Q. Please file a copy of the three most recent annual returns of Hydro.

A. Please see CA-NLH-098 Attachments 1, 2 and 3.

A REPORT TO
THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

2010 ANNUAL RETURN

(pursuant to ss.59(2) OF THE Public Utilities Act)

NEWFOUNDLAND AND LABRADOR HYDRO

April 2011

newfoundland labrador hydro
a nalcor energy company

IN THE MATTER OF the *Public Utilities Act,*
(the "Act"); and

AND IN THE MATTER OF an Annual Return for 2010
filed by Newfoundland and Labrador Hydro pursuant to
Section 59(2) of the Act

AFFIDAVIT

I, Rick Green, Certified General Accountant, of St. John's, in the Province of Newfoundland and Labrador, make oath and swear as follows:

1. THAT I am the Controller for Newfoundland and Labrador Hydro, and as such I either have personal knowledge, or I have been so informed and do verily believe, as the case may be, of the matters and things contained within the Newfoundland and Labrador Hydro 2010 Annual Return.

2. THAT I have read the contents of the within Annual Return and they are correct and true to the best of my knowledge, information and belief.

SWORN TO BEFORE ME in)
the City of St. John's, in the Province of)
Newfoundland and Labrador this)
7th day of April, 2011)

Geoff Young
Barrister
Newfoundland and Labrador

Rick Green
Controller - Electric Utilities
Newfoundland and Labrador Hydro

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

BOARD OF DIRECTORS

JOHN OTTENHEIMER Q.C. (Chair)
Corporate Director

ED MARTIN
President and Chief Executive Officer
Nalcor Energy

CATHY BENNETT
Owner/Operator
Bennett Restaurants Ltd.

TOM CLIFT
Associate Dean, Academic Programs
Memorial University - Faculty of Business

KEN MARSHALL
President
Rogers Cable - Atlantic Region

GERALD SHORTALL
Chartered Accountant
Corporate Director

OFFICERS

JOHN OTTENHEIMER Q.C. (Chair)
Corporate Director

ED MARTIN
President and Chief Executive Officer

GILBERT BENNETT
Vice President
Lower Churchill Project

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary

JIM HAYNES
Vice President Regulated Operations

ANDY MACNEILL
Vice President
Churchill Falls

JOHN MacISAAC
Vice President
Project Execution and Technical Services

GERARD MCDONALD
Vice President Human Resources and
Organizational Effectiveness

DERRICK STURGE
Vice President Finance and Chief Financial Officer

PETER HICKMAN
Assistant Corporate Secretary

MARK BRADBURY
Corporate Treasurer and Chief Risk Officer

S. KENT LEGGE
Corporate Controller

HEAD OFFICE
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Canada

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Independent Auditor's Report

To the Directors of Newfoundland and Labrador Hydro

We have audited the accompanying non-consolidated financial statements of Newfoundland and Labrador Hydro, which comprise the non-consolidated balance sheet as at December 31, 2010, and the non-consolidated statements of income and retained earnings, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The non-consolidated financial statements have been prepared by management based on the financial reporting provisions of Section 59 of The Hydro Corporation Act.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with the financial reporting provisions of Section 59 of The Hydro Corporation Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the financial position of Newfoundland and Labrador Hydro as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with the financial reporting provisions of Section 59 of The Hydro Corporation Act.

Basis of Accounting and Restrictions on Distribution and Use

Without modifying our opinion, we draw attention to Note 2 to the non-consolidated financial statements, which describes the basis of accounting. The non-consolidated financial statements are prepared to assist Newfoundland and Labrador Hydro meet the requirements of the Newfoundland and Labrador Board of Commissioners of Public Utilities. As a result, the non-consolidated financial statements may not be suitable for another purpose. Our report is intended solely for Newfoundland and Labrador Hydro and the Newfoundland and Labrador Board of Commissioners of Public Utilities and should not be distributed to or used by parties other than Newfoundland and Labrador Hydro and the Newfoundland and Labrador Board of Commissioners of Public Utilities.

Other Matter

Newfoundland and Labrador Hydro has prepared separate financial statements for the year ended December 31, 2010 in accordance with Canadian Generally Accepted Accounting Principles on which we issued a standard auditor's report to the shareholders of Newfoundland and Labrador Hydro dated April 1, 2011.

Deloitte & Touche LLP

Chartered Accountants
April 1, 2011

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED BALANCE SHEET

As at December 31 (millions of dollars)	**2010**	2009
ASSETS		
Current assets		
Cash and cash equivalents	**37.7**	10.9
Short-term investments	**9.0**	20.0
Accounts receivable	**70.3**	69.8
Current portion of regulatory assets (Note 4)	**3.8**	4.8
Inventory	**53.4**	50.0
Prepaid expenses	**2.3**	1.5
Derivative assets (Note 13)	**2.0**	5.7
	178.5	162.7
Property, plant and equipment (Note 3)	**1,386.1**	1,364.2
Sinking funds (Notes 7 and 13)	**208.4**	179.6
Regulatory assets (Note 4)	**65.9**	69.3
Long-term receivables (Note 5)	**25.4**	23.9
Derivative assets (Note 13)	**-**	1.3
Investments (Note 6)	**384.3**	367.7
	2,248.6	2,168.7
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**107.6**	74.4
Accrued interest	**28.7**	28.7
Current portion of long-term debt (Note 7)	**8.2**	8.2
Current portion of regulatory liabilities (Note 4)	**118.9**	89.8
Deferred capital contribution (Note 18(d))	**0.1**	0.2
Derivative liabilities (Note 13)	**0.3**	-
	263.8	201.3
Long-term debt (Note 7)	**1,136.7**	1,141.6
Regulatory liabilities (Note 4)	**40.9**	32.8
Asset retirement obligations (Note 8)	**11.4**	-
Long-term related party note payable (Note 18(g))	**25.3**	23.9
Employee future benefits (Note 9)	**48.4**	44.0
	1,526.5	1,443.6
SHAREHOLDER'S EQUITY		
Share capital (Note 10)	**22.5**	22.5
Contributed capital (Note 10)	**115.4**	115.4
	137.9	137.9
Accumulated other comprehensive income (Note 11)	**26.7**	21.0
Retained earnings	**557.5**	566.2
	584.2	587.2
	722.1	725.1
Commitments and contingencies (Note 17)		
Subsequent events (Note 20)	**2,248.6**	2,168.7

See accompanying notes

On behalf of the Board:

JOHN OTTENHEIMER

GERRY SHORTALL

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31 (millions of dollars)	**2010**	2009
Revenue		
Energy sales	**500.1**	504.5
Interest and finance income (Note 14)	**16.1**	16.4
Other revenue	**2.3**	2.2
	518.5	523.1
Expenses		
Fuels	**140.4**	155.2
Power purchased	**48.3**	51.0
Operations and administration	**123.1**	120.8
Interest and finance charges (Note 14)	**103.4**	100.5
Amortization	**43.8**	41.7
Other gains and losses	**2.6**	(0.7)
	461.6	468.5
Income from operations	**56.9**	54.6
Other income		
Equity in net income of Churchill Falls (Note 6)	**16.6**	7.9
Preferred dividends from Churchill Falls	**10.2**	3.9
	26.8	11.8
Net income	**83.7**	66.4
Retained earnings, beginning of year	**566.2**	544.3
	649.9	610.7
Dividends	**92.4**	44.5
Retained earnings, end of year	**557.5**	566.2

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31 (millions of dollars)	**2010**	2009
Net income	**83.7**	66.4
Other comprehensive income		
Change in fair value of available for sale financial instruments	**20.5**	9.0
Change in fair value of derivatives designated as cash flow hedges	**1.1**	9.2
Amounts recognized in net income	**(15.9)**	(13.1)
Comprehensive income	**89.4**	71.5

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of dollars)	**2010**	2009
Cash provided by (used in)		
Operating activities		
Net income	**83.7**	66.4
Adjusted for items not involving a cash flow		
Amortization	**43.8**	41.7
Accretion of long-term debt	**0.4**	0.4
Loss on disposal of property, plant and equipment	**0.7**	1.3
Unrealized losses (gains) on derivative instruments	**0.3**	(0.8)
Equity in net income of Churchill Falls	**(16.6)**	(7.9)
	112.3	101.1
Changes in non-cash operating working capital balances (Note 15)	**74.5**	93.4
	186.8	194.5
Financing activities		
Repayment of long-term debt	**-**	(0.1)
Decrease in promissory notes	**-**	(163.0)
Dividends paid to Nalcor	**(92.4)**	(44.5)
Contributed capital	**-**	100.0
(Increase) decrease in long-term receivables	**(1.5)**	1.5
Increase in long-term related party note payable	**1.4**	23.9
Decrease in deferred capital contribution	**(0.1)**	(2.0)
	(92.6)	(84.2)
Investing activities		
Additions to property, plant and equipment	**(55.5)**	(54.1)
Increase in sinking funds	**(23.4)**	(22.0)
Decrease (increase) in short-term investments	**11.0**	(20.0)
Proceeds on disposal of property, plant and equipment	**0.5**	1.2
	(67.4)	(94.9)
Net increase in cash	**26.8**	15.4
Cash position, beginning of year	**10.9**	(4.5)
Cash position, end of year	**37.7**	10.9
Cash position is represented by		
Cash (bank indebtedness)	**37.7**	(4.1)
Cash equivalents	**-**	15.0
	37.7	10.9

Supplementary cash flow information (Note 15)

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Newfoundland and Labrador Hydro (Hydro) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (Province) as a Crown corporation and is exempt from paying income taxes under Section 149 (1)(d) of the Income Tax Act. The principal activity of Hydro is the development, generation and sale of electricity.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
These financial statements have been prepared in accordance with the significant accounting polices set out below. These financial statements differ materially from Canadian generally accepted accounting principles (GAAP) because they are non-consolidated. Hydro's investments in its subsidiary and jointly controlled companies have been accounted for using the equity method of accounting. Consolidated financial statements for the same period have been prepared for presentation to the Lieutenant-Governor in Council of the Province.

Use of Estimates
Preparation of these financial statements requires the use of estimates and assumptions that affect the amounts reported and disclosed in these statements and related notes. Key areas where management has made complex or subjective judgements include the fair value and recoverability of assets, the reported amounts of revenue and expenses, litigation, amortization and property, plant and equipment, environmental and asset retirement obligations, and other employee future benefits. Actual results may differ from these estimates, including changes as a result of future decisions made by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), and these differences could be material.

Rates and Regulations
Hydro's revenues from its electricity sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service (COS) methodology. The allowed rate of return on rate base is 7.4% (2009 - 7.4%). Hydro applies certain accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally these policies result in the deferral and amortization of costs or credits which will be recovered or refunded in future rates. In the absence of rate regulation, these amounts would be included in the determination of net income in the year the amounts are incurred. The effects of rate regulation on the financial statements are more fully disclosed in Note 4.

Cash and Cash Equivalents and Short-term Investments
Cash and cash equivalents and short-term investments consist primarily of Canadian treasury bills and Banker's Acceptances (BA). Those with original maturities at date of purchase of three months or less are classified as cash equivalents whereas those with original maturities beyond three months and less than twelve months are classified as short-term investments. The short-term investments bear interest rates of 1.07% to 1.08% (2009 - 0.26% to 0.65%). Cash and cash equivalents and short-term investments are measured at fair value.

Inventory
Inventory is recorded at the lower of average cost and net realizable value.

Property, Plant and Equipment
Property, plant and equipment is recorded at cost, which comprises materials, labour, contracted services, other costs directly related to construction, and an allocation of certain overhead costs. Expenditures for additions and betterments are capitalized and normal expenditures for maintenance and repairs are charged to operations. The cost of property, plant and equipment under construction is transferred to property, plant and equipment in service when construction is completed and facilities are commissioned, at which point amortization commences.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Property, Plant and Equipment (cont'd.)

Construction in progress includes the costs incurred in engineering and construction of new generation, transmission and distribution facilities. Interest is charged to construction in progress at rates equivalent to Hydro's weighted average cost of capital.

Contributions in aid of construction are funds received from customers and governments toward the cost of property, plant and equipment. Contributions are recorded as a reduction to property, plant and equipment and the net property, plant and equipment is amortized.

Gains and losses on the disposal of property, plant and equipment are recognized in income as incurred.

Amortization is calculated on hydroelectric generating plant and on transmission plant in service on the sinking fund method using interest factors ranging from 5.25% to 15.79%. Amortization on distribution system and other plant in service is calculated on the straight-line method. These methods are designed to fully amortize the cost of the facilities, after deducting contributions in aid of construction, over their estimated service lives.

Estimated service lives of the major assets are as follows:

Generation Plant	
Hydroelectric	50, 75 and 100 years
Thermal	25 and 30 years
Diesel	20 years
Transmission	
Lines	40 and 50 years
Switching stations	40 years
Distribution system	30 years
Other	3 to 50 years

Hydroelectric generation plant includes the powerhouse, turbines, governors and generators, as well as water conveying and control structures, including dams, dykes, tailrace, penstock and intake structures. Thermal generation plant is comprised of the powerhouse, turbines and generators, boilers, oil storage tanks, stacks, and auxiliary systems. Diesel generation plant includes the buildings, engines, generators, switchgear, fuel storage and transfer systems, dykes and liners and cooling systems.

Transmission lines include the support structures, foundations and insulators associated with lines at voltages of 230, 138 and 69 kilovolt (kV). Switching stations assets are used to step up voltages of electricity from generating to transmission and to step down voltages for distribution.

Distribution system assets include poles, transformers, insulators, and conductors.

Other assets include telecontrol, computer software, buildings, vehicles, furniture, tools and equipment.

Impairment of Long-Lived Assets

Hydro reviews the carrying value of its property, plant and equipment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss corresponding to the amount by which the carrying value exceeds fair value is recognized, if applicable.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Asset Retirement Obligations
The fair value of the future expenditures required to settle legal obligations associated with the retirement of property, plant and equipment, is recognized to the extent that they are reasonably estimable. Asset retirement obligations are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of asset retirement obligations is included in net income through Amortization. Differences between the recorded asset retirement obligation and the actual retirement costs incurred are recorded as a gain or loss in the settlement period.

Employee Future Benefits
Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions are expensed as incurred.

Hydro provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee future benefits is accounted for on an accrual basis and has been actuarially determined using the projected benefit method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs. The excess of cumulative net actuarial gains and losses over 10% of the accrued benefit obligation is amortized over the expected average remaining service life of the employee group.

Revenue Recognition
Revenue is recognized on the accrual basis, as power and energy deliveries are made, and includes an estimate of the value of electricity consumed by customers in the year, but billed subsequent to year-end. Sales within the Province are primarily at rates approved by the PUB, whereas sales to certain major industrial customers and export sales are either at rates under the terms of the applicable contracts, or at market rates.

Foreign Currency Translation
Foreign currency transactions are translated into their Canadian dollar equivalent as follows:

(a) At the transaction date, each asset, liability, revenue or expense is translated using exchange rates in effect at that date.

(b) At the date of settlement and at each balance sheet date, monetary assets and liabilities are adjusted to reflect exchange rates in effect at that date. Any resulting gain or loss is reflected in income, except gains or losses on purchases of fuel which are included in the cost of fuel inventory.

Financial Instruments and Hedging Activities
Financial Instruments
Financial assets and financial liabilities are recognized on the balance sheet when Hydro becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Hydro has classified each of its financial instruments into the following categories: financial assets and liabilities held for trading; loans and receivables; financial assets held to maturity; financial assets available for sale; and other financial liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Financial Instruments and Hedging Activities (cont'd.)

Financial Instruments (cont'd.)
Hydro has classified its financial instruments as follows:

Cash and cash equivalents	Held for trading
Short-term investments	Available for sale
Accounts receivable	Loans and receivables
Sinking funds - investments in same Hydro issue	Held to maturity
Sinking funds - other investments	Available for sale
Derivative assets	Held for trading
Long-term receivables	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Accrued interest	Other liabilities
Long-term debt	Other liabilities
Derivative liabilities	Held for trading
Long-term related party note payable	Other liabilities

Each of these financial instruments is measured at amortized cost, except for cash and cash equivalents, short-term investments and sinking fund – other investments which are measured at fair value.

Transaction costs related to financial assets and financial liabilities are included as part of the cost of the instrument, with the exception of cash and cash equivalents and short-term investments which are expensed as incurred, based upon the pricing obtained during the quotation process. Discounts and premiums on financial instruments are amortized to income over the life of the instrument.

Derivative Instruments and Hedging Activities
Derivative instruments are utilized by Hydro to manage market risk. Hydro's policy is not to utilize derivative instruments for speculative purposes. Hydro may choose to designate derivative instruments as hedges and apply hedge accounting if there is a high degree of correlation between price movements in the derivative instruments and the hedged items. Hydro formally documents all hedges and the risk management objectives at the inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges.

Hydro has designated foreign exchange forward contracts as cash flow hedges (Note 13). In a cash flow hedge relationship, the portion of unrealized gains or losses on the hedging item that is determined to be an effective hedge is recognized in Other Comprehensive Income (OCI), while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income when the hedged item affects net income.

Hydro had no fair value hedges in place at December 31, 2010 or 2009.

Future Accounting Changes
In October 2009, the Accounting Standards Board (AcSB) issued a third and final Omnibus Exposure Draft confirming that publically accountable enterprises in Canada will be required to apply International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), in full and without modification, for interim and annual financial statements beginning on or after January 1, 2011. As a result of recent changes to Part 1 of the Canadian Institute of Chartered Accountants (CICA) Handbook – Accounting, by the AcSB, certain rate-regulated entities can defer the adoption of IFRS by one year to January 1, 2012. Hydro meets the AcSB's criteria for the deferral and has chosen to adopt IFRS effective January 1, 2012.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Future Accounting Changes (cont'd.)

The IASB has deferred its work on rate-regulated activities accounting project and has not provided interim guidance for the recognition and measurement of regulatory assets and liabilities. Accordingly, Hydro continues to assess existing IFRS guidance to determine the impact of differences that will apply to accounting for rate-regulated activities upon adoption of IFRS on January 1, 2012.

Hydro is continuing to assess the financial reporting impacts of the adoption of IFRS; however, the impact of IFRS will depend on the IFRS standards in effect at the time of conversion on January 1, 2012 and the accounting elections made.

3. PROPERTY, PLANT AND EQUIPMENT

	Property Plant and Equipment In Service	Contributions In Aid of Construction	Accumulated Amortization	Construction In Progress	Net Book Value
(millions of dollars)			**2010**		
Generation plant					
Hydroelectric	**853.5**	**20.5**	**66.6**	**3.2**	**769.6**
Thermal	**273.8**	**0.8**	**201.6**	**3.2**	**74.6**
Diesel	**68.0**	**5.8**	**35.3**	**2.2**	**29.1**
Transmission and distribution	**717.5**	**61.0**	**220.6**	**5.3**	**441.2**
Other	**223.3**	**9.2**	**145.6**	**3.1**	**71.6**
	2,136.1	**97.3**	**669.7**	**17.0**	**1,386.1**

(millions of dollars)			2009		
Generation plant					
Hydroelectric	847.7	20.5	61.3	1.2	767.1
Thermal	255.8	0.8	196.0	0.2	59.2
Diesel	64.6	5.9	33.5	2.8	28.0
Transmission and distribution	701.6	60.9	205.7	2.2	437.2
Other	212.8	8.7	135.6	4.2	72.7
	2,082.5	96.8	632.1	10.6	1,364.2

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

4. REGULATORY ASSETS AND LIABILITIES

(millions of dollars)	**2010**	2009	**Remaining Recovery Settlement Period (years)**
Regulatory assets			
Foreign exchange losses	**66.9**	68.9	31.0
Deferred major extraordinary repairs	**2.2**	4.9	1.8
Deferred study costs	**-**	0.1	1.0
Deferred energy conservation costs	**0.6**	0.2	n/a
Total regulatory assets	**69.7**	74.1	
Less current portion	**3.8**	4.8	
	65.9	69.3	
Regulatory liabilities			
Rate stabilization plan	**159.2**	122.0	n/a
Deferred purchased power savings	**0.6**	0.6	16.5
Total regulatory liabilities	**159.8**	122.6	
Less current portion	**118.9**	89.8	
	40.9	32.8	

Regulatory assets represent future revenues associated with certain costs, incurred in current or prior periods that are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process. Amounts deferred as regulatory assets and liabilities are subject to PUB approval. The risks and uncertainties related to regulatory assets and liabilities are subject to periodic assessment. When Hydro considers that the value of these regulatory assets or liabilities is no longer likely to be recovered or repaid through future rate adjustments, the carrying amount is reflected in operations. The following is a description of each of the circumstances in which rate regulation affects the accounting for a transaction or event.

Rate Stabilization Plan
On January 1, 1986, Hydro, having received the approval of the PUB, implemented a rate stabilization plan (RSP) which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, levels of precipitation and load. Adjustments required in retail rates to cover the amortization of the balance in the plan are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

Balances accumulating in the RSP, including financing charges, are to be recovered or refunded in the following year, with the exception of hydraulic variation, which will be recovered or refunded at a rate of twenty-five percent of the outstanding balance at year-end. Additionally, a fuel rider is calculated annually based on the forecast fuel price and is added to or subtracted from the rates that would otherwise be in effect.

Hydro recognizes the RSP balances as a regulatory asset or liability based on the expectation that rates will be adjusted annually to provide for the collection from, or refund to, customers in future periods. In the absence of rate regulation, Canadian GAAP would require that the cost of fuel be recognized as an operating expense in the period in which it was consumed. In 2010, $23.3 million was recognized (2009 - $42.3 million) in the RSP and $2.3 million (2009 – 18.3 million) was recovered through rates and included in energy sales, with the corresponding cost amortized in fuels expenses.

4. REGULATORY ASSETS AND LIABILITIES (cont'd.)

Deferred Foreign Exchange Losses

Hydro incurred foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt in 1975 and 1985, respectively, which were recognized when the debt was repaid in 1997. The PUB has accepted the inclusion of realized foreign exchange losses related to long-term debt in rates charged to customers in future periods. Any such loss, net of any gain, is deferred to the time of the next rate hearing for inclusion in the new rates to be set at that time. Accordingly, these losses are recognized as a regulatory asset. In the absence of rate regulation, Canadian GAAP would require that Hydro include the losses in operating costs, in each year that the related debt was outstanding, to reflect the exchange rates in effect on each reporting date.

Commencing in 2002, the PUB ordered Hydro's deferred realized foreign exchange losses be amortized over a forty-year period. This amortization, of $2.1 million annually, is included in interest expense (Note 14).

Deferred Major Extraordinary Repairs

In its report dated April 13, 1992, the PUB recommended that Hydro adopt a policy of deferring and amortizing the costs of major extraordinary repairs in excess of $0.5 million, subject to PUB approval on a case-by-case basis. In 2005, Hydro started an asbestos abatement program at the Holyrood Thermal Generating Station (HTGS). This program was carried out over a three-year period. Pursuant to Order No. P.U. 2 (2005), the PUB approved the deferral and amortization of these costs as a major extraordinary repair. Accordingly, the costs incurred in each year of the program were recognized as a regulatory asset to be amortized over the subsequent five-year period. In 2006, Hydro incurred $2.3 million in expenses to repair a boiler tube failure at the HTGS. Pursuant to Order No. P.U. 44 (2006), the PUB approved the deferral and amortization of these costs as a major extraordinary repair. Accordingly, these costs are being amortized over a five-year period. In the absence of rate regulation, Canadian GAAP would require that Hydro expense the cost of the asbestos abatement program and the boiler tube repairs in the year incurred. In 2010, $2.6 million (2009 - $2.7 million) of amortization was recognized in Operations and administration expense.

Deferred Study Costs

Pursuant to Order No. P.U. 14 (2004), the PUB directed Hydro to conduct an independent study of the treatment of Newfoundland Power's generation in Hydro's COS, and an independent marginal cost study, and to accumulate these costs in a deferral account to be dealt with at the next general rate application. Pursuant to Order No. P.U. 8 (2007), Hydro received approval for recovery of these costs over a three-year period commencing in 2007. Accordingly, these costs have been recognized as a regulatory asset. In the absence of rate regulation, Canadian GAAP would require that Hydro include the cost of these studies in operating costs in the year incurred. In 2010, $0.1 million in amortization (2009 - $0.1 million) was recognized in Operations and administration expense.

Deferred Energy Conservation Costs

Pursuant to Order No. P.U. 14 (2009), Hydro received approval to defer costs associated with an electrical conservation program for residential, industrial, and commercial sectors. Accordingly, these costs have been recognized as a regulatory asset. In the absence of rate regulation, Canadian GAAP would require that Hydro include this program as operating costs in the year incurred. In 2010, $0.4 million (2009 – $0.2 million) was deferred.

Deferred Purchased Power Savings

In 1997, Hydro interconnected communities in the area of L'Anse au Clair to Red Bay to the Hydro-Québec system. In its report dated July 12, 1996, the PUB recommended that Hydro defer and amortize the benefits of a reduced initial purchased power rate over a 30-year period. These savings in the amount of $0.6 million (2009 - $0.6 million) are recognized as a regulatory liability. In the absence of rate regulation, Canadian GAAP would require that Hydro include the actual cost of purchased power in operating costs in the year incurred.

4. REGULATORY ASSETS AND LIABILITIES (cont'd.)

Property, Plant and Equipment

The PUB permits an allowance for funds used during construction (AFUDC), based on Hydro's weighted average cost of capital, to be included in the cost of capital assets and amortized over future periods as part of the total cost of the related asset. In 2010, Hydro's AFUDC of 7.6% (2009 - 7.6%) is higher than its cost of debt of 7.2% (2009 – 7.2%) and the amount capitalized is higher and interest expense is lower by $0.1 million (2009 - $0.1 million) than that which would be permitted under Canadian GAAP in the absence of rate regulation.

Hydro amortizes its hydroelectric generating assets and transmission assets using the sinking fund method, as approved by the PUB. In the absence of rate regulation, these assets would likely be amortized using the straight-line method. During 2010, Hydro engaged an independent consultant to conduct an amortization study. The scope of this study included a review of Hydro's amortization methods as well as a statistical analysis of service life estimates and calculation of appropriate amortization rates and annual and accrued amortization balances as at December 31, 2009. Based on the results of this study, management currently estimates that switching from the use of sinking fund rather than straight-line amortization for hydroelectric and transmission assets, as well as changing from unit based amortization to a group based method on a remaining life basis, will result in an immaterial change in the annual amortization expense.

5. LONG-TERM RECEIVABLES

Included in long-term receivables are two refundable deposits in the amount of $24.1 million (2009 - $23.9 million) associated with an application for transmission service into Québec, bearing interest at one-year Guaranteed Income Certificate (GIC) rates, a $0.1 million (2009 – nil) deposit associated with an application for transmission service in New Brunswick, bearing interest at the Prime Rate, and two refundable deposits in the amount of $1.2 million (2009 – nil) associated with an application for transmission service into Nova Scotia, bearing interest at the Prime Rate less 1%.

6. INVESTMENTS

(millions of dollars)	Ownership Interest	**2010**	2009
Churchill Falls (Labrador) Corporation	65.8%		
Shares, at cost		**167.2**	167.2
Equity in retained earnings at beginning of year		**200.5**	192.6
Equity in net income for the year		**16.6**	7.9
		384.3	367.7

Effective June 18, 1999, the two shareholders of Churchill Falls, Hydro and Hydro-Québec, entered into a shareholders' agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to joint approval by representatives of Hydro and Hydro-Québec.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

7. LONG-TERM DEBT

Details of long-term debt are as follows:

Series	Face Value	Coupon Rate%	Year of Issue	Year of Maturity		
(millions of dollars)					**2010**	2009
V *	125.0	10.50	1989	2014	**124.6**	124.5
X *	150.0	10.25	1992	2017	**149.3**	149.2
Y *	300.0	8.40	1996	2026	**293.3**	293.1
AB *	300.0	6.65	2001	2031	**306.7**	306.8
AD *	125.0	5.70	2003	2033	**123.6**	123.6
AE	225.0	4.30	2006	2016	**223.8**	223.7
Total debentures	1,225.0				**1,221.3**	1,220.9
Less sinking fund investments in own debentures					**76.4**	71.1
					1,144.9	1,149.8
Less: payments due within one year					**8.2**	8.2
					1,136.7	1,141.6

* Sinking funds have been established for these issues.

Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada or any province of Canada, and have maturity dates ranging from 2013 to 2033. Hydro debentures, which are intended to be held to maturity, are deducted from long-term debt while all other sinking fund investments are shown separately on the balance sheet as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 3.86% to 9.86% (2009 - 4.50% to 9.86%).

Promissory notes, debentures and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments by the Province. The Province charges Hydro a guarantee fee of one percent annually on the total debt (net of sinking funds) guaranteed by the Province, outstanding as of the preceding December 31. For the years ended 2010 and 2009, the guarantee fee was waived by the Province.

Hydro uses promissory notes to fulfill its short-term funding requirements. As at December 31, 2010 there were no promissory notes outstanding (2009 – nil).

Hydro maintains a $50.0 million Canadian or US equivalent unsecured operating credit facility with its banker and at year-end there were no amounts drawn on the facility (2009 – nil). Advances may take the form of a Prime Rate advance or the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA fee. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate. At year-end, Hydro had 24 letters of credit outstanding (Note 17(e)) reducing the availability of the credit facility by $18.9 million (2009 - $7.5 million).

Required repayments of long-term debt and sinking fund requirements over the next five years will be as follows:

(millions of dollars)	2011	2012	2013	2014	2015
Sinking fund requirement	8.2	8.2	8.2	8.2	8.2
Long-term debt repayment	-	-	-	125.0	-
	8.2	8.2	8.2	133.2	8.2

8. ASSET RETIREMENT OBLIGATIONS

During the year ended December 31, 2010, Hydro recognized a liability associated with the retirement of portions of the HTGS. The reconciliation of the beginning and ending carrying amount of asset retirement obligations is as follows:

(millions of dollars)	**2010**	2009
Asset retirement obligation, beginning of year	**-**	-
Liabilities incurred	**11.4**	-
Liabilities settled	**-**	-
Accretion	**-**	-
Asset retirement obligation, end of year	**11.4**	-

The total undiscounted estimated cash flows required to settle the obligations at December 31, 2010 is $20.5 million (2009 – nil). Payments to settle the liability are expected to occur between 2021 and 2029. The fair value of the asset retirement obligations was determined using the present value of future cash flows discounted at the Company's credit-adjusted risk-free rate of 4.1% (2009 – nil).

A significant number of Hydro's assets include generation plants, transmission assets and distribution systems. These assets can continue to run indefinitely with ongoing maintenance activities. As it is expected that Hydro's assets will be used for an indefinite period, no removal date can be determined and consequently, a reasonable estimate of the fair value of any related asset retirement obligation cannot be determined at this time. If it becomes possible to estimate the fair value of the cost of removing assets that Hydro is legally required to remove, an asset retirement obligation for those assets will be recognized at that time.

9. EMPLOYEE FUTURE BENEFITS

Pension Plan
Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $4.1 million (2009 - $3.8 million) are expensed as incurred.

Other Benefits
Hydro provides group life insurance and healthcare benefits on a cost-shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2010, cash payments to beneficiaries for its unfunded other employee future benefits was $1.8 million (2009 - $2.2 million). An actuarial valuation was performed on December 31, 2009 and extrapolated to December 31, 2010. The next actuarial valuation will be performed as at December 31, 2012.

(millions of dollars)	**2010**	2009
Accrued benefit obligation		
Balance at beginning of year	**58.0**	43.1
Transfer to Nalcor Energy	**-**	(0.5)
Current service cost	**1.7**	1.1
Interest cost	**3.8**	3.2
Actuarial loss	**7.6**	13.3
Benefits paid	**(1.8)**	(2.2)
Balance at end of year	**69.3**	58.0

9. EMPLOYEE FUTURE BENEFITS (cont'd.)

Other Benefits (cont'd.)

Plan deficit	**69.3**	58.0
Unamortized actuarial loss	**(20.7)**	(13.8)
Unamortized past-service cost	**(0.2)**	(0.2)
Accrued benefit liability at end of year	**48.4**	44.0

(millions of dollars)	**2010**	2009
Components of benefit cost		
Current service cost	**1.7**	1.1
Interest cost	**3.8**	3.2
Actuarial loss	**7.6**	13.3
	13.1	17.6
Difference between actuarial loss and amount recognized	**(6.9)**	(13.3)
Benefit expense	**6.2**	4.3

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expense are as follows:

	2010	2009
Discount rate – benefit cost	**6.50%**	7.50%
Discount rate – accrued benefit obligation	**5.75%**	6.50%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2010	2009
Initial health care expense trend rate	**7.50%**	7.50%
Cost trend decline to	**5.00%**	5.00%
Year that rate reaches the rate it is assumed to remain at	**2016**	2016

A 1% change in assumed health care trend rates would have had the following effects:

Increase	**2010**	2009
Current service and interest cost	**0.9**	0.7
Accrued benefit obligation	**11.7**	8.9

Decrease	**2010**	2009
Current service and interest cost	**(0.7)**	(0.5)
Accrued benefit obligation	**(9.2)**	(7.0)

10. SHAREHOLDER'S EQUITY

Share Capital

(millions of dollars)	**2010**	2009
Common shares of par value $1 each		
Authorized 25,000,000 shares; issued 22,503,942 shares	**22.5**	22.5

Contributed Capital

(millions of dollars)	**2010**	2009
Total contributed capital	**115.4**	115.4

There were no contributions by Nalcor during 2010 (2009 - $100.0 million).

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

(millions of dollars)	**2010**	2009
Balance, beginning of year	**21.0**	15.9
Change in fair value of available for sale financial instruments	**20.5**	9.0
Change in fair value of derivatives designated as cash flow hedges	**1.1**	9.2
Amount recognized in net income	**(15.9)**	(13.1)
Balance, end of year	**26.7**	21.0

12. CAPITAL MANAGEMENT

Hydro's principal business requires ongoing access to capital in order to maintain the continued delivery of safe and reliable service to its customers. Therefore, Hydro's primary objective when managing capital is to ensure ready access to capital at a reasonable cost.

The capital managed by Hydro is comprised of debt (long-term debentures, promissory notes, bank credit facilities and bank indebtedness) and equity (share capital, contributed capital, accumulated other comprehensive income and retained earnings).

A summary of the capital structure is outlined below:

(millions of dollars)	**2010**		2009	
Debt				
Long-term debt	**1,136.7**		1,141.6	
Current portion of long-term debt	**8.2**		8.2	
Sinking funds	**(208.4)**		(179.6)	
	936.5	**56.5%**	970.2	57.2%
Equity				
Share capital	**22.5**		22.5	
Contributed capital	**115.4**		115.4	
Accumulated other comprehensive income	**26.7**		21.0	
Retained earnings	**557.5**		566.2	
	722.1	**43.5%**	725.1	42.8%
Total debt and equity	**1,658.6**	**100.0%**	1,695.3	100.0%

12. CAPITAL MANAGEMENT (cont'd.)

Hydro's approach to capital management encompasses various factors including monitoring the percentage of floating rate debt in the total debt portfolio, the weighted average term to maturity of its overall debt portfolio, its percentage of debt to debt plus equity and its earnings before interest and taxes (EBIT) coverage of interest.

For the regulated portion of Hydro's operations a capital structure comprised of 75% debt and 25% common equity is maintained, a ratio which management believes to be optimal with respect to its cost of capital. This capital structure is maintained by a combination of dividend policy, contributed equity and debt issuance. The issuance of any new debt with a term greater than one year requires prior approval of Hydro's regulator, the PUB.

Per legislation, the total of the short-term loans issued by Hydro and outstanding at any time, shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. The current limit is set at $300 million. The balance outstanding as at December 31, 2010 was nil (2009 -nil). Issuance of long-term and short-term debt by Hydro is further restricted by Bill C-24, an amendment to the Newfoundland and Labrador Hydro Act of 1975. The Bill effectively limits Hydro's total borrowings, which includes both long and short-term debt, to $1.6 billion at any point in time.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

The estimated fair values of financial instruments as at December 31, 2010 and 2009 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Hydro might receive or incur in actual market transactions.

As a significant number of Hydro's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Hydro as a whole.

