Q. Opinion on Capital Structure and Return on Equity
Kathleen McShane – Volume 3

Please provide the DBRS report for Newfoundland Power dated January 2012.

A. Please see “PUB-NP-070 Attachment 1.pdf” for a copy of the document.

DBRS report for Newfoundland Power
January 2012

Rating Report

Report Date:
January 24, 2012

Previous Report:
January 31, 2011

Insight beyond the rating.

Newfoundland Power Inc.

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The Company

Newfoundland Power Inc. generates, transmits and distributes electricity. The Company has approximately 247,000 customers throughout the island portion of the Province of Newfoundland and Labrador. It purchases approximately 93% of its electricity needs from government-owned Newfoundland and Labrador Hydro and generates the balance from its own generation facilities (140 megawatts). Newfoundland Power Inc. is a wholly owned subsidiary of Fortis Inc., a Canadian public holding company focused primarily on electric and gas utility operations in Canada, the Caribbean and the United States.

Ratings

Debt	Rating	Rating Action	Trend
First Mortgage Bonds	A	Confirmed	Stable
Preferred Shares – cumulative, redeemable	Pfd-2	Confirmed	Stable

Rating Update

DBRS has confirmed the ratings of the First Mortgage Bonds and Preferred Shares of Newfoundland Power Inc. (Newfoundland Power or the Company) at "A" and Pfd-2, respectively; the trends remain Stable. The rating confirmations reflect Newfoundland Power's low business risk stemming from the regulated nature of its operations, strong balance sheet, and consistent operating results.

The Company's rate of return on rate base for ratemaking purposes was reduced to 7.96% in 2011 (8.23% in 2010), with a range of 7.78% to 8.14%. This reflects a regulated return on common equity (ROE) of 8.38% for 2011, down from 9.00% in 2010; the 8.38% was set explicitly by the automatic adjustment formula used as a mechanism to establish customer rates between general rate hearings. The Board of Commissioners of Public Utilities (PUB) has approved Newfoundland Power's request to suspend the use of the automatic adjustment formula in 2012 (approved ROE and return on rate base in 2012 are on an interim basis, awaiting the full cost of capital review in 2012). The 8.38% ROE for 2011 is among the lowest regulatory ROEs in the country. Despite a low regulated return on rate base, the Company continues to benefit from the following characteristics: (1) a favourable deemed equity ratio of 45%; (2) a weather normalization reserve (WNR) account that stabilizes earnings during extreme weather conditions; (3) a rate stabilization account (RSA) that absorbs fluctuations in purchased power costs; and (4) a pension expense variance deferral account (PEVDA) and other post-employment benefits (OPEBs) cost deferral account. Newfoundland Power operates in a stable and supportive regulatory environment, allowing for the material pass-through of all power-generation and procurement-related costs, and the full recovery of all prudently incurred operating expenses and capital expenditures, within a reasonable time frame, which significantly reduces operating risk.

Although Newfoundland Power has a strong parent organization, through Fortis Inc. (Fortis, rated A (low) with a Stable trend; see the September 7, 2011, DBRS rating report), the Company is largely rated on a stand-alone basis. Fortis is a large, integrated electric and gas utility holding company that has the financial capability to provide equity support if required by Newfoundland Power.

Rating Considerations

Strengths

(1) Stable and supportive regulatory environment
(2) Strong balance sheet and favourable financial profile
(3) Stable customer base
(4) Limited competition from alternative fuels

Challenges

(1) Reliance on Newfoundland and Labrador Hydro for majority of power supply
(2) Managing forecast risk
(3) Limited growth potential
(4) Allowed returns are sensitive to interest rates

Financial Information

	9 mos.ending Sept. 30		12 mos.	For the year ended December 31				
(CAD thousands where applicable)	2011	2010	Sept. 30	2010	2009	2008	2007	2006
Net income before extras.	26,088	26,212	35,450	35,574	33,201	32,895	30,452	30,666
Cash flow (before working cap. changes)	62,789	62,536	84,891	84,638	72,075	70,860	57,138	53,122
Return on equity	8.4%	8.8%	8.6%	8.9%	8.6%	8.8%	8.6%	9.0%
Total debt in capital structure	53.6%	54.0%	53.6%	53.7%	55.1%	53.4%	54.8%	54.6%
Cash flow/total debt	17.2%	17.6%	17.5%	17.8%	15.0%	16.2%	12.9%	12.8%
EBIT interest coverage (times)	2.37	2.41	2.38	2.41	2.40	2.53	2.20	2.26
(Cash flow - dividends)/capex	0.88	0.91	0.87	0.90	0.65	0.85	0.66	0.57

