Q. Please compare the forecast state of the provincial economy over the future test years in Table 3-13 to 2018 and 1991 when the Board approved a common equity ratio in a range of 40-45%. If this is not practical, please file any extracts regarding the provincial economy entered into evidence at the time of the Board's 1991 decision.

A. The following attachments provide extracts regarding the provincial economy entered into evidence at the time of the Board's decision in 1991.

Attachment A: Dr. Roger A. Morin

Attachment B: Mr. Paul Hamilton

Attachment C: Request for Information NLH-42, Credit Rating Agency Reports

Dr. Roger A. Morin

premises, and its own set of simplifications of reality. Each method proceeds from different fundamental premises which cannot be validated empirically. Investors do not necessarily subscribe to any one method, nor does the stock price reflect the application of any one single method by the price-setting investor. Absent any hard evidence as to which method outdoes the other, all relevant evidence should be used and weighted equally, in order to minimize judgmental error, measurement error, and conceptual infirmities.

II. OPERATING ENVIRONMENT

INTEREST RATES AND THE ECONOMY

Q. Please discuss the current interest rate environment in which NLP operates.

A. Following a seven-year expansion, both the U.S. and Canadian economies are experiencing a severe recession. The Canadian economy grew at a mere 0.9% rate in 1990, compared to a growth rate of 4.3% and 3.1% in 1988 and 1989, respectively. As of June 1991, both the U.S. and Canada continue to experience rising unemployment and slower spending. Recently released indicators (retail trade, real gross domestic product, output) confirm that the economy is still in the midst of a recession, with some modest signs of impending recovery.

Estimates of real economic growth for 1991 and 1992 indicate a further contraction of 0.3% for 1991 followed by a modest rate of growth of 3.6% in 1992. The implementation of the Goods and Services Tax (GST) in early 1991 is contributing to continuing economic stagnation for the remainder of 1991. Hopefully, the economy is poised for a recovery in early 1992, and possibly by autumn 1991. Increased exports, large energy investments, a rebound in the housing and automotive markets is already sowing seeds of recovery.

With respect to inflation, the Consumer Price Index (CPI) was 4.7% in 1990, is forecast to increase to 5.8% in 1991 and to decrease to 3.8% in 1992. The jump in oil prices at the end of 1990 and the implementation of the GST in January 1991 will put pressure on inflation in 1991.

Over the past two years, long-term bond markets have continued to exhibit volatility. In the first half of 1989, yields oscillated in a narrow range around the 10% level, before falling to the 9.5% level for the remainder of 1989. For the first half of 1990, the yields on long-term Canada bonds increased markedly and reached a peak of above 11.00% in May 1990. They hovered near that level until the fall of 1990, and have decreased steadily to the current level of about 10.0% as of June 1991, in response to the weak economy and the central bank's accommodating monetary stance. The yield spread for NLP debentures over long Canada bonds is of the order of 115-125 basis points.

Long term interest rates are not expected to decline much further over the next few months or over the next year, and may even increase as the first signs of economic recovery are manifest. The consensus investor expectation is that long-term rates will on balance remain close to a current level of 10.0%, possibly increasing slightly as the recovery takes shape. Two observations tend to support this view. First, market forecasts of rates on U.S. Treasury bonds in the form of interest rate futures contracts yields are available, and can be employed as proxies for the expected spot yields on long-term government bonds. The current structure of yields extending out to March 1992 is virtually constant, as evidenced by the constant structure of futures contract prices (see Financial Post, 6/10/91).

Second, consensus economic forecasts indicate that long-term interest rates will at best remain unchanged over the remainder of 1991 and may increase slightly in 1992. Forecasts contained in the Conference Board's "Canadian Outlook", and the Consensus Forecast suggest unchanging to slightly rising long-term rates. Thus, the evidence from both the futures markets and from consensus market forecasts is consistent with a steady to slightly rising trajectory in long-term capital costs generally over the forecast period.

Already, the first signs of impending recovery from the recession are emerging. The recent stock market rally was the first sign, and the rebounding of the narrow money supply (M1) was the second. In short, the Canadian economy is expected to have bottomed out and to start growing again by early 1992 and possibly by fall 1991. Interest rates are expected to remain at the current levels or possibly increase mildly as the economic recovery begins.

RISK ENVIRONMENT

Q. Please describe NLP's current risk environment.

A. It is customary to disaggregate a company's total risk into two broad components: business risk and financial risk.

TOTAL RISK = BUSINESS RISK + FINANCIAL RISK

Business risk refers to the relative variability of operating profits induced by the external forces of supply (supply risk) and demand for the firms' products (demand risk), by the relative employment of fixed assets (operating leverage), by the extent of diversification of output, and by the quality of regulation (regulatory risk):

BUSINESS RISK = DEMAND RISK + SUPPLY RISK + REGULATORY RISK

A further distinction is frequently made as between short-term and long-term business risks.

Financial risk refers to the additional variability of earnings induced by the employment of fixed cost financing, that is, debt and preferred stock capital.

Since the last rate decision in 1989, NLP's short-term business risks have increased slightly due mainly to the economic recession, while financial risks and regulatory risks have remained largely unchanged. Relative to other Canadian utilities, NLP possesses average risks. The section below addresses the various dimensions of business, regulatory, and financial risks.

BUSINESS RISK

Q. Please elaborate on NLP's investment risks.

A. Competition in the energy industry in Newfoundland is increasing. On the one hand, customers have alternative means of filling their energy (heating) needs, namely oil. On the other hand, supplies of power from Newfoundland Hydro have become riskier due to price and regulatory uncertainty. It is becoming more difficult to forecast demand, market behavior, financing requirements, earnings, and cash flows.

