

Newfoundland Power Inc.

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

	Actual		Forecast	
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010P</u>
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	<u>479,812</u>	<u>503,622</u>	<u>509,289</u>	<u>519,956</u>
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	<u>326,778</u>	<u>336,658</u>	<u>342,671</u>	<u>353,199</u>
12				
13 Contribution	<u>153,034</u>	<u>166,964</u>	<u>166,618</u>	<u>166,757</u>
14				
15 Other Revenue	<u>10,420</u>	<u>13,267</u>	<u>13,645</u>	<u>13,648</u>
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)	(7,362) ²
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	<u>120,826</u>	<u>128,190</u>	<u>132,607</u>	<u>137,009</u>
25				
26 Income Before Income Taxes	42,628	52,041	47,656	43,396
27 Income Taxes	<u>12,176</u>	<u>19,146</u>	<u>15,637</u>	<u>14,211</u>
28				
29 Net Income	30,452	32,895	32,019	29,185
30 Preferred Dividends	<u>586</u>	<u>554</u>	<u>574</u>	<u>568</u>
31				
32 Earnings Applicable to Common Shares	<u>29,866</u>	<u>32,341</u>	<u>31,445</u>	<u>28,617</u>
33				
34 Rate of Return and Credit Metrics				
35 Rate of Return on Rate Base (percentage)	8.07%	8.20%	8.00%	7.59%
36 Regulated Return on Book Equity (percentage)	8.66%	9.13%	8.62%	7.70%
37 Return on Book Equity (percentage)	8.62%	8.86%	8.34%	7.40%
38 Interest Coverage (times)	2.2	2.5	2.3	2.2
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.

² \$7,362,000 in 2010 deferred costs comprised of \$1,869,000 in deferred 2010 conservation costs and \$5,493,000 in deferred 2010 pension costs.

Newfoundland Power Inc.

Financial Performance

2007 to 2010P

Statements of Retained Earnings

(\$000s)

	Actual		Forecast	
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010P</u>
1 Balance - Beginning	265,566	286,350	303,417	309,681
2 Net Income for the Period	<u>30,452</u>	<u>32,895</u>	<u>32,019</u>	<u>29,185</u>
3	<u>296,018</u>	<u>319,245</u>	<u>335,436</u>	<u>338,866</u>
4				
5 Dividends				
6 Preference Shares	586	554	574	568
7 Common Shares	<u>9,082</u>	<u>15,274</u>	<u>25,181</u>	<u>14,861</u>
8	<u>9,668</u>	<u>15,828</u>	<u>25,755</u>	<u>15,429</u>
9 Balance - End of Period	<u>286,350</u>	<u>303,417</u>	<u>309,681</u>	<u>323,437</u>

Newfoundland Power Inc.

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

	<u>Actual</u>		<u>Forecast</u>	
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010P</u>
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	<u>87,163</u>	<u>80,246</u>	<u>86,313</u>	<u>84,284</u>
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	205,203
14 Customer Finance Plans	1,811	1,776	1,714	1,714
15	<u>\$ 985,930</u>	<u>\$ 1,001,864</u>	<u>\$ 1,176,626</u>	<u>\$ 1,215,319</u>
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	<u>82,567</u>	<u>84,168</u>	<u>77,087</u>	<u>68,637</u>
27				
28 Regulatory liabilities	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	323,437
38	<u>366,023</u>	<u>383,090</u>	<u>389,115</u>	<u>402,871</u>
39	<u>\$ 985,930</u>	<u>\$ 1,001,864</u>	<u>\$ 1,176,626</u>	<u>\$ 1,215,319</u>

Newfoundland Power Inc.

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

	<u>Actual</u>		<u>Forecast</u>	
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010P</u>
1 Cash From (Used In) Operating Activities				
2 Net Earnings	\$ 30,452	\$ 32,895	\$ 32,019	\$ 29,185
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	(7,837)
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	<u>49,251</u>	<u>85,051</u>	<u>55,493</u>	<u>62,562</u>
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	<u>(69,671)</u>	<u>(64,071)</u>	<u>(65,690)</u>	<u>(66,194)</u>
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	<u>21,887</u>	<u>(21,428)</u>	<u>9,578</u>	<u>3,632</u>
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	<u>\$ 1,067</u>	<u>\$ 619</u>	<u>\$ -</u>	<u>\$ -</u>

Newfoundland Power Inc.

