Q. Please provide the most recent bond rating reports for Newfoundland Power.

A. Attachment A is the DBRS credit rating report of Newfoundland Power dated August 13, 2014.

Attachment B is the Moody's credit rating report of Newfoundland Power dated January 19, 2015.

Refer to the response to Request for Information NLH-NP-037 for further information relating to Newfoundland Power's current credit ratings.

DBRS Credit Rating Report
Newfoundland Power Inc.

Rating Report

Report Date:
August 13, 2014

Previous Report:
November 14, 2013

Insight beyond the rating.

Newfoundland Power Inc.

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The Company

Newfoundland Power Inc. generates, transmits and distributes electricity. The Company has approximately 256,000 customers throughout the island portion of the province of Newfoundland and Labrador. It purchases approximately 93% of its electricity needs from government-owned Newfoundland and Labrador Hydro and generates the balance from its own generation facilities (140 megawatts). Newfoundland Power Inc. is a wholly owned subsidiary of Fortis Inc., a Canadian public holding company focused primarily on electric and gas utility operations in Canada, the Caribbean and the United States.

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
First Mortgage Bonds	A	Confirmed	Stable
Preferred Shares - cumulative, redeemable	Pfd-2	Confirmed	Stable

Rating Update

DBRS has confirmed the ratings of Newfoundland Power Inc. (Newfoundland Power or the Company), as listed above, all with Stable trends. The rating confirmations reflect Newfoundland Power's regulated electric distribution business with low business risk, combined with the Company's stable financial profile and customer base.

Newfoundland Power's business risk profile continues to be supported by a reasonable regulatory environment in Newfoundland and Labrador (regulated by the Board of Commissioners of Public Utilities (PUB)). The Company operates under a cost of service (COS) framework, which allows the Company to recover all prudently incurred operating expenses and earn a reasonable return. Pursuant to the PUB's Order on Newfoundland Power's 2013/2014 General Rate Application (GRA) (the 2013/2014 Order), the Company has an allowed return on equity (ROE) and common equity at 8.80% and 45%, respectively, for the 2013-2015 rate years. DBRS views the capital structure and ROE as reasonable when compared with other Canadian jurisdictions. In addition, Newfoundland Power has relatively limited exposure to power price risk, as the Company benefits from (1) a weather normalization reserve (WNR) account that stabilizes earnings during extreme weather conditions and (2) a rate stabilization account (RSA) that absorbs fluctuations in purchased power costs.

The Company's financial risk profile has also remained reasonable for the current rating category, supported by the stable earnings and cash flow from its regulated distribution operations. During the last twelve months ended June 30, 2014 (LTM Q2 2014), Newfoundland Power's cash flow-to-total debt and EBIT interest coverage ratios increased to 19.2% and 3.10x, respectively, compared to 18.2% and 2.95x during the year ended December 31, 2013. In addition, the Company has been able to fund the majority of its capex and dividends through internally generated cash flow while modest cash flow deficits have been funded with debt. As a result, there has been no material impact on the Company's key credit metrics.

Rating Considerations

Strengths
(1) Stable and supportive regulatory environment
(2) Solid financial profile
(3) Stable customer base

Challenges
(1) Reliance on one major power supplier
(2) Managing forecast risk
(3) Limited population growth

Financial Information

Newfoundland Power Inc.	12 mos. Jun. 30	For the year ended December 31				
(CA$ millions where applicable)	2014	2013	2012	2011	2010	2009
EBIT gross interest coverage (times)	3.10	2.95	2.74	2.88	2.76	2.59
Total debt in capital structure	55.1%	54.6%	55.2%	54.7%	53.7%	55.1%
Cash flow/Total debt	19.2%	18.2%	16.9%	18.2%	18.6%	15.0%
(Cash flow-dividends)/Capex (times)	0.85	0.80	0.88	0.46	0.96	0.67
(CFO+interest)/(Interest+sinking fund payment)	3.32	3.16	2.90	2.97	3.01	2.67
Net income before non-recurring items	38	36	35	34	36	33
Cash flow from operations	104	95	84	87	88	72

Rating Considerations Details

Strengths

(1) **Stable and supportive regulatory environment.** Newfoundland Power operates in a stable and supportive regulatory environment that is based on COS regulation. The PUB allows for the pass-through of purchased power costs and an RSA is in place to absorb fluctuations in purchased power costs relating primarily to the cost of fuel oil used by Newfoundland and Labrador Hydro (NLH; rated "A") to generate electricity. Furthermore, the Company also has a WNR account to stabilize earnings during extreme weather conditions.

