

EQUIPMENT RENTALS SUMMARY

(\$ Thousands)

	<u>1998 Actual</u>	<u>1999 Budget</u>	<u>1999 Forecast</u>	<u>2000 Budget</u>	<u>Increase (Decrease)</u>
Equipment Rentals	1,206	1,102	1,102	1,208	106
Telecomm. Comp. Processing	137	91	91	60	(31)
Computer Costs	<u>658</u>	<u>577</u>	<u>577</u>	<u>105</u>	<u>(472)</u>
Total	<u>2,001</u>	<u>1,770</u>	<u>1,770</u>	<u>1,373</u>	<u>(397)</u>

TRAVEL

Travel has decreased slightly from the 1999 Forecast.

TRAVEL SUMMARY (\$ Thousands)

	<u>1998 Actual</u>	<u>1999 Budget</u>	<u>1999 Forecast</u>	<u>2000 Budget</u>	<u>Increase (Decrease)</u>
Travel Expenses	2,113	2,006	2,000	1,905	(95)
Capitalized Travel	(91)	(117)	(117)	(103)	14
Conferences	<u>99</u>	<u>218</u>	<u>216</u>	<u>235</u>	<u>19</u>
Total	<u>2,121</u>	<u>2,107</u>	<u>2,099</u>	<u>2,037</u>	<u>(62)</u>

MISCELLANEOUS

This group of expenses covers a wide range of items which are not compatible with the other classifications that have been established. The main reasons for the decrease in 2000 of \$84,000 are lower staff training costs partially offset by higher inventory write-offs.

MISCELLANEOUS SUMMARY

(\$ Thousands)

	<u>1998 Actual</u>	<u>1999 Budget</u>	<u>1999 Forecast</u>	<u>2000 Budget</u>	<u>Increase (Decrease)</u>
Staff Training	505	1,100	1,100	866	(234)
Inventory Gain/Loss	623	264	264	396	132
Sundry Costs	1,719	119	119	113	(6)
Diesel Fuel Hydro	76	98	98	98	-
Donations	181	153	178	187	9
Tran of Salvage Material	(30)	-	-	-	-
PCB Waste Disposal	270	-	-	-	-
Demand Side Management	(11)	48	48	47	(1)
Employee Expenses	522	612	612	592	(20)
Taxes	<u>2,072</u>	<u>1,984</u>	<u>1,984</u>	<u>2,020</u>	<u>36</u>
Total	<u><u>5,927</u></u>	<u><u>4,378</u></u>	<u><u>4,403</u></u>	<u><u>4,319</u></u>	<u><u>(84)</u></u>

BUILDING RENTALS AND MAINTENANCE

These costs have increased by \$97,000 from the 1999 forecast mainly due to higher property costs as a result of various renovations at different locations.

BUILDING RENTALS SUMMARY

(\$ Thousands)

	<u>1998 Actual</u>	<u>1999 Budget</u>	<u>1999 Forecast</u>	<u>2000 Budget</u>	<u>Increase (Decrease)</u>
Building Rentals	155	172	172	193	21
Safety Equipment & Supplies	141	157	157	114	(43)
Property Costs	<u>2,930</u>	<u>2,110</u>	<u>2,350</u>	<u>2,469</u>	<u>119</u>
Total	<u><u>3,226</u></u>	<u><u>2,439</u></u>	<u><u>2,679</u></u>	<u><u>2,776</u></u>	<u><u>97</u></u>

TRANSPORTATION

Transportation costs have increased by \$76,000 from the 1999 forecast mainly due to higher mobile equipment costs and higher aircraft rentals partially offset by lower vehicle expenses.

TRANSPORTATION SUMMARY

(\$ Thousands)

	<u>1998 Actual</u>	<u>1999 Budget</u>	<u>1999 Forecast</u>	<u>2000 Budget</u>	<u>Increase (Decrease)</u>
Aircraft Rentals	1,378	1,115	1,115	1,203	88
Vehicle Expenses	1,571	1,672	1,671	1,573	(98)
Capitalized Fleet	(381)	(292)	(292)	(325)	(33)
Vehicle Rentals	267	268	268	247	(21)
Mobile Equipment - Expenses	<u>426</u>	<u>492</u>	<u>492</u>	<u>632</u>	<u>140</u>
Total	<u><u>3,261</u></u>	<u><u>3,255</u></u>	<u><u>3,254</u></u>	<u><u>3,330</u></u>	<u><u>76</u></u>

BAD DEBT EXPENSE

The 2000 amount of \$333,000 reflects an increase of \$63,000 from 1999.

LOSS ON DISPOSAL OF FIXED ASSETS

The 2000 loss of \$884,000 is due to normal assets retirements, the more significant of which are upgrades on transmission lines \$607,000, and breaker replacements \$132,000.

CF(L)CO RECOVERIES

Costs to be recovered from Churchill Falls (Labrador) Corporation Limited cover a wide range of services including, Accounting, Purchasing, Treasury, Insurance, Management Information Systems and Telecommunications, Legal, Operations, Construction, Environmental and Human Resources. These amounts are preliminary estimates and will be finalized in early 2000.

FUEL EXPENSE AND RATE STABILIZATION PLAN

Fuel costs will increase from \$33,300,000 in the 1999 forecast to \$53,335,000 in 2000 as shown below.

	<u>1999 Budget</u>	<u>1999 Forecast</u>	<u>2000 Budget</u>	<u>Increase (Decrease)</u>
Barrels of Bunker "C" Fuel	2,739,157	1,760,965	3,550,329	1,789,364
Average Price per Barrel	18.42	19.14	22.41	3.27
	<u>(\$Thousands)</u>			
Bunker "C" Fuel	50,466	31,585	79,545	47,960
Other	<u>459</u>	<u>267</u>	<u>324</u>	<u>57</u>
Holyrood Thermal	50,925	31,852	79,869	48,017
Diesel Fuel	2,956	3,338	5,531	2,193
Gas Turbine Fuel	<u>240</u>	<u>336</u>	<u>289</u>	<u>(47)</u>
Sub-total fuels	54,121	35,526	85,689	50,163
Rate Stabilization Plan	<u>(7,494)</u>	<u>(2,226)</u>	<u>(31,354)</u>	<u>(29,128)</u>
Total Fuel	<u><u>46,627</u></u>	<u><u>33,300</u></u>	<u><u>54,335</u></u>	<u><u>21,035</u></u>

Bunker "C" Fuel expense will increase by \$48.0 million mainly due to higher thermal production in 2000 which results in an increase in consumption of 1.8 million barrels. The amount budgeted in 2000 for Rate Stabilization Plan transactions represents the variations in load, fuel prices and hydro production between the budget and the estimate which was filed with the Public Utilities Board for the last test year which was 1992.

The RSP is projected to reach \$55.2 million by December 31, 2000 of which approximately \$37.0 million will be attributable to the utility customer and \$18.2 million attributable to industrial customers. These estimates are based on projections from our fuel oil consultants in May of this year which resulted in an average price of fuel to be consumed of \$22.41 per barrel during 2000. The PUB in a previous Hydro rate referral agreed with Hydro's recommendation that Hydro will appear before the PUB should the balance in the RSP for our utility customer reach \$50 million.

POWER PURCHASES

Power purchase costs of \$19.7 million mainly represent the cost of power supplied by:

- (a) CF(L)Co for recall
- (b) Non-Utility Generators
- (c) Hydro-Québec for Labrador Straits area; and
- (d) Abitibi Consolidated for interruptible power.

The decrease of \$0.7 million is mainly the result of lower power purchases from non-utility generators.

DEPRECIATION AND AMORTIZATION

The budgeted expense for 2000 is \$38.0 million, an increase of \$2.2 million from the 1999 forecast, and is primarily the result of depreciation related to additional assets going in service plus higher depreciation expense associated with assets being depreciated by the sinking fund method of depreciation. Also contributing to the increase is the full year's effect of the amortization of the cost of the JD Edwards integrated suite of products.

INTEREST EXPENSE

The interest expense is summarized as follows:

	(\$ Millions)		
	<u>1999 Forecast</u>	<u>2000 Budget</u>	<u>Increase (Decrease)</u>
Gross Interest	96.5	97.4	0.9
LESS: Interest earned and Interest During Construction	<u>13.4</u>	<u>12.2</u>	<u>1.2</u>
Net Interest	83.1	85.2	2.1
Guarantee Fee	<u>10.8</u>	<u>10.8</u>	<u>-</u>
Total Interest	<u>93.9</u>	<u>96.0</u>	<u>2.1</u>

NEWFOUNDLAND AND LABRADOR HYDRO

STAFF COMPLEMENT

Division	1998 <u>Actual</u>	1999 <u>Budget</u>	1999 <u>Forecast</u>	2000 <u>Budget</u>
Production	278	278	320	320
Finance	121	124	84	84
Internal Audit	4	4	4	4
Transmission and Rural Operations	406	407	413	411
Management	9	9	9	9
Human Resources and Legal	<u>71</u>	<u>71</u>	<u>71</u>	<u>71</u>
Total	<u>889</u>	<u>893</u>	<u>901</u>	<u>899</u>

Note: The Staff Complement in the 1999 Forecast and 2000 Budget reflects recent restructuring between the Finance and Production Divisions.

NEWFOUNDLAND AND LABRADOR HYDRO

BALANCE SHEET

(\$ Thousands)

ASSETS

	<u>Page Reference</u>	<u>1999 Forecast</u>	<u>2000 Budget</u>
Fixed Assets			
Property, plant and equipment		1,281,981	1,290,042
Current Assets			
Receivables		37,347	35,224
Fuel and supplies at average cost		44,444	37,120
Prepaid expenses		<u>1,196</u>	<u>514</u>
		82,987	72,858
Sinking Funds		58,195	68,770
Investment in Churchill Falls (Labrador) Corporation Limited	24	273,495	282,994
Rate Stabilization Plan	25-26	38,116	55,196
Investment in Lower Churchill Development Corporation Limited		15,400	15,400
Deferred Charges		<u>110,731</u>	<u>109,141</u>
		<u>1,860,905</u>	<u>1,894,401</u>

NEWFOUNDLAND AND LABRADOR HYDRO

BALANCE SHEET

(\$ Thousands)

LIABILITIES AND SHAREHOLDER'S EQUITY

	<u>Page</u> <u>Reference</u>	<u>1999</u> <u>Forecast</u>	<u>2000</u> <u>Budget</u>
Long-term Debt		1,060,403	903,598
Current Liabilities			
Accounts payable and accrued liabilities		13,126	10,184
Accrued interest		26,305	26,023
Promissory notes		97,269	187,038
Long-term debt due within one year		<u>12,112</u>	<u>162,580</u>
		148,812	385,825
Unrealized foreign exchange loss provision		8,000	9,000
Shareholder's Equity			
Share capital			
Common shares of par value of \$1 each.			
Authorized 25,000,000 shares;		22,504	22,504
issued 22,503,942 shares			
Contributed capital			
Lower Churchill Development		15,400	15,400
Muskrat Falls		2,165	2,165
Retained earnings	27	<u>603,621</u>	<u>555,909</u>
		<u>643,690</u>	<u>595,978</u>
		<u>1,860,905</u>	<u>1,894,401</u>

INVESTMENT IN CF(L)CO

Hydro has owned 65.8% of CF(L)Co since 1975, and accounts for this investment on an equity basis as follows:

	<u>\$ Thousands</u>	
	<u>1999</u> <u>Forecast</u>	<u>2000</u> <u>Budget</u>
Shares, at cost	167,255	167,255
Hydro's share of CF(L)Co retained earnings at beginning of the year	103,094	106,240
Hydro's share of CF(L)Co profits for the year	11,547	14,105
LESS: Common dividends from CF(L)Co	<u>(8,401)</u>	<u>(4,606)</u>
	<u>106,240</u>	<u>115,739</u>
TOTAL INVESTMENT IN CF(L)Co	<u>273,495</u>	<u>282,994</u>

The debt associated with this investment is projected to be \$31 million at December 31, 2000 compared with an estimated \$4 million at the end of the current year, an increase of \$27 million.

FINANCING

There is no requirement in the 2000 Budget for a new long-term debt issue.

Short term debt outstanding at December 31, 2000 is projected to increase by \$93 million to \$187 million. Our total long-term debt position (net of sinking funds) is projected to amount to \$997 million. This is \$17 million less than our forecasted position as at December 31, 1999 of \$1,014 million.

RATE STABILIZATION PLAN

On January 1, 1986 Hydro implemented a Rate Stabilization Plan which has the following components:

- (1) A water variation provision
- (2) A fuel cost variation provision
- (3) A load variation provision

The water variation provision is a mechanism to account for the variations from average hydro production. The provision is adjusted by using the base price per barrel for fuel, as used in setting the rates, multiplied by the number of barrels required to produce equivalent energy from thermal sources.

The fuel cost variation provision is used to account for variations between the base cost per barrel for Bunker "C" fuel used in setting rates and the actual fuel cost incurred.

Adjustments to the provision are calculated by multiplying the number of barrels of oil used for thermal production in a period by the fuel cost variation. The load variation provision is used to account for variations in earnings because of a difference between the estimated load used for setting rates and the actual load experienced during a year.

RATE STABILIZATION PLAN (cont'd.)

The balances in the water variation provision, fuel cost variation provision and load variation provision attract interest which is based on Hydro's average cost of borrowing. The annual balance in these provisions is amortized over a three year period. The amortization is billed to customers on the basis of the kWh sold in the previous twelve months. The rate adjustment mechanism is automatic, is authorized by the PUB, and does not require Hydro to make a rate referral to the PUB.

The following table shows the activity in the plan for the 1999 forecast and the 2000 budget:

RATE STABILIZATION PLAN

(\$ Thousands)

	<u>1999 Forecast</u>	<u>2000 Budget</u>
Balance January 1st.	48,785	38,116
Activity	<u>(10,669)</u>	<u>17,080</u>
Balance December 31st.	<u>38,116</u>	<u>55,196</u>

The plan balance reflects increased thermal production in 2000 due to wetter years being experienced in 1998 and 1999. 2000 is assumed to be an average water year. Also included in the 2000 projections is an increase in the price of Bunker 'C' fuel of \$3.27 per barrel.

RETAINED EARNINGS

The following table depicts the changes in Retained Earnings since 1990:

	<u>HYDRO</u>			<u>CF(L)Co</u>		
	<u>Net Income</u>	<u>Dividend</u>	<u>Retained Earnings</u>	<u>Net Income⁽¹⁾</u>	<u>Dividend</u>	<u>Retained Earnings</u>
	<u>\$ Thousands</u>					
1991	8,431	0	208,208	14,567	0	175,886
1992	16,249	0	220,455	8,416	0	184,302
1993	13,717	0	234,172	11,230	0	195,532
1994	8,275	0	242,447	8,794	0	204,326
1995	22,615	(14,500)	250,562	10,281	(5,000)	209,607
1996	20,126	(9,688)	261,000	8,855	(3,221)	215,241
1997	30,910	(12,357)	279,553	12,514	(8,563)	219,192
1998	51,257	(12,000)	318,810	18,370	(4,800)	232,762
1999	49,774	(12,000)	356,584	19,275	(5,000)	247,037
2000	18,226	(52,065)	322,745	19,962	(33,835)	233,164

(1) Hydro's share of CF(L)Co earnings is recognized in Hydro's accounts each year. The cash received from CF(L)Co, in the form of dividends is used to pay the interest and principal on debt incurred by Hydro in the purchase of CF(L)Co shares and to pay a dividend to the Province.

DEBT/EQUITY

The projection for the debt/equity ratio is 78/22 at December 31, 2000, compared to 76/24 for 1999.

NEWFOUNDLAND & LABRADOR HYDRO
2000 CAPITAL BUDGET - OVERVIEW
(\$,000)

	Exp To 1999	2000	Future	Total
GENERATION	1,164	21,127	109,255	131,546
TRANSMISSION	12,076	17,654	19,065	48,795
RURAL SYSTEMS	390	6,543	7,327	14,260
GENERAL PROPERTIES	855	6,662	10,381	17,898
CONTINGENCY FUND		1,000		1,000
TOTAL CAPITAL BUDGET	14,485	52,986	146,028	213,499

NEWFOUNDLAND & LABRADOR HYDRO
2000 CAPITAL BUDGET - SUMMARY BY CATEGORY
(\$,000)

	Exp To 1999	2000	Future	Total
GENERATION				
NEW GENERATION SOURCE				
Generation Projects	1,079	16,733	107,988	125,800
HYDRO PLANTS				
Construction Projects		1,520	1,267	2,787
Tools & Equipment		112		112
THERMAL PLANT				
Construction Projects	85	2,147		2,232
Property Additions		12		12
Tools & Equipment		157		157
GAS TURBINE PLANTS				
Construction Projects		446		446
TOTAL GENERATION	<u>1,164</u>	<u>21,127</u>	<u>109,255</u>	<u>131,546</u>
TRANSMISSION				
REGIONAL OPERATIONS				
Construction Projects		503		503
Property Additions		102		102
Tools & Equipment		454		454
SYSTEM SECURITY & RELIABILITY IMPROVEMENTS	12,076	15,722	19,065	46,863
SYSTEM PERFORMANCE & PROTECTION		873		873
TOTAL TRANSMISSION	<u>12,076</u>	<u>17,654</u>	<u>19,065</u>	<u>48,795</u>

NEWFOUNDLAND & LABRADOR HYDRO
2000 CAPITAL BUDGET - SUMMARY BY CATEGORY
(\$,000)

	Exp To 1999	2000	Future	Total
RURAL SYSTEMS				
REGIONAL OPERATIONS				
Construction Projects		3,953	2,769	6,722
Property Additions		158		158
Tools & Equipment		186		186
NEW POWER PLANTS	60	168	3,522	3,750
MAJOR UPGRADING				
Power Plants	282	682	1,036	2,000
Distribution Systems	48	1,147		1,195
METERING		249		249
TOTAL RURAL SYSTEMS	<u>390</u>	<u>6,543</u>	<u>7,327</u>	<u>14,260</u>
GENERAL PROPERTIES				
INFORMATION SYSTEMS & TELECOMMUNICATIONS	855	4,984	10,381	16,220
ADMINISTRATIVE		1,678		1,678
TOTAL GENERAL PROPERTIES	<u>855</u>	<u>6,662</u>	<u>10,381</u>	<u>17,898</u>
CONTINGENCY FUND		1,000		1,000
TOTAL CAPITAL BUDGET	<u>14,485</u>	<u>52,986</u>	<u>146,028</u>	<u>213,499</u>

NEWFOUNDLAND & LABRADOR HYDRO
GENERATION
2000 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1999	2000	Future	Total	In-Ser Date
<u>NEW GENERATION SOURCE</u>					
<u>GENERATION PROJECTS</u>					
Design and Construct Future Power & Energy Source #1	1,079	16,733	107,988	125,800	Nov. 02
TOTAL GENERATION PROJECTS	1,079	16,733	107,988	125,800	
<u>HYDRO PLANTS</u>					
<u>CONSTRUCTION PROJECTS</u>					
Construct Toe Road for Power Canal Embankment Dam at Bay D'Espoir		95		95	Oct. 00
Replace High Pressure Air Compressor No. 2 at Hinds Lake		38		38	Sep. 00
Replace High Pressure Air Compressor No. 2 at Cat Arm		48		48	Jun. 00
Replace Battery Bank & Battery Charger at Upper Salmon		70		70	Oct. 00
Replace Water Level System at Hinds Lake Intake		27		27	Jun. 00
Replace Air Conditioner at Paradise River Powerhouse		40		40	Jul. 00
Replace Air Compressor No. 4 - Powerhouse No. 1 at Bay D'Espoir		25		25	Aug. 00
Rebuild Goat Pond Dam/Dyke at Venam's Bight		150		150	Oct. 00
Construct Toe Road for North Cut Off Dam at Bay D' Espoir		104		104	Oct. 00
Replace Piping on Surge Tanks - Bay D' Espoir		414		414	Aug. 00
Replace Halon 1301 Fire Protection Systems for Generation System		509	1,267	1,776	Oct. 02
TOTAL CONSTRUCTION PROJECTS		1,520	1,267	2,787	
<u>TOOLS & EQUIPMENT</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000		112		112	Dec. 00
TOTAL TOOLS & EQUIPMENT		112		112	

NEWFOUNDLAND & LABRADOR HYDRO
GENERATION
2000 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1999	2000	Future	Total	In-Ser Date
<u>THERMAL PLANT</u>					
<u>CONSTRUCTION PROJECTS</u>					
Replace Exciter - Unit No. 1 - Holyrood	85	549		634	Oct. 00
Purchase and Install Water Lance Blowing System for Boiler Unit No. 3 - Holyrood		616		616	Sep. 00
Purchase and Install Distributed Processing Units for Unit 1 and 2 WDPF System - Holyrood		476		476	Oct. 00
Purchase and Install Air Heaters Sprinkler System for Unit Nos.1, 2 and 3 - Holyrood		223		223	Aug. 00
Purchase and Install Lube Oil Filter for Turbine Generator Bearings - Unit No. 1 - Holyrood		283		283	Jul. 00
TOTAL CONSTRUCTION PROJECTS	85	2,147		2,232	
<u>PROPERTY ADDITIONS</u>					
Purchase Airbourne Contaminants Filtering System		12		12	Oct. 00
TOTAL PROPERTY ADDITIONS		12		12	
<u>TOOLS & EQUIPMENT</u>					
Replace Forklift Truck - Holyrood Generating Plant		50		50	Sep. 00
Purchase & Replace Tools & Equipment Less than \$ 50,000		107		107	Dec. 00
TOTAL TOOLS & EQUIPMENT		157		157	
<u>GAS TURBINE PLANTS</u>					
<u>CONSTRUCTION PROJECTS</u>					
Replace Dyke Liner - Fuel Storage at Stephenville Gas Turbine		446		446	Sep. 00
TOTAL CONSTRUCTION PROJECTS		446		446	
TOTAL GENERATION	1,164	21,127	109,255	131,546	