In the short-run, investors are uncertain as to the final impact of the economic recession generally and the serious deterioration in Newfoundland's natural resource based economy particularly on the demand for NLP's product. The company's vulnerability is enhanced in the present recession, and is compounded by volatile fuel prices. In the longer-run, competition from fossil fuels will intensify over the next several years. The Hibernia development has not had any substantial impact on the Newfoundland economy.

Another crucial dimension of business risk is power supply risks, and they have also increased. Pricing risk refers to changes in the price of purchased power. Given the recent provincial government action of abolishing the subsidies to Newfoundland Hydro, the shortfall in revenues has to be met by rising prices charged NLP for purchased power. This reduces the competitiveness of electricity versus oil. The final impact on NLP's revenues is uncertain.

REGULATORY AND FINANCIAL RISK

With respect to regulatory risk, the Board's last rate order has been perceived by investors as fair and representative of the quality of regulation which has usually characterized this board's decisions in the past. NLP's regulatory risk is below average relative to other Canadian utilities.

With respect to financial risks, while NLP's coverage ratios and debt ratios have deteriorated slightly in recent years, but relative to other Canadian utilities, NLP's financial risks are unchanged. In other words, NLP's financial risks have risen in absolute terms, but have not changed relative to other utilities.

In short, NLP's short-term business risks have increased since the last rate decision due mainly to the economic recession, while financial risks and regulatory risks have remained largely unchanged. Relative to other Canadian utilities, NLP possesses average risks.

Mr. Paul Hamilton

NEWFOUNDLAND LIGHT & POWER CO. LIMITED

DIRECT TESTIMONY OF PAUL HAMILTON

Q. Please state your name, address, and occupation.

A. My name is Paul Hamilton. I live in St. John's and I am employed as Manager, Rates & Forecasts Department with Newfoundland Light & Power Co. Limited ("the Company").

Q. What is the nature of your testimony?

A. In my testimony, I will describe the Customer and Energy Sales Forecasts on which this Application is based. I will explain the relationship of the Company's long term rate design objectives to sound rate design criteria and to the Company's commitment for a least cost planning process, particularly the role rates play in supporting Demand Side Management programs. I will then outline the proposed rates and discuss the impacts they will have on our various customer classes. Finally, I will describe modifications that are proposed to the Rules and Regulations.

Customer & Energy Sales Forecasts

Q. How did the 1990 energy sales results compare to the forecast presented at the 1989 hearing?

A. The 1990 data regarding customers, energy sales and average use is shown in AFR-1. As this data is not adjusted for weather conditions, the changes in energy sales and average use from year to year do not represent the real growth. PRH-I, Page 1 shows 1990 data after adjustment for weather conditions compared to the forecast. Additional information such as the penetration of electric heat and conversions to electric heat by Domestic customers are also shown.

In 1990, weather adjusted sales were 4,174 Gwh, which is 44 Gwh more than the forecast of 4,130 GWh presented at the 1989 hearing. This gain was attributable to a significant increase in the Domestic average use, particularly in the Domestic All-Electric category. The Domestic All-Electric average use was forecast to increase to 20,245 kWh/year in 1990. As shown on Page 1 of PRH-1, the Domestic All-Electric average use actually increased to 20,611 kWh/year in 1990. We believe this difference of 366 kWh/year was mainly due to the fact that electricity costs decreased by 1.5 percent in real terms in 1990 compared to our assumptions of a 3.5 percent increase. Overall, the Domestic categories accounted for 42 GWh of the 44 GWh variance. The remainder of the variance can be attributed to the General Service category.

Q. Please comment on the Customer and Energy Sales Forecasts for 1991 and 1992.

A. The forecasts for 1991 and 1992 have been prepared following the same methodology that has been used in the past.

The general assumptions on which they were based are as follows:

1. Gross Domestic Product, in real dollars, will grow by approximately 1 percent in 1991. We recognize this rate is lower than the economic projection published during the first quarter of 1991 forecasting growth of 2.2 percent. However, we understand this projection did not fully account for the impact of the Provincial Budget and associated layoffs, or the problems currently being experienced in the fishing industry. The 1992 growth rate will be 3.6 percent.

2. Personal income in real dollars will grow at 0.5 percent in 1991 and 3.2 percent in 1992.

3. The Consumer Price Index will grow by 5.8 percent in 1991 and 3.7 percent in 1992.

4. Major construction work related to the Hibernia project will begin in early 1992 with production in 1996.

5. The fish quota of 197,000 metric tonnes in 1990 will be reduced by 5,000 metric tonnes in both 1991 and 1992.

6. The annual seasonally adjusted unemployment rate will increase to 18 percent in 1991 and decline to 17 percent in 1992.

7. Population in our service territory will grow at approximately 0.6 percent annually over the forecast period.

8. The retail price of furnace oil will have a 30 to 50 percent cost advantage over electricity during the forecast period.

9. Demand Side Management programs will reduce energy sales by 7 GWh in 1992.

AFR-1 shows the forecasts of customers, energy sales and average use for 1991 and 1992. Page 2 of PRH-I shows a breakdown of the forecasts of customers and energy sales by rate category along with 1990 weather-adjusted actual data for comparison. The 1991 data reflects five months weather-adjusted actual data plus forecast data for the last seven months.

It can be seen from this table that total energy sales are forecasted to increase by 2.1 percent to 4,262 GWh in 1991 and by 3.8 percent to 4,426 GWh in 1992. The main areas of growth for 1991 and 1992 are expected to be the Domestic All-Electric and General Service All-Electric categories.

The change in average use per customer is the most significant factor affecting Domestic sales growth. The graphs on Page 3 of PRH-1 show the trends in average use for the Domestic Regular and Domestic All-Electric rate categories. The historical data for these curves were adjusted to remove the effects of heating and cooling loads due to abnormal weather conditions.

