# First Quarter 2010

# INTERIM MANAGEMENT DISCUSSION and ANALYSIS
# For the Three Months Ended March 31, 2010

This interim Management Discussion and Analysis ("MD&A") dated April 30, 2010 should be read in conjunction with Newfoundland Power Inc.'s (the "Company" or "Newfoundland Power") interim unaudited financial statements and notes thereto for the three months ended March 31, 2010 and the MD&A and annual audited financial statements for the year ended December 31, 2009. The MD&A has been prepared in accordance with *National Instrument 51-102 - Continuous Disclosure Obligations*. Financial information herein, all of which is unaudited, reflects Canadian dollars and Canadian generally accepted accounting principles ("Canadian GAAP"), including certain accounting practices unique to rate regulated entities. These accounting practices, which are disclosed in Notes 2 and 4 to the Company's 2009 annual audited financial statements, result in the recognition of revenues, expenses, regulatory assets and regulatory liabilities which would not occur in the absence of rate regulation and which affect the Company's reported earnings, cash flows and financial position.

*Certain information herein is forward-looking and reflects management's current expectations regarding the Company's future financial and related performance. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify the forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Company's management.*

*Certain material factors, estimates and assumptions, which are subject to inherent risks and uncertainties surrounding future expectations generally, have been applied in drawing the conclusions contained in the forward-looking statements. These are related to, but are not limited to, regulation; energy supply; competition; general economic conditions; health, safety and the environment; interest rates; insurance; weather; labour relations; licences and permits; capital resources and liquidity. Readers are cautioned to not place undue reliance on forward-looking statements because actual results could differ materially from the results discussed or implied in those statements. The Company undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise.*

Additional information, including the Company's quarterly and annual financial statements and MD&A, annual information form and management information circular, is available on SEDAR at www.sedar.com.

## OVERVIEW

### The Company

Newfoundland Power is a regulated electricity utility that owns and operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. All the Company's common shares are owned by Fortis Inc. ("Fortis"), which is principally a diversified, international holding company for electricity and gas distribution utilities.

Newfoundland Power's primary business is electricity distribution. It generates approximately 8 per cent of its electricity needs and purchases the remainder from Newfoundland and Labrador Hydro ("Hydro"). Newfoundland Power serves over 240,000 customers comprising about 86 per cent of all electricity consumers in the Province.

Newfoundland Power's vision is to be a leader among North American electricity utilities in terms of safety, reliability, customer service and efficiency. The key goals of the Company are to operate sound electricity distribution systems, deliver safe reliable electricity to customers at the lowest reasonable cost and conduct business in an environmentally and socially responsible manner.

### Regulation

Newfoundland Power is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB"). The Company operates under cost of service regulation whereby it is entitled the opportunity to recover, through customer rates, all reasonable and prudent costs incurred in providing electricity service to its customers, including a just and reasonable return on its rate base. The rate base is the value of the net assets required to provide electricity service.

Between general rate hearings, customer rates are established annually through an automatic adjustment formula (the "Formula"). The Formula sets an appropriate rate of return on common equity ("ROE") which is used to determine the rate of return on rate base.

Pursuant to its 2010 General Rate Application ("2010 GRA"), the Company's rate of return on rate base for ratemaking purposes was set at 8.23 per cent, with a range of 8.05 per cent to 8.41 per cent, for 2010. This reflects a regulated ROE of 9.00 per cent for 2010 compared to 8.95 per cent for 2009. Customer rates increased by an average of approximately 3.5 per cent effective January 1, 2010.

The 2010 GRA provided for revenue and costs changes as well as the amortization of certain regulatory assets and liabilities and the creation of a pension expense variance deferral account ("PEVDA"). The PEVDA deals with differences between defined benefit pension expense calculated in accordance with Canadian GAAP and pension expense approved by the PUB for rate setting purposes.

Pursuant to the 2010 GRA, on March 12, 2010, the Company submitted an application to the PUB with proposed changes to the existing Formula. In this application, Newfoundland Power proposed use of the Consensus Forecasts in determining the risk-free rate for calculating the forecast cost of equity to be used in the Formula for 2011 and 2012. The application received PUB approval on April 20, 2010. The previous approach used a 10-day observation of long-term Canada Bond yields as the forecast risk-free rate.

The 2010 general rate order is expected to yield earnings and cash flows that will enable the Company to maintain its investment grade credit ratings.

## Financial Highlights

| | Quarter Ended March 31 | | |
|---|---|---|---|
| | 2010 | 2009 | Change |
| Electricity Sales *(gigawatt hours, ("GWh"))* [1] | 1,795.2 | 1,762.9 | 32.3 |
| Earnings Applicable to Common Shares | | | |
| $ Millions | 7.2 | 6.2 | 1.0 |
| $ Per Share | 0.70 | 0.60 | 0.10 |
| Cash Flow from Operating Activities *($millions)* | 6.1 | (10.5) | 16.6 |
| Total Assets *($millions)* | 1,210.9 | 1,167.2 | 43.7 |

[1] *Reflects weather normalized electricity sales.*

Electricity sales for the first quarter of 2010 increased by 32.3 GWh or approximately 1.8 per cent compared to the first quarter of 2009. This increase was composed of (i) an increase of 1.6 per cent due to customer growth; and, (ii) an increase of 0.2 per cent due to higher average consumption.

Earnings for the first quarter of 2010 increased by $1.0 million compared to the first quarter of 2009. The increase in earnings was the result of (i) the customer rate increase effective January 1, 2010, reflecting rate base growth and a higher ROE imbedded in customer rates along with related timing differences due to the rebasing of rates; (ii) higher than anticipated electricity sales; and (iii) the timing of operating expenses.

