Newfoundland Power Inc.

Operating Costs by Function
2002-2008
($000s)

	Function	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Forecast 2007	Forecast 2008
1	Distribution	5,944	5,677	6,227	6,388	6,721	6,499	6,574
2	Transmission	597	645	814	490	486	661	750
3	Substations	2,265	2,550	2,939	2,442	2,530	2,494	2,495
4	Power Produced	2,174	2,383	2,822	2,646	2,688	2,511	2,516
5	Administrative & Engineering Support	7,833	6,518	6,723	5,926	5,315	5,466	5,580
6	Telecommunications	848	789	616	1,603	1,467	1,514	1,525
7	Environment	1,148	769	583	462	496	510	545
8	Fleet Operating & Maintenance	1,567	1,778	1,347	1,496	1,491	1,482	1,495
9	**Electricity Supply**	**22,376**	**21,109**	**22,071**	**21,453**	**21,194**	**21,137**	**21,480**
10	Customer Services	8,228	8,411	8,598	8,978	9,073	9,020	9,094
11	Uncollectible Bills	700	1,108	963	1,158	961	1,000	1,050
12	**Customer Services**	**8,928**	**9,519**	**9,561**	**10,136**	**10,034**	**10,020**	**10,144**
13	Information Systems	2,787	2,663	2,773	2,698	2,685	2,766	2,826
14	Financial Services	1,439	1,290	1,350	1,426	1,527	1,346	1,376
15	Corporate & Employee Services	12,176	13,536	11,837	11,745	11,557	12,102	11,972
16	Insurances	1,098	1,389	1,510	1,653	1,694	1,728	1,585
17	**General**	**17,500**	**18,878**	**17,470**	**17,522**	**17,463**	**17,942**	**17,759**
18	**Sub total**	**48,804**	**49,506**	**49,102**	**49,111**	**48,691**	**49,099**	**49,383**
19	Deferred Regulatory Costs	-	347	347	347	-	-	417
21	Pension & ERP Costs	3,972	3,787	4,345	6,369	7,343	5,513	3,348
22	**Gross Operating Expenses**	**52,776**	**53,640**	**53,794**	**55,827**	**56,034**	**54,612**	**53,148**
23	Transfer to GEC	(2,009)	(1,841)	(2,039)	(2,015)	(2,038)	(2,100)	(2,100)
24	**Net Operating Expenses**	**50,767**	**51,799**	**51,755**	**53,812**	**53,996**	**52,512**	**51,048**
	Number of Customers	219,072	221,653	224,464	227,301	229,500	232,057	234,510
	Gross Operating Cost per Customer ($)[1]	**223**	**225**	**220**	**218**	**212**	**212**	**212**

[1] Costs related to pensions and early retirement programs are excluded from the calculation of Gross Operating Cost per Customer.

1st Revision Note: Updated for revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

Operating Costs by Breakdown
2002-2008
($000s)

	Breakdown	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Forecast 2007	Forecast 2008
1	Regular and Standby	24,962	23,674	24,689	24,568	24,463	24,642	25,188
2	Temporary	1,545	1,723	2,097	2,232	2,204	2,127	2,040
3	Overtime	1,903	1,759	1,668	1,500	1,469	1,431	1,443
4	**Total Labour**	**28,410**	**27,156**	**28,454**	**28,300**	**28,136**	**28,200**	**28,671**
5	Vehicle Expenses	1,502	1,743	1,334	1,482	1,495	1,482	1,495
6	Operating Materials	1,564	1,486	1,555	1,432	1,232	1,137	1,124
7	Inter-Company Charges	626	769	667	489	575	560	568
8	Plants, Subs, System Oper & Bldgs	2,055	2,061	1,850	1,813	1,925	1,822	1,820
9	Travel	1,220	1,130	1,095	1,063	1,105	1,062	987
10	Tools and Clothing Allowance	799	1,000	962	899	822	835	836
11	Miscellaneous	1,635	1,654	1,684	1,463	1,421	1,457	1,486
13	Taxes and Assessments	823	866	784	660	253	680	680
14	Uncollectible Bills	700	1,108	963	1,158	961	1,000	1,050
15	Insurances	1,098	1,389	1,510	1,653	1,696	1,728	1,585
16	Retirement Allowances	59	336	233	48	218	175	175
17	Education, Training, Employee Fees	318	258	216	245	252	238	248
18	Trustee and Directors' Fees	339	406	375	388	373	386	395
19	Other Company Fees	1,909	2,187	1,434	1,697	1,605	1,609	1,418
20	Stationery & Copying	354	376	274	326	380	394	372
21	Equipment Rental/Maintenance	825	708	695	717	707	763	725
22	Telecommunications	1,511	1,598	1,626	1,694	1,656	1,620	1,630
23	Postage	1,294	1,364	1,406	1,506	1,537	1,465	1,571
24	Advertising	302	281	368	326	381	368	371
25	Vegetation Management	987	997	1,051	1,070	1,278	1,361	1,400
26	Computing Equipment & Software	474	633	566	682	683	758	776
27	**Total Other**	**20,394**	**22,350**	**20,648**	**20,811**	**20,555**	**20,899**	**20,712**
28	**Sub total**	**48,804**	**49,506**	**49,102**	**49,111**	**48,691**	**49,099**	**49,383**
29	Deferred Regulatory Costs	-	347	347	347	-	-	417
30	Pension Costs[1]	3,829	3,787	4,345	4,511	5,242	4,251	2,220
31	ERP (retirement allow & pension)	143	-	-	1,858	2,101	1,262	1,128
32	Other Employee Future Benefits	-	-	-	-	-	-	-
32	**Total Gross Operating Expenses**	**52,776**	**53,640**	**53,794**	**55,827**	**56,034**	**54,612**	**53,148**
33	Transfer to GEC	(2,009)	(1,841)	(2,039)	(2,015)	(2,038)	(2,100)	(2,100)
34	**Net Operating Expenses**	**50,767**	**51,799**	**51,755**	**53,812**	**53,996**	**52,512**	**51,048**

1st **Revision Note:** Updated for revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

Net Present Value Analysis of the 2005 Early Retirement Program
Pension Costs Funded Over 10 Years
Retirement Allowances Funded In 2005
Post-Retirement Analysis

	TOTAL COSTS						TOTAL BENEFITS										
		Pension Funding					Reduction In Salaries		Tax Deductions								
Year	Retirement Allowance A	Special Funding B	Current Service C	Tax Deductions D	Tax Savings E	Net After Tax Cost F	Capital G	Operating H	UCC Opening I	UCC Reductions J	UCC End Of Year K	CCA Reduction L	Operating Expense Reduction M	Total CCA/Expense Reduction N	Current Tax Increase O	Net After Tax Benefit P	**After Tax Cash Inflow (Outflow) Q**
2005[1]	(1,684,385)	(859,946)	381,901	(2,162,430)	781,070	(1,381,360)	1,065,878	1,495,226	-	1,065,878	1,011,305	54,573	1,495,226	1,549,799	(559,787)	2,001,317	**619,957**
2006	-	(1,146,594)	407,127	(739,467)	267,095	(472,372)	1,421,170	1,993,635	1,011,305	1,421,170	2,256,154	176,322	1,993,635	2,169,957	(783,788)	2,631,017	**2,158,646**
2007	-	(1,146,594)	433,959	(712,635)	257,404	(455,231)	1,421,170	1,993,635	2,256,154	1,421,170	3,373,530	303,794	1,993,635	2,297,429	(829,831)	2,584,974	**2,129,743**
2008	-	(1,146,594)	462,498	(684,096)	247,095	(437,001)	1,421,170	1,993,635	3,373,530	1,421,170	4,376,487	418,213	1,993,635	2,411,849	(871,160)	2,543,646	**2,106,645**
2009	-	(1,146,594)	492,849	(653,745)	236,133	(417,612)	1,421,170	1,993,635	4,376,487	1,421,170	5,276,741	520,916	1,993,635	2,514,551	(908,256)	2,506,550	**2,088,937**
2010	-	(1,146,594)	525,124	(621,470)	224,475	(396,995)	1,421,170	1,993,635	5,276,741	1,421,170	6,084,810	613,102	1,993,635	2,606,737	(941,554)	2,473,252	**2,076,257**
2011	-	(1,146,594)	559,445	(587,149)	212,078	(375,071)	1,421,170	1,993,635	6,084,810	1,421,170	6,810,132	695,848	1,993,635	2,689,484	(971,441)	2,443,364	**2,068,293**
2012	-	(1,146,594)	595,937	(550,657)	198,897	(351,760)	1,421,170	1,993,635	6,810,132	1,421,170	7,461,181	770,121	1,993,635	2,763,757	(998,269)	2,416,537	**2,064,777**
2013	-	(1,146,594)	634,737	(511,857)	184,883	(326,974)	1,421,170	1,993,635	7,461,181	1,421,170	8,045,562	836,789	1,993,635	2,830,424	(1,022,349)	2,392,456	**2,065,482**
2014	-	(1,146,594)	675,984	(470,610)	169,984	(300,626)	1,421,170	1,993,635	8,045,562	1,421,170	8,570,103	896,630	1,993,635	2,890,265	(1,043,964)	2,370,842	**2,070,216**
2015[2]	-	(286,649)	168,996	(117,653)	42,496	(75,156)	355,293	498,409	8,570,103	355,293	8,029,626	895,770	498,409	1,394,178	(503,577)	350,124	**274,968**
CCA End Effects												5,347,292		5,347,292	(1,931,442)	(1,931,442)	**(1,931,442)**
NPV at a Discount Rate of 6.07%.						$ (4,141,973)										$ 18,120,725	**$ 13,978,751**

Notes: A is the retirement allowances which are based on 20 weeks salary for retiring employees.
B is the actuarially determined funding requirements for the liability created by the 2005 early retirement program .
C is the reduction in current service funding requirements attributable to the 2005 early retirement program.
D is the tax deduction claimed as a result of the pension funding and retirement allowances. D = A+B+C.
E is D multiplied by the tax rate (absolute value). The income tax rate used is the statutory rate of 36.12%.
F is the net after-tax cost of the 2005 early retirement program. F = D + E.
G and H reflect the allocation of savings in salaries/pension costs to capital and operating. The allocation of salaries is based on an analysis of the capital/operating splits for each individual retiree.
I is the cumulative reduction in undepreciated capital cost (UCC) balance at the end of the previous year.
J is the reduction in UCC during the current year as a result of the capital reduction shown in G.
K is the cumulative reduction in the UCC balance at the end of the year. K = I + J - L.
L is the reduction in the current year CCA claim caused by the cumulative UCC reduction. It is based on an incremental CCA rate of approximately 10.24% with application of the CCA half-year rule.
It is calculated as L = ((I * 10.24%) + (J * 10.24% * 0.5))* -1
M is the reduction in operating expenses shown in H.
N is the total CCA and operating expense reduction. N = L + M.
O is the total increase in income tax caused by the reduction in tax deductible operating expenses and CCA. O = N * 36.12% * -1.
P is the net after-tax benefit of the 2005 early retirement program. P = G + H + O.
Q is the net after-tax cash impact of the 2005 early retirement program. Q = P + F.

[1] 9 months, April through December 2005.

[2] 3 months, January through March 2015.

Newfoundland Power Inc.

Demand Management Incentive Account

Proposed Definition

Demand Management Incentive Account 278xx

This account shall be charged or credited with the amount by which the Demand Supply Cost Variance exceeds the Demand Management Incentive. The Demand Management Incentive equals ±1% of test year wholesale demand charges.

The Demand Supply Cost Variance expressed in dollars shall be calculated as follows:

$$(A – B) \times C$$

Where:

A = actual demand supply cost in dollars per kWh determined by dividing the wholesale demand charges in the calendar year by the weather normalized kWh purchases for that year (as will be reported in Return 13 of Newfoundland Power's Annual Report to the Board).

B = test year demand supply cost in dollars per kWh determined by dividing the test year wholesale demand charges by the test year kWh purchases.

C = the weather normalized annual purchases in kWh.

