

1 **Volume 1, Section 3 – Finance**

2  
3 **Q. Please provide copies of all memos, correspondence, communications in the custody**  
4 **or control of NP pertaining to the decision to discontinue the use of Standard &**  
5 **Poors as a rating agency.**

6  
7 A. All memos, correspondence and communications in the custody or control of  
8 Newfoundland Power pertaining to the decision to discontinue the use of Standard &  
9 Poor's ("S&P") as a rating agency are provided in the following attachments.

10  
11 Attachment A- Notification Letter: Newfoundland Power to S&P dated May 29, 2006.

12 Attachment B- S&P Commentary Report "Ratings Withdrawn on Newfoundland Power  
13 Inc.", October 2006.

14 Attachment C- Excerpt from Newfoundland Power's Interim Management Discussion &  
15 Analysis, June 30, 2006.

16 Attachment D- Excerpt from Newfoundland Power's Interim Management Discussion &  
17 Analysis, September 30, 2006.

18 Attachment E- Excerpt from Newfoundland Power's Management Discussion &  
19 Analysis, 2006 Annual Report dated January 31, 2007.

**Notification Letter:  
Newfoundland Power to S&P  
dated May 29, 2006**

## Meyers, Robert

---

**From:** Meyers, Robert  
**Sent:** Monday, May 29, 2006 2:44 PM  
**To:** thomas\_connell@standardandpoors.com  
**Cc:** ann\_o'farrell@standardandpoors.com  
**Subject:** Credit Rating Services - Newfoundland Power Inc.

**Attachments:** Letter to T. Connell - May 29, 2006.pdf

Tom

Further to my conversations with both Ann and yourself over the past several weeks, I've attached a letter which provides formal notification of our intention not to renew S&P's credit rating services effective June 1, 2006. The original will be sent to you today by regular mail.



Letter to T. Connell  
- May 29,...

If you have any further questions, please feel free to give me a call.

Regards

***Bob Meyers***  
***Treasurer***  
***Newfoundland Power Inc.***  
***Phone #: (709) 737-5740***  
***Cell #: (709) 728-4850***  
***E-mail: bmeyers@newfoundlandpower.com***

May 29, 2006

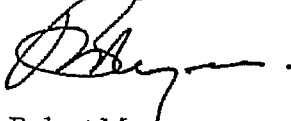
Thomas Connell  
Managing Director, Canadian Ratings  
Standard & Poor's  
130 King Street West  
Suite 1100  
PO Box 486  
Toronto, ON M5X 1E5

Dear Mr Connell;

Further to our recent conversations, please consider this letter as formal notification that effective June 1, 2006 Newfoundland Power Inc. will not be renewing the credit rating services provided to Newfoundland Power by Standard & Poor's.

Should you have any questions or require further information, please feel free to contact the undersigned at your convenience.

Yours truly,



Robert Meyers  
Treasurer

cc. Ann O'Farrell, Standard & Poor's  
Karl Smith, Newfoundland Power  
Peter Alteen, Newfoundland Power



Join us in the fight against cancer.

**S&P Commentary Report**  
**“Ratings Withdrawn on Newfoundland Power Inc.”**  
**October 2006**

**Meyers, Robert**

---

**From:** Alexander, Nicola [nicola\_alexander@standardandpoors.com]  
**Sent:** Thursday, October 19, 2006 1:45 PM  
**To:** Geldert, Bill (Maritime Electric); Meyers, Robert  
**Cc:** Freitag, Kenton  
**Subject:** Standard & Poor's Report  
**Attachments:** Ratings Withdrawn On Newfoundland Power Inc\_18-Oct-06.pdf

Dear Sirs, Please find inserted Standard and poor's report for Newfoundland Power Inc.

<<Ratings Withdrawn On Newfoundland Power Inc\_18-Oct-06.pdf>>

Very Truly,  
*Nicola Alexander*  
*Assistant- Credit Market Services*

Standard & Poor's  
*130 King Street West*  
*Suite 1100*  
*Toronto, Ontario*  
*M5X 1E5*

---

The information contained in this message is intended only for the recipient, and may be a confidential attorney-client communication or may otherwise be privileged and confidential and protected from disclosure. If the reader of this message is not the intended recipient, or an employee or agent responsible for delivering this message to the intended recipient, please be aware that any dissemination or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by replying to the message and deleting it from your computer. The McGraw-Hill Companies, Inc. reserves the right, subject to applicable local law, to monitor and review the content of any electronic message or information sent to or from McGraw-Hill employee e-mail addresses without informing the sender or recipient of the message.