	Carrying Value	**Fair Value**	Carrying Value	Fair Value
(millions of dollars)	**2010**		2009	
Financial assets				
Cash and cash equivalents	**37.7**	**37.7**	10.9	10.9
Short-term investments	**9.0**	**9.0**	20.0	20.0
Accounts receivable	**70.3**	**70.3**	69.8	69.8
Sinking funds – investments in same Hydro issue	**76.4**	**93.6**	71.1	85.2
Sinking funds – other investments	**208.4**	**208.4**	179.6	179.6
Derivative assets (including current portion)	**2.0**	**2.0**	7.0	7.0
Long-term receivable [(1)]	**25.4**	**n/a**	23.9	n/a
Financial liabilities				
Accounts payable and accrued liabilities	**107.6**	**107.6**	74.4	74.4
Accrued interest	**28.7**	**28.7**	28.7	28.7
Long-term debt including amount due within one year (before sinking funds)	**1,221.3**	**1,589.7**	1,220.9	1,440.6
Derivative liabilities	**0.3**	**0.3**	-	-
Long-term related party note payable [(1)]	**25.3**	**n/a**	23.9	n/a

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

Fair Value (cont'd.)

The fair value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, accrued interest and due to related parties approximates their carrying values due to their short-term maturity.

(1) The fair value of the long-term receivable and long-term related party note payable is subject to uncertainty regarding the timing of future cash flows and as such, the fair value of the long-term receivable cannot be determined at December 31, 2010 and 2009.

Establishing Fair Value

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents Hydro's fair value hierarchy for financial assets and liabilities as at December 31. There were no transfers between Level 1 and Level 2 during the year:

(millions of dollars)	Level 1	Level 2	Total
	2010		
Financial assets			
Cash and cash equivalents	**37.7**	**-**	**37.7**
Short-term investments	**9.0**	**-**	**9.0**
Accounts receivable	**70.3**	**-**	**70.3**
Sinking funds – investments in same Hydro issue	**-**	**93.6**	**93.6**
Sinking funds – other investments	**-**	**208.4**	**208.4**
Derivative assets	**-**	**2.0**	**2.0**
Financial liabilities			
Accounts payable and accrued liabilities	**107.6**	**-**	**107.6**
Accrued interest	**28.7**	**-**	**28.7**
Long-term debt including amount due within one year (before sinking funds)	**-**	**1,589.7**	**1,589.7**
Derivative liabilities	**-**	**0.3**	**0.3**

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

Fair Value (cont'd.)

Establishing Fair Value (cont'd.)

	Level 1	Level 2	Total
	2009		
Financial assets			
Cash and cash equivalents	10.9	-	10.9
Short-term investments	20.0	-	20.0
Accounts receivable	69.8	-	69.8
Sinking funds – investments in same Hydro issue	-	85.2	85.2
Sinking funds – other investments	-	179.6	179.6
Derivative assets	-	7.0	7.0
Financial liabilities			
Accounts payable and accrued liabilities	74.4	-	74.4
Accrued interest	28.7	-	28.7
Long-term debt including amount due within one year (before sinking funds)	-	1,440.6	1,440.6

There were no financial assets or liabilities valued using Level 3 of the fair value hierarchy as at December 31, 2010 and 2009.

Risk Management

In January and February of 2010, Hydro entered into 28 swap contracts, with terms ranging from 2 to 11 months, to hedge the commodity price risk on electricity sales in the amount of $24.7 million.

Exposure to credit risk, liquidity risk and market risk arises in the normal course of Hydro's business.

Credit Risk

Hydro is exposed to credit risk in the event of non-performance by counterparties to its financial instruments. The majority of the receivables are from regulated utilities which minimizes credit risk. There is risk that Hydro will not be able to collect all of its remaining accounts receivable and amounts owing under its customer finance plans. These financial instruments which arise in the normal course of business do not represent a significant concentration of credit risk as amounts are owed by a large number of customers on normal credit terms. Hydro manages this credit risk primarily by executing its credit and collection policy including the requirement for security deposits from certain customers. As at December 31, 2010 security deposits of $0.1 million (2009 - $0.1 million) are included in accounts payable and accrued liabilities.

Hydro's three largest customers account for 80% (2009 – 76%) of total energy sales and 67% (2009 - 72%) of accounts receivable. These customers are comprised of rate regulated organizations or organizations with an investment grade rating.

Hydro does not have any significant amounts that are past due and uncollectable for which a provision has not been recognized at December 31, 2010.

Hydro manages its investment credit risk exposure by restricting its investments to high-quality securities such as Canada Treasury Bills, Bankers' Acceptances drawn on Schedule 1 Canadian Chartered Banks and Term Deposits issued by Schedule 1 Canadian Chartered Banks. Additionally, the investments held within the portfolios of Churchill Falls do not exceed 10% with any one institution with the exception of the Government of Canada.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

Risk Management

Liquidity Risk

Hydro is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. This risk is managed by maintaining borrowing facilities sufficient to cover both anticipated and unexpected fluctuations within the operations and by continuously monitoring cash flows.

Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, a $300.0 million promissory note program and credit facilities.

Long-term liquidity risk is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2014 to 2033. Sinking funds have been established for these issues with the exception of Series AE.

The following are the contractual maturities of Hydro's financial liabilities, including principal and interest, as at December 31, 2010:

(millions of dollars)	**<1 Year**	**1-3 Years**	**3-5 years**	**> 5 Years**	**Total**
Accounts payable and accrued liabilities	**107.6**	**-**	**-**	**-**	**107.6**
Accrued interest	**28.7**	**-**	**-**	**-**	**28.7**
Derivative liabilities	**0.3**	**-**	**-**	**-**	**0.3**
Long-term debt including amount due within one year	**-**	**-**	**125.0**	**1,100.0**	**1,225.0**
Interest	**61.8**	**180.9**	**161.2**	**752.5**	**1,156.4**
	198.4	**180.9**	**286.2**	**1,852.5**	**2,518.0**

Market Risk

Market risk refers primarily to the risk of loss resulting from changes in interest rates, commodity prices and foreign exchange rates. Nalcor has a formal financial risk management policy that outlines the risks associated with the operations of Nalcor and its subsidiaries outlining approaches and guidelines to be followed in the management of those risks. This policy is reviewed by the Board annually or more frequently if there is a material change to Nalcor's financial risks. The Audit Committee provides oversight on behalf of the Board with the exception of any items that specifically require Board approval.

Interest Rates

Interest rate risk is managed within the corporate financing strategy whereby floating rate debt exposures and interest rate scenarios are forecast and evaluated. A diversified portfolio of fixed and floating rate debt is maintained and managed with a view to an acceptable risk profile. Key quantitative parameters for interest rate risk management includes the percentage of floating rate debt in the total debt portfolio, coupled with an examination of the weighted average term to maturity of the entire debt portfolio. By setting clear guidelines in respect to these quantitative parameters, Hydro attempts to minimize the likelihood of a material impact on net income resulting from an unexpected change in interest rates.

Hydro is exposed to interest rate risk related to the short-term debt portfolio, the sinking fund investment portfolios and reserve fund investment portfolios. Interest rate risk on the long-term debt portfolio is mitigated through the use of fixed rate debentures. The following table illustrates Hydro's exposure to a 100 basis point (1%) change in interest rates:

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

Risk Management (cont'd.)

Market Risk (cont'd.)

	Net Income		Other Comprehensive Income	
(millions of dollars)	1% decrease	1 % increase	1% decrease	1% increase
Interest on short-term investments	**(0.1)**	**0.1**	**-**	**-**
Interest on sinking funds	**-**	**-**	**29.3**	**(10.3)**
	(0.1)	**0.1**	**29.3**	**(10.3)**

Foreign Currency and Commodity Exposure
The fair value of future cash flows of a financial instrument will fluctuate due to changes in the exchange rate between the foreign currency and the Canadian dollar. Hydro's primary exposure to both foreign exchange and commodity price risk arises within Hydro from its purchases of No. 6 fuel for consumption at the HTGS and certain electricity sales both of which are denominated in USD.

During 2010, Hydro had total purchases of No. 6 fuel of $104.1 million (2009 - $87.5 million) denominated in USD. Exposure to both the foreign exchange and commodity price risk associated with these fuel purchases is mitigated through the operation of the RSP. The purpose of the RSP is to both reduce volatility in customer rates as well as mitigate potential net income volatility from fuel price and volume variations. All variances in fuel prices including exchange rates, as compared to that approved in Hydro's most recent cost of service study, are captured in the RSP and are either refunded to or collected from customers through rate adjustments. Hydro also employs the periodic use of forward currency contracts to manage exposure to exchange rates on a particular day.

During 2010, total electricity sales denominated in USD were $72.8 million (2009 - $41.8 million). Hydro mitigates this risk through the use of commodity swaps and foreign currency forward contracts.

During 2009, Hydro entered into a series of 24 monthly foreign exchange forward contracts, in the amount of $87.8 million USD at an average exchange rate of 1.17 to hedge 75% of Hydro's forecasted USD electricity sales, the last of which expires in April 2011. These contracts have been designated as part of a hedging relationship.

During 2010, Hydro entered into 28 commodity swap contracts totalling $24.7 million, the last of which expired in December 2010. These contracts swapped floating market rates for fixed rates which ranged from $26 USD/MWh to $50 USD/MWh. These contracts have not been designated as part of a hedging relationship. During 2010, 24 of these settled. The fair value of the four contracts outstanding as at December 31, 2010 is a liability of $0.3 million and $3.4 million in losses from these contracts is included in Other gains and losses.

Effect of Hedge Accounting on Financial Statements

	Net Gains Included in Net Income	**Unrealized Gains Included in OCI**	Net Gains Included in Net Income	Unrealized Gains Included in OCI
(millions of dollars)	**2010**		2009	
Ineffective portion	**0.2**	**-**	0.5	-
Effective portion	**5.9**	**1.3**	2.4	6.2

The ineffective portion of hedging gains and losses is included in net income through Other gains and losses.

14. INTEREST AND FINANCE INCOME /CHARGES

(millions of dollars)	**2010**	2009
Interest and finance income		
Interest on sinking fund	**15.2**	13.9
Other interest income	**0.9**	2.5
	16.1	16.4
Interest and finance charges		
Long-term debt	**90.5**	90.5
Interest on RSP	**10.2**	7.0
Accretion of long-term debt	**0.4**	0.4
Amortization of foreign exchange losses	**2.1**	2.2
Other	**1.4**	1.2
	104.6	101.3
Interest capitalized during construction	**(1.2)**	(0.8)
	103.4	100.5

15. SUPPLEMENTARY CASH FLOW INFORMATION

(millions of dollars)	**2010**	2009
Accounts receivable	**(0.5)**	(0.3)
Inventory	**(3.4)**	(7.0)
Prepaid expenses	**(0.8)**	(0.3)
Regulatory assets	**4.4**	5.5
Regulatory liabilities	**37.2**	68.8
Accounts payable and accrued liabilities	**33.2**	24.6
Employee future benefits	**4.4**	2.1
Changes to non-cash operating working capital balances	**74.5**	93.4
Interest received	**0.3**	0.7
Interest paid	**90.5**	91.3

16. SEGMENT INFORMATION

Geographic Information

Revenues by geographic area:

(millions of dollars)	**2010**	2009
Newfoundland and Labrador	**446.7**	469.4
Québec	**-**	13.6
Nova Scotia	**11.1**	36.6
New Brunswick	**60.7**	3.5
	518.5	523.1

All of Hydro's physical assets are located in the Province.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

16. SEGMENT INFORMATION (cont'd.)

Hydro operates in three business segments. Regulated electricity encompass sales of power and energy to most customers within the Province, non-regulated activities are primarily engaged in energy project development and energy marketing encompasses sales to markets outside the Province. The designation of segments has been based on regulatory status and management accountability. The segments' accounting policies are the same as those previously described in Note 2.

(millions of dollars)	Hydro Regulated	Non-Regulated Activities	Energy Marketing	Total
		2010		
Revenue				
Energy sales	**417.1**	**5.5**	**77.5**	**500.1**
Interest and finance income	**16.1**	**-**	**-**	**16.1**
Other revenue	**2.3**	**-**	**-**	**2.3**
	435.5	**5.5**	**77.5**	**518.5**
Expenses				
Fuels	**140.3**	**0.1**	**-**	**140.4**
Power purchased	**44.2**	**-**	**4.1**	**48.3**
Operations and administration	**97.8**	**3.9**	**21.4**	**123.1**
Interest and finance charges	**102.9**	**-**	**0.5**	**103.4**
Amortization	**43.8**	**-**	**-**	**43.8**
Other gains and losses	**-**	**-**	**2.6**	**2.6**
	429.0	**4.0**	**28.6**	**461.6**
Net income from operations	**6.5**	**1.5**	**48.9**	**56.9**
Equity in net income of Churchill Falls	**-**	**16.6**	**-**	**16.6**
Preferred dividends	**-**	**10.2**	**-**	**10.2**
Net income	**6.5**	**28.3**	**48.9**	**83.7**
Capital expenditures	**55.5**	**-**	**-**	**55.5**
Total assets	**1,831.5**	**409.7**	**7.4**	**2,248.6**

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

16. SEGMENT INFORMATION (cont'd.)

	Hydro Regulated	Non-Regulated Activities	Energy Marketing	Total
		2009		
Revenue				
Energy sales	443.8	6.0	54.7	504.5
Interest and finance income	16.4	-	-	16.4
Other revenue	2.2	-	-	2.2
	462.4	6.0	54.7	523.1
Expenses				
Fuels	155.2	-	-	155.2
Power purchased	46.8	-	4.2	51.0
Operations and administration	100.9	3.3	16.6	120.8
Interest and finance charges	99.9	-	0.6	100.5
Amortization	41.7	-	-	41.7
Other gains and losses	-	-	(0.7)	(0.7)
	444.5	3.3	20.7	468.5
Net income from operations	17.9	2.7	34.0	54.6
Equity in net income of Churchill Falls	-	7.9	-	7.9
Preferred dividends	-	3.9	-	3.9
Net income	17.9	14.5	34.0	66.4
Capital expenditures	54.1	-	-	54.1
Total assets	1,766.0	392.5	10.2	2,168.7

17. COMMITMENTS AND CONTINGENCIES

(a) Hydro has received claims instituted by various companies and individuals with respect to outages and other miscellaneous matters. Although such matters cannot be predicted with certainty, management currently considers Hydro's exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, to be $0.1 million (2009 - $0.1 million).

(b) One of Hydro's industrial customers commenced legal proceedings in 1997, claiming approximately $21.8 million (2009 - $21.9 million) related to outages and plant shutdowns. Hydro is defending this claim. While the ultimate outcome of this action cannot be ascertained at this time, in the opinion of Hydro's management, following consultation with its legal counsel, no liability should be recognized.

(c) Outstanding commitments for capital projects total approximately $11.0 million (2009 - $9.2 million).

17. COMMITMENTS AND CONTINGENCIES (cont'd.)

(d) Hydro has entered into a number of long-term power purchase agreements as follows:

Type	Rating	In-service Date	Term
Hydroelectric	175 kW	1988	Continual
Hydroelectric	3 MW	1995	25 years
Hydroelectric	4 MW	1998	25 years
Cogeneration	15 MW	2003	20 years
Wind	390 kW	2004	15 years
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years

Estimated payments due in each of the next five years are as follows:

(millions of dollars)	2011	2012	2013	2014	2015
Power purchases	23.9	24.5	25.1	25.6	26.1

(e) Hydro has issued 23 irrevocable letters of credit to the New Brunswick System Operator totalling $18.6 million as credit support related to applications for point to point transmission service. In addition, Hydro has issued one letter of credit to the Department of Fisheries and Oceans in the amount of $0.3 million as a performance guarantee in relation to the Fish Habitat Compensation Agreement.

(f) Hydro has entered into power sales agreements with third parties with respect to the energy previously sold to Hydro-Québec under a power sales agreement that expired March 31, 2009. To facilitate market access, Hydro has entered into a five-year transmission service agreement with Hydro-Québec TransÉnergie to acquire access to 265 MW of transmission capacity from Labrador through Québec. Hydro has the right to renew its transmission service contract at the end of the contract term. If at that time there is a competing request for the same path, in order to renew the service agreement, Hydro must agree to accept a contract term that is at least equal to that competing request.

Pursuant to Hydro's five-year transmission service agreement with Hydro-Québec TransÉnergie, the transmission rental payments to contract maturity are as follows:

2011	$ 19.4 million
2012	$ 19.4 million
2013	$ 19.4 million
2014	$ 4.8 million

(g) Hydro has received funding, in the amount of $3.0 million, from the Atlantic Canada Opportunities Agency in relation to a wind-hydrogen-diesel research development project in the community of Ramea. This funding is repayable in annual installments of $25,000 per commercial implementation of the resulting product. As at December 31, 2010 there have been no commercial implementations.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

18. RELATED PARTY TRANSACTIONS

Hydro enters into various transactions with its parents, subsidiaries and other affiliates. These transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Related parties with which Hydro transacts are as follows:

Related Party	Relationship
Nalcor Energy (Nalcor)	Nalcor is a 100% shareholder of Hydro.
The Province	The Province is a 100% shareholder of Nalcor.
Churchill Falls (Labrador) Corporation	Churchill Falls is a jointly controlled subsidiary of Hydro.
Lower Churchill Development Corporation	Lower Churchill Development Corporation is a wholly owned subsidiary of Hydro.
Nalcor Energy – Oil and Gas Inc.	Nalcor Energy – Oil and Gas Inc. is a wholly owned subsidiary of Nalcor.
Nalcor Energy – Bull Arm Fabrication Inc.	Nalcor Energy – Bull Arm Fabrication Inc. is a wholly owned subsidiary of Nalcor.
Gull Island Power Corporation	Gull Island Power Corporation is a wholly owned subsidiary of Nalcor.
Board of Commissioners of Public Utilities	The PUB is an agency of the Province.

The amounts included in the financial statements for related party transactions are as follows:

		Nalcor	**Other Affiliates**	**Total**
(millions of dollars)			**2010**	
Revenue	(e)	**-**	**2.0**	**2.0**
Expenses	(a)(b)(c)(f)	**19.8**	**3.2**	**23.0**
Accounts receivable		**-**	**3.4**	**3.4**
Accounts payable and accrued liabilities	(c)(f)	**40.4**	**0.1**	**40.5**
Deferred capital contribution	(d)	**-**	**0.1**	**0.1**
Long-term related party note payable	(g)	**25.3**	**-**	**25.3**

(millions of dollars)			2009	
Revenue	(e)	-	2.0	2.0
Expenses	(a)(b)(c)(f)	21.1	3.8	24.9
Accounts receivable	(f)	-	0.2	0.2
Accounts payable and accrued liabilities	(c)(f)	20.8	0.7	21.5
Deferred capital contribution	(d)	-	0.2	0.2
Long-term related party note payable	(g)	23.9	-	23.9

(a) Hydro has entered into a long-term power contract with Churchill Falls for the purchase of $6.0 million (2009 - $5.9 million) of the power produced by Churchill Falls.

(b) For the year ended December 31, 2010, approximately $2.5 million (2009 - $1.2 million) of operating costs were recovered from Nalcor and $3.4 million (2009 - $2.7 million) from other affiliates for engineering, technical, management and administrative services. During 2010 Hydro incurred $2.1 million (2009 - $1.2 million) of operating costs from Nalcor for engineering, technical, management and administrative services.

18. RELATED PARTY TRANSACTIONS (cont'd.)

(c) Hydro is required to contribute to the cost of operations of the PUB as well as pay for the cost of hearings into applications it makes. During 2010, Hydro incurred $0.6 million in costs related to the PUB (2009 - $0.6 million) of which $0.1 million (2009 - $0.1 million) was included in Accounts payable and accrued liabilities.

(d) During 2010, Nalcor advanced $2.3 million (2009 - $1.1 million) as a contribution in aid of construction related to the Ramea Wind-Hydrogen-Diesel Project. Hydro also received contributions in aid of construction from the Province related to wind feasibility studies. As at December 31, 2010, $0.1 million (2009 - $0.2 million) has been recorded as a Deferred capital contribution.

(e) During 2010, Hydro received $0.4 million (2009 - $0.4 million) as a rate subsidy for rural isolated customers from the Province and $1.6 million (2009 - $1.6 million) as an energy rebate to offset the cost of basic electricity consumption for Labrador rural isolated residential customers under the Northern Strategic Plan with $0.3 million (2009 - $0.1 million) recorded as Accounts receivable at year-end.

(f) As at December 31, 2010, Hydro has a payable to Nalcor of $40.4 million (2009- $20.8 million) and a receivable from other affiliates for $3.1 million (2009 – $0.6 million payable and $0.1 receivable). This payable/receivable consists of various intercompany operating costs and power purchases.

(g) Hydro has a long-term related party note payable to Nalcor for $25.3 million (2009 – $23.9 million). The note is non-interest bearing and has no set terms of repayment.

19. WATER MANAGEMENT AGREEMENT

In June 2007, the Province passed an amendment to the Electrical Power Control Act, 1994 (EPCA). The amendment requires parties that utilize a common water resource in the province for power production, enter into a water management agreement. The amendment provides that any resulting water management agreement will not adversely affect existing power contracts. Churchill Falls shares the Churchill River with a Nalcor Energy proposed hydro-electric generation development downstream from Churchill Falls. On March 9, 2010, the PUB issued a Board Order establishing a water management agreement between the parties.

20. SUBSEQUENT EVENTS

In January 2011, Hydro entered into nine forward contracts with a notional value of $35.7 million to hedge the foreign exchange risk on USD electricity sales. In February 2011, Hydro also entered into 20 swap contracts with a notional value of $27.8 million to hedge the commodity price risk on electricity sales.

21. COMPARATIVE FIGURES

The comparative figures have been reclassified to conform with the 2010 financial statement presentation including Interest and finance charges, Other gains and losses, Accounts receivable and Accounts payable and accrued liabilities.

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Return 3

Newfoundland and Labrador Hydro
Computation of Rate Base
($ 000s)
Year Ended December 31

	2010	2009
Capital Assets in Service - Return 4 *	2,124,663	2,082,459
Work in Process	17,002	10,600
Deduct:		
Accumulated Depreciation - Return 6	669,742	632,085
Contributions in Aid of Construction - Return 7	97,257	96,749
	766,999	728,834
Total Capital Assets as per Hydro FS (Return 1)	1,374,666	1,364,225
Deduct Items Excluded from Rate Base:		
Work in Process	(17,002)	(10,600)
Net Capital Assets	1,357,664	1,353,625
Net Capital Assets, Previous Year	1,353,625	1,344,892
Average Capital Assets	1,355,645	1,349,259
Cash Working Capital Allowance - Return 8	3,093	2,965
Fuel Inventory - Return 10	29,908	20,817
Supplies Inventory - Return 10	24,089	23,567
Average Deferred Charges - Return 11	71,924	76,870
Average Rate Base at Year-End - Return 12	1,484,659	1,473,478

* Excludes an amount of $11,395K related to an Asset Retirement Obligation associated with the Holyrood Thermal Generating Station.

Return 4

Newfoundland and Labrador Hydro
Capital Assets - Orginal Cost
($ 000s)

	Balance 1-Jan-10	Adjustments During 2010	Additions During 2010	Retirements During 2010	Balance 31-Dec-10
Power Generation					
* Steam	207,111	-	5,464	(248)	212,327
Hydro	847,593	(200)	6,188	(151)	853,430
Diesel	64,489	204	4,175	(991)	67,877
Gas turbine	48,522	-	1,419	(26)	49,915
	1,167,715	4	17,246	(1,416)	1,183,549
Substations	183,221	(257)	3,012	(509)	185,467
Transmission	329,968	(12)	5,849	(553)	335,252
Distribution	187,571	6	9,601	(1,199)	195,979
General plant	100,938	55	8,270	(2,903)	106,360
Telecontrol	78,416	204	4,921	(1,509)	82,032
Computer software	27,182	-	1,394	-	28,576
Other	3,431	-	-	-	3,431
Total depreciable plant	2,078,442	-	50,293	(8,089)	2,120,646
Non depreciable land	4,017	-	-	-	4,017
Plant investment - Return 3	2,082,459	-	50,293	(8,089)	2,124,663

* Excludes an amount of $11,395K related to an Asset Retirement Obligation associated with the Holyrood Thermal Generating Station.

Return 5

Newfoundland and Labrador Hydro
Capital Expenditures - Overview
($ 000s)

Year Ended December 31

	Annual Budget 2010	Total Actual Expenditures 2010	Variance From 2010 Budget
Generation	18,333	13,736	(4,597)
Transmission and Rural Operations	27,409	28,015	606
General Properties	10,982	10,084	(898)
Allowance for Unforeseen Events	1,694	851	(843)
Projects Approved by PUB	4,731	2,762	(1,969)
New Projects Less than $50,000 Approved by Hydro	148	105	(43)
Total Capital Budget	63,297	55,553	(7,744)

Approved Board Order No. P.U. 1 (2010) 2010 Capital Budget	51,225
No. P.U.31 (2009)	389
No. P.U. 33 (2009)	1,795
No. P.U. 34 (2009)	644
No. P.U. 21 (2010)	694
No. P.U. 26 (2010)	120
No. P.U. 29 (2010)	18
No. P.U. 34 (2010)	202
Carryover Projects 2009 to 2010	8,902
New projects under $50,000 Approved by Hydro	148
Changes to Multi-year Projects in 2009 affecting 2010	(840)
Total Approved Capital Budget	63,297

Return 6

Newfoundland and Labrador Hydro
Accumulated Depreciation
($ 000s)

Balance, January 1, 2010			632,085
Add:			
Depreciation			43,790
Deduct:			
Retirements			(6,133)
Balance, December 31, 2010 - Return 3			669,742

Depreciation Rates - 2010			
Steam - SL			10.00%
Hydro - SL			3.33%
Hydro - SF			7.28%
Gas Turbine - SL			4.00%
Diesel - SL			5.00%
Substations - SL			3.33%
Substations - SF			7.28%
Transmission - SL	2.50%	-	3.33%
Transmission - SF			7.28%
Distribution - SL			3.33%
General Properties - SL	2.00%	-	20.00%
Telecontrol - SL	10.00%	or	20.00%
Software - SL			20.00%
Computer Hardware - SL			20.00%
Percentage of accumulated depreciation to total depreciable plant			32.22%
Percentage of current depreciation to total depreciable plant			2.11%

Note: SL = straight-line
SF = sinking fund

Return 7

Newfoundland and Labrador Hydro
Contributions in Aid of Construction
($ 000s)

	CUSTOMERS	PROVINCE	TOTAL
Gross Contributions January 1, 2010	20,743	76,006	96,749
2010 Retirements	-	(805)	(805)
2010 Additions	44	1,269	1,313
Balance December 31, 2010 - Return 3	20,787	76,470	97,257

Return 8

Newfoundland and Labrador Hydro
Working Capital
($ 000s)
Year Ended December 31

	2010	2009
Calculation of Cash Working Capital Allowance		
Operating Expenses for the Year - Return 9	99,624	101,739
Add: Power Purchases	24,349	25,240
Total	123,973	126,979
	4.63%	*4.61%*
Working Capital Allowance	5,740	5,854
Deduct: HST Adjustment	2,647	2,889
Working Capital Allowance - Return 3	3,093	2,965

In general, the Company's billing and collection procedures are consistent with those in place during the preceding year.

Newfoundland and Labrador Hydro
Statement of Operating Costs
($ 000s)
Year Ended December 31

	2010	2009
Net operating		
Salaries and fringe benefits	63,061	60,422
System equipment maintenance	21,748	22,122
Office supplies and expenses	2,100	2,161
Professional services	4,215	3,612
Insurance	1,960	1,937
Equipment rentals	1,738	1,721
Travel	2,755	2,910
Miscellaneous expenses	4,454	4,174
Building rental and maintenance	1,170	1,144
Transportation	1,796	1,833
Customer costs	(625)	3,892
Cost recoveries	(4,748)	(4,189)
Subtotal - Return 8	99,624	101,739
Add: asset write down	-	505
IOC cost recovery	(2,648)	(1,875)
Total O&M	96,976	100,369
Loss on disposal of capital assets	687	1,267
Total operating costs	97,663	101,636

Return 9(A)

Newfoundland and Labrador Hydro
Significant Operating Expense Variance
($000's)

	2010	2009	Increase (Decrease)
Salaries and fringe benefits	**63,061**	**60,422**	**2,639**
Salaries & fringe costs increased in 2010 from 2009 by $2.6m, attributed to the following: staff salary increases and an increase in employee future benefits offset by an increase in capitalized labour.			
Customer costs	**(625)**	**3,892**	**(4,517)**
Provision for accounts receivable from Abitibi Bowater Consolidated Inc. ($3.7m) in 2009 combined with the effect of a power purchase recovery in 2010 related to Abitibi Bowater Consolidated expropriation.			
Loss on disposal of capital assets	**687**	**1,267**	**(580)**
Asset retirements vary from year to year.			
Professional services	**4,215**	**3,612**	**603**
Cost increase primarily related to software acqusition combined with an increase in consultants costs primarily in the Energy Conservation area.			
Miscellaneous Expenses	**4,454**	**4,174**	**280**
Primarily related to an increase in inventory write offs during 2010 combined with an increase in payroll taxes.			
IOC Cost Recoveries	**(2,655)**	**(1,875)**	**(780)**
The increase of 0.8m is primarily related to increased recovery related to IOC return to normal operation levels over 2009.			
Recoveries	**(4,748)**	**(4,189)**	**(559)**
Recovery of costs associated with the Nain fire ($1.3m) in 2009 offset by an increase in 2010 for recoveries from non regulated activities and third parties.			
Asset write down	**-**	**505**	**(505)**
Write down of Roddickton wood chip plant occurred in 2009.			

Return 10

Newfoundland and Labrador Hydro
Fuel and Inventory
($ 000s)

Year Ended December 31

	Fuel		Inventory	
	2010	**2009**	**2010**	**2009**
Opening Balance	25,975	19,669	23,982	22,716
January	22,893	14,159	24,442	23,089
February	43,036	21,552	24,339	23,287
March	45,038	31,289	24,464	23,687
April	33,449	22,361	24,166	23,714
May	27,093	19,402	24,137	23,698
June	26,368	18,675	24,252	23,402
July	28,202	19,073	24,001	23,750
August	27,736	18,879	23,947	23,721
September	27,651	18,874	24,017	23,770
October	22,048	15,711	23,870	23,674
November	29,662	25,006	23,804	23,882
December	29,646	25,975	23,730	23,982
13 Month Average - Return 3	29,908	20,817	24,089	23,567

Return 11

Newfoundland and Labrador Hydro
Deferred Charges
($ 000s)

As at December 31

	Board Order No.	2010	2009
Foreign exchange	P.U. 7 (2002-2003)	66,866	69,022
Studies			
Conservation Demand Management Potential study	P.U. 8 (2007)	50	100
Holyrood Thermal Generation Station			
Asbestos Abatement	P.U. 2 (2005)	1,949	4,080
Unit 2 Boiler	P.U. 44 (2006)	300	751
Conservation Demand Program	P.U. 14 (2009)	571	160
Deferred Charges for Rate Base, end of current year		69,736	74,113
Deferred Charges for Rate Base, end of prior year		74,113	79,626
Average Deferred Charges for Rate Base - Return 3		71,924	76,870

Return 12

Newfoundland and Labrador Hydro
Return on Rate Base
($ 000s)
Year Ended December 31

		2010	2009
(a)	Corporate Net Income - Return 1	83,691	66,374
	Deduct: Unregulated Earnings	77,087	49,163
	Regulated Net Income *	6,604	17,211
	Add: Regulated Interest - Return 16	86,766	83,440
(b)	Regulated Return	93,370	100,651
(c)	Average Rate Base - Return 3	1,484,659	1,473,478
(d)	Rate of Return on Average Rate Base	6.29%	6.83%
	Lower end of approved range -.15	7.29%	7.29%
	Higher end of approved range +.15	7.59%	7.59%

** Includes increased recovery of $126K related to Iron Ore Company of Canada Cost of Service Adjustment (2009- $798K decrease)*

Return 13

Newfoundland and Labrador Hydro
Return on Regulated Average Retained Earnings
($ 000s)

Year Ended December 31

		2010		**2009**
Total equity - Hydro as per Balance Sheet, Return 1		$722,162		$725,120
Deduct: Share capital		22,504		22,504
Contributed surplus		115,400		115,400
Accumulated OCI		26,783		21,047
Ending Retained Earnings as Per Balance Sheet, Return 1		557,475		566,169
Deduct: Non-Regulated Retained Earnings				
Beginning Non-Regulated Retained Earnings	329,226		324,536	
Non-Regulated Net Income for the year *	77,087		49,163	
Non-Regulated Dividends for the year	(61,485)		(44,473)	
Ending Non-Regulated Retained Earnings		344,828		329,226
Regulated Retained Earnings, end of year		212,647		236,943
Add: Regulated Contributed Surplus		100,000		100,000
Total Regulated Equity, end of year		312,647		336,943
Regulated Equity, beginning of year		336,943		219,732
Regulated Average Equity		324,795		278,338
Net income - Return 1		83,691		66,374
Deduct: Non-Regulated Net Income		77,087		49,163
Regulated Earnings *		6,604		17,211
Rate of Return on Regulated Equity		2.03%		6.18%

** Includes increased recovery of $126K related to Iron Ore Company of Canada Cost of Service Adjustment ($2009 - $798K decrease). These adjustments result in an increase in costs in non regulated (2009- decrease).*

Return 14

Newfoundland and Labrador Hydro
Capital Structure
($ 000s)

Year Ended December 31

Hydro

	2010		2009		Average	
	Amount	Percent	Amount	Percent	Amount	Percent
Debt (Return 15)	936,524	56.5%	970,155	57.2%	953,340	56.8%
Equity	722,162	43.5%	725,120	42.8%	723,641	43.2%
	1,658,686	100.0%	1,695,275	100.0%	1,676,981	100.0%

Hydro Regulated

	2010		2009		Average	
	Amount	Percent	Amount	Percent	Amount	Percent
Debt (Return 15) *	956,518	72.6%	981,426	72.0%	968,972	72.3%
Employee Future Benefits	48,348	3.7%	44,061	3.2%	46,205	3.4%
Equity	312,647	23.7%	336,943	24.7%	324,795	24.2%
	1,317,513	100.0%	1,362,430	100.0%	1,339,972	100.0%

** Includes decrease in debt of $126K related to Iron Ore Company of Canada cost of Service adjustment for 2010 (2009 - increase of $798K).*

Return 15

Newfoundland and Labrador Hydro
Cost of Debt
($ 000s)
Year Ended December 31

	2010	2009	Average
Long-Term Debt	1,144,905	1,149,768	1,147,337
Sinking Funds as per FS	(208,381)	(179,613)	(193,997)
Total debt	936,524	970,155	953,340
Add back mark to market value	25,515	14,802	20,159
Net debt	962,039	984,957	973,499
Non Regulated Debt Pool *	(5,521)	(3,531)	(4,526)
Total Regulated Debt - Return 14	956,518	981,426	968,973
Current Year Interest Expense Return 16			77,683
Cost of Debt			8.02%

* Includes increase in debt of $126K related to Iron Ore Company of Canada Cost of Service adjustment for 2010 (2009 - decrease of $798K)

Return 16

Newfoundland and Labrador Hydro
Interest Expense
($ 000s)
Year Ended December 31

	2010	2009
Gross Interest		
Long-Term Debt	90,450	90,450
Promissory Notes	409	570
	90,859	91,020
Amortization of Debt Discount and Financing Expenses	426	393
Provision for Foreign Exchange	2,157	2,157
Interest Earned	(16,111)	(16,370)
Non-Regulated Interest	(476)	(608)
Other	828	633
Interest for Cost of Debt - Return 15	77,683	77,225
Deduct:		
Interest capitalized during construction	(1,161)	(811)
Interest charged on RSP	10,244	7,026
Regulated net interest per financial statements - Return 12	86,766	83,440

Note: Certain of the 2009 comparative figures have been reclassified to conform with the 2010 presentation.

