Second Quarter 2015

NEWFOUNDLAND POWER

A FORTIS COMPANY

INTERIM MANAGEMENT DISCUSSION and ANALYSIS
For the Three and Six Month Periods Ended June 30, 2015

Dated July 31, 2015

The following interim Management Discussion and Analysis ("MD&A") 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 and six month periods ended June 30, 2015 and the MD&A and annual audited financial statements for the year ended December 31, 2014. 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 accounting principles generally accepted in the United States ("U.S. GAAP"), including certain accounting practices unique to rate regulated entities. These accounting practices are disclosed in Notes 2 and 6 to the Company's 2014 annual audited financial statements.

FORWARD-LOOKING STATEMENTS

Certain information herein is forward-looking within the meaning of applicable securities laws in Canada ("forward-looking information"). All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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 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. The forward-looking information in this MD&A includes, but is not limited to, statements regarding: expectations to generate sufficient cash to complete required capital expenditures, and to service interest and sinking fund payments on debt; meeting pension funding requirements; expectation that no material adverse credit rating actions will occur in the near term; the Company's belief that it does not anticipate any difficulties in issuing bonds on reasonable market terms; the Company's expectations for employee future benefit costs; and, the forecast gross capital expenditures for 2015.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include, but are not limited to: receipt of applicable regulatory approvals; continued electricity demand; no significant operational disruptions or environmental liability due to severe weather or other acts of nature; no significant decline in capital spending in 2015; sufficient liquidity and capital resources; the continuation of regulator-approved mechanisms that permit recovery of costs; no significant variability in interest rates; no significant changes in government energy plans and environmental laws; the ability to obtain and maintain insurance coverage, licences and permits; the ability to maintain and renew collective bargaining agreements on acceptable terms; and, sufficient human resources to deliver service and execute the capital program.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulation; energy supply; purchased power cost; electricity prices; health, safety and environmental regulations; capital resources and liquidity; interest rates; economic conditions; cyber-security; labor relations; human resources; operating and maintenance investment requirements; weather; insurance; defined benefit pension plan performance; information technology infrastructure; and, continued reporting in accordance with U.S. GAAP. For additional information with respect to these risk factors, reference should be made to the section entitled "Business Risk Management" in this MD&A.

All forward-looking information in this MD&A is qualified in its entirety by this cautionary statement and, except as required by law, the Company undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

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 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. The Company is a wholly-owned subsidiary of Fortis Inc. ("Fortis"). Fortis is a leader in the North American electric and gas utility business, serving customers across Canada and in the United States and the Caribbean.

Newfoundland Power's primary business is electricity distribution. It generates approximately 7% of its electricity needs and purchases the remainder from Newfoundland and Labrador Hydro ("Hydro"). Newfoundland Power serves approximately 260,000 customers, or approximately 87% 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.

On April 17, 2013, the PUB issued an Order on the Company's 2013/2014 General Rate Application ("2013/2014 Order") which established, for ratemaking purposes, a regulated rate of return on common equity ("ROE") of 8.80% and 45% common equity for 2013 through 2015. The Company's rate of return on rate base for 2015 is 7.50%, with a range of 7.32% to 7.68%, compared to 7.88%, with a range of 7.70% to 8.06% for 2014. The operation of the Automatic Adjustment Formula, which historically adjusted the Company's rate-making ROE between general rate hearings, has been suspended until the next General Rate Application ("GRA").

On April 15, 2015, the Company filed an application with the PUB to approve a return on rate base for 2016 of 7.38%, with a range of 7.20% to 7.56%; a 2016 cost recovery deferral of approximately $4.0 million; and to defer the filing of Newfoundland Power's next GRA to on or before June 1, 2016. On July 15, 2015, the PUB issued an Order denying the Company's application. The Company will file its GRA with the PUB on or before October 16, 2015 to establish customer electricity rates for 2016.

The Company experienced losses of electricity supply from Hydro in January 2013 and January 2014, which disabled the Company from meeting all of its customers' requirements. The PUB is conducting an inquiry and hearing into these system supply issues and power interruptions. The PUB's consultant filed final reports on the adequacy and reliability of the Island Interconnected system until interconnection with Muskrat Falls on December 18, 2014. The second phase of the inquiry and hearing process is currently ongoing, which considers longer term issues associated with adequacy and reliability on the Island Interconnected system after interconnection with Muskrat Falls. This aspect of the investigation is expected to continue throughout 2015.

As a result of the loss of supply and resulting power outages in 2014, the Government of Newfoundland and Labrador has engaged consultants to complete an independent review of the current electricity system in Newfoundland and Labrador. The focus of the review is to examine the operation, management and regulation of the current electricity system. This review is ongoing.

Financial Highlights

	Three Months Ended June 30			Six Months Ended June 30		
	2015	2014	Change	2015	2014	Change
Electricity Sales *(gigawatt hours, ("GWh"))* [1]	1,336.7	1,346.3	(9.6)	3,377.7	3,346.1	31.6
Earnings Applicable to Common Shares						
$ Millions	10.9	10.6	0.3	22.1	20.8	1.3
$ Per Share	1.06	1.03	0.03	2.14	2.02	0.12
Cash Flow from Operating Activities *($millions)*	26.2	26.1	0.1	33.3	30.9	2.4
Total Assets *($millions)*				1,462.1	1,398.9	63.2

[1] *Reflects normalized electricity sales.*

Electricity sales for the second quarter of 2015 decreased by 9.6 GWh or approximately 0.7% compared to the second quarter of 2014. This decrease was due to 1.9% in lower average consumption partially offset by customer growth of 1.2%. On a year-to-date basis, electricity sales increased by 31.6 GWh or approximately 0.9%. This increase was due to 1.3% customer growth partially offset by 0.4% in lower average consumption.

Earnings for the second quarter of 2015 increased by $0.3 million compared to the second quarter of 2014. The increase in earnings was due to lower finance charges, associated with the maturity of a series of first mortgage bonds in 2014, and the timing of operating costs. This increase in earnings was partially offset by lower electricity sales in the second quarter of 2015 and higher depreciation expense reflecting the Company's capital program.

On a year-to-date basis, earnings increased by $1.3 million compared to the same period in 2014. The increase in earnings was due to (i) lower operating costs, primarily related to the system supply issues and related power interruptions in January 2014; (ii) lower finance charges; and, (iii) higher electricity sales. This increase in earnings was partially offset by higher depreciation expense.

