2020 MANAGEMENT DISCUSSION AND ANALYSIS

& Annual Financial Statements

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NEWFOUNDLAND POWER
A FORTIS COMPANY

MANAGEMENT DISCUSSION AND ANALYSIS//

MANAGEMENT DISCUSSION AND ANALYSIS

Dated February 11, 2021

The following Management Discussion and Analysis ("MD&A") of Newfoundland Power Inc. (the "Company" or "Newfoundland Power") should be read in conjunction with the Company's annual audited financial statements and notes thereto for the year ended December 31, 2020. The MD&A has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. Financial information for 2020 and comparative periods contained herein reflects Canadian dollars and accounting principles generally accepted in the United States ("U.S. GAAP").

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 2021; 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 2021; 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, licenses 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; potential impacts of COVID-19; economic conditions; electricity demand; health, safety and environmental regulations; capital resources and liquidity; interest rates; cyber security; labour relations; human resources; operating and maintenance investment requirements; weather; information technology infrastructure; insurance; defined benefit pension plan performance; 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 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 270,000 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 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 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 was 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' Rate Stabilization Account ("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 did 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 $111.3 million. On December 15, 2020, the PUB approved 2021 capital expenditures totalling $94.6 million. The remaining $16.7 million in capital expenditures proposed for 2021 is subject to a further order from the PUB.

On December 14, 2020, the PUB approved the Company's forecast rate base for 2021 of $1,206 million and the rate of return on rate base for 2021 of 6.65%, in a range of 6.47% to 6.83%.

Financial Highlights

	2020	2019	Change
Electricity Sales *(gigawatt hours ("GWh"))* [1]	5,729.0	5,846.6	(117.6)
Earnings Applicable to Common Shares			
$ Millions	43.2	42.3	0.9
$ Per Share	4.19	4.10	0.09
Cash Flow from Operating Activities *($millions)*	145.8	124.5	21.3
Total Assets *($millions)*	1,719.7	1,703.4	16.3

[1] *Reflects normalized electricity sales.*

Electricity sales for 2020 decreased by 117.6 GWh, or approximately 2.0% compared to 2019. The decrease in electricity sales was primarily due to lower average consumption by residential and commercial customers. Lower average consumption by commercial customers was primarily due to the COVID-19 pandemic, while lower average consumption by residential customers reflects a continued focus on energy efficiency and conservation. The impact of lower average consumption was 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 increased by $0.9 million, from $42.3 million in 2019 to $43.2 million in 2020. The increase in earnings is primarily due to (i) the implementation of the Company's 2019/2020 GRA order which reflects continued investment in the electricity system and (ii) the impact of lower generation than water inflows at the Company's hydroelectric generating stations in 2019. These factors were partially offset by lower electricity sales.

Cash from operating activities totalled $145.8 million in 2020 compared to $124.5 million in 2019. The increase reflects the operation of PUB-approved regulatory mechanisms and the implementation of the Company's 2019/2020 GRA order. These increases were partially offset by changes in the Company's working capital and higher income tax payments in 2020.

Total assets increased by $16.3 million compared to December 31, 2019. The increase primarily reflects continued investment in the electricity system and an increase in pension assets, partially offset by a reduction in accounts receivable and regulatory assets associated with PUB-approved regulatory mechanisms.

RESULTS OF OPERATIONS

Revenue

($millions)	2020	2019	Change
Electricity Revenue [1]	706.8	670.8	36.0
Other Revenue [2]	11.8	13.1	(1.3)
Total Revenue	718.6	683.9	34.7

[1] *Electricity revenue includes regulatory deferrals and amortizations recognized pursuant to PUB orders of approximately $(8.8) million for 2020 (2019 - $(13.3) million). The amounts are recorded in accordance with PUB orders and are described in Note 7 to the Company's 2020 annual audited financial statements.*

[2] *Other revenue includes revenue from telecommunication companies, interest revenue associated with customer accounts and other miscellaneous amounts.*

Electricity revenue increased by $36.0 million compared to 2019. The increase was primarily due to the flow through of higher wholesale electricity rates effective October 1, 2019 and changes in regulatory deferrals and amortizations recognized pursuant to PUB orders. These factors were partially offset by the impact of lower electricity sales.

Other revenue decreased by $1.3 million compared to 2019. The decrease primarily reflects lower miscellaneous revenue and lower revenue from telecommunications companies.

Purchased Power: Purchased power expense for 2020 was $24.0 million higher than 2019. The increase was primarily due to an increase in wholesale electricity rates effective October 1, 2019, partially offset by lower energy purchases.

Operating Expenses: Operating expenses for 2020 were $3.8 million higher than 2019. The increase in operating expenses was primarily due to (i) an increase in labour costs associated with a severe storm in January 2020 and inflationary increases, (ii) higher amortization of deferred conservation and demand management costs, and (iii) an increase in pension current service costs. These increases were partially offset by lower corporate costs.

Employee Future Benefits: Employee future benefits increased by $3.8 million, from $2.3 million in 2019 to $6.1 million in 2020. The increase 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. Employee future benefits are fully described in Note 11 to the Company's 2020 annual audited financial statements.

Depreciation and Amortization: Depreciation and amortization expense increased by $3.2 million, from $68.0 million in 2019 to $71.2 million in 2020. The increase reflects the Company's capital expenditure program.

Cost Recovery Deferrals, Net: The Company has 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.

Finance Charges: Finance charges for 2020 were $1.2 million higher than 2019. The increase in finance charges was primarily due to the issuance of first sinking fund bonds in the second quarter of 2020.

Income Taxes: Income tax expense increased by $0.6 million, from $11.3 million in 2019 to $11.9 million in 2020. The increase reflects higher income before tax and a higher effective tax rate.

FINANCIAL POSITION

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

($millions)	Increase (Decrease)	Explanation
Account Receivable	(17.9)	Decrease reflects lower electricity sales and lower unbilled revenue related to warmer weather in December 2020 compared to December 2019.
Regulatory Assets, including Current Portion	(18.0)	Decrease due to normal operation of the Company's approved regulatory accounts. See Note 7 to the Company's 2020 annual audited financial statements.
Related Party Notes Receivable	8.0	Represents a short-term demand loan to Fortis. See Note 17 to the Company's 2020 annual audited financial statements.
Property, Plant and Equipment	33.2	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.
Defined Benefit Pension Assets	10.5	Increase due to the return on plan assets in 2020, partially offset by an actuarial loss associated with a lower discount rate at December 31, 2020 used to determine the Company's defined benefit pension plan obligation.
Short-term Borrowings	5.3	Represents higher borrowings on the demand facility required to finance ongoing operating activities.
Accounts Payable and Accrued Charges	(16.2)	Decrease reflects the timing of payments and reduced purchased power costs related to lower energy consumption in December 2020 compared to December 2019.
Regulatory Liabilities, including Current Portion	20.1	Increase due to the normal operation of the Company's approved regulatory accounts. See Note 7 to the Company's 2020 annual audited financial statements.
Long-Term Debt, including Current Portion	62.5	Increase reflects the issuance of first mortgage sinking fund bonds to finance growth in rate base and ongoing operating activities.
Related Party Borrowings	(50.5)	Represents repayment of a short-term demand loan from Fortis. See Note 17 to the Company's 2020 annual audited financial statements.
Preference Shares	(8.8)	Decrease reflects the redemption of the Company's issued and outstanding First Preference Shares.

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 cash flows and cash position for 2020 and 2019 follows.

($millions)	**2020**	**2019**	**Change**
Cash, Beginning of Year	-	0.2	(0.2)
Operating Activities	145.8	124.5	21.3
Investing Activities	(107.7)	(104.7)	(3.0)
Financing Activities	(38.1)	(20.0)	(18.1)
Cash, End of Year	-	-	-

Operating Activities

Cash from operating activities totalled $145.8 million in 2020 compared to $124.5 million in 2019. The increase reflects the operation of PUB-approved regulatory mechanisms and the implementation of the Company's 2019/2020 GRA order. These increases were partially offset by changes in the Company's working capital and higher income tax payments in 2020.

Investing Activities

Cash used in investing activities totalled $107.7 million in 2020 compared to $104.7 million in 2019. This increase primarily reflects a short-term demand loan to Fortis and lower capital asset contributions received from customers, partially offset by lower capital asset expenditures.

A summary of 2020 and 2019 capital and intangible asset expenditures follows.

($millions)	**2020**	**2019**
Electricity System		
Generation	2.6	11.8
Transmission	8.4	11.6
Substations	14.5	17.1
Distribution	42.4	46.8
Other	27.6	18.7
Intangible Assets	6.3	6.9
Capital and Intangible Asset Expenditures	101.8	112.9

The Company's business is capital intensive. Capital 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. Capital 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. On December 15, 2020, the PUB approved 2021 capital expenditures totalling $94.6 million, approximately 50% of which relate to capital maintenance of the electricity system. The remaining $16.7 million in capital expenditures proposed for 2021 is subject to a further order from the PUB.

Financing Activities

Cash used in financing activities totalled $38.1 million in 2020 compared to $20.0 million in 2019. The increase primarily reflects (i) the repayment of long-term debt and related party borrowings, (ii) higher common share dividends, and (iii) the redemption of preference shares, partially offset by proceeds from the issuance of long-term debt.

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)	**2020**	**2019**
Total Credit Facilities	120.0	120.0
Borrowing, Committed Facility	-	-
Borrowing, Demand Facility	(6.7)	(1.4)
Credit Facilities Available	113.3	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 December 31, 2020, the fair value of the Company's funded defined benefit pension plan assets was $475.4 million compared to $444.2 million as at December 31, 2019. The $31.2 million increase in fair value was mainly due to favourable market conditions in 2020. Details of the plan asset changes are included in Note 11 to the Company's 2020 annual audited financial statements.

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 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 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 December 31, 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**
Credit Facilities (unsecured)	6.7	6.7	-	-	-
First Mortgage Sinking Fund Bonds [1]	634.1	7.2	42.0	13.6	571.3
Interest obligations on long-term debt	565.2	35.4	65.1	62.3	402.4
Total	1,206.0	49.3	107.1	75.9	973.7

[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 investment grade credit ratings. Details of the Company's investment grade bond ratings as at December 31, 2020 and 2019 follow.

	2020		**2019**	
Rating Agency	**Rating**	**Outlook**	**Rating**	**Outlook**
Moody's Investors Service ("Moody's")	A2	Stable	A2	Stable
DBRS	A	Stable	A	Stable

Both Moody's and DBRS have issued updated credit rating reports in 2020 confirming the Company's existing investment grade bond rating and rating outlook.

