

NB Power Quarterly Report

Year-To-Date Results



Énergie NB Power

For the Period Ended September 30, 2012

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 September). 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, 2012 are available on the NB Power website (www.nbpower.com).

In fall 2011, in response to the Shareholder's Mandate Letter, NB Power's Board of Directors and management developed a 30-year strategic plan. This plan, which is the foundation for all of NB Power's business plans, investment decisions and business initiatives, sets out the following three strategies:

1. NB Power will target being a top quartile performer as compared to public and private utilities in North America.
2. 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.
3. Invest in technology, educate customers and incent consumption that will reduce and shift demand (RASD) for electricity and ultimately defer the next significant generation investment.

The operational and financial results contained within this report highlight initiatives implemented to realize the strategies outlined in the Strategic Plan and the key performance indicators at the back of the report reflect progress thus far.



Ed Barrett
Chairman, NB Power Board of Directors



Gaëtan Thomas
President and Chief Executive Officer



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 Generating Station Update

Subsequent to the end of the quarter, on October 23, 2012, the Point Lepreau Generating Station successfully synchronized to the New Brunswick electrical grid for the first time since 2008, producing electricity for New Brunswick homes and businesses.

More recently, the Canadian Nuclear Safety Commission (CNSC) announced its approval for NB Power to increase reactor power at the Point Lepreau Generating Station above 35 per cent of full power. This approval is the last regulatory milestone before NB Power makes the refurbished station available for commercial dispatch.

Once returned to service, the station will play a key role for the Corporation in helping to ensure long-term competitive and stable rates for New Brunswickers and contributing to the goal of having 75 per cent of the electricity used in New Brunswick coming from clean, renewable or non-emitting sources by 2020. The 660 megawatt station will be a base-load contributor to the New Brunswick grid, producing enough electricity to power more than 333,000 homes per year for the next 25 to 30 years.



LED Street Lighting Program

Just past the end of the quarter, on October 11, 2012, NB Power announced it was embarking on an ambitious new program to replace approximately 72,000 street lights with more reliable and more efficient LED or light-emitting diodes lighting. This program is expected to save 27,000,000 kilowatt hours of electricity annually. It is the first major component of the recently-launched Reduce and Shift Demand (RASD) strategy aimed at keeping rates low and stable for customers by minimizing the need to build new electricity generation facilities in the future.

The positive business case for LEDs adds up to overall savings of about \$6 million over 20 years. While more expensive to purchase, LEDs are less expensive to operate as they use about half of the electricity required for the high pressure sodium (HPS) street lights that NB Power currently uses across the province. LED technology is more reliable and has a much longer life span of about 20 years compared to the current six years for HPS lighting, which means less expense for installations and maintenance. In addition, the environmental benefits are considerable. When all the new LED lights are installed, New Brunswick will benefit from greenhouse gas reductions of approximately 324,000 tonnes over 20 years, an amount equivalent to removing 3,000 cars from the road.



Dalhousie Generating Station Update

On September 27, 2012, NB Power announced that the Dalhousie Generating Station would be permanently closed. Over the previous two years, NB Power conducted a review in coordination with the Province of New Brunswick to find options to sustain the Station's operation. This review included an assessment of potential alternative fuel sources and a search for expressions of interest from new operators. The results of the two-year review concluded that the continued operation of the Dalhousie Generating Station is no longer economically viable.

During the first year of decommissioning, NB Power will conduct a full Environmental Impact Assessment. The Station's remaining 25 staff members will continue to work at the Station during the decommissioning period, which is expected to take approximately four years, and will gradually be reassigned within the NB Power organization as this work is completed.

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 change¹. These should be read in conjunction with the audited financial statements for the year ended March 31, 2012.

Year-To-Date

NB Power Group recorded net earnings for the period of \$46 million, compared to \$72 million for the same period in 2011/12. The \$26 million decrease in earnings was largely as a result of

Revenues

In-province revenue increased \$3 million compared to the same period in 2011/12 mainly due to increased industrial revenue partially offset by warmer weather and lower residential sales.

Out-of-province revenue was \$4 million lower than the same period in 2011/12 mainly due to the expected end of a major contract in 2011/12 partially offset by higher export prices and volumes.

