NEWFOUNDLAND POWER
A FORTIS COMPANY

Newfoundland Power Inc.

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DELIVERED BY HAND

September 28, 2009

Board of Commissioners
of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, NL A1A 5B2

Attention: G. Cheryl Blundon
Director of Corporate Services
and Board Secretary

Ladies and Gentlemen:

Re: 2010 General Rate Application

1. Enclosures:

On May 28, 2009, Newfoundland Power filed a general rate application for a review of Newfoundland Power's 2010 costs and customer rates (the "Application").

Enclosed are the original and eight copies each of:

(a) an Amended Application;

(b) Evidence (1st Revision);

(c) Exhibits (1st Revision);

(d) Report on Other Post Employment Benefits (1st Revision);

(e) Customer, Energy and Demand Forecast (1st Revision); and

(f) Revised responses to Requests for Information ("RFIs") that are materially affected by the revisions filed today.

For ease in identifying revisions, changes to items (b), (d), (e) and (f) are generally indicated on the revised documents with shading as follows on text or numbers to indicate changes and <> to indicate deletions.

For Exhibits (item (c) above) and for Attachment A to the Response to Request for Information CA-NP-43 (1st Revision), which is a 5-year forecast, a note has been made at the bottom of the document to indicate the reason for the revision.

2. Principal Revisions:

The Amended Application seeks a 7.2% average increase in customer rates effective January 1, 2010.

The Amended Application and revised Evidence primarily reflect changes to the Application that result from:

(a) changes in customer rates resulting from the July 1, 2009 Rate Stabilization Adjustment approved by the Board in Order No. P.U. 26 (2009);

(b) revision of the discount rate used to estimate pension expense and other post employment benefits expense from 7.5% to 6.5% which reflects current financial market conditions;

(c) revisions to the Customer, Energy and Demand Forecast;

(d) revisions to reflect the effects of supplemental capital expenditures approved by the Board in Order Nos. P.U. 29 (2009) and P.U. 32 (2009); and

(e) revisions that reflect a settlement agreement reached in relation to proposals contained in the Application.

For convenience in reference, all Exhibits have been reproduced in full and included with the Amended Application and Evidence (1st Revision) in a revised Volume 1.

This filing includes the Report on Other Post Employment Benefits (1st Revision) which has been revised to incorporate a forecast 6.5% discount rate. This is a revision to the Report on Other Post Employment Benefits filed in Volume 2, Tab 4 of the materials filed with the Application.

This filing also includes the Customer, Energy and Demand Forecast (1st Revision) which has been revised to incorporate the most recent forecast assumptions. This is a revision to the Customer, Energy and Demand Forecast filed in Volume 2, Tab 6 of the materials filed with the Application.

Finally, this filing also includes a Table of Concordance for the current Requests for Information indicating which have been revised with this filing.

3. Concluding:

A copy of this letter, together with a copy of the enclosures, has been forwarded directly to Geoffrey Young, Newfoundland & Labrador Hydro and Thomas Johnson, Consumer Advocate.

We trust the foregoing and enclosed are found to be in order, however, please feel free to contact the undersigned if you have any questions.

Yours very truly,

Peter Alteen
Vice President, Regulatory Affairs
& General Counsel

Enclosures

c. Geoffrey Young (4 copies)
Newfoundland and Labrador Hydro

Thomas Johnson (4 copies)
Consumer Advocate

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IN THE MATTER OF the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47, as amended, (the "Act"); and

IN THE MATTER OF a general rate application (the "Application") by Newfoundland Power Inc. ("Newfoundland Power") to establish customer electricity rates for 2010.

TO: The Board of Commissioners of Public Utilities (the "Board")

THE AMENDED APPLICATION OF Newfoundland Power **SAYS THAT**:

A. Background:

1. Newfoundland Power is a corporation duly organized and existing under the laws of the Province of Newfoundland and Labrador, is a public utility within the meaning of the Act and is subject to the provisions of the *Electrical Power Control Act, 1994*.

2. The Act provides that the Board has the general supervision of public utilities and requires that a public utility, in effect, submit for the approval of the Board the rates, tolls and charges for the service provided by the public utility and the rules and regulations which relate to that service.

3. By Order Nos. P.U. 16 (1998-99), P.U. 36 (1998-99) and P.U. 19 (2003), the Board ordered, in effect, that an automatic adjustment formula be established to set the electrical rates and allowed rates of return for Newfoundland Power based upon changes in long term Government of Canada bond yields (the "Formula").

4. By Order No. P.U. 32 (2007), the Board ordered, amongst other things, that:

   (a) the Formula be used to establish the rate of return on rate base for Newfoundland Power for three years subsequent to 2008 unless otherwise directed by the Board;

   (b) Newfoundland Power continue recognition of other post employment benefits expenses on a cash basis;

   (c) Newfoundland Power recover energy supply cost variances through its Rate Stabilization Account through the end of 2010 (the "Energy Supply Cost Variance clause");

   (d) Newfoundland Power establish a Demand Management Incentive Account; and

   (e) Newfoundland Power file its next depreciation study relating to plant in service as of December 31, 2010.

5. By Order No. P.U. 13 (2009), the Board approved the creation of a Conservation Cost Deferral Account to provide for the deferred recovery, until a further Order of the Board, of 2009 costs related to the implementation of a Five-Year Energy Conservation Plan (the "Conservation Plan").

6. Since 2007, changes in financial markets, changes in Newfoundland Power's cost of service, and developments in accounting practice and standards have occurred, all as set out in the evidence filed in support of the Application and this Amended Application.

7. On May 28th 2009, Newfoundland Power filed an Application to establish customer electricity rates for 2010 together with evidence in support thereof.

B. Newfoundland Power Proposals:

8. Newfoundland Power proposes that the Board discontinue use of the Formula for setting the allowed rate of return on rate base for Newfoundland Power as set out in the evidence filed in support of the Application and this Amended Application.

9. Newfoundland Power proposes that the Board approve, with effect from January 1, 2010, the adoption of the accrual method of accounting for other post employment benefits and for income tax related to other post employment benefits as set out in the evidence filed in support of the Application and this Amended Application.

10. Newfoundland Power proposes that the Board approve, with effect from January 1, 2010, the Pension Expense Variance Deferral Account as set out in the evidence filed in support of the Application and this Amended Application.

11. Newfoundland Power proposes that the Board approve amortizations, with effect from January 1, 2010, to:

    (a) amortize the recovery over a four year period of certain 2009 conservation costs associated with implementation of the Conservation Plan; and

    (b) recover over one year an estimated $750,000 in Board and Consumer Advocate costs related to the Application;

    as set out in the evidence filed in support of the Application and this Amended Application.

12. Newfoundland Power proposes that the Board approve that the next depreciation study relate to plant in service as of December 31, 2009 as set out in the evidence filed in support of the Application and this Amended Application.

13. Newfoundland Power proposes that the Board approve continued use of the Energy Supply Cost Variance clause beyond 2010, and the Demand Management Incentive Account until further Order of the Board as set out in the evidence filed in support of the Application and this Amended Application.

14. Newfoundland Power proposes that the Board approve an overall average increase in current customer rates of 7.2 percent, with effect from January 1, 2010, based upon:

    (a) a forecast average rate base for 2010 of $869,241,000;

    (b) a rate of return on average rate base for 2010 of 9.13 percent in a range of 8.95 percent to 9.31 percent; and

    (c) a forecast revenue requirement for 2010 of $545,917,000 to be recovered from electrical rates;

    as set out in the evidence filed in support of this Amended Application.

15. Newfoundland Power proposes that the Board approve rates, tolls and charges effective for service provided on and after January 1, 2010, which result in average increases in current customer rates by class as follows:

Rate Class	***Average Increase***
Domestic	7.9%
General Service 0-10kW	5.2%
General Service 10-100 kW (110 kVA)	5.2%
General Service 110-1000 kVA	6.2%
General Service 1000 kVA and Over	7.2%
Street and Area Lighting	7.2%

    as set out in Schedule A to this Amended Application.

C. Order Requested:

16. Newfoundland Power requests that the Board make an Order approving:

    (a) pursuant to Section 80 of the Act, the discontinuation of use of the Formula as set out in paragraph 8 of this Amended Application;

    (b) pursuant to Section 58 of the Act, the adoption of the accrual method of accounting for other post employment benefits and for income tax related to other post employment benefits as set out in paragraph 9 of this Amended Application;

    (c) pursuant to Sections 58 and 80 of the Act, the Pension Expense Variance Deferral Account as set out in paragraph 10 of this Amended Application;

    (d) pursuant to Sections 58 and 80 of the Act, the amortizations set out in paragraph 11 of this Amended Application;

(e) pursuant to Section 68 of the Act, that the next depreciation study relate to plant in service as of December 31, 2009 as set out in paragraph 12 of this Amended Application;

(f) pursuant to Sections 58 and 80 of the Act, continued use of the Energy Supply Cost Variance clause and the Demand Management Incentive Account until further Order of the Board as set out in paragraph 13 of this Amended Application;

(g) pursuant to Sections 70 and 80 of the Act, rates, tolls and charges as set out in paragraphs 14 and 15 of this Amended Application subject to modification for any intervening Order of the Board affecting rates, tolls and charges; and

(h) such other or alternate matters which may, upon hearing of this Amended Application, appear just and reasonable in the circumstances.

D. Communications:

17. Communication with respect to this Amended Application should be forwarded to the attention of Ian F. Kelly, Q.C. and Gerard M. Hayes, Counsel to Newfoundland Power.

DATED at St. John's, Newfoundland, this 28th day of September, 2009.

NEWFOUNDLAND POWER INC.

Ian F. Kelly, Q.C. and Gerard M. Hayes
Newfoundland Power Inc.
P.O. Box 8910
55 Kenmount Road
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IN THE MATTER OF the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47, as amended, (the "Act"); and

IN THE MATTER OF a general rate application (the "Application") by Newfoundland Power Inc. ("Newfoundland Power") to establish customer electricity rates for 2010.

AFFIDAVIT

I, Peter Alteen, of St. John's in the Province of Newfoundland and Labrador, make oath and say as follows:

1. That I am Vice-President, Regulatory Affairs, of Newfoundland Power.

2. To the best of my knowledge, information and belief, all matters, facts and things set out in this Amended Application are true.

SWORN at St. John's
in the Province of Newfoundland and Labrador
this 28th day of September, 2009,
before me:

Barrister

Peter Alteen

NEWFOUNDLAND POWER INC.
RATE #1.1
DOMESTIC SERVICE

Availability:

For Service to a Domestic Unit or to buildings or facilities which are on the same Serviced Premises as a Domestic Unit and used by the same Customer exclusively for domestic or household purposes, whether such buildings or facilities are included on the same meter as the Domestic Unit or metered separately.

Rate: (Includes Municipal Tax and Rate Stabilization Adjustments in effect July 1, 2009)

Basic Customer Charge: ..... $15.57 per month

Energy Charge:
All kilowatt-hours ..... @ 9.714¢ per kWh

Minimum Monthly Charge ..... $15.57 per month

Discount:

A discount of 1.5% of the amount of the current month's bill, but not less than $1.00, will be allowed if the bill is paid within 10 days after it is issued.

General:

Details regarding conditions of service are provided in the Rules and Regulations. **This rate does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND POWER INC.
RATE #2.1
GENERAL SERVICE 0-10 kW

Availability:

For Service (excluding Domestic Service) where the maximum demand occurring in the 12 months ending with the current month is less than 10 kilowatts.

Rate: (Includes Municipal Tax and Rate Stabilization Adjustments in effect July 1, 2009)

Basic Customer Charge: ..... $17.86 per month

Energy Charge:
All kilowatt-hours ..... @ 11.607 ¢ per kWh

Minimum Monthly Charge, Single Phase ..... $17.86 per month
Three Phase ..... $35.72 per month

Discount:

A discount of 1.5% of the amount of the current month's bill, but not less than $1.00, will be allowed if the bill is paid within 10 days after it is issued.

General:

Details regarding conditions of service are provided in the Rules and Regulations. **This rate does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND POWER INC.
RATE #2.2
GENERAL SERVICE 10-100 kW (110 kVA)

Availability:

For Service (excluding Domestic Service) where the maximum demand occurring in the 12 months ending with the current month is 10 kilowatts or greater but less than 100 kilowatts (110 kilovolt-amperes).

Rate: (Includes Municipal Tax and Rate Stabilization Adjustments in effect July 1, 2009)

Basic Customer Charge: ..... $20.57 per month

Demand Charge:
$8.63 per kW of billing demand in the months of December, January, February and March and $7.13 per kW in all other months. The billing demand shall be the maximum demand registered on the meter in the current month.

Energy Charge:
First 150 kilowatt-hours per kW of billing demand ..... @ 9.051 ¢ per kWh
All excess kilowatt-hours ..... @ 6.583 ¢ per kWh

Maximum Monthly Charge:

The Maximum Monthly Charge shall be 17.3 cents per kWh plus the Basic Customer Charge, but not less than the Minimum Monthly Charge.

Minimum Monthly Charge:

Single Phase ..... $20.57 per month
Three Phase ..... $35.72 per month

Discount:

A discount of 1.5% of the amount of the current month's bill, but not less than $1.00, will be allowed if the bill is paid within 10 days after it is issued.

General:

Details regarding metering [in particular Regulation 7 (n)], transformation [in particular Regulation 9(k)], and other conditions of service are provided in the Rules and Regulations. **This rate does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND POWER INC.
RATE #2.3
GENERAL SERVICE 110 kVA (100 kW) - 1000 kVA

Availability:

For Service where the maximum demand occurring in the 12 months ending with the current month is 110 kilovolt-amperes (100 kilowatts) or greater but less than 1000 kilovolt-amperes.

Rate: (Includes Municipal Tax and Rate Stabilization Adjustments in effect July 1, 2009)

Basic Customer Charge: ..... $92.61 per month

Demand Charge:
$7.45 per kVA of billing demand in the months of December, January, February and March and $5.95 per kVA in all other months. The billing demand shall be the maximum demand registered on the meter in the current month.

Energy Charge:
First 150 kilowatt-hours per kVA of billing demand,
up to a maximum of 30,000 kilowatt-hours ..... @ 8.982 ¢ per kWh
All excess kilowatt-hours ..... @ 6.475 ¢ per kWh

Maximum Monthly Charge:

The Maximum Monthly Charge shall be 17.4 cents per kWh plus the Basic Customer Charge.

Discount:

A discount of 1.5% of the amount of the current month's bill, up to a maximum of $500.00 will be allowed if the bill is paid within 10 days after it is issued.

General:

Details regarding metering [in particular, Regulation 7(n)], transformation [in particular Regulation 9(k)], and other conditions of service are provided in the Rules and Regulations. **This rate does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND POWER INC.
RATE #2.4
GENERAL SERVICE 1000 kVA AND OVER

Availability:

For Service where the maximum demand occurring in the 12 months ending with the current month is 1000 kilovolt-amperes or greater.

Rate: (Includes Municipal Tax and Rate Stabilization Adjustments in effect July 1, 2009)

Basic Customer Charge: ..... $185.23 per month

Demand Charge:
$7.04 per kVA of billing demand in the months of December, January, February and March and $5.54 per kVA in all other months. The billing demand shall be the maximum demand registered on the meter in the current month.

Energy Charge:
First 100,000 kilowatt-hours ..... @ 7.545 ¢ per kWh
All excess kilowatt-hours ..... @ 6.390 ¢ per kWh

Maximum Monthly Charge:

The Maximum Monthly Charge shall be 17.4 cents per kWh plus the Basic Customer Charge.

Discount:

A discount of 1.5% of the amount of the current month's bill, up to a maximum of $500.00 will be allowed if the bill is paid within 10 days after it is issued.

General:

Details regarding metering [in particular, Regulation 7(n)], transformation [in particular, Regulation 9(k)], and other conditions of service are provided in the Rules and Regulations. **This rate does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND POWER INC.
RATE #4.1
STREET AND AREA LIGHTING SERVICE

Availability:

For Street and Area Lighting Service where the electricity is supplied by the Company and all fixtures, wiring and controls are provided, owned and maintained by the Company.

Monthly Rate: (Includes Municipal Tax and Rate Stabilization Adjustments in effect July 1, 2009)

	Sentinel/Standard	Post Top
High Pressure Sodium*		
100W (8,600 lumens)	$16.09	$17.28
150W (14,400 lumens)	20.63	-
250W (23,200 lumens)	27.83	-
400W (45,000 lumens)	38.61	-

* For all new installations and replacements.

Mercury Vapour	
175W (7,000 lumens)	$16.09
250W (9,400 lumens)	20.63
400W (17,200 lumens)	27.83

Special poles used exclusively for lighting service**	
Wood	$ 7.01
30' Concrete or Metal, direct buried	10.17
45' Concrete or Metal, direct buried	15.49
25' Concrete or Metal, Post Top, direct buried	7.84
Underground Wiring (per run)**	
All sizes and types of fixtures	$12.39

** Where a pole or underground wiring run serves two fixtures paid for by different parties, the above rates for such poles and underground wiring may be shared equally between the two parties.

General:

Details regarding conditions of service are provided in the Rules and Regulations. **This rate does not include the Harmonized Sales Tax (HST) which applies to electricity bills.**

NEWFOUNDLAND POWER INC.
CURTAILABLE SERVICE OPTION
(for Rates #2.3 and #2.4 only)

Availability:

For Customers billed on Rate #2.3 or #2.4 that can reduce their demand ("Curtail") by between 300 kW (330 kVA) and 5000 kW (5500 kVA) upon request by the Company during the Winter Peak Period. The Winter Peak Period is between 8 a.m. and 9 p.m. daily during the calendar months of December, January, February and March. The ability of a Customer to Curtail must be demonstrated to the Company's satisfaction prior to the Customer's availing of this rate option.

Credit for Curtailing:

If the Customer Curtails as requested for the duration of a Winter, the Company shall credit to the Customer's account the Curtailment Credit during May billing immediately following that Winter. The Curtailment Credit shall be determined by one of the following options:

Option 1:
The Customer will contract to reduce demand by a specific amount during Curtailment periods (the "Contracted Demand Reduction"). The Curtailment Credit for Option 1 is determined as follows:

Curtailment Credit = Contracted Demand Reduction x $29 per kVA

Option 2:
The Customer will contract to reduce demand to a Firm Demand level which the Customer's maximum demand must not exceed during a Curtailment period. The Curtailment Credit for Option 2 is determined as follows:

Maximum Demand Curtailed = (Maximum Winter Demand - Firm Demand)

$$\text{Peak Period Load Factor} = \frac{\text{kWh usage during Peak Period}}{\text{(Maximum Demand during Peak Period x 1573 hours)}}$$

Curtailment Credit = ((Maximum Demand Curtailed x 50%) + (Maximum Demand Curtailed x 50% x Peak Period Load Factor)) x $29 per kVA

Limitations on Requests to Curtail:

Curtailment periods will:
1. Not exceed 6 hours duration for any one occurrence.
2. Not be requested to start within 2 hours of the expiration of a prior Curtailment period.
3. Not exceed 100 hours duration in total during a winter period.

The Company shall request the Customer to Curtail at least 1 hour prior to the commencement of the Curtailment period.

NEWFOUNDLAND POWER INC.
CURTAILABLE SERVICE OPTION
(for Rates #2.3 and #2.4 only)

Failure to Curtail:

Failure to Curtail under Option 1 occurs when a Customer does not reduce its demand by the Contracted Demand Reduction for the duration of a Curtailment period. Failure to Curtail under Option 2 occurs when a Customer does not reduce its demand to the Firm Demand level or below for the duration of a Curtailment period.

The Curtailment Credit will be reduced by 50% as a result of the first failure to Curtail during a Winter. For each additional failure to Curtail, the Curtailment Credit will be reduced by a further 25% of the Curtailment Credit. If the Customer fails to Curtail three times during a Winter, the Customer forfeits 100% of the Curtailment Credit and the Customer will no longer be entitled to service under the Curtailable Service Option.

Notwithstanding the previous paragraph, no Curtailment Credit will be provided if the number of failures to Curtail equals the number of Curtailment requests.

Termination/Modification:

The Company requires six months written notice of the Customer's intention to either discontinue Curtailable Service Option or to modify the Contracted Demand Reduction or Firm Demand level.

General:

Services billed on this Service Option will have approved load monitoring equipment installed. For a customer that Curtails by using its own generation in parallel with the Company's electrical system, all Company interconnection guidelines will apply, and the Company has the option of monitoring the output of the Customer's generation. All costs associated with equipment required to monitor the Customer's generation will be charged to the Customer's account.

SECTION 1: INTRODUCTION

1.1 AMENDED APPLICATION BACKGROUND

The business of Newfoundland Power (the "Company") is principally electricity delivery and customer service. Both the Company's electricity system and the market it serves are relatively mature.

Table 1-1 shows the number of customers served by Newfoundland Power and the annual weather adjusted sales of the Company for the period 2007 through 2009F.

Table 1-1
Customers and Sales: 2007 to 2009F

	2007	2008	2009F
Number of Customers	232,262	235,778	239,039
Annual Sales (GWh)	5,093	5,208	5,266

From 2007 through 2009F, the number of customers served by Newfoundland Power is increasing by an average of 1.4% per year and annual weather adjusted sales are increasing by an average of 1.7% per year. Currently, the price of the electricity Newfoundland Power delivers to its customers is approximately 1.2% lower < > than it was at the end of 2006. [1]

[1] For 2007, a 2.8% decrease in Newfoundland Power's customer rates was the combined result of a reduction due to operation of the automatic adjustment formula and an increase as a result of a Hydro General Rate Application and the operation of rate stabilization mechanisms. For 2008, an 8.9% increase in Newfoundland Power's customer rates was the combined result of increases resulting from a Newfoundland Power General Rate Application and the operation of rate stabilization mechanisms. < > For 2009, a 6.6% decrease in customer rates occurred on July 1st < > as a result of the rate stabilization mechanisms.

Newfoundland Power's primary source of electricity supply is Newfoundland and Labrador Hydro ("Hydro") which generates approximately 93% of the electricity Newfoundland Power delivers to its customers.

Electrical service delivery for Newfoundland Power is evolving. There are a number of influences contributing to this. One is the changing expectations of Newfoundland Power's customers. Another is the mix of costs required to maintain least cost reliable service. A third influence is Newfoundland Power's workforce demographics. These influences are reflected in an increased focus on customer energy conservation programs and services; reduced levels of capital expenditure targeted at plant replacement and increased levels of capital expenditure to serve increased customer energy requirements; and a larger forecast workforce in the short term to ensure the continuity of the necessary skills required to serve customers over the long term. These influences affect the cost of the service Newfoundland Power provides to its customers.

Market conditions also influence the cost of the service Newfoundland Power provides to its customers. Financial market conditions affect the cost of the capital required by Newfoundland Power to fund the investment necessary for least cost reliable customer service. Financial market conditions also affect Newfoundland Power's costs directly, as in the case of the Company's pension costs. Commodity and foreign exchange market conditions determine the cost of No. 6 fuel used at Hydro's Holyrood thermal generating station ("Holyrood") which is the primary source of variability in Newfoundland Power's electricity supply costs.

Developments in accounting standards have the potential to materially impact Newfoundland Power's financial reporting. Important aspects of the proposed adoption of International Financial Reporting Standards ("IFRS") in 2011 by rate-regulated enterprises such as Newfoundland Power are unlikely to be settled prior to June 2010. Changes in accounting standards may not affect Newfoundland Power's cost of providing service to customers in a direct way. However, the uncertainty surrounding the future treatment of regulatory assets and liabilities under IFRS has regulatory implications.

Since 2007, Newfoundland Power has experienced material changes in its costs. Aggregate capital expenditure at year end 2010 is now forecast to be approximately $37 million higher than was expected in 2007. For 2010, both conservation and pension costs are expected to materially increase. While current short-term debt costs are at historic lows, the cost of long-term debt has increased. These specific cost changes are integral to this Amended Application.

1.2 THE AMENDED APPLICATION

1.2.1 2010 Revenue Requirements

In this Amended Application, Newfoundland Power is requesting an average increase in current customer rates of approximately 7.2% in 2010. This increase results from four primary changes in Newfoundland Power's 2010 cost of service.

In order to sustain Newfoundland Power's financial integrity in current market conditions, the Company is targeting a 2010 return on equity of 11%. The return on equity currently reflected in customer rates is 8.95%. An approximate 2.2% increase in current customer rates is required to

change the Company's 2010 return on rate base to reflect a return on common equity of 11% as opposed to 8.95%.

Increases in 2010 operating costs account for an approximate 1.9% increase in current customer rates for 2010. The majority of the forecast 2010 operating cost increase relates to two specific items. One is increased pension expense. In 2010, Newfoundland Power's pension expense is forecast to increase by approximately $2.5 million compared < > to 2007. The second is increased costs associated with higher levels of customer energy conservation programming. In 2010, Newfoundland Power's conservation costs are forecast to increase by over $2 million compared to 2007.

Newfoundland Power is filing a 2010 test year in this Amended Application. This requires forecast electricity supply costs to be balanced with forecast revenue from rates for 2010. Absent the filing of this Amended Application, electricity supply cost increases in 2010 would have been recovered through the existing energy supply cost variance mechanism in 2011. The effect of balancing 2010 test year supply costs with revenue from rates accounts for an approximate 1.0% increase in current customer rates for 2010.

In this Amended Application, Newfoundland Power proposes to commence recognizing other post employment benefits on an accrual basis in 2010. This will result in Newfoundland Power's accounting practice being consistent with current Canadian public utility practice. Implementing this accounting change in 2010 accounts for an approximate 1.3% increase in current customer rates for 2010.

In addition to these four primary changes, other factors affect the proposed 2010 revenue requirements contained in this Amended Application. These include proposed amortizations of application process costs and 2009 conservation costs. They also include increased finance and depreciation costs associated with rate base growth.

1.2.2 Other Proposals

The Company is proposing that Domestic customers receive an increase approximately 0.7% higher than the average increase in rates of 7.2%. Most General Service customers are proposed to receive an increase 1% to 2% below the average increase in rates of 7.2%. These proposals will ensure greater fairness in recovery of Newfoundland Power's cost of service by customer class.

In response to the current volatility in financial markets, this Amended Application also proposes discontinuing use of the automatic adjustment formula, and changes in annual pension expense recovery.

Finally, Newfoundland Power proposes to complete its next depreciation study one year earlier than required by Order No. P.U. 32 (2007). This is to facilitate the Company's adoption of IFRS in 2011. It is proposed that the next depreciation study relate to plant in service as at December 31, 2009.

SECTION 2: CUSTOMER OPERATIONS

2.1 OVERVIEW

Current least cost customer service delivery for Newfoundland Power reflects the expectations of customers, the condition of the electrical system and workforce requirements.

Customer energy conservation programming is becoming a more prominent component of Newfoundland Power's service. This is responsive to current customer expectations and electrical system economics.

Reduced levels of capital expenditure to replace electrical system assets are expected. This reflects the current condition of the electrical system. However, increased capital expenditure to serve customers' increasing electricity requirements is expected.

Recruitment and training of the workforce necessary to ensure long term fulfilment of Newfoundland Power's customer service obligations is increasing the cost of service delivery to customers. This is necessary to address current workforce demographics.

2.2 SERVING CUSTOMERS

Customers' satisfaction with Newfoundland Power's service is consistent with recent experience.

This section of evidence outlines how Newfoundland Power responds to evolving customer expectations.

The number of customer initiated contacts with Newfoundland Power is growing, with customers increasingly choosing to interact with Newfoundland Power via electronic means.

Customer energy conservation is becoming an increasingly prominent component of Newfoundland Power's overall customer service mix.

2.2.1 Responding to Customer Expectations

Newfoundland Power's customer satisfaction index was 88% in 2007 and 89% in 2008.[1] This is consistent with customer satisfaction over the past decade.[2]

As customers' expectations evolve, Newfoundland Power's response to those expectations also evolves. A principal aspect of the evolution of customer expectations in recent years relates to how customers choose to interact with Newfoundland Power.

[1] Customer satisfaction surveys have been conducted by the Company on a quarterly basis since 1997. The survey asks customers to rate their overall satisfaction level with the Company and its Customer Contact Centre and field service on a scale of 1 to 10 with 1 being "not at all satisfied" and 10 being "fully satisfied". A 90% customer satisfaction rating would reflect an overall weighted average satisfaction of 9 from survey respondents. Responses are averaged and weighted for Domestic and General Service customer classes. Annual customer satisfaction statistics average the results of these quarterly surveys.

[2] Customer satisfaction has ranged from 84% in 1998 to 91% in 2002. In the 5 years ending 2008, annual customer satisfaction has been consistent at 88% to 89%.

Table 2-1 shows the number of customer initiated contacts received by Newfoundland Power at the Customer Contact Centre, the website and the outage notification system ("ONS") from 2006 through < > June 30, 2009.

Table 2-1
Customer Initiated Contacts
2006 to 2009
(000s)

	2006	2007	2008	2009[3]
Contact Centre Calls	520	541	495	245
Website	355	393	470	275
Email[4]	17	24	33	17
ONS[5]	73	102	75	40
Total	**965**	**1,060**	**1,073**	**583**

The number of customer calls to the Customer Contact Centre decreased by 5% during this period. However, customers' website contact with Newfoundland Power has increased by 32% and email communication has increased by 94%.[6]

Average call duration is increasing due to the changing nature of customer inquiries. Customers are increasingly choosing to access the Company's Customer Contact Centre for technical

[3] January through June 2009 < >.
[4] Customer emails are predominately received via the website and the Customer Contact Centre, and are predominately responded to by Contact Centre staff.
[5] The Outage Notification System provides customers with an automated message containing the reason for a system outage together with estimated service restoration time. The ONS can answer 256 simultaneous calls per minute for each of the Company's eight operating areas.
[6] Customers are also increasingly choosing electronic means for bill presentment and payment. From 2006 to 2008, the number of customers participating in the Company's *eBills* electronic bill presentment program increased from approximately 11,400 to 23,200, or 104%. In 2008, over 68% of the Company's customer bill payments were received electronically.

services and energy conservation information and initiatives.[7] Customers are increasingly using electronic means for simpler inquiries such as account balances.[8]

Newfoundland Power's customers' interest in energy conservation is increasing.[9] In June 2008, Hydro and Newfoundland Power created a 5-year energy conservation plan (the "Conservation Plan").[10] The Conservation Plan responds to customer expectations regarding energy conservation information.[11] The Conservation Plan also provides for specific customer energy conservation programming.

In 2009, Hydro and Newfoundland Power < > commenced delivery of an expanded portfolio of customer energy conservation programs. The conservation program portfolio < > now includes rebate and incentive programs to promote high efficiency windows, thermostats and insulation for Domestic customers, as well as high efficiency lighting for General Service customers.[12]

[7] In 2006 there were approximately 14,000 technical and field calls from customers and approximately 9,200 energy conservation calls. In 2008, the approximate numbers of these types of calls were 15,500 and 14,000, respectively. Technical and energy conservation customer contacts tend to be the longest duration calls.

[8] Between 2006 and 2008 approximately 90% of customers who contacted the Customer Contact Centre to ascertain their account balance chose the self-serve interactive voice response option to access this information rather than speak to a call centre agent. In addition, approximately 182,000 visits per year to Newfoundland Power's website accessed customer account information.

[9] Total energy conservation calls to the Customer Contact Centre increased by over 50% between 2006 and 2008.

[10] This plan was filed with the Board in June, 2008. In Order No. P.U. 13 (2009), the Board approved the creation of an account to permit deferred recovery of Newfoundland Power's costs associated with 2009 implementation of customer energy conservation programming outlined in the plan.

[11] Approximately 64% of Newfoundland Power's customers indicate their preferred source of information on energy efficiency is their electric utility. *Customer Energy Efficiency Attitude Survey*, May 2008.

[12] The Conservation Plan, including the specific programs, was before the Board in Newfoundland Power's *2009 Conservation Cost Deferral Application* which was filed October 29, 2008 and approved in Order No P.U. 13 (2009). Hydro filed a complementary application with the Board on November 21, 2008.

Newfoundland Power's primary responsibility under the Conservation Plan is the development and delivery of programs for the residential and commercial sectors, while Hydro is focused on programs for the industrial sector. This division of primary responsibilities reasonably reflects utility responsibilities on the province's electrical system.[13]

The joint efforts of Hydro and Newfoundland Power in developing the Conservation Plan and providing customer energy conservation programs are consistent with least cost service delivery. They are also consistent with the coordinated approach indicated in the *Energy Plan*.[14]

The Conservation Plan is aimed at *energy* conservation and responds to the high marginal cost of energy on the electrical system.[15] Delivery of the programs under the Conservation Plan will reduce energy consumption and electricity bills for customers who choose to participate in the programs. Customers who choose not to participate in the programs will also benefit in terms of reduced long-term system supply costs. Program delivery will increase Newfoundland Power's costs. The economic benefits for customers are, however, expected to be materially greater than the additional costs.[16]

[13] Execution of the Conservation Plan is a *joint* Hydro and Newfoundland Power initiative. Accordingly, while Newfoundland Power is *primarily* responsible for development and delivery of residential and commercial programs, Hydro actively participates in program development and is responsible for delivery of programs to its customers.

[14] See Government of Newfoundland and Labrador's *2007 Energy Plan*, p.58.

[15] In the near-term, the benefits associated with implementing these programs will be principally reflected in reduced fuel consumption at Hydro's Holyrood thermal generating station.

[16] It is expected that Newfoundland Power's implementation of customer energy conservation programs in 2009 will result in energy savings of 15 GWh per year by 2013. The portfolio Total Resource Cost test result of 2.7 for Newfoundland Power's programming indicates that implementation will yield a benefit to cost ratio for customers in the order of 2.7 to 1. The aggregate Ratepayer Impact Measure of 1.28 for the residential and commercial components of the portfolio indicates that their implementation should not result in non-participants bearing additional cost.

Customer energy conservation will tend to yield peak demand reductions over time.[17] Newfoundland Power also takes measures to reduce peak demand on the electrical system.

Newfoundland Power coordinates generation dispatch with Hydro as required to meet demand on the Island interconnected grid.[18] Newfoundland Power also has a Curtailable Service Option for its customers, which incents customers to reduce demand at the Company's request when peak demand is forecast. In addition, Newfoundland Power has approximately 2.5 MW of curtailable load from its own facilities, and has a limited ability to control system voltages to reduce peak demand.[19]

Demand management is consistent with the continued least cost reliable operation of the Island interconnected grid and provides benefits to Newfoundland Power's customers.[20]

2.2.2 The Electrical System

Newfoundland Power's service reliability performance is currently satisfactory on a system wide basis.

[17] These benefits are recognized in the results of the economic analyses referred to in footnote 16.

[18] Hydro requests Newfoundland Power's dispatch of its generation facilities as needed to meet the requirements of the Island interconnected grid. While these requests can occur at any time in a year, they tend to be more frequent in the winter season (i.e., between December and March) when demand on the Island interconnected grid is highest. In the December 2008 through March 2009 winter season, Hydro made 4 requests for Newfoundland Power to dispatch its generation.

[19] Newfoundland Power's use of any or all of these alternatives is typically coordinated with Hydro's overall system control of the Island interconnected grid.

[20] There are transparent economic benefits for Newfoundland Power's customers from their reduced aggregate demand. Between 2005 and 2008, there have been approximately $3.2 million of demand related wholesale supply cost reductions credited to customers' benefit as a result of supply cost recovery mechanisms approved by the Board. See Section 5: Customer Rates, *5.4.1 Demand Management Incentive Account* at p.5-12. For customers who elect to be served under the Curtailable Service Option, the benefits also include reduced electricity rates.

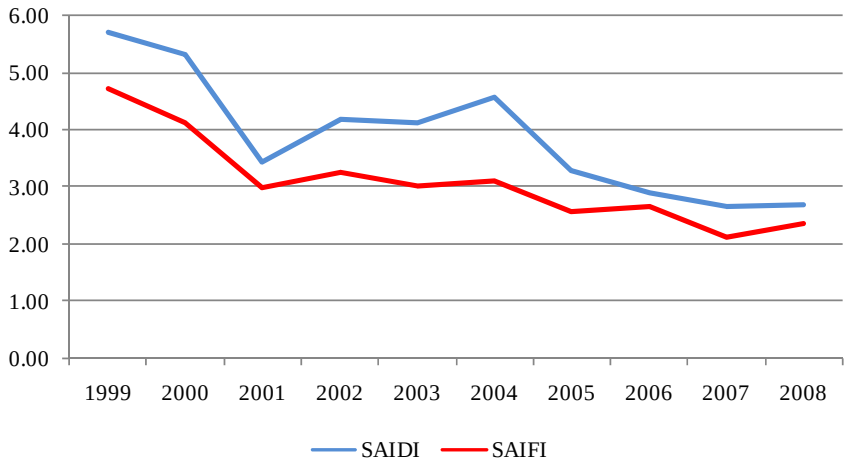
This section of evidence reviews Newfoundland Power's electrical system performance.

Reduced levels of capital expenditure aimed at replacement of electrical system assets are reflective of current system reliability. The costs necessary to serve growth in the number of customers have been increasing in recent years. This has been primarily reflected in increased capital expenditure to connect additional customers. In the future, increased costs associated with additional capacity to meet growing customer electricity requirements are expected.

Electrical System Reliability

Graph 2-1 shows SAIDI, or system average interruption duration index, and SAIFI, or system average interruption frequency index, for the years 1999 through 2008. Graph 2-1 has been adjusted to remove the effects of severe weather events.[21]

Graph 2-1
SAIDI and SAIFI
1999 to 2008



[21] Adjustments exclude 1999 Burin and 2007 Bonavista severe weather events. If these were included, 1999 SAIDI and SAIFI would be 9.37 and 5.28, respectively; and 2007 SAIDI and SAIFI would be 5.94 and 2.46, respectively.

The overall trend in SAIDI and SAIFI indicates improved electrical system reliability. In 2008, the average number of customer *hours* of outage was approximately one half of that in 1999.[22] Similarly, in 2008 the average *number* of customer outages was approximately one half of that in 1999.[23]

Newfoundland Power considers current levels of service reliability to be satisfactory. This reflects the current condition of Newfoundland Power's electrical system assets.[24]

The majority of Newfoundland Power's annual capital expenditure is focused on the replacement and refurbishment of deteriorated assets.[25] This improves the condition of the electrical system. The improved condition of the electrical system has resulted in lower levels of operating cost.[26] Plant replacement is expected to continue to be the primary focus of Newfoundland Power's capital expenditures although at slightly reduced levels.[27]

[22] In 1999, SAIDI was 5.7 hours. In 2008, SAIDI was 2.7 hours (2.7 / 5.7 = 0.47).
[23] In 1999, SAIFI was 4.7 outages. In 2008, SAIFI was 2.4 outages (2.4 / 4.7 = 0.51).
[24] It is a generally accepted engineering observation that electrical system reliability is primarily influenced by the condition of the electrical system assets.
[25] In the five years ending 2009, asset replacement accounted for approximately 57% of Newfoundland Power's capital expenditure.
[26] The strengthening of the electrical system has been key to Newfoundland Power's ability to reduce the size of its workforce through a series of early retirement programs over the past decade or so. This workforce reduction resulted in a sustained period of flat operating costs during which service to customers improved. It was improved reliability associated with better plant condition that largely enabled the reduction in workforce without compromising service to customers.
[27] In the five years to 2014, asset replacement is forecast to account for approximately 51% of Newfoundland Power's capital expenditure.

Newfoundland Power specifically targeted improvement in radial distribution system performance over the past decade.[28] In the ten years ending in 2008, Newfoundland Power invested a total of $14 million in the Distribution Reliability Initiative ("DRI"), which focused on rebuilding the worst performing feeders in the system.[29] Reduced DRI expenditure is expected in the future.

Serving Customer Growth

The portion of Newfoundland Power's annual capital investment related to customer growth ("Customer Growth Capital") is increasing.[30] The level of Customer Growth Capital reflects a number of factors. One is an increase in the number of customers that Newfoundland Power serves. Another is an increase in the amount of electricity delivered by Newfoundland Power to its customers.

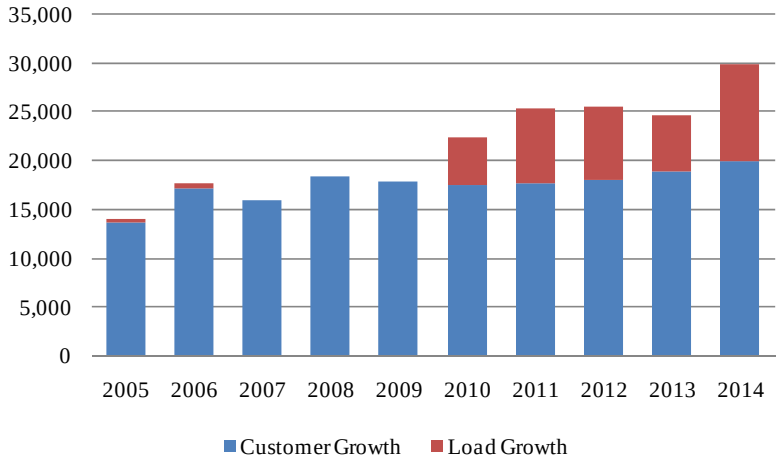
[28] Rural areas are typically served by radial distribution systems, while urban areas are typically served by looped systems. Looped distribution systems are not feasible in rural areas principally for geographic and economic reasons.

[29] D. G. Brown, P.Eng in his 1998 report *Newfoundland Light & Power Co. Limited Quality of Service and Reliability of Supply*, prepared for the Board of Commissioners of Public Utilities, identified the need for Newfoundland Power to improve reliability.

[30] In the five years ending 2009, approximately 28% of Newfoundland Power's capital investment was Customer Growth Capital. In the five years ending 2014, approximately 36% of Newfoundland Power's annual capital investment is forecast to be Customer Growth Capital.

Graph 2-2 shows Newfoundland Power's Customer Growth Capital for the years 2005 through 2014F.

Graph 2-2
Customer Growth Capital
2005 to 2014F
($000s)



Customer Growth Capital in the five years ending in 2009F consists largely of the cost of connecting additional customers.[31]

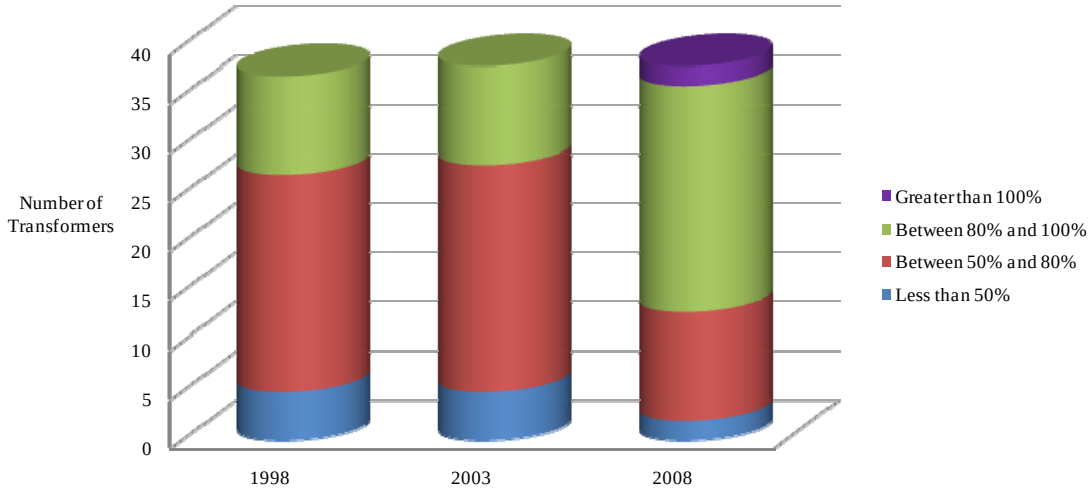
In the five years ending 2014, the cost of connecting customers will continue to be a significant component of Customer Growth Capital. However, during the period, Customer Growth Capital is forecast to include significant investment to serve increasing customer electricity requirements. This investment will be required to increase system capacity, particularly power transformation capacity.[32]

[31] Over the five years ending in 2008, growth in the number of Newfoundland Power customers was approximately 41% higher than that in the five years ending in 2003.

[32] Transformation of voltage is an essential aspect of electrical system operations. Each distribution power transformer has a specified capacity to transform voltage. Capacity is measured in megawatts ("MW") and is the maximum *sustained* power output of the electrical device. As customer load on a circuit connected to a

Graph 2-3 shows power transformer capacity utilization on peak for power transformers located in the St. John's CMA[33] for each of 1998, 2003, and 2008.

Graph 2-3
St. John's Metropolitan Area
Power Transformer Capacity Utilization
1998, 2003 and 2008



In 1998, approximately 27% of distribution power transformers in the St. John's CMA had capacity utilization on peak of 80% or greater.[34] By 2008, the proportion of distribution power transformers in the St. John's CMA with capacity utilization on peak of 80% or greater had grown to approximately 66%.[35]

transformer increases, the capacity of the transformer is utilized. A key component of electrical power system planning relates to ensuring future transformer capacity is sufficient to meet future customer load requirements.

[33] The St. John's Census Metropolitan Area (CMA) as defined by Statistics Canada.

[34] In 1998, 10 of a total of 37 distribution power transformers in the St. John's CMA had capacity utilization on peak of 80% or greater. (10 / 37 = 0.27).

[35] In 2008, 25 of a total of 38 distribution power transformers in the St. John's CMA had capacity utilization on peak of 80% or greater. (25 / 38 = 0.66).

The increase in capacity utilization of distribution power transformers in the St. John's CMA reflects growth trends over the decade ended in 2008.[36] Growth in capacity utilization of distribution power transformers in the remainder of the Company's service territory has been less dramatic.[37]

Forecast increases in customers' electricity requirements are expected to increase Customer Growth Capital in the future.[38]

2.2.3 Workforce Management

Workforce management for Newfoundland Power has both a short term and a long term perspective. In the short term, the Company matches its workforce with year to year requirements. To be prepared for the long term, the Company seeks to ensure sufficient workforce development to maintain least cost reliable service for its customers.

This section of evidence reviews Newfoundland Power's workforce management.

Demographics are a prominent feature of workforce management at Newfoundland Power. Management of workforce demographics is increasing the cost of service delivery to customers.

[36] Over the 5 years ended 2008, the amount of energy consumed by Newfoundland Power customers increased by 306 GWh. Approximately 76% of this increase, or 234 GWh, occurred in the St. John's CMA. Customers in the St. John's CMA also accounted for the majority of energy growth in the previous 5 years.

[37] In 1998, 14 of a total of 93, or 15%, of distribution power transformers outside of the St. John's CMA had capacity utilization on peak of 80% or greater. In 2008, 24 of a total of 96, or 25%, of distribution power transformers outside of the St. John's CMA had capacity utilization on peak of 80% or greater.

[38] In the 15 years ending 2008, Newfoundland Power installed 5 distribution power transformers to serve increasing customer demand and energy requirements. Of these, 2 serve the St. John's CMA. In the 5 years ending 2013, Newfoundland Power forecasts a requirement for 7 additional distribution power transformers. Of these, 4 are forecast to be required to serve the St. John's CMA.

Table 2-2 shows Newfoundland Power's workforce as expressed in full-time equivalents ("FTEs") for the period 2007 through 2010F.

Table 2-2
Newfoundland Power Workforce
FTEs

	2007	**2008**	**2009F**	**2010F**[39]
Regular	555	551	574	579
Temporary	72	77	67	72
Total	**627**	**628**	**641**	**651**

Part of the forecast increase in Newfoundland Power's workforce through 2010 reflects changes in the work requirements of the Company. For example, 6 additional hires are necessary in 2009 to implement the Conservation Plan. It also reflects adjustments required to address the specific composition of forecast 2010 work requirements.[40] For example, in 2008 the Company hired 4 Technologists on a temporary basis to accommodate an increase in engineering design work related to the Company's capital program.[41]

Part of the forecast increase in Newfoundland Power's workforce through 2010 is attributable to the need to address workforce demographics, primarily the aging workforce.[42]

[39] An explanation of the method used to forecast 2010 FTEs and labour expense together with an explanation of assumptions concerning forecast vacancies is found in Labour Forecast 2009-2010, *Volume 2: Supporting Materials, Tab 1.*

[40] This includes both capital and operating work requirements. In fulfilling these requirements, the Company's choices include its regular workforce, its temporary workforce, and contractors. At any point in time, these choices will be influenced by the specific work requirements.

[41] The alternative to retaining temporary technical staff for capital work is to contract this work to a consulting engineering firm. If the work was performed by a consulting engineering firm, there would be no impact on the Company's workforce (FTEs). Retaining technologists is lower cost in circumstances where the volume of work is relatively high. Retaining staff on a temporary basis also permits the Company a better opportunity to meaningfully assess longer-term employment potential within the context of broader workforce demographics.

[42] The average age of Newfoundland Power's current workforce is 47.9 years of age. Approximately 46% of the workforce is 50 years of age or older.

Skilled and technical labour is at the core of Newfoundland Power's capability to provide service to its customers. Skilled tradespersons account for approximately 33% of Newfoundland Power's current workforce.[43] Technologists and Engineers account for a further 19%.[44] Newfoundland Power's management of workforce demographics is focused on ensuring continuity in its skilled and technical workforce.

Table 2-3 shows the number of Powerline Technicians employed by the Company at year end 2007 through 2010F.

Table 2-3
Powerline Technicians

	2007	**2008**	**2009F**	**2010F**
Journeypersons	128	124	123	123
Apprentices	11	19	24	26
Total	**139**	**143**	**147**	**149**

Between 2007 and 2010, the number of Apprentice Powerline Technicians is forecast to increase from 11 to 26. Apprentice Powerline Technicians are expected to account for approximately 17% of the total number of Powerline Technicians by year end 2010. Apprentice employment at this level will be necessary for the foreseeable future to ensure continuity in this skilled trade.[45]

[43] Of the 660 persons (as opposed to FTEs) employed by Newfoundland Power, 219 held the qualifications of Powerline Technicians, Apprentice Powerline Technicians or other skilled trades. (219 / 660 = 0.33)

[44] Of the 660 persons (as opposed to FTEs) employed by Newfoundland Power, 124 held the qualifications of Technologists or Engineers. (124 / 660 = 0.19)

[45] While the Apprentice Powerline Technician program provides for 5 years' education and training to achieve Journeyperson qualification, full development of a Powerline Technician typically requires more experience. For example, the *International Brotherhood of Electrical Workers* has observed that it takes 10 years to become a well-rounded Powerline Technician.

The employment and development of these additional Apprentice Powerline Technicians will tend to add cost.[46] This dynamic will apply in varying degrees to Newfoundland Power's overall management of workforce demographics.[47]

2.3 2010 OPERATING AND CAPITAL COSTS

To establish 2010 customer rates, the Board must consider Newfoundland Power's 2010 operating and capital costs.

This section of the evidence reviews the forecast 2010 operating and capital costs for Newfoundland Power and provides analysis of material cost changes for the period 2007 through 2010F.

[46] The work performed by Newfoundland Power's Powerline Technicians is predominantly distribution operations and capital work. Therefore, increased costs associated with their development will tend to be reflected in distribution operating and capital costs. Because new apprentices are principally engaged in capital work, the costs associated with an increased number of apprentices will initially tend to be reflected more in capital costs. As their training progresses, the cost of apprentices will tend to be reflected more in operating costs.

[47] This dynamic reflects implicit and explicit costs of training new employees. In some cases, these additional costs are effectively reduced by differences in compensation (i.e., a junior engineer is typically paid less than a senior engineer).

2.3.1 Operating Costs

General

Operating costs are those costs over which Newfoundland Power has the greatest degree of management control. Operating costs represent approximately 10% of the Company's forecast 2010 revenue requirement.[48]

An understanding of Newfoundland Power's operating costs can be gained by examination of the costs on both a functional and a breakdown basis.

The functional classification focuses on the underlying reason for incurring a cost. The breakdown classification focuses on the nature of the cost. For example, the Company classifies the salary of a Customer Contact Centre employee in two ways: 1) by function, as a customer service cost; and 2) by breakdown, as a labour cost.

Exhibit 1 (1st Revision) and Exhibit 2 (1st Revision) show operating costs from 2007 to 2010F by function and by breakdown, respectively.

[48] Exhibit 7 (1st Revision) contains the proposed revenue requirements for 2010.

Table 2-4 shows operating costs from 2007 actual to 2010 forecast.

Table 2-4
Operating Costs[49]
2007 to 2010F
($000s)

	2007	2008	2009F	2010F
Operating Costs	48,104	47,146	50,990	52,758

Total operating costs for 2010 are forecast to increase by approximately 10% over 2007.

By Function

Table 2-5 summarizes operating costs by 3 functional categories: electricity supply, customer service and general for 2007 to 2010F.[50]

Table 2-5
Operating Costs by Function
2007 to 2010F
($000s)

Function	**2007**	**2008**	**2009F**	**2010F**
Electricity Supply	21,015	20,945	21,519	22,265
Customer Service	10,273	10,405	12,335	13,017
General	16,816	15,796	17,136	17,476
Total	**48,104**	**47,146**	**50,990**	**52,758**

[49] These amounts are found in Exhibit 1 (1st Revision), line 25 and Exhibit 2 (1st Revision), line 30. They exclude pension costs, deferred costs, and General Expenses Capitalized.

[50] Newfoundland Power has historically categorized its functional operating costs in this way to permit ease of explanation.

Table 2-6 shows the operating costs associated with the electricity supply category broken out by function for 2007 to 2010F.

Table 2-6
Operating Costs – Electricity Supply
2007 to 2010F
($000s)

Function	2007	2008	2009F	2010F
Distribution	6,575	6,683	7,068	7,365
Transmission	587	585	569	585
Substations	2,311	2,123	2,319	2,432
Power Produced	2,480	2,586	2,652	2,723
Administration & Engineering	5,585	5,604	5,734	5,879
Telecommunications	1,399	1,394	1,387	1,380
Environment	581	398	398	409
Fleet Operations & Maintenance	1,497	1,572	1,392	1,492
Electricity Supply	**21,015**	**20,945**	**21,519**	**22,265**

Electricity supply costs for 2010 are forecast to increase 6%, or approximately $1.3 million, compared to 2007.

Electricity supply costs include electrical system operations and maintenance activity and reflect increases in costs for labour and materials. Distribution operating costs reflect system maintenance, including increased trouble response, to address equipment failure.[51] They also include increased labour costs associated with skilled trades and apprenticeship development. Substations operating costs reflect ongoing system maintenance costs.[52] Power produced operating costs reflect increased

[51] In the two year period ending in 2008, trouble calls responded to by the Company increased 3.4%.

[52] 2008 substation costs were lower due to unanticipated 2008 capital requirements associated principally with the connection of two wind generating facilitates to the Island interconnected grid. To accommodate connection of the wind generation facilities in a timely way, the Company was required to redirect labour forces originally scheduled for maintenance activities to the connection work. 2009 and 2010 forecast substation costs are reflective of long term maintenance needs of the Company.

fees related to water use licence renewals associated with the Company's hydroelectric plants. Fleet operations and maintenance costs reflect year over year variations in fuel prices.

Table 2-7 shows costs associated with the customer service category broken out by function for 2007 to 2010F.

Table 2-7
Operating Costs – Customer Services
2007 to 2010F
($000s)

Function	2007	2008	2009F	2010F
Customer Services	9,180	9,571	8,921	9,077
Conservation[53]	-	-	2,451	2,977
Uncollectible Bills	1,093	834	963	963
Customer Services	**10,273**	**10,405**	**12,335**	**13,017**

Customer service operating costs for 2010 are forecast to increase 27%, or approximately $2.7 million, compared to 2007.

[53] Prior to 2009, conservation costs were not classified separately by function and were principally reflected in the customer services functional class. For comparative purposes Table 2-8 below shows estimated conservation costs from 2007 through 2008 together with forecast 2009 and 2010 costs.

Table 2-8
Conservation Costs
2007 to 2010F

	2007	2008	2009F	2010F
General	469	581	915	1,108
Customer Programs	175	170	1,536	1,869
Total	**644**	**751**	**2,451**	**2,977**

Customer service operating costs are increasing principally due to conservation initiatives, including increased customer energy conservation programming undertaken by Newfoundland Power.[54]

Table 2-9 shows the costs associated with the general category broken out by function for 2007 to 2010F.

Table 2-9
Operating Cost – General
2007 to 2010F
($000s)

Function	2007	2008	2009F	2010F
Information Systems	2,752	2,487	2,736	2,817
Financial Services	1,646	1,502	1,571	1,658
Corporate & Employee Services	10,777	10,463	11,729	11,901
Insurances	1,641	1,344	1,100	1,100
General	**16,816**	**15,796**	**17,136**	**17,476**

General costs for 2010 are forecast to increase 4%, or approximately $0.7 million, compared to 2007.

Information systems and corporate & employee services costs were lower in 2008 as a result of one-time changes in accounting treatment for software fees and Public Utilities Board assessment, respectively. Accordingly, 2009F information systems and corporate & employee services costs are approximately $300,000 and $600,000 higher, respectively, as a result of the one-time nature of the 2008 accounting treatment changes. 2009F and 2010F corporate &

[54] Deferred recovery of Newfoundland Power's 2009 customer conservation programming costs was approved by the Board in Order No. P.U. 13 (2009).

employee services costs reflect increased other company fees.[55] Insurance costs reflect a combination of insurance market conditions and the benefits of the Company's participation in the Fortis group insurance program.

By Breakdown

The primary breakdowns of Newfoundland Power's operating costs are labour costs and other costs.

Table 2-10 provides the breakdown of operating costs for 2007 to 2010F.

Table 2-10
Operating Cost by Breakdown
2007 to 2010F
($000s)

Breakdown	2007	2008	2009F	2010F
Labour	28,262	28,454	29,601	30,749
Other	19,842	18,692	21,389	22,009
Total	**48,104**	**47,146**	**50,990**	**52,758**

[55] Other company fees are further described at p.2-23, lines 8 to 9 and footnote 61.

Table 2-11 provides the breakdown of labour costs for 2007 to 2010F.

Table 2-11
Labour Cost by Breakdown
2007 to 2010F
($000s)

Breakdown	2007	2008	2009F	2010F
Regular and Standby	24,371	24,485	26,105	27,486
Temporary	2,303	2,335	1,860	1,623
Overtime	1,588	1,634	1,636	1,640
Total Labour	**28,262**	**28,454**	**29,601**	**30,749**

Labour costs for 2010 are forecast to increase 9%, or approximately $2.5 million, compared to 2007. This primarily reflects conservation related costs, costs associated with management of workforce demographics, and labour rate increases. [56]

Regular and standby labour costs for 2010 are forecast to increase by approximately 13%, or $3.1 million, over 2007. This increase includes $806,000 related to the change in status of employees from temporary to regular in 2009.[57]

Temporary labour costs for 2010 are forecast to decrease by approximately 30%, or $680,000, compared to 2007. This also reflects the change in status referred to above. In addition, temporary labour costs include the operating costs associated with Apprentices.

[56] Negotiated wage rate increases for skilled trades total 5.1% in 2009, 5% in 2010, and 5% in 2011. Negotiated wage rate increases for the remainder of the unionized workforce were 3% in 2009, 3% in 2010 and 3.5% in 2011. For 2010, a salary increase of 4% is forecast for management employees.

[57] As a result of collective agreements signed early in 2009, 17 employees were transferred from temporary to regular employment status. All transferred employees had in excess of 10 years employment with the Company. If this change is excluded, the change in regular and standby labour is approximately 10% or $2.3 million over the period.

Overtime labour costs for 2010 are forecast to be consistent with previous years on an overall basis. Overtime labour costs are mostly influenced by unplanned outage response.

Other costs for 2010 are forecast to increase 11%, or approximately $2.2 million, compared to 2007.[58]

The increase in other costs for 2010 compared to 2007 principally reflects forecast cost increases related to advertising ($1,040,000),[59] conservation rebates ($452,000)[60], other company fees ($360,000),[61] vegetation management ($210,000),[62] and tools and clothing ($232,000),[63] offset by a forecast decrease in the cost of insurance ($541,000).

2.3.2 Capital Costs

Newfoundland Power's annual capital budget reflects a large number of assets spread over a broad geographic area that make up the electrical system. For ratemaking purposes, a capital forecast for the 2010 test year must be considered and approved by the Board.[64]

[58] Excluding additional conservation costs totalling approximately $1.6 million, Other costs are forecast to increase by approximately $0.6 million, or 3%, in 2010F compared to 2007.

[59] Of the $1.040 million forecast increase in Advertising costs in 2010F compared to 2007, $900,000 is attributable to customer conservation programming.

[60] Conservation rebates are forecast to be $581,000 in 2010 compared to $129,000 in 2007.

[61] The $360,000 forecast increase in other company fees in 2010F compared to 2007 is principally attributable to increased fees associated with IFRS ($135,000), litigation ($100,000), and dam and surge tank safety inspections ($100,000).

[62] Increased vegetation management costs principally reflect increased contractor costs in the period 2007 through forecast 2010.

[63] The $232,000 forecast increase in tools and clothing costs in 2010 over 2007 is principally attributable to the Company's 2008 adoption of a fire retardant clothing standard for an expanded group of field employees.

[64] Newfoundland Power's 2010 Capital Budget is < > the subject of a separate Application to the Board,< > and is consistent with the forecast contained in this evidence.

Table 2-12 shows capital expenditures for 2007 to 2010F.

Table 2-12
Capital Expenditures
2007 to 2010F
($000s)

Function	2007	2008	2009F[65]	2010F
Generation	18,150[66]	3,920	8,999	5,429
Substations	5,077	7,063	7,501	10,218
Transmission	4,440	5,316	4,507	5,915
Distribution	30,429	35,485	32,614	31,965
General Property	1,675	1,073	835	1,381
Transportation	2,231	2,384	2,255	2,352
Telecommunications	110	266	350	379
Information Systems	3,523	3,734	3,725	3,490
Unforeseen Allowance	0	400	1,460	750
GEC	2,850	2,765	2,800	2,800
Total	**68,485**	**62,406**	**65,046**	**64,679**

While the 2010 capital forecast is broadly consistent on a functional basis with expenditures since 2007, trends in certain functions reflect changes in the overall focus of the Company's capital expenditure program. Substations and distribution expenditures reflect the need to expand capacity related to aggregate increases in customer load. At the same time, distribution expenditures related to plant refurbishment are declining.

Variations in transmission and generation expenditures over the period reflect specific project related fluctuations in these functions.

[65] The Company's 2009 Capital Budget was approved in Order No. P.U. 27 (2008). Forecast 2009 expenditures also include approximately $1.6 million in supplemental capital expenditures approved in Order Nos. P.U. 18 (2008) and P.U. 19 (2008) carried over from 2008 and $1.9 million in supplemental capital expenditures approved in Order Nos. P.U. 29 (2009) and P.U. 32 (2009).

[66] Includes approximately $17 million associated with Rattling Brook Hydro Plant Refurbishment.

SECTION 3: FINANCE

3.1 OVERVIEW

From 2007 through 2009 forecast, Newfoundland Power's achieved rate of return on rate base will have been below the midpoint used for ratemaking purposes. Achieved rates of return on equity, however, will have been consistent with those allowed for ratemaking purposes.

For 2010, Newfoundland Power forecasts deterioration of its credit metrics as a result of a decline in its forecast return on equity to approximately 6.5%. Accordingly, additional revenue will be necessary to provide the Company with an opportunity to maintain its creditworthiness and earn a just and reasonable return in 2010.

In this Amended Application, Newfoundland Power seeks a return on equity for ratemaking purposes of 11% for 2010. In addition, the Company proposes discontinuing use of the automatic adjustment formula due to changed financial market conditions.

The volatility of current financial market conditions has increased the unpredictability of Newfoundland Power's annual pension expense. This Amended Application proposes a means to address this increased unpredictability. Newfoundland Power also proposes to commence accrual accounting for other post-employment benefits in 2010.

To facilitate the adoption of International Financial Reporting Standards in 2011, Newfoundland Power proposes to advance the timing of its next depreciation study.

Finally, this section of the evidence reviews proposals for recovery of deferred 2009 conservation costs and third party costs associated with this Amended Application.

3.2 FINANCIAL PERFORMANCE: 2007 to 2010

Sound financial performance is essential to the maintenance of Newfoundland Power's financial integrity.

This section of the evidence reviews the Company's actual financial performance for 2007 and 2008, and its forecast financial performance for 2009 and 2010. Exhibit 3 (1st Revision) shows Newfoundland Power's actual financial performance for 2007 and 2008 and forecast financial performance for 2009 and 2010, excluding the effects of proposals made in this Amended Application.

For the period 2007 through 2009, Newfoundland Power's financial performance will have been consistent with the continued financial integrity of the Company.

For 2010, forecast financial performance is not consistent with the maintenance of Newfoundland Power's financial integrity.

3.2.1 Revenue

Table 3-1 shows electricity sales and revenue from 2007 to 2010E.[1]

Table 3-1
Electricity Sales and Revenue: 2007 to 2010E

	2007	2008	2009F	2010E
Electricity Sales (GWh)	5,093	5,208	5,266	5,373
Sales Growth (%)	2.0	2.3	1.1	2.0[2]
Electricity Revenue ($000s)				
Revenue from Rates	474,054	497,360	502,925	509,992
2005 Unbilled Revenue[3]	2,714	7,210	4,618	4,618
RSA Transfers[4]	3,044	(948)	1,746	5,346
Total	**479,812**	**503,622**	**509,289**	**519,956**

Newfoundland Power's electricity sales reflect economic conditions, population and demographic changes and customer usage patterns.

Electricity sales growth in 2007 and 2008 was 2.0% and 2.3%, respectively.[5] Sales growth for 2009 and 2010E is forecast to moderate somewhat to 1.1% and 2.0%, respectively.[6] Electricity sales growth from 2007 through 2010E reflects increases in the number of customers served by

1 References to 2010 with the notation 'E' (i.e., 2010E) are intended to indicate forecast results in the absence of the proposals contained in this Amended Application. This includes the forecast effects of operation of the Formula on January 1, 2010 at an average observed ask yield for long-term Government of Canada bonds of 3.90% and a corresponding forecast *cost of equity* of 8.39% (see footnote 38). It excludes the proposals contained in this Amended Application.

2 2009 and 2010 electricity sales are forecast to be 5,266.2 GWh and 5,373.1 GWh, respectively.

3 In Order Nos. P.U. 39 (2006) and P.U. 32 (2007), the Board approved amortizations of the 2005 unbilled revenue as current revenue for the years 2007 through 2010. The 2005 unbilled revenue arose as a result of the Company's adoption of the accrual method of revenue recognition as of January 1, 2006 pursuant to Order No. P.U. 40 (2005).

4 RSA transfers reflect: a 2007 flow through related to a Hydro rate change as approved in Order No. P.U. 42 (2006); a 2008 flow through related to a 2008 income tax true up approved in Order No. P.U. 10 (2008); and flow throughs related to operation of the Energy Supply Cost Variance clause approved in Order No. P.U. 32 (2007), for 2008 and forecast for 2009 and 2010.

5 In the Supplemental Evidence filed in Newfoundland Power's 2008 General Rate Application, electricity sales for 2007 and 2008 were forecast to be 5,112 GWh and 5,215 GWh, respectively. Actual electricity sales for 2007 and 2008 were 5,093 GWh and 5,208 GWh, respectively.

6 If the rate increase proposed in this Amended Application is approved by the Board, the 2010 forecast sales growth will be reduced from 2.0% to 1.2%. This is a result of elasticity effects. See Section 5.2.2, *The Forecast*, p. 5-3 to 5-5.

Newfoundland Power, and a continuing high proportion of electric heating in new home construction.[7]

Forecast electricity sales and electricity revenue for 2009 and 2010E are based on the Company's September 2009 sales forecast.[8]

Table 3-2 shows other revenue from 2007 to 2010E.

Table 3-2
Other Revenue: 2007 to 2010E
($000s)

	2007	2008	2009F	2010E
Pole Attachment	8,568	8,861	9,217	9,385
Amortization of Municipal Tax ("MTA") Liability[9]	-	1,362	1,362	1,362
Customer Account Interest[10]	1,477	1,155	930	1,222
Miscellaneous[11]	1,852	1,889	2,136	1,679
Total	**11,897**	**13,267**	**13,645**	**13,648**

Pole attachment charges are the largest component of other revenue. The increase in pole attachment charges principally reflects increased joint-use of poles.[12]

[7] The proportion of new housing using electric heating was 83% in 2007 and 88% in 2008; and is forecast to be 87% in 2009 and 88% in 2010.

[8] The *Customer, Energy, and Demand Forecast* (1st Revision) of September 2009 is found in *Volume 2: Supporting Materials, Tab 6.*

[9] The MTA is a 3-year amortization of a regulatory liability associated with timing differences in the recovery and payment of municipal taxes. It was approved in Order No. P.U. 32 (2007).

[10] Customer account interest is interest received on overdue electricity accounts. Prior to 2008, this interest was recorded as a reduction in finance charges. Commencing in 2008, customer account interest has been recorded as other revenue. For comparative purposes, 2007 customer account interest has been included as other revenue in Table 3-2.

[11] Miscellaneous revenue includes customer jobbing charges, wheeling charges, fees charged pursuant to the Company's regulations governing service, and other revenue amounts. For 2009, it also includes a $345,000 gain on the sale of property.

[12] In 2007, a total of 196,984 utility poles were jointly used by Newfoundland Power and telecommunications service providers. In 2010, a total of approximately 205,000 utility poles are forecast to be jointly used.

3.2.2 Power Supply Cost

Table 3-3 shows power supply cost from 2007 to 2010E.

