



Third Quarter

2020

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NEWFOUNDLAND 
POWER
A FORTIS COMPANY

INTERIM MANAGEMENT DISCUSSION AND ANALYSIS

For the Three and Nine Month Periods Ended September 30, 2020

Dated October 29, 2020

The following interim Management Discussion and Analysis (“MD&A”) should be read in conjunction with Newfoundland Power Inc.’s (the “Company” or “Newfoundland Power”) condensed interim unaudited financial statements and notes thereto for the three and nine month periods ended September 30, 2020 and the MD&A and annual audited financial statements for the year ended December 31, 2019. 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 7 to the Company’s 2019 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; expectations associated with Nalcor Energy’s Muskrat Falls project; the 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 expectation that existing insurance coverage will be maintained; the Company’s expectations for employee future benefit costs and that its pension investment strategy will reduce risk; future customer growth and electricity sales; the forecast gross capital expenditures for 2020; and potential impacts related to the COVID-19 pandemic.

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 2020; 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; electricity demand; health, safety and environmental regulations; economic conditions; capital resources and liquidity; interest rates; cyber security; labour relations; human resources; operating and maintenance investment requirements; weather; insurance; defined benefit pension plan performance; information technology infrastructure; and potential impacts of COVID-19. 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 and Annual Information Form, is available on the System for Electronic Document Analysis and Retrieval (“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 Newfoundland and Labrador. The Company is a subsidiary of Fortis Inc. (“Fortis”). Fortis is a well-diversified leader in the North American regulated electric and gas utility industry, 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 269,000 customers, comprising 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 an opportunity to recover, through customer rates, all reasonable 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 January 24, 2019, the PUB issued an order on the Company's 2019/2020 General Rate Application (the "2019/2020 GRA Order") which established the Company's cost of capital for rate making purposes for 2019 through 2021 based upon an 8.5% return on equity and 45% common equity. The Company's rate of return on rate base for 2019 and 2020 was established at 7.01% and 7.04%, respectively, with a range of ± 18 basis points. The Company is required to file its next GRA on or before June 1, 2021.

On May 12, 2020, through Order in Council OC2020-081, the Government of Newfoundland and Labrador announced a one-time bill credit to customers in lieu of the annual July 1 rate stabilization adjustment in an effort to provide immediate financial relief to electricity customers dealing with the financial impacts of the COVID-19 pandemic. The one-time bill credit is largely due to a decrease in Hydro's forecast fuel costs at the Holyrood Thermal Generating Facility over the next year.

On June 17, 2020, in Order P.U. 16 (2020), the PUB approved a July 2020 wholesale bill credit from Hydro to the Company of approximately \$50.6 million. In Order P.U. 17 (2020), the PUB approved, as filed, the Company's plan to provide the one-time bill credit to eligible customers in July 2020. As a result, customer electricity rates remained unchanged effective July 1, 2020. The plan reflects a total bill credit fund of approximately \$47.7 million. This fund reflects the \$50.6 million wholesale bill credit from Hydro and \$2.9 million associated with the Company's' RSA balance and Municipal Tax Adjustment Factor. The one-time bill credit was provided to customers in the third quarter of 2020, as approved by the PUB. The amount of the one-time bill credit that customers received varied based on their energy usage. The one-time customer bill credit will not have a material impact on annual earnings for Newfoundland Power.

On July 9, 2020, the Company filed an application with the PUB requesting approval of its 2021 capital expenditure plan totalling \$111 million. The application is currently under review by the PUB.

Financial Highlights

	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	Change	2020	2019	Change
Electricity Sales (<i>gigawatt hours ("GWh")</i>) ¹	916.1	922.8	(6.7)	4,196.8	4,285.2	(88.4)
Earnings Applicable to Common Shares						
\$ Millions	9.5	11.0	(1.5)	27.6	33.3	(5.7)
\$ Per Share	0.92	1.07	(0.15)	2.67	3.23	(0.56)
Cash Flow from Operating Activities (<i>\$millions</i>)	72.2	61.5	10.7	106.3	90.5	15.8
Total Assets (<i>\$millions</i>)				1,720.6	1,629.6	91.0

¹ Reflects normalized electricity sales.

Electricity sales for the third quarter of 2020 decreased by 6.7 GWh, or 0.7%, compared to the third quarter of 2019. The decrease is primarily due to lower average consumption by commercial customers, partially offset by higher average consumption by residential customers and an increase in the number of customers. Electricity sales continue to be impacted by preventative measures implemented by health authorities as a result of the COVID-19 pandemic.

On a year-to-date basis, electricity sales decreased by 88.4 GWh, or 2.1%, compared to the same period in 2019. The decrease is primarily due to lower average consumption by residential and commercial customers, partially offset by an increase in the number of customers and an additional day of electricity sales due to 2020 being a leap year.

Earnings for the third quarter of 2020 decreased by \$1.5 million compared to the third quarter of 2019, and decreased by \$5.7 million on a year-to-date basis. Quarterly earnings in 2020 were influenced by an increase in the wholesale electricity rate paid by Newfoundland Power to Hydro effective October 1, 2019 (the "October 1, 2019 Wholesale Rate Change"). Effective October 1, 2019, there was an overall increase in electricity rates charged to customers of approximately 6.4%. The rate increase was the net result of a 7.6% increase resulting from the implementation of Hydro's 2017 GRA order and a 1.2% decrease related to the annual operation of Newfoundland Power's Rate Stabilization Account ("RSA"). This resulted in lower earnings of approximately \$1.2 million in the third quarter of 2020 compared to the third quarter of 2019, and lower earnings of approximately \$3.3 million on a year-to-date basis. The change in customer rates will impact the timing of quarterly earnings in 2020 as compared to 2019, however, it will not have a material impact on annual earnings for Newfoundland Power.