Return 17 No longer required

Return 18

Newfoundland and Labrador Hydro
Rate Stabilization Plan
($ 000s)

Year Ended December 31

	Utility						Industrial				
Month	Load Variation	Allocation Fuel Variation	Allocation Rural Rate Alteration	Financing Charges	**Return 19** Adjustment	Cumulative Net Balance	Load Variation	Allocation Fuel Variation	Financing Charges	**Return 19** Adjustment	Cumulative Net Balance
Opening balance						(53,069)					(36,884)
January	(59)	4,486	(30)	(322)	(266)	(49,261)	(2,736)	294	(224)	255	(39,295)
February	(16)	3,466	(118)	(299)	(234)	(46,463)	(2,610)	193	(238)	216	(41,735)
March	(0)	3,551	(106)	(282)	(235)	(43,535)	(2,358)	197	(253)	315	(43,833)
April	0	2,358	(92)	(264)	(188)	(41,721)	(1,852)	194	(266)	382	(45,376)
May	(1)	1,241	(74)	(253)	(177)	(40,985)	(1,615)	119	(275)	371	(46,776)
June	(14)	224	(65)	(249)	(135)	(41,224)	(2,105)	18	(284)	316	(48,831)
July	14	8	(85)	(250)	(629)	(42,166)	(2,480)	(9)	(296)	284	(51,332)
August	(2)	7	(105)	(256)	(637)	(43,159)	(2,320)	(6)	(311)	315	(53,655)
September	4	27	(102)	(262)	(653)	(44,146)	(2,148)	(1)	(326)	304	(55,826)
October	(9)	1,247	(109)	(268)	(810)	(44,094)	(2,046)	101	(339)	334	(57,775)
November	(11)	2,936	(126)	(268)	(998)	(42,561)	(2,150)	207	(351)	316	(59,752)
December	(178)	3,765	(158)	(258)	(1,131)	(40,522)	(2,075)	299	(363)	362	(61,528)
Year to date	(273)	23,313	(1,169)	(3,230)	(6,093)	12,548	(26,495)	1,606	(3,526)	3,770	(24,644)
Hydraulic Allocation						(15,717)					(1,083)
											-
Total						(56,238)					(62,611)
						To Return 18a					To Return 18a

* Opening balance adjusted to reflect a correction in the calculation of 2009 station service load.

Return 18(a)

Newfoundland and Labrador Hydro
Rate Stabilization Plan
($ 000s)

Year Ended December 31

	Hydraulic			From Return 18		
Month	Net Hydraulic Production Variation	Financing Charges	Cumulative Variation and Financing Charges	Utility Balance	Industrial Balance	Cumulative Net Balance
Opening balance			(32,562)	(53,069)	(36,884)	(122,515)
January	(4,919)	(198)	(37,678)	(49,261)	(39,295)	(126,233)
February	(5,552)	(229)	(43,458)	(46,463)	(41,735)	(131,656)
March	(3,343)	(264)	(47,065)	(43,535)	(43,833)	(134,434)
April	(2,657)	(286)	(50,007)	(41,721)	(45,376)	(137,105)
May	(6,195)	(303)	(56,506)	(40,985)	(46,776)	(144,267)
June	(489)	(343)	(57,338)	(41,224)	(48,831)	(147,392)
July	6,545	(348)	(51,140)	(42,166)	(51,332)	(144,638)
August	3,804	(310)	(47,647)	(43,159)	(53,655)	(144,461)
September	3,043	(289)	(44,893)	(44,146)	(55,826)	(144,864)
October	(2,205)	(272)	(47,371)	(44,094)	(57,775)	(149,240)
November	(4,475)	(287)	(52,133)	(42,561)	(59,752)	(154,446)
December	(4,810)	(347)	(57,289)	(40,522)	(61,528)	(159,339)
Year to date	(21,252)	(3,475)	(24,728)			-
Hydraulic Allocation	13,453	3,475	16,929	(15,717)	(1,083)	130
Total	(7,799)	-	(40,360)	(56,238)	(62,611)	(159,210)

* Opening balance adjusted to reflect a correction in the calculation of 2009 station service load.

Return 19

Newfoundland and Labrador Hydro
Assessable Revenue
($ 000s)
Year Ended December 31

	2010	2009
Electricity Sales	497,842	486,215
Rate Stabilization (Return 18)	2,324	18,301
Other (Loss) Revenue	(323)	2,961
	499,843	507,477
Deduct:		
Recall / Export	74,972	56,808
Iron Ore Company of Canada	5,481	4,619
Wabush Mines	5	3
Input Tax Credits	141	137
Assessable Revenue	419,244	445,910

Return 20

NEWFOUNDLAND & LABRADOR HYDRO
2010 Annual Report on the Rural Deficit

	2010 Actual			
	Revenues ($)	Cost of Service Before Deficit and Revenue Allocation ($)	Revenue Credits ($)	Deficit ($)
Rural Deficit Areas				
Island Interconnected	40,122,001	55,692,672	(1,575)	(15,569,095)
Island Isolated	1,402,573	8,193,102		(6,790,530)
Labrador Isolated	6,235,000	25,486,952		(19,251,952)
L'Anse au Loup	2,099,955	4,066,718		(1,966,763)
DND Revenue Credit			(3,417,898)	3,417,898
Total	49,859,529	93,439,444	(3,419,473)	(40,160,443)

	2010 Actual (1)				
	Number of Communities (2)	Number of Customers	Cost per kWh (3) ($)	Deficit per Customer (3) ($)	Cost Recovery Ratio (3)
Rural Deficit Areas					
Island Interconnected	144	22,375	0.15	(696)	0.72
Island Isolated	7	832	1.13	(8,161)	0.17
Labrador Isolated	16	2,514	0.72	(7,659)	0.24
L'Anse au Loup	8	984	0.21	(1,998)	0.52
Total	175	26,705	0.21	(1,504)	0.53

	Forecast Deficit ($)				
	2011	2012	2013	2014	2015
Rural Deficit Areas					
Island Interconnected	18,591,000	25,439,000	26,736,000	25,982,000	28,915,000
Isolated Systems	33,379,000	36,231,000	36,683,000	37,549,000	39,118,000
DND Revenue Credit	(3,738,000)	(3,370,000)	0	0	0
Total	48,232,000	58,300,000	63,419,000	63,531,000	68,033,000

(1) Average cost for Island Interconnected customers less Rural Interconnected is $0.053 per kilowatt hour and cost for Labrador Interconnected customers is $0.019 per kilowatt hour. Both calculations are based on Kwh sales.

(2) Hydro's definition of Community corresponds to the "Town Code" in its customer information system. Some smaller communities may be combined if they share a single postal code.

(3) Excludes DND Revenue Credit.

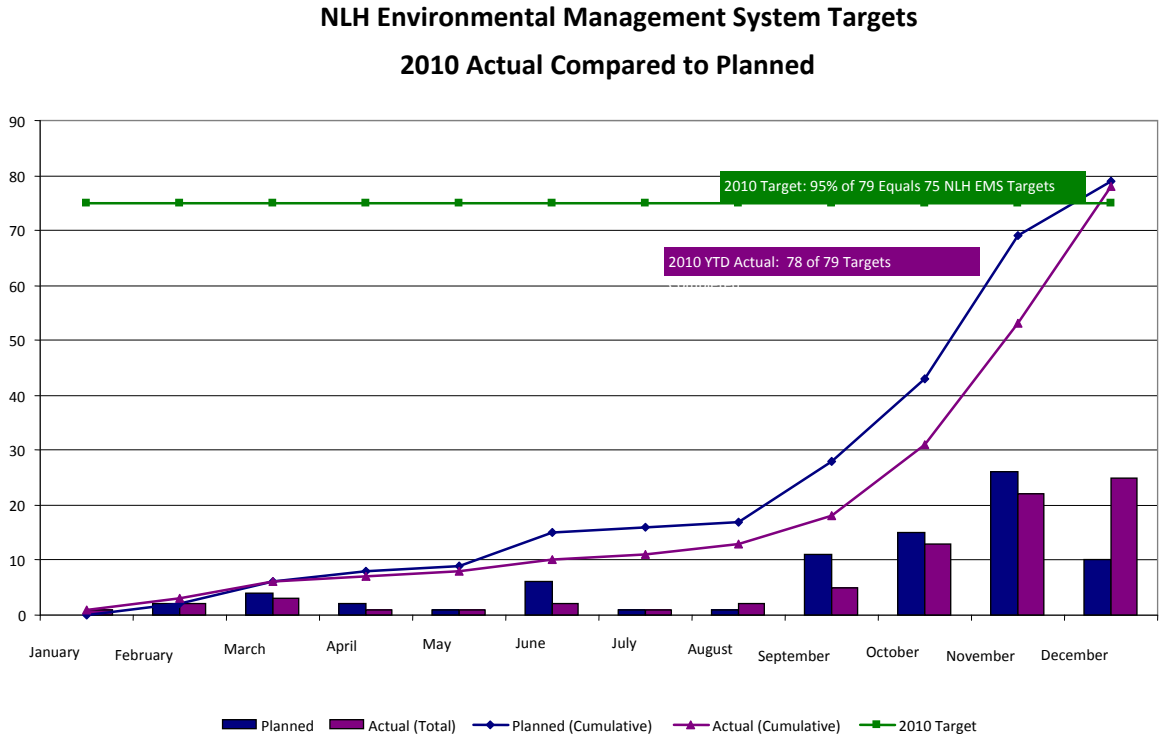
Return 21

Report on Conservation and Demand Management

Extracted from the December 2010 PUB Quarterly report

3.2 Achievement of EMS Targets

The annual target of 95% achievement was met, with 78 of the 79 planned initiatives completed.



3.3 Conservation Demand Management (CDM)

3.3.1 Introduction

This section outlines the major activities undertaken in 2010 by Hydro to address energy efficiency opportunities with Hydro's customers and internal facilities.

2010 was the first full year of activity for the new takeCHARGE rebate programs for residential and commercial customers. The joint utility program saw an increase in both participation and community engagement on conservation and efficiency opportunities in general. Hydro also launched the Industrial Energy Efficiency Program (IEEP), providing a customized approach to energy savings for Hydro's industrial customers.

Work has continued with government partners, community groups, individual customers to engage on energy efficiency and to create energy savings, and with those who sell and distribute energy saving technologies to assist in their promotions to the marketplace.

3.3.2 Energy Efficiency Planning and Coordination

Hydro and Newfoundland Power continue to work closely to develop and implement the takeCHARGE program for energy efficiency. There are three rebate programs currently offered provincially to residential customers and one program for commercial customers. These programs offer a prescriptive rebate for eligible technologies. They are:

- Residential
  i. Insulation
  ii. Energy Star Windows
  iii. High Efficiency and Programmable Thermostats
- Commercial
  i. Lighting

Hydro launched two additional programs in 2010 to address the unique nature of Hydro's customer base. The IEEP provides a customized approach to identification of savings opportunities for Hydro's Industrial Customers. This program provides support for opportunity identification through energy audits and feasibility studies as well as capital projects. There are also additional resources available to assist in employee training and awareness on efficiency.

The second program is an "at cash" coupon program offering discounts on smaller technologies including compact fluorescent light bulbs (CFLs), hot water tank wraps and low flow showerheads. Hydro is working with retailers in ten locations throughout its service area to deliver this program with the assistance of an energy efficiency engagement consultant, Summerhill. In addition to the coupons, there are rebates on two Energy Star appliances available to all Hydro customers. This new program is a pilot to determine the interest level in smaller efficiency technologies, explore the challenges of working on an "at cash" program directly with retailers and to determine the applicability of these types of initiatives as a cost effective ongoing component of the takeCHARGE portfolio. The pilot is scheduled to end February 28, 2011.

The continued expansion of the rebate programs has meant a continued effort on training, orientation and efficiency awareness for Hydro employees involved in the direct administration of the rebates as well as those external to the program.

3.3.3 Customer Awareness

As a provincial initiative, takeCHARGE promotions are primarily through mass market media with TV, internet and print campaigns. The program promotes cost savings of the rebated technologies as well as the energy and comfort of having a more efficient home or workspace.

Hydro also participated in ten trade show events across the province, promoting the takeCHARGE brand to residential and commercial audiences.

As takeCHARGE is a joint utility program, mass marketing efforts were focused on getting customers to visit the website for information. With an increasing number of customers online, takeCHARGE has also begun using social media to promote the rebates and community initiatives through facebook. This new approach has created positive discussion among customers on energy efficiency.

3.3.4 Community Outreach

Community based promotions and marketing are critical to creating awareness of the program and providing rebate program detailed information. Hydro participated in a number of community sporting and social events to promote the takeCHARGE program with positive response. In working with local volunteers with the Seniors Resource Centre and Canadian Blood Services, energy efficient products and information has been distributed to a wide geographic area. Engagement of retailers also continues, with training sessions available to assist in keeping floor staff knowledgeable on products and rebates.

As part of Energy Efficiency Week 2010, during the week of October 2 to 8, takeCHARGE launched the takeCHARGE of Your Town Challenge challenging municipalities to find ways to save and win prizes. Participating towns will work to reduce their consumption over a three month period as compared to the same period the previous year. The takeCHARGE team has been working with municipalities to provide suggested ways to encourage conservation in their residents and business owners. With 33 communities in Hydro's service area signed on to the Challenge, there has been significant effort and awareness created on the many ways to conserve.

3.3.5 Energy Efficiency Programs

Rebates
Rebate activity has been steadily increasing since the launch in 2009. The residential rebate programs that provide home heating savings have shown increases in participation through the home heating season as customers become more aware of heat loss during the cold winter months. The Energy Star Appliance rebate launch was timed to take advantage of Christmas purchases and the limited time nature of the program should encourage uptake. Understanding the purchase patterns in the markets for the technologies involved is critical to ensuring success.

The following table shows Hydro's rebate activity by month:

Rebate Activity

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Residential													
Insulation	6	3	8	2	5	5	0	2	1	0	3	3	38
Window	2	0	6	2	4	1	6	2	2	2	2	5	34
Thermostat	5	2	5	3	3	4	0	0	0	9	5	9	45
Appliance												4	4
Commercial													
Lighting					9				55			10	74
Total:	13	5	19	7	21	10	6	4	58	11	10	31	195

Internal Energy Efficiency
Hydro continues to take active steps to encourage behaviour change and improve technology and control systems in its own facilities. Installation of variable speed drives, high efficiency lighting, programmable thermostats and other technologies are having energy savings impacts across Hydro's facilities. Employees have been engaged through internal communications efforts promoting tips for home and office energy savings.

Walkthrough energy audits have been conducted at the following facilities:

- Happy Valley, Goose Bay diesel plant and facilities, old warehouse and line shop;
- Port Saunders office building and warehouse; and
- Bishop's Falls office building, warehouse and salvage stores facilities.

These walkthroughs provide the first identification of low and no cost options as well as provide justifications for more formal energy audits and analysis of potential capital projects. Employees have been supportive of the efforts and work has been progressing with retrofits conducted to Hydro Place and planning for other sites.

Additional energy management information has been provided to employees who manage buildings and to the general employee population. Through providing tracking information, promoting activities and training opportunities for designated energy champions in the regions, the network of energy aware employees at Hydro continues to grow.

Partner and Special Projects
Hydro continues to be an active participant in discussions with the provincial government regarding the development of plans and initiatives for energy efficiency and conservation across all sectors. During 2010 Hydro partnered with the Department of Natural Resources to promote the Provincial EnerGuide home energy retrofit program in concert with the takeCHARGE rebates.

3.3.6 Costs

Hydro's 2010 CDM program costs are outlined in the table below.

Hydro's CDM Program Costs 2010 ($000's)

Residential	**2010**
Insulation	60
Windows	48
Thermostat	19
Hydro Customer Coupon Program	140
Subtotal	*267*
Commercial	
Lighting	12
Industrial	221
Total	500

Costs associated with general awareness, planning functions and partnership programs and initiatives that would be incurred regardless of the specific rebate programs currently being offered are shown in the following table of Support Costs.

Hydro's Support Costs 2010 ($000's) 2010	
Education	106
Support	48
Planning	180
Total	334

3.3.7 Energy Savings

Savings for the takeCHARGE rebates has had steady growth. The below table demonstrates the energy savings realized in 2010.

Hydro Energy Savings (MWh) 2010	
takeCHARGE Program Portfolio	
Residential Insulation	84
Residential Windows	27
Residential Thermostat	25
Coupon Program	64
Commercial Lighting	10
Industrial	0
Other Hydro Initiatives[1]	3,777
Total	**3,987**

Hydro Energy Savings (MWh) 2009	
takeCHARGE Program Portfolio	
Residential Insulation	31
Residential Windows	12
Residential Thermostat	6
Commercial Lighting	3
Industrial	0
Other Initiatives	
Hydro existing[2]	1,309
Wrap Up for Savings 2009[3]	38
Coastal Labrador Community Energy Efficiency Pilot Project[4]	987
Outreach and Promotions	339
LED Distribution with Canadian Blood Services	334
Total	**3,059**

[1] Includes savings currently on the system from previous year's activities, as well as outreach activities.
[2] Reflects savings currently being seen on the system from activities that have taken place previous to 2009. For example, previous rebates issued through the Wrap Up for Savings program would create savings for approximately 25 year period, whereas a CFL distribution would create savings for approximately five years.
[3] Wrap Up for Savings was active until June 2009 when it was replaced with the takeCHARGE Energy Savers Residential Insulation program.
[4] Savings are modeled savings from the technologies included in the energy efficiency kits distributed to participating homeowners.

We have surpassed the overall target of 5.8 GWh of savings, with 6.7 GWh of annual savings in place to the end of 2010.

3.3.8 Outlook

2011 will see growth in the residential and commercial rebate program participation and the implementation of the first Industrial Custom Efficiency Program projects. Efforts will continue to strengthen and expand the network of retailers and community groups to further reach customers on a community level.

Hydro will also continue to work with the Department of Natural Resources to promote additional provincial and Federal Government energy efficiency programs.

3.4 Five Year Rolling Average Number of Reportable Spills

The table below identifies the number of reportable spills for Hydro in each year since 2005.

Reportable Spills						
Year	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Number of Reportable Spills	15	8	22	5	9	7

The five year rolling average to 2009 is 12 reportable spills. The seven reportable spills in 2010 represent a 40% reduction from this average.

3.5 Completion of Waste Reduction Opportunity Study

Waste reduction potential is dependent on local area opportunities. Potential initiatives identified for offices in Holyrood, Bishop's Falls and Bay d'Espoir were implemented. Additional initiatives to reduce selected waste streams entering landfills have been identified and will be pursued subject to budgetary approvals in future years.

3.6 takeCHARGE Celebrates Energy Efficiency Week

During Energy Efficiency Week, the takeCHARGE teams went to various areas of the province providing homeowners with hands-on advice and practical tips to make their homes more energy efficient. The takeCHARGE teams also hosted energy efficiency events at building supply stores providing energy efficiency tips and details on the takeCHARGE Energy Savers Rebate Programs. Customers who purchased programmable thermostats at these events doubled their savings and received a $20 rebate per thermostat.

A REPORT TO
THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

2011 ANNUAL RETURN

(pursuant to ss.59(2) OF THE Public Utilities Act)

NEWFOUNDLAND AND LABRADOR HYDRO

April 2012

newfoundland labrador hydro
a nalcor energy company

IN THE MATTER OF the *Public Utilities Act,*
(the "Act"); and

AND IN THE MATTER OF an Annual Return for 2011
filed by Newfoundland and Labrador Hydro pursuant to
Section 59(2) of the Act

AFFIDAVIT

I, Carol Anne Lutz, Certified Management Accountant, of St. John's, in the Province of Newfoundland and Labrador, make oath and swear as follows:

1. THAT I am the Corporate Controller for Nalcor Energy, the parent company of Newfoundland and Labrador Hydro, and as such I either have personal knowledge, or I have been so informed and do verily believe, as the case may be, of the matters and things contained within the Newfoundland and Labrador Hydro 2011 Annual Return.

2. THAT I have read the contents of the within Annual Return and they are correct and true to the best of my knowledge, information and belief.

SWORN TO BEFORE ME in)
the City of St. John's, in the Province of)
Newfoundland and Labrador this)
5th day of April, 2012)

Peter Hickman
Barrister
Newfoundland and Labrador

Carol Anne Lutz
Corporate Controller
Nalcor Energy

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011

BOARD OF DIRECTORS

CATHY BENNETT (Chairperson)
Chief Executive Officer
Bennett Group of Companies

ED MARTIN
President and Chief Executive Officer
Nalcor Energy

TOM CLIFT
Professor
Memorial University - Faculty of Business

KEN MARSHALL
President
Rogers Cable - Atlantic Region

GERALD SHORTALL
Chartered Accountant
Corporate Director

OFFICERS

CATHY BENNETT (Chairperson)

ED MARTIN
President and Chief Executive Officer

GILBERT BENNETT
Lower Churchill Project Vice President

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary

JIM HAYNES
Regulated Operations Vice President

ANDY MACNEILL
Churchill Falls Vice President

JOHN MacISAAC
Project Execution and Technical Services Vice President

GERARD MCDONALD
Human Resources and
Organizational Effectiveness Vice President

DERRICK STURGE
Finance Vice President and Chief Financial Officer

PETER HICKMAN
Assistant Corporate Secretary

JAMES MEANEY
Corporate Treasurer

S. KENT LEGGE
Finance and Corporate Services General Manager

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Independent Auditor's Report

To the Directors of Newfoundland and Labrador Hydro

We have audited the accompanying non-consolidated financial statements of Newfoundland and Labrador Hydro, which comprise the non-consolidated balance sheet as at December 31, 2011, and the non-consolidated statements of income and retained earnings, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The non-consolidated financial statements have been prepared by management based on the financial reporting provisions of Section 59 of The Hydro Corporation Act.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with the financial reporting provisions of Section 59 of The Hydro Corporation Act, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the financial position of Newfoundland and Labrador Hydro as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with the financial reporting provisions of Section 59 of The Hydro Corporation Act.

Basis of Accounting and Restrictions on Distribution and Use

Without modifying our opinion, we draw attention to Note 2 to the non-consolidated financial statements, which describes the basis of accounting. The non-consolidated financial statements are prepared to assist Newfoundland and Labrador Hydro meet the requirements of the Newfoundland and Labrador Board of Commissioners of Public Utilities. As a result, the non-consolidated financial statements may not be suitable for another purpose. Our report is intended solely for Newfoundland and Labrador Hydro and the Newfoundland and Labrador Board of Commissioners of Public Utilities and should not be distributed to or used by parties other than Newfoundland and Labrador Hydro and the Newfoundland and Labrador Board of Commissioners of Public Utilities.

Other Matter

Newfoundland and Labrador Hydro has prepared separate financial statements for the year ended December 31, 2011 in accordance with Canadian generally accepted accounting principles on which we issued a standard auditor's report to the Lieutenant-Governor in Council, Province of Newfoundland and Labrador dated March 23, 2012.

Deloitte & Touche LLP

Chartered Accountants
March 23, 2012

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED BALANCE SHEET

As at December 31 (millions of dollars)	**2011**	2010
ASSETS		
Current assets		
Cash and cash equivalents	**6.7**	37.7
Short term investments	**-**	9.0
Accounts receivable	**83.1**	70.0
Current portion of regulatory assets (Note 4)	**2.8**	3.8
Inventory	**54.2**	53.4
Prepaid expenses	**2.2**	2.3
Derivative assets (Note 13)	**0.2**	2.0
	149.2	178.2
Property, plant and equipment (Note 3)	**1,410.5**	1,386.1
Sinking funds (Notes 7 and 13)	**247.0**	208.4
Regulatory assets (Note 4)	**63.6**	65.9
Long term receivables (Note 5)	**1.6**	25.7
Investments (Note 6)	**399.2**	384.3
	2,271.1	2,248.6
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**102.1**	107.6
Accrued interest	**28.7**	28.7
Current portion of long term debt (Note 7)	**8.2**	8.2
Current portion of regulatory liabilities (Note 4)	**137.6**	118.9
Deferred capital contribution (Note 18(d))	**3.5**	0.1
Derivative liabilities (Note 13)	**-**	0.3
	280.1	263.8
Long term debt (Note 7)	**1,131.5**	1,136.7
Regulatory liabilities (Note 4)	**33.3**	40.9
Asset retirement obligations (Note 8)	**19.6**	11.4
Long term related party note payable (Note 18(g))	**1.3**	25.3
Employee future benefits (Note 9)	**53.5**	48.4
	1,519.3	1,526.5
SHAREHOLDER'S EQUITY		
Share capital (Note 10)	**22.5**	22.5
Contributed capital (Note 10)	**115.4**	115.4
	137.9	137.9
Accumulated other comprehensive income (Note 11)	**45.1**	26.7
Retained earnings	**568.8**	557.5
	613.9	584.2
	751.8	722.1
Commitments and contingencies (Note 17)		
	2,271.1	2,248.6

See accompanying notes

On behalf of the Board:

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31 (millions of dollars)	**2011**	2010
Revenue		
Energy sales	**543.5**	500.1
Interest and finance income (Note 14)	**18.2**	16.1
Other revenue	**2.3**	2.3
	564.0	518.5
Expenses		
Fuels	**156.7**	140.4
Power purchased	**56.8**	48.3
Operations and administration	**128.8**	122.4
Interest and finance charges (Note 14)	**108.4**	103.4
Amortization	**45.7**	43.8
Other income and expense	**2.7**	3.3
	499.1	461.6
Income from operations	**64.9**	56.9
Other income		
Equity in net income of Churchill Falls (Note 6)	**14.9**	16.6
Preferred dividends from Churchill Falls	**9.5**	10.2
	24.4	26.8
Net income	**89.3**	83.7
Retained earnings, beginning of year	**557.5**	566.2
	646.8	649.9
Dividends	**78.0**	92.4
Retained earnings, end of year	**568.8**	557.5

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31 (millions of dollars)	**2011**	2010
Net income	**89.3**	83.7
Other comprehensive income		
Change in fair value of available for sale financial instruments	**30.4**	20.5
Change in fair value of derivatives designated as cash flow hedges	**0.1**	1.1
Amounts recognized in net income	**(12.1)**	(15.9)
Comprehensive income	**107.7**	89.4

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of dollars)	**2011**	2010
Cash provided by (used in)		
Operating activities		
Net income	**89.3**	83.7
Adjusted for items not involving a cash flow		
Amortization	**45.7**	43.8
Accretion of long term debt	**0.5**	0.4
Loss on disposal of property, plant and equipment	**0.9**	0.7
Unrealized losses on derivative instruments	**0.3**	0.3
Equity in net income of Churchill Falls	**(14.9)**	(16.6)
	121.8	112.3
Changes in non-cash working capital balances (Note 15)	**0.2**	74.8
	122.0	187.1
Financing activities		
Dividends paid to Nalcor	**(78.0)**	(92.4)
Decrease (increase) in long term receivables	**24.1**	(1.8)
(Decrease) increase in long term related party note payable	**(24.0)**	1.4
Increase (decrease) in deferred capital contribution	**3.4**	(0.1)
	(74.5)	(92.9)
Investing activities		
Additions to property, plant and equipment	**(63.1)**	(55.5)
Increase in sinking funds	**(24.7)**	(23.4)
Decrease in short term investments	**9.0**	11.0
Proceeds on disposal of property, plant and equipment	**0.3**	0.5
	(78.5)	(67.4)
Net (decrease) increase in cash	**(31.0)**	26.8
Cash position, beginning of year	**37.7**	10.9
Cash position, end of year	**6.7**	37.7
Cash position is represented by		
Cash	**6.7**	37.7
	6.7	37.7

Supplementary cash flow information (Note 15)

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Newfoundland and Labrador Hydro (Hydro) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (Province) as a Crown corporation and is exempt from paying income taxes under Section 149 (1)(d) of the Income Tax Act. The principal activity of Hydro is the development, generation and sale of electricity.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
These financial statements have been prepared in accordance with the Canadian generally accepted accounting principles (GAAP). These financial statements differ materially from Canadian GAAP because they are non-consolidated. Hydro's investments in its subsidiary and jointly controlled companies have been accounted for using the equity method of accounting. Consolidated financial statements for the same period have been prepared for presentation to the Lieutenant-Governor in Council of the Province.

Use of Estimates
Preparation of these financial statements requires the use of estimates and assumptions that affect the amounts reported and disclosed in these statements and related notes. Key areas where management has made complex or subjective judgements include the fair value and recoverability of assets, the reported amounts of revenue and expenses, litigation, amortization and property, plant and equipment, environmental and asset retirement obligations, and other employee future benefits. Actual results may differ from these estimates, including changes as a result of future decisions made by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), and these differences could be material.

Rates and Regulations (Excluding Sales by Subsidiaries)
Hydro's revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service (COS) methodology. The allowed rate of return on rate base is 7.4% (2010 - 7.4%). Hydro applies certain accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally these policies result in the deferral and amortization of costs or credits which will be recovered or refunded in future rates. In the absence of rate regulation these amounts would be included in the determination of net income in the year the amounts are incurred. The effects of rate regulation on the Financial Statements are more fully disclosed in Note 4.

Cash and Cash Equivalents and Short term Investments
Cash and cash equivalents and short term investments consist primarily of Canadian treasury bills and Banker's Acceptances (BA). Those with original maturities at date of purchase of three months or less are classified as cash equivalents whereas those with original maturities beyond three months and less than twelve months are classified as short term investments. There were no short term investments outstanding at December 31, 2011 (2010 - $9.0 million bearing interest rates ranging from 1.07% to 1.08%). Cash and cash equivalents and short term investments are measured at fair value.

Inventory
Inventory is recorded at the lower of average cost and net realizable value.

Property, Plant and Equipment
Property, plant and equipment is recorded at cost, which comprises materials, labour, contracted services, other costs directly related to construction, and an allocation of certain overhead costs. Expenditures for additions and betterments are capitalized and normal expenditures for maintenance and repairs are charged to operations. The cost of property, plant and equipment under construction is transferred to property, plant and equipment in service when construction is completed and facilities are commissioned, at which point amortization commences.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Property, Plant and Equipment (cont'd.)

Construction in progress includes the costs incurred in engineering and construction of new generation, transmission and distribution facilities. Interest is charged to construction in progress at rates equivalent to Hydro's weighted average cost of capital.

Contributions in aid of construction are funds received from customers and governments toward the cost of property, plant and equipment. Contributions are recorded as a reduction to property, plant and equipment and the net property, plant and equipment is amortized.

Gains and losses on the disposal of property, plant and equipment are recognized in Other income and expense as incurred.

Amortization is calculated on hydroelectric generating plant and on transmission plant in service on the sinking fund method using interest factors ranging from 5.25% to 15.79%. Amortization on distribution system and other plant in service is calculated on the straight-line method. These methods are designed to fully amortize the cost of the facilities, after deducting contributions in aid of construction, over their estimated service lives.

Estimated service lives of the major assets are as follows:

Generation Plant	
Hydroelectric	50, 75 and 100 years
Thermal	25 and 30 years
Diesel	20 years
Transmission	
Lines	40 and 50 years
Switching stations	40 years
Distribution system	30 years
Other	3 to 50 years

Hydroelectric generation plant includes the powerhouse, turbines, governors and generators, as well as water conveying and control structures, including dams, dykes, tailrace, penstock and intake structures. Thermal generation plant is comprised of the powerhouse, turbines and generators, boilers, oil storage tanks, stacks, and auxiliary systems. Diesel generation plant includes the buildings, engines, generators, switchgear, fuel storage and transfer systems, dykes and liners and cooling systems.

Transmission lines include the support structures, foundations and insulators associated with lines at voltages of 230, 138 and 69 kilovolt (kV). Switching stations assets are used to step up voltages of electricity from generating to transmission and to step down voltages for distribution.

Distribution system assets include poles, transformers, insulators, and conductors.

Other assets include telecontrol, computer software, buildings, vehicles, furniture, tools and equipment.

Capitalized Interest

Interest is charged to construction in progress until the project is complete at rates equivalent to the last approved weighted average cost of capital for regulated assets. Capitalized interest cannot exceed actual interest incurred.

Impairment of Long-Lived Assets

Hydro reviews the carrying value of its property, plant and equipment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss corresponding to the amount by which the carrying value exceeds fair value is recognized, if applicable.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Asset Retirement Obligations
The fair value of the future expenditures required to settle legal obligations associated with the retirement of property, plant and equipment, is recognized to the extent that they are reasonably estimable. Asset retirement obligations are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of asset retirement obligations is included in net income through Amortization. Differences between the recorded asset retirement obligation and the actual retirement costs incurred are recorded as a gain or loss in the settlement period.

Employee Future Benefits
Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions are expensed as incurred.

Hydro provides group life insurance and health care benefits on a cost shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee future benefits is accounted for on an accrual basis and has been actuarially determined using the projected benefit method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs. The excess of cumulative net actuarial gains and losses over 10% of the accrued benefit obligation is amortized over the expected average remaining service life of the employee group.

Revenue Recognition
Revenue is recognized on the accrual basis, as power and energy deliveries are made, and includes an estimate of the value of electricity consumed by customers in the year, but billed subsequent to year end. Sales within the Province are primarily at rates approved by the PUB, whereas sales to certain major industrial customers and export sales are either at rates under the terms of the applicable contracts, or at market rates.

Foreign Currency Translation
Foreign currency transactions are translated into their Canadian dollar equivalent as follows:

(a) At the transaction date, each asset, liability, revenue or expense is translated using exchange rates in effect at that date.

(b) At the date of settlement and at each balance sheet date, monetary assets and liabilities are adjusted to reflect exchange rates in effect at that date. Any resulting gain or loss is reflected in income, except gains or losses on purchases of fuel which are included in the cost of fuel inventory.

Financial Instruments and Hedging Activities

Financial Instruments
Financial assets and financial liabilities are recognized on the balance sheet when Hydro becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Hydro has classified each of its financial instruments into the following categories: financial assets and liabilities held for trading; loans and receivables; financial assets held to maturity; financial assets available for sale; and other financial liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Financial Instruments and Hedging Activities (cont'd.)

Financial Instruments (cont'd.)
Hydro has classified its financial instruments as follows:

Cash and cash equivalents	Held for trading
Short term investments	Available for sale
Accounts receivable	Loans and receivables
Derivative assets	Held for trading
Sinking funds - investments in same Hydro issue	Held to maturity
Sinking funds - other investments	Available for sale
Long term receivables	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Accrued interest	Other liabilities
Derivative liabilities	Held for trading
Long term debt	Other liabilities
Long term related party note payable	Other liabilities

Each of these financial instruments is measured at amortized cost, except for cash and cash equivalents, short term investments and sinking fund – other investments, derivative assets and derivative liabilities which are measured at fair value.

Transaction costs related to financial assets and financial liabilities are included as part of the cost of the instrument, with the exception of cash and cash equivalents and short term investments which are expensed as incurred through interest and finance charges, based upon the pricing obtained during the quotation process. Discounts and premiums on financial instruments are amortized to income over the life of the instrument.

Derivative Instruments and Hedging Activities
Derivative instruments are utilized by Hydro to manage market risk. Hydro's policy is not to utilize derivative instruments for speculative purposes. Hydro may choose to designate derivative instruments as hedges and apply hedge accounting if there is a high degree of correlation between price movements in the derivative instruments and the hedged items. Hydro formally documents all hedges and the risk management objectives at the inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges.

During the year, Hydro had foreign exchange forward contracts designated as cash flow hedges (Note 13). In a cash flow hedge relationship, the portion of unrealized gains or losses on the hedging item that is determined to be an effective hedge is recognized in Other Comprehensive Income (OCI), while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income when the hedged item affects net income. Hydro had no cash flow hedges in place on December 31, 2011.

Hydro had no fair value hedges in place at December 31, 2011 or 2010.

Future Accounting Changes – International Financial Reporting Standards (IFRS)
In October 2010, the Canadian Accounting Standards Board (AcSB) amended the introduction to Part 1 of the CICA Handbook – Accounting to allow qualifying entities with rate-regulated activities to defer the adoption of IFRS to January 1, 2012. Hydro is a qualifying entity and chose to use the deferral option.

Although IFRS and Canadian Generally Accepted Accounting Principles are based on a similar conceptual framework there are a number of differences in recognition, measurement and disclosure. They areas with the highest potential impact on Hydro are property, plant and equipment, regulatory assets and liabilities.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Future Accounting Changes (cont'd.)
The IASB has deferred its work on rate-regulated activities accounting project and has not provided interim guidance for the recognition and measurement of regulatory assets and liabilities. Accordingly, Hydro continues to assess existing IFRS guidance to determine the impact of differences that will apply to accounting for rate-regulated activities upon adoption of IFRS. In December 2011, Hydro applied to the PUB for approval to use IFRS as the basis for regulatory reporting.