Table 3-3
Power Supply Cost: 2007 to 2010E
($000s)

	2007	2008	2009F	2010E
Purchases from Hydro (Normalized)	326,359	334,006	340,660	351,188
Replacement Energy Cost[13]	(1,795)	598	598	598
Weather Normalization Reserve[14]	1,732	2,101	2,101	2,101
DMI Account[15]	-	641	-	-
Unit Cost Variances[16]	482	(688)	(688)	(688)
Power Supply Cost	**326,778**	**336,658**	**342,671**	**353,199**

Increases in power supply cost reflect increased purchases from Hydro to meet Newfoundland Power's customers' requirements. A portion of annual variances in power supply cost for the period 2008 through 2010E are deferred for recovery via operation of the Energy Supply Cost Variance clause.[17]

[13] In Order No. P.U. 39 (2006), the Board approved the deferred recovery of $1.8 million in replacement energy costs related to the Rattling Brook Hydro Plant refurbishment project. In Order No. P.U. 32 (2007) the Board approved amortization of this deferral in equal amounts over the period 2008 through 2010.

[14] In Order No. P.U. 19 (2003) the Board approved amortization of a $5.6 million non-reversing balance (on an after tax basis) in the Hydro Production Equalization component of this reserve over the period 2003 through 2007. In Order No. P.U. 32 (2007) the Board approved the amortization of a $6.8 million (on an after tax basis) non-reversing balance in the Degree Day component of this reserve over the period 2008 through 2012.

[15] The Demand Management Incentive ("DMI") account was approved by the Board in Order No. P.U. 32 (2007). In 2008, an amount of $641,000 reflecting reduced demand costs accrued to the DMI account. In Order No. P.U. 21 (2009), the Board approved refund of this amount to customers via the July 1, 2009 Rate Stabilization Adjustment.

[16] In Order No. P.U. 44 (2004) the Board approved the creation of the Purchased Power Unit Cost Variance Reserve. In Order No. P.U. 6 (2008) the Board approved the refund to customers, via the July 1, 2008 Rate Stabilization Adjustment, of a $482,000 balance accrued in the reserve for 2007. In Order No. P.U. 32 (2007), the Board approved the amortization of $2.1 million ($1.3 million on an after-tax basis) accrued in the reserve up to December 31, 2006, over the period 2008 to 2010.

[17] The Energy Supply Cost Variance clause effectively provides that annual variations from test year in the *energy* portion of power supply cost are deferred for recovery via the Rate Stabilization Adjustment in the succeeding years. This was approved by the Board in Order No. P.U. 32 (2007) in response to marginal supply cost dynamics on the Island interconnected grid.

3.2.3 Pension Costs

Table 3-4 shows Newfoundland Power's pension and early retirement program ("ERP") costs from 2007 to 2010E.

Table 3-4
Pension Costs: 2007 to 2010E
($000s)

	2007	2008	2009F	2010E
Pension	5,701	3,040	2,703[18]	8,196

Pension costs decreased from 2007 to 2008 principally due to growth in pension plan assets in previous years, and a 0.25% increase in the discount rate used to value defined benefit pension obligations.[19]

Newfoundland Power pension costs are forecast to decrease from 2008 to 2009 principally due to a 2% increase in the discount rate used to value defined benefit pension obligations.[20] Pension costs in 2010E are forecast to increase over 2009 as a result of a combination of a forecast 1% reduction in the discount rate used to value defined benefit pension obligations;[21] and pension plan asset value

[18] The increase in forecast 2009 pension expense, relative to that indicated in the Application, reflects an increase in the number of employees participating in the Defined Contribution Pension Plan.

[19] The discount rate is used to determine the present value of obligations related to the defined benefit pension plan. The discount rate increased from 5.25% in 2007 to 5.50% in 2008. This served to reduce pension expense in 2008 by approximately $0.7 million.

[20] The increase in discount rate for 2009 served to reduce 2009 pension expense; however the pension expense reduction was partly offset by lower expected returns on pension plan assets during the year. For further information on discount rates and pension plan asset performance see Section 3.4.2 *Pension Plans*, p. 3-21 *et. seq.*

[21] The forecast 1% reduction in the discount rate for 2010 served to increase forecast 2010 pension expense by approximately $3 million.

losses experienced in 2008[22], offset by higher forecast returns on pension plan assets in 2009.[23]

3.2.4 Depreciation

Table 3-5 shows depreciation and related cost recovery deferrals from 2007 to 2010E.

Table 3-5
Depreciation Expense: 2007 to 2010E
($000s)

	2007	2008	2009F	2010E
Depreciation[24]	39,955	40,649	41,872	43,378
Cost Recovery Deferrals[25]	(5,793)	-	-	-
Amortization of Deferred Cost Recoveries[26]	-	3,862	3,863	3,861
Net Depreciation Expense	**34,162**	**44,511**	**45,735**	**47,239**

Changes in net depreciation expense reflect a combination of continued investment in the electricity system; a decline in the composite depreciation rate from 3.5% to 3.4% commencing in 2008; and changes in deferrals and associated cost recoveries.

[22] The defined benefit pension plan assets experienced a loss in value of approximately $41 million in 2008 due to market conditions. The difference between the expected return on pension plan assets and the actual return experienced in 2008 will be reflected in asset values over the period 2009 through 2011, and will serve to increase pension expense. The 2008 loss in asset value is not fully reflected in 2009 pension expense due to Newfoundland Power's use of the market-related method of valuing pension assets for the purposes of determining pension expense. Use of the market-related method creates a smoothing impact on pension expense, and thereby reduces the volatility caused by changing market conditions. The Company's use of the market-related method was approved by the Board in Order No. P.U. 19 (2003).

[23] The higher forecast returns on pension plan assets in 2009 served to reduce forecast 2010 pension expense by approximately $600,000.

[24] Newfoundland Power's depreciation expense reflects depreciation rates for 2008 and subsequent years, as approved by the Board in Order No. P.U. 32 (2007). Newfoundland Power's depreciation expense for 2008 through 2010E is reduced by $174,000 annually as a result of a 4-year amortization of a depreciation true-up of $695,000 approved by the Board in Order No. P.U. 32 (2007).

[25] The cost recovery deferral in 2007 related to the 2005 expiration of a depreciation true up approved in Order No. P.U. 19 (2003). The cost recovery deferral was approved in Order No. P.U. 39 (2006).

[26] In Order No. P.U. 32 (2007), the Board approved a 3-year amortization of $11.6 million in cost deferrals related to depreciation over the period 2008 to 2010.

3.2.5 Finance Charges

Table 3-6 shows average debt, finance charges and average cost of debt for 2007 to 2010E.

Table 3-6
Finance Charges: 2007 to 2010E

	2007	2008	2009F	2010E
Average Debt ($000s)	430,924	440,841	456,032	483,532
Finance Charges ($000s)	33,462	33,507	34,841	36,162
Average Cost of Debt (%)	7.77	7.60	7.64	7.48

Finance charges are the cost of debt used to finance investment in regulated assets. Finance charges are composed primarily of interest on first mortgage sinking fund bonds ("First Mortgage Bonds") and short-term borrowings.[27]

Newfoundland Power's average debt increases in the period from 2007 to 2010E due to continued investment in the electricity system required to provide service to customers.

The average cost of debt from 2007 through 2010E is relatively stable. Lower 2008 average cost of debt was a result of refinancing First Mortgage Bonds and a reduction in short-term interest rates.[28] The average cost of debt is forecast to increase in 2009 primarily due to a May 2009

[27] Finance charges also reflect amounts related to amortization of debt issue costs and allowance for funds used during construction.

[28] Newfoundland Power repaid approximately $4.6 million of outstanding long-term debt in each of 2007 and 2008 in accordance with the sinking fund provisions associated with outstanding First Mortgage Bonds. In addition, approximately $31.5 million in 11.9% First Mortgage Bonds were refinanced in the third quarter of 2007 with proceeds from a 5.9% First Mortgage Bond issue. The Company's average short-term borrowing rates in 2008 were approximately 3.8%, as compared to 5% in 2007.

issuance of $65 million of First Mortgage Bonds.[29] For 2010, the lower average cost of debt principally reflects forecast higher short term debt balances.[30]

3.2.6 Income Taxes

Table 3-7 shows the Company's income taxes from 2007 to 2010E.

Table 3-7
Income Taxes: 2007 to 2010E[31]

	2007	2008	2009F	2010E
Income Taxes[32] ($000s)	12,668	19,677	16,150	12,403
Effective Income Tax Rate[33](%)	28.6	36.8	32.8	32.9

Newfoundland Power's effective income tax rate increased from 2007 to 2008 principally due to tax effects associated with regulatory amortizations and cost deferrals, and the adoption of the accrual method of accounting for income tax related to pension costs starting in 2008.[34]

[29] The $65 million in First Mortgage Bonds were issued at 6.61%. Forecast average short-term borrowing rates for 2009 are 1.27%.

[30] The Company's forecast average short-term interest rate for 2010 is 2%. Forecast year-end short-term borrowings are approximately $32.2 million for 2010E, compared to approximately $8.0 million for 2009.

[31] Income taxes exclude the effect of non-regulated operating costs. These tax effects were $492,000 in 2007 and $531,000 in 2008. They are forecast to be $513,000 in 2009 and $548,000 in 2010.

[32] Income taxes in 2007 include $2.7 million related to the 2005 tax settlement. Income taxes in 2008 include $2.5 million related to the 2005 tax settlement. In Order Nos. P.U. 39 (2006) and P.U. 32 (2007) the Board authorized Newfoundland Power to recognize an amount of 2005 unbilled revenue equal to the forecast taxes payable pursuant to the 2005 tax settlement in 2007 and 2008, respectively.

[33] Includes the effects of 2005 tax settlement. Excluding the effects of the 2005 tax settlement, the effective income tax rates would be 23.7% in 2007 and 33.6% in 2008.

[34] In Order No. P.U. 32 (2007) the Board approved the adoption of the accrual method of accounting for income tax related to pension costs. Prior to 2008, the difference between pension funding and pension expense served to reduce income taxes in that year. Adopting accrual accounting for income tax relating to pension costs for regulatory purposes resulted in recognizing both the costs of the benefits and the related income tax effects of those costs in the same period.

The Company's effective income tax rate is forecast to decrease in 2009 and 2010E due to reductions in the statutory corporate income tax rate and the 2008 conclusion of payments required under the 2005 income tax settlement.[35]

3.2.7 Returns

Table 3-8 shows the Board approved rates of return on rate base, the actual and forecast rates of return on rate base, and the actual and forecast rates of return on common equity for the period 2007 to 2010E.

Table 3-8
Rates of Return: 2007 to 2010E
(%)

	2007	2008	2009F	2010E
Return on Rate Base				
Midpoint (Approved)	8.47	8.37	8.37	8.12
Actual / Forecast	8.07	8.20	8.00	7.04
Return on Common Equity	8.66	9.13	8.62	6.45

Newfoundland Power's actual rates of return on rate base for 2007 and 2008 are below the Board-approved midpoint used for rate setting purposes.[36] The actual rates of return achieved were lower principally due to a combination of higher than forecast rate base growth and lower than forecast short-term interest costs. The Company's return on rate base for 2009 is also forecast to be below the Board-approved midpoint used for rate setting purposes.[37]

[35] The statutory tax rate in 2009 is 33% and in 2010 is 32%. In 2008, Newfoundland Power paid the final instalment of $2.5 million related to the 2005 tax settlement.

[36] Newfoundland Power's midpoint (approved) rate of return on rate base for 2007 and 2008 were set by the Board in Order Nos. P.U. 40 (2006) and P.U. 32 (2007), respectively.

[37] The midpoint (approved) rate of return on rate base for 2009F reflects operation of the automatic adjustment formula, as approved by the Board in Order No. P.U. 35 (2008). The operation of the formula for 2009 resulted in a calculated return on rate base of 8.25%, which is within the range of return on rate base approved by the Board in Order No. P.U. 32 (2007). As a result, there was no change to Newfoundland Power's approved rate of return on rate base for 2009.

The forecast midpoint rate of return on rate base for 2010E reflects forecast operation of the Formula for 2010E, based on averaging observed *ask yields* for the three most recent series of long-term Government of Canada bonds as at September 11, 2009 < >.[38]

Newfoundland Power's 2010E rate of return on rate base is forecast to be 7.04% and its rate of return on equity is forecast to be 6.45%.

3.3 CREDITWORTHINESS

The maintenance of public utility creditworthiness is one of the policy objectives set out in the Electrical Power Control Act, 1994. Continued creditworthiness is consistent with the least cost provision of service to customers.

This section of the evidence reviews Newfoundland Power's sources of credit, credit ratings, and credit metrics. It also reviews the financial targets necessary to maintain the Company's current investment grade credit ratings.

In this Amended Application, Newfoundland Power is proposing a common equity component of capital structure of 45% and a rate of return on common equity of 11% for ratemaking purposes in 2010. These proposals should maintain the Company's current investment grade

[38] The average observed ask yield as at September 11, 2009 < > was 3.90% based on the following observations: (i) 3.87% (Government of Canada 4.0% Series due 2041); (ii) 3.86% (Government of Canada 5.0% Series due 2037); and (iii) 3.98% (Government of Canada 5.75% Series due 2033). Operation of the automatic adjustment formula based on an average long-term Government of Canada bond yield of 3.90% results in a rate of return on equity of 8.39%. Using this 8.39% cost of common equity, and the average capital structure approved by the Board in Order No. P.U. 32 (2007), results in a calculated rate of return on rate base (weighted average cost of capital) of 8.12%.

credit ratings. The increased rate of return on common equity of 11% will require an increase of approximately 2.2% in 2010 customer rates.

In this Amended Application, Newfoundland Power is also proposing discontinuing use of the automatic adjustment formula (the "Formula") for establishing its annual rate of return on rate base in years subsequent to a test year. This is in response to materially changed financial market conditions.

3.3.1 Sources of Credit

Newfoundland Power has two primary sources of credit. They include First Mortgage Bonds and short-term credit facilities.

As of year-end 2008, Newfoundland Power had approximately $409 million of First Mortgage Bonds outstanding.[39] The Company's ability to issue First Mortgage Bonds is dependent on the availability of earnings to pay interest on any additional bonds.[40]

The Company has a stand-alone, 3-year $100 million committed credit facility agreement with a syndicate of Canadian banks.[41] Committed credit facilities provide greater certainty of credit

[39] The $409 million in First Mortgage Bonds mature over the period 2014 through 2037. Accordingly, no requirement for Newfoundland Power to refund existing First Mortgage Bonds exists until 2014.

[40] The Company's Trust Deed that secures its First Mortgage Bonds requires, in effect, a Trust Deed interest coverage of 2.0 times or higher for the Company to issue additional bonds to finance its rate base. The Company's 2010E Trust Deed interest coverage is 2.1 times. This is near the bottom of the range at which the Company can issue additional First Mortgage Bonds.

[41] The current maturity date of this facility is August 29, 2011. The Company was originally authorized to enter into this facility by Order No. P.U. 1 (2005). Further amendments to extend the term of the facility were authorized by Order Nos. P.U. 4 (2006) and P.U. 22 (2008).

availability for the Company. The Company also has a $20 million demand facility to support short-term cash requirements.[42]

On May 25, 2009, Newfoundland Power issued $65 million in First Mortgage Bonds at an interest rate of 6.61%. The credit spread associated with this issue of First Mortgage Bonds was materially higher than previous issues.[43] The 6.61% interest rate was based on a credit spread of 2.75% over 30-year Government of Canada bonds. This compares to credit spreads associated with First Mortgage Bond issues of 1.40% in 2007 and 1.06% in 2005. The 2009 increased credit spread reflects current financial market conditions.

3.3.2 Credit Ratings

An investment grade credit rating allows Newfoundland Power to have access to capital markets at reasonable cost.

The most recent credit rating reports from Dominion Bond Rating Service ("DBRS") and Moody's Investors Services ("Moody's") are found in Exhibit 4 (1st Revision). Both DBRS and Moody's assess the Company's creditworthiness on a stand-alone basis.

[42] This facility effectively supports very short-term (i.e., day-to-day) credit requirements.

[43] First Mortgage Bond issues are priced based upon a 30-year Government of Canada bond yield plus an additional amount, or *credit spread*, to compensate debt holders for the additional risk in holding a Newfoundland Power bond. The *credit spread* is dependent on many factors, including credit quality of the issuer and prevailing market conditions at the time of sale.

Table 3-9 shows DBRS and Moody's current credit ratings for Newfoundland Power.

Table 3-9
Credit Ratings

Rating Agency	Rating
DBRS	A, Stable
Moody's[44]	Baa1, Stable

Newfoundland Power's current credit ratings are investment grade.

Moody's and DBRS evaluate qualitative and quantitative data including a number of credit metrics in establishing the Company's credit rating. The key credit metrics are pre-tax interest coverage,[45] cash flow interest coverage[46] and cash flow debt coverage.[47]

Pre-tax interest coverage measures the Company's ability to meet its interest obligations through its reported earnings. Traditionally, the Board has considered pre-tax interest coverage to be a primary indicator of creditworthiness in evaluating the relationship between capital structure, rate of return on common equity and interest coverage.[48]

[44] In August 2009, Moody's upgraded the Company's First Mortgage Bond rating to A2 from Baa1. This was primarily due to a change in Moody's rating policy, which also affected the majority of senior secured debt ratings of investment-grade regulated utilities internationally. Moody's continues to assign Newfoundland Power a Baa1 issuer rating, with a stable rating outlook. Moody's August 3, 2009 media releases are found in Exhibit 4 (1st Revision).

[45] Pre-tax interest coverage is earnings before interest and income taxes, divided by interest. Interest includes the amortization of deferred debt issue costs.

[46] Cash flow interest coverage is cash flow from operations, divided by interest. Cash flow from operations is the amount shown on the Company's statements of cash flows excluding the change in non-cash working capital, less (i) dividends on preferred shares, and (ii) the difference between pension expense and pension funding for current service costs.

[47] Cash flow debt coverage is cash flow from operations, divided by the sum of total debt and preferred shares.

[48] See, for example, Order No. P.U. 16 (1998-99) at p.40-41, Order No. P.U. 36 (1998-99) at p.44,84-85 and Order No. P.U. 19 (2003) at p.53-54.

In recent years, credit rating agencies have placed more emphasis on cash flow metrics in their assessment of regulated utilities.[49] This is because principal and interest obligations can only be paid from cash flows. Regulated earnings will not always fully mirror cash flows.[50]

Table 3-10 shows the Company's credit metrics from 2007 to 2010E.

Table 3-10
Credit Metrics: 2007 to 2010E

	2007	2008	2009F	2010E
Pre-tax Interest Coverage (times)	2.2	2.5	2.3	2.0
Cash Flow Interest Coverage (times)	2.6	3.1	3.1	2.8
Cash Flow Debt Coverage (%)	12.6	15.8	15.4	13.1

The Company's credit metrics are expected to deteriorate in 2010E.

Pre-tax interest coverage is forecast to decline from 2.5 times in 2008 and 2.3 times in 2009, to 2.0 times in 2010E. Cash flow interest coverage is forecast to decline from 3.1 times in 2008 and 2009, to 2.8 times in 2010E. Cash flow debt coverage is expected to decline from 15.8% in 2008 and 15.4% in 2009, to 13.1% in 2010E. [51]

The forecast deterioration in credit metrics in 2010E is a result of declining forecast returns.

[49] For example, cash flow interest coverage and cash flow debt coverage are central in the Moody's March 6, 2009 credit opinion of Newfoundland Power.

[50] For example, in 2010 the Company will recognize $4.6 million in 2005 unbilled revenue. However, because the 2005 unbilled revenue is an accounting accrual as opposed to cash, the impact of the 2010 accrual will be reflected in Newfoundland Power's 2010 earnings but not in its 2010 cash flows.

[51] In its March 6, 2009 Credit Opinion, Moody's indicated that Newfoundland Power's credit metrics were slightly weaker than those of its Baa1-rated peers. Moody's anticipated Newfoundland Power's cash flow interest coverage would stay above 3 times going forward and cash flow debt coverage would remain in the 15% to 16% range. (See Exhibit 4 (1st Revision)).

3.3.3 Financial Targets

Capital Structure and Rate of Return on Common Equity

Capital structure is the mix of debt and equity invested in a company, with debt representing the investment of bondholders, or other debt holders, and equity representing the investment of shareholders.

Table 3-11 shows the targeted capital structure of Newfoundland Power.

Table 3-11
Targeted Capital Structure

Debt	54%
Preferred Equity	1%
Common Equity	45%

Credit rating agencies have consistently cited Newfoundland Power's capital structure, which includes 45% common equity, as a major strength that mitigates the risk associated with its small size and relatively low forecast growth estimates.[52] The Company's target of 45% common equity in its capital structure is consistent with Board orders since 1990.[53]

In this Amended Application, Newfoundland Power is targeting a 2010 rate of return on common equity of 11% for ratemaking purposes.[54] A 2010 increase in the rate of return on

[52] See, for example, the DBRS Credit Rating Report (May 1, 2008), p. 1-2 provided in Exhibit 4 (1st Revision).
[53] See Order Nos. P.U. 1 (1990), P.U. 6 (1991), P.U. 7 (1996-97), P.U. 16 (1998-99), P.U. 19 (2003), and P.U. 32 (2007).
[54] See *Opinion on Capital Structure and Fair Return on Equity*, found in *Volume 2: Supporting Materials, Tab 10.*

common equity for ratemaking purposes from current levels to 11% will require an increase of approximately 2.2% in 2010 customer rates.[55]

A common equity component of capital structure of 45%, together with a rate of return on common equity of 11%, will provide Newfoundland Power the opportunity to improve its forecast 2010 credit metrics and maintain its investment grade credit ratings.

Forecast 2010 Credit Metrics

The relationship between capital structure and rate of return on common equity is arithmetic. As the common equity component of capital structure varies, the rate of return on common equity required to reach investment grade credit metrics will correspondingly vary.

Exhibit 5 (1st Revision) shows the relationship between the Company's capital structure, the rate of return on common equity and credit metrics on a forecast 2010 basis.

In this Amended Application, Newfoundland Power is proposing to commence recognition of other post employment benefits ("OPEBs") on an accrual basis commencing in 2010.[56] This proposal has an impact on the Company's forecast 2010 credit metrics. Accordingly, Exhibit 5 (1st Revision) illustrates the relationship between the Company's capital structure, the rate of

[55] 11% minus 8.95% (2009 ratemaking return) equals 2.05%. 2.05% times $384,377,000 (2010 average book equity) equals $7,879,729. $7,879,729 divided by 0.68 percent (1 – tax rate) equals $11,587,836. $11,587,836 divided by $529,079,000 (2010E customer charges from Exhibit 10 (1st Revision)) equals 2.2%.

[56] The Company's OPEBs proposal is reviewed in Section 3.4.3 *Other Post-Employment Benefits* at p. 3-28 to p. 3-30.

return on common equity and credit metrics for 2010 on both the cash basis and accrual basis of accounting for OPEBs.[57]

The adoption of accrual accounting for OPEBs will increase the Company's cash flow from operations, thereby improving its credit metrics, particularly cash flow metrics. The improvement in metrics reflects the fact that OPEBs costs will be recovered from customers in advance of the Company's requirement to pay for the related benefits. This recovery also serves to reduce the Company's financing requirements.[58]

Table 3-12 shows forecast 2010 credit metrics under three scenarios. They include: (i) the Company's existing scenario; (ii) approval of the proposals contained in this Amended Application, including adoption of accrual accounting for OPEBs in 2010; and (iii) approval of the proposals in this Amended Application except adoption of accrual accounting for OPEBs in 2010 (called "Cash OPEBs").

Table 3-12
Impact of OPEBs
Forecast 2010 Credit Metrics

	2010E	2010F	
		Accrual OPEBs	Cash OPEBs
Pre-tax Interest Coverage (times)	2.0	2.7	2.7
Cash Flow Interest Coverage (times)	2.8	3.6	3.5
Cash Flow Debt Coverage (%)	13.1	19.5	18.4

[57] Page 1 of Exhibit 5 (1st Revision) indicates the relationship assuming no change in OPEBs accounting in 2010. Page 2 of Exhibit 5 (1st Revision) indicates the relationship assuming the adoption of the accrual method of accounting for OPEBs in 2010.

[58] The cumulative difference between the costs recovered from customers and the actual OPEBs payments will be treated as a reduction in rate base. This will reduce the rate base financing costs required from customers.

Forecast 2010 cash flow credit metrics will improve as a result of the Company's adoption of accrual accounting treatment for OPEBs.

3.3.4 The Automatic Adjustment Formula

The Formula is used to adjust the Company's rate of return on rate base and customer rates in years subsequent to a test year.[59]

In Order No. P.U. 32 (2007), the Board approved continued use of the Formula for not more than three years following 2008, with modifications to reflect adoption of the Asset Rate Base Method for calculating rate base. Since Order No. P.U. 32 (2007), financial market conditions have materially changed. These changing conditions have, in turn, affected the fairness of the returns on equity yielded by use of the Formula.[60]

In this Amended Application, Newfoundland Power seeks a return on equity for ratemaking purposes of 11% for 2010. This compares to a forecast 2010 return on equity for ratemaking purposes of 8.39% resulting from continued use of the Formula.[61]

Given current financial market conditions, this Amended Application proposes discontinuing use of the Formula for the adjustment of the Company's rate of return on rate base and customer rates in years subsequent to the 2010 test year.

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[59] The Formula was originally established pursuant to Order Nos. P.U. 16 (1998-99) and P.U. 36 (1998-99). Continued use of the Formula was approved in Order Nos. P.U. 19 (2003) and P.U. 32 (2007).

[60] This matter is considered fully in the *Opinion on Capital Structure and Fair Return on Equity*, found in *Volume 2: Supporting Materials, Tab 10.*

[61] See footnote 38.

3.4 EMPLOYEE FUTURE BENEFITS

Newfoundland Power has pension and other post employment benefit plans that provide its employees with benefits upon retirement.

This section of the evidence provides an overview of the Company's employee future benefit plans and accounting policies for those plans. It also reviews how recent financial market conditions have affected the costs associated with Newfoundland Power's defined benefit pension plan.

In this Amended Application, Newfoundland Power is proposing the creation of a regulatory mechanism to ensure the fair recovery of pension expense in current financial market conditions.

In this Amended Application, Newfoundland Power is proposing to commence the accrual method of accounting for other post employment benefits in 2010. To implement this proposal for accounting for employee future benefits will require a customer rate increase of approximately 1.3 % in 2010.

3.4.1 Newfoundland Power Employee Future Benefits

Newfoundland Power maintains plans for its employees which provide for benefits upon retirement. These plans fall into two broad categories: pension plans and other post employment benefit plans.

The Company maintains both defined benefit and defined contribution pension plans. Defined benefit plans typically provide retirement income based upon an employees' pay and years of service at the time of retirement.[62] Defined contribution plans provide retirement income based upon the contributions made by the Company and the employee together with accrued returns on those contributions.[63] Since May 2004, Newfoundland Power's defined benefit pension plan has been closed to new entrants.

The OPEBs provided by the Company to its employees include retirement allowances payable on retirement[64] and health, medical and life insurance for retirees and their dependents.

3.4.2 Pension Plans

Market Conditions

Financial market conditions affect defined benefit pension plans in two fundamental ways. The first relates to the *actual* value of assets held in a plan. Changes in asset values resulting from market conditions impact both the funding obligations and the accounting for the expense associated with defined benefit pension plans. The second relates to the valuation of *future* obligations in accounting for the expense associated with defined benefit pension plans.

[62] Newfoundland Power's principal pension plan is its defined benefit pension plan, which was created in 1984. There are currently 489 active employees participating in this plan. In addition, at December 31, 2008 the defined benefit pension plan provided retirement income to a total of 660 retirees and their survivors.

[63] Defined contribution pension arrangements have become more common in recent years as defined benefit pension arrangements have become less common. This development results in a shift of pension investment return risk from employers (in defined benefit plans) to employees (in defined contribution plans). It also results in increased pension portability as defined contribution plans typically have segregated employee benefit accounts.

[64] Retirement allowances are 1 week's salary per year of service up to a maximum of 23 weeks allowance.

Discount rates used to present value future plan obligations are required by accounting standards to reflect prevailing financial market conditions.[65]

Like virtually all Canadian defined benefit pension plans, Newfoundland Power's plan experienced a material loss in asset value in 2008 as a result of market conditions. This loss in asset value will impact both Newfoundland Power's future funding obligations for the defined benefit pension plan and future pension expense.

The financial market conditions which commenced in 2008 have also given rise to increased volatility in the discount rate used to present value future plan obligations for accounting purposes. This increased volatility has increased the uncertainty associated with forecasting future pension expense.

Pension Plan Asset Performance

At December 31, 2008, Newfoundland Power's defined benefit pension plan held assets of approximately $213 million. This reflects a loss in asset value of approximately $41 million or 16% of total fund assets in 2008. This loss has an effect on both Newfoundland Power's accounting for pension expense and its plan funding obligations.

[65] Accounting standards governing the discount rate to be used to present value future plan obligations effectively requires the discount rate to reflect market conditions at the end of a fiscal year. This differs from actuarial practice which governs pension plan funding. The discount rates used to present value future plan obligations for purposes of funding reflect assumptions prescribed by actuarial practice.

Table 3-13 shows Newfoundland Power's defined benefit and defined contribution pension expense from 2007 to 2011F.[66]

Table 3-13
Pension Expense
2007 to 2011F
($000s)

	2007	2008	2009F	2010F	2011F
Defined Benefit Pension Plans[67]	4,550	2,045	1,505	6,986	9,704
Defined Contribution Pension Plans	1,151	995	1,198	1,210	1,258
Total Pension Expense	**5,701**	**3,040**	**2,703**	**8,196**	**10,962**

Newfoundland Power's pension expense is expected to increase to approximately $8.2 million in 2010 compared to $2.7 million in 2009. The Company's 2011 pension expense is expected to increase further to approximately $11.0 million. These increases primarily reflect the increase in pension expense resulting from the 2008 loss in asset value experienced in the Company's defined benefit pension plan.[68]

Newfoundland Power's future pension funding obligations are also impacted by the loss in pension plan asset value in 2008. Funding requirements for the Company's defined benefit pension plan is an actuarially determined amount that, when combined with employee

[66] Pension expense for Newfoundland Power's defined benefit pension plans reflects estimates with respect to matters such as the expected performance of pension plan assets, future salary escalation and the retirement ages of employees. Newfoundland Power recognizes pension expense on an accrual basis.

[67] Includes amounts under the Company's legacy pension uniformity plan which has no active members.

[68] The 2008 loss in asset value is not fully reflected in 2009 pension expense due to Newfoundland Power's use of the market-related method of valuing pension assets for the purposes of determining pension expense. See footnote 22. The increases in pension expense forecast for 2010 and 2011 also reflect a change in discount rate used to value the Company's pension obligations for expense purposes. See footnote 76.

contributions, is expected to be sufficient to satisfy future benefit payments as they become due. The two components of pension funding are current service funding and special funding.[69]

Newfoundland Power's actuaries completed an actuarial valuation of the Company's defined benefit pension plan as at December 31, 2008 (the "2008 Pension Valuation").[70] The 2008 Pension Valuation is found in *Volume 2: Supporting Materials, Tab 3.*

The 2008 Pension Valuation indicates that as of December 31, 2008 the defined benefit pension plan had a funding excess of approximately $10.4 million on a going-concern basis,[71] and a funding deficiency of approximately $6.9 million on a solvency basis.[72] As a result of the 2008 Pension Valuation, Newfoundland Power expects to make annual special funding payments of approximately $1.5 million from 2009 through 2013.[73]

[69] Current service funding is related to service rendered by active employees in the current year. Special funding represents additional funding required to satisfy additional pension costs related to unfunded pension liabilities such as those associated with early retirement programs or the solvency deficiency identified in the 2008 Pension Valuation.

[70] Pension legislation requires that funding be based on actuarial valuations that are to be conducted, at a minimum, once every three years. The most recent actuarial valuation of Newfoundland Power's defined benefit pension plan was as of December 31, 2008. The previous actuarial valuation was as of December 31, 2005.

[71] Valuation of a defined benefit pension plan on a going-concern basis values the plans assets and liabilities as though the plan would be maintained until all retirement benefit obligations have been met.

[72] Valuation of a defined benefit pension plan on a solvency basis values the plans assets and liabilities as though the plan were wound up and settled on the valuation date. For the purposes of Newfoundland Power's defined benefit pension plan, the circumstances in which the plan wind-up is assumed to take place is Newfoundland Power ceasing to operate.

[73] This is required to fund the identified solvency deficiency. The solvency deficiency of $6,933,000 divided by 5 years plus interest of $161,000 per year.

Table 3-14 compares pension expense and pension funding associated with Newfoundland Power's defined benefit pension plan for the period 2009 through 2011F.[74]

Table 3-14
Pension Expense and Pension Funding
2009 to 2011F
($000s)

	2009F	2010F	2011F
Pension expense	1,505	6,986	9,704
Pension funding	4,866	4,999	5,137

Forecasting Pension Expense

A principal variable in determining pension expense is the discount rate used to value future pension obligations. This discount rate reflects year end financial market conditions.[75]

Table 3-15 shows the discount rate used to calculate the pension expense associated with Newfoundland Power's defined benefit pension plan for 2006 through 2009.

Table 3-15
Defined Benefit Pension Discount Rate
2006 to 2009

	2006	2007	2008	2009
Discount Rate (%)	5.25	5.25	5.50	7.50

[74] Differences between annual pension expense and annual pension funding are reflected in deferred assets. In Order No. P.U. 19 (2003) the Board ordered that deferred assets be included in the Company's rate base. In years where pension funding exceeds pension expense, the difference serves to increase rate base. Conversely, in years where pension expense exceeds pension funding, the difference serves to reduce rate base.

[75] The discount rate used to value pension obligations is prescribed by accounting standards. The discount rate for pension expense purposes for Newfoundland Power is the trading yield, as at December 31 of the previous year, of high quality bonds with cash flows that match the timing and amount of expected pension benefit payments. As at December 31, 2008, the average duration of these bonds was approximately 14 years and the trading yield was approximately 7.5%.

Changes in the discount rate can result in large differences in pension expense from year to year and can result in material differences from forecast. In general, for a defined benefit pension plan, a higher discount rate tends to lower pension expense and a lower discount rate tends to increase pension expense.

From 2006 through 2008, the discount rate used to value the Company's pension obligations for expense purposes was relatively stable. From 2008 to 2009, the discount rate increased by 2%. This increase was reflective of the volatile market conditions which also impacted asset values.[76]

Table 3-16 shows the estimated pension expense associated with Newfoundland Power's defined benefit pension plan for 2010 through 2012, calculated based on a range of discount rates from 5.50% to 8.50%.

Table 3-16
Defined Benefit Pension Expense
2010E to 2012E
($000s)

Discount Rate (%)	2010E	2011E	2012E
5.50%	10,849	14,147	13,941
6.00%	9,117	12,426	12,215
6.50%	7,411	10,863	10,611
7.00%	5,852	9,295	9,035
7.50%	4,424	7,858	7,589
8.00%	3,117	6,540	6,263
8.50%	2,173	5,306	5,020

[76] In the Amended Application, the discount rate used to value the Company's pension obligations for expense purposes has decreased by 1% from 7.5% for 2009 to 6.5% for 2010 and beyond. The impact of the 1% reduction in discount rate has been an increase in forecast 2010 pension expense of approximately $3 million. This has been somewhat offset by pension plan asset growth in 2009, which has reduced forecast 2010 pension expense by approximately $600,000.

A change in the discount rate used to value pension obligations of +/- 1% will vary Newfoundland Power's pension expense in the next year by approximately +/- $2.3 to $3.4 million.[77]

The variability of pension expense is not reasonably predictable in current volatile financial market conditions.[78] The discount rate that will be used to determine *actual* pension expense for 2010 will not be known until the end of 2009.[79] As a result, the actual pension expense for 2010 may differ materially from that estimated < > several months prior to year end.[80]

The uncertainty of pension expense forecasting in current financial market conditions presents potential risks for both the Company and its customers. On one hand, a 1% increase in the discount rate used to calculate pension expense could result in the Company achieving earnings in excess of its allowed return solely due to fluctuations in pension expense.[81] On the other hand, a 1% decrease in the discount rate could result in the Company not having a reasonable opportunity to earn its allowed return solely due to fluctuations in pension expense.[82]

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[77] By comparison, a 2010 allowed range of return on rate base of +/- 18 basis points is approximately +/- $2.3 million before tax.

[78] This lack of predictability was particularly evident in the fourth quarter of 2008. At September 30, 2008, the observed trading yield of high quality bonds prescribed by accounting standards for calculating 2009 pension expense was 6.75%. At December 31, 2008, the observed trading yield was 7.50%. The variability in discount rates experienced in the fourth quarter of 2008 was reflective of the financial market conditions that contributed to a 2% overall increase in the discount rate in 2008 to 2009. By comparison, the average year-over-year change in discount rate from 2000 (the 1st year to which the current accounting standards applied) through 2008 was +/- 0.32%.

[79] This is because the discount rate used in the pension expense calculation is an observed year-end trading yield.

[80] In this Amended Application, the Company has used a forecast discount rate of 6.5% to calculate the estimate of 2010 pension expense. This is based on the indicative discount rate observed at August 31, 2009. The 1% decrease in the discount rate during 2009 indicates continued lack of predictability of annual pension expense.

[81] This result reflects that the impact of a 1% increase in the discount rate would reduce pension expense by approximately $2.3 to $3.4 million. This amount meets or exceeds the historical +/- 18 basis points allowed range of return on rate base, which translates into approximately +/- $2.3 million in 2010.

[82] This result reflects that the impact of a 1% decrease in the discount rate would increase pension expense by approximately $2.3 to $3.4 million.

In these circumstances, the creation of a regulatory mechanism to ensure the reasonable recovery of actual pension expense is justified. In this Amended Application, Newfoundland Power proposes the creation of a Pension Expense Variance Deferral Account to effectively provide for the recovery of only that pension expense actually incurred by the Company.[83]

The proposed Pension Expense Variance Deferral Account is provided in Exhibit 9 (1st Revision).

3.4.3 Other Post-Employment Benefits

Currently, Newfoundland Power recognizes costs associated with OPEBs on a cash basis as opposed to an accrual basis.[84] The cash cost of OPEBs in 2010 is forecast to be $1.7 million. The accrued cost of OPEBs in 2010 is forecast to be $8.4 million.[85]

In Order No. P.U. 19 (2003), the Board ordered the Company to file a report with its next general rate application which addresses the use of the accrual method as an alternative to the existing accounting treatment for OPEBs.[86] A current report on Employee Future Benefits, including a

[83] Adjustment for variations between estimated test year pension expense and actual pension expense is proposed to be achieved through the Rate Stabilization Account ("RSA"). Section II 6 of the RSA, which provides that "The RSA shall be adjusted by any other amount as ordered by the Board", would permit such an adjustment were the Board to order it.

[84] Practically, this means the Company only recognizes as a cost, the actual amount *paid* for OPEBs each year. Recognizing OPEBs costs on an accrual basis means recognizing as a cost in a year all current and future obligations *accrued* in that year, as estimated by the Company's actuary.

[85] The current actuarial valuation of the Company's OPEBs obligations on an accrual basis is found in *Volume 2: Supporting Materials, Tab 5*. As at December 31, 2008, Newfoundland Power's OPEBs obligations to employees were valued at $59.6 million on an accrual basis.

[86] In Order No. P.U. 19 (2003), the Board stated its concern about the potential liability for OPEBs and was of the view that Newfoundland Power should explore using the accrual method of accounting for these benefits. In its 2008 General Rate Application, Newfoundland Power originally proposed to adopt the accrual method of accounting for OPEBs in 2008. As a result of the settlement agreement reached on issues in the 2008 General Rate Application, it was agreed that Newfoundland Power continue using the cash basis of accounting for OPEBs. This was approved by the Board in Order No. P.U. 32 (2007). In the settlement agreement it was specifically provided that the matter of OPEBs accounting would be further considered by the Board at Newfoundland Power's next General Rate Application.

proposal for the adoption of the accrual method of accounting for OPEBs commencing in 2010 is found in *Volume 2: Supporting Materials, Tab 4*. Accrual accounting for OPEBs costs is the mainstream regulatory practice in Canada.[87] Accrual accounting for OPEBs is also consistent with the Company's accounting for pensions.

In this Amended Application, Newfoundland Power proposes to adopt the accrual method of accounting for OPEBs costs for regulatory purposes effective January 1, 2010. Table 3-17 shows forecast 2010 OPEBs costs calculated on the cash basis and accrual basis of accounting.

Table 3-17
2010 OPEBs Costs
($000,000s)

Cash Method	1.7
Accrual Method	8.4
Difference	**6.7**

OPEBs costs will increase by $6.7 million in 2010 if the Company adopts the accrual method of accounting for OPEBs as proposed in this Amended Application.[88]

Transitional Matters

There are significant transitional obligations associated with this change in accounting policy. In 2003, the Board directed the Company to propose a plan to move to the accrual method of accounting for OPEBs that addresses the transitional obligations with a view to fulfilling

[87] Based upon the results of the survey, 22 utilities use the accrual method, including Hydro.
[88] The 2010 revenue requirement impact of the proposal is $6.8 million. The difference relates to a combination of tax and rate base effects. See R*eport on Other Post Employment Benefits (1st Revision), Volume 2: Supporting Materials, Tab 4*, at p.13, Table 8.

Newfoundland Power's obligation to its employees while at the same time moderating its impact on customer rates. [89]

The transitional obligation associated with the Company's adoption of the accrual method of accounting for OPEBs in 2010 is $46.2 million.[90]

Newfoundland Power is proposing that the disposition of this legacy transitional obligation be addressed at a future Company general rate proceeding. This will allow for an effective *phasing in* of the recovery of accrued OPEBs liabilities which, in turn, will help to moderate the immediate impact of the accounting change on customer rates.[91]

Newfoundland Power's OPEBs proposal, if approved by the Board, will result in current recovery of accrued OPEBs costs commencing in 2010. Addressing the legacy transitional obligation at a future time is a measured overall approach to dealing with this matter.[92]

[89] See Order No. P.U. 19 (2003) at p.82-83.

[90] If the Company adopts the accrual method of accounting for OPEBs in 2010 as proposed in this Amended Application, this $46.2 million legacy transitional obligation will not change. Effective January 1, 2000, the Canadian Institute of Chartered Accountants recommended the adoption of the accrual method of accounting for OPEBs. $46.2 million represents, in effect, the difference between use of the cash and accrual methods of accounting for OPEBs for the period 2000 to 2009.

[91] For Newfoundland Power to fully address its OPEBs obligations, including the legacy transitional obligation in 2010, would result in an increase in 2010 revenue requirements of approximately 2.2% (see: *Report on Other Post Employment Benefits (1st Revision), Volume 2: Supporting Materials, Tab 4,* p.2). Implementing Newfoundland Power's employee future benefits proposals in this Amended Application will result in an increase in 2010 revenue requirements of approximately 1.3%.

[92] While the impact of the recovery of the legacy transitional obligation on customer rates will only be determinable at the time the matter is addressed, the approximate rate impacts can be estimated. For example, for a 5-year amortization of the $46.2 million, the estimated rate impact (based on 2010E forecast revenue from rates of $529,079,000) would be approximately 1.7 %. A 10-year amortization would result in an estimated rate impact of approximately 0.9%. In 1992, the U.S. Financial Accounting Standards Board considered that the appropriate limits for (i) adopting accrual accounting should not exceed approximately 5 years, and (ii) deferred recovery of transitional amounts should not exceed approximately 20 years.

3.5 INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective January 1, 2011, it is expected that Newfoundland Power will be required to comply with International Financial Reporting Standards ("IFRS")

This section of the evidence reviews the current status of IFRS transition, including the preeminent outstanding issue which relates to the future accounting treatment of regulatory assets and liabilities.

In this Amended Application, Newfoundland Power is seeking the Board's approval that its next depreciation study relate to plant in service as at December 31, 2009. This will facilitate Newfoundland Power's transition to IFRS.

3.5.1 General

IFRS is a collection of financial reporting standards developed by the International Accounting Standards Board ("IASB"), an independent accounting standards-setting organization.[93] In 2006, the Canadian Accounting Standards Board ("AcSB") announced that, effective January 1, 2011, all publicly accountable enterprises would be required to comply with IFRS.[94] Newfoundland Power is one of the approximately 4,500 publicly accountable enterprises in Canada affected by this change.

[93] IFRS have been adopted by over 100 countries including all those of the European Union. The U.S. has not adopted IFRS.

[94] The AcSB is the Canadian functional equivalent of the IASB. The AcSB establishes Canadian Generally Accepted Accounting Principles ("GAAP").

The adoption of IFRS will be the most fundamental change in accounting standards in Canadian history. Once IFRS has been adopted, it will effectively be Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Accordingly, the transition involves a detailed review of both the accounting standards which currently apply to Newfoundland Power and those that will apply in the future.[95]

For regulated utilities in Canada, the preeminent outstanding issue associated with the transition to IFRS is the future accounting treatment of regulatory assets and liabilities.

3.5.2 Regulatory Assets and Liabilities

Regulatory Assets and Liabilities Generally

Regulatory assets and liabilities are typically created in cost of service regulation by timing differences that reflect the economic impact of regulatory decision making.

A regulatory asset typically arises as a result of a timing difference between incurrence of a cost by a utility and the recovery of that cost through customer rates. Conceptually, a regulatory asset represents revenues that are expected to be recovered from customers in future periods. For example, in Order No. P.U. 13 (2009), the Board established a deferral account for Newfoundland Power's 2009 costs of customer energy conservation programming. The costs of this programming will be incurred in 2009; however, they will not be recovered from customers

[95] The IFRS continue to evolve. As of January 1, 2008, IFRS included 37 separate standards. It was expected that 19 of these would change through the Canadian transition. This evolutionary feature adds a level of complication to the overall transition. See: *The CICA's Guide to IFRS in Canada.*

until after 2009. At year end 2009, the balance in this deferral account will be shown in Newfoundland Power's financial statements as a regulatory asset.

A regulatory liability typically arises as a result of a timing difference between recognition or receipt of an amount by a utility and the reflection of that amount in customer rates. Conceptually, a regulatory liability represents a reduction in revenue in future periods. For example, in Order No. P.U. 40 (2005), the Board approved Newfoundland Power's adoption of the accrual method of revenue recognition for regulatory purposes beginning in 2006. This approval had the effect of creating a liability of approximately $24.3 million in unbilled revenue as at year end 2005.[96] This liability was applied to reduce future revenue required by Newfoundland Power over the five years ending 2010.[97] At year end 2005, the balance of unbilled revenue was shown in Newfoundland Power's financial statements as a regulatory liability.

The creation of regulatory assets and liabilities is an accepted feature of current Canadian regulatory practice. The recognition of regulatory assets and liabilities is currently permitted under Canadian GAAP. [98]

[96] The $24.3 million was, in effect, an accounting accrual representing revenue associated with power deliveries up to December 31, 2005 which would not be billed to customers until January 2006.

[97] As part of the Board's approval of Newfoundland Power's adoption of the accrual method of revenue recognition, consideration of disposition of this amount was required. The Board considered this matter in Order Nos. P.U. 40 (2005), P.U. 39 (2006), and P.U. 32 (2007).

[98] Prior to 2009, Canadian GAAP contained guidance that effectively permitted the recognition of regulatory assets and liabilities. Effective 2009, the AcSB removed from Canadian GAAP the guidance that permitted recognition of regulatory assets and liabilities. For 2009 and 2010, Canadian regulated utilities effectively rely on U.S. GAAP (particularly, Statement of Financial Accounting Standards No. 71 *Accounting for the Effects of Certain Types of Regulation*) which permits recognition of regulatory assets and liabilities on a conceptually similar basis to that allowed under Canadian GAAP prior to 2009. Commencing in 2011, the recognition of regulatory assets and liabilities will be governed by IFRS.

As of March 31, 2009, Newfoundland Power had regulatory assets of approximately $207 million and regulatory liabilities of approximately $85 million recorded in its financial statements.[99] Each of the regulatory assets and liabilities reflects a decision or decisions of the Board.[100] IFRS currently contains no guidance on the recognition of regulatory assets and liabilities.

IASB's Rate-regulated Project

Regulatory decision-making has, and is intended to have, economic impacts for regulated utilities. This has historically been reflected in the application of Canadian GAAP to regulated utilities. The absence of guidance on the recognition of regulatory assets and liabilities in IFRS has therefore created uncertainty for Canadian regulated utilities which are affected by the 2011 transition to IFRS.[101] This uncertainty has broader potential regulatory impacts.[102]

[99] Approximately 66% or $137 million, of Newfoundland Power's regulatory assets relate to future income taxes. Approximately 29% or $24 million of Newfoundland Power's regulatory liabilities relate to future income taxes. Commencing in 2009, Newfoundland Power is required by Canadian GAAP to recognize future income tax assets and liabilities arising from Board orders as regulatory assets and liabilities in its financial statements. Prior to this, future income tax assets and liabilities arising from Board orders were referred to in notes to the financial statements. There is no impact on customers from this change in presentation.

[100] For a regulatory asset such as amortization true up deferral, the relationship to Board decision-making is explicit (see, for example, Order Nos. P.U. 39 (2006) and P.U. 32 (2007)). For a regulatory liability such as future removal and site restoration provision, the relationship to Board decision-making is less explicit. Board orders approving Newfoundland Power's depreciation rates effectively authorize the recovery of estimated future removal and restoration costs in depreciation rates applied during the useful life of the asset. This is consistent with the cost of service standard. However, financial presentation under Canadian GAAP requires that the future removal and site restoration costs be segregated from accumulated depreciation and shown as a liability. There is no impact on customers from this change in presentation.

[101] This uncertainty is unlikely to be resolved prior to June 2010, however, some regulators are already considering transitional issues. In May 2009, the Alberta Utilities Commission developed Draft Rule 026 *Rule Regarding Regulatory Account Procedures Pertaining to the Implementation of the International Financial Reporting Standards* to clarify accounting procedures and reporting requirements resulting from the implementation of IFRS by Alberta utilities.

[102] Changes in financial information contained in audited financial statements could have impacts on regulators' reliance upon that information. Changes in accounting treatment of regulatory assets and liabilities could impact regulatory decision-making which effectively creates them. The Canadian Association of Members of Public Utility Tribunals ("CAMPUT") has expressed these concerns to the International Financial Reporting Interpretations Committee of the IASB.

In December 2008, the IASB initiated a project on rate-regulated activities. In February and April 2009, the IASB considered the scope of the project.[103] The IASB < > published an exposure draft concerning the recognition and measurement criteria for regulatory assets and liabilities < > in July 2009.[104] A final standard is currently expected to be published by the IASB in June 2010.

< > The IASB accepts in principle that rate regulation may create assets and liabilities recognizable under IFRS. < >[105] However, in the absence of a final standard indicating the details of recognition and measurement criteria, uncertainty will persist surrounding the treatment of regulatory assets and liabilities upon adoption of IFRS in 2011.

3.5.3 IFRS Transition at Newfoundland Power

Commencing in 2011, Newfoundland Power's financial statements must comply with IFRS, and must include comparative financial results for 2010.[106] This requires Newfoundland Power to

[103] The IASB decided that the two criteria which should define rate-regulated activities are (i) an authorized body empowered to establish rates that bind customers, and (ii) the rate regulation is cost of service regulation. *IASB Meeting Staff Paper on Rate-regulated activities, April 2009.*

[104] An *exposure draft* is a proposed accounting standard issued by a standards setting organization for the purposes of eliciting comment prior to finalizing the standard.

[105] As of February, 2009 the IASB "…generally agreed with the analysis supporting the staff's conclusion that cost-of-service regulation gives rise to items that meet the definition of an asset or a liability…" *IASB February, 2009 Meeting Summary and Observer Notes*. In its April 2009 meeting, the IASB "…generally agreed that the primary driver for recognition of assets and liabilities is the existence of future economic benefits or obligations." *IASB Update, April 2009*. The July 2009 *Exposure Draft: Rate-Regulated Activities* proposes specific criteria which define rate-regulated activities, as well as measurement and reporting requirements for qualifying regulatory assets and liabilities.

[106] Both current Canadian GAAP and IFRS require the presentation of comparative financial information for the current and previous reporting period.

assemble financial information during 2010 that complies with current Canadian GAAP and with IFRS.[107]

Newfoundland Power's plans for IFRS transition are focused upon being prepared to adopt IFRS in 2011. The transition to IFRS will be a material focus for the Company in 2009 and 2010.[108]

Newfoundland Power has reviewed all of the IFRSs.[109] For the IFRSs that have application to Newfoundland Power, the impacts have been assessed on a preliminary basis. Because the majority of IFRSs are expected to be modified between 2008 and 2011, the assessments are subject to change.[110]

Newfoundland Power has identified and assessed those IFRSs that have the greatest potential impact on the Company's current financial statements.[111] For example, IFRS differs from current Canadian GAAP regarding several aspects of measurement and recognition of property, plant and equipment, such as disposition or retirement of capital assets, general expenses capitalized

[107] Newfoundland Power's current financial information systems can be configured to capture and report two sets of financial information for 2010. Accordingly, the additional costs associated with assembling two sets of financial information for 2010 are not currently expected to be material.

[108] Newfoundland Power assesses the IFRSs as part of a working group that includes all Canadian operating subsidiaries of Fortis Inc. that are affected by IFRS transition. The working group has retained the services of Deloitte LLP as independent consultants for IFRS issues. Ernst & Young LLP, the Company's external auditor, is also actively engaged in IFRS transition, which is overseen by the Audit and Risk Committee of Newfoundland Power's Board of Directors.

[109] Of the 37 IFRSs, approximately 15 do not appear to have any material application to Newfoundland Power's financial statements. Examples of these include *IFRS 6: Exploration for and evaluation of Mineral Resources; IFRS 8: Operating Segments; IAS 11: Construction Contracts;* and *IAS 21: The Effects of Changes in Foreign Exchange Rates.*

[110] See Footnote 91. A change to a current standard under IFRS before 2011 could change the impact of transition on Newfoundland Power. In addition, developments with respect to the IASB's Rate-regulated activities project could have the effect of altering the application of a current standard to Newfoundland Power.

[111] These standards are *IAS 12: Income Taxes; IAS 16: Property, Plant and Equipment; IAS 19: Employee Benefits; IAS 23: Borrowing Costs; IAS 36: Impairment of Assets; IAS 37: Provisions, Contingent Liabilities and Contingent Assets; IAS 38: Intangible Assets;* and *IFRS 1: First Time Adoption of IFRS.*

("GEC"), and capitalization policy regarding transformers, meters and standby equipment. The practical impact of differences between IFRS and current Canadian GAAP may be affected by the treatment of regulatory assets and liabilities under IFRS. For example, GEC may not be recognized as property, plant and equipment under IFRS, but may ultimately be appropriately recognized as a regulatory asset under IFRS. In such a circumstance, the differences between IFRS and current Canadian GAAP are effectively minimized.[112]

In Order No. P.U. 32 (2007), the Board ordered Newfoundland Power to file its next depreciation study relating to plant in service as of December 31, 2010. In light of Newfoundland Power's requirement to file IFRS compliant financial statements in 2011, which include comparative results for 2010 and 2011, it would be more appropriate that the next depreciation study relate to plant in service as of December 31, 2009. A depreciation study as of December 31, 2009 will provide detailed information concerning the Company's property, plant and equipment to be used in comparative financial statements for 2010 and 2011.[113]

In this Amended Application, Newfoundland Power seeks the Board's approval that its next depreciation study relate to plant in service as of December 31, 2009.

[112] In this circumstance, the difference would relate to presentation of GEC in financial statements. Current Canadian GAAP permits GEC to be included in property, plant and equipment. If IFRS were to permit recognition of GEC as a regulatory asset, then it would no longer be included in property, plant and equipment, but instead reflected as a regulatory asset. There would be no impact on customers from this change in presentation.

[113] The IFRS requirement to file comparative financial statements for 2010 and 2011 effectively makes December 31, 2009 the transition point for collection of financial information required for IFRS compliance. Newfoundland Power currently expects that IFRS will require more detailed financial statement disclosure relating to property, plant and equipment than required by current Canadian GAAP.

3.6 REGULATORY DEFERRALS

This section of the evidence reviews the amortization of regulatory deferrals through 2013.

In this Amended Application, Newfoundland Power is proposing amortization of 2009 conservation costs associated with customer programming under the 5-year Energy Conservation Plan over the remaining 4 years of the Plan, and amortization of third party costs related to this Amended Application in 2010.

3.6.1 2009 Conservation Costs

2009 conservation costs associated with customer programming under the 5-year Energy Conservation Plan are forecast to be approximately $1.5 million.[114] 2009 is the first year of the 5-year Energy Conservation Plan.

In this Amended Application, Newfoundland Power is proposing to recover the 2009 customer energy conservation programming costs, as charged to the Conservation Cost Deferral Account, over the remaining 4 years of the 5-year Energy Conservation Plan.

3.6.2 Amended Application Costs

Newfoundland Power estimates that approximately $750,000 will be incurred by the Board and the Consumer Advocate as a result of this Amended Application.

[114] Deferred recovery of these costs through the Conservation Cost Deferral Account was authorized by Order No. P.U. 13 (2009).

Newfoundland Power is proposing that these costs be recovered in 2010 customer rates.[115]

3.6.3 Summary of Regulatory Deferrals

Table 3-18 summarizes current amortizations of regulatory deferrals approved by the Board together with those proposed in this Amended Application.

Table 3-18
Amortization of Regulatory Deferrals
***Pro forma* Revenue Requirement Impact**
2009 to 2013
($000s)

	2009	2010	2011	2012	2013
Revenue Deferrals					
2005 Unbilled Revenue[116]	(6,893)	(6,791)	-	-	-
Municipal Tax Liability[117]	(1,362)	(1,362)	-	-	-
Cost Recovery Deferrals					
Depreciation[116]	5,764	5,679	-	-	-
Replacement Energy[117]	598	598	-	-	-
Purchased Power Unit Cost Reserve[117]	(688)	(688)	-	-	-
Weather Normalization Reserve[117]	2,101	2,101	2,101	2,101	-
Conservation Cost Deferrals[118]	(1,516)	379	379	379	379
Application Costs[118]	-	750	-	-	-
Revenue Requirement Impacts	(1,996)	666	2,480	2,480	379

[115] In the past, the Board has ordered recovery of Application costs over a 3 year period (see Order Nos. P.U. 7 (1996-1997), P.U. 36 (1998-1999), P.U. 19 (2003), and P.U. 32 (2007)). In each of these cases it was expected that the rates determined in the Applications would be in effect for multiple years. It is not currently expected that the rates set as a result of this Amended Application will be in effect beyond 2010.

[116] Approved in Order No. P.U. 32 (2007). For revenue requirement purposes, the amortizations of the 2005 unbilled revenue and deferred costs related to depreciation include income tax effects.

[117] Approved in Order No. P.U. 32 (2007).

[118] As proposed in this Amended Application.

SECTION 4: 2010 RATE BASE & REVENUE REQUIREMENTS

4.1 OVERVIEW

This section of the evidence addresses the Company's forecast 2010 average rate base and forecast 2010 revenue requirements.

4.2 FORECAST 2010 RATE BASE

Based on the Company's proposals in this Amended Application, forecast 2010 average rate base is approximately $869 million.

In Order No. P.U. 19 (2003), the Board ordered that the Asset Rate Base Method ("ARBM") should be used to calculate Newfoundland Power's rate base. In Order No. P.U. 32 (2007), the Board approved a test year rate base for Newfoundland Power that was calculated in accordance with the ARBM.

Newfoundland Power's forecast 2010 average rate base, as set out in this Amended Application, including rate base allowances, is calculated in accordance with Board orders and regulatory practice.[1]

The Company's forecast 2010 average rate base is approximately $869 million.

Exhibit 6 (1st Revision) shows the 2010 forecast average rate base.

[1] A report on 2010 Rate Base Allowances is found in *Volume 2: Supporting Materials, Tab* 2.

Changes to the Company's average rate base are principally the result of two factors: 1) plant investment, which includes annual capital expenditures[2] and 2) depreciation expense.[3]

The forecast 2010 average rate base includes the Company's forecast capital expenditures for 2009 which were approved in Order No. P.U. 27 (2008). The calculation of the Company's forecast 2010 average rate base also reflects the forecast 2010 capital expenditures of $64.7 million.

4.3 FORECAST 2010 REVENUE REQUIREMENTS

Based upon the Company's proposals in this Amended Application, forecast 2010 revenue requirements are approximately $564.1 million.

The increase in revenue required in 2010 will result in an average increase in current customer rates of 7.2%.

[2] Each year, the Company's capital expenditures for the following year are considered and approved by the Board. Further detail on the capital forecast is provided in *Section 2.3.2 Capital Costs*.

[3] Annual depreciation expense is calculated using the composite depreciation rates approved by the Board in Order No. P.U. 32 (2007).

4.3.1 Summary of Revenue Requirements

The revenue requirements used to establish electrical rates are forecast to be $545.9 million in 2010.

Exhibit 7 (1st Revision) shows the forecast 2010 revenue requirements.[4]

Table 4-1 shows a summary of the 2010 revenue requirements including the revenue required to be recovered from customer rates.

Table 4-1
Summary of 2010 Revenue Requirements
($000s)

Power Supply Cost	349,009
Operating Costs (including OPEBs)[5]	67,226
Depreciation & Related Amortization[6]	47,244
Income Taxes	21,300
Return on Rate Base	79,361
2010 Revenue Requirement	**564,140**
Deductions[7]	(18,223)
2010 Revenue Requirements from Rates	**545,917**

[4] Exhibit 7 (1st Revision) compares the 2010 forecast in the absence of the proposals contained in this Amended Application to the revenue requirements proposed in this Amended Application.
[5] For revenue requirement purposes, operating costs is the total of Exhibit 7 (1st Revision), lines 5, 6 and 7, Proposed.
[6] For revenue requirement purposes, depreciation and related amortization is the total of Exhibit 7 (1st Revision), lines 8 and 9, Proposed.
[7] See Exhibit 7 (1st Revision), line 19.

4.3.2 Costs and Depreciation

Table 4-2 shows forecast 2010 power supply cost.

Table 4-2
2010 Power Supply Cost
($000s)

Purchases from Hydro	351,188
Amortizations	
Weather Normalization Reserve	2,101 [8]
Replacement Energy Cost	598 [9]
Unit Cost Reserve	(688) [10]
Elasticity Impact	(4,190) [11]
Proposed	**349,009**

Table 4-3 shows forecast 2010 operating costs.[12]

Table 4-3
2010 Operating Costs (including OPEBs)
($000s)

Existing[13]	59,256
Amortization of CDM Costs	379 [14]
Increased OPEB Costs	6,841 [15]
Hearing Costs	750 [16]
Proposed	**67,226**

[8] In Order No. P.U. 32 (2007), the Board approved a 5-year amortization of a $6.8 million balance (net of tax) in the degree day component of the Weather Normalization Reserve. This amortization will conclude in 2012.

[9] In Order No. P.U. 32 (2007), the Board approved a 3-year amortization of $1.1 million (net of tax) of 2007 replacement energy costs. This amortization will conclude in 2010.

[10] In Order No. P.U. 32 (2007), the Board approved a 3-year amortization of a $1.3 million balance (net of tax) in the Purchased Power Unit Cost Variance Reserve. This amortization will conclude in 2010.

[11] Newfoundland Power's methodology for forecasting elasticity effects is consistent with that used for the customer and energy forecast accepted by the Board in Order No. P.U. 32 (2007).

[12] Exhibits 1 (1st Revision) and 2 (1st Revision) show the forecast operating costs for 2010. These are reviewed in detail in *Section 2.3.1 Operating Costs*.

[13] For revenue requirement purposes, existing operating costs is the total of Exhibit 7 (1st Revision), lines 5, 6 and 7, Existing.

[14] The Company's proposal regarding the amortization of CDM costs is reviewed in *Section 3.6.1 2009 Conservation Costs*.

[15] The Company's proposal regarding OPEBs are reviewed in *Section 3.4.3 Other Post Employment Benefits*. See footnote 2 to Exhibit 7 (1st Revision).

[16] The Company's proposal regarding the amortization of the Amended Application costs is reviewed in *Section 3.6.2 Amended Application Costs*.

Table 4-4 shows forecast 2010 depreciation and related amortizations.

Table 4-4
2010 Depreciation Cost and Related Amortization
($000s)

Depreciation	43,383
Amortization of Cost Recovery Deferral	3,861 [17]
Depreciation and Related Amortization	**47,244**

Table 4-5 shows forecast 2010 income taxes.

Table 4-5
2010 Income Taxes
($000s)

Existing	12,405
Tax Effects of Amended Application Proposals	8,895 [18]
Proposed	**21,300**

[17] In Order No. P.U. 32 (2007), the Board approved a 3-year amortization of deferred 2006 and 2007 depreciation costs. This amortization will conclude in 2010.

[18] The tax effects of the Amended Application proposals are as follows:

	($000s)
Increase in Forecast Revenue from Rates, Exhibit 7 (1st Revision), line 27	35,925
Transfers to the RSA Included in Existing Rates, Exhibit 7 (1st Revision), line 21	(5,346)
Increase in Taxable Revenue	30,579
Reduction in Tax Deductible Expenses (purchased power, operating, interest)	3,284
Increase in Taxable Income	33,863
Tax Rate	32.0%
Increase in Cash Income Taxes	10,836
Decrease in Future Income Taxes	(1,941)
Increase in Total Income Taxes	**8,895**

4.3.3 Return on Rate Base

Exhibit 8 (1st Revision) presents proposed 2010 return on rate base.

Table 4-6 summarizes the proposed 2010 return on rate base and rate of return on rate base.

Table 4-6
2010 Return on Rate Base
($000s)

Forecast Average Rate Base	869,241[19]
Forecast Regulated Returns	
Debt	35,852
Preferred Equity	568
Common Equity	42,941
Return on Rate Base	**79,361**
Rate of Return on Rate Base (%)	**9.13** [20]

4.3.4 Deductions and Revenue Amortizations

Table 4-7 shows forecast 2010 deductions from revenue requirements.

Table 4-7
2010 Deductions
($000s)

Other Revenue	(13,692) [21]
2005 Unbilled Revenue	(4,618) [22]
Other Adjustments	87
Proposed	**(18,223)**

[19] Forecast average rate base is shown in Exhibit 6 (1st Revision), line 27.
[20] The rate of return on rate base is calculated as ($79,361,000 divided by $869,241,000) equals 9.13%, as shown in Exhibit 8 (1st Revision). The range of return on rate base proposed in this Amended Application is 8.95% to 9.31% based upon a 36 basis point range. A 36 basis point range of return on rate base was approved by the Board in Order Nos. P.U. 36 (1998-99), P.U. 19 (2003) and P.U. 32 (2007).
[21] Composed of $13,644,000 (existing other revenue) plus $48,000 (interest on rate stabilization account).
[22] The amortization of 2005 Unbilled Revenue reflects the Board's approval in Order No. P.U. 32 (2007) of a 3-year amortization of $13.9 million in revenue. This amortization will conclude in 2010.

4.3.5 Required Revenue Increase

Table 4-8 shows the forecast increase in revenue from rates of $36.7 million required to meet the Company's proposed 2010 revenue requirement.

Table 4-8
2010 Required Revenue Increase
($000s)

2010 Proposed Revenue From Rates	**545,917**
Revenue From Existing Rates	(512,989)
Elasticity Impacts	3,786 [23]
Required Increase in Revenue from Rates	**36,714**

The increase in revenue from rates for 2010 requires an average increase in current customer rates of 7.2%, effective January 1, 2010.

Exhibit 10 (1st Revision) shows the 2010 average rate change.

[23] See Exhibit 10 (1st Revision), line 1.

SECTION 5: CUSTOMER RATES

5.1 OVERVIEW

Based upon the proposals in this Amended Application, Newfoundland Power forecasts that in 2010 the number of customers it serves will increase by 1.1%, energy sales will increase by 1.2% and peak demand will increase by 1.2%.

An average increase in customer rates of 7.2% is required to provide the proposed 2010 test year revenue requirement. The Company is proposing that customers served under the Domestic rate receive an increase 0.7% higher than average and that customers served under General Service rates 2.1, 2.2 and 2.3 receive an increase 1% to 2% lower than average.

This Amended Application proposes no changes to the existing mechanisms that provide Newfoundland Power a reasonable opportunity to recover its supply costs in customer rates.

5.2 CUSTOMER, ENERGY AND DEMAND FORECAST

The forecast of customers and their load requirements is a primary input to determine customer rates.

This section of evidence reviews Newfoundland Power's 2010 customer, energy and demand forecast.

5.2.1 The Customers Served

Newfoundland Power is the largest distributor of electricity on the Island interconnected grid and is responsible for retail pricing for its approximately 240,000 customers.[1]

Table 5-1 provides the percent of customers and sales by class.

Table 5-1
Customers Served
2010 Forecast

Rate	Class of Service	% of Total Customers	% of Total Energy Sales
1.1	Domestic	86.6	60.3
2.1	General Service 0-10 kW	5.0	1.7
2.2	General Service 10-100 kW (110 kVA)	3.7	12.2
2.3	General Service 110-1000 kVA	0.5	16.9
2.4	General Service 1000 kVA and Over	-[2]	8.2
4.1	Street and Area Lighting Service	4.2	0.7
Total		**100.0**	**100.0**

The customers served by Newfoundland Power are predominantly Domestic customers. Approximately 60% of Newfoundland Power's annual energy sales are to Domestic customers.

