



Énergie NB Power
Quarterly
Report

Year-To-Date Results

For Period Ended
December 2013

Message from the Chairman of the Board and the President and CEO

This third quarter report contains unaudited financial highlights and discusses the primary factors that have had an impact on the financial results and operations of NB Power. The information provided includes year-over-year financial variances for the fiscal year-to-date – April to December. These financial estimates are subject to change as more information becomes available in subsequent quarters.

The operational and financial results contained within this report highlight initiatives implemented to realize the three key strategies outlined in NB Power's 30 Year Strategic Plan. Key performance indicators reflecting our progress thus far can be found at the back of this report.

Year-to-date results indicate that consistent performance at Point Lepreau Generating Station since June 2013 and better than expected energy export sales helped NB Power make progress on debt repayment and improved cash flow. However, record cold temperatures in December, the significant costs of restoration from late December storms and volatile fuel prices contributed to negative earnings of \$15 million to this point in the fiscal year. NB Power is still forecasting positive earnings for the entire fiscal year as it has since the beginning of the year.

As noted, in this quarter NB Power faced the most damaging series of storms to hit the region in decades. These storms left 88,000 New Brunswickers without power through the Christmas holiday season. NB Power crews and contractors worked approximately 75,000 person hours over 11 days in late December and early January without a single safety incident to repair power lines and infrastructure damaged by freezing rain, winds and heavy snow.

NB Power wants to recognize the safe and tireless efforts of employees who worked through their own holidays to restore these customers. Thanks must also be given to our customers in southern New Brunswick for their extraordinary patience and understanding during these outages. Thank you for never giving up on us.



Ed Barrett
Chairman, NB Power Board of Directors



Gaëtan Thomas
President and Chief Executive Officer

NB Power crews toiled day and night to restore power during ice storms in late December.



Quarterly Overview

Consistent performance at Point Lepreau Generating Station since June and export energy sales have helped NB Power make progress on debt repayment and improved cash flow, while record cold temperatures in December, extraordinary impacts from damaging winter storms and volatile fuel prices contributed to year-to-date losses of \$15 million.

Operational Highlights

[NB Power reconnects thousands following holiday storms](#)

NB Power crews and contractors worked approximately 75,000 person hours without a single safety incident to restore electricity to customers after destructive winter weather damaged power lines and infrastructure during the 2013 holiday season. The total cost of the restoration was \$12 million.

At the peak of restoration, approximately 264 crews were in the field working to reconnect 88,000 customers. In addition, hundreds of employees worked throughout the holiday period answering calls in the customer care centre, managing logistics and schedules and coordinating restoration progress. Electricity was restored to customers by January 3, 2014.

[Record cold in December, market volatility](#)

A 24-day cold snap produced among the lowest December temperatures to hit New Brunswick in 30 years. These record-low temperatures resulted in significant increases in customer demand requiring that NB Power both purchase additional power on the New England electricity market and operate Coleson Cove Generation Station much earlier and for a longer period than planned.

The combined effects of high natural gas prices in New England, high prices on the New England electricity market and the high cost of running Coleson Cove had a negative impact on earnings in the quarter. High natural gas prices and the corresponding high prices on the New England electricity market are expected to continue until spring temperatures arrive.

[NB Power offers energy rebates in November](#)

NB Power helped New Brunswickers save money and energy by offering cash rebates on selected energy-saving appliances in November 2013.

The utility offered a \$75 mail-in rebate to New Brunswick residents who purchase eligible clothes washers and refrigerators during the month of November. Nearly \$95,000 in rebates were available to New Brunswickers through this program.

The rebate program is an important part of NB Power's long-term strategy to reduce future costs, reduce reliance on fossil-fuel energy, and provide customers with tools to control their monthly bills. Additional efficiency rebate programs will be designed and rolled out during the next three years.

[NB Power becomes single, integrated utility](#)

On October 1, NB Power became a single, integrated crown corporation responsible for generation, transmission and distribution of electricity within New Brunswick.

The single utility was created to comply with the Province of New Brunswick's new *Electricity Act*. The act also required the creation of a new subsidiary, the New Brunswick Energy Marketing Corporation. This entity will operate in the Northeastern energy market to ensure both the sale of surplus energy and the purchase of lower priced externally-produced electricity to meet provincial demand and contribute to financial and rate stability.

[New partners chosen to help with Mactaquac future options process](#)

NB Power formed two partnerships to assist in the decision process for the future of the Mactaquac Generating Station this quarter.

The Generating Station will reach the end of its lifespan by 2030. NB Power has identified three possible options for the station, which are rebuilding the station with a new powerhouse and spillway, maintaining the earthen dam and spillway only, or restoring the river to its natural state.

The utility announced plans to invest \$2.3 million in a three-year research project with the Canadian Rivers Institute (CRI) to provide insight into key environmental challenges related to the options, including river health, fish passage, and flow management.

In addition, NB Power named a partner to assist with First Nation engagements related to the project. New Brunswick-based Dillon Consulting and the Kingsclear First Nation Economic Development Corporation will help ensure the voices of First Nations can be heard in the proper cultural context, and also to provide community members with employment and learning opportunities while providing valued input on this project.