Excluding the timing impact of the October 1, 2019 Wholesale Rate Change, earnings for the third quarter decreased by \$0.3 million compared to the third quarter of 2019, and decreased by \$2.4 million on a year-to-date basis. The decrease for the third quarter and year-to-date periods reflects lower electricity sales and higher operating expenses associated with a severe storm in January 2020. The COVID-19 pandemic did not have a material impact on the Company's year-to-date results in 2020.

Cash flow from operating activities for the third quarter of 2020 increased by \$10.7 million compared to the third quarter of 2019, and increased by \$15.8 million on a year-to-date basis. The increase for the third quarter and year-to-date periods reflects the operation of regulatory mechanisms and changes in the Company's working capital, including the timing of receipts and payments, partially offset by an increase in income taxes paid.

Total assets as at September 30, 2020 increased by \$91.0 million compared to September 30, 2019. This increase primarily reflects higher cash on hand, continued investment in the electricity system and an increase in the funded status of the Company's defined benefit pension plan, partially offset by a decrease in accounts receivable.

RESULTS OF OPERATIONS

Revenue

(\$millions)	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	Change	2020	2019	Change
Electricity Revenue ¹	118.6	110.5	8.1	518.9	492.7	26.2
Other Revenue ²	2.8	2.9	(0.1)	8.4	8.6	(0.2)
Total Revenue	121.4	113.4	8.0	527.3	501.3	26.0

¹ Electricity revenue includes regulatory deferrals and amortizations recognized pursuant to PUB orders of approximately \$0.3 million and (\$4.8) million for the three and nine months ended September 30, 2020, respectively (2019 - \$0.5 million and \$2.4 million, respectively).

² Other revenue includes charges to telecommunication companies, interest revenue associated with customer accounts and other miscellaneous amounts.

Electricity revenue for the third quarter of 2020 increased by \$8.1 million compared to the third quarter of 2019, and increased by \$26.2 million on a year-to-date basis. The increase for the third quarter and year-to-date periods primarily reflects the October 1, 2019 Wholesale Rate Change, partially offset by lower electricity sales and changes in regulatory deferrals and amortizations recognized pursuant to PUB orders.

Regulatory amortizations and deferrals include the energy supply cost variance, the pension expense variance deferral ("PEVDA"), the other post-employment benefits ("OPEB") cost variance deferral and the amortization of annual customer energy conservation program costs. These regulatory mechanisms are described in Note 7 to the Company's 2019 annual audited financial statements.

Other revenue for the third quarter of 2020 was \$0.1 million lower than the third quarter of 2019 and \$0.2 million lower on a year-to-date basis. The decrease for both periods primarily reflects lower miscellaneous revenue.

Purchased Power: Purchased power expense for the third quarter of 2020 increased by \$7.9 million compared to the third quarter of 2019, and increased by \$26.2 million on a year-to-date basis. The increase for the third quarter and year-to-date periods was primarily due to the October 1, 2019 Wholesale Rate Change, partially offset by lower energy purchases.

Operating Expenses: Operating expenses for the third quarter of 2020 increased by \$0.3 million compared to the third quarter of 2019. The increase was primarily due to (i) an increase in bad debt expense and (ii) higher amortization of deferred conservation and demand management costs, as approved by the PUB. These increases were partially offset by lower corporate and labour costs.

On a year-to-date basis, operating expenses increased by \$3.1 million compared to the same period in 2019. The increase was primarily due to (i) an increase in labour costs associated with a severe storm in January 2020, (ii) higher amortization of deferred conservation and demand management costs, (iii) an increase in pension current service costs, and (iv) an increase in bad debt expense. These increases were partially offset by lower corporate costs.

Employee Future Benefits: Employee future benefits for the third quarter of 2020 were \$1.0 million higher than the third quarter of 2019, and \$2.8 million higher on a year-to-date basis. The increase for the third quarter and year-to-date periods was primarily due to higher amortization of net actuarial losses for the defined benefit pension plan in 2020, mainly due to a lower discount rate at December 31, 2019.

Depreciation and Amortization: Depreciation and amortization expense for the third quarter of 2020 was \$0.8 million higher than the third quarter of 2019, and \$2.4 million higher on a year-to-date basis. The increase for the third quarter and year-to-date periods reflects the Company's capital expenditure program.

Cost Recovery Deferrals: The Company recorded a \$2.5 million over-recovery from customers in 2019, as approved in the 2019/2020 GRA Order. The PUB has approved the amortization of this deferral over a 34-month period from March 1, 2019 to December 31, 2021. Amortization of \$0.2 million and \$0.7 million was recorded in the third quarter and year-to-date periods of 2020, respectively.

Finance Charges: Finance charges for the third quarter of 2020 were \$0.6 million higher than the third quarter of 2019, and \$1.1 million higher on a year-to-date basis. The increase in finance charges in both periods was primarily due to the issuance of first mortgage sinking fund bonds in the second quarter of 2020.

Income Tax Expense: Income tax expense for the third quarter of 2020 was \$0.5 million lower than the third quarter of 2019 and \$1.9 million lower on a year-to-date basis. The decrease in income tax expense in both periods was primarily due to lower pre-tax earnings and a lower effective tax rate.

FINANCIAL POSITION

Explanations of the primary causes of significant changes in the Company's balance sheets between December 31, 2019 and September 30, 2020 follow.

<i>(\$millions)</i>	Increase (Decrease)	Explanation
Cash	52.1	Increase reflects the issuance of first mortgage sinking fund bonds and the timing of cash receipts and payments.
Accounts Receivable	(45.6)	Decrease reflects the seasonal nature of electricity consumption for heating, 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. Decrease also reflects the utilization, by customers, of the one-time customer bill credit.
Regulatory Assets	(14.3)	Decrease due to normal operation of the Company's approved regulatory accounts. See Note 7 to the Company's September 30, 2020 condensed interim unaudited financial statements.