[1] Hydro serves approximately 23,000 rural customers on the Island interconnected grid. Hydro's rural customers on the Island interconnected grid pay rates that are the same as those of Newfoundland Power's customers. The Company's rate design practices, therefore, affect all retail electricity customers on the Island interconnected grid.

[2] The 69 customers in Rate 2.4 comprise less than 0.03% of Newfoundland Power's total customers.

5.2.2 The Forecast

The Company's customer, energy and demand forecast reflects the impact of the rate proposals in this Amended Application.[3] The forecast number of customers and their load requirements is a primary input used to determine revenue from customer rates.

Table 5-2 shows the Company's forecast number of customers for 2009 and 2010.

Table 5-2
Forecast Number of Customers
2009 to 2010

	2009F	2010F
Domestic	206,907	209,273
General Service		
0-10 kW	12,179	12,122
10-100 kW (110 kVA)	8,812	8,995
110-1000 kVA	1,064	1,071
1000 kVA and Over	68	69
Total General Service	22,123	22,257
Street and Area Lighting	10,009	10,104
Total	**239,039**	**241,634**

The number of customers served by Newfoundland Power is forecast to increase by approximately 1.1% from 2009 to 2010.

[3] See Appendices B and C to the *Customer, Energy and Demand Forecast* (1st Revision) found in *Volume 2: Supporting Materials, Tab 6.*

Table 5-3 shows the Company's forecast energy sales for 2009 and 2010.

Table 5-3
Forecast Energy Sales
2009 to 2010
(GWh)

	2009F	**2010F**
Domestic	3,179.8	3,215.1
General Service		
0-10 kW	89.1	89.5
10-100 kW (110 kVA)	641.2	651.2
110-1000 kVA	885.3	898.7
1000 kVA and Over	434.4	437.6
Total General Service	2,050.0	2,077.0
Street and Area Lighting	36.4	36.0
Total	**5,266.2**	**5,328.1**

Newfoundland Power's energy sales are forecast to increase by approximately 1.2% from 2009 to 2010.[4]

[4] This reflects 2010 elasticity effects of 45.0 GWh directly resulting from the proposed 2010 customer rate increase. It also reflects a sales reduction of 0.4 GWh in 2009 and 3.3 GWh in 2010 as a result of customer energy conservation programming.

Table 5-4 shows the Company's forecast energy and peak demand supply requirements for 2009 and 2010.

Table 5-4
Forecast Supply Requirements[5]
2009 to 2010

	2009F	2010F
Energy (GWh)		
Produced[6]	426.3	428.8
Purchased	5,152.9	5,215.8
Total	5,579.2	5,644.6
Peak Demand (MW)		
Produced[7]	117.93	117.93
Purchased	1,135.85 [8]	1,150.68
Total	1,253.78 [9]	1,268.61

Newfoundland Power's energy purchases from Hydro are forecast to increase by 1.2% from 2009 to 2010. Purchased peak demand is forecast to increase by approximately 1.3% from 2009 to 2010.

Newfoundland Power's Customer, Energy and Demand Forecast (1st Revision) is found in *Volume 2: Supporting Materials, Tab 6.*

[5] The forecast supply requirement for 2010 assumes approval of the rate increase proposed in this Amended Application.
[6] The produced energy reflects the normalized production of Newfoundland Power's hydro generating facilities.
[7] Produced demand is the generation credit provided for in Hydro's wholesale rate structure.
[8] The purchased demand for 2009 reflects the forecast purchased demand from Hydro for the winter period of December 2009 to March 2010. This amount is Newfoundland Power's forecast billing demand from Hydro for 2010.
[9] The total represents the maximum demand forecast to be served by Newfoundland Power for the winter period of December 2009 to March 2010.

5.3 RATE CHANGE PLAN

An average increase in customer rates of 7.2% is required to provide the proposed 2010 revenue requirement.

This section of the evidence reviews the current status of Newfoundland Power's comprehensive assessment of retail rate designs which is ongoing. It also reviews the 2010 customer rate proposals in this Amended Application.

For 2010, the Company is proposing to (i) recover the required increase in revenue from rates through increases in energy charges and (ii) vary the rate increase by customer rate class to continue progress towards target revenue to cost ratios of 90% to 110% for each rate class.

5.3.1 The Retail Rate Review

Newfoundland Power's Domestic and General Service Rates are currently being assessed as part of a comprehensive retail rate review (the "Retail Rate Review").[10] The objectives of the Retail Rate Review include: (i) to facilitate the exchange of information necessary to conduct a review of customer rate designs; (ii) to provide a mechanism for the participation of other interested parties in the process; and (iii) where appropriate, to recommend new rate designs for implementation. The new rate designs will focus on providing a price signal to customers that better reflects marginal costs.

[10] The Retail Rate Review was provided for as part of the settlement agreement reached in respect of Newfoundland Power's 2008 General Rate Application (the "Settlement Agreement"). In Order No. P.U. 32 (2007), the Board observed that the proposed scope, objectives and processes will provide an open and transparent process to evaluate the designs of Newfoundland Power's rates (see p. 52).

The Retail Rate Review has proceeded substantially in accordance with its original plan.[11]

A report on customer feedback obtained on alternative rate designs was < > filed with the Board in June 2009. It is expected that this information, together with that generated to date in the processes associated with the Retail Rate Review, will be inputs for assessing rate design alternatives in a Technical Conference, < > likely in 2010. < >.

The Retail Rate Review includes consideration of a number of changes in the customer charges that apply in each class. These include new customer charges that better reflect differing customer cost attributes within a class and reduction in customer charges for the larger General Service customers to better reflect current metering practices.

Given the potential for changes to customer charges that may result from the Retail Rate Review, the Company is proposing to maintain its current customer charge levels in this Amended Application. The current relationship of demand and energy charges to marginal costs indicates that an emphasis on increasing energy charges is reasonable at this time.[12] Accordingly, the required increase in revenue from rates resulting from this Amended Application for the Domestic and General Service classes, is proposed to be recovered through increases in energy

[11] The Settlement Agreement indicated a proposed timeline for the Retail Rate Review. A scope document outlining the purpose, scope and analysis criteria for a comprehensive Rate Design Report was filed with the Board on February 12th, 2008. A Rate Design Report study plan was filed with the Board on May 14th, 2008. The Rate Design Report was filed with the Board on January 28th, 2009. During the period March to April 2009, an independent market research firm conducted focus group sessions to gather information on Domestic customer views on alternative rate designs.

[12] See Rate Design Report, Section 4.1.3 *Demand Charges*, p.64.

charges. This approach is broadly consistent with the marginal cost focus of the Retail Rate Review.

5.3.2 Revenue to Cost Ratios

Newfoundland Power assesses the fairness of its rates by comparing the revenue collected from each class with the cost to serve each class, as determined through an embedded cost of service study (i.e., the "revenue to cost ratio").

The Company has updated the embedded cost of service study to reflect 2008 results (the "Cost of Service Study"). The Cost of Service Study is provided in *Volume 2: Supporting Materials, Tab 7.*

Table 5-5 shows the current revenue to cost ratios from the Cost of Service Study for each rate class.[13]

Table 5-5
Cost of Service Study Results

Class of Service	Rate Code	Revenue to Cost Ratios %
Domestic	1.1	94.3
General Service 0-10 kW	2.1	115.8
General Service 10-100 kW (110 kVA)	2.2	114.9
General Service 110-1000 kVA	2.3	110.3
General Service 1000 kVA and Over	2.4	104.4
Street and Area Lighting	4.1	103.2

[13] The cost recovery results by class from the Cost of Service Study are not materially different than the cost recovery by class used in the rate evaluation presented in the Rate Design Report. The cost recovery by class used in the Rate Design Report was based on the results of the 2006 embedded cost of service study incorporating the 2007 wholesale purchased power rate, the results of the most recent depreciation study and the reflection of revenues based on customer rates in effect July 1st, 2008.

Maintaining revenue to cost ratios for each class within the range of 90% to 110% has been an accepted approach to ensure that there is no undue cross-subsidization among the various classes.[14]

The revenue to cost ratios for the General Service 0-10 kW class (Rate 2.1) and 10-100 kW (110 kVA) class (Rate 2.2) are materially greater than 110%, while the General Service 110-1000 kVA class (Rate 2.3) is slightly above 110%. Rates should change to reduce the revenue to cost ratios for these classes.[15]

In 2007, Newfoundland Power indicated it intended to bring all customer classes within the target revenue to cost ratio range at its next general rate proceeding.[16] The customer rates proposed in this Amended Application achieve continued progress towards the target 90% to 110% cost recovery range in 2010. However, the customer rates proposed in this Amended Application do not achieve the target revenue to cost ratios for Rates 2.1 and 2.2. The Company is now proposing to complete the cost recovery adjustments to achieve the target revenue to cost

[14] This is consistent with the views of the Board as expressed in Order No. P.U. 7 (1996-97), where the Board stated: "The Board agrees with the philosophy that it is not necessary to achieve a 100% revenue to cost ratio for all classes and takes no exception to a variance of up to 10%, …".

[15] To provide for recovery of total revenue requirement effectively requires that another class, or classes, receive an above average rate increase. Since the Domestic class is the only class with a revenue to cost ratio less than 100%, it is practically required that the Domestic class receive an above average increase if the over-recovery in classes General Service 0-10 kW, 10-100 kW and 110-1000 kVA classes is to be addressed.

[16] In Order No. P.U. 32 (2007), the Board accepted that this approach was reasonable (See p.28).

ratios for Rates 2.1 and 2.2 coincident with implementation of the rates that result from the Retail Rate Review.[17]

Table 5-6 provides the 2010 proposed relative rate change by class and the resulting *pro forma* revenue to cost ratios.

Table 5-6
Proposed Relative Rate Changes by Class

Rate	Class	Relative to Average	*Pro forma* Revenue to Cost Ratios
1.1	Domestic	0.7% above[18]	94.8
2.1	General Service 0-10 kW	2% below	113.6
2.2	General Service 10-100 kW (110 kVA)	2% below	112.8
2.3	General Service 110-1000 kVA	1% below	109.3
2.4	General Service 1000 kVA and Over	Equal	104.4
4.1	Street and Area Lighting	Equal	103.1

The proposed changes in customer rates will result in reduced revenue to cost ratios for Rates 2.1, 2.2 and 2.3 and an increased revenue to cost ratio for Rate 1.1.

[17] The Rate Design Report considers a rate design change for Rate 2.1 and Rate 2.2 to eliminate the material change in average price for customers that move between these classes. (See Rate Design Report, Section 4.1.6 *Blocking Structures*, at p.70 through 75). Implementing this rate design change will result in increases in cost for a material number of customers. By achieving the target revenue to cost ratios coincident with implementation of the rate design change described in the Rate Design Report, as proposed in this Amended Application, the Company will effectively reduce the rate increases that would be experienced by this group of affected customers.

[18] The Domestic class increase relative to average will vary slightly from 0.7% to ensure matching of revenue from rates to revenue requirement. The Domestic class is used to ensure matching since it is the largest class, and such reconciling adjustments will have the least impact on the Domestic class.

5.3.3 The Proposed Rates

An average increase in customer rates of 7.2% is required to provide the proposed 2010 revenue requirement.

Exhibit 10 (1st Revision) provides the computation of the proposed 7.2% average increase in customer rates.

The proposed rates for all classes of service, excluding Street and Area Lighting, were derived by recovering the required increase in revenue from rates through increased energy charges.

The energy component of the Maximum Monthly Charge applicable to General Service Rates 2.2, 2.3, and 2.4 is proposed to increase by the overall average increase in customer rates.

The Street and Area Lighting rates were derived, consistent with past practice, so that the prices of fixtures, poles and wiring vary in a manner reflective of the differences in fixed costs and variable operating costs.

It is proposed that the availability of the Curtailable Service Option for General Service customers be maintained based on the current credit of $29 per kVA.

Exhibit 12 (1st Revision) provides a comparison of existing and proposed customer rates.[19]

[19] The existing and proposed rates reflect the Rate Stabilization and Municipal Adjustment Factors effective July 1, 2009.

5.4 SUPPLY COST RECOVERY MECHANISMS

Newfoundland Power currently has regulatory mechanisms which permit reasonable recovery of wholesale demand and energy supply costs in customer rates.

This section of the evidence reviews the operation of these supply cost recovery mechanisms which have yielded benefits to customers totaling approximately $3.6 million between 2005 and 2008.

No changes to these mechanisms are proposed in this Amended Application.

5.4.1 Demand Management Incentive Account

Hydro's demand and energy wholesale supply rate provides an incentive to Newfoundland Power to take reasonable actions to minimize the peak demand requirements of its customers.[20] Hydro and Newfoundland Power have agreed on a weather normalization mechanism for use in the application of the demand and energy wholesale energy supply rate. While this weather normalization mechanism generally provides reasonable estimates of adjustments related to

[20] The peak is the maximum amount of customer energy usage required during any 15-minute time period during the year (including Company usage and energy losses).

weather, it does not (and cannot) eliminate volatility associated with changes in Newfoundland Power's customers' peak demand.[21]

In Order No. P.U. 44 (2004), the Board approved the establishment of a reserve as part of its approval of the demand and energy wholesale rate.[22] The effect of the reserve is to limit the impact on the Company of variability in demand supply costs to 1% of test year demand supply costs.[23] In Order No. P.U. 32 (2007), the Board approved the establishment of the Demand Management Incentive Account (the "DMI Account") to replace the reserve established by Order No. P.U. 44 (2004).

[21] The 95% statistical confidence of the weather normalization mechanism is approximately ± 20%. (see: Hydro's *Newfoundland Power Demand and Energy Rate Implementation*, July 2004, p.10). With this level of confidence, material demand volatility remains. In the 2004-2005 winter season, peak occurred on December 6, 2004. Weather conditions on that day were unusual. Calculations under the weather normalization mechanism indicated that peak demand should be increased by approximately 40 MW to reflect normal peak day conditions. Following a review of the matter, Hydro and Newfoundland Power agreed that a peak demand adjustment of 14 MW was a more appropriate reflection of the weather's impact upon the December 6, 2004 peak. The 26 MW difference in normalization adjustments would have translated into approximately $1.45 million in additional supply costs for Newfoundland Power in 2005 (26,000 kW times $4.65 per kW demand charge times 12 months).

[22] In Order No P.U. 35 (2005), the Board approved the definition of the Purchased Power Unit Cost Variance Reserve Account (the "PPUCVR Account") for inclusion in the Company's System of Accounts. The PPUCVR Account defined the mechanics of the reserve mechanism contemplated by Order No. P.U. 44 (2004).

[23] A 1% variance in billing demand currently causes a variance in purchased power costs from that reflected in customer rates by approximately $529,000 based on the current wholesale demand charge of $4 per kW per month.

From 2005 through 2008, there has been approximately $3.2 million of demand related wholesale supply cost reductions credited to customers' benefit as a result of the operation of the DMI Account and its predecessor reserve.[24] This reflects the aggregate reduced peak demand of Newfoundland Power's customers.

A report on the performance of the Demand Management Incentive Account is provided in *Volume 2, Supporting Documents, Tab 8.* [25]

No changes are proposed for the DMI Account in this Amended Application.

5.4.2 Energy Supply Cost Recovery

Load requirements on the system increase annually, principally as a result of the addition of new customers. Changes in Hydro's wholesale rate in 2007 resulted in a dramatic increase in the cost to Newfoundland Power to supply increases in customer load (the "Marginal Supply Cost").[26] The increased Marginal Supply Cost is the result of higher fuel costs related to production at Holyrood.[27] Marginal Supply Costs currently exceed the average supply costs which are embedded in Newfoundland Power's Customer Rates.[28]

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[24] In 2006, approximately $2.1 million in supply cost reduction associated with reduced demand costs were credited to the reserve. This amount was credited to be amortized to customers' benefit over 3 years by Order No. P.U. 32 (2007), p.60. Approximately $500,000 in supply cost reductions credited to the reserve in 2007 were amortized to customers benefit through the RSA by Order No. P.U. 6 (2008). Approximately $600,000 in supply cost reductions were credited to the DMI Account in 2008 and will be amortized to customers' benefit through the RSA in accordance with Order No. P.U. 21 (2009).

[25] This report is filed in accordance with Order No. P.U. 32 (2007) (See p.61).

[26] In January 2007, the 2nd block of the wholesale energy rate from Newfoundland Hydro increased from 4.7¢ per kWh to 8.805¢ per kWh. The wholesale rate effective January 1st, 2007 remains the wholesale rate for forecasting supply costs for 2010.

[27] The fuel cost at Holyrood is reflected in Hydro's wholesale supply rate 2nd block energy charge.

[28] This difference relates to energy supply costs as shown in Table 5-7.

In Order No. P.U. 32 (2007), the Board approved the inclusion of a clause in the Rate Stabilization Account (the "RSA") to ensure reasonable recovery of prudently incurred energy supply costs. The amount charged to the RSA is the difference between the marginal energy supply cost and the average energy supply cost (the "Energy Supply Cost Variance").

A report on the current practice of recovery of the Energy Supply Cost Variance through the RSA is provided in *Volume 2, Supporting Documents, Tab 9.*[29]

Table 5-7 provides the computation of the current Energy Supply Cost Variance on a ¢ per kWh basis.

Table 5-7
Energy Supply Cost Variance
¢ per kWh

Difference in energy costs		
Average Test Year Energy Supply Cost[30]	5.535	¢/kWh (A)
Wholesale rate 2nd Block price	8.805	¢/kWh (B)
Energy Supply Cost Variance	3.270	¢/kWh (C = B – A)

For 2008, the transfer to the RSA resulting from the Energy Supply Cost Variance provided a benefit to customers of approximately $400,000. This occurred because Newfoundland Power's energy purchases from Hydro in 2008 were lower than the 2008 test year forecast.

[29] In Order No. P.U. 32 (2007), the Board indicated they would carry out a review of the recovery of the Energy Supply Cost Variance through the RSA at the next general rate proceeding.

[30] The average cost of energy was determined by applying the current wholesale demand and energy supply rate to the forecast 2009 energy purchases.

For 2009, there is forecast to be a $1.7 million Energy Supply Cost Variance transfer to be recovered through the RSA.[31] The Energy Supply Cost Variance results from the addition of new customers. It can be expected to continue for so long as load growth continues and the Marginal Supply Cost remains higher than the average supply cost included in customer rates.

There continues to be a requirement for the provision for the recovery of the Energy Supply Cost Variance through the RSA to permit Newfoundland Power the opportunity to recover prudently incurred energy supply costs.

In this Amended Application, no changes are proposed for the Energy Supply Cost Variance clause in the RSA.

[31] As a result of this Amended Application, forecast 2010 wholesale supply costs will be rebalanced with customer rates. Accordingly, no Energy Supply Cost Variance is forecast for year-end 2010. In the absence of this Amended Application, a forecast Energy Supply Cost Variance of $5.3 million would be recovered in the July 1, 2011 RSA adjustment.

Newfoundland Power Inc.

Operating Costs by Function
2007 to 2010F
($000s)

	Function	Actual 2007	Actual 2008	Forecast 2009	Forecast 2010
1	Distribution	6,575	6,683	7,068	7,365
2	Transmission	587	585	569	585
3	Substations	2,311	2,123	2,319	2,432
4	Power Produced	2,480	2,586	2,652	2,723
5	Administrative & Engineering Support	5,585	5,604	5,734	5,879
6	Telecommunications	1,399	1,394	1,387	1,380
7	Environment	581	398	398	409
8	Fleet Operations & Maintenance	1,497	1,572	1,392	1,492
9					
10	**Electricity Supply**	**21,015**	**20,945**	**21,519**	**22,265**
11					
12	Customer Services	9,180	9,571	8,921	9,077
13	Conservation	-	-	2,451	2,977
14	Uncollectible Bills	1,093	834	963	963
15					
16	**Customer Services**	**10,273**	**10,405**	**12,335**	**13,017**
17					
18	Information Systems	2,752	2,487	2,736	2,817
19	Financial Services	1,646	1,502	1,571	1,658
20	Corporate & Employee Services	10,777	10,463	11,729	11,901
21	Insurances	1,641	1,344	1,100	1,100
22					
23	**General**	**16,816**	**15,796**	**17,136**	**17,476**
24					
25	**Sub-Total**	**48,104**	**47,146**	**50,990**	**52,758**
26					
27	Deferred CDM costs	-	-	(1,516)	379
28	Deferred Regulatory Costs	-	199	199	951
29	Pension Costs	5,701	3,040	2,703	8,196
30					
31	**Total Gross Operating Cost**	**53,805**	**50,385**	**52,376**	**62,284**
32					
33	Transfer to GEC	(1,966)	(1,797)	(1,900)	(1,900)
34		**51,839**	**48,588**	**50,476**	**60,384**

1st Revision Note: Updated for revised forecast of Pension Costs for 2009 and 2010.

Newfoundland Power Inc.

Operating Costs by Breakdown
2007 to 2010F
($000s)

	Breakdown	Actual 2007	Actual 2008	Forecast 2009	Forecast 2010
1	Regular and standby	$ 24,371	$ 24,485	$ 26,105	$ 27,486
2	Temporary	2,303	2,335	1,860	1,623
3	Overtime	1,588	1,634	1,636	1,640
4	**Total Labour**	**28,262**	**28,454**	**29,601**	**30,749**
5					
6	Vehicle Expenses	1,495	1,569	1,392	1,492
7	Operating Materials	1,060	957	1,063	1,082
8	Inter-Company Charges	103	37	40	40
9	Plants, Subs, System Oper & Bldgs	1,915	1,782	1,930	1,952
10	Travel	1,081	1,290	1,139	1,160
11	Tools and Clothing Allowance	876	1,168	1,088	1,108
12	Miscellaneous	1,179	1,039	1,082	1,146
13	Conservation	-	-	295	581
14	Taxes and Assessments	663	(10)	750	750
15	Uncollectible Bills	1,093	834	963	963
16	Insurance	1,641	1,344	1,100	1,100
17	Retirement Allowance	212	308	285	325
18	Education, Training, Employee Fees	193	265	265	270
19	Trustee and Directors' Fees	380	411	408	394
20	Other Company Fees	1,544	1,469	2,000	1,904
21	Stationery & Copying	320	204	332	337
22	Equipment Rental/Maintenance	671	708	708	721
23	Telecommunications	1,562	1,622	1,532	1,521
24	Postage	1,371	1,312	1,372	1,397
25	Advertising	391	531	1,379	1,431
26	Vegetation Management	1,340	1,377	1,495	1,550
27	Computing Equipment & Software	752	475	771	785
28	**Total Other**	**19,842**	**18,692**	**21,389**	**22,009**
29					
30	**Sub-Total**	**48,104**	**47,146**	**50,990**	**52,758**
31					
32	Deferred CDM costs	-	-	(1,516)	379
33	Deferred Regulatory Costs	-	199	199	951
34	Pension Costs	5,701	3,040	2,703	8,196
35					
36	**Total Gross Operating Cost**	**53,805**	**50,385**	**52,376**	**62,284**
37					
38	Transfer to GEC	(1,966)	(1,797)	(1,900)	(1,900)
39		**51,839**	**48,588**	**50,476**	**60,384**

1st Revision Note: Updated for revised forecast of Pension Costs for 2009 and 2010.

Newfoundland Power Inc.

Financial Performance
2007 to 2010E
Statements of Income
($000s)

		Actual		Forecast	
		2007	**2008**	**2009**	**2010E**
1	Revenue From Rates	474,054	497,360	502,925	509,992
2	Amortization of 2005 Unbilled Revenue	2,714	7,210	4,618	4,618
3	Transfers from (to) the RSA	3,044	(948)	1,746	5,346
4		479,812	503,622	509,289	519,956
5					
6	Purchased Power Expense	326,359	334,006	340,660	351,188
7	Deferred Replacement Energy Costs	(1,795)	598	598	598
8	Amortization of Weather Normalization Reserve	1,732	2,101	2,101	2,101
9	Demand Management Incentive Account Adjustments	-	641	-	-
10	Amortization of Purchased Power Unit Cost Variance Reserve	482	(688)	(688)	(688)
11		326,778	336,658	342,671	353,199
12					
13	Contribution	153,034	166,964	166,618	166,757
14					
15	Other Revenue	10,420	13,267	13,645	13,648
16					
17	Other Expenses:				
18	Operating Expenses[1]	47,501	47,132	50,844	52,774
19	Pension Costs	5,701	3,040	2,703	8,196
20	Deferred Costs	(5,793)	-	(1,516)	-
21	Amortization of Deferred Cost Recoveries	-	3,862	3,863	3,861
22	Depreciation	39,955	40,649	41,872	43,378
23	Finance Charges	33,462	33,507	34,841	36,162
24		120,826	128,190	132,607	144,371
25					
26	Income Before Income Taxes	42,628	52,041	47,656	36,034
27	Income Taxes	12,176	19,146	15,637	11,855
28					
29	Net Income	30,452	32,895	32,019	24,179
30	Preferred Dividends	586	554	574	568
31					
32	Earnings Applicable to Common Shares	29,866	32,341	31,445	23,611
33					
34	**Rate of Return and Credit Metrics**				
35	Rate of Return on Rate Base (percentage)	8.07%	8.20%	8.00%	7.04%
36	Regulated Return on Book Equity (percentage)	8.66%	9.13%	8.62%	6.45%
37	Return on Book Equity (percentage)	8.62%	8.86%	8.34%	6.14%
38	Interest Coverage (times)	2.2	2.5	2.3	2.0
39	CFO Pre-W/C + Interest / Interest (times)	2.6	3.1	3.1	2.8
40	CFO Pre-W/C / Debt (percentage)	12.6%	15.8%	15.4%	13.1%

[1] Operating expenses shown are before adjustment for non-regulated expenses.

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

Financial Performance
2007 to 2010E
Statements of Retained Earnings
($000s)

		Actual		Forecast	
		2007	**2008**	**2009**	**2010E**
1	Balance - Beginning	265,566	286,350	303,417	309,681
2	Net Income for the Period	30,452	32,895	32,019	24,179
3		296,018	319,245	335,436	333,860
4					
5	Dividends				
6	Preference Shares	586	554	574	568
7	Common Shares	9,082	15,274	25,181	14,861
8		9,668	15,828	25,755	15,429
9	Balance - End of Period	286,350	303,417	309,681	318,431

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

Financial Performance
2007 to 2010E
Balance Sheets
($000s)

		Actual		Forecast	
		2007	**2008**	**2009**	**2010E**
1	**Assets**				
2	**Current assets**				
3	Cash	$ 1,067	$ 629	$ -	$ -
4	Accounts Receivable	70,792	63,508	69,500	72,837
5	Materials and Supplies	5,248	5,391	5,500	5,597
6	Prepaid Expenses	1,190	1,292	1,269	1,293
7	Regulatory Assets	7,086	9,426	10,044	4,557
8	Income Tax Receivable	1,780	-	-	-
9		87,163	80,246	86,313	84,284
10					
11	**Capital assets**	746,474	770,581	799,134	827,001
12	**Deferred charges**	88,674	93,273	97,841	97,117
13	**Regulatory assets**	61,808	55,988	191,624	200,197
14	**Customer Finance Plans**	1,811	1,776	1,714	1,714
15		$ 985,930	$ 1,001,864	$ 1,176,626	$ 1,210,313
16					
17					
18	**Liabilities and Shareholders' Equity**				
19	**Current Liabilities**				
20	Short-term borrowings	$ -	$ 10	$ -	$ -
21	Accounts payable and accrued charges	68,685	65,547	62,184	62,463
22	Regulatory Liabilities	9,332	6,428	9,569	-
23	Current Installments of long-term debt	4,550	4,550	5,200	5,200
24	Future Income Taxes			134	974
25	Income Tax Payable	-	7,633	-	-
26		82,567	84,168	77,087	68,637
27					
28	**Regulatory liabilites**	60,281	54,817	73,319	80,785
29	**Other liabilities**	38,082	45,001	50,156	57,113
30	**Long-term debt**	438,977	433,604	468,709	487,955
31					
32	**Future Income Taxes**	-	1,184	118,240	117,958
33					
34	**Shareholders' Equity**				
35	**Common shares**	70,321	70,321	70,321	70,321
36	**Preference shares**	9,352	9,352	9,113	9,113
37	**Retained earnings**	286,350	303,417	309,681	318,431
38		366,023	383,090	389,115	397,865
39		$ 985,930	$ 1,001,864	$ 1,176,626	$ 1,210,313

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

Financial Performance
2007 to 2010E
Statements of Cash Flows
($000s)

		Actual		Forecast	
		2007	2008	2009	2010E
1	**Cash From (Used In) Operating Activities**				
2	Net Earnings	$ 30,452	$ 32,895	$ 32,019	$ 24,179
3					
4	**Items not affecting cash:**				
5	Amortization of capital assets	39,955	40,649	41,872	43,378
6	Amortization of deferred charges	318	298	269	222
7	Change in regulatory assets and liabilities	(6,180)	305	962	(2,831)
8	Future income taxes	-	1,184	1,858	(351)
9	Accrued employee future benefits	(7,407)	(4,471)	(4,415)	943
10	Change in non-cash working capital	(7,887)	14,191	(17,072)	(2,978)
11		49,251	85,051	55,493	62,562
12					
13	**Investing Activities**				
14	Capital expenditures (net of salvage)	(72,167)	(67,333)	(68,290)	(68,194)
15	Long-term portion of finance programs	(84)	35	62	-
16	Contributions from customers and security deposits	2,580	3,227	2,538	2,000
17		(69,671)	(64,071)	(65,690)	(66,194)
18					
19	**Financing Activities**				
20	Change in short-term borrowings	(320)	-	-	-
21	Proceeds from long-term debt	70,000	33,500	65,000	24,261
22	Proceeds from related party loan	-	32,500	-	-
23	Repayment of long-term debt	(37,851)	(39,050)	(29,201)	(5,200)
24	Repayment of related party loan	-	(32,500)	-	
25	Payment of debt financing costs	(273)	(50)	(227)	-
26	Redemption of preference shares	(1)	-	(239)	-
27	Dividends				
28	Preference Shares	(586)	(554)	(574)	(568)
29	Common Shares	(9,082)	(15,274)	(25,181)	(14,861)
30		21,887	(21,428)	9,578	3,632
31					
32	**Change in Cash**	1,467	(448)	(619)	-
33	**Cash (Bank Indebtedness), Beginning of Year**	(400)	1,067	619	-
34	**Cash (Bank Indebtedness), End of Year**	$ 1,067	$ 619	$ -	$ -

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

Financial Performance
2007 to 2010E
Average Rate Base[1]
($000s)

		Actual		Forecast	
		2007	**2008**	**2009**	**2010E**
1	Net Plant Investment	683,556	709,493	732,271	755,455
2					
3	Add:				
4	Deferred Charges	96,784	98,787	102,342	102,935
5	Weather Normalization Reserve	11,162	8,214	5,485	4,377
6	Deferred Energy Replacement Costs	574	957	575	192
7	Cost Recovery Deferrals	8,690	9,655	6,551	3,447
8	Customer Finance Programs	1,174	1,794	1,745	1,714
9		118,384	119,407	116,698	112,665
10					
11	Deduct:				
12	2005 Unbilled Revenue	17,803	12,841	6,927	2,309
13	Accrued Pension Liabilities	-	3,043	3,261	3,511
14	Municipal Tax Liability	-	3,408	2,046	683
15	Future Income Taxes	-	593	2,113	2,866
16	Demand Management Incentive Account	-	213	213	-
17	Purchased Power Unit Cost Reserve	1,496	1,272	671	224
18	Customer Security Deposits	-	697	694	602
19		19,299	22,067	15,925	10,195
20					
21	Average Rate Base Before Allowances	782,641	806,833	833,044	857,925
22					
23	Cash Working Capital Allowance	6,669	9,716	9,786	10,142
24					
25	Materials and Supplies Allowance	4,393	4,327	4,430	4,505
26					
27	Average Rate Base At Year End	793,703	820,876	847,260	872,572
28					

[1] All numbers shown are averages.

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

Financial Performance
2007 to 2010E
Weighted Average Cost of Capital
($000s)

		Actual		Forecast	
		2007	2008	2009	2010E
1	**Average Capitalization**				
2	Debt	430,924	440,841	456,032	483,532
3	Preference Shares	9,353	9,352	9,233	9,113
4	Common Equity	346,279	365,205	376,870	384,377
5		786,556	815,398	842,135	877,022
6	**Average Capital Structure**				
7	Debt	54.79%	54.06%	54.15%	55.13%
8	Preference Shares	1.19%	1.15%	1.10%	1.04%
9	Common Equity	44.02%	44.79%	44.75%	43.83%
10		100.00%	100.00%	100.00%	100.00%
11					
12					
13	**Cost of Capital**				
14	Debt	7.88% [1]	7.72%	7.70%	7.54%
15	Preference Shares	6.27%	5.92%	6.22%	6.23%
16	Common Equity	8.66%	9.13%	8.62%	6.45%
17					
18					
19	**Weighted Average Cost of Capital**				
20	Debt	4.32%	4.17%	4.17%	4.16%
21	Preference Shares	0.07%	0.07%	0.07%	0.06%
22	Common Equity	3.81%	4.09%	3.86%	2.83%
23		8.20%	8.33%	8.10%	7.05%

[1] The cost of debt based upon ARBM would be 8.29%. See Return 25 in the 2008 Annual Report to the P.U.B.

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

Financial Performance
2007 to 2010E
Rate of Return on Rate Base
($000s)

		Actual		Forecast	
		2007	**2008**	**2009**	**2010E**
1	Regulated Return on Equity	29,977	33,336	32,485	24,777
2	Return on Preferred Equity	586	554	574	568
3		30,563	33,890	33,059	25,345
4					
5	Finance Charges				
6	Interest on Long-term Debt	33,718	32,334	34,548	35,849
7	Other Interest	1,525	1,456	341	419
8	Amortization of Bond Issue Expenses	256	235	232	185
9	Amortization of Capital Stock Issue Expenses	62	-	-	-
10	Interest Earned	(1,477)	-	-	-
11	AFUDC	(622)	(618)	(369)	(377)
12		33,462	33,407	34,752	36,076
13					
14	Return on Rate Base	64,025	67,297	67,811	61,421
15					
16	Average Rate Base	793,703	820,876	847,260	872,572
17					
18	Rate of Return on Rate Base	8.07%	8.20%	8.00%	7.04%

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

Financial Performance
2007 to 2010E
Inputs and Assumptions

Energy Forecasts : Energy forecasts are based on economic indicators taken from the Conference Board of Canada, Provincial Outlook Summer 2009, Economic Forecast, dated July 16, 2009.

Revenue Forecast : The revenue forecast is based on the Customer, Energy and Demand forecast dated September 2009.

Forecast revenues reflect the (i) amortization of the 2005 Unbilled Revenue, (ii) amortization of the municipal tax liability, (iii) the reclassification of interest on overdue accounts from finance charges, and (iv) recovery through the RSA of amounts associated with the Energy Supply Cost Variance Adjustment Clause for the period 2008 through 2010, all of which were approved by the Board in Order No. P.U. 32 (2007) resulting from the 2008 GRA.

The Energy Supply Cost Variance Adjustment has been approved by the Board for use through 2010.

Purchased Power Expense : Purchased Power expense reflects Newfoundland & Labrador Hydro's rates approved by the P.U.B. and the Customer, Energy and Demand Forecast dated September 2009.

Purchased Power Expense for 2008 to 2010 includes a Board approved $0.6 million per year amortization related to the replacement energy costs associated with the Rattling Brook project and ($0.7) million per year amortization related to the disposition of the Purchased Power Unit Cost Variance Reserve.

Purchased Power Expense for 2008 to 2010 also includes a Board approved $2.1 million per year amortization of the non-reversing balance in the Weather Normalization Reserve.

Purchased Power Expense for the 2008 to 2010 also reflects the operation of the Demand Management Incentive Account approved by the Board in Order No. P.U. 32 (2007). This mechanism provides for recovery of demand costs that are in excess of unit cost demand costs included in the 2008 test year.

Employee Future Benefit Costs : Pension costs related to the 2005 Early Retirement Program are being amortized over a 10-year period from 2005 to 2015 as approved in Order No. P.U. 49 (2004).

Pension funding is based on the actuarial valuation dated December 31, 2008 filed with this Application.

Pension expense discount rate is 5.25% for 2007, 5.50% for 2008, 7.50% for 2009 and 6.50% for 2010.

Forecast return on pension assets is assumed to be 12.0% for 2009 and 7.0% for 2010.

The 2010 forecast assumes that the accounting for OPEBs is on the Cash Basis. The increase in 2010 employee future benefit expense due to the adoption of the accrual method is $6.8 million.

Pension funding is forecast based on the latest actuarial information and assumes special funding payments of $1.5 milllion per year for 2009 and 2010.

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

Financial Performance
2007 to 2010E
Inputs and Assumptions

Cost Recovery Deferral: In Order No. P.U. 39 (2006), the Board approved the deferred recovery of $5.8 million in 2007 costs related to the conclusion of the depreciation true up in 2005.

2008 to 2010 costs include $3.9 million per year related to the amortization over a three-year period of cost recovery deferrals related to depreciation.

2009 includes a $1.5 million deferral of Conservation Program costs approved by the Board in Order No. P.U. 13 (2009).

Depreciation Rates : Depreciation rates for 2008 and 2010 are based on the 2006 depreciation study.

Depreciation costs for 2008 and 2010 reflect a Board approved $0.2 million per year amortization of a $0.7 million depreciation true up resulting from the 2006 depreciation study.

Operating Costs : Operating forecasts for 2009 and 2010 reflect the evidence filed in this Amended Application.

Capital Expenditure : Capital Expenditures for 2009 are based on the Board approved 2009 capital budget and reflect supplemental expenditures approved in Order No. P.U. 29 (2009) and Order No. P.U. 32 (2009). Capital Expenditures for 2010 reflect what is included in this Amended Application.

Short-Term Interest Rates : Average short-term interest rates are assumed to be 1.27% for 2009 and 2.0% for 2010.

Long-Term Debt : A $65.0 million long-term debt issue was completed on May 25, 2009. The debt is forecast for 30 years at a coupon rate of 6.606 %. Debt repayments will be in accordance with the normal sinking fund provisions for existing outstanding debt.

Dividends : Common dividend payouts are forecast based on maintaining a target common equity component of 45%.

Income Tax : Income tax expense reflects a statutory income tax rate of 33% in 2009, and 32% in 2010.

Effective July 1, 2008, the Board approved a reduction in customer rates of 0.18% to reflect the 2008 test year income tax true-up adjustment resulting form a reduction in federal tax rates for 2008.

Income tax expense for 2009 to 2010 reflects the tax effecting of pension costs as approved by the Board in Order No. P.U. 32 (2007).

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Credit Rating Reports
DBRS and Moody's

1st Revision Note: Revised to include August 3, 2009 media release from Moody's.

Rating Report
Report Date:
May 5, 2008
Previous Report:
March 9, 2007

DBRS
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 233,000 customers throughout the island portion of the province of Newfoundland and Labrador. It purchases more than 90% of its electricity needs from government-owned Newfoundland and Labrador Hydro and generates the balance from its own generation facilities (139 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.

Rating

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

Rating Rationale

DBRS has confirmed the ratings of the First Mortgage Bonds and the Preferred Shares of Newfoundland Power Inc. (Newfoundland Power or the Company) at "A" and Pfd-2, respectively; the trends remain Stable. The rating confirmations reflect Newfoundland Power's low business risk stemming from the regulated nature of its operations and supportive regulatory environment, its strong balance sheet, its stable operating results and its financial profile, as well as its stable customer base, which is composed entirely of residential and commercial customers.

The Company continues to benefit from the following characteristics: (1) a favourable deemed equity ratio of 45%; (2) a weather normalization reserve (WNR) account that is used to stabilize earnings during extreme weather conditions; and (3) a rate stabilization account (RSA) that absorbs fluctuations in purchased power costs relating primarily to the cost of fuel oil for the Company's primary electricity supplier. These features, combined with a stable and supportive regulatory environment that provides for a strong cost-of-service/rate-of-return rate-setting methodology, with a pass-through of all power-generation and procurement-related costs, and a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame, contribute to the Company's favourable financial profile.

Newfoundland Power continues to demonstrate stable operating results reflective of its expanding customer base and rate base, despite declining regulatory-approved return on common equity (ROE). The prevailing low interest rate environment continues to have a negative impact on the approved ROE, but the impact on earnings and cash flows has been more than offset by the growth in the rate base. During the last 12 months (LTM) ended March 31, 2008, operating results were affected by the change in the seasonality of purchased power costs relative to revenue. Compared with 2007, 2008 interim earnings will be lower in the first (winter) and fourth (fall) quarters and higher in the second (spring) and third (summer) quarters. Annual earnings and annual and quarterly cash flows will be unaffected by this shift. (Continued on page 2.)

Rating Considerations

Strengths
(1) Stable and supportive regulatory environment
(2) Strong balance sheet and favourable financial profile
(3) Stable customer base
(4) Limited competition from alternative fuels

Challenges
(1) Reliance on Newfoundland and Labrador Hydro (NLH) for majority of power supply
(2) Allowed returns are sensitive to interest rates
(3) Managing forecast risk
(4) Limited growth potential

Financial Information

	For the 12-month periods ended					
($ millions)	Mar. 31/08	Dec. 31/07	Dec. 31/06	Dec. 31/05	Dec. 31/04	Dec. 31/03
EBIT	70.4	76.1	77.0	76.0	77.7	75.1
Free cash flow	(34.5)	(30.0)	(18.8)	(10.9)	(12.9)	(23.6)
Total debt in the capital structure (1)	56.1%	55.1%	55.0%	54.7%	54.7%	55.1%
Cash flow/total debt (1)	11.1%	11.6%	12.7%	14.2%	14.9%	14.0%
Fixed-charges coverage (times)	1.96	2.11	2.20	2.27	2.40	2.33
Dividend payout ratio	41.5%	30.4%	60.4%	78.8%	45.7%	32.2%

(1) Total debt adjusted for preferred shares.

Rating Rationale (Continued from page 1.)

Capital expenditures prior to 2007 were relatively stable as a result of a multi-year capital investment program that was launched in 2002 with the primary focus of replacing and refurbishing aging infrastructure. The substantially higher capital expenditure witnessed in 2007 is primarily due to the successful refurbishment of the Rattling Brook Hydroelectric Plant, which resulted in improved plant capacity and production. The manageable free cash flow deficit stemmed from the elevated capital expenditure levels and dividend payments. The Company has historically utilized its credit facilities to finance the free cash flow shortfalls as a bridge to the issuance of First Mortgage Bonds. The Company manages the level of its dividends in order to maintain its long-term capital structure of 55% debt to 45% equity, as approved by the regulator. DBRS notes that while the Company's credit metrics appear weaker than those of its peers in the same rating category, this is offset by the Company's very stable levels of EBITDA and cash flow.

In December 2007, the Company received an order from its regulator, the Newfoundland and Labrador Board of Commissioners of Public Utilities (the PUB), on its 2008 General Rate Application (the 2008 GRA Order), which proposed an average increase in customer rates of 2.8% effective January 1, 2008. The rate increase is based upon a 2008 rate of return on common equity of 8.95% as opposed to the 8.60% for 2007. The 2008 GRA Order also provides for the amortization of certain regulatory assets and liabilities (e.g., unbilled revenue liability and true-up deferrals) over periods of three to five years beginning in 2008. The rate increase is expected to yield EBITDA and cash flows that will have a positive impact on the financial profile and credit metrics of the Company.

Pending PUB approval on July 1, 2008, there will be an overall average increase in electricity rates charged to customers of approximately 6%. The increase is a result of the normal annual operation of NLH's RSA. This increase in customer rates will have no impact on earnings and cash flows for Newfoundland Power.

Although Newfoundland Power does have strong parentage through Fortis Inc. (Fortis, rated BBB (high) with a Stable trend; see the November, 30, 2007, DBRS rating report), the Company is largely rated on a stand-alone basis. Fortis is a large, integrated electric and gas utility holding company that has the financial wherewithal to provide equity support if required by Newfoundland Power.

Rating Considerations Details

Strengths

(1) Newfoundland Power operates in a stable and supportive regulatory environment that is based on a cost-of-service recovery regime. The PUB allows for the pass-through of purchased power costs, and in addition, a RSA is in place that absorbs fluctuations in purchased power costs relating primarily to the cost of fuel oil used by NLH to generate electricity. The Company has a PUB-approved WNR account that stabilizes earnings by adjusting revenue and purchased power expenses for variances in weather and stream flow when measured against long-term averages.

(2) The Company has a strong balance sheet with a capital structure based on the 45% equity component allowed by the PUB for rate-setting purposes. The Company's financial profile is strong, with manageable free cash flow deficits as the Company invests to upgrade its infrastructure. Key credit ratios have modestly trended downward in recent years; however, they remain in line with the current rating category. Given the Company's January 1, 2008, rate increase, the metrics are expected to improve over the medium term. Furthermore, the Company has shown that it will manage its dividend policy as necessary in order to maintain its approved capital structure, as evidenced by the scaling back of dividends in several of the last five years.

(3) Newfoundland Power also has a very stable customer base, with 100% of power sales to the residential and commercial segments. The large industrial customers are served primarily by NLH. Sales growth is modest, reflecting slow growth in customers as well as increasing conservation efforts. However, approximately 83% of new home construction installed electric heat in 2007.

(4) The lack of availability of natural gas, due to geographic isolation and the lack of related infrastructure, also limits competitive pressures. More than 50% of the Company's current customers utilize electric space heating, causing electricity sales to be much higher during the winter months than in the summer.

Challenges

(1) Newfoundland Power relies heavily on NLH (rated A (low) with a Positive trend; see the November 16, 2007, DBRS rating report) for its power supply, purchasing more than 90% of its power requirements. The cost of power purchased from NLH is influenced by, among other things, the market price of bunker C fuel oil used for thermal generation. Oil-driven changes in the cost of power are passed onto Newfoundland Power's customers through the RSA. However, higher rates, including increases driven by the rising cost of oil in recent years, may lead to energy conservation by customers, which could have a negative impact on sales volumes and ultimately earnings. Furthermore, higher NLH rates could make it more difficult for the Company to get approval for its own rate increases.

(2) Under the current regulatory regime, the rate-setting ROE, and hence earnings, are sensitive to interest rates. Between test years, the rate-setting ROE is set by an automatic-adjustment formula and based on a ten-day average (calculated in November) yield on long-term Government of Canada bonds, which does not capture any expected upward trend in interest rates (as would be the case with utilizing a consensus forecast interest rate). The prevailing low interest rate environment continues to affect approved ROEs. Lower ROEs have a negative impact on earnings and cash flows. Pursuant to the 2008 GRA Order, the rate-setting ROE for 2008 increased modestly to 8.95% from 8.60% in 2007. DBRS estimates this, along with rate base growth, will positively affect after-tax earnings by approximately $1.3 million for 2008.

(3) The key challenge with respect to the Demand Management Incentive Account (DMIA) will be the Company's ability to accurately and consistently forecast electricity demand going forward. However, through this account, variations in the unit cost of purchased power related to demand are limited, at the discretion of the PUB, to 1% of demand costs ($529,000 for 2008). The disposition of the excess balances, which would be determined by a further order of the PUB, will consider the merits of the Company's conservation and demand management activities. The Company is required to make an application no later than March 1 each year for the disposition of any balance in the DMIA. (See the Regulation section for more information on the DMIA.)

(4) The Newfoundland economy is heavily dependant on the more volatile natural resources sectors. Over the medium term, natural resources development (which has been highly favourable up until now) will continue to have a major impact on economic growth. However, the Company expects that service sector growth, which is the primary influence on sales growth for the Company, will grow by 1.9% and contribute to an electricity consumption growth of 2.4% in 2008. Additionally, rural out-migration has caused the population of Newfoundland and Labrador to decline by more than 11.5% since 1992, and declining birth rates, coupled with increasing death rates associated with an aging population, continue to have a negative impact on the Company's customer and energy sales growth.

Earnings and Outlook

Earnings

	For the 12-month periods ended					
($ millions)	Mar. 3/08	Dec. 31/07	Dec. 31/06	Dec. 31/05	Dec. 31/04	Dec. 31/03
Revenues	500.3	490.2	421.3	417.9	404.5	384.2
EBITDA	104.4	110.3	110.1	108.1	108.7	104.4
EBIT	70.4	76.1	77.0	76.0	77.7	75.1
Gross interest expense	35.1	35.2	34.1	32.6	31.4	31.3
Core net income	26.1	30.5	30.7	29.9	31.8	30.1
Net income (reported)	25.6	29.9	30.1	30.7	31.2	29.5
Return on average common equity	7.3%	8.8%	9.3%	9.3%	10.3%	10.4%
Rate base	812	794	753	745	715	676
Growth in rate base	2.3%	5.4%	1.0%	4.3%	5.8%	18.0%
Rate setting common equity	45%	45%	45%	45%	45%	45%
Rate setting ROE	8.95%	8.60%	9.24%	9.24%	9.75%	9.75%

Summary

LTM March 31, 2008, operating results were affected by the change in the seasonality of purchased power costs relative to revenue. Compared with 2007, 2008 interim earnings will be lower in the first (winter) and fourth (fall) quarters and higher in the second (spring) and third (summer) quarters. Annual earnings and annual and quarterly cash flows will be unaffected by this shift.

Newfoundland Power has historically demonstrated strong and stable EBITDA and EBIT, reflective of its expanding customer base and rate base, despite declining rate-setting ROEs. Its operations are 100% regulated, providing strong stability to earnings, which is further increased due to a favourable customer base composed entirely of residential and commercial customers. The large industrial customers in the province are served by NLH.

The prevailing low interest rate environment continues to have a negative impact on the rate-setting ROEs, but the impact on earnings and cash flows have been more than offset by the growth in the rate base. The impact of power price volatility on earnings is limited as costs related to power procurement are passed on to customers, albeit with some regulatory lag.

Interest expenses have increased over time as a result of increased borrowings to finance the Company's capital expenditure programs.

Outlook

Pursuant to the 2008 GRA Order, the Company's rate-setting ROE was increased from 8.60% to 8.95%. DBRS believes that the increase in rate-setting ROE, coupled with the growth in rate base, will have a positive impact on the after-tax earnings by approximately $1.3 million. DBRS anticipates EBITDA and net income to grow over the medium term, primarily driven by the growth in rate base related to the ongoing capital projects, as well as economic expansion in the Company's service area and modest housing starts, somewhat tempered by the declining population within the rural portion of the service territory. As such, key credit metrics are expected to improve along with earnings.

Financial Profile

($ millions)	For the 12-month periods ended					
Cash Flow Statement	Mar. 31/08	Dec. 31/07	Dec. 31/06	Dec. 31/05	Dec. 31/04	Dec. 31/03
Core net income	26.1	30.5	30.7	29.9	31.8	30.1
Depreciation and amortization	32.4	35.1	34.6	34.3	31.6	28.9
Other non-cash adjustments	(6.6)	(13.8)	(12.1)	(7.6)	(5.3)	(6.3)
Cash Flow from Operations	51.9	51.8	53.1	56.6	58.1	52.7
Dividends	(11.2)	(9.7)	(18.8)	(23.7)	(14.8)	(10.1)
Capital expenditures (1)	(70.0)	(69.6)	(57.1)	(53.7)	(58.9)	(63.0)
Free Cash Flow before W/C Changes	(29.3)	(27.5)	(22.7)	(20.8)	(15.6)	(20.4)
Net changes in working capital	(5.2)	(2.6)	3.9	9.8	2.7	(3.3)
Net Free Cash Flow	(34.5)	(30.0)	(18.8)	(10.9)	(12.9)	(23.6)
Other investing activities	(0.2)	(0.1)	(0.3)	(0.4)	0.2	(0.1)
Other & adjustments	0.0	0.0	0.0	1.4	0.0	0.0
Amount to be Financed	(34.7)	(30.1)	(19.0)	(9.9)	(12.7)	(23.7)
Net debt financing	35.4	31.6	19.5	8.7	14.6	20.3
Net preferred financing	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)	(0.3)
Net common equity	0.0	0.0	0.0	0.0	0.0	0.0
Net Change in Cash	0.7	1.5	0.4	(1.2)	1.8	(3.7)
% adjusted debt in capital structure	56.1%	55.1%	55.0%	54.7%	54.7%	55.1%
Fixed-charges coverage (times)	1.96	2.11	2.20	2.27	2.40	2.33
Cash flow/adjusted debt	11.1%	11.6%	12.7%	14.2%	14.9%	14.0%
Adjusted debt-to-EBITDA (times)	4.47	4.05	3.80	3.69	3.58	3.60
Dividend payout ratio	41.5%	30.4%	60.4%	78.8%	45.7%	32.2%

(1) Net of contributions from customers and security deposits.

Summary
Newfoundland Power has maintained a strong financial profile, reflecting solid balance sheet and credit metrics. Cash flows from operations have historically displayed the same underlying stability as EBITDA, reflecting the regulated nature of the Company's operations with modest variability due to annual regulatory deferrals. While the Company's credit metrics appear weaker than those of its peers in the same rating category, this is offset by the Company's more stable credit metrics and business risk profile.

Capital expenditures, although elevated in 2007, have been relatively stable since 2002 as a result of a multi-year capital investment program that was launched in that year with the primary focus of refurbishing and replacing aging and deteriorated infrastructure. The elevated level of capital expenditures in 2007 is primarily due to the refurbishment of the Rattling Brook Hydroelectric Plant. The Company successfully completed that project in November 2007, which resulted in improved plant production of 9%, from 69.8 to 76.0 gigawatt hours (GWh) and improved plant capacity of 26%, from 11.2 to 14.1 megawatts (MW).

Although the Company continues to maintain strong and stable cash flow from operations, capital investments continue to cause free cash flow deficits. The Company has historically utilized its credit facilities to finance the free cash flow shortfalls as a bridge to the issuance of First Mortgage Bonds. The Company manages the level of its dividends in order to maintain a long-term capital structure of 55% debt and 45% equity, as approved by the PUB for rate-setting purposes. Although leverage has remained relatively unchanged at approximately 55% since the beginning of the capital program, coverage ratios have trended downward in recent years due to lower rate-setting ROEs and increased debt levels, which were needed to fund the ongoing capital expenditure program.

Outlook
The January 1, 2008, rate increase is expected to have a positive impact on the cash flow from operations. However, fairly modest free cash flow deficits are expected to persist over the 2008–2010 period, reflecting the ongoing capital investment program.

The Company's PUB-approved capital budget for F2008 is approximately $51 million. The focus will be on the replacement of aging infrastructure to strengthen the electricity system and the Company's obligation to meet the demands of customer and electricity sales growth. Capital expenditures over the 2008–2010 period are expected to be between $55 million and $60 million annually. DBRS expects the Company to continue funding cash flow shortfalls with borrowings under its credit facilities, with long-term debt issuances and through the management of dividends.

DBRS expects the growth in earnings and cash flows from operations to have a positive impact on the key credit metrics and the Company's financial profile over the 2008–2010 period. However, the Company's credit profile beyond 2010 is expected to largely depend on its future rate applications to the PUB. Newfoundland Power's financial profile is considered to be favourable, with reasonable leverage in line with the regulatory-approved capital structure and key credit ratios in line with the current rating.

Long-Term Debt Maturities and Liquidity

($ millions)	2008	2009	2010	2011	2012	Thereafter	Total
Long-term bonds	4.6	4.6	4.6	4.6	4.6	391	414
Credit facilities	0	53.0	0	0	0	0	53
as at Mar. 31, 2008	4.6	57.6	4.6	4.6	4.6	390.9	467

Debt Chart

Securities outstanding		**Mar. 31, '08**
First mortgage sinking fund bonds:		
2014	10.55%	31.4
2016	10.90%	33.6
2022	10.13%	34.0
2020	9.00%	34.8
2026	8.90%	35.6
2028	6.80%	45.5
2032	7.52%	71.3
2035	5.44%	58.2
2037	5.90%	69.3
		414
Credit facilities		53
Subtotal		467
Less: current portion		58
		409

Newfoundland Power's debt consists of $414 million in First Mortgage Bonds and $53 million in unsecured credit facilities. 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.

Newfoundland Power has the following credit facilities available:

- A three-year $100 million syndicated, committed revolving unsecured credit facility expiring in January 2009.
- A $20 million uncommitted demand facility.

As at March 31, 2008, $53 million was outstanding on the Company's $100 million credit facility. The credit facilities contain a covenant that provides that the Company shall not declare or pay any dividends or make any other restricted payments if immediately thereafter the debt-to-capitalization exceeds 65%.

The Company is also restricted under its Trust Deed to meet specific tests when it intends to issue additional long-term bonds. The Company must meet an Earnings Test where the net earnings, in a period of any 12 consecutive months terminating within 24 months preceding the delivery of such additional bonds, are at least two times the annual interest charges on all bonds outstanding after any proposed additional bond issue. Secondly, the Company must meet the Additional Property Test, whereby the additional bonds must not exceed 60% of the fair value of the additional property.

Outlook
The debt-repayment schedule is very modest, with the exception of the $53 million under the bank credit facility that matures along with the facility in January 2009. The Company has indicated that it will extend or replace the facility before the expiry in January 2009. The $53 million outstanding under the credit facilities is expected to be refinanced with long-term financing during future periods. Given funds available under the credit facilities and stable cash flows from operations, liquidity remains more than adequate to fund both working capital requirements and cash flow deficits.

Description of Operations

Newfoundland Power generates, transmits and distributes electricity. The Company has approximately 233,000 customers throughout the island portion of the province of Newfoundland and Labrador; approximately 60% of electricity sales are to the residential segment, with the remainder sold to commercial customers and for street lighting. As a result, total sales have shown strong stability, with modest growth year over year.

The Company's generating capacity consists of 23 hydroelectric stations and seven thermal plants, with a total installed capacity of 139 MW. Approximately 90% of power requirements are sourced from NLH. The principal terms of the supply agreement are regulated by the PUB on a similar basis to that of the Company's customers.

Regulation

Regulatory Overview
Newfoundland Power is regulated by the PUB, which is authorized to set electricity rates and the capital structure and ROE for rate-setting purposes, as well as approve capital expenditures. Rates are based on a cost-of-service/rate-of-return methodology. Newfoundland Power has a favourable rate-setting equity component of 45%.

An automatic-adjustment formula, applied annually between test years in November, is used to determine customer rates, effective January 1 of the following year, by adjusting the allowed return-on-rate base to reflect changes in the allowed ROE attributable to movements in long-term Government of Canada bond yields. The Company's allowed ROE is based on a ten-day average of the three most recent series of long-term Government of Canada bonds plus the test-year risk premium. The allowed return-on-rate base and customer rates are adjusted if the rate of return-on-rate base indicated by the formula falls outside the approved range (+/- 18 basis points). Pursuant to the 2008 GRA Order, the PUB approved continued use of the automatic-adjustment formula for setting rates in 2009, 2010 and 2011.

Pursuant to the 2008 GRA Order, customer rates increased by an average of approximately 2.8% effective January 1, 2008. This increase reflects an increase of the Company's ROE for the purpose of setting rates from 8.60% in 2007 to 8.95% in 2008. The 2008 GRA Order also provides for the amortization of certain regulatory assets and liabilities. The rate increase is expected to yield EBITDA and cash flows that will have a positive impact on the financial profile and credit metrics of the Company. The Company does not expect to file its next GRA until at least 2010 to set customer rates for 2011.

Given that the Company's rates are based on estimates of several items, such as electricity sales volumes and the cost of purchasing electricity, in order to manage the risks associated with some of these estimates, a number of deferral accounts are in place.

- **Weather Normalization Reserve (WNR):** The WNR reduces earnings volatility by adjusting electricity purchases and sales to eliminate variances caused by the difference between normal weather conditions, based on long-term averages, and actual weather conditions.
- **Rate Stabilization Account (RSA):** The RSA flows amounts related to changes in the cost and quantity of fuel burned by NLH to produce the electricity sold to the Company through to the Newfoundland Power's customers. On July 1 of each year, customer rates are re-calculated in order to amortize over the subsequent 12 months the balance in the RSA as of March 31 of the previous year. In the 2008 GRA Order, the PUB approved the recovery of energy-supply cost variances through the RSA until the end of 2010. The energy-supply cost variance is the difference between the incremental rate the Company pays for purchasing energy and the average supply cost reflected in rates. The incremental cost to purchase energy currently exceeds the revenue the Company can expect to receive on incremental sales above the forecast used to set customer rates. Recovery of the energy-supply cost variance provides the Company a reasonable opportunity to recover supply costs without requiring a GRA. The recovery of the energy-supply cost variance through the RSA is complimentary to the DMIA.
- **Demand Management Incentive Account (DMIA):** In December 2005, the PUB approved the creation of a Purchased Power Unit Cost Variance Reserve (PPUCVR) in association with the implementation of the demand and energy rate structure for the energy Newfoundland Power purchases from NLH. The PPUCVR was approved as a temporary reserve to limit the volatility on purchased power costs caused by variances between the actual unit cost of purchased power (per kilowatt hour) and the forecast unit cost of purchased power (per kilowatt hour) during the three-year phase-in of the new purchased power rate structure beginning in 2005. The Company will apply to the PUB in 2008 to dispose of the amount owed to customers resulting from operation of the PPUCVR for 2007. Effective January 1, 2008, the PUB has ordered the discontinuance of the PPUCVR and the creation of the DMIA. Through this account, variations in the unit cost of purchased power related to demand are limited, at the discretion of the PUB, to 1% of demand costs ($529,000 for 2008) reflected in customer rates. Balances in this account will be shown as a regulatory asset or liability on Newfoundland Power's balance sheet. The disposition of balances in this account, which would be determined by a further order of the PUB, will consider the merits of the Company's conservation and demand management activities. The Company is required to make an application no later than March 1 of each year for the disposition of any balance in the DMIA. The elimination of PPUCVR and the creation of the DMIA are not expected to have a material impact on the Company's earnings and cash flows.

Newfoundland Power Inc.

Report Date:
May 5, 2008

Newfoundland Power Inc.

Balance Sheet ($ millions)	As at Mar. 31/08	Dec. 31/07	Dec. 31/06	Liabilities & Equity	As at Mar. 31/08	Dec. 31/07	Dec. 31/06
Assets				Short-term debt	-	-	0.7
Cash + equivalents	0.9	1.1	-	Debt due one yr.	57.6	4.6	35.7
Accounts receivable	87.5	70.8	61.6	A/P + accr'ds	66.1	68.7	65.2
Inventories	5.7	5.2	4.9	Other	8.4	9.3	3.0
Prepaids & other	9.9	10.1	6.7	**Current Liabilities**	132.1	82.6	104.6
Current Assets	104.0	87.2	73.3	Long-term debt	406.0	439.0	378.8
Net fixed assets	750.0	746.5	717.1	Deferred & other	99.2	98.4	100.5
Regulatory assets	59.0	61.8	52.9	Preferred equity	9.4	9.4	9.4
Deferred charges & other	92.7	90.5	85.9	Shareholders' equity	359.1	356.7	335.9
Total	1,005.7	985.9	929.2	**Total**	1,005.7	985.9	929.2

Ratio Analysis	For the 12-month periods ended					
Liquidity Ratios	Mar. 31/08	Dec. 31/07	Dec. 31/06	Dec. 31/05	Dec. 31/04	Dec. 31/03
Current ratio	0.79	1.06	0.70	1.00	0.59	0.44
Acc. depreciation/gross fixed assets	36.2%	36.2%	36.0%	40.0%	40.0%	40.4%
Cash flow / adjusted debt (1)	11.1%	11.6%	12.7%	14.2%	14.9%	14.0%
Cash flow / CAPEX	74.2%	74.4%	93.1%	105.5%	98.7%	83.7%
(Cash flow - Dividends) / CAPEX	58.2%	60.6%	60.2%	61.3%	73.5%	67.7%
% debt in capital structure	55.7%	54.8%	54.6%	54.3%	54.3%	54.7%
% adjusted debt in capital structure (1)	56.1%	55.1%	55.0%	54.7%	54.7%	55.1%
Max. equity for rate setting purposes	45%	45%	45%	45%	45%	45%
Common dividend payout ratio	41.5%	30.4%	60.4%	78.8%	45.7%	32.2%
Coverage Ratios						
EBIT interest coverage	2.00	2.16	2.26	2.33	2.47	2.40
EBITDA interest coverage	2.97	3.13	3.23	3.32	3.46	3.34
Fixed-charges coverage	1.96	2.11	2.20	2.27	2.40	2.33
Adjusted debt / EBITDA (1)	4.47	4.05	3.80	3.69	3.58	3.60
Earnings Quality/Operating Efficiency						
Power purchases/revenues	68.6%	66.7%	61.0%	61.3%	61.7%	60.6%
EBIT margin	14.1%	15.5%	18.3%	18.2%	19.7%	20.0%
Net margin (before extras)	5.2%	6.2%	7.3%	7.2%	8.0%	8.0%
Return on avg. equity (bef. extras)	7.3%	8.8%	9.3%	9.3%	10.3%	10.4%
Allowed ROE – mid-point	8.95%	8.60%	9.24%	9.24%	9.75%	9.75%
Growth of customer base	1.7%	1.2%	1.0%	1.3%	1.3%	1.2%
Rate base ($ millions)	812	794	753	745	715	676
Growth in rate base	2.3%	5.4%	1.0%	4.3%	5.8%	18.0%

(1) Preferred shares are considered to be 70% equity, 30% debt

Newfoundland Power Inc.

Report Date:
May 5, 2008

Summary of Operating Statistics

		For the 12-month periods ended					
Electricity Sales - Breakdown (GWh)		Mar. 31/08	Dec. 31/07	Dec. 31/06	Dec. 31/05	Dec. 31/04	Dec. 31/03
Residential	60%	3,081	3,044	2,981	2,987	2,972	2,909
General service	40%	2,066	2,049	2,014	2,017	2,007	1,973
Total sales		5,147	5,093	4,995	5,004	4,979	4,882
Growth in volume throughputs		1.1%	2.0%	-0.2%	0.5%	2.0%	2.5%
Customers							
Residential	87%	201,815	201,045	198,568	196,412	193,912	191,314
Commercial	13%	31,421	31,217	30,932	30,889	30,552	30,339
Total		233,236	232,262	229,500	227,301	224,464	221,653
		0.4%	1.2%	1.0%	1.3%	1.3%	1.2%

		For the 12-month periods ended					
Energy Generated (GWh)		Mar. 31/08	Dec. 31/07	Dec. 31/06	Dec. 31/05	Dec. 31/04	Dec. 31/03
Energy generated	7%	383	381	417	426	424	425
Energy purchased	93%	5,067	5,013	4,876	4,873	4,841	4,725
Energy generated + purchased		5,450	5,394	5,293	5,299	5,265	5,150
Less: transmission losses + internal use		304	301	298	295	286	268
Total sales		5,146	5,093	4,995	5,004	4,979	4,882
System losses and internal use		5.9%	5.9%	6.0%	5.9%	5.7%	5.5%
Installed Generation Capacity (MW)							
Hydroelectric		96	96	92	95	95	95
Gas turbine		37	37	37	44	44	44
Diesel		7	7	7	7	7	6
Total		139	139	136	146	146	144
Peak demand (MW)		1,188	1,142	1,166	1,124	1,167	1,118

Newfoundland Power Inc.

Report Date:
May 5, 2008

Rating

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

Rating History

	Current	2007	2006	2005	2004	2003
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

Related Research

- DBRS Confirms Newfoundland Power Inc., April 30, 2008.
- Newfoundland and Labrador Hydro, November 16, 2007.
- Fortis Inc., November, 30, 2007.

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

Credit Opinion: Newfoundland Power Inc.

Newfoundland Power Inc.

Canada

Ratings

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

Contacts

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Key Indicators

Newfoundland Power Inc.

	2008	2007	2006	2005	2004
(CFO Pre-W/C + Interest Expense) / Interest Expense (x) [1][2]	**3.1x**	**2.6x**	**2.7x**	**2.9x**	**3.0x**
(CFO Pre-W/C) / Debt (%) [1]	**15.8%**	**12.6%**	**13.9%**	**15.7%**	**16.0%**
(CFO Pre-W/C - Dividends) / Debt (%) [1]	**12.4%**	**10.6%**	**9.6%**	**10.1%**	**12.5%**
Debt / Book Capitalization (%)	**54.4%**	**55.9%**	**55.8%**	[3]**63.18%**	**55.5%**

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items [2] Interest includes implied interest on operating leases and capital interest. [3] In 2005, NPI's defined benefit plan underfunding resulted in Moody's standard balance sheet adjustments which reduced its capitalization by approximately $58 million, leading to an increase in the Debt/ Book Capitalization ratio. In the absence of any adjustments, Debt/Book Capitalizaton would have been 54.2%

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 operating in a relatively supportive regulatory environment.

Credit metrics expected to strengthen but continue to remain somewhat weaker than those of other Baa1-rated, lower risk utilities.

Relatively moderate capital expenditures and dividends resulting in modest negative free cash flow deficits.

Strong liquidity arrangements for a company of its rate base and current level of capital spending.

Company Profile

Headquartered in St. John's, Newfoundland, Newfoundland Power Inc. (NPI) is a vertically integrated electric utility that operates under cost of service regulation as administered by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) under the Public Utilities Act (the Act). NPI is a wholly-owned subsidiary of Fortis Inc. (FTS), a diversified electric and gas utility holding company also based in St. John's, Newfoundland.