Hydro continues to assess the financial reporting impacts of the adoption of IFRS; however, the impact of IFRS will depend on the IFRS standards in effect at the time of conversion on January 1, 2012 and the accounting elections made.

3. PROPERTY, PLANT AND EQUIPMENT

	Property Plant and Equipment In Service	Contributions In Aid of Construction	Accumulated Amortization	Construction In Progress	Net Book Value
(millions of dollars)			**2011**		
Generation plant					
Hydroelectric	**859.9**	**20.4**	**71.5**	**0.3**	**768.3**
Thermal	**284.0**	**0.8**	**209.1**	**6.5**	**80.6**
Diesel	**75.6**	**5.7**	**36.8**	**0.5**	**33.6**
Transmission and distribution	**739.2**	**61.4**	**236.3**	**15.5**	**457.0**
Other	**233.3**	**9.8**	**153.4**	**0.9**	**71.0**
	2,192.0	**98.1**	**707.1**	**23.7**	**1,410.5**
(millions of dollars)			2010		
Generation plant					
Hydroelectric	853.5	20.5	66.6	3.2	769.6
Thermal	273.8	0.8	201.6	3.2	74.6
Diesel	68.0	5.8	35.3	2.2	29.1
Transmission and distribution	717.5	61.0	220.6	5.3	441.2
Other	223.3	9.2	145.6	3.1	71.6
	2,136.1	97.3	669.7	17.0	1,386.1

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

4. REGULATORY ASSETS AND LIABILITIES

(millions of dollars)	**2011**	2010	**Remaining Recovery Settlement Period (years)**
Regulatory assets			
Foreign exchange losses	**64.7**	66.8	30.0
Deferred major extraordinary repairs	**0.6**	2.3	0.8
Deferred energy conservation costs	**1.1**	0.6	n/a
Total regulatory assets	**66.4**	69.7	
Less current portion	**2.8**	3.8	
	63.6	65.9	
Regulatory liabilities			
Rate stabilization plan	**170.3**	159.2	n/a
Deferred purchased power savings	**0.6**	0.6	15.5
Total regulatory liabilities	**170.9**	159.8	
Less current portion	**137.6**	118.9	
	33.3	40.9	

Regulatory assets represent future revenues associated with certain costs, incurred in current or prior periods that are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process. Amounts deferred as regulatory assets and liabilities are subject to PUB approval. The risks and uncertainties related to regulatory assets and liabilities are subject to periodic assessment. When Hydro considers that the value of these regulatory assets or liabilities is no longer likely to be recovered or repaid through future rate adjustments, the carrying amount is reflected in operations. The following is a description of each of the circumstances in which rate regulation affects the accounting for a transaction or event.

Rate Stabilization Plan
On January 1, 1986, Hydro, having received the approval of the PUB, implemented a rate stabilization plan (RSP) which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, levels of precipitation and load. Adjustments required in retail rates to cover the amortization of the balance in the plan are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

Balances accumulating in the RSP, including financing charges, are to be recovered or refunded in the following year, with the exception of hydraulic variation, which will be recovered or refunded at a rate of twenty five percent of the outstanding balance at year end. Additionally, a fuel rider is calculated annually based on the forecast fuel price and is added to or subtracted from the rates that would otherwise be in effect. A portion of the RSP balance totaling approximately $100 million has been set aside by the PUB and will be subject to a future regulatory ruling on the allocation between the industrial customers and retail customers. This balance is mainly due to fuel savings at the Holyrood Thermal Generating Station (HTGS) as a result of the shut down of a portion of the pulp and paper industry in the province since 2007.

Hydro recognizes the RSP balances as a regulatory asset or liability based on the expectation that rates will be adjusted annually to provide for the collection from, or refund to, customers in future periods. In the absence of rate regulation, Canadian GAAP would require that the cost of fuel be recognized as an operating expense in the period in which it was consumed. In 2011, $20.9 million was deferred (2010 - $23.3 million recognized) in the RSP and $25.4 million (2010 – $2.3 million) was recovered through rates and included in energy sales, with the corresponding cost amortized in fuels expenses.

4. REGULATORY ASSETS AND LIABILITIES (cont'd.)

Deferred Foreign Exchange Losses
Hydro incurred foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt in 1975 and 1985, respectively, which were recognized when the debt was repaid in 1997. The PUB has accepted the inclusion of realized foreign exchange losses related to long term debt in rates charged to customers in future periods. Any such loss, net of any gain, is deferred to the time of the next rate hearing for inclusion in the new rates to be set at that time. Accordingly, these losses are recognized as a regulatory asset. In the absence of rate regulation, Canadian GAAP would require that Hydro include the losses in operating costs, in each year that the related debt was outstanding, to reflect the exchange rates in effect on each reporting date.

Commencing in 2002, the PUB ordered Hydro's deferred realized foreign exchange losses be amortized over a forty year period. This amortization, of $2.1 million annually, is included in interest expense (Note 14).

Deferred Major Extraordinary Repairs
In its report dated April 13, 1992, the PUB recommended that Hydro adopt a policy of deferring and amortizing the costs of major extraordinary repairs in excess of $0.5 million, subject to PUB approval on a case-by-case basis. In 2005, Hydro started an asbestos abatement program at the HTGS. This program was carried out over a three year period. Pursuant to Order No. P.U. 2 (2005), the PUB approved the deferral and amortization of these costs as a major extraordinary repair. Accordingly, the costs incurred in each year of the program were recognized as a regulatory asset to be amortized over the subsequent five year period. In 2006, Hydro incurred $2.3 million in expenses to repair a boiler tube failure at the HTGS. Pursuant to Order No. P.U. 44 (2006), the PUB approved the deferral and amortization of these costs as a major extraordinary repair. Accordingly, these costs are being amortized over a five year period. In the absence of rate regulation, Canadian GAAP would require that Hydro expense the cost of the asbestos abatement program and the boiler tube repairs in the year incurred. In 2011, $1.7 million (2010 - $2.6 million) of amortization was recognized in Operations and administration expense.

Deferred Energy Conservation Costs
Pursuant to Order No. P.U. 14 (2009), Hydro received approval to defer costs associated with an electrical conservation program for residential, industrial, and commercial sectors. Accordingly, these costs have been recognized as a regulatory asset. In the absence of rate regulation, Canadian GAAP would require that Hydro include this program as operating costs in the year incurred. In 2011, $0.5 million (2010 - $0.4 million) was deferred.

Deferred Purchased Power Savings
In 1997, Hydro interconnected communities in the area of L'Anse au Clair to Red Bay to the Hydro-Québec system. In its report dated July 12, 1996, the PUB recommended that Hydro defer and amortize the benefits of a reduced initial purchased power rate over a 30 year period. These savings in the amount of $0.6 million (2010 - $0.6 million) are recognized as a regulatory liability. In the absence of rate regulation, Canadian GAAP would require that Hydro include the actual cost of purchased power in operating costs in the year incurred.

Property, Plant and Equipment
The PUB permits an allowance for funds used during construction (AFUDC), based on Hydro's weighted average cost of capital, to be included in the cost of capital assets and amortized over future periods as part of the total cost of the related asset. In 2011, Hydro's AFUDC of 7.6% is lower than its cost of debt of 8.4% and the amount capitalized is lower and interest expense is higher by $0.2 million than that which would be permitted under Canadian GAAP in the absence of rate regulation. In 2010, Hydro's AFUDC of 7.6% is higher than its cost of debt of 7.2% and the amount capitalized is higher and interest expense is lower by $0.1 million than that which would be permitted under Canadian GAAP in the absence of rate regulation.

Hydro amortizes its hydroelectric generating assets and transmission assets using the sinking fund method, as approved by the PUB. In the absence of rate regulation, these assets would likely be amortized using the straight-line method.

4. REGULATORY ASSETS AND LIABILITIES (cont'd.)

Property, Plant and Equipment (cont'd.)

During 2010, Hydro engaged an independent consultant to conduct an amortization study. The scope of this study included a review of Hydro's amortization methods as well as a statistical analysis of service life estimates and calculation of appropriate amortization rates and annual and accrued amortization balances as at December 31, 2009. Based on the results of this study, management currently estimates that switching from the use of sinking fund rather than straight-line amortization for hydroelectric and transmission assets, as well as changing from unit based amortization to a group based method on a remaining life basis and implementing the recommended service lives; would have resulted in an estimated decrease of $1.0 million in the annual amortization expense. In December 2011, Hydro applied to the PUB requesting approval of these recommended changes. Approval has not yet been received.

5. LONG TERM RECEIVABLES

Included in long term receivables are two refundable deposits in the amount of $1.3 million (2010 - $1.2 million) associated with an application for transmission service into Nova Scotia, bearing interest at the Prime Rate less 1% and a $0.1 million (2010 - $0.1 million) deposit associated with an application for transmission service in New Brunswick, bearing interest at the Prime Rate. During 2011, Hydro-Québec refunded two deposits totalling $24.1 million associated with applications for transmission service through Québec. The remaining balance of $0.2 million (2010 - $0.3 million) is the non-current portion of receivables associated with customer time payment plans and the long term portion of employee purchase programs.

6. INVESTMENTS

(millions of dollars)	**Ownership Interest**	**2011**	2010
Churchill Falls (Labrador) Corporation	65.8%		
Shares, at cost		**167.2**	167.2
Equity in retained earnings at beginning of year		**217.1**	200.5
Equity in net income for the year		**14.9**	16.6
		399.2	384.3

Effective June 18, 1999, the two shareholders of Churchill Falls, Hydro and Hydro-Québec, entered into a shareholders' agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to joint approval by representatives of Hydro and Hydro-Québec.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

7. LONG TERM DEBT

Details of long term debt are as follows:

Series	Face Value	Coupon Rate %	Year of Issue	Year of Maturity		
(millions of dollars)					**2011**	2010
V *	125.0	10.50	1989	2014	**124.7**	124.6
X *	150.0	10.25	1992	2017	**149.4**	149.3
Y *	300.0	8.40	1996	2026	**293.5**	293.3
AB *	300.0	6.65	2001	2031	**306.5**	306.7
AD *	125.0	5.70	2003	2033	**123.6**	123.6
AE	225.0	4.30	2006	2016	**224.0**	223.8
Total debentures	1,225.0				**1,221.7**	1,221.3
Less sinking fund investments in own debentures					**82.0**	76.4
					1,139.7	1,144.9
Less: payments due within one year					**8.2**	8.2
					1,131.5	1,136.7

* Sinking funds have been established for these issues.

Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Schedule 1 banks, and have maturity dates ranging from 2013 to 2033. Hydro debentures, which are intended to be held to maturity, are deducted from long term debt while all other sinking fund investments are shown separately on the balance sheet as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 3.12% to 9.86% (2010 - 3.86% to 9.86%).

Promissory notes, debentures and long term loans are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments by the Province. The Province charges Hydro a guarantee fee of 25 bps annually on total debt (net of sinking funds) with a remaining term to maturity less than ten years and 50 bps annually on total debt (net of sinking funds) with a remaining term to maturity greater than 10 years. This fee was waived for 2010. The fee for 2011 was $3.9 million.

Hydro uses promissory notes to fulfill its short term funding requirements. As at December 31, 2011 there were no promissory notes outstanding (2010 - nil).

Hydro maintains a $50.0 million Canadian or US equivalent unsecured demand operating credit facility with its banker and at year end there were no amounts drawn on the facility (2010 - nil). Advances may take the form of a Prime Rate advance or the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA fee. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate. At year end, Hydro had 24 letters of credit outstanding (Note 17(e)) reducing the availability of the credit facility by $18.9 million (2010 - $18.9 million).

Required repayments of long term debt and sinking fund requirements over the next five years will be as follows:

(millions of dollars)	2012	2013	2014	2015	2016
Sinking fund requirement	8.2	8.2	8.2	8.2	8.2
Long term debt repayment	-	-	125.0	-	225.0
	8.2	8.2	133.2	8.2	233.2

8. ASSET RETIREMENT OBLIGATIONS

Hydro has recognized liabilities associated with the retirement of portions of the HTGS and disposal of Polychlorinated Biphenyls (PCB). The reconciliation of the beginning and ending carrying amount of asset retirement obligations is as follows:

(millions of dollars)	**2011**	2010
Asset retirement obligation, beginning of year	**11.4**	-
Liabilities incurred	**2.2**	11.4
Revisions	**5.5**	-
Accretion	**0.5**	-
Asset retirement obligation, end of year	**19.6**	11.4

The total undiscounted estimated cash flows required to settle the HTGS obligations at December 31, 2011 are $27.0 million (2010 - $20.5 million). Payments to settle the liability are expected to occur between 2021 and 2024. The fair value of the asset retirement obligations was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 2.9% (2010 - 4.1%).

The total undiscounted estimated cash flows required to settle the PCB obligations at December 31, 2011 are $2.7 million. Payments to settle the liability are expected to occur between 2012 and 2025. The fair value of the asset retirement obligations was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 3.1%.

A significant number of Hydro's assets include generation plants, transmission assets and distribution systems. These assets can continue to run indefinitely with ongoing maintenance activities. As it is expected that Hydro's assets will be used for an indefinite period, no removal date can be determined and consequently, a reasonable estimate of the fair value of any related asset retirement obligation cannot be determined at this time. If it becomes possible to estimate the fair value of the cost of removing assets that Hydro is legally required to remove, an asset retirement obligation for those assets will be recognized at that time.

9. EMPLOYEE FUTURE BENEFITS

Pension Plan
Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $4.3 million (2010 - $4.1 million) are expensed as incurred.

Other Benefits
Hydro provides group life insurance and healthcare benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2011, cash payments to beneficiaries for its unfunded other employee future benefits were $2.2 million (2010 - $1.8 million). An actuarial valuation was performed on December 31, 2009 and extrapolated to December 31, 2011. The next actuarial valuation will be performed as at December 31, 2012.

9. EMPLOYEE FUTURE BENEFITS (cont'd.)

Other Benefits (cont'd.)

(millions of dollars)	**2011**	2010
Accrued benefit obligation		
Balance at beginning of year	**69.3**	58.0
Current service cost	**2.1**	1.7
Interest cost	**4.0**	3.8
Actuarial loss	**16.1**	7.6
Benefits paid	**(2.2)**	(1.8)
Balance at end of year	**89.3**	69.3
Plan deficit	**89.3**	69.3
Unamortized actuarial loss	**(35.6)**	(20.7)
Unamortized past-service cost	**(0.2)**	(0.2)
Accrued benefit liability at end of year	**53.5**	48.4

(millions of dollars)	**2011**	2010
Components of benefit cost		
Current service cost	**2.1**	1.7
Interest cost	**4.0**	3.8
Actuarial loss	**16.1**	7.6
	22.2	13.1
Difference between actuarial loss and amount recognized	**(14.9)**	(6.9)
Benefit expense	**7.3**	6.2

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expense are as follows:

	2011	2010
Discount rate – benefit cost	**5.75%**	6.50%
Discount rate – accrued benefit obligation	**4.55%**	5.75%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2011	2010
Initial health care expense trend rate	**7.50%**	7.50%
Cost trend decline to	**5.00%**	5.00%
Year that rate reaches the rate it is assumed to remain at	**2016**	2016

9. EMPLOYEE FUTURE BENEFITS (cont'd.)

Other Benefits (cont'd.)

A 1% change in assumed health care trend rates would have had the following effects:

Increase	**2011**	2010
Current service and interest cost	**1.2**	0.9
Accrued benefit obligation	**17.7**	11.7

Decrease	**2011**	2010
Current service and interest cost	**(0.9)**	(0.7)
Accrued benefit obligation	**(13.5)**	(9.2)

10. SHAREHOLDER'S EQUITY

Share Capital

(millions of dollars)	**2011**	2010
Common shares of par value $1 each		
Authorized: 25,000,000		
Issued and outstanding 22,503,942	**22.5**	22.5

Contributed Capital

(millions of dollars)	**2011**	2010
Total contributed capital	**115.4**	115.4

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

(millions of dollars)	**2011**	2010
Balance, beginning of year	**26.7**	21.0
Change in fair value of available for sale financial instruments	**30.4**	20.5
Change in fair value of derivatives designated as cash flow hedges	**0.1**	1.1
Amount recognized in net income	**(12.1)**	(15.9)
Balance, end of year	**45.1**	26.7

12. CAPITAL MANAGEMENT

Hydro's principal business requires ongoing access to capital in order to maintain the continued delivery of safe and reliable service to its customers. Therefore, Hydro's primary objective when managing capital is to ensure ready access to capital at a reasonable cost.

The capital managed by Hydro is comprised of debt (long term debentures, promissory notes, bank credit facilities and bank indebtedness) and equity (share capital, contributed capital, accumulated other comprehensive income and retained earnings).

12. CAPITAL MANAGEMENT (cont'd.)

A summary of the capital structure is outlined below:

(millions of dollars)	**2011**		2010	
Debt				
Long term debt	**1,131.5**		1,136.7	
Current portion of long term debt	**8.2**		8.2	
Sinking funds	**(247.0)**		(208.4)	
	892.7	**54.3%**	936.5	56.5%
Equity				
Share capital	**22.5**		22.5	
Contributed capital	**115.4**		115.4	
Accumulated other comprehensive income	**45.1**		26.7	
Retained earnings	**568.8**		557.5	
	751.8	**45.7%**	722.1	43.5%
Total debt and equity	**1,644.5**	**100.0%**	1,658.6	100.0%

Hydro's principal business requires ongoing access to capital in order to maintain the continued delivery of safe and reliable service to its customers. Therefore, Hydro's primary objective when managing capital is to ensure ready access to capital at a reasonable cost.

Hydro's approach to capital management encompasses various factors including monitoring the percentage of floating rate debt in the total debt portfolio, the weighted average term to maturity of its overall debt portfolio, its percentage of debt to debt plus equity and its earnings before interest and taxes (EBIT) coverage of interest.

For the regulated portion of Hydro's operations a capital structure comprised of 75% debt and 25% common equity is maintained, a ratio which management believes to be optimal with respect to its cost of capital. This capital structure is maintained by a combination of dividend policy, contributed equity and debt issuance. The issuance of any new debt with a term greater than one year requires prior approval of Hydro's regulator, the PUB.

Per legislation, the total of the short term loans issued by Hydro and outstanding at any time, shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short term loans are those loans issued with a term not exceeding two years. The current limit is set at $300 million. There was no balance outstanding as at December 31, 2011 and 2010. Issuance of long term and short term debt by Hydro is further restricted by Bill C-24, an amendment to the Newfoundland and Labrador Hydro Act of 1975. The Bill effectively limits Hydro's total borrowings, which includes both long and short term debt, to $1.6 billion at any point in time.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

The estimated fair values of financial instruments as at December 31, 2011 and 2010 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Hydro might receive or incur in actual market transactions.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

Fair Value (cont'd.)

As a significant number of Hydro's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Hydro as a whole.

	Carrying Value	**Fair Value**	Carrying Value	Fair Value
(millions of dollars)	**2011**		2010	
Financial assets				
Cash and cash equivalents	**6.7**	**6.7**	37.7	37.7
Short term investments	**-**	**-**	9.0	9.0
Accounts receivable	**83.1**	**83.1**	70.0	70.0
Derivative assets	**0.2**	**0.2**	2.0	2.0
Sinking funds - investments in same Hydro issue	**82.0**	**103.7**	76.4	93.6
Sinking funds - other investments	**247.0**	**247.0**	208.4	208.4
Long term receivable [(1)]	**1.6**	**n/a**	25.7	n/a
Financial liabilities				
Accounts payable and accrued liabilities	**102.1**	**102.1**	107.6	107.6
Accrued interest	**28.7**	**28.7**	28.7	28.7
Derivative liabilities	**-**	**-**	0.3	0.3
Long term debt including amount due within one year (before sinking funds)	**1,221.7**	**1,695.3**	1,221.3	1,589.7
Long term related party note payable [(1)]	**1.3**	**n/a**	25.3	n/a

The fair value of cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued liabilities, accrued interest approximates their carrying values due to their short term maturity.

(1) The fair value of the long term receivable and long term related party note payable is subject to uncertainty regarding the timing of future cash flows and as such, the fair value of the long term receivable cannot be determined at December 31, 2011 and 2010.

Establishing Fair Value

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

Fair Value (cont'd.)

Establishing Fair Value (cont'd.)
The following table presents Hydro's fair value hierarchy for financial assets and liabilities as at December 31. There were no transfers between Level 1 and Level 2 during the year:

(millions of dollars)	**Level 1**	**Level 2**	**Total**
	2011		
Financial assets			
Cash and cash equivalents	**6.7**	**-**	**6.7**
Accounts receivable	**83.1**	**-**	**83.1**
Derivative assets	**-**	**0.2**	**0.2**
Sinking funds - investments in same Hydro issue	**-**	**103.7**	**103.7**
Sinking funds - other investments	**-**	**247.0**	**247.0**
Financial liabilities			
Accounts payable and accrued liabilities	**102.1**	**-**	**102.1**
Accrued interest	**28.7**	**-**	**28.7**
Derivative liabilities	**-**	**-**	**-**
Long term debt including amount due within one year (before sinking funds)	**-**	**1,695.3**	**1,695.3**

	Level 1	**Level 2**	**Total**
	2010		
Financial assets			
Cash and cash equivalents	37.7	-	37.7
Short term investments	9.0	-	9.0
Accounts receivable	70.0	-	70.0
Derivative assets	-	2.0	2.0
Sinking funds - investments in same Hydro issue	-	93.6	93.6
Sinking funds - other investments	-	208.4	208.4
Financial liabilities			
Accounts payable and accrued liabilities	107.6	-	107.6
Accrued interest	28.7	-	28.7
Derivative liabilities	-	0.3	0.3
Long term debt including amount due within one year (before sinking funds)	-	1,589.7	1,589.7

There were no financial assets or liabilities valued using Level 3 of the fair value hierarchy as at December 31, 2011 and 2010.

Risk Management
Exposure to credit risk, liquidity risk and market risk arises in the normal course of Hydro's business.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

Risk Management (cont'd.)

Credit Risk

Hydro is exposed to credit risk in the event of non-performance by counterparties to its financial instruments. The majority of the receivables are from regulated utilities which minimizes credit risk. There is risk that Hydro will not be able to collect all of its remaining accounts receivable and amounts owing under its customer finance plans. These financial instruments which arise in the normal course of business do not represent a significant concentration of credit risk as amounts are owed by a large number of customers on normal credit terms. Hydro manages this credit risk primarily by executing its credit and collection policy including the requirement for security deposits from certain customers. As at December 31, 2011 security deposits of $0.3 million (2010 - $0.1 million) are included in accounts payable and accrued liabilities.

Hydro's three largest customers account for 78% (2010 - 80%) of total energy sales and 71% (2010 - 67%) of accounts receivable. These customers are comprised of rate regulated organizations or organizations with an investment grade credit rating.

Hydro does not have any significant amounts that are past due and uncollectable for which a provision has not been recognized at December 31, 2011.

Hydro manages its investment credit risk exposure by restricting its investments to high-quality securities such as Canada Treasury Bills, Provincial Treasury Bills, Bankers' Acceptances drawn on Schedule 1 Canadian Chartered Banks and Term Deposits issued by Schedule 1 Canadian Chartered Banks.

Liquidity Risk

Hydro is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. This risk is managed by maintaining borrowing facilities sufficient to cover both anticipated and unexpected fluctuations within the operations and by continuously monitoring cash flows.

Short term liquidity is provided through cash and cash equivalents on hand, funds from operations, a $300.0 million promissory note program and credit facilities.

Long term liquidity risk is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2014 to 2033. Sinking funds have been established for these issues with the exception of Series AE.

The following are the contractual maturities of Hydro's financial liabilities, including principal and interest, as at December 31, 2011:

(millions of dollars)	**< 1 Year**	**1-3 Years**	**3-5 Years**	**> 5 Years**	**Total**
Accounts payable and accrued liabilities	**102.1**	**-**	**-**	**-**	**102.1**
Accrued interest	**28.7**	**-**	**-**	**-**	**28.7**
Long term debt including amount due within one year	**-**	**125.0**	**225.0**	**875.0**	**1,225.0**
Interest	**61.8**	**173.7**	**152.6**	**649.2**	**1,037.3**
	192.6	**298.7**	**377.6**	**1,524.2**	**2,393.1**

Market Risk

Market risk refers primarily to the risk of loss resulting from changes in interest rates, commodity prices and foreign exchange rates. Hydro has a formal financial risk management policy that outlines the risks associated with the operations of Hydro and its subsidiaries outlining approaches and guidelines to be followed in the management of those risks. This policy is reviewed by the Board annually or more frequently if there is a material change to Hydro's financial risks. The Audit Committee provides oversight on behalf of the Board with the exception of any items that specifically require Board approval.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

Risk Management (cont'd.)

Market Risk (cont'd.)

Interest Rates

Interest rate risk is managed within the corporate financing strategy whereby floating rate debt exposures and interest rate scenarios are forecast and evaluated. A diversified portfolio of fixed and floating rate debt is maintained and managed with a view to an acceptable risk profile. Key quantitative parameters for interest rate risk management includes the percentage of floating rate debt in the total debt portfolio, coupled with an examination of the weighted average term to maturity of the entire debt portfolio. By setting clear guidelines in respect to these quantitative parameters, Hydro attempts to minimize the likelihood of a material impact on net income resulting from an unexpected change in interest rates.

Hydro is exposed to interest rate risk related to the short term debt portfolio and the sinking fund investment portfolio. Interest rate risk on the long term debt portfolio is mitigated through the use of fixed rate debentures. The following table illustrates Hydro's exposure to a 50 basis point (0.5%) change in interest rates:

	Net Income		Other Comprehensive Income	
(millions of dollars)	0.5% Decrease	0.5 % Increase	0.5% Decrease	0.5% Increase
Interest on sinking funds	-	-	20.0	(2.7)
	-	-	20.0	(2.7)

Foreign Currency and Commodity Exposure

The fair value of future cash flows of a financial instrument will fluctuate due to changes in the exchange rate between the foreign currency and the Canadian dollar impact of change in market prices. Hydro's primary exposure to both foreign exchange and commodity price risk arises within Hydro from its purchases of No. 6 fuel for consumption at the HTGS and certain electricity sales both of which are denominated in USD.

During 2011, Hydro had total purchases of No. 6 fuel of $135.1 million (2010 - $104.1 million) denominated in USD. Exposure to both the foreign exchange and commodity price risk associated with these fuel purchases is mitigated through the operation of the RSP. The purpose of the RSP is to both reduce volatility in customer rates as well as mitigate potential net income volatility from fuel price and volume variations. All variances in fuel prices including exchange rates, as compared to that approved in Hydro's most recent cost of service study, are captured in the RSP and are either refunded to or collected from customers through rate adjustments. Hydro also employs the periodic use of forward currency contracts to manage exposure to exchange rates on a particular day.

During 2011, total electricity sales denominated in USD were $67.9 million (2010 - $72.8 million). Hydro mitigates the foreign exchange and commodity price risk through the use of commodity swaps and foreign currency forward contracts.

During 2009, Hydro entered into a series of 24 monthly foreign exchange forward contracts with a notional value of $87.9 million USD to hedge foreign exchange risk on approximately 75% of Hydro's USD electricity sales. These contracts had an average exchange rate of $1.17 CAD per USD. These contracts were designated as part of a hedging relationship. The last of these contracts expired in April 2011.

During 2011, Hydro entered into a series of 9 monthly foreign exchange forward contracts with a notional value of $35.7 million USD to hedge foreign exchange risk on approximately 75% of Hydro's USD electricity sale. These contracts had an average exchange rate of $1.00 CAD per USD.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

Risk Management (cont'd.)

Market Risk (cont'd.)

Foreign Currency and Commodity Exposure (cont'd.)
In 2011, Hydro also entered into 20 commodity swap contracts with a notional value of $27.8 million USD to hedge commodity price risk on electricity sales. These contracts swapped floating market rates for fixed rates, with Hydro receiving an average fixed rate of $35.37 USD/MWh (2010 - $36.01 USD/MWh). During 2011, $1.9 million in losses from these commodity contracts were included in Other income and expense (2010 - $3.4 million).

Effect of Hedge Accounting on Financial Statements

(millions of dollars)	**Net Gains Included in Net Income**	**Unrealized Gains Included in OCI**	Net Gains Included in Net Income	Unrealized Gains Included in OCI
	2011		2010	
Ineffective portion	**(0.1)**	**-**	0.2	-
Effective portion	**1.5**	**-**	5.9	1.3

The ineffective portion of hedging gains and losses is included in net income through Other income and expense.

14. INTEREST AND FINANCE INCOME /CHARGES

(millions of dollars)	**2011**	2010
Interest and finance income		
Interest on sinking fund	**16.6**	15.2
Other interest income	**1.6**	0.9
	18.2	16.1
Interest and finance charges		
Long term debt	**90.5**	90.5
Interest on RSP	**12.2**	10.2
Accretion of long term debt	**0.5**	0.4
Amortization of deferred foreign exchange losses	**2.1**	2.1
Debt guarantee fee	**3.9**	-
Other	**0.7**	1.4
	109.9	104.6
Interest capitalized during construction	**(1.5)**	(1.2)
	108.4	103.4

15. SUPPLEMENTARY CASH FLOW INFORMATION

(millions of dollars)	**2011**	2010
Accounts receivable	**(13.1)**	(0.2)
Inventory	**(0.8)**	(3.4)
Prepaid expenses	**0.1**	(0.8)
Regulatory assets	**3.3**	4.4
Regulatory liabilities	**11.1**	37.2
Accounts payable and accrued liabilities	**(5.5)**	33.2
Employee future benefits	**5.1**	4.4
Changes to non-cash working capital balances	**0.2**	74.8
Interest received	**0.5**	0.3
Interest paid	**90.6**	90.5

16. SEGMENT INFORMATION

Hydro operates in three business segments. Hydro Regulated encompasses sales of power and energy to customers within the Province, non-regulated activities are primarily engaged in energy marketing sales outside of the Province. The designation of segments has been based on regulatory status and management accountability. The segments' accounting policies are the same as those previously described in Note 2.

(millions of dollars)	**Hydro Regulated**	**Non-Regulated Activities**	**Energy Marketing**	**Total**
		2011		
Revenue				
Energy sales	**469.2**	**4.6**	**69.7**	**543.5**
Interest and finance income	**17.6**	**-**	**0.6**	**18.2**
Other revenue	**2.3**	**-**	**-**	**2.3**
	489.1	**4.6**	**70.3**	**564.0**
Expenses				
Fuels	**156.7**	**-**	**-**	**156.7**
Power purchased	**52.2**	**-**	**4.6**	**56.8**
Operations and administration	**104.2**	**4.0**	**20.6**	**128.8**
Interest and finance charges	**108.4**	**-**	**-**	**108.4**
Amortization	**45.7**	**-**	**-**	**45.7**
Other income and expense	**0.9**	**-**	**1.8**	**2.7**
	468.1	**4.0**	**27.0**	**499.1**
Net income from operations	**21.0**	**0.6**	**43.3**	**64.9**
Equity in net income of Churchill Falls	**-**	**14.9**	**-**	**14.9**
Preferred dividends	**-**	**9.5**	**-**	**9.5**
Net income	**21.0**	**25.0**	**43.3**	**89.3**
Capital expenditures	**63.1**	**-**	**-**	**63.1**
Total assets	**1,866.6**	**400.6**	**3.9**	**2,271.1**

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16. SEGMENT INFORMATION (cont'd)

	Hydro Regulated	Non-Regulated Activities	Energy Marketing	Total
		2010		
Revenue				
Energy sales	417.1	5.5	77.5	500.1
Interest and finance income	16.1	-	-	16.1
Other revenue	2.3	-	-	2.3
	435.5	5.5	77.5	518.5
Expenses				
Fuels	140.3	0.1	-	140.4
Power purchased	44.2	-	4.1	48.3
Operations and administration	97.1	3.9	21.4	122.4
Interest and finance charges	102.9	-	0.5	103.4
Amortization	43.8	-	-	43.8
Other income and expense	0.7	-	2.6	3.3
	429.0	4.0	28.6	461.6
Net income from operations	6.5	1.5	48.9	56.9
Equity in net income of Churchill Falls	-	16.6	-	16.6
Preferred dividends	-	10.2	-	10.2
Net income	6.5	28.3	48.9	83.7
Capital expenditures	55.5	-	-	55.5
Total assets	1,831.5	409.7	7.4	2,248.6

Geographic Information

Revenues by geographic area:

(millions of dollars)	**2011**	2010
Newfoundland and Labrador	**495.8**	446.7
New Brunswick	**56.7**	60.7
Nova Scotia	**11.5**	11.1
	564.0	518.5

All of Hydro's physical assets are located in the Province.

17. COMMITMENTS AND CONTINGENCIES

(a) Hydro has received claims instituted by various companies and individuals with respect to outages and other miscellaneous matters. Although such matters cannot be predicted with certainty, management currently considers Hydro's exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, to be $0.1 million (2010 - $0.1 million).

(b) One of Hydro's industrial customers commenced legal proceedings in 1997, claiming approximately $21.9 million (2010 - $21.8 million) related to outages and plant shutdowns. Hydro is defending this claim. While the ultimate outcome of this action cannot be ascertained at this time, in the opinion of Hydro's management, following consultation with its legal counsel, no liability should be recognized.

(c) Outstanding commitments for capital projects total approximately $18.0 million (2010 - $11.0 million).

(d) Hydro has entered into a number of long term power purchase agreements as follows:

Type	Rating	In-service Date	Term
Hydroelectric	175 kW	1988	Continual
Hydroelectric	3 MW	1995	25 years
Hydroelectric	4 MW	1998	25 years
Cogeneration	15 MW	2003	20 years
Wind	390 kW	2004	15 years
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years

Estimated payments due in each of the next five years are as follows:

(millions of dollars)	2012	2013	2014	2015	2016
Power purchases	24.8	25.5	26.1	26.8	27.3

(e) Hydro has issued 23 irrevocable letters of credit to the New Brunswick System Operator totalling $18.6 million as credit support related to applications for point to point transmission service. In addition, Hydro has issued one letter of credit to the Department of Fisheries and Oceans in the amount of $0.3 million as a performance guarantee in relation to the Fish Habitat Compensation Agreement.

(f) Hydro has entered into power sales agreements with third parties. To facilitate market access, Hydro has entered into a five year transmission service agreement with Hydro-Québec TransÉnergie to acquire access to 265 MW of transmission capacity from Labrador through Québec. Hydro has the right to renew its transmission service contract at the end of the contract term. If at that time there is a competing request for the same path, in order to renew the service agreement, Hydro must agree to accept a contract term that is at least equal to that competing request.

Pursuant to Hydro's five year transmission service agreement with Hydro-Québec TransÉnergie, the transmission rental payments to contract maturity are as follows:

2012	$ 19.0 million
2013	$ 19.0 million
2014	$ 4.8 million

(g) Hydro has received funding, in the amount of $3.0 million, from the Atlantic Canada Opportunities Agency in relation to a wind-hydrogen-diesel research development project in the community of Ramea. This funding is repayable in annual installments of $25,000 per commercial implementation of the resulting product. As at December 31, 2011 there have been no commercial implementations.

18. RELATED PARTY TRANSACTIONS

Hydro enters into various transactions with its parents, subsidiaries and other affiliates. These transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Related parties with which Hydro transacts are as follows:

Related Party	Relationship
Nalcor Energy (Nalcor)	100% shareholder of Hydro.
The Province	100% shareholder of Nalcor.
Churchill Falls (Labrador) Corporation	Jointly controlled subsidiary of Hydro.
Lower Churchill Development Corporation	Wholly owned subsidiary of Hydro.
Nalcor Energy – Oil and Gas Inc.	Wholly owned subsidiary of Nalcor.
Nalcor Energy – Bull Arm Fabrication Inc.	Wholly owned subsidiary of Nalcor.
Gull Island Power Corporation	Wholly owned subsidiary of Nalcor.
Board of Commissioners of Public Utilities	Agency of the Province.

