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Hydro-Québec
Requête R-3401-98

DUFF & PHELPS CREDIT RATING CO.
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Credit Analysis

Hydro-Quebec

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October 22, 1999

Ratings:	Security Class	DCR	Latest Change	Prior	Moody's/S&P
	Debentures	AA-	06/1996	AA	A2/A+
	MTNs/Bonds	AA-	06/1996	AA	A2/A+
	Commercial Paper	D-1+	07/1991	NR	P-1/A-1+
Rating Watch:		No			*/No

Rating Rationale

Hydro-Quebec (HQ) has an acceptable business risk profile and stable credit protection measures. HQ is solely owned by the provincial government of Quebec, which unconditionally guarantees the vast majority of HQ's debt.

- HQ's low-cost hydroelectric-based generating system provides a distinct advantage over neighboring Canadian and north-eastern U.S. electric utilities. While only 9% of total HQ power sales are outside of Quebec, additional power will likely be exported as the utility increases transmission capacity, constructs additional generation and raises its power marketing presence.
- Credit protection measures are expected to improve modestly. Despite a rate freeze through April 2002, cost control measures are combining with small increases in provincial kwh sales, greater natural gas revenues and reduced borrowing to improve cash flow. Sufficient financial flexibility exists to support new investments, as HQ reloops transmission in Montreal, constructs an interconnect with Ontario Hydro and seeks to build capacity at Toulmoustouc and Churchill Falls.
- Load demand within Quebec is linked to the health of the U.S. economy. Exports are now more than 50% of Quebec's GDP, and more than 80% of the province's exports are destined for the United States. HQ has some sensitivity to deeply cyclical aluminum prices, as Alcan maintains a large presence in the region. To the extent economic and political developments negatively impact the Quebec economy, credit quality could be weakened, although this risk is low.
- HQ has unparalleled dispatch flexibility in its ability to manage reservoirs. HQ can purchase electricity at inexpensive off-peak periods, and utilize its reservoirs to sell electricity during the highest-margin on-peak hours. The utility should have increased opportunity to market its power as Ontario deregulates.
- HQ's strong management team has been operating the company more independently from the province. Management is viewed positively for its profit-oriented focus, successfully reshaping HQ into a more efficient electric utility.

Liquidity/Debt Structure

HQ has healthy liquidity, with US\$ 1.8 billion of committed credit facilities, and has the ability to issue more than US\$ 3.7 billion of medium-term notes under its shelf registration. Without the large construction projects of earlier years, HQ's borrowing needs are modest relative to historical levels. The debt portfolio is well managed, as long-term maturities have been extended as far as 2035. The company's spread paid for debt is improving, as it is borrowing less. Approximately half (53%) of all HQ debt is U.S. dollar-denominated, and 30% of all debt is at floating interest rates.

Recent Developments

A final arbitration decision is expected by Spring 2000 regarding a dispute with 15 Vermont utilities (VJO). Disagreement centers on whether HQ's inability to deliver power during the 1-98 unusual ice storm constitutes force majeure. The Vermont utilities also have a \$4 billion contract with HQ scheduled to expire in 2020, with a significant price increase beginning on 11-1-99. It is unclear whether the VJO are able to afford the above-market rates under the contracts. In 6-99, HQ reached agreement with local aboriginal communities to partially divert the Portneuf, Sault-aux-Cochons and Manouane rivers in Quebec and construct a 440 mw power station on the St. Lawrence's north shore. HQ's investment in the project is expected to exceed C\$600 million, with the Toulmoustouc station to be commissioned at the end of 2005.

In 2-99, HQ signed a memorandum of understanding with Ontario Hydro to construct a 1,250 mw interconnection. Government hearings may need to be held for the project to proceed, with commissioning expected in 2002. Through the interconnect, greater opportunities should arise to market to the middle United States.

Negotiations continue between HQ and Newfoundland and Labrador Hydro (NLH) toward developing 3,200 mw of projects on the Churchill River. Completion is expected in 2006-2008 with a total investment now reduced by C\$900 million.

