

# Annual Report

2012-13

92.244



**Énergie NB Power**

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Cover Photo: Point Lepreau Generating Station



*Mactaquac Generating Station*

July 2013

Honourable Craig Leonard  
Minister of Energy and Mines  
Province of New Brunswick  
Fredericton, NB E3B 5H1

Sir:

I am pleased to submit the Annual Report of New Brunswick Power Corporation for the fiscal year ended March 31, 2013.

Respectfully submitted,

Ed Barrett  
Chairman  
Board of Directors

*Hon. Craig Leonard, Minister of Energy and Mines*

# Message from the Chairman

Our company has been undergoing a transformation during the last two years and these efforts continued in 2012-13. You will see many of the results of this transformation in this year's Annual Report. It was a tremendously successful year for your provincial electrical utility.

Two significant strategic initiatives happened in this fiscal year that will lay the foundation for current and future success at this utility – the release of our 30-year Strategic Plan and the signing of the Smart Grid partnership with Siemens Canada.

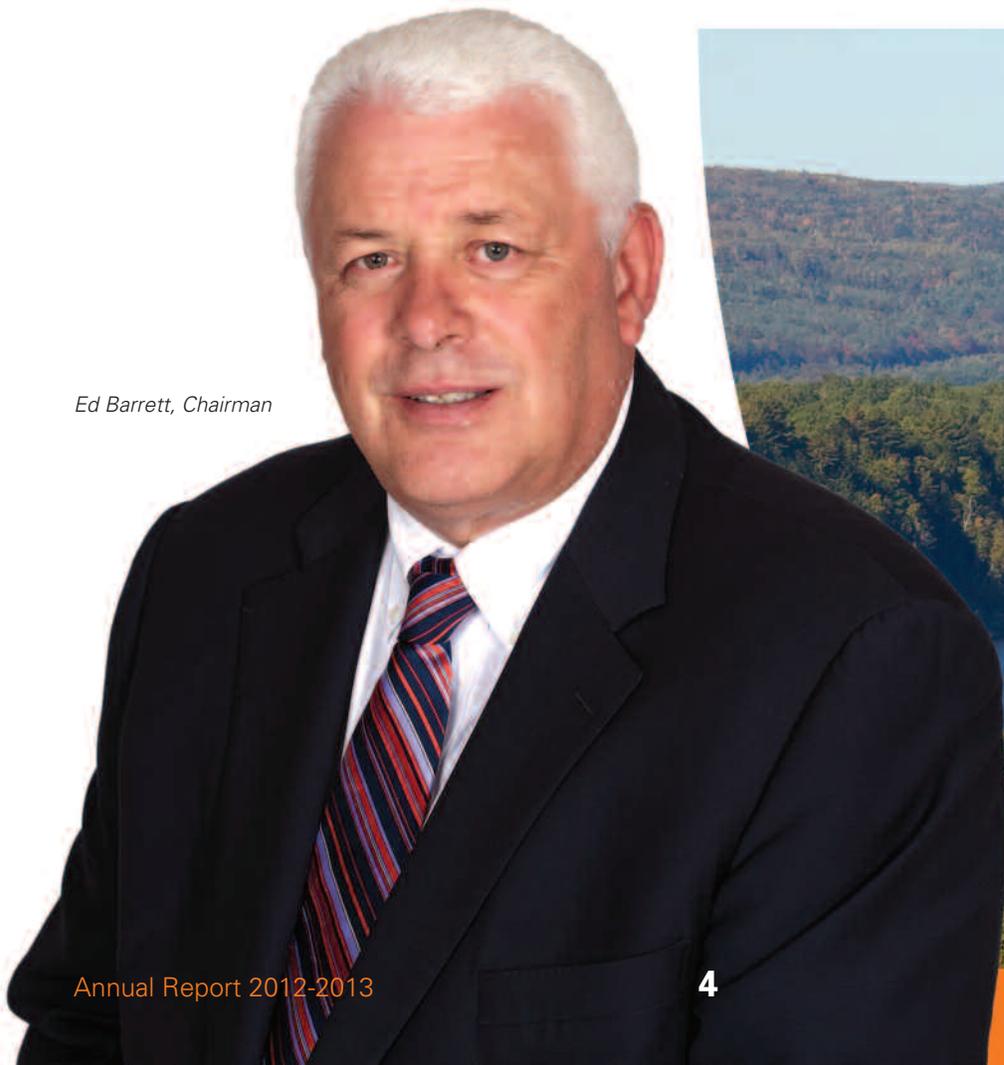
The first of these initiatives was the completion of a new 30-year Strategic Plan for NB Power in April 2012. This flowed directly from the release of the New Brunswick Energy Blueprint in October 2011 by the Department of Energy. Both documents lay a long-term vision and policy foundation for this company that is unique in its history.

The New Brunswick Energy Blueprint called for NB Power to implement cost reductions and to operate as a leaner utility. Thus, we began a process that we called Energy Transformation to drive efficiencies and realize sustainable cost savings through productivity and process improvements. At the end of this fiscal year, I am pleased to report that we have already captured \$19 million in sustainable cost savings of the more than \$30 million we are pursuing overall.

The new Strategic Plan involved a comprehensive process of comparing our company to similar utilities in North America and bench-marking us against the top performers. With that data and the direction laid out by the Shareholder in the NB Energy Blueprint, we identified the following three strategic imperatives for the company for the next 10 years:

1. Become a top performing (“top quartile”) utility in North America;
2. Reduce our overall debt by 1 billion dollars so as to move towards an 80/20 debt to equity ratio;
3. Pursue a new strategy of reducing and shifting provincial energy demand so that we can defer new investments in generation, optimize renewable energy and keep rates low and stable for our customers over the long-term.

*Ed Barrett, Chairman*



With this kind of alignment between government policy and the utility's vision and plans, we now have a long-term path to success. One of the benefits of this alignment was the latitude we were given by the Shareholder for our senior executives to pursue and land what we expect to be the most significant commercial partnership in our history – the Smart Grid partnership with Siemens. Announced on July 26, 2012, this 10-year pursuit of laying New Brunswick's robust telecommunications networks over a very sound and well-constructed electrical grid will revolutionize the way we all use electricity in this province in the future. The goal is more choice, comfort and control for New Brunswick electricity users and a better use of resources for the utility. In this Smart Grid project, everyone will benefit.