Miscellaneous revenue increased \$13 million compared to the same period in 2011/12 mainly due to a gain on sale of assets to Edmundston Energy. This agreement includes a 20-year power purchase agreement where NB Power purchases 100 per cent of Edmundston Energy's generation output from its hydro generation systems and a power supply agreement where NB Power supplies 100 per cent of Edmundston Energy's needs for the next 20 years.

Expenses

Fuel and purchased power and transmission expense increased \$72 million compared to the same period in 2011/12 mainly due to higher overall generation costs as a result of lower hydro flows, an extended outage at Belledune in 2012/13, and additional purchases of renewable energy.

OM&A expense increased \$22 million compared to the same period in 2011/12 mainly attributable to higher pension expense in 2012/13 as a result of financial market conditions, and increased hired services and labour related to the PLGS restart activities.

Amortization and decommissioning expense decreased \$24 million compared to the same period in 2011/12 mainly due to adjustments to the decommissioning costs at the Grand Lake Generating Station in 2011/12 and the amortization of the Dalhousie Generating Station during 2011/12.

Regulatory deferral increased \$10 million as a result of higher period costs.

Finance charges decreased by \$12 million mainly due to lower debt levels (other than debt associated with ongoing capital projects) and lower average long-term interest rates.

Special payments in lieu of income taxes decreased \$10 million compared to the same period in 2011/12 due to lower earnings in 2012/13.

Change in Debt²

As the utility continues to make long-term investments, debt at September 30, 2012 was \$4,673 million compared to \$4,533 million at March 31, 2012. This increase of \$140 million was mainly due to capital spending for Point Lepreau Generating Station refurbishment and was partially offset by positive cash flows from operating activities.

¹ Certain comparative figures have been restated to reflect adjustments made to the period results subsequent to the issuance of the prior year quarterly report.

² Debt includes short-term debt, current portion of long-term debt and long-term debt.

**Combined Statement of Earnings
In Millions of Dollars
(Unaudited)**

Six months ended Sept. 30

	2012	2011	Variance
Revenues			
In-province revenue	\$537	\$534	\$3
Out-of-province revenue	106	110	(4)
Transmission revenue	41	42	(1)
Miscellaneous revenue	39	26	13
	\$723	\$712	\$11
Expenses			
Fuel & purchased power	\$335	\$263	\$72
Transmission expense	40	41	(1)
Operations, maintenance and administration	220	198	22
Amortization and decommissioning	90	114	(24)
Taxes	20	20	0
Regulatory deferrals	(84)	(74)	(10)
Finance charges	40	52	(12)
	\$661	\$614	\$47
Earnings before special payment in lieu of income taxes	62	98	(36)
Special payments in lieu of income taxes	16	26	(10)
Net earnings	\$46	\$72	(\$26)

Combined Balance Sheet
In Millions of Dollars
(Unaudited)

	As at Sept. 30 2012	As at Sept. 30 2011	As at Mar 31 2012
<i>Assets</i>			
Current assets			
Cash and short-term investments	\$1	\$2	\$4
Accounts receivable	176	176	263
Materials, supplies and fuel	222	276	221
Prepaid expenses	34	40	15
Current portion of long-term receivable	1	0	0
Current portion of derivative assets	0	5	0
	\$434	\$499	\$503
Property, plant and equipment	\$4,043	\$3,846	\$3,909
Long-term and other assets	\$1,735	\$1,468	\$1,594
Total Assets	\$6,212	\$5,813	\$6,006
<i>Liabilities and Shareholders' Equity</i>			
Current liabilities			
Short-term indebtedness	\$745	\$626	\$583
Accounts payable and accrued interest	258	185	264
Current portion of long-term debt	630	363	481
Current portion of derivative liabilities	35	3	77
	\$1,668	\$1,177	\$1,405
Long-term debt	\$3,298	\$3,527	\$3,469
Deferred liabilities	\$684	\$668	\$678
Shareholders' Equity	\$562	\$441	\$454
	\$6,212	\$5,813	\$6,006