The Domestic Regular average use is expected to increase during 1991 and 1992 at a rate typical of the long term trend. This continued growth can be attributed to several factors. Continued real growth in personal income and spending power has resulted in a continued increase in the saturation levels of major electric appliances such as electric water heaters. These increased saturation levels have a significant impact on average use. Also, the percentage of customers using supplementary electric heating and the related electricity use by each customer have continued to increase.

During the period from 1981 to 1985, the Domestic All-Electric average use declined as a result of several factors. These included the use of supplementary sources of space heating such as wood, a higher proportion of new houses built with higher levels of insulation, reduced air infiltration levels in both existing and new houses, and higher electricity costs associated with the fuel adjustment charge.

From 1985 to 1987, the average use remained fairly constant. Since 1987, the average use per customer has increased significantly as the result of several factors; the elimination of the fuel adjustment charges, the increased saturation levels of major electric appliances, the decline of electricity prices in real terms while personal incomes have increased, and the significant reduction in the use of supplementary fuels such as wood.

The Domestic All-Electric average use is expected to decrease in 1991 and 1992. The primary reason for this decline is the forecast of higher electricity costs for 1991 and 1992. With the increase in electricity costs forecasted to be significantly higher than the increase in household income, consumers will have to spend a greater portion of their income on electricity. This will result in increased pressure on consumers to conserve energy and/or use supplementary fuels such as wood.

Total General Service energy sales are forecasted to grow by 1.1 percent in 1991 and 5.1 percent in 1992. These growth rates are a direct result of the economic activity anticipated over the forecast period. However, as shown on page 2 of PRH-1, energy sales growth varies significantly among the different categories over the forecast period.

Energy sales to General Service customers below 100 kW are relatively consistent as indicated by 2.9 percent growth in 1991 and 3.5 percent growth in 1992.

Energy sales to General Service customers over 100 kW are forecast to decline by 2.1 percent in 1991. This decline is the result of the closing of both the St. Lawrence Fluorspar mine and the Baie Verte Mine dry mill operation. The 6.1 percent increase in this category in 1992 reflects the impact of the construction work related to the Hibernia project at Bull Arm.

Energy sales to the General Service All-Electric category are forecast to grow by 2.9 percent in 1991 and 5.1 percent in 1992. This growth is attributable to the combination of two factors. Firstly, economic growth is forecast to be strong in 1992 and will result in an increase in the creation of new businesses. Secondly, a greater percentage of new businesses prefer electric heat. Therefore, most of the new customers and their energy sales will fall into the General Service All-Electric category.

Q. How have actual energy sales compared to your forecasts?

A. Page 4 of PRH-I shows the energy sales forecasts and weather-adjusted energy sales for each of the past five years. The forecasted sales figures are from the annual forecasts prepared in the fall of the previous year and were part of the Capital Budget presentations made to the Board in those years. Additionally, the 1986, 1988, and 1990 forecast figures were the bases for the revenue requirement determinations presented as part of the Company's rate applications in 1986, 1987, and 1989 respectively. Over the past five years, variances from forecast have ranged from a high of 3.5 in 1988 to a low of 0.4 percent in 1989 with four of the past five years being 1.1 percent or lower.

Request for Information NLH-42
Credit Rating Agency Reports

NLH-42(a)

Q. Provide copies of the latest credit rating agency reports for each of the companies listed in KSW-3.

A. See attached.

NLH-42(b)

Q. Provide copies of the credit rating agency reports for the said companies which were issued when the most recent credit rating change occurred for each company.

A. Same as answer to NLH-42(a).

Rating A (high) Newfoundland Light & Power Co. Limited

Summary Earnings increased 8.6% for the year-ended 1990, due to the combined effects of a 3.9% rate increase and relatively strong growth in retail demand for electricity (5.4% weather adjusted). Return on common equity (adjusted for the timing of an equity issue in December) improved to 14.1% from 13.9% in 1989. Weakness in the main provincial industries of fishing, forestry and mining were balanced by the stability of residential customers, which provide a large portion of company sales. The Hibernia project will help the housing industry, but otherwise, it will not be a major user of electricity. Historically, the regulatory area has been reasonable. With the next hearing expected later in the year, we anticipate 1991 earnings will increase only slightly. After a year of record capital investment, 1991 spending is being reduced considerably. The balance sheet should remain reasonable.

Earnings For the year ended 1990, earnings after preferred dividends increased 8.6% to $23.8 million. Note that more favourable weather (colder) conditions were neutralized by transfers to the weather normalization account. Factors leading to higher earnings were as follows: (1) Operating revenues improved by 10.5% partly as a result of 3 separate rate increases during the year: (a) A general increase of 3.91% effective February 1990 was based on return on common equity of 13.95%. (b) In July, rates increased an additional 3.8% to support a declining Rate Stabilization Account. (c) As expected, an 8% rise in the purchase price of power was allowed to flow through to the customer as a 4.7% rate revision. (Note that the latter two rate adjustments had no effect on earnings.) (2) Energy sales grew 6.1% (weather adjusted growth of 5.4%) due to a larger customer base (2%) and from a general increase in consumption related to higher customer usage and colder than normal weather. In particular, domestic electric heating experienced above average growth, and this area accounts for close to half of Company sales. Sales growth in 1991 is forecast at only 2.9% due to: (a) Sales in the mining sector will be hurt by the closing of the Company's second largest customer. However, it was a low margin customer due to volume discounts and, as a result, the shut down is not expected to affect net earnings.(b) The recession dragging into the second half of the year will continue to hurt the fishery and forestry industries. (c) Hibernia will not be a major user of electricity, but the anticipated growth in housing construction is favourable. In other areas, operating expense growth was reasonably controlled at 7.5%. The increase in "other" costs largely reflected automation expenditures, higher provisions for doubtful accounts, a larger labour force and costs associated with sleet and electrical storms. Overall, 1991 earnings are projected to rise modestly, but return on common equity is expected to be slightly below the authorized range of 13.7-14.2%.

