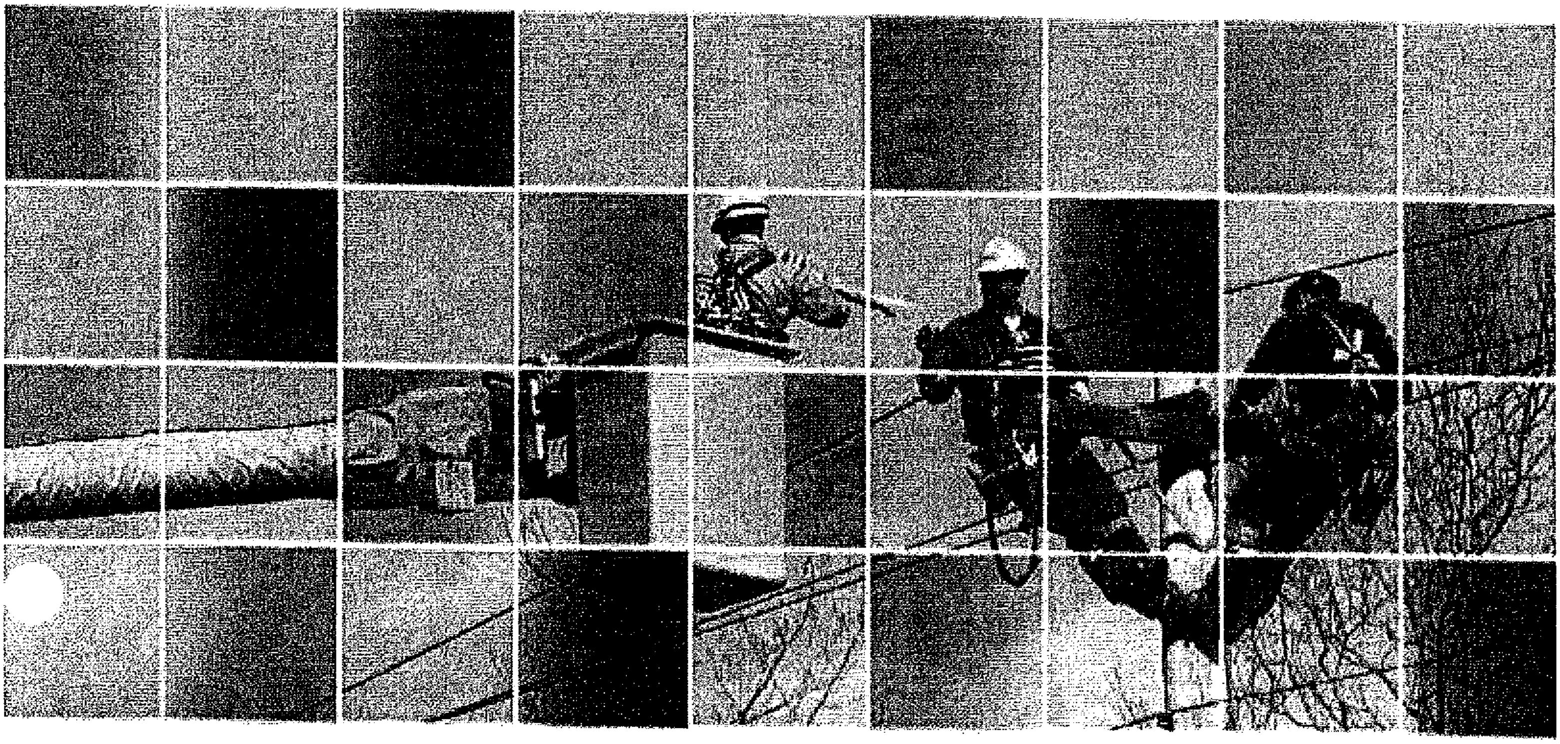
Interim Management Discussion & Analysis
June 30, 2009



NEWFOUNDLAND POWER
A FORTIS COMPANY

INTERIM MANAGEMENT DISCUSSION and ANALYSIS
For the Six Months Ended June 30, 2009

This Interim Management Discussion and Analysis ("MD&A") dated August 5, 2009 should be read in conjunction with Newfoundland Power Inc.'s (the "Company" or "Newfoundland Power") interim unaudited financial statements for the six months ended June 30, 2009 and the MD&A and audited financial statements for the year ended December 31, 2008. Financial information herein, all of which is unaudited, reflects Canadian dollars and Canadian generally accepted accounting principles ("Canadian GAAP"), including certain accounting practices, which are disclosed in notes 2 and 4 to the Company's 2008 annual financial statements, result in the recognition of revenues, expenses, regulatory assets and regulatory liabilities which would not occur in the absence of rate regulation and which affect the Company's reported earnings, cash flows and financial position.

Certain information herein is forward-looking and reflects management's current expectations regarding the Company's future financial and related performance. Wherever possible, the words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify the forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Company's management. Certain material factors, estimates and assumptions, which are subject to inherent risks and uncertainties surrounding future expectations generally, have been applied in drawing the conclusions contained in the forward-looking statements. These are related to, but are not limited to, regulation; energy supply; competition; general economic conditions; health, safety and the environment; interest rates; insurance; weather; labour relations; licences and permits; capital resources and liquidity. Readers are cautioned to not place undue reliance on forward-looking statements because actual results could differ materially from the results discussed or implied in those statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Additional information, including the Company's quarterly and annual financial statements and MD&A, annual information form, and management information circular, is available on SEDAR at www.sedar.com.

OVERVIEW

The Company

Newfoundland Power is a regulated electricity utility that owns and operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. All the Company's common shares are owned by Fortis Inc. ("Fortis"), which is principally a diversified, international holding company for electricity and gas distribution utilities.