SUMMARY RATING RATIONALE

The Baa1 rating of NPI's senior secured First Mortgage Bond (FMB) debt reflects the company's relatively low business risk as a cost-of-service regulated, predominately transmission and distribution (T&D) utility with no unregulated business activities. Approximately 92% of NPI's power requirements are purchased from provincially-owned Newfoundland & Labrador Hydro (Hydro), the cost of which are passed through to ratepayers. The balance is produced by NPI's own generation assets which are regulated and represent less than 15% of NPI's property, plant and equipment. Accordingly, Moody's considers NPI's business risk profile to be more like that of a transmission and distribution utility than a vertically integrated utility.

The improvement in NPI's credit metrics that occurred during 2008 is expected to be sustainable although the company's metrics remain somewhat weaker than those of other Baa1-rated low risk regulated utilities. Moody's believes that NPI's somewhat weaker metrics are balanced by NPI's supportive regulatory environment. Moody's considers the PUB to be one of the more supportive regulators in Canada and notes that NPI's 45% deemed equity component is among the highest for Moody's-rated electric utilities in Canada and that its 2009 allowed ROE is 8.95%.

NPI's capital spending is forecasted to remain relatively moderate for the next several years resulting in only modest free cash flow deficits. While NPI has ongoing sinking fund requirements, these are considered manageable and the company has no scheduled FMB maturities until 2014. In this context, NPI's liquidity is considered to be relatively strong.

DETAILED RATING CONSIDERATIONS

LOW-RISK BUSINESS MODEL LOCATED IN A SUPPORTIVE REGULATORY AND BUSINESS ENVIRONMENT

NPI's rating reflects the company's low business risk as a cost of service-regulated monopoly utility. NPI owns and operates a vertically integrated electric utility located on the island portion of Newfoundland and dominates that market, serving roughly 85% of the electricity customers on the island. The market is geographically isolated and effectively insulated from potential competition. As well, the market is mature and has tended to grow at a relatively low and predictable rate of about 1 to 2% annually. Historically, growth has therefore not taxed NPI either operationally or financially. Although NPI is notionally vertically integrated, it is predominantly a transmission and distribution utility since its generation assets provide only about 8% of the electricity that NPI delivers. Moody's considers the T&D segment to be a relatively lower risk segment of the electric utility industry since it is typically not exposed to commodity price and volume risks or the operational, financial and environmental risks associated with electricity generation.

All of NPI's operations are located in Canada whose regulatory and business environments Moody's considers to be relatively supportive. Moody's considers the PUB to be one of the more supportive regulators in Canada and notes that NPI's 45% deemed equity component is among the highest for Moody's-rated electric utilities in Canada and that its 2009 allowed ROE remains at 8.95%. The Baa1 rating assigned to NPI's FMB debt also reflects the first mortgage security over NPI's property, plant and equipment. All assets are pledged as security and all current and future FMB issuances must be in support of prudently-incurred costs and must be pre-approved by the PUB.

IMPROVEMENT OF CREDIT METRICS EXPECTED TO BE SUSTAINABLE BUT METRICS REMAIN SLIGHTLY WEAKER THAN THOSE OF Baa1-RATED PEERS

NPI's credit metrics in 2008 demonstrated improvement primarily as a result of a 2.8% average rate effective January 1, 2008. However, NPI's ratios generally continue to be somewhat weaker than those of other Baa1-rated peers predominantly engaged in T&D such as Atlantic City Electric Company (ACE), Connecticut Light and Power Company (CLP) and FortisAlberta Inc. (FAB, a sister company). ACE and FAB have reported CFO pre-WC to debt in the 15 to 20% range versus NPI's roughly 15% level. Similarly, ACE, CLP and FAB have reported CFO pre-WC interest coverage in the range of 4x versus NPI's sub-3x range in recent years. In general, Moody's anticipates that NPI's CFO pre-WC to debt will remain in the 15 to 16% range while its CFO pre-WC interest coverage stays above 3x going forward.

NPI's relatively weaker financial profile is offset by the company's location in a supportive regulatory environment with a regulatory construct that permits it to over or under earn within a band of plus or minus 18 basis points of its allowed return on ratebase. Historically, NPI has been able to achieve returns in excess of its allowed ROE. Two key features of NPI's regulatory regime which facilitate timely recovery of the company's costs are the rate stabilization clause which includes 1) a mechanism for tracking energy supply cost variances and 2) a demand management incentive account which includes a mechanism for tracking demand supply cost variances. Together, these mechanisms limit NPI's ultimate exposure to fluctuations in purchased power costs related to volatility in commodity prices and variations in customer demand to approximately $500,000 annually. In the absence of the rate stabilization mechanism, NPI would be exposed to, among other things, volatility in the price of power purchased from Hydro due principally to fluctuations in the price of fuel oil burned at Hydro's Holyrood thermal generating station. Among other things, the rate stabilization clause permits NPI to recover or refund variations in the energy component of power purchased from Hydro on a lagged basis. Recognizing that purchased power is NPI's single largest expense, the rate stabilization and demand management incentive mechanisms are significant risk mitigants. Moody's notes, however, that the energy supply cost variance mechanism is approved to the end of 2010 at which time NPI will have to apply for an extension or request an alternative mechanism.

MODEST CAPITAL EXPENDITURE PROGRAM AND BENIGN DEBT MATURITY PROFILE NOT EXPECTED TO TAX LIQUIDITY RESOURCES

Unlike many utilities, NPI's future capital spending requirements are relatively modest as growth within its franchise is relatively low and predictable. In addition, the company has no scheduled FMB maturities until 2014 and required sinking fund payments of roughly $4.5 million annually are relatively minor. Like most utilities, NPI is expected to be free cash flow negative in most years but given its modest capital spending forecast and benign maturity profile, the company's financing requirements are not expected to be stressful.

Moody's believes that the PUB's review and approval of NPI's capital spending plans and long-term debt issuances significantly limits the possibility of cost disallowances or the inability to fully recover costs on a timely basis. NPI submits its proposed capital plan for PUB approval annually. Furthermore, NPI is required to obtain PUB pre-approval for the issuance of any FMBs or the incurrence of credit facilities with maturities exceeding one year

NPI IS OPERATIONALLY AND FINANCIALLY INDEPENDENT OF FTS AND ITS SUBSIDIARIES

While NPI is one of a number of utility operating companies owned by Fortis, Moody's considers NPI, like sister companies FortisAlberta Inc., FortisBC Inc., Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc., to be operationally and financially independent from Fortis. Fortis has consistently demonstrated good management and support of its subsidiaries and Moody's considers NPI's access to the executive and strategic support of Fortis to be a credit positive.

Liquidity Profile

NPI's liquidity arrangements are considered strong in the context of its modest capital spending plans and limited sinking fund requirements. In evaluating a company's liquidity, Moody's typically assumes that the company loses access to new debt capital, other than credit available under its committed credit agreements, for a period of 12 months. In this context, we then evaluate the company's various sources and uses of cash including the flexibility to defer or reduce uses of cash such as capital expenditures and dividends.

The company's core liquidity facility is a $100 million syndicated committed revolving credit facility that is scheduled to mature on August 29, 2011. This facility provides NPI with the ability to request on the first anniversary date, an extension of the then-current maturity date by an additional 364 days or on the second anniversary date, an extension of the then-current maturity date by what amounts to an additional two years. Any such extensions are subject to the consent of the banks. While the credit agreement contains a covenant that NPI maintains its debt to capitalization ratio at or below 65%, the credit agreement no longer includes funding inhibiting language such as a material adverse change (MAC) default or representation and warranty prior to drawdowns. At December 31, 2008, NPI appeared to have sufficient headroom under the debt to capitalization covenant since its actual debt to capitalization was approximately 53%. As of December 31, 2008, approximately $68 million was available to NPI under its committed credit facility.

NPI is expected to generate approximately $70 million of adjusted funds from operations (FFO) in 2009. After dividends in the range of $25 million and capital expenditures plus working capital changes of approximately $65 million, Moody's expects NPI to be free cash flow (FCF) negative by approximately $20 million in 2009. The majority of NPI's long-term debt is in the form of FMBs and Moody's expects that NPI will periodically issue additional FMBs to reduce outstandings under its bank credit facility and to refinance scheduled debt maturities. NPI has indicated in its 2008 financial statements that it expects to issue FMBs during 2009. While NPI has $4.5 million of sinking fund requirements during 2009, the next scheduled FMB maturity is not until 2014. Accordingly, we expect that the amounts available to NPI under its committed bank facility will be more than sufficient to meet its funding requirements during 2009 if it decides not to issue additional FMBs.

In the event that NPI encountered an unforeseen cash flow constraint, Moody's notes that NPI has some flexibility to manage capital outflows as we understand that a majority of its planned capital expenditures are maintenance related and therefore could be deferred for a period of time. Furthermore, as a privately-owned entity, NPI has more flexibility than an investor-owned utility to curtail its dividend payments.

Rating Outlook

The rating outlook is stable based on the expectation that the improvement in NPI's key cash flow metrics that occurred in 2008 will be sustainable. Moody's anticipates that NPI will continue to generate CFO pre-WC to debt of approximately 15% or more and CFO pre-WC interest coverage of approximately 3.0x or more.

What Could Change the Rating - Up

NPI's long-term ratings could be positively impacted if NPI could demonstrate sustainable improvement in financial ratios, such as CFO pre-WC interest coverage above 4.0x and CFO pre-WC to debt in the high teens. This level of improvement in NPI's credit metrics could result from further rate increases, coupled with either an increase in equity in the capital structure or a higher equity risk premium utilized by the regulator to automatically adjust the allowed rate of return on rate base between full cost of capital hearings.

What Could Change the Rating - Down

Moody's considers a downward revision in NPI's rating to be unlikely in the near term. However, NPI's long-term ratings could be negatively impacted to the extent that Moody's perceived a reduction in the level of regulatory support combined with weaker liquidity and a sustained deterioration in NPI's credit metrics such as CFO pre-WC to interest coverage of less than 2.5x, CFO pre-WC to debt in the low teens and debt to capitalization in excess of 55%.

Moody's Investors Service

Rating Action: Moody's upgrades most senior secured ratings of investment-grade regulated utilities by one notch

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Global Credit Research - 03 Aug 2009

Approximately $91 billion of debt securities upgraded

New York, August 03, 2009 -- Moody's Investors Service has upgraded the majority of senior secured debt ratings of investment-grade regulated utilities by one notch. The senior secured debt upgraded includes first mortgage bonds, other first lien mortgage bonds, and securities backed by first lien mortgage bonds.

"This rating action widens the notching between most senior secured debt ratings and senior unsecured debt ratings of investment-grade regulated utilities to two notches from one previously," said Moody's Vice President-Senior Credit Officer Michael Haggarty. "The wider notching is based on our analysis of the history of regulated utility defaults, which indicates that regulated utilities have defaulted at a lower rate and experienced lower loss given default rates than non-financial, non-utility corporate issuers."

This historical analysis was outlined in "Default, Recovery, and Credit Loss Rates for Regulated Utilities, 1983-2008," a report published by Moody's in April along with a request for comment to market participants on the possible implementation of wider notching of ratings in the utility sector.

"The study of defaults and the significant disparity in the magnitude of loss given defaults provides a compelling rationale for placing an additional notch between the senior secured and senior unsecured ratings," said Haggarty. There are certain limited exceptions to the wider notching, including senior secured ratings currently under review for possible downgrade or issuers with negative rating outlooks.

For more information, please see "Proposed Wider Notching Between Certain Senior Secured Debt Ratings and Senior Unsecured Debt Ratings for Investment Grade Regulated Utilities," Moody's Special Comment, May 2009.

Senior secured debt ratings upgraded include:

ALLETE, Inc. upgraded to A2 from A3

Avista Corp., upgraded to Baa1 from Baa2

Black Hills Power, Inc., upgraded to A3 from Baa1

CenterPoint Energy Houston Electric LLC, upgraded to Baa1 from Baa2

Central Illinois Public Service Company, upgraded to Baa2 from Baa3

Central Maine Power Company, upgraded to A2 from A3

Cleveland Electric Illuminating Company (The), upgraded to Baa1 from Baa2

Colonial Gas Company, upgraded to A1 from A2

Commonwealth Edison Company, upgraded to Baa1 from Baa2

Connecticut Light & Power, upgraded to A2 from A3

Consumers Energy Company, upgraded to A3 from Baa1

Dayton Power & Light Company, upgraded to Aa3 from A1

Delmarva Power & Light Company, upgraded to A3 from Baa1

Detroit Edison Company (The), upgraded to A2 from A3

Duke Energy Carolinas, LLC, upgraded to A1 from A2

Duke Energy Indiana, Inc., upgraded to A2 from A3

Duke Energy Ohio, Inc., upgraded to A2 from A3

Duquesne Light Company, upgraded to A3 from Baa1

Entergy Arkansas, Inc., upgraded to A3 from Baa1

Entergy Gulf States Louisiana, LLC, upgraded to Baa1 from Baa2

Entergy Louisiana, LLC, upgraded to A3 from Baa1

Entergy Mississippi, Inc., upgraded to Baa1 from Baa2

Entergy Texas, Inc., upgraded to Baa2 from Baa3

Florida Power & Light Company, upgraded to Aa2 from Aa3

Green Mountain Power Corporation, upgraded to A2 from A3

Illinois Power Company, upgraded to Baa2 from Baa3

Indianapolis Power & Light Company, upgraded to A3 from Baa1

International Transmission Company, upgraded to A2 from A3

ITC Midwest LLC, upgraded to A2 from A3

Jersey Central Power & Light Company, upgraded to A3 from Baa1

Kansas Gas and Electric Company, upgraded to Baa1 from Baa2

Laclede Gas Company, upgraded to A2 from A3

Massachusetts Electric Company, upgraded to A1 from A2

Metropolitan Edison Company, upgraded to A3 from Baa1

Michigan Consolidated Gas Company, upgraded to A2 from A3

Michigan Electric Transmission Company, LLC, upgraded to A2 from A3

Monongahela Power Company, upgraded to Baa1 from Baa2

Narragansett Electric Company, upgraded to A1 from A2

New Jersey-American Water Company, Inc., upgraded to A2 from A3

Niagara Mohawk Power Corporation, upgraded to A1 from A2

Northern Illinois Gas Company, upgraded to Aa3 from A1

Northern States Power Company (Minnesota), upgraded to A1 from A2

Northern States Power Company (Wisconsin), upgraded to A1 from A2

Northwest Natural Gas Company, upgraded to A1 from A2

Northwestern Corporation, upgraded to A3 from Baa1

Ohio Edison Company, upgraded to A3 from Baa1

PacifiCorp, upgraded to A2 from A3

Pennsylvania-American Water Company, upgraded to A2 from A3

Pennsylvania Electric Company, upgraded to A3 from Baa1

Pennsylvania Power Company, upgraded to A3 from Baa1

Portland General Electric Company, upgraded to A3 from Baa1

Potomac Edison Company (The), upgraded to Baa1 from Baa2

Potomac Electric Power Company, upgraded to A3 from Baa1

Progress Energy Carolinas, Inc., upgraded to A1 from A2

Progress Energy Florida, Inc., upgraded to A1 from A2

Public Service Company of Colorado, upgraded to A2 from A3

Public Service Company of New Hampshire, upgraded to A3 from Baa1

Public Service Electric and Gas Company, upgraded to A2 from A3

Puget Sound Energy, Inc., upgraded to Baa1 from Baa2

Rochester Gas & Electric Corporation, upgraded to A3 from Baa1

San Diego Gas & Electric Company, upgraded to Aa3 from A1

South Jersey Gas Company, upgraded to A2 from A3

Southern California Edison Company, upgraded to A1 from A2

Southern California Gas Company, upgraded to Aa3 from A1

Southern Connecticut Gas Company, upgraded to A3 from Baa1

Southern Indiana Gas & Electric Company, upgraded to A2 from A3

Superior Water, Light and Power Company, upgraded to A2 from A3

System Energy Resources, Inc., upgraded to Baa2 from Baa3

Terasen Gas Inc., upgraded to A1 from A2

Toledo Edison Company, upgraded to Baa1 from Baa2

Tucson Electric Power Company, upgraded to Baa1 from Baa2

Union Electric Company, upgraded to A3 from Baa1

West Penn Power Company, upgraded to Baa1 from Baa2

Westar Energy, Inc., upgraded to Baa1 from Baa2

Senior secured shelf ratings upgraded include:

El Paso Electric Company, upgraded to (P)A3 from (P)Baa1

Virginia Electric and Power Company, upgraded to (P)A2 from (P)A3

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Moody's Investors Service

Rating Action: Moody's upgrades FMBs to A2; assigns Baa1 issuer rating to Newfoundland Power

Global Credit Research - 03 Aug 2009

Approximately $474 million of debt securities affected

Toronto, August 03, 2009 -- Moody's Investors Service announced today that it upgraded Newfoundland Power Inc.'s (NPI) existing secured first mortgage bonds (FMBs) to A2 from Baa1. In addition, Moody's assigned a Baa1 issuer rating. NPI's rating outlook remains stable.

The upgrade of NPI's secured FMBs to A2 from Baa1 is driven by two factors each of which accounts for one notch of the two-notch upgrade. The assignment of a Baa1 issuer rating to NPI effectively constitutes a one-notch upgrade given that it would be typical for the senior secured rating of an investment grade-rated utility to be one notch higher than its senior unsecured rating. In NPI's case, Moody's had not historically accorded a full notch of lift to NPI's senior secured debt because, other than its unsecured bank credit facility (not rated by Moody's), all of NPI's debt was, and continues to be, senior secured. However, Moody's has reconsidered this approach given the elimination of the material adverse change clause from the current bank credit agreement and determined that the benefit of the security afforded to NPI's FMB holders, relative to its bank lenders and other unsecured creditors, combined with the recent strengthening of NPI's financial profile warrant a distinction between its unsecured and secured ratings. The second factor contributing to the two-notch upgrade is the adoption of Moody's policy for wider notching between the senior unsecured and senior secured ratings of investment grade-rated utilities as outlined in "Default, Recovery, and Credit Loss Rates for Regulated Utilities, 1983-2008," a report published by Moody's in May 2009 along with a request for comment to market participants on the possible implementation of wider notching of ratings in the utility sector.

NPI's Baa1 issuer rating reflects the fact that the company's operations are exclusively based in Canada, a jurisdiction where regulatory and business environments in general are relatively more supportive than those of other international jurisdictions such as the United States, in Moody's view. The Baa1 issuer rating also reflects Moody's belief that the improvement in NPI's credit metrics that occurred during 2008 is likely to be sustainable although the company's metrics remain somewhat weaker than those of other Baa1-rated low risk regulated utilities. Moody's believes that NPI's somewhat weaker metrics are balanced by NPI's relatively more supportive regulatory environment. Moody's considers the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) to be one of the more supportive regulators in Canada and notes that NPI's 45% target equity component is among the highest for Moody's-rated electric utilities in Canada and that its 2009 allowed ROE is 8.95%.

The principal methodology used in rating NPI is the March 2005 Global Regulated Electric Utilities rating methodology, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, under the Ratings Methodologies subdirectory.

The last rating action was on June 8, 2005 when NPI's senior secured rating was assigned.

NPI is a regulated electric utility subsidiary of Fortis Inc. and serves the island portion of the province of Newfoundland and Labrador. NPI is headquartered in St. John's, Newfoundland and Labrador.

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Newfoundland Power Inc.

Credit Metrics - OPEBS on Cash Basis

Pre-tax Interest Coverage (times)

Allowed Common Equity	Allowed Return On Equity											
	11.25%	**11.00%**	**10.75%**	**10.50%**	**10.25%**	**10.00%**	**9.75%**	**9.50%**	**9.25%**	**9.00%**	**8.75%**	**8.50%**
45%	2.77	2.73	2.69	2.65	2.61	2.57	2.53	2.49	2.45	2.41	2.37	2.33
44%	2.73	2.69	2.65	2.61	2.57	2.53	2.49	2.45	2.42	2.38	2.34	2.30
43%	2.68	2.64	2.60	2.57	2.53	2.49	2.45	2.42	2.38	2.34	2.30	2.26
42%	2.63	2.60	2.56	2.52	2.49	2.45	2.41	2.38	2.34	2.30	2.27	2.23
41%	2.59	2.55	2.52	2.48	2.45	2.41	2.37	2.34	2.30	2.27	2.23	2.20
40%	2.54	2.51	2.47	2.44	2.40	2.37	2.33	2.30	2.27	2.23	2.20	2.16

Cash Flow Interest Coverage (times)

Allowed Common Equity	Allowed Return On Equity											
	11.25%	**11.00%**	**10.75%**	**10.50%**	**10.25%**	**10.00%**	**9.75%**	**9.50%**	**9.25%**	**9.00%**	**8.75%**	**8.50%**
45%	3.49	3.47	3.44	3.41	3.38	3.36	3.33	3.30	3.27	3.25	3.22	3.19
44%	3.46	3.43	3.40	3.38	3.35	3.32	3.30	3.27	3.24	3.22	3.19	3.16
43%	3.42	3.39	3.37	3.34	3.32	3.29	3.26	3.24	3.21	3.19	3.16	3.13
42%	3.38	3.36	3.33	3.31	3.28	3.26	3.23	3.21	3.18	3.16	3.13	3.11
41%	3.35	3.32	3.30	3.27	3.25	3.22	3.20	3.17	3.15	3.13	3.10	3.08
40%	3.31	3.29	3.26	3.24	3.22	3.19	3.17	3.14	3.12	3.10	3.07	3.05

Cash Flow to Debt (percentage)

Allowed Common Equity	Allowed Return On Equity											
	11.25%	**11.00%**	**10.75%**	**10.50%**	**10.25%**	**10.00%**	**9.75%**	**9.50%**	**9.25%**	**9.00%**	**8.75%**	**8.50%**
45%	18.9%	18.7%	18.5%	18.3%	18.1%	17.9%	17.7%	17.5%	17.3%	17.1%	16.9%	16.7%
44%	18.1%	17.9%	17.7%	17.5%	17.3%	17.1%	16.9%	16.7%	16.5%	16.3%	16.2%	16.0%
43%	17.3%	17.1%	16.9%	16.7%	16.5%	16.4%	16.2%	16.0%	15.8%	15.6%	15.5%	15.3%
42%	16.5%	16.4%	16.2%	16.0%	15.8%	15.7%	15.5%	15.3%	15.2%	15.0%	14.8%	14.6%
41%	15.8%	15.7%	15.5%	15.3%	15.2%	15.0%	14.8%	14.7%	14.5%	14.4%	14.2%	14.0%
40%	15.2%	15.0%	14.9%	14.7%	14.5%	14.4%	14.2%	14.1%	13.9%	13.8%	13.6%	13.5%

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

Credit Metrics - OPEBS on Accrual Basis

Pre-tax Interest Coverage (times)

Allowed Common Equity	Allowed Return On Equity											
	11.25%	**11.00%**	**10.75%**	**10.50%**	**10.25%**	**10.00%**	**9.75%**	**9.50%**	**9.25%**	**9.00%**	**8.75%**	**8.50%**
45%	2.78	2.74	2.70	2.66	2.62	2.58	2.54	2.50	2.46	2.42	2.38	2.34
44%	2.73	2.69	2.66	2.62	2.58	2.54	2.50	2.46	2.42	2.38	2.35	2.31
43%	2.69	2.65	2.61	2.57	2.54	2.50	2.46	2.42	2.39	2.35	2.31	2.27
42%	2.64	2.60	2.57	2.53	2.49	2.46	2.42	2.38	2.35	2.31	2.27	2.24
41%	2.60	2.56	2.52	2.49	2.45	2.42	2.38	2.35	2.31	2.27	2.24	2.20
40%	2.55	2.52	2.48	2.45	2.41	2.38	2.34	2.31	2.27	2.24	2.20	2.17

Cash Flow Interest Coverage (times)

Allowed Common Equity	Allowed Return On Equity											
	11.25%	**11.00%**	**10.75%**	**10.50%**	**10.25%**	**10.00%**	**9.75%**	**9.50%**	**9.25%**	**9.00%**	**8.75%**	**8.50%**
45%	3.62	3.59	3.57	3.54	3.51	3.49	3.46	3.43	3.40	3.38	3.35	3.32
44%	3.58	3.56	3.53	3.50	3.48	3.45	3.42	3.40	3.37	3.35	3.32	3.29
43%	3.55	3.52	3.50	3.47	3.44	3.42	3.39	3.37	3.34	3.31	3.29	3.26
42%	3.51	3.49	3.46	3.43	3.41	3.38	3.36	3.33	3.31	3.28	3.26	3.23
41%	3.47	3.45	3.42	3.40	3.38	3.35	3.33	3.30	3.28	3.25	3.23	3.20
40%	3.44	3.41	3.39	3.37	3.34	3.32	3.29	3.27	3.25	3.22	3.20	3.18

Cash Flow to Debt (percentage)

Allowed Common Equity	Allowed Return On Equity											
	11.25%	**11.00%**	**10.75%**	**10.50%**	**10.25%**	**10.00%**	**9.75%**	**9.50%**	**9.25%**	**9.00%**	**8.75%**	**8.50%**
45%	20.0%	19.8%	19.6%	19.4%	19.2%	19.0%	18.8%	18.6%	18.4%	18.2%	18.0%	17.8%
44%	19.1%	18.9%	18.7%	18.5%	18.3%	18.1%	17.9%	17.8%	17.6%	17.4%	17.2%	17.0%
43%	18.3%	18.1%	17.9%	17.7%	17.5%	17.4%	17.2%	17.0%	16.8%	16.6%	16.4%	16.3%
42%	17.5%	17.3%	17.1%	17.0%	16.8%	16.6%	16.4%	16.3%	16.1%	15.9%	15.8%	15.6%
41%	16.7%	16.6%	26.4%	16.3%	16.1%	15.9%	15.8%	15.6%	15.4%	15.3%	15.1%	15.0%
40%	16.1%	15.9%	15.7%	15.6%	15.4%	15.3%	15.1%	15.0%	14.8%	14.7%	14.5%	14.4%

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

2010 Forecast Average Rate Base[1]
($000s)

		Forecast[2]
1	Plant Investment	755,649
2		
3	Add:	
4	Deferred Charges	102,935
5	Weather Normalization Reserve	4,377
6	Deferred Energy Replacement Costs	192
7	Cost Recovery Deferral - Depreciation	3,257
8	Customer Finance Programs	1,714
9		112,475
10		
11	Deduct:	
12	2005 Unbilled Revenue	2,309
13	Accrued Pension Liabilities	3,511
14	Accrued OPEBS Liability	3,350
15	Municipal Tax Liability	683
16	Future Income Taxes	1,895
17	Purchased Power Unit Cost Reserve	224
18	Customer Security Deposits	602
19		12,574
20		
21	Average Rate Base Before Allowances	855,550
22		
23	Cash Working Capital Allowance	9,230
24		
25	Materials and Supplies Allowance	4,461
26		
27	Average Rate Base At Year End	869,241

1 All amounts shown are averages.

2 Based upon proposed rates.

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

2010 Revenue Requirements[1]
($000s)

		Existing	Changes	Proposed
1	**Return on Rate Base**	64,416	14,945	79,361
2				
3	**Other Costs**			
4	Power Supply Cost	353,199	(4,190)	349,009
5	Operating Costs	51,059	1,130	52,189
6	Pension	8,196	-	8,196
7	Additional OPEBs Expense[2]	-	6,841	6,841
8	Amortization of Depreciation Cost Recovery Deferral	3,861	-	3,861
9	Depreciation[3]	43,378	5	43,383
10	Income Taxes	12,405	8,895	21,300
11		472,098	12,681	484,779
12				
13	**2010 Revenue Requirement**	536,514	27,626	564,140
14				
15	**Deductions**			
16	Other Revenue	(13,648)	(44)	(13,692)
17	2005 Unbilled Revenue	(4,618)	-	(4,618)
18	Other Adjustments[4]	87	-	87
19		(18,179)	(44)	(18,223)
20				
21	Energy Supply Cost Variance Adjustments	(5,346)	5,346	-
22				
23	**2010 Revenue Requirement from Rates[5]**	512,989	32,928	545,917
24				
25	Forecast Operation of the Formula for 2010	(2,997)	2,997	-
26				
27	Forecast Revenue From Rates	509,992	35,925	545,917

1 See *Section 4.3, Forecast 2010 Revenue Requirements* for a summary of the Company's 2010 Revenue Requirements proposals.

2 $6,841,000 represents the increase in 2010 OPEB operating costs resulting from adoption of the accrual method of accounting, as included in the 2010 test year. This reflects $8,037,000 (the operating cost portion of $8,440,000 in OPEB costs on an accrual basis) minus $1,196,000 (the operating cost portion of $1,740,000 in OPEB costs on a cash basis).

3 Reflects impacts of recognition of OPEBs costs on an accrual basis.

4 Includes $37,000 related to the amortization of capital stock issue expenses and $50,000 related to customer security deposits.

5 Excludes price elasticity impacts related to revenue of $3,786,000. The required revenue increase in 2010 of $36,714,000 (See Exhibit 10, line 1, Column E) is comprised of $32,928,000 and price elasticity impacts of $3,786,000 (See Exhibit 10, line 1, Column D).

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

2010 Return on Rate Base
($000s)

		Existing	Changes		Proposed
1					
2	**Average Capitalization**				
3	Debt	483,532	(9,366)	[1]	474,166
4	Preference Shares	9,113	-		9,113
5	Common Equity	384,377	5,985	[2]	390,362
6		877,022	(3,381)		873,641
7					
8	**Average Capital Structure**				
9	Debt	55.13%	-0.86%	[1]	54.27%
10	Preference Shares	1.04%	0.00%		1.04%
11	Common Equity	43.83%	0.85%	[2]	44.68%
12		100.00%	-0.01%		99.99%
13					
14	**Cost of Capital**				
15	Debt	7.54%	0.11%	[1]	7.65%
16	Preference Shares	6.23%	0.00%		6.23%
17	Common Equity	6.45%	4.55%	[2]	11.00%
18					
19	**Weighted Average Cost of Capital**				
20	Debt	4.16%	-0.01%		4.15%
21	Preference Shares	0.06%	0.00%		0.06%
22	Common Equity	2.83%	2.08%		4.91%
23		7.05%	2.07%		9.12%
24					
25	**Return on Rate Base**				
26	Return on Debt	36,074	(222)	[1]	35,852
27	Return on Preference Shares	568	-		568
28	Return on Common Equity	27,774	15,167	[2]	42,941
29		64,416	14,945		79,361

[1] Reflects reduced borrowing requirements resulting from the proposed increase in cash revenue.
[2] Reflects the Company's proposed return on common equity of 11.0 percent in 2010

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

Pension Expense Variance Deferral Account

Proposed Definition

Pension Expense Variance Deferral Account

This account shall be charged or credited with the amount by which the annual pension expense computed in accordance with generally accepted accounting principles for any year differs from the annual pension expense approved most recently for the establishment of revenue requirement from rates for a test year.

Disposition of any Balance in this Account
Newfoundland Power shall charge or credit any amount in this account to the Rate Stabilization Account as of the 31st day of March in the year in which the difference arises.

If there is an application before the Board for rates based on a new test year that is anticipated to be outstanding as of the 31st day of March in a year in which the new rates are expected to become effective, then Newfoundland Power shall apply to the Board for determination of the amount to be charged or credited to the account for that year and the timing thereof.

1st Revision Note: Updated to reflect revisions that result from a settlement agreement reached in relation to proposals contained in the Application.

Newfoundland Power Inc.

2010 Average Rate Change[1]
($000s)

		Existing[2]	Proposed[3]	Difference	Price Elasticity[4]	Proposed Increase[5]
		A	B	C	D	E
1	Revenue From Rates	512,989	545,917	32,928	3,786	36,714
2						
3	RSA Charges	3,531	3,502	(29)	29	-
4						
5	MTA Charges	12,559	13,359	800	93	893
6						
7	Total	529,079	562,778	33,699	3,908	37,607
8						
9	**Customer Rate Change[6]**					7.2%
10						
11						

12 [1] The average rate change provides the estimated proposed change relative to customer rates in effect at time of filing the Amended Application
13 (i.e., effective July 1, 2009). The RSA and MTA billings included in the rate change calculation are the RSA and MTA Factors in effect at time
14 of filing (i.e. effective July 1, 2009).
15 [2] 2010 Revenue from existing rates based on base rates effective July 1, 2008.
16 [3] Revenue from proposed rates, reflecting elasticity effects of proposed increase, from Exhibit 7 (1st Revision).
17 [4] Elasticity impacts represent revenue reductions from reduced customer usage as a result of the proposed rate increase.
18 [5] Difference between existing and proposed forecasts plus additional revenue requirement to offset price elasticity impact
19 (Column C plus Column D).
20 [6] Total of Column E expressed as percentage of (Column A less Column D).

1st Revision Note: Updated for revised revenue requirement from rates for 2010.

Newfoundland Power Inc.

2010 Comparative Financial Forecasts
Statements of Income
($000s)

		Existing	Proposed
1	Electricity Sales (GWh)	5,373	5,328
2			
3	Revenue From Rates	509,992	545,917
4	Amortization of 2005 Unbilled Revenue	4,618	4,618
5	Transfers from (to) the RSA	5,346	-
6		519,956	550,535
7			
8	Purchased Power Expense	351,188	346,998
9	Deferred Replacement Energy Costs	598	598
10	Amortization of Weather Normalization Reserve	2,101	2,101
11	Amortization of Purchased Power Unit Cost Variance Reserve	(688)	(688)
12		353,199	349,009
13			
14	Contribution	166,757	201,526
15			
16	Other Revenue	13,648	13,692
17			
18	Other Expenses:		
19	Operating Expenses[1]	52,774	53,903
20	Employee Future Benefit Costs	8,196	15,037
21	Amortization of Deferred Cost Recoveries	3,861	3,861
22	Depreciation	43,378	43,383
23	Finance Charges	36,162	35,940
24		144,371	152,124
25			
26	Income Before Income Taxes	36,034	63,094
27	Income Taxes	11,855	20,751
28			
29	Net Income	24,179	42,343
30	Preferred Dividends	568	568
31			
32	Earnings Applicable to Common Shares	23,611	41,775
33			
34			
35	**Rate of Return and Credit Metrics**		
36	Rate of Return on Rate Base (percentage)	7.04%	9.13%
37	Regulated Return on Book Equity (percentage)	6.45%	11.00%
38	Return on Book Equity (percentage)	6.14%	10.70%
39	Interest Coverage (times)	2.0	2.7
40	CFO Pre-W/C + Interest / Interest (times)	2.8	3.6
41	CFO Pre-W/C / Debt (percentage)	13.1%	19.5%

[1] Operating expenses shown are before the adjustment for non-regulated expenses.

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

2010 Comparative Financial Forecasts
Statements of Retained Earnings
($000s)

		Existing	Proposed
1	Balance - Beginning	309,681	309,681
2	Net Income for the Period	24,179	42,343
3		333,860	352,024
4			
5	Dividends		
6	Preference Shares	568	568
7	Common Shares	14,861	21,053
8		15,429	21,621
9			
10	Balance - End of Period	318,431	330,403

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

2010 Comparative Financial Forecasts
Balance Sheets
($000s)

		Existing	Proposed
1	**Assets**		
2	**Current assets**		
3	Accounts Receivable	$ 72,837	$ 75,704
4	Materials and Supplies	5,597	5,597
5	Prepaid Expenses	1,293	1,293
6	Regulatory Assets	4,557	2,419
7		84,284	85,013
8			
9	**Capital assets**	827,001	827,403
10	**Deferred charges**	97,117	97,117
11	**Regulatory assets**	200,197	189,912
12	**Customer Finance Plans**	1,714	1,714
13		$ 1,210,313	$ 1,201,159
14			
15			
16			
17	**Liabilities and Shareholders' Equity**		
18	**Current Liabilities**		
19	Accounts payable and accrued charges	$ 62,463	$ 62,011
20	Current Installments of long-term debt	5,200	5,200
21	Future Income Taxes	974	974
22		68,637	68,185
23			
24	**Regulatory liabilites**	80,785	80,785
25	**Other liabilities**	57,113	57,113
26	**Long-term debt**	487,955	469,223
27			
28	**Future Income Taxes**	117,958	116,016
29			
30	**Shareholders' Equity**		
31	**Common shares**	70,321	70,321
32	**Preference shares**	9,113	9,113
33	**Retained earnings**	318,431	330,403
34		397,865	409,837
35		$ 1,210,313	$ 1,201,159

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

2010 Comparative Financial Forecasts
Statements of Cash Flows
($000s)

		Existing	Proposed
1	**Cash From (Used In) Operating Activities**		
2	Net Earnings	$ 24,179	$ 42,343
3			
4	**Items not affecting cash:**		
5	Amortization of capital assets	43,378	43,383
6	Amortization of deferred charges	222	222
7	Change in regulatory assets and liabilities	(2,831)	2,892
8	Future income taxes	(351)	(2,292)
9	Accrued employee future benefits	943	7,643
10	Change in non-cash working capital	(2,978)	(6,298)
11		62,562	87,893
12			
13	**Investing Activities**		
14	Capital expenditures (net of salvage)	(68,194)	(68,600)
15	Contributions from customers and security deposits	2,000	2,000
16		(66,194)	(66,600)
17			
18	**Financing Activities**		
19	Proceeds from long-term debt	24,261	5,528
20	Repayment of long-term debt	(5,200)	(5,200)
21	Dividends		
22	Preference Shares	(568)	(568)
23	Common Shares	(14,861)	(21,053)
		3,632	(21,293)
	Change in Cash	-	-
	Cash (Bank Indebtedness), Beginning of Year	-	-
	Cash (Bank Indebtedness), End of Year	$ -	$ -

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

2010 Comparative Financial Forecasts
Average Rate Base[1]
($000s)

		Existing	Proposed
1	Net Plant Investment	755,455	755,649
2			
3	Add:		
4	Deferred Charges	102,935	102,935
5	Weather Normalization Reserve	4,377	4,377
6	Deferred Energy Replacement Costs	192	192
7	Cost Recovery Deferrals	3,447	3,257
8	Customer Finance Programs	1,714	1,714
9		112,665	112,475
10			
11	Deduct:		
12	2005 Unbilled Revenue	2,309	2,309
13	Accrued Pension Liabilities	3,511	3,511
14	Accrued OPEBS Liability	-	3,350
15	Municipal Tax Liability	683	683
16	Future Income Taxes	2,866	1,895
17	Purchased Power Unit Cost Reserve	224	224
18	Customer Security Deposits	602	602
19		10,195	12,574
20			
21	Average Rate Base Before Allowances	857,925	855,550
22			
23	Cash Working Capital Allowance	10,142	9,230
24			
25	Materials and Supplies Allowance	4,505	4,461
26			
27	Average Rate Base At Year End	872,572	869,241

[1] All numbers shown are averages.

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

2010 Comparative Financial Forecasts
Weighted Average Cost of Capital
($000s)

		Existing	Proposed
1	**Average Capitalization**		
2	Debt	483,532	474,166
3	Preference Shares	9,113	9,113
4	Common Equity	384,377	390,362
5		877,022	873,641
6	**Average Capital Structure**		
7	Debt	55.13%	54.27%
8	Preference Shares	1.04%	1.04%
9	Common Equity	43.83%	44.69%
10		100.00%	100.00%
11			
12			
13	**Cost of Capital**		
14	Debt	7.54%	7.65%
15	Preference Shares	6.23%	6.23%
16	Common Equity	6.45%	11.00%
17			
18			
19	**Weighted Average Cost of Capital**		
20	Debt	4.16%	4.15%
21	Preference Shares	0.06%	0.06%
22	Common Equity	2.83%	4.92%
23		7.05%	9.13%

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

2010 Comparative Financial Forecasts
Rate of Return on Rate Base
($000s)

		Existing	Proposed
1	Regulated Return on Equity	24,777	42,941
2	Return on Preferred Equity	568	568
3		25,345	43,509
4			
5	Finance Charges		
6	Interest on Long-term Debt	35,849	35,849
7	Other Interest	419	226
8	Amortization of Bond Issue Expenses	185	185
9	AFUDC	(377)	(408)
10		36,076	35,852
11			
12	Return on Rate Base	61,421	79,361
13			
14	Average Rate Base	872,572	869,241
15			
16	Rate of Return on Rate Base	7.04%	9.13%

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

2010 Comparative Financial Forecasts
Inputs and Assumptions

Energy Forecasts :	Energy forecasts are based on economic indicators taken from the Conference Board of Canada forecast, Provincial Outlook Summer 2009, Economic Forecast, dated July 16, 2009.
Revenue Forecast :	The revenue forecast is based on the Customer, Energy and Demand forecast dated September 2009 Forecast revenues reflect the (i) amortization of the 2005 Unbilled Revenue, (ii) amortization of the municipal tax liability, (iii) the reclassification of interest on overdue accounts from finance charges, and (iv) recover through the RSA of amounts associated with the Supply Cost Variance Adjustment Clause for 2010 Existing Supply cost variances for 2010 Proposed are reflected in the 2010 Test Year Revenue Requirement
Purchased Power Expense :	Purchased Power expense reflects Hydro's Board approved rates and the Customer, Energy and Demand Forecast dated September 2009. Purchased Power Expense for 2010 includes a Board approved $0.6 million per year amortization related to the replacement energy costs associated with the Rattling Brook project and $0.7 million per year amortization related to the disposition of the Purchased Power Unit Cost Variance Reserve. Purchased Power Expense for 2010 also includes a Board approved $2.1 million per year amortization of the non-reversing balance in the Weather Normalization Reserve
Employee Future Benefit Costs :	Pension costs related to the 2005 Early Retirement Program are being amortized over a 10-year period from 2005 to 2015 as approved in Order No. P.U. 49 (2004). Pension funding is based on the actuarial valuation dated December 31, 2008 filed with this Application. Pension expense discount rate is assumed to be 6.50% in 2010. Expected return on pension assets is assumed to be 7.0% for 2010. The 2010 forecast assumes that the accounting for OPEBs is on the Accrual Basis. The increase in 2010 employee future benefit expense due to the adoption of the accrual method is $6.8 million Pension funding is forecast based on the latest actuarial information and assumes special funding payments of $1.5 milllion in 2010.

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

2010 Comparative Financial Forecasts
Inputs and Assumptions

Cost Recovery Deferral:	In Order No. P.U. 39 (2006), the Board approved the deferred recovery of $5.8 million in 2007 costs related to the conclusion of the depreciation true up in 2005.
	2010 costs include $3.9 million per year related to the amortization over a three-year period of cost recovery deferrals related to depreciation.
Depreciation Rates :	Depreciation rates for 2010 are based on the 2006 depreciation study.
	Depreciation costs for 2010 reflect a Board approved $0.2 million per year amortization of a $0.7 million depreciation true up resulting from the 2006 depreciation study.
Operating Costs :	Operating forecasts for 2010 reflect the evidence filed in this Amend Application.
	Deferred CDM costs of $1.5 million are being amortized on a straight-line basis over a 4-year period beginning in 2010.
	Operating costs in 2010 also include $750,000 in external regulatory costs related to the 2010 general rate application.
Capital Expenditure :	Capital Expenditures for 2010 reflect what is included in this Amended Application.
Short-Term Interest Rates :	Average short-term interest rates are assumed to be 2.0% for 2010.
Long-Term Debt :	A $65.0 million long-term debt issue was completed on May 25, 2009. The debt is forecast for 30 years at a coupon rate of 6.606%. Debt repayments will be in accordance with the normal sinking fund provisions for existing outstanding debt.
Dividends :	Common dividend payouts are forecast based on maintaining a target common equity component of 45%.
Income Tax :	Income tax expense reflects a statutory income tax rate of 32% in 2010.
	Effective July 1, 2008, the Board approved a reduction in customer rates of 0.18% to reflect the 2008 test year income tax true-up adjustment resulting form a reduction in federal tax rates for 2008.
	Income tax expense for 2010 reflects the tax effecting of pension costs as approved by the Board in Order No. P.U. 32 (2007) and the tax effecting of OPEB costs.

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.[1]

Summary of Existing and Proposed Customer Rates

	July 1, 2009 Existing Rates	January 1, 2010 Proposed Rates
Domestic - Rate #1.1		
Basic Customer Charge (B.C.C.)	$15.57/month	$15.57/month
Energy Charge - All kilowatt hours	8.916 ¢/kWh	9.714 ¢/kWh
Minimum Monthly Charge	$15.57/month	$15.57/month
Prompt Payment Discount	1.5% (min. $1)	1.5% (min. $1)
General Service 0-10 kW - Rate #2.1		
Basic Customer Charge (B.C.C.)	$17.86/month	$17.86/month
Energy Charge - All kilowatt hours	10.896¢/kWh	11.607¢/kWh
Minimum Monthly Charge		
- single phase	$17.86/month	$17.86/month
- three phase	$35.72/month	$35.72/month
Prompt Payment Discount	1.5% (min. $1)	1.5% (min. $1)
General Service 10-100 kW - Rate #2.2		
Basic Customer Charge (B.C.C.)	$20.57/month	$20.57/month
Demand Charge	$8.63/kW – winter $7.13/kW – other	$8.63/kW – winter $7.13/kW – other
Energy Charge		
First 150 kWh/kW of billing demand	8.448 ¢/kWh	9.051 ¢/kWh
All Excess kWh	6.146 ¢/kWh	6.583 ¢/kWh
Maximum Monthly Charge	16.3 ¢/kWh + B.C.C.	17.4 ¢/kWh + B.C.C.
Minimum Monthly Charge		
- single phase	$20.57/month	$20.57/month
- three phase	$35.72/month	$35.72/month
Prompt Payment Discount	1.5% (min. $1)	1.5% (min. $1)

[1] Customer rates reflect Rate Stabilization & Municipal Tax Adjustments July 1, 2009.

1st Revision Note: Updated for revised revenue requirement from rates for 2010.

Newfoundland Power Inc.

Summary of Existing and Proposed Customer Rates[1]

	July 1, 2009 Existing Rates	January 1, 2010 Proposed Rates
General Service 110-1000 kVA - Rate #2.3		
Basic Customer Charge (B.C.C.)	$92.61/month	$92.61/month
Demand Charge	$7.45/kVA-winter $5.95/kVA-other	$7.45/kVA-winter $5.95/kVA-other
Energy Charge		
First 150 kWh/kVA of billing demand (max. 30,000 kWh)	8.317 ¢/kWh	8.982 ¢/kWh
All Excess kWh	5.997 ¢/kWh	6.475 ¢/kWh
Maximum Monthly Charge	16.3 ¢/kWh + B.C.C.	17.4 ¢/kWh + B.C.C.
Minimum Monthly Charge	$92.61/month	$92.61/month
Prompt Payment Discount	1.5% (max. $500)	1.5% (max. $500)
General Service 1000 kVA and Over - Rate #2.4		
Basic Customer Charge (B.C.C.)	$185.23/month	$185.23/month
Demand Charge	$7.04/kVA-winter $5.54/kVA-other	$7.04/kVA-winter $5.54/kVA-other
Energy Charge		
First 100,000 kWh	6.933 ¢/kWh	7.545 ¢/kWh
All Excess kWh	5.872 ¢/kWh	6.390 ¢/kWh
Maximum Monthly Charge	16.3 ¢/kWh + B.C.C.	17.4 ¢/kWh + B.C.C.
Minimum Monthly Charge	$185.23/month	$185.23/month
Prompt Payment Discount	1.5% (max. $500)	1.5% (max. $500)

[1] Customer rates reflect Rate Stabilization & Municipal Tax Adjustments July 1, 2009.

1st Revision Note: Updated for revised revenue requirement from rates for 2010.

Newfoundland Power Inc.

Summary of Existing and Proposed Customer Rates[1]

			July 1, 2009 Existing Rates	January 1, 2010 Proposed Rates
Street and Area Lighting				
Sentinel/Standard Fixtures				
High Pressure Sodium	-	100W	$15.07	$16.09
	-	150W	$18.98	$20.63
	-	250W	$25.09	$27.83
	-	400W	$34.24	$38.61
Mercury Vapour	-	175W	$15.07	$16.09
	-	250W	$18.98	$20.63
	-	400W	$25.09	$27.83
Post Top Fixtures				
Mercury Vapour	-	175W	$15.89	$17.28
High Pressure Sodium	-	100W	$15.89	$17.28
Poles				
Wood			$6.28	$7.01
30' Concrete or Metal, direct buried			$9.27	$10.17
45' Concrete or Metal, direct buried			$14.68	$15.49
25' Concrete or Metal, Post Top, direct buried			$7.38	$7.84
Underground Wiring (per run)				
All sizes and types of fixtures			$12.37	$12.39

[1] Customer rates reflect Rate Stabilization & Municipal Tax Adjustments July 1, 2009.

1st Revision Note: Updated for revised revenue requirement from rates for 2010.

Report on Other Post Employment Benefits

September 2009

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Appendix A: The Surveyed Utilities

1.0 INTRODUCTION

1.1 Background

Newfoundland Power provides defined benefit and defined contribution pension plans and other post employment benefits ("OPEBs") for its employees. Newfoundland Power's OPEBs are composed of retirement allowances for retiring employees as well as health, medical and life insurance for retirees and their dependents. Pensions and OPEBs together represent Newfoundland Power's total employee future benefits.

Newfoundland Power effectively recognizes OPEBs costs on a cash basis whereby the annual expense is equal to the retirement allowances and insurance premiums actually paid in the year (the "Cash Method").[1] Newfoundland Power recognizes pension costs using the accrual method (the "Accrual Method").

In the 2008 General Rate Application ("GRA"), the Company filed a report to address the use of the Accrual Method of recognizing OPEBs as an alternative to the Cash Method. [2]

In Order No. P.U. 32 (2007), the Board approved Newfoundland Power to continue using the Cash Method for OPEBs until the matter is given further consideration by the Board at the next GRA.[3]

1.2 Regulatory Context

Newfoundland Power has assessed its OPEBs obligations, including the transitional obligations associated with moving to the Accrual Method and the customer rate implications of this change in accounting policy.

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1 The *Income Tax Act (Canada)* requires that the computation of current income tax reflect the Cash Method of accounting for OPEBs, i.e. only retirement allowances and insurance premiums actually paid are tax deductible.

2 This report was filed in accordance with Order No. P.U. 19 (2003). Page 83 of the Order stated "The Board is concerned about the potential liability for employee future benefits and is of the view that NP should explore using the accrual method of accounting for these benefits. The Board recognizes that there are significant transitional obligations associated with this change in accounting policy but once the transitional obligation has been met these costs should decrease. NP should continue to monitor its obligations with respect to employee future benefits and corresponding regulatory practice. The Board will direct NP to propose a plan at its next general rate application for moving towards the accrual method of accounting for employee future benefits as recommended by CICA. The Board emphasizes such a plan should be presented to the Board as an alternative to the existing method and should address the transitional impact with a view to fulfilling NP's obligation to its employees while at the same time moderating its impact on rates. The Board will then be in a position to consider this alternative accrual method and its specific impacts at the next hearing."

3 Order No. P.U. 32 (2007), page 18.

An actuarial valuation determined the present value of Newfoundland Power's total OPEBs obligation, as of December 31, 2008, to be approximately $59.6 million on an accrual basis.[4]

Table 1 shows the projected growth in Newfoundland Power's total OPEBs obligations over the period 2008 to 2012.

Table 1
Total OPEBs Obligation
Accrual Basis
As of December 31
($millions)

2008	2009	2010	2011	2012
59.6	74.6	79.1	84.2	88.8

As employees accumulate service with the Company, the value of Newfoundland Power's OPEBs obligations will continue to increase.

There are significant transitional obligations associated with moving from the Cash Method to the Accrual Method (i.e., the "Transitional Obligation").[5]

Fully recognizing Newfoundland Power's total OPEBs obligations, including the Transitional Obligation, through adoption of the Accrual Method commencing in 2010 would result in an increase in 2010 revenue requirements of approximately $11.4 million or 2.2%.[6]

1.3 Newfoundland Power's Proposal

Based on its assessment, the Company is proposing a measured transition to the Accrual Method. The proposal in the Amended Application includes features that reasonably mitigate the impact on customer rates of the proposed change.

[4] The current actuarial valuation of the Company's OPEBs obligations on an accrual basis is found in *Volume 2: Supporting Documents, Tab 5.*

[5] In accordance with GAAP requirements, Newfoundland Power recorded a regulatory asset of $41.1 million associated with the Transitional Obligation on its December 31, 2008 balance sheet. The Transitional Obligation represented by this regulatory asset is projected to grow to approximately $46.2 million by December 31, 2009.

[6] The $11.4 is comprised of $6.8 million to move to the Accrual Method on a tax-effected basis (see Table 8) and $4.6 million for the Transitional Obligation. This assumes the Transitional Obligation is recovered over a 10 year period. The 2.2% customer rate impact equals $11.4 million divided by $529.1 million total customer charges under existing rates from Exhibit 10 (1st Revision).

In this Amended Application, Newfoundland Power proposes to:

1. adopt the Accrual Method of accounting for OPEBs costs for regulatory purposes commencing in 2010;
2. tax-effect employee future benefits costs related to OPEBs expense for regulatory purposes commencing in 2010;[7] and
3. defer consideration of the Transitional Obligation of $46.2 million until a further hearing to be determined by the Board.[8]

The Company's proposals, if approved by the Board, will result in an increase in 2010 revenue requirements of approximately 1.3%.

2.0 OPEBs ACCOUNTING POLICY

2.1 The Accrual Method

Under the Accrual Method, OPEBs costs are recognized as an expense as employees earn the benefits that they will receive after retirement. Therefore, OPEBs costs are "accrued" rather than being recognized when benefits are paid.

Conceptually, OPEBs costs are no different than pension costs attributable to defined benefit pension plans. Both are costs of employee future benefits.

Newfoundland Power uses the Accrual Method to recognize pension expense attributable to its defined benefit pension plans for both financial reporting and regulatory purposes. Pension expense is actuarially determined and reflects management's best estimates with respect to matters such as the expected performance of pension plan assets, future salary escalation and the retirement ages of employees. Under the Accrual Method, OPEBs expense would be calculated in a similar manner.

Newfoundland Power proposes to adopt the Accrual Method of accounting for OPEBs costs on a prospective basis for regulatory purposes in 2010.

2.2 Canadian Standards and Practice

2.2.1 Financial Reporting Standards

Canadian generally accepted accounting principles ("GAAP") with respect to the recognition of both defined benefit pension costs and OPEBs costs for financial reporting purposes are set out in section 3461 of the Canadian Institute of Chartered Accountants ("CICA") Handbook.

[7] Tax-effecting employee future benefits costs mitigates the impact on revenue requirement of adopting the Accrual Method of recognizing OPEBs costs for regulatory purposes. In Order No. P.U. 32 (2007), the Board approved the tax effecting of future benefit costs related to pensions.

[8] If the Company adopts the accrual method of accounting for OPEBs in 2010 as proposed in the Amended Application, the $46.2 million Transitional Obligation will not change.

Pursuant to section 3461, defined benefit pension costs and OPEBs costs would normally be recognized under the Accrual Method for financial reporting purposes.[9]

Prior to 2009, Canadian GAAP contained guidance that effectively permitted the recognition of regulatory assets and liabilities.[10] This effectively allowed Newfoundland Power to continue to recognize OPEBs costs using the Cash Method rather the Accrual Method as required under section 3461.

Effective 2009, the AcSB removed from Canadian GAAP the guidance that permitted recognition of regulatory assets and liabilities. For 2009 and 2010, Canadian regulated utilities effectively rely on U.S. GAAP (particularly, Statement of Financial Accounting Standards No. 71 *Accounting for the Effects of Certain Types of Regulation*) which permits recognition of regulatory assets and liabilities on a conceptually similar basis to that allowed under Canadian GAAP prior to 2009. Commencing in 2011, the recognition of regulatory assets and liabilities will be governed by IFRS.[11]

The accumulated OPEBs expense of $41.1 million, as of December 31, 2008, has been recorded as a regulatory asset. This Transitional Obligation represents the amount of incurred OPEBs expense for which recognition, and recovery from customers, has effectively been deferred until future periods.

The Transitional Obligation is forecast to increase to approximately $46.2 million by December 31, 2009.

2.2.2 Financial Reporting and Regulatory Practice

During the 2008 GRA, the Company surveyed regulated Canadian utilities with respect to their OPEBs accounting policy for financial reporting and regulatory purposes. The results of the survey showed that only 6 of 24 Canadian utilities used the Cash Method of accounting for OPEBs.

The Company has surveyed 24 regulated Canadian utilities with respect to accounting for OPEBs. Appendix A provides a list of the surveyed utilities.

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9 Section 3461 of the CICA Handbook became effective on January 1, 2000.

10 CICA accounting guideline AcG-19 titled *disclosures by entities subject to rate regulation* effectively required rate-regulated entities like Newfoundland Power to record regulatory assets and regulatory liabilities on their balance sheets. In compliance with AcG-19, Newfoundland Power reported a regulatory asset (the "Transitional Obligation") and a GAAP liability of $41.1 million with respect to its OPEBs on its December 31, 2008 balance sheet. This actuarially determined amount represents the amount of Newfoundland Power's accumulated benefit obligation for OPEBs that would have been recorded as both an expense and a liability by December 31, 2008 pursuant to section 3461 of the CICA Handbook.

11 In December 2008, the IASB initiated a project on rate-regulated activities. The IASB < > published an exposure draft concerning the recognition and measurement criteria for regulatory assets and liabilities < > in July 2009. A final standard is currently expected to be published by the IASB in June 2010.

Table 2 provides the updated survey results.

Table 2
Survey Results
OPEBs Accounting Policy
Financial Reporting and Regulatory Purposes

	Number of Regulatory Jurisdictions	Number of Utilities
Accrual Method	10	22[12]
Cash Method	2	2
		24

The Accrual Method is the mainstream accounting policy for regulated Canadian utilities. Based upon the results of the survey, 22 or 92% use the accrual basis of accounting for the recognition of OPEBs costs.[13] Compared to the survey completed in 2007, the number of utilities using the Cash Method has reduced from 6 to 2.

2.3 Impact of Adopting the Accrual Method

2.3.1 Impact of Accrual Method on Net OPEBs Expense

The forecast impact of adopting the Accrual Method on Newfoundland Power's net OPEBs costs for 2010 is summarized in Table 3.[14]

Table 3
OPEBs Accrual Method
Forecast Impact on Net OPEBs Costs
($millions)

	2010
Cash Method	1.7
Accrual Method	8.4
Increase	6.7

[12] Includes Newfoundland and Labrador Hydro ("Hydro"). Two utilities, Northwest Territories Power Corp and Pacific Northern Gas Ltd., use variations of the accrual/cash methods for the recognition of OPEBs and are not reflected in Table 2.

[13] The utilities surveyed that use the Cash Method of accounting for OPEBs are FortisAlberta and Gaz Metro Limited Partnership.

[14] The *forecast* amounts in Table 3 are based on the OPEB Actuarial Valuation and, in the case of the Accrual Method, GAAP as set out in section 3461 of the CICA Handbook. The calculation of net OPEBs expense under the Accrual Method is consistent with the calculation of net pension expense for the Company's defined benefit pension plans.

Table 3 shows that in 2010 net OPEBs costs under the Accrual Method would be approximately $6.7 million higher than that calculated under the Cash Method.

2.3.2 Impact of Accrual Method on Rate Base

Actual OPEBs payments made by Newfoundland Power in any period is the total of the insurance premiums and retirement allowances paid in the period.

Under the Accrual Method, the excess of OPEBs expense recognized in any period over OPEBs payments made in the period would, in accordance with accounting guidelines, be recorded as a net liability on Newfoundland Power's balance sheet. This net liability (the "Accrued OPEBs Liability") represents, at any date, the amount by which cumulative OPEBs expense recognized to that date has exceeded cumulative OPEBs payments to that date.[15]

Because OPEBs expense under the Cash Method is equal to OPEBs payments, the Accrued OPEBs Liability is also equal to the cumulative difference between (i) OPEBs expense under the Cash Method and (ii) OPEBs expense under the Accrual Method.

Under the asset rate base method ("ARBM"), the Accrued OPEBs Liability serves to decrease Newfoundland Power's rate base. Consistent with the ARBM methodology[16], Newfoundland Power proposes that the Accrued OPEBs Liability be deducted from its rate base commencing in 2010 upon the adoption of the Accrual Method of accounting for OPEBs.[17]

Essentially, the Accrued OPEBs Liability is conceptually similar to the Company's future income tax liability. Both represent expenses recognized in the current period or in prior periods for which payment will not occur until future periods, i.e. both are deferred liabilities. Newfoundland Power's future income tax liability is subtracted from its rate base.[18]

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15 The recognition of OPEBs expense increases the Accrued OPEBs Liability. The OPEBs payments decrease the Accrued OPEBs Liability.

16 In Order No. P.U. 19 (2003), the Board found that the ARBM should replace the invested capital method in determining the rate base for Newfoundland Power.

17 The treatment of Newfoundland Power's Accrued OPEBs Liability as a reduction in rate base would be conceptually consistent with the treatment of the deferred pension asset relating to its defined benefits pension plans. The inclusion of Newfoundland Power's deferred pension asset in its rate base was approved by the Board in Order No. P.U. 19 (2003).

18 See Return 3 in Newfoundland Power's 2008 Annual Report to the Board.

Table 4 provides the forecast impact on 2010 average rate base of the adoption of the Accrual Method.

Table 4
OPEBs Accrual Method
Forecast Impact on Average Rate Base
($millions)

	2010
Accrued OPEBs Liability, Beginning of the Year	-
Net OPEBs Expense, Accrual Method[19]	8.4
Net OPEBs Expense, Cash Method[20]	(1.7)
Accrued OPEBs Liability, End of the Year	6.7
Reduction in Average Rate Base[21]	3.4

The reduction in average rate base shown in Table 4 will reduce Newfoundland Power's permitted return and revenue requirement. In this way, the cash flow benefits associated with the increased net OPEBs expense under the Accrual Method are passed on to customers.

The reduction in rate base that will result from the adoption of the Accrual Method for OPEBs tends to offset the deferred pension asset included in rate base. The deferred pension asset reflects the fact that, under the Accrual Method of pension accounting, pension funding for the defined benefit plans has exceeded pension expense.[22] The cumulative difference is recorded as a deferred asset until it is recognized as pension expense in future periods.

Under the Accrual Method, the opposite is true for OPEBs. The expense is recognized and recovered through customer rates prior to the cash disbursements. The resultant Accrued OPEBs Liability is recorded as a deferred liability until it is extinguished through the payment of OPEBs costs in future periods.

These underlying, and offsetting, dynamics serve to limit the overall rate base impacts relating to the Company's employee future benefits programs when the Accrual Method is used to account for both OPEBs and pension costs.

[19] As per Table 3.
[20] OPEBs payments related to insurance premiums and retirement allowances.
[21] Equals (Accrued OPEBs Liability, Beginning of the Year plus Accrued OPEBs Liability, End of the Year) divided by 2.
[22] Pension funding is actuarially determined. Pension expense is determined in accordance with accounting standards and reflects both the actuary's calculations and management's best estimates. The differences in methodologies result in ongoing differences between pension funding and pension expense.

2.3.3 Impact of Accrual Method on Revenue Requirement

Table 5 sets out, on a forecast basis for 2010, the impact of the Accrual Method on the revenue requirement attributable to OPEBs.

Table 5
OPEBs Accrual Method
Forecast Impact on Revenue Requirement
($millions)

	2010
Operating Expenses	
Increase in Net OPEBs Expense[23]	6.7
Tax Effects[24]	3.2
Increase in Revenue Requirement	9.9
Return on Rate Base	
Rate Base Effects[25]	(0.3)
Tax Effects	(0.1)
Decrease in Revenue Requirement	(0.4)
Increase in Revenue Requirement	9.5

Table 5 shows that the forecast impact of the Accrual Method on revenue requirement in 2010 is $9.5 million.

2.4 Transitional Obligation

Newfoundland Power proposes that the Transitional Obligation, shown as a regulatory asset on its December 31, 2008 balance sheet, be addressed at a further hearing to be determined by the Board.

The Transitional Obligation is the actuarially determined difference between (i) the total OPEBs expense that would have been recognized by the Company pursuant to the Accrual Method since January 1, 2000,[26] and (ii) the total OPEBs expense recognized since that date under the Cash Method. It represents legacy OPEBs costs that have not yet been recovered from customers.

As at the proposed January 1, 2010 adoption date for the Accrual Method of accounting for OPEBs, the forecast Transitional Obligation is approximately $46.2 million.

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[23] As per Table 3.
[24] Based on Newfoundland Power's marginal income tax rate of 32 percent for 2010.
[25] Equals (Reduction in Rate Base as per Table 4) times (Return on Rate Base) or ($3.4 million times 9.13 %).
[26] This is the effective date for Newfoundland Power of the Accrual Method of accounting for OPEBs for financial reporting purposes pursuant to section 3461 of the CICA Handbook.

The manner in which the Transitional Obligation is recognized as an expense for regulatory purposes is to be determined by the Board. Current accounting guidelines, under U.S. Financial Accounting Standards No. 71 *Accounting for the Effects of Certain Types of Regulation*, effectively require the treatment for financial reporting purposes to match the regulatory treatment.[27]

Given the impact on revenue requirement of Newfoundland Power's proposal to adopt the Accrual Method of accounting for OPEBs costs, the Company proposes that the disposition of the Transitional Obligation be addressed at a subsequent hearing to be determined by the Board.

Newfoundland Power's proposals would effectively result in a two stage approach to addressing the Company's OPEBs accounting policy. The first stage would be the adoption of the Accrual Method of accounting on a prospective basis commencing January 1, 2010. The second stage would be addressing, at a later date, the legacy OPEBs costs represented by the Transitional Obligation.

A two stage approach benefits customers by reducing the immediate impacts on revenue requirement and customer rates that would otherwise be associated with the adoption of the Accrual Method of accounting for OPEBs costs for regulatory purposes

3.0 TAX-EFFECTING EMPLOYEE FUTURE BENEFITS EXPENSE

Newfoundland Power proposes to tax-effect employee future benefits expense through the adoption of the asset and liability method of income tax accounting for regulatory purposes commencing in 2010.[28]

3.1 Tax-Effecting Generally

The timing of the recognition of an expense for income tax purposes is determined by federal and provincial tax laws. The timing of the recognition of an expense for financial reporting and regulatory purposes is determined by GAAP or the regulator.

The period in which an expense is recognized for income tax purposes may, therefore, differ from the period in which it is recognized for financial reporting and regulatory purposes. When this happens, the income tax effects of an expense and the expense itself are not recognized in the same period.

To "tax-effect" an expense means to recognize the income tax effects of the expense in the period in which the expense itself is recognized for financial reporting and regulatory purposes.

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[27] Prior to 2009, Canadian GAAP contained guidance that effectively permitted the recognition of regulatory assets and liabilities. Effective 2009, the AcSB removed from Canadian GAAP the guidance that permitted recognition of regulatory assets and liabilities. For 2009 and 2010, Canadian regulated utilities effectively rely on U.S. GAAP (particularly, Statement of Financial Accounting Standards No. 71 *Accounting for the Effects of Certain Types of Regulation*) which permits recognition of regulatory assets and liabilities on a conceptually similar basis to that allowed under Canadian GAAP prior to 2009. Commencing in 2011, the recognition of regulatory assets and liabilities will be governed by IFRS.

[28] The treatment for regulatory purposes will effectively result in an identical treatment for financial reporting purposes.

This is accomplished through the recognition of future income tax for financial reporting and regulatory purposes.

3.2 Current and Future Income Tax

Current income tax expense (recovery) is the amount of income tax actually paid (recovered) in the current period, i.e., "cash taxes".[29]

Future income tax expense is the reduction in cash taxes in the current period that is attributable to expenses that will be recognized in future periods for financial reporting and regulatory purposes.

Future income tax recovery is the reduction in cash taxes that is expected to occur in future periods that is attributable to expenses recognized in the current period for financial reporting and regulatory purposes.

When an entity's accounting policy for financial reporting and regulatory purposes is to recognize only current income taxes, it is said to follow the "Flow-through Method".

When an entity's accounting policy for financial reporting and regulatory purposes is to recognize both current and future tax, it is said to use the "Asset and Liability Method". In order to tax-effect OPEBs expense an entity would follow the Asset and Liability Method with respect to that expense.

Newfoundland Power's income tax accounting policy for financial reporting and regulatory purposes is a hybrid of these two methods. The Company recognizes future income tax liabilities in connection with: (i) temporary timing differences between depreciation expense and capital cost allowance; and (ii) temporary timing differences between pension funding and expense.[30] It also tax-effects its regulatory reserves, such as the weather normalization reserve. Otherwise, it follows the Flow-through Method.

3.3 Regulatory Standards

Tax-effecting OPEBs partially mitigates the impact on customer rates of adopting the Accrual Method of accounting for OPEBs.

The excess of OPEBs expense determined using the Accrual Method over that determined using the Cash Method is not deductible in determining current income tax expense for the period. Rather, this additional amount of OPEBs expense becomes tax deductible in future years when the insurance premiums and retiring allowances that it represents are actually paid.

By tax-effecting OPEBs, these future income tax impacts are recognized in the same period as the associated expense. This is consistent with the principle of intergenerational equity. To do otherwise would result in one generation of customers bearing the cost and another generation receiving the tax benefits.

[29] An income tax recovery is effectively a reduction in income tax expense.

[30] The tax effecting of timing differences between pension funding and pension expense was approved by the Board in Order No. P.U. 32 (2007).

Tax-effecting OPEBs expense is accomplished by recognizing a net future income tax recovery and a net future income tax asset in an amount equal to the net reduction in cash taxes that is expected to occur in future periods when the expense effectively becomes tax deductible. This serves to offset a portion of the additional OPEBs expense recognized under the Accrual Method of accounting, thereby reducing revenue requirement.