NEWFOUNDLAND & LABRADOR HYDRO
TRANSMISSION
2000 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1999	2000	Future	Total	In-Ser Date
<u>REGIONAL OPERATIONS</u>					
<u>CONSTRUCTION PROJECTS</u>					
<u>CENTRAL REGION - TERMINALS</u>					
Replace Compressed Air System - Bottom Brook Terminal Station	95			95	Dec. 00
Replace System Air Dryer - Hardwoods Terminal Station	65			65	Oct. 00
Replace Circuit Breaker B2T1 at Oxen Pond Terminal Station	117			117	Oct. 00
Replace Instrument Transformers/Surge Arrestors	56			56	Dec. 00
<u>NORTHERN REGION - TERMINALS</u>					
Replace Circuit Breaker B2L62 at Peter's Barren Terminal Station	110			110	Sep. 00
Replace Disconnect Switch L27T1 at Parsons Pond Terminal Station	26			26	Oct. 00
Replace & Construct T1 Transformer Pad at Rocky Harbour Terminal Station	34			34	Aug. 00
TOTAL CONSTRUCTION PROJECTS		503		503	
<u>PROPERTY ADDITIONS</u>					
<u>CENTRAL REGION</u>					
Replace Modular Office Furniture - Bishop Falls Complex	102			102	Apr. 00
TOTAL PROPERTY ADDITIONS		102		102	
<u>TOOLS & EQUIPMENT</u>					
<u>CENTRAL REGION</u>					
Replace Heavy Duty All Terrain Vehicle - Stephenville	210			210	Jun. 00
Replace Boom on Nodwell - Stephenville	88			88	Sep. 00
Purchase & Replace Tools & Equipment Less than \$ 50,000 - Central	141			141	Dec. 00
<u>NORTHERN REGION</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000 - Northern	15			15	Dec. 00
TOTAL TOOLS & EQUIPMENT		454		454	

NEWFOUNDLAND & LABRADOR HYDRO
TRANSMISSION
2000 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1999	2000	Future	Total	In-Ser Date
<u>SYSTEM SECURITY & RELIABILITY IMPROVEMENTS</u>					
Install Additional Capacitors - Hardwoods and Oxen Pond	1,408	85		1,493	Jul. 00
Upgrade TL217 - (230kv Western Avalon - Holyrood)	10,320	7,165		17,485	Nov. 00
Upgrade TL207 - (230kv Sunnyside - Come By Chance)	323	2,594		2,917	May. 00
Lightning Performance Improvements for TL202 and TL206 - (Bay D' Espoir to Sunnyside)	25	2,878	3,420	6,323	Aug. 01
Wood Pole Testing & Cost Benefit Study		167		167	Nov. 00
Replace Poles - TL225 (Deer Lake Powerhouse - Deer Lake Termi Stn)		203		203	Oct. 00
Cost Recovery		(10)		(10)	
Replace Insulators - TL240 - (138Kv Happy Valley - Churchill Falls)		2,292	2,958	5,250	Aug. 01
Upgrade TL237 - (230kv Come By Chance - Western Avalon)		348	12,687	13,035	Nov. 01
TOTAL SECURITY & RELIABILITY IMPROVEMENTS	12,076	15,722	19,065	46,863	
<u>SYSTEM PERFORMANCE & PROTECTION</u>					
Upgrade Meter Test Console - Metershop		21		21	Dec. 00
Upgrade 230KV Backup Protection - TL 211, 236, 247 & 248		261		261	Nov. 00
Purchase and Install 138Kv Breaker Failure Protection at DL,SB & SSD		284		284	Jul. 00
Provide Computerized Monitoring System - Oxen Pond Terminal Station		71		71	Jun. 00
Purchase & Install Communication Interface to Digital Relays at SSD, B'DE#1 & B'DE#2		39		39	Aug. 00
Purchase Grounding Analysis Software		50		50	Sep. 00
Purchase Lightning Analysis System		120		120	Apr. 00
Purchase Metering Spares - Meter Shop - Hydro Place		27		27	Dec. 00
TOTAL SYSTEM PERFORMANCE & PROTECTION		873		873	
TOTAL TRANSMISSION	12,076	17,654	19,065	48,795	

NEWFOUNDLAND & LABRADOR HYDRO
RURAL SYSTEMS
2000 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1999	2000	Future	Total	In-Ser Date
<u>REGIONAL OPERATIONS</u>					
<u>CONSTRUCTIONS PROJECTS</u>					
<u>CENTRAL REGION - DISTRIBUTION</u>					
Provide Service Extensions - Central		350		350	Dec. 00
Upgrade Distribution Systems - Central		450		450	Dec. 00
Provide Service Extensions - Western Rural		30		30	Dec. 00
Upgrade Distribution Systems - Western Rural		80		80	Dec. 00
Replace Poles - Farewell Head System		240		240	Oct. 00
Replace Poles - Bottom Waters System		113		113	Nov. 00
Install Mid Span Poles - Mose Ambrose		91		91	Sep. 00
Replace Poles - Bay D Espoir System		12	114	126	Nov. 01
Replace Mid Span Poles - South Brook System		11	109	120	Oct. 01
Replace Poles - South Brook and Kings Point System		11	122	133	Oct. 01
Replace Poles - Bottom Waters System		15	148	163	Oct. 01
<u>CENTRAL REGION - GENERATION</u>					
Modify Coolant System - Francols		81		81	Oct. 00
Modify Coolant System - Recontre East		81		81	Oct. 00
Replace 250Kw Diesel Generating Set at Hr Deep		299		299	Oct. 00
Replace 90Kw Diesel Generating Set at Petites		177		177	Oct. 00
Replace 136Kw Diesel Generating Set at St. Brendan's		11	451	462	Oct. 01
Replace 136Kw Diesel Generating Set at Grey River		3	150	153	Oct. 01
Replace 136Kw Diesel Generating Set at McCallum		3	150	153	Oct. 01
<u>NORTHERN REGION - DISTRIBUTION</u>					
Provide Service Extensions - Northwest		170		170	Dec. 00
Upgrade Distribution Systems - Northwest		306		306	Dec. 00
Provide Service Extensions - Northern		153		153	Dec. 00
Upgrade Distribution Systems - Northern		296		296	Dec. 00
Replace Poles - Hawke Bay System		119		119	Oct. 00
<u>NORTHERN REGION - GENERATION</u>					
Purchase and Install Metering - Norman Bay		7		7	Mar. 00
<u>LABRADOR REGION - DISTRIBUTION & TERMINALS</u>					
Provide Service Extensions - Labrador East		204		204	Dec. 00
Upgrade Distribution Systems - Labrador East		102		102	Dec. 00
Provide Service Extensions - Wabush		51		51	Dec. 00
Upgrade Distribution Systems - Wabush		26		26	Dec. 00
Provide Service Extensions - Lab City		56		56	Dec. 00
Upgrade Distribution Systems - Lab City		31		31	Dec. 00
Replace Street Light Poles - Wabush		23		23	Oct. 00
<u>LABRADOR REGION - GENERATION</u>					
Replace 250kW Diesel Generating Set at Postville		315		315	Oct. 00
Replace 250kW Diesel Generating Set at Makkovik		10	440	450	Dec. 01
Replace 250kW Diesel Generating Set at Postville		10	434	444	Oct. 01
Replace 300kW Diesel Generating Set at Cartwright		11	452	463	Oct. 01
Replace Plant Automation - Makkovik		5	199	204	Nov. 01
TOTAL CONSTRUCTION PROJECTS		3,953	2,769	6,722	

NEWFOUNDLAND & LABRADOR HYDRO
RURAL SYSTEMS
2000 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1999	2000	Future	Total	In-Ser Date
<u>REGIONAL OPERATIONS</u>					
<u>PROPERTY ADDITIONS</u>					
<u>CENTRAL REGION</u>					
Construct Storage Shed - St. Brendan's		14		14	Jun. 00
<u>NORTHERN REGION</u>					
Replace Fume Extractor - Maintenance Shop - St. Anthony		6		6	Mar. 00
Purchase Shelves for Storage Shed - Lanse Au Loup		2		2	Jun. 00
Purchase Modular Furniture - St. Anthony Office		18		18	Sep. 00
<u>LABRADOR REGION</u>					
Construct Storage Shed - Makkovick		27		27	Aug. 00
Construct an Extension to Accomodation Traller - Rigolet		48		48	Aug. 00
Construct Storage Ramps - Lab West		12		12	Dec. 00
Purchase Modular Furniture - Happy Valley & Wabush Office		31		31	Sep. 00
TOTAL PROPERTY ADDITIONS		158		158	
<u>TOOLS & EQUIPMENT</u>					
<u>CENTRAL REGION</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000 -Central		22		22	Dec. 00
<u>NORTHERN REGION</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000 - Northern		114		114	Dec. 00
<u>LABRADOR REGION</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000 - Labrador		50		50	Dec. 00
<u>METERING</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000 - Metershop		12		12	Dec. 00
TOTAL TOOLS & EQUIPMENT		186		186	

NEWFOUNDLAND & LABRADOR HYDRO
RURAL SYSTEMS
2000 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1999	2000	Future	Total	In-Ser Date
<u>NEW POWER PLANTS</u>					
Construct New Diesel Plant - Nain	60	168	3,522	3,750	Dec. 01
TOTAL NEW POWER PLANTS	60	168	3,522	3,750	
<u>MAJOR UPGRADING</u>					
<u>POWER PLANTS</u>					
Provide Bulk Fuel Storage - Fuel Metering Program for Central, Northern & Labrador Plants	282	457		739	Oct. 00
Install Fire Alarm Systems - Makkovik		87		87	Nov. 00
Install Fire Alarm Systems- William Harbour		79		79	Nov. 00
Upgrade Diesel Plant - McCallum		59	1,036	1,095	Oct. 01
TOTAL POWER PLANTS	282	682	1,036	2,000	
<u>DISTRIBUTION SYSTEMS</u>					
Upgrade Distribution Lines - Snook's Arm to Tilt Cove	20	700		720	Nov. 00
Upgrade Distribution Lines - Harrie Lake	28	447		475	Oct. 00
TOTAL DISTRIBUTION SYSTEMS	48	1,147		1,195	
<u>METERING</u>					
Purchase Meters & Equipment - Tro System		200		200	Dec. 00
Purchase Metering Tanks - Tro System		49		49	Dec. 00
TOTAL METERING		249		249	
TOTAL RURAL SYSTEMS	390	6,543	7,327	14,260	

NEWFOUNDLAND & LABRADOR HYDRO
GENERAL PROPERTIES
2000 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 1999	2000	Future	Total	In-Ser Date
<u>INFORMATION SYSTEMS & TELECOMMUNICATIONS</u>					
<u>TELECOMMUNICATIONS</u>					
Replace Powerline Carrier Equipment - Transmission System - West Coast	855	811		1,666	Dec. 00
Provide Route Diversity Into Hydro Place		62		62	Oct. 00
Provide Global Positioning System Time Synchronization - Phase 1		156		156	Oct. 00
Provide Real Time Display of Hardwoods Terminal Station at ECC		13		13	Oct. 00
Construct Telecontrol Building at Bottom Brook Terminal Station		59		59	Dec. 00
Replace Telephone Isolation Equipment - Massey Drive		36		36	Jul. 00
Provide Video Conferencing Facilities Between Hydro Place and Area Sites		256		256	Oct. 00
Provide Server for Power System Data Exchange between Nfld Hydro and Nfld Power		117		117	Oct. 00
Replace Mini-Quics System - Hinds Lake		154		154	Oct. 00
Upgrade EMS Hardware for Information Delivery System at E.C.C.		87		87	Jun. 00
Replace Air Conditioner - Howley and Deer Lake		58		58	Sep. 00
Upgrade of Meridian PBX - Hydro Place		208		208	Oct. 00
Replace Battery System - Oxen Pond, Come By Chance, Howley and Happy Valley		246		246	Oct. 00
Replace Standby Generator Systems - Sandy Brook Hill/Bay D' Espoir Hill/ Godaleich		113		113	Sep. 00
Replace Remote Terminal Unit for Hydro - Phase 1		243		243	Oct. 00
Upgrade Site Grounding at Telecontrol Site - Phase 1		45		45	Oct. 00
Install Microwave System between Energy Control Centre and Sunnyside		350	10,381	10,731	Dec. 01
Purchase Microwave Test Equipment - Network Analyzer		88		88	Jun. 00
Purchase & Replace Tools & Equipment Less than \$ 50,000		6		6	Dec. 00
TOTAL TELECOMMUNICATIONS	855	3,108	10,381	14,344	

INFORMATION SYSTEMS

Upgrade Office Technology	300	300	Dec. 00
Provide Training Room Equipment	100	100	Jun. 00
Provide Remote Site Access	120	120	Jun. 00
MainFrame & Network Hardware			
Upgrade DASD for Network Services	42	42	Dec. 00
Purchase Backup Services for Servers and Desktop	207	207	Dec. 00
Replace Network Printers & Scanners	113	113	Dec. 00
Replace and Upgrade of Network Servers	155	155	Dec. 00
Increase AS400 DASD System	103	103	Jun. 00
Upgrade Corporate Network Infrastructure	206	206	Dec. 00
Applications Development			
Upgrade Lotus Notes Applications	155	155	Dec. 00
Purchase and Install Helpdesk Application	123	123	Jun. 00
Provide Network Security for Dial-In to Hydro	41	41	Dec. 00
Review, Implement and Supply Network Management Tools	103	103	Dec. 00
Investigate and Supply Corporate Fax Integration	62	62	Dec. 00
Analyze and Implement Change Management Application for AS400 JDE	46	46	Dec. 00
TOTAL INFORMATION SYSTEMS	1,876	1,876	

TOTAL INFORMATION SYSTEMS & TELECOMMUNICATIONS

855	4,984	10,381	16,220
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NEWFOUNDLAND & LABRADOR HYDRO
GENERAL PROPERTIES
2000 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION

**Exp To
1999**

2000

Future

Total

**In-Ser
Date**

ADMINISTRATIVE

VEHICLES

Replace Vehicles - Generation and Transmission System
 Replace Vehicles - Rural System
 Replace Vehicles - Corporate

585
721
90

585
721
90

Dec. 00
Dec. 00
Dec. 00

ADMINISTRATION

Replace High Speed Copier - Mallroom - Hydro Place
 Re-Construct Two Storage Ramps - Central Stores - B Falls
 Purchase & Replace Admin Office Equip less than \$50,000

125
65
92

125
65
92

Dec. 00
Oct. 00
Dec. 00

TOTAL ADMINISTRATIVE

1,678

1,678

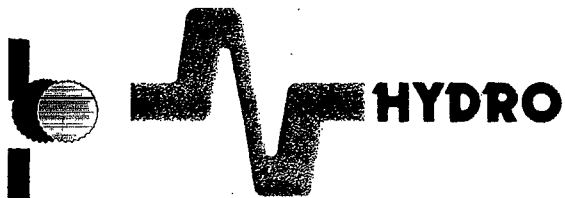
TOTAL GENERAL PROPERTIES

855

6,662

10,381

17,898



A Submission to the Minister of Mines and Energy

2001 Operating and Capital Budgets

**NEWFOUNDLAND AND LABRADOR HYDRO
2001 OPERATING AND CAPITAL BUDGET**

**FOR PRESENTATION TO
THE BOARD OF DIRECTORS
OCTOBER 31, 2000**

NEWFOUNDLAND AND LABRADOR HYDRO

2001 BUDGET

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NEWFOUNDLAND AND LABRADOR HYDRO
STATEMENT OF INCOME & RETAINED EARNINGS
(\$ Thousands)

	Page Ref.	1999 Actual	2000 Budget	2000 Forecast	2001 Budget	Increase (Decrease)
Revenue						
Energy Sales	2	316,990	311,642	299,527	326,499	26,972
Expenses						
Net Operating	6 - 16	84,347	84,459	88,694	87,011	(1,683)
Loss on Disposal of Fixed Assets	17	923	884	884	1,048	164
Fuels	18	35,110	54,335	42,253	54,593	12,340
Power Purchases	19	18,928	19,748	20,238	19,105	(1,133)
Depreciation & Amortization	19	36,108	37,965	35,040	32,807	(2,233)
Interest	19	93,179	96,025	94,753	97,946	3,193
		<u>268,595</u>	<u>293,416</u>	<u>281,862</u>	<u>292,510</u>	<u>10,648</u>
Income from Operations⁽¹⁾		<u>48,395</u>	<u>18,226</u>	<u>17,665</u>	<u>33,989</u>	<u>16,324</u>
Write-down of Capital Assets		<u>(16,679)</u>				
Income before Other Revenue (Expenses)		<u>31,716</u>	<u>18,226</u>	<u>17,665</u>	<u>33,989</u>	<u>16,324</u>
Other Revenue (Expenses)						
Equity in CF(L)Co		12,662	14,105	12,008	12,044	36
Preferred Dividend		8,371	8,123	8,160	7,430	(730)
Interest Share Purchase Debt		(1,109)	(2,266)	(1,833)	(2,591)	(758)
		<u>19,924</u>	<u>19,962</u>	<u>18,335</u>	<u>16,883</u>	<u>(1,452)</u>
Net Income		<u>51,640</u>	<u>38,188</u>	<u>36,000</u>	<u>50,872</u>	<u>14,872</u>
Retained Earnings, beginning of year		<u>551,572</u>	<u>603,621</u>	<u>586,212</u>	<u>529,714</u>	<u>(56,498)</u>
		<u>603,212</u>	<u>641,809</u>	<u>622,212</u>	<u>580,586</u>	<u>(41,626)</u>
Less: Employee Future Benefits				<u>22,598</u>		<u>(22,598)</u>
Less: Dividends						
- Hydro Portion		12,000	52,065	36,600	111,038	74,438
- CF(L)Co Portion		5,000	33,835	33,300	9,962	(23,338)
		<u>17,000</u>	<u>85,900</u>	<u>70,000</u>	<u>120,999</u>	<u>43,999</u>
Retained Earnings, end of year		<u>586,212</u>	<u>555,909</u>	<u>529,714</u>	<u>459,586</u>	<u>(92,726)</u>
Overall Interest Coverage on Net Operating Income		1.33	1.19	1.19	1.33	0.17

⁽¹⁾ Income from Operations includes profit related to I.O.C.C. and recapture energy sold to Hydro-Québec. Regulated Net Operating Income in 2001 would be approximately \$8,457; 2000 \$5,274.

NEWFOUNDLAND AND LABRADOR HYDRO
STATEMENT OF REVENUE BY MAJOR SOURCE
(\$Thousands)

	1999 Actual	2000 Budget	2000 Forecast	2001 Budget	Increase (Decrease)
Industry					
Corner Brook Pulp & Paper Ltd.	11,574	15,285	11,950	15,703	3,753
Deer Lake Power Company	655	480	494	481	(13)
Abitibi Consolidated Inc. - Stephenville	18,489	17,486	16,967	17,354	387
Abitibi Consolidated Inc. - Grand Falls	4,535	5,847	4,822	5,073	251
North Atlantic Petroleum Ltd.	8,200	7,800	7,340	7,396	56
C.F.B. - Goose Bay	2,179	3,308	3,224	3,482	258
Iron Ore Company of Canada	2,275	3,739	4,415	4,807	392
Total Industry	47,907	53,945	49,212	54,296	5,084
Hydro-Québec Recall	38,476	13,568	13,034	25,682	12,648
Utility					
Newfoundland Power	183,556	197,796	190,537	198,712	8,175
Rural					
Interconnected and Diesel	46,066	45,253	45,470	46,609	1,139
Other	985	1,080	1,274	1,200	(74)
<u>Total Revenue</u>	<u>316,990</u>	<u>311,642</u>	<u>299,527</u>	<u>326,499</u>	<u>26,972</u>

Please refer to Page 4 for explanations.

NEWFOUNDLAND AND LABRADOR HYDRO
ENERGY SALES VOLUME ANALYSIS
(GWh.)

	1999 Actual	2000 Budget	2000 Forecast	2001 Budget	Increase (Decrease)
Industry					
Corner Brook Pulp & Paper Ltd.	308.7	497.7	382.3	505.6	123.3
Deer Lake Power	15.6	15.5	16.2	15.6	(0.6)
Deer Lake Power - Emergency	1.2	0.0	0.0	0.0	0.0
Abitibi Consolidated Inc.:					
Stephenville -Firm	517.6	571.4	546.6	566.8	20.2
Stephenville -Wheeled	24.8	1.0	4.8	1.0	(3.8)
Grand Falls -Firm	103.9	180.7	137.9	149.4	11.5
Grand Falls -Compensation	31.0	31.0	31.0	31.0	0.0
Grand Falls -Emergency	0.5	0.0	0.4	0.0	(0.4)
Grand Falls -Wheeled	10.7	0.0	4.4	0.0	(4.4)
North Atlantic Petroleum Limited	224.8	246.8	229.6	233.6	4.0
C.F.B. Goose Bay	81.3	133.7	101.1	109.2	8.1
Iron Ore Company of Canada	53.7	334.7	328.9	374.8	45.9
Total Industry	1,373.8	2,012.5	1,783.2	1,987.0	203.8
Hydro-Québec Recall	1,731.0	1,298.1	1,384.3	1,318.4	(65.9)
Utility					
Newfoundland Power	4,083.8	4,398.0	4,237.8	4,418.2	180.4
Rural					
Interconnected and Diesel	830.8	823.1	830.9	853.7	22.8
Total Sales	8,019.4	8,531.7	8,236.2	8,577.3	341.1

Please refer to Page 4 for explanations.

NEWFOUNDLAND AND LABRADOR HYDRO
ENERGY SALES VOLUME ANALYSIS (cont'd.)

CORNER BROOK PULP AND PAPER LTD.

Sales are higher in 2001 because of an increase in paper production plus less energy production at Deer Lake results in an increased energy requirement from Hydro.

ABITIBI CONSOLIDATED INC.

2001 energy sales are higher due to increased production at both plants.

I.O.C.C.

There is a forecasted increase in production from 2000 to 2001.

HYDRO-QUÉBEC RECALL

Revenue is \$12.6 million more than in 2000 because it is assumed that the price for recall energy will be renegotiated at the rates previously in effect from March 1999 to March 2001. The increased energy requirements of the Labrador interconnected system results in less energy for sales to Hydro-Québec.

NEWFOUNDLAND POWER

The increase in sales is primarily due to predicting a return to normal weather conditions in 2001 plus some modest load growth.

RURAL SALES

Increase primarily due to a small load growth in almost all rural areas.

RATES

The PUB's recommendation as a result of the 1991 rate application was "Hydro be allowed the opportunity to earn interest coverage of 1.08 times gross interest, excluding Rural Isolated Systems, on rates charged to Newfoundland Power". Based on current rates, the 2001 budgeted Regulated Net Operating Income of \$8.5 million results in a projected interest coverage of approximately 1.08. The 2001 budgeted Net Operating Income of \$34.0 million including recapture before earnings in CF(L)Co, reflects an overall interest coverage of 1.33. Overall Net Income will be \$50.9 million.

