Q Provide copies of Hydro's corporate operating budget document for each of the years 2001 to 2006.

A. Please find attached copies of Hydro's corporate operating budgets which have been extracted from the Operating and Capital Budget Submission to the Minister for each year from 2001 to 2006.

HYDRO

A Submission to the Minister of Mines and Energy

2001 Operating and Capital Budgets

NEWFOUNDLAND AND LABRADOR HYDRO

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

TABLE OF CONTENTS

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
		268,595	293,416	281,862	292,510	10,648
Income from Operations(1)		48,395	18,226	17,665	33,989	16,324
Write-down of Capital Assets		(16,679)				
Income before Other Revenue (Expenses)		31,716	18,226	17,665	33,989	16,324
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)
		19,924	19,962	18,335	16,883	(1,452)
Net Income		51,640	38,188	36,000	50,872	14,872
Retained Earnings, beginning of year		551,572	603,621	586,212	529,714	(56,498)
		603,212	641,809	622,212	580,586	(41,626)
Less: Employee Future Benefits				22,598		(22,598)
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)
Retained Earnings, end of year		586,212	555,909	529,714	459,586	(92,726)
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)
Total Revenue	316,990	311,642	299,527	326,499	26,972

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.

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)

	1999 Actual	2000 Budget	2000 Forecast	2001 Budget	Increase (Decrease)
Expense Group					
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
	86,505	86,759	90,641	88,953	(1,688)
Allocations					
CF(L)Co Recoveries	(2,158)	(2,300)	(1,947)	(1,942)	5
Net Operating Expenses	84,347	84,459	88,694	87,011	(1,683)

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)

	1999 Actual	2000 Budget	2000 Forecast	2001 Budget	Increase (Decrease)
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	48,954	52,168	53,396	53,612	216

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)

	1999 Actual	2000 Budget	2000 Forecast	2001 Budget	Increase (Decrease)
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	19,775	17,022	19,679	16,555	(3,124)

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)

	1999 Actual	2000 Budget	2000 Forecast	2001 Budget	Increase (Decrease)
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	1,778	1,844	1,882	1,943	61

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)

	1999 Actual	2000 Budget	2000 Forecast	2001 Budget	Increase (Decrease)
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	3,756	4,018	4,115	4,506	391

INSURANCE

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

INSURANCE SUMMARY

($ Thousands)

	1999 Actual	2000 Budget	2000 Forecast	2001 Budget	Increase (Decrease)
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	1,068	1,124	979	849	(130)

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)

	1999 Actual	2000 Budget	2000 Forecast	2001 Budget	Increase (Decrease)
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	1,603	1,373	1,395	1,488	93

TRAVEL

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)

	1999 Actual	2000 Budget	2000 Forecast	2001 Budget	Increase (Decrease)
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	2,351	2,037	2,115	2,290	175

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)

	1999 Actual	2000 Budget	2000 Forecast	2001 Budget	Increase (Decrease)
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	2,023	2,020	2,020	2,075	55
Total	4,340	4,319	4,259	4,295	36

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)

	1999 Actual	2000 Budget	2000 Forecast	2001 Budget	Increase (Decrease)
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)

	1999 Actual	2000 Budget	2000 Forecast	2001 Budget	Increase (Decrease)
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	2,152	2,214	2,010	2,174	164

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.

	2000 Budget	2000 Forecast	2001 Budget	Increase (Decrease)
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	54,335	42,253	54,593	12,340

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

NEWFOUNDLAND AND LABRADOR HYDRO
BALANCE SHEET
($ Thousands)

	Page Reference	2000 Forecast	2001 Budget
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
		86,720	81,843
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
		294,022	303,829
Rate Stabilization Plan	22-23	36,731	79,301
Deferred charges		108,928	109,634
		1,860,941	1,976,177
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
		355,677	244,551
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
		569,783	499,655
		1,860,941	1,976,177

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	2001 Budget
Shares, at cost	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)

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

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:

	HYDRO			CF(L)Co		
	Net Income	Dividend	Retained Earnings	Income[1]	Dividend	Retained Earnings
			$ Thousands			
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.

HYDRO
THE POWER OF COMMITMENT

A Submission to the
Minister of Mines and Energy

2002 Operating and Capital Budgets

NEWFOUNDLAND AND LABRADOR HYDRO

2002 BUDGET

TABLE OF CONTENTS

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)
		285,896	292,510	290,331	318,266	27,935
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
		17,520	16,883	15,123	17,811	2,688
Net Income		34,816	50,872	52,316	54,120	1,804
Retained Earnings, beginning of year		563,612	529,714	528,528	527,544	(984)
		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		528,528	459,586	527,544	476,764	(50,780)
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	

(1) 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)

	2000 Actual	2001 Budget	2001 Forecast	2002 Budget	Increase (Decrease)
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)
Total Revenue	303,192	326,499	327,524	354,575	27,051

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

	2000 Actual	2001 Budget	2001 Forecast	2002 Budget	Increase (Decrease)
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	242.2	374.8	243.5	277.7	34.2
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	1,408.8	(79.4)
Utility					
Newfoundland Power	4,263.2	4,418.2	4,474.6	4,485.1	10.5
Rural					
Interconnected and Diesel	894.3	853.7	874.0	877.0	3.0
Total Sales	8,287.0	8,577.3	8,473.9	8,655.2	181.3

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)

	2000 Actual	2001 Budget	2001 Forecast	2002 Budget	Increase (Decrease)
Expense Group					
Salaries & Fringe Benefits	54,156	53,612	55,321	56,704	1,383
Materials Maintenance	20,111	16,555	17,784	16,778	(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	1,558	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)
	92,869	88,953	94,178	92,811	(1,367)
Allocations					
Deferred Costs[1]	0	0	(2,000)	0	2,000
CF(L)Co Recoveries	(1,774)	(1,942)	(1,923)	(1,910)	13
Net Operating Expenses	91,095	87,011	90,255	90,901	646

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)

	2000 Actual	2001 Budget	2001 Forecast	2002 Budget	Increase (Decrease)
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	54,156	53,612	55,321	56,704	1,383

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)

	2000 Actual	2001 Budget	2001 Forecast	2002 Budget	Increase (Decrease)
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	20,111	16,555	17,784	16,778	(1,006)

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)

	2000 Actual	2001 Budget	2001 Forecast	2002 Budget	Increase (Decrease)
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	1,794	1,943	1,939	1,939	0

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)

	2000 Actual	2001 Budget	2001 Forecast	2002 Budget	Increase (Decrease)
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	3,815	4,506	5,636	5,340	(296)

INSURANCE

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

INSURANCE SUMMARY
($ Thousands)

	2000 Actual	2001 Budget	2001 Forecast	2002 Budget	Increase (Decrease)
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	1,037	849	945	977	32

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)

	2000 Actual	2001 Budget	2001 Forecast	2002 Budget	Increase (Decrease)
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	1,400	1,488	1,488	1,558	70

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)

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

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)

	2000 Actual	2001 Budget	2001 Forecast	2002 Budget	Increase (Decrease)
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	2,171	2,075	2,120	2,075	(45)
Total	4,891	4,295	5,514	4,266	(1,248)

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)

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

TRANSPORTATION

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

TRANSPORTATION SUMMARY
($ Thousands)

	2000 Actual	2001 Budget	2001 Forecast	2002 Budget	Increase (Decrease)
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	2,056	2,174	1,858	1,923	65

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

NEWFOUNDLAND AND LABRADOR HYDRO
BALANCE SHEET
($ Thousands)

	Page Reference	2001 Forecast	2002 Budget
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		2,763	3,150
		85,651	93,861
Investments			
Churchill Falls (Labrador) Corp. Ltd.	21	283,858	291,452
Lower Churchill Development Corporation		15,400	15,400
		299,258	306,852
Rate Stabilization Plan	22-23	92,052	103,709
Deferred charges		111,399	96,798
		1,907,612	1,995,986

	Page Reference	2001 Forecast	2002 Budget
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		168,850	196,525
		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		2,165	2,165
Retained earnings	24	527,544	476,764
		567,613	516,833
		1,907,612	1,995,986

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	
	2001 Forecast	2002 Budget
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
LESS: Common dividends from CF(L)Co	(4,612)	(4,606)
	116,603	124,197
TOTAL INVESTMENT IN CF(L)Co	283,858	291,452

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)

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

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:

	HYDRO			CF(L)Co		
	Net Income	Dividend	Retained Earnings	Income[1]	Dividend	Retained Earnings
			$ Thousands			
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.

CA 107 NLH
Attachment 3
2006 NLH GRA

HYDRO
THE POWER OF COMMITMENT

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

TABLE OF CONTENTS

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
		284,879	318,270	306,267	338,611	32,344
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)
		13,544	17,811	17,654	17,027	(627)
Net Income		53,975	54,116	55,747	33,710	(22,037)
Retained Earnings, beginning of year		522,836	527,544	523,511	454,385	(69,126)
		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		43,300	8,033	6,788	6,566	(222)
Retained Earnings, end of year		523,511	476,760	454,385	447,704	(6,681)
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)

	2001 Actual	2002 Budget	2002 Forecast	2003 Budget	Increase (Decrease)
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	48,043	58,939	51,448	52,680	1,232
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	1,270	1,063	1,196	1,068	(128)
Total Revenue	325,310	354,575	344,360	355,294	10,934

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.)

	2001 Actual	2002 Budget	2002 Forecast	2003 Budget	Increase (Decrease)
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	1,582.0	1,884.3	1,727.2	1,698.4	(28.8)
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	8,391.5	8,655.2	8,662.2	8,592.4	(69.8)

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)

	2001 Actual	2002 Budget	2002 Forecast	2003 Budget	Increase (Decrease)
Expense Group					
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
	90,769	92,815	94,513	93,730	(783)
Allocations					
CF(L)Co Recoveries	(1,766)	(1,910)	(1,812)	(1,806)	6
Net Operating Expenses	89,003	90,905	92,701	91,924	(777)

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)

	2001 Actual	2002 Budget	2002 Forecast	2003 Budget	Increase (Decrease)
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	52,756	56,704	57,295	55,813	(1,482)

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)

	2001 Actual	2002 Budget	2002 Forecast	2003 Budget	Increase (Decrease)
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	17,454	16,779	16,634	17,028	394

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)

	2001 Actual	2002 Budget	2002 Forecast	2003 Budget	Increase (Decrease)
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	1,872	1,939	1,980	2,047	67

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)

	2001 Actual	2002 Budget	2002 Forecast	2003 Budget	Increase (Decrease)
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	5,531	5,340	6,044	6,041	(3)

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)

	2001 Actual	2002 Budget	2002 Forecast	2003 Budget	Increase (Decrease)
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	951	977	1,217	1,614	397

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)

	2001 Actual	2002 Budget	2002 Forecast	2003 Budget	Increase (Decrease)
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	1,369	1,558	1,568	1,526	(42)

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)

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

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)

	2001 Actual	2002 Budget	2002 Forecast	2003 Budget	Increase (Decrease)
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	2,198	2,075	2,109	2,120	11
Total	5,219	4,268	4,290	4,316	26

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)

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

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)

	2001 Actual	2002 Budget	2002 Forecast	2003 Budget	Increase (Decrease)
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	1,857	1,923	1,917	1,954	37

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.