The amounts included in the financial statements for related party transactions are as follows:

		Nalcor	**Other Affiliates**	**Total**
(millions of dollars)			**2011**	
Revenue	(e)	**-**	**2.1**	**2.1**
Expenses	(a)(b)(c)(f)(i)	**25.6**	**7.7**	**33.3**
Accounts receivable	(e)(f)(j)	**-**	**0.7**	**0.7**
Accounts payable and accrued liabilities	(c)(f)(i)	**49.4**	**4.5**	**53.9**
Deferred capital contribution	(d)	**-**	**3.5**	**3.5**
Long term related party note payable	(g)	**1.3**	**-**	**1.3**
(millions of dollars)			2010	
Revenue	(e)	-	2.0	2.0
Expenses	(a)(b)(c)(f)	19.8	3.2	23.0
Accounts receivable	(e)(f)	-	3.4	3.4
Accounts payable and accrued liabilities	(c)(f)	40.4	0.1	40.5
Deferred capital contribution	(d)	-	0.1	0.1
Long term related party note payable	(g)	25.3	-	25.3

(a) Hydro has entered into a long term power contract with Churchill Falls for the purchase of $6.0 million (2010 - $6.0 million) of the power produced by Churchill Falls.

(b) For the year ended December 31, 2011, approximately $2.8 million (2010 - $2.5 million) of operating costs were recovered from Nalcor and $3.4 million (2010 - $3.4 million) from other affiliates for engineering, technical, management and administrative services. During 2011 Hydro incurred $2.8 million (2010 - $2.1 million) of operating costs from Nalcor for engineering, technical, management and administrative services.

(c) Hydro is required to contribute to the cost of operations of the PUB as well as pay for the cost of hearings into applications it makes. During 2011, Hydro incurred $1.2 million (2010 - $0.6 million) in costs related to the PUB of which $0.6 million (2010 - $0.1 million) was included in Accounts payable and accrued liabilities.

18. RELATED PARTY TRANSACTIONS (cont'd.)

(d) During 2011, Nalcor advanced $0.7 million (2010 - $2.3 million) as a contribution in aid of construction related to the Ramea Wind-Hydrogen-Diesel Project. Hydro also received contributions in aid of construction from the Province related to wind feasibility studies and as at December 31, 2011, $3.5 million (2010 - $0.1 million) has been recorded as a Deferred capital contribution.

(e) During 2011, Hydro received $0.4 million (2010 - $0.4 million) as a rate subsidy for rural isolated customers from the Province and $1.7 million (2010 - $1.6 million) as an energy rebate to offset the cost of basic electricity consumption for Labrador rural isolated residential customers under the Northern Strategic Plan with $0.3 million (2010 - $0.3 million) recorded as Accounts receivable at year end.

(f) As at December 31, 2011, Hydro has a payable to Nalcor of $49.4 million (2010 - $40.4 million) and a net receivable from other affiliates for $0.1 million (2010 - $3.1 million). This payable/receivable consists of various intercompany operating costs and power purchases.

(g) Hydro has a long term related party note payable to Nalcor for $1.3 million (2010 - $25.3 million). The note is non-interest bearing and has no set terms of repayment.

(h) On January 19, 2011, the PUB issued Board Order No. P.U. 1(2011) approving a modification to the RSP rules to reduce the balance owing to industrial customers by $10.0 million. The order also approved Hydro's reimbursement of the amount to the Province. The payment was made to the Province on January 27, 2011.

(i) During 2011, Hydro incurred a debt guarantee fee from the Province of $3.9 million (2010 - nil). This amount remains payable at December 31, 2011.

(j) Hydro has an amount receivable from the Department of Natural Resources of $0.3 million (2010 - nil) related to Coastal Labrador Efficiency Project.

19. COMPARATIVE FIGURES

The comparative figures have been reclassified to conform with the 2011 financial statement presentation including Operations and administration, Other income and expense, Accounts receivable and Long term receivables.

Return 2

NEWFOUNDLAND AND LABRADOR HYDRO
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CEO
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Return 2

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Return 3

Newfoundland and Labrador Hydro
Computation of Rate Base
($ 000s)
Year Ended December 31

	2011	2010 *
Capital Assets in Service - Return 4	2,191,991	2,136,058
Work in Process	23,736	17,002
	2,215,727	2,153,060
Deduct:		
Accumulated Depreciation - Return 6	707,241	669,742
Contributions in Aid of Construction - Return 7	98,054	97,257
Total Capital Assets as per Hydro FS (Return 1)	1,410,432	1,386,061
Deduct Items Excluded from Rate Base:		
Work in Process	(23,736)	(17,002)
Asset Retirement Obligations **	(19,126)	(11,395)
Asset Retirement Obligation Accumulated Amortization	1,149	-
Net Capital Assets	1,368,719	1,357,664
Net Capital Assets, Previous Year	1,357,664	1,353,625
Unadjusted Average Capital Assets	1,363,192	1,355,645
Deduct:		
Average Net Assets Not In Service	(423)	(777)
Average Capital Assets	1,362,769	1,354,868
Cash Working Capital Allowance - Return 8	4,626	3,093
Fuel Inventory - Return 10	33,680	29,908
Supplies Inventory - Return 10	24,096	24,089
Average Deferred Charges - Return 11	68,047	71,924
Average Rate Base at Year-End - Return 12	1,493,218	1,483,882

* Certain of the 2010 comapritive figures have been reclassified to conform with the 2011 presentation. Also, 2010 has been restated to exclude average net assets not in service from the average rate base. The impact of the adjustment to the average rate base is $777k.

* The asset retirement obligation is comprised of $16,963K (2010 - $11,395K) related to the Holyrood Generating Station and $2,163K (2010 - $nil) related to the disposal of Polychlorinated Biphenlys (PCB).

Return 4

Newfoundland and Labrador Hydro
Capital Assets - Orginal Cost
($ 000s)

	Balance 1-Jan-11	Adjustments During 2011	Additions During 2011	Retirements During 2011	Balance 31-Dec-11
Power Generation					
Steam	223,722	(164)	12,133	(42)	235,649
Hydro	853,430	11	6,825	(400)	859,866
Diesel	67,877	(63)	9,018	(1,283)	75,549
Gas turbine	49,915	-	52	(42)	49,925
	1,194,944	(216)	28,028	(1,767)	1,220,989
Substations	185,467	(314)	6,475	(492)	191,136
Transmission	335,252	-	3,846	(373)	338,725
Distribution	195,979	247	13,365	(1,184)	208,407
General plant	106,360	279	8,152	(1,686)	113,105
Telecontrol	82,032	4	4,345	(4,058)	82,323
Computer software	28,576	-	1,278	-	29,854
Other	3,431	-	-	-	3,431
Total depreciable plant	2,132,041	-	65,489	(9,560)	2,187,970
Non depreciable land	4,017	-	4		4,021
Plant investment - Return 3	2,136,058	-	65,493	(9,560)	2,191,991

Note: Certain of the 2010 comparative figures have been reclassified to conform with the 2011 presentation.

Return 5

Newfoundland and Labrador Hydro
Capital Expenditures - Overview
($ 000s)

Year Ended December 31

	Total PUB Approved Expenditures 2011	Total Actual Expenditures 2011	Variance From 2011 Budget
Generation	15,560	11,500	(4,060)
Transmission and Rural Operations	38,617	38,761	144
General Properties	9,911	8,734	(1,177)
Allowance for Unforeseen Events	1,000	2,001	1,001
Projects Approved by PUB	2,267	2,054	(213)
New Projects Less than $50,000 Approved by Hydro	99	66	(33)
Total Capital Budget	67,454	63,116	(4,338)

2011 Capital Budget Approved by Board Order No. P.U. 38 (2010)	55,043
PUB Order # 29 (2010)	450
PUB Order # 34 (2010)	1,602
PUB Order # 20 (2011)	134
Carryover Projects 2010 to 2011	10,126
New projects under $50,000 Approved by Hydro	99
Total PUB Approved Capital Expenditures	67,454

Return 6

Newfoundland and Labrador Hydro
Accumulated Depreciation
($ 000s)

Balance, January 1, 2011			669,742
Add:			
Depreciation	45,683		
Less:			
ARO Accretion Expense	(467)		
			45,216
Deduct:			
Retirements			7,717
Balance, December 31, 2011 - Return 3			707,241

Depreciation Rates - 2011			
Steam - SL			11.11%
Hydro - SL			3.33%
Hydro - SF			7.28%
Gas Turbine - SL			4.00%
Diesel - SL			5.00%
Substations - SL			3.33%
Substations - SF			7.28%
Transmission - SL	2.50%	-	3.33%
Transmission - SF			7.28%
Distribution - SL			3.33%
General Properties - SL	2.00%	-	33.33%
Telecontrol - SL	10.00%	or	20.00%
Software - SL			20.00%
Computer Hardware - SL			20.00%
Percentage of accumulated depreciation to total depreciable plant			33.35%
Percentage of current depreciation to total depreciable plant			2.13%

Note: SL = straight-line
SF = sinking fund

Return 7

Newfoundland and Labrador Hydro
Contributions in Aid of Construction
($ 000s)

	CUSTOMERS	PROVINCE	TOTAL
Gross Contributions January 1, 2011	6,923	90,334	97,257
2011 Retirements	-	(617)	(617)
2011 Additions	-	1,414	1,414
Balance December 31, 2011 - Return 3	6,923	91,131	98,054

Note: Certain of the 2010 comparative figures have been reclassified to conform with the 2011 presentation.

Return 8

Newfoundland and Labrador Hydro
Working Capital
($ 000s)
Year Ended December 31

	2011	2010
Calculation of Cash Working Capital Allowance		
Operating Expenses for the Year - Return 9	106,856	99,624
Add: Power Purchases	52,221	24,349
Total	159,077	123,973
	4.55%	*4.63%*
Working Capital Allowance	7,238	5,740
Deduct: HST Adjustment	2,612	2,647
Working Capital Allowance - Return 3	4,626	3,093

In general, the Company's billing and collection procedures are consistent with those in place during the preceding year.

Return 9

Newfoundland and Labrador Hydro
Statement of Operating Costs
($ 000s)
Year Ended December 31

	2011	2010
Net operating		
Salaries and benefits	67,823	63,061
System equipment maintenance	21,510	21,748
Office supplies and expenses	2,307	2,100
Professional services	6,092	4,215
Insurance	1,965	1,960
Equipment rentals	1,636	1,738
Travel	2,977	2,755
Miscellaneous expenses	4,614	4,454
Building rental and maintenance	1,172	1,170
Transportation	1,837	1,796
Customer costs	122	(625)
Cost recoveries	(5,199)	(4,748)
Subtotal - Return 8	106,856	99,624
Add:		
IOC cost recovery	(2,292)	(2,648)
Total O&M	104,564	96,976
Loss on disposal of capital assets	925	687
Total operating costs	105,489	97,663

Return 9(A)

Newfoundland and Labrador Hydro
Significant Operating Expense Variance
($000's)

	2011	2010	Increase (Decrease)
Salaries and benefits	**67,823**	**63,061**	**4,762**

Salaries & fringe costs increased in 2011 from 2010 by $4.8 m, primarily attributed to the following: increases in staff salaries, employee future benefits, fringe benefits and group insurance offset by an increase in capitalized labour.

Customer costs	**122**	**(625)**	**747**

In 2011 the customer costs is within normal operations. The 2010 balance included the effect of a power purchase recovery related to Abitibi Bowater Consolidated expropriation.

Loss on disposal of capital assets	**925**	**687**	**238**

The variance primarily relates to timing.

Professional services	**6,092**	**4,215**	**1,877**

Cost increase primarily related to preparation of various PUB filings and software acquisition and maintenance costs combined with an increase in consultants costs primarily in the areas of Energy Conservation and Human Resources.

Cost recoveries	**(5,199)**	**(4,748)**	**(451)**

An increase in recovery of costs associated with Inter-company administration fees in 2011 offset by a decrease in recoveries from third parties.

Return 10

Newfoundland and Labrador Hydro
Fuel and Inventory
($ 000s)

Year Ended December 31

	Fuel		Inventory	
	2011	**2010**	**2011**	**2010**
Opening Balance	29,646	25,975	23,730	23,982
January	45,621	22,893	23,945	24,442
February	43,651	43,036	24,136	24,339
March	46,416	45,038	23,936	24,464
April	32,111	33,449	23,656	24,166
May	25,650	27,093	23,919	24,137
June	25,086	26,368	24,096	24,252
July	24,719	28,202	23,968	24,001
August	24,403	27,736	23,692	23,947
September	24,848	27,651	24,035	24,017
October	38,409	22,048	24,456	23,870
November	47,964	29,662	24,738	23,804
December	29,318	29,646	24,936	23,730
13 Month Average - Return 3	33,680	29,908	24,096	24,089

Return 11

Newfoundland and Labrador Hydro
Deferred Charges
($ 000s)

As at December 31

	Board Order No.	2011	2010
Foreign exchange	P.U. 7 (2002-2003)	64,709	66,866
Studies			
Conservation Demand Management Potential study	P.U. 8 (2007)	-	50
Holyrood Thermal Generation Station			
Asbestos Abatement	P.U. 2 (2005)	605	1,949
Unit 2 Boiler	P.U. 44 (2006)	-	300
Conservation Demand Program	P.U. 14 (2009)	1,045	571
Deferred Charges for Rate Base, end of current year		66,359	69,736
Deferred Charges for Rate Base, end of prior year		69,736	74,113
Average Deferred Charges for Rate Base - Return 3		68,047	71,924

Return 12

Newfoundland and Labrador Hydro
Return on Rate Base
($ 000s)

Year Ended December 31

		2011	2010 *
(a)	Corporate Net Income - Return 1	89,262	83,691
	Deduct: Unregulated Earnings	68,663	77,087
	Regulated Net Income	20,599	6,604
	Add: Regulated Interest - Return 16	90,844	86,766
(b)	Regulated Return	111,443	93,370
(c)	Average Rate Base - Return 3 *	1,493,218	1,483,882
(d)	Rate of Return on Average Rate Base *	7.46%	6.29%
	Lower end of approved range -.15	7.29%	7.29%
	Higher end of approved range +.15	7.59%	7.59%

* 2010 has been restated to exclude average net assets not in service from the average rate base. The impact of the adjustment to the average rate base is $777k. There is a negligible impact to the rate of return on rate base.

Return 13

Newfoundland and Labrador Hydro
Return on Regulated Average Retained Earnings
($ 000s)

Year Ended December 31

		2011		2010
Total equity - Hydro as per Balance Sheet, Return 1		$751,751		$722,162
Deduct: Share capital		22,504		22,504
Contributed surplus		115,400		115,400
Accumulated OCI		45,106		26,783
Ending Retained Earnings as Per Balance Sheet, Return 1		568,741		557,475
Deduct: Non-Regulated Retained Earnings				
Beginning Non-Regulated Retained Earnings	344,828		329,226	
Non-Regulated Net Income for the year *	68,663		77,087	
Non-Regulated Dividends for the year	(56,845)		(61,485)	
Ending Non-Regulated Retained Earnings		356,646		344,828
Regulated Retained Earnings, end of year		212,095		212,647
Add: Regulated Contributed Surplus		100,000		100,000
Total Regulated Equity, end of year		312,095		312,647
Regulated Equity, beginning of year		312,647		336,943
Regulated Average Equity		312,371		324,795
Net income - Return 1		89,262		83,691
Deduct: Non-Regulated Net Income		68,663		77,087
Regulated Earnings *		20,599		6,604
Rate of Return on Regulated Equity		6.59%		2.03%

** Includes decreased recovery of $363K related to Iron Ore Company of Canada Cost of Service Adjustment (2010 - $126K increase). These adjustments result in a decrease in costs in non regulated (2010 - increase).*

Return 14

Newfoundland and Labrador Hydro
Capital Structure
($ 000s)

Year Ended December 31

Hydro

	2011		2010		Average	
	Amount	Percent	Amount	Percent	Amount	Percent
Debt (Return 15)	892,725	54.29%	936,524	56.46%	914,625	55.38%
Equity	751,751	45.71%	722,162	43.54%	736,957	44.62%
	1,644,476	100.00%	1,658,686	100.00%	1,651,582	100.00%

Hydro Regulated

	2011		2010		Average	
	Amount	Percent	Amount	Percent	Amount	Percent
Debt (Return 15) *	932,715	71.75%	956,518	72.60%	944,617	72.18%
Employee Future Benefits **	53,556	4.12%	48,348	3.66%	50,952	3.89%
Asset Retirement Obligation **	1,616	0.12%	-	0.00%	808	0.06%
Equity	312,095	24.01%	312,647	23.74%	312,371	23.87%
	1,299,982	100.00%	1,317,513	100.00%	1,308,748	100.00%

** Includes increase in debt of $363K related to Iron Ore Company of Canada cost of Service adjustment for 2011 (2010 - decrease of $126K).*

*** The funded portion of the employee future benefits and the asset retirement obligation has been included.*

Return 15

Newfoundland and Labrador Hydro
Cost of Debt
($ 000s)
Year Ended December 31

	2011	2010	Average
Long-Term Debt	1,139,692	1,144,905	1,142,299
Sinking Funds as per FS	(246,967)	(208,381)	(227,674)
Total debt	892,725	936,524	914,625
Add back mark to market value	45,108	25,515	35,312
Net debt	937,833	962,039	949,937
Non Regulated Debt Pool *	(5,118)	(5,521)	(5,320)
Total Regulated Debt - Return 14	932,715	956,518	944,617
Current Year Interest Expense Return 16			80,153
Cost of Debt			8.49%

* Includes increase in debt of $363K related to Iron Ore Company of Canada Cost of Service adjustment for 2011 (2010 - decrease of $126K)

Return 16

Newfoundland and Labrador Hydro
Interest Expense
($ 000s)

Year Ended December 31

	2011	2010
Gross Interest		
Long-Term Debt	90,450	90,450
Promissory Notes	675	409
	91,125	90,859
Amortization of Debt Discount and Financing Expenses	460	426
Provision for Foreign Exchange	2,157	2,157
Interest Earned	(18,220)	(16,111)
Debt Guarentee Fee	3,874	-
Other	102	828
	79,498	78,159
Deduct		
Non-Regulated Interest Revenue (Expense)	655	(476)
Interest for Cost of Debt - Return 15	80,153	77,683
Deduct:		
Interest capitalized during construction	(1,546)	(1,161)
Interest charged on RSP	12,237	10,244
Regulated net interest per financial statements - Return 12	90,844	86,766

RETURN 17

RETURN 17 WAS RELATED TO THE DECEMBER 31, 2003 RSP PLAN

PLEASE ADVISE IF THIS SHOULD BE TAKEN OUT FOR GOOD AND

RETURNS 18 ONWARD RENUMBERED

Return 18

Newfoundland and Labrador Hydro
Rate Stabilization Plan
($ 000s)

Year Ended December 31

	Utility						Industrial					
Month	Load Variation	Allocation Fuel Variation	Allocation Rural Rate Alteration	Financing Charges	Return 19 Adjustment	Cumulative Net Balance	Load Variation	Allocation Fuel Variation	Financing Charges	Payment **	Return 19 Adjustment	Cumulative Net Balance
Opening balance					*	(56,251)						(62,612)
Payment						(56,251)				10,000		(52,612)
January	(1)	6,379	(247)	(341)	(1,272)	(51,733)	(2,224)	454	(380)		339	(54,423)
February	(74)	6,632	(275)	(314)	(1,284)	(47,048)	(2,305)	478	(330)		266	(56,314)
March	(1)	6,616	(263)	(286)	(1,281)	(42,263)	(2,232)	470	(342)		337	(58,081)
April	(1)	5,005	(246)	(257)	(1,039)	(38,801)	(2,230)	309	(352)		328	(60,026)
May	(1)	2,406	(211)	(235)	(865)	(37,707)	(2,375)	97	(364)		258	(62,410)
June	(60)	1,133	(197)	(229)	(745)	(37,805)	(3,158)	(43)	(379)		147	(65,843)
July	4	88	(254)	(229)	(2,708)	(40,904)	(3,379)	(89)	(400)		142	(69,569)
August	(25)	53	(403)	(248)	(2,818)	(44,345)	(2,761)	(47)	(422)		244	(72,555)
September	(16)	38	(398)	(269)	(2,869)	(47,859)	(2,208)	(8)	(440)		290	(74,921)
October	(51)	3,002	(404)	(290)	(3,682)	(49,284)	(2,200)	145	(455)		312	(77,119)
November	(68)	7,552	(468)	(299)	(4,530)	(47,097)	(2,151)	414	(468)		318	(79,006)
December	308	11,414	(537)	(286)	(5,578)	(41,776)	(2,288)	561	(479)		331	(80,881)
Year to date	14	50,318	(3,903)	(3,283)	(28,671)	14,475	(29,511)	2,741	(4,811)	10,000	3,312	(18,269)
Hydraulic Allocation						(14,164)						(772)
												-
Total						(55,940)						(81,653)
						To Return 18a						To Return 18a

* Opening balance adjusted to reflect a correction in the calculation of 2010 station service load.
** This Payment reflects a distribution of the industrial load variation component of the plan as per Board Order No. P.U.1 (2011).

Return 18(a)

Newfoundland and Labrador Hydro
Rate Stabilization Plan
($ 000s)

Year Ended December 31

	Hydraulic			From Return 18		
Month	Net Hydraulic Production Variation	Financing Charges	Cumulative Variation and Financing Charges	Utility Balance	Industrial Balance	Cumulative Net Balance
Opening balance			(40,399)	(56,251)	(62,612)	(159,262)
After Payment			(40,399)	(56,251)	(52,612)	(149,262)
January	(4,735)	(245)	(45,379)	(51,733)	(54,423)	(151,535)
February	(6,729)	(275)	(52,383)	(47,048)	(56,314)	(155,745)
March	(7,029)	(318)	(59,730)	(42,263)	(58,081)	(160,074)
April	(7,070)	(362)	(67,162)	(38,801)	(60,026)	(165,989)
May	(5,747)	(407)	(73,316)	(37,707)	(62,410)	(173,433)
June	(1,697)	(445)	(75,458)	(37,805)	(65,843)	(179,106)
July	5,791	(458)	(70,125)	(40,904)	(69,569)	(180,598)
August	11,184	(426)	(59,367)	(44,345)	(72,555)	(176,267)
September	9,874	(360)	(49,853)	(47,859)	(74,921)	(172,633)
October	4,191	(303)	(45,965)	(49,284)	(77,119)	(172,368)
November	2,768	(279)	(43,476)	(47,097)	(79,006)	(169,579)
December	(4,051)	(264)	(47,791)	(41,776)	(80,881)	(170,448)
Year to date	(3,250)	(4,142)	(7,392)			-
Hydraulic Allocation	10,912	4,142	15,054	(14,164)	(772)	118
Total	7,662	-	(32,737)	(55,940)	(81,653)	(170,330)

* Opening balance adjusted to reflect a correction in the calculation of 2010 station service load.

Return 19

Newfoundland and Labrador Hydro
Assessable Revenue
($ 000s)
Year Ended December 31

	2011	2010
Electricity Sales	518,057	497,842
Rate Stabilization (Return 18)	25,359	2,324
Other Revenue (Loss)	478	(323)
	543,894	499,843
Deduct:		
Recall / Export	67,832	74,972
Iron Ore Company of Canada	4,585	5,481
Wabush Mines	4	5
Input Tax Credits	98	141
Assessable Revenue	471,375	419,244

Return 20

NEWFOUNDLAND & LABRADOR HYDRO
2010 Annual Report on the Rural Deficit

	2011 Actual Cost of Service			
	Revenues ($)	Cost of Service Before Deficit and Revenue Allocation ($)	Revenue Credits ($)	Deficit ($)
Rural Deficit Areas				
Island Interconnected	43,966,363	63,462,737	(178)	(19,496,195)
Island Isolated	1,447,295	9,086,823		(7,639,528)
Labrador Isolated	6,646,956	29,714,238		(23,067,283)
L'Anse au Loup	2,370,354	5,510,380		(3,140,026)
DND Revenue Credit			(3,972,128)	3,972,128
Total	54,430,967	107,774,178	(3,972,306)	(49,370,905)

	2010 Actual [1]				
	Number of Communities [2]	Number of Customers	Cost per kWh [3] ($)	Deficit per Customer [3] ($)	Cost Recovery Ratio [3]
Rural Deficit Areas					
Island Interconnected	145	22,504	0.16	(866)	0.69
Island Isolated	7	783	1.24	(9,763)	0.16
Labrador Isolated	17	2,342	0.82	(9,849)	0.22
L'Anse au Loup	8	986	0.26	(3,184)	0.43
Total	177	26,615	0.24	(1,855)	0.51

	Forecast Deficit ($)				
	2012	2013	2014	2015	2016
Rural Deficit Areas					
Island Interconnected	23,358,000	27,387,000	24,106,000	32,641,000	33,301,000
Isolated Systems	37,882,000	38,643,000	38,829,000	41,830,000	42,861,000
DND Revenue Credit	(3,370,000)	0	0	0	0
Total	57,870,000	66,030,000	62,935,000	74,471,000	76,162,000

[1] Average cost for Island Interconnected customers less Rural Interconnected is $0.061 per kilowatt hour and cost for Labrador Interconnected customers is $0.024 per kilowatt hour. Both calculations are based on kW.h sales.

[2] Hydro's definition of Community corresponds to the "Town Code" in its customer information system. Some smaller communities may be combined if they share a single postal code.

[3] Excludes DND Revenue Credit.

Return 21

Report on Conservation and Demand Management

Extracted from the December 2011 PUB Quarterly report

3.3 Annual Energy Savings from Conservation and Demand Management and Internal Energy Efficiency Initiatives

3.3.1 Introduction

This section outlines the major activities undertaken in 2011 by Hydro to address energy efficiency opportunities with Hydro's customers and internal facilities.

There were many successes in 2011, including the first activity in the Industrial Energy Efficiency Program (IEEP), strong growth of the residential rebate programs, new efforts to engage builders and retailers and continued efforts on the internal energy efficiency of Hydro facilities.

Key audiences for 2011 included Labrador isolated communities, retailers of energy efficient products, homebuilders, lighting distributors and Industrial Customers, to increase the range of programs and impact across Hydro's service area. Within Hydro, employees were engaged in outreach efforts, building walkthroughs and info sessions to educate and inform on the opportunities for energy and cost savings.

3.3.2 Energy Efficiency Planning and Coordination

Hydro and Newfoundland Power continue to work closely to develop and implement the takeCHARGE program for energy efficiency. There are three rebate programs currently offered provincially to residential customers, one program for commercial customers and an Industrial program offered under the takeCHARGE banner for Hydro's transmission level Industrial Customers. These programs are:

- Residential
  i. Insulation
  ii. Energy Star Windows
  iii. High Efficiency and Programmable Thermostats
- Commercial
  i. Lighting
- Industrial Energy Efficiency Program (IEEP)

Three IEEP projects were approved and are in various stages of completion. For all three, feasibility study assistance was approved and project development agreements were signed for the capital upgrades. A lighting retrofit was due to be completed in December, with 165 MWh/yr savings. When all projects are completed, currently scheduled for installation in the first quarter of 2012, energy savings will total 3.6 GWh/yr. These projects are all with Corner Brook Pulp and Paper, however progress has been made in the planning and prioritizing of opportunities at the other Industrial Customers and projects are expected for submission in 2012. Hydro has increased CDM service provision to the Industrial Customers in identifying opportunities and supporting the application requirements to bring new projects to the program.

Also in 2011, Hydro administered the Coastal Labrador Energy Efficiency Program (Phase II), providing audits in Mary's Harbour and Nain homes and businesses and the direct installation of a number of energy savings technologies including lighting and water savings items. Building on the work completed in Phase I in 2009, Hydro also provided promotion of the Provincial EnerGuide for homes and

Newfoundland and Labrador Housing's Residential Energy Efficiency Program (REEP) home energy audit and rebate programs. This programming was funded by the Provincial Department of Natural Resources.

The Coupon Program Pilot also closed in 2011. Launched in November 2010 as a Hydro customer program, the pilot provided data on the administration requirements of this approach and the interest level from customers. The program was extended from the original date - end of February 2011 to April 2011 and offered coupons on eight small technologies and two appliances, redeemable at 14 retailers in Hydro service areas. The Coupon Program was able to achieve success by adapting to feedback and uptake figures, and by trying new, innovative methods for executing energy efficiency programs. As a result, not only did the Coupon Program meet its goals, but it gathered important information that will help build future program successes.

The continued expansion of the rebate programs has meant a continued effort on training, orientation and efficiency awareness for Hydro employees involved in the direct administration of the rebates as well as those external to the program.

Significant effort was given to the preparation of an update to the joint utility Five Year Plan. Unfortunately, the document was not completed, due to coordinating issues with Hydro's partner, Newfoundland Power. Hydro continues to work with Newfoundland Power and expects to have the updated plan filed in 2012. Instead of this updated plan, Hydro did submit, as part of its 2012 application for deferral of CDM expenses, expansion of programming for Hydro's customers as well as a continuation of the existing rebate programs.

3.3.3 Customer Awareness

takeCHARGE activities raise awareness of the importance of using energy wisely and encourages more people to take action today to reduce their energy usage. Mass media, online advertising, social media and specialized offerings are used to increase customer awareness of takeCHARGE. The website received an increase in visits from 50,000 in 2009 to 73,000 in 2011. The takeCHARGE Facebook page has had a significant increase in traffic in 2011, going from 600 to over 6,000 likes in one year. A variety of targeted activities, contests and creative postings lead to the increase and allowed for great customer interaction and increased awareness of program offerings. These new ways of reaching a wide customer base add value to our existing traditional media campaigns and event offerings.

3.3.4 Community Outreach

Community based promotions and marketing are critical to creating awareness of the program and providing rebate program detailed information. Engagement of retailers also continues, with training sessions available to assist in keeping floor staff knowledgeable on products and rebates.

Hydro launched a pilot incentive program for retailers to encourage them to sell Energy Star Windows and promote the takeCHARGE Energy Star Window program. The pilot allows select retailers to receive a small fee for each eligible rebate they submit on behalf of their customer. The pilot runs until May and further retailer partnerships will be explored.

A challenge was issued to all municipalities or local service districts to reduce their energy consumption between November 1, 2010 and January 31, 2011 (compared to the same period the previous year) with the highest percentage reduction winning a $10,000 energy efficient upgrade/retrofit for a municipal

building(s) in their town. The program was a joint utility initiative and an overwhelming success with 106 municipalities signing up for the challenge. Admiral's Beach, St. Mary's Bay, was the winner. They had residents come together as a community and show that making wise energy choices in their homes and businesses results in saving energy, saving money and saving our environment. The town will continue to save energy after their energy efficiency upgrades to their municipal building.

3.3.5 Energy Efficiency Program Activity

Rebates

Rebate activity followed the expected pattern, with a drop in the summer months. There was a significant increase in the Insulation program rebates due to a limited time offering of an increased rebate offered.

Residential Rebate Activity

2011	Jan - Mar	Apr - June	July - Sept	Oct. - Dec.	Total
Insulation	15	10	7	105	137
Windows	21	10	8	14	53
Thermostats	14	3	5	26	48
Appliances	84	20	2	0	106
Total	**134**	**43**	**22**	**145**	**344**

The Commercial program is operated through lighting distributors to customers and as such the transactions can differ greatly in size, so rebate numbers are not tracked, but instead numbers of eligible products incented are calculated.

Commercial Activity

Product	# Incented
Ballast	3,264
Lamps	5,446
Exit Signs	247

Industrial Program

There are three projects currently approved for capital incentive, with one project accounting for savings in 2011 of 165 MWh/yr.

Internal Energy Efficiency

Hydro continues to take active steps to encourage behaviour change and implement energy conservation measures in its own facilities. In 2010, walkthrough energy audits were conducted at a number of facilities with several energy conservation measures (ECM's) identified from the audits, varying from low/no cost to potential capital projects.

Actions have been taken throughout the system as a follow up on that work. Transmission and Rural Operations areas completed five of the seven low cost ECM's identified in the energy audits as 2011 EMS targets. The Thermal Generation division identified an ECM to place variable frequency drives

(VFD's) on their boiler combustion fan motors and the project is currently undergoing review for capital funding. Hydro Generation division retrofitted some of their standard exterior lighting to LED fixtures as a trial. So far feedback regarding the new fixtures is very positive. In addition to using less energy, the new LED fixtures provide a better light quality in the area and also do not require frequent relamping.

New internal efficiency gains for 2011 were 172 MWh/yr with steps taken towards stronger savings in 2012.

3.3.6 Costs

Hydro's 2011 CDM program costs are outlined in the table below.

Hydro's CDM Program Costs 2011 ($000's)

Residential	
Insulation	140
Windows	80
Thermostat	31
Hydro Customer Coupon Program	135
Subtotal	*386*
Commercial	
Lighting	59
Industrial	103
Total	548

Costs associated with general awareness, planning functions and partnership programs and initiatives that would be incurred regardless of the specific rebate programs currently being offered are shown in the following table of Support Costs.

Hydro's Support Costs 2011 ($000's)

Education	212
Support	43
Planning	304
Total	559

3.3.7 Energy Savings

Savings for the takeCHARGE rebates has had steady growth. The below table demonstrates the energy savings realized in 2010.

Hydro Energy Savings (MWh) 2011	
takeCHARGE Program Portfolio	
Residential Insulation	407
Residential Windows	61
Residential Thermostat	27
Coupon Program	256
Commercial Lighting	227
Industrial	165
Coastal Labrador Program (Phase II)	978
Other Hydro Initiatives[1]	5,968
Total	**8,089**

The target of 9.9 GWh from customer facing programs was not met in 2011, due to the large expected savings for the IEEP that did not occur in 2011. Overall residential and commercial energy savings did meet target.

3.3.8 Outlook

Hydro expects to see continued growth and expansion in the residential and commercial rebate programs in 2012, as new program concepts were filed with the PUB for approval in December. As well, indications are that it will be a very successful year for participation in the IEEP. Efforts will continue to strengthen and expand the network of retailers and community groups to further reach customers on a community level. Hydro will also continue to monitor, plan and engage employees in energy efficiency on behavior changes and long term capital improvements.

3.4 Minimize Environmental Risks and Emissions from Diesel Generation Systems

Work began on acquiring production data in the third quarter. At present, many of the plants are connected to a common server in St. John's. With this system there is a requirement for the server to connect to a modem at a particular plant and there are technical issues with the connection. A new internet protocol device to help improve the ability to get data is planned. Based on the results of the work completed in 2011, a four-year improvement program has been proposed to define and establish data transfer requirements from all diesel plants, and implement hardware and software improvements required to ensure data transfer capability.

[1] Includes savings currently on the system from previous year's activities, as well as outreach activities.

A REPORT TO
THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

2012 ANNUAL RETURN

(pursuant to ss.59(2) OF THE Public Utilities Act)

NEWFOUNDLAND AND LABRADOR HYDRO

newfoundland labrador hydro
a nalcor energy company

IN THE MATTER OF the *Public Utilities Act,*
(the "Act"); and

AND IN THE MATTER OF an Annual Return for 2012
filed by Newfoundland and Labrador Hydro pursuant to
Section 59(2) of the Act

AFFIDAVIT

I, Rick Green, Certified General Accountant, of St. John's, in the Province of Newfoundland and Labrador, make oath and swear as follows:

1. THAT I am the Controller for Newfoundland and Labrador Hydro, and as such I either have personal knowledge, or I have been so informed and do verily believe, as the case may be, of the matters and things contained within the Newfoundland and Labrador Hydro 2012 Annual Return.

2. THAT I have read the contents of the within Annual Return and they are correct and true to the best of my knowledge, information and belief.

SWORN TO BEFORE ME in)
the City of St. John's, in the Province of)
Newfoundland and Labrador this)
1st day of April, 2013)

Geoffrey P. Young
Barrister - Newfoundland and Labrador

Rick Green
Controller NLH
Newfoundland and Labrador Hydro

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

Deloitte.

Deloitte LLP
10 Factory Lane
Fort William Building
St. John's NL A1C 6H5
Canada

Tel: (709) 576-8480
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Independent Auditor's Report

To the Directors of Newfoundland and Labrador Hydro

We have audited the accompanying non-consolidated financial statements of Newfoundland and Labrador Hydro, which comprise the non-consolidated balance sheet as at December 31, 2012, and the non-consolidated statements of income and retained earnings, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The non-consolidated financial statements have been prepared by management based on the financial reporting provisions of Section 59 of The Hydro Corporation Act.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with the financial reporting provisions of Section 59 of The Hydro Corporation Act, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the financial position of Newfoundland and Labrador Hydro as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with the financial reporting provisions of Section 59 of The Hydro Corporation Act.