Our most recent projections indicate that the Rate Stabilization Plan (RSP) balance at December 31, 2001 will be approximately \$79.3 million (of which \$47.6 million is attributable to Newfoundland Power) an increase of \$42.6 million from the December 2000 forecast of \$36.7 million. **This increase is primarily due to higher thermal production as a result of assumed average hydro production in 2001 compared to 2000 and higher fuel prices.**

On December 14, 1999 the PUB issued an order approving, on an interim basis, a decrease in rates charged to island industrial customers. The Board ordered that such rates shall be in effect from January 1, 2000 until November 30, 2000. As a result of a pre-hearing conference before the Board on October 11, 2000 the PUB has further extended its approval of the island industrial rates until December 31, 2001. Also Hydro, at the pre-hearing conference, indicated it will be filing a general rate application with the PUB in May, 2001 with any changes in rates to be effective January 1, 2002. The PUB, during this conference, ordered that Hydro's rate application be filed no later than May 1, 2001.

NEWFOUNDLAND AND LABRADOR HYDRO

NET OPERATING EXPENSES

(\$ Thousands)

Expense Group	1999 Actual	2000 Budget	2000 Forecast	2001 Budget	Increase (Decrease)
Salaries & Fringe Benefits	48,954	52,168	53,396 ⁽¹⁾	53,612 ⁽¹⁾	216
Materials Maintenance	19,775	17,022	19,679	16,555	(3,124)
Office Supplies & Expenses	1,778	1,844	1,882	1,943	61
Professional Services	3,756	4,018	4,115	4,506	391
Insurance	1,068	1,124	979	849	(130)
Equipment Rentals	1,603	1,373	1,395	1,488	93
Travel	2,351	2,037	2,115	2,290	175
Miscellaneous	4,340	4,319	4,259	4,295	36
Property Rentals	233	307	478	766	288
Transportation	2,152	2,214	2,010	2,174	164
Bad Debt Expenses	495	333	333	475	142
	<u>86,505</u>	<u>86,759</u>	<u>90,641</u>	<u>88,953</u>	<u>(1,688)</u>
Allocations					
CF(L)Co Recoveries	<u>(2,158)</u>	<u>(2,300)</u>	<u>(1,947)</u>	<u>(1,942)</u>	<u>5</u>
Net Operating Expenses	<u><u>84,347</u></u>	<u><u>84,459</u></u>	<u><u>88,694</u></u>	<u><u>87,011</u></u>	<u><u>(1,683)</u></u>

An analysis of the individual expense groups is outlined in various tables on the following pages.

⁽¹⁾ Includes \$2.2 million for Employee Future Benefits.

SALARIES AND FRINGE BENEFITS

The salary group of expenses is budgeted to increase by \$216,000 from the 2000 forecast.

This increase is further explained in the table below.

SALARIES SUMMARY

(\$Thousands)

	<u>1999 Actual</u>	<u>2000 Budget</u>	<u>2000 Forecast</u>	<u>2001 Budget</u>	<u>Increase (Decrease)</u>
Permanent Salaries	40,382	42,830	40,600	42,570	1,970
Vacancy Reduction	0	(1,000)	(100)	(1,000)	(900)
Capitalized Expenses	(8,024)	(4,350)	(4,749)	(5,557)	(808)
Hourly Wages	5,727	4,766	5,520	5,446	(74)
Overtime	3,918	2,282	2,545	2,513	(32)
Fringe Benefits	6,874	7,578	7,274	7,334	60
Employee Future Benefits	0	0	2,244	2,244	0
Other	77	62	62	62	0
Total	<u>48,954</u>	<u>52,168</u>	<u>53,396</u>	<u>53,612</u>	<u>216</u>

The increase in permanent salaries is primarily due to a salary adjustment for both union and non-union staff.

EMPLOYEE FUTURE BENEFITS

Hydro currently pays a retirement allowance to retiring employees and also provides group life insurance and health care benefits on a cost shared basis to retired employees and in certain cases, their surviving spouses. The cost of providing these benefits had been charged to operations as the benefits were incurred.

Commencing in January 2000, Hydro was required to adopt new recommendations from the Canadian Institute of Chartered Accountants, and implemented accrual accounting for these

EMPLOYEE FUTURE BENEFITS (cont'd.)

other employee future benefits, whereby the expected costs of providing these benefits is charged to Operations as employees render service. The entitlement to benefits that employees have earned as of January 1, 2000 (\$19 million) that arose on conversion to accrual accounting has been charged to Retained Earnings. The cost of employee future benefits recognized in the Statement of Income has been actuarially determined and reflects the entitlement to benefits that employees will earn each year plus annual interest costs on the accrued benefit obligation.

SYSTEM EQUIPMENT MAINTENANCE

This group of expenses is budgeted at \$16,555,000 in 2001 which is a decrease of \$3,124,000 from 2000 mainly due to lower costs associated with maintaining the Gas Turbines, since major repairs were incurred on these facilities in 2000.

SYSTEM EQUIPMENT MAINTENANCE SUMMARY

(\$ Thousands)

	<u>1999 Actual</u>	<u>2000 Budget</u>	<u>2000 Forecast</u>	<u>2001 Budget</u>	<u>Increase (Decrease)</u>
Maintenance Materials	18,868	15,788	18,388	15,231	(3,157)
Tools & Operating Supplies	417	465	535	496	(39)
Freight Expense	273	204	204	206	2
Lubricants and Chemicals	217	565	552	622	70
Total	<u>19,775</u>	<u>17,022</u>	<u>19,679</u>	<u>16,555</u>	<u>(3,124)</u>

OFFICE SUPPLIES AND EXPENSES

Office supplies and expenses are budgeted to increase by \$61,000 over the 2000 forecast, mainly due to higher advertising costs associated with the new corporate communications plan.

OFFICE SUPPLIES SUMMARY **(\$ Thousands)**

	<u>1999 Actual</u>	<u>2000 Budget</u>	<u>2000 Forecast</u>	<u>2001 Budget</u>	<u>Increase (Decrease)</u>
Heat & Light	498	566	566	577	11
Telephone & Fax	596	582	582	583	1
Postage	287	322	334	320	(14)
Advertising	86	68	74	133	59
Books & Subscriptions	79	82	82	81	(1)
Membership & Dues	232	224	244	249	5
Total	<u>1,778</u>	<u>1,844</u>	<u>1,882</u>	<u>1,943</u>	<u>61</u>

PROFESSIONAL SERVICES

The 2001 Budget has increased by \$391,000 mainly due to higher PUB related costs, higher software costs due mainly to escalating prices and higher external consulting costs as a result of additional initiatives related to Information Systems and Telecommunications.

PROFESSIONAL SERVICES SUMMARY

(\$ Thousands)

	<u>1999 Actual</u>	<u>2000 Budget</u>	<u>2000 Forecast</u>	<u>2001 Budget</u>	<u>Increase (Decrease)</u>
Consultants	2,279	1,913	2,076	2,226	150
Audit	71	50	50	41	(9)
Legal	0	10	10	10	0
PUB Related Costs	474	1,050	990	1,050	60
Software Acquisitions & Mtnce.	932	995	989	1,179	190
Total	<u>3,756</u>	<u>4,018</u>	<u>4,115</u>	<u>4,506</u>	<u>391</u>



Insurance markets have softened somewhat resulting in an overall decrease in premiums.

INSURANCE SUMMARY
(\$ Thousands)

	<u>1999 Actual</u>	<u>2000 Budget</u>	<u>2000 Forecast</u>	<u>2001 Budget</u>	<u>Increase (Decrease)</u>
Boiler & Machinery	743	758	644	546	(98)
Primary Liabilities	41	41	26	36	10
Umbrella Liabilities	54	70	48	46	(2)
Non Owned Aircraft	5	5	5	5	0
Fidelity Bond	8	0	0	0	0
Automobile Liability	71	72	74	74	0
Travel Accident	7	7	7	7	0
Safe Berth Liability	14	15	11	10	(1)
Brokers Fee J&H	56	94	94	63	(31)
Deductible/Losses	24	18	18	10	(8)
Directors & Officers Liab.	45	44	52	52	0
Total	<u>1,068</u>	<u>1,124</u>	<u>979</u>	<u>849</u>	<u>(130)</u>

EQUIPMENT RENTALS

This expense is budgeted to increase by \$93,000 over the 2000 forecast due mainly to higher cost of equipment rentals for various maintenance programs throughout the system.

EQUIPMENT RENTALS SUMMARY **(\$ Thousands)**

	<u>1999 Actual</u>	<u>2000 Budget</u>	<u>2000 Forecast</u>	<u>2001 Budget</u>	<u>Increase (Decrease)</u>
Equipment Rentals	1,031	1,208	1,230	1,342	112
Computer Costs	56	60	60	14	(46)
Telecomm. Communications	516	105	105	132	27
Total	<u>1,603</u>	<u>1,373</u>	<u>1,395</u>	<u>1,488</u>	<u>93</u>



Travel has increased by \$175,000 over the 2000 Forecast due to extra requirements for Information Systems and Telecommunications staff to travel to area offices and to have more involvement in various infrastructure projects.

TRAVEL SUMMARY
(\$ Thousands)

	<u>1999 Actual</u>	<u>2000 Budget</u>	<u>2000 Forecast</u>	<u>2001 Budget</u>	<u>Increase (Decrease)</u>
Travel Expenses	2,314	1,905	1,983	2,141	158
Capitalized Travel	(108)	(103)	(103)	(107)	(4)
Conferences	145	235	235	256	21
Total	<u>2,351</u>	<u>2,037</u>	<u>2,115</u>	<u>2,290</u>	<u>175</u>

MISCELLANEOUS

This group of expenses covers a wide range of items which are not compatible with the other classifications that have been established. The increase in Inventory Losses results from the introduction of blanket orders and the intention to reduce the Bishop Falls inventory with more obsolete items being written off. The decrease in employee expenses results from an account code change whereby the cost of personal protective equipment is now being charged to Safety Equipment and Supplies instead of Employee Expenses (See next page).

MISCELLANEOUS SUMMARY **(\$ Thousands)**

	<u>1999 Actual</u>	<u>2000 Budget</u>	<u>2000 Forecast</u>	<u>2001 Budget</u>	<u>Increase (Decrease)</u>
Staff Training	777	866	940	841	(99)
Inventory Gain/Loss	451	396	396	606	210
Sundry Costs	390	113	113	83	(30)
Diesel Fuel Hydro	73	98	99	140	41
Donations	163	187	191	191	0
Tran. Of Salvage Material	(18)	0	0	0	0
Energy Management	9	47	47	45	(2)
Employee Expenses	472	592	453	314	(139)
Taxes	<u>2,023</u>	<u>2,020</u>	<u>2,020</u>	<u>2,075</u>	<u>55</u>
Total	<u><u>4,340</u></u>	<u><u>4,319</u></u>	<u><u>4,259</u></u>	<u><u>4,295</u></u>	<u><u>36</u></u>

PROPERTY RENTALS

This group of expenses has increased by \$288,000 due to account code changes which results in \$140,000 for crown property rights switching from Property Maintenance to Rentals and the cost of personal protective items switching from Miscellaneous Expenses to Safety Equipment and Supplies.

PROPERTY RENTALS SUMMARY **(\$ Thousands)**

	<u>1999 Actual</u>	<u>2000 Budget</u>	<u>2000 Forecast</u>	<u>2001 Budget</u>	<u>Increase (Decrease)</u>
Property Rentals	135	193	193	317	124
Safety Equipment & Supplies	98	114	285	449	164
Total	233	307	478	766	288

TRANSPORTATION

Transportation costs have increased by \$164,000 from the 2000 forecast mainly due to higher fuel prices

TRANSPORTATION SUMMARY

(\$ Thousands)

	<u>1999 Actual</u>	<u>2000 Budget</u>	<u>2000 Forecast</u>	<u>2001 Budget</u>	<u>Increase (Decrease)</u>
Aircraft Costs	1,127	1,202	1,206	1,177	(29)
Vehicle Fuel	939	908	767	928	161
Capitalized Fuel	(255)	(325)	(325)	(300)	25
Vehicle Rentals	213	247	250	236	(14)
Mobile Equipment - Fuel	128	182	112	133	21
Total	<u>2,152</u>	<u>2,214</u>	<u>2,010</u>	<u>2,174</u>	<u>164</u>

BAD DEBT EXPENSE

The 2001 amount of \$475,000 reflects an increase of \$142,000 from 2000.

LOSS ON DISPOSAL OF FIXED ASSETS

The 2001 loss of \$1,048,000 is due to normal assets retirements, the more significant of which result from upgrades on transmission lines \$578,000, trash racks at Upper Salmon Plant \$303,000 and insulator replacements \$249,000.

CF(L)CO RECOVERIES

Costs to be recovered from Churchill Falls (Labrador) Corporation Limited cover a wide range of services including, Accounting, Purchasing, Treasury, Insurance, Information Systems and Telecommunications, Legal, Operations, Environmental and Human Resources. These amounts are preliminary estimates and will be finalized in early 2001 after 2000 actual results are calculated.

FUEL EXPENSE AND RATE STABILIZATION PLAN

Fuel costs will increase from \$42,253,000 in the 2000 forecast to \$54,593,000 in 2001 as shown below.

	<u>2000 Budget</u>	<u>2000 Forecast</u>	<u>2001 Budget</u>	<u>Increase (Decrease)</u>
Barrels of Bunker "C" Fuel	3,550,329	1,673,416	3,447,505	1,774,089
Average Price per Barrel	22.00	30.00	29.00	
(\$Thousands)				
Bunker "C" Fuel	79,545	50,139	98,850	48,711
Other	324	233	312	79
Holyrood Thermal	79,869	50,372	99,162	48,790
Diesel Fuel	5,531	6,144	6,679	535
Gas Turbine Fuel	289	218	367	149
Sub-total Fuels	85,689	56,734	106,208	49,474
Rate Stabilization Plan	(31,354)	(14,481)	(51,615)	(37,134)
Total	<u>54,335</u>	<u>42,253</u>	<u>54,593</u>	<u>12,340</u>

Bunker "C" Fuel expense will increase by \$48.7 million mainly due to higher thermal production in 2001 which results in an increase in consumption of 1.8 million barrels. The amount budgeted in 2001 for Rate Stabilization Plan transactions represents the variations in hydro production, fuel prices and load between the budget and the estimate which was filed with the Public Utilities Board for the last test year which was 1992.

The RSP is projected to reach \$79.3 million by December 31, 2001 of which approximately \$47.6 million will be attributable to the utility customer and \$31.7 million attributable to industrial customers. These estimates are based on projections from our fuel oil consultants in May of this year which resulted in an average price of fuel to be consumed of \$29.00 per barrel during 2001. If the price of Bunker 'C' Fuel escalates to \$30.00 per barrel, it is estimated that the balance in the RSP at December 31, 2001 would reach approximately \$84.0 million.

POWER PURCHASES

Power purchase costs of \$19.1 million mainly represent the cost of power supplied by:

- (a) Non-Utility Generators (Star Lake and Rattle Brook)
- (b) CF(L)Co for recall
- (c) Hydro-Québec for Labrador Straits area; and
- (d) Abitibi Consolidated for interruptible power.

The decrease of \$1.1 million is mainly the result of lower power purchases from non-utility generators.

DEPRECIATION AND AMORTIZATION

The budgeted expense for 2001 is \$32.8 million, a decrease of \$2.2 million from the 2000 forecast, and is primarily the result of units 1 and 2 at the Holyrood Thermal Plant being fully depreciated in early 2001.

INTEREST EXPENSE

The interest expense is summarized as follows:

	(\$Millions)		
	<u>2000 Forecast</u>	<u>2001 Budget</u>	<u>Increase (Decrease)</u>
Gross Interest	95,381	102,227	6,846
Less: Interest earned and Interest During Construction	<u>11,238</u>	<u>15,363</u>	<u>4,125</u>
Net Interest	84,143	86,864	2,721
Guarantee Fee	<u>10,610</u>	<u>11,082</u>	<u>472</u>
Total Interest	<u><u>94,753</u></u>	<u><u>97,946</u></u>	<u><u>3,193</u></u>

NEWFOUNDLAND AND LABRADOR HYDRO
BALANCE SHEET
(\$ Thousands)

	<u>Page Reference</u>	<u>2000 Forecast</u>	<u>2001 Budget</u>
Capital assets			
Capital assets in service		1,265,635	1,321,272
Current assets			
Receivables		40,487	43,221
Fuel and supplies at average cost		45,331	37,718
Prepaid expenses		902	904
		<u>86,720</u>	<u>81,843</u>
Sinking funds		68,905	80,298
Investments			
Churchill Falls (Labrador) Corp. Ltd.	21	278,622	288,429
Lower Churchill Development Corporation		15,400	15,400
		<u>294,022</u>	<u>303,829</u>
Rate Stabilization Plan	22-23	36,731	79,301
Deferred charges		108,928	109,634
		<u>1,860,941</u>	<u>1,976,177</u>
Long term debt		903,598	1,197,108
Current liabilities			
Accounts payable and accrued liabilities		24,198	33,853
Accrued interest		26,023	25,260
Long-term debt due within one year		162,580	12,265
Promissory notes		142,876	173,173
		<u>355,677</u>	<u>244,551</u>
Foreign exchange loss provision		9,000	10,000
Employee future benefit		22,883	24,863
Shareholder's equity			
Share capital			
Common shares of par value of \$1 each			
Authorized 25,000,000 shares; issued 22,503,942		22,504	22,504
Contributed capital			
Lower Churchill Development Corporation		15,400	15,400
Muskrat Falls Project		2,165	2,165
Retained earnings	24	529,714	459,586
		<u>569,783</u>	<u>499,655</u>
		<u>1,860,941</u>	<u>1,976,177</u>

INVESTMENT IN CF(L)CO

Hydro has owned 65.8% of CF(L)Co since 1975, and accounts for this investment on an equity basis as follows:

\$ Thousands		
2000	Forecast	Budget
2001		
	167,255	167,255
Hydro's share of CF(L)Co retained earnings at beginning of the year	103,968*	111,367
Hydro's share of CF(L)Co profits for the year	12,008	12,044
LESS: Common dividends from CF(L)Co	(4,609)	(2,237)
	111,367	121,174
TOTAL INVESTMENT IN CF(L)Co	278,622	288,429

* Hydro's share of CF(L)Co retained earnings reflects an adjustment of \$3,429 related to a transitional obligation for Employee Future Benefits.

The debt associated with this investment is projected to be \$30 million at December 31, 2001 compared with an estimated \$27 million at the end of the current year, an increase of \$3 million.

FINANCING

There is a requirement in the 2001 Budget for two new \$150 million long-term debt issues; one in June, and another in September.

Short-term debt outstanding at December 31, 2001 is projected to increase by \$30 million to \$173 million. Our total long-term debt position (net of sinking funds) is projected to amount to \$1,129 million. This is \$132 million more than our forecasted position as at December 31, 2000 of \$997 million.

RATE STABILIZATION PLAN

On January 1, 1986 Hydro implemented a Rate Stabilization Plan which has the following components:

- (1) A water variation provision
- (2) A fuel cost variation provision
- (3) A load variation provision

The water variation provision is a mechanism to account for the variations from average hydro production. The provision is adjusted by using the base price per barrel for fuel, as used in setting the rates, multiplied by the number of barrels required to produce equivalent energy from thermal sources.

The fuel cost variation provision is used to account for variations between the base cost per barrel for Bunker "C" fuel used in setting rates and the actual fuel cost incurred.

Adjustments to the provision are calculated by multiplying the number of barrels of oil used for thermal production in a period by the fuel cost variation. The load variation provision is used to account for variations in earnings because of a difference between the estimated load used for setting rates and the actual load experienced during a year.

RATE STABILIZATION PLAN (cont'd.)

The balances in the water variation provision, fuel cost variation provision and load variation provision attract interest which is based on Hydro's average cost of borrowing. The annual balance in these provisions is amortized over a three-year period. The amortization is billed to customers on the basis of the kWh sold in the previous twelve months. The rate adjustment mechanism is automatic, is authorized by the PUB, and does not require Hydro to make a rate referral to the PUB.

The following table shows the activity in the plan for the 2000 forecast and the 2001 budget:

RATE STABILIZATION PLAN

(\$ Thousands)

	<u>2000 Forecast</u>	<u>2001 Budget</u>
Balance January 1st.	34,328	36,731
Activity	<u>2,403</u>	<u>42,570</u>
Balance December 31st.	<u>36,731</u>	<u>79,301</u>
 Newfoundland Power	 22,038	 47,600
Industrials	<u>14,693</u>	<u>31,701</u>
	<u>36,731</u>	<u>79,301</u>

The plan balance reflects both an increase in load and an increase in thermal production in 2001 due to wetter years being experienced in 1999 and 2000. 2001 is assumed to be an average water year.

RETAINED EARNINGS

The following table depicts the changes in Retained Earnings since 1992:

	<u>HYDRO</u>			<u>CF(L)Co</u>		
	<u>Net Income</u>	<u>Dividend</u>	<u>Retained Earnings</u>	<u>Income⁽¹⁾</u>	<u>Dividend</u>	<u>Retained Earnings</u>
	<u>\$ Thousands</u>					
1992	16,249	0	220,455	8,416	0	184,302
1993	13,717	0	234,172	11,230	0	195,532
1994	8,275	0	242,447	8,794	0	204,326
1995	22,615	(14,500)	250,562	10,281	(5,000)	209,607
1996	20,126	(9,688)	261,000	8,855	(3,221)	215,241
1997	30,910	(12,357)	279,553	12,514	(8,563)	219,192
1998	51,257	(12,000)	318,810	18,370	(4,800)	232,762
1999	31,716	(12,000)	338,526	19,924	(5,000)	247,686
2000	17,665	(36,600)	300,422 ⁽²⁾	18,335	(33,300)	229,292 ⁽²⁾
2001	33,989	(111,038)	223,373	16,883	(9,962)	236,213

⁽¹⁾ Hydro's share of CF(L)Co earnings is recognized in Hydro's accounts each year. The cash received from CF(L)Co, in the form of dividends is used to pay the interest and principal on debt incurred by Hydro in the purchase of CF(L)Co shares and to pay a dividend to the Province.

⁽²⁾ 2000 Retained Earnings reflects an adjustment of \$22,598 related to a transitional obligation for Employee Future Benefits re: Hydro \$19,169 and CF(L)Co of \$3,429.