Fundamentals

With access to more than 36,000 mw of generation, HQ is North America's largest electric utility. HQ generates more than 96% of its energy through low-cost hydroelectric power.

HQ's debt obligations are supported by a provincial guarantee. The Province of Quebec has now balanced its budget, one year ahead of its plan.

HQ's strategic plan focuses on growth and profitability. The utility's goal is to increase sales by 25% from 1997 sales levels over a 10-year period. Based on its plan, HQ projects an ROE of 11.8% by 2002, with total investment over the five-year period of approximately \$14.5 billion. Equity capitalization is expected to reach approximately 31% by yearend 2002, primarily due to earnings growth and retention.

*DCR does not track Moody's review status.

Introduction

This analysis will address HQ's key credit issues, namely 1) public policy seeking to strengthen the utility; 2) its highly desirable hydro assets; 3) expanding power sales to the U.S. market; 4) improving financial ratios; and 5) the provincial guarantee supporting most HQ debt.

In addition to lowering costs and optimizing its asset base, significant competitive implications exist as HQ expands its power marketing presence in the United States. HQ has the most competitive power available in its region, and the utility is preparing to maximize this strength by increasing the number of venues to sell its power. Debt and interest coverage ratios are expected to improve as cash flow increases and debt gradually reduces.

Public Policy Encourages Shareholder Value

For more than five years, HQ has been encouraged to maximize value for its owners. With attention now focused on cost reduction and asset optimization, the province's goal is to reduce HQ's financial dependence on its owner. This shareholder focus is a significant policy change for the government-owned utility.

Cost reductions have been successful, with a 19% reduction in HQ's workforce since 1994. Margins should also benefit from three means of asset optimization.

First, HQ is relooping transmission in downtown Montreal. The 120 Kv line has been completed, and the 315 Kv line should be completed by the end of 1999. The lines damaged by the January 1998 ice storm have now been rebuilt and are more resilient. Through relooping, HQ can also move power more efficiently within its retail service base, and increase its ability to export power. Through its transmission division TransEnergie, HQ also received accreditation by the Northeast Power Coordinating Council of the United States to increase its transmission exports by 250 to 500 mw into the NEPOOL region.

Second, HQ continues to refurbish several generating stations, namely Shawinigan 2 and 3, La Gabelle, La Tuque, Bersimis 1, Manic 2, Chelsea, Rapides - Farmers and Beauharnois. In 1998, it also returned 25 mw of hydro generation to service (Sept-Chutes and Chute-Bell).

Third, HQ is now successfully trading oil through its 600 mw Tracy thermal plant. HQ owns approximately 300 million barrels of oil. The need for oil was derived from fueling the Tracy station, however its location is also attractive for trading oil. Located on the St. Lawrence Seaway, the Tracy storage area permits easy movement of the fuel.

Desirable Assets

It is difficult to imagine generating assets more desirable than HQ's fleet of hydro units. Hydro assets have a lower variable cost than other types of generation, and lack the stranded cost and environmental issues characterizing nuclear and thermal plants. HQ does own one nuclear plant, the 675 mw Gentilly unit, however it is less than 2% of total generating capacity.

Even among hydro producers, however, HQ has the unusual ability to manage stream flows by adjusting reservoir levels. Through its reservoir system, HQ can control its movement of power. Profit implications are significant, as HQ can purchase base load power at a very low cost and sell its hydro power during the higher margin peak hours.

With access to 50 hydro units totaling 34,631 mw, HQ is the largest hydro generator in North America. These are not small units. The single-unit Robert-Bourassa (formerly La Grande Unit 2) facility has 5,328 mw of capacity, and the four other La Grande (translates to "the Big One" from the French) units total 8,321 mw.

HQ is also increasing its hydro capacity. A 440 mw facility is being developed with local communities for C\$600 million. Toulnostonc station (the Betsiamites project) should be commissioned by the end of 2005.

Discussions continue between HQ, Newfoundland and Labrador Hydro and the Inuits to develop a 17 Twh, 3,200 mw project. If a memorandum of understanding is reached, the project is expected to cost a significant C\$6.6 billion in 2007 dollars over 10 years, and require one river diversion.