	2002 Budget	2002 Forecast	2003 Budget	Increase (Decrease)
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	85,035	72,813	84,929	12,116

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

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)

	Page Reference	2002 Forecast	2003 Budget
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		2,430	2,282
		80,341	89,150
Investments			
Churchill Falls (Labrador) Corp. Ltd.	21	287,919	298,718
Lower Churchill Development Corporation		15,400	15,400
		303,319	314,118
Rate Stabilization Plan	22-24	123,657	126,433
Deferred charges		88,768	84,808
		1,992,199	2,048,059
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		206,709	188,445
		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	454,385	447,704
		494,454	487,773
		1,992,199	2,048,059

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	
	2002 Forecast	2003 Budget
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
LESS: Common dividends from CF(L)Co	(1,958)	(1,440)
	120,664	131,463
TOTAL INVESTMENT IN CF(L)Co	287,919	298,718

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)

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

RETAINED EARNINGS

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

	HYDRO			CF(L)Co		
	Net Income	Dividend	Retained Earnings	Income[1]	Dividend	Retained Earnings
			($ Thousands)			
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)

	2002 Forecast	2003 Budget
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	1,076	1,182
	40,977	56,311
Dividend from CF(L)Co	1,958	1,440
Change in working capital balances	(4,289)	(4,940)
	38,646	52,811
Financing activities		
Long-term debt issued	250,000	100,000
Long-term debt retired	(107,151)	(7,301)
Dividends	(124,873)	(40,391)
	17,976	52,308
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	6,737	(603)
	(121,036)	(86,855)
Net decrease (increase) in promissory notes	(64,414)	18,264
Promissory notes, beginning of year	(142,295)	(206,709)
Promissory notes, end of year	(206,709)	(188,445)

HYDRO
THE POWER OF COMMITMENT

A Submission to the
Minister of Mines and Energy

2004 Operating and Capital Budget

NEWFOUNDLAND AND LABRADOR HYDRO
2004 OPERATING AND CAPITAL BUDGET

FOR PRESENTATION TO
THE MINISTER OF MINES AND ENERGY
NOVEMBER 2003

NEWFOUNDLAND AND LABRADOR HYDRO

2004 BUDGET

TABLE OF CONTENTS

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

	Page Ref.	2002 Actual	2003 Budget	2003 Forecast	2004 Budget	Increase (Decrease)
Revenue						
Energy Sales	2	348,213	355,294	367,161	401,765	34,604
Expenses						
Net Operating	5 - 16	91,639	91,924	91,761	93,296	1,535
Loss on Disposal of Capital Assets	16	2,770	627	731	1,266	535
Fuels	17	73,249	84,929	90,353	91,744	1,391
Power Purchases	18	19,891	28,715	30,907	37,343	6,436
Depreciation & Amortization	18	31,302	33,077	33,067	33,673	606
Interest	19	88,547	99,339	94,216	98,165	3,949
		307,398	338,611	341,035	355,487	14,452
Income from Operations		40,815	16,683	26,126	46,278	20,152
Other Revenue (Expenses)						
Equity in CF(L)Co		11,825	12,239	12,831	10,574	(2,257)
Preferred Dividend		7,555	7,060	7,490	6,579	(911)
Interest Share Purchase Debt		(2,265)	(2,272)	(2,193)	(2,391)	(198)
		17,115	17,027	18,128	14,762	(3,366)
Net Income		57,930	33,710	44,254	61,040	16,786
Retained Earnings, beginning of year		523,511	454,385	453,487	456,973	3,486
		581,441	488,095	497,741	518,013	20,272
Less: Dividends						
- Hydro Portion		121,166	33,825	34,517	41,243	6,726
- CF(L)Co Portion		6,788	6,566	6,251	6,243	(8)
Retained Earnings, end of year		453,487	447,704	456,973	470,527	13,554
Non-Regulated Net Income		31,073	30,055	30,236	27,604	(2,632)
Regulated Net Income (Loss)		9,742	(13,372)	(4,110)	18,674	22,784
Net Income from CF(L)Co		17,115	17,027	18,128	14,762	(3,366)
Net Income		57,930	33,710	44,254	61,040	16,786
Return on Equity - Corporate (excl CF(L)Co)		15.9	8.0	12.3	21.9	
Return on Equity - Regulated		4.0	(6.5)	(2.0)	9.0	

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

	2002 Actual	2003 Budget	2003 Forecast	2004 Budget	Increase (Decrease)
Industry					
Corner Brook Pulp & Paper Ltd.	15,232	14,943	15,069	16,884	1,815
Abitibi Consolidated Inc. - Stephenville	16,167	17,974	16,966	19,821	2,855
Abitibi Consolidated Inc. - Grand Falls	5,429	4,182	4,958	5,147	189
North Atlantic Refining Ltd.	7,571	7,861	8,207	8,912	705
C.F.B. - Goose Bay	2,918	3,363	3,095	2,633	(462)
Iron Ore Company of Canada	4,270	4,357	4,622	4,634	12
Total Industry	51,587	52,680	52,917	58,031	5,114
Hydro-Québec Recall	34,138	32,692	32,200	29,620	(2,580)
Utility					
Newfoundland Power Inc.	210,916	218,104	227,682	255,912	28,230
Rural					
Interconnected and Diesel	49,983	50,750	52,324	56,273	3,949
Other	1,589	1,068	2,038	1,929	(109)
Total Revenue	348,213	355,294	367,161	401,765	34,604

The increase in Revenue of $34.6 million is primarily the result of an increase in rates (both retail and industrial) currently before the PUB for approval, effective January 1, 2004.

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

	2002 Actual	2003 Budget	2003 Forecast	2004 Budget	Increase (Decrease)
Industry					
Corner Brook Pulp & Paper Ltd.	501.5	449.1	436.8	454.6	17.8
Abitibi Consolidated Inc.					
Stephenville -Firm	474.8	537.8	489.2	515.2	26.0
Stephenville -Wheeled	58.5	8.1	20.6	40.0	19.4
Grand Falls -Firm	136.4	114.4	120.0	130.8	10.8
Grand Falls -Compensation	31.0	31.0	30.9	31.0	0.1
Grand Falls -Gen. Outage Power	0.6	0.0	7.7	0.0	(7.7)
Grand Falls -Wheeled	10.3	0.0	10.9	9.9	(1.0)
North Atlantic Refining Ltd.	227.3	231.0	244.3	234.2	(10.1)
C.F.B. - Goose Bay	77.7	77.4	77.4	75.1	(2.3)
Iron Ore Company of Canada	226.1	249.6	280.4	269.9	(10.5)
Total Industry	1,744.2	1,698.4	1,718.2	1,760.7	42.5
Hydro-Québec Recall	1,481.0	1,470.8	1,421.2	1,423.3	2.1
Utility					
Newfoundland Power Inc.	4,588.7	4,554.3	4,754.3	4,772.7	18.4
Rural					
Interconnected and Diesel	893.9	868.9	924.8	906.8	(18.0)
Total Sales	8,707.8	8,592.4	8,818.5	8,863.5	45.0

RATES

On September 1, 2002, Hydro implemented new rates for all of its regulated customers resulting from the Public Utilities Board (PUB) Order No. P.U. 7 (2002-2003) and Order No. P.U. 21 (2002-2003). These rates have remained in effect during 2003.

On May 21, 2003, Hydro filed a general rate application seeking rate adjustments to be effective no later than January 1, 2004. The hearing commenced on October 6th and is expected to conclude in mid-December with legal argument in January 2004. For Newfoundland Power the base rate increase will be 12%, resulting in an increase at the end consumer level, and for Hydro's Island interconnected customers, of approximately 6.5%. There will also be an RSP adjustment on July 1st, 2004 of 6% at the end consumer level. The base rate adjustment for the Industrial customers as of January 1, 2004 is forecast to be 12.2% and there will also be an RSP adjustment of approximately 20.7%.

For 2004, based on proposed rates, income from regulated operations will amount to approximately $18.7 million. Total income from operations of $46.3 also includes net export sales of recall revenue to Hydro-Quebec of $25.6 and profit on sales to an unregulated customer of $2 million.

Based on the current timetable for the Rate Hearing which shows legal argument in January 2004, it is obvious that the new rates Hydro had anticipated to be in effect as of January 1, 2004 will not become effective until later in the year. However, we are currently assessing the implications of seeking an interim increase in rates to be effective January 1, 2004. Assuming that the PUB approves our return on equity of 9.75% but new rates are not implemented until May 1, 2004, Hydro would show a profit of $11 million for 2004. If new rates are implemented on June 1, 2004 the profit is $9 million and on July 1, 2004 it is $6 million.

NEWFOUNDLAND AND LABRADOR HYDRO
NET OPERATING EXPENSES
($ Thousands)

	2002 Actual	2003 Budget	2003 Forecast	2004 Budget	Increase (Decrease)
Expense Group					
Salaries & Fringe Benefits	56,453	55,813	56,886	58,055	1,169
System Equipment Maintenance	17,202	17,028	18,242	17,444	(798)
Office Supplies & Expenses	2,036	2,047	2,114	1,913	(201)
Professional Services	5,323	6,041	4,158	4,255	97
Insurance	1,198	1,614	1,626	2,019	393
Equipment Rentals	1,372	1,526	1,413	1,756	343
Travel	2,317	2,158	2,298	2,395	97
Miscellaneous	3,822	4,316	3,926	4,045	119
Property Rentals	900	899	984	894	(90)
Transportation	1,979	1,954	1,784	2,044	260
Bad Debt	1,043	334	334	334	0
	93,645	93,730	93,765	95,154	1,389
Allocations					
CF(L)Co Recoveries	(2,006)	(1,806)	(2,004)	(1,858)	146
Net Operating Expenses	91,639	91,924	91,761	93,296	1,535

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 $1,169,000 from the 2003 Forecast. This is primarily due to a general scale adjustment of 3% for all union and non-union staff.

SALARIES SUMMARY
($Thousands)

	2002 Actual	2003 Budget	2003 Forecast	2004 Budget	Increase (Decrease)
Salaries	50,309	48,720	48,820	49,942	1,122
Vacancy Reduction	0	(1,000)	(221)	(2,500)	(2,279)
Capitalized Expenses	(8,116)	(6,405)	(7,913)	(5,204)	2,709
Overtime	3,934	2,964	3,863	2,869	(994)
Fringe Benefits	6,630	6,941	6,944	7,110	166
Employee Future Benefits	2,445	2,433	3,632	3,727	95
Other	1,251	2,160	1,761	2,111	350
Total	56,453	55,813	56,886	58,055	1,169

SYSTEM EQUIPMENT MAINTENANCE

This group of expenses is budgeted at $17,444,000 in 2004 which is a decrease of $798,000 from 2003. The decrease is mainly due to lower maintenance requirements at the Holyrood Thermal Plant where there were additional expenses arising from a major overhaul on Unit 1 in 2003 ($500,000) as well as unanticipated costs in 2003 related to the environmental remediation of Petit Forte ($300,000).