Property, Plant and Equipment	21.0	Increase due to investment in the electricity system, in accordance with the 2020 capital expenditure program, partially offset by depreciation and customer contributions in aid of construction.
Accounts Payable and Accrued Charges	(48.8)	Decrease reflects reduced purchased power costs related to lower energy consumption in September 2020 compared to December 2019.
Related Party Borrowings	(50.5)	Decrease reflects repayment of short-term demand loans from Fortis.
Regulatory Liabilities	11.5	Increase due to normal operation of the Company's approved regulatory accounts. See Note 7 to the Company's September 30, 2020 condensed interim unaudited financial statements.
Long-term Debt, including Current Portion	99.7	Increase reflects the issuance of first mortgage sinking fund bonds.
Preference Shares	(8.8)	Decrease reflects the redemption of the Company's issued and outstanding First Preference Shares.
Retained Earnings	7.0	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 third quarter and year-to-date cash flows and cash position for 2020 and 2019 follows.

(\$millions)	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	Change	2020	2019	Change
Cash, Beginning of Period	14.1	-	14.1	-	0.2	(0.2)
Operating Activities	72.2	61.5	10.7	106.3	90.5	15.8
Investing Activities	(27.2)	(27.8)	0.6	(71.6)	(71.6)	-
Financing Activities	(7.0)	(33.7)	26.7	17.4	(19.1)	36.5
Cash, End of Period	52.1	-	52.1	52.1	-	52.1

Operating Activities

Cash flow from operating activities for the third quarter of 2020 increased by \$10.7 million compared to the third quarter of 2019, and increased by \$15.8 million on a year-to-date basis. The increase for the third quarter and year-to-date periods reflects the operation of regulatory mechanisms and changes in the Company's working capital, including the timing of receipts and payments, partially offset by an increase in income taxes paid.

Investing Activities

Cash used in investing activities for the third quarter of 2020 decreased by \$0.6 million compared to the third quarter of 2019. The decrease reflects lower capital asset expenditures and lower customer contributions. On a year-to-date basis, cash used in investing activities for 2020 was consistent with 2019.

A summary of third quarter and year-to-date 2020 and 2019 capital and intangible asset expenditures follows.

(\$millions)	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	Change	2020	2019	Change
Electricity System						
Generation	0.6	2.9	(2.3)	1.4	8.2	(6.8)
Transmission	4.2	5.6	(1.4)	6.6	8.7	(2.1)
Substations	4.3	5.3	(1.0)	8.8	10.8	(2.0)
Distribution	10.7	11.8	(1.1)	30.9	32.9	(2.0)
Other	6.5	4.4	2.1	21.9	15.1	6.8
Intangible Assets	1.3	0.8	0.5	3.3	3.6	(0.3)
Capital and Intangible Asset Expenditures	27.6	30.8	(3.2)	72.9	79.3	(6.4)

The Company's business is capital intensive. Investment is required to ensure safe, reliable electrical system performance and to meet customer growth. All costs considered to be repairs and maintenance are expensed as incurred. Investment is also required 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 year-to-year depending upon both planned electricity 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. In February 2020, the PUB approved the Company's 2020 capital plan, which provides for capital expenditures of approximately \$96.6 million. Approximately 60% of this amount relates to the replacement of aging assets in the electricity system.

Financing Activities

Cash from financing activities for the third quarter of 2020 increased by \$26.7 million compared to the third quarter of 2019, and increased by \$36.5 million on a year-to-date basis. The increase for the third quarter was primarily due to the repayment of related party borrowings in the third of quarter of 2019. The increase year-to-date was primarily due to proceeds from the issuance of first mortgage sinking fund bonds, partially offset by the repayment of related party borrowings.

On April 20, 2020, the Company issued \$100 million in first mortgage sinking fund bonds. The bonds were issued with a 40-year term at an interest rate of 3.608%. Net proceeds from the issue were used to repay short-term borrowings, which were incurred principally to fund capital expenditures and for general corporate purposes, including repayment of \$30 million in first mortgage bonds in October 2020.

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 issuance of bonds is subject to prior PUB approval and to a mortgage trust deed requirement that the ratio of (i) annual earnings, before tax and bond interest, to (ii) annual bond interest incurred plus annual bond interest to be incurred on the contemplated bond issue, be two times or higher. The Company currently does not expect any material changes in these annual cash flow and financing dynamics over the foreseeable future.

Credit Facilities: 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)	September 30, 2020	December 31, 2019
Total Credit Facilities	120.0	120.0
Borrowing, Committed Facility	-	-
Borrowing, Demand Facility	-	(1.4)
Credit Facilities Available	120.0	118.6

The committed facility matures in August 2024. Subject to lenders' approval, the Company may request an extension for a further period of up to, but not exceeding, five years.

Pensions: As at September 30, 2020, the fair value of the Company's primary defined benefit pension plan assets was \$461.5 million compared to \$444.2 million as at December 31, 2019.

In September 2020, Newfoundland Power received actuarial valuation results for its defined benefit pension plan including the funding status of the plan as at December 31, 2019, on a going concern and solvency basis. On a going concern basis, the surplus decreased from \$69.7 million as at December 31, 2017 to \$67.6 million as at December 31, 2019. On a solvency basis, the funding position surplus increased from \$8.6 million as at December 31, 2017 to \$19.2 million as at December 31, 2019. The increase was primarily due to contributions to the plan since 2017 and favorable market returns, partially offset by a lower estimated discount rate.

Based on the December 2019 Actuarial Valuation Report, contributions for current service amounts are estimated to be \$2.8 million in 2020, \$2.8 million in 2021 and \$2.7 million in 2022. The Company expects to have sufficient cash generated from operations to meet future pension funding requirements.

Contractual Obligations: Details, as at September 30, 2020, of 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
First Mortgage Sinking Fund Bonds ¹	671.3	37.2	42.0	13.6	578.5
Interest obligations on long-term debt	579.3	40.7	66.0	62.5	410.1
Total	1,250.6	77.9	108.0	76.1	988.6

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 endeavors to maintain its investment grade credit ratings. Details of the Company's investment grade bond ratings follow.

