

RAPPORT DE STANDARD & POOR'S

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Summary: Hydro-Quebec

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Rationale

The senior unsecured debt, senior secured debt, and commercial paper ratings on Hydro-Quebec are based on the timely debt service guarantee provided by the utility's owner, the Province of Quebec (A+/Stable/A-1+).

With the break-up of the former Ontario Hydro into five distinct successor companies, Hydro-Quebec has become Canada's largest vertically integrated electric utility, generating and distributing power to 3.4 million residential, commercial, and industrial customers in Quebec. It also supplies power to nine municipal systems, one regional cooperative, and some 15 electric utilities in the Northeast U.S., Ontario, and New Brunswick.

In 1998, net income for the utility fell to 7.7% of revenues from 9.3% the previous year. This resulted from lower domestic sales attributed to the devastating January 1998 ice storm, coupled with milder-than-average temperatures for most of the year, and higher electricity and fuel purchases than in 1997, because of low precipitation overall last year. Offsetting these factors to some extent were higher firm and short-term sales outside Quebec, up by almost 37% over 1997 levels. Of note, repairs and reinforcements to Hydro-Quebec's transmission system following the ice storm were completed by December 1998, with the bulk of the cost having been assumed by the provincial and federal governments.

According to the 1998-2002 strategic plan, hydro rates in Quebec are to remain at their current levels until 2002 for all customer categories. Thus, the province continues to enjoy among the lowest rates in North America.

Hydro-Quebec is continuing discussions with Newfoundland and Labrador Hydro Corp. about the possibility of jointly developing the remaining hydropower potential of the Churchill River in Labrador. This project in its entirety would require an investment of approximately C\$10 billion over a decade, adding 3,200 megawatts of capacity to the systems of the two utilities. However, before the project can be initiated, approvals from the aboriginal and local communities in Labrador, as well as environmental approvals, must be obtained.

Hydro-Quebec's debt-to-capital ratio was approximately 75% last year, similar to 1997. With the capitalization ratio at, or slightly above, 25% in each of the past two years, the utility has been required to make dividend payments in 1997 and 1998 to its owner, Quebec, for the first time in almost a decade.

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