Newfoundland Power's primary business is electricity distribution. It generates approximately 8 per cent of its electricity needs and purchases the remainder from Newfoundland and Labrador Hydro ("Hydro"). Newfoundland Power serves approximately 237,000 customers comprising about 85 per cent of all electricity consumers in the Province.

Newfoundland Power's vision is to be a leader among North American electricity utilities in terms of safety, reliability, customer service and efficiency. The key goals of the Company are to operate sound electricity distribution systems, deliver electricity safely and reliably to customers at reasonable rates, and conduct business in an environmentally responsible manner.

Regulation

Newfoundland Power is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB"). The Company operates under cost of service regulation whereby it is entitled the opportunity to recover, through customer rates, all reasonable and prudent costs incurred in providing electricity service to its customers, including a just and reasonable return on its rate base. The rate base is the net assets required to provide electricity service.

Between general rate hearings, customer rates are established annually through an automatic adjustment formula (the "Formula"). The Formula sets an appropriate rate of return on common equity ("ROE") which is used to determine the rate of return on rate base. In accordance with operation of the Formula, the Company's rate of return on rate base for ratemaking purposes for 2009 remains unchanged from 2008 at 8.37 per cent, with a range of 8.19 per cent to 8.55 per cent. The ROE for rate making purposes in 2009 remains unchanged from 2008 at 8.95 per cent.

Financial Highlights

	Quarter Ended June 30			Six Months Ended June 30		
	2009	2008	Change	2009	2008	Change
Electricity Sales *(gigawatt hours, ("GWh"))*	1,177.2	1,183.0	(5.8)	2,940.1	2,899.2	40.9
Earnings Applicable to Common Shares						
$ Millions	10.7	10.1	0.6	16.9	16.3	0.6
$ Per Share	1.04	0.98	0.06	1.64	1.58	0.06
Cash Flow from Operating Activities *($millions)*	17.9	21.4	(3.5)	7.4	18.1	(10.7)
Total Assets *($millions)*				1,155.9	983.3	172.6

Electricity sales for the second quarter of 2009 decreased by 5.8 GWh or approximately 0.5 per cent compared to the second quarter of 2008. This decrease was composed of a 2.1 per cent decrease in average consumption offset by an increase of 1.6 per cent due to customer growth. On a year-to-date basis, electricity sales increased by 40.9 GWh or approximately 1.4 per cent. This increase was composed of a 1.5 per cent increase due to customer growth offset by a decrease of 0.1 per cent due to lower average consumption.

Earnings for the second quarter of 2009 increased by $0.6 million, from $10.1 million to $10.7 million, compared to the second quarter of 2008. The increase in earnings was primarily the result of lower amortization costs resulting from a change in the quarterly allocation of amortization costs, as described under "Amortization" on page 3 in this interim MD&A. Quarterly earnings were also impacted by a gain on sale of property and a lower effective tax rate, which was partially offset by lower electricity sales and higher operating costs.

Earnings year-to-date 2009 increased by $0.6 million, from $16.3 million to $16.9 million, compared to same period last year. The increase in earnings was primarily the result of lower amortization costs resulting from a change in the quarterly allocation of amortization costs. Higher electricity sales, reductions in finance charges and pension expense and a lower effective tax rate were partially offset by higher demand charges and increased operating expenses.

Second quarter cash from operating activities in 2009, compared to 2008, decreased by $3.5 million. The quarterly decrease was primarily a result of the timing of income tax instalments and an increase in pension funding. On a year-to-date basis, cash from operating activities decreased by $10.7 million, compared to 2008. This decrease primarily reflects higher income tax instalments and timing of payments relating to 2008 income taxes.

Total assets increased by $172.6 million in the second quarter, from $983.3 million at June 30, 2008 to $1,155.9 million at June 30, 2009. This increase in total assets was primarily due to the adoption of CICA Handbook Section 3465, *Income Taxes* (see Note 2 of the unaudited June 30, 2009 Interim Financial Statements). The remaining increase resulted from continued investment in the electricity system, and is consistent with the Company's strategy to provide safe and reliable electricity service at the lowest reasonable cost.

RESULTS OF OPERATIONS

Revenue:

	Quarter Ended June 30			Six Months Ended June 30		
($millions)	2009	2008	Change	2009	2008	Change
Revenue from Rates	113.1	113.4	(0.3)	278.4	273.3	5.1
Amortization of Regulatory Liabilities	1.5	2.3	(0.8)	3.0	4.3	(1.3)
Other Revenue [1]	3.5	3.2	0.3	6.4	6.2	0.2
	118.1	118.9	(0.8)	287.8	283.8	4.0

[1] *Other revenue is composed primarily of pole attachment charges to various telecommunication companies.*

Revenue from rates for the second quarter of 2009 decreased by $0.3 million compared to the second quarter of 2008. The quarterly decrease resulted primarily from lower average customer usage. On a year-to-date basis, revenue from rates increased $5.1 million compared to the same period last year. This increase primarily resulted from customer growth and higher average customer usage in the first quarter of 2009.

The amortization of regulatory liabilities related to unbilled revenue and municipal tax is in accordance with PUB orders. These regulatory liabilities are described in Note 4 to the Company's 2008 annual audited financial statements.

Other revenue for the second quarter increased by $0.3 million compared to the second quarter of 2008. The quarterly increase primarily relates to a gain on the sale of land on Kenmount Road.

Purchased Power: Purchased Power expense for the second quarter of 2009 decreased by $0.2 million compared to the second quarter of 2008. The quarterly decrease resulted from lower electricity sales, partially offset by higher demand changes from Hydro. On a year-to-date basis, purchased power expense was $4.6 million higher compared to the same period last year. This increase was the result of higher electricity sales and higher demand charges from Hydro.