Selling More Power Into the United States

HQ's targeted expansion is 20 Twh, or a 12% increase in new sales in all markets by 2002. To reach this goal, HQ is focusing on selling more power throughout the United States and Canada. Approximately 15% of consolidated revenues in 1999 are expected from external power sales, principally to the United States, with additional sales expected there in the future.

HQ is expanding its marketing presence in the United States, as new opportunities arise through deregulation. This is a wise strategy, as peak load demands are increasing in the United States, and HQ is the lowest cost provider in its chosen regions.

The Ontario Interconnect will provide an important means of accessing the Pennsylvania-New Jersey-Maryland (PJM) and East Central Area Reliability Coordination Area (ECAR—Indiana, Ohio, Kentucky, Virginia, West Virginia, Pennsylvania and Michigan) regions. Assuming an environmental permit is granted in the spring 2000 to HQ's TransEnergie division, the 1,250 mw transmission line is expected to be commissioned by 2002.

The Interconnect permits greater flexibility in dispatch, allowing HQ to sell power to the most profitable areas of either Ontario, PJM or ECAR. It will also permit HQ to purchase inexpensive power from Ontario's base load units during off-peak hours, and use its reservoirs to sell peaking power in the most profitable locations.

Ontario is in the process of opening its province to competition. As generation in Ontario is concentrated among base load units, HQ will likely have opportunities to sell high-margined peaking power within this neighboring province.

The greatest opportunity may lie further south. HQ obtained its FERC marketing license in 1997. HQ power will likely be in high demand among the PJM and ECAR regions due to increasing peak loads and the concentration of nuclear units in the region.

As the attached table notes, PJM and ECAR reached new peak loads in the summer of 1999. Demand for power is rising in these reliability regions, yet increased capacity is only being added modestly — certainly not at the rapid pace planned to double capacity in the Northeast Power Pool (NEPOOL) region.

Table 1
Latest Record Peaks Set Summer '99

System	Peak Sum. '98	Peak Sum. '99 (Date)	Increase
EAST CENTRAL AREA RELIABILITY COORDINATION AGREEMENT (ECAR)			
American Electric Power	19,414	19,928 (7/30)	+2.65%
Dayton P&L	3,007	3,130 (7/30)	+4.09%
Consumers Energy	7,246	7,473 (7/30)	+3.13%
FirstEnergy	11,931	12,713 (7/30)	+6.55%
Indianapolis P&L	2,859	2,898 (7/29)	+1.36%
LG&E Energy	5,986	6,357 (7/30)	+6.20%
N. Indiana PS (control area)	3,100	3,307 (7/30)	+6.68%
All-time record peaks in boldface Winter-only records in italics Source: Electric Utility Week, August 9, 1999			
Penn-New Jersey-Maryland Reliability Region	49,406 In 1997	51,550 (7/13)	+4.30%

As in Ontario, these regions have large base load units. PJM and ECAR have a concentration of nuclear and coal-fired units. HQ is expected to supply highly profitable peaking power to these regions. The reserve margin in PJM, based on the 1999 peak load, is a narrow 8.7%. In ECAR, the reserve margin was targeted to be 10.8% this summer, however actual reserve margins are not available. PJM is a large market; it is the third largest centrally dispatched entity in the world in peak mw, second only to the French and Tokyo electric systems.

By selling more power into the United States, HQ should enhance its profitability from favorable currency conversion. For many years, the Canadian dollar has languished relative to the U.S. dollar. With production costs measured in Canadian dollars, and power sales occurring in the higher-valued U.S. dollar, HQ is likely to enhance earnings through currency translation. Of course, risk exists in the event the U.S. dollar weakens relative to the Canadian dollar, thereby reducing profit margins. As Table 2 illustrates, the Canadian dollar has declined relative to the U.S. dollar over the past few years, with modest strengthening in recent months.