(2) **Solid financial profile.** Newfoundland Power has maintained a solid financial profile, underpinned by the Company's reasonable financial leverage and stable cash flows. During LTM Q2 2014, Newfoundland Power's total debt in capital structure remained low at 55.1%, while its cash flow-to-total debt and EBIT interest coverage ratios remained solid at 19.2% and 3.10x, respectively.

(3) **Stable customer base.** Newfoundland Power has a stable customer base, with power sales consisting solely of those to residential and commercial customers.

Challenges

(1) **Reliance on one major power supplier.** Newfoundland Power relies heavily on NLH for its power supply, sourcing approximately 93% of its power requirements from this provider. The cost of power purchased from NLH is largely influenced by the market price of bunker C fuel, which is passed through to Newfoundland Power's customers through the RSA. Although the Company's rate increases have been reasonable, higher rates, driven by the high cost of oil in recent years and NLH's high capex program over the next few years, could make it more difficult for the Company to receive approval for future rate increases. However, NLH is looking to reduce its exposure to highly expensive and volatile oil. The Muskrat Falls project could potentially replace the oil-fired power generated at the Holyrood Thermal Generating Station with cleaner hydro-generated power.

(2) **Managing forecast risk.** The Company's ability to accurately and consistently forecast electricity demand going forward, with respect to forecasting sales and managing the demand management incentive account (DMIA), is a challenge. However, through the DMIA, variations in the unit cost of purchased power related to demand are limited, at the discretion of the PUB, to 1% of demand costs. In the deliberation of the final value to be placed in the DMIA, the PUB considers the merits of the Company's conservation and demand management activities.

(3) **Limited population growth.** Electricity consumption growth in Newfoundland is largely driven by growth in the customer base, which is dependent on population growth. Over the years, population growth in Newfoundland has been relatively flat, as it is limited by the province's geographic isolation.

Newfoundland Power Inc.

Report Date:
August 13, 2014

Earnings and Outlook

(CA$ millions where applicable)	12 mos. Jun. 30 2014	For the year ended December 31 2013	2012	2011	2010	2009
Net revenues	227	214	203	204	197	182
EBITDA	168	158	146	147	143	132
EBIT	116	107	98	104	100	90
Gross interest expense	37	36	36	36	36	35
Earning before taxes	50	46	45	50	51	49
Net income before non-recurring items	38	36	35	34	36	33
Reported net income	40	50	37	34	36	33
Return on equity	8.9%	8.6%	8.9%	8.5%	8.9%	8.6%

2013 Summary

- Net income before non-recurring items increased in 2013 primarily as a result of the implementation of the 2013/2014 Order, reflecting rate base growth and higher than anticipated margin from electricity sales.
- However, the increase in earnings was partially offset by restoration costs related to the loss of energy from NLH on January 11, 2013, and higher labor and other operating costs.
- Non-recurring items in the 2013 fiscal year was related to the impact of lower unregulated taxes ($12.8 million in 2013) and the gain on the sale of land ($1.2 million in 2013).

2014 Summary/Outlook

- Earnings before non-recurring items increased in LTM Q2 2014 largely due to higher electricity sales related to colder weather conditions in 2014 and the rebasing of customer electricity rates, which more accurately reflects the seasonality of electricity consumption.
- DBRS expects Newfoundland Power's earnings to be slightly higher in 2014, compared to 2013, reflecting the increase in the Company's rate base.

Newfoundland Power Inc.

Report Date:
August 13, 2014

Financial Profile

(CA$ millions where applicable)	12 mos. Jun. 30 2014	2013	2012	2011	2010	2009
		For the year ended December 31				
Net income before non-recurring items	38	36	35	34	36	33
Depreciation & amortization	53	52	48	43	44	42
Deferred income taxes and other	13	7	1	9	9	(3)
Cash flow from operations	104	95	84	87	88	72
Dividends paid	(23)	(23)	(11)	(51)	(16)	(26)
Capital expenditures	(94)	(89)	(82)	(78)	(75)	(70)
Free cash flow (bef. working cap. changes)	(14)	(18)	(9)	(42)	(3)	(23)
Changes in non-cash work. cap. items	(4)	(4)	(8)	(7)	6	(13)
Net Free Cash Flow	(18)	(22)	(17)	(48)	3	(36)
Acquisitions & long-term investments	0	0	0	0	0	0
Short-term investments	0	0	0	0	0	0
Proceeds on asset sales	0	0	(1)	45	0	0
Net equity change	(0)	(0)	0	(0)	0	(0)
Net debt change	18	22	17	(0)	(4)	41
Other	(0)	(0)	0	(0)	(0)	(0)
Change in cash	(0)	0	(0)	(4)	(1)	5
Total debt	540	518	496	475	475	479
Cash and equivalents	0	0	0	0	4	5
Total debt in capital structure	55.1%	54.6%	55.2%	54.7%	53.7%	55.1%
Cash flow/Total debt	19.2%	18.2%	16.9%	18.2%	18.6%	15.0%
EBIT gross interest coverage (times)	3.10	2.95	2.74	2.88	2.76	2.59
Dividend payout ratio	61.2%	64.8%	32.6%	148.1%	45.7%	77.6%