[Point Lepreau Generating Station](#)

Following a successful planned maintenance outage in mid-October, Point Lepreau Generating Station operated safely and consistently at between 93-100 per cent through the remainder of the quarter.

Prior to the outage, the station was operating at 93 per cent due to limits imposed by station management as a result of running in a three-valve configuration. The fourth valve was repaired during the outage.

The station is expected to remain at full power for the duration of the home heating season until a planned maintenance outage beginning in May 2014.

For more information on the above Operational Highlights, please press the hyperlink imbedded in the above titles (where available).



Mactaquac Hydro Generating Station



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.

Integration

On October 1, 2013, NB Power became a single, integrated crown corporation. This is the first Public Quarterly Report issued under the new structure.

The December 31, 2013 consolidated results reflect the impact of amalgamating the former NB Power Group of Companies, Electric Finance Corporation, and the New Brunswick System Operator into a new vertically integrated Corporation.

The standard accounting for a newly amalgamated corporation of related entities is the use of the continuity of interest method. The intent of this method is to represent all former entities in the financial statements of the newly amalgamated corporation as though they had been a part of this entity since their incorporation (as if they were never separate entities).

Year-To-Date

Free Cash Flow² and Change in Net Debt³

Year-to-date free cash inflow was \$53 million compared to the prior year's free cash outflow of \$161 million. The \$214 million increase in free cash flow is a result of a reduction in the current year's capital spending requirements and a reduction in the need for replacement energy costs since the Point Lepreau Generating Station's return to service in November 2012. The year-to-date cash inflows have resulted in a reduction of \$56 million in net debt since March 31, 2013.

Net (Loss) Earnings

NB Power recorded a net loss for the period of \$15 million, compared to net earnings of \$57 million for the same period in 2012/13. The following explains the \$72 million decrease in earnings.

Revenues

In-province revenue increased \$27 million compared to the same period in 2012/13 mainly due to colder weather, increased residential, wholesale and general service load, and the 2% October 1, 2013 rate increase.

Out-of-province revenue was \$55 million higher than the same period in 2012/13 mainly due to successfully acquiring an additional export contract resulting in higher sales volumes partially offset by lower export prices.

Expenses

Fuel and purchased power and transmission expense decreased \$91 million compared to the same period in 2012/13 mainly due to lower overall generation costs from the return to service of the Point Lepreau Generating Station and higher hydro flows in 2013/14. This was partially offset by higher overall volumes and higher natural gas prices.

OM&A expense increased \$23 million compared to the same period in 2012/13 mainly due to increased labour and overtime at the Point Lepreau Generating Station, higher hired services and labour associated with the December 2013 ice storm and higher pension expense in 2013/14 as a result of changes in mortality assumptions and financial market conditions. This was partially offset by lower

hired services and material at the Belledune Generating Station due to an outage in 2012/13 and management's actions in the current year to compensate for lower than expected earnings.

Amortization and decommissioning expense increased \$31 million compared to the same period in 2012/13 mainly due to the return to service of the Point Lepreau Generating Station partially offset by lower amortization as a result of increased service lives of transmission and distribution assets.

Regulatory deferral reduced net earnings by \$53 million due to the commencement of amortization of the deferral upon the return to service of the Point Lepreau Generating Station. In prior year, \$100 million of expenses were deferred as legislated by the *Electricity Act*.

Finance charges increased by \$52 million mainly due to less interest capitalized in 2013/14 due to the return to service of the Point Lepreau Generating Station and higher interest with debt outstanding related to integration. This was partially offset by lower long-term interest rates compared to the same period in 2012/13, lower interest due to reduced debt other than debt associated with integration, and sinking fund earnings in 2013/14.

Special payments in lieu of income taxes decreased \$19 million compared to the same period in 2012/13 due to cessation of PILS upon integration.

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 Free cash flow is defined as the net cash flow from operations activities and investing activities.

³ Net Debt includes short-term debt, current portion of long-term debt and long-term debt sinking funds and cash.



Combined Statement of Earnings

In Millions of Dollars
(Unaudited)

	Nine months ended December 31		
	2013	2012	Variance
Revenues			
In-province revenue	\$900	\$873	\$27
Out-of-province revenue	222	167	55
Transmission revenue ⁴	36	65	(29)
Miscellaneous revenue	42	53	(11)
	1,200	1,158	42
Expenses			
Fuel & purchased power	458	549	(91)
Transmission expense ⁴	30	63	(33)
Operations, maintenance and administration	359	336	23
Amortization and decommissioning	171	140	31
Taxes	27	29	(2)
Regulatory deferrals	53	(100)	153
Finance charges	117	65	52
	1,215	1,082	133
Earnings before special payments in lieu of income taxes	(15)	76	(91)
Special payments in lieu of income taxes	-	19	(19)
Net earnings	(\$15)	\$57	(\$72)

⁴Transmission revenue and expense post-integration no longer reflects NB Power Group of Companies buying and selling transmission with the New Brunswick System Operator as a third party.



