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Board of Commissioners of Public Utilities
1998 Annual Financial Review of Newfoundland Power Inc.

Contents

Introduction

This report to the Board of Commissioners of Public Utilities ("the Board") presents our observations, findings and recommendations with respect to our 1998 Annual Financial Review of Newfoundland Power Inc. ("the Company") ("Newfoundland Power").

Scope and Limitations

Our analysis was carried out in accordance with the following Terms of Reference:

1. Examine the Company's system of accounts to ensure that it can provide information sufficient to meet the reporting requirements of the Board.

2. Review the Company's calculations of return on rate base, return on equity and capital structure and interest coverage to ensure that they are in compliance with Board Orders.

3. Conduct an examination of operating and general expenses, purchased power, depreciation, interest and income taxes to assess their reasonableness and prudence in relation to sales of power and energy and their compliance with Board Orders.

   Our examination of the foregoing will include, but is not limited to, the following expense categories:
   - advertising,
   - bad debts (uncollectible bills),
   - company pension plan,
   - costs associated with curtailable rates,
   - demand side management,
   - donations,
   - general expenses capitalized (GEC),
   - income taxes,
   - intercompany charges (including review of compliance with paragraphs 19-23 of Order No. P.U. 7 (1996 - 97)),
   - interest and finance charges,
   - membership fees,
   - miscellaneous,
   - non-regulated expenses,
   - purchased power,
   - salaries and benefits (including executive salaries),
   - travel, and
   - amortization of regulatory costs as per P.U. 36(1998-99).

4. Examine the Company's 1998 capital expenditures in comparison to budgets and prior years and follow up on any significant variances.

5. Review the Company's rates of depreciation and assess their compliance with the 1995 Gannett Fleming Depreciation Study. Assess reasonableness of depreciation expense.

6. Conduct an examination of rates charged to customers to determine whether any of the Company's rates are preferential and the impact, if any, on revenue requirement.

7. Review Minutes of Board of Director's meetings.

8. Review the Company's initiatives and efforts with respect to productivity improvements, rationalization of operations and expenditure reductions. Obtain update on current activities and inquire as to any future initiatives currently being evaluated.

The nature and extent of the procedures which we performed in our analysis varied for each of the items in the Terms of Reference. In general, our procedures were comprised of:

- enquiry and analytical procedures with respect to financial information in the Company's records;
- examining, on a test basis where appropriate, documentation supporting amounts included in the Company's records;
- assessing the reasonableness of the Company's explanations; and,
- assessing the Company's compliance with Board Orders.

The procedures undertaken in the course of our financial analysis do not constitute an audit of the Company's financial information and consequently, we do not express an opinion on the financial information.

The financial statements of the Company for the year ended December 31, 1998 have been audited by Deloitte & Touche, Chartered Accountants, who have expressed their unqualified opinion on the fairness of the statements in their report dated January 20, 1999. In the course of completing our procedures we have, in certain circumstances, referred to the audited financial statements and the historical financial information contained therein.

System of Accounts

Section 58 of the *Public Utilities Act* permits the Board to prescribe the form of accounts to be maintained by the Company.

During our review, we examined the latest changes to the system of accounts which were filed with the Board during 1998. This revision was related to the addition of new accounts, the deletion of older, unused accounts, as well as account description changes. None of the changes are considered to be significant.

Based upon our review of the Company's financial records we have found that they are substantially in compliance with the system of accounts prescribed by the Board. The system of accounts is comprehensive and well structured and provides adequate flexibility for reporting purposes.

Return on Rate Base

Calculation of Average Rate Base

The Company's calculation of its average rate base for the year ended December 31, 1998 is included on Return 3 of the annual report to the Board. Our procedures with respect to verifying the calculation of the average rate base were directed towards the verification of the data incorporated in the calculations and the methodology used by the Company. Specifically, the procedures which we performed included the following:

- agreed all carry-forward data to supporting documentation including audited financial statements and internal accounting records, where applicable;

- agreed component data (capital expenditures; depreciation; etc.) to supporting documentation;

- checked the clerical accuracy of the continuity of the rate base for 1998;

- agreed the methodology used in the calculation of the average rate base to the Public Utilities Act to ensure it is in accordance with established policy and procedure; and

Based upon the results of the above procedures we did not note any discrepancies in the calculation of the average rate base, and therefore conclude that the average rate base included in the Company's annual report to the Board is accurate and in accordance with established practice.

Return on Rate Base

The Company's calculation of the return on rate base is included on Return 10 of the annual report to the Board. Our procedures with respect to verifying the reported return on rate base included agreeing the data in the calculation to supporting documentation and recalculating the rate of return to ensure it is in accordance with established practice and Board Orders. As a result of completing these procedures, we can advise that no discrepancies were noted and therefore conclude that the calculation of rate of return on average rate base included in the Company's annual report to the Board is in accordance with established practice and P.U. 36 (1998-99).

During the 1998 rate hearing process, Newfoundland Power forecast their return on rate base to be 9.79%. In P.U. 36 (1998-99) the Board ordered that a just and reasonable return on rate base is in the range of 9.63% to 9.99% with 9.81% as the midpoint of the range. The Company's actual return on rate base for 1998 is 9.86%, which is in 5 basis points above the midpoint and 13 basis points below the upper limit of the approved range.

The difference between the actual return on rate base and the upper limit of the approved range, expressed in terms of dollar impact on earnings, is approximately $614,000 on an after tax basis, or $1,057,000 on a pre-tax basis.

Return on Equity

In P.U. 16 and 36 (1998-99) the Board deemed the following capital structure for the Company:

Common equity: The lesser of:
(a) 45% and
(b) the projected average value of common equity

Preferred equity: Projected average value of preferred equity and any projected average common equity in excess of 45%.

In addition, the Board ordered that to the extent the common equity exceeds 45%, the excess will be deemed as preferred equity and will be allowed a rate of return of 6.33%.

Average common equity calculated for 1998 is below the approved maximum, and accordingly, no calculation for deeming excess common equity as preferred equity is required.

Also, as indicated in our report dated October 23, 1998, during March 1998, the Company paid a special dividend of $10.0 million on its common shares. This payment has the effect of reducing the percentage of average common equity in the Company's capital structure. A similar special dividend for $5 million was paid in 1997, and $15.5 million in 1996.

The Company's actual average capital structure for 1998 as compared to forecast 1998 is as follows:

	Actual 1998		Forecast 1998	
	(000's)	Percent	(000's)	Percent
Debt	$ 282,484	53.80%	$ 284,215	54.07%
Preferred shares	9,890	1.88%	9,890	1.88%
Common equity	232,657	44.32%	231,510	44.05%
	$ 525,031	100.00%	$ 525,615	100.0%

Calculation of Regulated Average Common Equity

The Company's calculation of deemed regulated average common equity for the year ended December 31, 1998 is included on Return 19 of the annual report to the Board.

Similar to the approach used to verify the rate base, our procedures in this area focused on verification of the data incorporated in the calculations and on the methodology used by the Company. Specifically, the procedures which we performed included the following:

- agreed all carry-forward data to supporting documentation, including audited financial statements and internal accounting records where applicable;
- agreed component data (earnings applicable to common shares; dividends; regulated earnings; etc.) to supporting documentation;
- checked the clerical accuracy of the continuity of regulated common equity, including the deemed capital structure per P.U.36 (1998-99); and,
- recalculated the rate of return on common equity for 1998 and ensured it was in accordance with established practice and P.U. 36 (1998-99).

Based upon the results of the above procedures, we did not encounter any discrepancies in the calculation of the rate of return on deemed regulated average common equity. Therefore, we conclude that the rate of return included in the Company's annual report to the Board is in accordance with established practice and P.U. 36 (1998-99).

Return on Regulated Average Common Equity

In P.U. 36 (1998-99) the Board indicated that a return on rate base of 9.81% would provide the Company with the opportunity to earn a rate of return on common equity of 9.25%. During the 1998 rate hearing process, Newfoundland Power forecast a rate of return on common equity of 9.22%. The Company's actual return on regulated average common equity for 1998 is 9.58%. As the regulated average common equity did not exceed the capital structure limits as approved in P.U. 36 (1998-99) there is no return on excess common equity for 1998.

We did note that the Company has removed the adjustment for cumulative deemed dividends from their calculation of regulated common equity in response to the findings in our report to the Board dated October 23, 1998.