Cash flow from operating activities for the first quarter of 2010 increased by $16.6 million compared to the first quarter of 2009. The increase was mainly a result of (i) lower income tax payments; (ii) the January 1, 2010 customer rate increase; and (iii) higher electricity sales.

Total assets increased by $43.7 million at March 31, 2010 compared to the same period last year. This increase was predominantly due to continued investment in the electricity system, and is consistent with the Company's strategy to provide safe, reliable electricity service at the lowest reasonable cost.

## RESULTS OF OPERATIONS

### Revenue:

| *($millions)* | Quarter Ended March 31 2010 | 2009 | Change |
|---|---|---|---|
| Revenue from Rates | 174.1 | 165.3 | 8.8 |
| Amortization of Regulatory Liabilities | 1.3 | 1.5 | (0.2) |
| Other Revenue [1] | 2.9 | 2.9 | - |
| Total | 178.3 | 169.7 | 8.6 |

[1] *Other revenue is composed largely of pole attachment charges to various telecommunication companies.*

Revenue from rates for the first quarter of 2010 increased by $8.8 million compared to the first quarter of 2009. This increase reflects the January 1, 2010 customer rate increase and electricity sales growth.

The amortization of regulatory liabilities related to unbilled revenue and municipal tax is in accordance with PUB orders. These regulatory liabilities are described in Note 4 to the Company's 2009 annual audited financial statements.

**Purchased Power:** Purchased Power expense for the first quarter of 2010 increased by $3.9 million compared to the first quarter of 2009. The quarterly increase resulted mainly from electricity sales growth.

**Operating Expense:** Operating Expenses for the first quarter of 2010 were $0.8 million higher than the first quarter of 2009. Wage and inflationary increases, increased conservation costs, and higher retirement and severance expenses were partially offset by timing of operating labour costs. Operating labour costs were lower than anticipated as better weather conditions during the first quarter of 2010 allowed for an earlier start to capital projects and there was also an increase in capital work associated with the ice storm in March 2010.

**Pension and Early Retirement Program Costs:** Pension and Early Retirement Program Costs for the first quarter of 2010 were $1.2 million higher compared to the first quarter of 2009. The increase was primarily due to the amortization of 2008 experience losses associated with the pension plan assets and a lower discount rate at December 31, 2009, which is used to determine the Company's accrued benefit pension obligation associated with its defined benefit pension plan.

**Amortization:** Amortization expense for the first quarter of 2010 was $0.3 million higher compared to the first quarter of 2009. The increase was primarily reflective of the Company's 2010 capital expenditure program.

**Amortization True-Up Deferral:** Amortization of property, plant and equipment is subject to periodic review by external experts via an amortization study. Based on a 2002 amortization study, the PUB ordered the deferred recovery of approximately $11.6 million, $5.8 million in each of 2006 and 2007, related to a variance in accumulated amortization. These deferrals were recorded as an increase in regulatory assets and a decrease in expenses in each year to be amortized evenly through 2008-2010. Amortization of $1.0 million was recorded in the first quarter of 2010, comparable to the same quarter last year.

**Finance Charges:** Finance charges for the first quarter of 2010 were $0.8 million higher than the first quarter of 2009. Higher interest costs associated with the bond issue in May 2009 were partially offset by reduced borrowings under the Company's credit facility and lower short-term interest rates. The lower short term interest rates are reflective of current market conditions.

**Income Taxes:** Income taxes for the first quarter of 2010 were $0.5 million higher than the first quarter of 2009. The increase in income tax expense primarily reflects higher pre-tax earnings.

## FINANCIAL POSITION

Explanations of the primary causes of significant changes in the Company's balance sheets between December 31, 2009 and March 31, 2010 follow:

| *($millions)* | Increase (Decrease) | Explanation |
|---|---|---|
| Cash | (2.6) | Decrease due to timing of payments related to the Company's credit facilities. |
| Accounts Receivable | 16.3 | Increase due to higher electricity sales, reflecting the seasonal nature of electricity consumption for heating; a January 1, 2010 rate increase; and normal timing differences relating to both the operation of the Company's equal payment plan for its customers, and the collection and payment of municipal taxes. |
| Income Taxes Receivable | (1.2) | Decrease reflects current income tax expense in excess of income tax instalments paid. |
| Property, Plant and Equipment | 6.3 | Investment in electricity system, in accordance with 2010 capital expenditure program, offset partially by amortization and customer contributions in aid of construction. |
| Accounts Payable and Accrued Charges | 2.8 | Increase due to timing differences in scheduled interest payments and higher payables related to the March 2010 ice storm, partially offset by a decrease in the payable for purchased power. |
| Total Future Income Taxes | 5.9 | Increase due to future tax timing difference related to the continued investment in the electricity system. |
| Long-term Debt, including Current Portion | 11.5 | Represents additional debt required to finance growth in rate base and ongoing operating activities. |
| Retained Earnings | 3.3 | Earnings, in excess of dividends, retained to finance rate base growth. |

## LIQUIDITY AND CAPITAL RESOURCES

The primary sources of liquidity and capital resources are net funds generated from operations, debt capital markets and bank credit facilities. These sources are used primarily to satisfy capital and intangible expenditures, service and repay debt, and pay dividends. A summary of first quarter cash flows and cash position for 2010 and 2009 follows:

| | Quarter Ended March 31 | | |
|---|---|---|---|
| *($millions)* | 2010 | 2009 | Change |
| Cash, Beginning of Period | 5.3 | 0.6 | 4.7 |
| Operating Activities | 6.1 | (10.5) | 16.6 |
| Investing Activities | (16.2) | (12.9) | (3.3) |
| Financing Activities | | | |
| Net Credit Facilities Borrowings (Repayments) | 11.5 | 29.5 | (18.0) |
| Dividends | (4.1) | (6.5) | 2.4 |
| | 7.4 | 23.0 | (15.6) |
| Cash, End of Period | 2.6 | 0.2 | 2.4 |

### Operating Activities

First quarter cash flow from operating activities, for 2010 compared to 2009, increased by $16.6 million. The increase was mainly a result of (i) lower income tax payments; (ii) the January 1, 2010 customer rate increase; and (iii) higher electricity sales.