2013 Summary

- Overall, the Company maintained a good financial profile, supported by its reasonable capital structure and stable operating cash flows.
- Cash flow from operations increased to $95 million in 2013, from $84 million in 2012, reflecting the rebasing of customer rates due to the implementation of the 2013/2014 Order and higher electricity sales.
- Capex spending increased slightly in 2013 and was mainly used for the construction and maintenance of the distribution system to support the Company’s current customer base and to meet customer growth.
- Newfoundland Power utilizes its annual dividend to maintain a long-term capital structure of 55% debt and 45% equity, as approved by the PUB for rate-setting purposes.
  - In 2013, Newfoundland Power paid approximately $23 million in dividends to maintain its capital structure in line with the approved capital structure.
- The Company incurred a free cash flow deficit of approximately $18 million in 2013, which was funded with debt.

2014 Summary/Outlook

- Newfoundland Power’s key credit metrics remained reasonable during LTM Q2 2014.
- Cash flow from operations increased in LTM Q2 2014, primarily due to the rebasing of customer rates effective July 1, 2013. Cash flow from operations in 2014 is expected to increase from 2013 as a result of the implementation of the 2013/2014 Order.
- The Company’s 2014 capital plan totalling $108.8 million has been approved by the PUB, which includes $14.5 million associated with replacing the submarine cable system that supplies electricity to Bell Island.
- DBRS expects the Company to continue to maintain its approved capital structure through dividend management and debt financing.

Newfoundland Power Inc.

Report Date:
August 13, 2014

Long-Term Debt Maturities and Liquidity

- Newfoundland Power has a $100 million committed revolving unsecured credit facility expiring in August 2019 ($0.0 million outstanding as at June 30, 2014) and a $20 million uncommitted demand facility ($2.3 million outstanding as at June 30, 2014).
- The credit facilities contain a covenant that states that the Company shall not declare or pay any dividends or make any other restricted payments if the debt-to-capitalization ratio exceeds 65%.

As at June 30, 2014 (CA$ millions)	**2014**	**2015-2016**	**2017-2018**	**Thereafter**	**Total**
First Mortgage Sinking Fund Bonds	34.5	41.0	10.2	432.4	518.1
Related Party Loan	20.0	0.0	0.0	0.0	20.0
Credit Facilities (unsecured)	0.0	0.0	0.0	0.0	0.0
Demand Facility (uncommitted)	2.3	0.0	0.0	0.0	2.3
Total	**56.8**	**41.0**	**10.2**	**432.4**	**540.4**

*Gross debt; debt issue costs not subtracted from total debt

- The debt repayment schedule is very modest in the near term. The most notable maturity is in 2014, which includes the Series AD (approximately $29.0 million), which was repaid by the Company on August 1, 2014.