Balance Sheet Despite record levels of capital expenditure during the year, the balance sheet remained acceptable due to a recent equity issue. Cash flow net of dividends provided 51% of the funding for capital investment ($67 million), while bank debt and a $15 million common stock issue provided the balance. As a result, the percent debt in the capital structure was stable at 49%, and liquidity ratios remain acceptable. Stronger operating profits contributed to improved coverage ratios, with the fixed charges coverage adequate at 2.2 times. For 1991, capital investment of $50 million has been authorized and financing has recently been arranged through a $40 million bond issue (an additional $10 million will be required later in the year), also to be used to reduce short-term debt. We expect little improvement in the balance sheet in the near future as relatively high levels of capital spending will weaken liquidity ratios.

Regulation The regulatory area remains stable since the last filing when the Public Utilities Board ("PUB") authorized a general rate increase of 3.91% effective February 1990. As expected, a rate revision at Newfoundland Hydro was absorbed by the NL&P customer in the form of a 4.7% increase in July. Also at that date, a further 3.8% rate increase took effect in support of the Rate Stabilization Account. The majority of Newfoundland and Labrador Hydro's ("Hydro") output (70-80%) is purchased by NL&P, and the recent phasing out of the provincial subsidy paid to Hydro, will be passed on to NL&P. (There is a public hearing planned in the near future regarding this.) For 1991, the Company has reduced capital spending in order to maintain a minimum 3 times interest coverage and improve return on equity. The authorized range for return on average common equity remains at 13.7-14.2%, with a common equity component at 42-47% of capital. Projected 1991 earnings will be slightly below this range and, thus, a full rate hearing is expected late in 1991 or early 1992.

Power Supply The Company continues to purchase about 91% of its requirements from Hydro, while the balance was generated in 22 small hydro-electric plants owned and operated by the Company. Driven by higher purchasing costs, there has been increased focus on non-Hydro sources. In particular, the Company's own generating potential is being examined to increase capacity of watersheds and improve the efficiency of turbines and generators wherever practical. Also the possibility of co-generation is being given serious consideration.

The Company Newfoundland Light and Power is engaged in the sale of electricity in the province of Newfoundland, where it supplies areas containing about 85% of the province's population. It is largely a retailer of electricity, as 91% of electricity is purchased in bulk from the government-owned Newfoundland and Labrador Hydro. The Company is 100% owned by Fortis Inc., which has a widely distributed ownership.

Debt Rated	First Mortgage Sinking Fund Bonds	A (high)
	General Mortgage Sinking Fund Bonds	"A"
	All Series First Preferred Shares	Pfd-2

DBRS

Newfoundland Light & Power Co. Ltd.

Balance Sheet

($ millions)	December 31				December 31		
Assets	1990	1989	1988	Liabilities & Equity	1990	1989	1988
Cash & mkt. securities	0.0	0.0	0.0	Bank borrowings	43.6	12.3	23.3
Accounts receivable	34.6	32.8	34.8	Account payable	40.9	38.4	34.7
Inventories	7.0	7.1	6.1	Accured interest	3.4	3.9	2.3
Prepaid expenses	2.0	2.0	2.7	Dividends payable	4.5	4.0	3.9
Other current assets	2.6	2.2	0.0	Other current liabilities	0.0	1.1	3.6
Total current assets	46.1	44.0	43.7	L.t.d. due in 1 year	5.3	13.3	1.8
Deferred charges	5.1	4.4	2.7	Total current liabilities	97.7	73.0	69.6
Net fixed assets	448.8	407.1	372.9	Long term debt	157.9	165.0	138.7
				Deferred credits	25.7	22.8	24.7
				Shareholders' equity	218.8	194.7	186.2
	500.0	455.5	419.3		500.0	455.5	419.3

Ratios

	December 31					
	1990	1989	1988	1987	1986	1985
Current ratio	0.47	0.60	0.63	0.71	0.57	0.76
Asset coverage	2.06	2.02	2.14	2.05	2.14	2.13
Total assets/Long term debt	3.17	2.76	3.02	2.77	3.26	2.93
Capital expenditure/Avg. gross fixed assets	0.11	0.10	0.09	0.08	0.07	0.08
Revenue/Average net fixed assets	0.71	0.71	0.74	0.75	0.77	0.80
% total debt in capital structure	48.59%	49.46%	46.80%	48.77%	46.71%	46.96%
Cash flow/Long term debt	0.32	0.26	0.30	0.26	0.33	0.30
Capitalized interest/Pre tax income	3.27%	3.20%	0.98%	0.49%	0.87%	0.83%
Depreciation/Gross fixed assets	3.89%	3.73%	3.69%	3.63%	3.71%	3.66%
Interest coverage-based on gross interest	2.64	2.49	2.73	2.82	3.08	3.23
Interest coverage-based on net interest	2.85	2.68	2.89	2.84	3.09	3.23
Times interest earned after taxes	2.15	2.10	2.13	2.19	2.23	2.33
Common dividend payout	56.54%	66.45%	60.68%	59.98%	59.54%	51.93%
Profit margin	8.90%	7.98%	8.19%	8.17%	8.28%	8.55%
Return on equity (1)	13.05%	12.84%	12.53%	12.40%	12.81%	13.83%
Return on common equity (1)	14.05%	13.92%	13.66%	13.63%	13.98%	15.20%
Common equity/Total equity	85.86%	83.26%	81.92%	79.32%	77.74%	75.99%
Cash flow-dividends/Net capital expenditure	51.41%	48.62%	57.73%	59.30%	72.31%	72.30%
Fixed charges coverage	2.24	2.04	2.18	2.13	2.21	2.19