Rating Agency	September 30, 2020		December 31, 2019	
	Rating	Outlook	Rating	Outlook
Moody's Investors Service ("Moody's")	A2	Stable	A2	Stable
DBRS	A	Stable	A	Stable

During the first quarter of 2020, Moody's issued an updated credit rating report confirming the Company's existing investment grade bond rating and rating outlook.

During the fourth quarter of 2020, DBRS issued an updated credit rating report confirming the Company's investment grade bond rating and rating outlook.

Newfoundland Power maintains an average annual capital structure comprised of approximately 55% debt 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.

	September 30, 2020		December 31, 2019	
	\$millions	%	\$millions	%
Total Debt ¹	616.4	54.0	620.7	54.1
Common Equity	524.9	46.0	517.9	45.1
Preference Equity	-	-	8.8	0.8
Total	1,141.3	100.0	1,147.4	100.0

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

Capital Stock and Dividends: During the third quarter and year-to-date periods of 2020 and 2019, the weighted average number of common shares outstanding was 10,320,270. In 2020, the quarterly common share dividend increased to \$0.68 per share compared to \$0.67 per share in 2019. The Company's common share dividend policy maintains an average capital structure that includes approximately 45% common equity.

During the first quarter of 2020, the Company redeemed all of the issued and outstanding First Preference Shares. The redemption prices included \$10 par value per share, plus all accrued and unpaid dividends and the respective redemption premiums, as applicable.

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 operating expenses for the three and nine months ended September 30, 2020 were \$0.6 million and \$1.9 million, respectively (2019 - \$0.6 million and \$1.8 million, respectively).

During the nine months ended September 30, 2020, the Company borrowed short-term demand loans from Fortis at an average interest rate of 2.39%. The maximum amount outstanding in 2020 was \$88.0 million. The loans were fully repaid in April 2020. Total finance charges paid to Fortis for the nine months ended September 30, 2020 was \$0.3 million.

During the nine months ended September 30, 2019, the Company borrowed short-term demand loans from Fortis at an average interest rate of 2.39%. The maximum amount outstanding in 2019 was \$75.0 million. The loans were fully repaid in August 2019.

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 an actual liability, and therefore, does not include settlement costs.

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

(\$millions)	September 30, 2020		December 31, 2019	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility	671.3	892.1	571.3	719.2

BUSINESS RISK MANAGEMENT

There were no material changes to the Company's business risks during the nine months ended September 30, 2020, with the exception of the following.

Impacts of COVID-19: In March 2020, the World Health Organization declared the novel coronavirus COVID-19 as a global pandemic. Preventative measures implemented by health authorities have caused disruption to the global economy, including the economy of Newfoundland and Labrador. The pandemic and related preventative measures implemented by health authorities could adversely affect the Company's results of operations, cash flows and financial position. These measures did not have a material impact on the Company's results of operations, cash flows or financial position during the nine month period ended September 30, 2020.

Preventative measures implemented by health authorities resulted in lower electricity sales to commercial customers in the second and third quarters of 2020 and may adversely impact uncollectible accounts receivable from customers.

Uncertainty exists with respect to the extent and duration of this pandemic and its impact on the Company's results of operations, cash flows and financial position. The Company continues to monitor developments related to the pandemic and will take reasonable and necessary actions to minimize business risk and to continue to provide service to customers. A material decrease in cash flow, a disruption to the Company's supply chain or a significant reduction in the Company's skilled workforce could adversely affect Newfoundland Power's ongoing maintenance and capital investment programs.

The Company's ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions. The COVID-19 pandemic creates uncertainty in each of these factors which may in turn create uncertainty in the Company's ability to arrange sufficient and cost-effective financing to fund capital expenditures and repay its existing debt.

Energy Supply: The completion of the Nalcor Energy's Muskrat Falls hydroelectric generation development and associated transmission assets ("Muskrat Falls") is further delayed and is now expected in September 2021. Energy from Muskrat Falls is expected to supply a significant portion of Hydro's, and in turn Newfoundland Power's, electricity requirements. Uncertainty remains regarding supply adequacy and reliability of the province's electrical system after commissioning of Muskrat Falls. This continues to be monitored and reviewed by the PUB.

CHANGES IN ACCOUNTING POLICIES

Financial Instruments: Effective January 1, 2020, the Company adopted Accounting Standards Update ("ASU") No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. This standard requires the use of reasonable and supportable forecasts in the estimate of credit losses and the recognition of expected losses upon initial recognition of a financial instrument, in addition to using past events and current conditions. The new guidance also requires quantitative and qualitative disclosures regarding the activity in the allowance for credit losses for financial assets within the scope of the guidance. The disclosures are provided in Note 6 to the Company's condensed interim unaudited financial statements for the three and nine month periods ended September 30, 2020. The adoption of this standard did not have a material impact on Newfoundland Power's financial statements and related disclosures.

The Company records an allowance for credit losses to reduce accounts receivable for amounts estimated to be uncollectible from customers. The allowance is estimated based on historical collection patterns, sales, and current and forecasted economic and other conditions.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Company considers the applicability and impact of all ASUs issued by the Financial Accounting Standards Board ("FASB"). Any upcoming ASUs were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the financial statements.

CRITICAL ACCOUNTING ESTIMATES

There were no material changes to the Company's critical accounting estimates during the nine months ended September 30, 2020. 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 December 31, 2018 through September 30, 2020. The quarterly information reflects Canadian dollars and has been obtained from the Company's interim unaudited financial statements which 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.