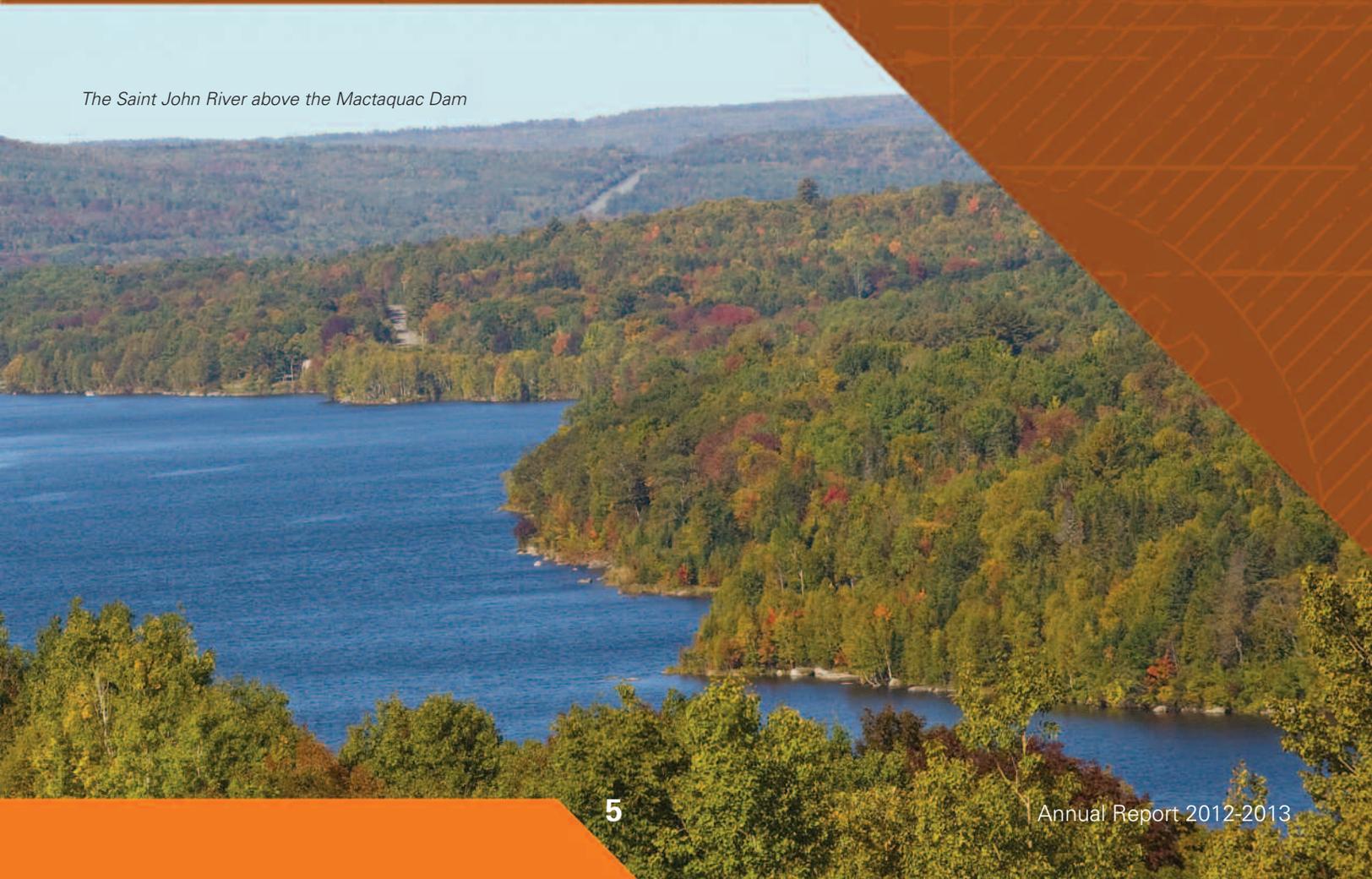
On November 23, 2012, we were very pleased to usher the Point Lepreau Nuclear Generating Station back into commercial operation following its completed refurbishment. This state-of-the-art facility will send clean, low-cost energy to the provincial electricity grid for the next 27 years. It's a foundational piece of our generation system and we expect it to provide tremendous value to our customers over the full life of the plant.

This company is committed to building on the trust that the people of this province invest in us every day. I'm proud of the NB Power team and, on behalf of the Board of Directors, I want to congratulate them for delivering another very successful year for our customers. We have much to build on in the years ahead.



Ed Barrett  
Chairman,  
NB Power Board of Directors

*The Saint John River above the Mactaquac Dam*



# Governance

The companies in the NB Power Group will be merged to form a single entity this fall. Until then, they share a common Chair, President and CEO and common directors.

The Boards of Directors are responsible for directing the affairs of each of the Corporations in compliance with the *Business Corporations Act* and the *Electricity Act*.

The NB Power Group has a common Audit Committee and a common Strategic Planning and Investment Committee for the holding company and all of the operating companies.

Each Corporation also has an Environment, Health and Safety Committee and a Human Resources, Governance and Nominating Committee.

In addition to these committees, NB Power Nuclear Corporation has a Nuclear Oversight Committee.

## Audit Committee

The Audit Committee is mandated to assist the Boards in meeting their responsibilities with respect to financial reporting, internal control and risk management. The committee interacts directly with the internal and external auditors.

*Audit Committee Membership: Paul Beesley (Chair), Ed Barrett, Norm Betts, Andy Justason, John Mallory, Lise Ouellette*

## Environment, Health and Safety Committee

The Environment Health and Safety Committee assists the Board in establishing and maintaining appropriate Board policies that guide the companies in respect to the outcomes to be achieved in meeting or exceeding their environmental and safety obligations.

*Environment, Health and Safety Committee Membership: Lise Ouellette (Chair), Ed Barrett, Andy Justason, John Mallory*

*Our Board members at the launch of our Electric Vehicle demonstration project – Left to Right: Lise Ouellette, Bob Youden, Andy Justason, Ed Barrett (Chairman), Gaëtan Thomas (President and CEO), John Mallory, Paul Beesley. Missing: Norm Betts, Louis LaPierre and Michael Sellman.*



## Strategic Planning and Investment Committee

The Strategic Planning and Investment Committee is responsible for monitoring the implementation of the Strategic Plan and overseeing the productivity and performance-improvement initiatives.

*Strategic Planning and Investment Committee Membership: Bob Youden (Chair), Ed Barrett, Paul Beesley, Norm Betts, Lise Ouellette, Michael Sellman*

## Human Resources, Governance and Nominating Committee

The Human Resources, Governance and Nominating Committee have the following mandates:

### 1. Human Resources

These committees assist the Boards in establishing and maintaining appropriate Board policies to guide the companies regarding outcomes to be achieved in the management of human resources.

### 2. Governance

These committees assist the Boards in establishing and maintaining an effective system of corporate governance.