Operating Expense: Operating Expenses for the second quarter and year-to-date 2009 were $0.3 million higher and $0.4 million higher, respectively, than same periods last year. The increase in operating expenses related to wage and inflationary increases, partially offset by reductions in insurance costs and retirement allowances.

Pension and Early Retirement Program Costs: Pension and Early Retirement Program Costs for the second quarter of 2009 were comparable to the second quarter of 2008. Year-to-date 2009 Pension and Early Retirement Program Costs were $0.2 million lower than the same period last year. The decrease was primarily due to a higher discount rate at December 31, 2008, which is used to determine the Company's accrued benefit pension obligation associated with its Defined Benefit Pension Plan. This was partially offset by 2008 experience losses associated with the pension plan assets and a lower assumed long-term rate of return on pension assets for 2009. The impact of the decline in pension plan assets in 2008, as it relates to 2009 pension expense, was also mitigated as the pension assets are valued using the market related value as outlined in Note 2 to the 2008 annual audited financial statements. Beyond 2009, pension expense is expected to increase as a result of the decline in pension plan assets in 2008.

Amortization: Amortization expense for 2009, compared to 2008, was $0.8 million lower for the second quarter and comparable year to date. Amortization expense for 2009 is impacted by a change in the quarterly allocation of amortization costs. For 2009, amortization is allocated each quarter based on capitalized assets in service. In 2008, amortization was allocated each quarter based on sales margin. Had amortization costs been allocated on the same basis as 2008, amortization expense for the second quarter of 2009 and year to date would have been higher by $1.1 million and $0.8 million, respectively. The decrease in amortization expense, as a result of the change in quarterly allocation, is expected to reverse in the third and fourth quarters of 2009.

The decrease in amortization expense was partially offset by higher amortization costs associated with the Company's 2009 capital expenditure program.

Amortization True-Up Deferral: Amortization of property, plant and equipment is subject to periodic review by external experts via an amortization study. The PUB ordered the deferred recovery of approximately $5.8 million in each of 2006 and 2007, $11.6 million in aggregate, related to a variance in accumulated amortization identified in the Company's 2002 amortization study. These deferrals were recorded as an increase in regulatory assets and a decrease in expenses of $5.8 million in each year. Amortization of $1.0 million was recorded in the second quarter of 2009; $1.9 million year-to-date, comparable to the same periods last year, in accordance with the PUB order that the resultant regulatory asset of approximately $11.6 million be amortized evenly over 2008 through 2010.

Finance Charges: Finance charges for 2009, compared to 2008, were comparable in the second quarter and $0.3 million lower year-to-date. During the second quarter and year-to-date 2009, the Company experienced lower interest rates associated with borrowings under its credit facilities. The lower short term interest rates are reflective of current market conditions.

Lower short term interest rates were offset by additional borrowings under this credit facility to support ongoing operations and higher interest costs associated with a bond issue completed in May 2009.

Income Taxes: Income taxes for 2009, compared to 2008, were $0.6 million lower for the second quarter and $1.2 million lower year-to-date. The quarterly and year-to-date decrease in income tax expense reflects a lower effective income tax rate, partially offset by higher pre-tax earnings. The primary cause of the decrease in the Company's effective tax rate was the amortization of the regulatory deferrals related to unbilled revenue.

FINANCIAL POSITION

Explanations of the primary causes of significant changes in the Company's balance sheets between December 31, 2008 and June 30, 2009 follow:

($millions)	Increase (Decrease)	Explanation
Cash	2.0	Increase in cash was due to timing of payments of accounts payable.
Accounts Receivable	(4.4)	Lower electricity sales, reflecting the seasonal nature of electricity consumption for heating were offset by normal timing differences associated with the collection and payment of municipal taxes, collections from customers under the Company's equal payment plan and timing differences in the collection of other receivables.
Accrued Pension and Other	3.2	Pension funding in excess of pension expense.
Total Regulatory Assets	141.7	Increase primarily due to the adoption of CICA Handbook Section 3465, *Income Taxes* (see Note 2 of the unaudited June 30, 2009 Interim Financial Statements).
Income Tax Payable / Receivable (Net)	(9.2)	Decrease primarily relates to timing of payment to Canada Revenue Agency ("CRA") relating to 2008 income taxes.
Property, Plant and Equipment	11.1	Investment in electricity system, in accordance with 2009 capital expenditure program, offset partially by amortization and customer contributions in aid of construction.
Accounts Payable and Accrued Charges	(24.7)	Decrease in payable for purchased power due to warmer weather and resulting lower consumption in June 2009, versus December 2008; and decrease in remaining trade payables, due to timing differences in expenditures and payment to suppliers.
Total Regulatory Liabilities	22.0	Increase primarily due to the adoption of CICA Handbook Section 3465, *Income Taxes* (see Note 2 of the unaudited June 30, 2009 Interim Financial Statements).
Other Liabilities	2.5	Increase in liability for other post employment benefits.
Total Future Income Taxes	119.5	Increase primarily due to the adoption of CICA Handbook Section 3465, *Income Taxes* (see Note 2 of the unaudited June 30, 2009 Interim Financial Statements).
Long-term Debt, including Current Portion	38.2	Represents additional debt required to finance growth in rate base and ongoing operating activities.
Retained Earnings	4.3	Earnings in excess of dividends, retained to finance rate base growth.