DEBT/EQUITY

The projection for the debt/equity ratio is 85/15 at December 31, 2001, compared to 79/21 for 2000.

NEWFOUNDLAND & LABRADOR HYDRO**2001 CAPITAL BUDGET - OVERVIEW****(\$,000)**

	Exp To 2000	2001	Future	Total
GENERATION	4,086	35,584	102,102	141,772
TRANSMISSION	4,658	21,777	13,635	40,070
RURAL SYSTEMS	1,199	11,798	2,235	15,232
GENERAL PROPERTIES	300	15,135	1,762	17,197
CONTINGENCY FUND		1,000		1,000
<hr/>				
TOTAL CAPITAL BUDGET	<u>10,243</u>	<u>85,294</u>	<u>119,734</u>	<u>215,271</u>

NEWFOUNDLAND & LABRADOR HYDRO**2001 CAPITAL BUDGET - SUMMARY BY CATEGORY****(\$,000)**

	Exp To 2000	2001	Future	Total
GENERATION				
NEW GENERATION SOURCE				
Generation Projects	3,573	30,435	100,542	134,550
HYDRO PLANTS				
Construction Projects	509	1,523	1,560	3,592
Property Additions	0	133	0	133
Tools & Equipment	0	140	0	140
THERMAL PLANT				
Construction Projects	4	3,167	0	3,171
Tools & Equipment	0	82	0	82
GAS TURBINE PLANT				
Construction Projects	0	104	0	104
TOTAL GENERATION				
	<u>4,086</u>	<u>35,584</u>	<u>102,102</u>	<u>141,772</u>
TRANSMISSION				
REGIONAL OPERATIONS				
Construction Projects	0	506	0	506
Tools & Equipment	0	76	0	76
SYSTEM SECURITY & RELIABILITY IMPROVEMENTS				
	4,658	20,653	13,635	38,946
SYSTEM PERFORMANCE & PROTECTION				
	<u>0</u>	<u>542</u>	<u>0</u>	<u>542</u>
TOTAL TRANSMISSION				
	<u>4,658</u>	<u>21,777</u>	<u>13,635</u>	<u>40,070</u>

NEWFOUNDLAND & LABRADOR HYDRO**2001 CAPITAL BUDGET - SUMMARY BY CATEGORY**

(\$,000)

	Exp To 2000	2001	Future	Total
RURAL SYSTEMS				
REGIONAL OPERATIONS				
Construction Projects	1,051	6,277	1,720	9,048
Property Additions	0	222	0	222
Tools & Equipment	0	228	0	228
NEW POWER PLANTS	100	3,840	0	3,940
MAJOR UPGRADING				
Power Plants	48	1,012	515	1,575
METERING	0	219	0	219
TOTAL RURAL SYSTEMS	<u>1,199</u>	<u>11,798</u>	<u>2,235</u>	<u>15,232</u>
GENERAL PROPERTIES				
INFORMATION SYSTEMS & TELECOMMUNICATIONS	300	13,853	1,762	15,915
ADMINISTRATIVE	0	1,282	0	1,282
TOTAL GENERAL PROPERTIES	<u>300</u>	<u>15,135</u>	<u>1,762</u>	<u>17,197</u>
CONTINGENCY FUND		1,000		1,000
TOTAL CAPITAL BUDGET	<u>10,243</u>	<u>85,294</u>	<u>119,734</u>	<u>215,271</u>

NEWFOUNDLAND & LABRADOR HYDRO
GENERATION
2001 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 2000	2001	Future	Total	In-Ser Date
<u>NEW GENERATION SOURCE</u>					
<u>GENERATION PROJECTS</u>					
Design and Construct New Energy Source - Granite Canal	<u>3,573</u>	<u>30,435</u>	<u>100,542</u>	<u>134,550</u>	Jul. 03
TOTAL GENERATION PROJECTS	<u>3,573</u>	<u>30,435</u>	<u>100,542</u>	<u>134,550</u>	
<u>HYDRO PLANTS</u>					
<u>CONSTRUCTION PROJECTS</u>					
Replace Halon 1301 Fire Protection Systems for Generation System	509	570	697	1,776	Oct. 02
Replacement of Piping on Surge Tanks - Bay D' Espoir		416		416	Aug. 01
Upgrade Controls - Spherical Valve #4 - Bay D'Espoir		187		187	Jul. 01
Install Fault Recorder - Hinds Lake		154		154	Sep. 01
Replace Battery Charger - Unit No. 7 - Bay D'Espoir		69		69	Sep. 01
Replace Underground Jet Fuel Storage Tank - Bay D'Espoir		48		48	Aug. 01
Replace Bubbler System at Intake No.4 - Bay D' Espoir		25		25	Aug. 01
Install Monitoring Equipment - Upper Salmon Powerhouse		25		25	Mar. 01
Install Frazil Ice Detection System - Hind's Lake		9		9	Sep. 01
Install Electronic Security System - Bay D'Espoir		7		7	Apr. 01
Replace Exciter Unit 1 - Cat Arm		13	863	876	Oct. 02
TOTAL CONSTRUCTION PROJECTS	<u>509</u>	<u>1,523</u>	<u>1,560</u>	<u>3,592</u>	
<u>PROPERTY ADDITIONS</u>					
Replace Trailer Extension - Upper Salmon		133		133	Oct. 01
TOTAL PROPERTY ADDITIONS	<u>0</u>	<u>133</u>	<u>0</u>	<u>133</u>	
<u>TOOLS & EQUIPMENT</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	<u>0</u>	<u>140</u>	<u>0</u>	<u>140</u>	
TOTAL TOOLS & EQUIPMENT	<u>0</u>	<u>140</u>	<u>0</u>	<u>140</u>	

**NEWFOUNDLAND & LABRADOR HYDRO
GENERATION
2001 CAPITAL BUDGET - DETAIL
(\$,000)**

PROJECT DESCRIPTION	Exp To 2000	2001	Future	Total	In-Ser Date
<u>THERMAL PLANT</u>					
<u>CONSTRUCTION PROJECTS</u>					
Replace and Install Reheater Inlet on Unit No. 3 - Holyrood		1,342		1,342	Aug. 01
Replacement of Uninterruptible Power Supply on Unit No. 3 - Holyrood		370		370	Jul. 01
Purch & Inst Lube Oil Filter for Turbine Gen.Bearing - Units No. 1 & 2 - HRD.	4	914		918	Jul. 01
Upgrade Oil Systems for Fire Protection on Unit No.2 - Holyrood		217		217	Oct. 01
Upgrade Oil Systems for Fire Protection on Unit No.1 - Holyrood		205		205	Oct. 01
Purch & Inst Turbo Generator Analysis Equip on Unit No. 3 - Holyrood		119		119	Oct. 01
TOTAL CONSTRUCTION PROJECTS	4	3,167	0	3,171	
<u>TOOLS & EQUIPMENT</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	82	0	82	
TOTAL TOOLS & EQUIPMENT	0	82	0	82	
<u>GAS TURBINE PLANTS</u>					
<u>CONSTRUCTION PROJECTS</u>					
Replace Air Compressors at Hardwoods Gas Turbine		104		104	Oct. 01
TOTAL CONSTRUCTION PROJECTS	0	104	0	104	
TOTAL GENERATION	4,086	35,584	102,102	141,772	

NEWFOUNDLAND & LABRADOR HYDRO
TRANSMISSION
2001 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 2000	2001	Future	Total	In-Ser Date
<u>REGIONAL OPERATIONS</u>					
<u>CONSTRUCTION PROJECTS</u>					
<u>CENTRAL REGION - TERMINALS</u>					
Modify Sump and Drainage - Corner Brook Frequency Converter		83		83	Dec. 01
Replace Air Compressor - Grand Falls Frequency Converter		74		74	Oct. 01
Replace Air Compressor - Corner Brook Frequency Converter		73		73	Oct. 01
Replace System Air Dryer - Grand Falls Frequency Converter		38		38	Oct. 01
Replace Chain Link Fence - Come by Chance T.S.		53		53	Oct. 01
Upgrade Mobile Substation Protection & Controls		53		53	Dec. 01
Construct New Access Road to Massey Drive Terminal Plant		44		44	Oct. 01
Replace Battery Chargers - Massey Drive Terminal Station		19		19	Oct. 01
Replace Instrument Transformers/Surge Arrestors - Central		69		69	Dec. 01
TOTAL CONSTRUCTION PROJECTS	0	506	0	506	
<u>TOOLS & EQUIPMENT</u>					
<u>CENTRAL REGION</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000		76	0	76	
TOTAL TOOLS & EQUIPMENT	0	76	0	76	

NEWFOUNDLAND & LABRADOR HYDRO
TRANSMISSION
2001 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 2000	2001	Future	Total	In-Ser Date
<u>SYSTEM SECURITY & RELIABILITY IMPROVEMENTS</u>					
Lightning Performance Improvements - TL202/206 -(Bay D' Espoir to Sunnyside)	2,652	2,980		5,632	Aug. 01
Replacement of Insulators - TL240 - (138kv Happy Valley - Churchill Falls)	1,225	2,490		3,715	Sep. 01
Upgrade TL227 - (69kv Berry Hill - Daniels Harbour)		1,455		1,455	Oct. 01
Upgrade TL262 - (69kv Daniels Harbour - Peter's Barren)		591		591	Sep. 01
Upgrade TL237 - (230kv Come By Chance - Western Avalon)	781	12,252		13,033	Nov. 01
Replacement of Insulators - TL231 - (230kv Bay D'Espoir - Stoney Brook)		254		254	Oct. 01
Upgrade TL242 - (230kv Holyrood - Hardwoods)		461	8,525	8,986	Nov. 02
Upgrade TL236 - (230kv Hardwoods - Oxen Pond)		170	5,110	5,280	Nov. 02
TOTAL SECURITY & RELIABILITY IMPROVEMENTS	4,658	20,653	13,635	38,946	
<u>SYSTEM PERFORMANCE & PROTECTION</u>					
Upgrade 230kv Backup Protection - TL 207, 237, 242 & 234		288		288	Nov. 01
Purchase and Install Substation Automation Scheme - Oxen Pond T.S.		75		75	Jul. 01
Upgrade Gas Turbine Console - Happy Valley		61		61	Jul. 01
Purchase and Install 230kv Recloser PLC Refit - Stoney Brook T.S.		41		41	Aug. 01
Purchase and Install Underfrequency Relay Upgrade - DLK, BDE & GBK		31		31	Jul. 01
Purchase Metering Spares - Meter Shop - Hydro Place		28		28	Dec. 01
Purchase Earth Resistivity Meter		18		18	Mar. 01
TOTAL SYSTEM PERFORMANCE & PROTECTION	0	542	0	542	
TOTAL TRANSMISSION	4,658	21,777	13,635	40,070	

NEWFOUNDLAND & LABRADOR HYDRO
RURAL SYSTEMS
2001 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 2000	2001	Future	Total	In-Ser Date
<u>REGIONAL OPERATIONS</u>					
<u>CONSTRUCTIONS PROJECTS</u>					
<u>CENTRAL REGION - DISTRIBUTION</u>					
Provide Service Extensions - Central		390		390	Dec.01
Upgrade Distribution Systems - Central		541		541	Dec.01
Upgrade Distribution Line - Nippers Harbour - Burlington		367		367	Nov. 01
Install Mid Span Poles - Simmons Site		217		217	May. 01
Replace Poles - Bottom Waters System	15	148		163	Oct. 01
Replace Poles - Bay D'Espoir System	12	114		126	Nov. 01
Replace Sectionalizer - Milltown		71		71	Oct. 01
Replace Poles - South Brook and King's Point System	11	122		133	Oct. 01
Replace Mid Span Poles - South Brook System	11	109		120	Oct. 01
Replace Poles - South Brook and King's Point System		26	173	199	Oct. 02
<u>CENTRAL REGION - GENERATION</u>					
Replace 300kw Diesel Unit No. 245 - St. Brendan's	11	451		462	Oct. 01
Replace 136kw Diesel Unit No. 278 - McCallum		220	56	276	Mar. 02
Replace 250kw Diesel Unit No. 2027 - McCallum		209	55	264	Mar. 02
Replace 136kw Diesel Unit No. 273 - Grey River	3	150		153	Oct. 01
Install Fire Alarm Systems - Francois		48		48	Nov. 01
Replace 75kw Diesel Unit No. 252 - Petites		36	238	274	Dec. 02
Replace 136kw Diesel Unit No. 284 - Hr. Deep		11	282	293	Dec. 02
Replace 136kw Diesel Unit No. 279 - Grey River		11	297	308	Dec. 02
<u>NORTHERN REGION - DISTRIBUTION</u>					
Provide Service Extensions - Northern		320		320	Dec. 01
Upgrade Distribution System - Northern		602		602	Dec. 01
<u>NORTHERN REGION - GENERATION</u>					
Increase Generation Capacity - Charlottetown	975	568		1,543	May. 01
<u>LABRADOR REGION - DISTRIBUTION & TERMINALS</u>					
Provide Service Extensions - Labrador		317		317	Dec. 01
Upgrade Distribution Systems - Labrador		162		162	Dec. 01
Purchase and Install Recloser - Rigolet		68		68	Sep. 01
Supply and Install By-Pass Switches - Townsite Substation, Lab City		41		41	Oct. 01

**NEWFOUNDLAND & LABRADOR HYDRO
RURAL SYSTEMS
2001 CAPITAL BUDGET - DETAIL
(\$,000)**

PROJECT DESCRIPTION	Exp To 2000	2001	Future	Total	In-Ser Date
<u>REGIONAL OPERATIONS</u>					
<u>CONSTRUCTIONS PROJECTS</u>					
<u>LABRADOR REGION - GENERATION</u>					
Replace 250kw Diesel Unit No. 241 - Postville	11	433		444	Oct. 01
Modify for Environmental Issues - North Plant		147		147	Oct. 01
Increase Transformer Capacity - Black Tickle	2	114		116	Jun. 01
Upgrade North Plant for Safety Items - Happy Valley		100		100	Oct. 01
Upgrade North Plant Mechanical - Happy Valley		77		77	Sep. 01
Upgrade North Plant 5kv Station Service - Happy Valley		65		65	Oct. 01
Replace 250kw Diesel Unit No. 293 - Rigolet		11	301	312	Dec. 02
Replace 300kw Diesel Unit No. 288 - Black Tickle		11	318	329	Dec. 02
TOTAL CONSTRUCTION PROJECTS	1,051	6,277	1,720	9,048	
<u>PROPERTY ADDITIONS</u>					
<u>NORTHERN REGION</u>					
Install Air Conditioning - Port Saunders Regional Office		138		138	Oct. 01
Construct Fence Extension - St. Anthony		39		39	Sep. 01
Install Sewer Hookup - St. Anthony		26		26	Sep. 01
Construct Lube Oil Storage Ramp - Hawkes Bay		5		5	Oct. 01
Construct Lube Oil Storage Ramp - St. Anthony		5		5	Dec. 01
<u>LABRADOR REGION</u>					
Purchase 0.279 Hectares of Land - Wabush		9		9	Apr. 01
TOTAL PROPERTY ADDITIONS	0	222	0	222	
<u>TOOLS & EQUIPMENT</u>					
<u>CENTRAL REGION</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	30	0	30	
<u>NORTHERN REGION</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	118	0	118	
<u>LABRADOR REGION</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	68	0	68	
<u>METERING</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	12	0	12	
TOTAL TOOLS & EQUIPMENT	0	228	0	228	

NEWFOUNDLAND & LABRADOR HYDRO
RURAL SYSTEMS
2001 CAPITAL BUDGET - DETAIL
(\$,000)

<u>PROJECT DESCRIPTION</u>	Exp To 2000	2001	Future	Total	In-Ser Date
<u>NEW POWER PLANTS</u>					
Construct New Diesel Plant - Nain	100	3,840		3,940	Dec. 01
TOTAL NEW POWER PLANTS	100	3,840	0	3,940	
<u>MAJOR UPGRADING</u>					
<u>POWER PLANTS</u>					
Upgrade Diesel Plant - McCallum	48	977		1,025	Oct. 01
Upgrade Diesel Plant - Harbour Deep		35	515	550	Oct. 02
TOTAL POWER PLANTS	48	1,012	515	1,575	
<u>METERING</u>					
Purchase Meters & Equipment - TRO System		169		169	Dec. 01
Purchase Metering Tanks - TRO System		50		50	Dec. 01
TOTAL METERING	0	219	0	219	
TOTAL RURAL SYSTEMS	1,199	11,798	2,235	15,232	

NEWFOUNDLAND & LABRADOR HYDRO
GENERAL PROPERTIES
2001 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 2000	2001	Future	Total	In-Ser Date
<u>INFORMATION SYSTEMS & TELECOMMUNICATIONS</u>					
<u>SOFTWARE APPLICATIONS</u>					
<u>New Infrastructure</u>					
Purchase Additional Corporate Applications		205		205	Dec. 01
<u>Upgrade of Technology</u>					
JDE Migrate to One World (Equipment Only)		155		155	Dec. 01
TOTAL SOFTWARE APPLICATIONS	0	360	0	360	
<u>COMPUTER OPERATIONS</u>					
<u>Infrastructure Replacement</u>					
Upgrade Corporate WAN Infrastructure		134		134	Dec. 01
Replacement of Printers		122		122	Dec. 01
<u>New Infrastructure</u>					
Provide Video Conferencing Facilities - Happy Valley		68		68	Oct. 01
Provide Six LCD Projectors - Hydro Place		39	39	78	May. 02
<u>Upgrade of Technology</u>					
Upgrade Windows 2000 Servers		155		155	Oct. 01
Replacement of Desktop Peripherals		18	74	92	Oct. 01
TOTAL COMPUTER OPERATIONS	0	536	113	649	

NEWFOUNDLAND & LABRADOR HYDRO
GENERAL PROPERTIES
2001 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 2000	2001	Future	Total	In-Ser Date
<u>INFORMATION SYSTEMS & TELECOMMUNICATIONS</u>					
<u>NETWORK SERVICES</u>					
<u>Infrastructure Replacement</u>					
Install Microwave System between Energy Control Centre and Sunnyside	300	10,423		10,723	Dec. 01
Upgrade Local Area Networks (LANs) - Holyrood, Bishop's Falls & Hydro Place		731		731	Nov. 01
Replace Datalok Alarm & Monitoring System		434		434	Dec. 01
Upgrade Communications Link between Powerhouse and Intake - Cat Arm		311		311	Oct. 01
Replace Battery System - HLS, HLI, HLC, IRV & Dome Mountain		211		211	Dec. 01
Replace Mini-Quics System at Deer Lake Station for Cat Arm System		137		137	Oct. 01
Replace Standby Generator Systems - Blue Grass Hill & Mary March Hill		82		82	Oct. 01
Replace Remote Terminal Unit for Hydro - Phase 2		80		80	Oct. 01
Replace Dome Mountain Bldg (Lake Melville Repeater)		70		70	Oct. 01
Construct Building - Springdale Terminal Station		69		69	Jun. 01
Replace Battery Banks - Energy Management Systems - Energy Control Centre		65		65	Oct. 01
Replace Powerline Carrier Equipment - Transmission System - West Coast		300	1,649	1,949	Dec. 03
<u>Upgrade of Technology</u>					
Upgrade Site Grounding at Telecontrol Site - Phase 2		44		44	Oct. 01
TOTAL NETWORK SERVICES	300	12,957	1,649	14,906	
TOTAL INFORMATION SYSTEMS & TELECOMMUNICATIONS	300	13,853	1,762	15,915	
<u>ADMINISTRATIVE</u>					
<u>VEHICLES</u>					
Replace Vehicles - Hydro System		764		764	Dec. 01
Replace Vehicles - Rural System		270		270	Dec. 01
<u>ADMINISTRATION</u>					
Replace Security System - Hydro Place		67		67	Apr. 01
Purchase Colour Copier - Office Services - Hydro Place		74		74	Jun. 01
Purchase & Replace Admin Office Equip less than \$50,000	0	107	0	107	
TOTAL ADMINISTRATIVE	0	1,282	0	1,282	
TOTAL GENERAL PROPERTIES	300	15,135	1,762	17,197	



A Submission to the Minister of Mines and Energy

2002 Operating and Capital Budgets

NEWFOUNDLAND AND LABRADOR HYDRO

2002 BUDGET

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NEWFOUNDLAND AND LABRADOR HYDRO
STATEMENT OF INCOME & RETAINED EARNINGS
(\$ Thousands)

	Page Ref.	2000 Actual	2001 Budget	2001 Forecast	2002 Budget	Increase (Decrease)
Revenue						
Energy Sales	2	303,192	326,499	327,524	354,575	27,051
Expenses						
Net Operating	6 - 16	91,095	87,011	90,255	90,901	646
Loss on Disposal of Fixed Assets	17	2,186	1,048	941	890	(51)
Fuels	18	42,568	54,593	54,947	85,035	30,088
Power Purchases	19	20,385	19,105	20,055	18,918	(1,137)
Depreciation & Amortization	19	35,469	32,807	32,557	31,665	(892)
Interest	19	94,193	97,946	91,576	90,857	(719)
		<u>285,896</u>	<u>292,510</u>	<u>290,331</u>	<u>318,266</u>	<u>27,935</u>
Income from Operations⁽¹⁾		17,296	33,989	37,193	36,309	(884)
Other Revenue (Expenses)						
Equity in CF(L)Co		11,786	12,044	10,709	12,200	1,491
Preferred Dividend		7,575	7,430	6,938	7,800	862
Interest Share Purchase Debt		(1,841)	(2,591)	(2,524)	(2,189)	335
		<u>17,520</u>	<u>16,883</u>	<u>15,123</u>	<u>17,811</u>	<u>2,688</u>
Net Income		34,816	50,872	52,316	54,120	1,804
Retained Earnings, beginning of year		<u>563,612</u>	<u>529,714</u>	<u>528,528</u>	<u>527,544</u>	<u>(984)</u>
		598,428	580,586	580,844	581,664	820
Less: Dividends						
- Hydro Portion		36,600	111,038	43,300	96,867	53,567
- CF(L)Co Portion		33,300	9,962	10,000	8,033	(1,967)
Retained Earnings, end of year		<u>528,528</u>	<u>459,586</u>	<u>527,544</u>	<u>476,764</u>	<u>(50,780)</u>
Return on Equity - Corporate		5.58	12.98	12.52	13.77	
Return on Equity - excluding Recall		2.27	4.76	4.18	3.30	
Interest Coverage - Corporate		1.18	1.33	1.39	1.36	
Interest Coverage - excluding Recall		1.06	1.11	1.12	1.08	

Income from Operations includes net recall revenue on sales to Hydro-Québec of \$26,023 in 2001 and \$28,460 in 2002.