### 3. Nominating

These committees assist the Boards in maintaining a full slate of directors with the appropriate personal characteristics, experience and skill sets that provide for a mix of competencies on the Boards and facilitates diversity of opinion and effective governance of the Corporations.

*Human Resources, Governance and Nominating Committee Membership: Norm Betts (Chair), Ed Barrett, Bob Youden*

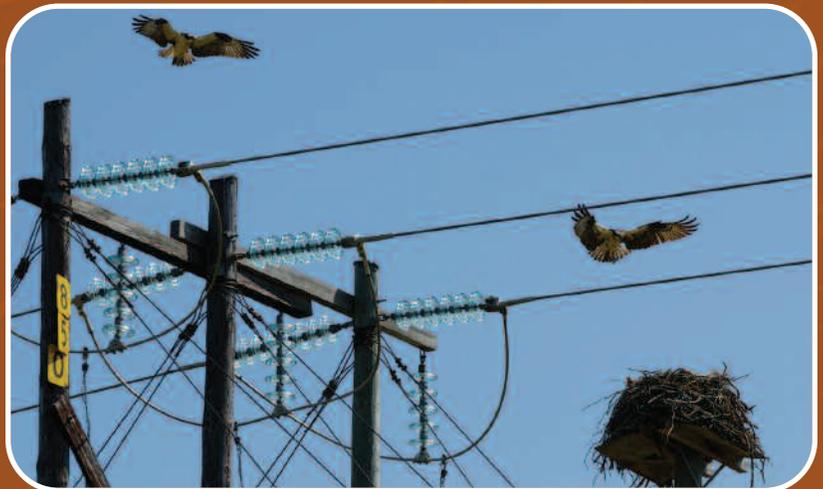
## Nuclear Oversight Committee

The Nuclear Oversight Committee is responsible for monitoring nuclear performance, particularly with respect to safety and operations issues, oversight of any refurbishment process and nuclear risk.

*Nuclear Oversight Committee Membership: Michael Sellman (Chair), Ed Barrett, Paul Beesley, Andy Justason, John Mallory*



*Point Lepreau Generating Station*



*Osprey near the Grand Falls Generating Station*

# 2012-13 Highlights from the CEO



*Gaëtan Thomas, NB Power President and CEO*

During the past year, NB Power made great strides toward achieving our vision of being a top performing utility in North America. A shift is underway at NB Power; one that will positively impact New Brunswick's energy future and ensure our vision of a sustainable electricity system.

We have spent the last three years rebuilding the foundation of our existing business while continuously maintaining the reliability and trust our customers have come to expect. That trust is critical for us as we introduce new Smart Grid technologies that give customers more control over how they use and manage their electricity. As we move forward with Smart Grid implementation, we will continue to provide safe and reliable electricity while keeping our rates low and stable for our customers and meeting our commitment to pay down our debt.

I am very pleased to report that our company posted positive financial results for the third consecutive year with net earnings of \$69 million. This follows earnings of \$173 million in 2011-12 and \$67 million in 2010-11 and this period of consecutive earnings occurred during a three-year rate freeze for all our customers. These earnings are an important component of our 10-year strategy to pay off \$1 billion worth of debt.

Our total revenues during the year increased to \$1.697 billion from \$1.646 billion the previous year largely due to out-of-province sales hitting a five-year high of \$254 million, 10.3 percent above the average of the previous four years. In-province revenue was relatively stable at \$1.282 billion; an increase of 1.2 percent over last year.

Today, thanks to the efforts of NB Power staff, we are a smaller, more productive and more efficient organization. In total, we have eliminated more than 300 positions over the past 3 years, and this past year, labour costs decreased by \$6 million as staffing decreased to 2,361 positions. That is down from 2,729 positions in 2008-09 as our efforts to streamline operations and pursue more efficient processes in the company continued. With total customers increasing to 394,585, up one percent from the year before, our staff-to-customer ratio has improved from one staff per 139 customers in 2008-09 to one staff per 167 customers in 2012-13. That is a 20 percent improvement in just five years.

The efforts we have made this year continue to build upon the successful initiatives undertaken by the Corporation since October 2010 to streamline operations and improve productivity within our company. These include:

- Eliminating \$47 million in operational and administrative expenses;
- Adopting Lean and Six Sigma process improvement methodologies and implementation of a Management Operating System (MOS) throughout the organization;
- Identifying another \$20 million in cost savings that we are pursuing;
- Eliminating four vice-president positions; moving from eight to four;
- Eliminating executive bonuses and reduced benefits and pensions;
- Instituting a two-year wage freeze on non-union employees;
- Achieving zero percent increases in large collective agreements;
- Changing our compensation to ensure performance goals are met and moving to close any remaining gaps that exist between the Corporation and similar positions in the Government of New Brunswick;
- Implementing all of this change while maintaining excellent labour relations across our company.

These efficiency and process improvement efforts will continue in the years ahead as we pursue our commitment to government and to our customers to pay down a billion dollars' worth of debt in the next decade.

Operationally, this was an exceptional year for our company as we managed our own operations and resources very well for the benefit of our customers while dealing with lower precipitation that led to a significant drop in hydro flows, the restart of Point Lepreau after more than four years off-line and the impacts of a colder winter on our system.



*Our Executive team: Keith Cronkhite - Vice President, Generation and Business Development; Wanda Harrison - Corporate Secretary and General Counsel; Darren Murphy - Vice President of Corporate Services and Chief Financial Officer; Gaëtan Thomas - President and CEO; Sherry Thomson - Vice President of Customer Service, Distribution and Transmission; Sean Granville - Site Vice President and Chief Nuclear Officer*

Hydro flows were the lowest in 10 years, coming in at 95 percent of the long-term (30-year) average. This follows nine years in a row of exceeding the long-term average and comes after generating 132 percent of the long-term average in 2011-12. The impact of this drop in hydro generation can be explained as follows: for the year, there was one terawatt (1,000,000 Megawatts) less generation from the hydro system than last year. That factor alone represented an impact of \$49 million on our bottom line year-over-year.

On November 23, 2012, the Point Lepreau Nuclear Generating Station was once again declared commercially operational. As the foundation of our provincial power supply and the source of electricity for more than one-third of New Brunswick's in-province energy requirements, Point Lepreau is fundamental to achieving our goal of having 75 percent of New Brunswick's electricity coming from clean, renewable or non-emitting sources by 2020.

Point Lepreau's return to service marks the beginning of an expected 27 years of providing safe, reliable and non-emitting power for New Brunswickers and our export customers. Total project capital spending as confirmed by independent auditors in this report was \$1.4 billion.