Cash flow from operating activities for the second quarter of 2015 was comparable to the second quarter of 2014. An increase in cash in the second quarter of 2015 due to the timing of the Company's income tax refund and collections associated with the Company's equal payment plan was substantially offset by the timing of payments to Hydro.

Cash from operating activities year-to-date 2015 increased by $2.4 million compared to the same period in 2014. The increase was a result of the timing of the Company's income tax refund and collections associated with the Company's equal payment plan as well as lower interest and other payments. This increase was partially offset by the timing of payments to Hydro.

Total assets increased by $63.2 million at June 30, 2015 compared to June 30, 2014. The increase is due to continued investment in the electricity system, partially offset by a reduction in accounts receivable.

RESULTS OF OPERATIONS

Revenue:

	Three Months Ended June 30			Six Months Ended June 30		
($millions)	2015	2014	Change	2015	2014	Change
Revenue from Rates	141.7	143.3	(1.6)	354.6	351.1	3.5
Amortization of Regulatory Liabilities and Deferrals	1.1	0.5	0.6	2.1	1.0	1.1
Other Revenue [1]	1.4	1.5	(0.1)	2.7	3.2	(0.5)
Total	144.2	145.3	(1.1)	359.4	355.3	4.1

[1] *Other revenue is composed largely of charges to various telecommunication companies, interest revenue associated with customer accounts and other miscellaneous amounts.*

Revenue from rates for the second quarter of 2015 decreased by $1.6 million, reflecting lower electricity sales compared to the second quarter of 2014. On a year-to-date basis, revenue from rates increased $3.5 million compared to the same period last year reflecting higher electricity sales for the six month period.

The amortization of regulatory liabilities and deferrals includes the pension expense variance deferral ("PEVDA"), the other post-employment benefits ("OPEBs") cost variance deferral, and the amortization of annual customer energy conservation program costs. The amounts recorded are in accordance with PUB orders and are described in Notes 2 and 6 to the Company's 2014 annual audited financial statements.

Other revenue for the second quarter of 2015 was comparable to the second quarter of 2014. On a year-to-date basis, other revenue decreased by $0.5 million compared to the same period in 2014. The decrease resulted from lower interest on the rate stabilization account ("RSA"), due to the normal operation of this regulatory account, and reduced charges to telecommunication companies for work performed on jointly used utility plant.

Purchased Power: Purchased power expense for the second quarter of 2015 decreased by $1.2 million compared to the second quarter of 2014, due to lower electricity sales. On a year-to-date basis, purchased power expense increased by $2.9 million compared to the same period last year, reflecting higher electricity sales.

Operating Expenses: Operating expenses for the second quarter of 2015 were $0.7 million lower than the second quarter of 2014. The decrease was due to lower labor costs, as more capital work was completed in the second quarter of 2015 as compared to the previous year, as well as the timing of corporate costs.

Year-to-date 2015 operating expenses were $1.6 million lower than the same period last year. The decrease primarily related to savings associated with labor costs in 2015. Labor costs in 2014 included restoration and customer service efforts following the loss of generation supply from Hydro and related power interruptions in January 2014. The earlier start to capital projects also contributed to the decrease in labor costs in 2015. These factors were partially offset by inflationary increases.

Employee Future Benefits: Employee future benefits for the second quarter of 2015 were $0.4 million higher compared to the second quarter of 2014. The increase reflects $1.0 million in additional net benefit cost associated with Company's defined benefit pension plan, due to an increase in the Company's projected benefit pension obligation. The increase was primarily due to a lower discount rate at December 31, 2014, which is used to determine the pension obligation.

This increase was offset by a decrease in OPEBs costs of $0.6 million. The decrease was due to a reduction in claims cost experience under the plan as determined in the actuarial valuation as of December 31, 2014.

Year-to-date 2015 employee future benefits were $1.1 million higher than the same period last year. The increase reflects $2.3 million in additional net benefit costs associated with the defined benefit pension plan, partially offset by a decrease in OPEBs costs of $1.2 million.

Depreciation and Amortization: Depreciation and amortization expense for the second quarter of 2015 was $0.8 million higher compared to the second quarter of 2015, and $1.5 million higher on a year-to-date basis. The increase reflects the Company's capital expenditure program.

Cost Recovery Deferrals: Amortization of cost recovery deferrals for the first quarter and year-to-date periods of 2015 were comparable to that of 2014. The Company is recording amortization on the cost deferrals over a three year period to the end of 2015, as ordered by the PUB and described in Note 6 to the Company's 2014 annual audited financial statements.

Finance Charges: Finance charges for the second quarter of 2015 were $0.6 million lower compared to the second quarter of 2014. Year-to-date 2015, finance charges were $1.2 million lower compared to the same period in 2014. The decrease is associated with interest savings associated with the maturity of $29.0 million, 10.55% first mortgage sinking fund bonds on August 1, 2014. This decrease was partially offset by higher short-term borrowings and related interest charges in 2015.

Income Taxes: Income taxes for the second quarter and year-to-date periods of 2015 were comparable to that of 2014. An increase in income tax expense due to higher pre-tax earnings was partially offset by a decrease in the effective tax rate. See Note 7 of the June 30, 2015 interim financial statements.

FINANCIAL POSITION

Explanations of the primary causes of significant changes in the Company's balance sheets between December 31, 2014 and June 30, 2015 follow:

($millions)	Increase (Decrease)	Explanation
Accounts Receivable	(7.6)	Decrease due to lower electricity sales in June 2015 compared to December 2014. This reflects the seasonal nature of electricity consumption for heating. The change also reflects 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.
Property, Plant and Equipment	21.1	Increase due to investment in the electricity system, in accordance with the 2015 capital expenditure program, offset partially by depreciation and customer contributions in aid of construction.
Accounts Payable and Accrued Charges	(30.6)	Decrease primarily due to lower purchased power costs related to lower energy consumption in June 2015 compared to December 2014.
Deferred income taxes	4.6	Increase due to investment in the electricity system in accordance with the 2015 capital expenditure program.
Long-term Debt, including Current Portion	27.0	Represents additional debt required to finance growth in rate base and ongoing operating activities.
Retained Earnings	17.5	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 asset expenditures, service and repay debt, and pay dividends. A summary of second quarter and year-to-date cash flows and cash position for 2015 and 2014 follows:

	Three Months Ended June 30			Six Months Ended June 30		
($millions)	2015	2014	Change	2015	2014	Change
Cash, Beginning of Period	-	0.7	(0.7)	-	0.2	(0.2)
Operating Activities	26.2	26.1	0.1	33.3	30.9	2.4
Investing Activities	(26.9)	(24.6)	(2.3)	(51.4)	(41.5)	(9.9)
Financing Activities						
Net Credit Facilities Proceeds	3.2	2.3	0.9	23.2	2.3	20.9
Net Proceeds from Related Party Loans	-	1.5	(1.5)	-	20.0	(20.0)
Dividends and Other	(2.5)	(6.0)	3.5	(5.1)	(11.9)	6.8
	0.7	(2.2)	2.9	18.1	10.4	7.7
Cash, End of Period	-	-	-	-	-	-

Operating Activities

Cash flow from operating activities for the second quarter of 2015 was comparable to the second quarter of 2014. An increase in cash in the second quarter of 2015 due to the timing of the Company's income tax refund and collections associated with the Company's equal payment plan was substantially offset by the timing of payments to Hydro for power purchases.

Cash from operating activities year-to-date 2015 increased by $2.4 million compared to the same period in 2014. The increase was a result of the timing of the Company's income tax refund and collections associated with the Company's equal payment plan as well as lower interest and other payments. This increase was partially offset by the timing of payments to Hydro.

Investing Activities

Cash flow used in investing activities, for the second quarter and year-to-date periods, increased by $2.3 million and $9.9 million, respectively, compared to 2014. The increase was due to the timing of expenditures associated with the Company's 2015 capital plan as well as a decrease in contributions from customers.

A summary of second quarter and year-to-date 2015 and 2014 capital and intangible asset expenditures follows.

	Three Months Ended June 30			Six Months Ended June 30		
($millions)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Electricity System						
Generation	0.7	0.9	(0.2)	3.6	1.5	2.1
Transmission	1.6	1.2	0.4	1.7	1.3	0.4
Substations	6.2	4.3	1.9	8.5	7.3	1.2
Distribution	12.7	13.8	(1.1)	27.2	24.1	3.1
Intangible Assets and Other	6.4	5.3	1.1	11.4	9.2	2.2
Capital and Intangible Asset Expenditures	27.6	25.5	2.1	52.4	43.4	9.0

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. Variances between actual and planned expenditures are generally subject to PUB review prior to inclusion in the Company's rate base. The PUB has approved the Company's 2015 capital plan which provides for capital expenditures of approximately $94.2 million, approximately half of which relate to capital maintenance of the electricity system. On June 23, 2015, the Company filed an application with the PUB requesting approval for its 2016 capital expenditure plan totalling $107.0 million. The application is currently under review by the PUB.

Financing Activities

Cash available from financing activities, for the second quarter and year-to-date periods, increased by $2.9 million and $7.7 million, respectively, compared to 2014. This increase was mainly due to a reduction in common share dividends to maintain an average capital structure that includes 45% common equity. The increase in cash from financing activities was used to support higher capital expenditures, partially offset by higher cash available from operations.

The Company has historically generated sufficient annual cash flows from operating activities to service annual interest and sinking fund payments on debt, to fund pension obligations, 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 $100.0 million committed revolving term credit facility ("Committed Facility") and a $20.0 million demand facility, as detailed below:

($millions)	June 30, 2015	December 31, 2014
Total Credit Facilities	120.0	120.0
Borrowing, Committed Facility	(91.5)	(64.5)
Borrowing, Demand Facility	-	(3.8)
Credit Facilities Available	28.5	51.7

The Committed Facility matures in August 2019. Subject to lenders' approval, the Company may request an extension for a further period of up to, but not exceeding, a five year term.

On April 16, 2015, the PUB approved the Company's application to issue first mortgage sinking fund bonds during 2015. The proceeds from the anticipated issuance will be used to repay short-term borrowings.

Pensions: As at June 30, 2015, the fair value of the Company's primary defined benefit pension plan assets was $388.2 million compared to fair value of plan assets of $375.3 million as at December 31, 2014. The $12.9 million increase in fair value was primarily due to favorable market conditions.

In April 2015, Newfoundland Power received the latest Actuarial Valuation for its defined benefit pension plan. This indicated the funding status of the plan as at December 31, 2014, on a going concern and solvency basis. On a going concern basis, the surplus increased from $7.2 million as at December 31, 2011 to $32.1 million as at December 31, 2014. On a solvency basis, the funding deficit decreased from $49.5 million as at December 31, 2011 to $7.0 million as at December 31, 2014. Contributions to the plan since 2011 combined with favorable market returns was partially offset by lower interest rates at December 31, 2014 compared to December 31, 2011. The solvency deficit of $7.0 million will be fully funded by the end of the third quarter of 2015.

Based on the latest Actuarial Valuation, contributions for current service amounts are expected to be $3.1 million in 2015, $3.2 million in 2016 and $3.4 million in 2017. The Company expects to have sufficient cash generated from operations to meet future pension funding requirements.

Contractual Obligations: Details, as at June 30, 2015, of all contractual obligations over the subsequent five years and thereafter, follow.

($millions)	Total	Due Within 1 Year	Due in Years 2 & 3	Due in Years 4 & 5	Due After 5 Years
Credit Facilities (unsecured)	91.5	91.5	-	-	-
First Mortgage Sinking Fund Bonds [1]	483.6	35.9	10.2	10.2	427.3
Interest obligations on long-term debt	470.9	31.8	61.8	58.4	318.9
Total	1,046.0	159.2	72.0	68.6	746.2

[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, by a floating charge on all other assets and carry customary covenants.*

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.

	June 30, 2015		December 31, 2014	
Rating Agency	Rating	Outlook	Rating	Outlook
Moody's Investors Service	A2	Stable	A2	Stable
DBRS	A	Stable	A	Stable

During the first quarter of 2015, 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 Moody's and DBRS remain unchanged from 2014.