The operating cash flow in the first quarter is typically negative reflecting the temporary timing differences in non-cash working capital relating primarily to the receipt and payment of municipal tax and to the Company's equal payment plan for its electricity customers.

Municipal tax for each calendar year is generally paid to municipalities in the first quarter of the year. Municipal tax is collected from customers through their monthly electricity bills for the calendar year. The result is a net outflow of cash in the first quarter of each year and a net inflow over the remaining quarters.

Electricity consumption for heating is higher in the winter months, and lower in the summer months, compared to the remaining months of the year. Monthly payments received from customers availing of the equal payment plan reflect average monthly consumption. Monthly payments made by the Company for purchased power reflect actual consumption. During the first (winter) quarter, the resulting excess of actual consumption over average consumption results in a net cash outflow.

## Investing Activities

First quarter cash flow used in investing activities, for 2010 compared to 2009, increased by $3.3 million. The increase was due primarily to higher capital expenditures in 2010 compared to 2009.

A summary of first quarter 2010 and 2009 capital and intangible asset expenditures follows.

| | Quarter Ended March 31 | | |
|---|---|---|---|
| *($millions)* | 2010 | 2009 | Change |
| Electricity System | | | |
| Generation | 0.4 | 0.4 | - |
| Transmission | 1.3 | 0.3 | 1.0 |
| Substations | 1.6 | 1.5 | 0.1 |
| Distribution | 9.2 | 7.7 | 1.5 |
| Intangible Assets and Other | 4.2 | 3.6 | 0.6 |
| Capital and Intangible Asset Expenditures | 16.7 | 13.5 | 3.2 |

The Company's business is capital intensive. Capital investment is required to ensure continued and enhanced performance, reliability and safety of the electricity system and to meet customer growth. All costs considered to be repairs and maintenance are expensed as incurred. Capital investment also arises for information technology systems and for general facilities, equipment and vehicles. Capital expenditures, and property, plant and equipment repairs and maintenance expense, can vary from quarter-to-quarter and year-to-year depending upon both planned system expenditures and unplanned expenditures arising from weather or other unforeseen events.

The Company's annual capital plan requires prior PUB approval. The PUB has approved the Company's 2010 Capital Plan which provides for capital expenditures of $64.7 million, approximately half of which relate to construction and capital maintenance of the electricity distribution system. Variances between actual and planned expenditures are generally subject to PUB review prior to inclusion in the Company's rate base. The Company's capital expenditures, including unforeseen capital spending, are forecasted to be $74.5 million for 2010.

## Financing Activities

First quarter cash flow from financing activities, for 2010 compared to 2009, decreased by $15.6 million. The decrease in cash from financing activities was primarily the result of higher cash from operations available during the first quarter of 2010 and lower common share dividend payments. The Company's common share dividend policy is to maintain a capital structure composed of 55 per cent debt and 45 per cent common equity.

The Company has historically generated sufficient annual cash flows from operating activities to service annual interest and sinking fund payments on debt, to pay dividends and to finance a major portion of its annual capital program. Additional financing to fully fund the annual capital program is primarily obtained through the Company's bank credit facilities and these borrowings are periodically refinanced along with any maturing bonds through the issuance of long-term first mortgage sinking fund bonds. The Company currently does not expect any material changes in these annual cash flow and financing dynamics over the foreseeable future.

**Debt:** The Company's credit facilities are comprised of a $100 million committed revolving term credit facility and a $20 million demand facility as detailed below:

| *($millions)* | March 31, 2010 | December 31, 2009 | Change |
|---|---|---|---|
| Total Credit Facilities | 120.0 | 120.0 | - |
| Borrowing, Committed Facility | (25.0) | (13.5) | (11.5) |
| Credit Facilities Available | 95.0 | 106.5 | (11.5) |

The committed facility matures in August 2011. In 2010, one year prior to maturity, the Company expects to request an extension for a further period of up to one year and 364 days.

**Pensions:** As at March 31, 2010, the fair value of the Company's primary defined benefit pension plan assets was $248.3 million compared to fair value of plan assets of $242.7 million as at December 31, 2009. The fair value of plan assets at December 31, 2008 was $212.6 million.

Based on the Actuarial Valuation Report as at December 31, 2008, the solvency deficit was $6.9 million ($7.7 million inclusive of interest). The solvency deficit is required to be funded over a five-year period, commencing in 2009. The Company will fulfill its 2010 annual solvency deficit funding requirement of $1.5 million during the second quarter of 2010.

The Company does not expect any difficulty in its ability to meet future pension funding requirements as it expects the amounts will be financed from a combination of cash generated from operations and amounts available for borrowing under existing credit facilities.