In early 2013, NB Power presented its case to the New Brunswick Energy and Utilities Board (EUB) relating to the Point Lepreau Deferral Account balance and estimated life of the plant. In March 2013, the EUB accepted the positions presented by NB Power on the size and accuracy of the deferral account at just over a billion dollars – making the total completed cost of Point Lepreau \$2.4 billion - and on the expected life span of the Station at 27 years.

Given all the accomplishments of the past year – and you'll see there were many as you review this Annual Report – the one likely to have the biggest impact on our customers in the long run was the start of our 10-year partnership with Siemens Canada on a made-in-New Brunswick Smart Grid solution to modernize and digitize the electricity grid. This is a world-leading Smart Grid project for Siemens and, as such, Siemens made a commitment to locate a Smart Grid Centre of Competence and a Research and Development Centre here in Fredericton, which was officially opened on January 31st. NB Power is very proud that Siemens chose to partner with us, as many utilities around the world are interested in this unique Smart Grid solution, which is being engineered, architected, and eventually delivered right here in New Brunswick.

In closing, I want to congratulate all of our staff for their contributions to the success of the past year as outlined in this report. We run a very complex business and our customers rely on us 24/7, 365 days of the year. Our staff excels in meeting customer expectations for reliable electricity. I am so proud of the excellent progress we made this year as a company and look forward to our continued shift to a leaner, greener and more efficient organization in the years to come. We will continue to provide safe and reliable service to our customers while working daily to keep our rates low and stable into the future.

Gaëtan Thomas  
President and Chief Executive Officer

# The Year in Review

## Siemens Smart Grid Partnership

In July 2012, the NB Power Board of Directors and executive announced the beginning of a Smart Grid project with Siemens Canada to modernize the New Brunswick electrical grid.

Smart Grid will give NB Power more information about how customers use electricity, and that information will help us operate more efficiently. It will also provide customers with greater control over their electricity use. This will change our relationship with residential and business customers, and will put them at the center of our system.

In January, NB Power and Siemens announced the official opening of the Siemens Canada Smart Grid Centre of Competence. The facility, located in Fredericton's Knowledge Park, will also contain a Research and Development Centre. Siemens Canada is creating new scientific and technical jobs to support the design and roll-out of Smart Grid software.

The Smart Grid technology created as a result of this partnership will allow us to better understand our customer's usage in real time, and by working with customers, the opportunity exists to reshape the demand on NB Power's electrical system.

## Nuclear

The Point Lepreau Generating Station was declared commercially operational in November 2012 after undergoing a complete maintenance overhaul.

Point Lepreau is a major component of the assets that contribute to the provincial goal of having as much as 75 percent of the electricity used in New Brunswick coming from clean, renewable or non-emitting sources by 2020. The 660 megawatt nuclear generating station is a base load contributor to the New Brunswick electrical grid, producing enough electricity to power more than 333,000 homes per year for the next 25 to 30 years.

The newly refurbished facility is a foundational piece of our domestic energy supply and our export sales and provides rate stability and the financial flexibility to begin reducing debt. The complete refurbishment of the Point Lepreau Generating Station positions NB Power as a utility with a world-class nuclear facility and a highly skilled workforce.

## EUB Ruling on the Point Lepreau Generating Station Deferral Account and estimated life

Following the completion of the refurbishment project, NB Power presented its case to the New Brunswick Energy and Utilities Board (EUB) on matters relating to the Point Lepreau Generating Station Deferral Account balance and estimated life.

In March 2013, The New Brunswick Energy and Utilities Board ruled in NB Power's favour on matters relating to the Point Lepreau Generating Station Deferral Account and estimated life. The Board accepted the positions presented by NB Power on the size and accuracy of the Deferral Account and on the expected life span of the station.

The Board has stated previously that matters relating to rates will now be reviewed. Heading into the next hearing, NB Power is confident that the current rate forecast it has set out is adequate to recover the Deferral Account balance and that future rate increases will largely mirror cost-of-living increases in the provincial economy.

## Energy Transformation

NB Power's goal is to become a leaner, more efficient, more productive and more profitable utility. One of the ways in which we've been working to meet our goal has been through Energy Transformation, a program that was launched in 2011 to help find efficiencies in the organization. Our focus has been to introduce a more disciplined management approach by identifying opportunities to improve efficiencies across the Corporation in order to keep rates low and stable for our customers. As of March 31, 2013, we have eliminated more than 300 positions over three years and implemented significant wage restraint, including zero percent on some of our biggest contracts and no increases for our non-union staff.

Through Energy Transformation, we have gained better tools with which to manage our processes, expanded employee coaching and training, and experienced a more fulfilling interaction with customers. We have also brought the definition of roles and responsibilities into sharper focus and we have implemented more stringent performance measures.

As part of the Energy Transformation program and an extensive province-wide review of all our operations work, NB Power announced the relocation of operations staff from the Shediac and Sackville operating centres to the Bouctouche and Moncton centres. The goal is to improve efficiency and productivity and save time and money by relocating staff to centres that are closer to where they perform most of their work.

Relocating staff to centres that are closer to the distribution of their work will result in savings while ensuring quality of service. NB Power is making changes like this around the province to better match the size and location of crews with recent changes to work requirements generated by the shifting demographics of the province, particularly in southeastern New Brunswick.

Through Energy Transformation activities such as this, we were able to sustain a three-year rate freeze while continuing to be among the safest and most reliable utilities in North America. This work is ongoing and more efficiencies are planned to ensure we meet our rate commitments to New Brunswickers as we achieve our goal of paying off \$1 billion of debt during the next decade.

*Launching our Smart Grid partnership with Siemens Canada: Ed Barrett – Chairman of the Board; Gaëtan Thomas - President and CEO; Dr. Jan Mrosik - CEO, Siemens Smart Grid; Robert Hardt - President and CEO, Siemens Canada*



## Province-Wide LED Street Light Replacement Program

In October 2012, NB Power announced the Street Light Replacement Program; an ambitious new program to replace approximately 72,000 street lights with more efficient light-emitting diode (LED) lighting. It is the first major component of our strategy to reduce and shift demand for energy.

This program is expected to save the province nearly 27,000,000 kilowatt hours of electricity each year. Work crews began replacing existing high-pressure sodium (HPS) bulbs with LEDs in April 2013. It will take approximately five years to replace all of the province's street lights as part of a balanced schedule of planned maintenance cycles, new installations and strategic change-outs. In the first year alone, we are projected to replace 22,000 street lights in municipalities across the province.

A strong business case for this program was presented as the result of a three-year pilot of LED street lights conducted in 40 communities across the province. That pilot project helped us determine the best lighting options for New Brunswick's needs while forecasting total savings of nearly \$6 million over 20 years. 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.