LIQUIDITY AND CAPITAL RESOURCES

The primary sources of liquidity and capital resources are net funds generated from operations, debt capital markets and bank credit facilities. These sources are used primarily to satisfy capital expenditures, service and repay debt, and pay dividends. A summary of second quarter and year-to-date cash flows and cash position for 2009 and 2008 follows:

	Quarter Ended June 30			Six Months Ended June 30		
($millions)	2009	2008	Change	2009	2008	Change
Cash (Bank Indebtedness) Beginning of Period	0.2	0.9	(0.7)	0.6	1.1	(0.5)
Cash From (Used In)						
Operating Activities	17.9	21.4	(3.5)	7.4	18.1	(10.7)
Investing Activities						
Capital Expenditures	(17.8)	(15.7)	(2.1)	(30.9)	(28.6)	(2.3)
Other	0.3	(0.2)	0.5	0.5	(0.2)	0.7
	(17.5)	(15.9)	(1.6)	(30.4)	(28.8)	(1.6)
Financing Activities						
Net Credit Facilities Repayments	(56.0)	(34.1)	(21.9)	(26.5)	(14.1)	(12.4)
Proceeds From Long-term Debt, Net of Issue Costs	64.6	-	64.6	64.6	-	64.6
Related Party Borrowings	-	32.5	(32.5)	-	32.5	(32.5)
Redemption of Preferred Shares	(0.2)	-	(0.2)	(0.2)	-	(0.2)
Dividends on Common Shares	(6.3)	(3.8)	(2.5)	(12.6)	(7.6)	(5.0)
Dividends on Preferred Shares	(0.1)	(0.1)	-	(0.3)	(0.3)	-
	2.0	(5.5)	7.5	25.0	10.5	14.5
Cash, End of Period	2.6	0.9	1.7	2.6	0.9	1.7

Operating Activities

Second quarter cash from operating activities in 2009, compared to 2008, decreased by $3.5 million. The quarterly decrease was primarily a result of the timing of income tax instalments and the Company's 2009 pension solvency deficiency funding. On a year-to-date basis, cash from operating activities decreased by $10.7 million, compared to 2008. This decrease primarily reflects higher income tax instalments and timing of payments relating to 2008 income taxes.

Investing Activities

Cash used in investing activities for 2009, compared to 2008, was $1.6 million higher for the second quarter and $1.6 million higher year-to-date. The increase in investing activities related primarily to the Company's capital expenditure program.

The Company's annual capital plan requires prior PUB approval. Variances between actual and planned expenditures are generally subject to PUB review prior to inclusion in rate base. The Company's PUB approved 2009 Capital Plan provides for capital expenditures of approximately $61.6 million, approximately half of which relate to construction and capital maintenance of the electricity distribution system.

In July 2009, the Company filed a supplemental application to the PUB that provides for an additional $0.7 million in capital expenditures in 2009. This application was approved by the PUB on July 27, 2009.

A summary of second quarter and year-to-date capital expenditures for 2009 and 2008 follows.

	Quarter Ended June 30			Six Months Ended June 30		
($millions)	2009	2008	Change	2009	2008	Change
Electricity System						
Generation	2.1	0.6	1.5	2.5	1.0	1.5
Transmission	0.7	1.0	(0.2)	1.0	1.3	(0.3)
Substations	1.4	2.3	(0.9)	2.9	3.5	(0.6)
Distribution	10.1	8.4	1.7	17.8	17.2	0.6
Other	3.5	3.4	-	6.7	5.6	1.1
Total Capital Expenditures	17.8	15.7	2.1	30.9	28.6	2.3

The Company's business is capital intensive. Capital investment in infrastructure is required to ensure continued and enhanced performance, reliability and safety of the electricity system and to meet customer growth. All costs considered to be repairs and maintenance are expensed as incurred. Capital investment also arises for information technology systems and for general facilities, equipment and vehicles. Capital expenditures, and capital asset repairs and maintenance expense, can vary from quarter-to-quarter and year-to-year depending upon both planned system expenditures and unplanned expenditures arising from weather or other unforeseen events.

Financing Activities

Cash flow from financing activities for 2009, compared to 2008, increased by $7.5 million for the second quarter and $14.5 million year-to-date. The increase during the second quarter and year-to-date for 2009 was primarily a result of lower operating cash flows and higher capital expenditures. This increase was partially offset by higher common share dividends to maintain a capital structure composed of 55 per cent debt and 45 per cent equity.

On May 25, 2009, the Company issued $65 million 6.606 per cent, first mortgage sinking fund bonds due May 25, 2039. The net proceeds from this issuance were used primarily to repay amounts outstanding under the Company's committed credit facility. These amounts were previously borrowed primarily in relation to the Company's capital expenditure program.

The Company has historically generated sufficient annual cash flows from operating activities to service annual interest and sinking fund payments on debt, to pay dividends and to finance a major portion of its annual capital program. Additional financing to fully fund the annual capital program is primarily obtained through the Company's bank credit facilities and these borrowings are periodically refinanced along with any maturing bonds through the issuance of long-term first mortgage sinking fund bonds. The Company currently does not expect any material changes in these annual cash flow and financing dynamics over the foreseeable future.

Pensions: As at June 30, 2009, the fair value of the Company's primary defined benefit pension plan assets was $226.4 million compared to fair value of plan assets of $212.6 million as at December 31, 2008. The fair value of plan assets at the beginning of 2008 was $259.7 million. The decrease in the fair value of pension plan assets since the beginning of 2008 was mainly driven by unfavourable market conditions and has resulted in an increase in the Company's future special pension funding obligations.

In April 2009, Newfoundland Power received the Actuarial Valuation Report for its Defined Benefit Pension Plan. This report included the funding status of the plan as at December 31, 2008 on a going concern and solvency basis.

The going concern and solvency valuation was based on an adjusted market related value method to determine the actuarial value of assets. Under this method, investment gains (losses) arising during a given year are spread on a straight line basis over 3 years; within a 5 per cent corridor of the fair value of the assets for the solvency valuation. The actuarial value of the assets, determined as at December 31, 2008 under the adjusted market value method for the going concern and solvency valuation was $251.4 million and $222.7 million, respectively.