Table 2
Canadian Dollar Value (in U.S. Dollars)

1996	1997	1998	1999 Forecast	Actual 10-14-99
.7334	.7222	.674	.644	.6755

HQ is an able manager of currency exposure with a long history of maximizing C\$/US\$ spreads. During its construction of

large generation stations in the 1960s through 1980s, a significant portion of HQ's debt was issued in U.S. dollars.

HQ is active in today's currency market through its remaining U.S.-dollar denominated debt of approximately C\$20 billion, as well as its existing power sales in the northeastern United States. Through the New England Power Pool (NEPOOL), HQ exports approximately 10% of its total power production. It sells approximately 1,535-1,835 mw of power under contractual arrangement to several Vermont and New York utilities and power authorities.

Dollar revenues are also derived from certain large industrial customers in Quebec. As certain end products (pulp, paper) are denominated in United States dollars, those customers have chosen to pay in United States dollars.

HQ is also trading power on a wholesale basis, and is working to expand its sales beyond the Northeast. In 1998, it opened marketing offices in Pittsburgh and Boston.

None of these efforts should impair HQ's ability to service its retail load. Overall, the utility is increasing its sales flexibility. It is 1) optimizing grid management, through looping in Montreal; 2) upgrading existing plants and returning to service those which had been mothballed; 3) optimizing use of its reservoirs; and 4) using physical options. These options include purchasing inexpensive power at off-peak hours and selling on-peak, and constructing the Ontario Interconnect.

The Vermont Joint Owners

DCR does not view the dispute with 15 Vermont utilities (VJO) as a threat to HQ's credit quality. The VJO has contracts to purchase 335 mw of power from HQ through 2020. Rates on the contracts' \$4 billion value are well above market and scheduled to increase significantly on 11/1/99. The VJO are incurring difficulty in paying for these contracts, as they lack state regulatory support for ratepayer funding. The Vermont Public Service Board (VPSB) has ruled that costs on the HQ contracts are "over market." While the VPSB has approved a temporary rate increase for the Vermont utilities through 3-31-00, the long-term nature of the obligations without full support from the VPSB threaten the financial viability of the utility group.

The VJO seek damages and a termination of the contract, claiming that HQ did not honor its delivery obligations during 1998's unusual ice storm. HQ claims force majeure occurred, and the disagreement is under arbitration. A final decision is expected by Spring 2000.

It should be noted that the VJO are obligated under the HQ contract on a joint and several basis. The Vermont regulatory commission is considered below average in its lack of support for state utilities; whether it will tacitly permit its utilities to face insolvency due to the joint and several nature of the large obligation is an open question. In the event the VJO are unable to pay for their HQ obligations, HQ should easily find other buyers for its low-cost power, though at lower prices.

Entering Other New Markets

Natural Gas

HQ has entered the natural gas distribution and brokerage business. In 1997, HQ acquired an interest in Noverco Inc., a holding company overseeing Gaz Metropolitan, Inc. Gaz Metropolitan, Inc. is a natural gas distributor regulated by Quebec's energy board (the Regie de l'Energie).

HQ has a 41% interest in Noverco with options to purchase an additional 9% from the other partners, Enbridge Inc. (formerly IPL Energy) and Laurentides Investissements S.A. (a subsidiary of Gaz de France).

In HQ's first full year of operation, its Noverco interest generated C\$31 million of net income on C\$518 million of revenue. This business generates approximately 7% of consolidated revenues.

Revenues should increase, as HQ has now partnered with Enbridge to trade natural gas. Enbridge is the parent company holding the local gas distribution business for Ontario. The partnership trades natural gas in Ontario and the U.S.

HQ's investment in natural gas businesses is based on the potential convergence of natural gas and electricity prices, with opportunities to trade the "spark spread." HQ's expansion toward Ontario is twofold. First, through the 1,250 mw interconnect of electricity, and second through trading natural gas in the area.

There is risk in trading natural gas without owning underlying pipelines or storage access, though Enbridge owns a network of pipelines in Ontario. At this point, HQ's investment in the business is small relative to its consolidated asset base. Andre Caille, HQ's president and CEO, also brings knowledge of the natural gas industry. He is the former CEO of Gas Metropolitan.