Income Statements

($ thousands)	for the year ended December 31					
	1990	1989	1988	1987	1986	1985
Sales	305,868	276,823	267,215	250,960	245,427	244,007
Gross operating profit	62,269	50,185	52,771	48,507	51,130	50,537
Net income before extra items	27,209	22,091	21,885	20,495	20,324	20,857
Net income after extra items	26,235	24,448	22,232	20,495	20,324	20,857

Capital Structure

($ millions)	December 31									
	1990	%	1989	%	1988	%	1987	%	1986	%
hort term debt	48.9	11	25.6	7	25.1	7	19.9	6	29.7	10
Long term debt	157.9	37	165.0	43	138.7	40	140.6	43	112.3	37
Preferred equity	30.9	7	32.6	8	33.7	10	34.9	11	36.1	12
Common equity	187.8	44	162.1	42	152.5	44	133.7	41	125.9	41
	425.5	100	385.3	100	350.0	100	329.2	100	304.0	100

(1) 1990 ratios are adjusted for the timing of an equity issue in December.

CBRS
Credit Analyst

Newfoundland Light & Power Co. Ltd.

September 27, 1990 — Volume II - Utilities - Gas & Electrial Section

Opinion

The rating on Newfoundland Light & Power's ("NLP") Preferred Shares have been upgraded to P-2(High) from P-2. This is due to an improving preferred dividend coverage ratio (8.7 times in 1989), resulting from a gradual redemption of preferred shares and improved earnings. NLP does not currently plan to issue any preferred equity over the next three years but will continue to redeem existing preferred shares, resulting in a preferred dividend coverage of over 13.0 times by 1992.

In 1989, demand for electricity increased close to 7% resulting in revenue growth of 4%. However, earnings before income taxes and transfers declined 6.8% to $32.5 million, reflecting a $12.2 million increase in operating expenses.

In August 1989, the Company issued $40 million in First Mortgage Bonds, intended to pay down short-term debt and to meet capital expenditures. The Company plans another $40 million issue in the latter part of 1990 or early 1991 and an additional $15 million in common equity in 1990.

NLP is currently allowed a rate of return on average common equity within the range of 13.70% to 14.20%. Furthermore, the PUC has allowed NLP to pass-through a 4.6% rate increase, to offset a rate increase from Newfoundland and Labrador Hydro Corporation ("Hydro").

Overall, NLP's financial position is considered stable and satisfactory, although its debt coverage ratios have declined over the past several years. Nevertheless, the Company's First Mortgage Bonds and General Mortgage Bonds are still considered to be of good quality and are rated A.

CREDIT RATING

First Mortgage Bonds	A
General Mortgage Bonds	A
Preferred Shares	P-2(High)*

*Upgraded

FINANCIAL HIGHLIGHTS
Year Ended December 31

($ Millions except per share figures)

	1989	1988	% Chg.
Revenue	278.3	268.3	+4
Assets	455.5	419.3	+9
Cash Flow	44.2	41.1	+8
* Net Earnings	24.4	22.2	+10
ROCE	13.9%	13.7%	N/A
Debt/Equity	49:51%	47:53%	N/A
Interest Coverage	2.8x	2.9x	N/A
Preferred div. cov.	9.6x	8.3x	N/A
All Fixed Charges	2.3x	2.3x	N/A
CF%TD	23.2%	25.1%	N/A

PRELIMINARY RESULTS
Six months ended June 30

	1990	1989	%Chg.
Revenue	170.0	159.6	+7%
* Net Earnings	19.0	17.9	+6%

*Before extra. items

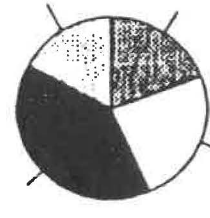
Corporate Profile

NLP and its predecessor companies have been generating and distributing electricity on the island portion of the Province for over 100 years. The present Company was founded in 1966 through the amalgamation of five electric power companies serving the province.

The Company serves approximately 188,000 customers in over 600 communities, representing 85% of the electrical consumers in the province; employs 963 people; and maintains 9,300 kilometres of transmission and distribution lines. It purchases the bulk of its energy requirements (90%) from Hydro, for distribution and resale, and also owns and operates 32 small generating plants.

The Company's generating capacity consists of; hydro (84,500 kilowatts); gas turbine (47,000 kilowatts); diesel (14,300 kilowatts); and steam (30,000 kilowatts).

SALES (in millions of kwh)



Analysis

Outlook

In 1990, earnings are projected to grow 8% to approximately $26.5 million and then gradually increase to approximately $30 million by 1992. The Company dividend payout ratio will be 55-60% of earnings.

Capital expenditures are estimated to increase 15% to $64.7 million in 1990 and total approximately $350 million over the 1990-1994 period. Funds will be largely allocated to improvements and extensions to the transmission and distribution systems in order to meet increasing demand of its customers.

Strengths

NLP is the major retailer of electrical energy in the Province providing electrical energy to 85% of customers. Three-quarters of all sales are to residential and small general service customers, which reduces the Company's exposure to cyclical and economic downturns. Furthermore, the Company continues to increase its share of the residential space heating market, capturing over 70% of new homes. Currently, over 50% of all residential homes in Newfoundland are electrically heated.

In 1989, sales grew by 6.8% to 3,993 million kwh, partly due to a 2.5% increase in its customer base to 188,575. In addition, rising demand for electricity has also resulted from the increased number of electrical appliances (dishwashers, VCR's, microwave's, air conditioners and etc.), found in Newfoundland homes.