The amount charged or credited to this account shall be adjusted for applicable income taxes calculated at the statutory income tax rate.

Disposition of any Balance in this Account
Newfoundland Power shall file an Application with the Board no later than the 1st day of March each year for the disposition of any balance in this account.

Newfoundland Power Inc.

Financial Performance
2002 - 2008
Statements of Income
($000s)

		Historical Results						
							Forecast	Existing
		2002	2003	2004	2005	2006	2007	2008
1	Electricity Sales (GWh)	4,765	4,882	4,979	5,004	4,995	5,112	5,233
2								
3	Revenue From Rates	362,772	376,094	395,577	407,597	407,689	479,168	485,692
4	Amortization of the 2005 Unbilled Revenue	-	-	-	-	3,086	2,714	-
5		362,772	376,094	395,577	407,597	410,775	481,882	485,692
6								
7	Purchased Power Expense	210,764	226,232	242,280	254,222	255,425	328,653	336,819
8	Deferred Recovery of Replacement Energy Costs	-	-	-	-	-	(1,795)	-
9	Amortization of Weather Normalization Reserve	-	1,732	1,732	1,732	1,732	1,732	-
10		210,764	227,964	244,012	255,954	257,157	328,590	336,819
11								
12	Contribution	152,008	148,130	151,565	151,643	153,618	153,292	148,873
13								
14	Other Revenue	6,855	8,056	8,870	12,366	10,489	10,455	11,083
15								
16	Other Expenses:							
17	Operating Expenses	46,795	48,012	47,410	47,443	46,653	46,999	48,533
18	Pension and Early Retirement Costs	3,972	3,787	4,345	6,369	7,343	5,513	3,348
19	Cost Recovery Deferral	-	-	-	-	(5,793)	(5,793)	-
20	Depreciation	35,442	29,372	30,987	32,143	38,922	40,127	41,002
21	Finance Charges	26,853	30,009	30,393	31,369	32,677	33,760	33,680
22		113,062	111,180	113,135	117,324	119,802	120,606	126,563
23								
24	Income Before Income Taxes	45,801	45,006	47,300	46,685	44,305	43,141	33,393
25	Income Taxes	16,381	14,945	15,586	15,368	13,639	13,066	13,841
26								
27	Net Income	29,420	30,061	31,714	31,317	30,666	30,075	19,552
28	Dividends on Preference Shares	613	601	592	588	588	586	586
29								
30	Earnings Applicable to Common Shares	28,807	29,460	31,122	30,729	30,078	29,489	18,966
31								
32								
33	**Rate of Return and Credit Metrics**							
34	Return on Rate Base (percent)	9.94	9.03	8.82	8.53	8.57	8.20	6.64
35	Regulated Return on Common Equity (percent)	10.65	10.22	10.12	9.60	9.46	8.80	5.56
36	Interest Coverage (times)	2.6	2.4	2.5	2.4	2.3	2.2	1.9
37	Cash Flow Interest Coverage (times)	3.2	2.9	3.0	2.9	2.7	2.8	2.7
38	Cash Flow Debt Coverage (percent)	17.6	15.6	16.0	15.7	14.1	13.6	12.6

1st Revision Note: Updated for "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

Financial Performance
2002 - 2008
Statements of Retained Earnings
($000s)

		Historical Results					Forecast	Existing
		2002	2003	2004	2005	2006	2007	2008
1	Balance - Beginning of Year	189,882	209,194	229,159	246,039	253,651	265,566	285,973
2	Net Income for the Period	29,420	30,061	31,714	31,317	30,666	30,075	19,552
3		219,302	239,255	260,873	277,356	284,317	295,641	305,525
4								
5	Dividends							
6	Preference Shares	613	601	592	588	588	586	586
7	Common Shares	9,495	9,495	14,242	23,117	18,163	9,082	13,623
8		10,108	10,096	14,834	23,705	18,751	9,668	14,209
9								
10	Balance - End of Year	209,194	229,159	246,039	253,651	265,566	285,973	291,316

1st **Revision Note:** Updated for "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

Financial Performance
2002 - 2008
Balance Sheets
($000s)

	Historical Results						
	2002	2003	2004	2005	2006	Forecast 2007	Existing 2008
Assets							
Fixed Assets							
Property, plant & equipment	1,010,704	1,070,674	1,113,519	1,149,582	1,187,535	1,233,718	1,270,976
Less: accumulated amortization	421,929	448,245	462,947	476,932	494,856	516,933	541,229
Less: Contributions in aid of Construction	20,300	20,300	20,495	21,192	23,142	23,350	23,464
	568,475	602,129	630,077	651,458	669,537	693,435	706,283
Current Assets							
Cash	2,485	-	467	-	-	-	-
Accounts receivable	55,275	55,844	59,571	58,730	61,604	69,853	70,804
Materials and supplies	4,525	5,250	5,419	5,206	4,923	5,400	5,500
Prepaid Expenses	1,169	1,240	1,292	1,211	1,222	1,222	1,222
Rate stabilization account	5,751	6,497	8,763	9,284	10,793	14,165	14,165
	69,205	68,831	75,512	74,431	78,542	90,640	91,691
Corporate Income Tax Deposit	6,949	6,949	6,949	-	-	-	-
Deferred and other charges	70,291	78,282	84,082	90,128	95,201	101,716	104,526
Regulatory Assets	10,919	11,499	11,195	11,066	17,735	23,416	23,416
OPEB Asset	10,013	13,684	17,495	22,976	27,782	34,102	40,374
	735,852	781,374	825,310	850,059	888,797	943,309	966,290
Shareholder's Equity and Liabilities							
Shareholder's Equity							
Common shares	70,321	70,321	70,321	70,321	70,321	70,321	70,321
Retained earnings	209,194	229,159	246,039	253,651	265,566	285,973	291,316
Common shareholder's equity	279,515	299,480	316,360	323,972	335,887	356,294	361,637
Preference shares	9,709	9,429	9,417	9,410	9,353	9,353	9,353
	289,224	308,909	325,777	333,382	345,240	365,647	370,990
Current Liabilities							
Bank indebtedness	-	1,278	-	772	400	-	-
Accounts payable and accrued charges	51,965	48,678	56,868	58,493	65,310	67,858	70,719
Current portion of long-term debt	3,650	3,650	3,650	4,250	35,720	4,549	4,550
Municipal tax liability	9,218	9,535	10,187	10,966	11,328	11,328	11,328
	64,833	63,141	70,705	74,481	112,758	83,735	86,597
Future income taxes	-	988	1,501	1,375	-	-	413
Short-term borrowings	15,987	39,909	58,109	11,040	34,751	29,316	41,745
Long-term debt	332,208	328,558	324,908	380,058	344,338	409,088	404,538
Other Liabilities	2,346	2,870	3,065	3,116	3,426	3,633	3,845
Regulatory Liabilities	21,241	23,315	23,750	23,631	20,502	17,788	17,788
OPEB Liability	10,013	13,684	17,495	22,976	27,782	34,102	40,374
	735,852	781,374	825,310	850,059	888,797	943,309	966,290

1st Revision Note: Updated for "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

Financial Performance
2002 - 2008
Statements of Cash Flows
($000s)

		Historical Results					Forecast	Existing
		2002	2003	2004	2005	2006	2007	2008
1	**Cash From (Used In) Operating Activities**							
2	Net Income	29,420	30,061	31,714	31,317	30,666	30,075	19,552
3								
4	Amortization of capital assets	35,442	29,372	30,987	32,143	38,922	40,127	41,002
5	Amortization of deferred charges	436	186	268	353	313	320	298
6	Amortization of regulatory assets and liabilities	(1,019)	484	300	1,812	(5,349)	(1,455)	-
7	Regulatory deferrals	-	(693)	(3,472)	(1,683)	(4,451)	(6,940)	-
8	Future income taxes	-	988	513	(126)	(1,375)	-	413
9	Accrued employee future benefits	(9,148)	(7,753)	(2,246)	(5,814)	(4,745)	(6,327)	(2,896)
10	Change in non-cash working capital	5,783	(3,253)	2,728	9,848	3,070	(9,553)	1,811
11		60,914	49,392	60,792	67,850	57,051	46,247	60,180
12								
13	**Cash From (Used In) Financing Activities**							
14	Net Proceeds from long-term debt	74,325	-	-	60,000	-	69,700	-
15	Repayment of long-term debt	(2,900)	(3,650)	(3,650)	(4,250)	(4,250)	(36,420)	(4,550)
16	Short-term borrowings	(59,122)	23,922	18,200	(47,069)	23,711	(5,435)	12,429
17	Contributions from customers and security deposits	1,027	1,788	1,411	1,749	3,166	1,500	1,500
18	Redemption of preference shares	-	(280)	(12)	(7)	(57)	-	-
19	Dividends							
20	Preference Shares	(613)	(601)	(592)	(588)	(588)	(586)	(586)
21	Common Shares	(9,495)	(9,495)	(14,242)	(23,117)	(18,163)	(9,082)	(13,623)
22		3,222	11,684	1,115	(13,282)	3,819	19,677	(4,830)
23								
24								
25	**Cash From (Used In) Investing Activities**							
26	Capital expenditures (net of salvage)	(59,868)	(64,749)	(60,315)	(55,399)	(60,235)	(65,524)	(55,350)
27	Other deferred charges	-	-	-	(465)	(59)	-	-
28	Long-term portion of finance programs	(1,643)	(90)	153	57	(204)	-	-
29		(61,511)	(64,839)	(60,162)	(55,807)	(60,498)	(65,524)	(55,350)
30								
31	**Increase (Decrease) in Cash**	2,625	(3,763)	1,745	(1,239)	372	400	-
32	**(Bank Indebtedness) Cash, Beginning of Period**	(140)	2,485	(1,278)	467	(772)	(400)	-
33	**(Bank Indebtedness) Cash, End of Period**	2,485	(1,278)	467	(772)	(400)	-	-

1st **Revision Note:** Updated for "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

Financial Performance
2002 - 2008
Average Rate Base[1]
($000s)

		Historical Results					Forecast	Existing
		2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
1	Plant Investment	991,114	1,039,836	1,092,096	1,131,554	1,168,561	1,210,625	1,252,347
2								
3	Add:							
4	Deferred Charges	-	72,937	80,046	86,063	91,441	96,798	101,393
5	Weather Normalization Reserve	10,409	10,677	10,456	10,289	10,954	11,246	10,683
6	Deferred Energy Replacement Costs	-	-	-	-	-	574	1,147
7	Cost Recovery Deferral	-	-	-	-	2,897	8,690	11,586
8	Future Income Taxes	-	(494)	(1,245)	(1,438)	(688)	-	(207)
9	Customer Finance Programs	558	613	608	572	791	901	800
10		10,967	83,733	89,865	95,486	105,395	118,209	125,402
11								
12	Deduct:							
13	Accumulated Depreciation	414,451	434,491	455,595	469,942	485,894	505,892	529,081
14	Work In Progress	2,630	2,290	786	644	943	1,716	2,314
15	Contributions In Aid of Construction	19,887	20,044	20,398	20,844	22,167	23,246	23,407
16	2005 Unbilled Revenue	-	-	-	-	21,396	17,803	16,446
17	Unit Cost Reserve	-	-	-	-	671	1,342	1,342
18		436,968	456,825	476,779	491,430	531,071	549,999	572,590
19								
20	Average Rate Base Before Allowances	565,113	666,744	705,182	735,610	742,885	778,835	805,159
21								
22	Cash Working Capital Allowance	4,712	4,977	5,268	5,514	5,522	6,684	6,798
23								
24	Materials and Supplies Allowance	3,512	4,009	4,661	4,322	4,510	4,411	4,494
25								
26	Average Rate Base At Year End	573,337	675,730	715,111	745,446	752,917	789,930	816,451

[1] All numbers shown are averages.