Based on the report, the solvency deficit as of December 31, 2008 was $6.9 million ($7.7 million inclusive of interest). The solvency deficit is required to be funded over a five-year period, commencing in 2009. The Company fulfilled its 2009 annual solvency deficit funding requirement of $1.5 million during the second quarter of 2009.

The Company does not expect any difficulty in its ability to meet future pension funding requirements as it expects the amounts will be financed from a combination of cash generated from operations and amounts available for borrowing under existing credit facilities.

Debt: The Company's credit facilities are comprised of a $100 million committed revolving term credit facility and a $20 million demand facility as detailed below:

($millions)	June 30, 2009	December 31, 2008
Total Credit Facilities	120.0	120.0
Borrowing, Committed Facility	(5.5)	(32.0)
Credit Facilities Available	114.5	88.0

The committed facility matures in August 2011. Subject to lenders' approval and two years prior to maturity, the Company may request an extension for a further period of 364 days. During the second quarter of 2009, the Company opted not to extend the committed facility for the additional 364 days. Alternatively, one year prior to maturity, the Company may request an extension for a further period of one year and 364 days.

Contractual Obligations: Details, as at June 30, 2009, of all contractual obligations over the subsequent five years and thereafter, follow.

($millions)	Total	2009	2010-2011	2012-2013	2014 Onward
Credit facilities (unsecured)	5.5	-	5.5	-	-
First mortgage sinking fund bonds [1]	474.1	5.2	10.4	10.4	448.1
Pension solvency deficit [2]	6.2	-	3.1	3.1	-
	485.8	5.2	19.0	13.5	448.1

[1] *First mortgage sinking fund bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company and carry customary covenants.*

[2] *Special funding based on an Actuarial Valuation for Funding Purposes report and does not include routine funding requirements for current service cost.*

Credit Ratings and Capital Structure: To ensure continued access to capital at reasonable cost, the Company endeavours to maintain its investment grade credit ratings. On August 3, 2009, Moody's upgraded Newfoundland Power's investment grade bond rating from "Baa1" to "A2". Moody's also assigned a "Baa1" issuer rating to Newfoundland Power. The rating outlook remains "stable".

The Company's investment grade bond rating and rating outlook from Dominion Bond Rating Service remain unchanged from 2008 at "A" with a "stable" outlook.

Newfoundland Power endeavours, by managing common share dividends, to maintain a capital structure composed of 55 per cent debt and 45 per cent equity. This capital structure is reflected in customer rates and is consistent with the Company's current investment grade credit ratings. The Company's capital structure, at June 30, 2009 and December 31, 2008, follows.

	June 30, 2009		December 31, 2008	
	$millions	%	$millions	%
Total Debt [1]	473.8	55.0	437.5	53.3
Common equity	378.1	43.9	373.7	45.5
Preferred equity	9.1	1.1	9.4	1.2
	861.0	100.0	820.6	100.0

[1] *Includes bank indebtedness, or net of cash, if applicable.*

The Company currently expects it will be able to maintain its current investment grade credit ratings in 2009.

Share Capital and Dividends: During the second quarter of and six months ended 2009 and 2008, the weighted average number of common shares outstanding remained unchanged at 10,320,270. The Company redeemed 23,950 preferred shares outstanding for $0.2 million.

Dividends on common shares, for 2009, compared to 2008, were $2.5 million higher for the second quarter and $5.0 million higher year-to-date. The increase in common share dividends was to maintain an average capital structure that includes approximately 45 per cent equity. In the second quarter of both 2009 and 2008, the Company paid preferred share dividends of $0.1 million ($0.3 million year-to-date for both years).

RELATED PARTY TRANSACTIONS

The Company provides services to, and receives services from, its parent company, Fortis, and other subsidiaries of Fortis. The Company also incurs charges from Fortis for the recovery of general corporate expenses incurred by Fortis. These transactions are in the normal course of business and are recorded at their exchange amounts.

Related party transactions included in revenue and operating expenses for the second quarter of 2009 and 2008, and in accounts receivable at June 30, 2009 and December 31, 2008, follow:

	Quarter Ended June 30		Six Months Ended June 30	
($millions)	2009	2008	2009	2008
Revenue [1]	1.2	0.7	2.5	1.9
Operating expenses	0.7	0.4	1.0	0.7
Finance charges	-	0.1	-	0.1

[1] *Includes charges for electricity consumed.*

Related party transactions included in accounts receivable at June 30, 2009 and December 31, 2008 were $0.1 million and $0.2 million, respectively.

FINANCIAL INSTRUMENTS

The carrying values of financial instruments included in current assets, current liabilities, customer finance plans, and other financial liabilities approximate their fair value, reflecting their nature, short-term maturity or normal trade credit terms. The fair value of long-term debt is calculated by discounting the future cash flows of each debt instruments at the balance sheet date. Since the Company does not intend to settle its debt instruments before maturity, the fair value estimate does not represent the actual liability, and therefore, does not include exchange or settlement costs.

The estimated fair value of the Company's first mortgage sinking fund bonds was $536.3 million at June 30, 2009 and $505.1 million at December 31, 2008. The primary reason for the significant change was the issuance of $65 million, 6.606 per cent, 30-year first mortgage sinking fund bonds during the second quarter of 2009.

BUSINESS RISK MANAGEMENT

There were no material changes to the Company's business risks during the second quarter of 2009 and on a year to date basis, with the exception of the following.

During the first quarter, the company negotiated three year contracts with its clerical and craft bargaining units. The clerical and craft agreements were ratified on February 24, 2009 and April 20, 2009, respectively.