Interest Coverage

The level of interest coverage experienced by the Company over the last three years is as follows:

	(000's)		
	1996	1997	1998
Net income	$ 25,770	$ 25,557	$ 22,197
Income taxes	18,617	18,105	16,027
Interest on long term debt	23,867	24,867	24,261
Other interest	1,388	1,010	1,978
Total	$ 69,642	$ 69,539	$ 64,463
Interest on long term debt	$ 23,867	$ 24,867	$ 24,261
Other interest	1,388	1,010	1,978
Capitalized interest	256	240	563
Total	$ 25,511	$ 26,117	$ 26,802
Interest coverage (times)	2.73	2.66	2.41

In P.U. 16 (1998-99) the Board determined that a reasonable range of interest coverage is between 2.4 and 2.7 times. The Company's level of interest coverage for 1998 is 2.41 times, which is in the lower end of the above range. The Company's submission for the 1998 rate hearing forecast a level of interest coverage for 1998 of 2.39 times.

Capital Expenditures

The variances for the 1998 capital expenditures relative to the approved budget (P.U. 15 (1997-98) and P.U. 17 (1998-99)) are as follows:

	(000's)			
	Budget	Actuals	Variance	%
Energy supply	$ 13,121	$ 12,888	$ (233)	(1.78%)
Substations	2,660	3,029	369	13.87%
Transmission	2,640	2,425	(215)	(8.14%)
Distribution	13,402	15,422	2,020	15.07%
General property	2,193	1,294	(899)	(40.99%)
Transportation	1,415	1,521	106	7.49%
Telecommunications	1,173	1,121	(52)	(4.43%)
Computing equipment	3,439	4,080	641	18.64%
General expenses capital	3,417	3,465	48	1.40%
Total	$ 43,460	$ 45,245	$ 1,785	4.11%

The explanations provided by the Company indicate that the capital expenditure variances for 1998 were caused by a number of factors, including project deferrals and cancellations, design changes, higher than expected replacements, unforeseen repairs, expenditures budgeted in 1999 but incurred in 1998, and general cost overruns.

Revenue

The comparison of 1998 actual revenues to prior year by rate class is as follows:

(000's)	1998 Actual	1997 Actual	Difference	%
Residential	$198,361	$203,436	$(5,075)	(2.49%)
General Service				
0-10 kW	9,908	10,104	(196)	(1.94%)
10-100 kW	44,236	45,761	(1,525)	(3.33%)
110-1000 kVA	49,830	51,098	(1,268)	(2.48%)
Over 1000 kVA	18,143	17,631	512	2.90%
Streetlighting	10,140	10,353	(213)	(2.06%)
Discounts forfeited	2,262	2,314	(52)	(2.25%)
Total revenue	$332,880	$340,697	$(7,817)	(2.29%)

The actual revenues in 1998 are $7.817 million lower than 1997. This is due primarily to the reduction in rates of 2.1% ordered in P.U. 16 (1998-99).

The comparison by rate class of 1998 actual revenues to those forecast at the 1998 rate hearing is as follows:

(000's)	1998 Actual	1997 Actual	Difference	%
Residential	$198,361	$199,373	$ (1,012)	(0.51%)
General Service				
0-10 kW	9,908	9,936	(28)	(0.28%)
10-100 kW	44,236	44,100	136	0.31%
110-1000 kVA	49,830	49,542	288	0.58%
Over 1000 kVA	18,143	18,067	76	0.42%
Streetlighting	10,140	10,069	71	0.70%
Discounts forfeited	2,262	2,287	(25)	(1.09%)
Total revenue	$332,880	$333,374	$ (494)	(0.15%)

We have also compared the forecast GWh for 1998 per the rate hearing to the actual GWh sold in 1998.

	Actual 1998 GWh	Forecast 1998 GWh	Variance	%
Residential	2,652.1	2,669.4	(17.3)	(0.65%)
General Service				
0-10 kW	91.3	91.6	(0.3)	(0.33%)
10-100 kW	551.3	548.9	2.4	0.44%
110-1000 kVA	773.4	766.5	6.9	0.90%
Over 1000 kVA	336.1	334.2	1.9	0.57%
Street lighting	35.4	35.3	0.1	0.28%
	4,439.6	4,445.9	(6.3)	(0.14)%

As shown in the two preceding tables, the revenue forecast used in the 1998 rate hearing was reasonable in terms of both dollars and GWh, showing an overall difference of 0.15% and 0.14% respectively.

Operating and General Expenses

Schedule 1 of our report provides details of operating and general expenses (excluding purchased power) by "breakdown" for the years 1996 to 1998. This schedule shows that total gross operating expenses (before transfers to GEC, DSM and stores) have decreased in 1998 relative to 1997 by $6.299 million ($55,359,000 - $61,658,000).

A large portion of the 1998 decrease in operating and general expenses was attributed to the retirement allowance offered by the Company in 1997 through early retirement programs. As well, a large decrease was experienced in labour costs by the resulting salary savings. Specifics of the program and its costs and other retirement, termination and severance costs are described in more detail later in our report.

On a net basis (after transfers to GEC), operating expenses have decreased from $57.555 million in 1997 to $52.641 million in 1998. The decrease in gross expenses noted above resulted in a similar decrease on a net basis, but the reduction was lower due to the impact of the phase-in of the change in accounting for General Expenses Capitalized (GEC). This GEC impact is consistent with the expectation and information previously reviewed at both the GEC hearing and the 1996 rate hearing.

At the 1998 rate hearing the Company presented its forecast operating and general expenses for the 1998 fiscal year. The forecast expenses on which rates were determined was $53,400,000. We have compared the 1998 actual operating and general expenses to the 1998 forecast. On a net basis, actual expenses are lower than forecast by $759,000 ($53,400,000 - $52,641,000). The decrease in actual operating expenses in 1998 as compared to forecast, is primarily attributable to lower operating labour costs.

Our detailed review of operating expenses was conducted using the breakdown as documented in Schedule 1. This breakdown provides for more relevant analysis of the Company's operating expenses and does agree to the schedule of operating expenses in the Company's annual report to the Board. It should also be noted that our review is based upon gross expenses before allocation to GEC.

Schedule 2 of our report shows the trend in operating expenses by breakdown for the period 1996 to 1998. Except for the effect of the early retirement costs in 1997, the trend in operating expenses appears to be relatively stable.

The relationship of operating expenses to the sale of energy (expressed in GWh) is presented in Schedule 3. Again, except for the effect of early retirement costs in 1997, the table and graph show that the cost per GWh remains relatively stable over the period.

Our observations and findings based on our detailed review of the individual expense categories are noted below.

General Expenses Capitalized (GEC)

On December 11, 1995 Board Order P.U. 3 (1995-96) was issued as a result of an application made by the Company. As part of our procedures we assessed the Company's compliance with this Order. Based upon the results of our review and assessment, we have determined that the Company is in compliance with this Board Order for 1998.

More specifically, with respect to GEC we have determined:

- The accounting policy applied for the purpose of capitalization of general expenses is the incremental basis, subject to the phase in requirements, which has resulted in the allocation to capital assets of only those costs which are incremental costs of capital projects.

- Overhead costs are considered to be incremental costs of capital projects to the extent they vary with the level of construction, as compared to no capital projects whatsoever. Otherwise the costs are expenses of the period in which they are incurred.

- The guidelines for capitalization of general expenses, as approved by Board consultants NKHK Chartered Accountants in letters dated January 17, 1996 and January 30, 1996 have been followed to the extent practicable

- GEC have been allocated to hydro assets, diesel assets, substations, transmission, general property, transportation, communication, computer and software assets, and distribution assets through a flat rate.

- The change in accounting policy for GEC to the incremental basis, from the full cost method, is being phased in over the period January 1, 1995 to December 31, 1999. In 1998, GEC had been accounted for using the incremental basis plus an adjustment of 20% of the difference between full cost and the incremental amount. With respect to allocation to specific capital assets during the period of transition, we can confirm the reduction in GEC is being allocated to distribution assets first.

This change in accounting policy, from full cost to incremental allocation, directly impacts the level of net operating expenses and net earnings through a reduction of transfers to GEC. The impact of th change on the financial results of the Company is as follows:

(000)'s	1995	1996	1997	1998
Transfers to GEC/DSM/Stores				
Full Cost Accounting	$ 8,800	$ 7,913	$ 7,362	$ 6,970
Incremental Cost Accounting (Phase-in)	7,392	5,317	4,103	2,718
Increase in operating expenses	$ 1,408	$ 2,596	$ 3,259	$ 4,252

Intercompany Charges

Our review of intercompany charges included the following specific procedures:

- assessed the Company's compliance with P.U. 7 (1996-97);
- compared intercompany charges for the years 1995 to 1998 and investigated any unusual fluctuations;
- reviewed detailed listings of charges for 1998 and investigated any unusual items;
- vouched a sample of transactions for 1998 to supporting documentation; and,
- assessed the reasonableness and appropriateness of the amounts being charged.