1st **Revision Note:** Updated for "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

Financial Performance
2002 - 2008
Average Capital Structure
($000s)

		Historical Results					Forecast	Existing
		2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
1	**Average Capital Structure**							
2	Debt	345,426	362,620	380,031	391,394	405,665	429,082	446,894
3	Preference Shares	9,709	9,569	9,423	10,614	9,382	9,353	9,353
4	Common Equity	277,119	297,590	316,973	328,922	329,930	346,091	358,966
5		632,254	669,779	706,427	730,930	744,977	784,526	815,213
6								
7	Debt	54.63%	54.14%	53.80%	53.55%	54.45%	54.69%	54.82%
8	Preference Shares	1.54%	1.43%	1.33%	1.45%	1.26%	1.19%	1.15%
9	Common Equity	43.83%	44.43%	44.87%	45.00%	44.29%	44.12%	44.03%
10		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
11								
12								
13	**Regulated Cost of Capital**							
14	Debt	7.88%	8.38%	8.06%	8.07%	8.14%	7.94%	7.59%
15	Preference Shares	6.31%	6.28%	6.28%	6.25%	6.27%	6.27%	6.27%
16	Common Equity	10.65%	10.22%	10.12%	9.60%	9.46%	8.80%	5.56%
17								
18								
19	**Weighted Average Cost of Capital**							
20	Debt	4.30%	4.54%	4.34%	4.32%	4.43%	4.34%	4.16%
21	Preference Shares	0.10%	0.09%	0.08%	0.09%	0.08%	0.07%	0.07%
22	Common Equity	4.67%	4.54%	4.54%	4.32%	4.19%	3.88%	2.45%
23		9.07%	9.17%	8.96%	8.73%	8.70%	8.29%	6.68%

1st Revision Note: Updated for "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

Financial Performance
2002 - 2008
Rate of Return on Rate Base
($000s)

		Historical Results						
		2002	**2003**	**2004**	**2005**	**2006**	Forecast **2007**	Existing **2008**
1	Regulated Return on Common Equity	29,518	30,415	32,088	31,644	31,227	30,464	19,949
2	Return on Preferred Equity	613	601	592	588	588	586	586
3		30,131	31,016	32,680	32,232	31,815	31,050	20,535
4								
5	Finance Charges							
6	Interest on Long-term Debt	26,094	30,501	30,165	31,046	32,759	33,736	32,334
7	Other Interest	1,846	762	1,277	1,535	1,309	1,385	2,655
8	Interest Earned	(872)	(1,063)	(979)	(1,158)	(1,210)	(1,200)	(1,200)
9	Interest Charged to Construction	(454)	(471)	(335)	(319)	(436)	(420)	(350)
10	Amortization of Bond Issue Expenses	167	198	199	201	193	178	179
11	Amortization of Capital Stock Issue Expenses	72	82	66	64	62	62	62
12		26,853	30,009	30,393	31,369	32,677	33,741	33,680
13								
14	Return on Rate Base	56,984	61,025	63,073	63,601	64,492	64,791	54,215
15								
16	Average Rate Base	573,337	675,730	715,111	745,446	752,917	789,930	816,451
17								
18	Rate of Return on Rate Base	9.94%	9.03%	8.82%	8.53%	8.57%	8.20%	6.64%

1st **Revision Note:** Updated for "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

Financial Performance
2002 - 2008
Major Inputs and Assumptions for 2007 and 2008 Forecasts

Forecast results for 2007 and 2008 are based on electricity rates effective July 1, 2007 approved by the Board in Order No. P.U. 15 (2007) and before implementation of any of the proposals in this Application.

Specific assumptions include:

Energy Forecasts :	Energy forecasts are based on economic indicators taken from the Conference Board of Canada forecast dated July 18, 2007.
Revenue Forecast :	The revenue forecast is based on the Customer, Energy and Demand forecast filed in the Amended Application.
	Revenue for 2007 includes the amortization of $2.7 million of the 2005 unbilled revenue as approved in Order No. P.U. 39 (2006).
Purchased Power Expense :	Rates charged by Newfoundland and Labrador Hydro approved by the Board in Order No. P.U. 8 (2007).
	Purchased Power Expense for 2007 includes a $1.7 million amortization of the Hydro Equalization Reserve as approved in Order No. P.U. 19 (2003).
	Purchased Power Expense for 2007 has been reduced to reflect deferred replacement energy costs of $1.8 million ($1.1 million after tax) as approved in Order No. P.U. 39 (2006).
Pensions and Early Retirement Costs :	Pension costs related to the 2005 Early Retirement Program are being amortized over a 10-year period from 2005 to 2015 as approved in Order No. P.U. 49 (2004).
	Pension funding is based on the actuarial valuation dated December 31, 2005 filed with this Application and a Board approved schedule of funding payments.
	Pension expense discount rate is assumed to be 5.25% in 2007 and 2008.
Cost Recovery Deferral:	In Order No. P.U. 39 (2006), the Board approved the deferred recovery of $5.8 million in 2007 costs related to the conclusion of the Depreciation True-up in 2005.
Depreciation Rates :	Depreciation rates for 2007 and 2008 are based on the 2002 depreciation study as approved by the Board in Order No. P.U. 19 (2003).
Short-Term Interest Rates :	Average short-term interest rates are assumed to be 4.91% in 2007 and 5.75% in 2008.
Long-Term Debt :	A $70.0 million long-term debt issue was completed on August 1, 2007. The debt was issued for 30 years at a coupon rate of 5.901 %. Debt repayments will be in accordance with the normal sinking fund provisions for existing outstanding debt.
Dividends :	Common dividend payouts are forecast based on maintaining a target common equity component of 45%.
Income Tax :	Income tax expense reflects a statutory income tax rate of 36.12 % in 2007 and 34.5% in 2008.
	Income tax expense includes $2.7 million in 2007 and $2.6 million in 2008 related to the 2005 tax settlement.

1st Revision Note: Updated for "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

2008 Financial Forecasts
Statements of Income
($000s)

		Application[1]	Amended
1	Electricity Sales (GWh)	5,121	5,215
2			
3	Revenue From Rates	502,485	498,226
4	Amortization of the 2005 Unbilled Revenue	5,363	7,210
5	Amortization of the MTA Regulatory Liability	817	1,362
6		508,666	506,798
7			
8	Purchased Power Expense	325,687	335,173
9	Amortization of the Replacement Energy Costs	359	598
10	Amortization of Supply Cost Reserve	(413)	(688)
11	Amortization of Weather Normalization Reserve	2,076	2,076
12		327,709	337,159
13			
14	Contribution	180,957	169,639
15			
16	Other Revenue	12,011	12,122
17			
18	Other Expenses:		
19	Operating Expenses	47,890	47,700
20	Pension and Early Retirement Costs	3,348	3,348
21	OPEB Costs	6,370	-
22	Amortization of Deferred Cost Recoveries	2,317	3,862
23	Depreciation	40,207	40,208
24	Finance Charges	33,535	34,772
25		133,667	129,890
26			
27	Income Before Income Taxes	59,301	51,871
28	Income Taxes	22,357	19,568
29			
30	Net Income	36,944	32,303
31	Preferred Dividends	586	586
32			
33	Earnings Applicable to Common Shares	36,358	31,717
34			
35			
36	**Rate of Return and Credit Metrics**		
37	Rate of Return on Rate Base (percentage)	8.82%	8.37%
38	Regulated Return on Book Equity (percentage)	10.25%	8.95%
39	Interest Coverage (times)	2.8	2.5
40	CFO Pre-W/C + Interest / Interest (times)	3.3	2.9
41	CFO Pre-W/C / Debt (percentage)	17.1%	14.9%

[1] 2008 results based on the Application as filed on May 10, 2007.

Note: Reflects "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

2008 Financial Forecasts
Statements of Retained Earnings
($000s)

		Application	Amended
1	Balance - Beginning	285,286	285,973
2	Net Income for the Period	36,944	32,303
3		322,230	318,276
4			
5	Dividends		
6	Preference Shares	586	586
7	Common Shares	18,989	13,623
8		19,575	14,209
9			
10	Balance - End of Period	302,655	304,067

Note: Reflects "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

2008 Financial Forecasts
Balance Sheets
($000s)

	Application	Amended
Assets		
Fixed Assets		
Property, plant & equipment	1,270,878	1,270,976
Less: accumulated amortization	540,434	540,435
Less: Contributions in aid of Construction	23,464	23,464
	706,980	707,077
Current Assets		
Accounts receivable	73,981	72,818
Materials and supplies	5,500	5,500
Prepaid Expenses	1,222	1,222
Rate stabilization account	12,711	14,165
	93,414	93,705
Deferred and other charges	104,812	104,526
Regulatory Assets	20,337	18,635
OPEB asset	34,102	40,374
	959,645	964,317
Shareholder's Equity and Liabilities		
Shareholder's Equity		
Common shares	70,321	70,321
Retained earnings	302,655	304,067
Common shareholder's equity	372,976	374,388
Preference shares	9,353	9,353
	382,329	383,741
Current Liabilities		
Accounts payable and accrued charges	70,978	70,500
Current portion of long-term debt	4,450	4,550
Municipal tax liability	10,511	9,966
	85,939	85,016
Future income taxes	(869)	1,183
Short-term borrowings	41,035	35,493
Long-term debt	394,838	404,538
Other Liabilities	3,845	3,845
Regulatory Liabilities	12,154	10,127
OPEB Liability	40,374	40,374
	959,645	964,317

Note: Reflects "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

2008 Financial Forecasts
Statements of Cash Flows
($000s)

	Application	Amended
Cash From (Used In) Operating Activities		
Net Income	36,944	32,303
Amortization of capital assets	40,207	40,208
Amortization of deferred charges	308	298
Amortization of regulatory assets and liabilities	(4,003)	(5,850)
Regulatory deferrals	1,449	2,970
Future income taxes	(869)	1,183
Accrued employee future benefits	3,376	(2,896)
Change in non-cash working capital	(311)	(1,784)
	77,101	66,432
Cash From (Used In) Financing Activities		
Repayment of long-term debt	(4,450)	(4,550)
Short-term borrowings	675	6,176
Contributions from customers and security deposits	1,500	1,500
Dividends		
Preference Shares	(586)	(586)
Common Shares	(18,989)	(13,623)
	(21,850)	(11,083)
Cash From (Used In) Investing Activities		
Capital expenditures (net of salvage)	(55,251)	(55,349)
Increase (Decrease) in Cash	-	-
(Bank Indebtedness) Cash, Beginning of Period	-	-
(Bank Indebtedness) Cash, End of Period	-	-

Note: Reflects "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

2008 Financial Forecasts
Average Rate Base[1]
($000s)

		Application	Amended
1	Plant Investment	1,252,298	1,252,347
2			
3	Add:		
4	Deferred Charges	98,733	98,733
5	Weather Normalization Reserve	10,003	10,003
6	Deferred Energy Replacmenet Costs	1,030	951
7	Cost Recovery Deferral - Depreciation	10,428	9,655
8	Customer Finance Programs	2,528	2,528
9		122,722	121,870
10			
11	Deduct:		
12	Accumulated Depreciation	528,684	528,684
13	Work In Progress	2,314	2,314
14	Contributions In Aid of Construction	23,407	23,407
15	Future Income Taxes	(435)	592
16	2005 Unbilled Revenue	13,765	12,841
17	Accrued Pension Liabilities	3,003	3,003
18	Accrued OPEBs Liabilities	3,136	-
19	Municipal Tax Liability	3,679	3,406
20	Unit Cost Reserve	1,207	1,118
21	Customer Security Deposits	736	736
22		579,496	576,101
23			
24	Average Rate Base Before Allowances	795,524	798,116
25			
26	Cash Working Capital Allowance	9,340	9,669
27			
28	Materials and Supplies Allowance	4,427	4,427
29			
30	Average Rate Base At Year End	809,291	812,212

Notes:
[1] All numbers shown are averages.