NEWFOUNDLAND AND LABRADOR HYDRO
STATEMENT OF REVENUE BY MAJOR SOURCE
(\$Thousands)

	<u>2000</u> <u>Actual</u>	<u>2001</u> <u>Budget</u>	<u>2001</u> <u>Forecast</u>	<u>2002</u> <u>Budget</u>	<u>Increase</u> <u>(Decrease)</u>
Industry					
Corner Brook Pulp & Paper Ltd.	11,294	15,703	12,331	17,847	5,516
Deer Lake Power Company	685	481	729	656	(73)
Abitibi Consolidated Inc. - Stephenville	16,781	17,354	16,071	18,616	2,545
Abitibi Consolidated Inc. - Grand Falls	4,312	5,073	3,526	5,333	1,807
North Atlantic Petroleum Ltd.	7,204	7,396	7,534	8,050	516
C.F.B. - Goose Bay	3,176	3,482	3,758	3,980	222
Iron Ore Company of Canada	4,008	4,807	4,235	4,457	222
Total Industry	47,460	54,296	48,184	58,939	10,755
Hydro-Québec Recall	13,331	25,682	29,103	31,314	2,211
Utility					
Newfoundland Power	191,688	198,712	201,266	214,567	13,301
Rural					
Interconnected and Diesel	49,454	46,609	47,687	48,692	1,005
Other	1,259	1,200	1,284	1,063	(221)
<u>Total Revenue</u>	<u>303,192</u>	<u>326,499</u>	<u>327,524</u>	<u>354,575</u>	<u>27,051</u>

NEWFOUNDLAND AND LABRADOR HYDRO
ENERGY SALES VOLUME ANALYSIS
(GWh.)

	<u>2000 Actual</u>	<u>2001 Budget</u>	<u>2001 Forecast</u>	<u>2002 Budget</u>	<u>Increase (Decrease)</u>
Industry					
Corner Brook Pulp & Paper Ltd.	357.8	505.6	401.5	529.8	128.3
Deer Lake Power	17.2	15.6	19.6	16.0	(3.6)
Deer Lake Power - Emergency	1.3	0.0	0.5	2.3	1.8
Abitibi Consolidated Inc.:					
Stephenville -Firm	537.7	566.8	491.9	557.1	65.2
Stephenville -Wheeled	15.6	1.0	43.5	0.0	(43.5)
Grand Falls -Firm	112.8	149.4	78.0	146.0	68.0
Grand Falls -Compensation	31.0	31.0	31.0	31.0	0.0
Grand Falls -Emergency	1.2	0.0	0.4	0.0	(0.4)
Grand Falls -Wheeled	12.9	0.0	6.5	0.0	(6.5)
North Atlantic Petroleum Limited	219.7	233.6	235.5	232.8	(2.7)
C.F.B. Goose Bay	86.4	109.2	85.2	91.6	6.4
Iron Ore Company of Canada	<u>242.2</u>	<u>374.8</u>	<u>243.5</u>	<u>277.7</u>	<u>34.2</u>
Total Industry	1,635.8	1,987.0	1,637.1	1,884.3	247.2
Hydro-Québec Recall	1,493.7	1,318.4	1,488.2	1,403.3	(79.4)
Utility					
Newfoundland Power	4,263.2	4,418.2	4,474.6	4,485.1	10.5
Rural					
Interconnected and Diesel	<u>894.3</u>	<u>853.7</u>	<u>874.0</u>	<u>877.0</u>	<u>3.0</u>
Total Sales	<u>8,287.0</u>	<u>8,577.3</u>	<u>8,473.9</u>	<u>8,655.2</u>	<u>181.3</u>

The increase in energy sales is mainly due to increases in plant production by the various industrial customers plus an increase in load forecast by Newfoundland Power. These load increases combined with the increase in rates (presently being reviewed by the Public Utilities Board) is the reason for the increase in revenue.

RATES

On May 31, 2001 Hydro filed a rate application with the Board of Commissioners of Public Utilities (PUB) for approval of rates to be charged all its customers effective January 1, 2002. At this time it is questionable whether the PUB will have their report finalized for January 1, 2002 implementation and any changes that they may be recommending. Since the original filing there have been two financial updates to the requested rate changes, the most recent dated October 31, 2001, which incorporated actual data to August 31, 2001 and it is this information that is presently included in Hydro's 2002 Budget. At the conclusion of the hearing, it is anticipated that there will be one final set of financial data filed with the PUB which will include any further forecast changes as well as take into account any changes directed by the PUB, including the rate implementation date.

Based on the October 31, 2001 filing, Hydro is requesting an increase in the rate charged to Newfoundland Power of 6.4%. This will result in estimated increases in rates at the end consumer level of 3.5%. This is also the projected increase in rates to Hydro's Rural Island Interconnected customers as well as customers on the Isolated Systems.

Hydro is requesting an increase to Island Industrial rates as well. Based on the current filing, rates for firm power and energy are projected to increase by 10.0%.

On the Labrador Interconnected System Hydro is requesting that the Board approve the commencement of the phasing-in of common Labrador Interconnected rates. Currently rates for customers in the towns of Wabush, Labrador City and Happy Valley Goose Bay are different. Hydro is proposing a reduction in the number of rate classes from 24 to 6. It is also proposed that customers in Wabush and Labrador City would pay the same rates but different from Happy Valley Goose Bay rates. Overall there is an 11.6% decrease for customers on the Labrador Interconnected System although some customers will see rate increases.

RATES (cont'd.)

For 2002, there will also be Rate Stabilization Plan (RSP) increases for customers on the Island Interconnected System. On January 1, 2002 there will be an increase of 6.1% in the rates charged Island Industrial customers. This increase was determined based on the balance in the RSP at the end of September 2001. Based on the current projected December 31, 2001 balance in the RSP for Newfoundland Power, there will be a 6.7% increase in its rate effective on July 1, 2002. This results in an estimated increase of 3.8% at the end consumer level. We are also recommending that the RSP cap for Newfoundland Power be increased from \$50 million to \$100 million in 2002.

It is currently anticipated that the hearing phase before the PUB will conclude in December with a decision of the PUB in the first quarter of 2002.

NEWFOUNDLAND AND LABRADOR HYDRO

NET OPERATING EXPENSES

(\$ Thousands)

Expense Group	2000 <u>Actual</u>	2001 <u>Budget</u>	2001 <u>Forecast</u>	2002 <u>Budget</u>	Increase (Decrease)
Salaries & Fringe Benefits	54,156	53,612	55,321	56,704	1,383
Materials Maintenance	20,111	16,555	17,784	16,773	(1,006)
Office Supplies & Expenses	1,794	1,943	1,939	1,939	0
Professional Services	3,815	4,506	5,636	5,340	(296)
Insurance	1,037	849	945	977	32
Equipment Rentals	1,400	1,488	1,488	1,553	70
Travel	2,704	2,290	2,575	2,375	(200)
Miscellaneous	4,891	4,295	5,514	4,266	(1,248)
Property Rentals	485	766	643	626	(17)
Transportation	2,056	2,174	1,858	1,923	65
Bad Debt Expenses	420	475	475	325	(150)
	<u>92,869</u>	<u>88,953</u>	<u>94,173</u>	<u>92,811</u>	<u>(1,367)</u>
Allocations					
Deferred Costs ⁽¹⁾	0	0	(2,000)	0	2,000
CF(L)Co Recoveries	<u>(1,774)</u>	<u>(1,942)</u>	<u>(1,923)</u>	<u>(1,910)</u>	<u>13</u>
Net Operating Expenses	<u>91,095</u>	<u>87,011</u>	<u>90,255</u>	<u>90,901</u>	<u>646</u>

An analysis of the individual expense groups is outlined in various tables on the following pages.

- (1) Significant costs will be incurred in 2001 related to the current rate hearing and Hydro has requested the PUB to approve the deferral of \$2.0 million of these costs that would be amortized over a two-year period commencing January 1, 2002.

SALARIES AND FRINGE BENEFITS

The salary group of expenses is budgeted to increase by \$1,383,000 from the 2001 forecast.

This increase is further explained in the table below.

SALARIES SUMMARY

(\$Thousands)

	<u>2000 Actual</u>	<u>2001 Budget</u>	<u>2001 Forecast</u>	<u>2002 Budget</u>	<u>Increase (Decrease)</u>
Permanent Salaries	41,023	42,570	42,371	44,877	2,506
Vacancy Reduction	0	(1,000)	(185)	(1,000)	(815)
Capitalized Expenses	(7,219)	(5,557)	(6,619)	(5,723)	896
Hourly Wages	6,482	5,446	6,568	5,294	(1,274)
Overtime	3,985	2,513	3,176	2,615	(561)
Fringe Benefits	7,461	7,334	7,515	8,146	631
Employee Future Benefits	2,244	2,244	2,433	2,433	0
Other	180	62	62	62	0
Total	<u>54,156</u>	<u>53,612</u>	<u>55,321</u>	<u>56,704</u>	<u>1,383</u>

The increase in permanent salaries is primarily due to a salary adjustment for both union and non-union staff.

SYSTEM EQUIPMENT MAINTENANCE

This group of expenses is budgeted at \$16,778,000 in 2002 which is a decrease of \$1,006,000 from 2001 mainly due to lower costs associated with maintaining the Holyrood Thermal Plant.

SYSTEM EQUIPMENT MAINTENANCE SUMMARY

(\$ Thousands)

	<u>2000 Actual</u>	<u>2001 Budget</u>	<u>2001 Forecast</u>	<u>2002 Budget</u>	<u>Increase (Decrease)</u>
Maintenance Materials	18,914	15,231	16,481	15,614	(867)
Tools & Operating Supplies	489	496	495	483	(12)
Freight Expense	296	206	206	210	4
Lubricants and Chemicals	412	622	602	471	(131)
Total	<u>20,111</u>	<u>16,555</u>	<u>17,784</u>	<u>16,778</u>	<u>(1,006)</u>

OFFICE SUPPLIES AND EXPENSES

Office supplies and expenses are budgeted at \$1,939,000, the same as the forecast for 2001.

OFFICE SUPPLIES SUMMARY

(\$ Thousands)

	<u>2000 Actual</u>	<u>2001 Budget</u>	<u>2001 Forecast</u>	<u>2002 Budget</u>	<u>Increase (Decrease)</u>
Heat & Light	487	577	577	577	0
Telephone & Fax	617	583	578	578	0
Postage	250	320	308	308	0
Advertising	91	133	132	132	0
Books & Subscriptions	75	81	81	81	0
Membership & Dues	274	249	263	263	0
Total	<u>1,794</u>	<u>1,943</u>	<u>1,939</u>	<u>1,939</u>	<u>0</u>

PROFESSIONAL SERVICES

The 2002 Budget has decreased by \$296,000 mainly due to reduced rate hearing costs partially offset by extra costs associated with consulting on equal billing and other pay methods project in the Finance Division plus extra consulting required for the Holyrood Thermal Plant.

PROFESSIONAL SERVICES SUMMARY **(\$ Thousands)**

	<u>2000 Actual</u>	<u>2001 Budget</u>	<u>2001 Forecast</u>	<u>2002 Budget</u>	<u>Increase (Decrease)</u>
Consultants	1,870	2,226	2,006	2,510	504
Audit	39	41	41	41	0
Legal	12	10	10	10	0
PUB Related Costs	1,036	1,050	2,400	1,600	(800)
Software Acquisitions & Mtnce.	858	1,179	1,179	1,179	0
Total	<u>3,815</u>	<u>4,506</u>	<u>5,636</u>	<u>5,340</u>	<u>(296)</u>

INSURANCE

Insurance markets have hardened somewhat resulting in an overall increase in premiums.

INSURANCE SUMMARY

(\$ Thousands)

	<u>2000 Actual</u>	<u>2001 Budget</u>	<u>2001 Forecast</u>	<u>2002 Budget</u>	<u>Increase (Decrease)</u>
Boiler & Machinery	686	546	604	619	15
Primary Liabilities	53	36	56	61	5
Umbrella Liabilities	51	46	59	67	8
Non Owned Aircraft	5	5	6	7	1
Fidelity Bond	4	0	0	0	0
Automobile Liability	74	74	79	82	3
Travel Accident	7	7	7	7	0
Safe Berth Liability	11	10	10	10	0
Brokers Fee J&H	77	63	62	62	0
Deductible/Losses	21	10	10	10	0
Directors & Officers Liab.	48	52	52	52	0
Total	<u>1,037</u>	<u>849</u>	<u>945</u>	<u>977</u>	<u>32</u>

EQUIPMENT RENTALS

This expense is budgeted to increase by \$70,000 over the 2001 forecast due mainly to higher computer costs associated with the IS&T disaster recovery plan.

EQUIPMENT RENTALS SUMMARY

(\$ Thousands)

	<u>2000 Actual</u>	<u>2001 Budget</u>	<u>2001 Forecast</u>	<u>2002 Budget</u>	<u>Increase (Decrease)</u>
Equipment Rentals	1,218	1,342	1,341	1,341	0
Computer Costs	121	14	132	202	70
Telecomm. Communications	61	132	15	15	0
Total	<u>1,400</u>	<u>1,488</u>	<u>1,488</u>	<u>1,558</u>	<u>70</u>

TRAVEL

Travel has decreased by \$200,000 over the 2001 Forecast mainly due to reduced requirements for the Transmission and Rural Operations Division related to implementation of Diesel System Representatives partially offset by increased conference requirements for the IS&T Department in order to stay current with technology.

TRAVEL SUMMARY

(\$ Thousands)

	<u>2000 Actual</u>	<u>2001 Budget</u>	<u>2001 Forecast</u>	<u>2002 Budget</u>	<u>Increase (Decrease)</u>
Travel Expenses	2,642	2,141	2,433	2,178	(255)
Capitalized Travel	(131)	(107)	(109)	(109)	0
Conferences	<u>193</u>	<u>256</u>	<u>251</u>	<u>306</u>	<u>55</u>
Total	<u><u>2,704</u></u>	<u><u>2,290</u></u>	<u><u>2,575</u></u>	<u><u>2,375</u></u>	<u><u>(200)</u></u>

MISCELLANEOUS

This group of expenses covers a wide range of items which are not compatible with the other classifications that have been established. The decrease in Inventory Losses results from the efforts in 2001 to write-off all the obsolete items in the various satellite stores. The decrease in sundry costs results from not having to record in 2002 a provision for the Wabush surplus because this issue will be resolved at this year's PUB Hearing. Staff training costs are less in 2002 because of DSR Training being completed in 2001.

MISCELLANEOUS SUMMARY

(\$ Thousands)

	<u>2000 Actual</u>	<u>2001 Budget</u>	<u>2001 Forecast</u>	<u>2002 Budget</u>	<u>Increase (Decrease)</u>
Staff Training	1,152	841	1,006	841	(165)
Inventory Gain/Loss	465	606	1,294	594	(700)
Sundry Costs	437	83	408	83	(325)
Diesel Fuel Hydro	80	140	101	95	(6)
Donations	186	191	201	193	(8)
Energy Management	25	45	45	45	0
Employee Expenses	375	314	339	340	1
Taxes	<u>2,171</u>	<u>2,075</u>	<u>2,120</u>	<u>2,075</u>	<u>(45)</u>
Total	<u><u>4,891</u></u>	<u><u>4,295</u></u>	<u><u>5,514</u></u>	<u><u>4,266</u></u>	<u><u>(1,248)</u></u>

PROPERTY RENTALS

This group of expenses has decreased by \$17,000 due to a small decrease in Safety Equipment and Supplies partially offset by a small increase in Property Rentals.

PROPERTY RENTALS SUMMARY

(\$ Thousands)

	<u>2000 Actual</u>	<u>2001 Budget</u>	<u>2001 Forecast</u>	<u>2002 Budget</u>	<u>Increase (Decrease)</u>
Property Rentals	142	317	162	193	31
Safety Equipment & Supplies	343	449	481	433	(48)
Total	<u>485</u>	<u>766</u>	<u>643</u>	<u>626</u>	<u>(17)</u>

TRANSPORTATION

Transportation costs have increased by \$65,000 from the 2001 forecast mainly due to higher fuel prices.

TRANSPORTATION SUMMARY

(\$ Thousands)

	<u>2000 Actual</u>	<u>2001 Budget</u>	<u>2001 Forecast</u>	<u>2002 Budget</u>	<u>Increase (Decrease)</u>
Aircraft Costs	1,197	1,177	867	928	61
Vehicle Fuel	1,098	928	947	1,027	80
Capitalized Fuel	(502)	(300)	(300)	(300)	0
Vehicle Rentals	215	236	218	211	(7)
Mobile Equipment - Fuel	48	133	126	57	(69)
Total	<u>2,056</u>	<u>2,174</u>	<u>1,858</u>	<u>1,923</u>	<u>65</u>

BAD DEBT EXPENSE

The 2002 amount of \$325,000 reflects a decrease of \$150,000 from 2001.

LOSS ON DISPOSAL OF FIXED ASSETS

The 2002 loss of \$890,000 is due to normal assets retirements, the more significant of which result from upgrades on transmission lines \$426,000, trash racks at Upper Salmon Plant \$305,000 and upgrade of distribution lines \$126,000.

CF(L)CO RECOVERIES

Costs to be recovered from Churchill Falls (Labrador) Corporation Limited cover a wide range of services including, Management, Financial Planning, Accounting, Purchasing, Treasury, Insurance, Information Systems and Telecommunications, Legal, Operations, Environmental and Human Resources. These amounts are preliminary estimates and will be finalized in early 2002 after 2001 actual results are calculated.

FUEL EXPENSE AND RATE STABILIZATION PLAN

Fuel costs will increase from \$54,947,000 in the 2001 forecast to \$85,035,000 in 2002 as shown below.

	2001 Budget	2001 Forecast	2002 Budget	Increase (Decrease)
Barrels of Bunker "C" Fuel	3,447,505	3,544,737	3,612,115	67,378
Average Price per Barrel	29.00	31.00	29.00	
(\$Thousands)				
Bunker "C" Fuel	98,850	110,360	104,175	(6,185)
Other	312	350	425	75
Holyrood Thermal	99,162	110,710	104,600	(6,110)
Diesel Fuel	6,679	7,564	6,808	(756)
Gas Turbine Fuel	367	171	446	275
Sub-total Fuels	106,208	118,445	111,854	(6,591)
Rate Stabilization Plan	(51,615)	(63,498)	(26,819)	36,679
Total	54,593	54,947	85,035	30,088

Bunker "C" Fuel expense will decrease by \$6.2 million mainly due to a decrease in the price per barrel of Bunker "C" fuel in 2002.

The RSP is projected to reach \$103.7 million by December 31, 2002 of which approximately \$78.5 million will be attributable to the utility customer and \$25.2 million attributable to industrial customers. These estimates are based on the latest projections from our fuel oil consultants which resulted in an average price of fuel to be consumed of \$28.84 per barrel during 2002.

POWER PURCHASES

Power purchase costs of \$18.9 million mainly represent the cost of power supplied by:

- (a) Non-Utility Generators (Star Lake and Rattle Brook)
- (b) CF(L)Co for recall and Labrador Interconnected System
- (c) Hydro-Québec for Labrador Straits area; and
- (d) Abitibi Consolidated for interruptible power.

The decrease of \$1.1 million is mainly the result of lower power purchases from non-utility generators and a reduction in the mill rate for power received from CF(L)Co.

DEPRECIATION AND AMORTIZATION

The budgeted expense for 200²~~1~~ is \$31.7 million, a decrease of \$0.9 million from the 2001 forecast, and is primarily the result of the full year's effect of two gas turbines and units 1 and 2 at the Holyrood Thermal Plant being fully depreciated in early 2001 partially offset by an increase in sinking fund factors and additional assets coming in service.

INTEREST EXPENSE

The interest expense is summarized as follows:

	(\$Millions)		
	<u>2001 Forecast</u>	<u>2002 Budget</u>	<u>Increase (Decrease)</u>
Gross Interest	96,388	100,100	3,712
Less: Interest earned and Interest During Construction	<u>15,710</u>	<u>21,408</u>	<u>5,698</u>
Net Interest	80,678	78,692	(1,986)
Guarantee Fee	<u>10,898</u>	<u>12,165</u>	<u>1,267</u>
Total Interest	<u><u>91,576</u></u>	<u><u>90,857</u></u>	<u><u>(719)</u></u>

NEWFOUNDLAND AND LABRADOR HYDRO
BALANCE SHEET
(\$ Thousands)

	<u>Page Reference</u>	<u>2001 Forecast</u>	<u>2002 Budget</u>
Fixed Assets		1,319,252	1,394,766
Current assets			
Receivables		43,443	47,663
Fuel and supplies at average cost		39,445	43,048
Prepaid expenses		<u>2,763</u>	<u>3,150</u>
		85,651	93,861
Investments			
Churchill Falls (Labrador) Corp. Ltd.	21	283,858	291,452
Lower Churchill Development Corporation		<u>15,400</u>	<u>15,400</u>
		299,258	306,852
Rate Stabilization Plan	22-23	92,052	103,709
Deferred charges		<u>111,399</u>	<u>96,798</u>
		<u>1,907,612</u>	<u>1,995,986</u>
Long term debt		965,123	1,194,328
Current liabilities			
Accounts payable and accrued liabilities		33,600	20,885
Accrued interest		24,346	27,937
Long-term debt due within one year		114,248	14,402
Promissory notes		<u>168,850</u>	<u>196,525</u>
		341,044	259,749
Foreign exchange loss provision		10,000	0
Employee future benefits		23,832	25,076
Shareholder's equity			
Share capital			
Common shares of par value of \$1 each			
Authorized 25,000,000 shares; issued 22,503,942		22,504	22,504
Contributed capital			
Lower Churchill Development Corporation		15,400	15,400
Muskrat Falls Project		<u>2,165</u>	<u>2,165</u>
Retained earnings	24	527,544	476,764
		<u>567,613</u>	<u>516,833</u>
		<u>1,907,612</u>	<u>1,995,986</u>

INVESTMENT IN CF(L)CO

Hydro has owned 65.8% of CF(L)Co since 1975, and accounts for this investment on an equity basis as follows:

	<u>\$ Thousands</u>	
	<u>2001 Forecast</u>	<u>2002 Budget</u>
Shares, at cost	167,255	167,255
Hydro's share of CF(L)Co retained earnings at beginning of the year	110,506	116,603
Hydro's share of CF(L)Co profits for the year	10,709	12,200
<u>LESS: Common dividends from CF(L)Co</u>	<u>(4,612)</u>	<u>(4,606)</u>
	<u>116,603</u>	<u>124,197</u>
 TOTAL INVESTMENT IN CF(L)Co	 <u>283,858</u>	 <u>291,452</u>

The debt associated with this investment is projected to be \$25.6 million at December 31, 2002 compared with an estimated \$27.8 million at the end of the current year, a decrease of \$2.2 million.