The most significant observations from our analysis of intercompany charges for 1995 to 1998 are as follows:

- staff charges of $239,305 were charged to Canadian Niagara Power in 1998 (1997 - $29,969). The majority of these charges relate to payroll costs of the President of Canadian Niagara Power who assumed the position on January 1,1998.
- part 6.1 Corporate Tax (Series B) costs are nil for 1998 (1997 - $112,845). These costs are to be claimed by Maritime Electric Company for 1998.

- during 1997 the Company entered into agreements with Maritime Electric Company (Maritime) relative to the sale of personal properties of the new Chief Executive Officer and Vice President, Operations to facilitate their relocation to Newfoundland. The Company was responsible to reimburse Maritime for any expenses incurred on its behalf. Moving expenses for approximately $138,000 has been charged from Maritime for 1998.

In Board Order P.U. 7 (1996-1997), the Board provided several instructions to the Company with respect to the recording and reporting of intercompany transactions. We have reviewed these items and report that the Company is in compliance with P.U. 7 (1996-97).

Overall, as a result of completing our procedures in this area we conclude that intercompany charges for 1998, are reasonable.

Salaries and Benefits (including executive salaries)

A detailed comparison of the number of full-time equivalent (FTE) employees by category for 1996 to 1998, including the forecast for 1998, is as follows:

	1996	1997	1998	Forecast 1998
Executive group	11.5	10.2	10.1	10.0
Corporate Office		41.5	40.1	39.0
Internal audit	4.0			
Legal	4.7	8.8	7.9	8.0
Corporate and employee services	94.7			
Finance and operations	104.5	555.8	545.1	545.0
Technical services	107.0	108.9	101.5	103.0
Customer services	30.0			
Operations	409.2			
	765.6	725.2	704.7	705.0
Temporary employees	89.0	105.9	71.4	76.7
Total	854.6	831.1	776.1	781.7

We indicated in our report dated October 23, 1998 that the Company reorganized their departments in 1998, the following summarizes the changes that were implemented:

- Corporate Office includes corporate communications, human resources, and internal audit.
- Finance includes finance, customer accounting, and information systems.
- Operations includes the regions and customer service.

Prior to the reorganization, the departments were organized as follows:

- Corporate communications, human resources and information systems were included in the Corporate and Employee Services division.
- Finance, customer accounting and customer service were included in the Finance division.
- The Operations division only consisted of the regions.

For purposes of the above table, we regrouped some of the 1997 divisions to provide a basis for comparison to 1998. We also grouped the finance and operations divisions in 1998 to provide a comparison of the number of FTE's to 1997. The actual number of FTE's for 1998 is 776.1, which is 5.6 less that the 781.7 FTE's that the Company provided as an estimate during the hearing process, and 55 less than the 1997 total of 831.1 FTE's.

The number of FTE's in 1996 compared to 1998 indicates a decrease of 78.5 FTE's, this is primarily a result of the Early Retirement Programs offered to employees in 1997. These programs resulted in the elimination of 73 positions.

An analysis of salaries and wages by type of labour and by function within the Company from 1996 to 1998 including the forecast for 1998, is as follows:

	1996	1997	1998	Forecast 1998
Type				
Internal labour	$ 42,007	$ 41,187	$ 39,895	$ 40,746
Overtime	2,095	2,705	3,146	2,049
	44,102	43,892	43,041	42,795
Contractors	1,936	2,058	3,511	4,007
	$ 46,038	$ 45,950	$ 46,552	$ 46,802
Function				
Operating	34,182	33,732	31,743	32,886
Capital and miscellaneous	11,856	12,218	14,809	13,916
	$ 46,038	$ 45,950	$ 46,552	$ 46,802

Our review of salaries and benefits included an analysis of the year to year variance, consideration of the trends in labour costs, and discussion of the significant variances with Company officials. As indicated in the table, actual labour costs for 1998 was approximately $46.6 million versus $46.8 million forecast by the Company during the hearing process.

Overall, the 1998 salary costs are fairly consistent with the 1998 forecast (0.5% variance). The change in regular labour costs for 1998 as compared to 1997 was reviewed in detail during the 1998 fall hearing. After hearing the evidence presented, the Board in P.U. 36 (1998-99) accepted the 1998 forecast labour costs as reasonable and prudent.

The explanations provided by the Company for changes in overtime and contract labour are as follows.

Overtime for 1998 increased as a result of reliability initiatives, especially in the St. John's region. A significant portion of the increase related to work on feeders in highly industrialized areas, such as the O'Leary Industrial Park. The Company indicated that the majority of their work was completed on weekends to minimize the inconvenience for their customer.

Contract labour for 1998 increased as a result of severe weather on the Burin Peninsula during April, 1998, vegetation management initiatives, contracting out of transmission line inspections and work on the Rose Blanche project.

Short Term Incentive (STI) Program

In our 1997 Annual Review Report we indicated that it was important to continue to monitor the results of the Company's STI Program in order to assess its effectiveness and impact on labour costs. It was also noted that, for 1998, the Company has refined several of the performance categories and set performance targets at slightly higher levels.

The Company has indicated that "the 1998 targets were designed to align with the overall objective of improving customer service and reliability" (DMB-9, Page 3 of 8). The changes regarding the performance categories and the specific measures that are used to set targets are as follows:

- the target for "controllable operating expenses" was previously based on an absolute dollar target. This target is now set based on a ratio of budgeted operating costs per customer. The Company indicates that this measure reinforces their customer focus and is a more suitable indicator of efficiency over the longer term.

- the "energy sales" category was replaced with a "customer satisfaction" category. This category is a measure of a composite of customer service satisfaction ratings obtained through quarterly surveys in the areas of call center telephone services, field services, cashier services, and general customer satisfaction. The Company indicated that the customer satisfaction target of 85% is slightly higher than recent national levels.

- the safety category for 1998 is based on the absolute numbers of accidents per year, instead of a ratio of accidents per hours worked. This change was implemented for ease of understanding and communication.

The following table outlines the actual results for 1996 to 1998 and the targets set for 1998:

Measure	1996 Actual	1997 Actual	1998 Actual	1998 Target
Controllable operating Costs / Customer	$254	$246	$234	$240/Budget
Reliability - Duration of Outages	3.87	3.68	4.89	3.42
Customer Satisfaction	N/A	85%	84%	85%
Safety - # of Lost Time Accidents, Medical Aids, & Vehicle Accidents	80	68	54	60
Attendance / Absenteeism	6.6	6.9	5.7	6.5

Another modification that the Company implemented in regards to the1998 targets was the introduction of an individual performance measure for Executives and Managers. This change was implemented to reinforce the accountability and achievement of individual performance targets. The overall target payment percentages have not changed from 1997 as a result of this change.

The weight between corporate performance and individual performance differs between the managerial classifications, as outlined in the following table.

Classification	Corporate Performance	Individual Performance
President and CEO	**75%**	**25%**
Vice Presidents	**50%**	**50%**
Managers	**25%**	**75%**

The individual measures of performance are developed in consultation with the individuals and their immediate supervisors. Each measure is reflective of key projects or goals, and focuses on departmental or divisional priorities.

The program operates to provide 100% payout of established STI pay if the Company meets, on average, 100% of its performance targets. The STI pay for 1998 is established as a percentage of base pay for the five employee groups. The results of the STI program have been positive again in 1998 with a total payout of 116% of targets as compared to 115% of targets that was forecast during the fall rate hearing process.

The following table illustrates the target as a percentage of base pay, together with the actual STI payouts for 1996 to 1998:

	1996		1997		1998		
	STI Target Payout (100%)	STI Actual Payout (139.9%)	STI Target Payout (100%)	STI Actual Payout (130%)	STI Target Payout (100%)	STI Forecast Payout (115%)	STI Actual Payout (116%)
President	25%	35%	30%	39%	30%	34.5%	34.8%
Vice Presidents	17.5%	24.5%	20%	26%	20%	23.0%	23.2%
Managers	10%	14%	10%	13%	10%	11.5%	11.6%
Managerial	4%	5.6%	5%	6.5%	5%	5.75%	5.8%
Unionized	2%	2.8%	3%	3.9%	4%	4.6%	4.6%

The only change in target payouts for 1998 was with respect to the unionized group. Their increase from 3% to 4% was in accordance with their negotiated contract.