Basis of Accounting and Restrictions on Distribution and Use

Without modifying our opinion, we draw attention to Note 2 to the non-consolidated financial statements, which describes the basis of accounting. The non-consolidated financial statements are prepared to assist Newfoundland and Labrador Hydro meet the requirements of the Newfoundland and Labrador Board of Commissioners of Public Utilities. As a result, the non-consolidated financial statements may not be suitable for another purpose. Our report is intended solely for Newfoundland and Labrador Hydro and the Newfoundland and Labrador Board of Commissioners of Public Utilities and should not be distributed to or used by parties other than Newfoundland and Labrador Hydro and the Newfoundland and Labrador Board of Commissioners of Public Utilities.

Other Matter

Newfoundland and Labrador Hydro has prepared separate consolidated financial statements for the year ended December 31, 2012 in accordance with Canadian generally accepted accounting principles on which we issued an unmodified auditor's report to the Lieutenant-Governor in Council, Province of Newfoundland and Labrador dated March 28, 2013.

Deloitte LLP
Chartered Accountants
April 23, 2013

BOARD OF DIRECTORS

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Business Owner

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Mayor, Happy Valley Goose Bay

ALLAN HAWKINS
Mayor, Grand Falls Windsor

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Lawyer

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President and Chief Executive Officer

TOM CLIFT
Professor
Memorial University - Faculty of Business Administration

KEN MARSHALL
President - Atlantic Region
Rogers Cable

GERALD SHORTALL
Chartered Accountant
Corporate Director

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Vice President, Lower Churchill Project

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Vice President, Regulated Operations

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Vice President, Finance and Chief Financial Officer

GERARD McDONALD
Vice President, Human Resources and Organizational Effectiveness

JOHN MacISAAC
Vice President, Project Execution and Technical Services

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary

PETER HICKMAN
Assistant Corporate Secretary

JAMES MEANEY
Corporate Treasurer

S. KENT LEGGE
General Manager, Finance and Corporate Services

HEAD OFFICE
Hydro Place,
P.O. Box 12400
500 Columbus Drive
St. John's, NL
Canada A1B 4K7

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED BALANCE SHEET

As at December 31 (millions of dollars)	Notes	**2012**	2011
ASSETS			
Current assets			
Cash and cash equivalents		**2.5**	6.7
Accounts receivable		**83.7**	83.1
Current portion of regulatory assets	5	**2.2**	2.8
Inventory		**51.7**	54.2
Prepaid expenses		**3.0**	2.2
Derivative assets		**-**	0.2
		143.1	149.2
Property, plant and equipment	4	**1,440.6**	1,411.4
Sinking funds	6	**263.3**	247.0
Regulatory assets	5	**62.8**	63.6
Long-term receivables	7	**0.2**	1.6
Investments	8	**417.4**	399.2
		2,327.4	2,272.0
LIABILITIES			
Current liabilities			
Short-term borrowings	9	**52.0**	-
Accounts payable and accrued liabilities		**72.1**	130.8
Current portion of long-term debt	9	**8.2**	8.2
Current portion of regulatory liabilities	5	**169.0**	137.6
Deferred credits		**1.9**	3.5
		303.2	280.1
Long-term debt	9	**1,125.9**	1,131.5
Regulatory liabilities	5	**33.2**	33.3
Asset retirement obligations	10	**23.9**	19.6
Long-term payable	20	**-**	1.3
Employee future benefits	11	**56.9**	52.3
		1,543.1	1,518.1
SHAREHOLDER'S EQUITY			
Share capital	12	**22.5**	22.5
Contributed capital	12	**115.4**	115.4
		137.9	137.9
Accumulated other comprehensive income	12	**41.6**	45.1
Retained earnings		**604.8**	570.9
		646.4	616.0
		784.3	753.9
		2,327.4	2,272.0

Commitments and contingencies (Note 19)
Subsequent events (Note 21)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31 (millions of dollars)	Notes	**2012**	2011
Revenue			
Energy sales		**572.9**	547.9
Other revenue		**2.1**	2.3
		575.0	550.2
Expenses			
Fuels		**182.4**	154.9
Power purchased		**64.7**	56.8
Operating costs	13	**135.2**	129.0
Net finance expense	16	**74.1**	72.9
Amortization		**47.5**	43.2
Other income and expense		**5.2**	2.3
Regulatory adjustments	5	**30.0**	24.1
		539.1	483.2
Income from operations		**35.9**	67.0
Other income			
Equity in net income of Churchill Falls	8	**18.2**	14.9
Preferred dividends from Churchill Falls		**10.1**	9.5
		28.3	24.4
Net income		**64.2**	91.4
Retained earnings at beginning of year		**570.9**	557.5
		635.1	648.9
Dividends		**30.3**	78.0
Retained earnings at end of year		**604.8**	570.9

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31 (millions of dollars)	Notes	**2012**	2011
Net income		**64.2**	91.4
Other comprehensive (loss) income		**(3.5)**	18.4
Comprehensive income		**60.7**	109.8

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of dollars)	Notes	**2012**	2011
Cash provided by (used in)			
Operating activities			
Net income		**64.2**	91.4
Adjusted for items not involving a cash flow			
Amortization		**47.5**	43.2
Accretion of long-term debt		**0.5**	0.5
Loss on disposal of property, plant and equipment		**4.0**	1.7
Employee future benefits		**4.6**	3.9
Equity in net income of Churchill Falls		**(18.2)**	(14.9)
Other		**0.4**	0.3
		103.0	126.1
Changes in non-cash working capital balances	17	**(24.9)**	(4.9)
		78.1	121.2
Financing activities			
Dividends paid to Nalcor		**(30.3)**	(78.0)
Increase in short-term borrowings		**52.0**	-
Decrease in long-term receivables		**1.4**	24.1
Decrease in long-term payable		**(1.3)**	(24.0)
(Decrease) increase in deferred credits		**(1.6)**	3.4
		20.2	(74.5)
Investing activities			
Additions to property, plant and equipment		**(77.6)**	(62.3)
Increase in sinking funds		**(26.1)**	(24.7)
Decrease in short-term investments		**-**	9.0
Proceeds on disposal of property, plant and equipment		**1.2**	0.3
		(102.5)	(77.7)
Net decrease in cash		**(4.2)**	(31.0)
Cash position at beginning of year		**6.7**	37.7
Cash position at end of year		**2.5**	6.7
Cash position is represented by			
Cash		**2.5**	6.7
Cash equivalents		**-**	-
		2.5	6.7

Supplementary cash flow information (Note 17)

See accompanying notes

1. DESCRIPTION OF BUSINESS

Newfoundland and Labrador Hydro (Hydro) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (Province) as a Crown corporation and is exempt from paying income taxes under Section 149 (1)(d) of the Income Tax Act. The principal activity of Hydro is the development, generation and sale of electricity. Hydro's operations include both regulated and non-regulated activities. Hydro's head office is located in St. John's, Newfoundland and Labrador.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). These financial statements differ materially from Canadian GAAP because they are non-consolidated. Hydro's investments in its subsidiary and jointly controlled companies have been accounted for using the equity method of accounting. Consolidated financial statements for the same period have been prepared for presentation to the Lieutenant-Governor in Council of the Province.

2.2 Use of Estimates

Preparation of these financial statements requires the use of estimates and assumptions that affect the amounts reported and disclosed in these statements and related notes. Key areas where management has made complex or subjective judgements include the fair value and recoverability of assets, the reported amounts of revenue and expenses, litigation, amortization and property, plant and equipment, environmental and asset retirement obligations, and other employee future benefits. Actual results may differ from these estimates, including changes as a result of future decisions made by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), and these differences could be material.

2.3 Rates and Regulations (Excluding Sales by Subsidiaries)

Hydro's revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service (COS) methodology. The allowed rate of return on rate base is 7.4% (2011 - 7.4%). Hydro applies certain accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally these policies result in the deferral and amortization of costs or credits which will be recovered or refunded in future rates. In the absence of rate regulation these amounts would be included in the determination of net income in the year the amounts are incurred. The effects of rate regulation on the Financial Statements are more fully disclosed in Note 5.

2.4 Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents and short-term investments consist primarily of Canadian treasury bills and Banker's Acceptances (BAs). Those with original maturities at date of purchase of three months or less are classified as cash equivalents whereas those with original maturities beyond three months and less than twelve months are classified as short-term investments. There were no short-term investments outstanding at December 31, 2012 (2011 - nil). Cash and cash equivalents and short-term investments are measured at fair value.

2.5 Inventory

Inventory is recorded at the lower of average cost and net realizable value.

2.6 Property, Plant and Equipment

Property, plant and equipment is recorded at cost, which comprises materials, labour, contracted services, other costs directly related to construction and an allocation of certain overhead costs. Expenditures for additions and betterments are capitalized and normal expenditures for maintenance and repairs are charged to operations. The cost of property, plant and equipment under construction is transferred to property, plant and equipment in service when construction is completed and facilities are commissioned, at which point amortization commences.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.6 Property, Plant and Equipment (cont'd.)

Contributions in aid of construction are funds received from customers and governments toward the incurred cost of property, plant and equipment or the fair value of assets contributed. Contributions are recorded as a reduction to property, plant and equipment and the net property, plant and equipment is amortized.

Gains and losses on the disposal of property, plant and equipment are recognized in Other income and expense as incurred.

Electricity Generation, Transmission and Distribution

Construction in progress includes the costs incurred in engineering and construction of new generation, transmission and distribution facilities. Interest is charged to construction in progress at rates equivalent to Hydro's weighted average cost of debt.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Generation Plant	
Hydroelectric	45 to 100 years
Thermal	35 and 65 years
Diesel	25 to 55 years
Transmission	
Lines	30 and 65 years
Terminal stations	40 to 55 years
Distribution system	30 to 55 years

Hydroelectric generation plant includes the powerhouse, turbines, governors and generators, as well as water conveying and control structures, including dams, dikes, tailrace, penstock and intake structures. Thermal generation plant is comprised of the powerhouse, turbines and generators, boilers, oil storage tanks, stacks and auxiliary systems. Diesel generation plant includes the buildings, engines, generators, switchgear, fuel storage and transfer systems, dikes and liners and cooling systems.

Transmission lines include the support structures, foundations and insulators associated with lines at voltages of 230, 138 and 69 kilovolt (kV). Switching station assets are used to step up voltages of electricity from generating to transmission and to step down voltages for distribution.

Distribution system assets include poles, transformers, insulators, and conductors.

Other Assets

Other assets include telecontrol, computer software, buildings, vehicles, furniture, tools and equipment which are carried at cost less accumulated amortization. Amortization is calculated on a straight-line basis over estimated useful lives ranging from 5 to 55 years. Amortization methods, useful lives and residual values are reviewed at each reporting date.

2.7 Capitalized Interest

Interest is charged to construction in progress at rates equivalent to the last approved weighted average cost of debt until the project is complete. Capitalized interest cannot exceed actual interest incurred.

2.8 Impairment of Long-Lived Assets

Hydro reviews the carrying value of its property, plant and equipment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss corresponding to the amount by which the carrying value exceeds fair value is recognized, if applicable.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.9 Asset Retirement Obligations

The fair value of the future expenditures required to settle legal obligations associated with the retirement of property, plant and equipment, is recognized to the extent that they are reasonably estimable. Asset retirement obligations are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of asset retirement obligations is included in net income through Amortization. Differences between the recorded asset retirement obligation and the actual retirement costs incurred are recorded as a gain or loss in the settlement period.

2.10 Employee Future Benefits

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions are expensed as incurred.

Hydro provides group life insurance and health care benefits on a cost shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee future benefits is accounted for on an accrual basis and has been actuarially determined using the projected benefit method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs. The excess of cumulative net actuarial gains and losses over 10% of the accrued benefit obligation is amortized over the expected average remaining service life of the employee group.

2.11 Revenue Recognition

Revenue is recognized on the accrual basis, as power and energy deliveries are made, and includes an estimate of the value of electricity consumed by customers in the year, but billed subsequent to year end. Sales within the Province are primarily at rates approved by the PUB, whereas sales to certain major industrial customers and export sales are either at rates under the terms of the applicable contracts, or at market rates.

2.12 Foreign Currency Translation

Foreign currency transactions are translated into their Canadian dollar equivalent as follows:

(a) At the transaction date, each asset, liability, revenue or expense is translated using exchange rates in effect at that date.

(b) At the date of settlement and at each balance sheet date, monetary assets and liabilities are adjusted to reflect exchange rates in effect at that date. Any resulting gain or loss is reflected in income, except gains or losses on purchases of fuel which are included in the cost of fuel inventory.

2.13 Financial Instruments and Hedging Activities

Financial Instruments

Financial assets and financial liabilities are recognized on the balance sheet when Hydro becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Hydro has classified each of its financial instruments into the following categories: financial assets and liabilities held for trading; loans and receivables; financial assets held to maturity; financial assets available for sale; and other financial liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.13 Financial Instruments and Hedging Activities (cont'd.)

Financial Instruments (cont'd.)
Hydro has classified its financial instruments as follows:

Cash and cash equivalents	Held for trading
Accounts receivable	Loans and receivables
Derivative assets	Held for trading
Sinking funds - investments in same Hydro issue	Held to maturity
Sinking funds - other investments	Available for sale
Long-term receivables	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Long-term debt	Other liabilities
Long-term payable	Other liabilities

Each of these financial instruments is measured at amortized cost, except for cash and cash equivalents, sinking fund – other investments and derivative assets which are measured at fair value.

Transaction costs related to financial assets and financial liabilities are included as part of the cost of the instrument, with the exception of cash and cash equivalents and short-term investments which are expensed as incurred through interest and finance charges, based upon the pricing obtained during the quotation process. Discounts and premiums on financial instruments are amortized to income over the life of the instrument.

Derivative Instruments and Hedging Activities
Derivative instruments are utilized by Hydro to manage market risk. Hydro's policy is not to utilize derivative instruments for speculative purposes. Hydro may choose to designate derivative instruments as hedges and apply hedge accounting if there is a high degree of correlation between price movements in the derivative instruments and the hedged items. Hydro formally documents all hedges and the risk management objectives at the inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges. Hydro had no fair value hedges in place at December 31, 2012 or 2011.

2.14 Future Accounting Changes – International Financial Reporting Standards (IFRS)
The Canadian Accounting Standards Board (AcSB) amended the introduction to Part 1 of the Canadian Institute of Chartered Accounts (CICA) Handbook – Accounting to allow qualifying entities with rate-regulated activities to defer the adoption of IFRS to January 1, 2015. Hydro is a qualifying entity and chose to use the deferral option for the year ended December 31, 2012.

Although IFRS and Canadian GAAP are based on a similar conceptual framework, there are a number of differences in recognition, measurement and disclosure. The areas with the highest potential impact on Hydro are property, plant and equipment and regulatory assets and liabilities.

Hydro continues to assess the financial reporting impacts of the adoption of IFRS; however, the impact of IFRS will depend on the IFRS standards in effect at the time of conversion and the accounting elections made.

3. CHANGE IN ACCOUNTING POLICY

During 2012, Hydro adopted new accounting policies as approved by the PUB in Order No P.U. 13(2012). These policy changes were applied retroactive to January 1, 2011. The policy changes are as follows:

Capitalization of Property, Plant and Equipment
Previously, Hydro capitalized certain general overhead costs and training costs and included the costs of asset overhauls and major inspections as an operating expense. Hydro's revised policy is to expense general overheads and training costs as incurred and to capitalize costs associated with asset overhauls and major inspections. These changes resulted in a decrease in net income of $1.3 million for the year ended December 31, 2011.

Employee Future Benefits
Previously, Hydro accounted for employee future benefits under the corridor method whereby the excess of gains and losses over 10% of the accrued benefit obligation was amortized to income over the expected average remaining service life of the employee group. Hydro's revised policy is to defer the amortization of actuarial gains and losses recognized in employee future benefits expense through regulatory adjustments. This change resulted in an increase in net income of $1.2 million for the year ended December 31, 2011.

Amortization of Property, Plant and Equipment
Previously, Hydro amortized hydroelectric generating assets and transmission assets using the sinking fund method. Hydro's new policy is to calculate amortization using straight-line methodology. As part of the methodology change, Hydro also changed its estimate of service lives effective January 1, 2011. In the absence of regulatory approval, this change would have been applied retroactively resulting in a decrease in retained earnings as at January 1, 2011 of $210.7 million. Pursuant to Order No. P.U. 13 (2012), the PUB approved the use of the carrying value of property, plant and equipment under Canadian GAAP as deemed cost at January 1, 2011. As the deemed cost of Hydro's regulated property, plant and equipment is recoverable through future rates, no adjustment to opening retained earnings is necessary. These changes resulted in an increase in net income of $2.2 million for the year ended December 31, 2011.

4. PROPERTY, PLANT AND EQUIPMENT

	Property Plant and Equipment in Service	**Contributions in Aid of Construction**	**Accumulated Amortization**	**Construction in Progress**	**Net Book Value**
(millions of dollars)			**2012**		
Generation plant					
Hydroelectric	**775.1**	-	**31.6**	**3.5**	**747.0**
Thermal	**98.1**	-	**12.5**	**8.5**	**94.1**
Diesel	**37.9**	-	**2.7**	**0.3**	**35.5**
Transmission and distribution	**504.6**	**11.6**	**28.5**	**20.0**	**484.5**
Other	**94.9**	**2.5**	**13.5**	**0.6**	**79.5**
	1,510.6	**14.1**	**88.8**	**32.9**	**1,440.6**
(millions of dollars)			2011		
Generation plant					
Hydroelectric	773.0	-	15.8	0.2	757.4
Thermal	81.5	-	5.5	6.4	82.4
Diesel	35.9	-	1.2	0.5	35.2
Transmission and distribution	458.1	0.7	13.9	15.1	458.6
Other	83.7	0.7	6.1	0.9	77.8
	1,432.2	1.4	42.5	23.1	1,411.4

5. REGULATORY ASSETS AND LIABILITIES

(millions of dollars)	**2012**	2011	**Remaining Recovery Settlement Period (years)**
Regulatory assets			
Foreign exchange losses	**62.6**	64.7	29.0
Deferred major extraordinary repairs	**-**	0.6	-
Deferred energy conservation costs	**2.4**	1.1	n/a
Total regulatory assets	**65.0**	66.4	
Less current portion	**2.2**	2.8	
	62.8	63.6	
Regulatory liabilities			
Rate stabilization plan (RSP)	**201.7**	170.3	n/a
Deferred purchased power savings	**0.5**	0.6	14.5
Total regulatory liabilities	**202.2**	170.9	
Less current portion	**169.0**	137.6	
	33.2	33.3	

5.1 Regulatory Adjustments Recorded in the Statement of Income

(millions of dollars)	**2012**	2011
RSP recovery	**60.4**	25.4
Rural rate adjustment	**7.0**	4.4
RSP fuel deferral	**(49.3)**	(20.9)
RSP interest	**13.2**	12.2
Amortization of deferred foreign exchange losses	**2.1**	2.1
Deferred foreign exchange (losses) gains on fuel	**(0.4)**	0.2
Employee future benefit actuarial losses	**(2.3)**	(1.2)
Amortization of deferred major extraordinary repairs	**0.6**	1.7
Deferred energy conservation	**(1.4)**	(0.5)
Insurance proceeds	**0.2**	0.8
Deferred purchased power savings	**(0.1)**	(0.1)
	30.0	24.1

Hydro has operations that are regulated by the PUB.

Regulatory assets represent future revenues associated with certain costs, incurred in current or prior periods that are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process. Amounts deferred as regulatory assets and liabilities are subject to PUB approval. The risks and uncertainties related to regulatory assets and liabilities are subject to periodic assessment. When Hydro considers that the value of these regulatory assets or liabilities is no longer likely to be recovered or repaid through future rate adjustments, the carrying amount is reflected in operations. The following is a description of each of the circumstances in which rate regulation affects the accounting for a transaction or event.

5.2 Rate Stabilization Plan

On January 1, 1986, Hydro, having received the approval of the PUB, implemented a rate stabilization plan (RSP) which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, levels of precipitation and load. Adjustments required in retail rates to cover the amortization of the balance in the plan are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

5. REGULATORY ASSETS AND LIABILITIES (cont'd.)

5.2 Rate Stabilization Plan (cont'd.)

Balances accumulating in the RSP, including financing charges, are to be recovered or refunded in the following year, with the exception of hydraulic variation, which will be recovered or refunded at a rate of 25% of the outstanding balance at year end. Additionally, a fuel rider is calculated annually based on the forecast fuel price and is added to or subtracted from the rates that would otherwise be in effect. A portion of the RSP balance totaling approximately $135.0 million (2011 - $102.0 million) has been set aside by the PUB and will be subject to a future regulatory ruling on the allocation between the industrial customers and retail customers. This balance is mainly due to fuel savings at the Holyrood Thermal Generating Station (HTGS) as a result of the shutdown of a portion of the pulp and paper industry in the Province since 2007.

Hydro recognizes the RSP balances as a regulatory asset or liability based on the expectation that rates will be adjusted annually to provide for the collection from, or refund to, customers in future periods. In the absence of rate regulation, Canadian GAAP would require that the cost of fuel be recognized as an operating expense in the period in which it was consumed. In 2012, $49.3 million was deferred (2011 - $20.9 million) in the RSP and $60.4 million (2011 - $25.4 million) was recovered through rates and included in energy sales.

Hydro's rural rates on the Island Interconnected and Isolated systems are primarily based upon retail electricity rates. Therefore, when a rate adjustment for retail rates has been approved by the PUB, Hydro's rural customers receive the same rate change. In 2012, the rural rate adjustment reduced income and increased the RSP liability by $7.0 million (2011 - $4.4 million). In the absence of rate regulation, the rate adjustment would have been recorded in income.

Hydro is required to charge or pay interest on balances accumulating in the RSP at a rate equal to Hydro's weighted average cost of capital. As a result, Hydro recognized interest expense of $13.2 million in 2012 (2011 - $12.2 million).

5.3 Deferred Foreign Exchange Losses

Hydro incurred foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt in 1975 and 1985, respectively, which were recognized when the debt was repaid in 1997. The PUB has accepted the inclusion of realized foreign exchange losses related to long term debt in rates charged to customers in future periods. Any such loss, net of any gain, is deferred to the time of the next rate hearing for inclusion in the new rates to be set at that time. Accordingly, these losses are recognized as a regulatory asset. In the absence of rate regulation, Canadian GAAP would require that Hydro include the losses in operating costs, in each year that the related debt was outstanding, to reflect the exchange rates in effect on each reporting date.

Commencing in 2002, the PUB ordered Hydro's deferred realized foreign exchange losses be amortized over a forty year period. This amortization, of $2.1 million annually, is included in regulatory adjustments.

5.4 Deferred Major Extraordinary Repairs

In its report dated April 13, 1992, the PUB recommended that Hydro adopt a policy of deferring and amortizing the costs of major extraordinary repairs in excess of $0.5 million, subject to PUB approval on a case-by-case basis. In 2005, Hydro started an asbestos abatement program at the HTGS. This program was carried out over a three year period. Pursuant to Order No. P.U. 2 (2005), the PUB approved the deferral and amortization of these costs as a major extraordinary repair. Accordingly, the costs incurred in each year of the program were recognized as a regulatory asset to be amortized over the subsequent five year period. In 2006, Hydro incurred $2.3 million in expenses to repair a boiler tube failure at the HTGS. Pursuant to Order No. P.U. 44 (2006), the PUB approved the deferral and amortization of these costs as a major extraordinary repair. Accordingly, these costs are being amortized over a five year period. In the absence of rate regulation, Canadian GAAP would require that Hydro expense the cost of the asbestos abatement program and the boiler tube repairs in the year incurred. In 2012, $0.6 million (2011 - $1.7 million) of amortization was recognized in Operating costs.

5. REGULATORY ASSETS AND LIABILITIES (cont'd.)

5.5 Deferred Energy Conservation Costs

Pursuant to Order No. P.U. 14 (2009), Hydro received approval to defer costs associated with an electrical conservation program for residential, industrial, and commercial sectors. Accordingly, these costs have been recognized as a regulatory asset. In the absence of rate regulation, Canadian GAAP would require that Hydro include this program as operating costs in the year incurred. In 2012, $1.4 million (2011 - $0.5 million) was deferred.

5.6 Deferred Purchased Power Savings

In 1997, Hydro interconnected communities in the area of L'Anse au Clair to Red Bay to the Hydro-Québec system. In its report dated July 12, 1996, the PUB recommended that Hydro defer and amortize the benefits of a reduced initial purchased power rate over a 30 year period. The remaining unamortized savings in the amount of $0.5 million (2011 - $0.6 million) are recognized as a regulatory liability. In the absence of rate regulation, Canadian GAAP would require that Hydro include the actual cost of purchased power in operating costs in the year incurred.

5.7 Property, Plant and Equipment

Pursuant to Order No P.U. 13 (2012), the PUB approved the use of the carrying amount of property, plant and equipment under Canadian GAAP as the deemed cost at January 1, 2011.

During 2010, Hydro engaged an independent consultant to conduct an amortization study. The scope of this study included a review of Hydro's amortization methods as well as a statistical analysis of service life estimates and calculation of appropriate amortization rates and annual and accrued amortization balances as at December 31, 2009. Based on the results of this study and PUB approval, amortization previously calculated using the 'sinking fund' method under Canadian GAAP is now calculated on a straight-line basis. In addition, the service lives for certain assets have also been revised.

The PUB permits major inspections to be included in the cost of capital and amortized over the average expected period of the next major inspection. In 2012, $6.8 million (2011 - $0.9 million) was recognized as property, plant and equipment. In the absence of rate regulation, Canadian GAAP would require that Hydro include the major inspections as operating costs in the year incurred.

5.8 Foreign Exchange Gains and Losses

Hydro purchases a significant amount of fuel in US dollars. The RSP allows Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2012, Hydro deferred foreign exchange losses on fuel purchases of $0.4 million (2011 - gain of $0.2 million). In the absence of rate regulation, Canadian GAAP would require that Hydro include gains and losses on foreign currencies in Net finance expense in the period incurred.

5.9 Insurance Proceeds

Pursuant to Order No. P.U. 13 (2012), Hydro records net insurance proceeds in excess of $50,000 against the capital costs of the related assets. During 2012, Hydro recorded net insurance proceeds of $0.2 million (2011 - $0.8 million) against costs of the related assets.

5.10 Employee Future Benefits

Pursuant to Order No. P.U. 13 (2012), Hydro defers the amortization of actuarial gains and losses. During 2012, Hydro deferred actuarial gains and losses of $2.3 million (2011 - $1.2 million).

6. SINKING FUNDS

As at December 31, 2012, sinking funds include $263.3 million (2011 - $247.0 million) related to repayment of Hydro's long-term debt. Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Schedule 1 banks, and have maturity dates ranging from 2013 to 2041.

6. SINKING FUNDS (cont'd.)

Hydro debentures, which are intended to be held to maturity, are deducted from long-term debt while all other sinking fund investments are shown separately on the balance sheet as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 2.57% to 9.86% (2011 - 3.12% to 9.86%).

(millions of dollars)	**2012**	2011
Sinking funds at beginning of year	**247.0**	208.2
Contributions	**8.2**	8.2
Earnings	**11.7**	11.0
Valuation adjustment	**(3.6)**	19.6
Sinking funds at end of year	**263.3**	247.0

Sinking fund instalments due for the next five years are as follows:

(millions of dollars)	2013	2014	2015	2016	2017
Sinking fund instalments	8.2	8.2	8.2	8.2	6.7

7. LONG-TERM RECEIVABLES

The balance of $0.2 million (2011 - $0.2 million) is the non-current portion of receivables associated with customer time payment plans and the long-term portion of employee purchase programs. During 2012, refundable deposits associated with applications for transmission service into Nova Scotia and New Brunswick were settled (2011 - $1.4 million). During 2011, Hydro-Quebec refunded two deposits totaling $24.1 million associated with applications for transmission service through Quebec.

8. INVESTMENTS

(millions of dollars)	**Ownership Interest**	**2012**	2011
Churchill Falls (Labrador) Corporation	65.8%		
Shares, at cost		**167.2**	167.2
Equity in retained earnings at beginning of year		**232.0**	217.1
Equity in net income for the year		**18.2**	14.9
		417.4	399.2

Effective June 18, 1999, the two shareholders of Churchill Falls, Hydro and Hydro-Quebec, entered into a shareholders' agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to joint approval by representatives of Hydro and Hydro-Quebec.

9. LONG-TERM DEBT

Details of long-term debt are as follows:

Series	Face Value	Coupon Rate %	Year of Issue	Year of Maturity		
(millions of dollars)					**2012**	2011
V *	125.0	10.50	1989	2014	**124.8**	124.7
X *	150.0	10.25	1992	2017	**149.4**	149.4
Y *	300.0	8.40	1996	2026	**293.8**	293.5
AB *	300.0	6.65	2001	2031	**306.3**	306.5
AD *	125.0	5.70	2003	2033	**123.7**	123.6
AE	225.0	4.30	2006	2016	**224.2**	224.0
Total debentures	1,225.0				**1,222.2**	1,221.7
Less sinking fund investments in own debentures					**88.1**	82.0
					1,134.1	1,139.7
Less: payments due within one year					**8.2**	8.2
					1,125.9	1,131.5

* Sinking funds have been established for these issues.

Promissory notes, debentures and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province. The Province charges Hydro a guarantee fee of 25 basis points annually on the total debt (net of sinking funds) with a remaining term to maturity less than 10 years and 50 basis points annually on total debt (net of sinking funds) with a remaining term to maturity greater than 10 years. The fee for 2012 was $3.7 million (2011 - $3.9 million).

Hydro uses promissory notes to fulfill its short-term funding requirements. As at December 31, 2012, there was $52.0 million in short-term borrowings outstanding (2011 - nil).

Hydro maintains a $50.0 million Canadian or US equivalent unsecured demand operating credit facility with its banker and at year end there were no amounts drawn on the facility (2011 - nil). Advances may take the form of a Prime Rate Advance or the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA fee. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate. At year end, Hydro had 24 letters of credit outstanding, reducing the availability of the credit facility by $18.9 million (2011 - $18.9 million).

Required repayments of long-term debt over the next five years will be as follows:

(millions of dollars)	2013	2014	2015	2016	2017
Long-term debt repayment	-	125.0	-	225.0	150.0

10. ASSET RETIREMENT OBLIGATIONS

Hydro has recognized liabilities associated with the retirement of portions of the HTGS and disposal of Polychlorinated Biphenyls (PCB). The reconciliation of the beginning and ending carrying amounts of asset retirement obligations is as follows:

(millions of dollars)	**2012**	2011
Asset retirement obligation at beginning of year	**19.6**	11.4
Liabilities incurred	-	2.2
Revisions	**3.7**	5.5
Accretion	**0.7**	0.5
Settlements	**(0.1)**	-
Asset retirement obligation at end of year	**23.9**	19.6

The total estimated undiscounted cash flows required to settle the HTGS obligations at December 31, 2012 are $32.1 million (2011 - $27.0 million). Payments to settle the liability are expected to occur between 2020 and 2024. The fair value of the asset retirement obligations was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 2.8% (2011 - 2.9%).

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2012 are $2.7 million (2011 - $2.7 million). Payments to settle the liability are expected to occur between 2013 and 2025. The fair value of the asset retirement obligations was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 3.1% (2011 - 3.1%).

A significant number of Hydro's assets include generation plants, transmission assets and distribution systems. These assets can continue to run indefinitely with ongoing maintenance activities. As it is expected that Hydro's assets will be used for an indefinite period, no removal date can be determined and consequently, a reasonable estimate of the fair value of any related asset retirement obligation cannot be determined at this time. If it becomes possible to estimate the fair value of the cost of removing assets that Hydro is legally required to remove, an asset retirement obligation for those assets will be recognized at that time.

11. EMPLOYEE FUTURE BENEFITS

11.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $4.4 million (2011 - $4.3 million) are expensed as incurred.

11.2 Other Benefits

Hydro provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2012, cash payments to beneficiaries for its unfunded other employee future benefits were $2.3 million (2011 - $2.2 million). An actuarial valuation was performed as at December 31, 2012.

11. EMPLOYEE FUTURE BENEFITS (cont'd.)

11.2 Other Benefits (cont'd.)

(millions of dollars)	**2012**	2011
Accrued benefit obligation		
Balance at beginning of year	**88.1**	69.3
Current service cost	**2.9**	2.1
Interest cost	**4.1**	4.0
Actuarial (gain) loss	**(3.4)**	16.1
Regulatory adjustments	**(2.3)**	(1.2)
Benefits paid	**(2.3)**	(2.2)
Balance at end of year	**87.1**	88.1
Plan deficit	**87.1**	88.1
Unamortized actuarial loss	**(30.0)**	(35.6)
Unamortized past-service cost	**(0.2)**	(0.2)
Accrued benefit liability at end of year	**56.9**	52.3

(millions of dollars)	**2012**	2011
Components of benefit cost		
Current service cost	**2.9**	2.1
Interest cost	**4.1**	4.0
Actuarial (gain) loss	**(3.4)**	16.1
	3.6	22.2
Difference between actuarial gain or loss and amount recognized	**5.6**	(14.9)
Benefit expense	**9.2**	7.3

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expense are as follows:

	2012	2011
Discount rate – benefit cost	**4.55%**	5.75%
Discount rate – accrued benefit obligation	**4.00%**	4.55%
Rate of compensation increase	**3.50%**	3.50%

Assumed health care trend rates:

	2012	2011
Initial health care expense trend rate	**6.00%**	7.50%
Cost trend decline to	**4.50%**	5.00%
Year that rate reaches the rate it is assumed to remain at	**2020**	2016

A 1% change in assumed health care trend rates would have had the following effects:

Increase	**2012**	2011
Current service and interest cost	**1.6**	1.2
Accrued benefit obligation	**17.0**	17.7

Decrease	**2012**	2011
Current service and interest cost	**(1.2)**	(0.9)
Accrued benefit obligation	**(13.0)**	(13.5)

12. SHAREHOLDER'S EQUITY

12.1 Share Capital

(millions of dollars)	**2012**	2011
Common shares of par value $1 each		
Authorized: 25,000,000		
Issued and outstanding 22,503,942	**22.5**	22.5

12.2 Contributed Capital

(millions of dollars)	**2012**	2011
Total contributed capital	**115.4**	115.4

12.3 Accumulated Other Comprehensive Income

(millions of dollars)	**2012**	2011
Balance at beginning of year	**45.1**	26.7
Other comprehensive (loss) income	**(3.5)**	18.4
Balance at end of year	**41.6**	45.1

13. OPERATING COSTS

(millions of dollars)	**2012**	2011
Salaries and benefits	**76.0**	72.4
Maintenance and materials	**19.9**	19.6
Transmission rental	**19.7**	18.7
Professional services	**10.1**	7.6
Other operating costs	**9.5**	10.7
Total	**135.2**	129.0

14. CAPITAL MANAGEMENT

Hydro's principal business requires ongoing access to capital in order to maintain assets to ensure the continued delivery of safe and reliable service to its customers. Therefore, Hydro's primary objective when managing capital is to ensure ready access to capital at a reasonable cost, to minimize its cost of capital within the confines of established risk parameters, and to safeguard Hydro's ability to continue as a going concern.

The capital managed by Hydro is comprised of debt (long-term debentures, promissory notes, bank credit facilities and bank indebtedness) and equity (share capital, contributed capital, accumulated other comprehensive income and retained earnings).

14. CAPITAL MANAGEMENT (cont'd.)

A summary of the capital structure is outlined below:

(millions of dollars)	**2012**		2011	
Debt				
Long-term debt	**1,125.9**		1,131.5	
Short-term borrowings	**52.0**		-	
Current portion of long-term debt	**8.2**		8.2	
Sinking funds	**(263.3)**		(247.0)	
	922.8	**54.1%**	892.7	54.2%
Equity				
Share capital	**22.5**		22.5	
Contributed capital	**115.4**		115.4	
Accumulated other comprehensive income	**41.6**		45.1	
Retained earnings	**604.8**		570.9	
	784.3	**45.9%**	753.9	45.8%
Total Debt and Equity	**1,707.1**	**100.0%**	1,646.6	100.0%

Hydro's unsecured demand operating facility has covenants restricting the issuance of debt such that the debt to total capitalization ratio cannot exceed 70%. The covenants further stipulate that the Debt Service Coverage Ratio should at all times be greater than 1.5 to 1.0. As at December 31, 2012, Hydro was in compliance with these covenants.