**Contractual Obligations:** Details, as at March 31, 2010, of all contractual obligations over the subsequent five years and thereafter, follow.

| *($millions)* | Total | 2010 | 2011-2012 | 2013-2014 | 2015 onward |
|---|---|---|---|---|---|
| Credit Facilities (unsecured) | 25.0 | - | 25.0 | - | - |
| First Mortgage Sinking Fund Bonds [1] | 468.9 | 5.2 | 10.4 | 39.0 | 414.3 |
| Pension Solvency Deficit [2] | 5.2 | 0.5 | 3.1 | 1.6 | - |
| Total | 499.1 | 5.7 | 38.5 | 40.6 | 414.3 |

[1] *First mortgage sinking fund bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company and carry customary covenants.*

[2] *Pension funding requirements based on the actuarial Valuation Report associated with the Company's Defined Benefit Pension Plan, completed as at December 31, 2008. This does not include routine funding requirements for current service cost.*

**Credit Ratings and Capital Structure:** To ensure continued access to capital at reasonable cost, the Company endeavours to maintain its investment grade credit ratings. Details of the Company's investment grade bond ratings follow.

| Rating Agency | March 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Rating | Outlook | Rating | Outlook |
| Moody's Investors Service | A2 | Stable | A2 | Stable |
| Dominion Bond Rating Service | A | Stable | A | Stable |

During the first quarter of 2010, Moody's issued an updated credit rating report confirming the Company's existing investment grade bond rating and rating outlook. The Company's investment grade bond rating and rating outlook from Dominion Bond Rating Service remain unchanged from 2009.

Newfoundland Power endeavours, by managing common share dividends, to maintain a capital structure composed of 55 per cent debt and 45 per cent equity. This capital structure is reflected in customer rates and is consistent with the Company's current investment grade credit ratings.

The Company's capital structure follows.

| | March 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | $millions | % | $millions | % |
| Total Debt [1] | 488.1 | 55.4 | 473.9 | 54.8 |
| Common Equity | 384.5 | 43.6 | 381.2 | 44.1 |
| Preference Equity | 9.1 | 1.0 | 9.1 | 1.1 |
| Total | 881.7 | 100.0 | 864.2 | 100.0 |

[1] *Includes bank indebtedness, or net of cash, if applicable.*

The Company currently expects it will be able to maintain its current investment grade credit ratings in 2010.

**Capital Stock and Dividends:** During the first quarters of 2010 and 2009, the weighted average number of common shares outstanding was 10,320,270. Dividends on common shares, for the first quarter 2010, compared to 2009, were $2.4 million lower. In the first quarter of 2010, common shares dividends decreased to $0.38 per share compared to $0.61 per share in the first quarter of 2009. The decrease in common share dividends was to maintain an average capital structure that includes approximately 45 per cent common equity.

There were no changes to the number of preference shares during the first quarter.

## RELATED PARTY TRANSACTIONS

The Company provides services to, and receives services from, its parent company, Fortis and other subsidiaries of Fortis. 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.

Related party transactions included in revenue and operating expenses for the first quarter of 2010 and 2009 follow:

| *($millions)* | 2010 | 2009 |
|---|---|---|
| Revenue [1] | 1.3 | 1.3 |
| Operating Expenses | 0.4 | 0.3 |

[1] *Includes charges for electricity consumed.*

Related party transactions included in accounts receivable at March 31, 2010 and December 31, 2009 were $0.1 million and $0.1 million respectively.

## BUSINESS RISK MANAGEMENT

There were no material changes to the Company's business risks during the first quarter of 2010.

## FUTURE ACCOUNTING CHANGES

**Transition to International Financial Reporting Standards ("IFRS"):** A detailed discussion of the Company's transition to IFRS is provided in the MD&A for the year ended December 31, 2009. The Company is still unable to fully determine the impact in its future financial position and results of operation of the transition to IFRS, particularly as it relates to the accounting for rate-regulated activities. Completion of the International Accounting Standard Board's ("IASB") project on Rate-Regulated Activities has been delayed based on comments received in response to the IASB's July 2009 Exposure Draft on Rate-Regulated Activities and a decision by the IASB to conduct further research. The project direction and timeline remain uncertain and may not be known for several months. Once a decision is made by the IASB regarding the Rate-Regulated Activities project, the Company will be in a position to finalize and quantify the impact that transition to IFRS is expected to have on its January 1, 2010 opening IFRS balance sheet, as well as on its future financial reporting.

During the first quarter of 2010, there were no significant changes in the Company's assessment of accounting for rate-regulated activities under IFRS or accounting policy decisions and impacts from that disclosed in the MD&A for the year ended December 31, 2009, except as described below.

Accounting Policy Impacts and Decisions: *Property, Plant and Equipment and Intangibles*: It is anticipated that during the second quarter of 2010, the IASB will issue a final amendment to IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS1"), to provide a transitional exemption for qualifying rate-regulated entities that will allow them to use the carrying value of property, plant and equipment and intangible assets under Canadian GAAP as deemed cost upon transition to IFRS.

## FINANCIAL INSTRUMENTS

The carrying values of financial instruments included in current assets, current liabilities, other financial assets and other financial liabilities in the Company's balance sheet approximate their fair value, reflecting the short-term maturity, normal trade credit terms, and/or nature of these instruments. The fair value of long-term debt is determined by discounting the future cash flows of the specific debt instrument at an estimated yield-to-maturity equivalent to benchmark government bonds, with similar terms to maturity, plus a market credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability, and therefore, does not include exchange or settlement costs.

The carrying and estimated fair values of the Company's long term debt follow.

| | March 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Long-term debt, including current portion and committed credit facility | 493,888 | 597,709 | 482,388 | 588,401 |

## CRITICAL ACCOUNTING ESTIMATES

There were no material changes to the Company's critical accounting estimates during the quarter. Interim financial statements, however, tend to employ a greater use of estimates than the annual financial statements.

## QUARTERLY RESULTS

| | First Quarter March 31 | | Second Quarter June 30 | | Third Quarter September 30 | | Fourth Quarter December 31 | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Electricity Sales *(GWh)* | 1,795.2 | 1,762.9 | 1,177.2 | 1,183.0 | 885.0 | 896.8 | 1,473.9 | 1,412.2 |
| Revenue *($millions)* | 178.3 | 169.7 | 118.1 | 118.9 | 92.9 | 94.1 | 146.5 | 139.0 |
| Earnings Applicable to Common Shares *($millions)* | 7.2 | 6.2 | 10.7 | 10.1 | 7.1 | 8.1 | 8.6 | 7.9 |
| Earnings per Common Share *($)* [1] | 0.70 | 0.60 | 1.04 | 0.98 | 0.68 | 0.79 | 0.84 | 0.76 |

[1] *Basic and fully diluted.*

### Seasonality

Sales and Revenue: Interim financial results reflect the seasonality of electricity sales for heating. Sales and revenue are significantly higher in the first quarter and significantly lower in the third quarter compared to the remaining quarters. This reflects the seasonality of electricity consumption for heating.

