NEWFOUNDLAND POWER
A FORTIS COMPANY

Newfoundland Power Inc.

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HAND DELIVERED

January 22, 2013

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

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

Ladies & Gentlemen:

Re: 2013/2014 General Rate Application

While giving evidence on January 16, 2013, Ms. Perry advised the Board that Moody's Investors Service would presently be issuing an updated credit opinion on Newfoundland Power and indicated it would be filed with the Board when received. (Transcript, January 16, 2013, page 3, lines 17 – 23)

Enclosed herewith are the original and 12 copies of the Moody's Investors Service credit opinion on Newfoundland Power Inc. dated January 18, 2013.

Copies of this letter, together with enclosures, have been forwarded directly to Geoff Young, of Newfoundland and Labrador Hydro and Thomas Johnson, Consumer Advocate as indicated below.

If you have any questions regarding the enclosed, please contact the undersigned at your convenience.

Yours very truly,

Gerard M. Hayes
Senior Counsel

Enclosures

c. Geoffrey Young (1 copy)
Newfoundland and Labrador Hydro

Thomas Johnson (3 copies)
Consumer Advocate

MOODY'S
INVESTORS SERVICE

Credit Opinion: Newfoundland Power Inc.

Global Credit Research - 18 Jan 2013

St. John's, Newfoundland, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating -Dom Curr	Baa1
First Mortgage Bonds -Dom Curr	A2

Contacts

Analyst	Phone
David Brandt/Toronto	416.214.3864
William L. Hess/New York City	212.553.3837

Key Indicators

[1]**Newfoundland Power Inc.**

	[2]LTM	2011	2010	2009	2008
(CFO Pre-W/C + Interest) / Interest Expense	3.1x	3.4x	3.5x	3.1x	3.0x
(CFO Pre-W/C) / Debt	15.2%	17.9%	18.6%	15.0%	15.8%
(CFO Pre-W/C - Dividends) / Debt	7.1%	7.7%	15.4%	9.8%	12.3%
Debt / Book Capitalization	53.7%	54.2%	47.9%	49.2%	54.5%

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. Source: Moody's Financial Metrics. [2] Last twelve months ended September 30, 2012

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Low-risk regulated electric utility

Supportive regulatory and business environment

Adequate liquidity

Corporate Profile

Headquartered in St. John's, Newfoundland, Newfoundland Power Inc. (NPI) is a vertically integrated electric utility which operates under cost of service regulation as administered by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) under the Public Utilities Act (the Act). NPI is a wholly-owned subsidiary of Fortis Inc. (FTS, not rated), a diversified electric and gas utility holding company also based in St. John's, Newfoundland and Labrador.

SUMMARY RATING RATIONALE

NPI's Baa1 issuer rating reflects the company's low business risk as a cost-of-service regulated, predominately transmission and distribution (T&D), utility with no unregulated business activities. Approximately 93% of NPI's power requirements are purchased from provincially-owned Newfoundland & Labrador Hydro (Hydro), the cost of which is passed through to ratepayers. Despite the fact that NPI has one of the lowest allowed ROEs in Canada (8.80% for 2012), we continue to view the PUB as one of the more supportive regulators in Canada. Regulatory decisions tend to be timely and balanced and NPI's 45% deemed equity is one of the highest in Canada. In addition, NPI benefits from a number of deferral accounts that are intended to protect it from factors beyond management's control. The rating is consistent with NPI's financial metrics but reflects a cautionary note related to our concern that the utility's future ability to fully recover costs and earn returns may be compromised as the Province of Newfoundland and Labrador undertakes development of the Muskrat Falls hydroelectric project on the lower Churchill river and the related transmission infrastructure. This politically charged project will be large relative to the provincial economy and it is expected that it will place considerable upward pressure on future electricity rates.

DETAILED RATING CONSIDERATIONS

LOW-RISK BUSINESS MODEL

NPI's rating reflects the company's low business risk as a cost of service-regulated utility. NPI owns and operates a vertically integrated electric utility located on the island portion of the province of Newfoundland and Labrador and dominates that market, which is geographically isolated and effectively protected from potential competition. NPI serves roughly 87% of the province's electricity customers. The market is mature and has tended to grow at a relatively low and predictable rate of about 2% annually. Historically, growth has not taxed NPI either operationally or financially. Although NPI is notionally vertically integrated, it is predominantly a T&D utility since its generation assets provide only about 7% of the electricity that NPI delivers.

NPI's own generation assets are regulated and represent roughly 15% of NPI's property, plant and equipment. Accordingly, we consider NPI's business risk profile to be more like that of a T&D utility than a vertically integrated utility. Transmission and distribution is regarded as a relatively lower risk segment of the electric utility industry since it is typically not exposed to commodity price and volume risks or the operational, financial and environmental risks associated with electricity generation.