SYSTEM EQUIPMENT MAINTENANCE SUMMARY
($ Thousands)

	2002 Actual	2003 Budget	2003 Forecast	2004 Budget	Increase (Decrease)
Maintenance Materials	15,805	15,642	16,848	16,082	(766)
Tools & Operating Supplies	470	514	474	501	27
Freight Expense	294	217	218	207	(11)
Lubricants and Chemicals	633	655	702	654	(48)
Total	17,202	17,028	18,242	17,444	(798)

OFFICE SUPPLIES AND EXPENSES

This expense group has decreased by $201,000 from the 2003 Forecast. The reduction in the advertising category relates to the 2003 sponsorship of the Festival 500 event ($75,000). Additionally, there are lower cellular phone expenses.

OFFICE SUPPLIES SUMMARY
($ Thousands)

	2002 Actual	2003 Budget	2003 Forecast	2004 Budget	Increase (Decrease)
Heat & Light	518	545	572	547	(25)
Telephone & Fax	587	634	636	578	(58)
Postage	285	299	311	296	(15)
Advertising	275	196	196	120	(76)
Books & Subscriptions	88	82	78	80	2
Membership & Dues	283	291	321	292	(29)
Total	2,036	2,047	2,114	1,913	(201)

PROFESSIONAL SERVICES

There is an increase of $97,000 in this group of expenses mainly due to extra PUB related costs associated with the Rate Hearing which commenced in 2003 partially offset by a reduction in external consulting costs primarily in the Production Division.

PROFESSIONAL SERVICES SUMMARY

($ Thousands)

	2002 Actual	2003 Budget	2003 Forecast	2004 Budget	Increase (Decrease)
Consultants	3,267	2,523	2,118	1,962	(156)
Audit	41	41	41	41	0
Legal	7	10	10	10	0
PUB Related Costs	806	2,200	972	1,150	178
Software Acquisitions & Mtnce.	1,202	1,267	1,017	1,092	75
Total	5,323	6,041	4,158	4,255	97

INSURANCE

Insurance costs have increased by $393,000, due to a restricted market.

INSURANCE SUMMARY

($ Thousands)

	2002 Actual	2003 Budget	2003 Forecast	2004 Budget	Increase (Decrease)
Boiler & Machinery	717	994	909	1,250	341
Primary Liabilities	65	78	87	95	8
Umbrella Liabilities	75	93	112	117	5
Non Owned Aircraft	7	8	9	8	(1)
Fidelity	0	0	9	0	(9)
Automobile Liability	182	276	293	345	52
Travel Accident	7	7	7	7	0
Safe Berth Liability	11	12	12	15	3
Brokers Fee J&H	51	62	62	62	0
Deductible/Losses	24	10	50	10	(40)
Directors & Officers Liab.	59	74	76	110	34
Total	1,198	1,614	1,626	2,019	393

EQUIPMENT RENTALS

There is an increase of $343,000 in this group of expenses compared to the 2003 Forecast mainly due to higher charges from Aliant related to the mobile radio system.

EQUIPMENT RENTALS SUMMARY
($ Thousands)

	2002 Actual	2003 Budget	2003 Forecast	2004 Budget	Increase (Decrease)
Equipment Rentals	1,209	1,257	1,234	1,467	233
Computer Costs	145	255	164	255	91
Telecommunication	18	14	15	34	19
Total	1,372	1,526	1,413	1,756	343

TRAVEL

It is estimated that Travel and Conferences expenses will increase by $97,000 from the 2003 Forecast reflecting the way expenditures made on the Corporate Purchasing cards will be automatically reflected in the accounts.

TRAVEL SUMMARY
($ Thousands)

	2002 Actual	2003 Budget	2003 Forecast	2004 Budget	Increase (Decrease)
Travel and Conferences	2,317	2,158	2,298	2,395	97

MISCELLANEOUS

This group of expenses covers a wide range of items which are not compatible with the other classifications that have been established. This expense group has increased by $119,000 over the 2003 Forecast. The increase in the Energy Management category reflects a continuation of the Hydrowise Program which encourages energy conservation. The tax payments to municipalities are a function of revenue.

MISCELLANEOUS SUMMARY
($ Thousands)

	2002 Actual	2003 Budget	2003 Forecast	2004 Budget	Increase (Decrease)
Staff Training	658	1,023	634	713	79
Inventory Gain/Loss	288	420	405	370	(35)
Sundry Costs	108	88	89	82	(7)
Diesel Fuel Hydro	54	95	42	39	(3)
Donations	185	194	194	194	0
Energy Management	21	45	45	100	55
Employee Expenses	277	331	330	322	(8)
Taxes	2,231	2,120	2,187	2,225	38
Total	3,822	4,316	3,926	4,045	119

PROPERTY RENTALS

This group of expenses has decreased by $90,000 mainly due to a decrease of $76,000 for Safety Equipment and Supplies.

PROPERTY RENTALS SUMMARY
($ Thousands)

	2002 Actual	2003 Budget	2003 Forecast	2004 Budget	Increase (Decrease)
Property Rentals	172	174	203	189	(14)
Safety Equipment & Supplies	728	725	781	705	(76)
Total	900	899	984	894	(90)

TRANSPORTATION

This group of expenses has increased by $260,000 from the 2003 Forecast mainly due to lower forecast aircraft costs for 2003 based on actual usage to the end of August, as well as higher fuel prices and lower recoveries for fleet vehicles being used on capital projects in 2004.

TRANSPORTATION SUMMARY
($ Thousands)

	2002 Actual	2003 Budget	2003 Forecast	2004 Budget	Increase (Decrease)
Aircraft Fuel	88	100	100	100	0
Aircraft Costs	1,099	1,000	818	950	132
Vehicle Fuel	1,048	1,015	1,022	1,059	37
Capitalized Fleet	(485)	(400)	(400)	(300)	100
Vehicle Rentals	183	192	185	189	4
Mobile Equipment - Fuel	46	47	59	46	(13)
Total	1,979	1,954	1,784	2,044	260

BAD DEBT

The 2004 amount of $334,000 is the same as the Forecast for 2003.

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 2004 after 2003 actual results are calculated.

LOSS ON DISPOSAL OF CAPITAL ASSETS

The 2004 loss of $1,266,000 is due to normal asset retirements, the more significant of which result from Transmission Line Upgrades ($232,000) and discontinuation of service in Davis Inlet ($708,000).

FUEL EXPENSE AND RATE STABILIZATION PLAN

Fuel costs will increase from $90,353,000 in the 2003 Forecast to $91,744,000 in 2004 as shown below.

	2002 Actual	2003 Budget	2003 Forecast	2004 Budget	Increase (Decrease)
No. 6 Fuel	3,678,183	2,965,626	3,617,444	2,853,541	(763,903)
Average Cost per Barrel	30.59	29.71	36.51	29.50	(7.01)
			($Thousands)		
No. 6 Fuel	112,534	88,107	132,062	84,186	(47,876)
Other	603	364	394	412	18
Holyrood Thermal	113,137	88,471	132,456	84,598	(47,858)
Diesel Fuel	6,766	6,804	6,712	6,801	89
Gas Turbine Fuel	153	401	335	345	10
Sub-total Fuels	120,056	95,676	139,503	91,744	(47,759)
Rate Stabilization Plan	(46,807)	(10,747)	(49,150)	0	49,150
Total	73,249	84,929	90,353	91,744	1,391

No. 6 Fuel expense will decrease by $47.9 million due to a decrease in price as well as lower thermal production arising from extra hydro production being available as a result of Granite Canal coming in service, extra power purchases from non-utility generators and the assumption of an average hydraulic year in 2004.

The Rate Stabilization Plan adjustments are the result of variances in hydrology, fuel costs and load used for setting rates and actual/forecast results. There is no activity forecast for 2004 since that is a test year.

POWER PURCHASES

Power purchase costs of $37.3 million mainly represent the cost of power supplied by:

(a) Non-Utility Generators
(b) CF(L)Co for recall and Labrador Interconnected System; and
(c) Hydro-Québec for Labrador Straits area

The increase of $6.4 million is mainly the result of the full year's effect of purchasing power from the Exploits River Hydro Partnership.

DEPRECIATION AND AMORTIZATION

The budgeted expense for 2004 is $33.7 million, an increase of $0.6 million from the 2003 Forecast as a result of additional assets coming in service.

INTEREST EXPENSE

The interest expense is summarized as follows:

	($ Thousands)				
	2002 Actual	2003 Budget	2003 Forecast	2004 Budget	Increase (Decrease)
Gross Interest	98,784	108,963	107,263	109,250	1,987
Less: Interest earned and Allowance for Funds used During Construction	22,117	23,464	26,843	25,769	(1,074)
Net Interest	76,667	85,499	80,420	83,481	3,061
Guarantee Fee	11,880	13,840	13,796	14,684	888
Total	88,547	99,339	94,216	98,165	3,949

Interest has increased due to the Granite Canal project going into service in June 2003, plus the full year effect of the $125 million bond issue in 2003.

NEWFOUNDLAND AND LABRADOR HYDRO
BALANCE SHEET
($ Thousands)

	Page Reference	2003 Forecast	2004 Budget
Capital Assets (Net)		1,429,348	1,426,256
Current assets			
Receivables		45,536	50,864
Fuel and supplies at average cost		37,003	33,453
Prepaid expenses		2,488	2,607
		85,027	86,924
Investments			
Churchill Falls (Labrador) Corp. Ltd.	21	298,553	306,824
Lower Churchill Development Corporation		15,400	15,400
		313,953	322,224
Rate Stabilization Plan	22-24	167,060	134,225
Deferred charges		87,562	84,082
		2,082,950	2,053,711
Long-term debt		1,293,333	1,270,856
Current liabilities			
Accounts payable and accrued liabilities		32,435	20,487
Accrued interest		27,955	29,705
Long-term debt due within one year		15,841	16,393
Promissory notes		188,880	175,733
		265,111	242,318
Employee future benefits		27,464	29,941
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	456,973	470,527
		497,042	510,596
		2,082,950	2,053,711

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	
	2003 Forecast	2004 Budget
Shares, at cost	167,255	167,255
Hydro's share of CF(L)Co retained earnings at beginning of the year	120,441	131,298
Hydro's share of CF(L)Co net income for the year	12,831	10,574
LESS: Common dividends from CF(L)Co	(1,974)	(2,303)
	131,298	139,569
TOTAL INVESTMENT IN CF(L)Co	298,553	306,824

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 $29 million at December 31, 2004 compared with an estimated $30 million at the end of the current year.

FINANCING

At this time, there is no requirement in the 2004 Budget for a long-term debt issue.

Short-term debt outstanding at December 31, 2004 is projected to decrease by $13 million to $176 million. Our total long-term debt position (net of sinking funds) is projected to amount to $1,287 million. This is $22 million less than our forecasted position as at December 31, 2003 of $1,309 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 2003 by the PUB in Order No. P.U. 7 (2002-2003) and Order No. P.U. 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 (2002-2003) 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 2004. 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.

