

FIRST QUARTER REPORT

YEAR-TO-DATE RESULTS

For the period ended
June 30, 2018

NEW BRUNSWICK
POWER CORPORATION



Énergie NB Power



OPERATIONAL HIGHLIGHTS

Energy providers across the world are experiencing unprecedented change. Some of the global trends driving this change include- climate change, changes in customer expectations and behaviours, digitalization, aging infrastructures, competition, and more. As a result, NB Power is compelled to conduct business differently in order to help ensure adequate energy supply, meet customer expectations, integrate renewable resources, and provide low and stable rates. NB Power remains committed to meeting the needs of New Brunswickers in a safe, reliable and cost effective way.

In recent years, New Brunswick has seen a rise in the frequency and intensity of extreme weather events. Spring 2018 brought historic flood levels to New Brunswick impacting thousands of homes, cottages and businesses. During the almost three-week long flood, NB Power personnel worked closely with New Brunswick Emergency Measures Organization to ensure customers' safety and then worked diligently to reconnect customers once it was safe to do so. Although water can be a low cost source of energy for NB Power, when it comes in high volumes over short periods of time, like this spring, it cannot be used efficiently to generate electricity. NB Power is reviewing the impact of extreme weather events on its infrastructure and operations and is taking many steps to harden and improve its system to protect electricity supply for customers.

NB Power is committed to helping all New Brunswickers with their energy use to help save money and reduce their energy needs. During the quarter, a number of programs and services were launched aimed at helping customers use energy more efficiently in their homes and businesses, as captured in the following operational highlights.

NB Power launches comprehensive suite of energy efficiency programs for homes and businesses

In May, NB Power announced its newest flagship program for homeowners, the Total Home Energy Savings Program, which offers assistance on upgrades to home heating systems regardless of how the home is currently heated. This program also covers upgrades that include insulation, windows, doors and even solar panels.

In addition, a New Home Construction program was also launched to help New Brunswickers who are building a new home get up to \$10,000 in incentives for making it energy efficient during construction. Through the program, the homebuyer or the builder gets custom recommendations on building plans in order to enjoy comfort, peace-of-mind and long-term savings with an energy efficient home.

New Brunswick homeowners and businesses now have access to efficiency programs to save money, increase their comfort and help protect the environment. These efficiency programs deliver direct and measureable benefits to customers; reduce greenhouse gas emissions and create green jobs, which will provide significant stimuli for the New Brunswick economy.

NB Power and municipal electric utilities in the province to conduct energy use survey

NB Power and the municipal utilities in New Brunswick are working together to conduct an energy planning survey. The energy planning survey, which was commissioned by NB Power, Saint John Energy, Perth Andover Light Commission and Edmundston Energy, will provide a more complete picture of the province's household energy consumption patterns.

Customer input is essential in order to help plan for the future of energy delivery in New Brunswick. The responses provided in the energy planning survey will help NB Power develop programs for all New Brunswickers and forecast New Brunswick's future energy needs.

Approximately 30,000 customers received the survey either by mail or online. The data received will help NB Power to ensure that in a changing energy landscape it develops a plan that provides safe, reliable and environmentally responsible energy solutions to meet New Brunswickers' needs.

Point Lepreau Nuclear Generating Station completes planned outage

On May 31, the Point Lepreau Nuclear Generating Station (PLNGS) reconnected to the New Brunswick grid following the completion of a planned maintenance outage. The Station was taken offline in April to perform scheduled maintenance. During the outage, approximately 10,000 planned technical maintenance activities on equipment and systems on both the nuclear and conventional parts of the Station were completed to improve equipment reliability.

PLNGS outages are scheduled to coincide with seasonal increases in water flows in the hydro system and with lower seasonal electricity demand to help offset the temporary loss of the Station's contribution to provincial energy needs. Planned outages of this nature are key investments to ensure the long-term ability of PLNGS to dependably meet the energy needs of New Brunswickers.

NB Power receives national ENERGY STAR® Canada Award for Utility of the Year—Provincial

NB Power was awarded the ENERGY STAR® Canada Award for Utility of the Year—Provincial from Natural Resources Canada. NB Power received this award for making energy efficiency programs and products affordable and available. This is NB Power's third ENERGY STAR Canada Award. In 2016, the utility received awards for the Promotional Campaign of the Year and Social Media Campaign of the Year.

The ENERGY STAR Canada Awards honour organizations that demonstrate excellence in promoting the most energy-efficient products and new homes available on the market. NB Power's efforts in promoting the efficient use of energy in customers' homes and businesses in the province was recognized at a ceremony held on May 28 in Ottawa.

The ENERGY STAR Canada Awards are presented to utilities, organizations, advocates, manufacturers, retailers, and home builders that have shown leadership in promoting and manufacturing energy-efficient products and for advancing energy efficiency in Canada.