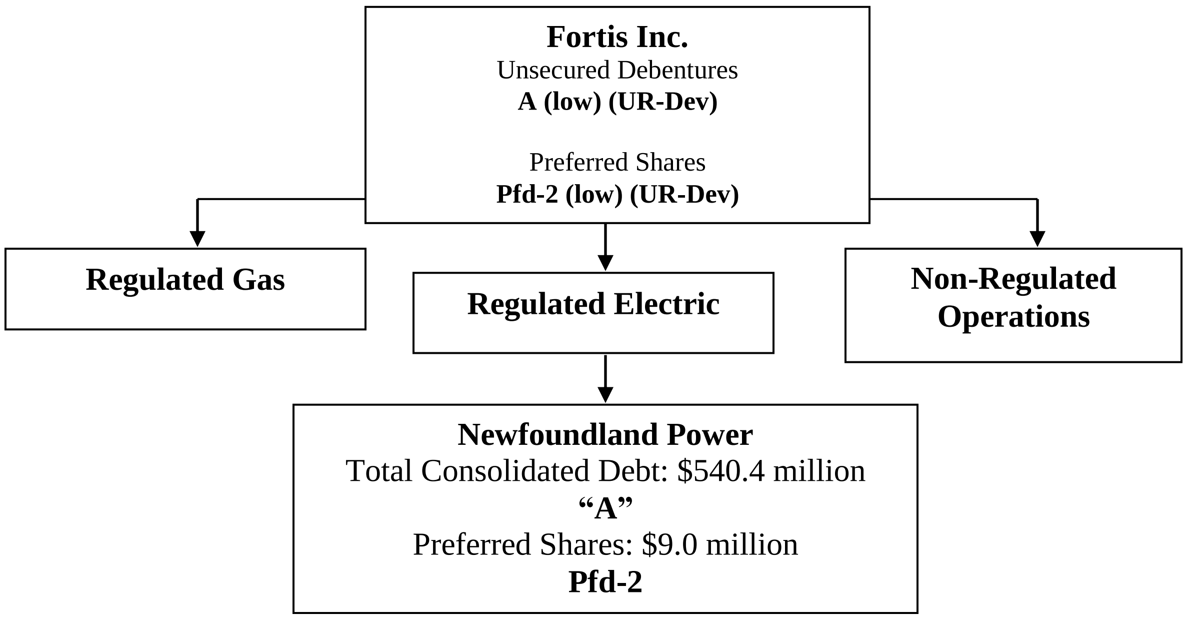
Securities Outstanding (CA$ millions) **First mortgage sinking fund bonds:**		**Jun. 30** **2014**
$40 million Series AD, due 2014	10.550%	29.0
$40 million Series AE, due 2016	10.900%	31.2
$40 million Series AF, due 2022	10.125%	31.6
$40 million Series AG, due 2020	9.000%	32.4
$40 million Series AH, due 2026	8.900%	33.2
$50 million Series AI, due 2028	6.800%	42.5
$75 million Series AJ, due 2032	7.520%	66.8
$60 million Series AK, due 2035	5.441%	54.6
$70 million Series AL, due 2037	5.901%	65.1
$65 million Series AM, due 2039	6.606%	61.8
$70 million Series AN, due 2043	4.805%	70.0
		518.1
	Related party loan	20.0
	Credit & demand facilities	2.3
		540.4
	Less: current portion	56.8
		483.6

- The First Mortgage Bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company and by a floating charge on all other assets.
- The Company must meet an Earnings Test, whereby the net earnings are at least two times the annual interest charges on all bonds outstanding after any proposed additional bond issue. Net earnings are considered in a period of any 12 consecutive months terminating within 24 months preceding the delivery of such additional bonds.
- Second, the Company must meet the Additional Property Test, whereby the additional bonds must not exceed 60% of the fair value of the additional property.
- Given the availability of funds under the credit facilities and stable cash flow from operations, the Company's liquidity remains adequate to fund both working capital requirements and cash flow deficits.
- The Company's $20.0 million related party loan outstanding as of June 30, 2014, was repaid in July 2014.

Newfoundland Power Inc.

Report Date:
August 13, 2014

Organizational Chart



As at June 30, 2014.

DBRS

Newfoundland Power Inc.

Report Date:
August 13, 2014

Regulation

Regulatory Overview

- Newfoundland Power is regulated by the PUB, which is responsible for setting electricity rates, approving capex and deciding on the appropriate capital structure and ROE for rate-setting purposes.
- Rates are set based on a cost-of-service methodology.
- On April 17, 2013, the PUB issued the Order on Newfoundland Power's 2013/2014 General Rate Application (GRA) (the 2013/2014 Order), which established the Company's allowed ROE at 8.80% and common equity at 45% for the 2013 to 2015 rate years. This is consistent with the cost of capital allowed in 2012. DBRS views the capital structure as favourable and the ROE as reasonable when compared to other Canadian jurisdictions.
- In addition, the PUB approved the deferred recovery of $4.0 million of costs incurred in 2013 but not recovered from customers, due to the timing of implementation of customer rates.
- The operation of the Automatic Adjustment Formula has been suspended until the next GRA, which the Company is required to file for 2016 on or before June 1, 2015.
- On July 1, 2013, customer electricity rates decreased by approximately 3.1% on average, reflecting an increase of approximately 4.8% due to the implementation of the 2013/2014 Order and a decrease of approximately 7.9% due to the operation of the annual Rate Stabilization Plan.
- On July 1, 2014, customer electricity rates increased by approximately 2.0% on average, due to the operation of the annual Rate Stabilization Plan.
- The Company's 2014 capital plan totaling $108.8 million has been approved by the PUB, which includes $14.5 million associated with replacing the submarine cable system that supplies electricity to Bell Island.