Combined Balance Sheet

In Millions of Dollars
(Unaudited)

Assets	As at Dec. 31, 2013	As at Dec. 31, 2012	As at March 31, 2013
Current assets			
Cash and short-term investments	\$8	\$5	\$1
Accounts receivable	248	236	255
Materials, supplies and fuel	206	197	206
Prepaid expenses	16	20	11
Current portion of long-term receivable	1	-	1
Current portion of regulatory deferral	20	20	20
Current portion of derivative assets	79	-	18
	578	478	512
Property, plant and equipment	4,059	4,072	4,072
Long-term and other assets	2,136	1,733	2,106
Total Assets	\$6,773	\$6,283	\$6,690
Liabilities and Shareholders' Equity			
Current liabilities			
Short-term indebtedness	\$852	\$769	\$687
Accounts payable and accrued interest	274	266	279
Current portion of long-term debt	-	494	382
Current portion of derivative liabilities	1	27	-
	1,127	1,556	1,348
Long-term debt	4,557	3,444	4,369
Deferred liabilities	749	724	696
Shareholders' Equity	340	559	277
Liabilities and Shareholders' Equity	\$6,773	\$6,283	\$6,690



Combined Statement of Cash Flows

In Millions of Dollars
(Unaudited)

Nine months ended December 31

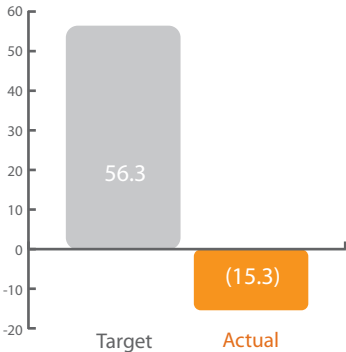
	2013	2012
Operating Activities		
Net earnings for the year	\$ (15)	\$ 57
Amounts not requiring a current cash payment	222	154
Nuclear decommissioning and used fuel management funds installments and earnings	(12)	(17)
Decommissioning liability expenditures	(19)	(11)
Deferred charges	-	1
Regulatory deferrals	15	(135)
Mark-to-market derivative assets not eligible for hedge accounting	(7)	-
Net change in non-cash working capital	(1)	47
	183	96
Investing Activities		
Expenditure on property, plant and equipment, net of customer contributions	(130)	(257)
	(130)	(257)
Financing Activities		
Debt retirements	(379)	(165)
Proceeds from long-term debt obligations	179	150
Sinking fund installments and earnings	(10)	-
Increase (decrease) in short-term debt	165	186
Dividends paid	-	(8)
	(45)	163
Net Cash (outflow) inflow	8	2
Cash, beginning of period	-	3
Cash, end of period	\$8	\$5

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.

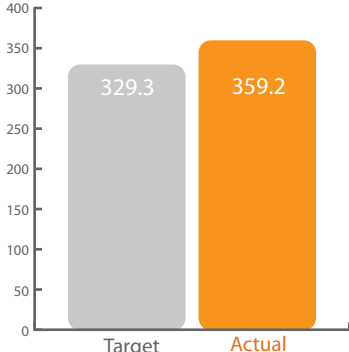
Top-quartile performance is a mid-to long-term target. NB Power’s Board and management established in-year measures to help the utility move to achieve this mid-to long-term target. The time frame for achieving top-quartile performance varies by key performance indicator. The targets shown in the graphs 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)



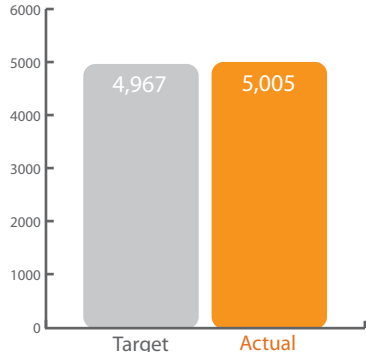
Net earnings is a measure of our profitability.

OM&A (\$ millions)



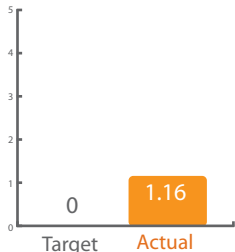
Operations, maintenance and administration (OM&A) costs are largely controllable by management over the medium term and are an important measure of financial success.

Net Debt (\$ millions)



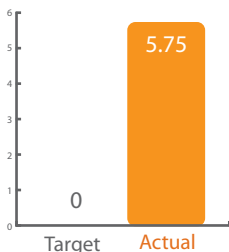
The total amount of short and long-term debt outstanding less deferred debt charges and cash.

All Injury Frequency Rate



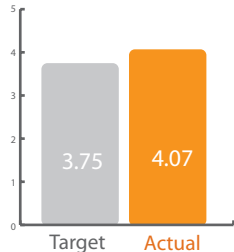
The all injury frequency rate represents a summary of all injuries per each 200,000 hours of actual hours worked.

Lost-Time Injury Severity Rate



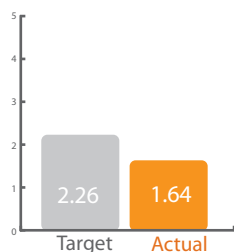
The lost-time injury rate represents the total number of work days lost per each 200,000 hours of actual hours worked.

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.