Electricity

HQ is also devoting money to international electricity-related investments. Projects are worldwide, including investments in China, the Middle East, Asia, and French speaking African nations. Through its HQI subsidiary (Hydro-Quebec International), it usually invests on a joint-venture scheme with local and international partners. Investments include generation and merchant transmission development.

Approximately C\$200 million in annual international investments is expected through 2002. This investment is not large relative to HQ's central interest in North America, however, it does represent a broadening of its portfolio. No one HQ international investment is large enough to impact HQ's credit quality, and the portfolio is profitable.

Strengthening Financial Ratios

The combination of higher revenues and cost containment measures are strengthening HQ's cash flow. Coverage ratios have demonstrated steady improvement since the public policy focus on shareholder value began in 1993.

Interest coverage was 1.66X for the year ended 12/31/98, modestly below the 1.71X for the same period one year earlier. Interest expense for the utility averages approximately C\$3 billion annually. HQ's interest coverage ratio is well below the 5.1X median for U.S. utilities in the 'AA-' rating category, and its EBITDA/Debt ratio of .133X was below the .39X median for 1998 as well. HQ does have some strong qualitative offsets to these weak ratios, namely its role as monopoly provider in the Province, and the excellent quality of its assets.

Coverage ratios are expected to improve, as higher cash flows in HQ's core business and increased power marketing opportunities combine with modest debt reduction. Rates in Quebec, however, are frozen through April 30, 2002. Additionally, Quebec's energy board rejected HQ's proposal to charge customers a fixed price, preferring instead a cost of service basis. HQ awaits a government decision on the board's recommendation, but for now the cost of service basis is not in effect.

Continued cost savings will occur through changes made to HQ's pension obligations. With a pension program overfunded by C\$1 billion, HQ and its workers have collectively agreed to cease contributions for the next five years, or until the pension surplus falls to 10%. HQ is saving approximately C\$48 million annually under the agreement.

Net income of C\$ 986 million is expected in 1999, which is 45% above 1998 levels, and 25% above the more normalized level seen in 1997. Expenses rose in 1998 due to the ice storm.

HQ remains dependent on deeply cyclical businesses, as the province of Quebec has a heavy presence of aluminum manufacturing. Quebec is the world's third-largest producer of aluminum, and the smelting and refining industry accounts for 6.2% of Quebec's manufacturing sector. This dependence is expected to remain constant on a percentage basis in the future. While Quebec is attracting more manufacturing businesses (in particular, Bombardier and Motorola have recently announced large regional production facilities), Alcan began construction of a C\$2.5 billion plant in 1998. The Alcan plant will be the largest private sector investment ever made in Quebec, adding capacity of 375,000 annual tons.

Second, the greater sale of power from Quebec will reduce dependence on the local economy. GDP growth in Quebec is currently averaging 3% annually, though the local economy is at times challenged by a high tax rate and periodic unrest among unionized workers. Relative to the United States, Canada has higher tax rates; Quebec has the highest rates of any Canadian province.

Quebec has recently faced strikes from its nurses, with threats from a "common front" of 360,000 other public workers, including police and teachers. These strikes dovetail into HQ's months-long strike by 1,500 employees, or approximately 10% of its unionized employees.

The striking employees do not impact essential HQ services, as they work in billing and maintenance/repair of equipment used for exports. The strikers are demanding a significant pay increase of 13% over two years. HQ has offered these workers a 9% increase over five years, plus a pension contribution holiday, and a bonus-driven compensation program. An agreement was reached in principle on September 27 on terms near HQ's proposal.

Debt Summary

Due to healthy cash flow, a net reduction of debt is expected over the medium term. Through 2003, HQ has approximately C\$2 billion of annual debt maturities, except in 2001, whereby more than C\$3 billion in debt matures. The majority of this debt is expected to be refinanced upon its maturity, and potential excess cash flow exists to support additional outstanding debt.