During the second quarter, the Company filed a General Rate Application ("GRA") with the PUB for the purpose of setting customer rates for 2010, as described under "Outlook" on page 13 of this interim MD&A.

2009 ACCOUNTING CHANGES

Goodwill and Intangible Assets: Effective January 1, 2009, the Company adopted new CICA Handbook Section 3064 – Goodwill and Intangible Assets, which effectively converges Canadian GAAP for goodwill and intangible assets with International Financial Reporting Standards ("IFRS"). Adoption of this standard resulted in the reclassification of certain assets previously included in property, plant and equipment to intangible assets. The items that were reclassified consist of certain computer software and land rights. As at December 31, 2008, $13.8 million and $2.3 million were reclassified to intangible assets on the balance sheet related to certain computer software and land rights, respectively.

Rate Regulated Operations: Effective January 1, 2009, the Accounting Standards Board ("AcSB") amended: (i) CICA Handbook Section 1100, *Generally Accepted Accounting Principles* removing the temporary exemption providing relief to entities subject to rate regulation from the requirement to apply the Section to the recognition and measurement of assets and liabilities arising from rate regulation; and (ii) Section 3465, *Income Taxes* to require the recognition of future income tax liabilities and assets as well as offsetting regulatory assets and liabilities by entities subject to rate regulation.

Effective January 1, 2009, with the removal of the temporary exemption in Section 1100, the Company must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Certain assets and liabilities arising from rate regulation continue to have specific guidance under a primary source of Canadian GAAP that applies only to the particular circumstances described therein, including those arising under Section 1600, *Consolidated Financial Statements*, Section 3061, *Property, Plant and Equipment*, Section 3465, *Income Taxes*, and Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*. The assets and liabilities arising from rate regulation, as described in Note 4 to the 2008 Annual Financial Statements, do not have specific guidance under a primary source of Canadian GAAP. Therefore, Section 1100 directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Section 1000, *Financial Statement Concepts*. In developing these accounting policies, the Company may consult other sources including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. Therefore, in accordance with Section 1100, the Company has determined that its regulatory assets and liabilities qualify for recognition under Canadian GAAP and this recognition is consistent with US Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*. Therefore, there was no effect on the Company's financial statements as at January 1, 2009 due to the removal of the temporary exemption in Section 1100.

Effective January 1, 2009, the impact of the amendment to Section 3465, *Income Taxes* is the recognition of future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates. In accordance with the revised standard, as at January 1, 2009, the Company's future income tax liability increased by approximately $118 million with a corresponding change to regulatory assets and liabilities of approximately $118 million. Included in the amounts are the future income tax effects of the expected subsequent settlement of the related regulatory assets and liabilities through future customer rates. This change does not affect the Company's earnings or cash flows.

FUTURE ACCOUNTING CHANGES

Transition to IFRS

In February 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In March 2009, the AcSB issued a second Omnibus Exposure Draft confirming that publicly accountable enterprises in Canada will be required to apply IFRS, in full and without modification, beginning January 1, 2011. The Company's expected IFRS transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended December 31, 2010, and of amounts reported on the Company's opening IFRS balance sheet as at January 1, 2010.

The Company is continuing to assess the financial reporting impacts of adopting IFRS in 2011. The full impact on future financial position and results of operations is not reasonably determinable or estimable at this time, particularly in light of the recently released IASB Exposure Draft on *Rate-regulated Activities*. The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is identifying and assessing these additional disclosure requirements, as well as systems changes that will be necessary to compile the required disclosures.

IFRS Conversion Project: The Company commenced its IFRS conversion project in 2007 and has established a formal project governance structure which includes the Audit & Risk Committee and senior management. An external advisor has been engaged to assist in the IFRS conversion project. Project progress reports are provided to the Company's Audit & Risk Committee on a quarterly basis. The Company has also engaged its external auditors, Ernst & Young, LLP, to review accounting policy determinations as they are arrived at and agreed to internally by the Company's project team.

The Company's IFRS conversion project consists of three phases: (i) scoping and diagnostics, (ii) analysis and development, and (iii) implementation and review.

Phase One: Scoping and diagnostics, which involved project planning and staffing and identification of differences between current Canadian GAAP and IFRS, was completed in the first half of 2008. The identified areas of accounting difference of highest potential impact to the Corporation, based on existing IFRS at the time, were identified to include rate-regulated accounting; property, plant and equipment; provisions and contingent liabilities; employee benefits; income taxes; and initial adoption of IFRS under the provisions of IFRS 1, *First-Time Adoption of International Financial Reporting Standards* ("IFRS 1").

Phase Two: Analysis and development is nearing completion and involves detailed diagnostics and evaluation of the financial impacts of various options and alternative methodologies provided for under IFRS; identification and design of operational and financial business processes; initial staff training and audit committee orientation; analysis of IFRS 1 optional exemptions and mandatory exceptions to the general requirement for full retrospective application upon transition; summarization of 2011 IFRS disclosure requirements; and development of required solutions to address identified issues.

Phase Three: Implementation and review, has recently commenced and involves the execution of changes to information systems and business processes; completion of formal authorization processes to approve recommended accounting policy changes; and further training programs across the Company, as necessary. It will culminate in the collection of financial information necessary to compile IFRS-compliant financial statements and reconciliations; embedding of IFRS in business processes; and Audit & Risk Committee approval of IFRS-compliant interim and annual financial statements for 2011.

Accounting for Rate-Regulated Activities under IFRS: IFRS does not currently provide specific guidance with respect to accounting for rate-regulated activities. However, in December 2008, the IASB initiated a project on accounting for rate-regulated activities and whether or not rate-regulated entities could or should recognize assets or liabilities as a result of rate-regulation imposed by a regulatory body.