*LED street lights - Fredericton, New Brunswick*



## Record-Setting Winter Storms

NB Power's first priority is always to restore power safely to customers in New Brunswick as quickly as possible. NB Power continuously monitors provincial weather conditions in order to be prepared to respond to power outage situations as they arise.

In December 2012, our crews restored power to over 64,000 customers in Moncton, Sussex, Woodstock and Fredericton following a series of Christmas-time storms.

The worst storm to hit New Brunswick came during the week of January 31 to February 4, 2013. Winds measured 111 km/h, with 50 percent of the outages occurring in the Rothesay and Sussex areas. During that storm, our Customer Interaction Centers saw a massive increase in customer calls with over 12,000 calls. In addition, over 70,000 customers also made use of our mobile site to report outages in their area. To help our crews turn the lights back on for over 105,000 customers, crews from energy companies in the region, including Quebec, came to New Brunswick to help us with these restorations.

NB Power is a member of the Northeast Mutual Assistance Group (NEMAG). During major weather events such as this storm, requests for assistance in the restoration of electricity are made to and assessed by this group. On October 31, 2012, NB Power responded to one such call.

The Corporation sent approximately 40 distribution and transmission line workers to the United States to assist with restoration efforts in the wake of Hurricane Sandy. Our crews worked hard to safely restore power to customers in areas including Wrentham, Massachusetts and Long Island, New York. The relationships NB Power has through NEMAG are reciprocal and are in place because we need to be able to count on each other when storms like this occur.



*Myles McCurdy, power line technician, removing tree limbs from distribution lines, during a winter storm.*

*Sean Granville, Vice President Nuclear and Chief Nuclear Officer, and Wayne Woodworth, Manager Radiation Protection and Fire Safety, at the Point Lepreau Generating Station*



## Power Generation Initiatives

### Nepisiguit Falls Generating Station Upgrades

The Nepisiguit Falls Generating Station was upgraded over the past year as part of the overall modification and rehabilitation project. The 10.5 Megawatt hydroelectric generating station produces enough electricity to power approximately 30,000 homes in New Brunswick.

Located 30 km south of the City of Bathurst, along the Nepisiguit River, the generating station's forebay dam underwent significant renovations from June – October 2012. As described in and approved through the provincial Environmental Impact Assessment (EIA) process, modifications included concrete repairs, the addition of a modern spillway, a small rubber dam installation, and the replacement of the intake screening system.

During the summer months, the forebay was drained to complete the upgrades. An additional three feet in height was added to the concrete wall surrounding the forebay, which allows for a four-foot rise in water in the head pond.

The newly installed spillway is a smaller rubber dam along the edge of the forebay. This acts as a rubber balloon which is inflated by digital control as opposed to the previous method of manual board installation at the spillway. This method is much safer and more practical for spillway utilization.

The previous intake screening system was constructed of wooden barriers and was not able to support massive quantities of debris. The rehabilitated intake screening system was rebuilt using steel barriers, which are able to support higher volumes of debris and are cleaned out during the summer months.

Other safety upgrades to the generating station included new blocking on the unit transformer vaults to increase safety reliability as well as the installation of a new perimeter fence to help ensure public safety.

Upgrades to the station's switchgear are scheduled to begin in the fall of 2013.

### Grand Falls Generating Station Gorge Hydraulic Assessment

A hydraulic assessment on the Grand Falls gorge was completed in August 2012. This gorge provides the Grand Falls Generating Station with a discharge area when water needs to be released.

The Grand Falls Generating Station discharges approximately 8,000 cubic feet of water per second through the Station at full load in the summer. In August 2012, NB Power completed a hydraulic assessment on the Grand Falls gorge to pinpoint exactly how much the water would rise in the gorge on a typical day and how the gorge would react to a large influx of water.

The hydraulic assessment was performed twice using a different method each time. The first method was done in a controlled and staged manner. Increments of 500 cubic feet of water per second were released every 15 minutes. This method produced a very controlled flooding of the gorge, releasing the water in a fashion that would allow people in the gorge plenty of time to leave safely. Using this method, the gorge went from 0-8,000 cubic square feet of water in four hours, or about 2,000 cubic feet per hour.

The second method that was used involved releasing all of the water at once. That means that the gorge went from 0 to 12,000 cubic feet per second suddenly, as all of the water was released at once. This test allowed us to identify any possible existing danger areas.

The staged method of releasing water was determined to be the most appropriate method as it will give anyone visiting the gorge plenty of time to leave safely. The team plans to ensure that additional alarms are installed so that they can be heard loud and clear from a distance before the water will be released. Plans to mark a safe line around the gorge have also been put in place, to tell visitors what area they should be in when the water is about to be released. These safety measures will be implemented in the coming months to ensure the utmost safety of our community members and tourists.

NB Power remains committed to public safety at the gorge and will continue to work with the community to keep local residents informed of any activity in the area.

## Grand Lake Generating Station Decommissioning Activities

In April 2012, NB Power continued with decommissioning activities at the Grand Lake Generating Station. In less than 12 seconds, the 250-foot smoke stack was taken down in a controlled demolition.

The Grand Lake Generating Station was officially retired after 79 years of service in February of 2010. Built in 1931, the plant was NB Power's first thermal station. The controlled demolition of the stack is part of the ongoing decommissioning activities. NB Power security staff and emergency responders, such as local police and firemen, were on site to ensure the safe perimeter zone was established and adhered to as approximately 200 sticks of dynamite were used to demolish the stack.

As the decommissioning activities are completed, NB Power is committed to restoring the grounds to a public green space in the next year.

## Millbank Generating Station Maintenance Overhaul

The second of the four units of the Millbank Generating Station, near Miramichi, went through its very first overhaul since it was brought online in 1991.

A complex operation of disassembly took place between the months of July and September of 2012. The parts of the unit that are most exposed to heat were replaced in order to make the diesel generator as good as new.

The Millbank Generating Station is a vital part of NB Power's generation capacity. It serves as a backup for wind, nuclear and coal power generation.

## Dalhousie Generating Station Closure

In September 2012, NB Power announced the permanent closure of the Dalhousie Generating Station. Following a thorough review in coordination with the Province of New Brunswick to find options to sustain the Station's operation, it was concluded that the continued operation of the Dalhousie Generating Station is no longer economically viable. The review also included an assessment of potential alternative fuel sources and a search for expressions of interest from new operators.

NB Power's mandate to provide reliable and cost-effective electricity made closing the Dalhousie Generating Station a necessity; however, we were able to close the station with minimal impact on our employees.

Prior to the decommissioning of the site, a full Environmental Impact Assessment will be conducted. During decommissioning, which is expected to take approximately four years, NB Power will continue to pay the Station's full property taxes to the Town of Dalhousie.