Regulator-Approved Accounts

- **Deferral accounts** are used to smooth the impact of realized expenses and events differing from forecast.
- **Weather Normalization Reserve (WNR):** The WNR reduces earnings volatility by adjusting electricity purchases and sales to eliminate the variance between normal weather conditions, based on long-term averages, and actual realized weather conditions.
- **Rate Stabilization Account (RSA):** The RSA allows Newfoundland Power to pass through costs related to changes in the price and quantity of fuel charged by NLH to the end consumer. On July 1 of each year, customer rates are recalculated in order to amortize, over the subsequent 12 months, the balance in the RSA as of March 31 of the current year. In the absence of rate regulation, these transactions would be accounted for in a similar manner; however, the amount and timing of the recovery would not be subject to PUB approval. To the extent that actual electricity sales in any period exceed forecast electricity sales used to set customer rates, marginal purchased power expense will exceed related revenue. Effective January 1, 2008, the PUB ordered that variations in purchased power expense caused by differences between the actual unit cost of energy and the cost reflected in customer rates be recovered from (refunded to) customers through the rate stabilization account.
- **Demand Management Incentive Account (DMIA):** Through the DMIA, variations in the unit cost of purchased power related to demand are limited, at the discretion of the PUB, to 1% of demand costs reflected in customer rates. Balances in this account are recorded as a regulatory asset or regulatory liability on Newfoundland Power's balance sheet. The final balance of regulatory assets and liabilities is determined by the PUB, which takes into consideration the merits of the Company's conservation efforts and demand management activities.
- **Pension Expense Variance Deferral Account (PEVDA):** The PEVDA is utilized when differences exist between the defined benefit pension expense calculated in accordance with designated accounting standards and the pension expense approved by the PUB for rate-setting purposes.
- **Other Post-Employment Benefits:** The other post-employment benefits cost deferral account (OPEB) is utilized when differences exist between the OPEB expense calculated in accordance with designated accounting standards and the OPEB expense approved by the PUB for rate-setting purposes.

Newfoundland Power Inc.

Report Date:
August 13, 2014

Newfoundland Power Inc.

Balance Sheet

(CA$ millions)	Jun. 30	Dec. 31	Dec. 31		Jun. 30	Dec. 31	Dec. 31
Assets	2014	2013	2012	**Liabilities & Equity**	2014	2013	2012
Cash & equivalents	0	0	0	S.T. borrowings	2	0	1
Accounts receivable	81	90	76	Accounts payable	44	82	75
Inventories	1	1	1	Current portion L.T.D.	54	34	47
Regulatory assets	24	32	37	Deferred tax	4	5	6
Prepaid expenses & other	3	2	2	Other current liab.	15	14	24
Total Current Assets	110	126	117	**Total Current Liab.**	120	135	153
Net fixed assets	934	915	873	Long-term debt	484	484	448
Future income tax assets	169	167	161	Provisions	234	230	265
Intangibles	15	15	15	Deferred income taxes	118	116	112
Regulatory assets	161	173	219	Other regulatory liabilities	3	5	7
Investments & others	9	4	4	Other L.T. liab.	1	1	1
				Preferred shares	9	9	9
				Common equity	431	422	394
Total Assets	1,399	1,401	1,389	**Total Liab. & SE**	1,399	1,401	1,389

Balance Sheet & Liquidity & Capital Ratios	**12 mos. Jun. 30 2014**	**For the year ended December 31 2013**	**2012**	**2011**	**2010**	**2009**
Current ratio	0.91	0.94	0.77	1.06	1.04	1.08
Total debt in capital structure	55.1%	54.6%	55.2%	54.7%	53.7%	55.1%
Cash flow/Total debt	19.2%	18.2%	16.9%	18.2%	18.6%	15.0%
(Cash flow-dividends)/Capex (times)	0.85	0.80	0.88	0.46	0.96	0.67
Dividend payout ratio	61.2%	64.8%	32.6%	148.1%	45.7%	77.6%
Coverage Ratios (times)						
EBIT gross interest coverage	3.10	2.95	2.74	2.88	2.76	2.59
EBITDA gross interest coverage	4.50	4.36	4.05	4.07	3.95	3.78
Fixed-charges coverage	2.37	2.18	2.06	2.26	2.46	2.44
Profitability Ratios						
EBITDA margin	73.9%	73.9%	72.0%	72.2%	72.7%	72.8%
EBIT margin	50.8%	49.9%	48.6%	51.2%	50.6%	49.8%
Profit margin	16.9%	16.8%	17.1%	16.8%	18.1%	18.3%
Return on equity	8.9%	8.6%	8.9%	8.5%	8.9%	8.6%
Return on capital	6.7%	6.6%	6.8%	6.7%	6.8%	6.6%

Newfoundland Power Inc.