The immediate result of tax-effecting is a reduction in the impact on customers of a switch from the Cash Method to the Accrual Method of accounting for OPEBs. The long-term impact is to smooth fluctuations in net OPEBs expense and the resultant revenue requirement.

3.4 Impact of Tax-Effecting on Revenue Requirement

Table 6 provides the forecast impacts that tax-effecting OPEBs would have on Newfoundland Power's future income tax recoveries, future income tax asset and rate base for 2010.

Table 6
Tax-Effecting OPEBs
2010 Forecast Future Income Tax and Rate Base Impacts
(millions)

Future Income Tax Asset, Beginning of the Year	$ -
Future Income Tax Recovery[31]	1.9
Future Income Tax Asset, End of the Year[32]	$ 1.9
Increase in Rate Base (Average Future Income Tax Asset)[33]	$ 1.0

The future income tax recovery of $1.9 million shown in Table 6 reduces revenue requirement. The increase in rate base of $1.0 million shown in Table 6 increases revenue requirement. The net impact is a reduction in revenue requirement.

[31] Represents the reduction in income tax expense that would be shown on Newfoundland Power's statement of income.

[32] Represents the future income tax asset that would be shown on Newfoundland Power's balance sheet.

[33] Equals (Future Income Tax Asset, Beginning of the Year plus Future Income Tax Asset, End of the Year) divided by 2.

Table 7 shows the 2010 forecast impact on revenue requirement.

Table 7
Tax-Effecting OPEBs
2010 Forecast Impact on Revenue Requirement
($millions)

Income Tax Recovery	
Future Income Tax Recovery	(1.9)
Tax Effects[34]	(0.9)
Change in Revenue Requirement	(2.8)
Return on Rate Base	
Rate Base Effects	0.1
Tax Effects	-
Change in Revenue Requirement	0.1
Change in Revenue Requirement	(2.7)

Table 7 shows, on a forecast basis, that tax-effecting OPEBs would reduce the impact on customers of the proposed adoption of the Accrual Method of accounting for OPEBs.

4.0 CONCLUSION

In this Amended Application, Newfoundland Power proposes to:

(i) adopt the Accrual Method of accounting for OPEBs costs for regulatory purposes commencing in 2010;
(ii) tax-effect employee future benefits costs related to OPEBs expense for regulatory purposes commencing in 2010; and
(iii) defer consideration of the Transitional Obligation of $46.2 million until a further hearing to be determined by the Board.

[34] Equals $1.9 million future income tax recovery times (the 32% corporate income tax rate divided by (1 minus the 32% income tax rate)).

Table 8 provides the impacts of Newfoundland Power's proposals on 2010 revenue requirement.

Table 8
Forecast Impacts of Proposals
2010 Test Year Revenue Requirement
($millions)

OPEBs Accrual Method[35]	9.5
Tax-Effecting of OPEBs[36]	(2.7)
Increase in Revenue Requirement	6.8

Newfoundland Power's accounting proposals for OPEBs would increase 2010 test year revenue requirement by approximately $6.8 million, or 1.3%.[37]

The adoption of the Accrual Method of accounting for OPEBs expense on a prospective basis will bring Newfoundland Power's OPEBs accounting policy into the mainstream of Canadian regulated utility practice commencing in 2010. It will also align the accounting for OPEBs with that of the Company's defined benefit pension plans and with the accounting practice for OPEBs followed by Hydro. The Accrual Method is consistent with GAAP, the cost of service standard and the principle of intergenerational equity.

Addressing the disposition of the Transitional Obligation of $46.2 million at a subsequent hearing reduces the impact on customer rates that would otherwise be associated with the adoption of the Accrual Method.

Tax-effecting OPEBs expense is consistent with the principles of intergenerational equity and rate stability. As well, tax-effecting OPEBs expense reduces the impact on customers of the proposed adoption of the Accrual Method of accounting for OPEBs costs.

[35] From Table 5.
[36] From Table 7
[37] 1.3% customer rate impact equals $6.8 million from Table 8 divided by $529.1 million total customer charges under existing rates from Exhibit 10 (1st Revision).

The Surveyed Utilities

Utility	Regulatory Jurisdiction
Altalink	Alberta
Atco Electric	Alberta
Atco Gas	Alberta
B.C. Hydro	British Columbia
Enbridge Gas	Ontario
Enersource Hydro	Ontario
FortisAlberta	Alberta
FortisBC	British Columbia
FortisOntario	Ontario
Gaz Metro	Quebec
Hydro One	Ontario
Hydro Ottawa	Ontario
Hydro Quebec	Quebec
Manitoba Hydro	Manitoba
Maritime Electric	Prince Edward Island
New Brunswick Power	New Brunswick
Newfoundland & Labrador Hydro	Newfoundland
Northwest Territories Power Corp.	Northwest Territories
Nova Scotia Power	Nova Scotia
Ontario Power Generation	Ontario
Pacific Northern Gas	British Columbia
Saskatchewan Power	Saskatchewan
Terasen	British Columbia
Toronto Hydro	Ontario
Union Gas	Ontario
Yukon Electrical Company	Yukon
Total Utilities 26	**Total Regulatory Jurisdictions 12**

Newfoundland Power Inc.
Customer, Energy and Demand Forecast

September 2009

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1.0 INTRODUCTION

The Customer, Energy and Demand forecast, which is prepared annually, forms the foundation of Newfoundland Power's planning process. The forecast is a key input in developing estimates of capital expenditures required to ensure the electrical system can meet the increasing demands associated with both customer and energy sales growth. The forecast also directly impacts the forecast of both revenue from electrical sales and the Company's single largest expenditure, purchased power. These items are key components of the Company's financial planning process.

2.0 FORECAST METHODOLOGY

Newfoundland Power provides electrical service to three distinct categories of customers: domestic; general service; and, street and area lighting. In 2008, domestic accounted for 60% of total energy sales while general service and street and area lighting represent 39% and 1%, respectively.

The domestic category, Rate 1.1, primarily refers to residential dwellings such as single detached homes, single attached homes, apartments and mobile homes. This category also includes non-residential services such as cottages, personal use garages and other metered services that qualify for the domestic rate category. Residential customers use electricity primarily for space and water heating, and the operation of miscellaneous appliances and lighting. In this category a customer/average use methodology is employed where customer growth is primarily based on the housing starts while average use is forecast using an end-use/econometric model that includes the market share for electric space heating, personal disposable income and the marginal price of electricity in the current and previous year.

The general service category primarily refers to commercial, institutional and industrial customers. Unlike the domestic category which represents a homogenous group of customers, the general service category represents a very diverse group whose activities include, trade, finance, real estate, public administration, health, education, commercial services, transportation, manufacturing, mining, fishing, forestry and construction. These customers provide goods and services to the local market as well as for export. In 2008, approximately 85% of energy sales in this category were to customers in the service producing sector of the economy while only 15% were in the goods producing sector.

From a forecasting perspective the general service category is divided into small general service which includes Rate 2.1 0 - 10 kW and Rate 2.2 10 – 100 kW (110 kVA) and large general service which includes Rate 2.3 110 kVA (100 kW) – 1000 kVA and Rate 2.4 1000 kVA and Over. In the small general service category a customer/average use methodology is employed where the number of customers is primarily based on the number of domestic customers while average use is forecast using an econometric model that includes the Gross Domestic Product ("GDP") for the service sector per small general service customers and the average price of electricity in the current year.

Given the relatively small number of customers in the large general service category, an informed opinion methodology is employed and energy sales are forecast on an individual customer basis.

Street and area lighting energy sales are primarily related to the number of fixtures required to meet the lighting needs of both municipalities and unincorporated communities. At the end of 2008 approximately 57,000 fixtures were installed with high pressure sodium fixtures accounting for 88% of these fixtures and mercury vapour accounting for the remainder. Given the nature of this category, an end use forecasting methodology is employed. The street and area lighting sales forecast is determined by multiplying the forecast quantity of fixtures by the amount of electricity consumed for each fixture type and wattage.

Total energy sales are calculated by adding domestic, general service, and street and area lighting sales. Company use, system losses and wheeled energy are then added to total energy sales to obtain total produced, purchased and wheeled. Company use includes all electricity consumed in facilities owned by Newfoundland Power and used in the delivery of service to customers. System losses refer to energy that is lost during the transmission and distribution of energy between the source of supply and delivery to customers. Wheeled information is provided by Newfoundland and Labrador Hydro.

Purchased energy is calculated by subtracting normal hydro production ("Normal Production") from the forecast of total produced and purchased. Each year Normal Production is adjusted to reflect plant availability and any modifications to plants that may impact production.

Newfoundland Power's native peak is determined using a load factor based methodology. The load factor used in the calculation is the average of 15 years of normalized annual load factors. Native peak is calculated by applying the average load factor to total produced and purchased power. This peak is adjusted to reflect the impact of load curtailment by Newfoundland Power customers and at company owned facilities. Purchased power demand is calculated by subtracting the generation credit from native peak.

3.0 KEY FORECAST ASSUMPTIONS

The forecasting process relies on a wide range of information related to the economy, energy prices, conservation and demand management activities, and other resource based developments within Newfoundland Power's service territory.

3.1 Economic Outlook

While the Company monitors forecasts from various banks and financial institutions, the Conference Board of Canada is the Company's primary provider of economic information. The economic assumptions used in preparing the customer, energy and demand forecasts are based on the Conference Board of Canada, *Provincial Outlook Summer 2009, Economic Forecast*, dated July 16, 2009. A table summarizing the key economic indicators contained in this forecast for 2009 and 2010 is shown in Appendix A. A copy of the Conference Board of Canada's economic forecast is enclosed as Attachment A.

Since 1996, large resource based projects such as Hibernia, Terra Nova, White Rose and Voisey's Bay have reshaped the economy of Newfoundland and Labrador. The mining sector has experienced average annual growth of 18% per year and in 2008 accounted for approximately 30% of the total economy. Consequently, over the past 10 years the Newfoundland and Labrador economy has increased at an average annual growth of 4.6% per year, the highest growth of any Province. Despite the moratorium on cod, the fishing sector contributed to economic growth with increased landings of both crab and shrimp. The development of these resource based projects has positively impacted other key economic indicators such as personal income, unemployment rates and service sector growth. On the downside problems in the newsprint industry forced the closure of the mill in Stephenville in 2005 negatively impacting the manufacturing sector.

Economic performance will continue to be driven by large resource based projects. In 2008 economic performance was constrained by lower oil production with the mining sector contracting by 6.1%. With the major offshore oil fields reaching peak production in 2007 it is expected that production will continue to fall until the satellite oil fields come online.

Newfoundland and Labrador will not escape the impact of the global recession. With commodity prices plummeting from record levels, metal mining companies such as Wabush Mines, the Iron Ore Company of Canada and the Voisey's Bay nickel mine have cut production and announced layoffs. In March 2009 the newsprint mill at Grand Falls – Windsor operated by AbitibiBowaters closed resulting in the direct loss of 755 jobs. The operator of the remaining newsprint operation in the province at Corner Brook has also announced production cuts. As expected, declining production at offshore oil fields will significantly impact economic growth in 2009. On a positive note the investment outlook is promising. Construction of a US$2.2 billion nickel processing facility at Long Harbour is scheduled to start in the spring of 2009, the continued development of the offshore satellite oil fields and government infrastructure spending will boost economic growth.

With the global recession expected to ease in the latter part of 2009 the outlook for the Newfoundland and Labrador economy in 2010 is expected to improve. Higher commodity prices will result in a recovery in mineral production and manufacturing will rebound as the global economy improves. Construction on the nickel processing facility at Long Harbour will continue and oil production levels will stabilize as the first of the offshore satellite fields start production. Based on these assumptions GDP is forecast to decrease 3.4% in 2009 and remain flat <> in 2010.

Given Newfoundland Power's customer base, energy sales growth is primarily influenced by the domestic economy. More specifically, growth in the service sector, changes in employment levels, personal income, energy prices and population demographics in the Company's service territory are more determinative of sales growth than resource industry production levels.

Economic growth will not be uniform across Newfoundland Power's service territory. In the Northeast Avalon, growth will continue to be strong principally due to activities related to the offshore oil industry. In contrast much of rural Newfoundland and Labrador is expected to continue the trend of economic stagnation.

3.2 Energy Prices Outlook

Changes in energy prices have a direct impact on energy sales growth through the inclusion of price elasticity effects in the various models. Overall, analysis of customer response to changes in the price of electricity is relatively inelastic. That is to say a 1% change in the price of electricity will result in a change in energy sales of less than 1%. The current model indicated that a 1% increase in the price of electricity will result in a 0.25% decrease in energy sales. The model also indicates the response will vary depending on the time frame and rate category. In addition, changes in oil prices can impact the market share of electricity in the competitive space heating market.

The energy sales forecast is impacted by changes in the price of electricity during the past two years as well as forecast changes in the price of electricity. Electricity price forecasts are developed based on information available internally and provided by Newfoundland and Labrador Hydro. The annual review of the rate stabilization account resulted in an increase in the price of electricity of 5.9% on July 1, 2008 and a decrease of 6.6% on July 1, 2009 < >. As proposed in Newfoundland Power's application, a 7.2% increase in current customer rates < > effective January 1, 2010 has been included in the energy sales forecast under proposed rates.

Due to a collapse in the world price of oil in late 2008, furnace oil prices are forecast to decline significantly in 2009. With the world price of oil forecast to partially recover from its collapse, furnace oil prices are forecast to increase in 2010. This projection is consistent with the fuel forecast used in the calculation of the rate stabilization account.

3.3 Conservation and Demand Management Impacts

The energy sales forecast includes the impact of conservation and demand management. The adjustments to the forecast are consistent with the Five-Year Energy Conservation Plan: 2008 – 2013. In the domestic category the forecast includes the impact of the Insulation Program, Thermostat Program and the Energy Star Windows Program while the general service category has been adjusted for the Lighting Rebate Program.

3.4 Other Inputs

Information from a number of other sources is also used in preparing the forecast. Each year Newfoundland Power surveys approximately 150 customers representing approximately 600 accounts requesting information with respect to future load requirements. This information along with information gathered from Newfoundland Power's regional operations, the St. John's Board of Trade, various other trade organizations, and the provincial and federal governments is also incorporated into the large general service forecast. In addition, information from Canada Mortgage and Housing with respect to housing starts is combined with information received from the Conference Board of Canada in preparing the domestic customer forecast.

4.0 CUSTOMER AND ENERGY FORECAST

Appendix B shows the customer and energy forecasts for the 2009 - 2010 period under both existing and proposed rates. Under both scenarios the total number of customers is forecast to increase by 1.4% in 2009 and 1.1% in 2010. Energy sales under existing rates are forecast to increase by 1.1% in 2009 and 2.0% in 2010. Energy sales under proposed rates are forecast to increase by 1.1% in 2009 and 1.2% in 2010.

Domestic customer growth is largely a result of housing starts. The Conference Board of Canada forecasts housing starts of 2,788 units in 2009 and 1,868 in 2010 while Canada Mortgage and Housing is projecting 2,950 units in 2009 and 3,000 units in 2010. Using an average of these forecasts the number of domestic customers is forecast to grow by 1.3% in 2009 and 1.1% in 2010.

Domestic electricity consumption is a function of the major end uses in the home, such as space heating, water heating, lighting, and major appliances. In addition, changes in energy prices and income have an impact on electricity consumption. Using proposed rates the average use of energy is forecast to remain flat < > in 2009 and < > 2010.

The combined impact of increased numbers of customers and changes in average use will result in growth in domestic energy sales under proposed rates of 1.6% in 2009 and 1.1% in 2010.

In the small general service rate classes 2.1 and 2.2, customer and energy sales growth are dependent on growth in the service-producing sector of the GDP and changes in the price of electricity. In the large general service rate classes 2.3 and 2.4, energy sales are also influenced by changes in the service-producing sector of the GDP. However, in the large general service category, energy sales are mainly determined by changes in the load of larger customers in the goods-producing sector. Information obtained from specific customers is incorporated into forecasts for rate classes 2.3 and 2.4.

Overall, the number of general service customers is forecast to grow by 2.1% in 2009 and 0.6% in 2010. Under proposed rates the volume of General Service energy sales is forecast to grow by 0.4% in 2009 and 1.3% in 2010.

In the street and area lighting class, the number of customers is forecast to grow by 1.1% in 2009 and 0.9% in 2010 while the volume of energy sales is forecast to decline by 0.3% in 2009 and 1.1% in 2010. The decrease in street and area lighting energy sales is the net result of the connection of new fixtures and the project to replace all mercury vapour fixtures with energy efficient high pressure sodium fixtures over a three year period starting 2009.

Produced and purchased is the sum of total energy sales, company use and system losses. The forecast of company use is based on historical energy usage and information gathered from each of Newfoundland Power's operating areas with respect to the operation of these facilities. System losses are based on historical information and are forecast to be approximately 5.4% of total produced and purchased.

5.0 PURCHASED ENERGY AND DEMAND FORECAST

Purchased energy is calculated by subtracting Newfoundland Power's Normal Production from produced and purchased. Newfoundland Power's Normal Production is based on the Water Management Study – Hydrology Update prepared by SGE Acres Limited in 2005. This study recommended a Normal Production of 419.6 GWh.

Each year, Normal Production is adjusted to reflect plant availability and any modifications to plants that may impact production. In 2008 the Normal Production was increased by 6.2 GWh to reflect increased production resulting from the modifications to the Rattling Brook Hydro plant. A review of the operating results of the Rattling Brook Hydro plant for 2008 indicated that the actual increase in Normal Production was 8.3 GWh. Therefore, the Normal Production was increased to 427.9 GWh.

For 2009, a review of the project to replace the penstock at the Rocky Pond Hydro Plant indicated that plant availability would be affected and spillage would occur. As a result, the Company adjusted the Normal Production downward by 2.0 GWh in 2009 to reflect the lost production. Therefore, the Normal Production is 425.9 GWh in 2009. In addition, the Company produced 0.4 GWh at various thermal plants increasing total production for 2009 to 426.3 GWh.

In 2010 the Normal Production has been increased by 0.9 GWh to reflect increased production resulting from the modifications to the Rose Blanche Hydro plant. Projects scheduled for 2010 are not expected to impact plant availability, therefore, the Normal Production will be 428.8 GWh in 2010.

Newfoundland Power's forecast of native peak demand is determined by applying the average weather adjusted load factor to the forecast of produced and purchased energy. The peak demand is then adjusted to reflect the impact of load curtailment by Newfoundland Power customers and company owned facilities. Newfoundland Power's purchased demand is then derived by subtracting the generation credit approved by the Public Utilities Board.

A copy of the Purchased Energy and Demand Forecast is contained in Appendix C.

6.0 FORECAST ACCURACY

The energy sales forecasts and actual weather adjusted energy sales for the past 10 years are shown in Appendix D. During this period, differences from forecast have ranged from a high of 2.8% to a low of 0.1%. In 6 of the past 10 years, differences from forecast were 1% or less. Further, the analysis of differences indicates that 50% of the time the actual was higher than forecast and vice versa.

Newfoundland Power Inc.

Key Economic Indicators[1]
2007 - 2010F

(millions of dollars)

				Forecast			
Indicator	**2007**	**2008**	**Change From 2007**	**2009**	**Change From 2008**	**2010**	**Change From 2009**
Gross Domestic Product ($ 2002)							
Goods Producing Industries	8,066	7,987	-1.0%	7,170	-10.2%	7,040	-1.8%
Service Producing Industries	9,477	9,830	3.7%	10,035	2.1%	10,163	1.3%
Total of All Industries	18,011	17,999	-0.1%	17,386	-3.4%	17,385	0.0%
Consumer Price Index (2002=100)	111.1	114.3	2.9%	114.9	0.6%	117.8	2.5%
Personal Disposable Income ($ 2002)	10,481	10,933	4.3%	11,053	1.1%	11,005	-0.4%
Unemployment Rate (%)	13.6%	13.3%		15.5%		15.9%	
Housing Starts - Units	2,649	3,261	23.1%	2,788	-14.5%	1,868	-33.0%
Canadian GDP Deflator (2002=100)	117.6	122.8	4.4%	120.6	-1.8%	122.9	1.9%
Canada Mortgage and Housing Corporation[2]							
Housing Starts - Units	2,649	3,261	23.1%	2,950	-9.5%	3,000	1.7%

[1] Conference Board of Canada, Provincial Outlook Summer 2009, Economic Forecast, Dated: July 16, 2009.
[2] Canada Mortgage and Housing Corporation, Housing Market Outlook, Third Quarter, 2009.

1st Revision Note: Updated for revised economic indicators.

Newfoundland Power Inc.

Customer & Energy Forecast
2007 - 2010F

			Actual			Existing				Proposed			
					Percentage		Percentage		Percentage		Percentage		Percentage
			2007	2008	Change	2009	Change	2010	Change	2009	Change	2010	Change
1	Customers												
2													
3	Domestic	1.1	201,045	204,204	1.6%	206,907	1.3%	209,273	1.1%	206,907	1.3%	209,273	1.1%
4													
5	General Service												
6	0-10 kW	2.1	11,826	11,920	0.8%	12,179	2.2%	12,122	-0.5%	12,179	2.2%	12,122	-0.5%
7	10-100 kW (110 kVA)	2.2	8,509	8,626	1.4%	8,812	2.2%	8,995	2.1%	8,812	2.2%	8,995	2.1%
8	110 kVA (100 kW) - 1000 kVA	2.3	1,035	1,061	2.5%	1,064	0.3%	1,071	0.7%	1,064	0.3%	1,071	0.7%
9	1000 kVA and Over	2.4	66	65	-1.5%	68	4.6%	69	1.5%	68	4.6%	69	1.5%
10													
11	Total General Service		21,436	21,672	1.1%	22,123	2.1%	22,257	0.6%	22,123	2.1%	22,257	0.6%
12													
13	Street and Area Lighting	4.1	9,781	9,902	1.2%	10,009	1.1%	10,104	0.9%	10,009	1.1%	10,104	0.9%
14													
15	Total Customers		232,262	235,778	1.5%	239,039	1.4%	241,634	1.1%	239,039	1.4%	241,634	1.1%
16													
17	Energy Sales (GWh)												
18													
19	Domestic	1.1	3,044.4	3,130.3	2.8%	3,179.8	1.6%	3,257.3	2.4%	3,179.8	1.6%	3,215.1	1.1%
20													
21	General Service												
22	0-10 kW	2.1	90.9	88.8	-2.3%	89.1	0.3%	89.8	0.8%	89.1	0.3%	89.5	0.4%
23	10-100 kW (110 kVA)	2.2	629.2	641.8	2.0%	641.2	-0.1%	653.7	1.9%	641.2	-0.1%	651.2	1.6%
24	110 kVA (100 kW) - 1000 kVA	2.3	864.5	878.5	1.6%	885.3	0.8%	898.7	1.5%	885.3	0.8%	898.7	1.5%
25	1000 kVA and Over	2.4	427.6	432.3	1.1%	434.4	0.5%	437.6	0.7%	434.4	0.5%	437.6	0.7%
26													
27	Total General Service		2,012.2	2,041.4	1.5%	2,050.0	0.4%	2,079.8	1.5%	2,050.0	0.4%	2,077.0	1.3%
28													
29	Street and Area Lighting	4.1	36.2	36.5	0.8%	36.4	-0.3%	36.0	-1.1%	36.4	-0.3%	36.0	-1.1%
30													
31	Total Energy Sales		5,092.8	5,208.2	2.3%	5,266.2	1.1%	5,373.1	2.0%	5,266.2	1.1%	5,328.1	1.2%
32													
33	Company Use		11.8	11.7	-0.8%	11.7	0.0%	11.7	0.0%	11.7	0.0%	11.7	0.0%
34													
35	Losses		289.9	293.9	1.4%	301.3	2.5%	307.4	2.0%	301.3	2.5%	304.8	1.2%
36													
37	Produced & Purchased		5,394.5	5,513.8	2.2%	5,579.2	1.2%	5,692.2	2.0%	5,579.2	1.2%	5,644.6	1.2%
38													
39	Wheeled		70.4	77.2	9.7%	74.8	-3.1%	70.2	-6.1%	74.8	-3.1%	70.2	-6.1%
40													
41	Total System Energy		5,464.9	5,591.0	2.3%	5,654.0	1.1%	5,762.4	1.9%	5,654.0	1.1%	5,714.8	1.1%

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

Purchased Energy & Demand Forecast
2009 - 2010F

Year	Produced Purchased & Wheeled GWH	Total Wheeled Energy GWH	Total Curtailed Demand (1) MW	Total Produced & Purchased (NP Native Peak) GWH	(2) MW	(3) Load Factor	NP Produced (4) GWH	(5) Credit MW	Total Purchased GWH	(6) MW
Existing										
2009	5,654.0	74.8	10.9	5,579.2	1,253.78	50.36%	426.3	117.93	5,152.9	1,135.85
2010	5,762.4	70.2	10.9	5,692.2	1,279.40	50.36%	428.8	117.93	5,263.4	1,161.47
Proposed										
2009	5,654.0	74.8	10.9	5,579.2	1,253.78	50.36%	426.3	117.93	5,152.9	1,135.85
2010	5,714.8	70.2	10.9	5,644.6	1,268.61	50.36%	428.8	117.93	5,215.8	1,150.68

Notes:

1. Based on historical performance of participants plus curtailment of company owned facilities.
2. Native peak is the maximim demand forecast to be served by Newfoundland Power. The 2009 native peak reflects the forecast for the winter period of December 2009 to March 2010.
3. Load Factor is based on an average of 15 year historical (normalized) load factors.
4. Average water year for the forecast period is 427.9 GWh adjusted for plant availability and efficiency improvements. Produced for 2009 also includes 0.4 GWh for production at Newfoundland Power's thermal plants.
5. Assumes a generation credit of 117.93 MW.
6. The purchased demand for 2009 reflects the purchased demand from Newfoundland and Labrador Hydro for the winter period of December 2009 to to March 2010 and represents Newfoundland Power's forecast billing demand for 2010.

1st Revision Note: Updated for revised forecasts for 2009 and 2010.

Newfoundland Power Inc.

Comparison of Forecast Energy Sales
To Weather Adjusted Actual Sales[1]

	Forecast Sales[2] (GWh)	Weather Adjusted Actual Sales (GWh)	Difference (GWh)	Difference (%)
1999	4,516.4	4,499.7	-16.7	-0.4
2000	4,558.5	4,554.8	-3.7	-0.1
2001	4,592.3	4,666.7	74.4	1.6
2002	4,652.0	4,764.9	112.9	2.4
2003	4,852.2	4,882.0	29.8	0.6
2004	4,927.0	4,978.6	51.6	1.0
2005	5,010.1	5,004.0	-6.1	-0.1
2006	5,136.9	4,995.1	-141.8	-2.8
2007	5,023.1	5,092.8	69.7	1.4
2008	5,215.1	5,208.2	-6.9	-0.1

Notes:

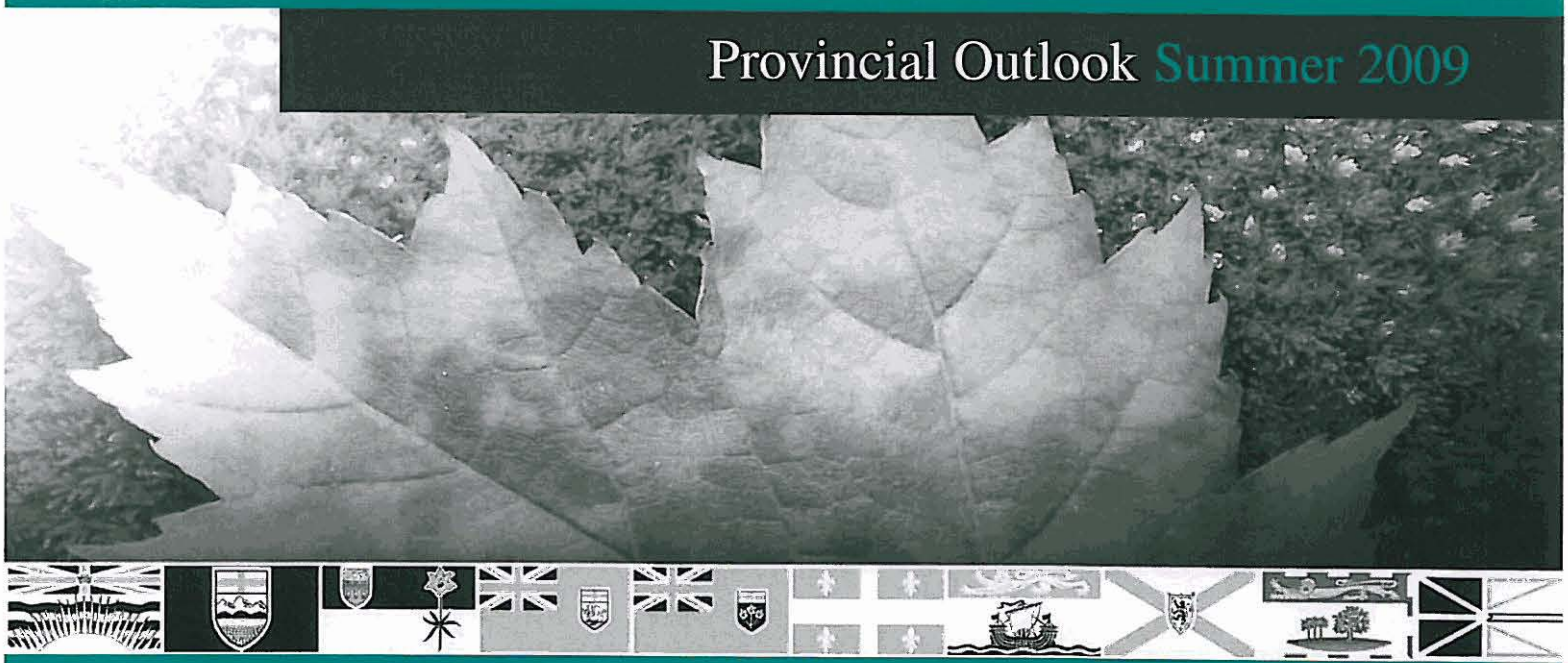
[1] Amounts for 1999 - 2005 are reported on a billed basis while amounts for 2006 - 2008 are reported on a calendar basis.

[2] The forecast sales figures are from the annual forecasts prepared in the previous year and were part of the Capital Budget presentations made to the Board in those years. The 1999, 2003, 2004 and 2008 forecasts were the basis for the revenue requirement determinations presented as part of the Company's General Rate Applications in 1998, 2003 and 2007, respectively.

Conference Board of Canada
Provincial Outlook Summer 2009
Economic Forecast
Dated: July 16, 2009

The Conference Board of Canada
Insights You Can Count On

Provincial Outlook Summer 2009



Economic Forecast

ECONOMIC PERFORMANCE AND TRENDS

Provincial Outlook Summer 2009: Economic Forecast
by *The Conference Board of Canada*

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ISSN 0827-5785
Agreement No. 40063028

Preface

The *Provincial Outlook Summer 2009* was prepared by Marie-Christine Bernard, Associate Director, under the general direction of Paul Darby, Deputy Chief Economist.

The report examines the economic outlook for the provinces, including gross domestic product (GDP), output by industry and labour market conditions. At the end of the report, there is a forecast for Canadian economic indicators and a comparison of GDP by province and industry.

The Provincial Outlook is updated quarterly using the Conference Board's large econometric model of the provincial economies.

The publication can be accessed on-line at www.e-library.ca and for clients subscribing to e-Data at www.conferenceboard.ca/edata.htm.
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Marie-Christine Bernard

Signs of a Recovery in Sight

HIGHLIGHTS

- Growth in Canada is forecast to resume over the second half of 2009. Still, real GDP will contract by 1.9 per cent this year before recovering with growth of 2.7 per cent in 2010.
- Newfoundland and Labrador will have to contend with a mature offshore oil industry; a steep real GDP decline is forecast this year, and no recovery is expected in 2010.
- The Maritime provinces, along with Manitoba, will post positive real GDP growth this year. All four provinces have managed to avoid the boom–bust cycle.
- In Quebec, the global recession has hurt trade, but the domestic economy is holding up. After a 0.9 per cent drop in 2009, the province will turn around with real GDP growth of 1.8 per cent in 2010.
- While the situation in Ontario remains challenging, there are signs that a bottom is forming in the automobile sector. Ontario's economy is forecast to rebound next year.
- The outlook for Saskatchewan has been downgraded significantly. An unfavourable outlook for potash and agriculture will pull down economic growth this year.
- The swift correction in the housing markets in Alberta and British Columbia is gradually fading. Both provinces will see real GDP growth above 3 per cent in 2010.

NATIONAL OVERVIEW

Canada's economy contracted sharply in the first quarter of this year, posting a second consecutive quarterly decline and thus meeting the official definition of a recession. In retrospect, however, various sectors of the Canadian economy have been in difficulty since U.S. real estate markets began unwinding back in late 2005. The steep and steady erosion in U.S. home values has damaged U.S. household net worth and confidence, forcing consumers to step up their saving and hold back on spending. Canadian firms have been hit hard by the fallout. Lumber and construction material exports fell off sharply, and exports of autos and parts followed soon after, pounding Canada's auto industry. In line with the subsequent drop in U.S. and Canadian business investment, the pain has spread to Canadian firms producing a wide range of supplies and industrial materials.

The falloff in U.S. consumer spending has, however, had a much broader reach—the waves of contraction are being felt all over the world. Global trade has tanked in recent quarters, affected by the vicious cycle of falling confidence and retrenching business investment. The global economy is expected to contract by a phenomenal 2.6 per cent this year even as some developing economies—China and India in particular—continue to grow. As a result of the global recession, we have seen a steep drop in raw material prices—including energy prices—from where they were a year ago. The fall in raw material prices has removed a significant source of income from the Canadian economy, dampening growth in the domestic economy and adding to the woes of our exporters. Overall, Canada's real gross domestic product is forecast to contract by 1.9 per cent this year. Next year, recovering commodity prices and growth in U.S. household spending will serve to bolster the Canadian economy. Moreover, the full effect of government stimulus packages will further prop up the economy. Real GDP growth of 2.7 per cent is expected for 2010.

Because the current recession is so widespread, affecting nearly every corner of the globe, its effects are expected to linger for longer than a typical business cycle. Moreover, U.S. households, which account for roughly 15 per cent of global demand, are expected to bolster their savings over the forecast horizon as they endeavour to recoup losses in wealth resulting from the declines in home values and equity markets. Aggregate U.S. household savings rates, which averaged just 0.6 per cent in 2007, have jumped sharply in recent months, and are forecast to continue to climb, peaking at over 5 per cent in 2011. These factors suggest that the global recovery will be soft in comparison with the typical rebound from previous post-war business cycles. Despite expansionary fiscal policy and monetary stimulus, Canada's GDP will not start to grow significantly above potential until 2011. According to our estimates, the output gap[1] will average around –5.6 per cent in 2009, suggesting that gap closure will not occur until 2013.

With the U.S. recession having spread north to Canada, consumers in this country have also tightened their purse strings. As in the U.S., households in Canada have been hit by the effects of falling equity values and home prices and dwindling confidence. Moreover, employment losses are mounting. Between November and June, the Canadian economy shed 360,000 jobs. The effects on labour income will be further amplified by low wage gains and by a reduction in average hours worked as companies replace full-time workers with part-time staff. Despite muted inflation and significant tax cuts by various levels of government, real after-tax income is expected to shrink by 0.5 per cent this year. This will be a shock to Canadian consumers who, over the past six years, have

grown accustomed to real disposable income growth averaging a handsome 3.7 per cent annually. With consumers struggling to add to savings, real Canadian household spending is forecast to contract by 0.7 per cent this year. New home construction and home renovations spending will also suffer a steep decline this year.

The situation is even more dire for businesses. Uncertainty and volatility surrounding the global economic downturn has shut down capital investment plans throughout the country. And while Canada's banking sector is in relatively good shape, lending practices have tightened up considerably. A combination of weak demand for goods and services and a sharp reduction in resource prices is expected to take about $69 billion dollars from corporate profits this year. No surprise then that business investment intentions are down sharply for 2009. Total private non-residential investment will fall by a disappointing 15 per cent this year before rebounding with weak growth of 2.6 per cent in 2010.

For this year, the only positive contribution to Canada's domestic economy will come from the government sector. Federal and provincial governments have committed, in varying degrees, to strong infrastructure stimulus and other incentives to try to prop up the economy. Even as growth in direct program spending is moderating in light of prudent provincial budgets, and even though peak spending is not expected to occur until next year, the infrastructure stimulus will be timely. The federal government has calculated that the combination of sustained spending and shrinking revenues will result in a $50-billion deficit in the current fiscal year. And while the federal situation is cause for serious concern, provincial governments as a whole are in even worse shape. Even when economic growth recovers, deficits at the regional levels of government will be difficult to correct.

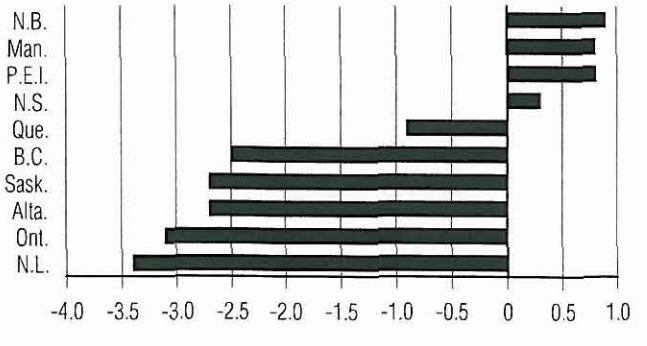
PROVINCIAL OVERVIEW

The last few months have been challenging, especially for Ontario and Saskatchewan where economic conditions have continued to deteriorate. The bankruptcy and restructuring activities of Chrysler and General Motors paralyzed Ontario's manufacturing sector in the first part of 2009. And the massive reduction in potash extraction activities, combined with drought-like conditions in certain parts of Saskatchewan, will leave that province feeling the global recession quite heavily. But there are encouraging signs that the worst of the business cycle might be over. This is particularly true for Alberta and British Columbia, which have been trending down since early 2008. A resurgence in oil prices and, more importantly, a drop in construction costs point to a turnaround in the energy sector soon. Also the housing sector is rebounding sooner than expected in Western Canada. Better affordability has boosted housing resale activity and new housing construction in recent months. In Newfoundland and Labrador, economic growth will be muted by a large contraction in oil production at all three main producing fields (Hibernia, Terra Nova, and White Rose). Despite the negative headwinds, Manitoba's economy has proven resilient, as have the economies of the Maritime provinces—Prince Edward Island, Nova Scotia, and New Brunswick. All four provinces will record modest economic growth in 2009.

Over the next year, all provinces will slowly recover. The provinces most affected by the global recession will see the strongest rebound with growth averaging well over 3 per cent. Boosted by federal fiscal stimulus and a turnaround south of the border, the recovery will take shape as the second half of 2009 progresses.

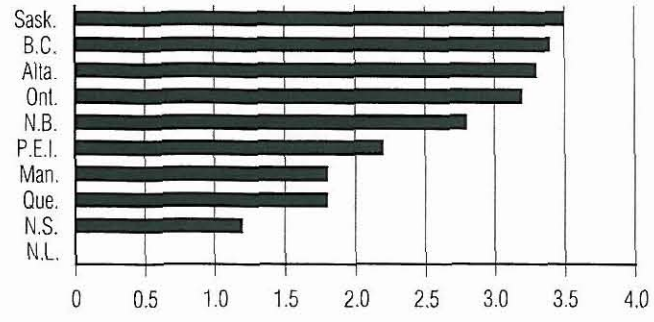
While the trade sector in Central Canada[2] is in deep recession, the weakness is concentrated mainly in the auto, primary metal, and forestry industries. It is not all bad news for Quebec at the moment. While a correction in the province's housing sector was expected, the drop in activity has been mild and controlled. Labour markets have been restructuring, but the weakness there since the start of the year has been mostly in the manufacturing, public administration, and health-care and social assistance sectors. Consumer spending has slowed down, but the province will still manage to eke out a small positive performance this year in real terms. Businesses in all provinces have been holding back on expansion plans due to the credit crisis, but Quebec will fare relatively well on the non-residential investment front. Work already under way for the development of additional wind power and hydroelectric generating capacity will temper the decline in investment. All in all, Quebec is expected to see a 0.9 per cent (real GDP at basic prices) contraction this year and a mild rebound of 1.8 per cent next year. (See charts 1 and 2.) The Ontario economy is not out of the woods yet, but at least the decline appears to be

Chart 1
Real GDP by Province, 2009
(percentage change; 2002 $)



Sources: The Conference Board of Canada; Statistics Canada.

Chart 2
Real GDP by Province, 2010
(percentage change; 2002 $)



Sources: The Conference Board of Canada; Statistics Canada.

over. In fact, the slide that began in Ontario in mid-2008 is expected to give way to a gradual recovery as we move through the last half of 2009. A bottom seems to have been reached for key sectors. Surprisingly, vehicle production in Ontario turned the corner in the second quarter of 2009 and should elicit a gradual rebound in the devastated auto sector. With both Chrysler and General Motors successfully emerging from Chapter 11 bankruptcy protection and U.S. consumer demand having hit bottom, the automobile sector will recover at a double-digit pace in 2010. Consumer demand in Ontario, boosted by income tax cuts, will also make a comeback next year, along with private investment and housing demand. Overall, Ontario's real GDP is expected to tumble by 3.1 per cent this year but rebound by 3.2 per cent in 2010.

While the severe global recession has severely shaken many provinces, Atlantic Canada has managed to remain in generally good health. All three Maritime provinces (along with Manitoba) will avoid recession. New Brunswick will emerge as a growth leader this year. Fuelled by public stimulus for new infrastructure investment and lower income taxes, overall real GDP is expected to rise by 0.9 per cent this year. The province will lead the Atlantic region again next year with 2.8 per cent real GDP growth, but there is downside risk as Irving Oil has decided not to proceed with the development of a new gasoline refinery at the moment. The outlook is holding up for Nova Scotia. The financial sector is in good shape, and the offshore natural gas expansion of the Deep Panuke site will stimulate non-residential investment this year. Overall real GDP growth of 0.3 per cent is forecast this year. Next year, the economy will advance by a mild 1.2 per cent as construction on major projects winds down. The Prince Edward Island economy is fairly stable. The public sector there is poised to grow strongly this year. Next year, the Island is forecast to see growth of 2.2 per cent as activity in key sectors—in particular, construction and manufacturing—intensifies. With a significant contraction in oil production, Newfoundland and Labrador will see a big 3.4 per cent drop in real economic activity this year. Unfortunately, the oil industry will contract again in 2010, leaving Newfoundland and Labrador with zero growth in real GDP next year.

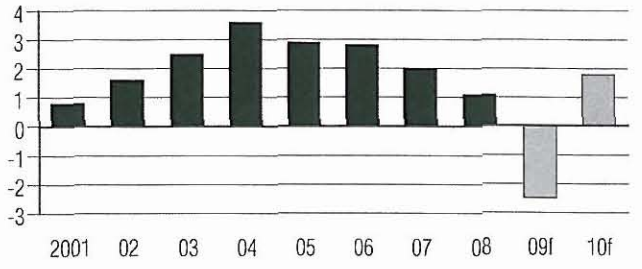
There are some sectors in Manitoba that are feeling the global downturn. Mining and manufacturing are both struggling. In general, however, the province is holding up better than most. A construction boom that began four years ago will remain a pillar of strength for the province. Manitoba's economy has proven resilient with real growth of 0.8 per cent anticipated this year and 1.8 per cent in 2010. Saskatchewan, on the other hand, has fallen victim to the severe global recession. With farmers everywhere reluctant to ramp up costs in these difficult times, global demand for fertilizer has plunged. As a result, potash production in the province has been slashed in half since last year. Saskatchewan will suffer a real GDP decline of 2.7 per cent in 2009 due to the double-digit drop in mining and a big drop in agricultural production. But resource-dependent provinces often experience volatile real GDP growth, and a 3.5 per cent rally in economic activity is projected next year in Saskatchewan once international demand for primary commodities improves.

In Alberta, the recession is not expected to linger much longer. Oil prices have firmed up in recent months. More importantly, construction costs have come down. When labour and material costs were spiralling out of control, large energy initiatives became unfeasible. Now that those costs are falling, some petroleum companies are thinking of restarting deferred projects. The energy sector is expected to make a positive contribution to the economy in 2010 as capital expenditures related to the development of the oil sands intensify. The domestic economy should recover next year spurred by employment gains and stronger wage growth. Following a 2.7 per cent contraction in real GDP this year, a 3.3 per cent bounce-back is forecast for Alberta next year. A similar outlook is forecast for British Columbia where real GDP will slip by 2.5 per cent in 2009 after making no gains in 2008. The near-term outlook is, however, promising for British Columbia. The housing market seems to have hit bottom. Both the resale and existing home markets have improved in the past few months. A comeback in the construction sector, combined with a modest recovery in forestry and manufacturing, will elicit a turnaround in the economy next year. On top of that, stimulus from the 2010 Olympic Winter Games will help propel real GDP by a strong 3.4 per cent in 2010.

U.S. ECONOMY

Recent indicators suggest that the severe recession gripping the U.S. economy since January 2008 is slowly winding down. The main factors behind the more optimistic outlook are the growing signs of stability in the housing sector and evidence that household spending is starting to stabilize. The current outlook calls for real GDP to decline by 1 per cent in the second quarter (annualized) before rebounding and growing by 1.7 per cent in the third quarter and 1.2 per cent in the final quarter of this year. In 2010, the economy is expected to expand by a tepid 1.8 per cent. (See Chart 3.)

Chart 3
Tepid Gain Expected in U.S.
(real U.S. GDP, percentage change)



f = forecast
Sources: The Conference Board of Canada; U.S. Bureau of Economic Analysis (BEA).

The efforts by both the Federal Reserve and the federal government are finally starting to have a positive impact on housing markets. The Fed's purchases of mortgage-backed securities and its reduction of the federal funds rate to close to zero have lowered mortgage rates to well below 5 per cent—down from 6 per cent just last fall. This development, combined with rock-bottom home prices, has led to a recent rebound in sales of both new and existing homes. Even more encouraging is the fact that inventories of new homes have come down to levels that existed prior to the bursting of the housing bubble. Unfortunately, home prices have continued to decline in many parts of the country, in part because of numerous foreclosure sales. Foreclosed properties are selling at a 25 per cent discount in most markets, and that tends to depress prices for all properties in the neighbourhood, even those not in foreclosure.

The major declines in consumer spending that were recorded toward the end of last year have also come to an end. Given the difficulties in labour markets, spending is certainly not on the verge of a sharp rebound—but it has at least stabilized somewhat. The rebound in equity markets and a slowdown in the pace of job losses have resulted in a welcome rebound in consumer confidence from the record-low levels that transpired over the winter months. Households have started to save again (the savings rate was close to 6 per cent in April), and this cushion has left consumers in a less panicky frame of mind, a development that has encouraged higher spending. Of course, if the savings rate climbs higher, this will have a negative effect on spending going forward.

Infrastructure spending to improve roads and bridges throughout the country is set to kick in during the second half of 2009, an initiative that will support the economic recovery going forward. In fact, infrastructure spending should help to offset the negative impacts from cuts in spending implemented by many state and local governments in response to lower tax collections.

The major risks to the outlook and the factors that will restrain the pace of economic recovery are private investment spending and export demand. Real spending on equipment is expected to decline by close to 19 per cent this year, and growth of less than 1 per cent is anticipated in 2010. The slow growth in profits, combined with tight credit conditions, has led businesses to sharply cut inventories and investment spending. In some sectors of the economy, inventory cuts have been so drastic that any rebound in demand over the next few months could actually set the stage for an improvement in manufacturing activity over the near term.

The outlook for U.S. exports is also less than optimistic, as we expect real exports to drop by 12.2 per cent this year. Demand for exports is slumping because Japan and most of Europe are in the grip of severe recessions. Even a weaker U.S. dollar has been unable to offset the effects of the global recession on the export market. Fortunately, demand for American products from China and other emerging markets where governments have initiated massive stimulus efforts should mitigate the pace of export declines over the short term.

MONETARY POLICY

Canada's banking system and mortgage market are in much better shape than those of our southern neighbour, and the degree of government intervention has been correspondingly less aggressive. While the Bank of Canada had been active in providing extra liquidity to the financial system through short-term transactions and lower rates, it has thus far avoided having to resort to quantitative easing (essentially printing extra money). Still, the Bank of Canada's announcement in April that it would keep its overnight lending rate at near zero until June of next year was unconventional and essentially nailed down the Bank's key policy instrument for over a year.

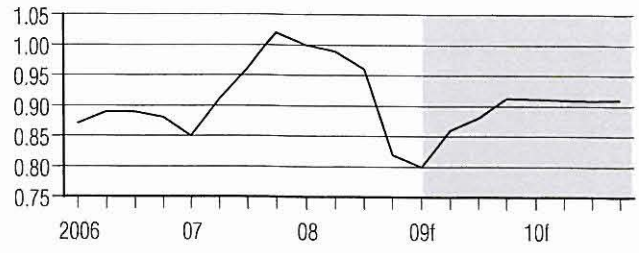
The Bank has lowered its key lending rate from 3.5 per cent in March 2008 to just 0.25 per cent today. The last 0.25 percentage point decline occurred this past April 21, along with the Bank's announcement that the target overnight lending rate had effectively reached its lower bound. However, the Bank had been frustrated

by the fact that lowering its key lending rate was not being fully transmitted through to market lending rates, a phenomenon described as "pushing on a string." Thus, in its April announcement, it provided the additional guarantee that it would keep rates this low until June 2010. The policy has been effective, helping to lower commercial lending and mortgage rates on both the short and longer end of the yield curve. However, this policy comes with some risks. The transmission of monetary policy to the economy is a relatively long process, with estimates suggesting that it takes about 18 months from the time interest rates are changed to the time they have a peak impact on real GDP. While it is true that the Bank of Canada suggested its promise to keep interest rates where they are until next year is based on the assumption that inflation will remain in line with expectations, it would still lose a lot of credibility if it were forced to raise rates ahead of schedule. Given that credibility is paramount to effective monetary policy, it is very unlikely that the bank rate will be changed any time before June 2010.

At least for this year, the Bank's fixed-rate policy is unlikely to draw much controversy. Sluggish economic growth, an appreciating Canadian dollar, and soft commodity prices will all help to hold down inflation through the rest of 2009. And while energy prices are forecast to trend up over the course of 2009, they will remain below the levels reached in 2008. While it is likely that the year-over-year inflation rates will dip into negative territory over the next couple of months, there is no real danger of Canada falling into a protracted state of deflation. After advancing by 2.4 per cent in 2008, CPI inflation is forecast to advance by only 0.8 per cent in 2009. Looking ahead to 2010, an improved economic performance and still-rising energy prices are expected to boost price inflation to 2.6 per cent, pushing toward the upper edge of the Bank's comfort zone.

In recent months, the loonie has returned to its old habit of moving in lockstep with energy and other raw material prices. The break from this pattern, which occurred over the second half of 2008 and into early 2009, had more to do with how foreign exchange markets reacted to the greenback during the business cycle than with the Canadian dollar itself. Despite being the epicentre of the global recession, the U.S. continues to be regarded as a safe haven for investors whenever volatility and uncertainty erupts. This situation helped to boost the value of the U.S. dollar sharply last fall and into the first quarter of this year. However, as the U.S. and global economies start to stabilize, the "safe haven" factor is dissipating and the greenback is losing steam. This depreciation is at least partly responsible for the recent run-up in energy prices and the value of the loonie. Overall, the Canadian dollar is expected to average US$0.86 in 2009, still an 8.3 per cent depreciation over last year's level. The loonie is forecast to strengthen steadily over the near term, averaging US$0.91 in 2010. (See Chart 4.)

Chart 4
Loonie Will Hover Around US$0.91 in 2010
(U.S./Canada exchange rate)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

FISCAL POLICY

The federal government's financial situation has changed drastically. Following 11 consecutive years of surpluses that seemed to surprise on the upside nearly every year, the government is now facing a situation in which revenues are surprising on the downside. In May, the government announced that the federal deficit for 2009–10 will likely be $16 billion higher than planned, rising to a record $50 billion. As revenues continue to shrivel, the federal government has committed to numerous stimulus measures to help counter the effects of the current business cycle. In addition to automatic stabilizers such as employment insurance, the government has boosted the generosity of the employment insurance program, and provided personal and business tax relief and other spending incentives. Most important, however, is the federal government's infrastructure stimulus package, which should (with the participation of the provinces) generate about $12 billion in new construction spending for fiscal year 2009–10. Given the time required for a typical project review, the approval process, and the actual construction, the impact on construction activity is expected to be drawn out over 2009 to 2012, with peak activity expected in 2010.

While the effects of the recession will be protracted, our forecasts suggest that the federal government is still in a structurally sound fiscal position—that is, the federal government is expected to rebalance its books as the economy returns to full capacity and temporary tax measures, other incentives, and the stimulus package come to an end. On the other hand, regional governments as a whole are in a more troublesome situation. Provincial governments have had to deal with the increased costs of social programs, the obligation to match federal infrastructure spending, their own stimulus packages, and shrinking corporate and personal income tax revenues. In addition, for some provinces the difficulties have been expounded by the direct effect that the drop in commodity prices has had on royalty revenues. Dealing with the sharp and rapid revenue losses will be difficult for regional governments. Until very recently, most had been ramping up spending at a record pace while

still managing to post surpluses thanks to better-than-expected growth in revenues. Given the current situation and the ever-present upward pressure on health-care budgets, the economic recovery as forecast over the medium term will not suffice on its own to bring regional governments back into surpluses. The implication is that, sooner or later, provinces will have to boost taxes and cut spending in order to return to a balanced budget.

Combining all levels of government, total real current spending on goods and services was flat in the first quarter of 2009. Despite the massive fiscal stimulus efforts, the federal and the provincial governments are being more prudent with respect to spending on their own programs (composed largely of spending on wages and salaries of public servants). Overall, real government spending on goods and services is forecast to advance by 2.3 per cent this year, down from 3.7 per cent growth in 2008. The boost from infrastructure spending did not show up in the first quarter of this year; however, we expect strong gains over the rest of 2009 and through 2010. Overall, real government fixed capital formation is forecast to expand by 15.6 per cent in 2009, followed by growth of 11.5 per cent in 2010.

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1 The output gap is defined as the percentage difference between actual output and the production potential that the economy could attain should all factors of production (namely capital and labour) be fully and efficiently employed.

2 Central Canada is defined as Quebec and Ontario.

Marie-Christine Bernard

Des signes de reprise à l'horizon

FAITS SAILLANTS

- Le Canada devrait renouer avec la croissance en seconde moitié de 2009. Le PIB réel se contractera de 1,9 p. 100 cette année, puis gagnera 2,7 p. 100 en 2010.
- L'industrie du forage en mer étant à maturité, Terre-Neuve-et-Labrador devrait accuser un net recul de son PIB cette année. Et 2010 n'amènera pas la reprise.
- Les Maritimes, comme le Manitoba, afficheront une croissance positive du PIB réel cette année. Ces quatre provinces ont su résister au cycle d'expansion et de ralentissement.
- Au Québec, la récession mondiale a pesé lourd sur le commerce extérieur mais l'économie intérieure tient le coup. Après un recul de 0,9 p. 100 en 2009, la province profitera d'une progression de 1,8 p. 100 du PIB en 2010.
- Même si l'Ontario demeure en situation difficile, certains indices portent à croire que le pire serait passé dans le secteur de l'automobile. L'économie ontarienne devrait se relancer l'an prochain.
- En Saskatchewan, les prévisions se sont nettement détériorées. Les perspectives peu favorables pour la potasse et l'agriculture gêneront la croissance économique cette année.
- La correction marquée des marchés de l'habitation, en Alberta et en Colombie-Britannique, tire à sa fin. En 2010, les deux provinces montreront une croissance du PIB réel supérieure à 3 p. 100.

LA SCÈNE NATIONALE

L'économie du Canada s'étant contractée, fortement, lors des trois premiers mois de l'année, affichant ainsi un deuxième recul en autant de trimestres, elle reflète la définition officielle de la récession. Un regard en arrière révèle toutefois que divers secteurs de l'économie du pays ont des difficultés depuis le début des déboires des marchés immobiliers américains, tard en 2005. L'érosion continue et marquée de la valeur des logements a fait s'effriter la richesse nette et la confiance des ménages américains, obligeant les consommateurs à épargner davantage et à réduire leurs dépenses. Les entreprises canadiennes ont été très affectées. Les exportations de bois d'œuvre et de matériaux de construction ont nettement chuté, puis, peu après, les exportations de voitures et de pièces automobiles, avec des répercussions sur l'industrie automobile canadienne. Du fait de la réduction ainsi provoquée dans les investissements des entreprises des États-Unis et du Canada, des sociétés d'ici produisant une grande diversité de fournitures et de matières industrielles ont été contaminées par le malaise.

Le recul des dépenses de consommation aux États-Unis a toutefois eu des incidences beaucoup plus étendues, la contraction se répercutant partout sur la planète. Au cours des derniers trimestres, le commerce mondial a subi les contrecoups du cycle négatif d'une perte de confiance et de la réduction des investissements des entreprises. Cette année, l'économie mondiale devrait accuser une «mémorable» contraction de 2,6 p. 100, en dépit de la croissance enregistrée dans certaines économies en développement, notamment la Chine et l'Inde, où l'élan se maintient. La récession mondiale a fait tomber les prix des matières premières, y compris l'énergie, par rapport aux cours d'il y a un an. L'évolution négative des matières premières a privé l'économie canadienne d'une importante source de revenus, limitant de ce fait la croissance de l'économie intérieure et ajoutant aux difficultés de nos exportateurs. Le produit intérieur brut réel du Canada devrait se contracter de 1,9 p. 100 cette année. L'an prochain, notre économie profitera du rétablissement des prix des produits de base et de l'accroissement des dépenses des ménages américains. À cela s'ajoutera l'effet entier des mesures de stimulation publiques. Ainsi, une croissance de 2,7 p. 100 du PIB réel est prévue pour 2010.

L'ampleur quasi-planétaire de l'actuelle récession se verra au-delà d'un cycle économique normal. En outre, les ménages américains, qui interviennent pour environ 15 p. 100 de la demande mondiale, devraient accroître leur épargne au cours de la période de prévision, de façon à compenser les pertes de richesse résultant de la baisse de valeur des logements et de la faiblesse des marchés boursiers. Le taux d'épargne totale des ménages américains, un maigre 0,6 p. 100 en 2007, a beaucoup grimpé ces derniers mois et devrait toucher, même dépasser les 5 p. 100 en 2011. Cela porte à croire que la reprise mondiale se fera de façon modérée par rapport aux revirements connus lors des cycles économiques d'après-guerre. En dépit d'une politique budgétaire expansionniste et des mesures de stimulation monétaire, le PIB du Canada ne commencera pas à progresser vraiment au-delà de son potentiel avant 2011. Selon nous, l'écart de production[1] sera, en moyenne, de –5,6 p. 100 en 2009, ce qui signifierait que ce n'est qu'en 2013 que le plein potentiel serait exploité.

En se propageant vers le Nord, la récession née aux États-Unis a obligé les consommateurs canadiens à adopter, eux aussi, des comportements plus prudents. Les ménages du Canada se sont ressentis du recul boursier et de la perte de valeur des logements, et ils se sont montrés moins confiants. En même temps, les pertes

d'emplois s'accumulaient : de novembre à juin, 360 000 emplois en moins dans l'économie canadienne. Les effets sur les revenus des travailleurs seront encore amplifiés par le niveau réduit des salaires et une diminution du nombre moyen d'heures travaillées puisque des entreprises remplacent des employés à temps complet par des temps partiel. Ainsi, malgré une inflation maîtrisée et des baisses d'impôts accordées à divers paliers, le revenu réel après impôts devrait diminuer de 0,5 p. 100 cette année. Bien mauvaise nouvelle pour les consommateurs canadiens qui, depuis 6 ans, jouissaient d'une progression moyenne du revenu disponible réelle de 3,7 p. 100 par année. S'efforçant de garnir leur épargne, les ménages canadiens devraient dépenser 0,7 p. 100 de moins cette année. La construction de logements neufs et les dépenses de rénovation domiciliaire chuteront aussi beaucoup cette année.

Les entreprises connaissent une situation encore plus difficile. L'incertitude et l'instabilité résultant de la crise économique mondiale ont mis un terme à des projets d'immobilisations partout au pays. Et même si le secteur bancaire du pays se porte assez bien, les pratiques d'octroi de prêts se sont faites beaucoup plus restrictives. En 2009, sous l'effet combiné de la faible demande de biens et services et d'un recul marqué du prix des ressources, les profits des entreprises baisseront, croyons-nous, de quelque 69 milliards de dollars. C'est donc sans surprise que l'on voit les intentions d'investir des entreprises s'atténuer considérablement en 2009. L'investissement non résidentiel privé reculera malheureusement de 15 p. 100 cette année, puis reprendra ensuite un peu en 2010, affichant alors une modeste croissance de 2,6 p. 100.

Cette année, seul le secteur public aura un apport positif à l'économie intérieure du Canada. Le gouvernement fédéral et les provinces se sont engagés, de façons variées, à distribuer d'importants incitatifs à l'égard des infrastructures et d'autres mesures de stimulation visant à faire s'activer la machine économique. Là, même si les dépenses de programme directes diminuent en raison de budgets provinciaux guidés par la prudence, et même si le rythme maximal des dépenses ne sera atteint que l'an prochain, la stimulation liée aux infrastructures viendra à point nommé. Le gouvernement fédéral a calculé que, ensemble, ses dépenses soutenues et la diminution de ses recettes se traduiront par un déficit budgétaire de 50 milliards de dollars au terme de l'exercice en cours. Notons que si la situation est préoccupante au palier fédéral, collectivement, les gouvernements des provinces sont dans une position encore pire. À tel point qu'il sera difficile de corriger les déficits accumulés par les gouvernements régionaux, même au retour de la croissance économique.

LA SCÈNE PROVINCIALE

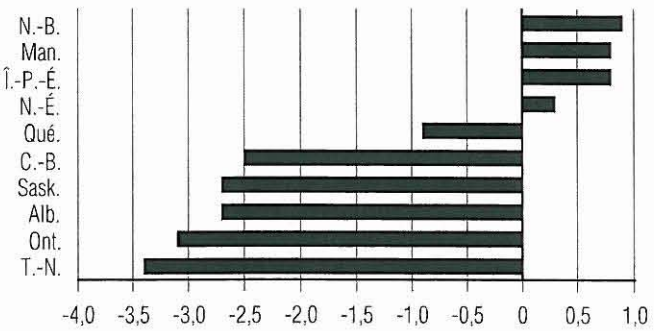
Les derniers mois ont été pénibles, surtout pour l'Ontario et la Saskatchewan, où la conjoncture a continué de se compliquer. La faillite, puis les démarches de restructuration de Chrysler et de General Motors ont affecté le secteur manufacturier ontarien durant la première partie de 2009. De la même façon, la réduction massive des activités d'extraction de potasse, combinée à la quasi-sécheresse touchant diverses régions de la Saskatchewan, feront perdurer les incidences de la récession mondiale dans cette province. Toutefois, quelques indices permettent de croire que le pire pourrait être passé. Surtout en Alberta et en Colombie-Britannique, où la situation se détériorait depuis le début de 2008. Une remontée des prix dans le secteur de l'énergie et, de façon plus marquée, une baisse des coûts de construction laissent entrevoir des jours meilleurs dans le secteur de l'énergie, à court terme. En outre, le secteur du logement se remet plus tôt que prévu dans l'Ouest canadien. Une abordabilité accrue a stimulé la revente de logements existants et la construction de logements neufs ces derniers mois. À Terre-Neuve-et-Labrador, la croissance économique sera freinée par un net ralentissement de la production d'hydrocarbures aux trois principaux champs (Hibernia, Terra Nova et White Rose). Et malgré les vents négatifs, l'économie du Manitoba s'est montrée résiliente, comme celle des Maritimes, l'Île-du-Prince-Édouard, la Nouvelle-Écosse et le Nouveau-Brunswick. Ces quatre provinces afficheront une modeste croissance économique en 2009.

Toutes les provinces connaîtront une reprise mitigée dans les 12 prochains mois. Ce sont celles qui ont le plus souffert de la récession mondiale qui marqueront les plus forts gains, bien au-delà de 3 p. 100 en moyenne. À la faveur des stimulants budgétaires fédéraux et d'une amélioration de la conjoncture américaine, la reprise se précisera durant la seconde moitié de 2009.

Certes, le secteur commercial externe du Canada central[2] connaît une profonde récession, mais les faiblesses se concentrent surtout dans les industries de l'automobile, des métaux de première fusion et de la forêt. Le ciel n'est quand même pas tout à fait sombre au Québec : la correction du secteur domiciliaire était attendue, mais l'activité n'a ralenti que modérément et de façon contrôlée. Le marché du travail se restructure, mais les faiblesses ont surtout été observées depuis le début de l'année dans le secteur manufacturier, dans l'administration publique et le secteur des soins de santé et des services sociaux. Les dépenses de consommation ont diminué mais la province parviendra à afficher un rendement positif, modeste, en termes réels pour 2009. Dans toutes les provinces, les entreprises ont freiné leurs projets d'expansion à cause de la crise du crédit, mais le Québec s'en tirera assez bien sur le plan des investissements non résidentiels. Les

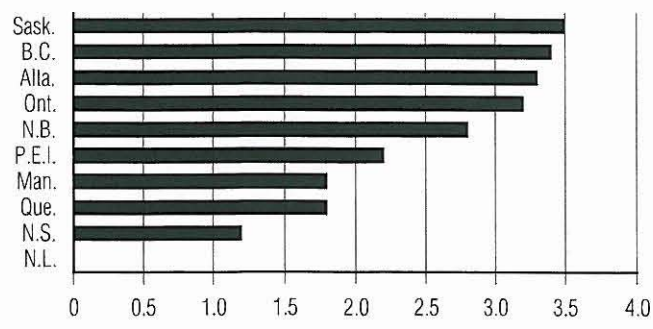
chantiers en cours visant l'ajout de moyens de production éolienne d'électricité et l'accroissement de la capacité hydroélectrique atténueront le recul des investissements. Tout compte fait, le Québec devrait subir un recul de 0,9 p. 100 (PIB aux prix de base) cette année, puis un regain, modeste, de 1,8 p. 100 l'an prochain. (Voir les graphiques 1 et 2.) Quant à l'économie ontarienne, elle n'est pas encore sortie de l'auberge, mais au moins le déclin semble terminé. En fait, la glissade qui dure depuis le milieu de 2008 en Ontario devrait faire place à une reprise graduelle d'ici la fin de 2009. Le fond du baril semble avoir été atteint dans les secteurs clés. La production ontarienne de véhicules, chose inattendue, a repris au deuxième trimestre de 2009 et devrait connaître un regain graduel dans un secteur automobile dévasté. Chrysler et General Motors profitant désormais de la protection associée à la faillite que prévoit le Chapitre 11, et la demande des consommateurs étant tombée à son plus bas, le secteur automobile connaîtra en 2010 un taux de reprise dépassant les 10 p. cent. Et en Ontario, favorisée par des réductions d'impôts, la demande des consommateurs se rétablira aussi l'an prochain, comme les investissements privés et la demande de logements. Globalement, le PIB de l'Ontario devrait reculer de 3,1 p. 100 cette année, puis progresser de 3,2 p. 100 en 2010.

Graphique 1
PIB réel par province en 2009
(variation en pourcentage; en dollars de 2002)



Sources : Le Conference Board du Canada; Statistique Canada.

Graphique 2
PIB réel par province en 2010
(variation en pourcentage; en dollars de 2002)



Sources : Le Conference Board du Canada; Statistique Canada.

Si la grave récession mondiale a vraiment ébranlé bien des provinces, le Canada atlantique s'est maintenu dans une situation généralement bonne. Les trois provinces des Maritimes, ainsi que le Manitoba, échapperont à la récession. Le Nouveau-Brunswick aura une place de choix au palmarès de la croissance cette année. Sous l'effet des stimulants publics visant les nouveaux investissements en infrastructures et des réductions d'impôts sur le revenu, le PIB global devrait y progresser de 0,9 p. 100 cette année. La province donnera encore le ton dans la région de l'Atlantique avec une croissance de 2,8 p. 100 du PIB réel, sauf que la décision de la société Irving Oil de ne pas construire, pour l'instant, une nouvelle raffinerie produisant de l'essence pourrait réduire la crossance l'an prochaine. Pour la Nouvelle-Écosse, les perspectives se maintiennent; le secteur financier se porte bien et l'expansion du champ de gaz naturel extracôtier de Deep Panuke stimulera l'investissement non résidentiel cette année. Ainsi, une croissance globale de 0,3 p. 100 du PIB est prévue cette année. L'an prochain, l'économie fera un gain, modeste, de 1,2 p. 100, vu l'achèvement des travaux de construction associés aux grands projets. L'économie de l'Île-du-Prince-Édouard est assez stable; le secteur public devrait y connaître une forte croissance en 2009. Et l'an prochain, l'Île devrait progresser de 2,2 p. 100 puisque l'activité s'intensifiera dans des secteurs clés, en particulier la construction et la production manufacturière. À cause de l'importante réduction de la production d'hydrocarbures, Terre-Neuve-et-Labrador subira une baisse marquée de l'activité économique réelle cette année, baisse de 3,4 p. 100. Puis en 2010, malheureusement, l'industrie pétrolière régressera de nouveau, si bien que la croissance du PIB y sera nulle l'an prochain.