In dollar terms the STI payouts for 1998 compared to 1997 and 1996 are as follows:

	1996	1997	1998
Executive	$ 191,000	$ 284,000	$ 202,000
Managers	214,000	152,000	144,400
Managerial	903,000	1,013,000	857,300
Unionized	500,000	693,000	810,200
	1,403,000	1,706,000	1,667,500
Total	$ 1,808,000	$ 2,142,000	$ 2,013,900

The 1998 total of $2,013,900 is $128,100 lower than the 1997 amount of $2,142,000 which is consistent with the lower payout percentage of 116% versus 130%. The 1998 actual is consistent with the forecast of $2,050,000 as presented at the 1998 fall hearing.

Executive Compensation

The following table provides a summary and comparison of executive compensation for 1996 to 1998.

	Base Salary	Short Term Incentive	Other	Total
1998				
Total executive group	$ 702,000	$ 202,000	$ 95,822	$ 999,822
Average per executive (4)	**$ 175,500**	**$ 50,500**	**$ 23,956**	**$ 249,956**
1997				
Total executive group	$ 821,959	$ 283,938	$ 522,125	$ 1,628,022
Less: 1997 retirees (Note 3)	(114,850)	(45,388)	(388,077)	(548,315)
Add: Annualize VP-Operations	35,800			35,800
Normalized compensation	$ 742,909	$ 238,550	$ 134,048	$ 1,115,507
Average per executive (5)	**$ 148,582**	**$ 47,710**	**$ 26,810**	**$ 223,102**
1996				
Total executive group (normalized)	$ 621,333	$ 171,295	$ 70,396	$ 863,024
Average per executive (5)	**$ 124,267**	**$ 34,259**	**$ 14,079**	**$ 172,605**
% Average increase 1998 vs. 1997	**18.1%**	**5.8%**	**(10.7%)**	**12.0%**

1. For comparison purposes the compensation of the former Chief Executive Officer and Vice President, Technical Services, both of whom retired in 1997, has been excluded from the calculation of average executive compensation. The "Other" category for these individuals includes their retiring allowance and consequently is unusually high.

The increase in average executive base pay in 1997 versus 1996 is attributable to: 1) a higher level of base salary for the new Chief Executive Officer and Vice President, Operations compared to the individuals retiring; and 2) increases provided to the remaining vice presidents effective June 1, 1997. Further increases in base salary effective January 1, 1998, contribute to the continuing increase in average executive base pay for 1998 versus 1997.

The increases in compensation packages for executives were approved by the Board of Directors based on a recommendation of the Human Resources (HR) Committee as a result of its annual compensation review.

The Company presented evidence to support the executive compensation levels through its expert witness, Hay Group, at the 1998 fall hearing. In P.U. 36 (1998-99), the Board indicated that in the absence of any evidence that suggested otherwise the executive and management compensation was accepted as reasonable.

Company Pension Plan

For 1998 we analyzed the transactions supporting the gross charge of $3.833 for pension expense in the accounts of the Company. As a result of our analysis we determined that the company pension expense for 1998 was in compliance with Board Orders. The 1998 expense was in line with the forecast (2.4% lower) and $444,000 (10%) lower than the 1997 actual of $4.276 million.

The components of pension expense are as follows:

	1997 (1)	1998	Budgeted 1998
Pension expense per actuary	$3,608,500	$ 3,224,100	$ 3,169,800
Pension uniformity plan	91,883	54,995	92,254
Group RRSP @ 1.5%	475,968	483,154	455,861
Individual RRSP's	28,854	55,492	57,460
Consultants fees	116,882	90,991	150,000
Less: Refunds	(45,483)	(75,804)	
Total Pension Expense	$ 4,276,604	$ 3,832,928	$ 3,925,375

(1) The 1997 breakdown of pension expense has been revised from our October 23, 1998 report to conform with reclassifications adopted for 1998.

The reduction in the actuarially determined pension costs from 1997 to 1998 is the result of the following factors:

- the additional pension funding in 1995;
- the 1997 Early Retirement program; and
- a general improvement in the performance of the plan assets.

The increase in the actual 1998 actuarially determined pension costs as compared to the amount forecast for 1998 is due to the 2% increase in basic benefit to individuals who retired prior to January 1, 1993. It was also approved in P.U. 36 (1998-99) that the increase is to be amortized over a 15 year period commencing July 1, 1998.

The Company's pension uniformity plan is meant to eliminate the inequity in the regular pension pl[illegible] related to the limitation on the maximum level of contributions permitted by income tax legislation. In effect, the pension uniformity plan tops up the benefits for senior management so that they receive benefits equivalent to the benefit formula of the registered pension plan. The decrease in the amount for 1998 is due to amounts recovered from Canadian Niagara Power. The Board ordered in P.U. 7 (1996-97) that the pension uniformity plan be allowed as reasonable and prudent and properly chargeable to the operating account of the Company.

The employer's portion of the contributions to the Group RRSP is calculated as 1.5% of the base salary paid to the plan participants. During 1997, a significant number of employees retired July 1, 1997, as a result of the Early Retirement program. These retirements reduced the employer's portion of contributions by one-half for those employees. The full impact of the Early Retirement program is reflected in 1998. This is partially offset by the fact that there are 27 pay periods in 1998 and only 26 in 1997.

In 1997, seven employees contributed to an Individual RRSP plan instead of participating in the Company's defined benefit pension plan. However, only two of these employees were employed with the Company for the full year. The contributions for the seven employees in 1998 are reflective of their annual salary for the entire year.

Retiring Allowance

The retiring allowance costs to the Company over the period from 1996 to 1998 are as follows:

(000)'s	1996	1997	1998
1997 Early Retirement Program		$ 2,545	
Terminations and severance		822	
Executive and manager retiring allowances		414	
Other Retiring Allowance Costs	$ 111	48	$ 20
Total	$ 111	$ 3,829	$ 20

The explanations for the significant costs in this category for 1997 were included in our report dated October 23rd, 1998 and reviewed by the Board during the 1998 fall hearing. For ease of reference we have summarized the explanations from that report below:

- the Company offered two early retirement programs during 1997. A total of 101 employees participated in the program at a cost of approximately $2,545,000.
- termination and severance costs of $822,000 consisted of approximately $303,000 relating to severance costs of two managers. The remaining severance costs of $519,000 related to nine individuals affected by the reorganization and were primarily voluntary separations.
- the executive and manager retiring allowances of $414,000 related to two executives and three managers who retired under normal circumstances (i.e. separate from the early retirement program).

The 1998 expense of $20,000 represents normal retirements.

Advertising

Our procedures in this category included a review of the advertising transactions for 1998 and vouching of a sample of individual transactions to supporting documentation.

Advertising costs in 1998 were $307,000 compared to the 1998 forecast of $231,000 and $251,000 in 1997. This increase is related primarily to charitable and non-regulated advertising which was partially offset by a decrease in customer service and miscellaneous advertising categories.

The breakdown of these advertising costs by program for 1996 to 1998 including the 1998 forecast that was submitted during the rate hearing, is as follows:

	1996	1997	1998	Forecast 1998
Customer Service	$128,200	$94,600	$24,000	$35,860
Safety	54,600	95,200	92,700	80,000
Personnel	54,600	15,100	17,400	15,000
Regional			12,900	15,000
Charitable & Non –regulated		28,500	156,400	80,000
Miscellaneous	9,200	17,600	3,600	5,000
"Home Sweet Home" Campaign	503,400			
TOTAL	**$750,000**	**$251,000**	**$307,000**	**$230,860**

As indicated in our October, 1998 report, the categories of advertising expense have changed. The category noted above as Customer Service is a combination of the former Energy Advertising and Power Smart Home categories. In addition, the Safety category included above is a combination of the old Power Smart Powerplay and Safety programs. Finally, the account formerly known as Corporate is now classified as Personnel as it includes job advertisements only.

Based on the results of our procedures, we conclude that 1998 advertising expenses are reasonable.

In an advertising report to the Board dated April 1, 1999, the Company provided an overview of their 1999 advertising and marketing plans and they have estimated advertising costs to be $257,400. No major changes or new advertising strategies have been contemplated to date per this report.