Newfoundland Power manages common share dividends to maintain an average annual capital structure composed of 55% debt and preference equity and 45% common 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:

	June 30, 2015		December 31, 2014	
	$millions	%	$millions	%
Total Debt [1]	572.6	55.3	549.3	55.2
Common Equity	454.2	43.8	436.7	43.9
Preference Equity	8.9	0.9	9.0	0.9
Total	1,035.7	100.0	995.0	100.0

[1] *Includes bank indebtedness, or net of cash and debt issue costs, if applicable.*

Capital Stock and Dividends: During the second quarter and six months ended June 30, 2015 and 2014, the weighted average number of common shares outstanding was 10,320,270. Dividends on common shares for 2015 compared to 2014 were $3.4 million lower for the second quarter and $6.8 million lower year-to-date. In 2015, the quarterly common share dividends decreased to $0.23 per share compared to $0.56 per share in 2014. The decrease in common share dividends was to maintain an average capital structure that includes approximately 45% common equity.

The Company purchased for cancellation 100 Series G preference shares for $1,000 during the second quarter of 2015.

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 second quarter and six months ended June 30, 2015 and 2014 follow:

	Three Months Ended June 30		Six Months Ended June 30	
($millions)	2015	2014	2015	2014
Revenue [1]	1.4	1.3	3.1	3.0
Operating expenses	0.5	0.5	1.1	0.9

[1] *Includes charges for electricity consumed.*

During the second quarter of 2015, the Company borrowed $15 million in short-term demand loans from Fortis at an interest rate of 2.45%. The loans were fully repaid in May 2015.

During the three and six months ended June 30, 2014, the Company borrowed short-term demand loans from Fortis at an average interest rate of 1.65%. The maximum amount outstanding in 2014 was $40.0 million. As at June 30, 2014, $20.0 million remained outstanding on the loans, which was repaid in July 2014.

FINANCIAL INSTRUMENTS

The carrying values of financial instruments included in current assets, current liabilities, other assets, and other liabilities approximate their fair value, reflecting their nature, short-term maturity or normal trade credit terms.

The fair value of long-term debt 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 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 the actual liability, and therefore, does not include exchange or settlement costs.

The carrying and estimated fair values of the Company's long-term debt follows:

($millions)	June 30, 2015 Carrying Value	June 30, 2015 Estimated Fair Value	December 31, 2014 Carrying Value	December 31, 2014 Estimated Fair Value
Long-term debt, including current portion and committed credit facility	575.1	725.0	548.1	705.8

BUSINESS RISK MANAGEMENT

There were no material changes to the Company's business risks during the second quarter of 2015, with the exception of the following.

In December 2014, the Company and the International Brotherhood of Electrical Workers ("IBEW") reached tentative agreements with both the clerical and craft bargaining units. The clerical agreement was ratified on March 17, 2015 and the craft agreement was ratified on June 18, 2015. The contracts expire on September 30, 2017.

CHANGES IN ACCOUNTING POLICIES

There were no changes to the Company's accounting policies during the second quarter of 2015.

FUTURE ACCOUNTING CHANGES

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. The amendments in this update create Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard is effective for annual and interim periods beginning on or after December 15, 2016 and is to be applied on a full retrospective or modified retrospective basis. In July 2015, FASB decided to defer by one year the effective date of its new revenue recognition standard and allow early adoption as of the original effective date. The Company is in the process of identifying contracts with customers and performance obligations in those contracts to assess the impact that the adoption of this standard will have on its financial statements.

In April 2015, FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* The amendments in this update require that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of the related debt. This update is effective for annual and interim periods beginning on or after December 15, 2015 and is to be applied on a retrospective basis. Early adoption is permitted. The adoption of this update is expected to result in the reclassification of debt issuance costs from long-term other assets to long-term debt on the Company's balance sheet. As at June 30, 2015, debt issuance costs included in long-term other assets were approximately $2.6 million (December 31, 2014 - $2.7 million).

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

The following table sets forth unaudited quarterly information for each of the eight quarters ended September 30, 2013 through June 30, 2015. The quarterly information reflects Canadian dollars and has been obtained from the Company's interim unaudited financial statements which, in the opinion of management, have been prepared in accordance with U.S. GAAP. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

	Second Quarter June 30		First Quarter March 31		Fourth Quarter December 31		Third Quarter September 30	
(unaudited)	2015	2014	2015	2014	2014	2013	2014	2013
Electricity Sales *(GWh)*	1,336.7	1,346.3	2,041.0	1,999.8	1,598.1	1,583.0	954.3	950.0
Revenue *($millions)*	144.2	145.3	215.2	210.0	169.3	169.4	105.2	105.3
Net Earnings Applicable to Common Shares *($millions)*	10.9	10.6	11.2	10.2	9.6	10.7	6.9	7.6
Earnings per Common Share *($)* [1]	1.06	1.03	1.08	0.99	0.92	1.03	0.67	0.73

[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, revenues and cost dynamics are such that earnings are expected to be lower in the third quarter than the remaining quarters in the year.

Trending

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

Earnings: Beyond the impact of expected modest 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.

Newfoundland Power is regulated under a cost of service regime. Cost of service regulation entitles the Company to an opportunity to recover its reasonable cost of providing service, including its cost of capital, in each year.

Newfoundland Power expects to maintain its investment grade credit ratings in 2015.

2016 Deferred Cost Recovery Application: On April 15, 2015, the Company filed an application with the PUB to approve a return on rate base for 2016 of 7.38%, with a range of 7.20% to 7.56%; a 2016 cost recovery deferral of approximately $4.0 million; and to defer the filing of Newfoundland Power's next GRA to on or before June 1, 2016. On July 15, 2015, the PUB issued an Order denying the Company's application. The Company will file its GRA with the PUB on or before October 16, 2015 to establish customer electricity rates for 2016.

Customer Rates:

Energy Prices: Effective July 1, 2015, there was an overall average decrease in customer electricity rates of approximately 5.25%, reflecting a 10.0% rate decrease associated with the annual operation of Hydro's Rate Stabilization Plan ("Hydro RSP") and the Company's RSA partially offset by a 4.75% interim rate increase in the wholesale electricity rate charged by Hydro to Newfoundland Power.

Variances in Hydro's cost of fuel used to generate electricity are captured in the Hydro RSP and flowed-through to the Company's customers through the operation of the Company's RSA. The main driver for the 10.0% rate reduction was a decrease in the forecast cost of oil to be used at the Holyrood generating facility. The RSA also captures variances in Newfoundland Power's cost such as energy supply cost variances and employee future benefit cost variances.

On June 23, 2015, the PUB approved an interim rate increase of 4.75% in the utility base rate charged by Hydro to Newfoundland Power. The final rates to be charged by Hydro, and the related impact on customer rates, are pending PUB approval.

The change in customer rates will have no impact on earnings for Newfoundland Power.