Au Manitoba, certains secteurs subissent les effets de la crise mondiale. L'activité minière et l'activité manufacturière sont en mauvaise posture, mais dans l'ensemble la province s'en tire mieux que la plupart des autres. Le boom de construction amorcé il y a quatre ans demeurera un moteur de croissance pour la province. L'économie manitobaine s'est montrée résistante; à preuve, la croissance attendue de 0,8 p. 100 en 2009 et de 1,8 p. 100 en 2010. De son côté, la Saskatchewan, paie fort le prix de la grave récession mondiale. La réticence des producteurs agricoles, d'ici et d'ailleurs, à hausser leurs coûts en période difficile a fait tomber la demande mondiale d'engrais. Par conséquent, la production provinciale de potasse a chuté de moitié depuis l'an dernier. La Saskatchewan accusera donc un recul de 2,7 p. 100 du PIB réel en 2009 en raison de la réduction de plus de 10 p. 100 de l'activité minière et d'un net affaissement de la production agricole. Il est vrai que les provinces tributaires des ressources montrent souvent une croissance irrégulière du PIB réel, si bien qu'une reprise de

l'activité économique de 3,5 p. 100 est prévue pour la Saskatchewan l'an prochain, à la faveur d'une amélioration de la demande internationale de produits primaires.

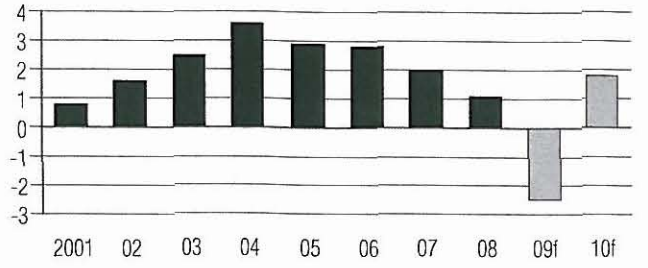
En Alberta, la récession ne devrait plus sévir longtemps. Les prix du pétrole se sont raffermis ces derniers mois et, ce qui est encore plus important, les coûts de construction ont diminué. La hausse incontrôlée des coûts en main-d'œuvre et en matériaux avait rendu impensables les grands projets énergétiques. Mais là, vu le recul de ces coûts, certaines pétrolières envisagent de relancer des initiatives mises de côté. Le secteur de l'énergie devrait avoir un apport positif à l'économie en 2010, grâce à l'intensification des immobilisations dans les sables bitumineux. L'économie intérieure devrait connaître une reprise l'an prochain, reprise engendrée par des gains au chapitre de l'emploi et une progression plus forte des revenus de travail. Après une contraction de 2,7 p. 100 du PIB réel prévue pour cette année, nous croyons que l'Alberta jouira d'une croissance de 3,3 p. 100 l'an prochain. Pronostic semblable pour la Colombie-Britannique, où le PIB réel cèdera 2,5 p. 100 en 2009, après avoir affiché une progression nulle en 2008. La perspective à court terme est néanmoins favorable pour la Colombie-Britannique. Le marché de l'habitation semble avoir atteint son plancher; la revente et le marché des logements usagés ont progressé ces derniers mois. Une remontée du secteur de la construction, combinée à une modeste reprise de l'activité forestière et manufacturière, favorisera une relance de l'économie l'an prochain. Autre facteur d'importance, la stimulation que suscitent les Jeux Olympiques d'hiver de 2010 contribuera à un bond de 3,4 p. 100 du PIB réel en 2010.

L'ÉCONOMIE AMÉRICAINE

Divers indices récents font entrevoir que la grave récession que connaît l'économie américaine depuis janvier 2008 s'atténue, lentement. Ce sont les signes croissants de stabilité dans le secteur de l'habitation et la confirmation que les dépenses des ménages commencent à se replacer qui, au premier chef, permettent de formuler une prévision optimiste. La prévision actuelle établit à 1 p. 100 le recul du PIB réel au second trimestre (annualisé), suivi d'un regain et d'une progression de 1,7 p. 100 au troisième trimestre, puis de 1,2 p. 100 dans le dernier trimestre de l'année. En 2010, l'économie devrait progresser modérément, soit de 1,8 p. 100. (Voir le graphique 3.)

Les efforts de la Réserve fédérale américaine et du gouvernement fédéral profitent enfin aux marchés de l'habitation. L'achat de créances hypothécaires par la Réserve fédérale et sa décision d'établir le taux des fonds fédéraux près de zéro ont ramené les taux hypothécaires bien en-dessous de 5 p. 100, des taux affichés à 6 p. 100 l'automne dernier. Cela, conjugué au seuil minimal auquel se trouvent les prix des logements, a suscité une relance

Graphique 3
Timide gain à prévoir aux É.-U.
(PIB américain réel, variation en pourcentage)



p = prévisions
Sources : Le Conference Board du Canada; Bureau of Economic Analysis (BEA) des États-Unis.

récente des ventes de logements neufs et existants. Plus encourageant encore, les stocks de logements neufs sont redescendus aux niveaux précédant l'éclatement de la bulle résidentielle. Cependant, les prix des logements sont restés en baisse dans diverses parties du pays, entre autres en raison du nombre élevé de ventes après saisie. Les maisons ainsi écoulés subissent une réduction de 25 p. 100 du prix dans la plupart des marchés, un phénomène qui a pour effet de faire baisser les prix de toutes les propriétés, même celles ne faisant pas l'objet d'une telle procédure.

La forte diminution des dépenses de consommation enregistrée vers la fin de 2008 est aussi arrêtée. Vu les difficultés qui prévalent dans le marché du travail, les dépenses ne sont certainement pas près d'augmenter rapidement, mais elles se sont au moins stabilisées, relativement. L'amélioration des marchés boursiers et un ralentissement du rythme de suppression d'emplois ont permis un gain, fort bienvenu, quant à la confiance des consommateurs, laquelle avait touché un creux durant l'hiver. Les ménages ont recommencé à épargner (le taux d'épargne approchait les 6 p. 100 en avril), un atout qui a en partie dissipé la panique que montraient les consommateurs et qui favorisera une progression des dépenses. Évidemment, si le taux d'épargne grimpe encore, la croissance des dépenses s'en trouvera freinée.

Les dépenses en infrastructures prévues pour améliorer les routes et les ponts dans l'ensemble du territoire doivent s'amorcer en seconde moitié de 2009; cette initiative nourrira la reprise économique. Ces dépenses devraient en fait aider à compenser pour les coupures décrétées par de nombreux gouvernements régionaux ou locaux en raison de la baisse des impôts perçus.

Les grands risques inhérents à la prévision et les facteurs qui limiteront la vitesse de la reprise sont les investissements privés et la demande extérieure. Les dépenses réelles en équipement devraient chuter de près de 19 p. 100 cette année, tandis qu'une croissance inférieure à 1 p. 100 est attendue en 2010. La faible

progression des profits, associée au resserrement des conditions de crédit, a amené les entreprises à réduire de beaucoup leurs stocks, ainsi que leurs dépenses d'investissement. Dans certains secteurs d'activité, les réductions de stocks ont été si fortes que la moindre poussée de la demande au cours des mois qui viennent pourrait vraiment provoquer une amélioration de l'activité manufacturière à court terme.

Les perspectives sont aussi moins positives sur le plan des exportations américaines : nous y prévoyons un recul de 12,2 p. 100 des exportations réelles cette année. La demande étrangère souffre parce que l'Europe, en grande partie, et le Japon connaissent une grave récession. Même la faiblesse relative du dollar américain n'aura pas permis de contrebalancer les effets de la récession mondiale sur le marché des exportations. Heureusement, la demande de produits américains en Chine et dans d'autres marchés émergents où les gouvernements ont implanté d'importantes mesures de stimulation, devrait freiner la chute des exportations à court terme.

LA POLITIQUE MONÉTAIRE

Le système bancaire et le marché hypothécaire canadiens sont en bien meilleur état que ceux de notre voisin du Sud et les autorités politiques y sont intervenues avec d'autant moins de vigueur. Si la Banque du Canada s'est appliquée à mettre des liquidités additionnelles à la disposition du milieu financier par la voie de transactions à court terme et en abaissant les taux, elle a jusqu'ici évité de devoir jouer sur les volumes (en somme, émettre davantage de billets). Dans ce contexte, l'annonce faite en avril par la Banque du Canada qu'elle maintiendrait le taux du financement à un jour près de zéro jusqu'en juin de l'an prochain avait de quoi étonner et, à tout dire, a pratiquement immobilisé l'élément stratégique clé de la Banque pour plus d'un an.

Entre mars 2008 et aujourd'hui, la Banque a abaissé son principal taux directeur de 3,5 p. 100 à seulement 0,25 p. 100. La dernière réduction de 0,25 point de pourcentage est survenue le 21 avril, avec l'annonce, par la Banque, que le taux cible du financement à un jour avait effectivement atteint son plancher. La Banque déplorait toutefois que l'abaissement de son principal taux directeur n'avait pas tout l'effet d'entraînement escompté sur les taux du marché du crédit. Aussi, lors de son annonce d'avril, elle offrit la garantie additionnelle de conserver les taux à ce bas niveau jusqu'en juin 2010. La formule a été efficace, aidant à faire baisser les taux des prêts commerciaux et les taux hypothécaires, tant pour ce qui est du court que du long terme. Mais cette politique comporte des risques; la transmission de la politique monétaire à l'économie est un processus relativement long, les estimations voulant qu'il faille compter environ 18 mois entre la révision des taux d'intérêt et le moment où se fait pleinement sentir l'impact sur le PIB réel. Il est vrai que la Banque du Canada a indiqué que sa promesse de ne pas changer les taux d'intérêt avant l'an prochain s'appuie sur l'hypothèse que l'inflation correspondra aux attentes, mais elle perdrait beaucoup de crédibilité si elle devait hausser les taux plus tôt que prévu. Or, la crédibilité étant la clé de la réussite d'une politique monétaire, il est très improbable que le taux de la Banque ne bouge d'ici juin 2010.

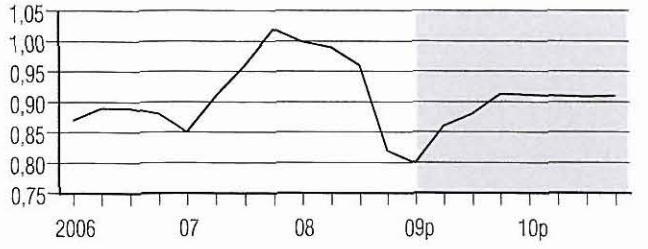
La politique de taux fixe de la Banque ne devrait pas susciter de vive controverse, du moins cette année. Une faible croissance économique, le dollar canadien à la hausse et le niveau peu élevé des produits de base contribueront tous à contenir l'inflation d'ici la fin de 2009. Aussi, même si les prix de l'énergie devraient augmenter dans les prochains mois, ils resteront inférieurs aux niveaux atteints en 2008. Puis, s'il est probable que les taux d'inflation sur 12 mois seront négatifs au cours des quelques mois qui viennent, le Canada ne risque pas de se retrouver en déflation prolongée. Après une progression de 2,4 p. 100 en 2008, l'inflation selon l'IPC devrait n'ajouter que 0,8 p. 100 en 2009. Quant à 2010, de meilleurs résultats de l'économie et la hausse continue des prix de l'énergie devraient pousser l'inflation des prix de 2,6 p. 100, vers la limite supérieure de la zone de confort de la Banque.

Ces derniers mois, suivant son comportement de longue date, le huard s'est remis à fluctuer selon les mouvements des prix de l'énergie et d'autres produits de base. Ce comportement avait différé, dans la seconde moitié de 2008 et au début de 2009, surtout à cause des réactions des marchés de change étrangers par rapport au billet vert américain durant le cycle économique, non pas par rapport à leur réaction vis-à-vis de la devise canadienne elle-même. Même s'ils sont l'épicentre de la récession mondiale, les États-Unis demeurent pour les investisseurs un refuge sûr en situation d'instabilité ou d'incertitude; cela a favorisé un net renforcement du dollar américain l'automne dernier et jusqu'au premier trimestre de 2009. Mais comme l'économie américaine et l'économie mondiale commencent à se stabiliser, le facteur «refuge» perd du poids et le billet vert est moins fort. Cette dépréciation est assurément responsable en partie de la remontée des prix de l'énergie et de la valeur du huard. Le dollar canadien devrait donc valoir en moyenne 0,86 $US en 2009, ce qui est quand même 8,3 p. 100 de moins que l'an dernier. Le huard devrait s'apprécier de façon continue dans la prochaine période, s'établissant en moyenne à 0,91 $US en 2010. (Voir le graphique 4.)

LA POLITIQUE BUDGÉTAIRE

La situation financière du gouvernement fédéral a radicalement changé. Après 11 exercices consécutifs de surplus qui semblaient amener d'heureuses surprises d'année en année, le gouvernement fait maintenant face à des recettes inférieures aux attentes. En mai dernier, le gouvernement annonçait que le déficit fédéral pour 2009-2010 serait de 16 milliards de dollars plus élevé que prévu,

Graphique 4
Le huard avoisinera les 91 cents U.S. en 2010
(taux de change É.-U./Canada)



p = prévisions
Sources : Le Conference Board du Canada; Statistique Canada.

atteignant de ce fait les 50 milliards de dollars. Du jamais vu. Alors que les recettes continuent de diminuer, le gouvernement fédéral s'est engagé par de nombreuses mesures de stimulation afin d'aider à atténuer les effets du cycle économique actuel. En plus des éléments automatiques de stabilisation, le gouvernement a accru la générosité du programme d'assurance emploi et a offert des réductions d'impôt aux particuliers et aux entreprises, tout en dépensant par la voie d'autres incitatifs. Le plus important, c'est le plan de stimulation du gouvernement fédéral axé sur les infrastructures, qui devrait (avec la participation des provinces) engendrer quelque 12 milliards de dollars de dépenses de construction neuve pour l'exercice 2009-2010. Compte tenu du temps nécessaire à l'analyse et à l'approbation d'un projet type, ainsi que du délai de construction, l'impact sur l'activité de construction devrait se matérialiser de 2009 à 2012, les activités se trouvant à leur plus fort en 2010.

Même si les effets de la récession perdureront, nous estimons que le gouvernement fédéral demeure en position financière structurellement bonne. Car le gouvernement fédéral devrait pouvoir rééquilibrer ses livres une fois l'économie opérant à pleine capacité, au lendemain des mesures fiscales temporaires, des autres incitatifs et du plan de stimulation. Par contre, les gouvernements régionaux, de façon collective, sont en bien moins bonne posture.

Les provinces doivent faire face aux coûts accrus des programmes sociaux et à l'obligation de contribuer aux dépenses d'infrastructures autant que le gouvernement fédéral, elles portent le poids de leurs propres plans de stimulation et subissent une diminution de leurs recettes sur les revenus des entreprises et des particuliers. De plus, dans certaines provinces, ces difficultés ont été exacerbées par l'effet direct du recul des prix des produits de base sur les redevances. Il sera difficile pour les collectivités régionales de composer avec des pertes de recettes, fortes et immédiates. Jusqu'à tout récemment, la plupart d'entre elles augmentaient leurs dépenses à un rythme jamais atteint tout en dégageant des surplus en raison d'une croissance plus vive que prévu des recettes. Dans la situation présente et vu la pression toujours plus forte que subissent les budgets de soins de santé, la relance économique envisageable à moyen terme ne permettra pas, à elle seule, aux gouvernements régionaux de renouer avec les surplus. Par conséquent, les provinces devront, tôt ou tard, hausser les impôts ou réduire leurs dépenses pour s'assurer un équilibre budgétaire.

Pour l'ensemble des paliers de gouvernement, les dépenses courantes réelles totales en biens et services n'ont pas progressé lors du premier trimestre de 2009. Malgré l'intense encouragement et les stimulants budgétaires, les gouvernements, tant fédéral que provinciaux, montrent une plus grande prudence à l'égard des dépenses dans leurs propres programmes (en bonne partie les dépenses de traitements et salaires des fonctionnaires). Au total, les dépenses réelles en biens et services devraient croître de 2,3 p. 100 cette année, comparativement à 3,7 p. 100 en 2008. L'essor escompté des dépenses en infrastructures n'est pas apparu au premier trimestre de l'année, mais nous nous attendons à des gains importants d'ici la fin de 2009 et durant toute l'année 2010. La formation de capital fixe réelle du gouvernement devrait progresser de 15,6 p. 100 en 2009, puis de 11,5 p. 100 en 2010.

Newfoundland and Labrador

- Production in primary and manufacturing industries will plunge in 2009, pushing GDP growth into negative territory.
- Investment spending will expand strongly this year thanks to extensive non-residential construction.

Real GDP

	Growth	Ranking
2009	–3.4	#10
2010	0.0	#10

Credit Quality
A
Standard & Poor's

Retail Sales

	Growth	Ranking
2009	–2.4	#2
2010	2.3	#9

Government & Background Information

Premier	Danny Williams
Next election	2012
Population (2009:2)	508,825
Government balance (2009–10)	–$750 billion

Sources: The Conference Board of Canada; Newfoundland and Labrador Finance.

Economic Storm Pounding Province

by Kris Shaw

An economic tempest continues to rage across Newfoundland and Labrador. Job losses and production cuts will be steeper here than in any other province. The oil and gas sector—which accounts for over one-fifth of the province's gross domestic product is uncomfortably positioned in the eye of the storm. Natural declines in production, expansion-related slowdowns, low crude oil prices, and ongoing maintenance will induce an 18 per cent decline this year in mineral fuels output. Crude oil production is expected to continue shrinking at roughly 5 per cent per year over the remainder of the medium term.

Offshore oil production is already 13.7 per cent behind last year's pace, and this gap is expected to widen over the rest of the year.

Cyclical forces have exacerbated structural weaknesses in the pulp and paper industry. The province's one remaining mill recently extended a partial shutdown indefinitely. Including the closure at Grand Falls, newsprint production in Newfoundland and Labrador was halved over the first six months of 2009. Demand for processed seafood has dried up as customers reduce their spending on non-staples. In response, the entire shrimp processing industry was idled for seven weeks this summer. On the whole, a 9.5 per cent decline in real manufacturing output is expected this year. Production will increase 5.2 per cent in 2010 once markets rebound.

The net impact of the downturn on the provincial economy will be substantial. A 3.4 per cent decrease in real GDP is anticipated this year, the largest contraction on record. The province will also endure the slowest recovery of all the provinces. Real output is forecast to remain flat in 2010. A stagnant real economy will cause labour markets to deteriorate considerably over the next two years. Indeed, the provincial unemployment rate will surpass 16 per cent by year's end.

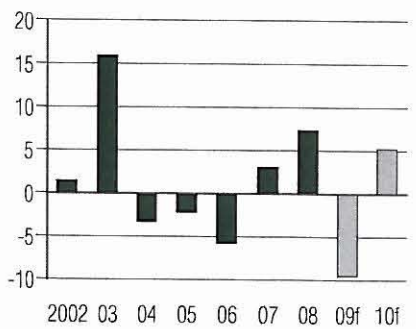
Despite the gloomy economic outlook, nominal private and public non-residential construction is expected to expand 42 per cent in 2009. The nickel processing facility at Long Harbour, the White Rose expansion, and government infrastructure spending are the main contributors to this growth. On the other hand, housing starts are expected to retreat significantly after climbing to a 20-year high in 2008.

Economic Indicators
(2002 $; percentage change)

	2008	2009f	2010f
Real GDP (basic prices)	–0.1	–3.4	0.0
Consumer Price Index	2.9	0.6	2.5
Personal disposable income	–1.0	1.7	2.2
Employment	1.4	–2.8	0.2
Unemployment rate (level)	13.3	15.5	15.9
Retail sales	7.6	–2.4	2.3
Average weekly wages	3.9	1.0	1.6
Population	0.1	0.1	0.1

f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Manufacturing Output Slips in 2009
(percentage change, 2002 $)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

MANUFACTURING INDUSTRIES

Productive activity in Newfoundland's most important manufacturing segments—food processing, newsprint, and petroleum refining—will ease in 2009. As a result, real manufacturing output is expected to shrink 9.5 per cent, the largest decline in any province except Ontario. A healthy rebound of 5.2 per cent is projected for 2010 once markets for manufactured goods improve.

Non-residential construction will expand 42 per cent in 2009 thanks to a large inventory of major capital projects.

The pulp and paper industry has the dubious distinction of leading the way down in 2009. Demand for the province's paper products is mired in a steady decline due largely to the rise of digital media and greater competition from emerging markets. Moreover, mills in Newfoundland operate at a significant productivity disadvantage relative to more modern facilities. These structural problems, crippling in their own right, have been exacerbated by a sharp cyclical downturn. Consequently, significant production cuts have been made at the Corner Brook mill. An eight-week shutdown of one machine was extended indefinitely at the end of the second quarter, eliminating 15 per cent of the workforce. Including the earlier closure at Grand Falls-Windsor, output capacity in Newfoundland's newsprint sector was halved over the first six months of 2009.

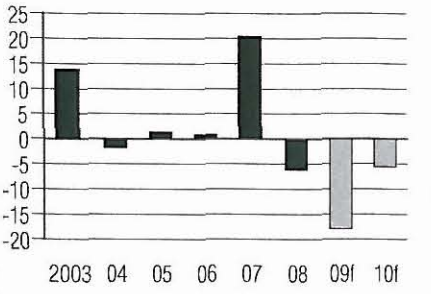
Food processors, unlike auto assemblers or pulp mills, are typically insulated from the worst impacts of a recession. Indeed, food manufacturing is the only sector in Canada in which the value of shipments has not shrunk since last October. Unfortunately, Newfoundland's food processors tend to be somewhat more vulnerable to market conditions. This is certainly the case for the province's shrimp processors, all of whom temporarily shut down at the beginning of June. Falling demand in export markets (especially in Europe) and adverse currency fluctuations had made operations unviable. Upward of 2,000 plant employees were out of work until a new pricing agreement was reached with harvesters in mid-July.

PRIMARY INDUSTRIES

The plight of Newfoundland and Labrador's primary industries is another key economic theme for 2009 and 2010. The province's prospects are closely connected to the fortunes of its oil and gas sector. Indeed, the sector accounts for over one-fifth of total GDP in the province. Unfortunately, considerable natural declines will occur at the major offshore sites this year. Hibernia, Terra Nova, and White Rose have all matured, and output will continue dropping at those sites. Data from the first five months of the year indicate that offshore oil production is already 13.7 per cent behind last year's pace. This gap is expected to widen over the rest of the year, partly because a month-long production halt is needed at White Rose to allow for expansion activities and other modifications. Overall, real mineral fuels output will decrease 18 per cent in 2009. It is difficult to overstate the significance of this decline. If the mineral fuels sector were excluded from GDP, the numbers would actually show Newfoundland's economy set to grow 1.2 per cent this year. As it is, real GDP will contract more severely here than in any other province.

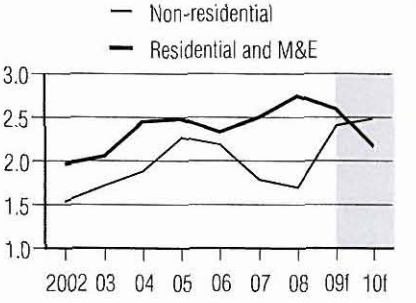
Production may have peaked at the main oil fields, but operations will begin at smaller sites over the next few years. The extension from White Rose to North Amethyst is progressing as planned. It is the first of three satellite fields to be developed and

Deep Slump Ahead for Oil and Gas Production
(percentage change, 2002 $)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Investment Sustained by Non-Residential Sector
($ billions)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

the operator is targeting late 2009 or early 2010 as a start-up date. But even if all expansion projects proceed as hoped, they will only serve to soften the fall. Mineral fuels output is expected to decrease another 5.6 per cent in 2010, and will continue falling over the rest of the forecast.

Newfoundland's other resource industries are also struggling. Metal miners are expected to slash production by 16.4 per cent this year. The sector will bounce back strongly, however, once conditions in commodity markets improve. Other primary sectors are feeling the effects of downstream weaknesses. For example, forestry output

will contract by 22.9 per cent in 2009 because woodland operations connected to pulp and paper mills have been curtailed. And after three years of strong growth, a decline of 3.2 per cent is anticipated for fishing and trapping in 2009. Shrimp harvesters, inactive during the two-month processing shutdown, will be among the hardest hit.

INVESTMENT

The bright side of Newfoundland's economic situation is the bustling investment profile. Non-residential construction will soar over the forecast horizon thanks to a large inventory of major capital projects. Combined spending in the private and public sectors is forecast to expand 42 per cent in 2009 alone. The provincial government will contribute to this growth by increasing the infrastructure budget by 50 per cent. This stimulus is directed primarily toward roads, educational buildings, and healthcare facilities. The North Amethyst project will also contribute to investment growth this year. Installation of the subsea tieback should be completed by early 2010 at the latest. ("Tiebacks" link new, often smaller sources to established facilities.) And since White Rose has two other extensions, offshore construction should pick up again in later years. The entire expansion plan has an estimated cost of $3.5 billion.

Vale Inco's nickel processing facility in Long Harbour provides another multi-year boost to investment. The plan for 2009 includes site establishment and infrastructure development. Construction of the wharf and plant is scheduled to begin in 2010. At its peak, this project is expected to create 1,600 construction jobs each year. An extensive backlog of other projects means that a strong pace will be maintained after 2009. Non-residential expenditures are expected to double between 2010 and 2013.

The other components of investment will not perform as well. Machinery and equipment purchases are expected to drop 10.5 per cent this year and 3.8 per cent in 2010 (though some momentum will be regained in the following years). The story is even worse for residential construction. Employment losses, slower growth in disposable income, and tighter credit conditions are all playing a role in weakening the housing market. Starts are forecast to fall from a 20-year high of 3,300 last year to 2,800 this year. The level will then fall below 2,000 units in 2010, largely because recent building activity has outpaced the province's demographic needs.

Forecast Risks

- Because issues in the cold-water shrimp industry were resolved sooner than expected, manufacturing output may not shrink as quickly as forecast.
- Many companies have deferred mine expansions or other resource developments. If these are ultimately cancelled, mining output will grow more slowly in the future.

Source: The Conference Board of Canada.

Key Economic Indicators: Newfoundland and Labrador
(forecast completed Jul. 16, 2009)

	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3	2008:4	2009:1	2009:2	2009:3	2009:4	2008	2009	2010
GDP at market prices (current $)	30,518	31,478	32,145	31,490	28,922	28,880	29,332	29,926	29,987	30,088	30,293	30,749	31,408	29,265	30,279
	–0.9	*3.1*	*2.1*	*–2.0*	*–8.2*	*–0.1*	*1.6*	*2.0*	*0.2*	*0.3*	*0.7*	*1.5*	*6.6*	*–6.8*	*3.5*
GDP at basic prices (current $)	28,897	29,843	30,505	29,888	27,358	27,306	27,744	28,317	28,353	28,427	28,568	28,991	29,783	27,681	28,585
	–0.7	*3.3*	*2.2*	*–2.0*	*–8.5*	*–0.2*	*1.6*	*2.1*	*0.1*	*0.3*	*0.5*	*1.5*	*7.1*	*–7.1*	*3.3*
GDP at basic prices (constant $ 2002)	18,138	18,039	17,912	17,907	17,671	17,379	17,240	17,254	17,242	17,338	17,425	17,534	17,999	17,386	17,385
	1.2	*–0.5*	*–0.7*	*0.0*	*–1.3*	*–1.7*	*–0.8*	*0.1*	*–0.1*	*0.6*	*0.5*	*0.6*	*–0.1*	*–3.4*	*0.0*
Consumer Price Index (2002 = 1.0)	1.124	1.145	1.161	1.142	1.133	1.147	1.156	1.163	1.169	1.175	1.182	1.188	1	1.149	1.178
	0.8	*1.9*	*1.4*	*–1.7*	*–0.8*	*1.2*	*0.8*	*0.6*	*0.5*	*0.5*	*0.6*	*0.6*	*2.9*	*0.6*	*2.5*
Implicit price deflator—GDP at basic prices (2002 = 1.0)	1.593	1.654	1.703	1.669	1.548	1.571	1.609	1.641	1.644	1.640	1.640	1.653	1.655	1.592	1.644
	–1.9	*3.8*	*2.9*	*–2.0*	*–7.2*	*1.5*	*2.4*	*2.0*	*0.2*	*–0.3*	*0.0*	*0.9*	*7.2*	*–3.8*	*3.3*
Average weekly wages ($, industrial composite)	711.1	727.4	735.2	743.0	743.2	730.9	733.3	738.5	740.4	745.2	750.5	756.3	729.2	736.5	748.1
	0.1	*2.3*	*1.1*	*1.1*	*0.0*	*–1.6*	*0.3*	*0.7*	*0.3*	*0.6*	*0.7*	*0.8*	*3.9*	*1.0*	*1.6*
Personal income (current $)	15,315	15,437	15,503	15,740	15,767	15,598	15,664	15,795	15,872	15,977	16,133	16,244	15,499	15,706	16,057
	–4.9	*0.8*	*0.4*	*1.5*	*0.2*	*–1.1*	*0.4*	*0.8*	*0.5*	*0.7*	*1.0*	*0.7*	*–1.3*	*1.3*	*2.2*
Personal disposable income (current $)	12,254	12,461	12,533	12,735	12,749	12,616	12,672	12,781	12,826	12,906	13,027	13,114	12,496	12,704	12,968
	–6.2	*1.7*	*0.6*	*1.6*	*0.1*	*–1.0*	*0.4*	*0.9*	*0.3*	*0.6*	*0.9*	*0.7*	*–1.0*	*1.7*	*2.1*
Personal savings rate	1.22	2.14	0.33	2.55	3.34	2.70	2.27	2.36	2.18	2.24	2.18	2.44	1.56	2.67	2.26
Population of labour force age (000s)	425	426	426	427	428	428	429	429	430	430	430	431	426	429	430
	0.3	*0.1*	*0.2*	*0.2*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.4*	*0.6*	*0.4*
Labour force (000s)	255	255	252	253	253	252	253	254	254	255	255	255	254	253	255
	1.9	*0.2*	*–1.3*	*0.2*	*0.2*	*–0.5*	*0.5*	*0.3*	*0.2*	*0.2*	*0.1*	*–0.1*	*1.0*	*–0.3*	*0.7*
Employment (000s)	222	222	218	218	216	214	213	213	213	214	215	215	220	214	214
	2.1	*–0.1*	*–1.9*	*0.0*	*–0.9*	*–1.0*	*–0.5*	*0.0*	*0.3*	*0.3*	*0.3*	*0.3*	*1.4*	*–2.8*	*0.2*
Unemployment rate	12.7	13.0	13.6	13.7	14.7	15.1	15.9	16.1	16.1	16.0	15.9	15.6	13	15.5	15.9
Retail sales (current $)	6,980	6,981	7,212	7,084	6,931	6,836	6,882	6,943	6,973	7,020	7,094	7,129	7064.2	6,898	7,054
	3.6	*0.0*	*3.3*	*–1.8*	*–2.2*	*–1.4*	*0.7*	*0.9*	*0.4*	*0.7*	*1.1*	*0.5*	*8*	*–2.4*	*2.3*
Housing starts (units)	2,859	3,106	3,414	3,665	3,668	2,900	2,417	2,164	1,822	1,794	1,919	1,937	3261.0	2,788	1,868
	–9.7	*8.7*	*9.9*	*7.4*	*0.1*	*–20.9*	*–16.6*	*–10.5*	*–15.8*	*–1.6*	*7.0*	*0.9*	*23*	*–14.5*	*–33.0*

White area represents forecast data.
All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.
For each indicator, the first line is the level and the second line is the percentage change from the previous period.
Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Prince Edward Island

- Prince Edward Island's economy will fare better than the national average in 2009.
- A delay in the implementation of key wind energy and government infrastructure projects until 2011 will postpone a major recovery in the Island's economy until late 2010.

Real GDP

	Growth	Ranking
2009	0.8	#3
2010	2.2	#6

Credit Quality
A
Standard & Poor's

Retail Sales

	Growth	Ranking
2009	–2.6	#5
2010	2.6	#7

Government & Background Information

Premier	Robert Ghiz
Next election	2011
Population (2009:2)	140,638
Government balance (projected 2009–10)	–$85.3 million

Sources: The Conference Board of Canada; P.E.I. Finance.

P.E.I. Among Growth Leaders in 2009

by Sabrina Browarski

Although the after-effects of the global financial crisis are taking a toll on the Canadian economy, Prince Edward Island will remain largely immune to the broader associated trade shocks. This year, the Island economy will outpace all but two of its provincial competitors—New Brunswick and Manitoba—as it posts growth of 0.8 per cent in real gross domestic product. That number will rise to 2.2 per cent in 2010.

Arguably, public sector stimulus is the major contributing factor that prevented the Island from tipping into recession in 2009. Government spending on goods and services is forecast to rise by nearly 9 per cent in 2009. Furthermore, a new $510-million capital spending plan, along with ongoing wind energy investment by the province and Suez Energy, will provide a sizable lift to an otherwise faltering private investment landscape.

Several key Island sectors will face an uphill battle in 2009 as American consumer demand retreats. The agri-food industry (which exports nearly 52 per cent of products to the United States) as well as the domestic fishing and trapping industry, will be disproportionately affected. Manufacturing activity will also retreat mildly, although a surge in aerospace-related work will provide momentum to both output and employment as 2010 unfolds.

With 10 per cent growth in sales, aerospace manufacturers will continue to exploit opportunities in new markets and ramp up hiring of skilled workers.

Employment on the Island is projected to fall by 2.1 per cent this year. The unemployment rate will rise to a peak of 12.8 per cent in early 2010 as jobs are cut—a result of severe cutbacks in corporate profits. Facing weaker job prospects, consumers will retrench. Growth in total consumer expenditures is expected to be only marginally positive in real terms.

AGRICULTURE RELIES ON SALES OF NAME BRAND PRODUCTS

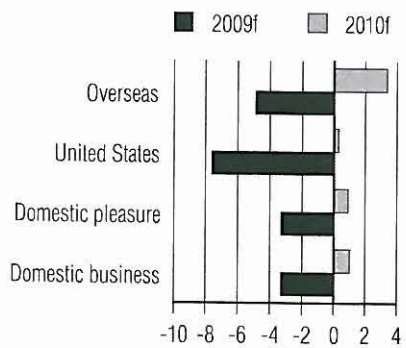
The United States remains the dominant importer of Island agri-food exports, accounting for nearly 85 per cent of sales of processed potatoes and seafood. With approximately 61 per cent of P.E.I's total exports sourced from the agri-food sector, stable demand by supermarkets and fast-food restaurants for name brands such as Cavendish and McCain will enable the agriculture sector to eke out growth of

Economic Indicators
(2002 $; percentage change)

	2008	2009f	2010f
Real GDP (basic prices)	1.0	0.8	2.2
Consumer Price Index	3.4	0.1	2.7
Personal disposable income	4.5	2.0	2.5
Employment	1.2	–2.1	0.3
Unemployment rate (level)	10.7	12.5	12.8
Retail sales	5.6	–2.6	2.6
Average weekly wages	2.2	1.8	1.1
Population	1.0	0.9	0.5

f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Visitors Eschew P.E.I. in 2009
(overnight visits, percentage change)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

0.3 per cent this year, even with the U.S. downturn. Demand for potato granules appears, similarly, to be recession-proof.

U.S. CONSUMERS CUT BACK ON LUXURY SEAFOOD PRODUCTS

By contrast, the Island's fishing and trapping industry will suffer a 4.2 per cent contraction as struggling U.S. households choose to forgo relatively expensive lobster purchases. The drop comes after the industry grew by an astonishing 14 per cent in 2008. Efforts are now under way to have P.E.I. lobster certified as a "sustainable catch" by the London-based Marine Stewardship Council. Certification would open up the European Union markets to the Island's lobster products, which could bolster demand in the medium term.

Mussels—which are less expensive than lobster—exhibit less price volatility, and will provide some offset to flagging lobster exports. Curiously, a May 27 article by New York Times food columnist Mark Bittman, who critiqued Island mussels as "kind of bland," has generated a groundswell of support for the Island's product. Publicized rebuttals have highlighted Prince Edward Island as a destination for travelling gourmets and have generated favourable publicity for P.E.I. mussels.

WEAK DEMAND FOR INDUSTRIAL MACHINERY HITS ISLAND'S MANUFACTURERS

Island manufacturing activity will see a 1.3 per cent decline in 2009, as most subcategories of machinery and equipment (M&E) and industrial goods face weak demand south of the border. However, performance in higher value-added export products—such as jet turbines, power transmission, and specialized food-manufacturing equipment—will buck the general downward trend of M&E sales in the United States.

In fact, 2008 marked a significant milestone for the Island's aerospace sector as sales rose 10 per cent to hit $310 million! With that kind of growth, aerospace manufacturers will continue to exploit opportunities in new markets and ramp up hiring of skilled workers. Thanks to strong aerospace and niche food machinery manufacturing performance, growth in manufacturing is forecast to rebound by 2.3 per cent in 2010.

A WEAK YEAR FOR TOURISM

The current year could prove to be a difficult one for tourism on the Island, according to data from the Conference Board's Canadian Tourism Research Institute. An estimated 24,000 fewer overnight visits to the Island are forecast for 2009, representing a nearly 4 per cent drop in total travel from 2008 levels. Declines are expected for both business and pleasure travellers from Canada and overseas in the coming year.

ISLAND CONSUMERS STILL BUYING

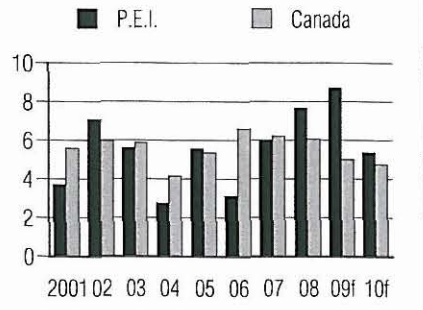
The effects of lower corporate profits will naturally trickle into the Island's real economy, although to a lesser degree than among other Canadian provinces. This will cause firms to scale back employment by 2.1 per cent in 2009, with only a modest 0.3 per cent rebound expected in 2010.

The United States remains the dominant importer of Island agri-food exports, accounting for nearly 85 per cent of sales of processed potatoes and seafood.

However, the raw employment numbers belie more favourable performances in key pockets of the Island economy. For instance, the manufacturing sector has benefited from strong hiring and wage growth, particularly in the aerospace sector. Vector Atlantic currently employs 375 people, and a new aerospace company, Action Aero, is now based in Charlottetown. In all, the Island's nine aerospace firms employ 850 skilled workers, with average industry salaries estimated at $40,000. Thanks to such concentrated high-growth sectors, personal disposable income will still advance, albeit by a modest 2 per cent this year as the broader labour market loosens.

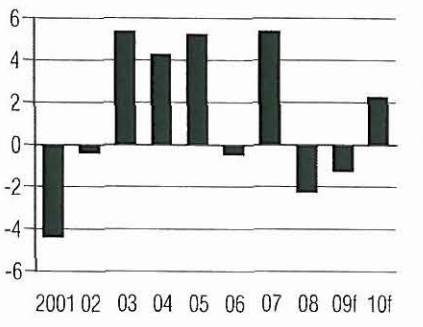
Islanders will scale back spending growth this year to 0.9 per cent in response to softer labour markets. Expenditures on rent and other services will remain relatively robust, although Islanders will trim their purchases of consumer goods by 0.2 per

Government Spending Accelerates at Breakneck Pace
(percentage change, $ millions)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Manufacturing Poised to Rebound
(percentage change, 2002 $)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

cent this year. With a rebound in employment and personal disposable income forecast for 2010, growth in consumer spending will total 3 per cent.

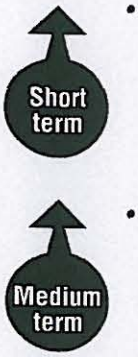
INVESTMENT RETREAT OFFSET BY LANDMARK PUBLIC PROJECTS

Fiscal stimulus will play a key role in bolstering domestic demand in Prince Edward Island this year, ensuring that the province doesn't slip into recession in lockstep with the global economy. The P.E.I. government has committed to an unprecedented five-year, $510-million capital spending plan and a six-year, $27.5-million Island Community Fund. These projects will receive up to $60 million in assistance between 2010 and 2014 from the federal Gas Tax Fund. Of the total federal assistance package, $30 million will be directed to provincial water and sewer projects, $18 million to other municipal services, and the remaining $12 million to "soft-cost" (or non-construction) projects.

As a result of these initiatives, public capital expenditures are forecast to grow in 2009. Impressively, the growth follows the largest, single-year government infrastructure investment package—$31.6 million—in 2008–09. Government spending on goods and services will expand at a breakneck pace of 8.7 per cent in 2009, even after growth of 7.6 per cent in 2008!

Although total investment spending in Prince Edward Island is forecast to contract by nearly 4 per cent this year and by a further 1.8 per cent next year, the province's new $510-million capital spending plan, coupled with a landmark $1-billion provincial wind energy strategy, will lead to a sharp 9 per cent turnaround in investment intentions as early as 2011.

Forecast Risks



- Domestic travellers might substitute away from more expensive overseas vacations in favour of local visits to Prince Edward Island, providing upside risk to the commercial services industry this year.
- Prince Edward Island could benefit from up to $60 million for infrastructure renewal under the Atlantic Gateway trade initiative.

Source: The Conference Board of Canada.

Key Economic Indicators: Prince Edward Island
(forecast completed Jul. 16, 2009)

	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3	2008:4	2009:1	2009:2	2009:3	2009:4	2008	2009	2010
GDP at market prices (current $)	4,605	4,760	4,812	4,607	4,725	4,781	4,864	4,943	4,940	4,967	5,015	5,073	4,696	4,828	4,999
	1.0	*3.4*	*1.1*	*–4.3*	*2.6*	*1.2*	*1.7*	*1.6*	*–0.1*	*0.5*	*1.0*	*1.2*	*4.2*	*2.8*	*3.5*
GDP at basic prices (current $)	4,199	4,351	4,402	4,206	4,333	4,387	4,467	4,541	4,531	4,551	4,583	4,634	4,289	4,432	4,575
	1.5	*3.6*	*1.2*	*–4.4*	*3.0*	*1.2*	*1.8*	*1.7*	*–0.2*	*0.4*	*0.7*	*1.1*	*4.8*	*3.3*	*3.2*
GDP at basic prices (constant $ 2002)	3,782	3,774	3,785	3,829	3,811	3,810	3,823	3,843	3,872	3,894	3,920	3,945	3,793	3,822	3,908
	0.7	*–0.2*	*0.3*	*1.2*	*–0.5*	*0.0*	*0.3*	*0.5*	*0.7*	*0.6*	*0.7*	*0.7*	*1.0*	*0.8*	*2.2*
Consumer Price Index (2002 = 1.0)	1.149	1.184	1.199	1.167	1.151	1.170	1.182	1.189	1.195	1.201	1.209	1.215	1.175	1.173	1.205
	0.4	*3.0*	*1.3*	*–2.6*	*–1.4*	*1.6*	*1.1*	*0.6*	*0.5*	*0.5*	*0.6*	*0.5*	*3.4*	*–0.1*	*2.7*
Implicit price deflator—GDP at basic prices (2002 = 1.0)	1.110	1.153	1.163	1.098	1.137	1.151	1.168	1.182	1.170	1.169	1.169	1.175	1.131	1.160	1.171
	0.8	*3.8*	*0.9*	*–5.6*	*3.5*	*1.3*	*1.5*	*1.1*	*–0.9*	*–0.1*	*0.0*	*0.4*	*3.8*	*2.5*	*1.0*
Average weekly wages ($, industrial composite)	585.9	593.9	596.2	603.6	611.8	601.7	602.8	606.3	607.7	610.3	613.7	617.7	594.9	605.7	612.3
	–0.8	*1.4*	*0.4*	*1.2*	*1.4*	*–1.6*	*0.2*	*0.6*	*0.2*	*0.4*	*0.6*	*0.6*	*2.2*	*1.8*	*1.1*
Personal income (current $)	4,030	4,026	4,054	4,104	4,115	4,109	4,134	4,166	4,198	4,217	4,253	4,285	4,054	4,131	4,238
	1.6	*–0.1*	*0.7*	*1.2*	*0.3*	*–0.2*	*0.6*	*0.8*	*0.8*	*0.5*	*0.9*	*0.7*	*3.5*	*1.9*	*2.6*
Personal disposable income (current $)	3,221	3,235	3,261	3,300	3,306	3,302	3,323	3,350	3,372	3,387	3,415	3,440	3,254	3,320	3,403
	1.8	*0.4*	*0.8*	*1.2*	*0.2*	*–0.1*	*0.6*	*0.8*	*0.6*	*0.4*	*0.8*	*0.7*	*4.5*	*2.0*	*2.5*
Personal savings rate	–7.48	–8.33	–8.88	–7.20	–6.15	–6.85	–7.32	–7.22	–7.40	–7.33	–7.39	–7.11	–7.97	–6.88	–7.31
Population of labour force age (000s)	114	114	115	115	115	116	116	116	116	117	117	117	115	116	117
	0.1	*0.3*	*0.6*	*0.4*	*0.0*	*0.4*	*0.2*	*0.2*	*0.1*	*0.2*	*0.2*	*0.3*	*1.1*	*1.1*	*0.9*
Labour force (000s)	79	79	79	78	78	79	79	79	79	79	79	79	79	79	79
	1.6	*0.2*	*–0.3*	*–0.4*	*–0.8*	*1.2*	*0.2*	*0.0*	*0.0*	*0.1*	*0.2*	*0.3*	*1.7*	*–0.1*	*0.7*
Employment (000s)	71	71	70	69	69	69	69	69	69	69	69	69	70	69	69
	1.5	*0.0*	*–0.8*	*–1.0*	*–1.3*	*0.5*	*–0.1*	*0.0*	*0.0*	*0.1*	*0.2*	*0.4*	*1.2*	*–2.1*	*0.3*
Unemployment rate	10.3	10.4	10.8	11.4	11.9	12.5	12.8	12.8	12.8	12.9	12.9	12.8	10.7	12.5	12.8
Retail sales (current $)	1,707	1,727	1,742	1,708	1,669	1,664	1,679	1,692	1,705	1,712	1,726	1,734	1,721	1,676	1,719
	2.9	*1.2*	*0.9*	*–2.0*	*–2.3*	*–0.3*	*0.9*	*0.8*	*0.7*	*0.4*	*0.8*	*0.5*	*5.6*	*–2.6*	*2.6*
Housing starts (units)	626	754	747	721	476	767	682	646	640	634	663	684	712	643	655
	–27.1	*20.5*	*–0.9*	*–3.5*	*–34.0*	*61.1*	*–11.0*	*–5.3*	*–1.0*	*–0.9*	*4.6*	*3.1*	*–5.1*	*–9.7*	*1.9*

White area represents forecast data.
All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.
For each indicator, the first line is the level and the second line is the percentage change from the previous period.
Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Nova Scotia

- Residential construction investments whittle down gains in public and private construction investment.
- Increased program spending by government helps prop up recession-battered economy.

Real GDP

	Growth	Ranking
2009	0.3	#4
2010	1.2	#9

Credit Quality
A+
Standard & Poor's

Retail Sales

	Growth	Ranking
2009	–3.4	#7
2010	1.9	#10

Government & Background Information

Premier	Darrell Dexter
Next election	2014
Population (2009:2)	939,475
Government balance (2009–10)	unavailable

Source: The Conference Board of Canada.

Navigating Slowly Through the Global Recession

by Prince Owusu

In spite of the defeat of the provincial budget and its associated economic rescue plan (a defeat that culminated in an election and the formation of a new government), Nova Scotia will skirt recession thanks to increased program spending put in place by the government before being voted out of office in this past June's provincial election. The $700-million Deep Panuke offshore natural gas project and a number of medium-sized investments will help the construction sector, allowing real GDP to advance by a modest 0.3 per cent this year.

While the finance, insurance, and real estate industry and the government sector remain healthy, the rest of the service industries are mired in recession—as are the goods-producing industries. Declining natural gas production will drag down growth in the primary sector over the next two years. Rock-bottom prices and swollen lobster inventories will lead to reduced fish landings this year as the industry attempts to shore up prices. Even though a lower Canadian dollar is expected to provide some relief for exporters this year, the manufacturing sector will be hurt by the sharp reduction in consumer demand south of the border.

Growth in the service sector will slow as job losses limit income growth. The unemployment rate is forecast to rise to reach 10.1 per cent in 2010. Personal services, as well as patronage at restaurants and amusement centres, will be affected this year. Business services, including technical and call centre activities, will fall victim to the global economic recession and impede gains in the service sector. Given the weaker global outlook, the tourism and transportation industries are expected to face tough times in the short term. The outlook is expected to improve next year as the U.S. economy recovers. Real GDP is forecast to expand by just 1.2 per cent in 2010 as growth in the goods-producing industry remains negative. The construction sector will lose momentum next year and will not be a source of strength.

GOVERNMENT SPENDING KEEPS SERVICE SECTOR AFLOAT

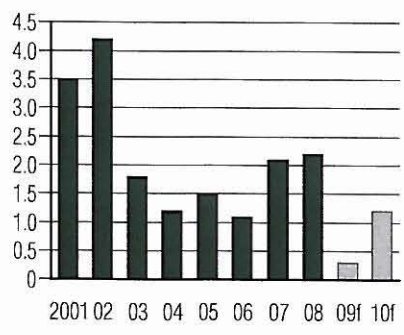
Last June, Nova Scotians went to the polls and elected a new government, effectively derailing the provincial component of the $800-million economic rescue plan proposed by the previous government. The province's finances are currently under review, and no further spending initiatives are anticipated for the balance of the year. However, substantial funds poured into government programs before the election

Economic Indicators
(2002 $; percentage change)

	2008	2009	2010
Real GDP (basic prices)	2.2	0.3	1.2
Consumer Price Index	3.0	–0.1	2.6
Personal disposable income	4.7	0.6	1.7
Employment	1.2	–0.7	–0.5
Unemployment rate (level)	7.7	9.5	10.1
Retail sales	4.3	–3.4	1.9
Average weekly wages	2.1	2.3	1.8
Population	0.2	0.2	0.2

Sources: The Conference Board of Canada; Statistics Canada.

Outlook Remains Modest
(percentage change, real GDP)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

have allowed the public sector to add handsomely to its payrolls. A total of 11,700 new jobs were created in the public sector in the first half of this year. The new government is expected to table its budget sometime in the fall, and we can expect more money next year for priority areas such as education, health care, and social services. As a result, real output in the public sector—including public administration, defence, and education, health, and social services—will advance by an average of 3.1 per cent over 2009–10.

Overall job prospects are dim as the 13,400 job gains in the public sector and the financial services industry are obliterated by massive layoffs in other sectors of the economy.

In addition to the public sector, growth in the service industry will be sustained by the finance, insurance, and real estate sector. Halifax is home to several financial institutions, and the industry managed to add 1,700 jobs to its payroll in the first half of this year. Growth in the finance, insurance, and real estate sector is expected to average a strong 2.3 per cent over 2009–10.

The rest of the service industries are either mired in recession or experiencing only stunted growth. Overall job prospects are dim as the 13,400 job gains in the public sector and the financial services industry have been obliterated by massive layoffs in other sectors of the economy. Job losses will persist through the rest of this year, pushing the unemployment rate to 10.1 per cent in 2010. This will limit growth in personal income in the near term, thus constraining consumer spending. In particular, retail sales will contract by an average of 0.8 per cent over 2009–10. Growth in the amusement, restaurant, and personal services industries will all wane.

The recession south of the border and elsewhere in Canada will also limit the number of tourists visiting the province. As a result, growth in commercial services will decelerate to an average of 1 per cent a year over 2009–10, down from an average of 3.2 per cent over 2000–08. Also, container traffic at the Port of Halifax is expected to post a decline in 2009 due to the slowdown in global trade. Air Canada's regional carrier, Jazz Air, has reduced its capacity by 5 per cent, eliminating 187 flight attendant positions at its Halifax base. With traffic at ports slowing and the struggling manufacturing sector sending less business truckers' way, growth in the transportation and warehousing industry is expected to decline by 0.3 per cent in 2009 before managing a weak recovery of 1.4 per cent next year.

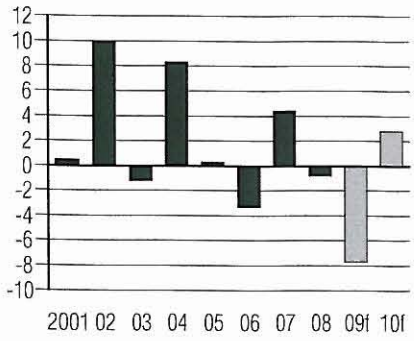
NON-RESIDENTIAL CONSTRUCTION INVESTMENT SOARS . . .

The construction industry will benefit from major investments in the province. Work is progressing on EnCana's Deep Panuke offshore natural gas platform. At least 30 per cent of the $700-million capital outlays on this project will occur in the province. Work is also expected to begin this year on the $350-million container terminal at the Strait of Canso, providing up to 500 construction jobs over the three-year construction period. As well, there are several medium-size projects at various stages of development in the province helping to boost private investment spending.

. . . WHILE RESIDENTIAL CONSTRUCTION INVESTMENT IMPLODES

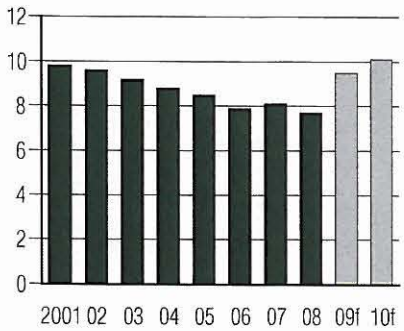
Over the past decade, residential investment increased by an average of 10.2 per cent per year. A large correction is projected as the economy continues to bleed jobs, leaving consumers reluctant to make major purchases, such as a home. Even with borrowing costs reduced to the barest minimum, housing starts are projected to decline at an annual average pace of 12.3 per cent this year and next. The implosion of new home construction will wipe out over $570 million in residential construction investment in the province this year and a further $180 million next year. This will certainly offset all the gains provided by major capital projects. As a result, real construction output will contract by 3.6 per cent over 2009-10.

Manufacturers in Deep Hole
(percentage change, 2002 $)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Unemployment Rate Creeps Higher
(per cent)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

MANUFACTURERS' PAIN CONTINUES TO WORSEN

Fish-processing activities will suffer from the downturn in fish landings. Other manufacturing sectors are hurting as well. The collapse in the North American automotive industry has hit the province's tire industry hard. With credit drying up for U.S. consumers, car dealerships south of the border are facing tough times. Fewer cars are rolling off North American auto assembly lines. Tire-maker Michelin has curtailed production at its Nova Scotia plants, but the company managed to avoid job layoffs after its workers agreed to a work-sharing program. In fact, several companies are implementing work-sharing programs, whereby employees' work-hours—rather than the number of workers—are reduced.

Natural gas production at the Sable Island offshore natural gas field peaked last year following the installation of a compression platform.

Demand for pulp and paper and lumber-related products is expected to remain weak this year, with a slow recovery forecast for next year. The only sectors currently experiencing export growth are rubber, chemical, spring and wire, and plastic film products. Overall, real manufacturing output is forecast to decline by 7.7 per cent this year, before rebounding by 2.8 per cent in 2010 along with the recovery south of the border.

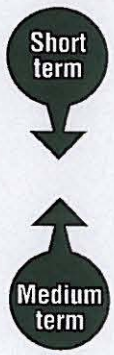
RESOURCE INDUSTRIES SLUMP

Declining natural gas production will take the oomph out the resource sector in the short term. Natural gas production peaked last year at the Sable Island offshore natural gas field following the installation of a compression platform. Real mining output is projected to drop by 5.7 per cent over 2009–10. The industry is expected to languish until the Deep Panuke natural gas field comes online in 2011.

South of the border, the recession has dampened demand for lobster. That has led to large inventories of unsold lobster from last year. With banks unwilling to finance canneries that are holding large inventories, and with lobster prices having fallen far below their break-even point, it is very likely lobster landings will drop this year. The fishing industry will contract by 15.3 per cent, before recovering next year with growth of 2 per cent as market conditions improve.

Facing depressed prices, and with several print media houses unable to survive the ravages of the recession, a number of lumber and pulp and paper mills are implementing down time. Others have shut down completely. Real forestry output is expected to plummet 15.3 per cent this year, with a faint recovery expected next year as demand conditions in the U.S. improve.

Forecast Risks



- If recovery of the U.S economy is derailed, it could spell bad news for Nova Scotians
- Confirmation of recoverable onshore unconventional natural gas reserves could bring huge benefits to the province

Source: The Conference Board of Canada.

Key Economic Indicators: Nova Scotia
(forecast completed Jul. 16, 2009)

	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3	2008:4	2009:1	2009:2	2009:3	2009:4	2008	2009	2010
GDP at market prices (current $)	33,702	34,494	34,876	33,211	33,474	33,761	34,144	34,501	34,575	34,726	35,022	35,376	34,071	33,970	34,925
	1.9	*2.4*	*1.1*	*–4.8*	*0.8*	*0.9*	*1.1*	*1.0*	*0.2*	*0.4*	*0.9*	*1.0*	*3.9*	*–0.3*	*2.8*
GDP at basic prices (current $)	31,015	31,785	32,159	30,555	30,882	31,152	31,512	31,835	31,867	31,973	32,164	32,464	31,378	31,345	32,117
	2.4	*2.5*	*1.2*	*–5.0*	*1.1*	*0.9*	*1.2*	*1.0*	*0.1*	*0.3*	*0.6*	*0.9*	*4.5*	*–0.1*	*2.5*
GDP at basic prices (constant $ 2002)	27,060	27,000	27,137	26,996	26,995	27,099	27,175	27,241	27,291	27,383	27,512	27,652	27,048	27,128	27,460
	1.5	*–0.2*	*0.5*	*–0.5*	*0.0*	*0.4*	*0.3*	*0.2*	*0.2*	*0.3*	*0.5*	*0.5*	*2.2*	*0.3*	*1.2*
Consumer Price Index (2002 = 1.0)	1.140	1.168	1.177	1.149	1.141	1.154	1.164	1.171	1.178	1.184	1.191	1.198	1.159	1.158	1.188
	0.6	*2.5*	*0.8*	*–2.4*	*–0.8*	*1.2*	*0.9*	*0.6*	*0.5*	*0.6*	*0.6*	*0.6*	*3.0*	*–0.1*	*2.6*
Implicit price deflator— GDP at basic prices (2002 = 1.0)	1.146	1.177	1.185	1.132	1.144	1.150	1.160	1.169	1.168	1.168	1.169	1.174	1.160	1.155	1.170
	0.9	*2.7*	*0.7*	*–4.5*	*1.1*	*0.5*	*0.9*	*0.8*	*–0.1*	*0.0*	*0.1*	*0.4*	*2.3*	*–0.4*	*1.2*
Average weekly wages ($, industrial composite)	666.7	677.0	684.0	682.0	691.1	691.5	693.1	697.5	699.5	703.3	707.5	712.2	677.4	693.3	705.7
	0.1	*1.5*	*1.0*	*–0.3*	*1.3*	*0.1*	*0.2*	*0.6*	*0.3*	*0.5*	*0.6*	*0.7*	*2.1*	*2.3*	*1.8*
Personal income (current $)	29,855	29,863	30,058	30,163	30,110	30,151	30,164	30,320	30,448	30,645	30,910	31,137	29,985	30,186	30,785
	1.8	*0.0*	*0.7*	*0.3*	*–0.2*	*0.1*	*0.0*	*0.5*	*0.4*	*0.6*	*0.9*	*0.7*	*3.7*	*0.7*	*2.0*
Personal disposable income (current $)	23,648	23,788	23,958	23,976	23,921	23,953	23,971	24,103	24,151	24,300	24,498	24,677	23,842	23,987	24,406
	2.0	*0.6*	*0.7*	*0.1*	*–0.2*	*0.1*	*0.1*	*0.6*	*0.2*	*0.6*	*0.8*	*0.7*	*4.7*	*0.6*	*1.7*
Personal savings rate	–2.78	–2.82	–3.61	–1.71	–1.72	–2.38	–2.84	–2.76	–2.95	–2.88	–2.94	–2.67	–2.73	–2.42	–2.86
Population of labour force age (000s)	767	768	769	770	771	772	774	775	777	778	779	780	769	773	779
	0.2	*0.2*	*0.2*	*0.1*	*0.1*	*0.1*	*0.2*	*0.1*	*0.2*	*0.2*	*0.1*	*0.1*	*0.6*	*0.6*	*0.7*
Labour force (000s)	488	491	492	494	499	497	497	496	497	498	498	498	491	497	498
	–0.2	*0.7*	*0.2*	*0.4*	*1.0*	*–0.3*	*–0.1*	*–0.1*	*0.1*	*0.2*	*0.1*	*0.0*	*0.9*	*1.3*	*0.1*
Employment (000s)	451	453	455	455	455	452	448	446	446	447	448	449	453	450	448
	–0.1	*0.4*	*0.4*	*0.1*	*–0.1*	*–0.7*	*–0.9*	*–0.4*	*0.0*	*0.3*	*0.2*	*0.3*	*1.2*	*–0.7*	*–0.5*
Unemployment rate	7.6	7.8	7.6	7.9	8.8	9.2	9.9	10.1	10.2	10.2	10.1	9.8	7.7	9.5	10.1
Retail sales (current $)	12,171	12,151	12,366	11,835	11,682	11,688	11,716	11,778	11,808	11,886	11,994	12,061	12,131	11,716	11,937
	2.4	*–0.2*	*1.8*	*–4.3*	*–1.3*	*0.0*	*0.2*	*0.5*	*0.3*	*0.7*	*0.9*	*0.6*	*4.3*	*–3.4*	*1.9*
Housing starts (units)	4,744	3,798	3,980	3,406	3,012	3,067	3,063	3,108	3,087	3,062	3,027	3,067	3,982	3,062	3,061
	1.5	*–20.0*	*4.8*	*–14.4*	*–11.6*	*1.8*	*–0.1*	*1.5*	*–0.7*	*–0.8*	*–1.2*	*1.3*	*–16.2*	*–23.1*	*–0.1*

White area represents forecast data.
All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.
For each indicator, the first line is the level and the second line is the percentage change from the previous period.
Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

New Brunswick

- Fiscal measures are helping to prevent the economy from sliding into recession.
- Following a string of annual gains, the construction industry is taking a breather

Real GDP

	Growth	Ranking
2009	0.9	#1
2010	2.8	#5

Credit Quality
AA–
Standard & Poor's

Retail Sales

	Growth	Ranking
2009	–2.6	#6
2010	3.3	#4

Government & Background Information

Premier	Shawn Graham
Next election	2010
Population (2009:2)	748,866
Government balance (2009–10)	–$741 million

Source: The Conference Board of Canada.

A New Growth Leader

by Prince Owusu

New Brunswick will not only avert recession this year, it will lead all provinces in real gross domestic product growth (albeit at a modest pace of 0.9 per cent) thanks to the provincial government's economic rescue plan—a $1.2-billion infrastructure program and $402 million in tax cuts over the next two fiscal years.

Apart from the public sector where infrastructure investments and increased program spending by the government are fuelling growth, the rest of the provincial economy remains weak. Last year marked the end of some major construction projects in the province. The development of the $1.7-billion PotashCorp mine and processing facility and the government's investments in infrastructure programs will not be enough to completely fill the void left by the completion of over $2 billion worth of construction work involving the Canaport liquefied natural gas (LNG) terminal and associated pipeline and the Point Lepreau nuclear plant refurbishment.

The forestry sector continues to be challenged by the downturn in the housing sector south of the border. Until the U.S. housing sector begins to recover, prospects will remain bleak for forestry-related activities in the province. Weak demand for lobster will hurt New Brunswick's seafood processing industry. With base metal prices still low, the mining industry is not expected to recover until demand conditions improve next year.

Housing starts are forecast to decline by an average of 20.3 per cent over the next two years, falling to 2,716 units.

As job losses mount, household income will deteriorate this year, thus restraining patronage at restaurants and amusement centres and spending on personal services. Next year—with the U.S. recovery under way—industrial production in New Brunswick is expected to pick up. Overall real GDP is expected to advance by 2.8 per cent next year. There is downside risk to the New Brunswick forecast. Irving Oil has decided not to proceed at the moment with the development of a second gasoline refinery. This project would have boosted business commercial services next year and construction activities in 2011 until 2014–15

CONSTRUCTION OUTLOOK DIM

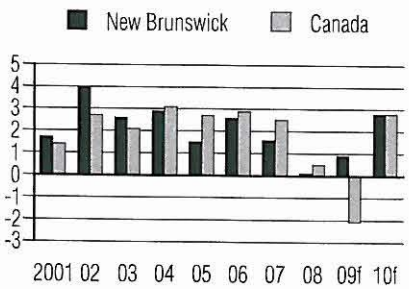
The construction industry will lose much of its vigour this year as construction of new homes plummets and major projects

Economic Indicators
(2002 $; percentage change)

	2008	2009	2010
Real GDP (basic prices)	0.1	0.9	2.8
Consumer Price Index	1.7	0.2	2.6
Personal disposable income	4.8	1.3	3.2
Employment	0.9	–0.3	0.4
Unemployment rate (level)	8.6	9.4	10.5
Retail sales	6.0	–2.6	3.3
Average weekly wages	2.7	0.2	1.9
Population	0.2	0.2	0.2

Sources: The Conference Board of Canada; Statistics Canada.

New Brunswick Leads the Country in 2009
(percentage change, real GDP, 2002 $)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

wrap up. Housing starts are forecast to decline by an average of 20.3 per cent over the next two years to reach 2,716 units (annualized), as the job market loses steam and household income dwindles. As a result, residential investment is forecast to decline by an average of 14.6 per cent—or $482 million—over 2009–10, the first contraction in a decade.

The completion of work on the concrete vault of the Point Lepreau nuclear plant refurbishment and on the Canaport LNG plant and its associated pipeline will reduce private and public non-residential construction investment spending. As a result, construction output will decline by 1.1 per cent this year and by a further 11.6 per cent in 2010.

Other initiatives that are helping to keep the industry from sinking even deeper into recession include the $1.7-billion PotashCorp's plant expansion near Sussex. The project is expected to generate 2,500 person-years of employment during the construction period and 140 new full-time positions upon completion of the project in 2011. In addition, the provincial government is spending $1.2 billion over the next two years on infrastructure projects across the province to help insulate the economy from the global recession.

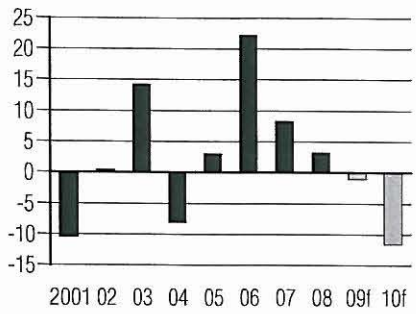
MANUFACTURING INDUSTRY WILL RECOVER NEXT YEAR

For the fifth consecutive year, manufacturing is set to contract in 2009, declining by 3 per cent. Key segments of the industry—such as wood products, pulp and paper, and seafood products—continue to suffer from the cyclical downturn in Canada and south of the border. Housing starts in the U.S. fell below the 1 million mark last year for the first time since record-keeping began, and starts are expected to hit bottom at 564,000 units this year before the market begins to slowly recover next year. The drop has dampened demand for lumber products, one of New Brunswick's major export commodities. Seafood processors are also struggling with lacklustre demand south of the border as consumers shy away from lobster—a luxury food item that consumers often forgo in times of economic distress. With the U.S economy still struggling, and several print media companies folding, demand for pulp and paper for advertising purposes, paper bags, and other wood-related products will wane this year. Lower royalty rates and generous incentives have not been enough to prevent the closing of saw and pulp mills throughout the province over the last few years. The shutdowns are spreading beyond the forestry industry. A chemical plant in Dalhousie and a glass bottle plant in Scoudouc closed last year. (The fallout from the closure of the glass bottle plant has spread beyond the 200 laid-off workers, since the province's beverage industry relied on the plant for its supply of bottles.) McCain Foods has reduced production at its Grand Falls and Florenceville facilities. And the province's largest manufacturing plant—the Irving gasoline refinery—has reached capacity and will not provide much stimulus to manufacturing.

For the past half-decade, the province's manufacturing industry has been hit by one bad news story after another, but there is light at the end of the tunnel. Signs of recovery are starting to appear. Irving Oil is expected to begin re-gasification of liquid natural gas at its new Canaport facility in the second half of this year, and we should see production crank up next year. Moncton's Industrial Rail Services has won a $104-million contract to refurbish and upgrade Vial Rail's passenger cars to make them more energy-efficient and to improve their accessibility. This five-year contract will allow Industrial Rail to add 135 employees to its payroll, with an additional 50 spin-off jobs.

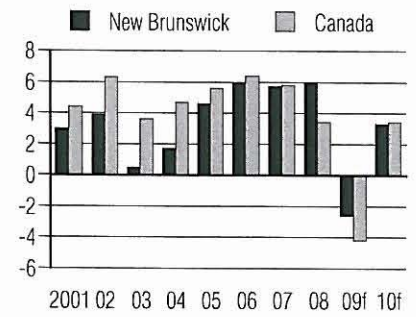
Also, the Canadian dollar has fallen from a high of US$1.09 in November 2007 to around US$0.90 recently. We expect the dollar to average US$0.89 over 2009–10. With the weaker loonie loosening its grip on exporters, and the U.S. economy slowly recovering, real manufacturing output is projected to rebound by 2.7 per cent next year.