Rating Considerations Details

Strengths

(1) Stable and supportive regulatory environment. Newfoundland Power operates in a stable and supportive regulatory environment that is based on cost-of-service regulation. The PUB allows for the pass-through of purchased power costs and, in addition, an RSA is in place to absorb fluctuations in purchased power costs relating primarily to the cost of fuel oil used by Newfoundland and Labrador Hydro ((NLH), rated "A", with a Stable trend; see the August 25, 2011, DBRS rating report) to generate electricity.

(2) Strong balance sheet and favourable financial profile. The Company has a strong balance sheet, with a capital structure based on a 45% allowable equity component established by the PUB for rate-setting purposes. The high allowance for equity in the capital structure allows Newfoundland Power to generate greater earnings and incur lower interest payments relative to utilities with lower equity allowances within their capital structure.

(3) Stable customer base. Newfoundland Power has a stable customer base, with power sales comprised solely of residential and commercial customers. Serving industrial customers exposes organizations to a greater level of counterparty risk and increased earnings volatility. Industrial customers in Newfoundland are served primarily by NLH.

(4) Limited competition from alternative fuels. The lack of availability of natural gas, due to geographic isolation and insufficient infrastructure, limits competitive pressures. As a result, over 50% of the Company's current customers utilize electric space heating, resulting in much higher electricity sales during the winter months relative to the summer.

Challenges

(1) Reliance on NLH for majority of power supply. Newfoundland Power relies heavily on NLH for its power supply, sourcing approximately 93% of its power requirements from this provider. The cost of power purchased from NLH is largely influenced by the market price of bunker C fuel used for thermal generation, which is passed through to Newfoundland Power's customers through the RSA. However, higher rates, driven by the high cost of oil in recent years, could make it more difficult for the Company to get approval for its own rate increases. NLH is looking to reduce its exposure to highly expensive and volatile oil. The Muskrat Falls project is planned to come online in 2017 and could potentially replace the oil-fired power generated at the Holyrood Thermal Generating Station with cleaner hydro-generated power.

(2) Managing forecast risk. The key challenge with respect to the Demand Management Incentive Account (DMIA) will be the Company's ability to accurately and consistently forecast electricity demand going forward. However, through this account, variations in the unit cost of purchased power related to demand are limited, at the discretion of the PUB, to 1% of demand costs ($545,208 for 2011). In the deliberation of the final value to be placed in the DMIA account, the PUB considers the merits of the Company's conservation and demand management activities.

(3) Limited growth potential. Overall growth is largely driven by growth in the customer base and in average customer consumption levels. Achieving strong growth through increases in the Company's customer base is limited given the geographic isolation of Newfoundland. Furthermore, although average consumption is expected to increase over time, anticipated increases are likely to be incremental. Customer volumes will be tied to provincial population growth, while consumption growth will be tied more closely to economic prosperity within the province, including the health of the volatile natural resources sector.

(4) Allowed returns are sensitive to interest rates. Under the current regulatory regime, the rate-setting ROE, and hence earnings, are sensitive to interest rates. A Consensus Forecast is used in determining the risk-free rate for calculating the forecast cost of equity to be used in the adjustment formula. The prevailing low interest rate environment continues to affect the regulated ROE. Lower ROE has a negative impact on earnings and cash flow. However, the PUB has shown its willingness to deviate from the rate of return generated by the automatic adjustment formula, most recently seen in its December 2011 decision to suspend the use of the formula for 2012 rate-setting purposes.