Newfoundland and Labrador Residential Energy Rebate: As part of its 2015 Budget, the Government of Newfoundland and Labrador announced the elimination of the residential energy rebate program effective July 1, 2015. The program had provided a rebate to residential customers equivalent to the 8 percent provincial portion of the HST on home energy purchases, including electricity.

The overall impact of the change in energy prices and the elimination of the residential energy rebate is an average rate increase of approximately 3.1% for residential customers.

Hydro RSP: Due to mismatches in Hydro's customer pricing and actual costs of supply from 2007 through 2013, a balance of over $130 million has accumulated in the Hydro RSP. On May 6, 2015, the Newfoundland and Labrador Supreme Court issued a decision directing the RSP balance be refunded to Newfoundland Power's customers and Hydro's island grid customers in the form of a rebate. It is estimated that Newfoundland Power's customers are entitled to 93% of the RSP balance, or approximately $121 million. The Company and Hydro are currently developing the details of the rebate program, which will be presented to the PUB for approval.

Supply Costs: Hydro has a number of applications before the PUB for consideration, including a GRA which will, amongst other things, establish wholesale rates for Newfoundland Power. The outcome of these applications, and future changes in supply costs, including costs associated with Nalcor Energy's Muskrat Falls hydroelectric generation development and associated transmission assets, may affect electricity prices in a manner that affects the Company's sales.

Inquiry and Hearing into Supply Issues and Power Outages on the Island Interconnected System: The Company experienced losses of electricity supply from Hydro in January 2013 and January 2014, which disabled the Company from meeting all of its customers' requirements. During 2014, the PUB commenced an inquiry and hearing into these system supply issues and power interruptions. As well, the Government of Newfoundland and Labrador has engaged consultants to complete an independent review of the current electricity system in Newfoundland and Labrador. See additional detail with respect to these reviews in the "Regulation" section of this MD&A.

Labor Relations: Approximately 54% of the employees of the Company are members of the IBEW labor union. In December 2014, the Company and the IBEW reached tentative agreements with both its clerical and craft bargaining units. The clerical agreement was ratified on March 17, 2015 and the craft agreement was ratified on June 18, 2015. The contracts expire on September 30, 2017.

2016 Capital Plan: On June 23, 2015, the Company filed an application with the PUB requesting approval for its 2016 capital expenditure plan totalling $107.0 million. The application is currently under review by the PUB.

OUTSTANDING SHARES

As at the filing date of this MD&A the Company had issued and outstanding 10,320,270 common shares; 179,225 First Preference Shares, Series A; 337,983 First Preference Shares, Series B; 194,590 First Preference Shares, Series D; and 182,900 First Preference Shares, Series G. Each of the common shares and First Preference Shares carry voting rights equal to one vote per share.

CORPORATE INFORMATION

Additional information about Newfoundland Power, including its Annual Information Form, is available on SEDAR at www.sedar.com.

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

Fortis is a leader in the North American electric and gas utility business, with total assets of approximately $28 billion and fiscal 2014 revenue of $5.4 billion. Its regulated utilities serve more than 3 million customers across Canada and in the United States and the Caribbean. For more information, visit www.fortisinc.com or www.sedar.com.

For further information, contact:

Jocelyn Perry, Vice President, Finance & CFO
Newfoundland Power Inc.
P.O. Box 8910, St. John's, NL A1B 3P6
Tel: (709) 737-2812
Fax: (709) 737-5300
email: jperry@newfoundlandpower.com

Share Transfer Agent and Registrar:

Computershare Investor Services Inc.
100 University Street, 8th Floor
Toronto, ON M5J 2Y1
Tel: (416) 263-9200
Fax: (888) 453-0330
www.computershare.com

Website: www.newfoundlandpower.com

Unaudited Statements of Earnings

For the Three and Six Months Ended June 30

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

	Three Months Ended		Six Months Ended	
	2015	2014	2015	2014
Revenue	$ 144,200	$ 145,343	$ 359,439	$ 355,331
Expenses				
Purchased Power	85,479	86,683	239,178	236,237
Operating expenses	13,746	14,479	30,673	32,306
Employee future benefits	6,538	6,093	13,320	12,173
Depreciation and amortization	14,344	13,543	27,805	26,271
Cost recovery deferrals	999	997	1,996	1,995
Finance charges *(Note 6)*	8,930	9,523	17,865	19,071
	130,036	131,318	330,837	328,053
Earnings Before Income Taxes	14,164	14,025	28,602	27,278
Income tax expense *(Note 7)*	3,137	3,267	6,264	6,179
Net Earnings	11,027	10,758	22,338	21,099
Preference share dividends	138	139	278	279
Net Earnings Applicable to Common Shares	$ 10,889	$ 10,619	$ 22,060	$ 20,820
Basic and Diluted Earnings per Common Share	$ 1.06	$ 1.03	$ 2.14	$ 2.02

Unaudited Statements of Changes in Equity

For the Six Months Ended June 30

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

	Common Shares	Preference Shares	Retained Earnings	Total Equity
As at January 1, 2015	$ 70,321	$ 8,948	$ 366,426	**$ 445,695**
Net earnings	-	-	22,338	**22,338**
Allocation of Part VI.1 tax	-	-	135	**135**
Dividends on common shares ($0.46 per share)	-	-	(4,747)	**(4,747)**
Dividends on preference shares	-	-	(278)	**(278)**
Redemption of preference shares	-	(1)	-	**(1)**
As at June 30, 2015	$ 70,321	$ 8,947	$ 383,874	**$ 463,142**
As at January 1, 2014	$ 70,321	$ 8,981	$ 351,279	**$ 430,581**
Net earnings	-	-	21,099	**21,099**
Allocation of Part VI.1 tax	-	-	138	**138**
Dividends on common shares ($1.12 per share)	-	-	(11,558)	**(11,558)**
Dividends on preference shares	-	-	(279)	**(279)**
Redemption of preference shares	-	(28)	-	**(28)**
As at June 30, 2014	$ 70,321	$ 8,953	$ 360,679	**$ 439,953**

See accompanying notes to financial statements

Unaudited Balance Sheets

As at

(in thousands of Canadian dollars)