On July 23, 2009, the IASB issued an Exposure Draft on Rate-Regulated Activities. Comments on the Exposure Draft are to be submitted for consideration by the IASB by November 20, 2009. Based on the current project timeline of the IASB, a final standard is expected to be issued in 2010.

Based on the Exposure Draft, regulatory assets and liabilities arising from activities subject to cost-of-service regulation may be recognized under IFRS when certain conditions are met. The ability to record regulatory assets and liabilities, as proposed, should reduce the earnings' volatility of the Company that may have otherwise resulted under IFRS, but will result in the requirement to provide enhanced balance sheet presentation and note disclosures. However, uncertainty as to the final outcome of this Exposure Draft, and the final standard on accounting for rate-regulated activities under IFRS, has resulted in the Company being unable to reasonably estimate and conclude on the impact on the Company's future financial position and results of operations with respect to differences, if any, in accounting for rate-regulated activities under IFRS versus Canadian GAAP.

Accounting Policy Impacts and Decisions: The Company has completed an initial assessment of the impacts of adopting IFRS, based on the standards as they currently exist, and has identified the following as having the greatest potential to impact the Company's accounting policies, financial reporting and information systems requirements upon conversion to IFRS. However, final conclusions cannot be reached at this time pending a final IFRS standard on accounting for rate-regulated activities.

(a) *Property Plant and Equipment*

IFRS and Canadian GAAP contain the same basic principles of accounting for property, plant and equipment; however, differences in application do exist. Specifically, there may be changes in accounting for:

i. the amount of capitalized overheads;
ii. the capitalization of major inspections that were previously expensed under Canadian GAAP;
iii. the capitalization of depreciation for which the future economic benefits of that asset are absorbed in the production of another asset; and
iv. the capitalization of borrowing costs in accordance with IAS 23, *Borrowing Costs*.

IAS 16, *Property, Plant & Equipment* also requires an allocation of the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and the depreciation of each such part separately. This method of componentizing property, plant and equipment may result in an increase in the number of component parts that are recorded and depreciated and, as a result, may impact the calculation of depreciation expense.

The final extent of the impact of applying IAS 16, *Property, Plant & Equipment* by the Company, and elective options with respect to accounting for property, plant and equipment upon transition to IFRS, cannot be made at this time pending a final standard on accounting for rate-regulated activities.

(b) *Provisions and Contingent Liabilities*
IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* requires a provision to be recognized when (i) there is a present obligation as a result of a past transaction or event; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) a reliable estimate can be made of the obligation. Under Canadian GAAP the criterion for recognition is "likely", which is a higher threshold than "probable". It is possible, therefore, that some contingent liabilities which would meet the recognition criterion under IFRS would not have been recognized under Canadian GAAP.

(c) *Employee Benefits*
IAS 19, *Employee Benefits* requires the past service cost of defined benefit plans to be expensed on an accelerated basis, with vested past service costs being expensed immediately and unvested past service costs being recognized on a straight-line basis until the benefits become vested. Under Canadian GAAP, past service costs are generally amortized on a straight-line basis over the expected average remaining service period of active employees in the defined benefit plan.

IAS 19, Employee Benefits requires defined benefit pension plan assets to be measured at fair market value for the purposes of determining pension expense. Under Canadian GAAP, pension plan assets are currently measured at the market-related value as described in Note 2 in the Company's 2008 Annual Audited Financial Statements. In addition, actuarial gains and losses are permitted to be recognized directly in equity rather than through earnings, and IFRS 1 also provides an option to recognize immediately in retained earnings all cumulative actuarial gains and losses existing as at the date of transition to IFRS.

The Company maintains a defined benefit pension plan and supplementary and other post-employment benefit plans which will be subject to different accounting treatment under IFRS as compared to Canadian GAAP. The full extent of the impact of applying IAS 19, *Employee Benefits* cannot be made at this time, pending a final standard on accounting for rate-regulated activities.

(d) *Income Taxes*
IAS 12, *Income Taxes* prescribes that an entity account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Therefore, where transactions and other events are recognized in earnings, the recognition of deferred tax assets or liabilities which arise from those transactions should also be recorded in earnings. For transactions that are recognized outside of the statement of earnings, either in other comprehensive income or directly in equity, any related tax effects should also be recognized outside of the statement of earnings.

The most significant impact of IAS 12, *Income Taxes* on the Company will be derived directly from the accounting policy decisions made under IAS 16, *Property, Plant & Equipment* and other IFRSs, if applicable. In addition, the Company currently accounts for income taxes based on regulatory decisions. Therefore, the impact on the Company of accounting for the tax consequences of transactions and other events under IFRS versus Canadian GAAP cannot be fully determined at this time pending a final IFRS standard on accounting for rate-regulated activities.

(e) *IFRS 1, First-Time Adoption of International Financial Reporting Standards*
IFRS 1 provides the framework for the first time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. IFRS 1 also specifies that the adjustments that arise on retrospective conversion to IFRS from GAAP should be directly recognized in retained earnings. Certain optional exemptions and mandatory exceptions to retrospective application are provided for under IFRS 1.

The Company has completed an analysis of IFRS 1. While preliminary decisions have been made with respect to the elective exemptions available upon transition, final decisions cannot be made at this time pending a final IFRS standard on the accounting for rate-regulated activities.

(f) *Information Systems*
It is anticipated that the adoption of IFRS will have an impact on information systems requirements. The Company has assessed the need for systems upgrades or modifications to ensure an efficient conversion to IFRS. The extent of the impact on the Company's information systems is largely dependent upon the final IFRS standard on accounting for rate-regulated activities and is, therefore, not fully determinable at this time.