Earnings and Outlook

(CAD thousands)	9 mos.ending Sept. 30 2011	9 mos.ending Sept. 30 2010	12 mos. Sept. 30	For the year ended December 31 2010	2009	2008	2007	2006
Revenues	416,671	403,473	568,148	554,950	527,179	516,889	491,709	421,264
EBITDA	111,614	100,491	145,421	134,298	129,535	130,059	111,729	110,111
EBIT	64,609	65,382	86,305	87,078	83,848	85,548	77,567	76,982
Gross interest expense	27,264	27,180	36,268	36,184	34,958	33,828	35,193	34,016
Net income before extras.	26,088	26,212	35,450	35,574	33,201	32,895	30,452	30,666
Return on equity	8.4%	8.8%	8.6%	8.9%	8.6%	8.8%	8.6%	9.0%
Rate base ($ millions)	n/a	n/a	n/a	875	848	821	794	753
Growth in rate base	n/a	n/a	n/a	3.2%	3.3%	3.4%	5.4%	1.0%
Rate setting common equity	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%
Allowed ROE - midpoint	8.38%	9.00%	n/a	9.00%	8.95%	8.95%	8.60%	9.24%

Summary

- Newfoundland Power continues to generate stable earnings, reflective of moderate annual customer growth, slightly higher average consumption and an expanding rate base, offset by a declining regulatory-approved ROE.
  - The declining ROE was largely a result of the low interest rate environment affecting the output of the automatic adjustment formula.
  - The trend toward incremental increases in average consumption is mainly driven by the greater proportion of electric heating relative to oil heating in new homes, as well as by economic growth.
- Newfoundland Power benefits from the highly regulated environment in which it operates, as this provides predictability and stability to earnings, both of which are essential factors in determining the level of risk associated with an organization’s ability to meet its obligations.
- The Company is subject to seasonality in electricity sales and purchased power costs. Electricity sales are greatest in the first quarter (winter) and lowest in the third quarter (summer). However, earnings are lowest in the winter months, given the increased cost of power purchases, while earnings are comparatively higher in the summer, when power can be purchased at more favourable rates.
- The Company benefits from a stable customer base consisting solely of residential and commercial customers, with NLH supplying the more volatile industrial segment.
- Overall average customer electricity rates increased by 0.8% as of January 1, 2011, mainly reflective of higher OPEB costs; partially offset by the decline in ROE.
- Effective July 1, 2011, customer electricity rates were raised by an overall average of 7.7%. The increase in rates was mainly a result of the price of oil exceeding the forecasted price on which NLH’s electricity rates were based. The increase in customer rates has no material impact on Newfoundland Power’s earnings; all costs are flowed through to customers using the RSA.

Outlook

- Newfoundland Power’s revenue will likely continue to increase modestly while EBITDA and net earnings remain flat; this performance is in line with the historical trend.
- In September 2011, the PUB approved Newfoundland Power’s sale of 40% of its joint-use poles back to Bell Aliant, representing 5% of Newfoundland Power’s rate base. This sale will account for a decline in revenue; however, it is not expected to materially affect the Company’s ability to generate a reasonable return.
  - The sale to Bell Aliant closed in January of 2012.
- Factors that are expected to offset a potential prolonged low ROE environment are: growth in rate base related to ongoing capital projects, economic expansion in the Company’s service area, modest housing starts and increased average customer electricity consumption.
- In the near term, DBRS expects credit metrics to remain relatively flat and within the Company’s current rating category.

Newfoundland Power Inc.