	June 30, 2015	December 31, 2014
Assets *(Note 8)*		
Current assets		
Accounts receivable	$ 74,452	$ 82,073
Income taxes receivable	2,560	3,593
Materials and supplies	1,384	1,315
Prepaid expenses	1,385	1,315
Regulatory assets *(Note 5)*	26,236	29,726
	106,017	118,022
Property, plant and equipment	1,005,392	984,268
Intangible assets	16,198	16,064
Regulatory assets *(Note 5)*	330,747	327,793
Other assets	3,721	3,848
	$ 1,462,075	$ 1,449,995
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings	$ 20	$ 3,843
Accounts payable and accrued charges	49,856	80,443
Interest payable	6,444	6,444
Defined benefit pension plans	241	244
Other post-employment benefits	2,833	2,695
Regulatory liabilities *(Note 5)*	3,636	2,335
Current instalments of long-term debt *(Note 8)*	127,400	70,000
Deferred income taxes	5,035	6,111
	195,465	172,115
Regulatory liabilities *(Note 5)*	138,573	136,053
Defined benefit pension plans	7,499	14,706
Other post-employment benefits	83,282	82,548
Other liabilities	628	660
Deferred income taxes	125,751	120,083
Long-term debt *(Note 8)*	447,735	478,135
	998,933	1,004,300
Shareholders' equity		
Common shares, no par value, unlimited authorized shares, 10.3 million shares issued and outstanding	70,321	70,321
Preference shares	8,947	8,948
Retained earnings	383,874	366,426
	463,142	445,695
	$ 1,462,075	$ 1,449,995

Commitments *(Note 13)*

See accompanying notes to financial statements.

Unaudited Statements of Cash Flows

For the Three and Six Months Ended June 30

(in thousands of Canadian dollars)

	Three Months Ended		Six Months Ended	
	2015	**2014**	**2015**	**2014**
Cash From (Used in) Operating Activities				
Net earnings	$ 11,027	$ 10,758	$ 22,338	$ 21,099
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation of property, plant and equipment	13,712	12,916	26,540	25,017
Amortization of intangible assets and other	694	690	1,389	1,381
Change in long-term regulatory assets and liabilities	(2)	3,807	(2,489)	6,315
Deferred income taxes	(822)	(674)	(892)	(838)
Employee future benefits	145	(502)	215	(875)
Other	(13)	(8)	25	12
Change in non-cash working capital	1,484	(900)	(13,814)	(21,150)
	26,225	26,087	33,312	30,961
Cash From (Used In) Investing Activities				
Capital expenditures	(26,908)	(24,703)	(50,990)	(42,244)
Intangible asset expenditures	(727)	(794)	(1,399)	(1,213)
Contributions from customers	693	816	955	1,841
Other	(22)	108	(19)	87
	(26,964)	(24,573)	(51,453)	(41,529)
Cash From (Used In) Financing Activities				
Change in short-term borrowings	(4,239)	2,274	(3,823)	2,274
Net proceeds of committed credit facility	7,500	-	27,000	-
Proceeds from related party loans *(Note 12)*	15,000	109,000	15,000	192,000
Repayment of related party loans *(Note 12)*	(15,000)	(107,500)	(15,000)	(172,000)
Redemption of preference shares	(1)	(28)	(1)	(28)
Payment of debt financing costs *(Note 8)*	(10)	-	(10)	-
Dividends				
Preference shares	(138)	(139)	(278)	(279)
Common shares	(2,373)	(5,779)	(4,747)	(11,558)
	739	(2,172)	18,141	10,409
Decrease in Cash	-	(658)	-	(159)
Cash, Beginning of the Period	-	658	-	159
Cash, End of the Period	$ -	$ -	$ -	$ -

See accompanying notes to financial statements.

Unaudited Notes to Interim Financial Statements

For the Three and Six Months Ended June 30, 2015 and 2014 (unless otherwise noted)

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

1. Description of the Business

Newfoundland Power Inc. (the "Company" or "Newfoundland Power") is a regulated electricity utility that operates an integrated generation, transmission, and distribution system throughout the island portion of Newfoundland and Labrador. All of the common shares of the Company are owned by Fortis Inc. ("Fortis"). Newfoundland Power has an installed generating capacity of 139 megawatts ("MW"), of which approximately 97 MW is hydroelectric generation. It generates approximately 7% of its energy needs and purchases the remainder from Newfoundland and Labrador Hydro ("Hydro").

The Company is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB"), and 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.

On April 17, 2013, the PUB issued the Order on the Company's 2013/2014 General Rate Application ("2013/2014 Order") which established, for ratemaking purposes, a regulated rate of return on common equity ("ROE") of 8.80% and 45% common equity for 2013 through 2015. The Company's rate of return on rate base for 2015 is 7.50%, with a range of 7.32% to 7.68%, compared to 7.88%, with a range of 7.70% to 8.06% for 2014. The operation of the Automatic Adjustment Formula, which historically adjusted the Company's rate-making ROE between general rate hearings, has been suspended until the next General Rate Application ("GRA").

On April 15, 2015, the Company filed an application with the PUB to approve a return on rate base for 2016 of 7.38%, with a range of 7.20% to 7.56%; a 2016 cost recovery deferral of approximately $4.0 million; and to defer the filing of Newfoundland Power's next GRA to on or before June 1, 2016. On July 15, 2015, the PUB issued an Order denying the Company's application. The Company will file its GRA with the PUB on or before October 16, 2015 to establish customer electricity rates for 2016.

2. Basis of Presentation

These interim unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial statements and do not include all of the disclosures provided in the annual audited financial statements. These interim unaudited financial statements should be read in conjunction with the Company's 2014 annual audited financial statements.

An evaluation of subsequent events through July 21st, 2015, the date these interim financial statements were approved by the Board of Directors of the Company and available to be issued, was completed and it was determined there were no circumstances that warranted recognition and disclosure of events or transactions in the interim unaudited financial statements as at June 30, 2015, other than the July 15, 2015 regulatory decision as discussed in Note 1.

The accounting policies and methods of their application, followed in the preparation of these interim unaudited financial statements are the same as those followed in the preparation of the Company's 2014 annual audited financial statements.

3. Future Accounting Changes

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. The amendments in this update create Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605*, Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard is effective for annual and interim periods beginning on or after December 15, 2016 and is to be applied on a full retrospective or modified retrospective basis. In July 2015, FASB decided to defer by one year the effective date of its new revenue recognition standard and allow early adoption as of the original effective date. The Company is in the process of identifying contracts with customers and performance obligations in those contracts to assess the impact that the adoption of this standard will have on its financial statements.