NLP maintains a satisfactory capital structure and debt coverage ratios. The Company has over the past few years earned its allowable rate of return on common equity and pays out between 55-60% of its earnings in dividends. Earnings are forecasted to increase 8% to approximately $26.5 million in 1990 and gradually increase to the $30 million mark by 1992. Capital expenditures are forecast to average $70 million annually over the next five years.

Concerns

The Province of Newfoundland has historically been one of the economically weakest provinces in Canada. Since being adversely affected by the 1982 recession, the Province has made some economic improvements, although growth has lagged the Canadian average. The Province's resource sector, consisting primarily of fishery, mining and forestry have enjoyed good years since 1986. However, the current outlook for the forest industry is uncertain due to the economic slowdown and high interest rates, while the fishery has been impacted by a decline in the allowable catch, due to slow growth in fish stocks. The mining industry (iron ore and other mineral exploration) remains quite strong in Labrador.

The unemployment rate remains one of the highest in Canada while personal disposable income is one of the lowest. In addition, the Province's taxation rates are among the highest in the country, and the introduction of the GST will make matters worst.

The economic slowdown may have an impact on electric sales growth for NLP, whose sales growth is expected to slow from 5% to 2.2% by 1994. This will impact NLP's earnings and dividend payout to its parent Fortis.

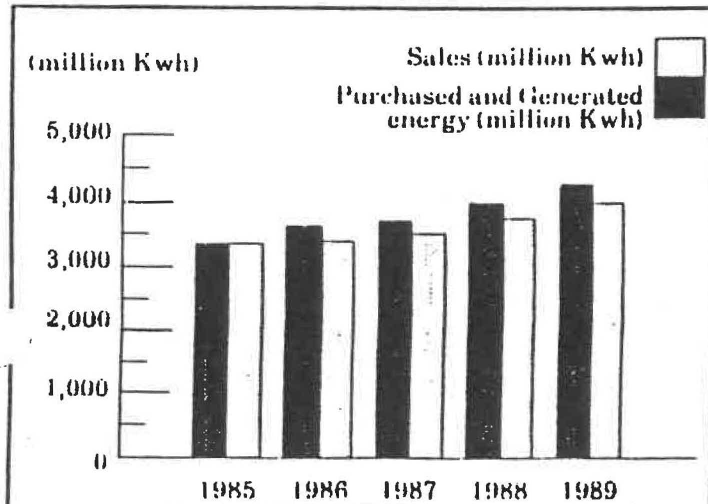
NLP generates approximately 10% of its electric supply and depends entirely on Hydro to supply the balance. NLP's ability to add to its own generating capacity is rather restricted, due to limited, economically available sights left to develop on the Island and due to Hydro's virtual monopoly on water resources. Therefore, continued growth in electric demand on the Island will mean further dependency on Hydro. Hydro's possible expansion programs will likely be in Upper Churchill, Labrador. This could evolve into higher rates for residence on the Island, due to high transmission costs. As a result, even inexpensive electricity generated on the Mainland, translates into higher rates on the Island. The cost to establish an electrical link between the Mainland and the Island will be in the neighbourhood of $2 billion and not expected to be developed until the late 1990's.

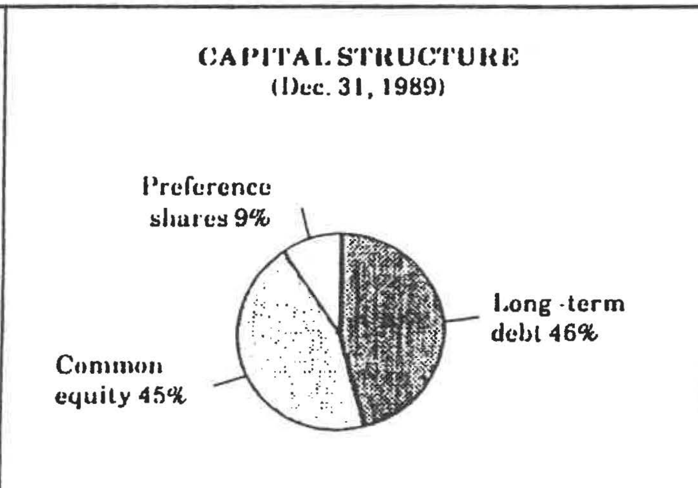
Regulation

The Company is regulated by the Board of Commissioners of Public Utilities of Newfoundland ("PUC") in regards to rates, capital expenditures, issuance of securities, terms of service, and related matters.

The Company is currently allowed a rate of return on average common equity within an authorized range of 13.70% to 14.20%. The determined overall return on average rate base is between 11.58% and 11.95%.

In early 1990, Hydro filed an application with the Public Utilities Board for an increase in rates it charges. As a result, NLP filed an application with the PUC to pass-through the entire increase from Hydro. This application was approved and as a result, NLP was allowed a 4.6% increase effective July 1, 1990.





Credit Analysis

Rating Comment

In 1989, revenue and net earnings improved by 4% and 10% to $278.3 million and $24.4 million respectively. This growth reflects a 2.5% growth in customer base and a 6.8% increase in electric sales.

In 1989, NLP's debt:equity ratio increased to 49:51% from 47:53%, reflecting a $40 million Bond issue in the third quarter of 1989. Over the past five years, net earnings have ranged between $20-25 million annually while debt levels have increased from $138 million in 1985 to $191 million in 1989. This has resulted in a gradual decline in interest coverage from 3.3 times in 1985 to 2.8 times in 1989.

Preferred dividend coverage has gradually improved from 5.6 times in 1985 to 9.6 times in 1989. This reflects the gradual redemption of preferred equity, brought on by unfavourable changes in tax legislation.

Cash flow remains satisfactory at $44.2 million while cash flow as a percentage of total debt declined slightly to 23%.