SUPPORTIVE REGULATORY AND BUSINESS ENVIRONMENT

All of NPI's operations are located in Canada whose regulatory and business environments we consider to be supportive relative to those in other jurisdictions. Furthermore, we consider the PUB to be one of the more supportive regulators in Canada with its decisions timely and balanced. NPI's allowed ROE was increased for 2012 to 8.80% from 8.38% in 2011 and while it remains one of the lowest in Canada, it is mitigated by one of the highest deemed equity levels in Canada at 45%. The approved 2012 RORB (return on rate base) is 8.14% (2011: 7.96%), with a range of 7.96% to 8.32%. We believe that the PUB's review and approval of NPI's capital spending plans and long-term debt issuances significantly reduces the risk of cost disallowances or to NPI's ability to fully recover costs on a timely basis. NPI submits a proposed capital plan for PUB approval annually. Furthermore, NPI is required to obtain PUB pre-approval for the issuance of any First Mortgage Bonds (FMB) or the incurrence of credit facilities with maturities exceeding one year.

Several cost recovery mechanisms reduce NPI's exposure to unexpected costs due to variations in purchased power cost, weather and pension and other post-employment benefit (OPEB) costs. While NPI foregoes some upside potential, the stability and predictability of its cash flows is increased. For example, the Rate Stabilization Account (RSA) facilitates timely recovery of purchased power costs in excess of those forecasted for rate-making purposes. We consider this particularly important since the marginal cost of power that NPI obtains from Hydro exceeds the average supply costs embedded in customer rates. The RSA provides for the amortization of the under or over collection over a 12 month period. Other mechanisms include the Weather Normalization Account and the Demand Management Incentive Account (which limits NPI's exposure to variation in the demand component of supply costs to approximately $0.5 million).

NPI IS OPERATIONALLY AND FINANCIALLY INDEPENDENT OF FTS AND ITS SUBSIDIARIES

While NPI is one of a number of utility operating companies owned by Fortis, we consider NPI, like sister companies FortisAlberta Inc., FortisBC Inc., FortisBC Energy Inc. and FortisBC Energy (Vancouver Island) Inc., to be operationally and financially independent from Fortis. Fortis has consistently demonstrated good management and support of its subsidiaries and we view NPI's access to the executive and strategic support of Fortis to be a credit positive.

Liquidity Profile

NPI's liquidity arrangements are considered adequate in the context of its relatively stable cash flow and funding requirements.

Historically, NPI's cash flow from operations has enabled it to service debt, pay dividends and substantially fund its PUB approved capital expenditure program. Any shortfall is funded through NPI's bank credit facilities, adjustment to dividends paid and issuance of long term first mortgage sinking fund bonds (FMB).

In 2013, NPI's capital expenditures are expected to be approximately $80 million for ongoing maintenance and construction of the distribution system and investment in technology. This is roughly equal to the 2012 approved capital expenditure level. With no significant debt repayments, beyond annual sinking fund requirement of approximately $5.2 million, due until 2014 (approx. $30 million), we expect that funding requirements will be adequately met by NPI's credit facilities.

The company's core liquidity facility is a $100 million syndicated committed revolving credit facility that matures in August 2017. While the credit agreement contains a covenant that NPI maintain its debt to capitalization ratio at or below 65%, the credit agreement does not include funding inhibiting language such as a material adverse change (MAC) default or representation and warranty prior to drawdown. Unutilized capacity under this facility was approximately $70 million at September 30, 2012.

NPI will periodically issue additional FMBs to reduce outstanding draws under its bank credit facility and to refinance scheduled debt maturities.

Structural Considerations

The A2 rating of NPI's senior secured FMB reflects the first mortgage security over NPI's property, plant and equipment and floating charge on all other assets. This is consistent with the two notch differential between most senior secured debt ratings and senior unsecured debt ratings of investment-grade regulated utilities operating in North America. The differential is based on our analysis of the history of regulated utility defaults, which indicates that regulated utilities have experienced lower loss given default rates (higher recovery rates) than non-financial, non-utility corporate issuers.

Rating Outlook

The rating outlook is stable based on our expectation that, with the increased ROE for 2012, financial metrics have stabilized and NPI will continue to generate CFO pre-WC to debt in the range of 15% to 17% and cash flow interest coverage in the low 3x range.

What Could Change the Rating - Up

NPI's rating would likely be upgraded if there was a sustainable improvement in financial metrics, such as cash flow interest coverage above 3.4x, CFO pre-WC to debt above 17% and RCF to debt above 12%.

What Could Change the Rating - Down

We consider a downward revision in NPI's rating to be unlikely in the near term. However, NPI's rating would likely be downgraded if we perceived a meaningful reduction in the level of regulatory support combined with weaker liquidity and a sustained deterioration in NPI's financial metrics such as cash flow interest coverage of less than 2.6x, CFO pre-WC to debt in the low teens and RCF to debt below 9%.

Rating Factors

Newfoundland Power Inc.

Regulated Electric and Gas Utilities Industry [1]	[2]**Current**		[3]**Moody's 12-18 month Forward View As of September 2012**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		A		A

Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (5%)		Baa		Baa
b) Generation and Fuel Diversity (5%)		Baa		Baa
Factor 4: Fin. Strength, Liquidity And Key Fin. Metrics (40%)				
a) Liquidity (10%)		A		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	3.3x	Baa	3.0x-3.3x	Baa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	16.9%	Baa	15%-17%	Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	11.7%	Baa	10%-13%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	49.9%	Baa	48%-52%	Baa
Rating:				
a) Indicated Rating from Methodology Grid		A3		A3
b) Actual Baseline Credit Assessment Assigned				Baa1

Source: Moody's Financial Metrics.

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. [2] Based on financial data as of 09/30/2012 (L). [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

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professional adviser.