**Earnings:** Beyond the seasonality of electricity consumption for heating, quarterly earnings are impacted by the purchased power rate structure. The Company pays more, on average, for each kilowatt hour ("kWh") of purchased power in the winter months and less, on average, for each KWh of purchased power in the summer months.

These sales, revenue and cost dynamics are expected to yield lower earnings in the first quarter compared to remaining quarters within any given year.

### Trending

**Sales and Revenue:** Year-over-year quarterly electricity sales increases primarily reflect modest customer growth.

**Earnings:** Beyond the impact of expected moderate sales growth, future quarterly earnings and earnings per share are expected to trend with the ROE reflected in customer rates and rate base growth.

## OUTLOOK

The Company's strategy will remain unchanged.

The PUB, through the Company's 2010 GRA, has provided Newfoundland Power with a reasonable opportunity to earn a regulated ROE of 9.0% in 2010. Newfoundland Power expects to maintain its investment grade credit ratings in 2010.

Newfoundland Power is currently assessing the requirement to file an application with the PUB to recover expected increased costs in 2011.

## CORPORATE INFORMATION

All of the common shares of Newfoundland Power are owned by Fortis.

Fortis is the largest investor-owned distribution utility in Canada, with more than $12 billion in total assets and fiscal 2009 revenues totalling more than $3.6 billion. The Corporation serves approximately 2.1 million gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and three Caribbean countries and a natural gas utility in British Columbia. Fortis owns and operates non-regulated generation assets across Canada and in Belize and Upper New York State. It also owns hotels and commercial real estate across Canada. Fortis shares are listed on the Toronto Stock Exchange and trade under the symbol FTS. Additional information can be accessed at www.fortisinc.com or www.sedar.com.

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## Unaudited Statements of Earnings

For the Three Months Ended March 31

*(in thousands of Canadian dollars, except per share amounts)*

| | 2010 | 2009 |
|---|---|---|
| Revenue | $ 178,274 | $ 169,683 |
| Purchased Power | 131,188 | 127,330 |
| Net Margin | 47,086 | 42,353 |
| | | |
| Operating expenses | 13,917 | 13,082 |
| Pension and early retirement program costs | 1,847 | 624 |
| Amortization | 10,396 | 10,051 |
| Amortization true-up deferral | 965 | 966 |
| Finance charges (Note 6) | 8,992 | 8,206 |
| | 36,117 | 32,929 |
| | | |
| Earnings Before Income Taxes | 10,969 | 9,424 |
| Income taxes *(Notes 4)* | 3,634 | 3,110 |
| | | |
| Net Earnings | 7,335 | 6,314 |
| Preference share dividends | 142 | 147 |
| | | |
| Net Earnings Applicable to Common Shares | $ 7,193 | $ 6,167 |
| Basic and Diluted Earnings per Common Share | $ 0.70 | $ 0.60 |

## Unaudited Statements of Retained Earnings

For the Three Months Ended March 31

*(in thousands of Canadian dollars)*

| | 2010 | 2009 |
|---|---|---|
| Balance, Beginning of the Period | $ 310,864 | $ 303,417 |
| Net earnings | 7,335 | 6,314 |
| Dividends | | |
| Preference shares | (142) | (147) |
| Common shares | (3,924) | (6,294) |
| | | |
| Balance, End of the Period | $ 314,133 | $ 303,290 |

*See accompanying notes to financial statements.*

## Unaudited Balance Sheets
As at
*(in thousands of Canadian dollars)*

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash | $ 2,668 | $ 5,308 |
| Accounts receivable | 80,862 | 64,553 |
| Regulatory assets *(Note 2)* | 9,908 | 11,023 |
| Materials and supplies | 980 | 934 |
| Prepaid expenses | 999 | 1,376 |
| Income taxes receivable | 2,955 | 4,194 |
| | 98,372 | 87,388 |
| Property, plant and equipment | 793,532 | 787,218 |
| Regulatory assets *(Note 2)* | 202,551 | 197,783 |
| Accrued pension | 98,951 | 97,802 |
| Intangible assets | 15,816 | 16,113 |
| Other assets | 1,656 | 1,717 |
| | $ 1,210,878 | $ 1,188,021 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Accounts payable and accrued charges | $ 68,511 | $ 65,727 |
| Regulatory liabilities *(Note 2)* | 6,696 | 9,374 |
| Current instalments of long-term debt *(Note 5)* | 5,200 | 5,200 |
| Future income taxes | 1,184 | 1,068 |
| | 81,591 | 81,369 |
| Regulatory liabilities *(Note 2)* | 69,913 | 69,207 |
| Other post-employment benefits | 48,126 | 46,713 |
| Other liabilities | 3,868 | 3,960 |
| Future income taxes | 128,217 | 122,426 |
| Long-term debt *(Note 5)* | 485,598 | 474,050 |
| | 817,313 | 797,725 |
| Shareholders' equity | | |
| Common shares | 70,321 | 70,321 |
| Preference shares | 9,111 | 9,111 |
| Retained earnings | 314,133 | 310,864 |
| | 393,565 | 390,296 |
| | $ 1,210,878 | $ 1,188,021 |