Overall, NLP maintains a stable financial position, as a result, the First Mortgage Bonds and General Mortgage Bonds are considered to be of good quality and are rated A. The Preferred Shares have been upgraded to P-2(High) from P-2, due to an improving coverage ratio.

DEBT OUTSTANDING ($000)

First Mgt. S. F. Bonds	Year of Issue	Maturity	Original Amount	o/s at Dec. 31/89
8%	1971	15/12/91	$6,000	$3,192
11 1/4%	1976	01/03/96	$20,000	$16,611
11 1/2%	1979	15/11/99	$5,000	$4,833
17 3/4%	1982	31/08/90	$7,500	$6,975
13 7/8%	1984	01/05/95	$7,500	$7,350
11 1/2%	1985	01/12/05	$15,000	$14,850
11 7/8%	1987	16/12/07	$40,000	$39,600
5 3/8%	1966	01/06/90	U.S. $2,500	Cdn. $1,790
8 1/4%	1972	15/12/92	U.S. $8,000	Cdn. $7,919
10.55%	1989	08/01/14	$40,000	$39,775

General Mgt. Bonds

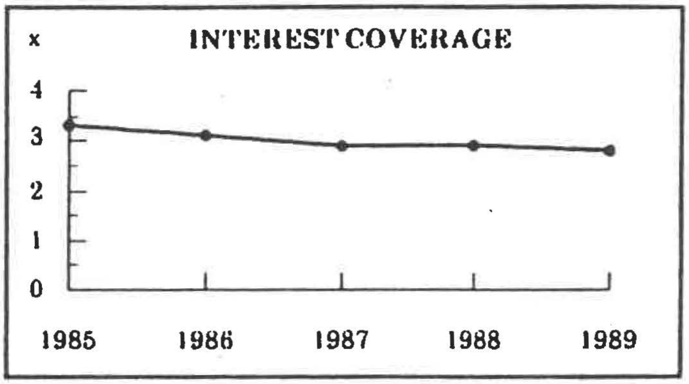
9 1/2%	1970	15/10/90	$5,000	$2,411
11 1/4%	1974	01/12/94	$15,000	$14,569
10 1/2%	1977	15/04/97	$20,000	$17,156

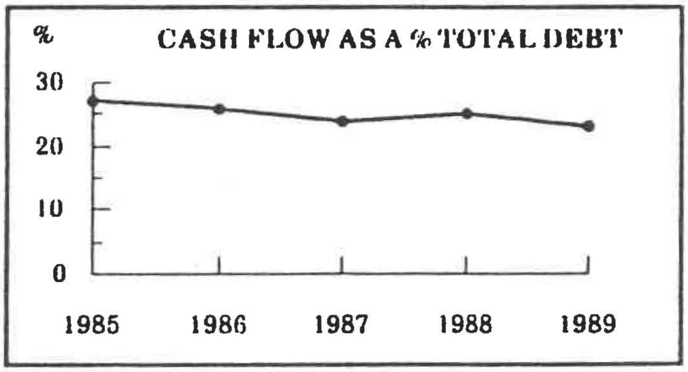
Lead Underwriters:
Wood Gundy
Burns Fry

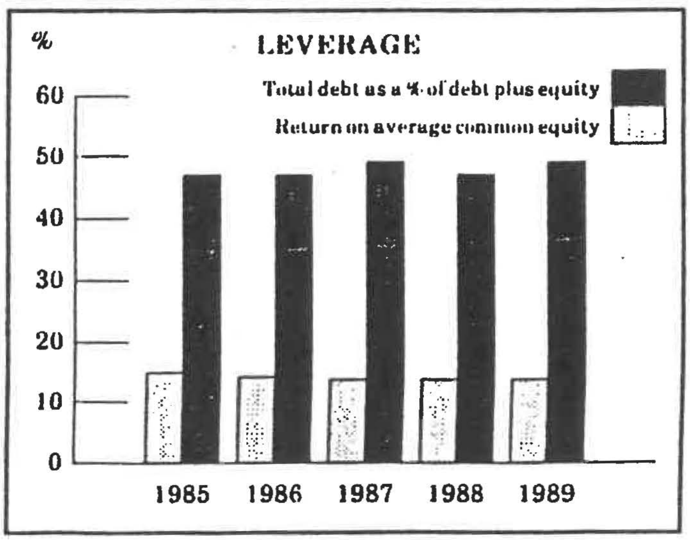
Trustee:
Montreal Trust Company

RATING CLASSIFICATIONS	
First Mortgage bonds	A
General Mortgage Bonds	A
Preferred Shares	P-2(High)

RATING HISTORY		
Mortgage Bonds	1972 - 80	B++
	1981 - present	A
Preferred Shares	1983 - 90	P-2
	Sept./1990	P-2(High)







CONSOLIDATED STATEMENT OF EARNINGS

For the Period Ending December 31
($ 000s)

	1985	1986	1987	1988	1989
REVENUE					
Sales	244,007	245,427	250,960	267,215	276,823
Other Income	0	0	0	1,122	1,472
	244,007	245,427	250,960	268,337	278,295
EXPENSES					
Operating Expenses	178,611	177,673	186,913	195,398	205,683
Depreciation & Amortization	15,312	16,555	17,362	19,046	20,955
Interest - Long Term Debt	13,658	15,028	13,876	17,865	17,671
- Other	1,691	1,215	2,770	1,091	2,071
Allowance for funds	(294)	(305)	(156)	(342)	(1,041)
Other Expenses (Net)	243	304	381	378	417
	209,221	210,470	221,146	233,436	245,756
PRETAX INCOME	34,786	34,957	29,814	34,901	32,539
Income Taxes	14,382	14,564	11,141	13,016	10,448
Minority Interest	0	0	0	0	0
Unusual Items	(453)	69	(1,822)	(347)	(2,357)
Equity in Earnings	0	0	0	0	0
INCOME BEFORE EXTRA. ITEMS	20,857	20,324	20,495	22,232	24,448
Extraordinary Item(s)	0	0	0	0	0
NET EARNINGS (LOSS)	20,857	20,324	20,495	22,232	24,448