In 1997, HQ began paying a dividend to the province. Approximately 35% of net income was paid as a dividend in 1998. Dividends are expected to continue near term.

The use of medium-term notes is expected for refinancings. Most of the refinancing is expected to be performed in Canadian dollars, however other markets (principally U.S. dollars) are monitored, and would likely be utilized if their parameters became attractive. HQ has flexibility to issue quickly in either market. It has medium-term note programs for US\$3 billion, C\$2 billion on the Canadian market and US\$4 billion on the European market. In June 1999, HQ issued C\$500 million of debt with a 10-year maturity.

HQ coordinates its borrowings with the province of Quebec, as these two entities are among Canada's largest issuers of Canadian dollar denominated debt. Coordination should become easier in future years as the province's borrowing needs are expected to decrease.

HQ has sufficient financial flexibility. The utility has access to a US\$2.75 billion commercial paper program, and only C\$59 million of that amount was used at 12-31-98. Slightly less than half of all HQ debt is Canadian dollar denominated, with approximately 53% in U.S. dollars.

The Provincial Guarantee: Little Weight Given In Credit Rating

The province of Quebec guarantees almost all HQ debt (except C\$250 million in lines of credit). DCR attaches little reliance to the provincial guarantee, because 1) HQ's cash flow stability is derived from the lack of competition and high quality assets at the operating utility; and 2) public policy is encouraging HQ to operate with a business-driven approach.

Provincial finances are improving; Quebec has balanced its budget this year, one year ahead of schedule. HQ is able to support its debt, independently of the province.

The political future of Quebec is a large, unresolved debate, and provincial secession has been an ongoing question for more than 30 years. There is currently no firm referendum timetable for separating. The Parti Quebecois, reelected to power

in 11-98, has until 11-03 to call the next provincial elections. Polls indicate more than two-thirds of Quebecois are against holding another referendum regarding secession.

Whether a Quebec separated from Canada could maintain its ability to support its financial obligations is beyond the scope of this analysis. Quebec is, however, Canada's second-largest province in terms of GDP and in revenues generated to the government. HQ remains insulated from governmental changes as long as its financial flexibility is maintained. HQ is now providing dividends to the provincial government, however these are as a percentage of income earned. Lacking extraordinary dividends unrelated to net income, HQ remains self-supporting and relatively independent of its owner.

Conclusion

HQ's cash flow relies upon the strength of its hydro assets. These attractive assets service a retail territory that is closed to competition, plus attractive export opportunities exist. The utility's prospects are improving, as it lowers operating costs, maximizes assets and pursues new opportunities created by deregulation. Though financial coverage ratios are thin relative to U.S. utilities, HQ has financial flexibility. It has significant credit facilities remaining as a vestige of its days as a very large borrower. This company knows how to manage substantial borrowings over two currencies. Given its mandate to operate as more of a for-profit enterprise, combined with increased business opportunities and fewer borrowing needs, improved coverage ratios are expected.

Statistical Summary

Owned/Accessible Generation

Hydro Assets	34,631 mw over 49 stations—Note 1
Nuclear, thermal Assets	2,269 mw over 29 stations
Total	36,900 mw

Note 1: Includes access to 5,428 mw of hydro generation at Churchill Falls

Generation Under Construction

Ste Marguerite 3	882 mw hydro unit commissioning in 2001
Toulunstonc	440 mw hydro unit commissioning in 2005
Total	1,322 mw

Peak Load: 35,300 mw on 1-14-99

Installed Capacity: 36,928, including Churchill Falls access

Hydro	96.6%
Nuclear	3.2%
Thermal	0.2%

Existing HQ Transfer Capabilities to the United States

To NEPOOL:	1,800 mw
To NYPP-West	1,200 mw

Hydro-Quebec Supplies

Most electricity consumed in Quebec
 9 Municipal Systems
 1 Regional Cooperative
 15 Utilities in the Northeastern U.S., Ontario and New Brunswick

The Province of Quebec Generated

C\$ 185 billion in 1997 total Canadian GDP, second only to Ontario
 C\$ 50 billion in revenues to the Canadian government, second only to Ontario