Commitments *(Note 10)*

*See accompanying notes to financial statements.*

## Unaudited Statements of Cash Flows
### For the Three Months Ended March 31
*(in thousands of Canadian dollars)*

| | 2010 | 2009 |
|---|---|---|
| **Cash From (Used in) Operating Activities** | | |
| Net earnings | $ 7,335 | $ 6,314 |
| Items not affecting cash | | |
| Amortization of property, plant and equipment | 9,687 | 9,328 |
| Amortization of intangible assets and other | 767 | 782 |
| Change in regulatory assets and liabilities | 2,429 | 96 |
| Future income taxes | (966) | 134 |
| Employee future benefits | (1,189) | (1,238) |
| | 18,063 | 15,416 |
| Change in non-cash working capital | (11,955) | (25,950) |
| | 6,108 | (10,534) |
| **Cash Used In Investing Activities** | | |
| Capital expenditures | (16,307) | (13,052) |
| Intangible asset expenditures | (412) | (433) |
| Contributions from customers and other | 537 | 580 |
| | (16,182) | (12,905) |
| **Cash From Financing Activities** | | |
| Net proceeds of committed credit facility | 11,500 | 29,500 |
| Dividends | | |
| Preference shares | (142) | (147) |
| Common shares | (3,924) | (6,294) |
| | 7,434 | 23,059 |
| **Decrease in Cash** | (2,640) | (380) |
| **Cash, Beginning of the Period** | 5,308 | 619 |
| **Cash, End of the Period** | $ 2,668 | $ 239 |
| Cash flows include the following elements: | | |
| Interest paid | $ 5,199 | $ 5,400 |
| Income taxes paid | $ 2,910 | $ 10,921 |

*See accompanying notes to financial statements.*

Tabular amounts are in thousands of Canadian dollars unless otherwise noted.

## 1. Basis of Presentation

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial statements and do not include all of the disclosures provided in Newfoundland Power Inc.'s (the "Company" or "Newfoundland Power") annual audited financial statements. These interim financial statements should be read in conjunction with the Company's 2009 annual audited financial statements.

The accounting policies, and methods of their application, followed in the preparation of these interim financial statements are the same as those followed in the preparation of the Company's 2009 annual audited financial statements.

## 2. Regulatory Assets and Liabilities

As a result of rate regulation, the timing of the recognition of certain revenues and expenses for Newfoundland Power differs from that otherwise expected under Canadian GAAP for entities not subject to rate regulation. The underlying accounting practices, which result in the recognition of regulatory assets and regulatory liabilities, are disclosed in Notes 2 and 4 to the Company's 2009 annual audited financial statements.

Regulatory assets represent future revenues associated with certain costs incurred in the current or prior periods that will be, or are expected to be, recovered from customers in future periods through the rate setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that will be, or are expected to be, refunded to customers through the rate setting process. The accounting methods underlying regulatory assets and liabilities, and their eventual settlement through the rate setting process, are prescribed by the PUB and impact the Company's earnings, cash flows and financial position.

The Company's regulatory assets and liabilities which will be, or are expected to be, reflected in customer rates in future periods, follow:

| | March 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Current | Non-Current | Current | Non-Current |
| Regulatory Assets | | | | |
| Rate stabilization account | $ 56 | $ 705 | $ - | $ 1,836 |
| OPEBs | - | 48,126 | - | 46,713 |
| Weather normalization account | 2,102 | 912 | 2,102 | 3,929 |
| Amortization true-up deferral | 2,897 | - | 3,862 | - |
| Pension deferral | 1,128 | 4,511 | 1,128 | 4,793 |
| Replacement energy deferral | 449 | - | 600 | - |
| Deferred GRA costs | 401 | 438 | 451 | 500 |
| Energy supply cost variance reserve [1] | - | 834 | - | - |
| Conservation and demand management deferral | 339 | 935 | 339 | 1,018 |
| Pension expense variance deferral account [2] | 479 | - | - | - |
| Future income taxes | 2,057 | 146,090 | 2,541 | 138,994 |
| | $ 9,908 | $ 202,551 | $ 11,023 | $ 197,783 |
| Regulatory Liabilities | | | | |
| Rate stabilization account | $ - | $ - | $ 418 | $ - |
| Municipal tax liability | 1,023 | - | 1,363 | - |
| Unbilled revenue | 3,464 | - | 4,618 | - |
| Purchased power unit cost variance reserve | 517 | - | 688 | - |
| Future removal and site restoration provision | - | 48,892 | - | 48,660 |
| Future income taxes | 1,692 | 21,021 | 2,287 | 20,547 |
| | $ 6,696 | $ 69,913 | $ 9,374 | $ 69,207 |

[1] *In accordance with PUB order, variations in purchased power expense caused by differences between the actual unit cost of energy and that reflected in customer rates are transferred to and removed from (refunded to) customers through the Rate Stabilization Account ("RSA").*

[2] *Effective January 1, 2010, pursuant to the 2010 GRA, the PUB ordered the creation of a Pension Expense Variance Deferral Account ("PEVDA"). This account will be charged or credited with the amount by which annual pension expense, recorded in accordance with Canadian GAAP, differs from amounts approved in rates by the PUB. Each year, at March 31st, the balance in the PEVDA will be transferred and disposed of through the Company's RSA.*

## 3. Seasonality

**Sales and Revenue:** Interim financial results reflect the seasonality of electricity sales for heating. Sales and revenue are significantly higher in the first quarter and significantly lower in the third quarter compared to the remaining quarters. This reflects the seasonality of electricity consumption for heating.

**Earnings:** Beyond the seasonality of electricity consumption for heating, quarterly earnings are impacted by the purchased power rate structure. The Company pays more, on average, for each kilowatt hour ("kWh") of purchased power in the winter months and less, on average, for each KWh of purchased power in the summer months.