In April 2015, FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* The amendments in this update require that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of the related debt. This update is effective for annual and interim periods beginning on or after December 15, 2015 and is to be applied on a retrospective basis. Early adoption is permitted. The adoption of this update is expected to result in the reclassification of debt issuance costs from long-term other assets to long-term debt on the Company's balance sheet. As at June 30, 2015, debt issuance costs included in long-term other assets were approximately $2.6 million (December 31, 2014 - $2.7 million).

4. 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: In addition to 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, revenues and cost dynamics are such that earnings are generally expected to be lower in the third quarter than the remaining quarters in the year.

5. Regulatory Assets and Liabilities

Regulatory assets and liabilities arise as a result of the rate setting process. 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, credited to customers through the rate setting process. The regulatory assets and liabilities, and their eventual settlement through the rate setting process, are prescribed by the PUB and impact the Company's cash flows.

The underlying accounting practices, which result in the recognition of regulatory assets and regulatory liabilities, are disclosed in Notes 2 and 6 to the Company's 2014 annual audited financial statements.

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

	June 30, 2015	December 31, 2014	Remaining Recovery Period (Years)
Regulatory assets			
Rate stabilization account	$ 1,475	$ 2,342	2
OPEBs	36,792	38,544	11
Pension deferral	-	281	-
Cost recovery deferrals	1,995	3,990	<1
Deferred GRA costs	161	322	<1
Conservation and demand management deferral	7,854	6,953	7
Optional seasonal rate revenue and cost recovery	-	97	-
Employee future benefits	119,891	128,237	Benefit payment
Weather normalization account	2,247	46	2
OPEBs cost variance deferral account	851	-	<1
Energy supply cost variance reserve	3,526	-	2
Deferred income taxes	182,191	176,707	Life of related assets
Total regulatory assets	356,983	357,519	
Less: current portion	26,236	29,726	
Long-term regulatory assets	$ 330,747	$ 327,793	

	June 30, 2015	December 31, 2014	Remaining Settlement Period (Years)
Regulatory liabilities			
Optional seasonal rate revenue and cost recovery	$ 7	$ -	2
Pension expense variance deferral account ("PEVDA")	2,468	-	<1
Demand management incentive account	-	628	-
Weather normalization account	1,168	2,335	<1
Future removal and site restoration provision	138,498	135,357	Life of related assets
Excess earnings	68	68	To be determined
Total regulatory liabilities	142,209	138,388	
Less: current portion	3,636	2,335	
Long-term regulatory liabilities	$ 138,573	$ 136,053	

6. Finance Charges

	Three Months Ended June		Six Months Ended June 30	
	2015	2014	2015	2014
Interest - first mortgage sinking fund bonds	$ 8,561	$ 9,423	$ 17,121	$ 18,846
Interest - committed credit facility and other	410	142	752	246
Total interest expense	8,971	9,565	17,873	19,092
Amortization – debt issue costs	45	50	91	101
Amortization – committed credit facility costs	17	13	34	26
Interest portion of allowance for funds used during construction	(103)	(105)	(133)	(148)
	$ 8,930	$ 9,523	$ 17,865	$ 19,071

7. Income Taxes

The composition of the Company's income tax expense follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Current income tax expense	$ 3,959	$ 3,941	$ 7,156	$ 7,017
Deferred income tax expense	3,094	1,162	4,592	1,116
Regulatory adjustment	(3,916)	(1,836)	(5,484)	(1,954)
	$ 3,137	$ 3,267	$ 6,264	$ 6,179

Income taxes differ from the amount that would be determined by applying the enacted combined Canadian federal and provincial statutory income tax rate to earnings before income taxes. A reconciliation of the combined statutory income tax rate to the Company's effective income tax rate follows:

	Six Months Ended June 30	
	2015	2014
Earnings before income taxes per financial statements	$ 28,602	$ 27,278
Statutory tax rate	29.0%	29.0%
Income taxes, at statutory rate	8,295	7,911
Items capitalized for accounting purposes but expensed for income tax purposes	(3,755)	(3,400)
Difference between capital cost allowance and depreciation and amortization expense	1,536	1,443
Other	188	225
Income tax expense	$ 6,264	$ 6,179
Effective income tax rate	21.9%	22.7%

As at June 30, 2015, the Company had no non-capital or capital losses (2014 - Nil) carried forward.

8. Long-term Debt

	June 30, 2015	December 31, 2014
First mortgage sinking fund bonds	$ 483,635	$ 483,635
Committed credit facility *(Note 10)*	91,500	64,500
	575,135	548,135
Less: current instalments of long-term debt	127,400	70,000
	$ 447,735	$ 478,135

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. They require an annual sinking fund payment of 1% or the original principal balance. A series of 10.9% first mortgage sinking fund bonds for $30.4 million is scheduled to mature in May 2016.

On April 16, 2015, the PUB approved the Company's application to issue first mortgage sinking fund bonds during 2015. The proceeds from the anticipated issuance will be used to repay short-term borrowings.

The committed credit facility is a syndicated $100.0 million revolving term credit facility that matures in August 2019. Borrowings under the committed credit facility are in the form of bankers acceptances that primarily have a maturity date of 30 days or less. Management intends to refinance these amounts in the future with the issuance of other long-term debt.

9. Fair Value Measurement

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or a liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model.

The fair value of long-term debt, including current portion and committed credit facility, is classified as Level 2 based on the three level hierarchy that distinguishes the level of pricing observability utilized in measuring fair value. Level 2 includes inputs other than quoted prices in active markets, that are either directly or indirectly observable for the asset or liability. The fair value 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 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 long-term debt, including current portion and committed credit facility, at June 30, 2015 and December 31, 2014 is as follows:

	June 30, 2015		December 31, 2014	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility	$ 575,135	$ 724,958	$ 548,135	$ 705,814

As at June 30, 2015, the fair value of the Company's primary defined benefit pension plan assets was $388.2 million compared to fair value of plan assets of $375.3 million as at December 31, 2014. The fair value measurements for all of the pension plan assets, as held in various pooled funds, are classified as Level 2.

The fair value of the Company's remaining financial instruments included in current assets, current liabilities, other assets and other liabilities approximate their carrying value, reflecting their nature, short-term maturity or normal trade credit terms.

The fair value of the Company's financial instruments reflects a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet date. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment, and therefore, may not be relevant in predicting the Company's future earnings or cash flows.