The IASB has a number of on-going projects on its agenda, in addition to the project on accounting for rate-regulated activities, that may result in changes to existing IFRS prior to the Company's conversion in 2011. The Company continues to monitor these projects and the impact that any resulting IFRS changes may have on its anticipated accounting policies, financial position or results of operations under IFRS for 2011 and beyond.

CRITICAL ACCOUNTING ESTIMATES

There were no material changes to the Company's critical accounting estimates during the quarter. Interim financial statements, however, tend to employ a greater use of estimates than the annual financial statements.

QUARTERLY RESULTS

	Second Quarter June 30		First Quarter March 31		Fourth Quarter December 31		Third Quarter September 30	
	2009	2008	2009	2008	2008	2007	2008	2007
Electricity Sales *(GWh)*	1,177.2	1,183.0	1,762.9	1,716.2	1,412.2	1,383.6	896.8	874.0
Revenue *($millions)*	118.1	118.9	169.7	164.9	139.0	132.6	94.1	89.2
Earnings Applicable to Common Shares *($millions)*	10.7	10.1	6.2	6.2	7.9	8.7	8.1	2.7
Earnings per Common Share *($)* [1]	1.04	0.98	0.60	0.60	0.76	0.84	0.79	0.26

[1] *Basic and fully diluted.*

Seasonality

Sales and Revenue: Interim financial results reflect the seasonality of electricity sales for heating. Sales and revenue are significantly higher in the first (winter) quarter and significantly lower in the third (summer) quarter compared to the remaining quarters.

Earnings: Beyond the seasonality of sales and revenue, operating costs tend to be higher in the third (summer) quarter compared to the remaining quarters because certain costs, such as vegetation management, tend to be higher in the summer months. Prior to 2008, these sales, revenue and operating cost dynamics yielded higher earnings in the second (spring) quarter and much lower earnings in the third (summer) quarter compared to the remaining quarters.

The purchased power rate structure effective January 1, 2007 resulted in the Company paying more, on average, for each kilowatt hour (kWh) of power purchased in the fall and winter months and less, on average, during the spring and summer months. Quarterly revenue, however, continued to be based on customer rates that reflect the average annual cost per kWh. Differences between the estimated monthly purchased power expense and that based on the actual cost per kWh were adjusted to the Purchased Power Unit Cost Variance Reserve ("PPUCVR"), with no effect on annual purchased power expense or on cash flows.

Pursuant to the Company's 2008 general rate application, the PUB has ordered that the PPUCVR be discontinued effective January 1, 2008. Quarterly purchased power expense for 2008 and subsequent years reflect the actual cost per kWh. The result is a seasonal shift in quarterly earnings for 2008 as compared to the same periods in 2007. Annual earnings, as well as annual and quarterly cash flows, were unaffected by this shift.

Trending

Sales and Revenue: On a year-over-year basis, quarterly electricity sales increases primarily reflect continuing moderate customer growth and increases in average use.

Earnings: Certain quarterly earnings for 2008 as noted above were not consistent with comparable quarters in 2007. The variability of quarterly earnings for 2008 compared to 2007 was primarily due to a seasonal earnings shift as noted under 'seasonality' above and as described under "seasonality" in the MD&A of the respective periods. For 2008 and subsequent years, earnings in the second quarter are expected to be higher compared to the remaining quarters within any given year.

Beyond the impact of expected moderate customer growth, future quarterly earnings and earnings per share are expected to trend with rate base growth and the ROE reflected in customer rates.

OUTLOOK

Effective July 1, 2009, there was an overall average decrease in electricity rates charged to customers of approximately 6.6 per cent. The decrease is a result of the normal annual operation of Hydro's Rate Stabilization Plan. Variances in the cost of fuel used to generate electricity Hydro sells to Newfoundland Power are captured and flowed-through to the Company's customers through the operation of the Rate Stabilization Plan. In 2008, the price and amount of oil required for electricity generation by Hydro were lower than forecasted resulting in the decrease. This reduction in customer rates will have no impact on earnings for Newfoundland Power.

On May 28, 2009, the Company filed a General Rate Application ("GRA") with the PUB for the purpose of setting customer rates for 2010. The Company is proposing an overall average increase in electricity rates of 6.1 per cent. This proposed increase results from a full review of our costs and customer rates which have been filed as part of the 2010 GRA. The application is currently under a thorough review by the PUB. A hearing is expected in the fall of 2009.

On June 19, 2009, the Company filed an application with the PUB requesting approval for its 2010 capital expenditure plan totalling $64.7 million. The application is currently under review by the PUB.

CORPORATE INFORMATION

All of the common shares of Newfoundland Power are owned by Fortis.

Fortis is the largest investor-owned distribution utility in Canada. With total assets approaching $12 billion and annual revenues totaling $3.9 billion, the Corporation serves more than 2,000,000 gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and three Caribbean countries and a natural gas utility in British Columbia. Fortis owns non-regulated generation assets across Canada and in Belize and Upper New York State. It also owns hotels and commercial real estate across Canada. Fortis shares are listed on the Toronto Stock Exchange and trade under the symbol FTS. Additional information can be accessed at www.fortisinc.com or www.sedar.com.

For further information, contact:

Jocelyn Perry, Vice President, Finance & CFO
Newfoundland Power Inc.
P.O. Box 8910, St. John's, NL A1B 3P6
Tel: (709) 737-2812
Fax: (709) 737-5300
email: jperry@newfoundlandpower.com

Share Transfer Agent and Registrar:

Computershare Trust Company of Canada
1500 University Street, Suite 700
Montreal, QC H3A 3S8
Tel: (514) 982-7888
Fax: (514) 982-7635
www.computershare.com

Website: www.newfoundlandpower.com