---

## Ratings Withdrawn On Newfoundland Power Inc.

**Primary Credit Analyst**

Kenton Freitag, CFA  
Toronto  
1 416-507-2545  
kenton\_freitag@  
standardandpoors.com

**Secondary Credit Analyst**

Nicole Martin  
Toronto  
1 416-507-2560  
nicole\_martin@  
standardandpoors.com

### Rationale

On Oct. 18, 2006, Standard & Poor's Ratings Services withdrew its ratings, including its 'BBB+' long-term corporate credit rating, on Newfoundland Power Inc. The ratings were withdrawn at the request of Newfoundland Power.

### Ratings List

#### Ratings Withdrawn

Newfoundland Power Inc.

	To	From
Corporate credit rating	NR	BBB+/Stable/—
Senior secured debt	NR	A-
Preferred stock		
Global scale	NR	BBB-
Canadian scale	NR	P-2(Low)

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); under Credit Ratings in the left navigation area, select Find a Rating, then Credit Ratings Search.

**Publication Date**

Oct. 18, 2006

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280. Copyright 2006 by The McGraw-Hill Companies, Inc. Reproduction in whole or in part prohibited except by permission. All rights reserved. Information has been obtained by Standard & Poor's from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, Standard & Poor's or others, Standard & Poor's does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities.

Standard & Poor's uses billing and contact data collected from subscribers for billing and order fulfillment purposes, and occasionally to inform subscribers about products or services from Standard & Poor's, our parent, The McGraw-Hill Companies, and reputable third parties that may be of interest to them. All subscriber billing and contact data collected is stored in a secure database in the U.S. and access is limited to authorized persons. If you would prefer not to have your information used as outlined in this notice, if you wish to review your information for accuracy, or for more information on our privacy practices, please call us at (1) 212-438-7280 or write us at: [privacy@standardandpoors.com](mailto:privacy@standardandpoors.com). For more information about The McGraw-Hill Companies Privacy Policy please visit [www.mcgraw-hill.com/privacy.html](http://www.mcgraw-hill.com/privacy.html).

Analytic services provided by Standard & Poor's Ratings Services ("Ratings Services") are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. Credit ratings issued by Ratings Services are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of credit ratings issued by Ratings Services should not rely on any such ratings or other opinion issued by Ratings Services in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or by the underwriters participating in the distribution thereof. The fees generally vary from US\$2,000 to over US\$1,500,000. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications.

Permissions: To reprint, translate, or quote Standard & Poor's publications, contact: Client Services, 55 Water Street, New York, NY 10041; (1) 212-438-9823; or by e-mail to: [research\\_request@standardandpoors.com](mailto:research_request@standardandpoors.com).



**Excerpt from Newfoundland Power's  
Interim Management Discussion & Analysis  
June 30, 2006**

## CAPITAL RESOURCES

The Company's business is capital intensive, which requires ongoing access to capital to allow it to build and maintain the electricity system in its service territory. In order to ensure continued access to capital, the Company intends to maintain its current credit ratings and target a long-term capital structure that includes approximately 55% debt and 45% equity.

<b>Summary of Capital Structure (Unaudited)</b>				
	<b>June 30, 2006</b>		<b>December 31, 2005</b>	
	(\$ millions)	(%)	(\$ millions)	(%)
Total Debt <sup>1</sup>	406.7	54.2	396.1	54.3
Equity Preference Shares	9.4	1.3	9.4	1.3
Common Shareholder's Equity	333.6	44.5	324.0	44.4
<b>Total</b>	<b>749.7</b>	<b>100.0</b>	<b>729.5</b>	<b>100.0</b>
<sup>1</sup> Net of cash or bank indebtedness.				