NB Power CEO Gaëtan Thomas appointed chairman of the Atlanta Centre Governing Board of WANO

The World Association of Nuclear Operators (WANO) announced the appointment of Gaëtan Thomas as the new Chairman of the WANO-Atlanta Centre Regional Governing Board. In doing so, Jacques Regaldo, chairman of WANO, said "I am pleased to announce the appointment of Gaëtan Thomas and welcome him to the Atlanta Centre Regional Governing Board and the wider WANO family. Gaëtan brings a wealth of experience and insight to the position, which will be very valuable to the global community of nuclear operators."

WANO, which has over 130 members across the globe, is the organization that unites every company and country in the world that operates commercial nuclear power plants. Its goal is to achieve the highest possible standards of nuclear safety and excellence in operational performance. WANO is headquartered in London and, in addition to the Atlanta Centre, which has 38 members, WANO also has regional centres in Moscow, Paris and Tokyo.

NB Power announced recipients of Energy Efficiency Excellence Awards

In late May, NB Power celebrated organizations, individuals and communities who have demonstrated leadership and innovation in energy efficiency with the first annual Energy Efficiency Excellence Awards. The awards ceremony was held as part of NB Power's Energizing Efficiency Conference in Fredericton.

The Energy Efficiency Excellence Awards recognized the achievements of New Brunswickers who have undertaken efficiency projects in 2017 or who have demonstrated a long-standing commitment to furthering energy efficiency in New Brunswick. The 2017 award recipients in each category were

- Legacy Award: Canadian Home Builders' Association NB (Fredericton)
- Innovation Award: Rise (Fredericton)
- Partnership Award: NexGen Energy (Quispamsis)
- Community Award: Sustainable Saint John (Saint John)
- Rising Star Award: Jordan Kenzie (Fredericton)
- Education Award: The Gaia Project (New Brunswick)

FINANCIAL HIGHLIGHTS¹

Electricity operations

NB Power's operating earnings were \$55 million for the three-month period, which was \$24 million or 30 per cent lower than the same period last year. The primary reason for the variance was the increase in fuel and purchase power costs serving in-province customers.

Revenue from electricity sales within New Brunswick totaled \$309 million or \$2 million higher for the three-month period due to larger sales volumes. Out-of-province revenue was \$48 million, which is \$17 million or 26 per cent lower than the prior period. The primary cause of this decrease was lower US sales due to a reduction in the number of export customers being served.

Expenses attributed to electricity operations were \$323 million for the three-month period, an increase of \$11 million or four per cent. The increase was primarily as a result of a \$6 million increase in depreciation and amortization and a \$5 million increase in operations, maintenance and administration (OM&A).

Although total fuel and purchase power costs were consistent year over year at \$128 million, the cost to supply in-province load increased by \$15 million. This increase was primarily due to a more complex planned maintenance outage at the Point Lepreau Nuclear Generating Station and lower hydro flows leading to the use of more expensive replacement energy. Out-of-province supply costs decreased by \$15 million primarily due to lower loads supplied for export contracts.

Depreciation and amortization expense was \$66 million, which was \$6 million higher as a result of planned capital investments and scheduled generation maintenance outages. The \$5 million increase in OM&A was primarily due to higher costs associated with the emergency response activity related to the spring flooding and a change in the accounting treatment of the costs and revenues associated with a joint partnership agreement offset by higher miscellaneous revenue.

Other income and expenses

NB Power's other income and expenses were \$48 million, which is \$5 million or nine per cent lower than the same period last year. Finance costs were higher than a year earlier; however, these were offset by an increase in the gains on investments year over year, which was due to favourable financial market conditions.

Financial overview

Net earnings for the period ended June 30, 2018 were \$4 million, which represents a \$19 million decrease in earnings compared to the same period last year.

Debt management

NB Power is focused on achieving a minimum debt/equity ratio of 80/20 as prescribed in the *Electricity Act*. Debt reduction is necessary so that NB Power has the flexibility to respond to changing markets and technologies and to better prepare for future investment requirements. The table below summarizes the net debt in capital structure.

| (in millions) | 30 June 2018 | 31 March 2018 | Change |
|-----------------------------------|-----------------|------------------|-------------|
| Total debt | \$5,358 | \$5,278 | \$80 |
| Cash | (8) | 6 | (14) |
| Sinking fund | 525 | 505 | 20 |
| Total net debt² | \$4,841 | \$4,767 | \$74 |

Debt reduction is achieved when there is surplus cash after providing for the day-to-day operating and investing requirements.

Operating cash flows for the period were \$26 million while capital expenditures on property, plant and equipment were \$106 million. A cash flow deficit is expected during the spring of the year when revenue is down due to warmer weather and capital investments in generating station maintenance outages, which are scheduled to coincide with non-peak periods. The corresponding temporary increase in net debt is illustrated in the table above.

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

²Net debt includes short-term debt, current portion of long-term debt and long-term debt, less sinking fund and cash.

