



ar Comment: Newfoundland Power Inc.

Moody's comments on Newfoundland Power's revised general rate application.

Newfoundland Power Inc. (NPI) filed a revised general rate application (revised GRA) on October 11, 2007. Moody's Investors Service believes that, if approved by the Newfoundland and Labrador Board of Public Commissioners (PUB), the revised GRA will not, in and of itself, result in a change in either the rating or outlook of NPI. Moody's currently rates NPI's senior secured debt Baa1 and has a stable outlook on the company's ratings.

The revised GRA is the product of a negotiation between NPI and the Consumer Advocate with the assistance of a PUB-appointed facilitator. The revised GRA seeks an average rate increase of 2.8% effective January 2008, down from the 5.3% average rate increase requested in NPI's May 2007 general rate application. It is Moody's understanding that the lower average rate increase implied by the revised GRA primarily reflects the impact of the 8.95% return on equity (ROE) versus the 10.25% ROE requested in NPI's May 2007 application and the decision to delay NPI's application to adopt an accrual accounting approach to Other Post-Employment Benefits (OPEBs) for rate-making purposes.

If approved, the revised GRA is expected to result in NPI achieving CFO pre-W/C interest coverage and CFO pre-W/C / debt of approximately 2.9x and 14.9% respectively in 2008 on the assumption that NPI achieves its allowed ROE. Moody's notes that historically, NPI has been able to achieve returns in excess of its allowed ROE under the regulatory construct that permits a return on ratebase within a band of plus or minus approximately 18 basis points of its allowed return on ratebase. To the extent that NPI continues to earn more than its allowed ROE in 2008, Moody's believes that NPI could achieve CFO pre-W/C interest coverage and CFO pre-W/C / debt of in excess of 3.0x and 15% respectively. In the context of NPI's relatively low business risk profile and the supportive regulatory environment in which it operates, Moody's believes that the credit metrics implied by the revised GRA continue to support NPI's Baa1 senior secured rating.

Newfoundland Power Inc. is a cost of service regulated electric utility headquartered in St. John's, Newfoundland.

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