FINANCING

There is a requirement in the 2002 Budget for two new long-term debt issues; \$100 million 5-year in March and \$150 million 30-year in September.

Short-term debt outstanding at December 31, 2002 is projected to increase by \$28 million to \$197 million. Our total long-term debt position (net of sinking funds) is projected to amount to \$1,209 million. This is \$130 million more than our forecasted position as at December 31, 2001 of \$1,079 million.

RATE STABILIZATION PLAN

On January 1, 1986 Hydro implemented a Rate Stabilization Plan which has the following components:

- (1) A water variation provision
- (2) A fuel cost variation provision
- (3) A load variation provision

The water variation provision is a mechanism to account for the variations from average hydro production. The provision is adjusted by using the base price per barrel for fuel, as used in setting the rates, multiplied by the number of barrels required to produce equivalent energy from thermal sources.

The fuel cost variation provision is used to account for variations between the base cost per barrel for Bunker "C" fuel used in setting rates and the actual fuel cost incurred.

Adjustments to the provision are calculated by multiplying the number of barrels of oil used for thermal production in a period by the fuel cost variation. The load variation provision is used to account for variations in earnings because of a difference between the estimated load used for setting rates and the actual load experienced during a year.

RATE STABILIZATION PLAN (cont'd.)

The balances in the water variation provision, fuel cost variation provision and load variation provision attract interest which is based on Hydro's average cost of borrowing. The annual balance in these provisions is amortized over a three-year period. The amortization is billed to customers on the basis of the kWh sold in the previous twelve months. The rate adjustment mechanism is automatic, is authorized by the PUB, and does not require Hydro to make a rate referral to the PUB.

The following table shows the activity in the plan for the 2001 forecast and the 2002 budget:

RATE STABILIZATION PLAN

(\$ Thousands)

	<u>2001 Forecast</u>	<u>2002 Budget</u>
Balance January 1st.	34,739	92,052
Activity	<u>57,313</u>	<u>11,657</u>
Balance December 31st.	<u>92,052</u>	<u>103,709</u>
 Newfoundland Power	 67,316	 78,543
Industrials	<u>24,736</u>	<u>25,166</u>
	<u>92,052</u>	<u>103,709</u>

The plan balance reflects the results of the latest estimates for thermal production in the current year which is a below normal water year plus the results of higher thermal production and a normal water year in 2002.

RETAINED EARNINGS

The following table depicts the changes in Retained Earnings since 1992:

	<u>HYDRO</u>			<u>CF(L)Co</u>		
	<u>Net Income</u>	<u>Dividend</u>	<u>Retained Earnings</u>	<u>Income⁽¹⁾</u>	<u>Dividend</u>	<u>Retained Earnings</u>
	<u>\$ Thousands</u>					
1992	16,249	0	220,455	8,416	0	184,302
1993	13,717	0	234,172	11,230	0	195,532
1994	8,275	0	242,447	8,794	0	204,326
1995	22,615	(14,500)	250,562	10,281	(5,000)	209,607
1996	20,126	(9,688)	261,000	8,855	(3,221)	215,241
1997	30,910	(12,357)	279,553	12,514	(8,563)	219,192
1998	51,257	(12,000)	318,810	18,370	(4,800)	232,762
1999	31,716	(12,000)	338,526	19,924	(5,000)	247,684
2000	17,296	(36,600)	300,053 ⁽²⁾	17,520	(33,300)	228,475 ⁽²⁾
2001	37,193	(43,300)	293,946	15,123	(10,000)	233,598
2002	36,309	(96,867)	233,388	17,811	(8,033)	243,376

(1) Hydro's share of CF(L)Co earnings is recognized in Hydro's accounts each year. The cash received from CF(L)Co, in the form of dividends is used to pay the interest and principal on debt incurred by Hydro in the purchase of CF(L)Co shares and to pay a dividend to the Province.

(2) 2000 Retained Earnings reflects an adjustment of \$22,598 related to a transitional obligation for Employee Future Benefits re: Hydro \$19,169 and CF(L)Co of \$3,429.

DEBT/EQUITY

The projection for the debt/equity ratio is 86/14 at December 31, 2002, compared to 81/19 for 2001.

NEWFOUNDLAND & LABRADOR HYDRO

2002 CAPITAL BUDGET - Overview

(\$,000)

	Exp To 2001	2002	Future Years	Total
GENERATION	37,437	67,830	37,077	142,344
TRANSMISSION	954	16,894	192	18,040
RURAL SYSTEMS	570	8,129	1,057	9,756
GENERAL PROPERTIES	300	10,392	15,741	26,433
CONTINGENCY FUND	0	1,000		1,000
TOTAL CAPITAL BUDGET	<u>39,261</u>	<u>104,245</u>	<u>54,067</u>	<u>197,573</u>

NEWFOUNDLAND & LABRADOR HYDRO

2002 CAPITAL BUDGET - SUMMARY BY CATEGORY

(\$,000)

	Exp To 2001	2002	Future Years	Total
<hr/>				
GENERATION				
NEW GENERATION SOURCE				
Generation Projects	37,424	61,333	35,993	134,750
HYDRO PLANTS				
Construction Projects	13	4,721	0	4,734
Property Additions	0	164	0	164
Tools & Equipment	0	323	0	323
THERMAL PLANT				
Construction Projects	0	1,212	1,084	2,296
Tools & Equipment	0	77	0	77
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL GENERATION	<u>37,437</u>	<u>67,830</u>	<u>37,077</u>	<u>142,344</u>
<hr/>				
TRANSMISSION				
REGIONAL OPERATIONS				
Construction Projects	0	136	0	136
Property Additions	0	69	0	69
Tools & Equipment	0	207	0	207
SYSTEM SECURITY & RELIABILITY IMPROVEMENTS	954	16,040	192	17,186
SYSTEM PERFORMANCE & PROTECTION	<u>0</u>	<u>442</u>	<u>0</u>	<u>442</u>
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL TRANSMISSION	<u>954</u>	<u>16,894</u>	<u>192</u>	<u>18,040</u>

NEWFOUNDLAND & LABRADOR HYDRO

2002 CAPITAL BUDGET - SUMMARY BY CATEGORY

(\$,000)

	Exp To 2001	2002	Future Years	Total
RURAL SYSTEMS				
REGIONAL OPERATIONS				
Construction Projects	535	7,112	288	7,935
Property Additions	0	38	0	38
Tools & Equipment	0	199	0	199
MAJOR UPGRADING				
Power Plants	35	574	769	1,378
METERING				
	0	206	0	206
TOTAL RURAL SYSTEMS	<u>570</u>	<u>8,129</u>	<u>1,057</u>	<u>9,756</u>
GENERAL PROPERTIES				
INFORMATION SYSTEMS & TELECOMMUNICATIONS				
	300	8,393	15,741	24,434
ADMINISTRATIVE				
	0	1,999	0	1,999
TOTAL GENERAL PROPERTIES	<u>300</u>	<u>10,392</u>	<u>15,741</u>	<u>26,433</u>
CONTINGENCY FUND				
	0	1,000		1,000
TOTAL CAPITAL BUDGET	<u>39,261</u>	<u>104,245</u>	<u>54,067</u>	<u>197,573</u>

NEWFOUNDLAND & LABRADOR HYDRO
GENERATION
2002 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 2001	2002	Future Years	Total	In-Ser Date
<u>NEW GENERATION SOURCE</u>					
<u>GENERATION PROJECTS</u>					
Perform Feasibility Study - Wind Request for Proposal		200		200	Jul. 02
Design and Construct New Energy Source - Granite Canal	37,424	61,133	35,993	134,550	Jul. 03
TOTAL GENERATION PROJECTS	37,424	61,333	35,993	134,750	
<u>HYDRO PLANTS</u>					
<u>CONSTRUCTION PROJECTS</u>					
Replace Unit 1 Exciter - Cat Arm	13	863		876	Oct. 02
Replace Halon 1301 Fire Protection Systems for Generation System		697		697	Oct. 02
Install 25 kV Distribution Line - Ebbegunbaeg		1,555		1,555	Dec. 02
Replace Governor Controls - Upper Salmon		606		606	Oct. 02
Replace Piping on Surge Tank 3 - Bay D'Espoir		326		326	Aug. 02
Upgrade Controls on Spherical Valve #5 - Bay D'Espoir		153		153	Jul. 02
Install Fault Recorder - Upper Salmon Generating Station		127		127	Sep. 02
Install Intake Stoplogs - Paradise River		158		158	Aug. 02
Replace Control Cables - Bay D'Espoir		131		131	Jul. 02
Replace Sump Pump No. 2 at Powerhouse No. 1 - Bay D'Espoir		46		46	Jul. 02
Purchase Security Surveillance System - Bay D'Espoir		35		35	Nov. 02
Replace Trash Rack Differential System - Bay D'Espoir Intake		15		15	Sep. 02
Install Frazil Ice Detection System - Intake #4 - Bay D'Espoir		9		9	Sep. 02
TOTAL CONSTRUCTION PROJECTS	13	4,721	0	4,734	
<u>PROPERTY ADDITIONS</u>					
Replace Ventilation System at Powerhouse No.1 - Bay D'Espoir		164		164	Aug. 02
TOTAL PROPERTY ADDITIONS	0	164	0	164	
<u>TOOLS & EQUIPMENT</u>					
Purchase Track Machine - Cat Arm		177		177	Oct. 02
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	146		146	
TOTAL TOOLS & EQUIPMENT	0	323	0	323	
<u>THERMAL PLANT</u>					
<u>CONSTRUCTION PROJECTS</u>					
Purchase and Install Continuous Emission Monitoring		801		801	Dec. 02
Upgrade Oil Systems for Fire Protection on Unit No.3 - Holyrood		225		225	Oct. 02
Purchase and Install Closed Circuit Surveillance System - Holyrood		152		152	Aug. 02
Replace Turbine Electrohydraulic Control System - Unit No. 1 - Holyrood		34	1,084	1,118	Aug. 03
TOTAL CONSTRUCTION PROJECTS	0	1,212	1,084	2,296	
<u>TOOLS & EQUIPMENT</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	77	0	77	
TOTAL TOOLS & EQUIPMENT	0	77	0	77	
TOTAL GENERATION	37,437	67,830	37,077	142,344	

NEWFOUNDLAND & LABRADOR HYDRO
TRANSMISSION
2002 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 2001	2002	Future Years	Total	In-Ser Date
<u>REGIONAL OPERATIONS</u>					
<u>CONSTRUCTION PROJECTS</u>					
<u>CENTRAL REGION - TERMINALS</u>					
Replace Two Air Compressors - Buchans		65		65	Oct. 02
Replace Instrument Transformers/Surge Arrestors - Central		71		71	Dec. 02
TOTAL CENTRAL REGION - TERMINALS	0	136	0	136	
TOTAL CONSTRUCTION PROJECTS	0	136	0	136	
<u>PROPERTY ADDITIONS</u>					
<u>CENTRAL REGION</u>					
Pave Parking Area - Bishop's Falls Complex		69		69	Jul. 02
TOTAL PROPERTY ADDITIONS	0	69	0	69	
<u>TOOLS & EQUIPMENT</u>					
<u>CENTRAL REGION</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	207	0	207	
TOTAL TOOLS & EQUIPMENT	0	207	0	207	
<u>SYSTEM SECURITY & RELIABILITY IMPROVEMENTS</u>					
Upgrade TL242 - (230kV Holyrood - Hardwoods)	461	8,525		8,986	Nov. 02
Upgrade TL236 - (230kV Hardwoods - Oxen Pond)	170	5,110		5,280	Nov. 02
Upgrade TL262 - (69kV Daniels Harbour - Peter's Barren)	323	367		690	Mar. 02
Upgrade TL227 - (69kV Berry Hill - Daniels Harbour)		496		496	Sep. 02
Replacement of Insulators - TL226 - (69kV Deer Lake - Berry Hill)		224		224	Nov. 02
Replacement of Insulators - TL229 - (69kV Wiltondale - Glenburnie)		145		145	Nov. 02
Replacement of Insulators - TL211 (230kV Massey Drive - Bottom Brook)		570		570	Oct. 02
Replacement of Insulators - TL228 (230kV Buchans - Massey Drive)		450		450	Aug. 02
Replacement of Poles TL215 - (69kV Doyles - Port-Aux-Basques)		138		138	Sep. 02
Uprate of TL203- (230kV Sunnyside - Western Avalon)		15	192	207	Oct. 03
TOTAL SECURITY & RELIABILITY IMPROVEMENTS	954	16,040	192	17,186	
<u>SYSTEM PERFORMANCE & PROTECTION</u>					
Purchase and Install 230kV Recloser PLC Refit (L05L35) - Stony Brook T.S.		42		42	Oct. 02
Purchase and Install Remote Communication Equipment - BUC & STB		51		51	Oct. 02
Purchase and Install Breaker Failure Protection Addition - BBK, WAV & HRD		229		229	Oct. 02
Purchase and Install Digital Fault Recorder - Stony Brook		92		92	Aug. 02
Purchase Metering Spares - Meter Shop - Hydro Place		28		28	Dec. 02
TOTAL SYSTEM PERFORMANCE & PROTECTION	0	442	0	442	
TOTAL TRANSMISSION	954	16,894	192	18,040	

NEWFOUNDLAND & LABRADOR HYDRO
RURAL SYSTEMS
2002 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 2001	2002	Future Years	Total	In-Ser Date
<u>REGIONAL OPERATIONS</u>					
<u>CONSTRUCTIONS PROJECTS</u>					
<u>CENTRAL REGION - DISTRIBUTION</u>					
Provide Service Extensions - Central		331		331	Dec. 02
Upgrade Distribution Systems - Central		551		551	Dec. 02
Replace Poles - South Brook and King's Point System	26	173		199	Oct. 02
Replace Insulators - English Harbour West System		669		669	Sep. 02
Replace Insulators - South Brook System		317		317	Oct. 02
Replace Conductor/Poles - Burgeo		300		300	Oct. 02
Purchase and Install Voltage Regulators - Barachois		112		112	Oct. 02
Replace Transformers - Burlington Substation		149		149	Oct. 02
<u>CENTRAL REGION - GENERATION</u>					
Replace 136kW Diesel Unit No. 278 - McCallum	220	56		276	Mar. 02
Replace 250kW Diesel Unit No. 2027 - McCallum	209	55		264	Mar. 02
Replace 136kW Diesel Unit No. 279 - Grey River	11	297		308	Dec. 02
Replace 136kW Diesel Unit No. 284 - Hr. Deep	11	282		293	Dec. 02
Replace 75kW Diesel Unit No. 252 - Petites	36	238		274	Dec. 02
<u>NORTHERN REGION - DISTRIBUTION</u>					
Provide Service Extensions - Northern		327		327	Dec. 02
Upgrade Distribution System - Northern		614		614	Dec. 02
Upgrade Distribution Lines - St. Anthony Distribution System		206		206	Nov. 02
Relocation of Line - Cook's Harbour		556		556	Oct. 02
Replace Corroded Transformers - Northern		276		276	Oct. 02
Upgrade Distribution Line - Goose Cove		87		87	Sep. 02
<u>NORTHERN REGION - GENERATION</u>					
Replace 136kW Diesel Unit No. 266 - Williams Harbour		11	288	299	Dec. 03
<u>LABRADOR REGION - DISTRIBUTION & TERMINALS</u>					
Provide Service Extensions - Labrador		323		323	Dec. 02
Upgrade Distribution Systems - Labrador		165		165	Dec. 02
Replace Battery Charger & Batteries System - Quartzite Substation - Lab. City		9		9	Oct. 02
<u>LABRADOR REGION - GENERATION</u>					
Replace 300kW Diesel Unit No. 288 - Black Tickle	11	318		329	Dec. 02
Replace 250kW Diesel Unit No. 293 - Rigolet	11	301		312	Dec. 02
Upgrade Fuel Storage - Nain		339		339	Oct. 02
Purchase and Install Fire Alarm System - Black Tickle		50		50	Sep. 02
TOTAL CONSTRUCTION PROJECTS	535	7,112	288	7,935	
<u>LABRADOR REGION</u>					
Purchase Approved PCB Storage Container - Happy Valley		20		20	Aug. 02
Construct Storage Shed - Rigolet		18		18	Oct. 02
TOTAL PROPERTY ADDITIONS	0	38	0	38	

NEWFOUNDLAND & LABRADOR HYDRO
RURAL SYSTEMS
2002 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 2001	2002	Future Years	Total	In-Ser Date
<u>REGIONAL OPERATIONS</u>					
<u>TOOLS & EQUIPMENT</u>					
<u>CENTRAL REGION</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	61	0	61	
<u>NORTHERN REGION</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	85	0	85	
<u>LABRADOR REGION</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	40	0	40	
<u>METERING</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	13	0	13	
TOTAL TOOLS & EQUIPMENT	0	199	0	199	
<u>MAJOR UPGRADING</u>					
<u>POWER PLANTS</u>					
Upgrade Diesel Plant - Harbour Deep	35	515		550	Oct. 02
Upgrade Diesel Plant - St. Lewis		59	769	828	Oct. 03
TOTAL POWER PLANTS	35	574	769	1,378	
<u>METERING</u>					
Purchase Meters & Equipment - TRO System		172		172	Dec. 02
Purchase Metering Tanks - TRO System		34		34	Dec. 02
TOTAL METERING	0	206	0	206	
TOTAL RURAL SYSTEMS	570	8,129	1,057	9,756	

NEWFOUNDLAND & LABRADOR HYDRO
GENERAL PROPERTIES
2002 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 2001	2002	Future Years	Total	In-Ser Date
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INFORMATION SYSTEMS & TELECOMMUNICATIONS

SOFTWARE APPLICATIONS

Infrastructure Replacement

Acquire Document Management & Imaging System	104			104	Dec. 02
--	-----	--	--	-----	---------

New Infrastructure

Purchase Additional Corporate Applications	517			517	Dec. 02
--	-----	--	--	-----	---------

TOTAL SOFTWARE APPLICATIONS

0	621	0	621
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COMPUTER OPERATIONS

Infrastructure Replacement

Purchase and Install Uninterruptible Power Supply - Computer Room	70			70	Oct. 02
Replacement of Printers	130			130	Dec. 02
Replacement of AS400 Computers	2,109			2,109	May. 02

New Infrastructure

Provide Three LCD Projectors - Hydro Place	39			39	May. 02
--	----	--	--	----	---------

Upgrade of Technology

Replacement of Desktop Peripherals	18			18	Oct. 02
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TOTAL COMPUTER OPERATIONS

0	2,366	0	2,366
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NEWFOUNDLAND & LABRADOR HYDRO
GENERAL PROPERTIES
2002 CAPITAL BUDGET - DETAIL
(\$,000)

PROJECT DESCRIPTION	Exp To 2001	2002	Future Years	Total	In-Ser Date
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INFORMATION SYSTEMS & TELECOMMUNICATIONS

NETWORK SERVICES

Infrastructure Replacement

Replace Powerline Carrier Equipment - Transmission System - West Coast	300	651	1,428	2,379	Dec. 04
Replace VHF Mobile Radio System		3,081	5,640	8,721	Dec. 03
Replace Teleprotection - Stony Brook - Grand Falls Frequency Converter		58		58	Dec. 02
Replace UHF Radio - Upper Salmon		556		556	Dec. 02
Complete Microwave Radio System Interconnection		269	8,673	8,942	Dec. 03
Replace Remote Terminal Unit for Hydro - Phase 3		311		311	Oct. 02

Upgrade of Technology

Provide Global Positioning System Time Synchronization - Phase 2		211		211	Dec. 02
Install Interactive Voice Response System - Hydro Place		171		171	Dec. 02
Replace Telephone Isolation Equipment - Sunnyside & Western Avalon		52		52	Oct. 02
Upgrade Site Grounding at Telecontrol Site - Phase 3		46		46	Oct. 02

TOTAL NETWORK SERVICES

300	5,406	15,741	21,447
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TOTAL INFORMATION SYSTEMS & TELECOMMUNICATIONS

300	8,393	15,741	24,434
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ADMINISTRATIVE

VEHICLES

Replace Vehicles		1,897		1,897	Dec. 02
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ADMINISTRATION

Purchase & Replace Admin Office Equip less than \$50,000	0	102		102
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TOTAL ADMINISTRATIVE

0	1,999	0	1,999
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TOTAL GENERAL PROPERTIES

300	10,392	15,741	26,433
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A Submission to the Minister of Mines and Energy

2003 Operating and Capital Budget

NEWFOUNDLAND AND LABRADOR HYDRO

**NEWFOUNDLAND AND LABRADOR HYDRO
2003 OPERATING AND CAPITAL BUDGET**

**FOR PRESENTATION TO
THE MINISTER OF MINES AND ENERGY
NOVEMBER 29, 2002**

NEWFOUNDLAND AND LABRADOR HYDRO

2003 BUDGET

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NEWFOUNDLAND AND LABRADOR HYDRO
STATEMENT OF INCOME & RETAINED EARNINGS
(\$ Thousands)

	Page Ref.	2001 Actual	2002 Budget	2002 Forecast	2003 Budget	Increase (Decrease)
Revenue						
Energy Sales	2	325,310	354,575	344,360	355,294	10,934
Expenses						
Net Operating	5 - 16	89,003	90,905	92,701	91,924	(777)
Loss on Disposal of Fixed Assets	16	1,839	890	2,053	627	(1,426)
Fuels	17	50,207	85,035	72,813	84,929	12,116
Power Purchases	18	20,057	18,918	19,455	28,715	9,260
Depreciation & Amortization	18	32,175	31,665	31,067	33,077	2,010
Interest	19	91,598	90,857	88,178	99,339	11,161
		<u>284,879</u>	<u>318,270</u>	<u>306,267</u>	<u>338,611</u>	<u>32,344</u>
Income from Operations⁽¹⁾		40,431	36,305	38,093	16,683	(21,410)
Other Revenue (Expenses)						
Equity in CF(L)Co		10,030	12,200	12,046	12,239	193
Preferred Dividend		6,038	7,800	7,870	7,060	(810)
Interest Share Purchase Debt		(2,524)	(2,189)	(2,262)	(2,272)	(10)
		<u>13,544</u>	<u>17,811</u>	<u>17,654</u>	<u>17,027</u>	<u>(627)</u>
Net Income		53,975	54,116	55,747	33,710	(22,037)
Retained Earnings, beginning of year		<u>522,836</u>	<u>527,544</u>	<u>523,511</u>	<u>454,385</u>	<u>(69,126)</u>
		576,811	581,660	579,258	488,095	(91,163)
Less: Dividends						
- Hydro Portion		10,000	96,867	118,085	33,825	(84,260)
- CF(L)Co Portion		<u>43,300</u>	<u>8,033</u>	<u>6,788</u>	<u>6,566</u>	<u>(222)</u>
Retained Earnings, end of year		<u>523,511</u>	<u>476,760</u>	<u>454,385</u>	<u>447,704</u>	<u>(6,681)</u>
Return on Equity - Corporate (excluding CF(L)Co)			13.77	14.81	8.00	
Return on Equity - excluding Recall			3.30	3.52	(5.80)	

⁽¹⁾ Income from Operations includes net recall revenue on sales to Hydro-Québec of \$29,040 in 2002 and \$28,776 in 2003. Also included in 2003 is a \$12,093 loss on other operations, primarily Hydro regulated operations.