Note: Reflects "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

2008 Financial Forecasts
Average Invested Capital
($000s)

		Application	Amended
1	**Regulated Average Capital Structure**		
2	Debt	438,842	440,691
3	Preference Shares	9,353	9,353
4	Common Equity	364,293	365,341
5		812,488	815,385
6			
7	Debt	54.01%	54.04%
8	Preference Shares	1.15%	1.15%
9	Common Equity	44.84%	44.81%
10		100.00%	100.00%
11			
12			
13	**Regulated Cost of Capital**		
14	Debt	7.69%	7.93%
15	Preference Shares	6.27%	6.27%
16	Common Equity	10.25%	8.95%
17			
18			
19	**Weighted Average Cost of Capital**		
20	Debt	4.15%	4.29%
21	Preference Shares	0.07%	0.07%
22	Common Equity	4.60%	4.01%
23		8.82%	8.37%

Note: Reflects "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

2008 Financial Forecasts
Rate of Return on Rate Base
($000s)

		Application	Amended
1	Regulated Return on Equity	37,341	32,700
2	Return on Preferred Equity	586	586
3		37,927	33,286
4			
5	Finance Charges		
6	Interest on Long-term Debt	31,513	32,334
7	Other Interest	2,039	2,450
8	Interest Earned	-	-
9	AFUDC	(298)	(283)
10	Amortization of Bond Issue Expenses	188	179
11	Amortization of Capital Stock Issue Expenses	-	-
12		33,442	34,680
13			
14	Return on Rate Base	71,369	67,966
15			
16	Average Rate Base	809,291	812,212
17			
18	Rate of Return on Rate Base	8.82%	8.37%

Note: Reflects "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

2008 Financial Forecasts
Major Inputs and Assumptions - Amended Application

Specific assumptions include:

Energy Forecasts : Energy forecasts are based on economic indicators taken from the Conference Board of Canada forecast dated July 18, 2007.

Revenue Forecast : The revenue forecast is based on the Customer, Energy and Demand forecast filed in the Amende Application.

Revenue for 2008 proposed includes the proposed amortization of $2.6 million of the 2005 unbilled revenue related to the 2005 Tax Settlement and $1.4 million related to the amortization of the MTA regulatory liability. Revenue for 2008 proposed also include $4.6 million related to the amortization of the remaining 2005 unbilled revenue balance

Purchased Power Expense : Rates charged by Newfoundland and Labrador Hydro approved by the Board in Order No. P.U. 8 (2007).

Purchased Power Expense for proposed 2008 includes a proposed $0.6 million per year amortization related to the Replacement Energy Costs and $2.1 million per year related to the amortizatior of the non-reversing balance in the Weather Normalization Reserve.

Purchased Power Expense for 2008 proposed also includes a proposed $0.7 million per year amortization of the Supply Cost Reserve.

Pensions and Early Retirement Costs : Pension costs related to the 2005 Early Retirement Program are being amortized over a 10-year period from 2005 to 2015 as approved in Order No. P.U. 49 (2004).

Pension funding is based on the actuarial valuation dated December 31, 2005 filed with this Application and a Board approved schedule of funding payments

Pension expense discount rate is assumed to be 5.25% over the forecast period

Other Employee Future Benefits: Forecast costs for 2008 are based on the Cash method for recognizing employe future benefits.

Cost Recovery Deferral: In Order No. P.U. 39 (2006), the Board approved the deferred recovery of $5.8 million in 2007 costs related to the conclusion of the Depreciation True-up in 2005.

2008 proposed costs include $3.9 million per year related to the amortization over a three yea period of cost recovery deferrals related to depreciation

Depreciation Rates : Depreciation rates for 2008 proposed are based on the 2006 depreciation study as filed in this Application.

Short-Term Interest Rates : Average short-term interest rates are assumed to be 5.75% in 2008

Long-Term Debt : A $70.0 million long-term debt issue was completed on August 17, 2007. The debt is for 30 years at a coupon rate of 5.901 %. Debt repayments will be in accordance with the normal sinking fund provisions for existing outstanding debt

Dividends : Common dividend payouts are forecast based on maintaining a target common equity component of 45%.

Income Tax : Income tax expense reflects a statutory income tax rate of 34.5 % in 2008

Income tax expense in 2008 includes $2.6 million related to the 2005 Tax Settlement

Note: Reflects "Settlement Agreement" and revised forecasts for 2007 and 2008.

Credit Rating Reports
DBRS and Moody's

Report Date: March 9, 2007
Press Release: February 26, 2007
Previous Report: January 6, 2006

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DBRS
Insight beyond the rating.

Newfoundland Power Inc.

RATING

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

RATING HISTORY

	Current	2006	2005	2004	2003	2002	2001
First Mortgage Bonds	A	A	A	A	A	A	A
Preferred Shares – cumulative, redeemable.	Pfd-2	Pfd-2	Pfd-2	Pfd-2	Pfd-2	Pfd-2	Pfd-2

RATING UPDATE

DBRS has confirmed the ratings of Newfoundland Power Inc. (Newfoundland Power or the Company) as listed above, with Stable trends. The ratings continue to be supported by the consistent operating results and financial profile of the Company, which is largely due to a supportive regulatory environment

The Company benefits from the following features: (1) A favourable deemed equity ratio of 45%. (2) A weather normalization account that is used to stabilize earnings during extreme weather conditions. (3) A rate stabilization account that was established to absorb fluctuations between the estimated and actual cost of fuel oil for the Company's primary electricity supplier. These features combine to contribute to the Company's favourable financial profile.

EBIT increased slightly as a result of accounting accruals and deferrals. During 2006, the Company recognized $3.1 million in 2005 unbilled revenue and a $5.8 million deferred recovery of capital asset amortization.

Capital expenditures in 2006 were up modestly from 2005 as the Company continued to invest in upgrading the reliability and efficiency of its facilities and are expected to be approximately $62 million for 2007. As a result, modest free cash flow deficits are expected to continue in the near term. DBRS expects the Company to continue funding these shortfalls with borrowings under its credit facilities, to be refinanced with the issuance of first mortgage bonds, as well as by managing the level of dividends, in order to maintain a long-term capital structure of 55% debt and 45% equity, as deemed by the regulator. The Company's regulatory-approved ROE remains sensitive to changes in interest rates, as it is based on average long-term Government of Canada bond yields, adjusted annually. As a result, allowable returns have declined in recent years, with the approved ROE for 2007 declining to 8.60%, versus 9.24% in 2006, which will modestly impact earnings and cash flow. Additionally, an important challenge for the Company remains managing the Demand Energy Rate (DER). The Company intends on filing a General Rate Application (GRA) with the PUB in 2007 for the purpose of setting customer rates for 2008. (Continued on page 2.)

RATING CONSIDERATIONS

Strengths

- Supportive regulatory environment
- Strong balance sheet and favourable financial profile
- Stable customer base
- Limited competition from alternative fuels

Challenges

- Reliance on Newfoundland and Labrador Hydro for majority of power supply
- Allowed returns are sensitive to interest rates
- Managing forecast risk
- Limited growth potential

FINANCIAL INFORMATION

	For the 12-month period ended				
($ millions)	Dec. 2006	Dec. 2005	Dec. 2004	Dec. 2003	Dec. 2002
EBIT	77.0	76.0	77.7	75.1	72.6
Free cash flow	(18.8)	(10.9)	(12.9)	(23.6)	(0.4)
Total debt in the capital structure (1)	55.0%	54.7%	54.7%	55.1%	55.3%
Cash flow/total debt (1)	12.9%	14.2%	14.9%	14.0%	18.1%
Fixed-charges coverage (times)	2.20	2.27	2.40	2.33	2.51
Dividend payout ratio	60.4%	78.8%	45.7%	32.2%	33.0%

(1) Total debt adjusted for preferred shares.

THE COMPANY

Newfoundland Power generates, transmits and distributes electricity to approximately 229,000 customers throughout the island portion of Newfoundland. The Company purchases over 90% of its electricity needs from government-owned Newfoundland and Labrador Hydro (NLH) and generates the balance from owned generation facilities (approximately 136 MW). Fortis Inc. (Fortis) owns all of the common shares of Newfoundland Power.

RATING UPDATE (Continued from page 1.)

Key cash flow and coverage ratios have modestly trended downward in recent years; however, they are expected to remain stable or improve over the medium term, depending upon the outcome of a 2008 GRA. DBRS expects these ratios to remain within a range that is consistent with the current ratings.

While Newfoundland Power operates independently of its parent, Fortis, DBRS notes that on February 26, 2007, Fortis announced its intention to acquire 100% of the common shares of Terasen Inc. (Terasen) from Kinder Morgan, Inc. for total consideration of approximately $3.7 billion, including $2.3 billion in assumed debt. The acquisition only includes Terasen's natural gas distribution businesses. DBRS believes that the transaction should not impact Newfoundland Power. DBRS confirmed Newfoundland Power's ratings shortly after the acquisition announcement.

RATING CONSIDERATIONS

Strengths

- Newfoundland Power operates in a supportive regulatory environment, which is based on a cost-of-service methodology. The PUB allows for the pass through of purchased power costs, and in addition, a rate stabilization account is in place in order to absorb fluctuations between estimated and actual costs of fuel oil used to generate electricity by NLH.
- The Company also has a weather normalization reserve account (WNR), approved by the PUB, to adjust for variances in weather and stream flow when measured against long-term averages. This provides Newfoundland Power with a mechanism to stabilize earnings, particularly during periods of abnormal weather conditions. The WNR and the underlying calculations are reviewed annually by the PUB.
- The Company has a strong balance sheet with a capital structure based on the approved 45% equity allowed by the regulator. The Company's financial profile is strong with relatively minor free cash flow deficits as the Company invests to upgrade its infrastructure. Key credit ratios have modestly trended downward in recent years; however, remaining in line with the current rating category. Furthermore, the Company has shown that it will manage its dividend policy as necessary in order to maintain its approved capital structure, as evidenced by the scaling back of dividends in several of the last five years.
- Newfoundland Power also has a very stable customer base, as 100% of power sales are to the residential and commercial segments. The large industrial customers are served primarily by NLH. Sales growth is modest, reflecting slow growth in customers as well as increasing conservation efforts. However, approximately 90% of new home construction installed electric heat in 2006.
- The lack of availability of natural gas, due to geographic isolation and lack of related infrastructure, also limits competitive pressures. Over 50% of the Company's current customers utilize electric space heating, causing electricity sales to be much higher during the winter than in the summer.

Challenges

- Newfoundland Power relies heavily on NLH for its power supply, purchasing over 90% of its power requirements. The cost of power from NLH is influenced by the market price of Bunker C fuel oil, due to that company's significant amount of oil-fired generation capacity. Any increase in the price of oil is accumulated by NLH into a rate stabilization account and recovered over a one-year period through rate increases to Newfoundland Power. While increases in purchased power rates are passed directly on to Newfoundland Power's customers, higher rates may lead to energy conservation by customers, which could negatively impact sales volumes and ultimately earnings. Furthermore, higher NLH rates could make it more difficult for the Company to get approval for its own rate increases.
- Under the current regulatory regime, earnings are sensitive to interest rates as the approved ROE is based on a ten-day average (calculated in November) yield on long-term Government of Canada bonds, which does not capture any expected upward trend in interest rates (as would be the case with utilizing a consensus forecast interest rate). The approved ROE for 2007 declined to 8.60%, compared with 9.24% in 2006, as calculated by the automatic adjustment formula, which DBRS estimates will negatively impact after-tax earnings by approximately $1.6 million.
- The key challenge with respect to the DER will be the Company's ability to accurately and consistently forecast electricity demand going forward. However, the maximum pre-

tax loss in the event that actual demand is greater than forecasted, is currently limited to a threshold amount of +/-$521,000 for 2007, subject to final PUB approval (+/-$714,000 for 2006). Amounts in excess of this threshold are charged/rebated to customers, in a manner to be determined by the PUB. (See Regulation section for more information on the DER).

- The Newfoundland economy is heavily dependant on more volatile natural resource sectors. Over the medium term, natural resource development will continue to have a major impact on economic growth, with 2007 overall growth projected to be 5.7% by the Conference Board. However, service sector growth, which is the primary influence on sales growth for the Company, is expected to be only 2.5%. Additionally, out-migration has caused the province's population to decline by approximately 11.5% since 1992, negatively impacting the Company's customer and energy sales growth.