The operation of the RSP is an issue in Hydro's current rate hearing and it is anticipated that the PUB will approve changes in the methodology and recovery periods for the various components.

RATE STABILIZATION PLAN (cont'd.)

The following table shows the plan balances by customer for the 2003 Forecast and the 2004 Budget:

RATE STABILIZATION PLAN

($ Thousands)

	2003 Forecast	2004 Budget
RSP balance August 31, 2002		
Newfoundland Power Inc.	69,840	59,142
Island Industrial	24,431	19,810
	94,271	78,952
Current RSP September 1, 2002 to December 31, 2004		
Newfoundland Power Inc.	52,751	44,444
Island Industrial	20,038	10,829
	72,789	55,273
Total	167,060	134,225

RETAINED EARNINGS

The following table depicts the changes in Retained Earnings since 1993:

	HYDRO			CF(L)Co		
	Net Income	Dividend	Retained Earnings	Income[1]	Dividend	Retained Earnings
			($ Thousands)			
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	40,815	(121,166)	216,833	17,115	(6,788)	236,654
2003	26,126	(34,517)	208,442	18,128	(6,251)	248,531
2004	46,278	(41,243)	213,477	14,762	(6,243)	257,050

(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/CAPITAL

The projection for the debt to capital ratio is 86/14 at December 31, 2004, which is the same as the debt to capital ratio projected for 2003.

NEWFOUNDLAND AND LABRADOR HYDRO

PROJECTED STATEMENT OF CASH FLOWS

Year ended December 31

($ Thousands)

	2003 Forecast	2004 Budget
Cash provided by (used in)		
Operating activities		
Net income	44,254	61,040
Adjusted for items not involving a cash flow		
Depreciation	33,067	33,673
Amortization of deferred charges	3,991	3,480
Rate stabilization plan	(42,295)	32,835
Equity in net income of CF(L)Co	(12,831)	(10,574)
Other	217	1,383
	26,403	121,837
Dividend from CF(L)Co	1,974	2,303
Change in working capital balances	(20,332)	(9,618)
	8,045	114,522
Financing activities		
Long-term debt issued	125,000	0
Long-term debt retired	(7,154)	(3,380)
Dividends	(40,768)	(47,486)
	77,078	(50,866)
Investing activities		
Net additions to capital assets	(72,165)	(31,964)
Increase in sinking funds	(17,141)	(18,545)
Addition to deferred charges	(2,782)	0
	(92,088)	(50,509)
Net (increase) decrease in promissory notes	(6,965)	13,147
Promissory notes, beginning of year	(181,915)	(188,880)
Promissory notes, end of year	(188,880)	(175,733)

HYDRO
THE POWER OF COMMITMENT

A Submission to the
Minister of Mines and Energy

Newfoundland and Labrador Hydro

2005 Operating and Capital Budget

NEWFOUNDLAND AND LABRADOR HYDRO
2005 OPERATING AND CAPITAL BUDGET

FOR PRESENTATION TO THE BOARD OF DIRECTORS
NOVEMBER 2004

NEWFOUNDLAND AND LABRADOR HYDRO

2005 BUDGET

TABLE OF CONTENTS

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

	Page Ref.	2003 Actual	2004 Forecast	2004 Cost of Service	2005 Budget	Increase (Decrease)
REGULATED INCOME						
Revenue						
Energy Sales	2	323,396	348,013	359,154	365,132	5,978
Expenses						
Net Operating	5 - 16	89,800	92,779	90,595	95,231	4,636
Loss on Disposal of Capital Assets	16	3,148	1,682	1,986	790	(1,196)
Fuels	17	84,594	87,701	91,168	98,447	7,279
Power Purchases	17	26,065	33,186	33,593	34,159	566
Depreciation & Amortization	18	33,155	33,535	33,663	35,267	1,604
Interest	18	92,138	97,045	99,157	101,566	2,409
Iron Ore Company of Canada Cost of Service Allocation		(2,914)	(2,684)	(2,619)	(2,684)	(65)
		325,986	343,244	347,543	362,776	15,233
Regulated Net Income		(2,590)	4,769	11,611	2,356	(9,255)
NON-REGULATED INCOME						
Revenue						
Energy Sales	2	37,257	47,384	34,254	53,271	19,017
Expenses						
Net Operating	5	(11)	(84)	216	344	128
Loss on Disposal of Capital Assets	16	22,331	0	0	0	0
Power Purchases	17	4,145	4,692	3,750	3,638	(112)
Iron Ore Company of Canada Cost of Service Allocation		2,914	2,684	2,619	2,684	65
		29,379	7,292	6,585	6,666	81
Non-Regulated Net Income		7,878	40,092	27,669	46,605	18,936
Other Revenue (Expenses)						
Equity in CF(L)Co		11,312	12,498	10,574	16,905	6,331
Preferred Dividend		7,211	7,106	6,579	9,152	2,573
Interest Share Purchase Debt		(2,165)	(2,308)	(2,265)	(2,236)	29
		16,358	17,296	14,888	23,821	8,933
Total Net Income		21,646	62,157	54,168	72,782	18,614
Retained Earnings, beginning of year		453,487	434,047	456,973	447,444	(9,529)
		475,133	496,204	511,141	520,226	9,085
Less: Dividends						
- Hydro Portion		34,835	39,896	29,290	45,755	16,465
- CF(L)Co Portion		6,251	8,864	6,243	8,577	2,334
Retained Earnings, end of year		434,047	447,444	475,608	465,894	(9,714)

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

	2003 Actual	2004 Forecast	2004 Cost of Service	2005 Budget	Increase (Decrease)
REGULATED					
Industry					
Corner Brook Pulp & Paper Ltd.	15,460	19,980	16,483	17,206	723
Abitibi Consolidated Inc. - Stephenville	17,250	19,240	19,336	19,765	429
Abitibi Consolidated Inc. - Grand Falls	4,968	5,237	5,020	5,585	565
North Atlantic Refining Ltd.	8,264	8,522	8,697	8,855	158
C.F.B. - Goose Bay	3,085	3,458	2,633	3,372	739
Total Industry	49,027	56,437	52,169	54,783	2,614
Utility					
Newfoundland Power Inc.	222,247	237,661	249,803	254,597	4,794
Rural					
Interconnected and Diesel	49,865	51,836	55,253	53,767	(1,486)
Other	2,257	2,079	1,929	1,985	56
Regulated Revenue	323,396	348,013	359,154	365,132	5,978
NON-REGULATED					
Iron Ore Company of Canada	4,653	4,746	4,634	4,838	204
Hydro-Québec Recall	32,604	42,638	29,620	48,433	18,813
Non-Regulated Revenue	37,257	47,384	34,254	53,271	19,017
Total Revenue	360,653	395,397	393,408	418,403	24,995

The increase in Revenue of $25.0 million is primarily due to an increase in the rates for Hydro-Québec Recall Sales; and an increase in rates for retail and industrial customers, effective July 1, 2004. Load has also increased for both the retail and industrial customers.

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

	2003 Actual	2004 Forecast	2004 Cost of Service	2005 Budget	Increase (Decrease)
REGULATED					
Industry					
Corner Brook Pulp & Paper Ltd.	447.0	555.4	454.6	473.3	18.7
Abitibi Consolidated Inc.					
Stephenville -Firm	500.4	542.2	515.2	531.5	16.3
Stephenville -Wheeled	18.1	23.8	40.0	22.1	(17.9)
Grand Falls -Firm	119.2	141.7	130.8	151.9	21.1
Grand Falls -Compensation	31.0	31.0	31.0	31.0	0.0
Grand Falls -Gen. Outage Power	8.0	2.3	0.0	0.0	0.0
Grand Falls -Wheeled	10.2	9.5	9.9	9.8	(0.1)
North Atlantic Refining Ltd.	246.4	241.9	234.2	240.1	5.9
C.F.B. - Goose Bay	79.3	77.4	75.1	82.7	7.6
Total Industry	1,459.6	1,625.2	1,490.8	1,542.4	51.6
Utility					
Newfoundland Power Inc.	4,640.8	4,761.0	4,772.7	4,864.3	91.6
Rural					
Interconnected and Diesel	877.8	902.5	906.8	896.1	(10.7)
Regulated Sales	6,978.2	7,288.7	7,170.3	7,302.8	132.5
NON-REGULATED					
Iron Ore Company of Canada	279.2	294.2	269.9	287.6	17.7
Hydro-Québec Recall	1,439.0	1,411.9	1,423.3	1,395.8	(27.5)
Non-Regulated Sales	1,718.2	1,706.1	1,693.2	1,683.4	(9.8)
Total Sales	8,696.4	8,994.8	8,863.5	8,986.2	122.7

RATES

On July 1, 2004, Hydro implemented new rates for all of its regulated customers resulting from the Public Utilities Board (PUB) Order No. P.U. 14 (2004). In 2005 there will be a change in Newfoundland Power's (NP) rate structure, as well as Rate Stabilization Plan (RSP) adjustments to both Newfoundland Power's and Industrial customers' rates.

Historically, power supplied to NP has been billed on an energy-only basis, however, in its 2004 Order, the PUB approved a demand and energy rate structure for NP. A demand and energy rate structure more accurately reflects the way costs are incurred on Hydro's system and thus will provide a more meaningful price signal to NP for load management. Based on the present forecast, it is estimated that the projected increase in NP demand on Hydro's system in 2005 could result in an additional one million dollars revenue to Hydro. However, no amount related to this has been included in the 2005 Budget since Hydro is currently awaiting an order of the PUB on the level of the demand and energy rate to be implemented on January 1, 2005.

On October 15, 2004, Hydro filed, with the PUB and other interested parties, an estimated fuel rider adjustment calculation for Industrial customers. The concept of a fuel rider, which will be added to the Industrial customers rate effective January 1, 2005, is intended to reflect a more current fuel price in customers' rates and was approved by the PUB in December 2003 as part of a number of changes to the RSP. The PUB also approved the consolidation of old balances in the RSP and agreed to an extended collection period from customers. Based on the amount of the fuel rider, the collection of the historical plan balance, and as well, the current year's RSP activity, it is presently projected that the Industrial rate will increase 11.8% on January 1, 2005.

A new RSP adjustment will become effective for Newfoundland Power on July 1, 2005. It is presently forecast that NP's rate will increase by 4 to 5% at that time as a result of the collection of the balance in the RSP as well as the effect of the fuel rider provision. An updated estimate of the July 2005 rate change, based on the March 2005 fuel forecast, will be provided to the PUB and other interested parties in April 2005.