Report Date:
January 24, 2012

Financial Profile

(CAD thousands)	9 mos.ending Sept. 30 2011	9 mos.ending Sept. 30 2010	12 mos. Sept. 30	For the year ended December 31 2010	2009	2008	2007	2006
Net income before extraordinary items	26,088	26,212	35,450	35,574	33,201	32,895	30,452	30,666
Depreciation, depletion & amortization	31,807	32,402	43,033	43,628	42,097	40,947	39,955	38,922
Deferred income taxes and other	4,894	3,922	6,408	5,436	(3,223)	(2,982)	(13,269)	(16,466)
Cash flow (before working cap. changes)	62,789	62,536	84,891	84,638	72,075	70,860	57,138	53,122
Dividends paid	(15,595)	(12,193)	(19,658)	(16,256)	(25,754)	(15,828)	(9,668)	(18,751)
Capital and exploration expenditures	(53,482)	(55,126)	(74,703)	(76,347)	(71,267)	(64,959)	(72,167)	(60,235)
Free Cash Flow (bef. work. cap. changes)	(6,288)	(4,783)	(9,470)	(7,965)	(24,946)	(9,927)	(24,697)	(25,864)
Changes in non-cash work. cap. items	(4,033)	7,023	(1,128)	9,928	(12,695)	14,191	(7,887)	3,929
Net Free Cash Flow	(10,321)	2,240	(10,598)	1,963	(37,641)	4,264	(32,584)	(21,935)
Acquisitions & Long-term Investments	(1,618)	(1,264)	(2,388)	(2,034)	(2,808)	(2,374)	0	0
Net equity change	(30)	0	(30)	0	(241)	0	(1)	(57)
Net debt change	10,000	(5,500)	11,800	(3,700)	41,300	(5,550)	31,829	19,461
Other	1,925	1,647	2,923	2,645	4,079	3,212	2,223	2,903
Change in cash	(44)	(2,877)	1,707	(1,126)	4,689	(448)	1,467	372
Total debt	485,580	473,893	485,580	475,482	479,250	438,154	443,527	415,209
Cash and equivalents	4,138	2,431	4,138	4,182	5,308	619	1,067	0
Total debt in capital structure	53.6%	54.0%	53.6%	53.7%	55.1%	53.4%	54.8%	54.6%
Cash flow/total debt	17.2%	17.6%	17.5%	17.8%	15.0%	16.2%	12.9%	12.8%
EBIT interest coverage (times)	2.37	2.41	2.38	2.41	2.40	2.53	2.20	2.26
Adjusted EBIT interest coverage (times)*	2.37	2.41	2.38	2.41	2.40	2.53	2.20	2.26

*Including operating leases.

Summary

- Newfoundland Power has a good financial profile, supported by its attractive capital structure and stable operating cash flows.
- Cash flow from operations has historically displayed the same underlying stability and predictability as EBITDA, reflecting the regulated nature of the Company's operations.
- Newfoundland Power's capital expenditure program is focused primarily on plant replacement to support its current customer base, and secondly toward customer and sales growth.
  - Over the past five years, the Company has dedicated approximately half of its capital expenditures toward plant replacement and one-third toward customer and sales growth.
- Although the Company continues to maintain strong and stable cash flow from operations, capital expenditures continue to cause modest free cash flow deficits.
- The Company has historically utilized its credit facilities to finance free cash flow shortfalls as a bridge to the issuance of First Mortgage Bonds.
- Newfoundland Power utilizes its annual dividend to maintain a long-term capital structure of 55% debt and 45% equity, as approved by the PUB for rate-setting purposes.
- Leverage has remained relatively unchanged at approximately 55% over the past five years, while coverage ratios have gradually shown improvement.

Outlook

- On October 5, 2011, Newfoundland Power received proceeds in the amount of $45.7 million in exchange for 40% of the Company's joint-use poles and related infrastructure from Bell Aliant. As of September 30, 2011, these assets were recorded as assets held for sale on the balance sheet. The sale to Bell Aliant closed in January 2012. The Company used the proceeds to pay down short-term debt and pay a special dividend of $29.9 million to Fortis to maintain its capital structure of 45% common equity.
- The Company's 2012 capital budget of $77 million has been approved by the regulator. Newfoundland Power forecasted capital expenditures to increase to just below $90 million in 2014. As a result, modest free cash flow deficits are expected to persist and be funded by credit facilities and long-term debt issuances.
- Over the next five years, the Company has forecasted that approximately 49% of capital expenditures will be allocated to plant replacements, to support the existing customer base, and 34% to customer and sales growth to drive revenue gains.
- The Company's credit profile is largely dependent on its future rate applications to the PUB.

Newfoundland Power Inc.