Newfoundland Power maintains an average annual capital structure composed of approximately 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 as at December 31, 2020 and 2019 follows.

	2020		2019	
	$millions	**%**	**$millions**	**%**
Total Debt [1]	638.1	55.3	620.7	54.1
Preference Equity	-	-	8.8	0.8
Common Equity	515.7	44.7	517.9	45.1
Total	1,153.8	100.0	1,147.4	100.0

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

The Company expects to maintain its current investment grade credit ratings in 2021.

Capital Stock and Dividends: In both 2020 and 2019, the weighted average number of common shares outstanding was 10,320,270. Dividends on common shares for 2020 were $18.4 million higher than 2019. The increase in common share dividends primarily reflects a special common share dividend of $18 million paid to Fortis in the fourth quarter of 2020. This special dividend was paid to maintain an average capital structure that includes approximately 45% equity. In 2020, the quarterly common share dividends 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.

As of the date of this MD&A, the issued and outstanding capital of the Company consisted of 10,320,270 common shares, all of which were held by Fortis.

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 in 2020 were $2.5 million (2019 - $2.3 million).

During 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 in 2020 were $0.3 million.

During 2019, the Company borrowed short-term demand loans from Fortis at an average interest rate of 2.42%. The maximum amount outstanding in 2019 was $75.0 million. As at December 31, 2019, the amount outstanding was $50.5 million. Total finance charges paid to Fortis in 2019 were $0.3 million.

In December 2020 the Company advanced a $8.0 million short-term demand loan to Fortis at an interest rate of 1.23%. The loan was repaid by Fortis in January 2021.

A member of the Board of Directors of Newfoundland Power is the President of a construction services company. The Company has entered into construction service agreements with this company. There were no capital expenditures incurred in 2020 associated with these agreements (2019 - $3.7 million). The awarding of these contracts followed a competitive bidding process in the ordinary course of business. The Board of Directors has no role in this process.

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 as at December 31, 2020 and 2019 follows.

	2020		2019	
($millions)	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Long-term debt, including current portion and committed credit facility	634.1	857.8	571.3	719.2

BUSINESS RISK MANAGEMENT

The following is a summary of the Company's significant business risks.

Regulation: The Company's key business risk is regulation. The Company is subject to normal uncertainties facing entities that operate under cost of service regulation. It is dependent on PUB approval of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing electricity service, including a fair and reasonable return on rate base. The ability to recover the actual costs of providing service and to earn the approved rate of return depends on achieving the forecasts established in the rate-setting process. There can be no assurance that rate orders issued by the PUB will permit the Company to recover the estimated costs of providing electricity service. A failure to obtain acceptable rate orders may adversely affect the operations of the Company, the timing of capital projects, and the Company's credit ratings assigned by rating agencies, which may in turn, negatively affect the results of operations and financial position of the Company.

The Company is also dependent on PUB approval of its annual capital budget. Capital expenditures are necessary to provide safe, reliable and least cost service to customers. A failure to obtain approval of its capital budget application may negatively impact operations and the financial position of the Company.

Energy Supply: The Company is dependent on Hydro for approximately 93% of its electricity requirements. In the event that Hydro is unable to supply the Company with wholesale energy deliveries, Newfoundland Power would be unable to meet its customers' requirements.

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 conducted an investigation and hearing into the system supply issues and power interruptions which ended in December 2019. Concerns relating to near term and long term electricity supply continue to be reviewed by the PUB as a part of Hydro's Reliability and Resource Adequacy Study Review.

The completion of Nalcor Energy's $13.1 billion 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.

Purchased Power: Purchased power costs are based on a wholesale demand and energy rate structure. The demand and energy rate structure presents the risk of volatility in purchased power costs due to uncertainty in forecasting energy sales and peak billing demand. Effective January 1, 2008, the PUB ordered the operation of the demand management incentive account (the "DMI"). The DMI limits variations in the unit cost of purchased power related to demand up to 1% of total demand costs reflected in customer rates, or approximately $0.8 million for 2020 (2019 - $0.8 million). The disposition of balances in this account, which would be determined by a further order of the PUB, will consider the merits of the Company's conservation and demand management activities.

The marginal cost of purchased power exceeds the average cost of purchased power that is embedded in customer rates. To the extent actual electricity sales in any period exceed forecast electricity sales used to set customer rates, the marginal purchased power expense will exceed related revenue. These supply cost dynamics have no material effect on Company earnings because the PUB ordered that variations in purchased power expense caused by differences between the actual unit cost of energy purchased and that reflected in customer rates be recovered from or refunded to customers through the Company's RSA.

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 RSA. The change in customer rates has no material impact on annual earnings for Newfoundland Power.

The amount and timing of any future wholesale electricity rate changes, including those associated with Muskrat Falls, are uncertain. 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 final rate mitigation report was provided to the Government of Newfoundland and Labrador in February, 2020. Rate mitigation discussions between the Government of Newfoundland and Labrador and the Government of Canada are currently ongoing and the outcome is uncertain.

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 for the year ended December 31, 2020.

Uncertainty exists with respect to the extent and duration of this pandemic and its impact on the Company's future 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.

Economic Conditions: Economic conditions impact the Company's electricity sales, cost of capital and the performance of the defined benefit pension plan.

Electricity sales are influenced by economic factors such as changes in employment levels, personal disposable income and housing starts. A downturn in oil prices negatively impacts the Government of Newfoundland and Labrador's fiscal capacity as well as the broader economy. Out-migration in rural areas, as well as declining birth rates and increasing death rates associated with an aging population, also affect sales. An extended decline in economic conditions would be expected to have the effect of reducing demand for energy over time. In addition to the impact of reduced demand, an extended decline in economic conditions could also impair the ability of customers to pay for electricity consumed, thereby affecting the aging and collection of the Company's accounts receivable. The Company's electricity sales have decreased each year since 2015.

The impact of economic conditions on pensions and cost of capital are described in the Interest Rates and Defined Benefit Pension Plan Performance sections of this MD&A.

Electricity Demand: Increases in electricity rates can cause changes in customer electricity consumption, which could negatively impact the Company's sales and, therefore, earnings and cash flows. A significant portion of customer electricity rates is dependent on purchased power costs, which are outside of Newfoundland Power's control.

Health and Safety: A focus on safety is an integral and continuing component of the Company's core business strategy. The Company is subject to numerous health and safety laws, regulations and guidelines. Damages and costs could potentially arise due to a variety of events, including human error or misconduct and equipment failure. There is no assurance that any costs which might arise would be recoverable through customer rates and, if substantial, unrecovered costs could have a material adverse effect on the results of operations, cash flows and financial position of the Company.

The Company maintains a health and safety management system which complies with the internationally recognized Occupational Health and Safety Assessment Series ("OHSAS") 18001 standard. Continuing to meet this standard improves the Company's ability to capture and track information related to safe work practices and hazard recognition, and enhances safety management.

Environment: The Company is subject to numerous laws, regulations and guidelines relating to the protection of the environment including those governing the management, transportation and disposal of hazardous substances and other waste materials. Environmental damage and associated costs could potentially arise due to a variety of events, including the impact of severe weather and other natural disasters, climate change, human error or misconduct and equipment failure. Costs arising from environmental protection initiatives, compliance with environmental laws, regulations and guidelines or damages may become material to the Company.

The Company's key environmental hazard relates to risks of contamination of air, soil and water primarily relating to the storage and handling of fuel, the use and/or disposal of petroleum-based products, including transformer oils containing polychlorinated biphenyls, in the day-to-day operating and maintenance activities, and emissions from the combustion of fuel required in the generation of electricity.

The Company is also subject to inherent risks, including risk of fires. Electricity transmission and distribution facilities have the potential to cause fires as a result of equipment failure, trees falling on a transmission or distribution line or lightning strikes to wooden poles.

The environmental hazards related to hydroelectric generation operations include the creation of artificial water flows that may disrupt natural habitats and the storage of large volumes of water for the purpose of electricity generation.

To identify, mitigate and monitor environmental performance the Company has established an environmental management system ("EMS"). The Company's EMS is compliant with the International Organization for Standardization 14001:2015 standard. As at December 31, 2020, there were no environmental liabilities recorded in the Company's 2020 annual audited financial statements and there were no material unrecorded environmental liabilities known to management.

Capital Resources and Liquidity: The Company's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. There can be no assurance that sufficient capital will continue to be available on acceptable terms to repay existing debt and to fund capital expenditures. The 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.

Credit ratings affect the level of credit risk spreads on new long-term bond issues and on the Company's credit facilities. A change in credit ratings could potentially affect access to various sources of capital and increase or decrease the Company's financing costs. There were no changes to the Company's credit ratings in 2020. The Company does not anticipate any material adverse rating actions by the credit rating agencies in the near term.

The Company has been successful at securing cost effective capital and expects to have reasonable access to capital in the near to medium terms. The Company's $100 million committed credit facility will mature in August 2024. Further information on the Company's credit facilities, contractual obligations, including long-term debt maturities and repayments, and cash flow requirements is provided in the "Liquidity and Capital Resources" section of this MD&A.

Interest Rates: Global financial market conditions could impact the Company's cost of capital as well as impact timing of future long-term bond issues. Market driven changes in interest rates could 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, which compose most of its long-term debt, thereby significantly mitigating exposure to short-term interest rate changes.

Cyber Security: The Company is exposed to the risk of cyber security violations. Unauthorized access to corporate and information technology systems due to hacking, viruses and other causes could result in service disruptions and system failures. In addition, the Company requires access to confidential customer data, including personal and credit information, which could be exposed in the event of a security breach.

In 2019, Newfoundland Power implemented a Cyber security Risk Management Program. This program will help guide the Company's response to managing its cyber security risk. Despite implemented security measures and controls to protect corporate and information technology systems and safeguard the confidentiality of customer information, a security breach could occur. This could potentially result in service disruptions, property damage, corruption or unavailability of critical data or confidential customer information, reputational damage and increased regulation and litigation. These could impact the Company's results if the situation is not resolved in a timely manner, or the financial impacts are not alleviated through insurance policies or through recovery from customers in future rates.

Labour Relations: Approximately 52% of the Company's employees are members of the International Brotherhood of Electrical Workers labour union (the "IBEW"), which has two collective bargaining agreements with the Company. The two agreements expire on June 30, 2022.

Human Resources: The ability of the Company to deliver service in a cost-effective manner is dependent on the ability of the Company to attract, develop and retain a skilled workforce.