<i>(Unaudited)</i>	Third Quarter September 30		Second Quarter June 30		First Quarter March 31		Fourth Quarter December 31	
	2020	2019	2020	2019	2020	2019	2019	2018
Electricity Sales (GWh)	916.1	922.8	1,299.8	1,331.8	1,980.9	2,030.5	1,561.5	1,594.4
Revenue (\$millions)	121.4	113.4	163.0	156.6	242.9	231.3	182.6	179.6
Net Earnings Applicable to Common Shares (\$millions)	9.5	11.0	11.9	13.7	6.1	8.6	9.0	9.6
Earnings per Common Share (\$) ¹	0.92	1.07	1.16	1.32	0.59	0.83	0.88	0.93

¹ Basic and fully diluted.

Seasonality

Sales and Revenue: Quarterly sales and revenue are impacted by 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.

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. Overall, these sales, revenue and cost dynamics are such that earnings will generally be lower in the first quarter than the remaining quarters in the year.

Changes in the purchased power rate structure may impact quarterly earnings. See the "Financial Highlights" section of this MD&A for a discussion of the October 1, 2019 Wholesale Rate Change. This change in customer rates has no material impact on annual earnings for Newfoundland Power.

Trending

Sales and Revenue: Changes in quarterly electricity sales year-over-year reflect fluctuations in average consumption and growth in the number of customers served by the Company. The Company expects growth in the number of customers to be modest. Future sales are expected to be comparable with recent years. It is uncertain what impact COVID-19 may have on the Company's future electricity sales.

Earnings: Beyond the impact of expected lower sales, future quarterly earnings and earnings per share are expected to trend with the return on equity 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.

The COVID-19 pandemic and preventative measures implemented by health authorities have caused disruption to the global economy, including the economy of Newfoundland and Labrador. The pandemic and related preventative measures implemented by health authorities could adversely affect the Company's results of operations, cash flows and financial position. The Company continues to monitor developments related to the pandemic and will take reasonable and necessary actions to minimize business risk and to continue to provide service to customers.

Energy Supply Costs: Newfoundland Power purchases approximately 93% of its electricity requirements from Hydro. A significant portion of customer electricity rates is dependent on purchased power costs, which are outside of the Company's control.

Future increases in supply costs from Hydro including costs associated with Nalcor Energy's Muskrat Falls project are expected to increase electricity rates that Newfoundland Power charges to its customers. The Government of Newfoundland and Labrador asked the PUB to examine options to mitigate the impact of the Muskrat Falls project on electricity prices. The PUB's inquiry into this matter has concluded, and the PUB reported on options to the Government of Newfoundland and Labrador on February 7, 2020. Rate mitigation discussions between the Government of Newfoundland and Labrador and the Government of Canada are currently ongoing and the outcome is uncertain.

OUTSTANDING SHARES

As at the filing date of this MD&A the Company had issued and outstanding 10,320,270 common shares. Each of the common 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 the common shares of Newfoundland Power Inc. are owned by Fortis Inc. Fortis (TSX/NYSE: FTS) is a well-diversified leader in the North American regulated electric and gas utility industry, with 2019 revenue of \$8.8 billion and total assets of \$56 billion as at September 30, 2020. The Corporation's 9,000 employees serve 3.3 million utility customers in five Canadian provinces, nine US states and three Caribbean countries.

Additional information about Fortis can be accessed at www.fortisinc.com, www.sedar.com, or www.sec.gov.

For further information, contact:

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Condensed Statements of Earnings (Unaudited)
For the Three and Nine Months Ended September 30
(in thousands of Canadian dollars, except per share amounts)

	Three Months Ended		Nine Months Ended	
	2020	2019	2020	2019
Revenue (Note 5)	\$ 121,443	\$ 113,416	\$ 527,328	\$ 501,263
Expenses				
Purchased power	62,103	54,165	347,075	320,852
Operating expenses	18,180	17,902	59,482	56,383
Employee future benefits	1,532	577	4,561	1,738
Depreciation and amortization	18,173	17,346	53,263	50,891
Cost recovery deferrals, net (Note 7)	(219)	178	(657)	1,301
Finance charges	9,607	9,017	28,355	27,216
	<u>109,376</u>	<u>99,185</u>	<u>492,079</u>	<u>458,381</u>
Earnings Before Income Taxes	12,067	14,231	35,249	42,882
Income tax expense	<u>2,528</u>	<u>3,048</u>	<u>7,297</u>	<u>9,168</u>
Net Earnings	9,539	11,183	27,952	33,714
Preference share dividends (Note 12)	<u>-</u>	<u>137</u>	<u>347</u>	<u>412</u>
Net Earnings Applicable to Common Shares	\$ 9,539	\$ 11,046	\$ 27,605	\$ 33,302
Basic and Diluted Earnings per Common Share	\$ 0.92	\$ 1.07	\$ 2.67	\$ 3.23

Condensed Statements of Changes in Shareholders' Equity (Unaudited)
For the Nine Months Ended September 30
(in thousands of Canadian dollars, except per share amounts)

	Common Shares	Preference Shares	Retained Earnings	Total Equity
As at January 1, 2020	\$ 70,321	\$ 8,849	\$ 447,546	\$ 526,716
Net earnings	-	-	27,952	27,952
Allocation of Part VI.1 tax	-	-	469	469
Dividends on common shares (\$2.04 per share)	-	-	(21,053)	(21,053)
Dividends on preference shares (Note 12)	-	-	(347)	(347)
Redemption of preference shares (Note 12)	-	(8,849)	-	(8,849)
As at September 30, 2020	<u>\$ 70,321</u>	<u>\$ -</u>	<u>\$ 454,567</u>	<u>\$ 524,888</u>
As at January 1, 2019	\$ 70,321	\$ 8,911	\$ 432,588	\$ 511,820
Net earnings	-	-	33,714	33,714
Allocation of Part VI.1 tax	-	-	210	210
Dividends on common shares (\$2.01 per share)	-	-	(20,744)	(20,744)
Dividends on preference shares	-	-	(412)	(412)
Redemption of preference shares	-	(49)	-	(49)
As at September 30, 2019	<u>\$ 70,321</u>	<u>\$ 8,862</u>	<u>\$ 445,356</u>	<u>\$ 524,539</u>

See accompanying notes to condensed interim financial statements.