Travel

Travel costs for 1998 were $1,013,000 as compared to the 1998 forecast of $933,000 and 1997 costs of $934,000. This increase is primarily related to administrative and engineering support and power produced expense classifications. Administrative travel increased as a result of an increased number of meetings, arising mainly from the 1998 rate hearing and 1998 union negotiations. Also, two severe sleet storms affecting the Avalon, Burin and Bonavista peninsulas created higher travel costs for engineering support. Power produced travel increased as a result of required maintenance at company hydro plants.

The procedures performed for travel expenses included a review of the transactions in the discretionary expense classes and vouching of a sample of individual transactions to supporting documentation.

In 1997, the travel policy was clarified so that spousal air fare is now treated as a non-regulated expense. During our procedures, we identified one example of an air fare paid by the Company on behalf of an executive's spouse, and this expenditure was appropriately allocated to non-regulated expense.

Based on the results of our procedures, we conclude that the 1998 travel expenses are reasonable.

Fees and Dues including Consulting Fees

The procedures performed for this category included a review of the transactions for 1998 and vouching of a sample of individual transactions to supporting documentation.

	(000's)			
	Actual			Forecast
	1996	1997	1998	1998
Other company fees	$ 1,253	$ 1,381	$ 931	$ 1,226
Regulatory hearing costs	755	50	483	680
Year 2000 related fees			492	100
Total other company fees	$ 2,008	$ 1,431	$ 1,906	$ 2,006

In 1998 fees and dues (including consulting fees) were $1,906,000 as compared to the 1998 forecast of $2,006,000 and 1997 costs of $1,431,000. As indicated in our report dated October 1998, the increase from 1997 to 1998 was mainly attributable to the Cost of Capital Hearing from March to June 1998, the rate hearing in the fall of 1998, and the Company's Year 2000 compliance initiatives. This increase was partially offset by a drop in other company fees due to the inclusion in 1997 of costs related to the dissolution of Power Smart Inc., a joint venture between the Company and provincial utilities for energy efficiency research and programs.

In P.U. 36 (1998-99), the Board approved the amortization of 1998 regulatory costs of $1.15 million over three years, commencing in 1999. This was an estimate of the external regulatory costs provided by the Company during the rate hearing process. The actual external regulatory costs incurred in 1998 totalled $1,633,162. The difference between the actual costs and the amount deferred of $1.15 million is $483,000, which is the amount expensed in 1998 and included in the above table as "Regulatory hearing costs".

Based on the results of our procedures nothing has come to our attention to indicate that the 1998 expense is unreasonable.

During the 1998 general rate hearing, there were various references to the costs attributable to regulation and, in particular, to the 1998 regulatory costs of approximately $4.1 million (ex. hearing transcript, Volume 15, page 25, lines 60-64). In our view, without further analysis and explanation, such comments could lead to misconceptions about the overall costs of regulation.

As noted above, the external consulting and legal costs incurred by the Company with respect to the 1998 hearings was approximately $1.6 million. The difference between this $1.6 million and the $4.1 million referenced above would presumably relate to internal costs incurred by the Company and allocated to regulatory activities. The question with respect to these internal costs is whether they are incremental in nature and would otherwise have been avoided but for the regulatory hearings.

In addition, it should be noted that the high costs associated with the 1998 hearings are not expected to recur on an annual basis. For example, one of the orders arising from the cost of capital hearing was that such a hearing would be held every four years. The costs of such a hearing therefore, could be averaged over a number of years which effectively reduces the annual cost of regulatory activities.

The discussion and comments with respect to the overall costs of regulation must be considered within the context of the above comments.

Taxes and Assessments

Taxes and assessments in 1998 were $681,000 compared to $659,000 forecast for 1998. The increase of $289,000 in 1998 as compared to 1997 is attributable to the higher Board assessment rate and the reallocation of bank charges to the taxes and assessment expense category. Bank charges were included in miscellaneous expense in prior years.

Bad Debts (Uncollectible Bills)

We reviewed the Company's analysis of the allowance for doubtful accounts for 1998. As well, we reviewed a schedule which compares the percentage of uncollectible bills to revenue for the last five years. The 1998 expense of $1.2 million has decreased by $57,000 from the 1997 expense of $1.257 million, primarily due to improvements in the Company's collection procedures. The Company's submission for the fall rate hearings included a forecast of $1.3 million in bad debt expense for 1998.

Demand Side Management (DSM)

Our approach with respect to demand side management expenses was to recalculate the amortization of deferred amounts carried forward from prior years and to ensure that no additional amounts after 1995 have been deferred pursuant to P.U. 7 (1996-1997).

In compliance with P.U. 1 (1990) and P.U. 7 (1996-97), the Company filed the 1998 Demand Side Management Report with the Board. This report provided a summary of 1998 DSM activities and costs as well as the outlook for 1999.

Based upon the results of our procedures we concluded that the 1998 expense for DSM is reasonable and in compliance with Board Orders.

Miscellaneous

The breakdown of items included in the miscellaneous expense category for 1996 to 1998 including forecast 1998, is as follows:

	1996	1997	1998	Forecast 1998
Miscellaneous	$ 1,078,400	$ 977,200	$1,162,400	$ 892,000
Employee computer purchase plan		236,400	52,700	100,000
Computer software	131,700	94,800	37,700	64,000
Donations and community relations	111,500	231,800	347,900	330,000
Bank charges	102,500	104,900		
Books, magazines	96,400	56,800	77,700	60,000
Damage claims	52,700	145,500	100,800	145,000
Coffee supplies	43,100	42,800	45,500	29,000
Miscellaneous lease payments	25,700	22,800	22,500	22,000
	$ 1,642,000	$ 1,913,000	$1,847,200	$1,642,000

Our procedures in this expense category for 1998 included vouching a sample of transactions within the "miscellaneous category" to supporting documentation. Based upon the results of our procedures nothing has come to our attention to indicate that the 1998 expenses are unreasonable.

Non-regulated items included in the above miscellaneous breakdown have been appropriately included in the Company's non-regulated expenses.

The decrease in miscellaneous expense for 1998 as compared to 1997 is primarily attributable to the following factors:

- 1997 includes bank charges of $104,900. This expense is reallocated to taxes and assessments in 1998.

- During 1997 the Company implemented an employee computer purchase plan. This plan continued in 1998 and will be offered again in 1999. The Company pays for one third of the cost of the computers, with the employee paying the remainder. During 1998, 88 employees took advantage of the plan at a cost of $67,700 ($52,700 in miscellaneous plus other costs of $15,000 recorded in operating materials). However, in 1997 347 employees were involved in the plan at a total cost of $276,700. ($236,400 in miscellaneous plus other costs of $40,300 recorded in operating materials).

- During 1998 the Company decided to change their policy for recording vacation pay. This expense is now charged to individual projects as incurred and reconciled monthly instead of annually. In prior years, a balance would accumulate in the vacation clearing account, and at year end the amount was written off to miscellaneous. This change in accounting has provided a decrease to miscellaneous of $127,000.

The above decreases in the expense for 1998 was partially offset by the following increases:

- In 1998, the employee moving costs relating to the costs of carrying the homes and the loss on disposal from the sale of the homes belonging to the Vice-President of Operations and the President and Chief Executive Officer were included in the miscellaneous expense. The actual costs relating to these transactions are approximately $55,000 and $83,000 for the Vice-President of Operations and President and Chief Executive Officer, respectively.

- In 1998, the community relations category increased by $67,200. The increase is primarily related to extra expenditures for promotional items and safety awareness.

Other Expense Categories

In addition to the various categories of expenses commented on above, the other categories of operating expenses by breakdown were also analyzed for any unusual variances. From this analysis, the following observations were made with respect to the more significant fluctuations.

The Systems Operations expense is $1,499,000 in 1998, a decline of $356,000 from the 1997 total of $1,855,000. This decrease is attributable to the reduction in the amount of snowclearing during 1998 as a result of the favourable conditions in the first quarter of 1998. Furthermore, the expense was unusually high in 1997 due to the staff movements on Kenmount Road and Duffy Place.

The Equipment Rental/Maintenance expense for 1998 is $964,000 as compared to the 1997 actual of $1,378,000. The $414,000 decline from 1997 is due to 1998 being the transitional year to the Alpha systems client server from the older VAX based system which was much more expensive to maintain. Furthermore, savings were incurred when disk storage systems were purchased at the expiry of their leases.

The expense for Fleet Repair and Maintenance in 1998 is $2,183,000 as compared to $2,418,000 for 1997. The $235,000 decline from 1997 is largely attributable to the reduction in the vehicle fleet during 1997 and 1998. In addition, some of the services previously performed with the vehicle fleet are now outsourced which has resulted in overall cost savings.