Financial Performance
2007 to 2010P
Average Rate Base¹
(\$000s)

		<u>Actual</u>		<u>Forecast</u>	
		<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010P</u>
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	5,949
8	Customer Finance Programs	1,174	1,794	1,745	1,714
9		<u>118,384</u>	<u>119,407</u>	<u>116,698</u>	<u>115,167</u>
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		<u>19,299</u>	<u>22,067</u>	<u>15,925</u>	<u>10,195</u>
20					
21	Average Rate Base Before Allowances	782,641	806,833	833,044	860,427
22					
23	Cash Working Capital Allowance	6,669	9,716	9,786	10,176
24					
25	Materials and Supplies Allowance	<u>4,393</u>	<u>4,327</u>	<u>4,430</u>	<u>4,505</u>
26					
27	Average Rate Base At Year End	<u>793,703</u>	<u>820,876</u>	<u>847,260</u>	<u>875,108</u>
28					

¹ All numbers shown are averages.

Newfoundland Power Inc.

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

		<u>Actual</u>		<u>Forecast</u>	
		<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010P</u>
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	386,879
5		<u>786,556</u>	<u>815,398</u>	<u>842,135</u>	<u>879,524</u>
6	Average Capital Structure				
7	Debt	54.79%	54.06%	54.15%	54.97%
8	Preference Shares	1.19%	1.15%	1.10%	1.04%
9	Common Equity	44.02%	44.79%	44.75%	43.99%
10		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
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%	7.70%
17					
18					
19	Weighted Average Cost of Capital				
20	Debt	4.32%	4.17%	4.17%	4.14%
21	Preference Shares	0.07%	0.07%	0.07%	0.06%
22	Common Equity	3.81%	4.09%	3.86%	3.39%
23		<u>8.20%</u>	<u>8.33%</u>	<u>8.10%</u>	<u>7.59%</u>

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.

Newfoundland Power Inc.

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

		<u>Actual</u>		<u>Forecast</u>	
		<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010P</u>
1	Regulated Return on Equity	29,977	33,336	32,485	29,784
2	Return on Preferred Equity	586	554	574	568
3		<u>30,563</u>	<u>33,890</u>	<u>33,059</u>	<u>30,352</u>
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	<u>(622)</u>	<u>(618)</u>	<u>(369)</u>	<u>(377)</u>
12		<u>33,462</u>	<u>33,407</u>	<u>34,752</u>	<u>36,076</u>
13					
14	Return on Rate Base	<u>64,025</u>	<u>67,297</u>	<u>67,811</u>	<u>66,428</u>
15					
16	Average Rate Base	<u>793,703</u>	<u>820,876</u>	<u>847,260</u>	<u>875,108</u>
17					
18	Rate of Return on Rate Base	8.07%	8.20%	8.00%	7.59%

Newfoundland Power Inc.**Financial Performance
2007 to 2010P
Inputs and Assumptions**