Condensed Balance Sheets (Unaudited)

As at

(in thousands of Canadian dollars)

	September 30, 2020	December 31, 2019
Assets		
Current assets		
Cash	\$ 52,094	\$ -
Accounts receivable (Note 6)	37,945	83,552
Income taxes receivable	-	2,038
Materials and supplies	1,666	1,479
Prepaid expenses	2,983	2,190
Regulatory assets (Note 7)	13,267	16,771
	107,955	106,030
Property, plant and equipment (net)	1,225,307	1,204,308
Intangible assets	28,701	28,131
Defined benefit pension plans	20,000	15,193
Regulatory assets (Note 7)	336,388	347,137
Other assets	2,221	2,608
	\$ 1,720,572	\$ 1,703,407
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings	\$ -	\$ 1,412
Accounts payable and accrued charges	41,575	90,337
Interest payable	12,237	6,628
Income taxes payable	1,746	-
Defined benefit pension plans	215	221
Other post-employment benefits	4,058	3,710
Regulatory liabilities (Note 7)	3,314	10,773
Current instalments of long-term debt (Note 8)	37,200	36,200
Related party borrowings (Note 11)	-	50,500
	100,345	199,781
Regulatory liabilities (Note 7)	194,792	175,826
Defined benefit pension plans	5,510	5,407
Other post-employment benefits	89,876	88,316
Other liabilities	1,256	1,420
Deferred income taxes	172,527	173,249
Long-term debt (Note 8)	631,378	532,692
	1,195,684	1,176,691
Shareholders' equity		
Common shares, no par value, unlimited authorized shares, 10.3 million shares issued and outstanding	70,321	70,321
Preference shares (Note 12)	-	8,849
Retained earnings	454,567	447,546
	524,888	526,716
	\$ 1,720,572	\$ 1,703,407

See accompanying notes to condensed interim financial statements.

Condensed Statements of Cash Flows (Unaudited)
For the Three and Nine Months Ended September 30
(in thousands of Canadian dollars)

	Three Months Ended		Nine Months Ended	
	2020	2019	2020	2019
Operating Activities				
Net earnings	\$ 9,539	\$ 11,183	\$ 27,952	\$ 33,714
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation of property, plant and equipment	17,246	16,498	50,504	48,354
Amortization of intangible assets and other	988	906	2,938	2,714
Change in long-term regulatory assets and liabilities	5,503	(1,132)	17,860	(4,573)
Deferred income taxes	(612)	1,601	(5,755)	3,011
Employee future benefits	548	(315)	2,001	(1,377)
Other	24	(184)	210	(308)
Change in working capital	38,979	32,924	10,588	9,003
	<u>72,215</u>	<u>61,481</u>	<u>106,298</u>	<u>90,538</u>
Investing Activities				
Capital expenditures	(26,274)	(30,000)	(69,604)	(75,714)
Intangible asset expenditures	(1,354)	(825)	(3,329)	(3,598)
Contributions from customers	460	3,052	1,350	7,733
	<u>(27,168)</u>	<u>(27,773)</u>	<u>(71,583)</u>	<u>(71,579)</u>
Financing Activities				
Change in short-term borrowings	-	379	(1,412)	3,097
Net proceeds (repayments) under committed credit facility	-	36,000	-	(1,000)
Proceeds from long-term debt	-	-	100,000	-
Net repayments of related party borrowings	-	(63,000)	(50,500)	-
Redemption of preference shares	-	-	(8,849)	(49)
Payment of debt financing costs	-	(35)	(460)	(35)
Dividends				
Preference shares	-	(137)	(347)	(412)
Common shares	(7,018)	(6,915)	(21,053)	(20,744)
	<u>(7,018)</u>	<u>(33,708)</u>	<u>17,379</u>	<u>(19,143)</u>
Change in Cash	38,029	-	52,094	(184)
Cash, Beginning of Period	14,065	-	-	184
Cash, End of Period	<u>\$ 52,094</u>	<u>\$ -</u>	<u>\$ 52,094</u>	<u>\$ -</u>
Cash Flows Include the Following:				
Interest paid	\$ 4,768	\$ 5,214	\$ 22,758	\$ 23,529
Income taxes paid	\$ 3,300	\$ 2,402	\$ 8,800	\$ 7,010

See accompanying notes to condensed interim financial statements.

Notes to Condensed Interim Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2020 and 2019 (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. The Company is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB") and serves approximately 269,000 customers comprising approximately 87% of all electricity consumers in the Province. All of the common shares of the Company are owned by Fortis Inc. ("Fortis"). Newfoundland Power has an installed generating capacity of 143 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 operates under cost of service regulation as administered by the PUB under the *Public Utilities Act (Newfoundland and Labrador)* ("Public Utilities Act"). The Public Utilities Act provides for the PUB's general supervision of the Company's utility operations and requires the PUB to approve, among other things, customer rates, capital expenditures and the issuance of securities. The Public Utilities Act also entitles the Company an opportunity to recover all reasonable costs incurred in providing electricity service to its customers, including a just and reasonable return on its rate base. The rate base consists of the net assets required by the Company to provide electricity service to customers.

On January 24, 2019, the PUB issued an order on the Company's 2019/2020 General Rate Application (the "2019/2020 GRA Order") which established the Company's cost of capital for rate making purposes for 2019 through 2021 based upon an 8.5% return on equity and 45% common equity. The Company's rate of return on rate base for 2019 and 2020 was established at 7.01% and 7.04%, respectively, with a range of ± 18 basis points. The Company is required to file its next GRA on or before June 1, 2021.

2. Basis of Presentation

These condensed interim 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 condensed interim financial statements should be read in conjunction with the Company's 2019 annual audited financial statements.

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. There were no material changes to the Company's significant accounting estimates during the three and nine months ended September 30, 2020.