NEWFOUNDLAND AND LABRADOR HYDRO
NET OPERATING EXPENSES
($ Thousands)

	Page Ref.	2003 Actual	2004 Forecast	2004 Cost of Service	2005 Budget	Increase (Decrease)
Regulated Operating Expenses						
Salaries & Fringe Benefits	6	54,998	57,914	55,638	57,763	2,125
System Equipment Maintenance	7	18,035	17,821	17,440	19,204	1,764
Office Supplies & Expenses	8	1,922	1,994	1,913	2,060	147
Professional Services	9	4,490	4,192	4,453	5,511	1,058
Insurance	10	1,655	1,695	2,019	1,736	(283)
Equipment Rentals	11	1,453	1,577	1,756	1,444	(312)
Travel	12	2,233	2,479	2,395	2,384	(11)
Miscellaneous	13	3,514	3,743	3,851	3,970	119
Property Rentals	14	850	896	894	899	5
Transportation	15	1,847	1,678	1,760	1,777	17
Bad Debts	16	677	657	334	334	0
Allocations						
Recoveries	16	(1,874)	(1,867)	(1,858)	(1,851)	7
Regulated Operating Expenses		89,800	92,779	90,595	95,231	4,636
Non- Regulated Operating Expenses						
Salaries & Fringe Benefits	6	297	238	17	21	4
System Equipment Maintenance	7	177	59	4	13	9
Office Supplies & Expenses	8	63	0	0	44	44
Professional Services	9	0	1	1	1	0
Equipment Rentals	11	5	6	0	0	0
Travel	12	23	34	0	0	0
Miscellaneous	13	175	194	194	265	71
Property Rentals	14	6	24	0	0	0
Transportation	15	67	60	0	0	0
Recovery (Natuishish)		(824)	(700)	0	0	0
Non-Regulated Operating Expenses		(11)	(84)	216	344	128
Net Operating Expenses		89,789	92,695	90,811	95,575	4,764

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 $2,129,000 from the 2004 Cost of Service.

SALARIES SUMMARY
($Thousands)

	2003 Actual	2004 Forecast	2004 Cost of Service	2005 Budget	Increase (Decrease)
Regulated					
Salaries	48,461	48,975	49,925	50,895	970
Vacancy Reduction	0	(500)	(3,000)	(1,000)	2,000
Capitalized Expenses	(9,494)	(6,567)	(7,104)	(8,134)	(1,030)
Overtime	3,953	3,318	2,869	2,797	(72)
Fringe Benefits	6,910	7,002	7,110	7,327	217
Employee Future Benefits[1]	3,614	3,727	3,727	3,726	(1)
Other	1,554	1,959	2,111	2,152	41
Total Regulated	54,998	57,914	55,638	57,763	2,125
Non-Regulated					
Salaries	248	238	17	21	4
Overtime	49	0	0	0	0
Total Non-Regulated	297	238	17	21	4
Total	55,295	58,152	55,655	57,784	2,129

1 An updated actuarial valuation of Employee Future Benefits is in progress and will be completed effective December 31, 2004. Any actuarial gains or losses arising from this valuation will be amortized over a 12-year period commencing in 2005. It is not possible to determine what the magnitude of any gains or losses will be in advance of the completion of the actuarial study.

SYSTEM EQUIPMENT MAINTENANCE

This group of expenses is budgeted at $19,217,000 in 2005 which is an increase of $1,773,000 from the 2004 Cost of Service. The increase is mainly due to a major overhaul of Unit No. 2 at Holyrood, as well as amortization of the asbestos abatement program ($274,000).

SYSTEM EQUIPMENT MAINTENANCE SUMMARY
($ Thousands)

	2003 Actual	2004 Forecast	2004 Cost of Service	2005 Budget	Increase (Decrease)
Regulated					
Maintenance Materials	16,769	16,377	16,078	17,808	1,730
Tools & Operating Supplies	312	477	501	473	(28)
Freight Expense	312	309	207	302	95
Lubricants and Chemicals	642	658	654	621	(33)
Total Regulated	18,035	17,821	17,440	19,204	1,764
Non-Regulated					
Maintenance Materials	140	57	4	13	9
Tools & Operating Supplies	32	2	0	0	0
Freight Expense	5	0	0	0	0
Total Non-Regulated	177	59	4	13	9
Total	18,212	17,880	17,444	19,217	1,773

OFFICE SUPPLIES AND EXPENSES

It is estimated that office supplies and expenses will increase by $191,000 compared to the 2004 Cost of Service.

OFFICE SUPPLIES SUMMARY
($ Thousands)

	2003 Actual	2004 Forecast	2004 Cost of Service	2005 Budget	Increase (Decrease)
Regulated					
Heat & Light	543	547	547	577	30
Telephone & Fax	619	628	578	675	97
Postage	291	297	296	286	(10)
Advertising	98	120	120	126	6
Books & Subscriptions	75	80	80	67	(13)
Membership & Dues	296	322	292	329	37
Total Regulated	1,922	1,994	1,913	2,060	147
Non-Regulated					
Advertising	63	0	0	44	44
Total Non-Regulated	63	0	0	44	44
Total	1,985	1,994	1,913	2,104	191

PROFESSIONAL SERVICES

The increase in expenses for consultants is mainly due to an asbestos study in TRO ($160,000) and a depreciation study ($150,000).

The increase in PUB related costs is primarily due to an increase in the annual assessment as well as an increase in the cost of the Capital Budget hearing. Of the $2.6 million in incremental costs associated with the 2003/04 General Rate application, the PUB authorized a deferral of $1.8 million which is being amortized over a 3-year period. This amortization is reflected in the 2005 budget for PUB Related Costs below.

PROFESSIONAL SERVICES SUMMARY
($ Thousands)

	2003 Actual	2004 Forecast	2004 Cost of Service	2005 Budget	Increase (Decrease)
Regulated					
Consultants	2,186	1,904	1,961	2,685	724
Audit	43	73	41	41	0
Legal	6	10	10	10	0
PUB Related Costs	1,237	1,110	1,350	1,620	270
Software Acquisitions & Mtnce.	1,018	1,095	1,091	1,155	64
Total Regulated	4,490	4,192	4,453	5,511	1,058
Non-Regulated					
Consultants	0	1	1	0	(1)
Audit	0	0	0	1	1
Total Non-Regulated	0	1	1	1	0
Total	4,490	4,193	4,454	5,512	1,058

INSURANCE

Insurance costs have decreased by $283,000 due to a softening of the insurance market.

INSURANCE SUMMARY

($ Thousands)

	2003 Actual	2004 Forecast	2004 Cost of Service	2005 Budget	Increase (Decrease)
Regulated					
Boiler & Machinery	909	938	1,250	951	(299)
Primary Liabilities	87	106	95	116	21
Umbrella Liabilities	112	139	117	149	32
Non Owned Aircraft	8	9	8	10	2
Fidelity	9	0	0	0	0
Automobile Liability	293	300	345	307	(38)
Travel Accident	7	7	7	6	(1)
Safe Berth Liability	12	12	15	14	(1)
Brokers Fee J&H	78	62	62	62	0
Deductible/Losses	64	25	10	10	0
Directors & Officers Liab.	76	97	110	111	1
Total Regulated	1,655	1,695	2,019	1,736	(283)

EQUIPMENT RENTALS

There is a decrease of $312,000 in this group of expenses compared to the 2004 Cost of Service. The reduction in computer costs reflects the expiry of a printer lease, as well as the expectation of more favourable terms when a disaster recovery contract is renewed mid-year.

EQUIPMENT RENTALS SUMMARY
($ Thousands)

	2003 Actual	2004 Forecast	2004 Cost of Service	2005 Budget	Increase (Decrease)
Regulated					
Equipment Rentals	1,328	1,287	1,467	1,260	(207)
Computer Costs	94	256	255	150	(105)
Telecommunication	31	34	34	34	0
Total Regulated	1,453	1,577	1,756	1,444	(312)
Non-Regulated					
Equipment Rentals	5	6	0	0	0
Total Non-Regulated	5	6	0	0	0
Total	1,458	1,583	1,756	1,444	(312)

TRAVEL

It is estimated that Travel and Conferences expenses will decrease by $11,000 from the 2004 Cost of Service.

TRAVEL SUMMARY

($ Thousands)

	2003 Actual	2004 Forecast	2004 Cost of Service	2005 Budget	Increase (Decrease)
Regulated					
Travel and Conferences	2,233	2,479	2,395	2,384	(11)
Non-Regulated					
Travel and Conferences	23	34	0	0	0
Total	2,256	2,513	2,395	2,384	(11)

MISCELLANEOUS

This group of expenses covers a wide range of items which are not compatible with the other classifications that have been established. This expense group has increased by $190,000 over the 2004 Cost of Service.

The staff training budget reflects the identified training requirements, including those arising from business process improvement initiatives.

MISCELLANEOUS SUMMARY
($ Thousands)

	2003 Actual	2004 Forecast	2004 Cost of Service	2005 Budget	Increase (Decrease)
Regulated					
Staff Training	493	700	712	982	270
Inventory Gain/Loss	308	160	370	150	(220)
Sundry Costs	123	86	82	102	20
Diesel Fuel Hydro	36	39	39	40	1
Energy Management	37	210	100	100	0
Employee Expenses	240	323	323	304	(19)
Taxes	2,277	2,225	2,225	2,292	67
Total Regulated	3,514	3,743	3,851	3,970	119
Non-Regulated					
Donations	175	194	194	265	71
Total	3,689	3,937	4,045	4,235	190

PROPERTY RENTALS

This group of expenses has increased by $5,000 from the 2004 Cost of Service.

PROPERTY RENTALS SUMMARY
($ Thousands)

	2003 Actual	2004 Forecast	2004 Cost of Service	2005 Budget	Increase (Decrease)
Regulated					
Property Rentals	173	189	189	161	(28)
Safety Equipment & Supplies	677	707	705	738	33
Total Regulated	850	896	894	899	5
Non-Regulated					
Property Rentals	0	5	0	0	0
Safety Equipment Supplies	6	19	0	0	0
Total Non-Regulated	6	24	0	0	0
Total	856	920	894	899	5

TRANSPORTATION

This group of expenses has increased by $17,000 from the 2004 Cost of Service.

TRANSPORTATION SUMMARY
($ Thousands)

	2003 Actual	2004 Forecast	2004 Cost of Service	2005 Budget	Increase (Decrease)
Regulated					
Aircraft Fuel	82	100	100	100	0
Aircraft Costs	972	765	765	850	85
Vehicle Fuel	1,033	1,035	1,059	1,035	(24)
Capitalized Fleet	(461)	(400)	(400)	(400)	0
Vehicle Rentals	169	132	190	148	(42)
Mobile Equipment - Fuel	52	46	46	44	(2)
Total Regulated	1,847	1,678	1,760	1,777	17
Non-Regulated					
Aircraft	67	60	0	0	0
Total	1,914	1,738	1,760	1,777	17

BAD DEBTS

The 2005 amount of $334,000 is the same as the Cost of Service for 2004.

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 2005 after 2004 actual results are calculated.

LOSS ON DISPOSAL OF CAPITAL ASSETS

The 2005 loss of $790,000 is due to normal replacement of assets through the Capital program.

FUEL EXPENSE AND RATE STABILIZATION PLAN

Fuel costs will increase from $91,168,000 in the 2004 Cost of Service to $98,447,000 in 2005 as shown below.