As of May 31, 2006 the Company discontinued its Standard and Poors credit rating on the basis that the credit ratings of Dominion Bond Rating Service ("DBRS") and Moody's Investor Services ("Moody's") were sufficient to meet creditors' requirements and maintain capital market access. As of June 30, 2006, the Company's DBRS and Moody's credit ratings on its first mortgage sinking fund bonds were unchanged from December 31, 2005 as follows:

DBRS	A
Moody's	Baa1

## Outstanding Share Data

At July 26, 2006, the Company had issued and outstanding 10,320,270 common shares, 179,225 Series A First Preference Shares, 337,983 Series B First Preference Shares, 214,765 Series D First Preference Shares, and 205,950 Series G First Preference Shares.

Pursuant to the operation of the purchase funds, the Company has the right to purchase limited amounts of Series D and G First Preference Shares at or below par value. In 2006, the Company has redeemed 3,100 Series D First Preference Shares at \$10 each.

## RELATED PARTY TRANSACTIONS

The Company provides services to, and receives services from, its parent company, Fortis Inc. ("Fortis"), and other subsidiaries of Fortis at fair market value. The Company also incurs charges from Fortis for the recovery of general corporate expenses incurred by Fortis. These transactions are in the normal course of business and are recorded at their exchange amounts based on fair market value or cost, as appropriate.

**Excerpt from Newfoundland Power's  
Interim Management Discussion & Analysis  
September 30, 2006**

approximately 45% equity, and resulted in a \$1.2 million increase in cash quarter over quarter and \$3.7 million year-to-date.

### Investing Activities

The Company's 2006 capital forecast is approximately \$56.7 million compared to \$53.0 million in 2005. Capital additions of \$13.5 million were made during the third quarter, resulting in capital additions year-to-date of \$39.4 million. This compares to \$11.3 million in the third quarter in 2005 and \$36.3 million year-to-date. The increase in capital additions was due to higher customer driven work, especially connection of cabin areas.

### Credit Facilities

Newfoundland Power has bank credit facilities of \$120.0 million which are comprised of a syndicated \$100.0 million committed revolving term credit facility and a \$20.0 million uncommitted demand facility. Borrowings under the committed credit facility have been classified as long-term and it is management's intention to refinance these borrowings with long-term financing during future periods.

The following table outlines the balance of credit facilities available as at September 30, 2006 and 2005.

<b>Credit Facilities As at September 30 (\$ millions)</b>		
	<b>2006</b>	<b>2005</b>
Total credit facilities	\$ 120.0	\$ 120.0
Short-term borrowings	(1.2)	-
Long-term borrowings	(15.5)	-
Credit facilities available	\$ 103.3	\$ 120.0

### Contractual Obligations

Contractual obligations over the next five years and thereafter are shown in the following table.

<b>Contractual Obligations (\$ millions) As at September 30, 2006 (Unaudited)</b>					
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Long-term Debt	399.8	4.3	55.1	7.7	332.7

### CAPITAL RESOURCES

The Company's business is capital intensive, which requires ongoing access to capital to allow it to build and maintain the electricity system in its service territory. In order to ensure continued access to capital, the Company intends to maintain its current credit ratings and target a long-term capital structure that includes approximately 55% debt and 45% equity.

<b>Summary of Capital Structure (Unaudited)</b>				
	<b>September 30, 2006</b>		<b>December 31, 2005</b>	
	(\$ millions)	(%)	(\$ millions)	(%)
Total Debt <sup>1</sup>	401.2	54.0	396.1	54.3
Equity Preference Shares	9.4	1.3	9.4	1.3
Common Shareholder's Equity	331.6	44.7	324.0	44.4
<b>Total</b>	<b>742.2</b>	<b>100.0</b>	<b>729.5</b>	<b>100.0</b>
<sup>1</sup> Net of cash or bank indebtedness.				