Report Date:
August 13, 2014

Operating Statistics	**For the year ended December 31**				
Electricity Sales - Breakdown (GWh)	**2013**	**2012**	**2011**	**2010**	**2009**
Residential	3,531	3,441	3,407	3,311	3,203
General service	2,232	2,211	2,146	2,108	2,096
Total sales	5,763	5,652	5,553	5,419	5,299
Growth in volume throughputs	2.0%	1.8%	2.5%	2.3%	1.7%
Customers					
Residential	221,995	218,290	214,515	211,091	207,335
Commercial	33,623	33,241	32,648	32,335	31,972
Total	255,618	251,531	247,163	243,426	239,307
Energy Generated and Purchased (GWh)					
Energy generated	429	432	422	425	426
Energy purchased	5,678	5,544	5,456	5,308	5,188
Energy generated + purchased	6,107	5,976	5,878	5,733	5,614
Less: transmission losses + internal use	344	324	325	314	315
Total Sales	5,763	5,652	5,553	5,419	5,299
System losses and internal use	6.0%	5.7%	5.9%	5.8%	5.9%
Installed Generation Capacity (MW)					
Hydroelectric	97	97	97	97	97
Gas turbine	37	37	37	37	36
Diesel	5	6	7	7	7
Total	139	140	140	140	140
Native peak demand (MW)	1,281	1,241	1,166	1,206	1,219
Rate base ($ millions)	916	883	876	875	848
Growth in rate base	4%	1%	0%	3%	3%

Newfoundland Power Inc.

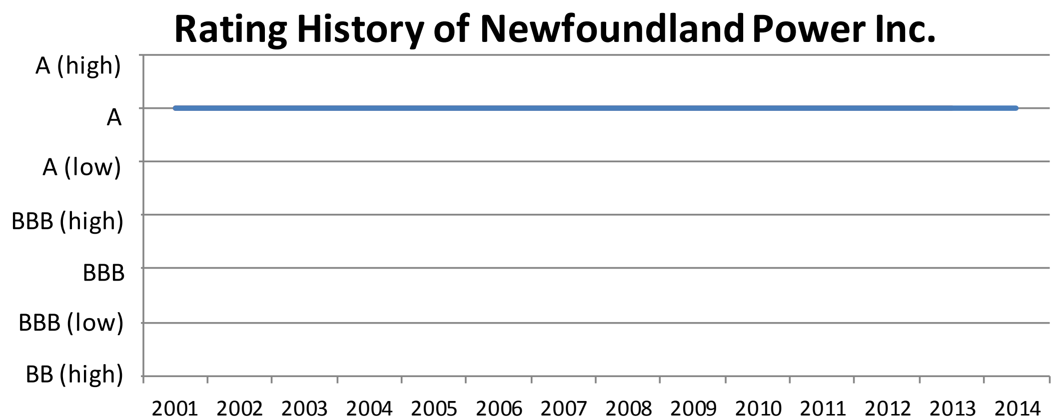
Report Date:
August 13, 2014

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
First Mortgage Bonds	A	Confirmed	Stable
Preferred Shares - cumulative, redeemable	Pfd-2	Confirmed	Stable

Rating History

	Current	2013	2012	2011	2010	2009
Issuer Rating	A	A	A	NR	NR	NR
First Mortgage Bonds	A	A	A	A	A	A
Preferred Shares - cumulative, redeemable	Pfd-2	Pfd-2	Pfd-2	Pfd-2	Pfd-2	Pfd-2



Notes:
All figures are in Canadian dollars unless otherwise noted.

Moody's Investor Credit Rating Report
Newfoundland Power Inc.

MOODY'S INVESTORS SERVICE

Credit Opinion: Newfoundland Power Inc.