Operating and Maintenance: The Company's electricity system requires ongoing maintenance and capital investment to ensure its continued performance, reliability and safety. The failure of the Company to properly execute its capital expenditure programs, maintenance programs or the occurrence of significant unforeseen equipment failures could have a material adverse effect on the Company's results of operations, cash flows and financial position. There can be no assurance that any additional maintenance and capital costs will receive regulatory approval for recovery in future customer rates.

Weather: The physical assets of the Company are exposed to the effects of severe weather conditions and other acts of nature. Although the physical assets have been constructed, operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. In the event of a material uninsured loss caused by severe weather conditions or other natural disasters, there is potential to make an application to the PUB for recovery of those costs. However, there can be no assurance that the PUB would approve any such application. Any major damage to the Company's facilities could result in loss of revenue, repair costs and customer claims that are substantial in amount and could result in a material adverse effect on the Company's results of operations, cash flows and financial position.

Information Technology Infrastructure: The ability of the Company to operate effectively is dependent upon developing and maintaining its information systems and infrastructure that support electricity operations, provide customers with billing information and support the financial and general operating aspects of the business. System failures could have a material adverse effect on the Company.

Insurance: While the Company maintains a comprehensive insurance program, the Company's transmission and distribution assets (i.e. poles and wires) are not covered under insurance for physical damage. This is customary in North America as the cost of the coverage is not considered economical. Insurance is subject to coverage limits as well as time-sensitive claims discovery and reporting provisions and there is no assurance that the types of liabilities that may be incurred by the Company, including those that may arise relating to environmental matters, will be covered by insurance.

For material uninsured losses, the Company expects that it could seek regulatory relief. However, there is no assurance that regulatory relief would be received. Any major damage to the physical assets of the Company could result in repair costs and customer claims that are substantial in amount and which could have a material adverse effect on the Company's results of operations, cash flows and financial position.

It is expected that existing insurance coverage will be maintained. However, there is no assurance that the Company will be able to obtain or maintain adequate insurance in the future at rates considered reasonable or that insurance will continue to be available on terms comparable to those now existing.

Defined Benefit Pension Plan Performance: The defined benefit pension plan is subject to judgments utilized in the actuarial determination of the projected pension benefit obligation and the related pension expense. The primary assumptions utilized are the expected long-term rate of return on pension plan assets and the discount rate used to value the projected pension benefit obligation. A discussion of the critical accounting estimates associated with pensions is provided in the "Critical Accounting Estimates – Employee Future Benefits" section of this MD&A.

There is also risk associated with measurement uncertainty inherent in the actuarial valuation process as it affects the measurement of pension expense, future funding requirements, and the projected benefit obligation.

Pension benefit obligations and related pension expense can be affected by changes in the global financial and capital markets. 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 in actual return on pension plan assets from the expected long-term return on the assets. This may cause material changes in future pension funding requirements from current estimates and material changes in future pension expense. Market-driven changes also impact the discount rate which may result in material variations in (i) future pension funding requirements from current estimates and (ii) future pension expense.

Pension risks are mitigated due to the PUB approved pension expense variance deferral ("PEVDA") to deal with the differences between actual defined benefit pension expense and pension expense approved by the PUB for rate-setting purposes. Differences in pension expense arising from variations in assumptions are recovered from or refunded to customers through the Company's RSA. The closure of the defined benefit pension plan in 2004 also mitigates pension risk.

Continued Reporting in Accordance with U.S. GAAP: In December 2017, the Ontario Securities Commission ("OSC") issued a relief order which permits Newfoundland Power to continue to prepare its financial statements in accordance with U.S. GAAP. The relief extends until the earliest of: (i) January 1, 2024; (ii) the first date of the financial year that commences after the Company ceases to have activities subject to rate regulation; or (iii) the effective date prescribed by the International Accounting Standards Board ("IASB") for the mandatory application of a standard within International Financial Reporting Standards ("IFRS") specific to entities with activities subject to rate regulation. The OSC relief order effectively extends the OSC's previous relief order, which was due to expire effective January 1, 2019.

In January 2021, the IASB issued an Exposure Draft which proposed a permanent mandatory standard for entities with activities subject to rate regulation. If OSC relief does not continue, the Company will be required to either adopt IFRS or, to continue to prepare its financial statements in accordance with U.S. GAAP: (i) become a U.S. Securities and Exchange Commission registrant; (ii) appeal to the OSC for a permanent exemption; or (iii) cease to be a reporting issuer.

The Company is assessing the impact of the IASB Exposure Draft.

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 annual audited financial statements for the year ended December 31, 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

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 revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates are necessary since the regulatory environment in which the Company operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they either, as appropriate, become known or included in customer rates. The critical accounting estimates are discussed below.

Depreciation and Amortization: Depreciation and amortization, by their nature, are estimates based primarily on the useful lives of assets. Estimated useful lives are based on current facts and historical information, and take into consideration the anticipated lives of the assets. Newfoundland Power's depreciation methodology, including depreciation and amortization rates, accumulated depreciation and estimated remaining service lives, is subject to a periodic study by external experts. The difference between actual accumulated depreciation and that indicated by the depreciation study is amortized and included in customer rates in a manner prescribed by the PUB.

The most recent depreciation study, based on property, plant and equipment in service as at December 31, 2014, indicated an accumulated depreciation variance of $12.2 million. The PUB ordered that it be amortized as an increase in depreciation expense of property, plant and equipment over the average remaining service life of the related assets.

The estimate of future removal and site restoration costs is based on historical experience and future expected cost trends. The balance of this regulatory liability as at December 31, 2020 was $178.5 million (December 31, 2019 - $168.7 million). The net amount of estimated future removal and site restoration costs provided for and reported in depreciation expense during 2020 was $19.3 million (2019 - $18.6 million).

Capitalized Overhead: Newfoundland Power capitalizes overhead costs which are not directly attributable to specific capital assets, but which relate to the overall capital expenditure program ("general expenses capitalized" or "GEC"). Capitalization reflects estimates of the portions of various general expenses that relate to the overall capital expenditure program in accordance with a methodology ordered by the PUB. GEC is allocated over constructed property, plant and equipment, and amortized over their estimated service lives. In 2020, GEC totalled $6.6 million (2019 - $6.2 million). Changes to the methodology for calculating and allocating general overhead costs to property, plant and equipment could have a material impact on the amounts recorded as operating expenses versus property, plant and equipment. However, any change in the fundamental methodology for the calculation and allocation of GEC would require the approval of the PUB.

Employee Future Benefits: The Company's primary defined benefit pension and OPEB plans are subject to judgments utilized in the actuarial determination of the expense and related obligations. The primary assumptions utilized in determining the pension expense and the projected pension benefit obligation are the discount rate and the expected long-term rate of return on plan assets. The primary assumptions utilized in determining the OPEB expense and the projected OPEB benefit obligation are the discount rate and the health care cost trend rate. All assumptions are assessed and concluded in consultation with the Company's external actuarial advisor.

The discount rate as at December 31, 2020, which is utilized to determine the projected pension benefit obligation and the 2021 pension expense was 2.6% compared to the discount rate of 3.1% as at December 31, 2019. The discount rate as at December 31, 2020, utilized to determine the projected OPEB obligation and the 2021 OPEB expense was 2.7% compared to the discount rate of 3.2% as at December 31, 2019. Discount rates reflect market interest rates on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

The expected long-term rate of return on pension plan assets which is used to estimate the 2021 defined benefit pension expense is 4.50% compared to 4.75% used for the 2020 defined benefit pension expense. The expected long-term rate of return reflects global market conditions and the Company's long-term investment strategy. As in previous years, the Company's actuary provided a range of expected long-term pension asset returns based on their internal modelling. The expected long-term return on pension plan assets of 4.50% falls within this range. The Company periodically completes a review of its investment strategy and asset allocation. Based on the review completed in 2017, the Company reduced its Canadian equity allocation and re-allocated its U.S. and international equity funds to a combination of diversified global equity funds. As at December 31, 2020, Newfoundland Power's target Canadian equity concentration was 10% and its target fixed income concentration was 60%. These targets are expected to reduce the risk of asset volatility and allow for more predictability in terms of the plan's funded status. The Company will complete another review of its investment strategy and asset allocation in 2021.

The health care cost trend rate as at December 31, 2020, which is utilized to determine the projected OPEB benefit obligation and the 2021 OPEB expense, is 4.0%, consistent with December 31, 2019.

The following table provides sensitivity to the changes in the 2020 primary assumptions associated with the Company's primary defined benefit pension and OPEB plans.

	Defined Benefit Pension Plan		OPEB Plan	
($millions)	**Pension Expense**[1]	**Benefit Obligation**[2]	**OPEB Expense**[1]	**Benefit Obligation**[2]
Rate of return on plan assets:				
Increase by 1.0%	(4.2)	-	-	-
Decrease by 1.0%	4.2	-	-	-
Discount rate:				
Increase by 1.0%	(5.5)	(55.1)	(0.3)	(14.1)
Decrease by 1.0%	4.0	68.3	1.4	18.5
Health care cost trend rate:				
Increase by 1.0%	-	-	1.9	13.8
Decrease by 1.0%	-	-	(0.9)	(10.7)

1 *For the year ended December 31, 2020. The volatility of future pension and OPEB expense has been significantly mitigated by the PUB approved PEVDA and OPEB cost variance deferrals, in which the difference arising from variations in assumptions between actual pension and OPEB expense and pension and OPEB expense approved by the PUB for rate-setting purposes would be recovered from or refunded to customers through the Company's RSA.*

2 *As at December 31, 2020.*

Other assumptions applied in measuring the defined benefit pension expense and/or the projected pension benefit obligation were the average rate of compensation increase, average remaining service life of the active employee group, and employee and retiree mortality rates. Other assumptions utilized in determining OPEB costs and obligations include the foregoing assumptions, excluding the average rate of compensation increase.

Income Taxes: Deferred income tax assets and liabilities are based upon temporary differences between the accounting and tax basis of existing assets and liabilities, the benefit of income tax reductions or tax losses available to be carried forward and the effects of changes in tax laws. The carrying amounts of assets and liabilities are based upon the amounts recorded in the financial statements and are, therefore, subject to accounting estimates that are inherent to those balances. The timing of the reversal of temporary differences is estimated based upon assumptions of expectations of future results of operations. The composition of deferred income tax assets and liabilities are reasonably likely to change from period to period because of changes in the estimation of these expectations.

Asset Retirement Obligations: The measurement of the fair value of asset retirement obligations ("AROs") requires the Company to make reasonable estimates about the method of settlement and settlement dates associated with legally obligated asset retirement costs. While the Company has AROs for its generation assets and certain distribution and transmission assets, there were no amounts recognized as at December 31, 2020 and 2019.

