



Énergie NB Power

NB Power Quarterly Report - Year-To-Date Results

2011-2012

Q3

For the Period Ended December 31, 2011



MESSAGE FROM THE CHAIRMAN OF THE BOARD AND THE PRESIDENT AND CEO

In its Shareholder's Mandate Letter of January 26, 2011, the Province of New Brunswick asked that NB Power make updated financial statements available to the public on a quarterly basis. This quarterly report contains unaudited financial highlights and discusses the primary factors that have an impact on the financial results and operations of the NB Power Group.

The information provided includes year-over-year financial variances for the year-to-date (April to December). The financial information contained in the report has not been audited, and it contains financial estimates that are subject to change. The audited financial statements for the year ended March 31, 2011 are available on the NB Power website (www.nbpower.com).



This Public Quarterly Report discusses the financial and operating results for the NB Power Group of Companies (Holdco) and its subsidiary operating companies (collectively the NB Power Group or the Group).

The subsidiaries include:

- *New Brunswick Power Generation Corporation (Genco);*
 - *including New Brunswick Power Coleson Cove Corporation (Colesonco) and Mine Reclamation Inc. (formerly NB Coal Limited);*
- *New Brunswick Power Nuclear Corporation (Nuclearco);*
- *New Brunswick Power Transmission Corporation (Transco); and*
- *New Brunswick Power Distribution and Customer Service Corporation (Disco).*

OPERATIONAL HIGHLIGHTS

Point Lepreau Station Update

During the quarter, the Refurbishment Project team realized a significant milestone with the successful completion of the fuel channel installation. The team began installing the 760 lower feeder pipes, which is the last major refurbishment activity prior to loading fuel inside the reactor. At the end of the quarter, approximately 13 per cent of the lower feeder tubes were installed.



PLGS License Renewal and Fuel Load Hearings

NB Power's current Power Reactor Operating License expires on June 30, 2012. As a result, NB Power is seeking a five-year license renewal from the CNSC. NB Power has also requested authorization to load fuel into the reactor. The Day 2 hearings were held on December 1 and December 2, 2011 in Saint John. Subsequent to the end of this quarter, on February 17, 2012, the Canadian Nuclear Safety Commission (CNSC) announced that the Power Reactor Operating Licence for the Point Lepreau Generating Station has been renewed for a five-year period.

Edmundston Energy Agreement

During the third quarter, Edmundston Energy and NB Power reached a tentative agreement which allows for the expansion of Edmundston Energy's customer boundary. The agreement also includes a 20-year power purchase agreement where NB Power purchases 100 per cent of Edmundston Energy's generation output from both the Madawaska and Green River hydro generation systems. In addition, the agreement includes a power supply agreement where NB Power supplies 100 per cent of Edmundston Energy's needs for the next 20 years.

Energy Blueprint

On October 19, 2011, the Department of Energy released its Energy Blueprint, which outlines a 10-year vision and a three-year action plan for the energy sector. The Energy Blueprint contains a number of actions that impact NB Power. Two of these actions include the amalgamation of the NB Power group of companies into a single vertically integrated Crown utility and the dissolution of the New Brunswick System Operator and the migration of system operator functions back to NB Power. Work began in the quarter to realize these specific actions in the most efficient and cost-effective manner.

In addition, NB Power management, in conjunction with its Board of Directors, focused attention on ensuring the utility's priorities support the direction outlined in the Energy Blueprint. Management and the Board remain committed to the following three priorities.

- Target being a top-quartile performer as compared to public and private utilities in North America.
- Systematically reduce debt to ensure that NB Power is in a financial position to invest in new generation that will ensure stable rates for New Brunswick.
- Invest in technology, educate customers and incent consumption that will reduce and shift demand for electricity and ultimately defer future generation investment.

Continuous Process Improvement

In November 2011, NB Power and its implementation partner began a 36-week long initiative to realize \$30 million in sustainable cost savings through productivity and process improvements. To date, employees have participated in a series of interviews, documented existing processes and identified opportunities for improvement.

FINANCIAL HIGHLIGHTS

The information provided in this report includes year-over-year financial variances for the year-to-date period. The financial information contained in the report includes abbreviated and condensed financial statements which have not been audited and contains financial estimates that are subject to change. These should be read in conjunction with the audited financial statements for the year ended March 31, 2011.

Year-To-Date

NB Power Group recorded net earnings for the period of \$121 million, compared to \$53 million for the same period in 2010/11. The \$68 million increase in earnings was largely as a result of

Revenues

In-province revenue was \$17 million higher than the same period in 2010/11 mainly due to increased residential load, a rate increase implemented in June 2010 and colder weather in 2011/12.

Out-of-province revenue was \$30 million lower than the same period in 2010/11 mainly due to export market prices being lower in 2011/12 as a result of market conditions partially offset by higher volumes exported due to higher than average hydro flows.

Miscellaneous revenue was \$15 million higher than the same period in 2010/11 mainly due to a gain on sale of the dragline.

In 2010/11 there was a mark-to-market loss of \$22 million on the long-term receivable related to the Petroleos de Venezuela S.A (PDVSA) in-kind settlement. As all PDVSA fuel shipments have now been received by NB Power, there is no longer a receivable to mark-to-market.

Expenses

Fuel and purchased power and transmission expense decreased \$84 million compared to the same period in 2010/11 mainly due to a 21 per cent increase in hydro generation and lower overall generation costs as a result of economic energy purchases.

OM&A expense decreased \$9 million compared to the same period in 2010/11 mainly attributable to a cost reduction program in 2010/11 which included a staff reduction program, reduced hired services partially offset by higher pension expense in 2011/12 as a result of financial market conditions.