	2003 Actual	2004 Forecast	2004 Cost of Service	2005 Budget	Increase (Decrease)
No. 6 Fuel	3,074,340	2,675,954	2,826,365	3,064,937	238,572
Average Cost per Barrel	37.34	32.29	29.58	33.19	3.61
			($Thousands)		
No. 6 Fuel	114,801	86,401	83,610	101,732	18,122
Other	387	395	412	445	33
Holyrood Thermal	115,188	86,796	84,022	102,177	18,155
Diesel Fuel	6,663	7,448	6,801	7,745	944
Gas Turbine Fuel	245	263	345	480	135
Sub-total Fuels	122,096	94,507	91,168	110,402	19,234
Rate Stabilization Plan	(37,502)	(6,806)	0	(11,955)	(11,955)
Total	84,594	87,701	91,168	98,447	7,279

No. 6 Fuel expense will increase by $18.1 million due to an increase in load and price.

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 $37.8 million mainly represent the cost of power supplied by:

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

DEPRECIATION AND AMORTIZATION

The budgeted expense for 2005 is $35.3 million, an increase of $1.6 million from the 2004 Cost of Service as a result of additional assets coming in service. The increase is primarily attributable to assets acquired in the areas of General Properties (vehicles and equipment) and IS&T (computers, software and communication equipment) where assets are depreciated on a straight-line basis and have relatively shorter service lives.

INTEREST EXPENSE

The interest expense will increase by $2.4 million in 2005. This is due to an increase in short-term interest rates as well as a decrease in RSP balances which translates into lower interest earned.

	($ Thousands)				
	2003 Actual	**2004 Forecast**	**2004 Cost of Service**	**2005 Budget**	**Increase (Decrease)**
Gross Interest	107,277	108,487	109,537	110,326	789
Less: Interest earned and Allowance for Funds used During Construction	28,762	25,751	25,064	23,185	(1,879)
Net Interest	78,515	82,736	84,473	87,141	2,668
Guarantee Fee	13,623	14,309	14,684	14,425	(259)
Total	92,138	97,045	99,157	101,566	2,409

NEWFOUNDLAND AND LABRADOR HYDRO

BALANCE SHEET
($ Thousands)

	Page Reference	2004 Forecast	2005 Budget
Capital Assets (Net)		1,408,865	1,415,114
Current assets			
Receivables		50,227	49,957
Fuel and supplies at average cost		34,974	32,976
Prepaid expenses		1,877	2,407
		87,078	85,340
Investments			
Churchill Falls (Labrador) Corp. Ltd.	20	306,914	321,187
Lower Churchill Development Corporation		2,676	2,676
		309,590	323,863
Rate Stabilization Plan	21-22	137,236	99,546
Deferred charges		84,643	80,844
		2,027,412	2,004,707
Long-term debt		1,268,798	1,046,815
Current liabilities			
Accounts payable and accrued liabilities		7,753	2,059
Accrued interest		30,052	29,921
Long-term debt due within one year		13,753	212,697
Promissory notes		190,363	175,711
		241,921	420,388
Employee future benefits		29,180	31,541
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	23	447,444	465,894
		487,513	505,963
		2,027,412	2,004,707

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	
	2004 Forecast	2005 Budget
Shares, at cost	167,255	167,255
Hydro's share of CF(L)Co retained earnings at beginning of the year	129,793	139,659
Hydro's share of CF(L)Co net income for the year	12,498	16,905
LESS: Common dividends from CF(L)Co	(2,632)	(2,632)
	139,659	153,932
TOTAL INVESTMENT IN CF(L)Co	306,914	321,187

Hydro remits dividends to the Province, associated with cash flows from its investment in CF(L)Co, less $1.0 million for reduction in its debt associated with this investment. The debt associated with this investment is projected to be $28.2 million at December 31, 2005 compared with an estimated $29.2 million at the end of the current year.

FINANCING

At this time, there is no requirement in the 2005 Budget for a long-term debt issue.

Short-term debt outstanding at December 31, 2005 is projected to decrease by $14 million to $176 million. Our total long-term debt position (net of sinking funds) is projected to amount to $1,260 million. This is $23 million less than our forecasted position as at December 31, 2004 of $1,283 million.

RATE STABILIZATION PLAN

The Rate Stabilization Plan of Newfoundland and Labrador Hydro, as amended by Board Order P.U. 40 (2003), is established for Hydro's Utility Customer, Newfoundland Power, and Island Industrial customers to smooth rate impacts for variations between actual results and test year cost of service estimates for:

(1) Hydraulic production;
(2) No. 6 fuel cost used at Hydro's Holyrood Generating Station; and,
(3) Customer load (Utility and Island Industrial).

The hydraulic production variation 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 No. 6 fuel cost variation is used to account for variations between the base cost per barrel for No. 6 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 customer load variation 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.

Board Order P.U. 40 (2003) approved the consolidation of the two plan balances at December 31, 2003 and that it be recovered over four years. It also ordered that effective January 1, 2004 balances accumulating from January to December for utility and industrial customers be collected in the following calendar year. The hydraulic variation will accumulate from January to December, however, only 25% of the balance and 100% of the financing charges are allocated to the customers for collection in the following year. The remainder of the hydraulic variation is carried forward into the next year.

The following table shows the plan balances by customer for the 2004 Forecast and the 2005 Budget:

RATE STABILIZATION PLAN

($ Thousands)

	2004 Forecast	2005 Budget
RSP balance December 31, 2003		
Newfoundland Power Inc.	101,357	78,384
Island Industrial	32,255	23,874
	133,612	102,258
Current RSP		
Newfoundland Power Inc.	6,537	1,975
Island Industrial	4,392	789
Hydraulic Balance	(7,305)	(5,476)
	3,624	(2,712)
Total	137,236	99,546

RETAINED EARNINGS

The following table depicts the changes in Retained Earnings since 1994:

	HYDRO			CF(L)Co		
	Net Income	Dividend	Retained Earnings	Income[1]	Dividend	Retained Earnings
			($ Thousands)			
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	40,815	(121,166)	216,833	17,115	(6,788)	236,654
2003	5,288	(34,835)	187,286	16,358	(6,251)	246,761
2004	44,861	(39,896)	192,251	17,296	(8,864)	255,193
2005	48,961	(45,755)	195,457	23,821	(8,577)	270,437

(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/CAPITAL

The projection for the debt to capital ratio is 85/15 at December 31, 2005, compared with an 86/14 debt to capital ratio projected for 2004.

NEWFOUNDLAND AND LABRADOR HYDRO

PROJECTED STATEMENT OF CASH FLOWS

Year ended December 31

($ Thousands)

	2004 Forecast	2005 Budget
Cash provided by (used in)		
Operating activities		
Net income	62,157	72,782
Adjusted for items not involving a cash flow		
Depreciation	33,535	35,267
Amortization of deferred charges	3,519	3,799
Rate stabilization plan	18,468	37,690
Equity in net income of CF(L)Co	(12,498)	(16,905)
Other	1,698	915
	106,879	133,548
Dividend from CF(L)Co	2,632	2,632
Change in working capital balances	(42,024)	(1,726)
	67,487	134,454
Financing activities		
Long-term debt issued	0	0
Long-term debt retired	(3,366)	(3,727)
Dividends	(48,760)	(54,332)
	(52,126)	(58,059)
Investing Activities		
Net additions to capital assets	(34,830)	(42,431)
Increase in sinking funds	(21,157)	(19,312)
Reduction to deferred charges	500	0
	(55,487)	(61,743)
Net (increase) decrease in promissory notes	(40,126)	14,652
Promissory notes, beginning of year	(150,237)	(190,363)
Promissory notes, end of year	(190,363)	(175,711)

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Attachment 6
2006 NLH GRA

HYDRO
THE POWER OF COMMITMENT

A Submission to the
Minister of Mines and Energy

Newfoundland and Labrador Hydro

2006 Operating and Capital Budget

NEWFOUNDLAND AND LABRADOR HYDRO

2006 BUDGET

TABLE OF CONTENTS

STATEMENT OF INCOME AND RETAINED EARNINGS
($ Thousands)

Year ending December 31	Page Ref.	2004 Actual	2005 Budget	2005 Forecast	2006 Budget	Inc./ (Dec.)
REGULATED INCOME						
Revenue						
Energy Sales	2	344,862	365,132	359,687	378,260	18,573
Expenses						
Net Operating	5 - 16	88,728	95,231	94,987	91,804	(3,183)
Loss on Disposal of Capital Assets	16	2,812	790	2,657	930	(1,727)
Fuels	17	83,109	98,447	91,517	109,111	17,594
Power Purchases	17	35,343	34,159	35,434	36,453	1,019
Depreciation and Amortization	18	33,799	35,267	35,254	38,056	2,802
Interest	18	96,527	101,566	99,464	101,089	1,625
Iron Ore Company of Canada Cost of Service Allocation		(2,777)	(2,684)	(2,619)	(2,619)	0
		337,541	362,776	356,694	374,824	18,130
Regulated Net Income		7,321	2,356	2,993	3,436	443
NON-REGULATED INCOME						
Revenue						
Energy Sales	2	48,136	53,271	53,805	53,878	73
Expenses						
Net Operating	5 - 16	250	344	345	1,285	940
Loss on Disposal of Capital Assets	16	27	0	0	0	0
Power Purchases	17	4,808	3,638	3,668	3,571	(97)
Depreciation and Amortization		2	0	0	0	0
Iron Ore Company of Canada Cost of Service Allocation		2,777	2,684	2,619	2,619	0
		7,864	6,666	6,632	7,475	843
Non-Regulated Net Income		40,272	46,605	47,173	46,403	(770)
OTHER REVENUE (EXPENSES)						
Equity in CF(L)Co		14,984	16,905	13,684	14,880	1,196
Preferred Dividend		6,889	9,152	9,439	8,648	(791)
Interest Share Purchase Debt		(2,295)	(2,236)	(2,248)	(2,165)	83
Other Revenue		19,578	23,821	20,875	21,363	488
Total Net Income		67,171	72,782	71,041	71,202	161
Retained Earnings, beginning of year		434,047	447,444	450,627	468,941	18,314
		501,218	520,226	521,668	540,143	18,475
Less: Dividends						
- Hydro Portion		41,671	45,755	44,290	46,360	2,070
- CF(L)Co Portion		8,920	8,577	8,437	7,195	(1,242)
Retained Earnings, end of year		450,627	465,894	468,941	486,588	17,647

STATEMENT OF REVENUE BY MAJOR SOURCE
($ Thousands)

	2004 Actual	2005 Budget	2005 Forecast	2006 Budget	Inc./ (Dec.)
REGULATED					
Industry					
Corner Brook Pulp and Paper Ltd.	19,046	17,206	16,989	16,859	(130)
Abitibi Consolidated Inc. - Stephenville	19,247	19,765	17,962	20,620	2,658
Abitibi Consolidated Inc. - Grand Falls	5,230	5,585	4,800	5,326	526
North Atlantic Refining Ltd.	8,693	8,855	8,483	8,994	511
C.F.B. - Goose Bay	3,449	3,372	4,536	4,214	(322)
Aur Resources	0	0	41	998	957
Total Industry	55,665	54,783	52,811	57,011	4,200
Utility					
Newfoundland Power Inc.	234,938	254,597	249,967	263,468	13,501
Rural					
Interconnected and Diesel	52,019	53,767	54,941	55,763	822
Other	2,240	1,985	1,968	2,018	50
Regulated Revenue	344,862	365,132	359,687	378,260	18,573
NON-REGULATED					
Iron Ore Company of Canada	3,994	4,838	4,970	5,029	59
Hydro-Québec Recall	44,142	48,433	48,835	48,849	14
Non-Regulated Revenue	48,136	53,271	53,805	53,878	73
Total Revenue	392,998	418,403	413,492	432,138	18,646

The increase in Revenue of $18.6 million is primarily due to an increase in energy sales and a second year phase-in of the change in the demand and energy rate structure for Newfoundland Power Inc.