The nature, amount and timing of AROs for hydroelectric generation assets cannot be reasonably estimated at this time as these assets are expected to effectively operate in perpetuity given their nature. In the event that environmental issues are identified or hydroelectric generation assets are decommissioned, AROs will be recorded at that time provided the costs can be reasonably estimated. It is management's judgment that identified AROs for its remaining assets are immaterial.

Revenue Recognition: The development of the electricity sales estimates requires analysis of electricity consumption on a historical basis in relation to key inputs such as the current price of electricity, population growth, economic activity, weather conditions and electricity system losses. The estimation process for accrued unbilled electricity consumption will result in adjustments to electricity revenue in the period during which the difference between actual results and those estimated becomes known. As at December 31, 2020, the amount of accrued unbilled revenue recorded in accounts receivable was approximately $32.1 million (December 31, 2019 - $37.4 million).

Contingencies: The Company is subject to various legal proceedings and claims associated with the ordinary course of business operations. It is management's judgment that the amount of liability, if any, from these actions would not have a material adverse effect on the Company's financial position or results of operations.

SELECTED ANNUAL INFORMATION

The following table sets forth annual information for the years ended December 31, 2020, 2019 and 2018. The financial information reflects Canadian dollars and has been prepared in accordance with U.S. GAAP.

($millions, except per share amounts)	**2020**	**2019**	**2018**
Results of Operations:			
Revenue	718.6	683.9	664.2
Net Earnings Applicable to Common Shares	43.2	42.3	41.2
Financial Position:			
Total Assets	1,719.7	1,703.4	1,628.2
Total Long-term Liabilities	1,094.6	976.9	977.5
Shareholders' Equity	515.7	526.7	511.8
Per Share Data:			
Earnings Applicable to Common Shares [1]	4.19	4.10	3.99
Common Dividends Declared [1]	4.46	2.68	2.64
Preference Dividends Declared [2]	-	0.62	0.62

[1] *Basic and fully diluted. Based on the weighted average number of common shares outstanding, which was 10,320,270 common shares in each year.*

[2] *Based on the aggregate number of preference shares outstanding in each year, which was 884,877 in 2019 and 891,148 in 2018. During the first quarter of 2020, all of the issued and outstanding preference shares were redeemed.*

The changes from 2019 to 2020 have been discussed previously in this MD&A. The increase in revenue from 2018 to 2019 was primarily due to the flow through of higher wholesale electricity rates effective July 1, 2018, and higher regulatory amortizations recognized pursuant to PUB orders. These factors were partially offset by the impact of lower electricity sales. The increase in earnings from 2018 to 2019 was primarily due to the implementation of the Company's 2019/2020 GRA order which reflects continued investment in the electricity system.

The increase in total assets from 2018 to 2019 primarily reflects continued investment in the electricity system. The change in long-term liabilities primarily reflects a reduction in long-term debt, largely offset by the operation of PUB approved regulatory mechanisms and the impact of year end actuarial results.

FOURTH QUARTER RESULTS

	2020	2019	Change
Electricity Sales *(GWh)* [1]	1,532.2	1,561.5	(29.3)
Net Earnings Applicable to Common Shares			
$ Millions	15.6	9.0	6.6
$ Per Share	1.51	0.88	0.63
Cash Flow from Operating Activities *($millions)*	39.5	33.9	5.6
Cash Flow used in Investing Activities *($millions)*	(36.1)	(33.1)	(3.0)
Cash Flow used in Financing Activities *($millions)*	(55.5)	(0.9)	(54.6)

[1] *Reflects normalized electricity sales.*

Electricity sales for the fourth quarter of 2020 decreased by 29.3 GWh, or approximately 1.9% compared to the fourth quarter of 2019. The decrease was primarily due to lower average consumption by residential and commercial customers, partially offset by an increase in the number of customers.

Earnings for the fourth quarter of 2020 increased by $6.6 million compared to the fourth quarter of 2019. The increase in earnings was primarily the result of (i) timing of quarterly earnings in 2020 compared to 2019 due to the October 1, 2019 wholesale electricity rate increase, (ii) lower generation than water inflows at the Company's hydroelectric generating stations in the fourth quarter of 2019, and (iii) the implementation of the Company's 2019/2020 GRA order which reflects continued investment in the electricity system. These factors were partially offset by the impact of lower electricity sales.

Cash from operating activities for the fourth quarter of 2020 increased by $5.6 million compared to the fourth quarter of 2019. The increase reflects the operation of PUB-approved regulatory mechanisms and the implementation of the Company's 2019/2020 GRA order. These increases were partially offset by changes in the Company's working capital and higher income tax payments in 2020.

Cash used in investing activities for the fourth quarter of 2020 increased by $3.0 million compared to the fourth quarter of 2019. The increase primarily reflects a short-term demand loan to Fortis partially offset by lower capital expenditures in the fourth quarter of 2020.

Cash used in financing activities for the fourth quarter of 2020 increased by $54.6 million compared to the fourth quarter of 2019. The increase primarily reflects the repayment of first mortgage sinking fund bonds and the payment of a special common share dividend to Fortis in the fourth quarter of 2020.

QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended March 31, 2019, through December 31, 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.

	First Quarter March 31		Second Quarter June 30		Third Quarter September 30		Fourth Quarter December 31	
(unaudited)	2020	2019	2020	2019	2020	2019	2020	2019
Electricity Sales *(GWh)* [1]	1,980.9	2,030.5	1,299.8	1,331.8	916.1	922.8	1,532.2	1,561.5
Revenue *($millions)*	242.9	231.3	163.0	156.6	121.4	113.4	191.3	182.6
Net Earnings Applicable to Common Shares *($millions)*	6.1	8.6	11.9	13.7	9.5	11.0	15.6	9.0
Earnings per Common Share *($)* [2]	0.59	0.83	1.16	1.32	0.92	1.07	1.51	0.88

[1] *Reflects normalized electricity sales.*
[2] *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. Changes in the purchased power rate structure may impact quarterly earnings. 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.

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. Trends in future sales are expected to be comparable with recent years.

Earnings: Beyond the impact of fluctuations in electricity 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 Company is required to file its next GRA on or before June 1, 2021.

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. The Company's results could also be adversely affected by a prolonged downturn in oil prices due to its broader economic impact on Newfoundland and Labrador.

Energy Supply and Customer Rates: 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 in February, 2020. Rate mitigation discussions between the Government of Newfoundland and Labrador and the Government of Canada are currently ongoing and the outcome is uncertain.

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.

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 quarterly and annual financial statements and 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 revenue of $8.9 billion and total assets of $55 billion as at December 31, 2020. Fortis Inc.'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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INDEPENDENT AUDITOR'S REPORT//

Independent Auditor’s Report

To the Shareholder and the Board of Directors of
Newfoundland Power Inc.

Opinion
We have audited the financial statements of Newfoundland Power Inc. (the “Company”), which comprise the balance sheets as at December 31, 2020 and 2019, and the statements of earnings, changes in shareholders’ equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and the results of its operations and its cash flows for the years ended December 31, 2020 and 2019 in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information
Management is responsible for the other information. The other information comprises:

- Management’s Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor’s report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with US GAAP, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT (CONT'D)

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. The engagement partner on the audit resulting in this independent auditor's report is Brian Groves.

/s/ Deloitte LLP
Chartered Professional Accountants

Chartered Professional Accountants
St. John's, Newfoundland and Labrador
February 11, 2021

ANNUAL AUDITED FINANCIAL STATEMENTS & NOTES//

Statements of Earnings

For the years ended December 31

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

	2020	2019
Revenue *(Note 4)*	$ 718,614	$ 683,962
Expenses		
Purchased power	468,844	444,861
Operating expenses	80,766	76,959
Employee future benefits *(Note 11)*	6,077	2,250
Depreciation and amortization	71,187	68,019
Cost recovery deferrals, net *(Note 7)*	(876)	1,752
Finance charges	37,146	35,931
	663,144	629,772
Earnings Before Income Taxes	55,470	54,190
Income tax expense *(Note 8)*	11,893	11,299
Net Earnings	43,577	42,891
Preference share dividends *(Note 15)*	347	550
Net Earnings Applicable to Common Shares	$ 43,230	$ 42,341
Basic and Diluted Earnings per Common Share	$ 4.19	$ 4.10

Statements of Changes in Shareholders' Equity

For the years ended December 31

(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	-	-	43,577	**43,577**
Allocation of Part VI.1 tax	-	-	625	**625**
Dividends on common shares ($4.46 per share)	-	-	(46,071)	**(46,071)**
Dividends on preference shares *(Note 15)*	-	-	(347)	**(347)**
Redemption of preference shares *(Note 15)*	-	(8,849)	-	**(8,849)**
As at December 31, 2020	$ 70,321	$ -	$ 445,330	**$ 515,651**
As at January 1, 2019	$ 70,321	$ 8,911	$ 432,588	**$ 511,820**
Net earnings	-	-	42,891	**42,891**
Allocation of Part VI.1 tax	-	-	275	**275**
Dividends on common shares ($2.68 per share)	-	-	(27,658)	**(27,658)**
Dividends on preference shares	-	-	(550)	**(550)**
Redemption of preference shares	-	(62)	-	**(62)**
As at December 31, 2019	$ 70,321	$ 8,849	$ 447,546	**$ 526,716**

See accompanying notes to financial statements.

Balance Sheets

As at December 31

(in thousands of Canadian dollars)

	2020	2019
Assets		
Current assets		
Accounts receivable *(Note 5)*	$ 65,681	$ 83,552
Income taxes receivable	-	2,038
Materials and supplies *(Note 6)*	1,705	1,479
Prepaid expenses	2,522	2,190
Regulatory assets *(Note 7)*	14,560	16,771
Related party notes receivable *(Note 17)*	8,000	-
	92,468	106,030
Property, plant and equipment (net) *(Note 9)*	1,237,470	1,204,308
Intangible assets *(Note 10)*	30,592	28,131
Defined benefit pension plans *(Note 11)*	25,705	15,193
Regulatory assets *(Note 7)*	331,302	347,137
Other assets *(Note 12)*	2,169	2,608
	$ 1,719,706	$ 1,703,407
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings *(Note 13)*	$ 6,728	$ 1,412
Accounts payable and accrued charges	74,110	90,337
Interest payable	6,596	6,628
Income taxes payable	1,842	-
Defined benefit pension plans *(Note 11)*	438	221
Other post-employment benefits *(Note 11)*	3,782	3,710
Regulatory liabilities *(Note 7)*	8,769	10,773
Current instalments of long-term debt *(Note 13)*	7,200	36,200
Related party borrowings *(Note 17)*	-	50,500
	109,465	199,781
Regulatory liabilities *(Note 7)*	197,944	175,826
Defined benefit pension plans *(Note 11)*	5,180	5,407
Other post-employment benefits *(Note 11)*	90,676	88,316
Other liabilities *(Note 14)*	1,212	1,420
Deferred income taxes *(Note 8)*	175,356	173,249
Long-term debt *(Note 13)*	624,222	532,692
	1,204,055	1,176,691
Shareholders' equity		
Common shares, no par value, unlimited authorized shares, 10.3 million shares issued and outstanding *(Note 15)*	70,321	70,321
Preference shares *(Note 15)*	-	8,849
Retained earnings	445,330	447,546
	515,651	526,716
	$ 1,719,706	$ 1,703,407

See accompanying notes to financial statements.