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Long-Term Debt Maturities and Liquidity

$ million	2011	2012	2013	2014	2015	Thereafter	Total
Long-term bonds	5.2	5.2	5.2	33.8	4.8	409.5	463.7
Credit Facilities	0	0	0	0	25	0	25
as at September 30, 2011	5.2	5.2	5.2	33.8	29.8	409.5	488.7

*Gross debt, debt issue costs not subtracted from total debt

Securities Outstanding			Sept. 30
First mortgage sinking fund bonds:			2011
	2014	10.55%	30.2
	2016	10.95%	32.4
	2022	10.13%	32.8
	2020	9.00%	33.6
	2026	8.90%	34.4
	2028	6.80%	44.0
	2032	7.52%	69.0
	2035	5.44%	56.4
	2037	5.90%	67.2
	2039	6.61%	63.7
			463.7
	Credit facilities		25.0
			488.7
	Less: current portion		5.2
			483.5

*Gross debt, debt issue costs not subtracted from total debt

Summary

- Newfoundland Power's debt consists of $463.7 million in First Mortgage Bonds and $25 million in committed unsecured credit facilities as at September 30, 2011.
- The First Mortgage Bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company, and by a floating charge on all other assets.
- Newfoundland Power has the following credit facilities available:
  - A four-year $100 million syndicated, committed revolving unsecured credit facility expiring in August 2015.
  - A $20 million uncommitted demand facility.
- As at September 30, 2011, $25 million was outstanding on the Company's $100 million credit facility.
- The credit facilities contain a covenant that states that the Company shall not declare or pay any dividends or make any other restricted payments if immediately thereafter the debt-to-capitalization ratio exceeds 65%.
- The Company is also restricted under its Trust Deed to meet specific tests when it intends to issue additional long-term bonds.
- The Company must meet an Earnings Test where the net earnings, in a period of any 12 consecutive months terminating within 24 months preceding the delivery of such additional bonds, are at least two times the annual interest charges on all bonds outstanding after any proposed additional bond issue.
- Secondly, the Company must meet the Additional Property Test, whereby the additional bonds must not exceed 60% of the fair value of the additional property.

Outlook

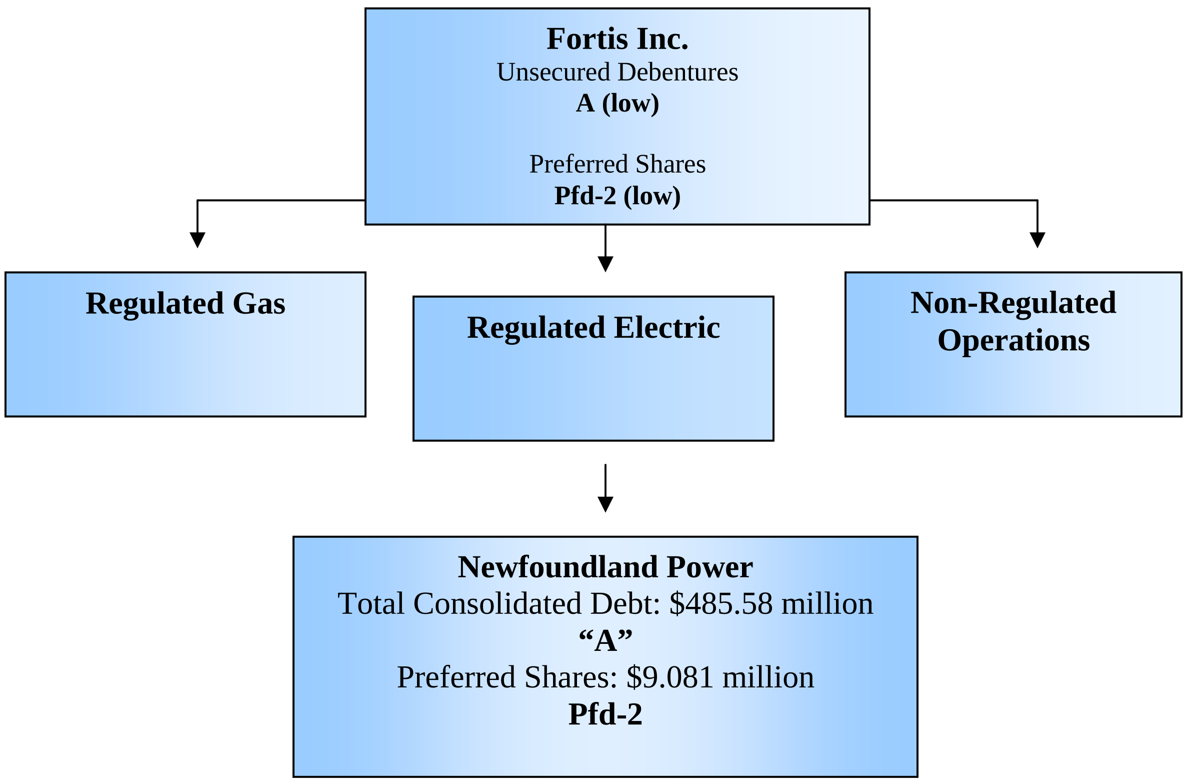
- The debt repayment schedule is very modest in the near term. The most notable maturity is in 2014, when approximately $29 million of First Mortgage Bonds mature. Given the availability of funds under the credit facilities and stable cash flow from operations, the Company's liquidity remains more than adequate to fund both working capital requirements and cash flow deficits.