ENERGY SALES VOLUME ANALYSIS
(GWh.)

	2004 Actual	2005 Budget	2005 Forecast	2006 Budget	Inc./ (Dec.)
REGULATED					
Industry					
Corner Brook Pulp and Paper Ltd.	536.4	473.3	466.4	459.1	(7.3)
Abitibi Consolidated Inc.					
Stephenville -Firm	542.9	531.5	452.8	547.1	94.3
Stephenville -Wheeled	17.5	22.1	9.8	14.5	4.7
Grand Falls -Firm	140.3	151.9	122.5	142.2	19.7
Grand Falls -Compensation	31.0	31.0	30.9	31.0	0.1
Grand Falls -Gen. Outage Power	2.8	0.0	0.0	0.0	0.0
Grand Falls -Wheeled	10.4	9.8	10.2	10.1	(0.1)
North Atlantic Refining Ltd.	248.3	240.1	226.2	245.3	19.1
C.F.B. - Goose Bay	72.5	82.7	79.6	80.7	1.1
Aur Resources	0.0	0.0	0.9	24.7	23.8
Total Industry	1,602.1	1,542.4	1,399.3	1,554.7	155.4
Utility					
Newfoundland Power Inc.	4,708.7	4,864.3	4,774.5	5,003.7	229.2
Rural					
Interconnected and Diesel	885.7	896.1	905.8	914.2	8.4
Regulated Sales	7,196.5	7,302.8	7,079.6	7,472.6	393.0
NON-REGULATED					
Iron Ore Company of Canada	268.5	287.6	311.2	300.9	(10.3)
Hydro-Québec Recall	1,455.9	1,395.8	1,407.5	1,380.2	(27.3)
Non-Regulated Sales	1,724.4	1,683.4	1,718.7	1,681.1	(37.6)
Total Sales	8,920.9	8,986.2	8,798.3	9,153.7	355.4

RATES

In 2006 there will be a change in Newfoundland Power's (NP) demand and energy rate, as well as Rate Stabilization Plan (RSP) adjustments to both Industrial customers' and Newfoundland Power's rates.

Historically, power supplied to NP had been billed on an energy-only basis, however, in its 2004 Order, the Board of Commissioners of Public Utilities (PUB) approved a demand and energy rate structure for NP. A demand and energy rate structure more accurately reflects the way costs are incurred on Hydro's system thus providing a more meaningful price signal to NP for load management. The demand and energy rate is to be phased in over a three-year period which commenced in 2005. Hydro will apply to the PUB for approval of the January 1, 2006 rate, which represents the second year of the phase in period. Based on the present forecast, it is estimated that the projected increase in NP demand on Hydro's system in 2006 could result in an additional $2.7 million dollars revenue to Hydro over the present 2005 forecast. This amount is included in the 2006 revenue budget.

On October 17, 2006, Hydro filed, with the PUB and other interested parties, an estimated fuel rider adjustment calculation for Industrial customers. Based on the amount of the fuel rider, the collection of the historical plan balance, and as well, the current year's RSP activity, it is presently projected that the Island Industrial rate will increase by 7% on January 1, 2006.

A new RSP adjustment will become effective for Newfoundland Power on July 1, 2006. It is presently forecast that NP's wholesale rate will increase by 4.7% at that time as a result of the collection of the balance in the RSP as well as the effect of the fuel rider provision. This will mean an estimated 2.9% increase at the end consumer level. An updated estimate of the July 2006 rate change, based on the March 2006 fuel forecast, will be provided to the PUB and other interested parties in April 2006.

NET OPERATING EXPENSES
($ Thousands)

	Page Ref.	2004 Actual	2005 Budget	2005 Forecast	2006 Budget	Inc./ (Dec.)
Regulated Operating Expenses						
Salaries and Fringe Benefits	6	56,123	57,763	56,488	54,535	(1,953)
System Equipment Maintenance	7	17,344	19,204	20,624	19,212	(1,412)
Office Supplies and Expenses	8	1,845	2,060	1,988	2,101	113
Professional Services	9	3,648	5,511	5,208	5,675	467
Insurance	10	1,682	1,736	1,766	1,654	(112)
Equipment Rentals	11	1,269	1,444	1,282	1,419	137
Travel	12	2,206	2,384	2,489	2,447	(42)
Miscellaneous	13	3,559	3,970	3,648	3,929	281
Property Rentals	14	752	899	875	850	(25)
Transportation	15	1,681	1,777	1,852	2,025	173
Bad Debts	16	811	334	907	912	5
Allocations						
Recoveries	16	(2,192)	(1,851)	(2,140)	(2,955)	(815)
Regulated Operating Expenses		88,728	95,231	94,987	91,804	(3,183)
Non- Regulated Operating Expenses						
Salaries and Fringe Benefits	6	398	21	21	980	959
System Equipment Maintenance	7	73	13	13	0	(13)
Office Supplies and Expenses	8	12	44	44	40	(4)
Professional Services	9	3	1	1	0	(1)
Equipment Rentals	11	5	0	0	0	0
Travel	12	37	0	1	0	(1)
Miscellaneous	13	226	265	265	265	0
Property Rentals	14	23	0	0	0	0
Transportation	15	127	0	0	0	0
Recovery (Natuashish)	16	(654)	0	0	0	0
Non-Regulated Operating Expenses		250	344	345	1,285	940
Net Operating Expenses		88,978	95,575	95,332	93,089	(2,243)

An analysis of the individual expense groups follows.

SALARIES AND FRINGE BENEFITS SUMMARY
($ Thousands)

	2004 Actual	2005 Budget	2005 Forecast	2006 Budget	Inc./ (Dec.)
Regulated					
Salaries	48,892	50,895	49,363	49,091	(272)
Vacancy Reduction	0	(1,000)	0	(997)	(997)
Capitalized Expenses	(9,028)	(8,134)	(9,203)	(10,449)	(1,246)
Overtime	3,657	2,797	2,937	2,839	(98)
Fringe Benefits	6,775	7,327	7,297	7,361	64
Employee Future Benefits	4,281	3,726	4,327	4,832	505
Other	1,546	2,152	1,767	1,858	91
Total Regulated	56,123	57,763	56,488	54,535	(1,953)
Non-Regulated					
Salaries	354	21	21	1,168	1,147
Vacancy Reduction	0	0	0	(3)	(3)
Allowances	16	0	0	0	0
Capitalized Expenses	0	0	0	(263)	(263)
Overtime	28	0	0	0	0
Fringe Benefits	0	0	0	42	42
Employee Future Benefits	0	0	0	28	28
Other	0	0	0	8	8
Total Non-Regulated	398	21	21	980	959
Total	56,521	57,784	56,509	55,515	(994)

The salary group of expenses is budgeted to decrease by $994,000 from the 2005 Forecast mainly due to a reduction of four positions at the Directors level and an increase in capital allocations.

SYSTEM EQUIPMENT MAINTENANCE SUMMARY
($ Thousands)

	2004 Actual	2005 Budget	2005 Forecast	2006 Budget	Inc./ (Dec.)
Regulated					
Maintenance Materials	16,155	17,808	19,254	17,822	(1,432)
Tools and Operating Supplies	282	473	433	392	(41)
Freight Expense	339	302	325	352	27
Lubricants and Chemicals	568	621	612	646	34
Total Regulated	17,344	19,204	20,624	19,212	(1,412)
Non-Regulated					
Maintenance Materials	71	13	13	0	(13)
Tools and Operating Supplies	2	0	0	0	0
Total Non-Regulated	73	13	13	0	(13)
Total	17,417	19,217	20,637	19,212	(1,425)

OFFICE SUPPLIES AND EXPENSES SUMMARY
($ Thousands)

	2004 Actual	2005 Budget	2005 Forecast	2006 Budget	Inc./ (Dec.)
Regulated					
Heat and Light	560	577	580	573	(7)
Telephone and Fax	607	675	656	694	38
Postage	271	286	287	297	10
Advertising	43	126	109	135	26
Books and Subscriptions	86	67	76	68	(8)
Membership and Dues	278	329	280	334	54
Total Regulated	1,845	2,060	1,988	2,101	113
Non-Regulated					
Advertising	12	44	44	40	(4)
Total Non-Regulated	12	44	44	40	(4)
Total	1,857	2,104	2,032	2,141	109

PROFESSIONAL SERVICES SUMMARY
($ Thousands)

	2004 Actual	2005 Budget	2005 Forecast	2006 Budget	Inc./ (Dec.)
Regulated					
Consultants	1,692	2,685	2,536	2,000	(536)
Audit	74	41	41	45	4
Legal	0	10	10	10	0
PUB Related Costs	1,018	1,620	1,620	2,620	1,000
Software Acquisitions and Mtnce.	864	1,155	1,001	1,000	(1)
Total Regulated	3,648	5,511	5,208	5,675	467
Non-Regulated					
Consultants	3	0	0	0	0
Audit	0	1	1	0	(1)
Total Non-Regulated	3	1	1	0	(1)
Total	3,651	5,512	5,209	5,675	466

The increase in PUB related costs is due to the General Rate Application (GRA) in 2006. Hydro's incremental cost will not be deferred.

INSURANCE SUMMARY
($ Thousands)

	2004 Actual	2005 Budget	2005 Forecast	2006 Budget	Inc./ (Dec.)
Regulated					
Boiler and Machinery	938	951	951	910	(41)
Primary Liabilities	106	116	116	103	(13)
Umbrella Liabilities	139	149	149	133	(16)
Non Owned Aircraft	10	10	10	9	(1)
Fidelity	20	0	9	0	(9)
Automobile Liability	254	307	307	273	(34)
Travel Accident	6	6	6	6	0
Safe Berth Liability	12	14	13	28	15
Brokers Fee J and H	79	62	73	62	(11)
Deductible/Losses	32	10	30	30	0
Directors and Officers Liab.	86	111	102	100	(2)
Total	1,682	1,736	1,766	1,654	(112)

Insurance costs have decreased by $112,000 due to a softening of the insurance market.