APPROVED ON BEHALF OF THE BOARD:

Glenn Mifflin
Director

Kenneth Bennett
Director

Statements of Cash Flows

For the years ended December 31

(in thousands of Canadian dollars)

	2020	2019
Operating Activities		
Net earnings	$ 43,577	$ 42,891
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of property, plant and equipment	67,327	64,609
Amortization of intangible assets and other	4,092	3,644
Change in long-term regulatory assets and liabilities	24,029	(2,764)
Deferred income taxes *(Note 8)*	(5,111)	5,160
Employee future benefits	2,697	(1,707)
Other	197	(595)
Change in working capital *(Note 16)*	8,957	13,240
	145,765	124,478
Investing Activities		
Capital expenditures *(Note 16)*	(95,437)	(106,047)
Intangible asset expenditures	(6,320)	(6,900)
Contributions from customers	2,102	8,278
Advances to related party *(Note 17)*	(8,000)	-
	(107,655)	(104,669)
Financing Activities		
Change in short-term borrowings	5,316	1,412
Repayments on committed credit facility	-	(37,000)
Proceeds from long-term debt *(Note 13)*	100,000	-
Repayments of long-term debt *(Note 13)*	(37,200)	(6,600)
Net (repayments) proceeds from related party borrowings *(Note 17)*	(50,500)	50,500
Redemption of preference shares *(Note 15)*	(8,849)	(62)
Payment of debt financing costs	(459)	(35)
Dividends		
Preference shares	(347)	(550)
Common shares	(46,071)	(27,658)
	(38,110)	(19,993)
Change in Cash	-	(184)
Cash, Beginning of Year	-	184
Cash, End of Year	$ -	$ -
Cash Flows Include the Following:		
Interest paid	$ 37,300	$ 36,667
Income taxes paid	$ 12,500	$ 7,136

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 2020

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 270,000 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 and prudent 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.

The determination of the forecast return on rate base, together with the forecast of all reasonable and prudent costs, establishes the revenue requirement upon which the Company's customer rates are determined through a general rate hearing. Rates are bundled to include generation, transmission and distribution services.

Newfoundland Power maintains a capital structure comprised of approximately 55% debt and preference equity and 45% common equity.

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. Summary of Significant Accounting Policies

The significant accounting policies of the Company are as follows.

Basis of Presentation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). In December 2017, the Ontario Securities Commission approved the extension of the Company's exemptive relief to continue reporting under U.S. GAAP rather than International Financial Reporting Standards ("IFRS") until the earlier of January 1, 2024 and the effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation.

Revenue Recognition

The majority of the Company's revenue is generated from electricity sales to customers based on published tariff rates, as approved by the PUB. Electricity is metered upon delivery to customers and recognized as revenue using approved rates when consumed. Meters are read periodically and bills are issued to customers based on these readings. At the end of each period, an estimate of electricity consumed but not yet billed is accrued as revenue. The unbilled revenue accrual for each period is based on estimated electricity sales to customers for the period since the last meter reading at the rates approved by the PUB. The development of the electricity sales estimates requires analysis of electricity consumption on a historical basis in relation to key inputs such as the current price of electricity, population growth, economic activity, weather conditions and electricity system losses.

Revenue arising from the amortization of certain regulatory assets and liabilities is recognized in the manner prescribed by the PUB (Note 7). Other revenue is recognized when the service is rendered.

2. Summary of Significant Accounting Policies (cont'd)

Sales Taxes

In the course of its operations, the Company collects municipal taxes and sales taxes from its customers. When customers are billed, a current liability is recognized for municipal taxes included in electricity rates charged to customers and sales taxes included on customers' bills. The liability is settled when the taxes are remitted to the appropriate government authority. The Company's revenue excludes municipal taxes and sales taxes.

Allowance for Credit Losses

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 5). 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.

Materials and Supplies

Materials and supplies, representing fuel and materials required for maintenance activities, are measured at the lower of average cost and net realizable value.

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, refunded to customers through the rate-setting process. The accounting methods underlying regulatory assets and liabilities, and their eventual settlement through the rate-setting process, are approved by the PUB and impact the Company's cash flows.

Property, Plant and Equipment

Property, plant and equipment are stated at values approved by the PUB as at June 30, 1966, with subsequent additions at cost.

Maintenance and repairs of utility capital assets are charged to expense in the period incurred, while replacements and betterments which extend the useful lives are capitalized.

Contributions in aid of construction represent the cost of utility property, plant and equipment contributed by customers and government. These contributions are recorded as a reduction in the cost of utility property, plant and equipment.

The Company capitalizes certain overhead costs not directly attributable to specific property, plant and equipment but which do relate to its overall capital expenditure program ("general expenses capitalized" or "GEC"). The methodology for calculating and allocating GEC among classes of property, plant and equipment is established by PUB Order. In 2020, GEC totalled $6.6 million (2019 - $6.2 million).

The Company capitalizes an allowance for funds used during construction ("AFUDC"), which represents the cost of debt and equity financing incurred during construction of property, plant and equipment. AFUDC is calculated in a manner prescribed by the PUB based on a capitalization rate that is the Company's weighted average cost of capital. In 2020, the cost of equity financing capitalized as an AFUDC and recorded in other revenue was approximately $0.4 million (2019 - $0.9 million). The debt component of AFUDC totalling $0.5 million in 2020 (2019 - $1.1 million) is recorded as a reduction of finance charges.

Property, plant and equipment are depreciated using the straight-line method by applying the depreciation rates approved by the PUB and disclosed below to the average original cost of the related assets, including GEC and AFUDC.

The Company's depreciation methodology, including depreciation rates, accumulated depreciation and estimated remaining service lives, is subject to periodic review by external experts (a "Depreciation Study").

2. Summary of Significant Accounting Policies (cont'd)

Property, Plant and Equipment (cont'd)

Based on the 2014 Depreciation Study, and as approved by the PUB, the composite depreciation rates for the Company's property, plant and equipment, as well as their service life ranges and average remaining service lives are as follows.

	Composite Depreciation Rate (%)	Service Life (Years)	
		Range	Average Remaining
Distribution	3.2	18-65	27
Transmission and substations	3.0	31-65	27
Generation	2.8	17-75	30
Transportation and communications	8.2	6-30	5
Buildings	2.4	37-70	26
Equipment	8.9	5-25	5

The difference between actual accumulated depreciation and that indicated by a Depreciation Study is treated as a depreciation variance which is used to increase or decrease depreciation expense and is included in customer rates in a manner prescribed by the PUB. The 2014 Depreciation Study, which was based on property, plant and equipment in service as at December 31, 2014, indicated an accumulated depreciation variance of $12.2 million. The PUB ordered that it be amortized as an increase in depreciation expense of property, plant and equipment over the average remaining service life of the related assets.

Upon disposition, the original cost of property, plant and equipment is removed from the asset accounts. That amount, net of salvage proceeds, is also removed from accumulated depreciation. As a result, any gain or loss is charged to accumulated depreciation and is effectively included in the depreciation variance arising from the next Depreciation Study.

Intangible Assets

Intangible assets are recorded at cost and amortized over their estimated useful lives using the straight-line method by applying the amortization rates approved by the PUB to the cost of the related assets. The weighted average amortization rates for intangible assets in 2020 were 10.0% for computer software (2019 – 10.0%) and 1.6% for land rights (2019 – 1.6%).

Upon disposition, the original cost of the intangible asset is removed from the asset accounts. That amount, net of salvage proceeds, is also removed from accumulated amortization. As a result, any gain or loss is charged to accumulated amortization and is effectively included in the accumulated amortization variance arising from the next Depreciation Study.

Impairment of Long-Lived Assets

The Company reviews the valuation of property, plant and equipment, intangible assets and other long-term assets when events or changes in circumstances indicate that the assets' carrying values exceed the total undiscounted cash flows expected from their use and eventual disposition. An impairment loss, calculated as the difference between the assets' carrying value and their fair values, which is determined using present value techniques, is recognized in earnings in the period in which it is identified. There was no impairment of long-lived assets for the years ended December 31, 2020 and 2019.

2. Summary of Significant Accounting Policies (cont'd)

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities. The deferred income tax assets and liabilities are measured using enacted income tax rates and laws that are expected to be in effect when the differences are expected to be recovered or settled. The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in earnings in the period that the change occurs. Current income tax expense is recognized for the estimated income taxes payable or receivable in the current year.

Newfoundland Power recovers current income tax expense in customer rates. The Company is permitted to recover deferred income tax expense by the PUB as follows.

Effective January 1, 1981, deferred income tax liabilities are recognized and recovered in customer rates on temporary differences associated with the cumulative excess of capital cost allowance over depreciation of property, plant and equipment.

Effective January 1, 1987, the PUB order noted above was modified to exclude GEC from the depreciation of property, plant and equipment.

Effective January 1, 2008, deferred income taxes are recognized and recovered in customer rates on temporary differences between pension expense and pension funding.

Effective January 1, 2011, deferred income taxes are recognized and recovered in customer rates on temporary timing differences between other post-employment benefits ("OPEB") costs recovered using the accrual method and cash payments.

Deferred income taxes associated with the Company's regulatory reserves and certain regulatory deferrals are also recognized and included in the determination of customer rates (Note 7).

Deferred income tax assets and liabilities associated with other temporary differences between the tax basis of assets and liabilities and their carrying amounts are not included in customer rates. These amounts are expected to be recovered from (refunded to) customers through rates when the income taxes actually become payable (recoverable). The Company has recognized these deferred income tax liabilities with an offsetting increase in regulatory assets. The Company's regulatory asset for deferred income taxes as at December 31, 2020 was $227.5 million (2019 - $220.2 million) (Note 7).