1	Energy Forecasts :	Energy forecasts are based on economic indicators taken from the Conference Board of
2		Canada, Provincial Outlook Summer 2009, Economic Forecast, dated July 16, 2009.
3		
4	Revenue Forecast :	The revenue forecast is based on the Customer, Energy and Demand forecast dated September 2009.
5		
6		Forecast revenues reflect the (i) amortization of the 2005 Unbilled Revenue, (ii) amortization of the
7		municipal tax liability, (iii) the reclassification of interest on overdue accounts from finance charges,
8		and, (iv) recovery through the RSA of amounts associated with the Energy Supply Cost Variance
9		Adjustment Clause for the period 2008 through 2010, all of which were approved by the Board in
10		Order No. P.U. 32 (2007) resulting from the 2008 GRA.
11		
12		The Energy Supply Cost Variance Adjustment has been approved by the Board for use through 2010.
13		
14	Purchased Power Expense :	Purchased Power expense reflects Newfoundland & Labrador Hydro's rates approved by the P.U.B.
15		and the Customer, Energy and Demand Forecast dated September 2009.
16		
17		Purchased Power Expense for 2008 to 2010 includes a Board approved \$0.6 million per year
18		amortization related to the replacement energy costs associated with the Rattling Brook project
19		and (\$0.7) million per year amortization related to the disposition of the Purchased Power Unit
20		Cost Variance Reserve.
21		
22		Purchased Power Expense for 2008 to 2010 also includes a Board approved \$2.1 million per year
23		amortization of the non-reversing balance in the Weather Normalization Reserve.
24		
25		Purchased Power Expense for the 2008 to 2010 also reflects the operation of the Demand
26		Management Incentive Account approved by the Board in Order No. P.U. 32 (2007). This
27		mechanism provides for recovery of demand costs that are in excess of unit cost demand costs
28		included in the 2008 test year.
29		
30	Employee Future Benefit	Pension costs related to the 2005 Early Retirement Program are being amortized over
31	Costs :	a 10-year period from 2005 to 2015 as approved in Order No. P.U. 49 (2004).
32		
33		Pension funding is based on the actuarial valuation dated December 31, 2008 filed with
34		this Application.
35		
36		Pension expense discount rate is 5.25% for 2007, 5.50% for 2008, 7.50% for 2009 and 6.50% for 2010.
37		
38		Forecast return on pension assets is assumed to be 12.0% for 2009 and 7.0% for 2010.
39		
40		The 2010 forecast assumes that the accounting for OPEBs is on the Cash Basis. The increase
41		in 2010 employee future benefit expense due to the adoption of the accrual method is \$6.8 million.
42		
43		Pension funding is forecast based on the latest actuarial information and assumes special
44		funding payments of \$1.5 million per year for 2009 and 2010.

Newfoundland Power Inc.

**Financial Performance
2007 to 2010P
Inputs and Assumptions**

1	<i>Cost Recovery Deferral:</i>	In Order No. P.U. 39 (2006), the Board approved the deferred recovery of \$5.8 million in
2		2007 costs related to the conclusion of the depreciation true up in 2005.
3		
4		2008 to 2010 costs include \$3.9 million per year related to the amortization over a three-year
5		period of cost recovery deferrals related to depreciation.
6		
7		2009 includes a \$1.5 million deferral of Conservation Program costs approved by the Board in
8		Order No. P.U. 13 (2009).
9		
10		2010 includes a \$1.9 million deferral of forecast 2010 Conservation Program costs.
11		
12		2010 includes a \$5.5 million deferral of forecast 2010 Pension costs. The \$5.5 million
13		deferral represents the projected difference between 2010 forecast pension costs
14		and the 2009 forecast pension costs.
15		
16	<i>Depreciation Rates :</i>	Depreciation rates for 2008 and 2010 are based on the 2006 depreciation study.
17		
18		Depreciation costs for 2008 and 2010 reflect a Board approved \$0.2 million per year amortization
19		of a \$0.7 million depreciation true up resulting from the 2006 depreciation study.
20		
21	<i>Operating Costs :</i>	Operating forecasts for 2009 and 2010 reflect the evidence filed in this Amended Application.
22		
23	<i>Capital Expenditure :</i>	Capital Expenditures for 2009 are based on the Board approved 2009 capital budget and reflect
24		supplemental expenditures approved in Order No. P.U. 29 (2009) and Order No. P.U. 32 (2009).
25		Capital Expenditures for 2010 reflect what is included in this Amended Application.
26		
27	<i>Short-Term Interest Rates :</i>	Average short-term interest rates are assumed to be 1.27% for 2009 and 2.0% for 2010.
28		
29	<i>Long-Term Debt :</i>	A \$65.0 million long-term debt issue was completed on May 25, 2009.
30		The debt is forecast for 30 years at a coupon rate of 6.606 %. Debt repayments will be
31		in accordance with the normal sinking fund provisions for existing outstanding debt.
32		
33	<i>Dividends :</i>	Common dividend payouts are forecast based on maintaining a target common equity
34		component of 45%.
35		
36	<i>Income Tax :</i>	Income tax expense reflects a statutory income tax rate of 33% in 2009,
37		and 32% in 2010.
38		
39		Effective July 1, 2008, the Board approved a reduction in customer rates of 0.18% to
40		reflect the 2008 test year income tax true-up adjustment resulting from a reduction in federal
41		tax rates for 2008.
42		
43		Income tax expense for 2009 to 2010 reflects the tax effecting of pension costs as approved
44		by the Board in Order No. P.U. 32 (2007).