NEWFOUNDLAND AND LABRADOR HYDRO
STATEMENT OF REVENUE BY MAJOR SOURCE
(\$Thousands)

	<u>2001 Actual</u>	<u>2002 Budget</u>	<u>2002 Forecast</u>	<u>2003 Budget</u>	<u>Increase (Decrease)</u>
Industry					
Corner Brook Pulp & Paper Ltd.	14,028	18,503	14,899	14,943	44
Abitibi Consolidated Inc. - Stephenville	15,634	18,616	16,305	17,974	1,669
Abitibi Consolidated Inc. - Grand Falls	3,376	5,333	5,457	4,182	(1,275)
North Atlantic Petroleum Ltd.	7,518	8,050	7,538	7,861	323
C.F.B. - Goose Bay	3,476	3,980	2,938	3,363	425
Iron Ore Company of Canada	4,011	4,457	4,311	4,357	46
Total Industry	<u>48,043</u>	<u>58,939</u>	<u>51,448</u>	<u>52,680</u>	<u>1,232</u>
Hydro-Québec Recall	30,656	31,314	33,064	32,692	(372)
Utility					
Newfoundland Power	198,940	214,567	208,620	218,104	9,484
Rural					
Interconnected and Diesel	46,401	48,692	50,032	50,750	718
Other	<u>1,270</u>	<u>1,063</u>	<u>1,196</u>	<u>1,068</u>	<u>(128)</u>
Total Revenue	<u>325,310</u>	<u>354,575</u>	<u>344,360</u>	<u>355,294</u>	<u>10,934</u>

The increase in Revenue of \$10.9 million is primarily the result of the full year's effect of the September 1, 2002 rate increase partially offset by lower production at Corner Brook Pulp & Paper Ltd. and Abitibi Consolidated Inc. Grand Falls (see Page 3) and lower recall revenue from Hydro-Québec.

NEWFOUNDLAND AND LABRADOR HYDRO
ENERGY SALES VOLUME ANALYSIS
(GWh.)

	<u>2001 Actual</u>	<u>2002 Budget</u>	<u>2002 Forecast</u>	<u>2003 Budget</u>	<u>Increase (Decrease)</u>
Industry					
Corner Brook Pulp & Paper Ltd.	443.0	548.1	484.9	449.1	(35.8)
Abitibi Consolidated Inc.					
Stephenville -Firm	469.1	557.1	481.2	537.8	56.6
Stephenville -Wheeled	46.6	0.0	53.3	0.0	(53.3)
Grand Falls -Firm	70.0	146.0	137.2	114.4	(22.8)
Grand Falls -Compensation	31.0	31.0	31.0	31.0	0.0
Grand Falls -Gen. Outage Power	0.4	0.0	0.5	0.0	(0.5)
Grand Falls -Wheeled	7.5	0.0	6.7	8.1	1.4
North Atlantic Petroleum Ltd.	234.6	232.8	225.9	231.0	5.1
C.F.B. - Goose Bay	80.4	91.6	78.2	77.4	(0.8)
Iron Ore Company of Canada	199.4	277.7	228.3	249.6	21.3
Total Industry	<u>1,582.0</u>	<u>1,884.3</u>	<u>1,727.2</u>	<u>1,698.4</u>	<u>(28.8)</u>
Hydro-Québec Recall	1,558.1	1,408.8	1,487.6	1,470.8	(16.8)
Utility					
Newfoundland Power	4,423.2	4,485.1	4,540.8	4,554.3	13.5
Rural					
Interconnected and Diesel	828.2	877.0	906.6	868.9	(37.7)
Total Sales	<u>8,391.5</u>	<u>8,655.2</u>	<u>8,662.2</u>	<u>8,592.4</u>	<u>(69.8)</u>

RATES

On September 1, 2002 Hydro implemented new rates for all its regulated customers resulting from the Public Utilities Board's (PUB) June 7, 2002 Order. These rates are forecast to remain in effect during 2003.

Hydro had indicated during the 2001/02 rate hearing that it would be filing another application during 2003. The PUB in its June 7 Report, ordered Hydro to file its next general rate application no later than December 31, 2003. It is presently assumed that Hydro would be seeking approval of new rates effective January 1, 2004 with a general rate application being made to the PUB in the first half of 2003.

For 2003, there will be Rate Stabilization Plan (RSP) increases for customers on the Island Interconnected System. This results from the PUB decision to recover the August 31, 2002 balance in the RSP over five years. On January 1, 2003 it is presently estimated that rates for Island Industrial customers would increase by 4.1%. On July 1, 2003 it is estimated that the rate for Newfoundland Power will increase by 3% or 1.7% at the retail level. The new RSP which commences on September 1, 2002 to December 31, 2003 will be recovered over a two year period commencing January 1, 2004 for Island Industrial Customers and July 1, 2004 for Newfoundland Power.

For 2003, based on existing rates, there will be a loss on regulated operations of approximately \$12.1 million. The Income Statement on Page 1 shows Income from Operations of \$16.7 million but this includes net recall revenue on sales to Hydro-Québec of \$28.8 million.

NEWFOUNDLAND AND LABRADOR HYDRO
NET OPERATING EXPENSES
(\$ Thousands)

Expense Group	<u>2001 Actual</u>	<u>2002 Budget</u>	<u>2002 Forecast</u>	<u>2003 Budget</u>	<u>Increase (Decrease)</u>
Salaries & Fringe Benefits	52,756	56,704	57,295	55,813	(1,482)
Materials Maintenance	17,454	16,779	16,634	17,028	394
Office Supplies & Expenses	1,872	1,939	1,980	2,047	67
Professional Services	5,531	5,340	6,044	6,041	(3)
Insurance	951	977	1,217	1,614	397
Equipment Rentals	1,369	1,558	1,568	1,526	(42)
Travel	2,662	2,375	2,461	2,158	(303)
Miscellaneous	5,219	4,268	4,290	4,316	26
Property Rentals	704	627	798	899	101
Transportation	1,857	1,923	1,917	1,954	37
Bad Debt Expenses	394	325	309	334	25
	<u>90,769</u>	<u>92,815</u>	<u>94,513</u>	<u>93,730</u>	<u>(783)</u>
Allocations					
CF(L)Co Recoveries	<u>(1,766)</u>	<u>(1,910)</u>	<u>(1,812)</u>	<u>(1,806)</u>	<u>6</u>
Net Operating Expenses	<u><u>89,003</u></u>	<u><u>90,905</u></u>	<u><u>92,701</u></u>	<u><u>91,924</u></u>	<u><u>(777)</u></u>

An analysis of the individual expense groups is outlined in various tables on the following pages.

SALARIES AND FRINGE BENEFITS

The salary group of expenses is budgeted to decrease by \$1,482,000 from the 2002 forecast. This decrease is further explained in the table below. The main reason for the decrease is the full year's effect of the elimination of various fulltime equivalents in 2002 partially offset by increases in Group Insurance and Fringe Benefit expenses.

SALARIES SUMMARY

(\$Thousands)

	<u>2001 Actual</u>	<u>2002 Budget</u>	<u>2002 Forecast</u>	<u>2003 Budget</u>	<u>Increase (Decrease)</u>
Salaries	47,761	50,199	50,401	48,720	(1,681)
Vacancy Reduction	0	(1,000)	(608)	(1,000)	(392)
Capitalized Expenses	(8,977)	(5,723)	(5,872)	(6,405)	(533)
Overtime	3,993	2,800	2,961	2,964	3
Fringe Benefits	6,192	6,147	6,428	6,941	513
Employee Future Benefits	2,411	2,433	2,433	2,433	0
Other	1,376	1,848	1,552	2,160	608
Total	<u>52,756</u>	<u>56,704</u>	<u>57,295</u>	<u>55,813</u>	<u>(1,482)</u>

SYSTEM EQUIPMENT MAINTENANCE

This group of expenses is budgeted at \$17,028,000 in 2003 which is a slight increase of \$394,000 from 2002.

SYSTEM EQUIPMENT MAINTENANCE SUMMARY

(\$ Thousands)

	<u>2001 Actual</u>	<u>2002 Budget</u>	<u>2002 Forecast</u>	<u>2003 Budget</u>	<u>Increase (Decrease)</u>
Maintenance Materials	16,151	15,614	15,508	15,642	134
Tools & Operating Supplies	437	483	465	514	49
Freight Expense	264	210	210	217	7
Lubricants and Chemicals	602	472	451	655	204
Total	<u>17,454</u>	<u>16,779</u>	<u>16,634</u>	<u>17,028</u>	<u>394</u>

OFFICE SUPPLIES AND EXPENSES

This expense group has increased by \$67,000 over the 2002 Forecast mainly due to extra advertising expense related to the sponsorship of Festival 500 in 2003.

OFFICE SUPPLIES SUMMARY

(\$ Thousands)

	<u>2001 Actual</u>	<u>2002 Budget</u>	<u>2002 Forecast</u>	<u>2003 Budget</u>	<u>Increase (Decrease)</u>
Heat & Light	510	577	577	545	(32)
Telephone & Fax	639	578	571	634	63
Postage	310	308	312	299	(13)
Advertising	90	132	132	196	64
Books & Subscriptions	83	81	81	82	1
Membership & Dues	240	263	307	291	(16)
Total	<u>1,872</u>	<u>1,939</u>	<u>1,980</u>	<u>2,047</u>	<u>67</u>

PROFESSIONAL SERVICES

There is a slight decrease of \$3,000 in this group of expenses caused by a reduction in external consulting costs associated with Business Process Improvement, partially offset by higher PUB related costs associated with a proposed Rate Hearing in 2003.

PROFESSIONAL SERVICES SUMMARY (\$ Thousands)

	<u>2001 Actual</u>	<u>2002 Budget</u>	<u>2002 Forecast</u>	<u>2003 Budget</u>	<u>Increase (Decrease)</u>
Consultants	1,837	2,510	3,314	2,523	(791)
Audit	42	41	41	41	0
Legal	2	10	10	10	0
PUB Related Costs	2,470	1,600	1,500	2,200	700
Software Acquisitions & Mtnce.	1,180	1,179	1,179	1,267	88
Total	<u>5,531</u>	<u>5,340</u>	<u>6,044</u>	<u>6,041</u>	<u>(3)</u>

INSURANCE

Insurance markets have hardened considerably since the September 11, 2001 terrorist attack, resulting in an overall increase in premiums of \$397,000.

INSURANCE SUMMARY

(\$ Thousands)

	<u>2001 Actual</u>	<u>2002 Budget</u>	<u>2002 Forecast</u>	<u>2003 Budget</u>	<u>Increase (Decrease)</u>
Boiler & Machinery	604	617	732	994	262
Primary Liabilities	56	61	65	78	13
Umbrella Liabilities	59	67	75	93	18
Non Owned Aircraft	6	7	7	8	1
Automobile Liability	79	82	178	276	98
Travel Accident	7	7	7	7	0
Safe Berth Liability	10	10	11	12	1
Brokers Fee J&H	57	63	63	62	(1)
Deductible/Losses	21	10	20	10	(10)
Directors & Officers Liab.	52	53	59	74	15
Total	<u>951</u>	<u>977</u>	<u>1,217</u>	<u>1,614</u>	<u>397</u>

EQUIPMENT RENTALS

There is a decrease of \$42,000 in this group of expenses compared to the 2002 Forecast due to savings of \$95,000 in equipment rentals, spread throughout the Corporation, partially offset by an increase of \$53,000 in Computer Costs as a result of an increase in disk space for the Disaster Recovery Plan.

EQUIPMENT RENTALS SUMMARY **(\$ Thousands)**

	<u>2001 Actual</u>	<u>2002 Budget</u>	<u>2002 Forecast</u>	<u>2003 Budget</u>	<u>Increase (Decrease)</u>
Equipment Rentals	1,232	1,342	1,352	1,257	(95)
Computer Costs	124	202	202	255	53
Telecomm. Communications	13	14	14	14	0
Total	<u>1,369</u>	<u>1,558</u>	<u>1,568</u>	<u>1,526</u>	<u>(42)</u>

TRAVEL

It is estimated that Travel and Conferences expenses will decrease by \$303,000 from the 2002 Forecast due to a Management decision to achieve a 10% reduction in travel costs and to reduce attendance at conferences.

TRAVEL SUMMARY

(\$ Thousands)

	<u>2001 Actual</u>	<u>2002 Budget</u>	<u>2002 Forecast</u>	<u>2003 Budget</u>	<u>Increase (Decrease)</u>
Travel Expenses	2,483	2,069	2,167	1,970	(197)
Conferences	179	306	294	188	(106)
Total	<u>2,662</u>	<u>2,375</u>	<u>2,461</u>	<u>2,158</u>	<u>(303)</u>

MISCELLANEOUS

This group of expenses covers a wide range of items which are not compatible with the other classifications that have been established. Higher expenses in 2003 related to increased emphasis on Staff Training, is partially offset by a reduction in the write-offs associated with obsolete inventory.

MISCELLANEOUS SUMMARY (\$ Thousands)

	<u>2001 Actual</u>	<u>2002 Budget</u>	<u>2002 Forecast</u>	<u>2003 Budget</u>	<u>Increase (Decrease)</u>
Staff Training	1,051	841	841	1,023	182
Inventory Gain/Loss	1,075	594	594	420	(174)
Sundry Costs	299	84	90	88	(2)
Diesel Fuel Hydro	92	95	74	95	21
Donations	183	194	206	194	(12)
Energy Management	14	45	45	45	0
Employee Expenses	307	340	331	331	0
Taxes	<u>2,198</u>	<u>2,075</u>	<u>2,109</u>	<u>2,120</u>	<u>11</u>
Total	<u><u>5,219</u></u>	<u><u>4,268</u></u>	<u><u>4,290</u></u>	<u><u>4,316</u></u>	<u><u>26</u></u>

PROPERTY RENTALS

This group of expenses has increased by \$101,000 above the 2002 Forecast mainly due to an increase of \$89,000 for Safety Equipment and Supplies.

PROPERTY RENTALS SUMMARY (\$ Thousands)

	<u>2001 Actual</u>	<u>2002 Budget</u>	<u>2002 Forecast</u>	<u>2003 Budget</u>	<u>Increase (Decrease)</u>
Property Rentals	160	194	162	174	12
Safety Equipment & Supplies	<u>544</u>	<u>433</u>	<u>636</u>	<u>725</u>	<u>89</u>
Total	<u><u>704</u></u>	<u><u>627</u></u>	<u><u>798</u></u>	<u><u>899</u></u>	<u><u>101</u></u>

TRANSPORTATION

This group of expenses has increased by \$37,000 from the 2002 Forecast mainly due to higher fuel prices and higher aircraft costs as a result of an escalation in operating costs, partially offset by higher recoveries for fleet vehicles being used on capital projects.

TRANSPORTATION SUMMARY

(\$ Thousands)

	<u>2001 Actual</u>	<u>2002 Budget</u>	<u>2002 Forecast</u>	<u>2003 Budget</u>	<u>Increase (Decrease)</u>
Aircraft Fuel	108	0	100	100	0
Aircraft Costs	910	928	925	1,000	75
Vehicle Fuel	1,074	1,027	922	1,015	93
Capitalized Fleet	(474)	(300)	(300)	(400)	(100)
Vehicle Rentals	191	211	213	192	(21)
Mobile Equipment - Fuel	48	57	57	47	(10)
Total	<u>1,857</u>	<u>1,923</u>	<u>1,917</u>	<u>1,954</u>	<u>37</u>

BAD DEBT EXPENSE

The 2003 amount of \$334,000 reflects an increase of \$25,000 from 2002.

LOSS ON DISPOSAL OF FIXED ASSETS

The 2003 loss of \$627,000 is due to normal assets retirements, the more significant of which result from upgrades of control systems at the Holyrood Gas Turbine \$293,000, current and potential transformers \$89,000 and upgrade of distribution lines \$106,000.

CF(L)CO RECOVERIES

Costs to be recovered from Churchill Falls (Labrador) Corporation Limited cover a wide range of services including; Management, Financial Planning, Accounting, Purchasing, Treasury, Insurance, Information Systems and Telecommunications, Legal, Operations, Environmental and Human Resources. These amounts are preliminary estimates and will be finalized in early 2003 after 2002 actual results are calculated.

FUEL EXPENSE AND RATE STABILIZATION PLAN

Fuel costs will increase from \$72,813,000 in the 2002 forecast to \$84,929,000 in 2003 as shown below.

	<u>2002 Budget</u>	<u>2002 Forecast</u>	<u>2003 Budget</u>	<u>Increase (Decrease)</u>
Barrels of Bunker "C" Fuel	3,612,115	3,868,607	2,965,626	(902,981)
Average Price per Barrel	28.84	28.88	29.71	
(\$Thousands)				
Bunker "C" Fuel	104,175	111,738	88,107	(23,631)
Other	425	418	364	(54)
Holyrood Thermal	104,600	112,156	88,471	(23,685)
Diesel Fuel	6,808	6,799	6,804	5
Gas Turbine Fuel	446	188	401	213
Sub-total Fuels	111,854	119,143	95,676	(23,467)
Rate Stabilization Plan	(26,819)	(46,330)	(10,747)	35,583
Total	<u>85,035</u>	<u>72,813</u>	<u>84,929</u>	<u>12,116</u>

Bunker "C" Fuel expense will decrease by \$23.6 million due to, extra hydro production as a result of Granite Canal coming in service, extra NUGs production and the return to a normal water year in 2003.

The Rate Stabilization Plan adjustments are the result of variances in hydrology, fuel costs and load used for setting rates and actual/forecast results.

POWER PURCHASES

Power purchase costs of \$28.7 million mainly represent the cost of power supplied by:

- (a) Non-Utility Generators
- (b) CF(L)Co for recall and Labrador Interconnected System
- (c) Hydro-Québec for Labrador Straits area; and
- (d) Abitibi Consolidated for interruptible power.

The increase of \$9.3 million is mainly the result of additional power purchases from two new non-utility generators, Corner Brook Co-Generation effective January 1, 2003 as well as the first stage of the Exploits River project.

DEPRECIATION AND AMORTIZATION

The budgeted expense for 2003 is \$33.1 million, an increase of \$2.0 million from the 2002 forecast, and is primarily the result of an increase in sinking fund factors, additional assets coming in service and the amortization of the deferred rate hearing costs.

INTEREST EXPENSE

The interest expense is summarized as follows:

	(\$ Thousands)		
	<u>2002 Forecast</u>	<u>2003 Budget</u>	<u>Increase (Decrease)</u>
Gross Interest	98,682	108,963	10,281
Less: Interest earned and Interest During Construction/ Allowance for Funds used During Construction	<u>22,384</u>	<u>23,464</u>	<u>1,080</u>
Net Interest	76,298	85,499	9,201
Guarantee Fee	<u>11,880</u>	<u>13,840</u>	<u>1,960</u>
Total	<u><u>88,178</u></u>	<u><u>99,339</u></u>	<u><u>11,161</u></u>

Interest has increased due to the Granite Canal project going into service in June 2003, plus the full year effect of the \$250 million bond issue in 2002 as well as a projected \$100 million bond issue in 2003.

NEWFOUNDLAND AND LABRADOR HYDRO
BALANCE SHEET
(\$ Thousands)

	<u>Page Reference</u>	<u>2002 Forecast</u>	<u>2003 Budget</u>
Capital Assets		1,396,114	1,433,550
Current assets			
Receivables		46,932	46,255
Fuel and supplies at average cost		30,979	40,613
Prepaid expenses		<u>2,430</u>	<u>2,282</u>
		80,341	89,150
Investments			
Churchill Falls (Labrador) Corp. Ltd.	21	287,919	298,718
Lower Churchill Development Corporation		<u>15,400</u>	<u>15,400</u>
		303,319	314,118
Rate Stabilization Plan	22-24	123,657	126,433
Deferred charges		<u>88,768</u>	<u>84,808</u>
		<u>1,992,199</u>	<u>2,048,059</u>
Long-term debt		1,193,787	1,270,959
Current liabilities			
Accounts payable and accrued liabilities		30,417	32,302
Accrued interest		27,215	27,955
Long-term debt due within one year		14,577	14,341
Promissory notes		<u>206,709</u>	<u>188,445</u>
		278,918	263,043
Employee future benefits		25,040	26,284
Shareholder's equity			
Share capital			
Common shares of par value of \$1 each			
Authorized 25,000,000 shares; issued 22,503,942		22,504	22,504
Contributed capital			
Lower Churchill Development Corporation		15,400	15,400
Muskrat Falls Project		2,165	2,165
Retained earnings	25	<u>454,385</u>	<u>447,704</u>
		494,454	487,773
		<u>1,992,199</u>	<u>2,048,059</u>

INVESTMENT IN CF(L)CO

Hydro has owned 65.8% of CF(L)Co since 1975, and accounts for this investment on an equity basis as follows:

	<u>\$ Thousands</u>	
	<u>2002 Forecast</u>	<u>2003 Budget</u>
Shares, at cost	167,255	167,255
Hydro's share of CF(L)Co retained earnings at beginning of the year	110,576	120,664
Hydro's share of CF(L)Co profits for the year	12,046	12,239
<u>LESS: Common dividends from CF(L)Co</u>	<u>(1,958)</u>	<u>(1,440)</u>
	<u>120,664</u>	<u>131,463</u>
TOTAL INVESTMENT IN CF(L)Co	<u>287,919</u>	<u>298,718</u>

Hydro remits dividends to the Province, associated with cash flows from its investment in CF(L)Co, less \$1 million for reduction in its debt associated with this investment. The final dividend, in respect to these cash flows, is not remitted until March 31 of the immediately following year.