The station's remaining 25 staff members will continue to work at the station during the decommissioning period and will gradually be reassigned within the NB Power organization as this work is completed.

*Beechwood Generating Station*



# Projects and Partnerships

## PowerShift Atlantic

PowerShift Atlantic was launched in 2010 as part of the Government of Canada's Clean Energy Fund. It is a collaborative research project led in partnership by NB Power, Natural Resources Canada, Saint John Energy, Maritime Electric, Nova Scotia Power, New Brunswick System Operator, the University of New Brunswick, the Government of New Brunswick and the Government of Prince Edward Island. This project will pilot new technologies that shift energy supply to specific appliances in homes and commercial buildings to optimize wind generation with minimal or no disruption to participating customers.

The project entered its third year in 2012-13 and will run until the fall of 2014. This past fiscal year saw several milestones for the project in New Brunswick. In the fall, NB Power remotely shifted the energy consumption patterns from the electrical loads and devices in two NB Power buildings- Head Office and the Gilbert Street Service Center in Marysville- by integrating an energy management system into the heating and air conditioning systems.

Four pilot projects are currently underway with 675 residential customers and 43 commercial sites connected, amounting to 3.47 MW of connected load. Each pilot project has a unique

technical solution, targeted end uses and an aggregator service provider. Two instances of the Virtual Power Plant created as part of this project, are now up and running- one instance for each system operator involved in the project. Each aggregator is at various stages of establishing connectivity to the Virtual Power Plant and performing controlled testing of end-to-end functionality.

By September 2013, the project is targeted to have approximately 15 MW of controllable load through a combination of commercial and residential customers.

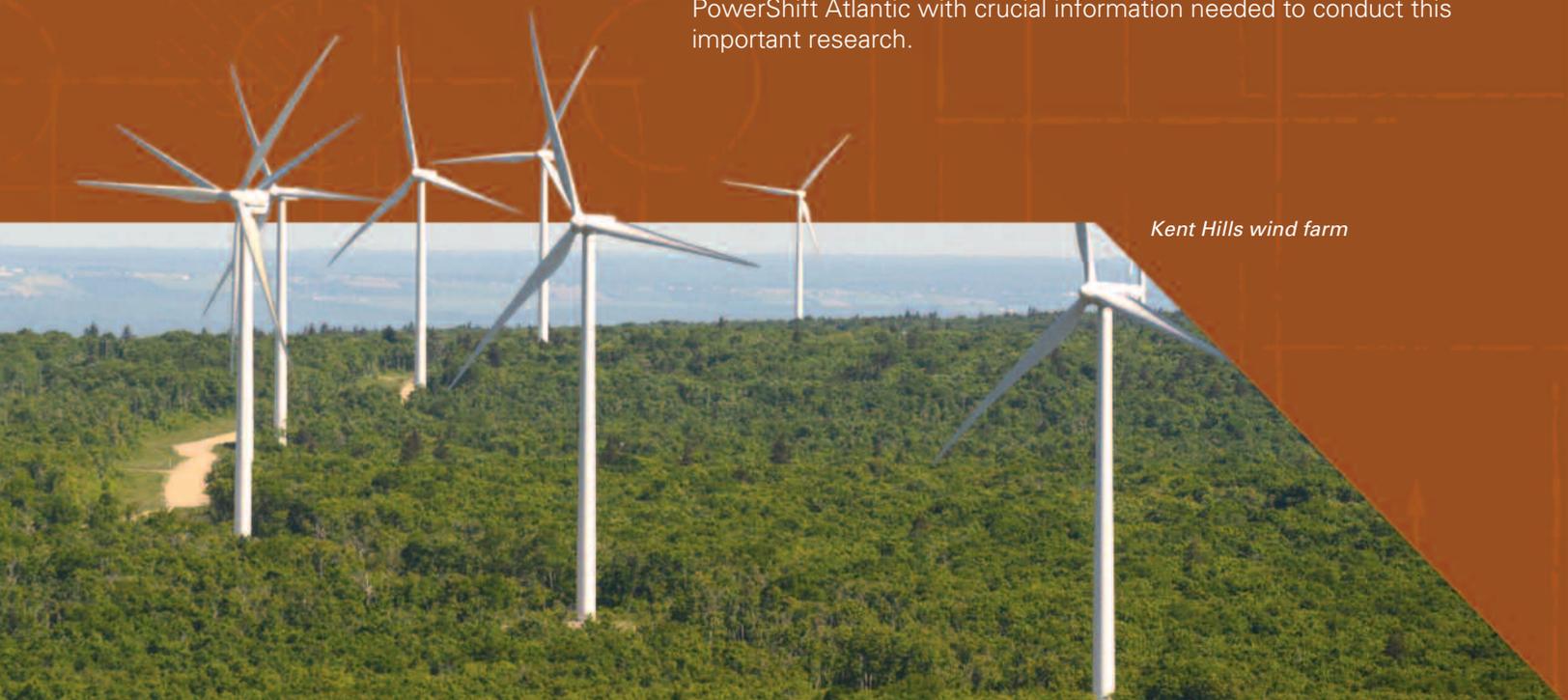
NB Power was the first utility in the world to use load shifting to integrate wind onto the electrical grid. This in turn will allow the Corporation to make more effective use of wind generation to provide clean, emission-free electricity to our customers.

## PowerShift Atlantic - Hot Water Heater Program

In early 2013, PowerShift Atlantic launched its first major residential customer project. The team began recruiting customers who have older, 60 gallon NB Power rental hot water heaters from the Greater Fredericton area for this project.

NB Power will replace these hot water heaters with a new 60-gallon hot water heater equipped with internal temperature sensors and a communications device that connects it to the Internet. The communications device monitors the temperature sensor and allows NB Power to remotely adjust when the water is heated based on wind patterns. If the wind is not blowing, the temperature is lowered and if it is blowing, the temperature is raised.

The majority of recruitment at this stage is being done through outbound call campaigns. The information collected from the communications devices in these new hot water heaters will provide PowerShift Atlantic with crucial information needed to conduct this important research.



*Kent Hills wind farm*

## National Recognition for Progress in Wind Energy

Last fall, NB Power and PowerShift Atlantic were nationally recognized with the prestigious Canadian Wind Energy Association's RJ Templin Award for the advancements made in research and development, and progress to better store and utilize wind energy in Canada. NB Power accepted the award on behalf of all the partners in the PowerShift Atlantic team.

The PowerShift Atlantic partnership has advanced our understanding of how to maximize this abundant renewable energy source for our customers. NB Power is leading the way for New Brunswickers to access 40 percent renewable energy by 2020. Based on these efforts and the NB Power and Siemens Smart Grid initiative to reduce and shift demand through investments in technology and education, New Brunswickers can look forward to a future powered by innovation and sustainable energy.