Interest and Finance Charges

The following table summarizes the various components of finance charges expense:

	Actual (000's)				Forecast
	1995	1996	1997	1998	1998
Interest					
Long-term debt	$ 22,821	$ 24,123	$ 25,107	$ 24,824	$ 25,292
Other	1,474	1,029	722	1,740	1,544
Amortization					
Debt discount	239	229	179	158	161
Capital stock issue	147	130	109	80	82
Interest charged to construction	(262)	(256)	(240)	(563)	(366)
Interest earned	(1,680)	(1,245)	(928)	(1,006)	(1,011)
Total finance charges	$ 22,739	$ 24,010	$ 24,949	$ 25,233	$ 25,702

As per our analysis of the detailed transactions, interest earned is comprised substantially of interest earned on bank accounts and on overdue accounts receivables.

On November 20, 1998 the Company issued $50 million of 6.8% First Mortgage Sinking Fund Bonds maturing in 2028. The proceeds from the issue were used primarily to retire short term bank indebtedness incurred to finance capital expenditures.

Our procedures with respect to interest on long term debt and other interest included a recalculation of interest charges and assessment of reasonableness based on debt outstanding.

Based upon our analysis, the finance charges for 1998 appear reasonable.

Income Tax Expense

We have reviewed the Company's income tax expense for 1998 and have investigated the reasons for any fluctuations and changes.

The effective tax rate on accounting income for 1998 is 41.9%, this percentage is comparable with prior years (1997 - 41.5%; 1996 - 41.9%) and with the statutory corporate tax rate of 43.1%. However the rate is slightly lower than the 43.6% originally forecast in our 1998 fall hearing report. The change in rate is largely a result of a reduction in timing differences.

Based upon our review of the Company's calculations, and considering the impact of timing differences, the income tax expense for 1998 appears reasonable.

Purchased Power

We have reviewed the Company's purchased power expense 1998 and have investigated the reasons for any fluctuations and changes. We recalculated the cost per kilowatt-hour charged by Newfoundland and Labrador Hydro and found purchased power charges to be consistent with 1997.

Based upon our analysis, purchased power for 1998 appears reasonable.

Costs Associated with Curtailable Rates

In P.U. 7 (1996-97), the Board ordered that beginning January 1, 1997, all costs associated with curtailable rates shall be charged to regulated expenses, and not to the Rate Stabilization Account. The Board ordered that the demand credit for curtailment continue at $29/kVA until April 30, 1998. In P.U. 30 (1998-99), the Board ordered that this rate be extended until a review of the curtailment service option is presented at a public hearing.

In relation to these instructions of the Board, nothing has come to our attention to indicate that the Company is not in compliance with the applicable orders of P.U. 7 (1996-97) and P.U.30 (1998-99).

Non-Regulated Expenses

Our review of non-regulated expenses included the following specific procedures:

- assessed the Company's compliance with P.U. 7 (1996-97);
- compared non-regulated expenses for 1998 to prior years and investigated any unusual fluctuations;
- reviewed detailed listings of expenses for 1998 and investigated any unusual items;
- assessed the reasonableness and appropriateness of the amounts being charged.

In the calculation of rates of return the following items are classified as non-regulated.

	Actual		
	1996	1997	1998
Charged from Fortis Inc.			
Annual report	$ 176,500	$ 214,400	$ 194,700
Directors fees and travel	89,100	222,900	190,100
Chairman's fees	40,000		
Other salaries	23,100		
Listing and filing fees	8,400		
Annual and Director's meetings		23,400	17,100
Miscellaneous	103,800	130,200	121,900
	440,900	590,900	523,800
Donations and charitable advertising	202,700	388,100	444,600
Heat pump project	76,800		65,430
Miscellaneous	12,800	109,600	211,070
Share the Light Program	17,800	8,900	11,300
Power Smart Power Play program		31,900	
	751,000	1,129,400	1,256,200
Less: Income taxes	315,500	474,300	527,500
	435,500	655,100	728,700
Add: Income tax cost due to Part 6.1 Tax (Series A)	95,700		
Total non-regulated (net of tax)	$ 531,200	$ 655,100	$ 728,700

(N.B. The above table groups expenses from various expense classes which have been reconciled to other tables and breakdowns included in our report).

Based upon our review and analysis, the amounts reported as non-regulated expenses, as summarized above, appear reasonable and are in accordance with Board Orders, including P.U. 7 (1996-1997).

Depreciation

The objective of our procedures in this section was to ensure that the 1998 depreciation amounts and rates are in compliance with P.U. 7 (1996-97), and in agreement with the recommendations of the 1996 Depreciation Study undertaken by Gannett Fleming Valuation and Rate Consultants, Inc.

The specific procedures which we performed on the Company's depreciation expense included the following:

- agreed all depreciation rates, including true-up provision, to those recommended in the depreciation study;

- recalculated the Company's depreciation expense for 1998; and,

- assessed the overall reasonableness of the depreciation and true-up amounts for 1998.

In performing the above procedures, we observed that the Company has followed the true-up calculations provided by Gannett Fleming in response to an inquiry made by one of the intervenors at the 1996 rate hearing (Exhibit NP-76). This schedule reflects a true-up calculated by dividing the accumulated depreciation variance by five years. This true-up amount is then recorded during each year from 1996 to 2000 (as per the following table) until the variance is reduced to a level less than or equal to 5%.

	1996	1997	1998	1999	2000
True-up (000's)	$ 2,107	$ 2,107	$ 2,189	$ 2,187	$ 3,299

True-up amounts for 1998 to 2000 have increased since 1997 and have the effect for reducing depreciation expense by the same amount. The change in true-up is due to the accumulated depreciation variance on certain individual categories being reduced to below the 5% level in less than five years.

Depreciation expense for 1998 is $28.067 million which is comparable to $28.085 million forecast for 1998 during the rate hearing process.

Based on our review of depreciation expense, we conclude that the Company is in compliance with P.U. 7 (1996-97), and the recommendations and results of the 1996 Depreciation Study have been incorporated into the Company's depreciation calculations for 1998.

Preferential Rates

In order to assess whether the Company had provided preferential rates to any of its customers, we selected a sample of customers from different rate classes for the year ended December 31, 1998. Our sample selection was designed so as to include certain Company executives/officers, and also several of the Company's larger customers.

The procedures performed on the selected customer billings included:

- agreed all rates and discounts to approved rate books, which were vouched on a test basis to the approved rates per P.U. 21 (1998 - 99);
- inquired into the reasons for any non-standard charges, discounts, etc., encountered in our testing;
- checked the clerical accuracy of the customer bill calculations; and,
- ensured that the selected billing was paid on a timely basis or that the account was receiving regular payments.

As a result of completing the above procedures, we confirm that nothing has come to our attention that causes us to believe that any of the Company's rates are preferential.

Productivity and Operating Improvements

In its 1998 annual report the senior officers referred to the Company's strategic goals of enhanced customer service, increased power quality and reliability, and improved productivity. In this regard the Company has undertaken several specific initiatives to achieve these goals. Some of the more significant initiatives as represented by the Company, are as follows:

- A new, centralized distribution transformer repair facility was established in Whitbourne to promote more efficient use of resources, reducing unit refurbishing costs and reducing new unit purchases. A second facility is being established in Stephenville to serve areas west of Gander.

- The Company has allowed qualified electricians to disconnect service to residential customers. This has reduced the number of linecrew visits while also saving customer time and expense.

- The management of the Company's inventory of smaller safety tools and equipment has been outsourced to a local supplier.

- Environmental contractors are now being used to remove any equipment and transport it to stores for handling. This reduces costs and also reduces the environmental risk associated with the transportation of equipment.

- New technologies in the Company's call centre have improved customer service by increasing the number of calls that can be answered and offering additional services such as twenty-four hour messaging and a self service option. Other new services available to customers include the Company's homepage on the internet allowing customers to view their account and register for programs, and a new "trouble line" technology for communications with customers during power outages.

- The Customer Service Department has partnered with the Provincial Department of Human Resources and Employment to offer an improved service to its clients through a redirect program, and extended repayment schedule if necessary. Furthermore, new training for the customer service representatives now allows customers to deal with just one employee on all matters such as credit and account information.

As part of the annual review process, we will monitor the results of the above initiatives and obtain an update from the Company for 1999.