The allocation of Part VI.1 tax to Newfoundland Power from Fortis associated with preference share dividends is recognized in retained earnings upon signing the respective agreement.

Tax benefits associated with income tax positions taken, or expected to be taken, in an income tax return are recognized only when the more likely than not recognition threshold is met.

Interest related to unrecognized tax benefits is recognized in finance charges and any associated penalties are recognized in operating expenses.

Employee Future Benefits

Newfoundland Power maintains defined contribution and defined benefit pension plans for its employees and also provides an OPEB plan. The OPEB plan is composed of retirement allowances for retiring employees as well as health, medical and life insurance for retirees and their dependants.

Defined Contribution and Defined Benefit Pension Plans

The Company's defined contribution plans are its individual and group registered retirement savings plans. Defined contribution pension plan costs are expensed as incurred.

The Company's defined benefit plans are its funded defined benefit pension plan, an unfunded pension uniformity plan ("PUP"), and an unfunded supplementary employee retirement plan ("SERP"). Both the funded defined benefit pension plan and the PUP are closed to new entrants.

2. Summary of Significant Accounting Policies (cont'd)

Employee Future Benefits (cont'd)

The net benefit costs and projected benefit obligations of the funded defined benefit pension plan and the PUP are actuarially determined using the projected benefits method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. Discount rates reflect market interest rates on high-quality bonds with cash flows that match the timing and amount of pension payments. The net benefit costs and projected benefit obligations of the SERP are determined based upon employee earnings and years of service. Net benefit costs are also impacted by the amortization of various regulatory assets (Note 7 (iv)).

Pension plan assets of the funded defined benefit pension plan are valued at market-related value, where investment returns in excess of or below expected returns are recognized in the asset value over a period of three years. The excess of the cumulative net actuarial gain or loss over 10% of the greater of the benefit obligation and the market-related value of plan assets is amortized over the estimated average remaining service period of active employees.

Other Post-Employment Benefits

The net benefit cost and projected benefit obligation of the OPEB plan are actuarially determined using the projected benefits method pro-rated on service and best estimate of health care costs. Discount rates reflect market interest rates on high-quality bonds with cash flows that match the timing and amount of OPEB payments. Net benefit costs are also impacted by the amortization of various regulatory assets (Note 7 (ii)). The excess of any cumulative net actuarial gain or loss over 10% of the benefit obligation, along with unamortized past service costs is amortized over the estimated average remaining service period of active employees.

Effective January 1, 2019, the Company early adopted Accounting Standards Update ("ASU") No. 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans – General. This standard modifies the Company's disclosure requirements for defined pension or other postretirement plans and clarifies disclosure requirements. The modified disclosure requirements are provided in Note 11. There was no impact on net earnings.

Asset Retirement Obligations

The Company is required to record the fair value of future expenditures necessary to settle legal obligations associated with asset retirements even though the timing or method of settlement is conditional on future events. Newfoundland Power has determined that there are asset retirement obligations ("AROs") associated with its hydroelectric generation assets and some parts of its transmission and distribution system.

For hydroelectric generation assets, the legal obligation is the environmental remediation of the land and waterways to protect fish habitat. However, this obligation is conditional on the decision to decommission generation assets. The Company currently has no plans to decommission any of its hydroelectric generation assets as they are effectively operated in perpetuity. Therefore, the nature and fair value of any ARO is not currently determinable.

The legal obligations for the transmission and distribution system pertain to the proper disposal of used oil and polychlorinated biphenyl contaminated assets. Obligations related to other Company facilities consist of the removal of fuel storage tanks and asbestos. These obligations were determined to be immaterial and therefore no AROs have been recognized.

The Company will recognize AROs and offsetting property, plant and equipment if the nature and timing can reasonably be determined and the amount is material.

Leases

Effective January 1, 2019, the Company adopted Accounting Standards Codification ("ASC") Topic 842, Leases, which requires the recognition of lease assets and lease liabilities with a term greater than 12 months on the balance sheet by lessees for those leases that were previously classified as operating leases. The Company adopted the standard using a modified retrospective approach and did not adjust prior periods. Newfoundland Power elected a package of practical expedients that allowed it to not reassess: (i) whether existing contracts, including land easements, are or contain a lease; (ii) the lease classification of existing leases; and (iii) the initial direct costs for existing leases. Also, the Company utilized the hindsight practical expedient to determine the lease term. Newfoundland Power has not identified material leasing activities. As a result, the adoption of this standard did not have an impact on Newfoundland Power's financial statements and related disclosures.

2. Summary of Significant Accounting Policies (cont'd)

Use of Accounting Estimates
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 revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates are necessary since the regulatory environment in which the Company operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they either, as appropriate, become known or included in customer rates.

3. Future Accounting Pronouncements

The Company considers the applicability and impact of all ASUs issued by the Financial Accounting Standard's Board. 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. Revenue

The composition of the Company's revenue follows.

	2020	2019
Electricity revenue		
Residential	$ 460,507	$ 434,527
Commercial	238,136	232,988
Street lighting	16,983	16,664
Regulatory deferrals and amortizations (Note 7)	(8,785)	(13,339)
	706,841	670,840
Other contract revenue	9,759	10,052
Other revenue	2,014	3,070
Total revenue	$ 718,614	$ 683,962

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 AFUDC and other miscellaneous amounts.

5. Accounts Receivable

The timing of revenue recognition, billings and cash collections from contracts with customers results in trade accounts receivable and unbilled accounts receivable. The composition of the Company's accounts receivable follows.

	2020	2019
Trade accounts receivable	$ 34,944	$ 46,597
Unbilled accounts receivable	32,077	37,447
Other	1,566	1,831
Allowance for credit losses	(2,906)	(2,323)
	$ 65,681	$ 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.

	2020
Balance, beginning of year	$ (2,323)
Credit loss expense	(2,290)
Write-offs	2,475
Recoveries	(768)
Balance, end of year	$ (2,906)

6. Materials and Supplies

	2020	2019
Materials and supplies	$ 1,397	$ 1,097
Fuel in storage	308	382
	$ 1,705	$ 1,479

7. Regulatory Assets and Liabilities

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

	2020	2019	Remaining Recovery Period (Years)
Regulatory assets			
OPEB (ii)	$ 17,520	$ 21,024	5
Conservation and demand management deferral (iii)	24,356	24,815	7
Employee future benefits (iv)	74,752	86,366	Benefit payment period
Weather normalization account (v)	-	8,078	-
Deferred GRA costs (vi)	353	706	1
Demand management incentive ("DMI") (vii)	1,431	2,687	2
Deferred income taxes (Note 8)	227,450	220,232	Life of related assets
Total regulatory assets	$ 345,862	$ 363,908	
Less: current portion	(14,560)	(16,771)	
Long-term regulatory assets	$ 331,302	$ 347,137	

7. Regulatory Assets and Liabilities (cont'd)

	2020	2019	Remaining Settlement Period (Years)
Regulatory liabilities			
RSA (i)	$ 22,035	$ 16,107	2
Cost recovery deferrals (viii)	876	1,752	1
Weather normalization account (v)	5,333	-	2
Future removal and site restoration provision (ix)	178,469	168,740	Life of related assets
Total regulatory liabilities	$ 206,713	$ 186,599	
Less: current portion	(8,769)	(10,773)	
Long-term regulatory liabilities	$ 197,944	$ 175,826	

(i) Rate Stabilization Account

On July 1 of each year, customer rates are recalculated in order to recover from or refund to customers, over the subsequent twelve months, the balance in the RSA as of March 31 of the current year. The amount and timing of the recovery or refund is subject to PUB approval.

The RSA passes through, to the Company's customers, amounts primarily related to changes in the cost and quantity of fuel used by Hydro to produce the electricity sold to the Company.

The RSA also passes through, to the Company's customers, variations in purchased power expense caused by differences between the actual unit cost of energy and that reflected in customer rates ("Energy Supply Cost Variance"). The marginal cost of purchased power for the Company currently exceeds the average cost that is embedded in customer rates. To the extent actual electricity sales in any period exceed forecast electricity sales used to set customer rates, marginal purchased power expense will exceed related revenue. The amount transferred to the RSA in 2020 for refund to customers due to the Energy Supply Cost Variance was $21.4 million (2019 - $3.3 million).

The pension expense variance deferral account ("PEVDA") is charged or credited with the amount by which actual pension expense differs from amounts approved in customer rates by the PUB due to variations in assumptions. Each year, at March 31, the balance in the PEVDA is transferred to the Company's RSA and disposed of in accordance with the operation of the RSA. The amount transferred from the PEVDA to the RSA in 2020 for recovery from customers was $6.6 million (2019 - $0.8 million).

The OPEB cost variance deferral account is charged or credited with the amount by which actual OPEB expense differs from amounts approved in customer rates by the PUB due to variations in assumptions. Each year, at March 31, the balance in the OPEB cost variance deferral account is transferred to the Company's RSA and disposed of in accordance with the operation of the RSA. The amount transferred from the OPEB cost variance deferral account to the RSA in 2020 for recovery from customers was $0.3 million (2019 - $0.1 million).

Customer energy conservation program costs and balances in the weather normalization account are also transferred to the RSA (Notes 7 (iii) and (v)). The RSA is also adjusted from time-to-time by other amounts as approved by the PUB.

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 did not have a material impact on annual earnings for Newfoundland Power. Undistributed bill credits of $0.3 million were transferred to the RSA in December 2020 for refund to customers in accordance with P.U. 17 (2020).

(ii) OPEB

This regulatory asset represents the accumulated difference between OPEB expense recognized on a cash basis for regulatory purposes and an accrual basis for financial reporting purposes from 2000 through 2010. Effective January 1, 2011, the PUB ordered the adoption of the accrual method of accounting for OPEB and the $52.6 million regulatory asset be amortized evenly over 15 years.

7. **Regulatory Assets and Liabilities (cont'd)**

(iii) Conservation and Demand Management Deferral

As ordered by the PUB, annual customer energy conservation program costs are deferred and amortized to operating expenses over the subsequent seven-year period, consistent with the period these costs are recovered from customers. Conservation program costs of $5.1 million were deferred in 2020 (2019 - $6.9 million). The amount transferred to the RSA in 2020 for recovery from customers was $5.6 million (2019 - $4.6 million).

(iv) Employee Future Benefits

Upon transition to U.S. GAAP in 2012, the PUB approved the following with respect to the accounting for employee future benefits.

(a) Opening unamortized balances and future amounts of past service costs and actuarial gains or losses are recorded as a regulatory asset, rather than accumulated other comprehensive loss. The amortization of these balances will continue to be included in the calculation of employee future benefit expense.