These sales, revenue and cost dynamics are expected to yield lower earnings in the first quarter compared to remaining quarters within any given year.

## 4. Income Taxes

Income taxes vary from the amount that would be determined by applying statutory income tax rates to pre-tax earnings. A reconciliation of the combined federal and provincial statutory income tax rate to the Company's effective income tax rate follows.

| | Three Months Ended March 31 | |
|---|---|---|
| | 2010 | 2009 |
| Accounting income per financial statements | $ 10,969 | $ 9,424 |
| Statutory tax rate | 32.0% | 33.0% |
| Expected tax expense (*statutory rate)* | 3,510 | 3,110 |
| Items capitalized vs. expensed | (251) | (179) |
| Capital cost allowance vs. amortization | 247 | 212 |
| Pension funding vs. pension expense | 9 | (47) |
| Other timing difference | 196 | 52 |
| Unbilled revenue | (313) | (292) |
| Regulatory deferrals | 236 | 254 |
| Income tax expense | $ 3,634 | $ 3,110 |
| Effective tax rate | 33.1% | 33.0% |

## 5. Long-term Debt

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| First mortgage sinking fund bonds | $ 468,888 | $ 468,888 |
| Long-term classification of committed credit facility | 25,000 | 13,500 |
| | 493,888 | 482,388 |
| Less: current instalments of long-term debt | 5,200 | 5,200 |
| | 488,688 | 477,188 |
| Less: debt issue costs | 3,090 | 3,138 |
| | $ 485,598 | $ 474,050 |

## 6. Finance Charges

| | Three Months Ended March 31 | |
|---|---|---|
| | 2010 | 2009 |
| Interest - first mortgage sinking fund bonds | $ 8,988 | $ 8,015 |
| Interest - committed credit facility | 50 | 193 |
| Interest - other | 1 | 6 |
| Total interest expense | 9,039 | 8,214 |
| Amortization - debt issue costs | 48 | 49 |
| Amortization - capital stock issue costs | 9 | 9 |
| Allowance for funds used during construction ("AFUDC") | (104) | (66) |
| | $ 8,992 | $ 8,206 |

## 7. Capital Management

Newfoundland Power's primary objectives when managing capital are (i) to ensure continued access to capital at reasonable cost and (ii) to provide an adequate return to its common shareholder commensurate with the level of risk associated with the shareholder's investment in the Company.

The Company requires ongoing access to capital because its business is capital intensive. Capital investment is required to ensure continued and enhanced performance, reliability and safety of its electricity system and to meet customer growth.

The Company operates under cost of service regulation. The cost of capital is ultimately borne by its customers. Access to capital at reasonable cost is a core aspect of the Company's business strategy, which is to operate a sound electricity system and to focus on the safe and reliable delivery of electricity service to its customers in the most cost-efficient manner possible.

The capital managed by the Company is composed of debt (first mortgage sinking fund bonds, bank credit facilities and cash/bank indebtedness), common equity (common shares and retained earnings) and preference equity.

The Company has historically generated sufficient cash flows from operating activities to service interest and sinking fund payments on debt, to pay dividends and to finance a major portion of its capital expenditure programs. Additional financing to fully fund capital expenditure programs is obtained through the Company's credit facilities and these borrowings are periodically refinanced along with any maturing bonds through the issuance of additional bonds. These basic cash flow and capital management dynamics are consistent with previous periods and are currently not expected to change materially over the foreseeable future.

Newfoundland Power endeavours to maintain a capital structure composed of approximately 55 per cent debt and 45 per cent equity. This capital structure is reflected in customer rates. It is also consistent with the Company's current investment grade credit ratings, thereby ensuring continued access to capital at reasonable cost. The Company maintains this capital structure primarily by managing its common share dividends.

A summary of the Company's capital structure follows.

| | March 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | $ | % | $ | % |
| Debt [1] | 488,130 | 55.4 | 473,942 | 54.8 |
| Common equity | 384,454 | 43.6 | 381,185 | 44.1 |
| Preference equity | 9,111 | 1.0 | 9,111 | 1.1 |
| | 881,695 | 100.0 | 864,238 | 100.0 |

[1] *Includes bank indebtedness, or net of cash, if applicable*

The issuance of debt with a maturity that exceeds one year requires the prior approval of the Company's regulator. The issuance of first mortgage sinking fund bonds is subject to an earnings covenant whereby the ratio of (i) annual earnings, before bond interest and tax, to (ii) annual bond interest incurred plus annual bond interest to be incurred on the contemplated bond issue, must be two times or higher. Under its committed credit facility, the Company must also ensure that its Debt to Capitalization ratio does not exceed 0.65:1.00 at any time. At March 31, 2010, the Company was in compliance with all of its debt covenants.

## 8. Financial Instruments

The Company has designated its financial instruments as follows:

| | March 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| **Held for trading** | | | | |
| Cash | $ 2,668 | $ 2,668 | $ 5,308 | $ 5,308 |
| **Loans and receivables** | | | | |
| Accounts receivable | 80,862 | 80,862 | 64,553 | 64,553 |
| Customer finance plans [1] | 1,628 | 1,628 | 1,679 | 1,679 |
| **Other financial liabilities** | | | | |
| Accounts payable and accrued charges | 68,511 | 68,511 | 65,727 | 65,727 |
| Security deposits [2] | 529 | 529 | 581 | 581 |
| Long-term debt, including current portion and committed credit facility | $493,888 | $597,709 | $482,388 | $588,401 |

[1] *Included in other assets on the balance sheet.*
[2] *Included in other liabilities on the balance sheet.*

Fair Values: The fair value of long-term debt, including current portion and committed credit facility, is calculated by discounting the future cash flows of each debt instrument at the estimated yield-to-maturity equivalent to benchmark government bonds, with similar terms to maturity, plus a market credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle its debt instruments before maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs.