Global Credit Research - 19 Jan 2015

St. John's, Newfoundland, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating -Dom Curr	Baa1
First Mortgage Bonds -Dom Curr	A2

Contacts

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William L. Hess/New York City	212.553.3837

Key Indicators

[1]**Newfoundland Power Inc.**

	9/30/2014(L)	12/31/2013	12/31/2012	12/31/2011	12/31/2010
CFO pre-WC + Interest / Interest	4.2x	3.9x	3.3x	3.2x	3.5x
CFO pre-WC / Debt	21.7%	20.1%	15.8%	16.3%	18.5%
CFO pre-WC - Dividends / Debt	17.5%	15.8%	13.8%	6.3%	15.3%
Debt / Capitalization	49.4%	49.7%	51.9%	51.5%	48.0%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Low-risk regulated electric utility

Supportive regulatory and business environment

NPI is independent of Fortis Inc.

Corporate Profile

Headquartered in St. John's, Newfoundland, Newfoundland Power Inc. (NPI) is a vertically integrated electric utility serving a customer base of over 259,000 accounts, which are 87% residential and 13% commercial. NPI operates under cost of service regulation and is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) under the Public Utilities Act (the Act). NPI purchases the majority of its power from Newfoundland and Labrador Hydro. NPI's installed generating capacity of 139 MW provides about 7% of its power supply. NPI is a wholly-owned subsidiary of Fortis Inc. (FTS, not rated), which is primarily a diversified electric and gas utility holding company also based in St. John's.

SUMMARY RATING RATIONALE

NPI's Baa1 issuer rating reflects the company's low business risk as a vertically integrated cost-of-service regulated utility with no unregulated business activities. Approximately 93% of NPI's power requirements are purchased from provincially-owned Newfoundland & Labrador Hydro (Hydro), the cost of which is passed through to ratepayers. Despite NPI's allowed Return on Equity (ROE) of 8.80% for 2013-2015, we continue to view the PUB as one of the more supportive regulators in Canada. Regulatory decisions tend to be reasonably timely and balanced and NPI's 45% deemed equity is among the highest in Canada. In addition, NPI benefits from a number of deferral accounts that are intended to protect it from factors beyond management's control. The rating is consistent with NPI's financial metrics but reflects a cautionary note related to our concern that the utility's future ability to fully recover costs and earn returns may be compromised as the Province of Newfoundland and Labrador undertakes development of the Muskrat Falls hydroelectric project on the lower Churchill river and the related transmission infrastructure. This politically charged project is large relative to the provincial economy and is expected to place considerable upward pressure on future electricity rates. The A2 rating of NPI's senior secured FMB reflects the first mortgage security over NPI's property, plant and equipment and floating charge on all other assets.

DETAILED RATING CONSIDERATIONS

LOW-RISK BUSINESS MODEL

NPI's rating reflects the company's low business risk as a cost of service-regulated utility. NPI owns and operates a vertically integrated electric utility located on the island portion of the province of Newfoundland and Labrador and dominates that market, which is geographically isolated and effectively protected from potential competition. NPI serves roughly 87% of the province's electricity customers. The market is mature and NPI's electricity sales have tended to grow at a relatively low and predictable rate of 1-2% annually. Historically, growth has not taxed NPI either operationally or financially due to relatively timely recovery of capital and operating costs.

Although NPI is vertically integrated, NPI's own generation assets are regulated and represent only 14% of NPI's net property, plant and equipment. Accordingly, we consider the business risk of NPI to be lower than that of a typical vertically integrated utility, which is often exposed to commodity price and volume risks or the operational, financial and environmental risks associated with electricity generation. However, NPI faces uncertainties due to the timing and size of rate increases in association with the Muskrat Falls hydroelectric project.

SUPPORTIVE REGULATORY AND BUSINESS ENVIRONMENT

All of NPI's operations are located in Canada whose well developed regulatory framework and business environments we consider supportive relative to those in other jurisdictions. Furthermore, we consider the PUB's regulation of NPI to be supportive with a track record of reasonably timely and balanced decisions that enable NPI to generate stable cash flow and earn its allowed ROE and are not directly subject to political interference. NPI has access to courts for disputes with the PUB.

The PUB's review and approval of NPI's capital spending plans and long-term debt issuances significantly reduce the risk of cost disallowances and support NPI's ability to fully recover costs on a timely basis. NPI submits a proposed capital plan for PUB approval annually before the next fiscal year. Furthermore, NPI is required to obtain PUB pre-approval for the issuance of any First Mortgage Bonds (FMB) or the incurrence of credit facilities with maturities exceeding one year.