Construction Boom Is Over
(percentage change, 2002 $)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Provincial Income Tax Cuts Soften Drop in Retail Sales
(sales, percentage change)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

DOMESTIC DEMAND OUTLOOK

The domestic economy is still facing tough challenges from the global recession. With demand south of the border faltering and the provincial economy failing to generate jobs, the unemployment rate has started to rise. After dropping to 7.6 per cent in 2007 (the lowest since record keeping began), the jobless rate is expected to reach 10.5 per cent by 2010. Along with

the dismal job market outlook, wage gains will slow as the provincial government freezes wages for its workers and companies engage in cost-cutting and efficiency measures in a bid to stay competitive in this challenging economic environment.

Employment in public administration increased by 15.1 per cent in the first half of this year, while the number of education, health, and social service jobs rose 4.4 per cent.

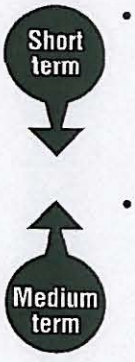
With employment prospects bleak and household income weakening, retail sales are expected to contract by 2.6 per cent this year—the first drop in 15 years, but still a better performance than the national average. The drop in New Brunswick's retail sales could have been worse; but thanks to the $402 million in personal income tax cuts provided by the provincial government, consumers will enjoy real disposable income gains. Positive retail growth of 3.3 per cent is forecast next year.

The poor outlook for the job market and for incomes will lead many New Brunswickers to curtail patronage on amusement, recreational activities, and restaurants. Not only are New Brunswickers cutting back on their spending, the number of tourists visiting the province plummeted last year—and things will likely get worse this year as global economic conditions remain anemic. As a result, real output in the accommodation and food and the amusement and recreation industries are expected to contract by 1.7 per cent and 0.7 per cent respectively before recovering slowly next year along with the general improvement in the economy.

With the forestry and manufacturing sectors still on their knees, less cargo is expected to pass through the province's ports. Growth in the transportation and warehousing industry is expected to contract by 0.3 per cent over 2009–10.

With the recession ravaging its trading partners, the New Brunswick government is providing the stimulus needed to keep the province's economy growing. Spending on goods and service is expected to increase by an average of 7.4 per cent per year over 2009–10, the highest in the country. For instance, employment in public administration and defence increased by 15.1 per cent in the first half of this year while the number of education, health, and social service jobs rose 4.4 per cent. More public sector jobs are expected next year as the government remains determined to use fiscal measures to insulate the economy from the global recession.

Forecast Risks



- A rapid appreciation of the Canadian dollar would spell further bad news for manufacturers.
- The twinning of Route 11 could bolster construction activities.

Source: The Conference Board of Canada.

Key Economic Indicators: New Brunswick
(forecast completed Jul. 16, 2009)

	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3	2008:4	2009:1	2009:2	2009:3	2009:4	2008	2009	2010
GDP at market prices (current $)	26,687	27,622	28,047	26,525	26,853	27,138	27,533	27,908	28,163	28,377	28,694	29,057	27,220	27,358	28,573
	–1.1	*3.5*	*1.5*	*–5.4*	*1.2*	*1.1*	*1.5*	*1.4*	*0.9*	*0.8*	*1.1*	*1.3*	*1.4*	*0.5*	*4.4*
GDP at basic prices (current $)	24,531	25,448	25,866	24,393	24,773	25,045	25,421	25,769	25,990	26,167	26,400	26,719	25,059	25,252	26,319
	–0.9	*3.7*	*1.6*	*–5.7*	*1.6*	*1.1*	*1.5*	*1.4*	*0.9*	*0.7*	*0.9*	*1.2*	*1.7*	*0.8*	*4.2*
GDP at basic prices (constant $ 2002)	21,281	21,423	21,393	21,440	21,429	21,517	21,624	21,737	21,943	22,095	22,267	22,440	21,384	21,577	22,186
	–1.7	*0.7*	*–0.1*	*0.2*	*0.0*	*0.4*	*0.5*	*0.5*	*0.9*	*0.7*	*0.8*	*0.8*	*0.1*	*0.9*	*2.8*
Consumer Price Index (2002 = 1.0)	1.118	1.137	1.146	1.124	1.118	1.131	1.139	1.146	1.152	1.159	1.166	1.173	1.132	1.133	1.163
	0.1	*1.7*	*0.8*	*–1.9*	*–0.5*	*1.2*	*0.7*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*1.7*	*0.2*	*2.6*
Implicit price deflator—GDP at basic prices (2002 = 1.0)	1.153	1.188	1.209	1.138	1.156	1.164	1.176	1.185	1.184	1.184	1.186	1.191	1.172	1.170	1.186
	0.8	*3.1*	*1.8*	*–5.9*	*1.6*	*0.7*	*1.0*	*0.8*	*–0.1*	*0.0*	*0.1*	*0.4*	*1.6*	*–0.1*	*1.4*
Average weekly wages ($, industrial composite)	674.3	683.0	698.1	692.8	686.2	686.6	688.2	692.7	695.0	698.9	703.3	708.2	687.0	688.4	701.3
	–0.5	*1.3*	*2.2*	*–0.8*	*–1.0*	*0.1*	*0.2*	*0.7*	*0.3*	*0.6*	*0.6*	*0.7*	*2.7*	*0.2*	*1.9*
Personal income (current $)	23,148	23,142	23,261	23,393	23,267	23,381	23,474	23,654	23,813	23,938	24,168	24,385	23,236	23,444	24,076
	2.0	*0.0*	*0.5*	*0.6*	*–0.5*	*0.5*	*0.4*	*0.8*	*0.7*	*0.5*	*1.0*	*0.9*	*4.0*	*0.9*	*2.7*
Personal disposable income (current $)	18,460	18,550	18,655	18,721	18,687	18,778	18,856	19,005	19,227	19,321	19,498	19,668	18,596	18,831	19,429
	2.0	*0.5*	*0.6*	*0.4*	*–0.2*	*0.5*	*0.4*	*0.8*	*1.2*	*0.5*	*0.9*	*0.9*	*4.8*	*1.3*	*3.2*
Personal savings rate	2.45	1.02	–0.68	1.65	2.15	1.54	1.10	1.19	1.04	1.10	1.04	1.30	1.11	1.50	1.12
Population of labour force age (000s)	616	618	619	619	620	621	622	623	625	626	626	627	618	622	626
	0.2	*0.2*	*0.2*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.1*	*0.1*	*0.8*	*0.6*	*0.7*
Labour force (000s)	400	400	400	403	402	401	403	405	407	409	410	412	401	403	409
	0.8	*0.1*	*–0.1*	*0.7*	*–0.1*	*–0.2*	*0.3*	*0.6*	*0.5*	*0.3*	*0.3*	*0.4*	*2.0*	*0.6*	*1.6*
Employment (000s)	366	364	366	368	366	366	364	364	365	365	367	369	366	365	366
	0.0	*–0.5*	*0.5*	*0.4*	*–0.4*	*–0.1*	*–0.3*	*0.0*	*0.2*	*0.1*	*0.4*	*0.6*	*0.9*	*–0.3*	*0.4*
Unemployment rate	8.4	8.9	8.4	8.7	9.0	8.9	9.6	10.1	10.4	10.6	10.6	10.4	8.6	9.4	10.5
Retail sales (current $)	9,647	9,889	10,202	9,755	9,537	9,575	9,632	9,705	9,837	9,881	9,976	10,043	9,873	9,612	9,934
	1.1	*2.5*	*3.2*	*–4.4*	*–2.2*	*0.4*	*0.6*	*0.8*	*1.4*	*0.4*	*1.0*	*0.7*	*6.0*	*–2.6*	*3.3*
Housing starts (units)	5,300	4,233	3,830	3,734	3,700	3,867	3,885	3,215	2,786	2,690	2,641	2,747	4,274	3,667	2,716
	41.7	*–20.1*	*–9.5*	*–2.5*	*–0.9*	*4.5*	*0.5*	*–17.2*	*–13.3*	*–3.5*	*–1.8*	*4.0*	*0.8*	*–14.2*	*–25.9*

White area represents forecast data.
All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.
For each indicator, the first line is the level and the second line is the percentage change from the previous period.
Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Quebec

- The only sector that will contribute significantly to the economy is government, mainly through its infrastructure programs.
- Despite the negative headwinds, major non-residential projects are still going ahead, especially in the energy sector.

Real GDP

	Growth	Ranking
2009	–0.9	#5
2010	1.8	#8

Credit Quality

A+
Standard & Poor's

Retail Sales

	Growth	Ranking
2009	–1.8	#1
2010	2.7	#6

Government & Background Information

Premier	Jean Charest
Next election	2012
Population (2009:2)	7,799,372
Government balance (2009–10)	–$3.9 billion

Sources: Quebec Finance; Statistics Canada.

The Recovery is in Sight

by Marie-Christine Bernard

The hit to Quebec's economy from this global recession has been relatively mild compared with what we've seen in previous cyclical downturns, but the province will still experience negative growth this year. The economy is forecast to turn around next year. Overall real gross domestic product at market prices is expected to decline by 0.7 per cent in 2009 and rise by 1.8 per cent in 2010. Several sectors have been hit hard by the global recession and the scarcity of business credit financing. Real exports will contract for a second consecutive year with most of the leading export sectors in serious difficulties. Also, business investment will retrench considerably in 2009 and won't recover until credit accessibility improves. Machinery and equipment plant upgrades will be most affected. Two sources of strength will remain. Energy-related projects and public capital initiatives will continue to be driving forces behind the resiliency of the construction sector. The provincial government is pursuing its five-year infrastructure program, adding welcome stimulus to the economy over 2009–10. Hydro-Québec's Eastmain-1-A-Sarcelle-Rupert River project will also provide momentum to the construction industry as well as new wind power developments.

With labour markets shedding several thousand jobs since last November, consumers have held back on spending. But the job cuts in Quebec have been more modest than in most of the other provinces, and overall real consumer spending will advance marginally by 0.2 per cent this year. Looking ahead, the recovery south of the border should benefit the province, especially its hard-hit forestry sector and primary metal and fabricated metal manufacturers. The aerospace industry will also gradually get back on its feet, and it is forecast to perform well once the recovery is up and running. Despite the economic recovery, fiscal deficits will remain a challenge for the province for quite some time. A $3.9-billion shortfall is projected for this fiscal year and a balanced budget is not in the cards until 2013–14 despite added revenues from the one-percentage point hike in the provincial sales tax in 2011.

RECOVERY IN LABOUR MARKETS WON'T COME TOMORROW

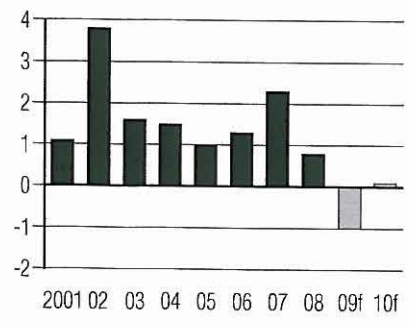
There is positive news on the labour front. Between April and June, the province created over 23,000 jobs. Most were full-time, service-sector jobs and were concentrated in the education, information, cultural, and recreational activities sector and the accommodation and food sector. While this is encouraging news, job creation over the rest of 2009 and 2010 will be more

Economic Indicators
(2002 $; percentage change)

	2008	2009	2010
Real GDP (basic prices)	1.1	–0.7	1.8
Consumer Price Index	2.1	0.6	2.7
Personal disposable income	4.8	1.3	2.2
Employment	0.8	–1.0	0.1
Unemployment rate (level)	7.3	8.8	9.3
Retail sales	5.1	–1.8	2.7
Average weekly wages	1.3	0.8	1.8
Population	0.8	0.7	0.5

Sources: The Conference Board of Canada; Statistics Canada.

No Recovery in Labour Markets Yet
(employment, percentage change)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

muted. Typically, job creation lags the business cycle recovery. And although we are now entering a period of recovery, there are still pockets of weakness in the economy (mainly in the industrial sector). The weakness is leading companies to downsize—but at a more moderate pace than what we saw at the beginning of the year. Only in the second half of 2010 will there be an improvement in labour demand. All in all, after a 1 per cent contraction in employment in 2009, job growth will inch up by a paltry 0.1 per cent in 2010. Job seekers will continue to join the labour force—but with very few jobs to grab, the unemployment rate will remain elevated, averaging 9.3 per cent in 2010.

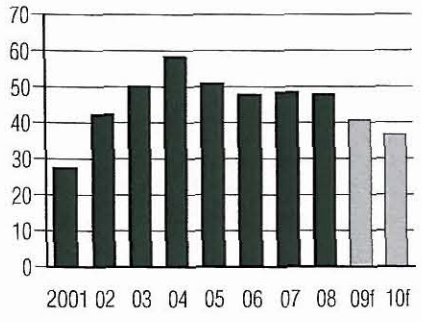
Job seekers will continue to join the labour force—but with very few jobs to grab, the unemployment rate will remain elevated.

Households will feel the recession. Real disposable incomes are forecast to drop by 0.1 per cent in 2009 and recover by just 0.8 per cent next year. This is the first major setback in take-home pay since 1991. The latest provincial budget did not provide much in terms of stimulus for households. The federal budget was more generous. It introduced several permanent, broad-based tax cuts and credits targeted at providing assistance to low- and middle-income Canadians, who are disproportionately affected by the economic downturn. From 2010 onward, these initiatives will be indexed to inflation. A positive indicator is that Quebec consumers are regaining their confidence. According to our Index of Consumer Confidence survey, Quebecers think that now is a good time to make a major purchase. This sentiment will help turn around consumer demand next year. Real consumption expenditures—which had risen strongly since 2002—are forecast to grow by just 0.2 per cent in 2009 and 1.5 per cent in 2010. Real durable goods consumption will be the most affected, with a drop of 5.1 per cent forecast in 2009.

NON-RESIDENTIAL INVESTMENT HANGING ON

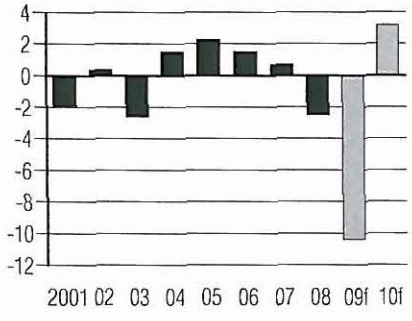
As confirmed by Statistics Canada's revised Private and Public Investment Intentions Survey released at the end of July, investment in the commercial and industrial sector will suffer in Quebec in 2009. The credit crisis, low base metal prices, and difficult economic conditions since the start of the year have dampened investment intentions. Businesses have cut back considerably on machinery and equipment investment this year. Overall real machinery and equipment investment is forecast to plunge 21 per cent in 2009. With more accessible credit financing, a stronger economic outlook, and a rising Canadian dollar, real capital investment in machinery and equipment will bounce back by 6.3 per cent in 2010. The drop in real non-residential capital outlays will be more temperate. A lot of the strength is due to the investment in the energy sector. A number of major developments in the electricity sector will proceed as planned. Among the major projects under way are Hydro-Québec's $5-billion Eastmain-1-A-Sarcelle-Rupert project, the work to increase transmission capacity with the Ontario electricity grid (1250 MW), and new wind farm projects. From 2009 onward, over $2 billion is expected to be invested to develop new wind power capacity. The projects include a $480-million investment by Northland Power, a $400-million initiative by Invenergy Wind Canada ULC, a $550-million investment by Cartier énergie éolienne, and two $200-million projects by Venterre and Kruger Énergie. In addition, Hydro-Québec has some additional major projects planned, including the $6.5-billion La Romaine project and the upgrade of the Gentilly 2 nuclear station, both of which are expected to get under way in the near term.

Housing Starts Trend Down
(units)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

A Dark Year for Exports
(real exports, percentage change)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Nevertheless, total real non-residential investment is expected to decline by 3.3 per cent in 2009. The outlook for investment in 2010 is positive as several commercial projects are planned. Aluminum processing plant upgrades by Rio Tinto Alcan in Saguenay–Lac-Saint-Jean ($650 millions) and by Alcoa in the Côte-Nord ($1.2 billion) will also boost investment in the province. Growth of 4.2 per cent is expected for total non-residential investment next year.

The recession would have hit Quebec much harder had it not been for the sizable infrastructure program. Most sectors of the economy are not doing well. The provincial government will continue to invest heavily

in infrastructure, providing some much-needed stimulus. Public investment will progress strongly in the next few years, with the provincial government having promised to invest $37.7 billion between fiscal years 2008 and 2013. Early this year, the provincial government announced that it would hike the planned spending by $4.1 billion—for a total of $41.8 billion. Several highway expansions are planned, as are new health-care facilities. In addition, the province will get a boost from the recent federal budget. After robust performances in the last couple of years, real public capital expenditures will rise 19.8 per cent in 2009. The boom will persist in 2010, with growth in public capital expenditures of 8.3 per cent.

Businesses have cut back considerably on machinery and equipment investment this year.

GENTLE DOWNWARD DRIFT IN HOUSING SECTOR

The housing market has been trending down gradually since the middle of last year. A few key factors—job losses, the uncertain economy, and a realignment of supply with demand—have pushed housing starts lower. With moderate population growth, housing starts averaging over 45,000 units (as they have over the past six years) are not sustainable going forward. Unlike in the Western provinces, the resale housing market in Quebec did not experience a price correction and has not tipped in favour of buyers. Housing starts are forecast to drop to 40,732 units in 2009 (down 15 per cent) and to 36,582 units in 2010. Real residential investment is forecast to drop 1.4 per cent in 2009 in spite of federal renovation incentives. A larger 9.6 per cent decline is forecast for next year.

BATTERED ON ALL FRONTS

Very few manufacturing industries will escape the global recession and be able to grow their exports this year. The recent trade data are not encouraging. Of the 25 most important exporters in the province, only the petroleum and coal products and the pharmaceutical products sectors showed positive growth in real exports in the first five months of 2009 compared with the same period in 2008. These industries represent less than 5 per cent of all exported products. The leading industries—aerospace products and parts, information and technology products, primary metals, paper and allied products, and wood products—are all suffering major export setbacks this year. In total, real exports are forecast to contract by 10.4 per cent in 2009. A bleak export performance will be accompanied by a similar drop in imports. For the first time since 2001, on a net basis the trade sector will not take away from bottom line growth in 2009. Looking ahead, a modest recovery in U.S. residential construction and auto sales will help reverse the tide for Quebec export growth. Export volumes are forecast to post growth of 3.2 per cent next year.

The aerospace industry, which accounts for close to 20 per cent of Quebec's exports, is feeling the economic downturn. Bombardier's business jet segment is expected to see a 36 per cent decline in the number of deliveries this year. The lull should be temporary. A recovery in the U.S economy in the near term and an accumulated backlog of orders should provide stimulus to the industry going forward.

Forecast Risks

- If the U.S. recovery does not spur a turnaround in exports, the economy will remain weak in 2010.

- A return to fiscal deficits may limit the provincial government's contribution to the economy in the next few years.

Source: The Conference Board of Canada.

Key Economic Indicators: Quebec
(forecast completed Jul. 16, 2009)

	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3	2008:4	2009:1	2009:2	2009:3	2009:4	2008	2009	2010
GDP at market prices (current $)	297,904	305,370	306,755	294,057	295,730	298,038	301,148	304,096	305,200	306,878	309,505	312,671	301,022	299,753	308,564
	–0.2	*2.5*	*0.5*	*–4.1*	*0.6*	*0.8*	*1.0*	*1.0*	*0.4*	*0.5*	*0.9*	*1.0*	*1.7*	*–0.4*	*2.9*
GDP at basic prices (current $)	279,872	287,187	288,514	276,233	278,338	280,530	283,485	286,206	287,029	288,404	290,326	293,126	282,952	282,140	289,721
	0.1	*2.6*	*0.5*	*–4.3*	*0.8*	*0.8*	*1.1*	*1.0*	*0.3*	*0.5*	*0.7*	*1.0*	*2.0*	*–0.3*	*2.7*
GDP at basic prices (constant $ 2002)	247,522	247,921	248,925	248,713	245,429	245,819	246,245	246,983	248,495	249,725	251,099	252,503	248,270	246,119	250,455
	0.3	*0.2*	*0.4*	*–0.1*	*–1.3*	*0.2*	*0.2*	*0.3*	*0.6*	*0.5*	*0.6*	*0.6*	*1.2*	*–0.9*	*1.8*
Consumer Price Index (2002 = 1.0)	1.114	1.134	1.139	1.124	1.121	1.132	1.139	1.147	1.154	1.161	1.169	1.177	1.127	1.135	1.165
	0.5	*1.8*	*0.4*	*–1.3*	*–0.2*	*1.0*	*0.6*	*0.7*	*0.6*	*0.6*	*0.7*	*0.7*	*2.1*	*0.6*	*2.7*
Implicit price deflator—	1.131	1.158	1.159	1.111	1.134	1.141	1.151	1.159	1.155	1.155	1.156	1.161	1.140	1.146	1.157
GDP at basic prices (2002 = 1.0)	*–0.3*	*2.4*	*0.1*	*–4.2*	*2.1*	*0.6*	*0.9*	*0.7*	*–0.3*	*0.0*	*0.1*	*0.4*	*0.7*	*0.6*	*0.9*
Average weekly wages	726.3	730.8	729.3	732.9	733.7	734.0	735.5	740.2	742.5	746.5	750.9	755.9	729.8	735.8	749.0
($, industrial composite)	*0.1*	*0.6*	*–0.2*	*0.5*	*0.1*	*0.0*	*0.2*	*0.6*	*0.3*	*0.5*	*0.6*	*0.7*	*1.3*	*0.8*	*1.8*
Personal income (current $)	257,163	257,724	258,529	261,170	258,625	260,322	260,806	262,601	263,895	265,719	268,239	270,102	258,647	260,588	266,989
	1.7	*0.2*	*0.3*	*1.0*	*–1.0*	*0.7*	*0.2*	*0.7*	*0.5*	*0.7*	*0.9*	*0.7*	*3.5*	*0.8*	*2.5*
Personal disposable income (current $)	195,315	195,966	197,250	200,061	198,199	199,397	199,757	201,173	201,797	203,108	204,865	206,258	197,148	199,632	204,007
	2.2	*0.3*	*0.7*	*1.4*	*–0.9*	*0.6*	*0.2*	*0.7*	*0.3*	*0.6*	*0.9*	*0.7*	*4.8*	*1.3*	*2.2*
Personal savings rate	2.06	1.26	1.02	3.50	2.41	1.78	1.35	1.44	1.17	1.13	1.16	0.81	1.96	1.75	1.07
Population of labour force age (000s)	6,349	6,364	6,380	6,396	6,411	6,427	6,442	6,461	6,466	6,479	6,491	6,503	6,372	6,435	6,485
	0.2	*0.2*	*0.2*	*0.2*	*0.2*	*0.3*	*0.2*	*0.3*	*0.1*	*0.2*	*0.2*	*0.2*	*0.9*	*1.0*	*0.8*
Labour force (000s)	4,183	4,186	4,180	4,192	4,178	4,223	4,224	4,231	4,225	4,235	4,242	4,251	4,185	4,214	4,238
	0.2	*0.1*	*–0.1*	*0.3*	*–0.4*	*1.1*	*0.0*	*0.2*	*–0.1*	*0.2*	*0.2*	*0.2*	*0.9*	*0.7*	*0.6*
Employment (000s)	3,888	3,877	3,869	3,889	3,845	3,860	3,836	3,832	3,826	3,839	3,853	3,863	3,881	3,843	3,845
	0.1	*–0.3*	*–0.2*	*0.5*	*–1.1*	*0.4*	*–0.6*	*–0.1*	*–0.2*	*0.3*	*0.4*	*0.3*	*0.8*	*–1.0*	*0.1*
Unemployment rate	7.1	7.4	7.4	7.2	8.0	8.6	9.2	9.4	9.4	9.3	9.2	9.1	7.3	8.8	9.3
Retail sales (current $)	94,786	95,460	96,868	94,190	92,933	93,449	93,779	94,431	94,892	95,537	96,432	97,669	95,326	93,648	96,133
	2.6	*0.7*	*1.5*	*–2.8*	*–1.3*	*0.6*	*0.4*	*0.7*	*0.5*	*0.7*	*0.9*	*1.3*	*5.1*	*–1.8*	*2.7*
Housing starts (units)	48,096	48,195	49,212	46,101	40,484	41,767	40,799	39,879	37,585	37,263	36,050	35,431	47,901	40,732	36,582
	21.1	*0.2*	*2.1*	*–6.3*	*–12.2*	*3.2*	*–2.3*	*–2.3*	*–5.8*	*–0.9*	*–3.3*	*–1.7*	*–1.3*	*–15.0*	*–10.2*

White area represents forecast data.
All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.
For each indicator, the first line is the level and the second line is the percentage change from the previous period.
Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Québec

- Seul le secteur public aura un apport important à l'économie, particulièrement les programmes liés aux infrastructures.
- Les grands projets non résidentiels, surtout dans le secteur de l'énergie, se poursuivent en dépit du contexte négatif.

PIB réel

	Croissance	Classement
2009	–0,9	nº 5
2010	1,8	nº 8

Qualité du crédit

A+
Standard & Poor's

Ventes au détail

	Croissance	Classement
2009	–1,8	nº 1
2010	2,7	nº 6

Renseignements généraux

Premier ministre	Jean Charest
Prochaines élections	2012
Population (2009:2)	7 799 372
Solde du secteur public (2009–2010)	–3,9 milliards $

Sources : Ministère des Finances du Québec; Statistique Canada.

Reprise en vue

par Marie-Christine Bernard

Les conséquences de l'actuelle récession mondiale pour l'économie du Québec ont été modérées, si l'on compare aux suites de crises économiques précédentes, mais la province affichera tout de même une croissance négative cette année. La situation changera l'an prochain : après un recul de 0,7 p. 100 cette année, le PIB réel aux prix du marché progressera de 1,8 p.100 en 2010. Plusieurs secteurs ont été durement frappés par la récession mondiale et la rareté du crédit aux entreprises. Les exportations réelles diminueront pour une deuxième année de suite, la plupart des grands secteurs exportateurs vivant de graves difficultés. Les investissements des entreprises fléchiront nettement en 2009 et ne reprendront pas tant que l'accès au crédit ne s'améliorera pas. Les pires reculs s'observeront aux postes de la machinerie et de la modernisation des installations. Par ailleurs, deux moteurs de croissance ne se démentiront pas : les projets énergétiques et les initiatives publiques d'immobilisations permettront au secteur de la construction d'afficher une vigueur constante. Le gouvernement provincial poursuit son programme d'infrastructures sur cinq ans, un apport des plus opportuns à l'économie en 2009 et 2010. Le projet de l'Eastmain-1-A-Sarcelle-Rupert d'Hydro-Québec sera bénéfique pour l'industrie de la construction, tout comme les nouveaux aménagements de centrales éoliennes.

La population active progressera encore mais, les ouvertures étant très rares, le taux de chômage demeurera élevé, s'inscrivant à 9,3 p. 100 en moyenne en 2010.

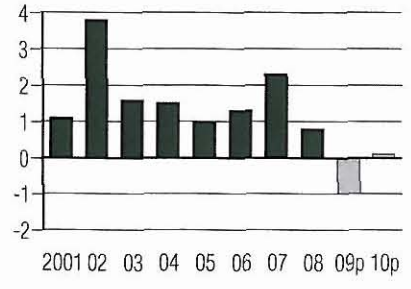
Les emplois se perdant par milliers depuis novembre dernier, les consommateurs ont réduit leurs dépenses. Sauf que les pertes d'emplois ont été moindres au Québec que dans la plupart des autres provinces et que les dépenses réelles de consommation progresseront, c'est beaucoup dire, de 0,2 p. 100 cette année. Par la suite, la reprise amorcée aux États-Unis devrait se refléter dans la province, surtout dans le secteur forestier, durement éprouvé, puis chez les producteurs de métaux primaires et les manufacturiers de produits de métal. L'industrie aérospatiale se raplombera elle aussi graduellement et devrait prospérer une fois la reprise bien enclenchée. Mais, malgré la reprise économique, les déficits budgétaires seront problématiques assez longtemps pour la province. Un déficit de 3,9 milliards de dollars est à prévoir pour l'exercice en cours et l'équilibre pourrait n'être rétabli

Indicateurs économiques
(en dollars de 2002; variation en pourcentage)

	2008	2009	2010
PIB réel (aux prix de base)	1,1	–0,7	1,8
Indice des prix à la consommation	2,1	0,6	2,7
Revenu personnel disponible	4,8	1,3	2,2
Emploi	0,8	–1,0	0,1
Taux de chômage	7,3	8,8	9,3
Ventes au détail	5,1	–1,8	2,7
Salaires hebdomadaires moyens	1,3	0,8	1,8
Population	0,8	0,7	0,5

Sources : Le Conference Board du Canada; Statistique Canada.

Pas de reprise des marchés du travail pour l'instant
(emploi, variation en pourcentage)



p = prévisions
Sources : Le Conference Board du Canada; Statistique Canada.

qu'en 2013-2014, au mieux, malgré les recettes additionnelles engendrées par la hausse de 1 point de pourcentage de la taxe de vente provinciale, en 2011.

LES MARCHÉS DU TRAVAIL NE SE REPRENDRONT PAS À TRÈS COURT TERME

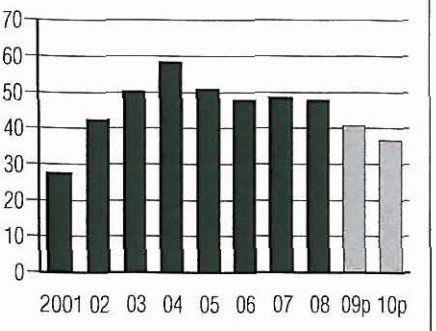
De bonnes nouvelles se lisent au tableau de l'emploi : d'avril à juin, 23 000 emplois se sont créés dans la province. Des emplois à temps plein, pour la plupart, dans le secteur des services, surtout dans les domaines de l'éducation, de l'information, de la culture ou des loisirs, ou encore dans le secteur de l'hébergement et de l'alimentation. Il y a là de quoi se réjouir, mais le rythme de création d'emplois sera moindre d'ici la fin de 2009, puis en 2010. En règle générale, dans le cycle économique, la création d'emplois est décalée par rapport à la reprise. Et même si nous sommes au seuil d'une période de reprise, des faiblesses localisées s'observent encore dans l'économie, principalement dans le secteur industriel. Cette faiblesse amène les entreprises à se rationaliser, quoique dans une moins grande proportion qu'en début d'année. C'est seulement au deuxième semestre de 2010 qu'augmentera la demande de main-d'œuvre. Ainsi, après un recul de 1 p. 100 en 2009, il y aura croissance de l'emploi, de façon minimale en 2010, soit d'un maigre 0,1 p. 100. La population active progressera encore mais, les ouvertures étant très rares, le taux de chômage demeurera élevé, s'inscrivant à 9,3 p. 100 en moyenne en 2010.

Les ménages se ressentiront de la récession. Le revenu réel disponible devrait diminuer de 0,1 p. 100 en 2009 puis augmenter de seulement 0,8 p. 100 l'an prochain. On vit présentement le premier recul important de la rémunération nette depuis 1991. Le plus récent budget provincial faisait peu pour aider les ménages. Le budget fédéral, par contre, était généreux, apportant plusieurs réductions et crédits d'impôts de portée générale destinés à aider les Canadiens dont les revenus sont faibles ou moyens, eux pour qui la crise économique aura été encore plus difficile. À compter de 2010, ces initiatives seront indexées en fonction de l'inflation. Le regain de confiance chez les consommateurs du Québec est un indice intéressant; selon notre Indice de confiance des consommateurs, les Québécois estiment que le moment est bien choisi pour faire un achat important. Cette attitude aidera à faire renaître la demande de consommation l'an prochain. Les dépenses de consommation réelles, qui progressaient vivement depuis 2002, devraient n'augmenter que de 0,2 p. 100 en 2009 et 1,5 p. 100 en 2010. La consommation réelle de biens durables montrera la pire courbe d'évolution, cédant, croyons-nous, 5,1 p. 100 en 2009.

L'INVESTISSEMENT NON RÉSIDENTIEL SE MAINTIENT

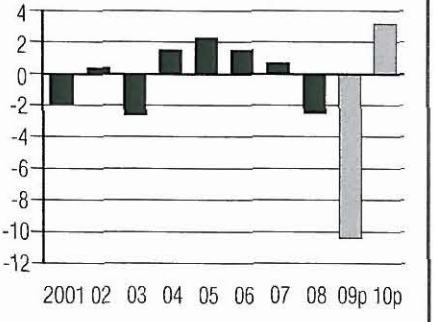
Comme le confirment les données de l'étude réalisée par Statistique Canada sur les intentions d'investissements privés et publics diffusées à la fin de juillet, les investissements dans le secteur commercial et industriel seront restreints au Québec en 2009. La crise du crédit, le prix peu élevé des métaux de base et la conjoncture économique difficile, depuis le début de l'année, ont refroidi les ardeurs des investisseurs. Cette année, les entreprises ont beaucoup réduit leurs investissements en machinerie et en équipement. Globalement, les investissements réels en machinerie et en équipement devraient tomber de 21 p. 100 en 2009. Ensuite, le financement se faisant plus accessible, les perspectives devenant plus favorables et le dollar canadien prenant de la valeur, l'investissement réel en machinerie et en équipement fera un bond de 6.3 p. 100 en 2010. Pendant ce temps, le recul des mises de fonds dans les opérations non résidentielles sera plus modéré. Le secteur de l'énergie assure en bonne partie de la vigueur à cet égard puisque bon nombre de projets de grande envergure liés à la

Baisse des mises en chantier
(unités, en milliers)



p = prévisions
Sources : Le Conference Board du Canada; Statistique Canada.

Sombre année pour les exportations
(exportations réelles, variation en pourcentage)



p = prévisions
Sources : Le Conference Board du Canada; Statistique Canada.

production d'électricité seront poursuivis selon les plans. Parmi ceux-là, le projet de l'Eastmain-1-A-Sarcelle-Rupert, d'Hydro-Québec, projet de 5 milliards de dollars, les travaux d'accroissement de la capacité de transmission vers le réseau électrique ontarien (1 250 MW) et les nouveaux parcs d'éoliennes. On prévoit que plus de 2 milliards de dollars seront affectés, à compter de 2009, à la production d'énergie éolienne. Les projets comprennent un investissement de 480 millions de dollars par la Northland Power, une opération de 400 millions de dollars menée par Invenergy Wind Canada ULC, l'investissement de 550 millions de dollars de la part de Cartier énergie éolienne, et deux projets de 200 millions de dollars chez Venterre et Kruger Énergie. Hydro-Québec prépare

en outre d'autres grands projets, dont celui de La Romaine, chiffré à 6,5 milliards de dollars, et la mise à jour de la centrale nucléaire Gentilly 2, deux projets qui devraient être mis en marche à court terme. Néanmoins, les investissements réels non résidentiels devraient diminuer de 3,3 p. 100 en 2009. Pour 2010, les perspectives d'investissement sont positives en raison de plusieurs projets commerciaux en préparation. Des améliorations aux installations de traitement de l'aluminium de Rio Tinto Alcan au Saguenay–Lac-Saint-Jean (650 millions de dollars) et Alcoa, sur la Côte-Nord (1,2 milliard de dollars) nourriront aussi les investissements dans la province. Ainsi, une croissance de 4,2 p. 100 de l'ensemble des investissements non résidentiels est attendue pour l'an prochain.

Cette année, les entreprises ont beaucoup réduit leurs investissements en machinerie et en équipement.

N'eût été d'un imposant programme d'infrastructures, la récession aurait fait beaucoup plus mal au Québec, car la plupart des secteurs de l'économie connaissent des difficultés. Le gouvernement provincial continuera d'investir massivement dans les infrastructures, une intervention qui procurera un souffle des plus opportuns. Les investissements publics croîtront d'une façon soutenue au cours des cinq prochaines années car l'État s'est engagé à dépenser à cet égard 37,7 milliards de dollars entre les exercices 2008 et 2013. En début d'année, le gouvernement provincial a même annoncé qu'il hausserait ses dépenses prévues de 4,1 milliards de dollars, portant donc ses plans d'investissement à 41,8 milliards de dollars. Plusieurs projets de prolongement de routes sont annoncés, de même que des travaux à des établissements de santé. La province profitera en outre du récent budget fédéral. Donc, après de bons résultats dans les deux dernières années, les immobilisations publiques augmenteront de 19,8 p. 100 en 2009, puis le boom s'étendra à 2010, la progression sur ce plan étant alors de 8,3 p. 100.

LÉGÈRE RELÂCHE DANS LE SECTEUR DU LOGEMENT

Le marché de l'habitation connaît un ralentissement depuis le milieu de 2008. Sous l'effet de divers facteurs clés, dont les pertes d'emploi, l'incertitude économique et un meilleur équilibre entre les stocks et la demande, les mises en chantier se sont faites moins nombreuses. Puisque la population ne croît que modérément, il est impossible que 45 000 unités soient mises en chantier de façon continue, comme ce fut le cas, en moyenne, au cours des 6 dernières années. Contrairement aux provinces de l'Ouest, le Québec n'a pas connu une correction de prix de revente des logements favorable aux acheteurs. Les mises en chantier devraient baisser de 15 p. 100 en 2009, totalisant 40 732 unités, puis atteindre un total de 36 582 en 2010. Les investissements réels résidentiels devraient reculer de 1,4 p. 100 en 2009, et ce malgré les incitatifs fédéraux concernant la rénovation. Et pour l'an prochain, un imposant recul de 9,6 p. 100 est à prévoir.

UNE TOURMENTE GÉNÉRALISÉE

Très peu d'industries manufacturières échapperont à la récession mondiale et verront leurs exportations augmenter cette année. Les plus récentes données sur le commerce ne sont pas encourageantes : parmi les 25 principaux exportateurs de la province, seuls les secteurs des produits du pétrole et du charbon et des produits pharmaceutiques affichaient une croissance des exportations réelles après les 5 premiers mois de 2009, par rapport à la période correspondante de 2008. Or, ces industries interviennent pour moins de 5 p. 100 de tous les produits exportés. Les industries dominantes, celles des produits aérospatiaux, l'information et les produits technologiques, les métaux primaires, le papier et les produits connexes, puis les produits en bois, accusent toutes un recul marqué au tableau des exportations cette année. Au total, les exportations réelles devraient se contracter de 10,4 p. 100 en 2009. Cette performance peu reluisante des exportations surviendra en même temps qu'une chute aussi importante des importations. Ainsi, pour la première fois depuis 2001, en termes nets, le secteur commercial n'entravera pas le PIB réel en 2009. Plus tard, une modeste reprise de la construction domiciliaire aux États-Unis et des ventes de véhicules automobiles contribuera à renverser la tendance de croissance des exportations du Québec. Les volumes d'exportations devraient progresser de 3,2 p. 100 l'an prochain.

L'industrie aérospatiale, qui représente près de 20 p. 100 des exportations de la province, se ressent du ralentissement économique. À preuve, au poste des jets d'affaires, Bombardier devrait subir un recul de 36 p. 100 de ses livraisons cette année. Mais il devrait s'agir d'un épisode bref puisque le regain de l'économie américaine, à court terme, et un carnet de commandes garni devraient ensuite permettre à l'industrie de décoller.

Scénarios conjoncturels

Court terme

- Si la reprise américaine n'amène pas un redressement des exportations, l'économie sera encore faible en 2010.

Moyen terme

- La réapparition de déficits budgétaires pourrait limiter l'apport du gouvernement provincial à l'économie au cours des prochaines années.

Source : Le Conference Board du Canada.

Principaux indicateurs économiques : Québec
(prévisions en date du 16 juillet 2009)

	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3	2008:4	2009:1	2009:2	2009:3	2009:4	2008	2009	2010
PIB aux prix du marché (en dollars courants)	297 904 *–0,2*	305 370 *2,5*	306 755 *0,5*	294 057 *–4,1*	295 730 *0,6*	298 038 *0,8*	301 148 *1,0*	304 096 *1,0*	305 200 *0,4*	306 878 *0,5*	309 505 *0,9*	312 671 *1,0*	301 022 *1,7*	299 753 *–0,4*	308 564 *2,9*
PIB aux prix de base (en dollars courants)	279 872 *0,1*	287 187 *2,6*	288 514 *0,5*	276 233 *–4,3*	278 338 *0,8*	280 530 *0,8*	283 485 *1,1*	286 206 *1,0*	287 029 *0,3*	288 404 *0,5*	290 326 *0,7*	293 126 *1,0*	282 952 *2,0*	282 140 *–0,3*	289 721 *2,7*
PIB aux prix de base (en dollars constants de 2002)	247 522 *0,3*	247 921 *0,2*	248 925 *0,4*	248 713 *–0,1*	245 429 *–1,3*	245 819 *0,2*	246 245 *0,2*	246 983 *0,3*	248 495 *0,6*	249 725 *0,5*	251 099 *0,6*	252 503 *0,6*	248 270 *1,2*	246 119 *–0,9*	250 455 *1,8*
Indice des prix à la consommation (2002 = 1,0)	1,114 *0,5*	1,134 *1,8*	1,139 *0,4*	1,124 *–1,3*	1,121 *–0,2*	1,132 *1,0*	1,139 *0,6*	1,147 *0,7*	1,154 *0,6*	1,161 *0,6*	1,169 *0,7*	1,177 *0,7*	1,127 *2,1*	1,135 *0,6*	1,165 *2,7*
Déflateur implicite des prix — PIB aux prix de base (2002 = 1,0)	1,131 *–0,3*	1,158 *2,4*	1,159 *0,1*	1,111 *–4,2*	1,134 *2,1*	1,141 *0,6*	1,151 *0,9*	1,159 *0,7*	1,155 *–0,3*	1,155 *0,0*	1,156 *0,1*	1,161 *0,4*	1,140 *0,7*	1,146 *0,6*	1,157 *0,9*
Salaires hebdomadaires moyens (niveau)	726,3 *0,1*	730,8 *0,6*	729,3 *–0,2*	732,9 *0,5*	733,7 *0,1*	734,0 *0,0*	735,5 *0,2*	740,2 *0,6*	742,5 *0,3*	746,5 *0,5*	750,9 *0,6*	755,9 *0,7*	729,8 *1,3*	735,8 *0,8*	749,0 *1,8*
Revenu des particuliers (en dollars courants)	257 163 *1,7*	257 724 *0,2*	258 529 *0,3*	261 170 *1,0*	258 625 *–1,0*	260 322 *0,7*	260 806 *0,2*	262 601 *0,7*	263 895 *0,5*	265 719 *0,7*	268 239 *0,9*	270 102 *0,7*	258 647 *3,5*	260 588 *0,8*	266 989 *2,5*
Revenu disponible des particuliers (en dollars courants)	195 315 *2,2*	195 966 *0,3*	197 250 *0,7*	200 061 *1,4*	198 199 *–0,9*	199 397 *0,6*	199 757 *0,2*	201 173 *0,7*	201 797 *0,3*	203 108 *0,6*	204 865 *0,9*	206 258 *0,7*	197 148 *4,8*	199 632 *1,3*	204 007 *2,2*
Taux d'épargne des particuliers	2,06	1,26	1,02	3,50	2,41	1,78	1,35	1,44	1,17	1,13	1,16	0,81	1,96	1,75	1,07
Population en âge d'être active (en milliers)	6 349 *0,2*	6 364 *0,2*	6 380 *0,2*	6 396 *0,2*	6 411 *0,2*	6 427 *0,3*	6 442 *0,2*	6 461 *0,3*	6 466 *0,1*	6 479 *0,2*	6 491 *0,2*	6 503 *0,2*	6 372 *0,9*	6 435 *1,0*	6 485 *0,8*
Population active (en milliers)	4 183 *0,2*	4 186 *0,1*	4 180 *–0,1*	4 192 *0,3*	4 178 *–0,4*	4 223 *1,1*	4 224 *0,0*	4 231 *0,2*	4 225 *–0,1*	4 235 *0,2*	4 242 *0,2*	4 251 *0,2*	4 185 *0,9*	4 214 *0,7*	4 238 *0,6*
Emplois (en milliers)	3 888 *0,1*	3 877 *–0,3*	3 869 *–0,2*	3 889 *0,5*	3 845 *–1,1*	3 860 *0,4*	3 836 *–0,6*	3 832 *–0,1*	3 826 *–0,2*	3 839 *0,3*	3 853 *0,4*	3 863 *0,3*	3 881 *0,8*	3 843 *–1,0*	3 845 *0,1*
Taux de chômage	7,1	7,4	7,4	7,2	8,0	8,6	9,2	9,4	9,4	9,3	9,2	9,1	7,3	8,8	9,3
Ventes au détail (en dollars courants)	94 786 *2,6*	95 460 *0,7*	96 868 *1,5*	94 190 *–2,8*	92 933 *–1,3*	93 449 *0,6*	93 779 *0,4*	94 431 *0,7*	94 892 *0,5*	95 537 *0,7*	96 432 *0,9*	97 669 *1,3*	95 326 *5,1*	93 648 *–1,8*	96 133 *2,7*
Mises en chantier (en unités)	48 096 *21,1*	48 195 *0,2*	49 212 *2,1*	46 101 *–6,3*	40 484 *–12,2*	41 767 *3,2*	40 799 *–2,3*	39 879 *–2,3*	37 585 *–5,8*	37 263 *–0,9*	36 050 *–3,3*	35 431 *–1,7*	47 901 *–1,3*	40 732 *–15,0*	36 582 *–10,2*

Les données en blanc sont des prévisions.
À moins d'indications contraires, toutes les données sont exprimées en millions de dollars, au taux annuel désaisonnalisé.
Pour chaque indicateur, la première ligne donne le niveau, la deuxième la variation en pourcentage par rapport à la période précédente.
Sources: Le Conference Board du Canada; Statistique Canada; Répertoire des séries chronologiques de la Société canadienne d'hypothèques et de logement (SCHL).

Ontario

- Despite significant fiscal stimulus, weak international trade and labour markets will leave Ontario in recession this year.
- Stimulus spending in the province's latest budget could add 1.2 percentage points to Ontario's bottom-line GDP growth in 2009.

Real GDP

	Growth	Ranking
2009	–3.1	#9
2010	3.2	#4

Credit Quality
AA
Standard & Poor's

Retail Sales

	Growth	Ranking
2009	–3.7	#8
2010	3.7	#3

Government & Background Information

Premier	Dalton McGuinty
Next election	2011
Population (2009:2)	13,014,020
Government balance (projected 2009–10)	–$14.1 billion

Sources: The Conference Board of Canada; Ontario Ministry of Finance.

Recession Continues . . . but Recovery Expected in 2010

by Sabrina Browarski

With its manufacturing heartland decimated, Ontario has posted several quarters of negative real GDP growth. The province has been battered on all fronts by what has emerged as a truly global recession, one that will dampen worldwide economic output by an estimated 2.6 per cent in 2009 alone. However, despite the litany of bad news stories regarding the virtual disappearance of new business investment, widespread full-time job losses, and automotive bankruptcies, some green shoots are finally emerging in what has otherwise been a bleak landscape. Real GDP at market prices will contract by 3 per cent in 2009, but is forecast to rebound by 3.1 per cent next year.

With auto sales down 43 per cent from peak levels in 2005, the dominance of the Detroit Three automakers in the North American automotive market has come to an end.

International trade was expected to be Ontario's sore point in 2009, given the heavily integrated nature of Canada–U.S. supply chains. However, although net international trade will indeed register a massive deficit this year, slower declines in interprovincial demand will ensure that Ontario achieves a total net trade surplus of $3.4 billion for 2009!

Mounting job losses to date have slowed growth in household incomes. That, in turn, has led consumers to cut back on spending. While total real consumption is forecast to fall in 2009, a recovery is in sight beginning in the later part of the year as labour markets heal. Likewise, greater stability in financial markets and a resurgence in overseas industrial and consumer demand will allow investment—both public and private—to pick up speed in 2010. The bulk of investment intentions in 2009 will stem from public infrastructure projects.

PUBLIC STIMULUS: A DOUBLE-EDGED SWORD

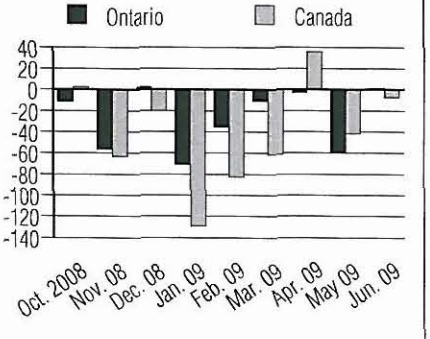
Public expenditures will constitute virtually the only source of positive growth in the Ontario economy this year. In the near term, total program expenses are forecast to rise by 12.5 per cent in fiscal year 2009–10 and by a further 5.1 per cent in 2010–11. This will cause government spending on goods and services to increase by 5.3 per cent in 2009, and a further 6.2 per cent next year. However, the stimulus plan, aimed at staving off a prolonged recessionary cycle, will come with a price tag

Economic Indicators
(2002 $; percentage change)

	2008	2009	2010
Real GDP (basic prices)	–0.2	–3.1	3.2
Consumer Price Index	2.3	0.7	2.4
Personal disposable income	5.1	0.0	2.9
Employment	1.4	–2.7	0.3
Unemployment rate (level)	6.5	9.2	10.2
Retail sales	3.5	–3.7	3.7
Average weekly wages	1.4	1.3	1.6
Population	1.1	0.9	1.1

Sources: The Conference Board of Canada; Statistics Canada.

Ontario Absorbs Bulk of Canadian Job Cuts
(monthly change in employment, 000s jobs)



Sources: The Conference Board of Canada; Statistics Canada.

of $27.4 billion over the next two years, a cost that will cause Ontario's fiscal deficit to soar to $14.1 billion—the largest provincial deficit in history!

The erosion of the fiscal base as a result of the global downturn will have significant repercussions for Ontario's public purse. Net debt will rise by $56 billion over the next three years, and interest payments required to service provincial debt are expected to rise by over $2 billion per year. It will take severe expenditure cuts if the Ontario government is to balance its books once again by the targeted date of 2015–16.

Since December 2008, the Ontario economy has shed 178,600 positions. Worse, 244,200 full-time jobs have disappeared.

PRIVATE SECTOR JITTERS DAMPEN INVESTMENT PROSPECTS

Ontario pre-tax corporate profits are expected to fall by nearly $20 billion in 2009, the result of weak demand for goods and services and the fall-off in commodity prices. It comes as little surprise that such a drastic drop in available funds will lead to a 17 per cent reduction in real business capital formation in 2009. Non-residential investment and spending on machinery and equipment will lead the decline in investment—a disappointing outcome given that private investment is a key driver of productivity. On the residential front, tighter credit standards, alongside a drop in renovations and home resales, will contribute to a nearly 13 per cent decline in real residential investment this year.

The bulk of near-term investment activity will come from public funds. Real public investment activity is anticipated to rise by an average of nearly 19 per cent as a result of public spending initiatives in Ontario and the $27.4 billion stimulus package. In total, gross real capital formation will fall by 11.7 per cent in 2009, but major public spending on infrastructure will eke out marginal growth of 4 per cent in 2010.

HOUSEHOLD SECTOR STILL IN LIMBO

Since December 2008, the Ontario economy has shed 178,600 positions. Worse, 244,200 full-time jobs have disappeared. Going forward, job losses will slow in the third quarter of 2009, with net gains forecast as early as the final quarter of this year.

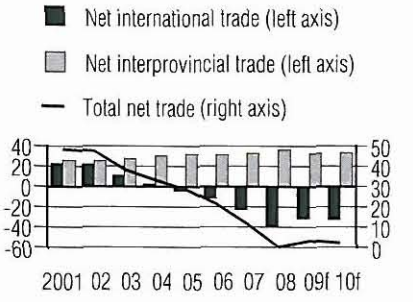
Workers who remain employed will see marginal gains in real wages, although the unemployment rate will trend upward to 9.2 per cent by the end of 2009 and peak at 10.2 per cent in 2010. Province-wide, disposable incomes are forecast to retreat modestly this year as labour markets loosen, but they will recover in 2010 as employment conditions stabilize and income taxes are cut.

Accordingly, Ontario consumers will tighten their purse strings, cutting back on real spending by 1.1 per cent this year, largely through reduced purchases of consumer durables. Growth of 2 per cent is expected in 2010 as labour markets rebound.

INTERPROVINCIAL DEMAND SECURES MODEST TRADE SURPLUS IN 2009

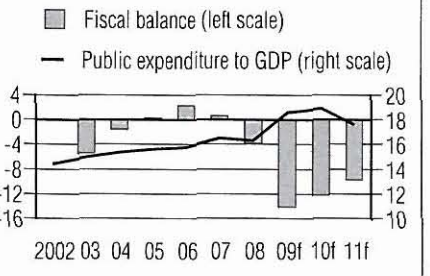
Of all of Ontario's industries, the auto sector has arguably been the hardest hit by the financial crisis in the U.S., the ensuing pullback in consumer spending, and now the added difficulty of a rising petro-loonie.

Weak International Exports Erode Trade Surplus
($ billions)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Ontario's Deficit the Largest in Provincial History!
(fiscal balance, $ billions; public expenditure to GDP, per cent)



f = forecast
Sources: The Conference Board of Canada; Ontario Ministry of Finance.

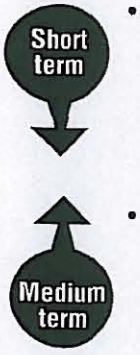
U.S. sales of new motor vehicles averaged less than 9.7 million units (annualized) in the first half of 2009, below even typical scrappage rates of 10 to 12 million units. With auto sales down 43 per cent from peak levels in 2005, the dominance of the Detroit Three automakers in the North American automotive market has come to an end.

The implications for the Canadian automotive sector will be severe going forward. This year, real automotive exports will fall by 47.5 per cent. However, this number has been revised upward from the more than 50 per cent contraction forecast

in our spring Provincial Outlook to reflect a more positive second-quarter production performance by Chrysler at its Brampton and Windsor facilities. With both Chrysler and General Motors successfully emerging from Chapter 11 bankruptcy protection and U.S. consumer demand having hit bottom, the automobile sector will recover at a double-digit pace in 2010. However, exports will never be fully restored to their pre-bankruptcy levels, and employment will trend below historical levels due to higher per-worker productivity as companies invest in new plants and equipment. Reduced U.S. consumer activity will generate a net contraction of 23.4 per cent in Ontario's real international exports this year.

International imports will also contract this year as a result of broad weakness in sales of machinery and equipment, automotive products, primary metals, and a host of other consumer and industrial products. The drop will be only slight less than the decline in exports, and the end result will be a net international trade deficit of $31.3 billion this year. Interestingly, Ontario will post a net trade surplus of $3.4 billion in 2009 thanks to the relative strength of interprovincial exports!

Forecast Risks



- Delays in implementing public infrastructure investment could push the economy deeper into recession.
- Rising public health-care costs could stimulate government spending in excess of budgetary targets.

Source: The Conference Board of Canada.

Key Economic Indicators: Ontario
(forecast completed Jul. 16, 2009)

	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3	2008:4	2009:1	2009:2	2009:3	2009:4	2008	2009	2010
GDP at market prices (current $)	584,232	594,243	597,318	572,783	563,029	566,096	570,200	575,812	585,735	591,179	598,221	606,467	587,144	568,784	595,400
	–1.1	*1.7*	*0.5*	*–4.1*	*–1.7*	*0.5*	*0.7*	*1.0*	*1.7*	*0.9*	*1.2*	*1.4*	*0.5*	*–3.1*	*4.7*
GDP at basic prices (current $)	544,893	554,576	557,523	533,898	525,088	527,902	531,665	536,784	546,093	550,875	556,380	563,827	547,723	530,359	554,294
	–0.7	*1.8*	*0.5*	*–4.2*	*–1.7*	*0.5*	*0.7*	*1.0*	*1.7*	*0.9*	*1.0*	*1.3*	*0.9*	*–3.2*	*4.5*
GDP at basic prices (constant $ 2002)	493,919	494,924	493,943	484,546	475,653	476,111	476,588	478,539	486,098	490,032	494,067	498,612	491,833	476,723	492,202
	–0.8	*0.2*	*–0.2*	*–1.9*	*–1.8*	*0.1*	*0.1*	*0.4*	*1.6*	*0.8*	*0.8*	*0.9*	*–0.2*	*–3.1*	*3.2*
Consumer Price Index (2002 = 1.0)	1.113	1.134	1.150	1.133	1.131	1.136	1.144	1.152	1.159	1.165	1.170	1.179	1.133	1.141	1.168
	0.2	*1.9*	*1.4*	*–1.4*	*–0.2*	*0.5*	*0.7*	*0.7*	*0.6*	*0.5*	*0.5*	*0.7*	*2.3*	*0.7*	*2.4*
Implicit price deflator—GDP at basic prices (2002 = 1.0)	1.103	1.121	1.129	1.102	1.104	1.109	1.116	1.122	1.123	1.124	1.126	1.131	1.114	1.112	1.126
	0.1	*1.6*	*0.7*	*–2.4*	*0.2*	*0.4*	*0.6*	*0.6*	*0.2*	*0.1*	*0.2*	*0.4*	*1.1*	*–0.1*	*1.2*
Average weekly wages ($, industrial composite)	812.5	816.9	818.2	821.1	826.9	825.6	827.2	832.2	834.2	838.6	843.6	849.3	817.2	828.0	841.4
	–0.2	*0.5*	*0.2*	*0.4*	*0.7*	*–0.1*	*0.2*	*0.6*	*0.2*	*0.5*	*0.6*	*0.7*	*1.4*	*1.3*	*1.6*
Personal income (current $)	479,404	481,254	482,198	483,612	480,775	478,875	480,544	484,067	487,161	492,054	496,164	502,342	481,617	481,065	494,430
	1.6	*0.4*	*0.2*	*0.3*	*–0.6*	*–0.4*	*0.3*	*0.7*	*0.6*	*1.0*	*0.8*	*1.2*	*3.8*	*–0.1*	*2.8*
Personal disposable income (current $)	368,600	372,824	374,154	374,441	372,345	370,818	372,223	375,038	377,731	381,459	384,979	389,782	372,505	372,606	383,488
	2.5	*1.1*	*0.4*	*0.1*	*–0.6*	*–0.4*	*0.4*	*0.8*	*0.7*	*1.0*	*0.9*	*1.2*	*5.1*	*0.0*	*2.9*
Personal savings rate	3.44	3.53	2.89	4.34	3.73	2.53	2.10	2.19	1.93	1.81	1.95	2.01	3.55	2.64	1.93
Population of labour force age (000s)	10,449	10,488	10,531	10,571	10,604	10,638	10,685	10,711	10,738	10,777	10,818	10,857	10,510	10,659	10,797
	0.3	*0.4*	*0.4*	*0.4*	*0.3*	*0.3*	*0.4*	*0.2*	*0.3*	*0.4*	*0.4*	*0.4*	*1.4*	*1.4*	*1.3*
Labour force (000s)	7,122	7,157	7,154	7,185	7,173	7,165	7,158	7,176	7,213	7,258	7,285	7,316	7,155	7,168	7,268
	0.4	*0.5*	*–0.1*	*0.4*	*–0.2*	*–0.1*	*–0.1*	*0.2*	*0.5*	*0.6*	*0.4*	*0.4*	*1.6*	*0.2*	*1.4*
Employment (000s)	6,676	6,695	6,694	6,682	6,567	6,506	6,480	6,480	6,487	6,508	6,543	6,581	6,687	6,508	6,530
	0.4	*0.3*	*0.0*	*–0.2*	*–1.7*	*–0.9*	*–0.4*	*0.0*	*0.1*	*0.3*	*0.5*	*0.6*	*1.4*	*–2.7*	*0.3*
Unemployment rate	6.3	6.5	6.4	7.0	8.4	9.2	9.5	9.7	10.1	10.3	10.2	10.0	6.5	9.2	10.2
Retail sales (current $)	152,128	153,338	153,571	146,524	145,059	145,153	146,048	147,195	148,680	150,342	151,895	154,173	151,390	145,864	151,273
	2.0	*0.8*	*0.2*	*–4.6*	*–1.0*	*0.1*	*0.6*	*0.8*	*1.0*	*1.1*	*1.0*	*1.5*	*3.5*	*–3.7*	*3.7*
Housing starts (units)	79,670	77,353	74,718	68,562	55,238	42,367	45,676	49,813	54,517	62,107	70,121	70,898	75,076	48,273	64,411
	17.4	*–2.9*	*–3.4*	*–8.2*	*–19.4*	*–23.3*	*7.8*	*9.1*	*9.4*	*13.9*	*12.9*	*1.1*	*10.2*	*–35.7*	*33.4*

White area represents forecast data.
All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.
For each indicator, the first line is the level and the second line is the percentage change from the previous period.
Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Manitoba

- Booming infrastructure investment will support the economy in 2009.
- The manufacturing industry has been victimized by the global recession but should soon rebound.

Real GDP

	Growth	Ranking
2009	0.8	#2
2010	1.8	#7

Credit Quality
AA
Standard & Poor's

Retail Sales

	Growth	Ranking
2009	–2.6	#4
2010	3.1	#5

Government & Background Information

Premier	Gary Doer
Next election	2011
Population (2009:2)	1,217,000
Government balance (estimated 2009–10)	$48 million

Sources: The Conference Board of Canada; Manitoba Finance.

Moderate Growth Expected Ahead

by Lin Ai

Manitoba has not been hit as hard as most provinces by the global economic downturn. Booming infrastructure investment will push real gross domestic product up by 0.8 per cent in 2009. The commitment of $1.6 billion in infrastructure spending from the provincial government and $223 million from the joint provincial-federal Infrastructure Stimulus Fund will boost construction output and support the provincial economy. However, the construction sector will experience negative growth of 2.8 per cent in 2010 as public investment wanes. Moreover, there are downside risks to the outlook. The 2009 Red River flood brought untold damages to the provincial economy, and its full impact cannot yet be assessed. In addition, a deluge of negative news in the agricultural sector has triggered expectations of lower production in 2009 for the major cereal crops. There is a lot of uncertainty in the agriculture sector at the moment.

The mining industry has not been spared. Many large primary metal operations have been shut down or downsized. The mining sector is expected to contract by 4.3 per cent in 2009. As base metal prices gradually improve, mining activities will intensify in 2010. Manufacturing has also been affected by the slowdown in the Canadian and U.S. economies, and a negative performance is expected this year. Even though the unemployment rate is the second lowest in the country, consumers have tightened their wallets, as personal disposable income growth has slowed considerably. Negative growth in retail sales is projected for 2009, but sales will bounce back strongly in 2010. The economy is expected to post stronger growth next year in parallel with many of Manitoba's industrial sectors. In 2010, Manitoba is forecast to grow by 1.8 per cent.

Drought and cold spring weather conditions have damaged crops.

TROUBLING SIGNS IN AGRICULTURE

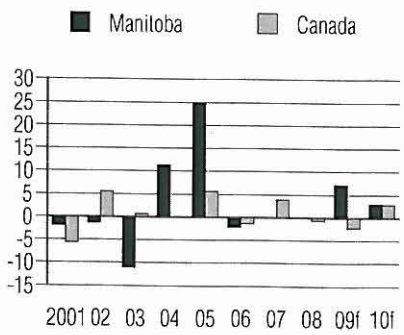
The number of hog producers in Manitoba has shrink by 30 per cent in the last two years, and those that remain in business still face problems. Currency fluctuations, the U.S. country-of-origin labelling (COOL) laws, and the H1N1 flu outbreak that has led to several countries closing their borders to Canadian hogs have all put additional pressure on an industry that is already struggling to cope with low market prices. Although a new

Economic Indicators
(2002 $; percentage change)

	2008	2009	2010
Real GDP (basic prices)	2.5	0.8	1.8
Consumer Price Index	2.2	1.0	2.8
Personal disposable income	7.1	1.6	2.8
Employment	1.7	–0.4	–0.1
Unemployment rate (level)	4.1	5.4	6.4
Retail sales	7.2	–2.6	3.1
Average weekly wages	1.7	3.7	2.4
Population	1.1	1.0	0.8

Sources: The Conference Board of Canada; Statistics Canada.

Utilities Expected to Grow Strongly
(percentage change, 2002 $)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

$37.7 million federal-provincial cash advance program will provide some relief to hog producers, the assistance might be too little and too late.

Crop growers have also been hit hard. To start, the 2009 Red River flood—the second worst on record—caused untold damage to crops, and a final tally of its economic effect won't be known until the harvests are in. The cold spring weather across the province and drought conditions in many regions forced a delay in seeding for some farmers and resulted in slower-growing crops. Farmers in Manitoba planted 13.8 per cent more spring wheat, but 18 per cent less barley and 1 per cent less canola, than in the previous year. Expectations are that production will decrease 20 per cent for the major crops in Western Canada this year. If the poor weather condition persists, there is more downside risk to the crops. Overall, the agriculture sector is forecast to contract 3.3 per cent in 2009 but will turn around in 2010 with growth of 2.5 per cent.

Manufacturing has been hit hard by the slowdown in the Canadian and U.S. economies.

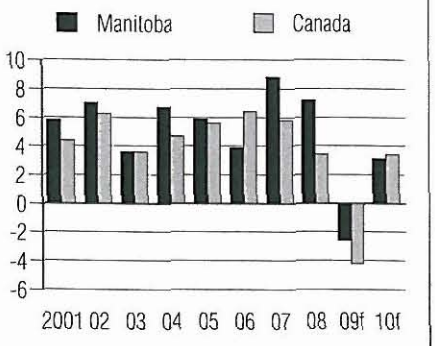
MANUFACTURING OUTLOOK

Manufacturing has been pounded by the slowdown in the Canadian and U.S. economies, and a decline of 4.4 per cent is projected for this year. Strong gains in machinery manufacturing and rising demand for fabricated metal producers tempered the decline in the first five months of this year, according to the manufacturing shipments monthly data. Thanks to a brighter outlook for the transportation industry, the manufacturing sector is forecast to bounce back with 2.1 per cent growth in 2010. Standard Aero, a company that provides comprehensive services to commercial and military aviation clients, has just signed a 15-year, $850-million deal to service engines for WestJet's fleet of Boeing 737 jetliners. The company has also decided to repatriate an engine overhaul facility from the Netherlands to Winnipeg, a move that will boost its Manitoba workforce. In contrast, Boeing's commercial plane business has struggled in 2009, with delays in test flights and production of the 787 Dreamliner and order cancellations from several airlines. Boeing Winnipeg employees recently voted to accept a four-day workweek in order to avoid job cuts. Transit bus manufacturer New Flyer Industries will contribute positively to the manufacturing sector. The company's backlog of orders totalled US$4 billion this past April.

MINING FORECAST: CLOUDY WITH RAYS OF SUNSHINE

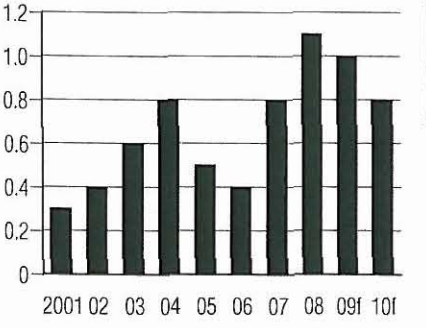
The global economic downturn has cast a pall over the mining industry. Base metal prices have fallen 70 per cent since 2007. Mineral exploration spending has been affected, as have extraction activities. Total mining output in 2009 will decrease by 4.3 per cent. With a metal prices rebounding, the provincial government has launched several assistance programs and tax incentives aimed at helping Manitoba mining companies ramp up activities once again. Encouraged by the government initiatives, many companies have started to develop exploration plans. Hudbay Mineral Inc. has committed $13 million this year to its exploration work at Lalor, which has the potential to be developed into a major gold and zinc mine. Other examples include Laurentian Goldfield and Kinross Gold, which together are investing $500,000 to explore a new gold mine. As well, VMS has plans for a copper project at Snow Lake. Spurred by improved prices, overall mining output is expected to rise 6.1 per cent in 2010.

Retail Sales Drop in 2009
(percentage change)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Steady Population Growth
(percentage change)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

CONSTRUCTION FIRED UP

Getting shovels in the ground is a great way to stimulate the economy and create jobs. On the public side, 33 new infrastructure projects in Manitoba will receive joint federal-provincial funding of $223 million under the Infrastructure Stimulus Fund. Moreover, an investment of $1.6 billion in infrastructure spending for 2009 by the provincial government will help push the construction sector to new highs. Also, Manitoba Hydro's $700-million Riel Converter Station, the $160-million Human Rights Museum in Winnipeg, the

Wuskwatim dam project, and pipeline expansions will help boost construction output by 7.9 per cent in 2009. However, the construction sector will experience negative growth of 2.8 per cent in 2010 as the government stimulus funds dry up and construction on the Riel Converter Station comes to an end.

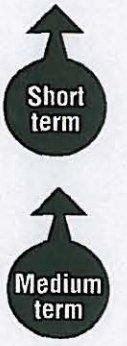
Mounting economic uncertainty and the decline in the labour market have dragged down consumer confidence and reduced demand for new housing. Housing starts could plunge by as much as 34 per cent in 2009—from 5,537 units in 2008 to 3,649 units this year. With the economy improving, housing starts are forecast to rebound by 20 per cent in 2010 to 4,379 housing units. On the whole, nominal residential construction is forecast to drop 8.3 per cent in 2009, with a minor recovery of 1.3 per cent expected in 2010.