REGULATION

- The PUB regulates the Company under a cost-of-service methodology. Newfoundland Power has a favourable approved equity component of 45%.
- An automatic adjustment formula, applied annually between test years in November, is used to determine customer rates, effective January 1st of the following year, by adjusting the return on rate base to reflect changes in long-term Canada bond yields. The Company's ROE is based on a ten-day average of the three most recent series of long-term Canada bonds, and added to a risk premium. The approved return-on-rate base is adjusted when the calculated rate-of-return falls outside the approved range (+/- 18 basis points).
- The application of the automatic adjustment formula in November 2006 resulted in a reduction of the Company's ROE for the purpose of setting rates from 9.24% to 8.60% effective January 1, 2007.
- Furthermore, the Company also has a rate stabilization account, which passes through charges related to municipal taxes and fluctuations in the cost and quantity of fuel oil burned by NLH to produce power. Newfoundland Power's rates are adjusted annually on July 1 to reflect changes in the account.
- The Company also has a weather normalization reserve account, to adjust for the financial effect of variations in weather and stream flow when measured against long-term averages. This account helps to minimize the volatility of income from year to year.
- In December 2005, the Company received approval from the PUB to change its accounting policy for revenue recognition to the accrual method effective January 1, 2006. In its Order, the PUB also:
  - Approved the recognition in 2006 of approximately $3.1 million of a one-time accounting accrual arising as a result of the accounting policy change. Recognition of this amount offset increased income taxes in 2006 arising from the 2005 tax settlement with the Canada Revenue Agency (CRA).
  - Ordered the deferred recovery of approximately $5.8 million related to increased depreciation expense in 2006.
- In December 2006, the PUB approved the Company's 2007 Amortization and Cost Deferral Application, which requested: (1) the recognition of $2.7 million of unbilled revenue to offset the 2007 income tax effects of the 2005 tax settlement with the CRA; (2) the deferred recovery of capital asset amortization of $5.8 million caused by the conclusion of an amortization true-up in 2005; and (3) the deferred recovery of $1.1 million related to the cost of Rattling Brook replacement energy.

Demand Energy Rate

- The PUB required the establishment of a DER structure on January 1, 2005, for the power NLH sells to Newfoundland Power to encourage energy management for that company's customers.
  - The Company is billed on a demand component, based on its highest actual demand requirements from the previous winter season. The highest actual demand will be adjusted to reflect normal weather conditions, which reduces the forecast risk to the Company.
  - In the event that actual billing demand results in annual purchased power costs that differ by an amount greater than the threshold amount of +/-$521,000 for 2007, subject to final PUB approval (+/-$714,000 for 2006), the difference will be charged/rebated to customers, in a manner

to be determined by the PUB. The reserve mechanism was put in place for a three-year phase-in period beginning in 2005.

- The Company intends on filing a GRA with the PUB in 2007, for the purpose of setting customer rates for 2008. As part of its 2008 GRA the Company will need to address the increased marginal cost of purchased power as a result of NLH's 2007 GRA. Rates approved as a result of NLH's 2007 GRA are structured such that for each additional unit of electricity sold in excess of forecast the additional cost will be higher than the additional revenue. Consequently, as growth in electricity sales increases so may the frequency of the Company's applications for rate relief. DBRS notes that any additional cost will be fully recovered in 2007 through a rate stabilization account clause created to address this specific issue.

EARNINGS AND OUTLOOK

	For the 12-month period ended				
($ millions)	Dec. 2006	Dec. 2005	Dec. 2004	Dec. 2003	Dec. 2002
Revenues	421.3	417.9	404.5	384.2	369.6
EBITDA	110.1	108.1	108.7	104.4	108.1
EBIT	77.0	76.0	77.7	75.1	72.6
Gross interest expense	34.1	32.6	31.4	31.3	27.9
Core net income	30.7	29.9	31.8	30.1	29.4
Net income (reported)	30.1	30.7	31.1	29.5	28.8
Return on average common equity	9.3%	9.3%	10.3%	10.4%	10.9%

Summary

- For the year ended December 31, 2006, EBIT increased slightly as a result of accounting accruals and deferrals:
  - The increase in revenues was primarily due to the recognition of $3.1 million in 2005 unbilled revenue, as approved by the PUB, to offset the effects of changing to the accrual basis of revenue recognition.
- EBITDA has been very stable as a result of increased revenues and balanced operating costs over the period.
- Interest expense has increased gradually since 2001 due to additional indebtedness the Company has been incurring to finance its capital expenditures.
- Net income has also remained flat as a result of lower income taxes. During the year, the Company's effective tax rate decreased to 30.8% from 32.9% in 2005.

Outlook

- The Company's regulated transmission and distribution operations are expected to continue generating stable earnings and cash flow in the future.
  - A strong housing market in recent years has contributed to a favourable level of sales growth, however, sales declined slightly in 2006 from 2005. Approximately 90% of new home construction installed electric heat in 2006.
- Due to application of the automatic adjustment formula, effective January 1, 2007, the Company's allowed ROE was reduced from 9.24% to 8.6%, causing forecast revenues to decline by approximately $2.5 million. DBRS estimates that this will negatively impact after-tax earnings by approximately $1.6 million.
- The DER may have an impact on pre-tax earnings, although DBRS notes that the maximum amount it could impact earnings is limited to +/-$521,000 for 2007, subject to final PUB approval (+/-$714,000 for 2006).

Financial Profile

($ millions)	For the 12-month period ended				
Cash Flow Statement	Dec. 2006	Dec. 2005	Dec. 2004	Dec. 2003	Dec. 2002
Core net income	30.7	29.9	31.8	30.1	29.4
Depreciation and amortization	33.9	34.3	31.6	28.9	35.7
Other non-cash adjustments	(10.6)	(7.6)	(5.3)	(6.3)	(1.0)
Cash Flow From Operations	54.0	56.6	58.1	52.7	64.1
Dividends	(18.8)	(23.7)	(14.8)	(10.1)	(10.1)
Capital expenditures (1)	(57.1)	(53.7)	(58.9)	(63.0)	(58.8)
Free Cash Flow Before W/C Changes	(21.8)	(20.8)	(15.6)	(20.4)	(4.9)
Net changes in working capital	3.1	9.8	2.7	(3.3)	4.5
Net Free Cash Flow	(18.8)	(10.9)	(12.9)	(23.6)	(0.4)
Other investing activities	(0.3)	(0.4)	0.2	(0.1)	(9.3)
Other & adjustments	0.0	1.4	0.0	0.0	0.0
Amount to be Financed	(19.0)	(9.9)	(12.7)	(23.7)	(9.7)
Net debt financing	19.5	8.7	14.6	20.3	12.3
Net preferred financing	(0.1)	(0.0)	(0.0)	(0.3)	0.0
Net common equity	0.0	0.0	0.0	0.0	0.0
Net Change in Cash	0.4	(1.2)	1.8	(3.7)	2.6
% adjusted debt in capital structure	55.0%	54.7%	54.7%	55.1%	55.3%
Fixed-charges coverage (times)	2.20	2.27	2.40	2.33	2.51
Cash flow/adjusted debt	12.9%	14.2%	14.9%	14.0%	18.1%
Adjusted debt-to-EBITDA (times)	3.80	3.69	3.58	3.60	3.28

(1) Net of contributions from customers and security deposits.

Summary

Cash flow from operations over the past years, while benefiting from a stable level of earnings and deferrals, has exhibited modest variability, particularly in 2006 as a result of the $5.8 million deferred recovery of capital asset amortization.

- Capital expenditures have been relatively stable since 2002 as a result of a capital investment program which began that year.
  - On average 60% of capital expenditures are focused on the refurbishment of existing capital assets, 25% for extension of the electricity network to meet increasing customer service requirements and 15% for information system upgrades and general improvements.
- The Company has historically utilized its credit facilities to finance the free cash flow shortfalls as a bridge to the issuance of first mortgage bonds. As well, the Company manages the level of its dividends, in order to maintain a long-term capital structure of 55% debt and 45% equity, as deemed by the regulator.
  - Debt-to-capitalization remained relatively unchanged during this period.
  - Key credit ratios have trended downwards in recent years due to lower allowed ROEs and increased debt levels, needed to fund the ongoing capital expenditure program.
- Newfoundland Power’s financial profile is considered to be favourable, with reasonable leverage in line with the deemed capital structure, and key credit ratios in line with the current rating.

Outlook

- The reduction in allowable ROE for 2007 may have a limited impact on cash flow from operations, but over the medium term the continued growth of the Company’s rate base, although minimal, should help to offset this.
- Newfoundland Power’s 2007 capital budget was approved by the PUB in September 2006 and contains 26 projects totalling $62.2 million. The focus will be on the replacement of aging equipment to strengthen the electricity system and meet the demand of customer and sales growth. The Rattling Brook Hydro Plant Refurbishment project,

which is budgeted at $18.8 million, constitutes 30% of the overall capital budget.

- The Company plans to invest approximately $276 million in plants and equipment from 2007 to 2011. On an annual basis, capital expenditures are expected to average approximately $55.2 million, slightly below the average over the past five years, positively impacting cash flow deficits which are expected to continue over the medium term. DBRS expects the company to continue funding cash flow shortfalls with borrowings under its credit facilities, long-term debt issuances, and through the management of dividends.
- Interest coverage and cash flow ratios are expected by DBRS to decline modestly in 2007, as they had in 2006, due to the approved use of accruals and amortization to achieve a fair and reasonable return. Credit ratios should remain relatively stable or improve over the medium term, depending upon the outcome of the Company's 2008 GRA, and continue to be consistent with the current rating.

LONG-TERM DEBT MATURITIES AND BANK LINES

($ millions)	2007	2008	2009	2010	2011	Thereafter	Total
Debt maturities	31.87	0.00	34.43	0.00	0.00	328.94	395.24
Sinking fund payments	3.85	3.85	3.85	3.85	3.85	0.00	19.25
as at Dec. 31, 2006	35.72	3.85	38.28	3.85	3.85	328.94	414.49

Summary

- Debt maturities are well spread out over the longer term, with maturity dates extending to 2035.
- Newfoundland Power's long-term debt consists of first mortgage bonds, which 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 and borrowings under revolving credit facilities.
- Newfoundland Power has the following credit facilities available to it:
  - A three-year, $100 million syndicated, committed revolving unsecured credit facility expiring in January 2009.
  - A $20 million uncommitted demand facility.
  - The credit facility contains a covenant which provides that the Company shall not declare or pay any dividends or make any other restricted payments if immediately thereafter the debt-to-capitalization exceeds 65%.
- As of December 31, 2006, $34.7 million was outstanding on the Company's credit facilities.
- The Company is also restricted under its Trust Deed to meet specific tests when it intends on issuing additional long-term bonds. The Company must meet an Earnings Test where the net earnings 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 Company's credit facilities should be more than adequate to fund future working capital needs and free cash flow deficits.
- $34.4 million of the outstanding credit facilities has been classified as long-term borrowings, which the Company intends to refinance with long-term financing during future periods.

Description of Operations

- Newfoundland Power is a vertically integrated utility serving approximately 229,000 customers throughout the island portion of the province of Newfoundland and Labrador. Its rate base as of December 31, 2006, was approximately $753 million.
- 60% of electricity sales are to the residential segment, 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 and seven thermal plants with a total installed capacity of 136 MW.
- Approximately 90% of power requirements are purchased 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.