CONSOLIDATED STATEMENT OF EARNINGS

In millions of dollars (Unaudited)

| | Three months ended June 30 | | |
|---|----------------------------|--------------|---------------|
| | 2018 | 2017 | Variance |
| Revenue | | | |
| In-province | \$309 | \$307 | \$2 |
| Out-of-province | 48 | 65 | (17) |
| Miscellaneous | 21 | 19 | 2 |
| Total revenues | 378 | 391 | (13) |
| Expenses | | | |
| Fuel and purchased power | (128) | (128) | - |
| Operations, maintenance and administration | (118) | (113) | (5) |
| Taxes | (11) | (11) | - |
| Depreciation and amortization | (66) | (60) | (6) |
| Total operating expenses | (323) | (312) | (11) |
| Operating earnings | 55 | 79 | (24) |
| Other income and expenses | | | |
| Finance costs | (75) | (60) | (15) |
| Sinking fund and other investment income | 12 | 1 | 11 |
| Unrealized gains on investments | 15 | 6 | 9 |
| Total other income and expenses | (48) | (53) | 5 |
| Net earnings before changes in regulatory balances | 7 | 26 | (19) |
| Net changes in regulatory balances | (3) | (3) | - |
| Net earnings | \$4 | \$23 | \$(19) |

OPERATING STATISTICS

| | Three months ended June 30 | | |
|--|----------------------------|-------|----------|
| | 2018 | 2017 | Variance |
| In-province sales (GWh) | 2,925 | 2,897 | 28 |
| Export sales (GWh) | 555 | 830 | (275) |
| Hydro flows above (below) long-term average (%) ³ | (22)% | (12)% | (10)% |
| PLNGS net capacity factor (%) ⁴ | 39% | 67% | (28)% |

³Although the province experienced unprecedented spring flooding, the spring runoff started later than usual with high flows over a shorter period of time resulting in lower power production by NB Power.

⁴The current year PLNGS net capacity factor was impacted by a more complex planned maintenance outage in 2018/19.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In millions of dollars (Unaudited)

| | As at June 30, 2018 | As at June 30, 2017 | As at March 31, 2018 |
|---|---------------------------|---------------------------|----------------------------|
| Assets | | | |
| Current assets | | | |
| Cash | \$(8) | \$2 | \$6 |
| Accounts receivable | 193 | 189 | 248 |
| Materials, supplies and fuel | 200 | 151 | 166 |
| Prepaid expenses | 36 | 30 | 14 |
| Derivative assets | 9 | 1 | - |
| Total current assets | 430 | 373 | 434 |
| Non-current assets | | | |
| Property, plant and equipment | 4,375 | 4,318 | 4,337 |
| Sinking fund receivable | 525 | 520 | 505 |
| Long-term and other assets | 808 | 736 | 770 |
| Total non-current assets | 5,708 | 5,574 | 5,612 |
| Total assets | 6,138 | 5,947 | 6,046 |
| Regulatory balances | 891 | 1,006 | 894 |
| Total assets and regulatory balances | \$7,029 | \$6,953 | \$6,940 |

| | As at June 30, 2018 | As at June 30, 2017 | As at March 31, 2018 |
|---|---------------------------|---------------------------|----------------------------|
| Liabilities and equity | | | |
| Current liabilities | | | |
| Short-term indebtedness | \$736 | \$889 | \$871 |
| Accounts payable and accrued interest | 281 | 254 | 314 |
| Current portion of long-term debt | 730 | 550 | 410 |
| Derivative liabilities | 1 | 19 | 13 |
| Total current liabilities | 1,748 | 1,712 | 1,608 |
| Non-current liabilities | | | |
| Long-term debt | 3,892 | 3,969 | 3,997 |
| Deferred liabilities and derivative liabilities | 1,000 | 947 | 997 |
| Total non-current liabilities | 4,892 | 4,916 | 4,994 |
| Total liabilities | 6,640 | 6,628 | 6,602 |
| Total equity | 389 | 325 | 338 |
| Total liabilities and equity | \$7,029 | \$6,953 | \$6,940 |

CONSOLIDATED STATEMENT OF CASH FLOWS

In millions of dollars (Unaudited)

| | Three months ended June 30 | |
|---|----------------------------|--------|
| | 2018 | 2017 |
| Operating activities | | |
| Cash receipts from customers | \$434 | \$461 |
| Cash paid to suppliers and employees | (353) | (300) |
| Interest paid | (55) | (54) |
| Cash provided by operating activities | \$26 | \$107 |
| Investing activities | | |
| Cash invested in property, plant and equipment | \$(105) | \$(96) |
| Cash expenditure on decommissioning | (1) | (2) |
| Cash used in investing activities | \$(106) | \$(98) |
| Financing activities | | |
| Cash from long-term debt | \$338 | \$99 |
| Debt retirements | (130) | - |
| Repayment of short-term indebtedness | (134) | (88) |
| Sinking fund withdrawals and purchases (net) | (8) | (19) |
| Cash provided by (used in) financing activities | \$66 | \$(8) |
| Net cash inflow (outflow) | \$(14) | \$1 |
| Cash, beginning of period | 6 | 1 |
| Cash, end of period | \$(8) | \$2 |