CONSUMER AND FISCAL OUTLOOK

The economic turmoil has negatively affected employment in Manitoba. Job losses have mounted. Employment is down 10.2 per cent from last year in the manufacturing sector and 8 per cent in the other employment category. Total employment is expected to decline by 0.4 per cent, and the unemployment rate will rise to 5.4 per cent in 2009. Personal disposable income will increase by a slight 1.6 per cent, while the consumer price index is expected to rise only 1 per cent, allowing for real income gains despite the lack of job creation.

A shift in spending habits has been detected. Consumers are choosing to spend less and save more. Retail sales are forecast to drop by 2.6 per cent this year as personal savings rise by 9.9 per cent. Brighter employment and personal income prospects in the province next year will push retail sales up 3.1 per cent.

Forecast Risks



- A rapid recovery in base metal prices could spur more economic growth.
- If more international skilled workers immigrate to Manitoba, the economy would greatly benefit from the resulting reduction in skilled labour shortages.

Source: The Conference Board of Canada.

Key Economic Indicators: Manitoba
(forecast completed Jul. 16, 2009)

	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3	2008:4	2009:1	2009:2	2009:3	2009:4	2008	2009	2010
GDP at market prices (current $)	50,042	51,159	51,565	49,955	49,293	49,860	50,301	50,762	51,015	51,240	51,722	52,307	50,680	50,054	51,571
	1.4	*2.2*	*0.8*	*–3.1*	*–1.3*	*1.2*	*0.9*	*0.9*	*0.5*	*0.4*	*0.9*	*1.1*	*5.0*	*–1.2*	*3.0*
GDP at basic prices (current $)	46,575	47,664	48,058	46,528	45,950	46,494	46,905	47,323	47,522	47,688	48,035	48,549	47,206	46,668	47,948
	1.6	*2.3*	*0.8*	*–3.2*	*–1.2*	*1.2*	*0.9*	*0.9*	*0.4*	*0.3*	*0.7*	*1.1*	*5.3*	*–1.1*	*2.7*
GDP at basic prices (constant $ 2002)	39,006	39,142	39,775	39,103	39,232	39,561	39,674	39,815	39,961	40,127	40,389	40,684	39,256	39,571	40,290
	0.6	*0.3*	*1.6*	*–1.7*	*0.3*	*0.8*	*0.3*	*0.4*	*0.4*	*0.4*	*0.7*	*0.7*	*2.5*	*0.8*	*1.8*
Consumer Price Index (2002 = 1.0)	1.113	1.135	1.151	1.137	1.128	1.141	1.153	1.161	1.167	1.174	1.181	1.189	1.134	1.146	1.178
	0.3	*2.0*	*1.4*	*–1.2*	*–0.8*	*1.1*	*1.1*	*0.7*	*0.5*	*0.6*	*0.6*	*0.6*	*2.2*	*1.0*	*2.8*
Implicit price deflator— GDP at basic prices (2002 = 1.0)	1.194	1.218	1.208	1.190	1.171	1.175	1.182	1.189	1.189	1.188	1.189	1.193	1.202	1.179	1.190
	1.0	*2.0*	*–0.8*	*–1.5*	*–1.6*	*0.3*	*0.6*	*0.5*	*0.1*	*–0.1*	*0.1*	*0.3*	*2.7*	*–1.9*	*0.9*
Average weekly wages ($, industrial composite)	711.2	721.5	725.3	723.6	740.1	745.7	748.3	753.6	758.2	762.5	767.2	772.4	720.4	746.9	765.1
	–0.7	*1.5*	*0.5*	*–0.2*	*2.3*	*0.7*	*0.4*	*0.7*	*0.6*	*0.6*	*0.6*	*0.7*	*1.7*	*3.7*	*2.4*
Personal income (current $)	40,053	40,075	40,319	40,671	40,411	40,863	40,962	41,252	41,622	41,861	42,192	42,561	40,280	40,872	42,059
	3.2	*0.1*	*0.6*	*0.9*	*–0.6*	*1.1*	*0.2*	*0.7*	*0.9*	*0.6*	*0.8*	*0.9*	*5.7*	*1.5*	*2.9*
Personal disposable income (current $)	31,628	31,805	32,008	32,243	32,057	32,412	32,497	32,735	32,998	33,177	33,422	33,709	31,921	32,425	33,327
	3.7	*0.6*	*0.6*	*0.7*	*–0.6*	*1.1*	*0.3*	*0.7*	*0.8*	*0.5*	*0.7*	*0.9*	*7.1*	*1.6*	*2.8*
Personal savings rate	3.26	3.12	2.81	3.56	4.06	3.50	3.07	3.16	2.99	3.06	2.98	3.23	3.19	3.45	3.07
Population of labour force age (000s)	905	908	911	914	917	921	924	926	929	930	931	934	910	922	931
	0.3	*0.4*	*0.3*	*0.3*	*0.3*	*0.4*	*0.3*	*0.3*	*0.3*	*0.2*	*0.1*	*0.3*	*1.2*	*1.4*	*1.0*
Labour force (000s)	629	634	633	636	637	637	639	641	643	644	645	648	633	639	645
	0.1	*0.8*	*–0.1*	*0.4*	*0.2*	*0.0*	*0.3*	*0.3*	*0.3*	*0.2*	*0.1*	*0.4*	*1.4*	*0.9*	*1.0*
Employment (000s)	603	608	607	608	606	606	602	601	602	603	603	606	607	604	604
	0.1	*0.9*	*–0.1*	*0.2*	*–0.4*	*0.0*	*–0.7*	*–0.1*	*0.1*	*0.1*	*0.1*	*0.5*	*1.7*	*–0.4*	*–0.1*
Unemployment rate	4.1	4.1	4.1	4.3	4.8	4.9	5.8	6.2	6.4	6.5	6.5	6.4	4.1	5.4	6.4
Retail sales (current $)	15,052	15,021	15,052	14,944	14,437	14,614	14,682	14,791	14,935	15,020	15,140	15,245	15,017	14,631	15,085
	3.5	*–0.2*	*0.2*	*–0.7*	*–3.4*	*1.2*	*0.5*	*0.7*	*1.0*	*0.6*	*0.8*	*0.7*	*7.2*	*–2.6*	*3.1*
Housing starts (units)	5,131	5,829	5,222	5,966	3,421	3,867	3,612	3,697	3,749	3,855	4,331	5,582	5,537	3,649	4,379
	–11.7	*13.6*	*–10.4*	*14.3*	*–42.7*	*13.0*	*–6.6*	*2.4*	*1.4*	*2.8*	*12.3*	*28.9*	*–3.5*	*–34.1*	*20.0*

White area represents forecast data.
All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.
For each indicator, the first line is the level and the second line is the percentage change from the previous period.
Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Saskatchewan

- The difficulties in the agriculture and mining industries will severely constrain real GDP growth this year.
- Saskatchewan is expected to lead all other provinces next year as prospects of a recovery in international potash demand are promising.

Real GDP

	Growth	Ranking
2009	–2.7	#7
2010	3.5	#1

Credit Quality
AA+
Standard & Poor's

Retail Sales

	Growth	Ranking
2009	–2.6	#3
2010	2.4	#8

Government & Background Information

Premier	Brad Wall
Next election	2011
Population (2009:2)	1,027,000
Government balance (2009–10)	$425 million

Sources: The Conference Board of Canada; Saskatchewan Finance.

What a Difference a Few Months Can Make!

by Lin Ai

After a stellar performance last year, Saskatchewan's real gross domestic product will contract by 2.7 per cent in 2009. Earlier this year, the province appeared to be well positioned to grow despite the global economic weakness. However, major potash production cuts and uncertainty in the agriculture sector have dimmed the outlook considerably. At the moment, drought conditions in parts of the province are causing a majority of crops to fall behind their normal development cycles. In addition, PotashCorp has cut potash production several times since last August (for total curtailments of 5.5 million tonnes) as a result of weak demand around the world. The double-digit decline in those two sectors will have a significant impact on Saskatchewan's resource-based economy. Next year is looking more positive for the province. Real GDP growth of 3.5 per cent is forecast, supported by a rebound in the primary sector.

The province can expect brisk construction activities over the next two years thanks to the provincial government's $1.5-billion infrastructure stimulus plan and several large private projects. Despite the downturn in the primary sector, most other sectors are performing well and continuing to add to payroll. Incredibly, the province will generate 8,000 new jobs in 2009 and a further 2,000 in 2010, mostly in public administration and construction. The unemployment rate is still the lowest among all the provinces, and Saskatchewan will hold this position until at least 2013. Labour income is expected to post strong gains that will lead to increased consumer spending starting next year. The provincial nominee program has helped many international workers move to Saskatchewan. This influx of people immigrating to Saskatchewan will help to fill jobs and support the housing market in the near term.

A drop in total crop production of at least 20 per cent is predicted for 2009 due to unfavourable weather conditions.

UNUSUAL WEATHER HURTING AGRICULTURE

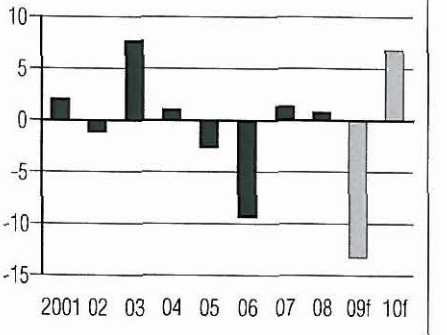
Hit by delays in seeding, and with crop growth being less advanced than in previous years due to cool temperatures and drought conditions, Saskatchewan's crop yields are at risk. Unusually late snowfalls in May delayed the start of the planting season. Since then, the weather has remained unseasonably cool, which has hindered crop growth. In its weekly

Economic Indicators
(2002 $; percentage change)

	2008	2009	2010
Real GDP (basic prices)	4.6	–2.7	3.5
Consumer Price Index	3.2	1.3	2.6
Personal disposable income	15.4	1.5	1.6
Employment	2.2	1.6	0.4
Unemployment rate (level)	4.1	5.2	5.8
Retail sales	10.6	–2.6	2.4
Average weekly wages	5.0	2.5	2.7
Population	1.6	1.3	0.8

Sources: The Conference Board of Canada; Statistics Canada.

Gloomy Outlook for Mining in 2009
(percentage change, 2002$)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

crop report covering the period of July 14 to July 20, Saskatchewan's Ministry of Agriculture noted that the majority of crops are two to three weeks behind their normal development cycles. Drought conditions in many parts of the province are expected to limit crop yields. Field researchers have also noticed large concentrations of grasshoppers and gophers in the fields—another threat to crops. Although farmers increased the acreage planted with spring wheat this year, they decreased their acreage devoted to barley. It is still too early to know how the damage to crops this year will compare with what we saw during the drought years of 2001 and 2002, but early indications are that crop production could be down by as much as 20 per cent.

Livestock producers are not faring any better than crop farmers. Cattle and hog producers are dealing with a combination of low market prices and the country of origin labelling (COOL) laws in the United States. Just when hog producers were looking forward to banking profits this summer, the industry got hit by the H1NI flu outbreak. In addition, the poor spring weather is causing shortages of hay and pasture, which is affecting Saskatchewan's cattle industry. By the third week of July last year, one-third of the hay crop had been cut and baled or put into silage; by the same time this year, only 22 per cent of the hay had been baled or put into silage. All things considered, the agriculture sector is forecast to contract 12 per cent in 2009. However, we expect a strong 11 per cent rebound in 2010.

MINING HITS A BUMP IN THE ROAD

While potash prices have not been too badly affected by the global recession, production plans have been scaled back considerably. In the past few months, PotashCorp has cut production by another 800,000 tonnes. That brings the reductions to 4.7 million tonnes this year alone and to 5.5 million tonnes since last August. The deferral of purchases by international customers, weak demand from U.S. farmers, and extended negotiations with offshore buyers are the reasons behind the cutbacks. A recently signed contract with Brazil, while welcome, was not sufficient to stop the pullback in production. However, new contracts signed with India and China look promising and are expected to raise potash output. Overall, non-metal output is forecast to contract 42.5 per cent in 2009, with a strong rebound of 29.8 per cent in 2010.

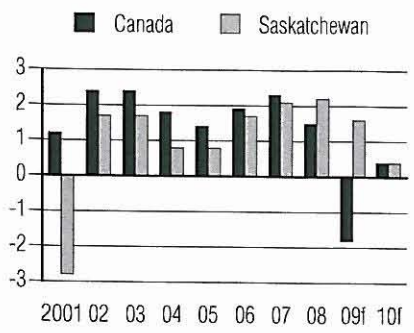
Mining exploration expenditures in 2009 are expected to be much lower than in 2008.

Mineral exploration expenditures in 2009 are expected to be much lower than in 2008, reflecting the sector's difficulty in raising financing. As a result, total mining output (including non-metal output) is forecast to decrease 13.3 per cent in 2009. In recent months, however, the oil and gas sector has shown signs of turning around. June's land sales for oil and gas rights in the province were more than double what they were in May. The Weyburn-Estevan area received the most bids, largely due to the Bakken formation's vast oil reserves. Looking ahead, more drilling rigs are expected to be active. Total mining output is forecast to post solid growth of 6.8 per cent in 2010.

CONSTRUCTION SECTOR FARES WELL

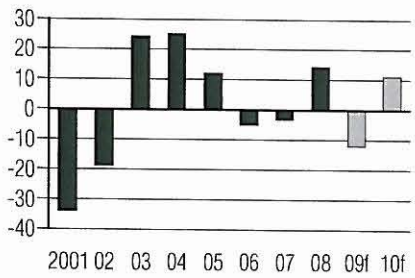
Construction sites around Saskatchewan are expected to be very busy through the rest of 2009 and 2010. Between April and May, building permits jumped 54.5 per cent to $188 million—the strongest growth in Canada. The province is also investing a record $630 million for transportation infrastructure. The largest-ever provincial budget will provide funding for nearly 1,600 km of major highways and bridges. This is on top of the additional investments by the provincial government to get infrastructure projects moving forward. Total private and public non-residential investment will rise 11.5 per cent in 2009, supported by several projects, including Mosaic's $1.7-billion potash mining expansion at Esterhazy and the $435-million Midwest uranium project at McClean Lake (jointly owned by AREVA Resources, Denison Mines, and OURD Canada).

No Job Cuts in 2009
(employment, percentage change)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Unfavourable Outlook for Agriculture This Year
(percentage change, 2002 $)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Strong growth in government infrastructure investment and non-residential construction will outweigh the decline in the residential sector, helping to push construction output up 12 per cent in 2009 and by a further 3.3 per cent in 2010.

CONSUMER OUTLOOK

Despite the downturn in the primary sector, most other sectors are performing well and continuing to add to their payrolls. Incredibly, the province will generate 8,000 new jobs in 2009 and a further 2,000 in 2010—mostly in public administration and construction. The unemployment rate is still the lowest among all the provinces, and Saskatchewan will hold this position until at least 2013. Labour income is expected to post strong gains that will lead to increased consumer spending starting next year. One of the few caveats in the otherwise strong economic outlook comes from the housing sector. The number of housing starts will fall to 3,663 units this year, down nearly 50 per cent from 2008. The decline comes after inventories of new and existing home ramped up at the beginning of the year. On a positive note, the provincial nominee program is helping many international workers migrate to Saskatchewan easily and quickly. The resulting influx of people immigrating to Saskatchewan will help fill jobs and support a slight improvement in the housing market next year.

Forecast Risks

- A return to normal weather patterns, particularly in the western regions of the province, could stem the decline in the agriculture sector.

- The mining sector will see stronger growth if plans by several companies to expand capacity over the next few years go ahead.

Source: The Conference Board of Canada.

Key Economic Indicators: Saskatchewan
(forecast completed Jul. 16, 2009)

	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3	2008:4	2009:1	2009:2	2009:3	2009:4	2008	2009	2010
GDP at market prices (current $)	60,567	65,017	67,202	65,278	58,875	59,217	60,172	61,302	62,900	63,270	63,868	64,779	64,516	59,892	63,704
	10.5	*7.3*	*3.4*	*–2.9*	*–9.8*	*0.6*	*1.6*	*1.9*	*2.6*	*0.6*	*0.9*	*1.4*	*25.2*	*–7.2*	*6.4*
GDP at basic prices (current $)	57,548	61,972	64,147	62,294	55,962	56,286	57,214	58,307	59,857	60,177	60,656	61,506	61,490	56,942	60,549
	10.5	*7.7*	*3.5*	*–2.9*	*–10.2*	*0.6*	*1.6*	*1.9*	*2.7*	*0.5*	*0.8*	*1.4*	*25.9*	*–7.4*	*6.3*
GDP at basic prices (constant $ 2002)	38,982	39,375	40,048	39,434	38,336	38,287	38,359	38,594	39,314	39,608	39,906	40,170	39,460	38,394	39,749
	1.4	*1.0*	*1.7*	*–1.5*	*–2.8*	*–0.1*	*0.2*	*0.6*	*1.9*	*0.7*	*0.8*	*0.7*	*4.6*	*–2.7*	*3.5*
Consumer Price Index (2002 = 1.0)	1.137	1.162	1.171	1.165	1.163	1.166	1.180	1.188	1.194	1.201	1.209	1.216	1.159	1.174	1.205
	0.6	*2.2*	*0.7*	*–0.5*	*–0.2*	*0.2*	*1.3*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*3.2*	*1.3*	*2.6*
Implicit price deflator—GDP at basic prices (2002 = 1.0)	1.476	1.574	1.602	1.580	1.460	1.470	1.492	1.511	1.523	1.519	1.520	1.531	1.558	1.483	1.523
	9.0	*6.6*	*1.8*	*–1.4*	*–7.6*	*0.7*	*1.5*	*1.3*	*0.8*	*–0.2*	*0.0*	*0.7*	*20.4*	*–4.8*	*2.7*
Average weekly wages ($, industrial composite)	746.5	759.4	774.1	771.7	772.5	782.2	784.4	789.7	796.1	800.6	805.4	810.8	762.9	782.2	803.2
	0.6	*1.7*	*1.9*	*–0.3*	*0.1*	*1.2*	*0.3*	*0.7*	*0.8*	*0.6*	*0.6*	*0.7*	*5.0*	*2.5*	*2.7*
Personal income (current $)	35,425	35,777	36,425	36,445	35,822	36,752	36,850	37,188	36,901	37,150	37,472	37,763	36,018	36,653	37,322
	7.8	*1.0*	*1.8*	*0.1*	*–1.7*	*2.6*	*0.3*	*0.9*	*–0.8*	*0.7*	*0.9*	*0.8*	*12.4*	*1.8*	*1.8*
Personal disposable income (current $)	28,574	29,049	29,652	29,561	28,963	29,730	29,816	30,094	29,790	29,982	30,229	30,462	29,209	29,651	30,116
	9.6	*1.7*	*2.1*	*–0.3*	*–2.0*	*2.6*	*0.3*	*0.9*	*–1.0*	*0.6*	*0.8*	*0.8*	*15.4*	*1.5*	*1.6*
Personal savings rate	3.88	3.80	4.80	5.04	3.59	4.32	3.88	3.97	2.62	2.68	2.60	2.85	4.38	3.94	2.69
Population of labour force age (000s)	761	765	769	773	776	778	781	783	784	786	787	788	767	779	786
	0.6	*0.6*	*0.5*	*0.5*	*0.3*	*0.3*	*0.3*	*0.3*	*0.2*	*0.2*	*0.2*	*0.1*	*2.1*	*1.6*	*0.9*
Labour force (000s)	530	532	536	542	546	549	551	552	553	554	555	557	535	550	555
	0.6	*0.4*	*0.8*	*1.1*	*0.8*	*0.6*	*0.3*	*0.2*	*0.2*	*0.2*	*0.1*	*0.3*	*2.1*	*2.8*	*1.0*
Employment (000s)	508	510	513	520	521	523	519	520	521	522	523	525	513	521	523
	0.7	*0.4*	*0.6*	*1.4*	*0.2*	*0.3*	*–0.7*	*0.2*	*0.2*	*0.2*	*0.2*	*0.4*	*2.2*	*1.6*	*0.4*
Unemployment rate	4.1	4.1	4.3	4.0	4.5	4.8	5.8	5.8	5.9	5.8	5.7	5.6	4.1	5.2	5.8
Retail sales (current $)	14,220	14,485	14,518	14,217	13,913	13,927	13,996	14,133	14,175	14,268	14,392	14,473	14,360	13,992	14,327
	3.7	*1.9*	*0.2*	*–2.1*	*–2.1*	*0.1*	*0.5*	*1.0*	*0.3*	*0.7*	*0.9*	*0.6*	*10.6*	*–2.6*	*2.4*
Housing starts (units)	7,679	7,375	6,613	5,646	2,258	4,233	4,142	4,019	4,045	3,925	3,728	3,596	6,828	3,663	3,823
	35.7	*–4.0*	*–10.3*	*–14.6*	*–60.0*	*87.4*	*–2.2*	*–3.0*	*0.6*	*–3.0*	*–5.0*	*–3.5*	*13.7*	*–46.3*	*4.4*

White area represents forecast data.
All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.
For each indicator, the first line is the level and the second line is the percentage change from the previous period.
Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Alberta

- Output in goods-producing industries will contract for a third consecutive year.
- Job losses will push the provincial unemployment rate to a peak of 7.2 per cent in 2010.

Real GDP

	Growth	Ranking
2009	–2.7	#8
2010	3.3	#3

Credit Quality
AAA
Standard & Poor's

Retail Sales

	Growth	Ranking
2009	–7.8	#10
2010	4.0	#1

Government & Background Information

Premier	Ed Stelmach
Next election	Mar. 2012
Population (2009:2)	3,653,840
Government balance (2009–10)	–$4.7 billion

Sources: The Conference Board of Canada; Alberta Finance.

Global Recession Weighs Heavily on Alberta

by Todd A. Crawford

The global economic woes have wreaked havoc on Alberta. Plunging commodity prices, tight credit markets, and slowing global demand have created difficulties economy-wide. Output in the goods-producing industries will fall severely this year. The construction industry in particular will suffer, tumbling 10.1 per cent due in large part to deferrals in the development of the oil sands. The service industries will not escape the slowdown either, as they contract 0.6 per cent—the first drop in more than 25 years. The weakening service sector will combine with the free fall in goods-producing industries to push real GDP in Alberta down for the second consecutive year. After falling 0.2 per cent in 2008, the provincial economy will contract another 2.7 per cent this year—its worst performance on record.

Despite the bleak outlook this year, the troubles in Canada's main oil-producing province will be short-lived. Falling material and labour costs should provide a boost to the construction industry next year. Commodity prices are also forecast to rise further, which should spur development activity in the non-conventional oil industry. Given the new royalty regime in Alberta, conventional oil and gas production is unlikely to make a roaring comeback in 2010. Still, following a pitiful drilling year in 2009, a rebound of 7.8 per cent is expected next year in services incidental to mining. Increased activity in oil and gas will also provide a much-needed boost to the manufacturing industry, which will rebound from two consecutive years of contraction. Increased output in goods-producing industries will lead a rebound in transportation and storage and in community and business services. Employment will also pick up, spurring consumer demand. All in all, real GDP will expand 3.3 per cent in 2010.

OIL AND GAS WEAKNESS HURTS INVESTMENT

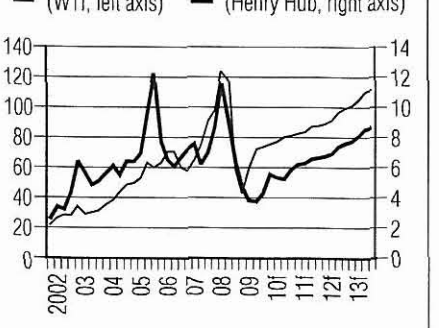
The energy sector is the most important engine driving the Alberta economy. Indeed, the strong growth in the provincial economy over the past decade can be traced back to the billions of dollars invested in oil and natural gas production. But industrial production has been cut drastically around the globe, reducing demand for oil and other primary commodities and sending prices lower in a very short period. The West Texas Intermediate (WTI) price of crude has rebounded of late, edging up toward US$70 per barrel—still less than

Economic Indicators
(2002 $; percentage change)

	2008	2009	2010
Real GDP (basic prices)	–0.2	–2.7	3.3
Consumer Price Index	3.2	0.3	2.7
Personal disposable income	8.2	2.5	3.4
Employment	2.7	–0.9	0.8
Unemployment rate (level)	3.6	6.4	7.2
Retail sales	–0.2	–7.8	4.0
Average weekly wages	5.9	4.4	2.5
Population	2.1	2.4	1.8

Sources: The Conference Board of Canada; Statistics Canada.

Energy Prices to Recover
(WTI, US$/b; Henry Hub, US$/Mmbtu)



f = forecast
Sources: The Conference Board of Canada; U.S. Energy Information Administration.

half the record high recorded last summer. Natural gas prices have fared worse, dropping from US$13 to around $3 per mmbtu. Investment will fall drastically as a result.

The extent of the weakness in natural gas prices is dictating how bad the drilling situation will get this year, since more than two-thirds of drilling in Alberta is for natural gas. According to the Petroleum Services Association of Canada (PSAC), the number of wells drilled in Alberta will fall to 6,620 this year, down 43 per cent from 2008. In an attempt to provide help to the struggling conventional drilling industry, the provincial government has amended its royalty program for the fifth time in two years, extending by one year the measures put in place last March. The new well incentive program offers a maximum five per cent royalty rate for the first year of production from new oil and gas wells. The program will also provide a credit of $200 per metre drilled, applied on a sliding scale based on 2008 production levels. The government has also undertaken a competitiveness study to see where Alberta stands relative to other regulatory regimes across the globe. Estimates suggest that these measures will cost the province up to $3 billion in resource revenues over the next two years.

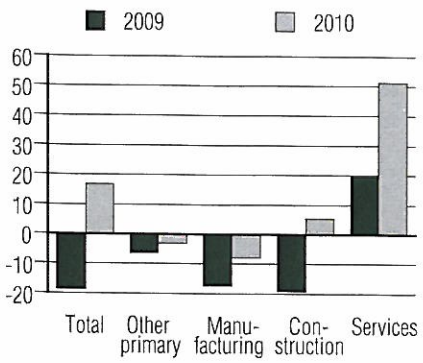
Weak drilling is not the only source of woe for Alberta this year. Investment intentions for oil sands megaprojects are a fraction of what they were just one year ago. Low oil prices, high construction costs, tight credit markets, and an ever-changing royalty regime have conspired to form a perfect storm that has brought the industry to its knees. Energy companies have taken steps to cut billions of dollars in investment spending in a bid to conserve cash in today's difficult economic environment. Because of the weak outlook for the oil and gas industries, total non-residential energy investment will contract 15.4 per cent this year. This will take a toll on the construction industry, where nearly 20,000 jobs are expected to be lost.

The slowdown has brought one benefit for Canadian energy companies—it is pushing construction costs lower. Pre-recession cost estimates had risen to prohibitive levels in some instances, which may have hurt investment intentions as well. But demand for materials has since slackened, and tightness in the province's labour markets has been alleviated. With costs now falling, and the fact that petroleum prices are forecast to rise steadily over the remainder of the forecast, investment could bounce back quickly. Drilling should rebound modestly next year, and megaprojects that take advantage of the huge resources in the province's northern regions will resume. Total non-residential investment should average annual growth of 10.1 per cent from 2010 to 2013. Construction output will benefit. After contracting 10 per cent this year, the construction industry will post 11 per cent growth in 2010 before settling down to a slightly slower growth pattern over the next three years.

SLOWDOWN SPREADS TO REST OF ECONOMY

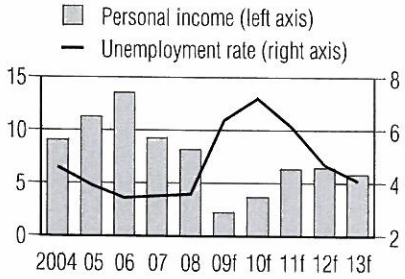
The effects of the investment crash will not be constrained to the construction industry. For the second consecutive year, lower oil and gas investment will manifest itself directly in lower oil and natural production. After contracting 5.3 per cent in 2008, output of mineral fuels will fall 0.9 per cent this year. Manufacturing activity will also fall, dropping 3.9 per cent as lower mineral fuels production ensures that the petroleum and coal products industry will struggle mightily. The agricultural industry will also suffer. Cattle and hog producers were already dealing with a combination of low prices and the "country of origin labelling" rules in the United States. Then, just as thing were starting to look up, the H1N1 flu virus outbreak hit. With all the struggles in the province's primary industries, total output from goods producers will drop 5.7 per cent—their worst performance in nearly 25 years.

Employment Performance by Industry
(000s)



Sources: The Conference Board of Canda; Statistics Canada.

Slack Labor Market Takes Heat Off Income
(unemployment, per cent; personal income, percentage change)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

The rest of the economy will fare equally poorly. The transportation and storage industry will contract 1.8 per cent, and wholesale and retail trade will fall 7.2 per cent, as both industries rely heavily on goods producers. The job market will shed 18,700 jobs this year, with losses

concentrated in the construction, manufacturing, and other primary industries. The unemployment rate will reach 6.4 per cent. Softer labour markets will limit personal income growth to just 2.2 percent this year. Furthermore, weak job prospects are slowing the pace of migration to Alberta—net interprovincial migration will total just 24,800 this year. Combined with the weaker income growth, this will result in only 15,500 housing starts this year, which in turn will lead to just 1.3 per cent growth in the finance, insurance, and real estate industries. Service-producing industries as a whole are predicted to fall 0.6 per cent, the first such contraction since the recession of the early 1980s.

Because oil and gas investment will rebound in 2010, job creation will resume with 16,800 net new jobs expected next year. Still, labour force growth will outpace job creation, pushing the unemployment rate up to 7.2 per cent—more than double where it stood last year. As labour markets tighten, personal income growth will pick back up, expanding 3.6 per cent in 2010, and by an average of 6.2 per cent over 2011–13. The housing sector will also recover as the energy sector turns around, household formations will encourage the construction of 29,000 new units on average per year from 2010 to 2013. A stronger residential market will spur 2.4 per cent growth in finance, insurance, and real estate in 2010, and commercial services (in support of a strong goods-producing sector) will expand 1.7 per cent.

Forecast Risks

- A more pronounced rebound in commodity prices would result in a more immediate boost to Alberta's construction industry.
- Economic prospects are forecast to improve in neighbouring provinces, potentially limiting the amount of people willing to relocate to Alberta and creating labour shortages in key industries.

Source: The Conference Board of Canada.

Key Economic Indicators: Alberta
(forecast completed Jul. 16, 2009)

	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3	2008:4	2009:1	2009:2	2009:3	2009:4	2008	2009	2010
GDP at market prices (current $)	283,952	293,148	297,890	290,174	265,463	265,514	267,531	271,182	280,929	284,346	288,508	293,925	291,291	267,422	286,927
	6.5	*3.2*	*1.6*	*–2.6*	*–8.5*	*0.0*	*0.8*	*1.4*	*3.6*	*1.2*	*1.5*	*1.9*	*12.4*	*–8.2*	*7.3*
GDP at basic prices (current $)	275,537	284,663	289,378	281,856	257,347	257,344	259,288	262,834	272,450	275,725	279,559	284,804	282,858	259,203	278,134
	7.2	*3.3*	*1.7*	*–2.6*	*–8.7*	*0.0*	*0.8*	*1.4*	*3.7*	*1.2*	*1.4*	*1.9*	*13.3*	*–8.4*	*7.3*
GDP at basic prices (constant $ 2002)	178,771	178,691	179,324	178,059	174,070	173,823	173,536	174,081	176,986	178,690	180,546	182,524	178,711	173,877	179,687
	0.2	*0.0*	*0.4*	*–0.7*	*–2.2*	*–0.1*	*–0.2*	*0.3*	*1.7*	*1.0*	*1.0*	*1.1*	*–0.2*	*–2.7*	*3.3*
Consumer Price Index (2002 = 1.0)	1.192	1.225	1.234	1.214	1.209	1.209	1.227	1.235	1.241	1.249	1.256	1.264	1.216	1.220	1.252
	0.3	*2.8*	*0.7*	*–1.6*	*–0.5*	*0.0*	*1.5*	*0.6*	*0.5*	*0.6*	*0.6*	*0.6*	*3.2*	*0.3*	*2.7*
Implicit price deflator—GDP at basic prices (2002 = 1.0)	1.541	1.593	1.614	1.583	1.478	1.480	1.494	1.510	1.539	1.543	1.548	1.560	1.583	1.491	1.548
	7.0	*3.4*	*1.3*	*–1.9*	*–6.6*	*0.1*	*0.9*	*1.1*	*2.0*	*0.2*	*0.3*	*0.8*	*13.5*	*–5.8*	*3.8*
Average weekly wages ($, industrial composite)	912.9	925.1	939.7	955.2	969.9	971.6	974.9	982.2	987.3	994.9	1003.0	1011.9	933.2	974.7	999.3
	1.3	*1.3*	*1.6*	*1.6*	*1.5*	*0.2*	*0.3*	*0.8*	*0.5*	*0.8*	*0.8*	*0.9*	*5.9*	*4.4*	*2.5*
Personal income (current $)	168,564	170,939	173,520	175,667	174,963	175,152	176,103	177,693	179,196	181,119	183,399	185,749	172,173	175,977	182,366
	3.1	*1.4*	*1.5*	*1.2*	*–0.4*	*0.1*	*0.5*	*0.9*	*0.8*	*1.1*	*1.3*	*1.3*	*8.2*	*2.2*	*3.6*
Personal disposable income (current $)	128,175	131,411	133,739	135,279	134,677	134,778	135,523	136,762	137,703	139,128	140,774	142,558	132,151	135,435	140,041
	1.9	*2.5*	*1.8*	*1.2*	*–0.4*	*0.1*	*0.6*	*0.9*	*0.7*	*1.0*	*1.2*	*1.3*	*8.2*	*2.5*	*3.4*
Personal savings rate	11.58	13.22	14.08	16.08	17.18	16.53	16.16	16.24	16.09	16.16	16.10	16.33	13.74	16.53	16.17
Population of labour force age (000s)	2,776	2,789	2,804	2,818	2,836	2,856	2,869	2,882	2,903	2,916	2,929	2,942	2,797	2,861	2,922
	0.3	*0.5*	*0.5*	*0.5*	*0.6*	*0.7*	*0.5*	*0.5*	*0.7*	*0.5*	*0.4*	*0.4*	*2.0*	*2.3*	*2.2*
Labour force (000s)	2,070	2,082	2,090	2,109	2,115	2,130	2,135	2,142	2,150	2,161	2,173	2,186	2,088	2,130	2,167
	1.0	*0.6*	*0.4*	*0.9*	*0.3*	*0.7*	*0.2*	*0.3*	*0.4*	*0.5*	*0.6*	*0.6*	*2.8*	*2.0*	*1.7*
Employment (000s)	1,998	2,010	2,014	2,030	2,005	1,992	1,989	1,991	1,994	2,004	2,016	2,030	2,013	1,994	2,011
	0.9	*0.6*	*0.2*	*0.8*	*–1.2*	*–0.7*	*–0.1*	*0.1*	*0.1*	*0.5*	*0.6*	*0.7*	*2.7*	*–0.9*	*0.8*
Unemployment rate	3.5	3.4	3.7	3.8	5.2	6.5	6.8	7.0	7.3	7.2	7.2	7.1	3.6	6.4	7.2
Retail sales (current $)	62,245	61,744	61,312	58,928	55,762	55,986	56,450	57,005	57,497	58,173	58,955	59,662	61,057	56,301	58,572
	1.0	*–0.8*	*–0.7*	*–3.9*	*–5.4*	*0.4*	*0.8*	*1.0*	*0.9*	*1.2*	*1.3*	*1.2*	*–0.2*	*–7.8*	*4.0*
Housing starts (units)	41,693	28,885	24,698	21,380	13,583	15,433	15,326	17,989	22,481	25,695	26,546	28,236	29,164	15,583	25,740
	–1.7	*–30.7*	*–14.5*	*–13.4*	*–36.5*	*13.6*	*–0.7*	*17.4*	*25.0*	*14.3*	*3.3*	*6.4*	*–39.7*	*–46.6*	*65.2*

White area represents forecast data.
All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.
For each indicator, the first line is the level and the second line is the percentage change from the previous period.
Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

British Columbia

- The manufacturing and forestry industries will continue to curb production and bleed jobs.
- Households are feeling the recession through reduced income and job losses. Jobs lost in this recession may not be regained for years.

Real GDP

	Growth	Ranking
2009	–2.5	#6
2010	3.4	#2

Credit Quality
AAA
Standard & Poor's

Retail Sales

	Growth	Ranking
2009	–7.1	#9
2010	4.0	#2

Government & Background Information

Premier	Gordon Campbell
Next election	2011
Population (2009:2)	4,435,344
Government balance (estimated 2009–10)	–$495 million

Sources: The Conference Board of Canada; British Columbia Ministry of Finance.

Recession Hits Households Hard

by Jacqueline Johnson

The B.C. economy has taken a beating. This recession has been the worst in 27 years, and the injuries will linger. The health of the economy will improve next year with resumption of global demand coinciding with the hosting of the 2010 Olympic Games. The momentum will continue over the medium term, resulting in strong economic growth for several years. Real gross domestic product will contract 2.5 per cent this year before expanding by 3.4 per cent in 2010.

Export-oriented sectors have deteriorated in line with the fall in global demand. Wholesale and retail trade, along with transportation and storage, are facing their largest contractions in output since 1982, stifling the province's plans to develop as a major trading hub. The forestry and manufacturing industries also continue to suffer. However, the drop in U.S. housing starts has levelled off, and most global financial markets have either stabilized or shown some improvement in recent months. Therefore, while 2009 will see double-digit contractions in forestry and manufacturing output, both sectors will experience moderate growth in 2010.

The province is experiencing a nasty housing market correction, with June's (annualized) housing starts down a full 60 per cent from last year. The good news is that interest rates are low and there is minimal existing supply, pointing to a strong rebound around the corner. Housing starts will be a feeble 14,500 units in 2009, but an expected resurgence in construction will produce 21,500 starts in 2010. However, it will take two more years before housing starts rebound to a level that reflects demographic requirements. The non-residential sector will not experience a drop in investment as severe as in the residential sector. Nonetheless, several large construction projects are scheduled to be completed this year in time for the 2010 Olympics, and that will weigh down on any gains next year.

Less than half the jobs lost this year will be regained in 2010.

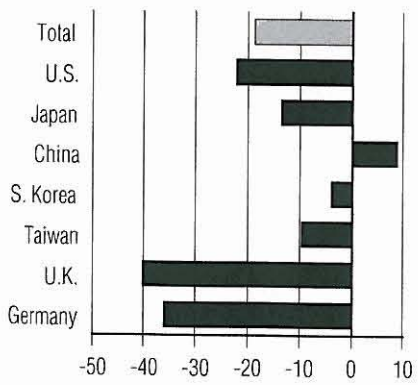
This recession will continue to be felt by households across the province well into next year. Altogether, employment losses in 2009 will total almost 57,000 (following seven years of strong job creation in the province). Fewer than half of these losses will be regained in 2010. Higher unemployment will result in decreased consumption for both goods

Economic Indicators
(2002 $; percentage change)

	2008	2009f	2010f
Real GDP (basic prices)	–0.1	–2.5	3.4
Consumer Price Index	2.1	0.6	2.6
Personal disposable income	6.8	1.2	3.5
Employment	2.1	–2.5	1.2
Unemployment rate (level)	4.6	7.6	8.2
Retail sales	0.4	–7.1	4.0
Average weekly wages	2.1	0.8	2.1
Population	1.6	1.5	1.1

f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

International Exports Collapse
(year-to-date percentage change, current $)



Source: Statistics Canada.

and services and will lead to a 7.1 per cent contraction in nominal retail sales this year.

TRADE DWINDLES

Those who envision B.C. as a key hub for trade between North America and Asia are, no doubt, very disappointed in the abrupt drop in trade to date. The first four months of data show B.C.'s exports down 14 per cent (nominal), with exports to the U.S. leading the decline. Real wholesale and retail trade is also taking a heavy hit due to depressed demand, and will shrink 8.8 per cent in 2009. But there is light at the end of the tunnel. As global demand begins to pick up next year, these industries will see more stability and even begin to make modest recoveries.

Mills and plants need to ensure they have an edge when global economic growth resumes.

FORESTRY AND MANUFACTURING CRASH

Forestry is facing one of its worst years, with real output in 2009 tumbling to 1982 levels. U.S. housing starts have dropped to previously unimaginable levels. In the past six months, housing starts broke the record for lowest number of starts ever recorded—twice! Foreclosures persist, contributing to the surplus in housing supply in the market and further driving down home values. While this cycle has been slowing and Americans have been making progress toward rebalancing their pocketbooks, there is still a long road ahead before homebuilding regains its full strength. Only 560,000 units will be built this year followed by a meagre rebound to 710,000 units in 2010. Housing starts in Canada are contracting at almost the same rate this year. Furthermore, the demand for newsprint continues its decline—a decline that is generally expected to be permanent. Drastic cuts to advertising budgets have led some newspapers to slash their production. In this environment, B.C. forestry output will contract another 15.2 per cent this year following a debilitating 17.9 per cent drop in 2008.

The manufacturing industry is intricately tied to the forestry industry and, consequently, it is facing a double-digit contraction this year as well. To date, forestry products have led the decline, but primary and fabricated metal, as well as computer and electronic categories, are also struggling. However, global demand for these products is expected to resume next year, bumping real manufacturing output up 3.1 per cent following this year's 11 per cent decline.

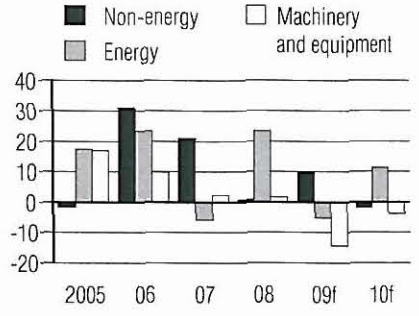
A GOLD MINE IN NATURAL GAS

Mining services are propelling the industry this year, while the natural gas industry is stable despite massive price declines. The potential for highly profitable unconventional natural gas mining has excited explorers and developers. Meanwhile, metal and non-metal mineral mining will not do well this year. Although metal prices have made some recent gains, this has been due to the Chinese stockpiling resources rather than to underlying fundamentals. Non-metal mining in the province is highly linked to non-residential construction along the west coast of North America, where it is stagnating. Overall, real mining output will expand 2.5 per cent this year, led by mining services. Real output in mineral fuels will expand by a healthy 2.6 per cent in 2010, fuelled by the return of global demand.

THE RETURN OF CONSTRUCTION

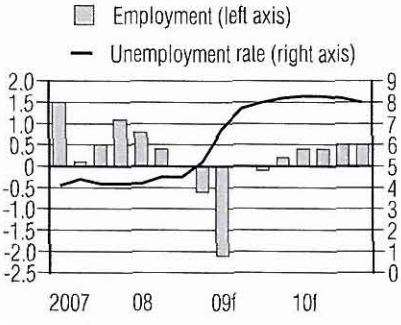
The housing market crash appears to be in its final days. There are indicators that point to a recovery just around the corner. Unit sales, for example, have

Non-Residential Investment Fluctuates
(percentage change, current $)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Employment Losses Mount
(employment, percentage change; unemployment, per cent)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

picked up their pace. In fact, there were 29.1 per cent more units sold in June than in the same month last year—the biggest single-month increase in four years! As well, the sales-to-new-listings ratio is showing signs of recovery. The ratio plunged into buyers' market territory and bottomed out in November. Since then, prices at 2006 levels have started to lure new buyers into the market, and sales have been on the increase. In June, the market inched back into sellers' territory.

While these signs of health in the housing market are great news, it will take a little more time before housing starts recover. The new housing price index is still high, and housing starts will be weak in 2009 at

only 14,500 units—57.6 per cent lower than last year. Next year, starts will surge 48 per cent to 21,500 units. Beyond 2010, the market fundamentals are strong. Increased immigration and strong demographic drivers (such as baby boomers downsizing and their children entering the market) will result in a healthy demand for housing.

Despite the combined effects of a global downturn and the end of Olympic investment spending, nominal non-residential investment in the province will hold relatively strong this year and next. This year, investment will be propped up by non-energy projects related to the 2010 Olympic Winter Games and the federal and provincial governments' infrastructure initiatives. In 2010, the energy sector will take over as companies develop unconventional gas mining projects.

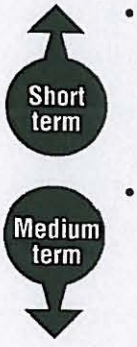
Meanwhile, nominal investment in machinery and equipment will contract this year and next—a situation that has the potential to hinder growth in the medium term. Many firms would do well to invest in their mills and plants now so as to ensure they have an edge when global economic growth resumes. Instead, nominal investment in machinery and equipment will contract 14.3 per cent this year and another 3.8 per cent in 2010.

RECESSION STEALS JOBS, REDUCES INCOME

Recessions impact households the most through income and employment losses. While the economy will technically depart from recessionary levels this summer, households that have suffered job losses and declining income will continue to struggle for several more quarters. Fifty-seven thousand British Columbians will lose their jobs in 2009, while only 26,800 jobs will be created next year, leaving many unemployed. The unemployment rate will top 8.3 per cent next year, double the rate experienced two years ago when job creation was at its peak. The manufacturing and construction industries will bleed the most jobs in 2009, losing 20,400 and 26,900 jobs respectively.

Furthermore, nominal total labour income growth will be the second-lowest in the country, ahead only of Ontario. Additionally, Ontario and B.C. are the only provinces where income will actually decline this year. However, B.C.'s income situation will turn around next year with help from the Olympic Games and rising global demand. Incomes will expand 3.3 per cent—a full percentage point higher than the national rate. Income losses this year will be reflected in retail sales, as people without jobs and those with lower incomes trim spending. Nominal sales will contract 7.1 per cent this year—again, the second-worst rate in the entire country.

Forecast Risks



- If B.C. homebuyers take advantage of lower housing prices and start buying en masse, the domestic housing market could return to health more quickly.
- If global financial markets take longer to stabilize, the recovery in global demand—and therefore B.C.'s GDP—could be a lot slower.

Source: The Conference Board of Canada.

Key Economic Indicators: British Columbia
(forecast completed Jul. 16, 2009)

	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3	2008:4	2009:1	2009:2	2009:3	2009:4	2008	2009	2010
GDP at market prices (current $)	197,275	201,621	202,473	193,137	187,963	188,134	189,285	191,502	196,169	198,390	201,239	204,235	198,627	189,221	200,008
	0.7	*2.2*	*0.4*	*–4.6*	*–2.7*	*0.1*	*0.6*	*1.2*	*2.4*	*1.1*	*1.4*	*1.5*	*3.5*	*–4.7*	*5.7*
GDP at basic prices (current $)	182,181	186,402	187,205	178,217	173,406	173,479	174,500	176,527	180,959	182,926	185,185	187,874	183,501	174,478	184,236
	1.3	*2.3*	*0.4*	*–4.8*	*–2.7*	*0.0*	*0.6*	*1.2*	*2.5*	*1.1*	*1.2*	*1.5*	*4.2*	*–4.9*	*5.6*
GDP at basic prices (constant $ 2002)	150,260	150,900	150,747	149,047	146,177	146,126	146,360	147,201	149,571	150,775	152,081	153,350	150,239	146,466	151,444
	–0.9	*0.4*	*–0.1*	*–1.1*	*–1.9*	*0.0*	*0.2*	*0.6*	*1.6*	*0.8*	*0.9*	*0.8*	*–0.1*	*–2.5*	*3.4*
Consumer Price Index (2002 = 1.0)	1.103	1.127	1.141	1.122	1.118	1.125	1.136	1.143	1.150	1.156	1.163	1.170	1.123	1.131	1.160
	0.2	*2.2*	*1.2*	*–1.7*	*–0.4*	*0.7*	*1.0*	*0.6*	*0.5*	*0.6*	*0.6*	*0.6*	*2.1*	*0.6*	*2.6*
Implicit price deflator—GDP at basic prices (2002 = 1.0)	1.212	1.235	1.242	1.196	1.186	1.187	1.192	1.199	1.210	1.213	1.218	1.225	1.221	1.191	1.216
	2.2	*1.9*	*0.5*	*–3.7*	*–0.8*	*0.1*	*0.4*	*0.6*	*0.9*	*0.3*	*0.4*	*0.6*	*4.4*	*–2.5*	*2.1*
Average weekly wages ($, industrial composite)	760.8	765.0	769.6	765.5	770.2	768.3	770.4	775.7	780.4	784.9	789.9	795.5	765.2	771.2	787.7
	0.4	*0.6*	*0.6*	*–0.5*	*0.6*	*–0.2*	*0.3*	*0.7*	*0.6*	*0.6*	*0.6*	*0.7*	*2.1*	*0.8*	*2.1*
Personal income (current $)	159,286	159,013	159,802	160,480	159,794	160,441	161,385	162,935	164,742	166,044	167,842	169,453	159,645	161,139	167,020
	3.0	*–0.2*	*0.5*	*0.4*	*–0.4*	*0.4*	*0.6*	*1.0*	*1.1*	*0.8*	*1.1*	*1.0*	*5.2*	*0.9*	*3.6*
Personal disposable income (current $)	124,417	124,967	125,735	125,917	125,715	126,199	126,943	128,188	129,486	130,456	131,816	133,063	125,259	126,761	131,205
	3.6	*0.4*	*0.6*	*0.1*	*–0.2*	*0.4*	*0.6*	*1.0*	*1.0*	*0.7*	*1.0*	*0.9*	*6.8*	*1.2*	*3.5*
Personal savings rate	–2.74	–3.25	–3.32	–1.48	–0.57	–1.34	–1.78	–1.68	–1.85	–1.76	–1.84	–1.58	–2.70	–1.34	–1.76
Population of labour force age (000s)	3,615	3,633	3,652	3,668	3,681	3,697	3,705	3,722	3,745	3,758	3,771	3,785	3,642	3,701	3,765
	0.5	*0.5*	*0.5*	*0.4*	*0.4*	*0.4*	*0.2*	*0.5*	*0.6*	*0.4*	*0.4*	*0.4*	*2.0*	*1.6*	*1.7*
Labour force (000s)	2,412	2,429	2,431	2,432	2,420	2,445	2,450	2,461	2,475	2,484	2,493	2,501	2,426	2,444	2,488
	0.9	*0.7*	*0.1*	*0.1*	*–0.5*	*1.0*	*0.2*	*0.4*	*0.6*	*0.3*	*0.4*	*0.3*	*2.5*	*0.7*	*1.8*
Employment (000s)	2,310	2,320	2,320	2,306	2,257	2,257	2,255	2,260	2,269	2,277	2,289	2,301	2,314	2,257	2,284
	0.8	*0.4*	*0.0*	*–0.6*	*–2.1*	*0.0*	*–0.1*	*0.2*	*0.4*	*0.4*	*0.5*	*0.5*	*2.1*	*–2.5*	*1.2*
Unemployment rate	4.2	4.5	4.5	5.2	6.7	7.7	8.0	8.2	8.3	8.3	8.2	8.0	4.6	7.6	8.2
Retail sales (current $)	57,575	57,512	57,148	54,017	51,878	52,274	52,704	53,237	53,884	54,303	54,915	55,343	56,563	52,523	54,611
	0.2	*–0.1*	*–0.6*	*–5.5*	*–4.0*	*0.8*	*0.8*	*1.0*	*1.2*	*0.8*	*1.1*	*0.8*	*0.4*	*–7.1*	*4.0*
Housing starts (units)	39,176	37,863	34,955	25,290	13,559	12,433	14,485	17,683	17,465	19,886	21,452	27,276	34,321	14,540	21,520
	–7.8	*–3.4*	*–7.7*	*–27.7*	*–46.4*	*–8.3*	*16.5*	*22.1*	*–1.2*	*13.9*	*7.9*	*27.2*	*–12.4*	*–57.6*	*48.0*

White area represents forecast data.
All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.
For each indicator, the first line is the level and the second line is the percentage change from the previous period.
Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Key Economic Indicators: Canada
(forecast completed Jul. 16, 2009)

	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3	2008:4	2009:1	2009:2	2009:3	2009:4	2008	2009	2010
GDP at market prices (current $)	1,578,672	1,618,380	1,632,668	1,570,604	1,523,216	1,530,548	1,543,835	1,561,448	1,589,326	1,603,244	1,621,983	1,644,710	1,600,081	1,539,762	1,614,816
	1.2	*2.5*	*0.9*	*–3.8*	*–3.0*	*0.5*	*0.9*	*1.1*	*1.8*	*0.9*	*1.2*	*1.4*	*4.4*	*–3.8*	*4.9*
GDP at basic prices (current $)	1,484,196	1,523,116	1,537,096	1,477,216	1,432,096	1,438,820	1,451,289	1,467,717	1,494,122	1,506,449	1,521,498	1,542,305	1,505,406	1,447,480	1,516,094
	1.7	*2.6*	*0.9*	*–3.9*	*–3.1*	*0.5*	*0.9*	*1.1*	*1.8*	*0.8*	*1.0*	*1.4*	*4.9*	*–3.8*	*4.7*
GDP at basic prices (constant $ 2002)	1,226,610	1,228,301	1,230,997	1,217,524	1,198,302	1,198,645	1,199,798	1,204,450	1,219,580	1,228,438	1,238,002	1,248,273	1,225,858	1,200,299	1,233,573
	0.0	*0.1*	*0.2*	*–1.1*	*–1.6*	*0.0*	*0.1*	*0.4*	*1.3*	*0.7*	*0.8*	*0.8*	*0.5*	*–2.1*	*2.8*
Consumer Price Index (2002 = 1.0)	1.122	1.145	1.157	1.140	1.136	1.147	1.155	1.163	1.169	1.176	1.183	1.191	1.141	1.150	1.180
	0.3	*2.0*	*1.0*	*–1.5*	*–0.3*	*0.9*	*0.8*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*2.4*	*0.8*	*2.6*
Implicit price deflator—GDP at basic prices (2002 = 1.0)	1.210	1.240	1.249	1.213	1.195	1.200	1.210	1.219	1.225	1.226	1.229	1.236	1.228	1.206	1.229
	1.7	*2.5*	*0.7*	*–2.8*	*–1.5*	*0.4*	*0.8*	*0.7*	*0.5*	*0.1*	*0.2*	*0.5*	*4.4*	*–1.8*	*1.9*
Average weekly wages ($, industrial composite)	785.3	792.1	795.8	799.2	804.3	803.9	805.9	811.2	814.2	819.0	824.2	830.2	793.1	806.3	821.9
	0.1	*0.9*	*0.5*	*0.4*	*0.6*	*–0.1*	*0.3*	*0.7*	*0.4*	*0.6*	*0.6*	*0.7*	*2.3*	*1.7*	*1.9*
Personal income (current $)	1,217,668	1,222,648	1,229,092	1,236,932	1,229,160	1,231,116	1,235,593	1,245,230	1,253,451	1,264,369	1,276,484	1,289,795	1,226,585	1,235,275	1,271,025
	2.2	*0.4*	*0.5*	*0.6*	*–0.6*	*0.2*	*0.4*	*0.8*	*0.7*	*0.9*	*1.0*	*1.0*	*4.8*	*0.7*	*2.9*
Personal disposable income (current $)	938,832	948,596	955,512	960,852	955,260	956,581	960,216	967,908	973,793	981,966	991,324	1,001,586	950,948	959,991	987,167
	2.6	*1.0*	*0.7*	*0.6*	*–0.6*	*0.1*	*0.4*	*0.8*	*0.6*	*0.8*	*1.0*	*1.0*	*5.9*	*1.0*	*2.8*
Personal savings rate	3.33	3.36	3.13	4.91	4.72	3.94	3.52	3.62	3.34	3.30	3.32	3.36	3.68	3.95	3.33
Population of labour force age (000s)	26,777	26,874	26,973	27,072	27,155	27,266	27,347	27,429	27,513	27,596	27,680	27,763	26,924	27,299	27,638
	0.3	*0.4*	*0.4*	*0.4*	*0.3*	*0.4*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	*1.4*	*1.4*	*1.2*
Labour force (000s)	18,167	18,244	18,246	18,323	18,301	18,374	18,388	18,437	18,497	18,576	18,635	18,702	18,245	18,375	18,603
	0.5	*0.4*	*0.0*	*0.4*	*–0.1*	*0.4*	*0.1*	*0.3*	*0.3*	*0.4*	*0.3*	*0.4*	*1.7*	*0.7*	*1.2*
Employment (000s)	17,093	17,129	17,125	17,146	16,907	16,835	16,774	16,776	16,792	16,849	16,925	17,010	17,123	16,823	16,894
	0.5	*0.2*	*0.0*	*0.1*	*–1.4*	*–0.4*	*–0.4*	*0.0*	*0.1*	*0.3*	*0.5*	*0.5*	*1.5*	*–1.8*	*0.4*
Unemployment rate	5.9	6.1	6.1	6.4	7.6	8.4	8.8	9.0	9.2	9.3	9.2	9.1	6.1	8.4	9.2
Retail sales (current $)	428,077	429,866	431,527	414,717	405,282	406,647	409,056	412,411	415,892	419,654	424,046	429,067	426,047	408,349	422,165
	1.9	*0.4*	*0.4*	*–3.9*	*–2.3*	*0.3*	*0.6*	*0.8*	*0.8*	*0.9*	*1.0*	*1.2*	*3.4*	*–4.2*	*3.4*
Housing starts (units)	234,974	217,390	207,389	184,471	139,400	125,311	134,086	142,214	148,178	160,911	170,477	179,454	211,056	135,253	164,755
	8.6	*–7.5*	*–4.6*	*–11.1*	*–24.4*	*–10.1*	*7.0*	*6.1*	*4.2*	*8.6*	*5.9*	*5.3*	*–7.6*	*–35.9*	*21.8*

White area represents forecast data.
All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.
For each indicator, the first line is the level and the second line is the percentage change from the previous period.
Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Gross Domestic Product by Province and Industry

(forecast completed Jul. 16, 2009)

	Newfoundland and Labrador			Prince Edward Island			Nova Scotia			New Brunswick			Quebec		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Agriculture	54	54	55	198	199	201	217	218	222	294	297	301	2,946	2,975	3,020
	6.8	*0.5*	*1.3*	*–9.7*	*0.3*	*1.0*	*–2.7*	*0.2*	*2.0*	*–13.0*	*0.9*	*1.3*	*–7.3*	*1.0*	*1.5*
Forestry	56	44	44	7	6	6	107	91	92	247	228	228	892	811	823
	1.2	*–22.9*	*0.5*	*–17.6*	*–7.5*	*0.2*	*–3.7*	*–15.3*	*0.8*	*–26.0*	*–7.7*	*0.2*	*–12.7*	*–9.1*	*1.5*
Fishing & trapping	312	302	304	107	103	103	352	337	343	159	152	153	112	109	108
	12.4	*–3.2*	*0.7*	*14.2*	*–4.2*	*0.5*	*2.9*	*–4.3*	*2.0*	*12.4*	*–4.5*	*0.9*	*15.5*	*–2.5*	*–0.8*
Mining	5,413	4,603	4,476	0	0	0	835	778	743	215	215	234	1,106	1,085	1,267
	–3.7	*–15.0*	*–2.8*	*0.2*	*–2.7*	*2.3*	*4.8*	*–6.9*	*–4.5*	*5.6*	*–0.1*	*8.6*	*2.8*	*–2.0*	*16.8*
Manufacturing	898	813	856	443	437	447	2,861	2,640	2,714	2,516	2,440	2,505	45,288	42,235	43,105
	7.4	*–9.5*	*5.2*	*–2.2*	*–1.3*	*2.3*	*–0.8*	*–7.7*	*2.8*	*–6.3*	*–3.0*	*2.7*	*–2.4*	*–6.7*	*2.1*
Construction	699	804	742	182	182	192	1,663	1,650	1,546	1,581	1,563	1,382	14,903	15,273	15,329
	3.1	*15.0*	*–7.7*	*0.7*	*0.2*	*5.6*	*6.8*	*–0.8*	*–6.3*	*3.2*	*–1.1*	*–11.6*	*7.6*	*2.5*	*0.4*
Utilities	554	550	564	45	48	48	587	585	601	710	688	707	9,724	9,613	9,899
	2.0	*–0.6*	*2.5*	*0.0*	*6.3*	*0.4*	*–2.0*	*–0.3*	*2.6*	*–5.8*	*–3.0*	*2.7*	*–1.1*	*–1.1*	*3.0*
Goods-producing industries	7,987	7,170	7,040	982	975	998	6,623	6,299	6,260	5,722	5,584	5,510	74,971	72,102	73,552
	–1.0	*–10.2*	*–1.8*	*–1.8*	*–0.7*	*2.3*	*1.7*	*–4.9*	*–0.6*	*–4.4*	*–2.4*	*–1.3*	*–0.7*	*–3.8*	*2.0*
Transportation, wharehousing & information	1,063	1,074	1,073	215	214	216	1,995	1,988	2,015	1,863	1,861	1,865	20,228	20,012	20,292
	4.2	*1.1*	*–0.1*	*1.0*	*–0.7*	*1.0*	*0.1*	*–0.3*	*1.4*	*0.6*	*–0.1*	*0.2*	*1.3*	*–1.1*	*1.4*
Wholesale & retail trade	1,532	1,563	1,577	381	386	390	3,034	3,029	3,046	2,667	2,651	2,703	30,044	29,390	29,762
	5.5	*2.1*	*0.9*	*1.7*	*1.3*	*1.2*	*2.4*	*–0.2*	*0.6*	*1.1*	*–0.6*	*1.9*	*2.7*	*–2.2*	*1.3*
Finance, insurance & real estate	2,210	2,242	2,284	692	697	713	5,661	5,791	5,924	3,916	3,982	4,088	42,795	43,455	44,456
	3.9	*1.5*	*1.9*	*1.6*	*0.7*	*2.2*	*3.0*	*2.3*	*2.3*	*2.9*	*1.7*	*2.7*	*2.6*	*1.5*	*2.3*
Community, business & personal services	3,700	3,816	3,872	1,021	1,029	1,053	6,928	7,113	7,234	5,163	5,396	5,861	64,113	64,670	65,570
	3.3	*3.1*	*1.5*	*1.9*	*0.8*	*2.3*	*2.2*	*2.7*	*1.7*	*2.4*	*4.5*	*8.6*	*2.1*	*0.9*	*1.4*
Public administration & defence	1,325	1,339	1,357	482	502	519	2,846	2,947	3,019	2,082	2,133	2,189	15,857	16,233	16,566
	2.4	*1.0*	*1.3*	*2.8*	*4.1*	*3.4*	*2.1*	*3.6*	*2.4*	*2.4*	*2.5*	*2.6*	*2.2*	*2.4*	*2.1*
Service-producing industries	9,830	10,035	10,163	2,791	2,827	2,890	20,464	20,868	21,239	15,692	16,023	16,706	173,038	173,760	176,646
	3.7	*2.1*	*1.3*	*1.9*	*1.3*	*2.2*	*2.2*	*2.0*	*1.8*	*2.1*	*2.1*	*4.3*	*2.2*	*0.4*	*1.7*
All industries	17,999	17,386	17,385	3,793	3,822	3,908	27,048	27,128	27,460	21,384	21,577	22,186	248,270	246,119	250,455
	–0.1	*–3.4*	*0.0*	*1.0*	*0.8*	*2.2*	*2.2*	*0.3*	*1.2*	*0.1*	*0.9*	*2.8*	*1.2*	*–0.9*	*1.8*

White area represents forecast data.
All data are in millions of 2002 dollars. For each industry, the first line is the level and the second line is the percentage change from the previous period.
Sources: The Conference Board of Canada; Statistics Canada.

Gross Domestic Product by Province and Industry
(forecast completed Jul. 16, 2009)

	Ontario			Manitoba			Saskatchewan			Alberta			British Columbia		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Agriculture	4,573	4,550	4,618	1,801	1,741	1,785	4,549	4,003	4,443	4,688	4,219	4,641	1,145	1,164	1,187
	1.2	*–0.5*	*1.5*	*5.0*	*–3.3*	*2.5*	*14.3*	*–12.0*	*11.0*	*3.3*	*–10.0*	*10.0*	*–3.0*	*1.7*	*2.0*
Forestry	530	491	499	35	33	33	3	2	2	263	245	246	2,618	2,219	2,249
	–10.5	*–7.4*	*1.7*	*–16.0*	*–7.4*	*0.9*	*–44.3*	*–23.2*	*0.2*	*–11.3*	*–7.0*	*0.7*	*–17.9*	*–15.2*	*1.3*
Fishing & trapping	51	52	52	8	8	8	0	0	0	1	1	1	108	102	103
	12.2	*1.7*	*–1.5*	*5.0*	*1.8*	*–0.4*	*32.9*	*1.7*	*–0.5*	*10.7*	*1.5*	*–0.5*	*–16.2*	*–5.3*	*0.6*
Mining	2,727	2,491	2,687	630	603	640	5,524	4,789	5,117	33,117	31,842	32,981	4,354	4,461	4,549
	5.9	*–8.7*	*7.9*	*–5.0*	*–4.3*	*6.1*	*0.8*	*–13.3*	*6.8*	*–4.9*	*–3.8*	*3.6*	*–2.5*	*2.5*	*2.0*
Manufacturing	85,222	72,197	76,395	5,003	4,784	4,886	3,005	2,925	2,991	16,444	15,808	15,997	13,931	12,402	12,783
	–7.3	*–15.3*	*5.8*	*1.0*	*–4.4*	*2.1*	*5.7*	*–2.6*	*2.2*	*–2.0*	*–3.9*	*1.2*	*–10.4*	*–11.0*	*3.1*
Construction	25,725	24,606	26,151	2,156	2,325	2,261	2,490	2,790	2,882	15,127	13,596	15,119	9,406	8,544	9,411
	–1.4	*–4.4*	*6.3*	*14.4*	*7.9*	*–2.8*	*16.4*	*12.0*	*3.3*	*0.0*	*–10.1*	*11.2*	*4.8*	*–9.2*	*10.1*
Utilities	9,989	9,699	10,016	1,561	1,671	1,719	967	940	966	3,710	3,488	3,588	3,182	3,018	3,052
	0.8	*–2.9*	*3.3*	*0.0*	*7.1*	*2.9*	*–0.9*	*–2.8*	*2.8*	*–0.2*	*–6.0*	*2.9*	*–3.8*	*–5.2*	*1.1*
Goods-producing industries	128,817	114,086	120,418	11,194	11,166	11,331	16,538	15,450	16,401	73,349	69,199	72,573	34,744	31,911	33,334
	–5.0	*–11.4*	*5.6*	*3.4*	*–0.2*	*1.5*	*7.2*	*–6.6*	*6.2*	*–2.6*	*–5.7*	*4.9*	*–5.6*	*–8.2*	*4.5*
Transportation, wharehousing & information	38,617	38,150	38,777	3,916	3,921	3,977	3,299	3,329	3,393	14,885	14,614	14,923	15,289	14,872	15,241
	0.8	*–1.2*	*1.6*	*1.5*	*0.1*	*1.4*	*1.9*	*0.9*	*1.9*	*0.7*	*–1.8*	*2.1*	*0.2*	*–2.7*	*2.5*
Wholesale & retail trade	59,117	53,912	55,147	5,108	5,016	5,106	5,004	4,557	4,604	19,950	18,508	18,993	17,730	16,162	16,579
	0.6	*–8.8*	*2.3*	*4.4*	*–1.8*	*1.8*	*9.2*	*–8.9*	*1.0*	*2.9*	*–7.2*	*2.6*	*–1.2*	*–8.8*	*2.6*
Finance, insurance & real estate	112,787	115,024	118,200	7,210	7,407	7,573	5,963	6,104	6,254	29,541	29,910	30,628	35,320	35,673	36,659
	2.1	*2.0*	*2.8*	*2.7*	*2.7*	*2.2*	*4.0*	*2.4*	*2.5*	*4.5*	*1.2*	*2.4*	*2.5*	*1.0*	*2.8*
Community, business & personal services	124,012	126,244	129,386	9,250	9,404	9,582	7,692	7,905	8,011	38,867	39,256	40,020	39,387	39,860	41,458
	1.6	*1.8*	*2.5*	*2.4*	*1.7*	*1.9*	*3.4*	*2.8*	*1.3*	*3.1*	*1.0*	*1.9*	*2.3*	*1.2*	*4.0*
Public administration & defence	26,007	26,827	27,794	2,685	2,762	2,826	1,962	2,042	2,079	6,937	7,212	7,371	7,846	8,065	8,249
	2.5	*3.2*	*3.6*	*2.1*	*2.9*	*2.3*	*2.1*	*4.0*	*1.8*	*5.0*	*4.0*	*2.2*	*3.8*	*2.8*	*2.3*
Service-producing industries	360,539	360,157	369,304	28,168	28,510	29,064	23,919	23,937	24,341	110,180	109,499	111,935	115,572	114,632	118,186
	1.6	*–0.1*	*2.5*	*2.7*	*1.2*	*1.9*	*4.4*	*0.1*	*1.7*	*3.2*	*–0.6*	*2.2*	*1.6*	*–0.8*	*3.1*
All industries	491,833	476,723	492,202	39,256	39,571	40,290	39,460	38,394	39,749	178,711	173,877	179,687	150,239	146,466	151,444
	–0.2	*–3.1*	*3.2*	*2.5*	*0.8*	*1.8*	*4.6*	*–2.7*	*3.5*	*–0.2*	*–2.7*	*3.3*	*–0.1*	*–2.5*	*3.4*

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Sources: The Conference Board of Canada; Statistics Canada.

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Publication 10-040
E-copy: $1,995

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