Hydro's approach to capital management encompasses various factors including monitoring the percentage of floating rate debt in the total debt portfolio, the weighted average term to maturity of its overall debt portfolio, its percentage of debt to debt plus equity and its interest coverage.

For the regulated portion of Hydro's operations a capital structure comprised of 75% debt and 25% equity is maintained, a ratio which management believes to be optimal with respect to its cost of capital. This capital structure is maintained by a combination of dividend policy, contributed equity and debt issuance. The issuance of any new debt with a term greater than one year requires prior approval of the PUB.

Legislation stipulates that the total of the short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. The current limit is set at $300.0 million. There was $52.0 million outstanding as at December 31, 2012 (2011 - nil). Issuance of long-term and short-term debt by Hydro is further restricted by Bill C-24, an amendment to the Newfoundland and Labrador Hydro Act of 1975. The Bill effectively limits Hydro's total borrowings, which includes both long and short-term debt, to $1.6 billion at any point in time.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

15.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2012 and 2011 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Hydro might receive or incur in actual market transactions.

As a significant number of Hydro's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Hydro as a whole.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

15.1 Fair Value (cont'd.)

Establishing Fair Value

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The following table presents Hydro's fair value hierarchy for financial assets and liabilities.

		Carrying Value	**Fair Value**	Carrying Value	Fair Value
(millions of dollars)	Level	**2012**		2011	
Financial assets					
Cash and cash equivalents	1	**2.5**	**2.5**	6.7	6.7
Accounts receivable	1	**83.7**	**83.7**	83.1	83.1
Derivative assets	2	**-**	**-**	0.2	0.2
Sinking funds - investments in same Hydro issue	2	**88.1**	**107.3**	82.0	103.7
Sinking funds - other investments	2	**263.3**	**263.3**	247.0	247.0
Long-term receivable	2	**0.2**	**0.2**	1.6	1.6
Financial liabilities					
Accounts payable and accrued liabilities	1	**72.1**	**72.1**	130.8	130.8
Short-term borrowings	1	**52.0**	**52.0**	-	-
Long-term debt including amount due within one year (before sinking funds)	2	**1,222.2**	**1,668.6**	1,221.7	1,695.3
Long-term payable	2	**-**	**-**	1.3	1.3

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity.

There were no financial assets or liabilities valued using Level 3 of the fair value hierarchy as at December 31, 2012 and 2011.

15.2 Risk Management

Hydro is exposed to certain credit, liquidity and market price risks through its operating and financing activities. Financial risk is managed in accordance with a board approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Hydro's expected future cash flows.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

15.2 Risk Management (cont'd.)

Credit Risk

Hydro's expected future cash flow is exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers, and through its financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments. The degree of exposure to credit risk on cash and cash equivalents, long-term investments and derivative assets as well as from the sale of electricity to customers, including the associated accounts receivable, is determined by the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the balance sheet at the reporting date.

Credit risk on cash and cash equivalents is minimal, as Hydro's cash deposits are held by a Canadian Schedule 1 Chartered Bank with a rating of A+ (Standard and Poor's).

Credit risk on short-term investments is minimized by limiting holdings to high-quality, investment grade securities issued by Federal and Provincial governments, as well as Bankers' Acceptances and term deposits issued by Canadian Schedule 1 Chartered Banks.

Credit exposure on Hydro's sinking funds is limited by restricting the holdings to long-term debt instruments issued by the Government of Canada or any province of Canada, crown corporations and Canadian Schedule 1 Chartered Banks. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the remainder of the long-term investment portfolio:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	**Issuer Credit Rating**	**Fair Value of Portfolio (%)**
	2012		2011	
Provincial Governments	**AA- to AAA**	**4.07%**	AA- to AAA	4.19%
Provincial Governments	**A- to A+**	**55.95%**	A- to A+	57.75%
Provincially owned utilities	**A- to A+**	**33.96%**	A- to A+	32.43%
Schedule 1 Canadian banks	**A- to A+**	**1.89%**	A- to A+	1.31%
Provincially owned utilities	**BBB+**	**4.13%**	BBB+	4.32%
		100.00%		100.00%

Credit exposure on derivative assets is limited by the Financial Risk Management Policy, which restricts available counterparties for hedge transactions to Canadian Schedule 1 Chartered Banks, and Federally Chartered US Banks.

Hydro's exposure to credit risk on its energy sales and associated accounts receivable is determined by the credit quality of its customers. Hydro's three largest customers account for 83.1% (2011 - 80.0%) of total energy sales and 78.4% (2011 - 68.8%) of accounts receivable. These customers are comprised of rate regulated entities or organizations with investment grade credit ratings.

Hydro does not have any significant amounts that are past due and uncollectable for which a provision has not been recognized at December 31, 2012.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

15.2 Risk Management (cont'd.)

Liquidity Risk

Hydro is exposed to liquidity risk with respect to its contractual obligations and financial liabilities, including any derivative liabilities related to hedging activities. Liquidity risk management is aimed at ensuring cash is available to meet those obligations as they become due.

Short-term liquidity is mainly provided through cash and cash equivalents on hand, funds from operations, and a $300.0 million promissory note program. In addition, Hydro maintains a $50.0 million (2011 – $50.0 million) unsecured demand operating facility with its primary banker in order to meet any requirements beyond those forecasted for a given period.

Long-term liquidity risk is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2013 to 2033. Sinking funds have been established for these issues, with the exception of the issue maturing in 2016.

The following are the contractual maturities of Hydro's financial liabilities, including principal and interest, as at December 31, 2012:

(millions of dollars)	**< 1 Year**	**1-3 Years**	**3-5 Years**	**> 5 Years**	**Total**
Accounts payable and accrued liabilities	72.1	-	-	-	72.1
Short-term borrowings	52.0	-	-	-	52.0
Long-term debt	-	125.0	375.0	725.0	1,225.0
Interest	61.8	160.6	135.7	588.7	946.8
	185.9	285.6	510.7	1,313.7	2,295.9

Market Risk

In the course of carrying out its operating, financing and investing activities, Hydro is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities. Market price movements to which Hydro has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably the USD/CAD dollar, and current commodity prices, most notably the spot prices for diesel fuel, electricity, and No. 6 fuel. These exposures were addressed as part of the Financial Risk Management Strategy.

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as held for trading or available for sale, which includes Hydro's cash and cash equivalents, short-term investments and sinking funds. Expected future cash flows associated with those financial instruments can also be impacted. The impact of a 0.5% change in interest rates on net income and other comprehensive income associated with cash and cash equivalents, debt and short-term debt was negligible throughout 2012 due to the short time period to maturity.

The table below shows the impact of a 50 basis point change in interest rates on net income and other comprehensive income associated with the sinking funds at the balance sheet date:

	Net Income		**Other Comprehensive Income**	
(millions of dollars)	**0.5% Decrease**	**0.5% Increase**	**0.5% Decrease**	**0.5% Increase**
Interest on sinking fund	-	-	10.9	(10.2)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

15.2 Risk Management (cont'd.)

Market Risk (cont'd.)

Foreign Currency and Commodity Exposure
Hydro's primary exposure to both foreign exchange and commodity price risk arises from its purchases of No. 6 fuel for consumption at the HTGS and USD denominated electricity sales. These exposures are addressed in accordance with the board-approved Financial Risk Management Policy. Tactics to address these exposures include the use of forward rate agreements and fixed price commodity swaps.

During 2012, total electricity sales denominated in USD were $33.8 million (2011 - $67.9 million). In 2012 Hydro mitigated foreign exchange risk on these sales through the use of foreign currency forward contracts. In March of 2012, Hydro entered into a series of ten monthly foreign exchange forward contracts with a notional value of $39.1 million USD to hedge foreign exchange risk on 75% of Hydro's planned USD electricity sales for the year. These contracts had an average exchange rate of $1.00 CAD per USD. In 2012, management elected not to implement commodity price hedges aimed at addressing electricity price risk due to depressed market pricing conditions. During 2012, $0.1 million in gains from these derivative contracts were included in other income and expense (2011 - $1.9 million loss).

16. NET FINANCE EXPENSE

(millions of dollars)	**2012**	2011
Finance income		
Interest on sinking fund	**18.0**	16.6
Other interest income	**0.8**	4.4
	18.8	21.0
Finance expense		
Long-term debt	**90.5**	90.5
Accretion	**0.5**	0.5
Debt guarantee fee	**3.7**	3.9
Other	**0.9**	0.6
	95.6	95.5
Interest capitalized during construction	**(2.7)**	(1.6)
	92.9	93.9
Net finance expense	**74.1**	72.9

17. SUPPLEMENTARY CASH FLOW INFORMATION

(millions of dollars)	**2012**	2011
Accounts receivable	**(0.6)**	(13.1)
Inventory	**2.5**	(0.8)
Prepaid expenses	**(0.8)**	0.1
Regulatory assets	**1.4**	3.3
Regulatory liabilities	**31.3**	11.1
Accounts payable and accrued liabilities	**(58.7)**	(5.5)
Changes to non-cash working capital balances	**(24.9)**	(4.9)
Interest received	**0.3**	0.5
Interest paid	**91.4**	90.6

18. SEGMENT INFORMATION

Hydro operates in three business segments. Hydro Regulated encompasses sales of electricity to customers within the Province, non-regulated activities encompasses other non-regulated activities and Energy Marketing activities include the sale of electricity to markets outside the Province. The designation of segments has been based on regulatory status and management accountability. The segments' accounting policies are the same as those previously described in Note 2.

(millions of dollars)	**Hydro Regulated**	**Non-Regulated Activities**	**Energy Marketing**	**Total**
		2012		
Revenue				
Energy sales	**520.7**	**-**	**52.2**	**572.9**
Other revenue	**2.1**	**-**	**-**	**2.1**
	522.8	**-**	**52.2**	**575.0**
Expenses				
Fuels	**182.4**	**-**	**-**	**182.4**
Power purchased	**57.0**	**-**	**7.7**	**64.7**
Operations and administration	**109.5**	**0.6**	**25.1**	**135.2**
Net finance expense	**74.0**	**-**	**0.1**	**74.1**
Amortization	**47.5**	**-**	**-**	**47.5**
Other income and expense	**5.3**	**-**	**(0.1)**	**5.2**
Regulatory adjustments	**30.0**	**-**	**-**	**30.0**
	505.7	**0.6**	**32.8**	**539.1**
Net income (loss) from operations	**17.1**	**(0.6)**	**19.4**	**35.9**
Equity in net income of Churchill Falls	**-**	**18.2**	**-**	**18.2**
Preferred dividends	**-**	**10.1**	**-**	**10.1**
Net income	**17.1**	**27.7**	**19.4**	**64.2**
Capital expenditures	**77.6**	**-**	**-**	**77.6**
Total assets	**1,906.4**	**417.5**	**3.5**	**2,327.4**

(millions of dollars)			2011	
Revenue				
Energy sales	473.6	-	74.3	547.9
Other revenue	2.3	-	-	2.3
	475.9	-	74.3	550.2
Expenses				
Fuels	154.9	-	-	154.9
Power purchased	52.2	-	4.6	56.8
Operations and administration	104.4	1.3	23.3	129.0
Net finance expense	73.5	-	(0.6)	72.9
Amortization	43.2	-	-	43.2
Other income and expense	0.5	-	1.8	2.3
Regulatory adjustments	24.1	-	-	24.1
	452.8	1.3	29.1	483.2
Net income (loss) from operations	23.1	(1.3)	45.2	67.0
Equity in net income of Churchill Falls	-	14.9	-	14.9
Preferred dividends	-	9.5	-	9.5
Net income	23.1	23.1	45.2	91.4
Capital expenditures	62.3	-	-	62.3
Total assets	1,867.5	400.6	3.9	2,272.0

19. COMMITMENTS AND CONTINGENCIES

(a) Hydro has received claims instituted by various companies and individuals with respect to outages and other miscellaneous matters. Although such matters cannot be predicted with certainty, management currently considers Hydro's exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, to be $0.2 million (2011 - $0.1 million).

(b) One of Hydro's industrial customers commenced legal proceedings in 1997, claiming approximately $21.9 million (2011 - $21.9 million) related to outages and plant shutdowns. Hydro is defending this claim. While the ultimate outcome of this action cannot be ascertained at this time, in the opinion of Hydro's management, following consultation with its legal counsel, no liability should be recognized.

(c) Outstanding commitments for capital projects total approximately $18.5 million as at December 31, 2012 (2011 - $29.2 million).

(d) Hydro has entered into a number of long-term power purchase agreements as follows:

Type	Rating	In-service Date	Term
Hydroelectric	175 kW	1988	Continual
Hydroelectric	3 MW	1995	25 years
Hydroelectric	4 MW	1998	25 years
Cogeneration	15 MW	2003	20 years
Wind	390 kW	2004	15 years
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years

Estimated payments due in each of the next five years are as follows:

(millions of dollars)	2013	2014	2015	2016	2017
Power purchases	24.9	24.5	24.7	24.9	25.2

(e) Hydro has issued 23 irrevocable letters of credit to the New Brunswick System Operator totaling $18.6 million as credit support related to applications for point to point transmission services. In addition Hydro has issued one letter of credit to the Department of Fisheries and Oceans in the amount of $0.3 million as a performance guarantee in relation to the Fish Habitat Compensation Agreement.

(f) Hydro has entered into power sales agreements with third parties. To facilitate market access, Hydro has entered into a transmission service agreement with Hydro-Quebec TransEnergie, which concludes in 2014, to acquire access to 265 MW of transmission capacity from Labrador through Quebec. Hydro has the right to renew its transmission service contract at the end of the contract term. If at that time there is a competing request for the same path, in order to renew the service agreement, Hydro must agree to accept a contract term that is at least equal to that competing request.

Pursuant to Hydro's five-year transmission service agreement with Hydro-Quebec TransEnergie, the transmission rental payments to contract maturity are as follows:

2013	$18.9 million
2014	$ 4.7 million

19. COMMITMENTS AND CONTINGENCIES (cont'd.)

(g) Hydro has received funding, in the amount of $3.0 million, from the Atlantic Canada Opportunities Agency in relation to a wind-hydrogen-diesel research development project in the community of Ramea. This funding is repayable in annual installments of $25,000 per commercial implementation of the resulting product. As at December 31, 2012 there have been no commercial implementations.

20. RELATED PARTY TRANSACTIONS

Hydro enters into various transactions with its parent and other affiliates. These transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Related parties with which Hydro transacts are as follows:

Related Party	Relationship
Nalcor Energy (Nalcor)	100% shareholder of Hydro.
The Province	100% shareholder of Nalcor.
Churchill Falls (Labrador) Corporation	Jointly controlled subsidiary of Hydro.
Nalcor Energy – Oil and Gas	Wholly owned subsidiary of Nalcor.
Nalcor Energy – Bull Arm Fabrication	Wholly owned subsidiary of Nalcor.
Board of Commissioners of Public Utilities	Agency of the Province.

(a) Hydro has entered into a long-term power contract with Churchill Falls for the purchase of $6.1 million (2011 - $6.0 million) of the power produced by Churchill Falls.

(b) Hydro is required to contribute to the cost of operations of the PUB as well as the cost of hearings and applications costs. During 2012, Hydro incurred $1.5 million (2011 - $1.2 million) in costs related to the PUB of which $0.6 million (2011 - $0.6 million) was included in Accounts payable and accrued liabilities.

(c) As at December 31, 2012, Hydro has a payable to Nalcor of $1.7 million (2011 - $49.4 million) and a receivable from other affiliates for $0.1 million (2011 - $0.1 million). This payable/receivable consists of various intercompany operating costs and power purchases.

(d) The 2012 debt guarantee fee payable to the Province was $3.7 million (2011 - $3.9 million). Both the 2012 and 2011 debt guarantee fees were paid in full in March 2012.

(e) Hydro received contributions in aid of construction from the Province related to wind feasibility studies. As at December 31, 2012, $1.9 million (2011 - $3.5 million) has been recorded in Deferred credits.

(f) During 2012, Hydro repaid the $1.3 million long-term related party note payable to Nalcor in full. The note was non-interest bearing and had no set terms of repayment.

21. SUBSEQUENT EVENTS

Forward Contracts
On January 29, 2013, Hydro entered into a total of 12 forward contracts with a notional value of US $23.0 million to mitigate a portion of the USD exposure on recall sales through to the end of 2013. The average rate on these forward contracts was $1.01 CAD per USD.

Cancellation of letters of credit
On February 15, 2013, Hydro cancelled 23 letters of credit related to the New Brunswick System Operator totaling $18.6 million.

22. COMPARATIVE FIGURES

The comparative figures have been reclassified to conform to the 2012 financial statement presentation of regulatory accounting adjustments.

Return 2

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Return 3

Newfoundland and Labrador Hydro
Computation of Rate Base
($000s)
Year Ended December 31

	2012	2011
Capital Assets in Service - Return 4 *	1,510,595	2,191,991
Work in Process	32,945	23,736
	1,543,540	2,215,727
Deduct:		
Accumulated Depreciation - Return 6 *	88,865	707,241
Contributions in Aid of Construction - Return 7 *	14,052	98,054
Total Capital Assets as per Hydro Financial Statements (Return 1) *	1,440,623	1,410,432
Deduct Items Excluded from Rate Base:		
Work in Process	(32,945)	(23,736)
Asset Retirement Obligations **	(22,878)	(19,126)
Asset Retirement Obligation Accumulated Amortization**	3,193	1,149
Holyrood Fuel Oil Heat Tracing ***	(783)	-
Holyrood Fuel Oil Heat Tracing Accumulated Amortization***	8	-
Net Capital Assets *	1,387,218	1,368,719
Net Capital Assets, Previous Year	1,368,719	1,357,664
Unadjusted Average Capital Assets	1,377,969	1,363,192
Deduct:		
Average Net Assets Not In Service	(1,040)	(423)
Average Capital Assets	1,376,929	1,362,769
Cash Working Capital Allowance - Return 8	7,805	4,626
Fuel Inventory - Return 10	50,308	33,680
Supplies Inventory - Return 10	25,339	24,096
Average Deferred Charges - Return 11	65,670	68,047
Average Rate Base at Year-End - Return 12	1,526,051	1,493,218

* 2012 capital asset value reflects adjustments approved by the Board in Order No. P.U. 13 (2012).

** The asset retirement obligation is comprised of $20,772K (2011 - $16,963K) related to the Holyrood Generating Station and $2,106K (2011 - $2,163K) related to the disposal of Polychlorinated Biphenlys (PCB).

*** In accordance with Order No. P.U. 5 (2012), the capital additions of $783K in 2012 (2011 - nil) for Holyrood fuel oil heat tracing was approved but Hydro is not permitted to recover the costs of the project unless otherwise ordered by the Board.

Return 4

Newfoundland and Labrador Hydro
Capital Assets - Orginal Cost
($000s)

	Balance 31-Dec-11	Order No. P.U. 13 (2012) Adjustments *	Balance 1-Jan-12	Adjustments During 2012	Additions During 2012	Retirements During 2012	Balance 31-Dec-12
Power Generation							
Steam	235,649	(165,393)	70,256	-	15,971	(159)	86,068
Hydro	859,866	(86,820)	773,046	-	3,067	(1,065)	775,048
Diesel	75,549	(39,711)	35,838	-	3,235	(1,279)	37,794
Gas Turbine	49,925	(38,919)	11,006	-	906	(87)	11,825
	1,220,989	(330,843)	890,146	-	23,179	(2,590)	910,735
Substations	191,136	(84,721)	106,415	1,008	20,231	(622)	127,032
Transmission	338,725	(100,627)	238,098	-	9,878	(472)	247,504
Distribution	208,407	(95,696)	112,711	6	17,325	(1,339)	128,703
General plant	113,105	(66,215)	46,890	(1,014)	6,881	(230)	52,527
Telecontrol	82,323	(55,743)	26,580	-	4,823	(299)	31,104
Computer Software	29,854	(25,405)	4,449	-	1,018	(89)	5,378
Other	3,431	(428)	3,003	-	-	-	3,003
Total Depreciable Plant	2,187,970	(759,678)	1,428,292	-	83,335	(5,641)	1,505,986
Non Depreciable Land	4,021	-	4,021	-	588	-	4,609
Plant Investment - Return 3	2,191,991	(759,678)	1,432,313	-	83,923	(5,641)	1,510,595

Note: Certain of the 2011 comparative figures have been reclassified to conform with the 2012 presentation.

* 2012 capital asset value reflects adjustments approved by the Board in Order No. P.U. 13 (2012).

Return 5

Newfoundland and Labrador Hydro
Capital Expenditures - Overview
($000s)

Year Ended December 31

	Total P.U. Board Approved Expenditures 2012	Total Actual Expenditures 2012	Variance From 2012 Budget
Generation	30,375	16,129	(14,246)
Transmission and Rural Operations	40,467	42,556	2,089
General Properties	8,045	7,240	(805)
Major Overhauls and Inspections	6,840	6,562	(278)
Allowance for Unforeseen Events	1,000	1,374	374
Projects Approved by PUB	6,919	3,231	(3,688)
New Projects Less than $50,000 Approved by Hydro	196	161	(35)
Total Capital Budget	93,840	77,252	(16,588)

2012 Capital Budget Approved by Board Order No. P.U. 2 & 5 (2012)	76,992
Board Order No. P.U. 24 (2012)	492
Board Order No. P.U. 25 (2012)	2,941
Board Order No. P.U. 26 (2012)	321
Board Order No. P.U. 27 (2012)	3,155
Board Order No. P.U. 35 (2012)	10
Carryover Projects 2011 to 2012	9,756
New projects under $50,000 Approved by Hydro	173
Total Approved Capital Budget	93,840

Return 6

Newfoundland and Labrador Hydro
Accumulated Depreciation
($000s)

Balance, December 31, 2011		707,241
Order No. P.U. 13 (2012) Adjustments *		(664,635)
Balance, January 1, 2012		42,606
Add:		
Depreciation	47,580	
Less:		
ARO Accretion Expense	(715)	
Holyrood Fuel Oil Heat Tracing	(8)	
		46,857
Deduct:		
Retirements		598
Balance, December 31, 2012 - Return 3		88,865

* 2012 capital asset value reflects adjustments approved by the Board in Order No. P.U. 13 (2012).

Depreciation Rates - 2012

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Generation Plant	
Hydroelectric	45 to 100 years
Thermal	36 and 65 years
Diesel	25 to 55 years
Transmission	
Lines	30 and 65 years
Terminal Stations	40 to 55 years
Distribution	30 to 55 years
Other	5 to 55 years

Note: As approved in Order No. P.U. 40 (2012), Hydro has adopted the straight line method of depreciation for all its assets, with group accounting methods using average service life procedure and applied on a remaining life basis.

Return 7

Newfoundland and Labrador Hydro
Contributions in Aid of Construction
($000s)

	Customers	Province	Total
Gross Contributions			
December 31, 2011	6,923	91,131	98,054
Order No. P.U. 13 (2012) Adjustments *	(6,923)	(89,717)	(96,640)
January 1, 2012	-	1,414	1,414
2012 Retirements	-	-	-
2012 Additions	12,630	8	12,638
Balance December 31, 2012 - Return 3	12,630	1,422	14,052

* 2012 capital asset value reflects adjustments approved by the Board in Order No. P.U. 13 (2012).

Return 8

Newfoundland and Labrador Hydro
Working Capital
($000s)
Year Ended December 31

	2012	2011
Calculation of Cash Working Capital Allowance		
Operating Expenses for the Year - Return 9	108,683	106,856
Add: Power Purchases	97,983	52,221
Total	206,666	159,077
	4.69%	***4.55%***
Working Capital Allowance	9,693	7,238
Deduct: HST Adjustment	1,888	2,612
Working Capital Allowance - Return 3	7,805	4,626

Note: In general, the Company's billing and collection procedures are consistent with those in place during the preceding year.

Return 9

Newfoundland and Labrador Hydro
Statement of Operating Costs
($000s)
Year Ended December 31

	2012	2011
Net Operating		
Salaries and Benefits	71,856	67,823
System Equipment Maintenance	20,261	21,510
Office Supplies and Expenses	2,230	2,307
Professional Services	7,324	6,092
Insurance	2,109	1,965
Equipment Rentals	1,699	1,636
Travel	2,979	2,977
Miscellaneous Expenses	5,003	4,614
Building Rental and Maintenance	1,027	1,172
Transportation	1,928	1,837
Customer Costs	141	122
Cost Recoveries	(7,874)	(5,199)
Subtotal - Return 8	108,683	106,856
Add:		
IOC Cost Recovery	(2,215)	(2,292)
	106,468	104,564
Loss on Disposal of Capital Assets	5,396	925
Total Operating Costs	111,864	105,489

Return 9(A)

Newfoundland and Labrador Hydro
Significant Operating Expense Variance
($000's)

	2012	2011	Increase (Decrease)
Salaries and Benefits	**71,856**	**67,823**	**4,033**
Salaries and benefit costs increased in 2012 from 2011 by $4.0 million, primarily attributed to the following: increases in staff salaries and fringe benefits coupled with decreases in employee future benefits, group insurance and capitalized labour.			
System Equipment Maintenance	**20,261**	**21,510**	**(1,249)**
System equipment maintenance costs decreased by $1.2 million in 2012 over 2011 mainly due to the conclusion of the amortization of extraordinary repairs in Holyrood during 2012.			
Professional Services	**7,324**	**6,092**	**1,232**
The cost increase is primarily related to maintenance costs associated with software acquisition, combined with an increase in consultants costs primarily in the areas of Energy Conservation, Finance and Transmission and Rural Operations.			
Miscellaneous Expenses	**5,003**	**4,614**	**389**
The increase is primarily related to inventory adjustments and training costs during 2012, combined with an increase in municipal taxes.			
Cost Recoveries	**(7,874)**	**(5,199)**	**(2,675)**
An increase in recovery of costs associated with Inter-company administration fees and Conservation Demand Management program costs in 2012 offset by a decrease in recoveries from third parties.			
Loss on Disposal of Capital Assets	**5,396**	**925**	**4,471**
The loss on disposal of capital assets increased in 2012 from 2011 primarily due to partial asset disposals related to Cat Arm dam, Cat Arm road, Black Tickle Diesel Plant, Happy Valley Northside Diesel Plant and the retirement of distribution poles.			

Return 10

Newfoundland and Labrador Hydro
Fuel and Inventory
($000s)

Year Ended December 31

	Fuel		Inventory	
	2012	**2011**	**2012**	**2011**
Opening Balance	29,318	29,646	24,936	23,730
January	39,149	45,621	25,308	23,945
February	55,715	43,651	25,447	24,136
March	55,625	46,416	25,683	23,936
April	65,749	32,111	25,745	23,656
May	57,527	25,650	25,795	23,919
June	54,125	25,086	25,657	24,096
July	53,722	24,719	25,608	23,968
August	54,832	24,403	25,182	23,692
September	54,596	24,848	24,914	24,035
October	49,084	38,409	25,151	24,456
November	57,671	47,964	25,193	24,738
December	26,886	29,318	24,783	24,936
13 Month Average - Return 3	50,308	33,680	25,339	24,096

Return 11

Newfoundland and Labrador Hydro
Deferred Charges
($000s)

As at December 31

	Board Order No.	2012	2011
Foreign Exchange	P.U. 7 (2002-2003)	62,552	64,709
Holyrood Thermal Generation Station Asbestos Abatement	P.U. 2 (2005)	-	605
Conservation Demand Program	P.U. 14 (2009)	2,430	1,045
Deferred Charges for Rate Base, end of current year		64,981	66,359
Deferred Charges for Rate Base, end of prior year		66,359	69,736
Average Deferred Charges for Rate Base - Return 3		65,670	68,047

Return 12

Newfoundland and Labrador Hydro
Return on Rate Base
($000s)

Year Ended December 31

		2012	2011
(a)	Corporate Net Income - Return 1	64,117	89,262
	Deduct: Unregulated Earnings	47,217	68,663
	Regulated Net Income	16,900	20,599
	Add: Regulated Interest - Return 16	89,960	90,844
(b)	Regulated Return	106,860	111,443
(c)	Average Rate Base - Return 3	1,526,051	1,493,218
(d)	Rate of Return on Average Rate Base	7.00%	7.46%
	Lower end of approved range -0.15	6.85%	7.29%
	Higher end of approved range +0.15	7.15%	7.59%

Return 13

Newfoundland and Labrador Hydro
Return on Regulated Average Retained Earnings
($000s)
Year Ended December 31

		2012		2011
Total Equity - Hydro as per Balance Sheet, Return 1		$784,284		$751,751
Deduct: Share Capital		22,504		22,504
Contributed Surplus		115,400		115,400
Accumulated OCI		41,628		45,106
Ending Retained Earnings as Per Balance Sheet, Return 1		604,752		568,741
Deduct: Non-Regulated Retained Earnings				
Beginning Non-Regulated Retained Earnings	356,646		344,828	
Non-Regulated Net Income for the year *	47,217		68,663	
Non-Regulated Dividends for the year	(30,285)		(56,845)	
Ending Non-Regulated Retained Earnings		373,578		356,646
Regulated Retained Earnings, end of year		231,174		212,095
Add: Regulated Contributed Surplus		100,000		100,000
Total Regulated Equity, end of year		331,174		312,095
Regulated Equity, beginning of year		312,095		312,647
Regulated Average Equity		321,635		312,371
Net income - Return 1		64,117		89,262
Deduct: Non-Regulated Net Income		47,217		68,663
Regulated Earnings *		16,900		20,599
Rate of Return on Regulated Equity		5.25%		6.59%

* Includes decreased recovery of $77K related to Iron Ore Company of Canada Cost of Service Adjustment (2011 - $363 decrease). These adjustments result in a decrease in costs in non regulated (2011 - decrease).

Return 14

Newfoundland and Labrador Hydro
Capital Structure
($000s)

Year Ended December 31

Hydro

	2012		2011		Average	
	Amount	Percent	Amount	Percent	Amount	Percent
Debt (Return 15)	922,721	54.05%	892,725	54.29%	907,723	54.17%
Equity	784,284	45.95%	751,751	45.71%	768,018	45.83%
	1,707,005	100.00%	1,644,476	100.00%	1,675,741	100.00%

Hydro Regulated

	2012		2011		Average	
	Amount	Percent	Amount	Percent	Amount	Percent
Debt (Return 15) *	957,159	70.92%	932,715	71.75%	944,937	71.32%
Employee Future Benefits	56,890	4.22%	53,556	4.12%	55,223	4.17%
Asset Retirement Obligation **	4,376	0.32%	1,616	0.12%	2,996	0.23%
Equity	331,174	24.54%	312,095	24.01%	321,635	24.28%
	1,349,599	100.00%	1,299,982	100.00%	1,324,791	100.00%

* Includes increase of debt of $77K related to Iron Ore Company of Canada cost of service adjustment for 2012 (2011 - increase of $363K).

** The funded portion of the asset retirement obligation has been included.

Return 15

Newfoundland and Labrador Hydro
Cost of Debt
($000s)
Year Ended December 31

	2012	2011	Average
Long-Term Debt	1,134,051	1,139,692	1,136,872
Promissory Notes	52,000	-	26,000
Sinking Funds as per FS	(263,330)	(246,967)	(255,149)
Total Debt	922,721	892,725	907,723
Add Back Mark-to-Market Value	41,530	45,108	43,319
Net Debt	964,251	937,833	951,042
Non Regulated Debt Pool *	(7,092)	(5,118)	(6,105)
Total Regulated Debt - Return 14	957,159	932,715	944,937
Current Year Interest Expense Return 16			79,478
Cost of Debt			8.41%

* Includes increase in debt of $77K related to Iron Ore Company of Canada Cost of Service adjustment for 2012 (2011 - increase of $363K).

Return 16

Newfoundland and Labrador Hydro
Interest Expense
($000s)
Year Ended December 31

	2012	2011
Gross Interest		
Long-Term Debt	90,450	90,450
Promissory Notes	917	675
	91,367	91,125
Amortization of Debt Discount and Financing Expenses	499	460
Provision for Foreign Exchange	2,157	2,157
Interest Earned	(18,265)	(18,220)
Debt Guarantee Fee - Hydro	3,693	3,874
Other	133	102
	79,584	79,498
Deduct		
Non-Regulated Interest (Expense) Revenue	(106)	655
Interest for Cost of Debt - Return 15	79,478	80,153
Deduct:		
Interest Capitalized during Construction	(2,706)	(1,546)
Interest Charged on RSP	13,188	12,237
Regulated Net Interest - Return 12	89,960	90,844

RETURN 17
RETURN 17 WAS RELATED TO THE HISTORIC RSP PLAN

Return 18

Newfoundland and Labrador Hydro
Rate Stabilization Plan
($000s)

Year Ended December 31

	Utility						Industrial				
Month	Load Variation	Allocation Fuel Variation	Allocation Rural Rate Alteration	Financing Charges	Return 19 Adjustment	Cumulative Net Balance	Load Variation	Allocation Fuel Variation	Financing Charges	Return 19 Adjustment	Cumulative Net Balance
Opening balance						(55,940)					(81,653)
Payment						(55,940)					(81,653)
January	(145)	15,019	(681)	(339)	(6,007)	(48,093)	(2,232)	807	(495)	336	(83,237)
February	(103)	13,656	(681)	(292)	(5,640)	(41,153)	(1,916)	765	(505)	330	(84,563)
March	(2)	13,698	(623)	(250)	(5,700)	(34,030)	(1,961)	775	(513)	377	(85,885)
April	-	6,556	(594)	(206)	(4,111)	(32,385)	(1,680)	467	(521)	409	(87,210)
May	-	4,028	(482)	(197)	(3,476)	(32,512)	(1,686)	365	(529)	364	(88,696)
June	(112)	1,981	(469)	(197)	(3,129)	(34,438)	(1,996)	342	(538)	336	(90,552)
July	(21)	(186)	(478)	(209)	(4,742)	(40,074)	(2,272)	190	(550)	316	(92,868)
August	(35)	(133)	(423)	(243)	(4,800)	(45,708)	(1,982)	134	(564)	369	(94,911)
September	10	(19)	(294)	(277)	(4,485)	(50,773)	(2,177)	17	(576)	297	(97,350)
October	(31)	2,884	(420)	(308)	(5,885)	(54,533)	(2,161)	223	(591)	315	(99,564)
November	(26)	7,547	(402)	(331)	(7,049)	(54,794)	(2,232)	545	(604)	303	(101,552)
December	368	13,324	(723)	(333)	(9,505)	(51,663)	(2,253)	945	(616)	338	(103,138)
Year to date	(97)	78,355	(6,270)	(3,182)	(64,529)	4,277	(24,548)	5,575	(6,602)	4,090	(21,485)
Hydraulic Allocation						(13,242)					(942)
Total						(64,905)					(104,080)
						To Return 18a					To Return 18a

Return 18(a)

Newfoundland and Labrador Hydro
Rate Stabilization Plan
($000s)

Year Ended December 31

	Hydraulic			From Return 18		
Month	Net Hydraulic Production Variation	Financing Charges	Cumulative Variation and Financing Charges	Utility Balance	Industrial Balance	Cumulative Net Balance
Opening balance			(32,737)	(55,940)	(81,653)	(170,330)
After Payment			(32,737)	(55,940)	(81,653)	(170,330)
January	(5,391)	(199)	(38,327)	(48,093)	(83,237)	(169,657)
February	(7,104)	(233)	(45,663)	(41,153)	(84,563)	(171,379)
March	(6,887)	(277)	(52,827)	(34,030)	(85,885)	(172,742)
April	(3,016)	(320)	(56,164)	(32,385)	(87,210)	(175,759)
May	(1,509)	(341)	(58,013)	(32,512)	(88,696)	(179,221)
June	629	(352)	(57,736)	(34,438)	(90,552)	(182,726)
July	6,734	(350)	(51,352)	(40,074)	(92,868)	(184,294)
August	5,484	(312)	(46,180)	(45,708)	(94,911)	(186,799)
September	6,697	(280)	(39,763)	(50,773)	(97,350)	(187,886)
October	(1,061)	(241)	(41,065)	(54,533)	(99,564)	(195,162)
November	65	(249)	(41,249)	(54,794)	(101,552)	(197,595)
December	(5,472)	(250)	(46,972)	(51,663)	(103,138)	(201,773)
Year to Date	(10,831)	(3,404)	(14,235)			-
Hydraulic Allocation	10,892	3,404	14,296	(13,242)	(942)	112
Total	61	-	(32,676)	(64,905)	(104,080)	(201,661)

Return 19

Newfoundland and Labrador Hydro
Assessable Revenue
($000s)
Year Ended December 31

	2012	2011
Electricity Sales	505,395	518,057
Rate Stabilization (Return 18)	60,439	25,359
Rural Rate Alteration	7,038	4,381
Other Revenue	2,116	2,317
	574,988	550,114
Deduct Regulated Hydro Revenue that is Not Assessable:		
Rural Rate Alteration	7,038	4,381
Input Tax Credits	151	98
Deduct Non-Regulated Revenue:		
Recall/Export	47,334	69,671
Iron Ore Company of Canada	4,878	4,585
Wabush Mines	4	4
Assessable Revenue	515,583	471,375

Note: Certain of the 2011 comparitive figures have been reclassifed to conform with the 2012 presentation.