	For the 12-month period ended				
Electricity Sales - Breakdown (GWh)	Dec. 2006	Dec. 2005	Dec. 2004	Dec. 2003	Dec. 2002
Residential	2,981	2,987	2,972	2,909	2,843
General service	2,014	2,017	2,007	1,973	1,922
Total sales	4,995	5,004	4,979	4,882	4,765
Growth in volume throughputs	-0.2%	0.5%	2.0%	2.5%	2.1%
Customers					
Residential	198,568	196,412	193,912	191,314	188,925
Commercial	30,932	30,889	30,552	30,339	30,147
Total	229,500	227,301	224,464	221,653	219,072

	For the 12-month period ended				
Energy Generated (GWh)	Dec. 2006	Dec. 2005	Dec. 2004	Dec. 2003	Dec. 2002
Energy generated	417	426	424	425	424
Energy purchased	4,876	4,873	4,841	4,725	4,604
Energy generated + purchased	5,293	5,299	5,265	5,150	5,028
Less: transmission losses + internal use	298	295	286	268	263
Total sales	4,995	5,004	4,979	4,882	4,765
System losses and internal use	6.0%	5.9%	5.7%	5.5%	5.5%
Installed Generation Capacity (MW)					
Hydroelectric	92.1	94.6	94.6	94.6	94.5
Gas turbine	36.5	43.9	43.9	43.9	46.9
Diesel	7	7	7	5.9	6.9
Total	135.6	145.5	145.5	144.4	148.3
Peak demand (MW)	1,166	1,124	1,167	1,118	1,194

Newfoundland Power Inc.

Balance Sheet	As at				As at		
($ millions)	Dec. 2006	Dec. 2005	Dec. 2004	**Liabilities & Equity**	Dec. 2006	Dec. 2005	Dec. 2004
Assets				Short-term debt	0.7	0.8	58.1
Cash + equivalents	0.0	0.0	0.5	Debt due one yr.	35.7	4.3	3.7
Accounts receivable	61.6	58.7	59.6	A/P + accr'ds	65.2	56.8	56.1
Inventories	4.9	5.2	5.4	Other	11.4	12.7	10.9
Prepaids & other	12.0	10.5	10.1	**Current Liabilities**	113.1	74.5	128.8
Current Assets	78.5	74.4	75.5	Long-term debt	378.8	391.0	324.9
Net fixed assets	669.54	651.46	630.08	Deferred & other	51.7	51.1	45.8
Regulatory assets	45.5	34.0	28.7	Preferred equity	9.4	9.4	9.4
Deferred charges & other	95.2	90.1	91.0	Shareholders' equity	335.9	324.0	316.4
Total	888.8	850.1	825.3	**Total**	888.8	850.1	825.3

Ratio Analysis	For the 12-month period ended				
	Dec. 2006	Dec. 2005	Dec. 2004	Dec. 2003	Dec. 2002
Current ratio	0.69	1.00	0.59	0.44	0.60
Accumulated depreciation/gross fixed assets	40.2%	40.0%	40.0%	40.4%	40.1%
Cash flow/adjusted debt (1)	12.9%	14.2%	14.9%	14.0%	18.1%
Cash flow/capital expenditures	94.6%	105.5%	98.7%	83.7%	108.9%
Cash flow-dividends/capital expenditures	61.7%	61.3%	73.5%	67.7%	91.7%
% debt in capital structure	54.6%	54.3%	54.3%	54.7%	54.9%
% adjusted debt in capital structure (1)	55.0%	54.7%	54.7%	55.1%	55.3%
Maximum deemed common equity	45%	45%	45%	45%	45%
Common dividend payout ratio	60.4%	78.8%	45.7%	32.2%	33.0%
Coverage Ratios					
EBIT interest coverage	2.26	2.33	2.47	2.40	2.60
EBITDA interest coverage	3.23	3.32	3.46	3.34	3.87
Fixed-charges coverage	2.20	2.27	2.40	2.33	2.51
Adjusted debt/EBITDA (1)	3.80	3.69	3.58	3.60	3.28
Earnings Quality/Operating Efficiency					
Power purchases/revenues	61.0%	61.3%	61.7%	60.6%	58.1%
EBIT margin	18.3%	18.2%	19.7%	20.0%	20.0%
Net margin (before extras)	7.3%	7.2%	8.0%	8.0%	8.1%
Return on avg. common equity (before extras)	9.3%	9.3%	10.3%	10.4%	10.9%
Allowed ROE – mid-point	9.24%	9.24%	9.75%	9.75%	9.05%
Customers/employee (2)	415.8	408.8	374.7	365.8	359.1
Growth of customer base (2)	1.0%	1.3%	1.3%	1.2%	1.0%
GWh sold/employee (2)	9.0	9.0	8.3	8.1	7.9
Rate base ($ millions)	750	745	714	676	573
Growth in rate base	0.6%	4.4%	5.6%	18.0%	5.1%

(1) Preferred shares are considered to be 70% equity, 30% debt. (2) Company restated employee figures.

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

Credit Opinion: **Newfoundland Power Inc.**

Newfoundland Power Inc.

Canada

Ratings

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

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Key Indicators

Newfoundland Power Inc.

	2006	2005	2004	2003
(CFO Pre-W/C + Interest) / Interest Expense [1]	2.7x	2.9x	3.0x	2.9x
(CFO Pre-W/C) / Debt	14.1%	15.7%	16.0%	15.6%
(CFO Pre-W/C - Dividends) / Debt	9.8%	10.1%	12.5%	13.1%
(CFO Pre-W/C - Dividends) / Capex	69.0%	74.4%	81.8%	77.4%
Debt / Book Capitalization [2]	55.8%	63.2%	55.5%	56.0%
EBITA Margin %	17.7%	19.6%	19.6%	19.5%

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items [2] In 2005, NPI's defined benefit plan underfunding resulted in Moody's standard balance sheet adjustments which reduced its capitalization by approximately $58 million, leading to an increase in the Debt/ Book Capitalization ratio. In the absence of any adjustments, Debt/Book Capitalizaton would have been 54.2%

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

Opinion

Company Profile

Newfoundland Power Inc (NPI) is a vertically integrated electric utility which operates under cost of service regulation as administered by the Board of Commissioners of Public Utilities of Newfoundland and Labrador (PUB) under the Public Utilities Act (the Act). It is a wholly-owned subsidiary of Fortis Inc. (not rated), an electric utility holding company.

NPI owns and maintains over 10,000 kilometers of transmission and distribution lines and delivers electricity to approximately 229,000 commercial and residential customers on the island portion of the Province of Newfoundland and Labrador. Generation forms a relatively small portion of NPI's revenues and assets consequently NPI purchases approximately 90% of its power requirements from the provincially-owned Newfoundland & Labrador Hydro (Hydro). NPI generates the balance of its power requirements via 23 hydro plants, three diesel plants and three gas turbine facilities, which in aggregate have an installed capacity of roughly 135.6MW. NPI's power purchases from Hydro are regulated by the PUB, and costs of purchased power are passed through to ratepayers.

Recent Developments

Since Moody's initial rating of NPI in 2005, NPI's cash flow credit metrics have weakened somewhat. For instance (CFO Pre-W/C)/Debt has declined from 16.0% in 2004 to 14.1% in 2006. Similarly, CFO Pre-W/C Interest Coverage has declined from 3.0x in 2004 to 2.7x in 2006. Moody's believes that this deterioration reflects the fact that NPI has not had a rate increase since 2003 when rates were increased following the company's 2002 general rate application (GRA). It also reflects the impact of declining bond yields which have resulted in lower allowed returns on rate base and ROE by operation of the annual automatic adjustment formula utilized by the PUB to adjust rates between GRAs. As a result of the foregoing, NPI has experienced declining FFO while debt levels and interest expense have increased resulting in the weakening of the company's cash flow credit metrics. The company expects to file a GRA in 2007, with any changes to rates to take effect in 2008.

Rating Rationale

Pursuant to Moody's Global Regulated Electric Utilities Rating Methodology, NPI is considered to be a low risk utility given that its operations are wholly regulated and that it operates in Canada, a jurisdiction that is generally viewed as having one of the more supportive regulatory environments for utilities on a global basis. NPI's ratios are generally consistent with, albeit somewhat weaker than, those of other Baa1 companies that are predominantly engaged in transmission and distribution such as Atlantic City Electric and FortisAlberta (a sister company to NPI). Atlantic City Electric and FortisAlberta have reported (CFO Pre-W/C)/Debt in the 16-19% range versus NPI's sub-15% level. Similarly, Atlantic City Electric and FortisAlberta have reported CFO Pre-W/C Interest Coverage in the 3.5-4.5x range versus NPI's sub 3x range.

The Baa1 rating assigned to the First Mortgage Bonds (FMB) is reflective of the FMB's first mortgage security over NPI's property, plant and equipment. All assets are pledged as security and all current and future FMB issuances must be in support of prudently-incurred costs and pre-approved by the PUB.

The rating also reflects NPI's low business risk as a cost of service-regulated monopoly utility whose operations are predominantly transmission and distribution which Moody's generally believes to be the lowest risk segments for electric utilities. The fact that NPI's service territory is geographically isolated, and therefore largely removed from competition, and exhibits relatively low, predictable growth contributes to Moody's view of NPI as a low risk utilitiy. Moody's considers NPI's regulatory environment to be relatively supportive and notes that the rate making construct includes measures that largely eliminate NPI's exposure to commodity price and volume risk. Furthermore, Moody's expects that the Newfoundland electricity market is unlikely to undergo significant restructuring in the foreseeable future.

The rating considers NPI's status as a subsidiary of its parent, Fortis Inc., a Canadian utility holding company. While NPI is one of a number of utility operating companies owned by Fortis, Moody's considers NPI to be operationally and financially independent from Fortis. While the parent could seek to increase dividend payments from NPI to support the operations of the holding company or other utility operating companies, the level of dividends has not historically been stressful for NPI. This is consistent with Fortis' philosophy of allowing its utility subsidiaries to operate on a stand-alone basis. Moody's expects that NPI will continue to implement a dividend policy which will maintain its capital structure at or near the 45% maximum equity permitted by the PUB. Furthermore, NPI's financial independence is supported by features of its credit agreements and of the Act. NPI's bank credit agreement contains covenants which prohibit affiliate loans and guarantees and place meaningful restrictions on all other affiliate transactions. The Act prohibits the provision of inter-corporate loans which would disadvantage the interest of ratepayers or which would provide little benefit to ratepayers or NPI.

Moody's views NPI's liquidity facilities to be supportive of its rating. In January 2006, NPI replaced its $100 million, 364-day syndicated committed revolving credit facility with a $100 million, three-year syndicated committed revolving facility. The facility can be extended at the Lenders' discretion. While the facility does not have the term-out provision that its previous 364-day facility contained, Moody's expects that NPI will seek to extend the facility prior to its second anniversary in order to ensure that the company never has less than one year's committed liquidity available to it. Moody's notes that availability under NPI's syndicated credit facility could be constrained in adverse circumstances due to the existence of a Material Adverse Change (MAC) clause. However, the MAC clause is tempered by a carve-out for adverse weather conditions, which is one of the most likely events that could negatively affect the company's performance. The credit facility will be utilized in part to fund NPI's capital expenditure program of approximately $55-$65 million in the coming years. As of December 31, 2006, approximately $34.4 million was drawn against the committed credit facility.

NPI expects to periodically issue additional FMBs to refund borrowings under the syndicated credit facility. NPI has a manageable maturity profile, with the next significant maturity of approximately $35.7 million occurring later in 2007 but no other maturities (with the exception of annual 1% sinking fund installments) until 2014. Moody's expect that NPI will refinance the $35.7 million FMB maturity in 2007 with the issuance of additional FMBs. Consistent with most electric utilities, it is expected that NPI will continue to be modestly free cash flow negative after capital spending and dividends for the foreseeable future, assuming moderate but steady cash flow, relatively constant capital expenditures, and no large changes to dividend policy.

Rating Outlook

The rating outlook is stable based on the expectation that NPI's 2007 GRA will result in a strengthening of the company's cash flow credit metrics beginning in 2008. If it appears that in 2008 NPI's (CFO Pre-W/C)/Debt will be materially below 15% or that its CFO Pre-W/C Interest Coverage will be materially less than 3.0x, the company's outlook and rating could be negatively impacted.

What Could Change the Rating - Up

The rating could be positively impacted if NPI could demonstrate expectations for a sustained improvement in financial ratios, such as CFO Pre-W/C Interest Coverage above 4.0x and (CFO Pre-W/C)/Debt above 20%. This level of improvement in NPI's credit metrics could result from a rate increase, coupled with either an increase in equity in the capital structure or the equity risk premium utilized by the regulator to automatically adjust the allowed rate of return on rate base between full cost of capital hearings. Moody's considers an upward revision in NPI's rating to be unlikely in the near term.