The fair value of the Company's remaining financial instruments approximates their carrying value, reflecting their nature, short-term maturity or normal trade credit terms.

Credit Risk: There is risk that Newfoundland Power may not be able to collect all of its accounts receivable and amounts owing under its customer finance plans. These financial instruments, which arise in the normal course of business, do not represent a significant concentration of credit risk as amounts are owed by a large number of customers on normal credit terms. The requirement for security deposits for certain customers, which are advance cash collections from customers to guarantee payment of electricity billings, further reduces the exposure to credit risk. The maximum exposure to credit risk is the net carrying value of these financial instruments.

Newfoundland Power manages credit risk primarily by executing its credit and collection policy, including the requirement for security deposits, through the resources of its Customer Relations Department.

The aging of accounts receivable and amounts owing under customer finance plans, past due but not impaired, follow.

| | Three Months Ended March 31 | |
|---|---|---|
| | 2010 | 2009 |
| Not past due | $ 37,701 | $ 35,743 |
| Past due 1-30 days | 35,040 | 38,958 |
| Past due 31-60 days | 7,593 | 7,921 |
| Past due 61-90 days | 1,556 | 1,448 |
| Past due over 90 days | 600 | 316 |
| | $ 82,490 | $ 84,386 |

Liquidity Risk: The Company's financial position could be adversely affected if it failed to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and repayment of maturing debt.

## 8. Financial Instruments (cont'd)

The ability to arrange such financing is subject to numerous factors, including the results of operations and financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by ratings agencies and general economic conditions. These factors are mitigated by the legal requirement as outlined in the *Electrical Power Control Act* which requires rates be set to enable the Company to achieve and maintain a sound credit rating in the financial markets of the world.

Newfoundland Power manages short-term liquidity risk primarily by maintaining bank credit facilities. The Company has unsecured facilities of $120 million, composed of a syndicated $100 million committed revolving term credit facility and a $20 million demand facility.

Newfoundland Power manages long-term liquidity risk primarily by maintaining its investment grade credit ratings.

As at March 31, 2010, the fair value of the Company's primary defined benefit pension plan assets was $248.3 million compared to fair value of plan assets of $242.7 million as at December 31, 2009. The fair value of plan assets at December 31 2008 was $212.6 million. The increase in the fair value of pension plan assets since the beginning of 2009 was mainly driven by the recovery of the global financial market conditions.

Based on the Actuarial Valuation Report as at December 31, 2008, the solvency deficit was $6.9 million ($7.7 million inclusive of interest). The solvency deficit is required to be funded over a five-year period, commencing in 2009. The Company will fulfill its 2010 annual solvency deficit funding requirement of $1.5 million during the second quarter of 2010.

The Company does not expect any difficulty in its ability to meet future pension funding requirements as it expects the amounts will be financed from a combination of cash generated from operations and amounts available for borrowing under existing credit facilities.

The contractual maturities of the Company's financial liabilities including pension solvency deficit obligation at March 31, 2010 follow.

| *($millions)* | Total | 2010 | 2011-2012 | 2013-2014 | 2015 Onward |
|---|---|---|---|---|---|
| Accounts payable and accrued charges | 67.9 | 67.9 | - | - | - |
| Security deposits[1] | 1.1 | 0.6 | 0.5 | - | - |
| Credit facilities *(unsecured)* | 25.0 | - | 25.0 | - | - |
| Interest on first mortgage sinking fund bonds | 574.4 | 30.6 | 70.5 | 67.6 | 405.7 |
| First mortgage sinking fund bonds [2] | 468.9 | 5.2 | 10.4 | 39.0 | 414.3 |
| Pension Solvency Deficit [3] | 5.2 | 0.5 | 3.1 | 1.6 | - |
| | 1,142.5 | 104.8 | 109.5 | 108.2 | 820.0 |

*[1] Included in accounts payable and accrued charges and other liabilities.*

*[2] First mortgage sinking fund bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company and by a floating charge on all other assets.*

*[3] Pension funding requirements based on the actuarial Valuation Report associated with the Company's Defined Benefit Pension Plan, completed as at December 31, 2008. This does not include routine funding requirements for current service cost.*

Market Risk: Exposure to foreign exchange rate fluctuations is immaterial.

Market driven changes in interest rates and changes in the Company's credit ratings can cause fluctuations in interest costs associated with the Company's bank credit facilities. For the three month period ended March 31, 2010, each 25 basis points change in interest rates on the Company's credit facilities would have caused a $8,000 change in credit facility interest costs and a $5,000 change in earnings (2009 - $28,000 and $19,000, respectively).

The Company periodically refinances its credit facilities in the normal course with fixed-rate first mortgage sinking fund bonds which significantly mitigate the exposure to interest rate changes.

Changes in interest rates and/or changes in the Company's credit ratings can affect the interest rate on first mortgage sinking fund bonds at the time of issue. The Company does not expect to issue any additional long-term debt during 2010.

The Company's defined benefit pension plan is impacted by economic conditions. There is no assurance that the pension plan assets will earn the expected long-term rate of return in the future. Market driven changes impacting the performance of the pension plan assets may result in material variations from the expected long-term return on the assets. This may cause material changes in future pension liabilities and pension expense. Market driven changes impacting the discount rate may also result in material variations in future pension liabilities and pension expense.

## 9. Employee Future Benefits

The total amount of defined benefit pension plan expense recognized for the three months ended March 31, 2010 was $1.5 million (2009 - $0.3 million).

## 10. Commitments

The Company is obligated to provide a service to customers, resulting in ongoing capital expenditure commitments. Capital expenditures, which are subject to PUB approval, are expected to be approximately $74.5 million in 2010.