NPI is allowed to file a rate application based on a forward test year and forecast rate base, reducing revenue lag associated with capital projects. NPI's allowed ROE of 8.80% is expected to remain at that level for the period 2013-2015. While it remains relatively low, it is mitigated by one of the highest deemed equity levels in Canada at 45%. NPI's outperformance, as suggested by CFO pre-W/C to debt of over 20% both in 2013 and on an LTM basis, reflected changes in regulated assets and liabilities and pension liability reduction in 2013. However, with the current allowed ROE, deemed equity layer and depreciation rate, we expect NPI to achieve sustainable CFO pre-W/C to debt consistent with our expectations and the current rating. NPI is required to file its next rate case by 1 June 2015 to establish rates for 2016.

Several cost recovery mechanisms reduce NPI's exposure to unexpected costs due to variations in purchased power costs, weather and pension and other post-employment benefit (OPEB) costs. While NPI foregoes some upside potential, the stability and predictability of its cash flows are increased. For example, the Rate Stabilization Account (RSA) facilitates timely recovery of purchased power costs in excess of those forecasted for rate-making purposes. This is particularly important since the marginal cost of power that NPI obtains from Hydro exceeds the average supply costs embedded in customer rates. The RSA provides for the amortization of the under or over collection over a 12 month period. Other mechanisms include the Weather Normalization Account, Conservation and Demand Management Deferral and the Demand Management Incentive Account (which limits NPI's exposure to variation in purchased power costs due to demand to 1% of demand costs reflected in the test year for rate-making purposes).

NPI IS INDEPENDENT OF FORTIS INC.

While NPI is one of a number of utility operating companies owned by Fortis, we consider NPI, like sister companies FortisAlberta Inc., FortisBC Inc. (FBC: Baa1 stable) and FortisBC Energy Inc. (FEI: A3 stable), to be operationally and financially independent from Fortis. Fortis has consistently demonstrated good management and support of its subsidiaries and we view NPI's access to the executive and strategic support of Fortis to be a credit positive. If required, we expect that Fortis Inc. would provide extraordinary support to NPI, provided that the parent had the economic incentive to do so, and we believe that the parent will continue to have sufficient resources to do so.

Structural Considerations

The A2 rating of NPI's senior secured FMB reflects the first mortgage security over NPI's property, plant and equipment and floating charge on all other assets. This is consistent with the two notch differential between most senior secured debt ratings and senior unsecured debt ratings of investment-grade regulated utilities operating in North America. The differential is based on our analysis of the history of regulated utility defaults, which indicates that regulated utilities have experienced lower loss given default rates (higher recovery rates) than non-financial, non-utility corporate issuers.

Liquidity Profile

NPI's liquidity arrangements are considered adequate in the context of its relatively stable cash flow and funding requirements.

In 2015, NPI plans to spend about $94 million on capital expenditures and pay dividends in amounts commensurate with maintaining the 45% deemed equity layer. Additionally, NPI requires $5.5 million for sinking fund installments in 2015 and it does not have any bond maturities until April 2016. With estimated cash flow from operations in the range of $110-120 million, we expect that any free cash flow shortfall is funded through NPI's bank credit facilities and adjustments to dividends paid.

The company's core liquidity facility is a $100 million syndicated committed revolving credit facility that matures in August 2019. While the credit agreement contains a covenant that NPI maintain its debt to capitalization ratio at or below 65%, it does not include a material adverse change (MAC) clause or representation and warranty declaration prior to drawdown. Unutilized capacity under this facility was $67 million at 30 September 2014.

Rating Outlook

The rating outlook is stable based on the PUB's regulation of NPI which we consider credit supportive and expect to remain so, as well as our expectation that, with relatively stable cash flow generation and capital structure NPI will continue to generate sustained CFO pre-WC to debt in the range of 14% to 17%.

What Could Change the Rating - Up

NPI's rating would likely be upgraded if there was a sustainable improvement in financial metrics, such as CFO pre-WC to debt above 17%. An upgrade of NPI's rating is unlikely without further clarity on the timing and size of increase in electricity rates in relation to the Muskrat Falls hydroelectric project.

What Could Change the Rating - Down

We consider a downward revision in NPI's rating to be unlikely in the near term. However, NPI's rating would likely be downgraded if we perceived a meaningful reduction in the level of regulatory support combined with a sustained deterioration in NPI's financial metrics such as CFO pre-WC to debt in the low teens.

Rating Factors

Newfoundland Power Inc.

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 9/30/2014**		[3]**Moody's 12-18 Month Forward ViewAs of 1/16/2015**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	3.5x	Baa	3.2x - 3.8x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	17.6%	Baa	15% - 18%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	12.3%	Baa	10% - 13%	Baa
d) Debt / Capitalization (3 Year Avg)	49.9%	Baa	48% - 52%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching			0	0
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned				Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2014(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

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