Taking these first quarter dividends into account, the debt associated with this investment is projected to be \$30 million at December 31, 2003 compared with an estimated \$31 million at the end of the current year.

FINANCING

There is a requirement in the 2003 Budget for one long-term debt issue; \$100 million 10-year in the second quarter of the year.

Short-term debt outstanding at December 31, 2003 is projected to decrease by \$18 million to \$188 million. Our total long-term debt position (net of sinking funds) is projected to amount to \$1,285 million. This is \$77 million more than our forecasted position as at December 31, 2002 of \$1,208 million.

RATE STABILIZATION PLAN

On January 1, 1986 Hydro implemented a Rate Stabilization Plan (RSP) which has three major components and approval to continue with the calculation of these components was granted in 2002 by the PUB in PU 7 and 21 (2002-2003). The components are:

- (1) A hydraulic variation provision;
- (2) A fuel cost variation provision; and,
- (3) A load variation provision.

The hydraulic variation provision is a mechanism to account for the variations from average hydro production. The provision is adjusted by using the base price per barrel for fuel, as used in setting the rates, multiplied by the number of barrels required to produce equivalent energy from thermal sources.

The fuel cost variation provision is used to account for variations between the base cost per barrel for Bunker "C" fuel used in setting rates and the actual fuel cost incurred. Adjustments to the provision are calculated by multiplying the number of barrels of oil used for thermal production in a period by the fuel cost variation.

RATE STABILIZATION PLAN (cont'd.)

The load variation provision which consists of two components, is used to account for variations in earnings because of a difference between the estimated load used for setting rates and the actual load experienced during a year. The revenue component is calculated by multiplying the firm energy sales rate by the kWh load variation and the fuel component is calculated by multiplying the thermal fuel price used for setting rates by the kWh load variation.

Prior to August 31, 2002 the balances in the hydraulic variation provision, fuel cost variation provision and load variation provision attracted interest which was based on Hydro's average cost of borrowing. The annual balance in these provisions was amortized over a three-year period. The amortization was billed to customers on the basis of the kWh sold in the previous twelve months. The rate adjustment mechanism was automatic, was authorized by the PUB, and did not require Hydro to make a rate referral to the PUB.

PUB order No. 7 froze the balance in the RSP at August 31, 2002 and directed that the balance be amortized over a five-year period with the first adjustment occurring in 2003. The rate adjustment will continue to be automatic and be calculated based on the kWh sold to customers in the previous twelve months.

Effective September 1, 2002, the current RSP commenced and includes the three major components described earlier. The balance in the plan will attract interest which is based on Hydro's weighted average cost of capital. The annual balance in the plan is amortized over a two-year period (the first adjustment occurs in 2004) with the amortization billed to customers on the basis of the kWh sold in the previous twelve months. The rate adjustment is automatic, is authorized by the PUB and does not require Hydro to make a rate referral to the PUB.

RATE STABILIZATION PLAN (cont'd.)

The following table shows the plan balances by customer for the 2002 forecast and the 2003 budget:

RATE STABILIZATION PLAN

(\$ Thousands)

	<u>2002 Forecast</u>	<u>2003 Budget</u>
RSP balance August 31, 2002		
Newfoundland Power	76,330	70,318
Island Industrial	<u>28,062</u>	<u>24,196</u>
	<u>104,392</u>	<u>94,514</u>
Current RSP September 1, 2002 to December 31, 2003		
Newfoundland Power	15,064	23,124
Island Industrial	<u>4,201</u>	<u>8,795</u>
	<u>19,265</u>	<u>31,919</u>
Total	<u>123,657</u>	<u>126,433</u>

RETAINED EARNINGS

The following table depicts the changes in Retained Earnings since 1992:

	<u>HYDRO</u>			<u>CF(L)Co</u>		
	<u>Net Income</u>	<u>Dividend</u>	<u>Retained Earnings</u> (\$ Thousands)	<u>Income⁽¹⁾</u>	<u>Dividend</u>	<u>Retained Earnings</u>
1993	13,717	0	234,172	11,230	0	195,532
1994	8,275	0	242,447	8,794	0	204,326
1995	22,615	(14,500)	250,562	10,281	(5,000)	209,607
1996	20,126	(9,688)	261,000	8,855	(3,221)	215,241
1997	30,910	(12,357)	279,553	12,514	(8,563)	219,192
1998	51,257	(12,000)	318,810	18,370	(4,800)	232,762
1999	31,716	(12,000)	338,526	19,924	(5,000)	247,686
2000	17,296	(36,600)	300,053 ⁽²⁾	17,520	(33,300)	222,783 ⁽²⁾⁽³⁾
2001	40,431	(43,300)	297,184	13,544	(10,000)	226,327
2002	38,093	(118,085)	217,192	17,654	(6,788)	237,193
2003	16,683	(33,825)	200,050	17,027	(6,566)	247,654

(1) Hydro's share of CF(L)Co earnings is recognized in Hydro's accounts each year. The cash received from CF(L)Co, in the form of dividends is used to pay the interest and principal on debt incurred by Hydro in the purchase of CF(L)Co shares and to pay a dividend to the Province.

(2) 2000 Retained Earnings reflects an adjustment of \$22,598 related to a transitional obligation for Employee Future Benefits re: Hydro \$19,169 and CF(L)Co of \$3,429.

(3) 2000 Retained Earnings reflects an adjustment of \$5,694 related to a change in accounting for CF(L)Co's foreign exchange losses.

DEBT/EQUITY

The projection for the debt to capital ratio is 86/14 at December 31, 2003, compared to 85/15 for 2002.

NEWFOUNDLAND AND LABRADOR HYDRO
PROJECTED STATEMENT OF CASH FLOWS

Year ended December 31

(\$ Thousands)

	<u>2002</u> <u>Forecast</u>	<u>2003</u> <u>Budget</u>
Cash provided by (used in)		
Operating activities		
Net income	55,747	33,710
Adjusted for items not involving a cash flow		
Depreciation	31,067	33,077
Amortization of deferred charges	3,722	3,357
Rate stabilization plan	(38,589)	(2,776)
Equity in net income of CF(L)Co	(12,046)	(12,239)
Other	<u>1,076</u>	<u>1,182</u>
	40,977	56,311
Dividend from CF(L)Co	1,958	1,440
Change in working capital balances	<u>(4,289)</u>	<u>(4,940)</u>
	<u>38,646</u>	<u>52,811</u>
Financing activities		
Long-term debt issued	250,000	100,000
Long-term debt retired	(107,151)	(7,301)
Dividends	<u>(124,873)</u>	<u>(40,391)</u>
	<u>17,976</u>	<u>52,308</u>
Investing activities		
Net additions to capital assets	(113,687)	(70,489)
Decrease (increase) in sinking funds	(14,086)	(15,763)
Reduction (addition) to deferred charges	<u>6,737</u>	<u>(603)</u>
	<u>(121,036)</u>	<u>(86,855)</u>
Net decrease (increase) in promissory notes	(64,414)	18,264
Promissory notes, beginning of year	<u>(142,295)</u>	<u>(206,709)</u>
Promissory notes, end of year	<u>(206,709)</u>	<u>(188,445)</u>

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NEWFOUNDLAND & LABRADOR HYDRO

2003 CAPITAL BUDGET - OVERVIEW

(\$ Thousands)

	Exp To 2002	2003	Future Years	Total
GENERATION	101,360	37,464	2,110	140,934
TRANSMISSION & RURAL OPERATIONS	15	10,033	2,836	12,884
GENERAL PROPERTIES	269	17,181	12,717	30,167
ALLOWANCE FOR UNFORSEEN EVENTS	0	1,000	0	1,000
<hr/>				
TOTAL CAPITAL BUDGET	<u>101,644</u>	<u>65,678</u>	<u>17,663</u>	<u>184,985</u>
 PROJECTS CARRIED FROM 2002 to 2003				
Install Fault Recorder - Upper Salmon Generating Station	71	56		127
Purchase and Install Continuous Emission Monitoring	249	552		801
Replace Vehicles - 2002	1,400	497		1,897
Purchase Additional Corporate Applications		75		517
<hr/>				
TOTAL PROJECTS CARRIED FROM 2002 to 2003	<u>2,162</u>	<u>1,180</u>	<u>0</u>	<u>3,342</u>
 REVISED TOTAL CAPITAL BUDGET				
	<u>103,806</u>	<u>66,858</u>	<u>17,663</u>	<u>188,327</u>

NEWFOUNDLAND & LABRADOR HYDRO**2003 CAPITAL BUDGET - SUMMARY BY CATEGORY**

(\$ Thousands)

	Exp To 2002	2003	Future Years	Total
GENERATION				
NEW GENERATION SOURCE				
Generation Projects	101,323	32,503	724	134,550
HYDRO PLANTS				
Construction Projects	0	710	1,265	1,975
Property Additions	0	327	0	327
Tools & Equipment	0	117	121	238
THERMAL PLANT				
Construction Projects	37	1,743	0	1,780
Property Additions	0	1,991	0	1,991
Tools & Equipment	0	73	0	73
TOTAL GENERATION	<u>101,360</u>	<u>37,464</u>	<u>2,110</u>	<u>140,934</u>
TRANSMISSION & RURAL OPERATIONS				
TRANSMISSION	15	539	2,836	3,390
SYSTEM PERFORMANCE & PROTECTION	0	546	0	546
TERMINALS	0	581	0	581
DISTRIBUTION	0	6,685	0	6,685
GENERATION	0	681	0	681
GENERAL				
Metering	0	102	0	102
Properties	0	49	0	49
Tools & Equipment	0	850	0	850
TOTAL TRANSMISSION & RURAL OPERATIONS	<u>15</u>	<u>10,033</u>	<u>2,836</u>	<u>12,884</u>

NEWFOUNDLAND & LABRADOR HYDRO

2003 CAPITAL BUDGET - SUMMARY BY CATEGORY

(\$ Thousands)

	Exp To 2002	2003	Future Years	Total
GENERAL PROPERTIES				
INFORMATION SYSTEMS & TELECOMMUNICATIONS	269	15,346	11,575	27,190
ADMINISTRATIVE	<u>0</u>	<u>1,835</u>	<u>1,142</u>	<u>2,977</u>
TOTAL GENERAL PROPERTIES	<u>269</u>	<u>17,181</u>	<u>12,717</u>	<u>30,167</u>
 ALLOWANCE FOR UNFORSEEN EVENTS	 <u>0</u>	 <u>1,000</u>	 <u></u>	 <u>1,000</u>
TOTAL CAPITAL BUDGET	<u>101,644</u>	<u>65,678</u>	<u>17,663</u>	<u>184,985</u>

NEWFOUNDLAND & LABRADOR HYDRO
GENERATION
2003 CAPITAL BUDGET - DETAIL

(\$ Thousands)

PROJECT DESCRIPTION	Exp To 2002	2003	Future Years	Total	In-Ser Date
NEW GENERATION SOURCE					
<u>GENERATION PROJECTS</u>					
Design & Construct Hydroelectric Plant - Granite Canal	101,323	32,503	724	134,550	Jun. 03
TOTAL GENERATION PROJECTS	101,323	32,503	724	134,550	

HYDRO PLANTS

CONSTRUCTION PROJECTS

Upgrade Controls Spherical Valve No. 1 - Bay d'Espoir		223		223	Aug. 03
Replace Vibration/Data System - Bay d'Espoir		153		153	Nov. 03
Replacement of Draft Tube Stoplogs at Paradise River		156		156	Aug. 03
Replace Fuel Storage Tanks at Burnt Spillway - Bay D' Espoir		97		97	Aug. 03
Install Early Warning System - Victoria Dam		40		40	Oct. 03
Frazil Ice Monitoring - Granite Canal		21		21	Oct. 03
Replace Gate Hoist No. 2 - Ebbegunbaeg Control Structure		7	508	515	Sep. 04
Replace Unit No. 7 Exciter - Bay d'Espoir		13	757	770	Oct. 04
TOTAL CONSTRUCTION PROJECTS	0	710	1,265	1,975	

PROPERTY ADDITIONS

Replace Site fencing - Bay d'Espoir		250		250	Dec. 03
Purchase and Install Security Locks at Hydro Plants		77		77	Oct. 03
TOTAL PROPERTY ADDITIONS	0	327	0	327	

TOOLS & EQUIPMENT

Replace Loader/Backhoe - Bay d'Espoir		3	121	124	Nov. 03
Purchase & Replace T & E Less than \$ 50,000		114		114	
TOTAL TOOLS & EQUIPMENT	0	117	121	238	

NEWFOUNDLAND & LABRADOR HYDRO
GENERATION
2003 CAPITAL BUDGET - DETAIL
(\$ Thousands)

PROJECT DESCRIPTION	Exp To 2002	2003	Future Years	Total	In-Ser Date
<u>THERMAL PLANT</u>					
<u>CONSTRUCTION PROJECTS</u>					
Replace Turbine Electrohydraulic Control System - Unit No. 1 - Holyrood	37	954		991	Aug. 03
Purchase and Installation of a Neutralization Pit - Holyrood		343		343	Aug. 03
Purchase Mobile Ambient Monitoring System - Holyrood		184		184	Jun. 03
Flue Gas Particulate Removal Study - Holyrood		150		150	Mar. 03
Purch/Inst Partial Discharge Analysis Equip - Unit No. 1 - Holyrood		112		112	Jul. 03
TOTAL CONSTRUCTION PROJECTS	37	1,743	0	1,780	
<u>PROPERTY ADDITIONS</u>					
Upgrade Civil Structures - Holyrood		1,991		1,991	Oct. 03
TOTAL PROPERTY ADDITIONS	0	1,991	0	1,991	
<u>TOOLS & EQUIPMENT</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000	0	73	0	73	
TOTAL TOOLS & EQUIPMENT	0	73	0	73	
TOTAL GENERATION	37	4,961	1,386	6,384	

NEWFOUNDLAND & LABRADOR HYDRO
TRANSMISSION & RURAL OPERATIONS
2003 CAPITAL BUDGET - DETAIL
(\$ Thousands)

PROJECT DESCRIPTION	Exp To 2002	2003	Future Years	Total	In-Ser Date
<u>TRANSMISSION</u>					
Uprate of TL203- (230kv Sunnyside - Western Avalon)	15	192		207	Oct. 03
Replace Insulators TL209 - (230kV Stephenville - Bottom Brook)		236		236	Oct. 03
Upgrade TL214 - (138kV Bottom Brook - Doyles)		111	2,836	2,947	Sep. 04
TOTAL TRANSMISSION	15	539	2,836	3,390	

SYSTEM PERFORMANCE & PROTECTION

Upgrade Circuit Switcher South Brook Terminal Station		355		355	Jun. 03
Purchase and Install 138kV Breaker Fail Protection		82		82	Dec. 03
Upgrade Breaker Controls - Sunnyside Terminal Station		33		33	Aug. 03
Replace Digital Fault Recorder - Holyrood Terminal Station		76		76	Aug. 03
TOTAL SYSTEM PERFORMANCE & PROTECTION	0	546	0	546	

TERMINALS

Replace Fence - Holyrood Terminal Station		32		32	Aug. 03
Upgrade Access Road - Farewell Head Terminal Station		22		22	Jul. 03
Replace 125v Battery Banks		83		83	Jul. 03
Upgrade Station Services - Long Harbour Terminal Station		83		83	Jul. 03
Install Motor Drive Mechanisms on Disconnect Switches - Sunnyside T.S.		217		217	Oct. 03
Replace Surge Arrestors		69		69	Dec. 03
Replace Instrument Transformers		75		75	Dec. 03
TOTAL TERMINALS	0	581	0	581	

NEWFOUNDLAND & LABRADOR HYDRO
TRANSMISSION & RURAL OPERATIONS
2003 CAPITAL BUDGET - DETAIL
(\$ Thousands)

PROJECT DESCRIPTION	Exp To 2002	2003	Future Years	Total	In-Ser Date
<u>DISTRIBUTION</u>					
Service Extensions		1,448		1,448	Dec. 03
Distribution Upgrades		1,476		1,476	Dec. 03
Upgrade Line - Little Bay Distribution System		317		317	Dec. 03
Upgrade Line - St. Anthony Distribution Systems		557		557	Dec. 03
Insulator Replacements		795		795	Dec. 03
Pole Replacements		852		852	Dec. 03
Protection Upgrades - Isolated Systems		720		720	Oct. 03
Replace Corroded Transformers - Northern		172		172	Dec. 03
Replace Voltage Regulators		176		176	Oct. 03
Protection Upgrade North Diesel Plant - Goose Bay		172		172	Nov. 03
TOTAL DISTRIBUTION	0	6,685	0	6,685	
<u>GENERATION</u>					
Install Nox Emission Monitor - McCallum		103		103	Aug. 03
Fire Alarm Systems		98		98	Sep. 03
Upgrade Service Cables		60		60	Apr. 03
Increase Generation - Mary's Harbour		212		212	Dec. 03
Fuel Storage Upgrades		208		208	Oct. 03
TOTAL GENERATION	0	681	0	681	
<u>GENERAL</u>					
<u>METERING</u>					
Purchase Meters & Equipment - Rural System		96		96	Dec. 03
Purchase Metering Spares - Bulk Electrical System		6		6	Dec. 03
TOTAL METERING	0	102	0	102	
<u>PROPERTIES</u>					
Construct Storage Shed - Harbour Breton		19		19	Mar. 03
Purchase Land - Mud Lake		30		30	Mar. 03
TOTAL PROPERTIES	0	49	0	49	
<u>TOOLS & EQUIPMENT</u>					
Purchase & Replace Tools & Equipment Less than \$ 50,000		306		306	
Replace Light Duty Mobile Equipment Less than \$ 50,000		544		544	
TOTAL TOOLS & EQUIPMENT	0	850	0	850	
TOTAL GENERAL	0	1,001	0	1,001	
TOTAL TRANSMISSION & RURAL OPERATIONS	15	10,033	2,836	12,884	

NEWFOUNDLAND & LABRADOR HYDRO
GENERAL PROPERTIES
2003 CAPITAL BUDGET - DETAIL
(\$ Thousands)

PROJECT DESCRIPTION	Exp To 2002	2003	Future Years	Total	In-Ser Date
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INFORMATION SYSTEMS & TELECOMMUNICATIONS

SOFTWARE APPLICATIONS

Infrastructure Replacement

Replace Energy Management System - Energy Control Centre	1,214	11,073	12,287	Oct. 05
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New Infrastructure

Security Program Centralized Log Monitoring & Analysis System	57	83	140	Dec. 04
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TOTAL SOFTWARE APPLICATIONS

<u>0</u>	<u>1,271</u>	<u>11,156</u>	<u>12,427</u>
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COMPUTER OPERATIONS

Infrastructure Replacement

Enterprise Storage Management Infrastructure	2,049		2,049	Dec. 03
End User & Server Evergreen Program	893		893	Dec. 03

New Infrastructure

Peripheral Infrastructure Replacement	99		99	Dec. 03
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TOTAL COMPUTER OPERATIONS

<u>0</u>	<u>3,041</u>	<u>0</u>	<u>3,041</u>
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NEWFOUNDLAND & LABRADOR HYDRO
GENERAL PROPERTIES
2003 CAPITAL BUDGET - DETAIL
(\$ Thousands)

PROJECT DESCRIPTION	Exp To 2002	2003	Future Years	Total	In-Ser Date
<u>INFORMATION SYSTEMS & TELECOMMUNICATIONS</u>					
<u>NETWORK SERVICES</u>					
<u>Infrastructure Replacement</u>					
Install New Microwave System Interconnection Between East/West Coast	269	8,673		8,942	Dec. 03
Replace VHF Radio Muskrat Falls & North Plant - Happy Valley		105		105	Oct. 03
Replace UHF Radio Link - Abitibi - Stephenville		89		89	Oct. 03
Replace Powerline Carrier Equipment West Coast Transmission System		1,009	419	1,428	Dec. 04
Replace Voice, Data & Teleprotection Equip - Upper Salmon Intake		88		88	Oct. 03
Upgrade Site Grounding at Telecontrol Site - Phase 4		48		48	Jun. 03
Replace Battery System - Multiple Sites		224		224	Oct. 03
Replace Remote Terminal Unit for Hydro - Phase 4		285		285	Oct. 03
<u>Network Infrastructure</u>					
Purchase Equipment for Physical Facilities Upgrade		71		71	Jun. 03
Peer Lake Building Improvements		103		103	Dec. 03
Upgrade Local Area Networks (LANs) - Multiple Sites		47		47	Oct. 03
<u>Upgrade of Technology</u>					
Replacement of Operational Data & Voice Network - Phase I		292		292	Oct. 03
TOTAL NETWORK SERVICES	269	11,034	419	11,722	
TOTAL INFORMATION SYSTEMS & TELECOMMUNICATIONS	269	15,346	11,575	27,190	

NEWFOUNDLAND & LABRADOR HYDRO
GENERAL PROPERTIES
2003 CAPITAL BUDGET - DETAIL
(\$ Thousands)

PROJECT DESCRIPTION	Exp To 2002	2003	Future Years	Total	In-Ser Date
<u>ADMINISTRATIVE</u>					
<u>Vehicles</u>					
Replace Vehicles - Hydro System		1,584	1,142	2,726	Jun. 04
<u>ADMINISTRATION</u>					
Replace Engineering Wide Format Printing System		62		62	Jun. 03
Automatic Meter Reading (AMR) - Pilot Project		52		52	Dec. 03
Purchase & Replace Admin Office Equip less than \$50,000	0	137	0	137	
TOTAL ADMINISTRATIVE	0	1,835	1,142	2,977	
TOTAL GENERAL PROPERTIES	269	17,181	12,717	30,167	