With 294 MW of wind generation capacity, New Brunswick is a leader in Canada in integrating wind energy onto our electrical system. NB Power has secured long-term wind generation contracts at competitive market rates, providing clean, emission-free electricity with stability against the volatility of fossil fuel generated electricity.

The intermittent nature of wind energy requires utilities to provide load balancing using other forms of generation. An additional 208 MW of wind generation is within our regional balancing area, which includes Prince Edward Island and northern Maine. That brings the total wind energy to 502 MW, which NB Power is, by agreement, required to balance with its existing generation fleet. For a relatively small power system (with seasonal loads that drop below 1,000 MW), New Brunswick has one of North America's highest proportions of wind generation capacity on its system.

## Edmundston Energy Partnership

In April 2012, NB Power and Edmundston Energy entered into a partnership that allows for the expansion of Edmundston Energy's customer boundary. This partnership will also include a 20-year power purchase agreement between the two utilities.

Edmundston Energy was founded in 1911 and now serves over 5,800 residential and commercial clients. It is the only municipal utility in New Brunswick to generate its own electricity with the help of two hydroelectric dams.

As part of this agreement, NB Power will absorb 100 percent of Edmundston Energy's generation output from the Madawaska and Green River hydro generating systems. Edmundston Energy will also take on new customers in the northern region who were formerly customers of NB Power. In July, Edmundston Energy began providing electricity to those customers. NB Power will provide hot water heater services to all customers in the Edmundston area as part of this agreement.

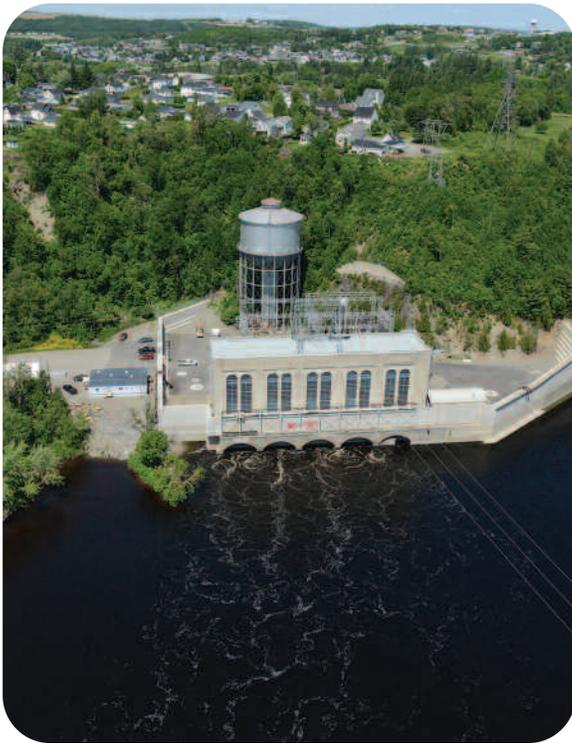
This partnership plays an important role for NB Power in further diversifying our generation mix to include more renewable energy. It also assists us in achieving our renewable targets, contributes to lower emissions and supports our vision of sustainability by meeting the needs of today while ensuring those of the future.

## Saint John Energy Partnership

During this past fiscal year, NB Power entered into a 10-year agreement with Saint John Energy (SJE).

With this new agreement, NB Power will be the sole supplier of electricity to the 35,000 clients of this local distributor which serves customers within the limits of the city of Saint John.

An important component of the agreement is the new way demand charges are calculated, a change that will allow Saint John Energy to save approximately \$1.4 million annually. In turn, SJE will invest an equivalent amount in RASD initiatives.



*Grand Falls Generating Station*

# Generation

NB Power boasts one of North America's most diverse generation systems, consisting of 12 hydro, coal, oil and diesel-powered stations. The network of conventional generating stations has an installed net capacity of 2,853 MW comprised of 1,439 MW thermal, 889 MW hydro and 525 MW combustion turbine.

Generation employees monitor and maintain these stations to ensure safe, reliable and efficient operations. NB Power invests in the renewal work to prolong the life cycle of the stations.

NB Power exports and imports energy with neighbouring markets to secure short and long-term deals for selling NB Power's excess energy, take advantage of peak prices in the export market and buy energy at the lowest possible cost. The Energy Marketing Desk is also responsible for monitoring the financial, natural gas and hedging markets.

# Transmission

NB Power's Transmission system is interconnected with other similar North American systems, including those in Quebec, Maine, Nova Scotia and Prince Edward Island.

The NB Power transmission network is operated 24 hours a day, seven days a week, and 365 days a year from the Energy Control Centre in Fredericton.

NB Power's Transmission employees are focused on safely and efficiently operating and maintaining 46 terminals and switchyards that are interconnected by over 6,849 km of transmission lines, ranging in voltage from 69 kV to 345 kV.

Transmission employees are constantly performing regular maintenance work on the system in order to ensure that service is not interrupted to customers. These employees also work with customers to address inquiries about outages, right-of-ways and tree trimming activities.



*345 KV transmission towers in Keswick, NB*

They also manage vegetation growth on and along transmission lines. More than half of power outages in Canada occur when vegetation has some kind of contact with power lines. Trained arborists and forest technicians use mechanical and hand cutting, mowing, pruning, and Health Canada approved herbicides to reduce troublesome vegetation.

# Distribution and Customer Service

The power distribution system throughout the province is operated and maintained by the NB Power Distribution and Customer Service employees. These employees provide service to 394,585 direct and indirect customers across the province.

New Brunswick's distribution system includes a centralized distribution control centre, approximately 237 distribution, wholesale and industrial substations and more than 20,000 kilometres of distribution lines supported by approximately 590,000 poles.

Distribution employees are focused on optimizing assets and ensuring employees are working safely and efficiently to deliver the best quality service to the customer at the lowest possible cost. Distribution employees design, construct, operate and maintain the distribution substations, lines, facilities and equipment.

With a focus on providing excellent customer service, these employees work directly with our customers on account management and energy counselling. NB Power is working to have greater exposure at public events such as home shows, contractor safety days and festivals throughout the province, and to capitalize on such opportunities to interact with customers.

NB Power is working with Siemens to develop the Smart Grid, which in the future will enable customers to better control and manage their own energy use. Preparations for demonstration projects for Smart Grid were rolled out this year and customer service representatives have recruited customers to participate in the PowerShift Atlantic hot water heater program. Customer service representatives will be recruiting customers to participate in other pilot programs in 2013-14 such as residential and commercial electric thermal ETS storage units program. ETS technology converts off-peak electricity to heat and storing this low cost heat for use in satisfying comfort requirements of a home or business 24 hours a day. This is part of our overall reduce and shift demand roadmap.