What Could Change the Rating - Down

NPI's rating could be negatively impacted if by 2008 CFO Pre-W/C Interest Coverage has not met or exceeded 3.0x and (CFO Pre-W/C)/Debt has not met or exceeded 15%.

Rating Factors

Newfoundland Power Inc.

Select Key Ratios for Global Regulated Electric Utilities

Rating	Aa	Aa	A	A	Baa	Baa	Ba	Ba
Level of Business Risk	**Medium**	**Low**	**Medium**	**Low**	**Medium**	**Low**	**Medium**	**Low**
CFO pre-W/C to Interest (x) [1]	>6	>5	3.5-6.0	3.0-5.7	2.7-5.0	2-4.0	<2.5	<2
CFO pre-W/C to Debt (%) [1]	>30	>22	22-30	12-22	13-25	5-13	<13	<5
CFO pre-W/C - Dividends to Debt (%) [1]	>25	>20	13-25	9-20	8-20	3-10	<10	<3
Total Debt to Book Capitalization (%)	<40	<50	40-60	50-70	50-70	60-75	>60	>70

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items

Newfoundland Power Inc.

Credit Metrics - OPEBS on Cash Basis

Pre-tax Interest Coverage (times)

Allowed Common Equity	**Allowed Return On Equity**								
	10.25%	**10.00%**	**9.75%**	**9.50%**	**9.25%**	**9.00%**	**8.75%**	**8.50%**	**8.25%**
45%	2.69	2.65	2.61	2.57	2.53	2.49	2.45	2.41	2.37
44%	2.64	2.60	2.56	2.52	2.48	2.44	2.40	2.37	2.33
43%	2.58	2.55	2.51	2.47	2.43	2.40	2.36	2.32	2.28
42%	2.53	2.50	2.46	2.42	2.39	2.35	2.31	2.28	2.24
41%	2.48	2.45	2.41	2.38	2.34	2.31	2.27	2.24	2.20
40%	2.43	2.40	2.36	2.33	2.29	2.26	2.23	2.19	2.16

Cash Flow Interest Coverage (times)

Allowed Common Equity	**Allowed Return On Equity**								
	10.25%	**10.00%**	**9.75%**	**9.50%**	**9.25%**	**9.00%**	**8.75%**	**8.50%**	**8.25%**
45%	3.09	3.07	3.04	3.01	2.99	2.96	2.94	2.91	2.88
44%	3.05	3.02	3.00	2.97	2.95	2.92	2.89	2.87	2.84
43%	3.00	2.98	2.95	2.93	2.90	2.88	2.85	2.83	2.80
42%	2.96	2.93	2.91	2.88	2.86	2.84	2.81	2.79	2.77
41%	2.91	2.89	2.87	2.84	2.82	2.80	2.77	2.75	2.73
40%	2.87	2.85	2.83	2.80	2.78	2.76	2.74	2.71	2.69

Cash Flow to Debt (percentage)

Allowed Common Equity	**Allowed Return On Equity**								
	10.25%	**10.00%**	**9.75%**	**9.50%**	**9.25%**	**9.00%**	**8.75%**	**8.50%**	**8.25%**
45%	16.12	15.92	15.72	15.52	15.32	15.12	14.92	14.72	14.52
44%	15.38	15.19	15.00	14.82	14.63	14.44	14.25	14.06	13.87
43%	14.69	14.51	14.34	14.16	13.98	13.80	13.62	13.44	13.26
42%	14.05	13.88	13.71	13.54	13.37	13.20	13.03	12.86	12.70
41%	13.44	13.28	13.12	12.96	12.80	12.64	12.48	12.32	12.16
40%	12.88	12.73	12.57	12.42	12.27	12.12	11.97	11.82	11.67

1st Revision Note: Updated for "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

2008 Forecast Average Rate Base[1]
Impact of Asset Rate Base Method
($000s)

	Current	Impact	Amended
Plant Investment	1,252,347		1,252,347
Add:			
Deferred Charges	101,809	(3,077) [2]	98,732
Weather Normalization Reserve	10,003		10,003
Deferred Energy Replacement Costs	951		951
Cost Recovery Deferral - Depreciation	9,655		9,655
Future Income Taxes	(592)		(592)
Customer Finance Programs	800	1,728 [3]	2,528
	122,626	(1,349)	121,277
Deduct:			
Accumulated Depreciation	528,684		528,684
Work In Progress	2,314		2,314
Contributions In Aid of Construction	23,407		23,407
2005 Unbilled Revenue	12,841		12,841
Accrued Pension Liabilities	-	3,003 [3]	3,003
Municipal Tax Liability	-	3,406 [3]	3,406
Unit Cost Reserve	1,117		1,117
Customer Security Deposits	-	736 [3]	736
	568,363	7,145	575,508
Average Rate Base Before Allowances	806,610	(8,494)	798,116
Cash Working Capital Allowance	6,798	2,871 [3]	9,669
Materials and Supplies Allowance	4,494	(66) [3]	4,427
Average Rate Base At Year End	817,902	(5,689)	812,212

[1] All amounts shown are averages.
[2] Reclassification of unamortized deferred debt issue costs from rate base to WACC. *See Section 3.4.1, Asset Rate Base Method* of the Application.
[3] *See Section 3.4.1, Asset Rate Base Method* of the Application.

1st Revision Note: Updated for "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

2008 Revenue Requirements[1]
($000s)

		Existing	Changes	Amended
1	**Return on Rate Base**	54,215	13,751	67,966
2				
3	**Other Costs**			
4	Purchased Power Costs	336,819	340	337,159
5	Operating Costs	48,533	(833)	47,700
6	Pension and Early Retirement Costs	3,348	-	3,348
7	Amortization of Cost Recovery Deferral - Depreciation	-	3,862	3,862
8	Depreciation	41,002	(794)	40,208
9	Income Taxes	13,841	5,727	19,568
10		443,543	8,302	451,845
11				
12	**Total Costs and Return**	497,758	22,053	519,811
13				
14	**Adjustments**			
15	Other Revenue	(11,083)	(1,039)	(12,122)
16	Non-regulated Expenses	(983)	-	(983)
17	Other Adjustments[3]	-	92	92
18				
19	**2008 Revenue Requirement**	**485,692**	**21,106**	**506,798**
20				
21	Revenue Deferral Amortizations	-	(8,572)	(8,572)
22				
23	**Revenue Required From Rates**	**485,692**	**12,534** [2]	**498,226**

[1] *See Section 3.9, 2008 Revenue Requirements of the Application* for a summary of the Company's 2008 Revenue Requirements proposals.

[2] Excludes price elasticity impacts related to revenue of $1.5 million. The required revenue increase in 2008 of $14.0 million is comprised of $12.5 million from line 23 and price elasticity impacts of $1.5 million (See Exhibit 11, line 1, Column D).

[3] Includes $62,000 related to the amortization of capital stock issue expenses and $30,000 related to customer security deposits.

1st Revision Note: Updated for "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

2008 Return on Rate Base
($000s)

	Existing	Changes	Amended
Average Invested Capital			
Total Debt	446,894	(6,203) [1]	440,691
Preference Shares	9,353	-	9,353
Common Equity	358,966	6,375 [2]	365,341
	815,213	172	815,385
Average Invested Capital Ratios			
Total Debt	54.82%	-0.78% [1]	54.04%
Preference Shares	1.15%	-	1.15%
Common Equity	44.03%	0.78% [2]	44.81%
	100.00%	0.00%	100.00%
Cost of Capital			
Debt	7.59%	0.34% [1]	7.93%
Preference Shares	6.27%	-	6.27%
Common Equity	5.56%	3.39% [2]	8.95%
Weighted Average Cost of Capital			
Debt	4.16%	0.13%	4.29%
Preference Shares	0.07%	-	0.07%
Common Equity	2.45%	1.56%	4.01%
	6.68%	1.69%	8.37%
Returns			
Return on Debt	33,938	742 [1]	34,680
Return on Preference Shares	586	-	586
Regulated Return on Common Equity	19,949	12,751 [2]	32,700
Z Factor Effects	(258)	258 [3]	-
Return on Rate Base	54,215	13,751	67,966

[1] Reflects ARBM reclassifications and a reduction in borrowing costs due to the proposed increase in revenue from rates.
[2] The Settlement Agreement provides for a return on common equity of 8.95 percent.
[3] Return on rate base under the ARBM does not require the inclusion of a Z Factor. *See Section 3.3.3, Automatic Adjustment Formula* of the Application.

1st Revision Note: Updated for "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

2008 Average Rate Increase
($000s)

	Existing[1]	Amended[2]	Difference	Price Elasticity[3]	Amended Increase[4]
	A	**B**	**C**	**D**	**E**
Revenue From Rates	485,692	498,226	12,534	1,460	13,994
RSA Charges	8,151	8,124	(27)	27	-
MTA Charges	12,214	12,524	310	36	346
Total	506,057	518,874	12,817	1,523	14,340
Customer Rate Change[5]					**2.8%**

[1] Revenue from existing rates from Exhibit 9. RSA based on the RSA factor (0.157¢/kWh) effective July 1, 2007. MTA based on MTA Factor (1.02490) effective July 1, 2007.

[2] Revenue from amended rates from Exhibit 9. RSA based on the RSA factor (0.157 ¢/kWh) effective July 1, 2007. MTA based on MTA factor (1.02490) effective July 1, 2007.

[3] Elasticity impacts represent revenue reductions from reduced customer usage as a result of the 2.8 percent rate increase. Determined by applying existing rates to the 2008 test year sales forecast adjusted for the elasticity impacts and comparing results to Column A.

[4] Difference between existing and negotiated forecasts plus additional revenue requirement to offset price elasticity impact (Column C plus Column D).

[5] Total of Column E expressed as percentage of (Column A less Column D).

1st Revision Note: Updated for "Settlement Agreement" and revised forecasts for 2007 and 2008.

Newfoundland Power Inc.

Customer Impacts

Table 1
Rate 1.1 Domestic
Customer Impacts

Percent Change in Annual Cost	**Number of Customers (Percent of Total)[1]**
0.0	0.9
0.0 to 1.0	2.8
1.0 to 2.0	3.3
2.0 to 3.0	5.5
3.0 to 4.0	57.0
4.0 to 4.3	30.5
Total	**100.0**

1 Based on a random sample of 2000 Customers.

Table 2
Rate 2.1 General Service 0 – 10 kW
Customer Impacts

Percent Change in Annual Cost	**Number of Customers (Percent of Total)[1]**
-1.4 to -1.0	48.6
-1.0 to 0.0	47.8
0.00	3.6
Total	**100.0**

1 Based on a random sample of 2000 Customers.

Table 3
Rate 2.2 General Service 10 – 100 kW (110 kVA)
Customer Impacts

Percent Change in Annual Cost	Number of Customers (Percent of Total)[1]
Decreases	
-3.9 to –3.0	3.6
-3.0 to -2.0	14.2
-2.0 to -1.0	23.5
-1.0 to 0.0	28.3
Subtotal	69.6
Increases	
0.0 to 1.0	18.9
1.0 to 2.0	8.4
2.0 to 2.7	3.1
Subtotal	30.4
Total	**100.0**

[1] Based on a random sample of 2000 Customers.

Table 4
Rate 2.3 General Service 110-1000 kVA
Customer Impacts

Percent Change in Annual Cost	Number of Customers (Percent of Total)[1]
Decreases	
-3.1 to -3.0	0.3
-3.0 to -2.0	2.0
-2.0 to -1.0	7.0
-1.0 to 0.0	16.3
Subtotal	25.6
0.00	0.2
Increases	
0.0 to 1.0	19.6
1.0 to 2.0	28.0
2.0 to 3.0	19.6
3.0 to 4.0	6.7
4.0 to 4.4	0.3
Subtotal	**74.2**
Total	**100.0**

[1] Based on all customers with 12 months of history on the rate.