Hydro-Quebec

Coverages-Ex. Non-Cash	1998	1997	1996	1995	1994	1993
Interest Coverage - Ex. Non-Cash	1.17	1.22	1.11	1.05	1.06	1.02
EBITDA/Interest Expense (X)	1.66	1.71	1.54	1.40	1.39	1.34
Internal Cash % of Construction	74.1	125.8	99.2	62.5	59.6	47.0
Internal Cash % of Total Cap. Req.	37.3	45.5	49.8	41.8	46.3	30.0
Return on Invested Capital	2.5	1.5	1.0	0.8	1.4	3.3
Return on Common Equity	5.2	6.2	4.3	3.3	5.9	14.0
Common Dividend Payout Ratio (%)	41.1	45.4	0	0	0	0
Internal Cash % of Total Capital	2.9	3.9	4.0	3.3	3.8	4.1

% of Total Capital

Mortgage Bonds	0.0	0.0	0.0	0.0	0.0	0.0
Unsecured & Other Debt	75.3	75.1	75.6	76.6	76.5	75.8
Short-term Debt	0.6	0.5	0.3	0.3	0.2	1.2
Total Debt	75.4	75.2	75.6	76.6	76.5	75.2
Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0
Common Equity	24.6	24.8	24.4	23.4	23.5	23.9
Debt Adj. for Purch. Pwr. Cap. (%)	76.2	75.7	75.9	76.9	76.8	75.5
% Growth in Invested Capital	4.0	1.5	0.0	3.8	8.2	#DIV/0!

Fundamental Financial Information

Revenues	8,812	8,287	7,680	7,614	7,297	7,036
Revenues Less Energy	7,913	7,758	7,405	7,331	7,004	6,745
Depreciation & Amortization	1,589	1,545	1,427	1,228	1,096	1,020
Pre-tax Operating Income	3,844	3,841	3,676	3,686	3,476	3,275
AFC & Deferred Expenses	0	0	0	0	0	0
Earnings for Interest	3,844	3,841	3,676	3,686	3,476	3,275
Interest Charges	3,272	3,153	3,312	3,514	3,284	3,201
Preferred Dividends	0	0	0	0	0	0
Balance for Common	679	786	520	390	667	761
Total Invested Capital	54,018	51,919	51,141	51,116	49,225	45,512
Total Debt	40,730	39,031	38,682	39,177	37,676	34,220
Total Preferred	0	0	0	0	0	0
Retained Earnings	8,914	8,514	8,085	7,565	7,175	6,508

Cash Flow

Cash Flow From Operations	1,832	2,357	2,039	1,699	1,888	1,850
Dividends (Pref. and Common)	279	357	0	0	0	0
Internal Cash	1,553	2,000	2,039	1,699	1,888	1,850
Construction Excluding AFC	2,097	1,590	2,056	2,717	3,167	3,934
Other Investments	234	932	(43)	13	116	263
Redemptions	1,835	1,878	2,082	1,339	796	1,960
Total Capital Requirements	4,166	4,400	4,095	4,069	4,079	6,157
Total Financing	1,723	1,415	1,680	1,820	3,005	3,183
Total Purchased Power Expense	899	529	275	283	293	291

Other Data

KWH Sales Total (MM)	161,373	162,533	163,546	166,101	158,166	152,099
KWH Sales Retail (MM)	142,808	147,291	144,510	142,036	139,002	136,978
% Growth in Retail Sales	-3.0	1.9	1.7	2.2	1.5	na
Net Utility Plant in Service	44,693	44,818	44,124	42,861	40,098	36,663
CWIP	3,349	2,835	2,777	3,447	4,627	5,906
Nonutility Property & Investments	451	288	105	163	220	180
Regulatory Assets	4,933	4,068	3,282	3,199	3,731	2,887

Ratings History

Duff & Phelps	AA-	AA	AA	AA	AA	AA
Moody's	A2	A2	A2	A2	A1	A1
Standard and Pools	A+	A+	A+	A+	A+	A+

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