(b) The period over which pension expense had been recognized differed between that used for regulatory purposes and that used for U.S. GAAP. Therefore, the cumulative difference was recorded as a regulatory asset to be recovered from customers in future rates. The PUB ordered that pension expense for regulatory purposes be recognized in accordance with U.S. GAAP effective January 1, 2013 and that the accumulated difference in pension expense to December 31, 2012 of $12.4 million be amortized evenly over 15 years to pension expense.

(v) Weather Normalization Account

The Weather Normalization Account reduces earnings volatility by adjusting purchased power expense and electricity sales revenue to eliminate variances in purchases and sales caused by the difference between normal weather conditions, based on long-term averages, and actual weather conditions. The PUB has ordered that balances in the weather normalization account be recovered through the RSA (Note 7 (i)). The amount transferred to the RSA in 2020 for recovery from customers was $8.1 million (2019 - $2.2 million).

(vi) Deferred GRA Costs

As approved in the 2019/2020 GRA Order, a $1.0 million cost deferral related to 2019/2020 GRA hearing costs was recognized on March 1, 2019. The deferral is being amortized to operating expenses over a 34-month period from March 1, 2019 through December 31, 2021. Amortization of $0.3 million was recorded in 2020 (2019 - $0.3 million).

(vii) Demand Management Incentive

Through the DMI, variations in the unit cost of purchased power related to demand are limited, at the discretion of the PUB, to 1% of demand costs reflected in customer rates. The disposition of balances in this account to the RSA are determined by orders of the PUB following consideration of the Company's conservation and demand management activities. The amount transferred to the RSA in 2020 for recovery from customers was $2.7 million (2019 – no transfers to the RSA).

(viii) Cost Recovery Deferrals

As approved in the 2019/2020 GRA Order, the Company recorded a $2.5 million over-recovery from customers in 2019. This over-recovery was ordered to be amortized in customer rates over a 34-month period from March 1, 2019 through December 31, 2021. Amortization of $0.9 million was recorded in 2020 (2019 - $0.7 million).

(ix) Future Removal and Site Restoration Provision

This regulatory liability represents amounts collected in customer electricity rates over the life of certain property, plant and equipment which are attributable to removal and site restoration costs that are expected to be incurred in the future. Actual removal and site restoration costs are recorded against the regulatory liability when incurred. The regulatory liability represents the amount of expected future removal and site restoration costs associated with the applicable property, plant and equipment in service as at December 31, calculated using current depreciation rates as approved by the PUB.

8. Income Taxes

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

	2020	2019
Current income tax expense	$ 17,004	$ 6,139
Deferred income tax expense	2,106	12,492
Less: regulatory adjustment	(7,217)	(7,332)
	$ 11,893	$ 11,299

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.

	2020	2019
Earnings before income taxes	$ 55,470	$ 54,190
Statutory tax rate	30.0%	30.0%
Income taxes, at statutory rate	16,641	16,257
Items capitalized for accounting purposes but expensed for income tax purposes	(2,258)	(2,439)
Difference between capital cost allowance and depreciation and amortization expense	(2,724)	(2,737)
Other	234	218
Income tax expense	$ 11,893	$ 11,299
Effective income tax rate	21.4%	20.9%

Deferred Income Taxes

The composition of the Company's net deferred income tax liability follows.

	2020	2019
Deferred income tax liabilities		
Property, plant and equipment	$ 188,335	$ 178,352
Intangible assets	10,990	9,781
Regulatory assets	47,387	56,910
Defined benefit pension plans	10,400	5,614
Total deferred income tax liabilities	$ 257,112	$ 250,657
Deferred income tax assets		
Regulatory liabilities	$ (48,021)	$ (43,940)
OPEB	(33,053)	(32,498)
Other	(682)	(970)
Total deferred income tax assets	(81,756)	(77,408)
Net deferred income tax liability	$ 175,356	$ 173,249

The net deferred income tax liability includes a gross up to reflect the income tax associated with future revenue required to fund the net deferred income tax liability (Note 7).

As at December 31, 2020 and 2019, the Company had no non-capital or capital losses carried forward.

As at December 31, 2020 and 2019, the Company had no material unrecognized tax benefits related to uncertain tax positions.

As at December 31, 2020, the Company's tax years still open to examination by taxing authorities include 2015 and subsequent years.

9. Property, Plant and Equipment

	Cost		Accumulated Depreciation		Net Book Value	
	2020	2019	2020	2019	2020	2019
Distribution	$ 1,053,320	$ 1,017,432	$ (366,465)	$ (348,705)	$ 686,855	$ 668,727
Transmission and substations	423,638	406,277	(113,571)	(109,051)	310,067	297,226
Generation	252,213	252,578	(96,345)	(92,515)	155,868	160,063
Transportation and communications	41,181	39,093	(19,947)	(19,616)	21,234	19,477
Land, buildings and equipment	86,051	82,627	(33,945)	(33,142)	52,106	49,485
Construction in progress	2,523	2,498	-	-	2,523	2,498
Construction materials	8,817	6,832	-	-	8,817	6,832
	$ 1,867,743	$ 1,807,337	$ (630,273)	$ (603,029)	$ 1,237,470	$ 1,204,308

Distribution assets are used to distribute low voltage electricity to customers and include poles, towers and fixtures, low voltage wires, transformers, overhead and underground conductors, street lighting, metering equipment and other related equipment. Transmission and substations assets are used to transmit high voltage electricity to distribution assets and include poles, high voltage wires, switching equipment, transformers and other related equipment. Generation assets are used to generate electricity and include hydroelectric and thermal generating stations, gas and combustion turbines, dams, reservoirs and other related equipment. Transportation and communications assets include vehicles as well as telephone, radio and other communications equipment. Land, buildings and equipment are used generally in the provision of electricity service, but not specifically in the distribution, transmission or generation of electricity or specifically related to transportation and communication activities.

10. Intangible Assets

	Cost		Accumulated Amortization		Net Book Value	
	2020	2019	2020	2019	2020	2019
Computer software	$ 41,714	$ 38,529	$ (17,103)	$ (15,481)	$ 24,611	$ 23,048
Land rights	11,190	10,161	(5,209)	(5,078)	5,981	5,083
	$ 52,904	$ 48,690	$ (22,312)	$ (20,559)	$ 30,592	$ 28,131

Amortization expense related to intangibles was $3.9 million for 2020 (2019 - $3.4 million).

11. Employee Future Benefits

The projected benefit obligation for all of the Company’s defined benefit plans, and the market-related value of plan assets for the Company’s funded defined benefit pension plan, are measured for accounting purposes as at December 31 of each year. The latest actuarial valuation of the Company’s defined benefit pension plan for funding purposes was as of December 31, 2019. The valuation indicated 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 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.

The next funding valuation for the defined benefit pension plan is expected to be as of December 31, 2022. The most recent actuarial valuation of the Company’s OPEB plan was December 31, 2020.

11. Employee Future Benefits (cont'd)

Details of the Company's defined benefit plans follow.

	2020		2019	
	Defined Benefit Pension Plans[1]	OPEB Plan	Defined Benefit Pension Plans[1]	OPEB Plan
Change in projected benefit obligation				
Balance, beginning of year	$ 434,620	$ 92,026	$ 398,893	$ 81,391
Service costs	4,334	2,457	3,900	1,958
Employee contributions	646	-	656	-
Interest costs	13,181	2,886	14,747	3,105
Benefits paid	(20,755)	(2,748)	(21,527)	(2,480)
Actuarial loss (gain)	23,261	(163)	37,951	8,052
Balance, end of year [2, 3]	$ 455,287	$ 94,458	$ 434,620	$ 92,026
Change in fair value of plan assets				
Balance, beginning of year	$ 444,185	$ -	$ 400,750	$ -
Actual return on assets	48,213	-	61,276	-
Benefits paid	(20,755)	(2,748)	(21,527)	(2,480)
Employee contributions	646	-	656	-
Employer contributions	3,085	2,748	3,030	2,480
Balance, end of year [4]	$ 475,374	$ -	$ 444,185	$ -
Funded status, net asset (liability), end of year	$ 20,087	$ (94,458)	$ 9,565	$ (92,026)
Balance Sheet Presentation				
Long-term assets	$ 25,705	$ -	$ 15,193	$ -
Current liabilities	(438)	(3,782)	(221)	(3,710)
Long-term liabilities	(5,180)	(90,676)	(5,407)	(88,316)
	$ 20,087	$ (94,458)	$ 9,565	$ (92,026)

1 *The Company's defined benefit plans include the funded defined benefit pension plan, the PUP and the SERP.*

2 *The accumulated benefit obligation for defined benefit pension plans, which includes no assumption about future salary levels, was $430.4 million at December 31, 2020 (December 31, 2019 - $408.5 million).*

3 *The increase in the projected benefit obligation is due to an actuarial loss recorded at December 31, 2020 as a result of a decrease in discount rate. Further detail is provided in the significant assumptions table on the following page.*

4 *The increase in the fair value of plan assets is due to a higher actual return on assets, as a result of favourable market conditions.*

11. Employee Future Benefits (cont'd)

Newfoundland Power's net benefit costs for its defined benefit pension and OPEB plans included in regulatory assets and yet to be recognized are as follows.

	2020			2019		
	Defined Benefit Pension Plans	OPEB Plan	Total	Defined Benefit Pension Plans	OPEB Plan	Total
Employee future benefits regulatory asset (Note 7 (iv))						
Unrecognized net actuarial losses	$ 58,784	$ 10,198	$ 68,982	$ 70,348	$ 10,435	$ 80,783
Unrecognized transitional obligations	5,770	-	5,770	6,594	-	6,594
Unrecognized past service costs (credits)	-	-	-	213	(1,224)	(1,011)
	$ 64,554	$ 10,198	$ 74,752	$ 77,155	$ 9,211	$ 86,366
OPEB regulatory asset (Note 7 (ii))	$ -	$ 17,520	$ 17,520	$ -	$ 21,024	$ 21,024

The change in regulatory assets associated with the Company's defined benefit pension and OPEB plans for 2020 and 2019 follow.

	2020		2019	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Actuarial (gains) losses	$ (5,072)	$ (163)	$ (1,974)	$ 8,053
Amortization of OPEB regulatory asset	-	(3,504)	-	(3,504)
Amortization of actuarial losses	(6,493)	(72)	(2,639)	-
Amortization of pension deferral costs	(824)	-	(824)	-
Amortization of past service (costs) credits	(212)	1,224	(212)	1,406
Total	$ (12,601)	$ (2,515)	$ (5,649)	$ 5,955

Significant Assumptions
The following table provides the weighted-average assumptions used to determine benefit obligations for the Company's defined benefit pension and OPEB plans. These rates are used in determining the net benefit costs in the following year.