Table 5
Rate 2.4 General Service 1000 kVA and Over
Customer Impacts

Percent Change in Annual Cost	Number of Customers (Percent of Total)[1]
Decreases	
-2.9 to -2.0	1.7
-2.0 to -1.0	0.0
-1.0 to 0.0	10.2
Subtotal	11.9
Increases	
0.0 to 1.0	15.3
1.0 to 2.0	15.3
2.0 to 3.0	32.2
3.0 to 4.0	23.7
4.0 to 4.2	1.7
Subtotal	**88.1**
Total	**100.0**

1 Based on all customers with 12 months of history on the rate.

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NEWFOUNDLAND POWER INC.

RATE STABILIZATION CLAUSE

The Company shall include a rate stabilization adjustment in its rates. This adjustment shall reflect the accumulated balance in the Company's Rate Stabilization Account ("RSA") and any change in the rates charged to the Company by Newfoundland and Labrador Hydro ("Hydro") as a result of the operation of its Rate Stabilization Plan (“RSP”).

I. RATE STABILIZATION ADJUSTMENT ("A")

The Rate Stabilization Adjustment (“A”) shall be calculated as the total of the Recovery Adjustment Factor and the Fuel Rider Adjustment.

The Recovery Adjustment Factor shall be recalculated annually, effective the first day of July in each year, to amortize over the following twelve (12) month period the annual plan recovery amount designated to be billed by Hydro to the Company, and the balance in the Company's RSA.

The Recovery Adjustment Factor expressed in cents per kilowatt-hour and calculated to the nearest 0.001 cent shall be calculated as follows:

$$\frac{B + C}{D}$$

Where:

B = the annual plan recovery amount designated to be billed by Hydro during the next twelve (12) months commencing July 1 as a result of the operation of Hydro's RSP.

C = the balance in the Company's RSA as of March 31st of the current year.

D = the total kilowatt-hours sold by the Company for the 12 months ending March 31st of the current year.

The Fuel Rider Adjustment shall be recalculated annually, effective the first day of July in each year, to reflect changes in the RSP fuel rider applicable to Newfoundland Power. The Fuel Rider Adjustment expressed in cents per kilowatt-hour and calculated to the nearest 0.001 cent shall be calculated as follows:

$$\frac{E}{D} \times F$$

NEWFOUNDLAND POWER INC.

RATE STABILIZATION CLAUSE

I. RATE STABILIZATION ADJUSTMENT ("A") (Cont'd)

Where:

D = corresponds to the D above.

E = the total kilowatt-hours of energy (including secondary energy) sold to the Company by Hydro during the 12 months ending March 31 of the current year.

F = the fuel rider designated to be charged to Newfoundland Power through Hydro's RSP.

The Rate Stabilization Adjustment ("A") shall be recalculated and be applied as of the effective date of a new wholesale mill rate by Hydro, by resetting the Fuel Rider Adjustment included in the Rate Stabilization Adjustment to zero.

II. RATE STABILIZATION ACCOUNT ("RSA")

The Company shall maintain a RSA which shall be increased or reduced by the following amounts expressed in dollars:

1. At the end of each month the RSA shall be:

(i) increased (reduced) by the amount actually charged (credited) to the Company by Hydro during the month as the result of the operation of its Rate Stabilization Plan.

(ii) increased (reduced) by the excess cost of fuel used by the Company during the month calculated as follows:

$$\mathbf{(G/H - P) \quad x \quad H}$$

Where:

G = the cost in dollars of fuel and additives used during the month in the Company's thermal plants to generate electricity other than that generated at the request of Hydro.

H = the net kilowatt-hours generated in the month in the Company's thermal plants other than electricity generated at the request of Hydro.

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NEWFOUNDLAND POWER INC.

RATE STABILIZATION CLAUSE

II. RATE STABILIZATION ACCOUNT ("RSA") (Cont'd)

P = the **2nd block** base rate in dollars per kilowatt-hour paid during the month by the Company to Hydro for firm energy.

(iii) reduced by the price differential of firmed-up secondary energy calculated as follows:

$$(P - J) \times K$$

Where:

J = the price in dollars per kilowatt-hour paid by the Company to Hydro during the month for secondary energy supplied by Deer Lake Power and delivered as firm energy to the Company.

K = the kilowatt-hours of such secondary energy supplied to the Company during the month.

P = corresponds to P above.

(iv) reduced (increased) by the amount billed by the Company during the month as the result of the operation of the Rate Stabilization Clause calculated as follows:

$$\frac{L \times A}{100}$$

Where:

L = the total kilowatt-hours sold by the Company during the month.

A = the Rate Stabilization Adjustment in effect during the month expressed in cents per kilowatt-hour.

(v) increased (reduced) by an interest charge (credit) on the balance in the RSA at the beginning of the month, at a monthly rate equivalent to the mid-point of the Company's allowed rate of return on rate base.

2. On the 31st of December in each year, ~~**commencing in 1989,**~~ the RSA shall be increased (reduced) by the amount that the Company billed customers under the Municipal Tax Clause for the ~~**previous**~~ calendar year is less (or greater) than the amount of municipal taxes **paid** for that year**.**

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NEWFOUNDLAND POWER INC.

RATE STABILIZATION CLAUSE

II. RATE STABILIZATION ACCOUNT ("RSA") (Cont'd)

3. The annual kilowatt-hours used in calculating the Rate Stabilization Adjustment to the monthly streetlighting rates are as follows:

	Fixture Size (watts)				
	100	150	175	250	400
Mercury Vapour	-	-	840	1,189	1,869
High Pressure Sodium	546	802	-	1,273	1,995

4. On December 31st, 2007, the RSA shall be reduced (increased) by the amount that the increase in the Company's revenue for the year resulting from the change in base rates attributable to the flow through of Hydro's wholesale rate change, effective January 1, 2007, is greater (or less) than the amount of the increase in the Company's purchased power expense for the year resulting from the change in the base rate charged by Hydro effective January 1, 2007.

The methodology to calculate the RSA adjustment at December 31, 2007 is as follows:

Calculation of increase in Revenue:	
2007 Revenue with Flow-through (Q)	$ -
2007 Revenue without Flow-through (R)	$ -
Increase in Revenue (S = Q – R)	$ -
Calculation of increase in Purchased Power Expense:	
2007 Purchased Power Expense with Hydro Increase (T)	$ -
2007 Purchased Power Expense without Hydro Increase (U)	$ -
Increase in Purchased Power Expense (V = T – U)	$ -
Adjustment to Rate Stabilization Account (W = S – V)	$ -

Where:

Q = Normalized revenue from base rates effective January 1, 2007.
R = Normalized revenue from base rates determined based on rates pursuant to the operation of the Automatic Adjustment Formula for 2007.
T = Normalized purchased power expense from Hydro's wholesale rate effective January 1, 2007 (not including RSP rate).
U = Normalized purchased power expense determined based on Hydro's wholesale rate effective January 1, 2006 (not including RSP rate).

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NEWFOUNDLAND POWER INC.

RATE STABILIZATION CLAUSE

II. RATE STABILIZATION ACCOUNT ("RSA") (Cont'd)

5. On December 31st of each year from 2008 up to and including 2010, the Rate Stabilization Account (RSA) shall be increased (reduced) by the Energy Supply Cost Variance.

This Energy Supply Cost Variance identifies the change in purchased power cost that is related to the difference between purchasing energy at the 2nd block energy charge in the wholesale rate and the test year energy supply cost reflected in customer rates.

The Energy Supply Cost Variance expressed in dollars shall be calculated as follows:

$$\frac{(A - B) \times (C - D)}{100}$$

Where:

A = the wholesale rate 2nd block charge per kWh.

B = the test year energy supply cost per kWh determined by applying the wholesale energy rate to the test year energy purchases and expressed in ¢ per kWh.

C = the weather normalized annual purchases in kWh.

D = the test year annual purchases in kWh.

III. RATE CHANGES

The energy charges in each rate classification (other than the energy charge in the "Maximum Monthly Charge" in classifications having a demand charge) shall be adjusted as required to reflect the changes in the Rate Stabilization Adjustment. The new energy charges shall be determined by subtracting the previous Rate Stabilization Adjustment from the previous energy charges and adding the new Rate Stabilization Adjustment. The new energy charges shall apply to all bills based on consumption on and after the effective date of the adjustment.

Newfoundland Power Inc.

Regulation Changes

Existing Regulation 9(b)

Where a Customer requires Service for a period of less than three (3) years, the Customer shall pay the Company in advance a "Temporary Connection Fee". The Temporary Connection Fee is calculated as the estimated labour cost of installing and removing lines and equipment necessary for the Service plus the estimated cost of non-salvageable material.

Proposed Regulation 9(b)

Where a Customer requires Service for a period of less than three (3) years, the Customer shall pay the Company a "Temporary Connection Fee". The Temporary Connection Fee is calculated as the estimated labour cost of installing and removing lines and equipment necessary for the Service plus the estimated cost of non-salvageable material. The payment may be required in advance or, subject to credit approval, billed to the Customer.

Existing Regulation 9(c)

Where special facilities are required or requested by the Customer or any facility is relocated at the request of the Customer, the Customer shall pay the Company in advance the estimated additional cost of providing the special facilities and the estimated cost of the relocation less any betterment.

Proposed Regulation 9(c)

Where special facilities are required or requested by the Customer or any facility is relocated at the request of the Customer, the Customer shall pay the Company the estimated additional cost of providing the special facilities and the estimated cost of the relocation less any betterment. The payment may be required in advance or, subject to credit approval, billed to the Customer.

Newfoundland Power Inc.

Cost Breakdown of Rejected Payment

Bank Fee:	$ 3.50
Cash Control Clerk Labour:	
(backout of payment from file, rebalance files, queue entry to Call Centre staff)	
Average of 10 minutes per item = $22.82/hr*34% loading = $30.58/hr*10/60 =	$ 5.10
Customer Account Representative Labour:	
(Contact to customer, document notes on act., Send written correspondence if unable to contact by phone.)	
Average of 15 minutes per item = $24.27/hr*34% loading = $32.52*15/60 =	$ 8.13
Total Cost:	**$ 16.73**

Newfoundland Power Inc.

Survey of Rejected Payment Charges

Company	Coverage / Comments	Amount
BC Hydro	Regulations state "Returned Cheque" Same charge as well for pre-authorized payment.	$ 20.00
FortisBC	Returned Cheque Service Charge. Covers NSF (non-sufficient funds) cheque charge.	$ 20.00
Epcor	Returned Cheque Charge Covers cheques and pre-authorized payments.	$ 20.00
ENMAX	Referred to as "Dishonoured Cheques for any reason".	$ 25.00
ATCO Electric	Returned Cheque Fee.	$ 20.00
SaskPower	NSF Cheque Charge.	$ 25.00
Fortis Ontario[1]	Returned Cheque Fee (includes pre-authorized payments).	See footnote
Manitoba Hydro	NSF Payments (includes pre-authorized payments).	$ 20.00
Yukon Electric	Returned Cheque Charge.	$ 20.00
Hydro Ottawa	Returned Payment Charge.	$ 15.00 + bank charges
Toronto Hydro	Returned Cheque Fee. Includes pre-authorized payments.	$ 15.00
Veridian Connections	Any returned bank item.	$ 15.00
Hydro Quebec	"Cheque with insufficient funds."	$ 10.00
New Brunswick Power	"Non-Sufficient Funds Charge".	$ 15.00
Maritime Electric	"Non-Sufficient Funds Charge".	$ 16.50
Nova Scotia Power	Returned Cheque or Rejected pre-authorized payment.	$ 18.00

[1] Eastern Ontario Power and Canadian Niagara Power Inc. both charge $15.00 plus bank charges. Cornwall Electric charges $15.00.

Newfoundland Power Inc.

Regulation Change for Rejected Payment

Existing Regulation 10(d)

Where a Customer's cheque is not honoured for insufficient funds, a charge of $10.00 may be applied to the Customer's bill.

Proposed Regulation 10(d)

Where a Customer's cheque or automated payment is not honoured by their financial institution, a charge of $16.00 may be applied to the Customer's bill.