As of May 31, 2006 the Company discontinued its rating relationship with Standard and Poors on the basis that the credit ratings of Dominion Bond Rating Service ("DBRS") and Moody's Investor Services ("Moody's") were sufficient to meet creditors' requirements and maintain capital market access. As of September 30, 2006, DBRS and Moody's credit ratings assigned to the Company's first mortgage sinking fund bonds were unchanged from December 31, 2005 as follows:

DBRS	A
Moody's	Baa1

### **Outstanding Share Data**

At October 25, 2006, the Company had issued and outstanding 10,320,270 common shares, 179,225 Series A First Preference Shares, 337,983 Series B First Preference Shares, 212,165 Series D First Preference Shares, and 205,950 Series G First Preference Shares.

Pursuant to the operation of purchase funds, the Company has the right to purchase limited amounts of Series D and G First Preference Shares at or below par value. In 2006, the Company has redeemed 5,700 Series D First Preference Shares at \$10 each.

### **RELATED PARTY TRANSACTIONS**

The Company provides services to, and receives services from, its parent company, Fortis Inc. ("Fortis"), and other subsidiaries of Fortis at fair market value. The Company also incurs charges from Fortis for the recovery of general corporate expenses incurred by Fortis. These transactions are in the normal course of business and are recorded at their exchange amounts based on fair market value or cost, as appropriate.

**Excerpt from Newfoundland Power's  
Management Discussion & Analysis  
2006 Annual Report dated January 31, 2007**

## Capital Resources

The Company requires ongoing access to capital to allow it to build and maintain the electricity system within its service territory. On average, 60% of the Company's capital program is for 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.

To ensure continued access to capital, the Company endeavours to maintain its current credit ratings and target a long-term capital structure that includes approximately 55% debt and 45% equity.

Summary of Capital Structure As at December 31				
	2006		2005	
	(\$millions)	(%)	(\$millions)	(%)
Total Debt <sup>1</sup>	415.2	54.6	396.1	54.3
Equity Preference Shares	9.4	1.2	9.4	1.3
Common Shareholder's Equity	335.9	44.2	324.0	44.4
Total	760.5	100.0	729.5	100.0

<sup>1</sup> Net of cash or bank indebtedness.

As of May 31, 2006 the Company discontinued its rating relationship with Standard and Poors on the basis that the credit ratings of Dominion Bond Rating Service ("DBRS") and Moody's Investor Services ("Moody's") were sufficient to meet creditors' requirements and maintain capital market access. The DBRS and Moody's credit ratings assigned to the Company's first mortgage sinking fund bonds are unchanged from December 31, 2005 as follows:

DBRS	A
Moody's	Baa1

### Outstanding Share Data

At January 31, 2007, the Company had issued and outstanding 10,320,270 common shares, 179,225 Series A First Preference Shares, 337,983 Series B First Preference Shares, 212,165 Series D First Preference Shares, and 205,950 Series G First Preference Shares.

All dividends declared payable by the Company are designated as eligible dividends within the meaning of s.89(1) of the Income Tax Act (Canada).

Pursuant to the operation of purchase funds, the Company has the right to purchase limited amounts of Series D and G First Preference

Shares at or below par value. In 2006, the Company redeemed 5,700 Series D First Preference Shares at \$10 each.

## Related Party Transactions

The Company provides services to, and receives services from, its parent company, Fortis Inc. ("Fortis"), and other subsidiaries of Fortis at fair market value. The Company also incurs charges from Fortis for the recovery of general corporate expenses incurred by Fortis. These transactions are in the normal course of business and are recorded at their exchange amounts based on fair market value or cost, as appropriate.

The amounts included in accounts receivable due to transactions with related parties as of December 31, 2006 and 2005 were \$0.1 million and \$0.2 million, respectively.

The amounts included in revenue and operating expenses due to transactions with related parties for the year ended December 31, 2006 and 2005 were as follows:

Related Party Transactions (\$millions)		
	2006	2005
Included in Revenue	3.7	3.7
Included in Operating Expenses	1.0	0.9

## Critical Accounting Estimates

Preparation of the Company's financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. By their nature, these estimates are subject to measurement uncertainty. The effect on the financial statements of changes in such estimates in future periods could be material.

### Pension Costs

The main assumptions utilized by management in determining the costs and obligation associated with the defined benefit pension plan are: the discount rate for the accrued benefit obligation, the expected long-term rate of return on plan assets, the average rate of compensation increase, the average remaining service period of the active employee group, and employee and retiree mortality rates.