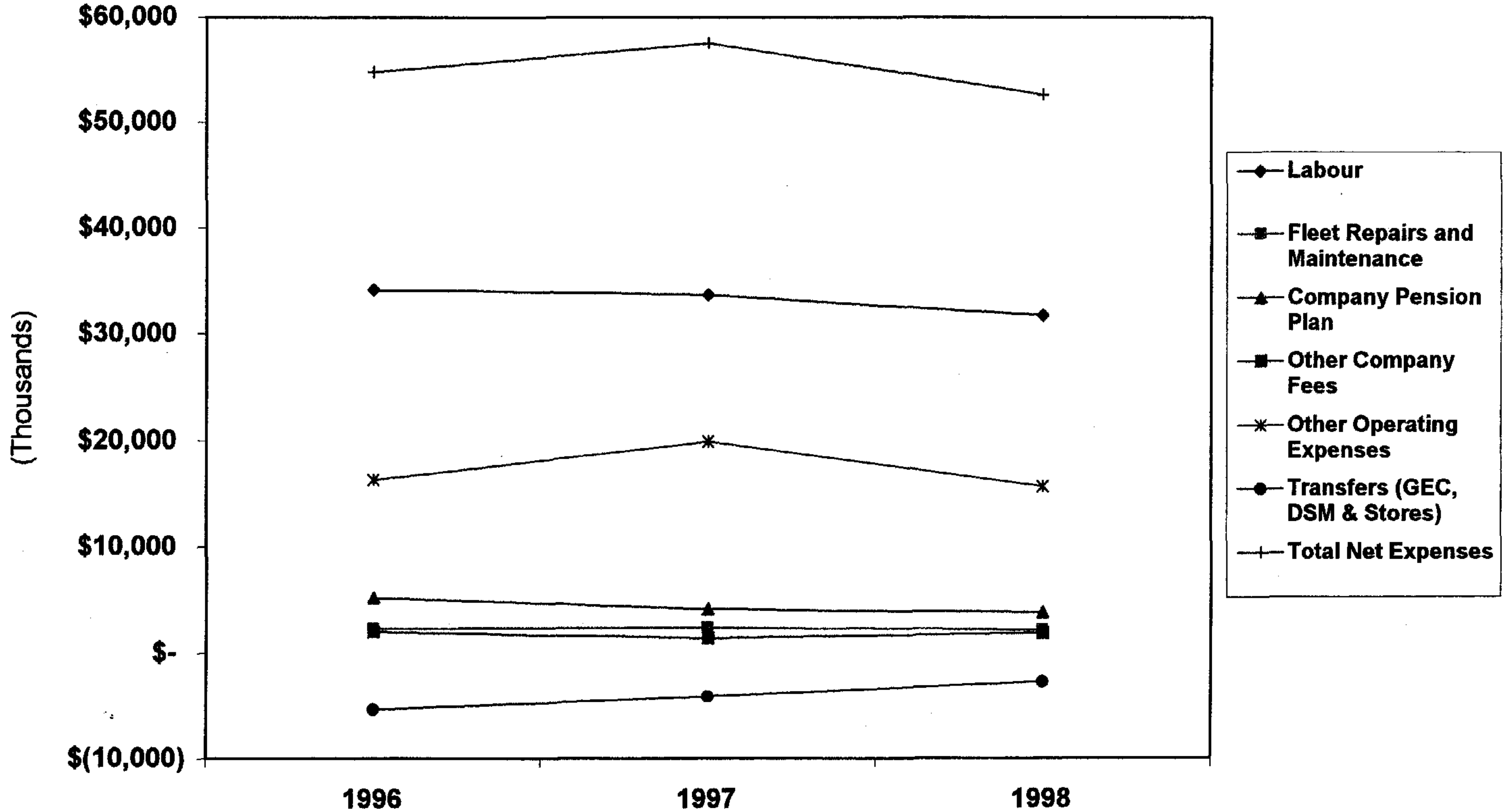
Newfoundland Power Inc.
Operating Expenses by Breakdown (Table)
(000's)

Schedule 1

	Actual 1996	Actual 1997	Actual 1998
Labour	$ 34,182	$ 33,732	$ 31,743
Fleet Repairs and Maintenance	2,297	2,418	2,183
Operating Materials	1,563	1,766	1,741
Inter-Company Charges	674	702	700
System Operations	1,784	1,855	1,499
Travel	817	934	1,013
Tools and Clothing Allowance	657	727	891
Miscellaneous	1,642	1,913	1,850
Prior Years' DSM Amortization	445	290	162
Taxes and Assessments	105	392	681
Uncollectible Bills	1,400	1,257	1,200
Insurances	505	474	698
Retirement Allowance	111	3,829	20
Company Pension Plan	5,246	4,159	3,819
Education and Training	399	432	384
Trustee and Directors' Fees	227	267	367
Other Company Fees	2,008	1,431	1,906
Stationery & Copying	524	472	420
Equipment Rental/Maintenance	1,754	1,378	964
Communications	2,731	2,555	2,368
Advertising	750	251	307
Computer Equipment & Software	231	424	443
Total Other	25,870	27,926	23,616
Total Gross Expenses	60,052	61,658	55,359
Transfers (GEC, DSM & Stores)	(5,317)	(4,103)	(2,718)
Total Net Expenses	$ 54,735	$ 57,555	$ 52,641

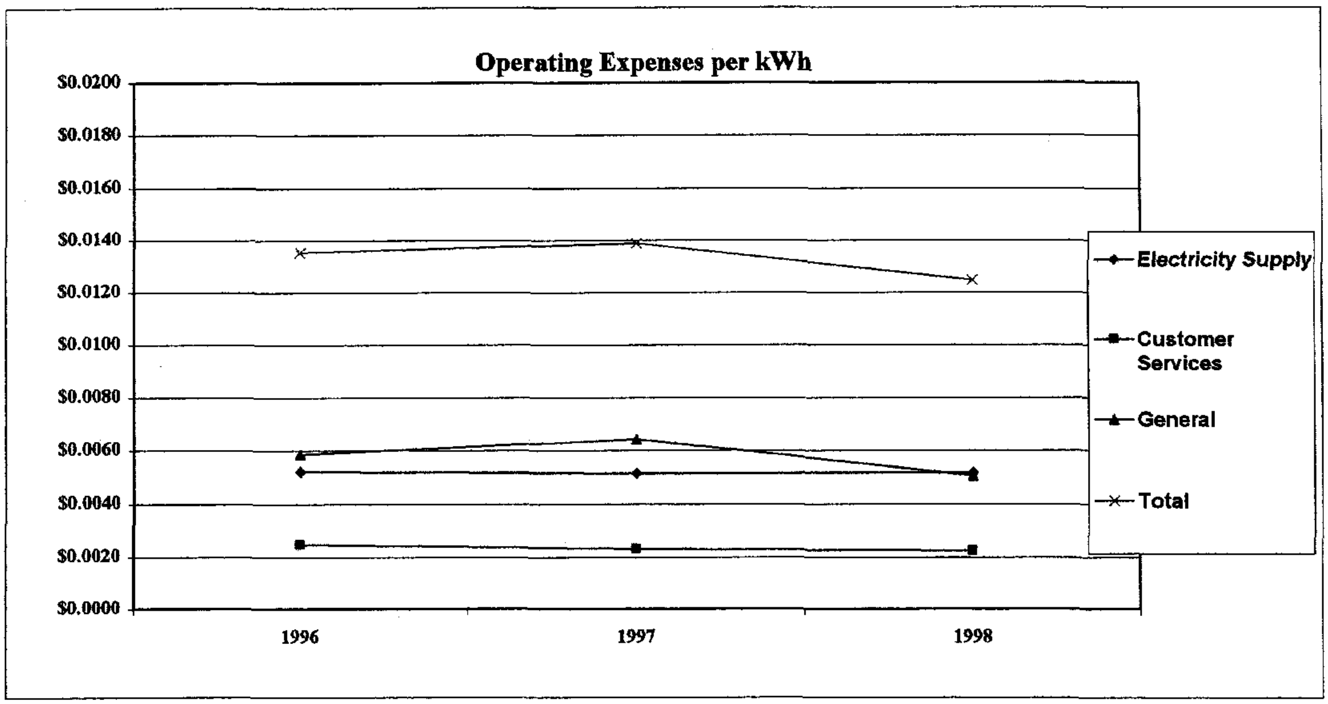
Schedule 2

Newfoundland Power Inc
Operating Expenses by Breakdown (Graph)



Newfoundland Power Inc
Comparison of Operating Expenses to kWh Sold and Used
(000's)