Return 20

NEWFOUNDLAND & LABRADOR HYDRO
2012 Annual Report on the Rural Deficit

	2012 Actual Cost of Service			
	Revenues ($)	Cost of Service Before Deficit and Revenue Allocation ($)	Revenue Credits ($)	Deficit ($)
Rural Deficit Areas				
Island Interconnected	48,264,628	65,610,106	(131)	(17,345,347)
Island Isolated	1,536,095	8,757,759		(7,221,665)
Labrador Isolated	6,965,290	30,143,818		(23,178,528)
L'Anse au Loup	2,543,471	5,580,856		(3,037,385)
DND Revenue Credit			(1,524,090)	1,524,090
Total	59,309,484	110,092,539	(1,524,221)	(49,258,835)

	2012 Actual [1]				
	Number of Communities [2]	Number of Customers	Cost per kWh [3] ($)	Deficit per Customer [3] ($)	Cost Recovery Ratio [3]
Rural Deficit Areas					
Island Interconnected	145	22,611	0.16	(767)	0.74
Island Isolated	7	777	1.19	(9,300)	0.18
Labrador Isolated	17	2,356	0.83	(9,839)	0.23
L'Anse au Loup	8	989	0.26	(3,070)	0.46
Total	177	26,733	0.23	(1,843)	0.54

	Forecast Deficit ($)				
	2013	2014	2015	2016	2017
Rural Deficit Areas					
Island Interconnected	(25,675,355)	(27,711,000)	(21,744,000)	(21,995,000)	(26,301,000)
Isolated Systems	(37,126,061)	(42,482,000)	(43,601,000)	(44,461,000)	(45,111,000)
DND Revenue Credit	-	-	-	-	-
Total	(62,801,416)	(70,193,000)	(65,345,000)	(66,456,000)	(71,412,000)

(1) Average cost for Island Interconnected customers less Rural Interconnected is $0.066 per kilowatt hour and cost for Labrador Interconnected customers is $0.021 per kilowatt hour. Both calculations are based on kWh sales.

(2) Hydro's definition of Community corresponds to the "Town Code" in its customer information system. Some smaller communities may be combined if they share a single postal code.

(3) Excludes DND Revenue Credit.

A REPORT TO
THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

2012 Conservation and Demand Management Report

NEWFOUNDLAND AND LABRADOR HYDRO

March 2013

newfoundland labrador hydro
a nalcor energy company

TABLE OF CONTENTS

PAGE #

1 Introduction

This report provides an overview of Newfoundland and Labrador Hydro's (Hydro) activities undertaken in 2012 on Conservation and Demand Management (CDM). The report also provides some information on the future outlook and provides an estimate of the value of CDM from a utility perspective.

While the focus is on CDM information and programs directed at customers, Hydro also places efforts on improving the energy efficiency of its own facilities and there were further successes in that program in 2012.

This report describes the provincial approach towards the CDM initiatives, but focuses on the costs and initiatives for Hydro's portion of program implementation. 2012 was a very active year for Hydro, with significant program expansions in both residential and commercial sectors, targeting the isolated diesel systems. In addition to large scale programming, a smaller program promoting block heater timers was launched for customers in the Labrador Interconnected System. The Five Year Energy Conservation Plan: 2012-2016 (the Plan) was filed with the Board in 2012 and outlines further program expansions for 2013 and 2014 for both commercial and residential customers.

2 Provincial Context

Energy conservation initiatives were a topic of discussion during Hydro's 2006 General Rate Application (GRA). Since that time, a CDM Potential study was completed in 2008. From that, a five-year strategic plan was completed which outlined proposed energy conservation initiatives to be implemented jointly by Newfoundland Power and Hydro.

The focus of the Plan was and is on energy savings through the development of a culture of conservation. The activities in the Plan include rebate programs for each sector – residential, commercial and industrial – and supporting activities for awareness, education and community engagement to stimulate attitude change. Since that Plan, Hydro has also offered programs directly to their customers: the Coupon Pilot Program in 2010-2011, the Isolated Systems[1] Community Energy Efficiency Program, Isolated Systems Business Efficiency Program (ISBEP)[2] and a Block Heater Timer program, all launched in 2012. An overview of the programs offered during 2012 is included in Appendix A: CDM Programs and includes current programs offered both through a joint utility partnership or directly targeting Hydro's customers.

Through Order No. P.U. 14 (2009), the Board approved the definition and establishment of a Conservation Deferral Account. A definition for this deferral account was submitted to the Board on April 22, 2009 and is attached as Appendix B to this report.

The takeCHARGE brand was launched in 2008 as a joint utility effort and the first rebate programs were launched through takeCHARGE in 2009. Those same programs continue to be offered.

Hydro continues to have a positive working relationship with the Provincial Climate Change, Energy Efficiency and Emissions Trading Secretariat (CCEEET). In 2012, the takeCHARGE team provided support and feedback on the development of the energy efficiency portion of the Turn Back the Tide[3] website and social media activities regarding climate change and energy efficiency.

[1] These programs target isolated diesel systems as well as the L'anse au Loup System covering the south coast of Labrador.
[2] Board Order No. P.U. 3(2012) approved the deferral of 2012 costs related to the Conservation program.
[3] The Government of Newfoundland and Labrador's "Turn Back the Tide" campaign is being delivered by the Office of Climate Change, Energy Efficiency and Emissions Trading, and is a public awareness campaign on climate change and energy efficiency. The website address is www.turnbackthetide.ca.

3 Five Year Plan Activities

The Five Year Energy Conservation Plan: 2012-2016 was filed with the Board in 2012 and outlines further program expansions for 2013 and 2014 for both commercial and residential customers and provides for an evaluation and assessment of next steps for the industrial sector. In addition to the joint utility programs offered provincially, there are three programs offered by Hydro that directly target their customers in isolated and Labrador Interconnected systems. These are also offered through the takeCHARGE brand to maintain consistency for all utility offered energy conservation programs.

The takeCHARGE Energy Savers Rebate programs launched in June 2009 were offered through 2012. These programs have delivered energy savings and continue to prompt consumers to consider energy efficiency in their purchases. These programs target the highest end uses for the residential and commercial markets of heating and lighting, respectively. These programs are:

- Residential Windows;
- Residential Thermostats;
- Residential Insulation; and
- Commercial Lighting.

The Industrial Energy Efficiency Program (IEEP) launched in 2010 with the first project cash incentives approved in 2011 and additional projects completed in 2012. This program provides financial support for engineering feasibility studies of efficiency opportunities and capital projects.

In addition to these provincial rebate programs, Hydro launched programs for both residential and commercial customers. The Isolated System Energy Efficiency Program provided for direct install of a kit of technologies in a participating customer's home. The kit included items for water savings, draft proofing, lighting and other measures. Homeowners received education on energy efficiency and information on the existing takeCHARGE rebate programs. There were community events, social media promotions and exchanges held to promote the program and energy efficiency awareness. More than 85%[4] of homes received a direct install visit in the communities targeted in 2012.

In addition to the residential component of the program, commercial customers also received a direct install with lighting, draft sealing and water conservation measures. As well as the direct install visit, customers were made aware of the newly launched Isolated Systems Business Efficiency Program (ISBEP) that provides a custom approach towards finding energy efficiency solutions for the business community. Similar to the

[4] Final report from Summerhill Group indicates an 87.6% install rate for 2012.

IEEP, the program provides assessment of the opportunities at the customers' site and provides an incentive for capital work based on the predicted energy savings.

A smaller program was launched in the Labrador Interconnected System to promote and provide incentives for Block Heater Timers. Timers are rarely used in this region, although the penetration of block heaters is very high. This program was launched in partnership with corporate partners Iron Ore Company of Canada (IOC) and Cliffs (Wabush Mines) to provide giveaways, promotions and retail coupons on this technology. Our corporate partners are increasing the incentive amount and providing additional promotions and outreach for the program to customers in the Labrador West area.

Table 1: Hydro CDM Portfolio Costs and Table 2: Hydro Annual Energy Savings, describe Hydro's total CDM expenses and energy savings from 2009 to 2012 across all of Hydro's systems including the Labrador Interconnected System. This report will provide further detail and breakdown of those costs that will be recovered through the deferral account and the associated energy reductions.

Table 1: Hydro CDM Portfolio Costs ($000)

	2009	**2010**	**2011**[5]	**2012**
Windows	44	48	80	117
Insulation	40	60	140	126
Thermostats	13	19	31	47
Coupon Program	-	140	135	-
Commercial Lighting	13	12	59	20
Industrial	57	221	103	173
Block Heater Timer				31
Isolated Systems Community				858
ISBEP				93
Heat Recovery Ventilator				-
Business Efficiency Program				-
Small Technologies				-
Total Portfolio	**167**	**500**	**548**	**1,465**

[5] In the 2011 Conservation and Demand Management Report, the costs for Windows and Insulation were reversed in the 2011 column. This table provides a correction of that error.

Table 2: Hydro Annual Energy Savings (MWh)

	2009	2010	2011	2012
Windows	12	27	61	136
Insulation	31	84	407	383
Thermostats	6	25	27	43
Coupon Program	-	64	256	-
Commercial Lighting	3	10	227	95
Industrial	0	0	165	3,172
Block Heater Timer				0
Isolated Systems Community				1,673
ISBEP				3
Heat Recovery Ventilator				-
Business Efficiency Program				-
Small Technologies				-
Total	**52**	**210**	**1,143**	**5,505**

There are two components of the costs associated with the conservation and efficiency function. In addition to direct program costs which are charged to the Deferral Account, there are costs associated with general energy efficiency awareness and education, strategic planning and program development. These costs remain relatively stable regardless of the number of rebate programs currently offered in the portfolio.

These costs are outlined in Table 3: Hydro Support Costs, below.

Table 3: Hydro Support Costs 2009-2013 ($000)

	2009	2010	2011	2012
Education	262	106	212	200
Support	53	48	43	53
Planning	176	180	304	127
Total	**491**	**334**	**559**	**380**

4 2012 Program Highlights

takeCHARGE is a joint utility effort to provincial CDM programming that allows for economies of scale to be achieved in areas such as marketing and outreach efforts. The technologies selected for rebate programs address large energy use opportunities and have been verified as cost effective through standard utility economic screening. In addition, a range of education efforts around general energy efficiency messaging have also been implemented to develop a culture of conservation.

Participation continues to increase in Hydro's service area. Retailers continue to be key partners in reaching customers, and a pilot project undertaken in 2011-2012 with retailers to promote Energy Star Window purchases and rebate submission demonstrated this role. Select retailers completed applications on behalf of customers and received a small financial incentive for every eligible rebate submitted. This effort was both to increase the sales for Energy Star Windows but also to reduce the barriers of the application process for the customer. Hydro rebate participation numbers are typically low, so it is challenging to determine the exact impact of such an initiative, but it does seem to have had an impact. The lessons learned from this report will be used to determine further opportunities for retailer engagement on a provincial scale.

In the residential sector, there was growth in both the windows and thermostat programs. The decrease from 2011 savings in the insulation program is a result of the very strong activity around an aggressive insulation promotion and increased rebate that was held in 2011 that was not repeated in 2012.

Participation in the commercial lighting program has been a challenge in 2012 due to an increase in the cost of the more efficient lighting that is eligible for incentive. While the price has levelled out and even returned to previous cost levels, the local lighting suppliers are not yet following suit. The utilities continue to work with distributors to gain insight into the impacts this is having on the market.

Industrial Customer participation continues to be a challenge as customers focus on their own operation and processing, and energy efficiency does not appear to be a primary driver for resource allocation. There is still a great need for strong, hands-on support to enable customers to manage their daily operational priorities while examining energy efficiency and developing efficiency plans.

During 2012, takeCHARGE promotions continued through mass market media approaches, as well as through an increasing presence in social media with an active Facebook page and website. Using contests and engagement in discussions on energy efficiency, customers were able to learn about ways to conserve as well as hear about takeCHARGE programs. Social media continues to be an effective way to engage customers in discussing ways to conserve energy and the customer engagement has directed people to the website for additional detailed rebate program information.

5 Sector Highlights

In the residential sector, outreach and non-traditional promotions and awareness building continue to demonstrate strong results in reaching a diverse market. For example, the takeCHARGE program has been represented through community events, product exchanges and giveaways to reach customers in a variety of ways. The Isolated Systems Energy Efficiency Program in isolated communities provided events and open community dialogue, opportunities to participate in lighting exchanges as well as providing coupons for small technologies such as lighting at local retailers and the opportunity to have a number of items installed free of charge in the customer's home. The Program is administered by Summerhill Group on behalf of Hydro and through Summerhill, local people were hired and trained to deliver the program. The very high participation rate of more than 85% of homes is in large part due to the program having a local presence and engaging people on a personal level with regards to energy decisions at home.

The commercial market requires additional understanding and support of a different nature. In the summer of 2012, the ISBEP was launched, providing rebates and technical assistance for commercial customers in the isolated diesel communities and L'Anse au Loup area. This custom approach is similar to the IEEP and Hydro technical staff work with customers one on one to address their energy efficiency needs. Hydro had already learned from the IEEP that business customers require technical support in identifying the opportunities but also significant support in moving the project forward while they manage immediate business concerns.

In 2012, the IEEP had successes with continued participation in capital retrofits with one Industrial Customer on the Island Interconnected System. Additional projects were discussed and explored with other customers but were not completed. The challenges of keeping sustained interest in efficiency projects with competing business concerns has resulted in continued low numbers of projects and savings, despite the identification of cost effective projects.

Hydro will also continue to work with Newfoundland Power and other partners to determine emerging opportunities for CDM programming and develop appropriate strategies for developing a conservation culture in the province. The 2012 activities included filing the updated Plan, commencing discussions with CCEEET on changing codes in both commercial and residential sectors and new program launches for both sectors.

6 Regulated Program Energy Savings and Program Costs

Table 4 below illustrates the energy savings from Hydro customers in relation to programming associated with the annual regulated deferral request. In 2012, there was growth on the windows and thermostat programs and an increase in uptake on insulation. The commercial lighting challenges with market prices of the eligible technologies are reflected in this year's savings. The strong successes in the IEEP and the Isolated System Community Energy Efficiency Program reflect efforts to offer a program model that responds to the needs of the customers being targeted. Strong facilitation and support was provided for the IEEP participants and one-on-one community level participation opportunities provided through the Isolated System Community Energy Efficiency Program. A small energy savings in 2012 resulted from the completion of the first project through the ISBEP program.

Table 4: Energy Savings from Deferral Account Activity (MWh)

	2009	2010[6]	2011	2012
Windows	12	16	38	50
Insulation	31	63	229	126
Thermostats	6	15	16	28
Coupon Program	0	47	166	-
Commercial Lighting	3	0	92	25
Industrial	0	0	165	3,172
Block Heater Timer				0
Isolated Systems Community				1,673
ISBEP				3
Heat Recovery Ventilator				-
Business Efficiency Program				-
Small Technologies				-
Total	**52**	**141**	**706**	**5,077**

The costs associated with the delivery of the CDM program portfolio include direct costs for advertising, salaries, rebates and other expenses directly associated with a specific rebate program. These costs vary depending on the uptake of the program and the number of programs offered. Table 5: Program Costs from Deferral Account Activity provides a program level breakdown.

[6] In the 2011 Conservation and Demand Management Report, the energy savings for Windows and Insulation were reversed in the 2009 and 2010 columns. This table provides a correction of that error. Review of the savings information for 2010 showed that the Insulation savings reported (50 MWh/yr) were actual savings assumed from time of rebate submission and had not been annualized. This correction has been made, to ensure consistency with other programs and resulted in an increase in the savings to 63 MWh/yr.

Table 5: Program Costs from Deferral Account Activity ($000)

	2009	2010	2011[7]	2012
Windows	44	41	69	102
Insulation	40	53	116	108
Thermostats	13	18	25	43
Coupon Program	-	113	123	-
Commercial Lighting	13	-	43	10
Industrial	57	190	98	170
Block Heater Timer				-
Isolated Systems Community				858
ISBEP				93
Heat Recovery Ventilator				-
Business Efficiency Program				-
Small Technologies				-
Total Portfolio	**167**	**415**	**474**	**1,384**

[7] In the 2011 Conservation and Demand Management Report, the costs for Windows and Insulation were reversed in the 2011 column.

7 Program Participation and Savings

The following provides the breakdown of rebate transactions and savings for each of the programs in the Five Year Plan and the Coupon Pilot Program. These numbers reflect costs and savings associated with activity recorded in the Deferral Account.

The estimated energy savings represent savings from participants in that year. These savings will occur each year for the life of the measures installed.

Table 6: Life to Date Program Participation

	Number of Rebates				
Program	**2009**	**2010**	**2011**	**2012**	**Life to Date**
Energy Star Window Rebate Program	11	19	41	61	132
Insulation Rebate Program	14	24	104	50	192
Thermostat Rebate Program	4	28	32	45	109
Coupon Pilot Program	-	N/A	N/A	N/A	0
Commercial Lighting Rebate Program[8]	0	0	6,996	1,321	8,317
Industrial Energy Efficiency Program	0	0	1	1	2
Block Heater Timer				0	0
Isolated System Community				N/A	0
ISBEP				1	1
Heat Recovery Ventilator				-	0
Business Efficiency Program				-	0
Small Technologies				-	0

[8] For the Commercial Lighting Program, rebates can range from 10 efficient bulbs to hundreds of bulbs, and ballasts. For that reason, the numbers listed in this table are numbers of technologies rebated, rather than the actual number of rebates.

Table 7: Life to Date Energy Savings

	Estimated Energy Savings MWh/yr				
Program	**2009**	**2010**[9]	**2011**	**2012**	**Life to Date**
Energy Star Window Rebate Program	12	16	38	50	116
Insulation Rebate Program	31	63	229	126	449
Thermostat Rebate Program	6	15	16	28	65
Coupon Pilot Program	0	47	166	0	213
Commercial Lighting Rebate Program	0	0	92	25	117
Industrial Energy Efficiency Program	0	0	165	3,172	3,337
Block Heater Timer				0	0
Isolated System Community				1,673	1,673
ISBEP				3	3
Heat Recovery Ventilator					0
Business Efficiency Program					0
Small Technologies					0

[9] In the 2011 Conservation and Demand Management Report, the energy savings for Windows and Insulation were reversed in the 2009 and 2010 columns.

8 Life to Date Value of Program Energy Savings

The value of energy and demand savings has been estimated from a utility perspective based on overall cost reductions associated with the program costs recorded in the Deferral Account. It includes Holyrood fuel savings and impacts on transmission and distribution costs including losses. No losses are included for the Industrial Energy Efficiency Program as they are transmission level customers. Estimated energy and demand savings are based on when the customer completed installation of energy saving measures during the year, and allow for reductions due to free ridership. This estimate is less than that based on savings accrued to participants on an annual basis, as presented elsewhere in this report. The value of energy savings changes each year due primarily to the change in avoided fuel prices and an update from using 2009 dollars to 2012 dollars.

Table 8: Life to Date Value of Energy Savings ($)

	Estimated Energy Savings MWh/yr				
Program	**2009**	**2010**	**2011**	**2012**	**Life to Date**
Energy Star Window Rebate Program	233	1,197	4,084	10,477	15,991
Insulation Rebate Program	1,078	6,037	25,469	57,650	90,234
Thermostat Rebate Program	61	893	2,879	6,635	10,468
Coupon Pilot Program	-	4,712	26,608	54,307	85,627
Commercial Lighting Rebate Program	-	-	7,972	21,582	29,554
Industrial Energy Efficiency Program	-	-	961	291,564	292,525
Block Heater Timer	-	-	-	0	0
Isolated System Community	-	-	-	167,906	167,906
ISBEP	-	-	-	221	221
Heat Recovery Ventilator	-	-	-	-	-
Business Efficiency Program	-	-	-	-	-
Small Technologies	-	-	-	-	-

Appendix A

CDM Program Concepts

Residential Windows

Program Description

The objective of this program is to increase the installation of *Energy Star* qualified windows, resulting in savings in space heating energy. The program components include rebates and financing, and a variety of education and marketing tools.

Target Market: Residential

This program targets residential customers, including new construction and replacement of existing windows at end of life. Eligibility is limited to electrically heated homes.

Eligible Measures

Eligible measures in this program are *Energy Star* qualified windows.

Delivery Strategy

Delivery of this program will be integrated with the revised *Wrap Up for Savings* insulation and thermostat programs.

Marketing initiatives will include partnering with retailers and trade allies in the home building and renovation industry, to target both do-it-yourself and professional installers. Communications will incorporate the *Energy Star* brand and related marketing support, as well as cross-promotion of the EcoEnergy Retrofit program from Natural Resources Canada. Tools and tactics will include retail and model home point-of-sale materials, advertising, tradeshows, community outreach and trade ally activities. Rebates and financing will be processed through customer application.

Residential Windows

Market Considerations

Energy Star qualified windows make up approximately 10% to 15% of window sales in the province, and understanding of the product is generally poor among customers and retailers. Initial cost is also a barrier to increased market penetration, due to a 10% to 15% price premium. Eligible windows are widely available. Local manufacturers produce approximately 50% of the provincial window sales, and most manufacturers offer *Energy Star* qualified products.

Incentive Strategy

Incentives for this program include rebates and financing. The rebate value will be based on the incremental cost of *Energy Star* qualified windows over the standard type.

Program Monitoring & Evaluation

The program will be monitored for participation level, service quality, and cost effectiveness, and a representative sample of installations will be inspected. Formal evaluations will be conducted within the first year of implementation, and biannually during operation.

Estimated Costs & Energy Savings

	2008	2009	2010	2011	2012	2013	Total
Estimated Costs ($000s)	40	420	400	500	510	610	2,480
Estimated Cumulative Energy Savings (MWh)	-	230	570	1,020	1,700	2,610	
Total Resource Cost (TRC)	2.4						

Residential Thermostats

Program Description

The existing thermostat rebate program will be revised based on the CDM Potential Study and market research. The continuing objective of this program is to increase the use of both programmable thermostats, which automatically set back room temperature, and high performance thermostats, which control room temperature very accurately, in order to save space heating energy. The program components include rebates and financing, and a variety of education and marketing tools.

Target Market: Residential

This program targets residential customers, including home retrofit and new construction. Eligibility is limited to electrically heated homes.

Eligible Measures

Eligible measures in this program include both programmable and high performance thermostats (for example, those which control within +/- 0.5C.)

Delivery Strategy

Delivery of this program will be integrated with the new residential windows and revised *Wrap Up for Savings* insulation programs.

Marketing initiatives will include partnering with manufacturers, retailers, electrical contractors, as well as homebuilders and real estate professionals to educate consumers regarding the energy savings and comfort benefits of programmable and high performance thermostats. Communications will incorporate cross-promotion of the EcoEnergy Retrofit program from Natural Resources Canada. Tools and tactics will include retail and model home point-of-sale materials, advertising, tradeshows, community outreach and trade ally activities. Rebates will be processed directly by authorized retailers and through customer-submitted coupons.

Residential Thermostats

Market Considerations

Sales of programmable and high performance thermostat types make up less than 10% of total thermostat sales provincially. Customer awareness of the important role of thermostats in heating system efficiency is low. Initial cost is a barrier to increased market penetration, particularly for new home construction where continued use of minimum quality thermostats represents significant lost opportunity. Availability of electronic high performance thermostats is currently limited in most areas, though programmable types are widely available.

Incentive Strategy

Incentives for this program include rebates and financing. The rebate value will be based on the incremental cost of the targeted thermostat types over the standard type.

Program Monitoring & Evaluation

The program will be monitored for participation level, service quality, and cost effectiveness, and a representative sample of installations will be inspected. Formal evaluations will be conducted within the first year of implementation, and biannually during operation.

Estimated Costs & Energy Savings [1]

	2008	2009	2010	2011	2012	2013	Total
Estimated Costs ($000s)	-	300	220	280	230	270	1,300
Estimated Cumulative Energy Savings (MWh)	-	270	650	1,210	1,910	2,650	

Total Resource Cost 2.4

[1] Includes the cost of revising the existing program and the resulting energy savings. Excludes the cost and energy savings of existing program.

Residential Insulation

Program Description

The existing *Wrap Up for Savings* program will be revised based on the CDM Potential Study and market research. The continuing objective of this program is to increase the insulation level in basements, crawl spaces, walls and attics, resulting in savings in space heating energy. The program components include rebates and financing, and a variety of education and marketing tools.

Target Market: Residential

This program targets residential customers, including home retrofit and new construction. Eligibility is limited to electrically heated homes.

Eligible Measures

Eligible measures in this program include insulation upgrades to basements, crawl spaces, walls and attics. Rebates for new homes are limited to basement insulation beyond building code compliance. Technical requirements for each upgrade type will be reviewed during program detailed design.

Delivery Strategy

Delivery of this program will be integrated with the new residential windows and revised thermostat programs.

Marketing initiatives will include partnering with retailers and trade allies in the home building and renovation industry, to target both do-it-yourself and professional installers. Communications will incorporate cross-promotion of the EcoEnergy Retrofit program from Natural Resources Canada. Tools and tactics will include retail and model home point-of-sale materials, advertising, tradeshows, community outreach and trade ally activities. Rebates and financing will be processed through customer application.

Residential Insulation

Market Considerations

Older homes and small homes often have inadequate insulation levels. For example, over 45% of homes in the province built before 1950 have uninsulated basements. Most new homes constructed in the province still have no insulation on the concrete portion of basement walls. Initial cost is a barrier to increased market penetration, as is awareness of the impact on space heating energy, and the practical difficulties of renovating an existing living space. Recent experience with the *Wrap Up for Savings* program has shown participation to be responsive to awareness-building marketing activities.

Incentive Strategy

Incentives for this program include rebates and financing. The rebate value will be reviewed and will be restructured based on insulating value (R-value) rather than a prescriptive product list as currently offered.

Program Monitoring & Evaluation

The program will be monitored for participation level, service quality, and cost effectiveness and a representative sample of installations will be inspected. Formal evaluations will be conducted within the first year of implementation, and biannually during operation.

Estimated Costs & Energy Savings [1]

	2008	2009	2010	2011	2012	2013	Total
Estimated Costs ($000s)	40	1,210	1,210	1,400	1,430	1,590	6,880
Estimated Cumulative Energy Savings (MWh)	-	4,130	8,670	13,660	19,160	25,200	
Total Resource Cost 2.6							

[1] Includes the cost of revising the existing program and the resulting energy savings. Excludes the cost and energy savings of existing program.

Commercial Lighting

Program Description

The objective of this program is to increase the installation of more efficient lighting technologies in commercial buildings. The program components include rebates on a specific list of qualifying technologies, and a variety of education and marketing tools.

Target Market: Commercial

This program targets retrofit of commercial building lighting, encouraging customers to replace existing lighting equipment.

Eligible Measures

The list of eligible measures in this program is based on the technologies identified as eligible for rebate under existing programs offered by other Canadian utilities (for example Ottawa Hydro and BC Hydro). These include T8 fluorescent electronic ballasts or fixtures, compact fluorescent lights (CFLs), and *Energy Star LED* exit signs.

Delivery Strategy

This program is expected to be operational for three years. Delivery will be integrated with future commercial sector programming, which is expected to include a custom project-based incentive program similar to the industrial custom program.

Marketing initiatives will include partnering with lighting manufacturers, distributors, and electrical contractors who will carry the program to potential customers. The program will create business opportunities for trade allies to sell more efficient lighting products. This approach has proven effective in other jurisdictions and in previous Newfoundland Power experience. Tools and tactics will include trade ally and business association activities, such as workshops for contractors and distributors, retail point-of-sale materials, and advertising in trade publications. Demonstration projects will be selected from early participants. Rebates will be processed through customer application.

Commercial Lighting

Market Considerations

The largest portion of the market opportunity in commercial lighting is with standard T12 fluorescent tube lighting with electromagnetic ballasts. This technology is used in approximately 60% of existing commercial building interior lighting in the province, though new construction is almost exclusively using the more efficient T8 fluorescents with electronic ballasts. Federal regulations will remove the electromagnetic ballast from new sales starting in 2010. However, there is a significant opportunity for replacement of existing T12 installations prior to their normal end of life (average lifespan 17 years). Primary barriers to increased use of the more efficient products include the higher initial capital cost, and lack of understanding of the opportunity for energy and cost savings.

Incentive Strategy

Incentives for this program include rebates for a prescriptive list of eligible technologies. The list will be based on the technologies identified as eligible for rebate under existing programs offered by other Canadian utilities (for example Ottawa Hydro and BC Hydro).

Program Monitoring & Evaluation

The program will be monitored for participation level, service quality, and cost effectiveness and a representative sample of installations will be inspected. Formal evaluations will be conducted within the first year of implementation, and biannually during operation.

Estimated Costs & Energy Savings

	2008	2009	2010	2011	2012	2013	Total
Estimated Costs ($000s)	-	290	310	340	-	-	940
Estimated Cumulative Energy Savings (MWh)	-	590	1,760	2,930	2,930	2,930	
Total Resource Cost 1.1							

Industrial Custom Program

Program Description

The objective of this program is to improve electrical energy efficiency in a variety of industrial processes. The program components include financial incentives based on energy savings, and other supports to enable industrial facilities to identify and implement efficiency and conservation opportunities. This program is a custom program to respond to the unique needs of the industrial market, rather than a prescriptive technology approach.

Target Market: Industrial

This program targets retrofit of industrial process equipment in the transmission level customers served by Newfoundland and Labrador Hydro.

Eligible Measures

Eligibility of projects is based on engineering review and confirmation of estimated energy savings impact. Technologies include, but are not limited to, compressed air, pump systems, process equipment and process controls.

Delivery Strategy

This program will be delivered through a call for proposals to Industrial Customers (IC) for energy saving projects that meet set financial criteria. These proposals will undergo engineering review for approval. Selected projects will be eligible for rebates based on savings and payback period reductions, as well as enabling supports including facility education, energy audits and other customized offerings.

The program will be managed internally with external engineering verification of projects and monitoring and evaluation of energy savings. The utility will take the role of facilitator and consultant in providing methods for ICs to complete project proposals and implement approved projects.

This program model has been used successfully in other jurisdictions. To ensure the cost effectiveness of this model with the unique nature and size of the industrial market in Newfoundland and Labrador, this program will launch as a three-year program using a single call for proposals and full evaluation cycle.

Industrial Custom Program

Market Considerations

This market requires a one-on-one approach to project design and delivery. The program builds on the work already completed by the ICs, and addresses their unique barriers to improved efficiency, which include, but are not limited to, access to capital and human resources.

The lifecycle for each program transaction will be measured in months rather than weeks because of the need for review, contract development, implementation timelines and post-installation monitoring and evaluation. This type of program requires that facilities have financial and business stability to continue operations for a time period appropriate to achieve cost effective savings.

Incentive Strategy

Incentives for this program include rebates based on energy savings, as well as funding assistance for additional enabling mechanisms. Rebate levels, maximum rebate amounts and payment schedules will be determined in the program detailed design phase. Rebates for each approved project will be determined through the call for proposals process, based on the engineering proposal and following a schedule agreed upon by the customer and utility.

Program Monitoring & Evaluation

The program will be monitored for participation level, service quality, and cost effectiveness, including engineering review and inspection of all projects and assessment of long-term impact on customer processes. Formal program evaluations will be conducted within the first year of implementation, and biannually during operation.

Estimated Costs & Energy Savings

	2008	2009	2010	2011	2012	2013	Total
Estimated Costs ($000s)	100	1,470	2,640	4,270	-	-	8,480
Estimated Energy Savings (MWh)	-	-	-	20,000	45,000	45,000	
Total Resource Cost 2.9							

Residential Coupon Based Energy Efficiency Program

Program Description

This project is a coupon based energy efficiency program targeting Hydro's 31,000 residential customers located across the province in 220 communities. The program provides both at-the-cash coupon promotion for smaller efficiency technologies and mail in rebates for larger Energy Star appliances. This range allows customers to engage in energy efficiency with a wide range of purchase decisions. The program also provides necessary supports, awareness and mechanisms to allow small community retailers to participate and promote their products. All partners are supported by a local program representatives working in the field.

Target Market: Residential

This program targeted residential customers across a range of technology purchases.

Eligible Measures

Eligible measures include smaller items such as CFLs and LED holiday lights, but also some larger items such as Energy Star lighting fixtures, hot water tank wraps and Energy Star clothes washers. The program includes measures with savings resulting from primarily plug load and water heating savings.

Delivery Strategy

At launch the program has ten partner retailers. Local retailers in targeted communities were approached to procure products and offer the coupons for the duration of the program. The rebates on the ENERGY STAR® qualified dishwasher and refrigerator were made available more widely to the entire Hydro customer base through promotions online, info available through the call centre and bill inserts.

Residential Coupon Based Energy Efficiency Program

Market Considerations

This project was designed to:

- Deliver a new, accessible, TRC positive instant coupon-based energy efficiency program in Hydro communities and gain knowledge on the challenges of using this type of approach in communities of different sizes.
- Generate knowledge of energy conservation measures and awareness of the takeCHARGE program offerings.
- Establish new partnerships in the retail sector and engage them in an ongoing wider product offering program and gain a better understanding of Hydro's customer base on the interest in smaller energy efficiency technologies.
- Increase the market penetration of energy saving products and overall energy efficiency awareness.

Incentive Strategy

Incentives for this program include at-the-cash coupons which reduced the cost of the efficient products for the customer at purchase and two additional ENERGY STAR® appliance products with a mail-in rebate similar to the traditional takeCHARGE Energy Savers Rebate programs.

Program Monitoring & Evaluation

Evaluation components include examining the participation, the administration processes, and attitudes of the partners. These included:

- Coupon uptake: number of coupons distributed and number of coupons redeemed;
- Event participation: number of participants; and
- Retailer and participant experiences: number of participants who learned more about energy conservation, takeCHARGE and energy saving products based on interactions with the program.

Estimated Costs & Energy Savings

Costs ($000s)	$240,000-$265,000
Energy Savings (MWh)	473
TRC	2.05

Appendix B

Definition of Deferral Account

Newfoundland and Labrador Hydro
April 22, 2009

Conservation and Demand Management (CDM) Cost Deferral Account
Definition

The account shall be charged with the costs incurred in implementing the CDM Program Portfolio. The costs will include such items as detailed program development, promotional materials, advertising, pre and post customer installation checks, application and incentive processing, incentives, trade ally training, employee training, and program evaluation costs associated with programs in the CDM Program Portfolio.

The account will exclude any expenditure properly chargeable to plant accounts. The account shall also exclude conservation expenditures that are general in nature, such as costs associated with providing energy conservation awareness, responding to customer inquiries, planning, research and general supervision that are not associated with a specific program in the CDM Program Portfolio.

The account will exclude any expenditure related to programs or incentives that are fully recoverable from other parties, including government. Where a program or initiative is partially funded by other parties, the amount funded will be used to reduce the appropriate expenditures.

Costs associated with Labrador Interconnected customers will be tracked separately from costs associated with the other customers, as programs for the latter are based upon a cost structure which is significantly different from the Labrador Interconnected System and future disposition may be treated separately.

Transfers to, and from, the proposed account will be tax effected.

The disposition of any balance in this account will be subject to a future Order of the Board.