The accounting policies and methods of their application followed in the preparation of these condensed interim financial statements are the same as those followed in the preparation of the Company's 2019 annual audited financial statements, except as disclosed in Note 3.

3. Changes in Accounting Policies

New Accounting Policies

Financial Instruments

Effective January 1, 2020, the Company adopted Accounting Standards Update ("ASU") No. 2016-13, Measurement of Credit Losses on Financial Instruments. This standard requires the use of reasonable and supportable forecasts in the estimate of credit losses and the recognition of expected losses upon initial recognition of a financial instrument, in addition to using past events and current conditions. The new guidance also requires quantitative and qualitative disclosures regarding the activity in the allowance for credit losses for financial assets within the scope of the guidance (Note 6). The adoption of this standard did not have a material impact on Newfoundland Power's financial statements and related disclosures.

The Company records an allowance for credit losses to reduce accounts receivable for amounts estimated to be uncollectible from customers. The allowance is estimated based on historical collection patterns, sales, and current and forecasted economic and other conditions.

3. Changes in Accounting Policies (cont'd)

Future Accounting Pronouncements

The Company considers the applicability and impact of all ASUs issued by the Financial Accounting Standard's Board ("FASB"). Any upcoming ASUs were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the financial statements.

4. Seasonality

Sales and Revenue: Sales and revenue are impacted by the seasonality of electricity consumption for heating. As a result, sales and revenue are significantly higher in the first quarter and significantly lower in the third quarter compared to the remaining quarters.

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. Overall, these sales, revenue and cost dynamics are such that earnings will generally be lower in the first quarter than the remaining quarters in the year.

Changes in the purchased power rate structure may impact quarterly earnings. Effective October 1, 2019, there was an overall increase in electricity rates charged to customers of approximately 6.4%. The rate increase is the net result of a 7.6% increase resulting from the implementation of Hydro's 2017 GRA order and a 1.2% decrease related to the annual operation of Newfoundland Power's rate stabilization account. The change in customer rates has no impact on annual earnings for Newfoundland Power.

5. Revenue

The composition of the Company's revenue follows.

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Electricity revenue				
Residential	\$ 67,914	\$ 61,116	\$ 334,629	\$ 309,065
Commercial	46,162	44,751	176,404	168,829
Street lighting	4,246	4,132	12,735	12,425
Regulatory deferrals and amortizations	298	493	(4,844)	2,399
	118,620	110,492	518,924	492,718
Other contract revenue	2,210	2,249	6,900	6,130
Other revenue	613	675	1,504	2,415
Total revenue	\$ 121,443	\$ 113,416	\$ 527,328	\$ 501,263

Electricity revenue

Electricity revenue includes revenue from the delivery of electricity to residential and commercial customers and the provision of street lighting service to municipalities.

Other contract revenue

Other contract revenue is primarily the result of other contracts with customers including (i) revenue from telecommunication companies for pole attachments and other pole related services; (ii) wheeling revenue from Hydro for transmitting electricity to its customers using Newfoundland Power's electrical system; and, (iii) revenue from customers for services other than those directly related to delivery of electricity service.

Other revenue

Other revenue includes interest revenue, the equity portion of allowance for funds used during construction and other miscellaneous amounts.

6. Accounts Receivable

The composition of the Company's accounts receivable follows.

	September 30, 2020	December 31, 2019
Trade accounts receivable	\$ 29,242	\$ 46,597
Unbilled accounts receivable	10,497	37,447
Other	1,751	1,831
Allowance for credit losses	(3,545)	(2,323)
	\$ 37,945	\$ 83,552

Accounts receivable is recorded net of an allowance for credit losses. The change in the allowance for credit losses balance from December 31, 2019 follows.

	Nine Months Ended September 30, 2020
Balance, beginning of period	\$ (2,323)
Credit loss expense	(2,031)
Write-offs	1,416
Recoveries	(607)
Balance, end of period	\$ (3,545)

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

	September 30, 2020	December 31, 2019	Remaining Recovery Period (Years)
Regulatory assets			
Rate stabilization account	\$ 1,890	\$ -	2
Other post-employment benefits ("OPEB")	18,396	21,024	6
Conservation and demand management deferral	21,994	24,815	7
Employee future benefits	80,945	86,366	Benefit payment period
Weather normalization account	-	8,078	-
Deferred GRA costs	441	706	2
Demand management incentive	724	2,687	2
Deferred income taxes	225,265	220,232	Life of related assets
Total regulatory assets	\$ 349,655	\$ 363,908	
Less: current portion	(13,267)	(16,771)	
Long-term regulatory assets	\$ 336,388	\$ 347,137	

7. Regulatory Assets and Liabilities (cont'd)

	September 30, 2020	December 31, 2019	Remaining Settlement Period (Years)
Regulatory liabilities			
Rate stabilization account	\$ -	\$ 16,107	-
Cost recovery deferrals	1,164	1,752	2
Pension expense variance deferral account	1,639	-	1
OPEB expense variance deferral account	65	-	1
Weather normalization account	4,156	-	2
Energy supply cost variance	14,330	-	2
Future removal and site restoration provision	176,752	168,740	Life of related assets
Total regulatory liabilities	\$ 198,106	\$ 186,599	
Less: current portion	(3,314)	(10,773)	
Long-term regulatory liabilities	\$ 194,792	\$ 175,826	

On June 17, 2020, in Order P.U. 16 (2020), the PUB approved a July 2020 wholesale bill credit from Hydro to the Company of approximately \$50.6 million. In Order P.U. 17 (2020), the PUB approved, as filed, the Company's plan to provide the one-time bill credit to eligible customers in July 2020. As a result, customer electricity rates remained unchanged effective July 1, 2020. The plan reflects a total bill credit fund of approximately \$47.7 million. This fund reflects the \$50.6 million wholesale bill credit from Hydro and \$2.9 million associated with the Company's RSA balance and Municipal Tax Adjustment Factor. The one-time bill credit was provided to customers in the third quarter of 2020, as approved by the PUB. The amount of the one-time bill credit that customers received varied based on their energy usage. The one-time customer bill credit will not have a material impact on annual earnings for Newfoundland Power.