10. Financial Risk Management

The Company is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments in the normal course of business.

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.

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.

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 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.

The Company has historically generated sufficient annual cash flows from operating activities to service annual interest and sinking fund payments on debt, to fund pension obligations, 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.

Newfoundland Power has unsecured bank credit facilities of $120.0 million comprised of the $100.0 million committed credit facility and a $20.0 million demand facility. The committed facility matures in August 2019. Subject to lenders' approval, the Company may request an extension for a further period of up to, but not exceeding, a five year term.

Borrowings under the committed credit facility are in the form of bankers acceptances bearing interest based on the daily Canadian Deposit Offering Rate for the date of borrowing plus a stamping fee. Standby fees on the unutilized portion of the committed credit facility are payable quarterly in arrears at a fixed rate of 0.16%. Interest on borrowings under the demand facility is calculated at the daily prime rate and is payable monthly in arrears.

The utilized and unutilized credit facilities as at June 30, 2015 and December 31, 2014 follow:

($millions)	June 30, 2015	December 31, 2014
Total Credit Facilities	120.0	120.0
Borrowing, Committed Facility *(Note 8)*	(91.5)	(64.5)
Borrowing, Demand Facility	-	(3.8)
Credit Facilities Available	28.5	51.7

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:

	June 30, 2015		December 31, 2014	
Rating Agency	Rating	Outlook	Rating	Outlook
Moody's Investors Service	A2	Stable	A2	Stable
DBRS	A	Stable	A	Stable

During the first quarter of 2015, 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 Moody's and DBRS remain unchanged from 2014.

10. Financial Risk Management (cont'd)

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. The Company periodically refinances its credit facilities in the normal course with fixed-rate first mortgage sinking fund bonds thereby significantly mitigating 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'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. The operation of the PUB approved PEVDA is expected to significantly mitigate the impact on the Company's pension expense, whereby the difference arising from variations in assumptions between actual pension expense and pension expense approved by the PUB for rate setting purposes is recovered from (returned to) customers through the Company's RSA.

Concentration of Supply: The Company is dependent on Hydro for approximately 93% of its energy requirements. The principal terms of the supply arrangements with Hydro are regulated by the PUB on a basis similar to that upon which the Company's service to its customers is regulated. In future, the terms of these supply arrangements may be partially or wholly subject to legislation, including legislation governing Nalcor Energy's Muskrat Falls hydroelectric generation development and associated transmission systems.

11. Employee Future Benefits

The Company's employee future benefits cost includes both the net benefit costs of its defined benefit and defined contribution plans. The components of net benefit costs associated with the Company's defined benefit plans, prior to capitalization, are as follows:

	Three Months Ended June 30			
	2015		2014	
	Defined Benefit Pension Plans	OPEBs	Defined Benefit Pension Plans	OPEBs
Service costs	$ 1,481	$ 468	$ 1,150	$ 302
Interest costs	3,845	858	4,069	1,179
Expected return on plan assets	(5,073)	-	(4,987)	-
Amortization of net actuarial losses	3,069	154	1,865	480
Amortization of past service costs	42	(323)	7	(323)
	$ 3,364	$ 1,157	$ 2,104	$ 1,638
Regulatory adjustments				
Amortization of transitional obligations	333	357	333	357
Amortization of pension deferrals	206	-	488	-
Amortization of OPEBs regulatory asset	-	876	-	876
Net benefit cost	$ 3,903	$ 2,390	$ 2,925	$ 2,871

11. Employee Future Benefits (cont'd)

	Six Months Ended June 30			
	2015		2014	
	Defined Benefit Pension Plans	OPEBs	Defined Benefit Pension Plans	OPEBs
Service costs	$ 2,965	$ 937	$ 2,298	$ 632
Interest costs	7,693	1,715	8,136	2,368
Expected return on plan assets	(10,145)	-	(9,974)	-
Amortization of net actuarial losses	6,138	308	3,729	959
Amortization of past service costs	84	(646)	15	(625)
	$ 6,735	$ 2,314	$ 4,204	$ 3,334
Regulatory adjustments				
Amortization of transitional obligations	667	714	667	714
Amortization of pension deferrals	693	-	976	-
Amortization of OPEBs regulatory asset	-	1,752	-	1,752
Net benefit cost	$ 8,095	$ 4,780	$ 5,847	$ 5,800

During the three months ended June 30, 2015, the Company expensed $0.5 million (2014 - $0.4 million) related to its defined contribution pension plans. For the six months ended June 30, 2015, the cost was $0.9 million (2014 - $0.8 million).

In April 2015, Newfoundland Power received the latest Actuarial Valuation for its defined benefit pension plan. This indicated the funding status of the plan as at December 31, 2014, on a going concern and solvency basis. On a going concern basis, the surplus increased from $7.2 million as at December 31, 2011 to $32.1 million as at December 31, 2014. On a solvency basis, the funding deficit decreased from $49.5 million as at December 31, 2011 to $7.0 million as at December 31, 2014. Contributions to the plan since 2011 combined with favorable market returns was partially offset by lower interest rates at December 31, 2014 compared to December 31, 2011. The solvency deficit of $7.0 million will be fully funded by the end of the third quarter of 2015.

Based on the latest Actuarial Valuation, contributions for current service amounts are expected to be $3.1 million in 2015, $3.2 million in 2016 and $3.4 million in 2017. The Company expects to have sufficient cash generated from operations to meet future pension funding requirements.

12. 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 second quarter and six months ended June 30, 2015 and 2014 follow:

	Three Months Ended June 30		Six Months Ended June 30	
($millions)	2015	2014	2015	2014
Revenue [1]	1.4	1.3	3.1	3.0
Operating expenses	0.5	0.5	1.1	0.9

[1] *Includes charges for electricity consumed.*

During the second quarter of 2015, the Company borrowed $15 million in short-term demand loans from Fortis at an interest rate of 2.45%. The loans were fully repaid in May 2015.

During the three and six months ended June 30, 2014, the Company borrowed short-term demand loans from Fortis at an average interest rate of 1.65%. The maximum amount outstanding in 2014 was $40.0 million. As at June 30, 2014, $20.0 million remained outstanding on the loans, which was repaid in July 2014.

13. Commitments

Except for the decrease in pension funding obligations, as disclosed in Note 11, there were no material changes in the nature and amount of the Company's commitments as disclosed in the Company's 2014 annual audited financial statements.