	2020		2019	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Discount rate (%)	2.60	2.70	3.10	3.20
Rate of compensation increase (%)	3.50	-	3.50	-
Expected long term rate of return on plan assets (%)[1]	4.50	-	4.75	-
Health care cost trend increase (%)[2]	-	4.00	-	4.00

[1] *Developed by management with assistance from an independent actuary. The best estimates are based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes.*

[2] *The projected 2020 health care cost trend rate is 6.9% for the OPEB plan and is assumed to decrease over the next 20 years to the ultimate health-care cost trend rate of 4.0%.*

11. Employee Future Benefits (cont'd)

Plan Assets

The investment strategy of the Company's funded defined benefit pension plan is to ensure that the pension plan assets, together with expected contributions, are invested in a prudent and cost-effective manner so as to optimally meet the liabilities of the plan for its members.

The investment objective of the pension plan is to maximize return in order to manage the funded status of the plan, and minimize the Company's cost over the long-term, as measured by both cash contributions and pension expense for financial statement purposes.

The Company's funded primary defined benefit pension plan asset allocation is as follows.

Plan assets as at December 31	**2020**		**2019**	
(%)	**Target Allocation**	**Actual[1]**	**Target Allocation**	**Actual**
Canadian equities	10	10	12	12
International equities	30	30	30	31
Fixed income	60	60	58	57
Total	100	100	100	100

[1] *The defined benefit pension plan assets will be rebalanced to target only if actual results are +/- 5% outside of target allocation.*

Newfoundland Power periodically reviews its investment strategy and asset allocation. Based on the review completed in 2017, the Company reduced its Canadian equity allocation and re-allocated its U.S. and international equity funds to a combination of diversified global equity funds. Newfoundland Power has gradually reduced the Canadian equity concentration to 10% and increased the fixed income securities to approximately 60%. This is expected to reduce the risk of asset volatility and allow for more predictability in terms of the plan's funded status.

Fair Value of Plan Assets

The guidance on fair value measurements emphasizes that plan asset measurement should be based on assumptions that market participants would use to price the plan assets. The Company's funded defined benefit pension plan assets are measured using the market approach valuation technique. The assumptions or inputs to the valuation technique are categorized into three levels. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment.

The fair value measurements for all of the Company's equity and debt securities, as held in various pooled funds, are classified as Level 2 inputs 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 market prices in active markets that are either directly or indirectly observable for the asset or liability.

The fair value of the Company's primary defined benefit pension plan assets are as follows.

	2020	**2019**
Canadian equities	$ 48,051	$ 54,460
International equities	144,717	134,898
Fixed income	282,606	254,827
Total fair value	$ 475,374	$ 444,185

11. Employee Future Benefits (cont'd)

Expected Cash Flows

The estimated future benefit payments for the defined benefit pension and OPEB plans follow.

	Defined Benefit Pension Plans	OPEB Plan
2021	$ 20,140	$ 3,782
2022	20,307	3,647
2023	20,190	3,922
2024	20,780	4,174
2025	21,274	4,371
2026-2030	115,360	23,028

The Company's contributions to the defined benefit pension plans are estimated to be $3.2 million for 2021.

Employee Future Benefits Cost

The Company's employee future benefits cost includes the net benefit costs of its defined benefit, defined contribution and OPEB plans.

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

	2020		2019	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Service costs	$ 4,328	$ 2,457	$ 3,914	$ 1,958
Interest costs	13,181	2,886	14,747	3,105
Expected return on plan assets	(19,880)	-	(21,352)	-
Amortization of actuarial losses	6,493	72	2,639	-
Amortization of past service costs (credits)	212	(1,224)	212	(1,406)
	$ 4,334	$ 4,191	$ 160	$ 3,657
Regulatory adjustments (Note 7)				
Amortization of pension deferrals	824	-	824	-
Amortization of OPEB regulatory asset	-	3,504	-	3,504
Net benefit cost	$ 5,158	$ 7,695	$ 984	$ 7,161

During 2020, the Company expensed approximately $2.7 million (2019 - $2.4 million) related to its defined contribution pension plans.

12. Other Assets

	2020	2019
Customer finance plans	$ 2,098	$ 2,494
Other	71	114
	$ 2,169	$ 2,608

Customer finance plans represent the non-current portion of loans to customers for certain new service requests and energy efficiency upgrades. The current portion of these loans is presented as other accounts receivable. In the case of new service requests, and as prescribed by the PUB, interest is charged at a fixed rate of prime plus 3% for repayment periods up to 60 months and prime plus 4% for repayment periods of 61 months to 120 months. In the case of energy efficiency upgrades, interest is charged at a fixed rate of prime plus 4% for a maximum repayment period of 60 months. All loan instalments are made through the customers' monthly electricity bill payments. The balance of any loan may be repaid at any time without penalty.

13. Long-term Debt

	Maturity Date	2020	2019
First mortgage sinking fund bonds			
10.125% $40 million Series AF	2022	$ 28,800	$ 29,200
9.000% $40 million Series AG	2020	-	30,000
8.900% $40 million Series AH	2026	30,435	30,835
6.800% $50 million Series AI	2028	39,000	39,500
7.520% $75 million Series AJ	2032	61,500	62,250
5.441% $60 million Series AK	2035	50,400	51,000
5.901% $70 million Series AL	2037	60,200	60,900
6.606% $65 million Series AM	2039	57,200	57,850
4.805% $70 million Series AN	2043	65,100	65,800
4.446% $75 million Series AO	2045	70,500	71,250
3.815% $75 million Series AP	2057	72,000	72,750
3.608% $100 million Series AQ	2060	99,000	-
Committed credit facility	2024	-	-
		634,135	571,335
Less: current portion		(7,200)	(36,200)
		$ 626,935	$ 535,135
Less: deferred financing costs		(2,713)	(2,443)
		$ 624,222	$ 532,692

In April 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.

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.

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 credit 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.

13. Long-term Debt (cont'd)

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.

The utilized and unutilized credit facilities as at December 31 follow.

	2020	2019
Total credit facilities	$ 120,000	$ 120,000
Borrowings under committed credit facility	-	-
Borrowings under demand facility	(6,728)	(1,412)
Credit facilities available	$ 113,272	$ 118,588

Deferred financing costs are recorded at cost and are amortized to earnings using the effective interest rate method over the life of the related debt.

Future payments required to meet sinking fund instalments, maturities of long-term debt and long-term credit facilities follow.

Year	($ thousands)
2021	7,200
2022	35,200
2023	6,800
2024	6,800
2025	6,800
Thereafter	571,335

The issuance of debt with a maturity that exceeds one year requires prior approval of the PUB. The issuance of first mortgage sinking fund bonds is subject to an earnings covenant whereby the ratio of (i) annual earnings applicable to common shares, before bond interest and tax, to (ii) annual bond interest incurred plus annual bond interest to be incurred on the contemplated bond issue, must be two times or higher. Under its committed credit facility, the Company must also ensure that its debt to capitalization ratio does not exceed 0.65:1.00 at any time. During 2020, and as at December 31, 2020, the Company was in compliance with all of its debt covenants.

14. Other Liabilities

	2020	2019
Security deposits	$ 1,212	$ 1,420

Security deposits are advance cash collections from certain customers to guarantee the payment of electricity bills. The security deposit liability includes interest credited to customer deposits. The current portion of security deposits is reported in accounts payable and accrued charges.

15. Capital Stock

Authorized

(a) an unlimited number of Class A and Class B Common Shares without nominal or par value. The shares of each class are inter-convertible on a share-for-share basis and rank equally in all respects including dividends. The Board of Directors may provide for the payment, in whole or in part, of any dividends to Class B shareholders by way of a stock dividend;

(b) an unlimited number of First Preference Shares and Second Preference Shares without nominal or par value. First Preference Shares are entitled to cumulative preferential dividends and are redeemable at the option of the Company at a premium not in excess of the annual dividend rate.

15. Capital Stock (cont'd)

Issued	2020 Number of Shares	2020 Amount	2019 Number of Shares	2019 Amount
Class A common shares	10,320,270	$ 70,321	10,320,270	$ 70,321
First preference shares				
5.50% Series A	-	-	179,225	1,792
5.25% Series B	-	-	337,983	3,380
7.25% Series D	-	-	184,769	1,848
7.60% Series G	-	-	182,900	1,829
	-	$ -	884,877	$ 8,849

In February 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 in 2020 included $0.3 million of redemption premiums.

As at December 31, 2019, Fortis held 321,251 or approximately 36.3% of the Company's issued and outstanding First Preference Shares.

16. Change in Working Capital

The composition of the Company's change in working capital follows.

	2020	2019
Accounts receivable	$ 18,267	$ 383
Income taxes receivable	3,880	(1,271)
Materials and supplies	(226)	49
Prepaid expenses	(332)	(166)
Current regulatory assets	15,275	1,278
Accounts payable and accrued charges	(13,430)	3,312
Interest payable	(31)	(77)
Current regulatory liabilities	(14,446)	9,732
	$ 8,957	$ 13,240

Non-cash investing activities balances as at December 31 follows.

	2020	2019
Capital expenditures included in accounts payable and accrued charges	$ 7,383	$ 10,386

17. 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 in 2020 were $2.5 million (2019 - $2.3 million).

During 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 in 2020 were $0.3 million.

During 2019, the Company borrowed short-term demand loans from Fortis at an average interest rate of 2.42%. The maximum amount outstanding in 2019 was $75.0 million. As at December 31, 2019, the amount outstanding was $50.5 million. Total finance charges paid to Fortis in 2019 were $0.3 million.

17. Related Party Transactions (cont'd)

In December 2020 the Company advanced a $8.0 million short-term demand loan to Fortis at an interest rate of 1.23%. The loan was repaid by Fortis in January 2021.

A member of the Board of Directors of Newfoundland Power is the President of a construction services company. The Company has entered into construction service agreements with this company. There were no capital expenditures incurred in 2020 associated with these agreements (2019 - $3.7 million). The awarding of these contracts followed a competitive bidding process in the ordinary course of business. The Board of Directors has no role in this process.

18. 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 December 31, 2020 and 2019 is as follows.

	2020		2019	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility (Note 13)	$ 634,135	$ 857,763	$ 571,335	$ 719,213

The fair value of the Company's defined benefit pension plan assets is discussed in Note 11. 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.