Amortization and decommissioning expense increased \$11 million compared to the same period in 2010/11 mainly due to adjustments to the decommissioning at the Grand Lake Generating Station partially offset by prior year changes in the expected service life of certain pieces of equipment in some of the generating stations.

Regulatory deferrals – NB Power is a rate regulated entity, which can apply regulatory accounting. This results in the non-capital costs associated with the Point Lepreau refurbishment project, both replacement energy costs and period costs and the costs/savings related to the PDVSA lawsuit settlement which are incurred during the year being removed/deferred from earnings. These deferred costs will be expensed over the remaining lives of the assets.

The year-to-date variance of \$36 million is mainly related to an accounting adjustment in 2010/11 to reflect the current market value of the PDVSA in-kind settlement and lower costs to supply energy during the Point Lepreau Generating Station Refurbishment.

Finance charges decreased by \$13 million mainly due to lower debt levels (other than debt associated with ongoing capital projects) and lower long-term interest rates.

Special payments in lieu of income taxes increased \$16 million compared to the same period in 2010/11 due to higher earnings in 2011/12.

Change in Debt¹

Debt at December 31, 2011 was \$4,532 million compared to \$4,450 million at March 31, 2011, an increase of \$82 million which was comprised of an increase in short-term debt (\$188 million), proceeds from long-term debt issues (\$430 million) partially offset by debt retirements (\$536 million).

NB Power's debt increased by \$82 million as a result of the Point Lepreau Refurbishment Project and other capital spending, partially offset by positive cash flows from operating activities.

¹Debt includes short-term debt, current portion of long-term debt and long-term debt.

Combined Statement of Earnings
In Millions of Dollars
(Unaudited)

| | Nine months ended December 31 | | |
|--|----------------------------------|-------------|-------------|
| | 2011 | 2010 | Variance |
| Revenues | | | |
| In-province revenue | 865 | 848 | 17 |
| Out-of-province revenue | 158 | 188 | (30) |
| Transmission revenue | 65 | 65 | 0 |
| Miscellaneous revenue | 53 | 38 | 15 |
| (Loss) gain on mark-to-market of long-term receivable and associated contracts | 0 | (22) | 22 |
| | 1,141 | 1,117 | 24 |
| Expenses | | | |
| Fuel & purchased power | 465 | 549 | (84) |
| Transmission expense | 64 | 64 | 0 |
| Operations, maintenance and administration | 300 | 309 | (9) |
| Amortization and decommissioning | 162 | 151 | 11 |
| Taxes | 29 | 30 | (1) |
| Regulatory deferrals | (113) | (149) | 36 |
| Finance charges | 74 | 87 | (13) |
| | 981 | 1,041 | (60) |
| Earnings (loss) before special payment in lieu of income taxes | 160 | 76 | 84 |
| Special payments in lieu of income taxes | 39 | 23 | 16 |
| Net earnings (loss) | \$121 | \$53 | \$68 |



**Combined Balance Sheet
In Millions of Dollars
(Unaudited)**

| | As at Dec 31 2011 | As at Dec 31 2010 | As at Mar 31 2011 |
|---|-------------------------|-------------------------|-------------------------|
| <i>Assets</i> | | | |
| Current assets | | | |
| Cash and short-term investments | 4 | 14 | 10 |
| Accounts receivable | 230 | 229 | 266 |
| Materials, supplies and fuel | 268 | 255 | 252 |
| Prepaid expenses | 21 | 16 | 9 |
| Current portion of derivative assets | 0 | 8 | 5 |
| | 523 | 522 | 542 |
| Property, plant and equipment | 3,855 | 3,766 | 3,773 |
| Long-term and other assets | 1,527 | 1,257 | 1,317 |
| Total Assets | \$5,905 | \$5,545 | \$5,632 |
| <i>Liabilities and Shareholders' Equity</i> | | | |
| Current liabilities | | | |
| Short-term indebtedness | 671 | 512 | 483 |
| Accounts payable and accrued interest | 227 | 270 | 237 |
| Current portion of long-term debt | 177 | 547 | 550 |
| Current portion of derivative liabilities | 44 | 59 | 27 |
| | 1,119 | 1,388 | 1,297 |
| Long-term debt | 3,684 | 3,265 | 3,417 |
| Deferred liabilities | 661 | 608 | 612 |
| Shareholders' Equity | 441 | 284 | 306 |
| | \$5,905 | \$5,545 | \$5,632 |

Combined Statement of Cash Flows
In Millions of Dollars
(Unaudited)

| | Nine months ended December 31 | |
|--|----------------------------------|--------------|
| | 2011 | 2010 |
| <i>Operating Activities</i> | | |
| Net earnings (loss) for the year | 121 | 53 |
| Amounts not requiring a current cash payment | 164 | 171 |
| Nuclear decommissioning and used fuel management funds installments and earnings | (17) | (16) |
| Decommissioning liability expenditures | (11) | (8) |
| Regulatory deferrals excluding mark-to-market adjustments | (143) | (148) |
| Net change in non-cash working capital | (2) | 24 |
| | \$112 | \$76 |
| <i>Investing Activities</i> | | |
| Expenditure on property, plant and equipment, net of customer contributions | (203) | (186) |
| Proceeds on disposal | 15 | 0 |
| Recovery of capital | 0 | 55 |
| | (188) | (131) |
| <i>Financing Activities</i> | | |
| Debt retirements | (535) | (85) |
| Proceeds from long-term debt obligations | 429 | 318 |
| Increase (decrease) in short-term debt | 188 | (161) |
| Dividends paid | (12) | (7) |
| | \$70 | \$65 |
| Net Cash (outflow) inflow | (6) | 10 |
| Cash, beginning of period | 10 | 4 |
| Cash, end of period | \$4 | \$14 |