EQUIPMENT RENTALS SUMMARY
($ Thousands)

	2004 Actual	2005 Budget	2005 Forecast	2006 Budget	Inc./ (Dec.)
Regulated					
Equipment Rentals	1,112	1,260	1,097	1,235	138
Computer Costs	143	150	151	150	(1)
Telecommunication	14	34	34	34	0
Total Regulated	1,269	1,444	1,282	1,419	137
Non-Regulated					
Equipment Rentals	5	0	0	0	0
Total Non-Regulated	5	0	0	0	0
Total	1,274	1,444	1,282	1,419	137

TRAVEL SUMMARY
($ Thousands)

	2004 Actual	2005 Budget	2005 Forecast	2006 Budget	Inc./ (Dec.)
Regulated					
Travel and Conferences	2,206	2,384	2,489	2,447	(42)
Non-Regulated					
Travel and Conferences	37	0	1	0	(1)
Total	2,243	2,384	2,490	2,447	(43)

MISCELLANEOUS SUMMARY

($ Thousands)

	2004 Actual	2005 Budget	2005 Forecast	2006 Budget	Inc./ (Dec.)
Regulated					
Staff Training	525	982	685	800	115
Inventory Gain/Loss	175	150	150	150	0
Sundry Costs	87	102	117	114	(3)
Diesel Fuel Hydro	52	40	49	46	(3)
Energy Management	178	100	90	100	10
Employee Expenses	268	304	265	293	28
Taxes	2,274	2,292	2,292	2,426	134
Total Regulated	3,559	3,970	3,648	3,929	281
Non-Regulated					
Donations	22	265	265	265	0
Employee Expenses	204	0	0	0	0
Total Non-Regulated	226	265	265	265	0
Total	3,785	4,235	3,913	4,194	281

PROPERTY RENTALS SUMMARY
($ Thousands)

	2004 Actual	2005 Budget	2005 Forecast	2006 Budget	Inc./ (Dec.)
Regulated					
Property Rentals	184	161	167	134	(33)
Safety Equipment and Supplies	568	738	708	716	8
Total Regulated	752	899	875	850	(25)
Non-Regulated					
Property Rentals	5	0	0	0	0
Safety Equipment and Supplies	18	0	0	0	0
Total Non-Regulated	23	0	0	0	0
Total	775	899	875	850	(25)

TRANSPORTATION SUMMARY
($ Thousands)

	2004 Actual	2005 Budget	2005 Forecast	2006 Budget	Inc./ (Dec.)
Regulated					
Aircraft Fuel	93	100	70	100	30
Aircraft Costs	922	850	875	1,120	245
Vehicle Fuel	1,088	1,035	1,130	1,248	118
Capitalized Fleet	(626)	(400)	(400)	(600)	(200)
Vehicle Rentals	162	148	130	113	(17)
Mobile Equipment - Fuel	42	44	47	44	(3)
Total Regulated	1,681	1,777	1,852	2,025	173
Non-Regulated					
Aircraft	127	0	0	0	0
Total Non-Regulated	127	0	0	0	0
Total	1,808	1,777	1,852	2,025	173

BAD DEBTS

The 2006 amount of $912,000 is basically equivalent to the 2005 Forecast.

RECOVERIES:

CF(L)Co

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 2006 after 2005 actual results are calculated.

Natuashish

While not finalized, a draft agreement with Federal Government will see the Federal Government contributing 50% of the difference between the cost of providing service in Natuashish and the revenues that are billed. This contribution is estimated to be $800,000 for 2006.

LOSS ON DISPOSAL OF CAPITAL ASSETS

The 2006 loss of $930,000 is due to normal replacement of assets through the Capital program.

FUEL EXPENSE AND RATE STABILIZATION PLAN

Fuel costs will increase from $91,517,000 in the 2005 Forecast to $109,111,000 in 2006 as shown below.

	2004 Actual	2005 Budget	2005 Forecast	2006 Budget	Inc./ (Dec.)
No. 6 Fuel (Barrels)	2,605,818	3,064,937	2,494,326	3,426,033	931,707
Average Cost per Barrel	31.02	33.19	38.48	47.48	9.00
	($ Thousands)				
No. 6 Fuel	80,845	101,732	95,978	162,661	66,683
Other	443	445	562	503	(59)
Holyrood Thermal	81,288	102,177	96,540	163,164	66,624
Diesel Fuel	7,654	7,745	9,565	10,875	1,310
Gas Turbine Fuel	101	480	241	692	451
Sub-total Fuels	89,043	110,402	106,346	174,731	68,385
Rate Stabilization Plan	(5,934)	(11,955)	(14,829)	(65,620)	(50,791)
Total	83,109	98,447	91,517	109,111	17,594

No. 6 Fuel costs will increase by $66.7 million mainly due to an increase in load and price.

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 $40.0 million mainly represent the cost of power supplied by:

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

DEPRECIATION AND AMORTIZATION

The budgeted expense for 2006 is $38.1 million, an increase of $2.8 million from the 2005 Forecast as a result of additional assets coming in service. Although the increase is attributable to assets acquired across the Company, IS&T (computers, software and communication equipment) have large assets such as the Energy Management System and the VHF Mobile Radio System, coming into service.

INTEREST EXPENSE

The interest expense will increase by $1.6 million in 2006. This is due to higher average debt balances as well as higher average borrowing rates.

	($ Thousands)				
	2004 Actual	2005 Budget	2005 Forecast	2006 Budget	Inc./ (Dec.)
Gross Interest	108,336	110,326	108,306	110,499	2,193
Less: Interest earned and allowance for funds used during construction	26,118	23,185	22,941	23,459	518
Net Interest	82,218	87,141	85,365	87,040	1,675
Guarantee Fee	14,309	14,425	14,099	14,049	(50)
Total	96,527	101,566	99,464	101,089	1,625

FORECAST BALANCE SHEET

($ Thousands)

As at December 31	Page Ref.	2005 Forecast	2006 Budget
Capital assets (Net)		1,420,771	1,426,987
Current assets			
Receivables		48,360	50,254
Fuel and supplies at average cost		47,025	39,768
Prepaid expenses		1,910	2,035
		97,295	92,057
Investments			
Churchill Falls (Labrador) Corp. Ltd.	20	320,490	333,725
Lower Churchill Development Corporation		2,676	2,676
		323,166	336,401
Rate stabilization plan	21-22	99,858	71,692
Deferred charges		84,760	84,929
		2,025,850	2,012,066
Long-term debt		1,037,400	1,268,704
Current liabilities			
Accounts payable and accrued liabilities		21,224	15,378
Accrued interest		29,294	31,270
Long-term debt due within one year		208,395	8,307
Promissory notes		187,996	126,313
		446,909	181,268
Employee future benefits		32,531	35,437
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	23	468,941	486,588
		509,010	526,657
		2,025,850	2,012,066

INVESTMENT IN CF(L)Co

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

	$ Thousands	
	2005 Forecast	2006 Budget
Shares, at cost	167,255	167,255
Hydro's share of CF(L)Co retained earnings at beginning of the year	142,183	153,235
Hydro's share of CF(L)Co net income for the year	13,684	14,880
LESS: Common dividends from CF(L)Co	(2,632)	(1,645)
	153,235	166,470
TOTAL INVESTMENT IN CF(L)Co	320,490	333,725

Hydro remits dividends to the Province, associated with cash flows from its investment in CF(L)Co, less $1.0 million for reduction in its debt associated with this investment. The debt associated with this investment is projected to be $27.2 million at December 31, 2006 compared with an estimated $28.2 million at the end of the current year.

FINANCING

There is a requirement in the 2006 Budget for one long-term debt issue of $250 million.

Short-term debt outstanding at December 31, 2006 is projected to decrease by $62 million to $126 million. Hydro's total long-term debt position (net of sinking funds) is projected to amount to $1,277 million. This is $31 million more than our forecasted position as at December 31, 2005 of $1,246 million.

RATE STABILIZATION PLAN

The Rate Stabilization Plan of Newfoundland and Labrador Hydro, as amended by Board Order P.U. 40 (2003), is established for Hydro's Utility customer, Newfoundland Power, and Island Industrial customers to smooth rate impacts for variations between actual results and test year cost of service estimates for:

(1) Hydraulic production;
(2) No. 6 fuel cost used at Hydro's Holyrood Generating Station; and,
(3) Customer load (Utility and Island Industrial).

The hydraulic production variation 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 No. 6 fuel cost variation is used to account for variations between the base cost per barrel for No. 6 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 customer load variation 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.

Board Order P.U. 40 (2003) approved the consolidation of the two plan balances at December 31, 2003 and that it be recovered over four years. It also ordered that effective January 1, 2004 balances accumulating from January to December for Utility and Industrial customers be collected in the following calendar year. The hydraulic variation will accumulate from January to December, however, only 25% of the balance and 100% of the financing charges are allocated to the customers for collection in the following year. The remainder of the hydraulic variation is carried forward into the next year.

The following table shows the plan balances by customer for the 2005 Forecast and the 2006 Budget:

RATE STABILIZATION PLAN

($ Thousands)

	2005 Forecast	2006 Budget
RSP balance December 31, 2003		
Newfoundland Power Inc.	79,077	51,012
Island Industrial	24,960	12,441
	104,037	63,453
Current RSP		
Newfoundland Power Inc.	4,201	7,362
Island Industrial	143	4,711
Hydraulic balance	(8,523)	(8,523)
	(4,179)	8,239
Total	99,858	71,692

RETAINED EARNINGS

The following table depicts the changes in Retained Earnings since 1995:

	HYDRO			CF(L)Co		
	Net Income	Dividend	Retained Earnings	Income[1]	Dividend	Retained Earnings
	($ Thousands)					
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	40,815	(121,166)	216,833	17,115	(6,788)	236,654
2003	5,288	(34,835)	187,286	16,358	(6,251)	246,761
2004	47,593	(41,671)	193,208	19,578	(8,920)	257,419
2005	50,166	(44,290)	199,084	20,875	(8,437)	269,857
2006	49,839	(46,360)	202,563	21,363	(7,195)	284,025

(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/CAPITAL

The projection for the debt to capital ratio is 85/15 at December 31, 2006 which is the same as the debt to capital ratio projected for 2005.

FORECAST STATEMENT OF CASH FLOWS

($ Thousands)

Year ending December 31	2005 Forecast	2006 Budget
Cash provided by (used in)		
Operating activities		
Net income	71,041	71,202
Adjusted for items not involving a cash flow		
Depreciation	35,254	38,056
Amortization of deferred charges	3,933	4,663
Rate stabilization plan	37,180	28,166
Equity in net income of CF(L)Co	(13,684)	(14,880)
Other	2,861	1,094
	136,585	128,301
Dividend from CF(L)Co	2,632	1,645
Change in working capital balances	(24,561)	4,274
	114,656	134,220
Financing activities		
Long-term debt issued	0	250,000
Long-term debt retired	(16,884)	(200,245)
Dividends	(52,727)	(53,555)
	(69,611)	(3,800)
Investing Activities		
Net additions to capital assets	(51,242)	(45,366)
Increase in sinking funds	(19,464)	(18,539)
Addition to deferred charges	(4,050)	(4,832)
	(74,756)	(68,737)
Net (increase) decrease in promissory notes	(29,711)	61,683
Promissory notes, beginning of year	(158,285)	(187,996)
Promissory notes, end of year	(187,996)	(126,313)