8. Long-term Debt

	September 30, 2020	December 31, 2019
First mortgage sinking fund bonds	\$ 671,335	\$ 571,335
Less: current portion	(37,200)	(36,200)
	\$ 634,135	\$ 535,135
Less: deferred financing costs	(2,757)	(2,443)
	\$ 631,378	\$ 532,692

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% of the original principal balance.

On April 20, 2020, the Company issued \$100 million in first mortgage sinking fund bonds. The bonds were issued with a 40-year term at an interest rate of 3.608%. Net proceeds from the issue were used to repay short-term borrowings, which were incurred principally to fund capital expenditures and for general corporate purposes, including repayment of \$30 million in first mortgage bonds in October 2020.

Newfoundland Power has unsecured bank credit facilities of \$120 million comprised of a \$100 million committed credit facility and a \$20 million demand facility. The committed facility matures in August 2024. 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 that primarily have a maturity of 30 days or less, 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.

8. Long-term Debt (cont'd)

The utilized and unutilized credit facilities as at September 30, 2020 and December 31, 2019 follow.

	September 30, 2020	December 31, 2019
Total credit facilities	\$ 120,000	\$ 120,000
Borrowings under committed credit facility	-	-
Borrowings under demand facility	-	(1,412)
Credit facilities available	\$ 120,000	\$ 118,588

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 utilized in measuring fair value. 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 settlement costs.

The fair value of long-term debt, including current portion and committed credit facility, as at September 30, 2020 and December 31, 2019 is as follows.

	September 30, 2020		December 31, 2019	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility (Note 8)	\$ 671,335	\$ 892,077	\$ 571,335	\$ 719,213

As at September 30, 2020, the fair value of the Company's primary defined benefit pension plan assets was \$461.5 million compared to \$444.2 million as at December 31, 2019. 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 matter of judgment, and therefore, may not be relevant in predicting the Company's future earnings or cash flows.

10. Employee Future Benefits

The components of net benefit costs associated with the Company's defined benefit and OPEB plans, prior to capitalization, are as follows.

	Three Months Ended September 30			
	2020		2019	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Service costs	\$ 1,087	\$ 614	\$ 975	\$ 490
Interest costs	3,295	722	3,704	776
Expected return on plan assets	(4,970)	-	(5,338)	-
Amortization of net actuarial losses	1,623	18	659	-
Amortization of past service costs (credits)	53	(306)	53	(352)
	\$ 1,088	\$ 1,048	\$ 53	\$ 914
Regulatory adjustments				
Amortization of pension deferrals	206	-	206	-
Amortization of OPEB regulatory asset	-	876	-	876
Net benefit costs	\$ 1,294	\$ 1,924	\$ 259	\$ 1,790

	Nine Months Ended September 30			
	2020		2019	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Service costs	\$ 3,244	\$ 1,843	\$ 2,942	\$ 1,469
Interest costs	9,886	2,165	11,112	2,329
Expected return on plan assets	(14,910)	-	(16,014)	-
Amortization of net actuarial losses	4,870	54	1,977	-
Amortization of past service costs (credits)	159	(918)	159	(1,055)
	\$ 3,249	\$ 3,144	\$ 176	\$ 2,743
Regulatory adjustments				
Amortization of pension deferrals	618	-	618	-
Amortization of OPEB regulatory asset	-	2,628	-	2,628
Net benefit costs	\$ 3,867	\$ 5,772	\$ 794	\$ 5,371

For the three and nine months ended September 30, 2020, the Company expensed \$0.7 million and \$2.0 million, respectively, related to its defined contribution pension plans (2019 - \$0.7 million and \$1.8 million, respectively).

In September 2020, Newfoundland Power received actuarial valuation results for its defined benefit pension plan including the funding status of the plan as at December 31, 2019, on a going concern and solvency basis. On a going concern basis, the surplus decreased from \$69.7 million as at December 31, 2017 to \$67.6 million as at December 31, 2019. On a solvency basis, the funding position surplus increased from \$8.6 million as at December 31, 2017 to \$19.2 million as at December 31, 2019. The increase was primarily due to contributions to the plan since 2017 and favorable market returns, partially offset by a lower estimated discount rate.

Based on the December 2019 Actuarial Valuation Report, contributions for current service amounts are estimated to be \$2.8 million in 2020, \$2.8 million in 2021 and \$2.7 million in 2022. The Company expects to have sufficient cash generated from operations to meet future pension funding requirements.

11. 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 operating expenses for the three and nine months ended September 30, 2020 were \$0.6 million and \$1.9 million, respectively (2019 - \$0.6 million and \$1.8 million, respectively).

During the nine months ended September 30, 2020, the Company borrowed short-term demand loans from Fortis at an average interest rate of 2.39%. The maximum amount outstanding in 2020 was \$88.0 million. The loans were fully repaid in April 2020. Total finance charges paid to Fortis for the nine months ended September 30, 2020 was \$0.3 million.

During the nine months ended September 30, 2019, the Company borrowed short-term demand loans from Fortis at an average interest rate of 2.39%. The maximum amount outstanding in 2019 was \$75.0 million. The loans were fully repaid in August 2019.

12. Preference Shares

On January 2, 2020, the Company provided notice to shareholders of the redemption of all of the issued and outstanding First Preference Shares. These preference shares comprised approximately \$8.8 million of the Company's capital structure as of the notice date.

On February 3, 2020, the Company redeemed all of the issued and outstanding First Preference Shares. The redemption prices included \$10 par value per share, plus all accrued and unpaid dividends and the respective redemption premiums, as applicable. Total preference share dividends paid for the nine months ended September 30, 2020 included \$0.3 million of redemption premiums.