CONSOLIDATED BALANCE SHEET

As at December 31
($ 000s)

ASSETS

	1985	1986	1987	1988	1989
CURRENT ASSETS					
Cash & Other	7,181	3,511	5,066	2,784	5,321
Accounts Receivable	25,364	28,113	29,635	34,820	32,761
Inventories	6,192	5,675	5,033	6,089	7,052
TOTAL CURRENT ASSETS	38,737	37,299	39,734	43,693	45,134
Fixed Assets (Net)	311,976	326,301	346,883	372,920	407,115
Investments	0	0	0	0	0
Other Assets	2,691	3,106	3,058	2,664	3,279
TOTAL ASSETS	353,404	366,706	389,675	419,277	455,528

LIABILITIES AND SHAREHOLDERS' EQUITY

	1985	1986	1987	1988	1989
CURRENT LIABILITIES					
Short Term Debt	16,998	29,650	19,917	25,088	25,619
Accounts Payable	27,568	28,340	29,711	34,745	38,382
Other	6,334	7,978	6,385	9,784	8,998
TOTAL CURRENT LIABILITIES	50,900	65,968	56,013	69,617	72,999
Long Term Debt	120,510	112,342	140,632	138,724	164,959
Deferred Income Taxes	9,300	9,155	9,209	8,974	8,908
Minority Interest	0	0	0	0	0
Other Liabilities	17,400	17,251	15,204	15,774	13,924
SHAREHOLDERS' EQUITY					
Share Capital - Preferred	37,282	36,067	34,876	33,670	32,595
- Common	44,507	56,737	36,794	47,674	48,386
Retained Earnings	73,505	69,186	96,947	104,844	113,757
	155,294	161,990	168,617	186,188	194,738
TOTAL LIABILITIES & EQUITY	353,404	366,706	389,675	419,277	455,528

SELECTED SOURCES AND USES OF FUNDS

For the Period Ending December 31 ($ 000s)

	1985	1986	1987	1988	1989
Cash Flow from Operations	36,711	36,272	38,291	41,096	44,234
Proceeds from L.T. Debt Issues	14,712	0	41,383	0	39,447
Proceeds from Equity Issues	2,032	10,757	737	10,879	712
Sale of Investments/Assets	0	0	0	0	0
Capital Expenditure (NET)	33,117	32,109	39,104	46,345	56,513
Investments/Acquisitions	0	0	0	0	0
Repayment of Debt	2,733	6,215	8,671	13,266	2,313
Conversion/Redemption of Pfd. Shares	1,209	11,215	1,191	1,205	1,076
Dividends Paid	12,609	13,428	13,414	14,335	15,535
Net Change in Working Capital	923	(16,506)	12,390	(9,645)	(1,941)

CAPITALIZATION ($ 000,000s)	1985 %	1986 %	1987 %	1988 %	1989 %
Short Term Debt	17.0- 6	29.7- 9	19.9- 6	25.1- 7	25.6- 6
Long Term Debt	120.5- 40	112.3- 36	140.6- 42	138.7- 39	165.0- 42
Deferred Taxes	9.3- 3	9.2- 3	9.2- 3	9.0- 2	8.9- 2
Minority Interest	0.0- 0	0.0- 0	0.0- 0	0.0- 0	0.0- 0
Equity - Preferred	37.3- 12	36.1- 12	34.9- 10	33.7- 9	32.6- 8
- Common	118.0- 39	125.9- 40	133.7- 40	152.5- 42	162.1- 41
TOTAL	302.1-100	313.1-100	338.4-100	359.0-100	394.2-100

COVERAGE RATIOS					
Net Tangible Assets	2.28 x	2.39 x	2.14 x	2.37 x	2.12 x
Total Debt:Equity	47:53%	47:53%	49:51%	47:53%	49:51%
Interest Coverage	3.3 x	3.1 x	2.9 x	2.9 x	2.8 x
Cash Flow % Total Debt	26.7%	25.5%	23.9%	25.1%	23.2%
Preferred Dividend Coverage	5.6 x	6.2 x	7.3 x	8.3 x	9.6 x
Pfd. & Common Div. Coverage	1.7 x	1.5 x	1.5 x	1.6 x	1.6 x
All Fixed Charges	2.3 x	2.3 x	2.3 x	2.3 x	2.3 x

LIQUIDITY RATIOS					
STD % Total Debt	12.4%	20.9%	12.4%	15.3%	13.4%
Current Liab. % Revenue	20.9%	26.9%	22.3%	25.9%	26.2%
Avail. C.F. % Const.	60.9%	16.9%	38.4%	26.5%	44.8%

PROFITABILITY RATIOS					
Net Margin	8.5%	8.3%	8.2%	8.3%	8.8%
Asset Turnover	0.69x	0.67x	0.64x	0.64x	0.61x
E.B.I.T. % of Total Assets	13.8%	13.6%	11.7%	12.7%	11.5%
Return on Avg. Common Equity	15.2%	14.0%	13.6%	13.7%	13.9%

OPERATING STATISTICS					
Sources of energy (millions of kwh)					
Purchased	3,204	3,227	3,370	3,572	3,916
Generated	327	391	335	419	321
Total	3,531	3,618	3,705	3,991	4,237
Sales (millions of kwh)	3,331	3,411	3,504	3,738	3,993
Customers (year-end)	172,119	175,631	179,612	184,055	188,575
Employees	938	905	914	926	963

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