Description of Operations

Newfoundland Power generates, transmits and distributes electricity. The Company serves just over 247,000 customers throughout the island portion of the province of Newfoundland and Labrador. Approximately 60% of electricity sales are to residential customers, with the remainder sold to commercial customers and for street lighting. As a result, total sales have shown strong stability, with modest growth year over year.

The Company's generating capacity consists of 23 hydroelectric stations, six thermal plants and 130 substations, with a total installed capacity of 140.4 megawatts (MW). Approximately 93% of power requirements are sourced from NLH. The principal terms of the supply agreement are regulated by the PUB on a similar basis to that of the Company's customers.

Simplified Ownership/Debt Chart



Regulation

Regulatory Overview

- Newfoundland Power is regulated by the PUB, which is responsible for setting electricity rates, approving capital expenditures and deciding on the appropriate capital structure and ROE for rate-setting purposes.
- Rates are based on a cost-of-service/rate-of-return methodology.
- Newfoundland Power's allowable equity portion within the capital structure is favourable, at 45%.
- The Company's rate of return on rate base for rate-setting purposes was reduced to 7.96% in 2011 (8.23% in 2010), with a range of 7.78% to 8.14%.
  - This reflects a regulated return on common equity (ROE) of 8.38% for 2011, down from 9.00% in 2010; the 8.38% was set explicitly by the automatic adjustment formula used as a mechanism to establish customer rates in between general rate hearings.

- Newfoundland Power's 2012 capital budget of $77 million and 2010 rate base of $875 million have been approved by the PUB.
- Historically (since 1998), the PUB used the automatic adjustment formula to set Newfoundland Power's rate of return on rate base.
  - However, the regulator has decided to suspend the operation of the automatic adjustment formula in 2012.
  - The Company's regulated ROE will remain at 8.38% and current customer electricity rates will be in effect throughout 2012; both on an interim basis.
- The suspension of the automatic adjustment formula for 2012 halts the decline in ROE that Newfoundland Power has recently experienced.
- The regulated ROEs of other Canadian provinces are well above Newfoundland's current level of 8.38%. The spread between ROEs would have likely been further exacerbated had it not been for the decision to deviate from the rate generated by the adjustment formula.
- A full cost of capital review is expected to be held in 2012.

Regulator-Approved Accounts

Given that Company rates are based on several estimates, including electricity sales volumes and the cost of purchasing electricity, a number of deferral accounts are in place to smooth the impact of realized expenses and events differing from forecasts. The core deferral accounts approved by the regulator for the use of Newfoundland Power are:

- **Weather Normalization Reserve (WNR):** The WNR reduces earnings volatility by adjusting electricity purchases and sales to eliminate the variance between normal weather conditions, based on long-term averages, and actual realized weather conditions.
- **Rate Stabilization Account (RSA):** The RSA allows Newfoundland Power to pass through costs related to changes in the price and quantity of fuel charged by NLH along to the end consumer. On July 1 of each year customer rates are re-calculated in order to amortize, over the subsequent 12 months, the balance in the RSA as of March 31 of the current year. In the absence of rate regulation, these transactions would be accounted for in a similar manner; however, the amount and timing of the recovery would not be subject to PUB approval. To the extent actual electricity sales in any period exceed forecast electricity sales used to set customer rates, marginal purchased power expense will exceed related revenue. The PUB ordered, effective January 1, 2008, that variations in purchased power expense caused by differences between the actual unit cost of energy and the cost reflected in customer rates be recovered from (refunded to) customers through the rate stabilization account.
- **Demand Management Incentive Account (DMIA):** Through the demand management incentive account, variations in the unit cost of purchased power related to demand are limited, at the discretion of the PUB, to 1% of demand costs reflected in customer rates. Balances in this account are recorded as a regulatory asset or regulatory liability on Newfoundland Power's balance sheet. The final balance of regulatory assets and liabilities is determined by the PUB, which takes into consideration the merits of the Company's conservation efforts and demand management activities.
- **Pension Expense Variance Deferral Account (PEVDA):** The PEVDA is utilized when differences exist between the defined benefit pension expense calculated in accordance with designated accounting standards and the pension expense approved by the PUB for rate-setting purposes.
- **Other Post-Employment Benefits (OPEB):** The OPEB cost deferral account is utilized when differences exist between the OPEB expense calculated in accordance with designated accounting standards and the OPEB expense approved by the PUB for rate setting purposes. The PUB approved in December 2010 the adoption of the accrual method of accounting for OPEB costs and income tax related to OPEBs effective January 1, 2011.

Newfoundland Power Inc.

Report Date:
January 24, 2012

Newfoundland Power

Balance Sheet (CAD thousands)	Sept. 30	Dec. 31	Dec. 31		Sept. 30	Dec. 31	Dec. 31
Assets	2011	2010	2009	**Liabilities & Equity**	2011	2010	2009
Cash & equivalents	4,138	4,182	5,308	S.T. borrowings	0	0	0
Accounts receivable	50,247	61,654	64,553	Accounts payable	51,593	64,269	65,727
Inventories	1,211	992	934	Current portion L.T.D.	5,200	5,200	5,200
Prepaid expenses & other	61,711	12,863	14,306	Deferred tax	3,044	3,211	2,431
Total Current Assets	**117,307**	**79,691**	**85,101**	Other current liab.	3,293	4,302	5,724
				Total Current Liab.	**63,130**	**76,982**	**79,082**
Net fixed assets	799,619	776,382	787,218	Long-term debt	480,380	470,282	474,050
Future income tax assets	125,052	117,964	118,447	Deferred income taxes	124,113	120,016	122,426
Goodwill & intangibles	14,959	15,310	16,113	Other L.T. liab.	123,024	114,183	99,333
Investments & others	153,786	201,729	158,308	Shareholders equity	420,076	409,613	390,296
Total Assets	**1,210,723**	**1,191,076**	**1,165,187**	**Total Liab. & SE**	**1,210,723**	**1,191,076**	**1,165,187**