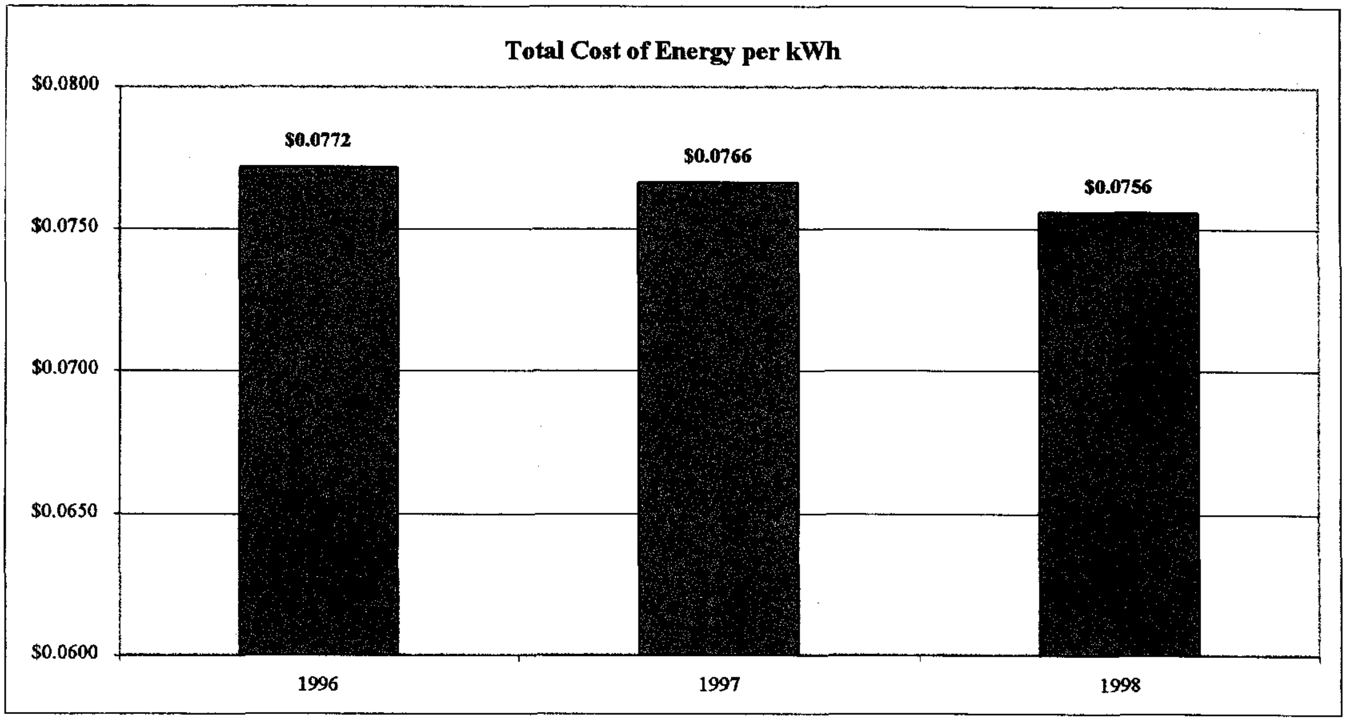
		Electricity Supply		Customer Services		General		Totals	
Year	kWh sold and used	Cost	Cost per kWh	Cost	Cost per kWh	Cost	Cost per kWh	Cost	Cost per kWh
1996	4,425,000	$ 23,080	$0.0052	$ 10,918	$0.0025	$ 25,929	$0.0059	$ 59,927	$0.0135
1997	4,438,000	$ 22,827	$0.0051	$ 10,270	$0.0023	$ 28,434	$0.0064	$ 61,531	$0.0139
1998	4,440,000	$ 22,977	$0.0052	$ 9,900	$0.0022	$ 22,482	$0.0051	$ 55,359	$0.0125



Electricity Supply = Operating Expenses less Purchased Power
General Expenses = General Expenses less Customer Service

Newfoundland Power Inc
Comparison of Total Cost of Energy to kWh Sold and Used
(000)'s

Year	kWh sold and used	Operating Expenses	Purchased Power	Depreciation	Finance Charges	Income Taxes	Divdends and Return	Total Cost of Energy	Cost per kWh
1996	4,425,000	$ 54,735	$ 192,114	$ 26,314	$ 24,010	$ 18,617	$ 25,770	$ 341,560	$ 0.0772
1997	4,438,000	$ 57,555	$ 190,171	$ 26,800	$ 24,949	$ 18,105	$ 22,557	$ 340,137	$ 0.0766
1998	4,440,000	$ 52,641	$ 191,586	$ 28,067	$ 25,233	$ 16,027	$ 22,197	$ 335,751	$ 0.0756



Newfoundland Power Inc.
Intercompany Transactions - Fortis Inc. (Regulated)

Schedule 5A

	1996	1997	1998
Charges from Fortis Inc.			
Executive salaries	$ 45,058		
Other salaries	15,899		
Interest	348,913	$ 13,151	
Pension liability	59,884		
Trustee fees	98,301	97,895	$ 96,514
Listing and filing fees	45,333	38,007	67,414
ESPP\DRIP\CSPP costs	33,483	31,061	58,440
Miscellaneous			2,724
	$ 646,871	$ 180,114	$ 225,092
Charges to Fortis Inc.			
Part 6.1 corporate tax (Series B)		$ 112,845	
Retirement allowance	$ 25,000		$ 30,750
Insurance	47,438	34,741	77,406
Postage and couriers	7,030	7,213	6,354
Printing, stationery and materials	14,314	12,591	12,162
MIS Costs	5,676	1,808	3,694
Interest	1,942	2,548	
Miscellaneous	602	2,152	22,175
	$ 102,002	$ 173,898	$ 152,541

Newfoundland Power Inc.
Intercompany Transactions - Fortis Inc. (Non-Regulated)

Schedule 5B

	1996	1997	1998
Charges from Fortis Inc.			
Other salaries	$ 23,092		
Chairman's fee	40,000		
Director's fees and travel	89,124	$ 222,948	$ 190,132
Annual and quarterly reports	176,529	214,430	194,710
Consultant's fees	66,805	37,501	
Annual and board meeting costs	8,867	23,435	
Listing and Filing fees	8,435		17,117
Miscellaneous	28,115	92,660	121,932
	$ 440,967	$ 590,974	$ 523,891

Newfoundland Power Inc.
Intercompany Transactions - Other (Total)

Schedule 5C

	1996	1997	1998
Charges to Fortis Trust			
Network costs	$ 26,703	$ 63	$ 187
Insurance	15,827	16,454	$ 18,931
Postage	4,253	3,290	1,539
Miscellaneous	195	3,856	2,289
	$ 46,978	$ 23,663	$ 22,946

	1996	1997	1998
Charges to Fortis Properties			
Insurance	$ 146,102	$ 159,687	$ 153,010
Tender preparation	12,471		
MIS Costs	4,162	33,299	4,446
Stationery	2,919		
Miscellaneous		9,436	5,846
	$ 165,654	$ 202,422	$ 163,302
Charges from Fortis Properties			
Power Smart Powerplay		$ 29,872	
Hotel/Banquet Facilities & Meals			$ 27,298
Miscellaneous		12,271	24,317
		$ 42,143	$ 51,615
Charges from Canadian Niagara Power			
Interest		$ 50,183	
Charges to Canadian Niagara Power			
Insurance		$ 82,518	$ 129,497
Wages		29,969	239,305
MIS charges			4,998
Miscellaneous		34,568	72,986
		$ 147,055	$ 446,786

Newfoundland Power Inc.
Intercompany Transactions - Other (Total)

Schedule 5C

	1996	1997	1998
Charges to Maritime Electric			
Insurance	$ 257,025	$ 243,093	$ 241,539
Engineering support		5,652	4,174
Printing and stationery	592		
IS charges			9,984
Miscellaneous		13,234	3,653
	$ 257,617	$ 261,979	$ 259,350
Charges from Maritime Electric			
Engineering support		$ 20,971	
Moving Expenses			$ 138,224
Miscellaneous		22,528	13,352
		$ 43,499	$ 151,576
Charges from AT&T			
Leased services and long distance	$ 420,864	$ 408,311	$ 328,539
Charges to AT&T			
Pole attachment rental	$ 3,970	$ 3,891	$ 3,504
Space rental	3,317	3,503	2,583
Miscellaneous	99	5,327	$ 4,775
	$ 7,386	$ 12,721	$ 10,862