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

Six months ended Sept. 30

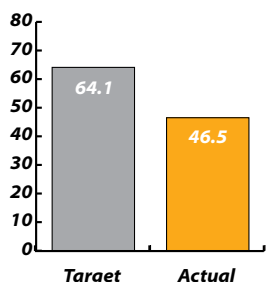
<i>Operating Activities</i>	2012	2011
Net earnings for the year	\$46	\$72
Amounts not requiring a current cash payment	93	125
Nuclear decommissioning and used fuel management funds installments and earnings	(12)	(11)
Decommissioning liability expenditures	(7)	(6)
Deferred charges	(1)	-
Regulatory deferrals excluding mark-to-market adjustments	(106)	(93)
Net change in non-cash working capital	60	(18)
\$73	\$69	\$69
 <i>Investing Activities</i>		
Expenditure on property, plant and equipment, net of customer contributions	(209)	(133)
(\$209)	(\$133)	(\$133)
 <i>Financing Activities</i>		
Debt retirements	(23)	(208)
Proceeds from long-term debt obligations	0	130
Increase (decrease) in short-term debt	162	143
Dividends paid	(6)	(8)
\$133	\$57	\$57
Net Cash (outflow) inflow	(3)	(7)
Cash, beginning of period	4	9
Cash, end of period	\$1	\$2

KEY PERFORMANCE INDICATORS

One of the three key strategies of NB Power's Strategic Plan is that NB Power will target being a top-quartile performer as compared to public and private utilities in North America. By measuring performance against the top-quartile of North American utilities NB Power will provide the most cost-effective generation and delivery of electricity to its customers.

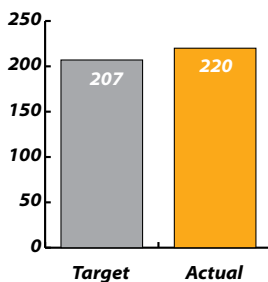
Top-quartile performance is a mid-to long-term target. NB Power's Board and management established in-year measures to help the utility move to achieve this mid-to long-term target. The time frame for achieving top-quartile performance varies by key performance indicator. The targets shown in the graphs below are in-year targets toward achieving our ultimate goal of top quartile performance. These key performance indicators were selected to reflect our core areas of focus: financial results, safety and reliability. These year-to-date measures will be monitored on a quarterly basis.

Net Earnings (\$ millions)



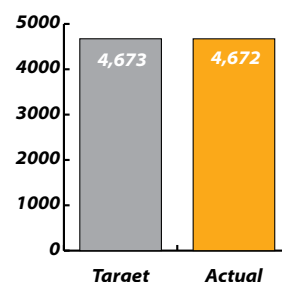
Net earnings is a measure of our profitability.

OM&A (\$ millions)



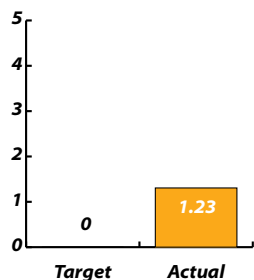
Operations, maintenance and administration (OM&A) costs are largely controllable by management over the medium term and are an important measure of financial success.

Net Debt (\$ millions)



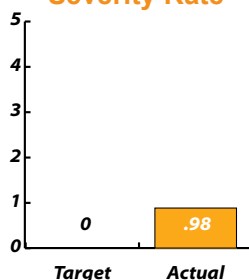
The total amount of short and long-term debt outstanding less deferred debt charges and cash.

All Injury Frequency Rate



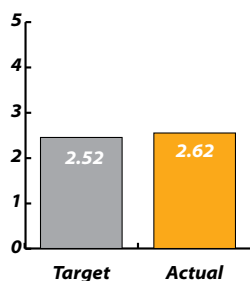
The all injury rate represents a summary of all injuries per each 200,000 hours of actual hours worked.

Lost-Time Injury Severity Rate



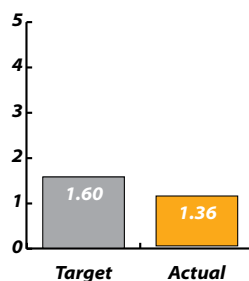
The lost-time injury rate represents the total number of work days lost per each 200,000 hours of actual hours worked.

SAIDI



System Average Interruption Duration Index (SAIDI) is a standard utility indice that measures average total outage duration.

SAIFI



System Average Interruption Frequency Index (SAIFI) is a standard utility indice that measures the average frequency of interruption per customer served.