Balance Sheet &	9 mos.ending Sept. 30		12 mos.	For the year ended December 31				
Liquidity & Capital Ratios (1)	2011	2010	Sept. 30	2010	2009	2008	2007	2006
Current ratio	1.86	0.98	1.86	1.04	1.08	0.90	1.01	0.70
Net debt in capital structure	53.4%	53.8%	53.4%	53.5%	54.8%	53.3%	54.7%	54.6%
Total debt in capital structure	53.6%	54.0%	53.6%	53.7%	55.1%	53.4%	54.8%	54.6%
Cash flow/total debt	17.2%	17.6%	17.5%	17.8%	15.0%	16.2%	12.9%	12.8%
(Cash flow - dividends)/capex (2)	0.88	0.91	0.87	0.90	0.65	0.85	0.66	0.57
Dividend payout ratio	59.8%	46.5%	55.5%	45.7%	77.6%	48.1%	31.7%	61.1%
Max. equity for rate setting purposes	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%
Coverage Ratios (times) (3)								
EBIT interest coverage	2.37	2.41	2.38	2.41	2.40	2.53	2.20	2.26
EBITDA interest coverage	4.09	3.70	4.01	3.71	3.71	3.84	3.17	3.24
Fixed-charge coverage	2.32	2.35	2.33	2.35	2.34	2.47	2.15	2.24
Adjusted EBIT interest coverage*	2.37	2.41	2.38	2.41	2.40	2.53	2.20	2.26
Profitability Ratios								
Power purchases/revenues	63.9%	63.5%	64.9%	64.6%	65.6%	65.1%	66.5%	61.0%
EBIT margin	15.5%	16.2%	15.2%	15.7%	15.9%	16.6%	15.8%	18.3%
Net margin (before extras)	6.3%	6.5%	6.2%	6.4%	6.3%	6.4%	6.2%	7.3%
Return on equity	8.4%	8.8%	8.6%	8.9%	8.6%	8.8%	8.6%	9.0%
Allowed rate of return common equity	8.38%	9.00%	n/a	9.00%	8.95%	8.95%	8.60%	9.24%
Growth of customer base	n/a	n/a	n/a	1.7%	1.5%	1.5%	1.2%	1.0%
Rate base ($ millions)	n/a	n/a	n/a	875	848	821	794	753
Growth in rate base	n/a	n/a	n/a	3.2%	3.3%	3.4%	5.4%	1.0%

(1) Minority interests treated as equity equivalents. (2) Capital expenditures excluding acquisitions and equity investments.

(3) Before capitalized interest is deducted. *Including operating leases.

Newfoundland Power Inc.

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Operating Statistics	9 mos.ending Sept. 30		12 mos.	For the year ended December 31				
	2011	2010	Sept. 30	2010	2009	2008	2007	2006
Electricity Sales - Breakdown (GWh)								
Residential	2,439	2,374	3,376	3,311	3,203	3,130	3,044	2,981
General service	1,587	1,557	2,138	2,108	2,096	2,078	2,049	2,014
Total sales	4,026	3,931	5,514	5,419	5,299	5,208	5,093	4,995
Growth in volume throughputs	2.4%			2.3%	1.7%	2.3%	2.0%	-0.2%
Customers								
Residential	213,366	209,793	213,366	211,091	207,335	204,204	201,045	198,568
Commercial	32,482	32,228	32,482	32,335	31,972	31,574	31,217	30,932
Total	245,848	242,021	245,848	243,426	239,307	235,778	232,262	229,500

Energy Generated and Purchased (GWh)	9 mos.ending Sept. 30		12 mos.	For the year ended December 31				
	2011	2010	Sept. 30	2010	2009	2008	2007	2006
Energy generated	311	312	424	425	426	426	381	417
Energy purchased	3,953	3,852	5,410	5,308	5,188	5,088	5,013	4,876
Energy generated + purchased	4,265	4,163	5,834	5,733	5,614	5,514	5,394	5,293
Less: transmission losses + internal use	238	233	320	314	315	300	301	298
Total Sales	4,026	3,931	5,514	5,419	5,299	5,214	5,093	4,995
System losses and internal use	5.9%	5.9%	5.8%	5.8%	5.9%	5.8%	5.9%	6.0%
Installed Generation Capacity (MW)								
Hydroelectric	97	97	97	97	97	97	96	92
Gas turbine	37	37	37	37	36	36	37	37
Diesel	7	7	7	7	7	7	7	7
Total	140	140	140	140	140	140	139	136
Peak demand (MW)	n/a	n/a	n/a	1,206	1,219	1,165	1,166	1,124

Newfoundland Power Inc.

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Ratings

Debt	Rating	Rating Action	Trend
First Mortgage Bonds	A	Confirmed	Stable
Preferred Shares – cumulative, redeemable	Pfd-2	Confirmed	Stable

Rating History

	Current	2011	2010	2009	2008	2007
First Mortgage Bonds	A	A	A	A	A	A
Preferred Shares – cumulative, redeemable	Pfd-2	Pfd-2	Pfd-2	Pfd-2	Pfd-2	Pfd-2

Related Research

- Fortis Inc., September 7, 2011.
- Newfoundland and Labrador Hydro, August 25, 2011.

Notes:
All figures are in Canadian dollars unless otherwise noted.