*Crews conducting regular maintenance in Bouctouche, NB.*





*Transmission lines near Bathurst, New Brunswick*

# Financials 2012-13

## Table of Contents

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## Management's Discussion and Analysis

### Introduction

Management's discussion and analysis reviews the financial and operational results for the fiscal year ended March 31, 2013, relative to the previous year. This section should be read in conjunction with the Combined Financial Statements and the accompanying notes.

### Companies Included in the Combined Financial Statements

The Combined Financial Statements include the accounts of New Brunswick Power Holding Corporation and those of its Operating Companies:

- New Brunswick Power Generation Corporation (Genco), which includes
  - o New Brunswick Power Coleson Cove Corporation (Colesonco), and
  - o Mine Reclamation Inc. (MRI) (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).

These are collectively referred to as NB Power, NB Power Group, the Group or the Corporation.

### Contents of Management's Discussion and Analysis

Topic	Purpose
Financial and operating performance factors	Identifies and explains the effect of factors contributing to variability in earnings.
Financial performance summary	Provides a summary of the year's key financial results.
Significant events	Highlights significant events impacting the balance sheet and earnings results in the past year.
Year-over-year financial results	Explains the financial results for 2012-13 including a year-over-year variance analysis.
Regulatory deferrals	Explains the impact of the regulatory deferrals.
Financial instruments	Explains how financial instruments impact financial results.
Liquidity and capital resources	Identifies and explains changes to liquidity and capital resources.
Critical accounting policies	Describes changes in accounting policies and their impact on the combined financial statements.
Significant accounting estimates	Explains the estimates made and how they impact earnings.

## Financial and Operating Performance Factors

### Introduction

This explains why the NB Power Group earnings before taxes are subject to significant variability under normal operations.

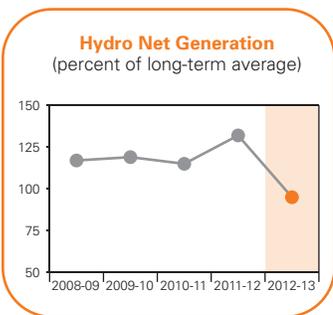
## Impact of Financial and Operating Performance Factors

There are many factors that impact earnings before taxes that are outside the control of management. These factors result in significant swings in year-to-year results because they affect the cost of generation or price competitiveness in export markets.

### Factors that Affect Financial and Operating Performance

These are the major factors that have historically affected NB Power's variability in earnings. This table explains how each factor can affect the variability of revenue and expenses.

Factor	Description							
Purchased power contracts based on natural gas	<p>Represents</p> <ul style="list-style-type: none"> <li>• approximately 10 to 15 percent of total supply, and</li> <li>• approximately 15 to 20 percent of the total fuel and purchased power costs.</li> </ul>	As a portion of the price of NB Power's purchased power contracts is based on natural gas prices, the Group manages this exposure by entering into forward purchase contracts for natural gas.						
Short-term energy purchases	<p>Represents</p> <ul style="list-style-type: none"> <li>• approximately 40 to 45 percent of total supply requirements, and</li> <li>• approximately 55 to 60 percent of total fuel and purchased power costs.</li> </ul>	Depending on world oil prices, lower cost energy is purchased to displace internal oil-fired generation. Typically NB Power enters into forward purchase contracts for energy to supply forecasted requirements.						
Coal/petcoke based generation	<p>Represents</p> <ul style="list-style-type: none"> <li>• approximately 15 to 20 percent of total supply, and</li> <li>• approximately 10 to 15 percent of the fuel and purchased power costs</li> </ul> <p>Coal is normally purchased through tendered contracts of one to two year terms. As a mixture of coal types are blended and burned, coal is procured from a number of counterparties, generally at firm fixed prices.</p>	Petcoke is also normally purchased through tendered contracts of one- to two-year terms. A floating price component is typically built into petcoke contracts in which the purchase price is reflective of an index price at the time the petcoke is delivered.						
Hydro-based generation	<p>Represents NB Power's lowest-cost fuel for generating electricity. It typically accounts for 15 to 20 percent of total production. The table below describes how hydro flows can increase or decrease generation costs.</p>	<table border="1"> <thead> <tr> <th>If hydro flows are</th> <th>then NB Power</th> </tr> </thead> <tbody> <tr> <td>below anticipated levels</td> <td>uses other more expensive fuel to make up the shortfall and increases its generation costs</td> </tr> <tr> <td>higher than anticipated</td> <td>reduces the use of expensive fuels and decreases its generation costs</td> </tr> </tbody> </table> <p>Hydro net generation as a percentage of the long-term average over the past ten years has ranged from 95 percent to 143 percent.</p>	If hydro flows are	then NB Power	below anticipated levels	uses other more expensive fuel to make up the shortfall and increases its generation costs	higher than anticipated	reduces the use of expensive fuels and decreases its generation costs
If hydro flows are	then NB Power							
below anticipated levels	uses other more expensive fuel to make up the shortfall and increases its generation costs							
higher than anticipated	reduces the use of expensive fuels and decreases its generation costs							



Factor	Description													
<p>Out-of-province margins</p>	<p>The Group is a price-taker in regional energy markets. Market prices in the surrounding regions are typically driven by the cost of natural gas generation.</p> <p>In the normal course of business, the lowest cost or must-take energy is directed to in-province use and any remaining energy is available for out-of-province sales.</p> <p>Subject to operating conditions, the Group enters into forward out-of-province sales contracts which enable more predictable out-of-province margins.</p>													
<p>Heavy fuel oil-based generation</p> <div data-bbox="94 640 430 955" style="border: 1px solid orange; border-radius: 15px; padding: 10px; margin: 10px 0;"> <p style="text-align: center;"><b>Heavy Fuel Oil Price</b> (\$/US/bbl average)</p> <table border="1" style="display: none;"> <caption>Heavy Fuel Oil Price Data (Estimated)</caption> <thead> <tr> <th>Year</th> <th>Price (\$/US/bbl average)</th> </tr> </thead> <tbody> <tr> <td>2008-09</td> <td>65</td> </tr> <tr> <td>2009-10</td> <td>62</td> </tr> <tr> <td>2010-11</td> <td>75</td> </tr> <tr> <td>2011-12</td> <td>115</td> </tr> <tr> <td>2012-13</td> <td>83</td> </tr> </tbody> </table> </div>	Year	Price (\$/US/bbl average)	2008-09	65	2009-10	62	2010-11	75	2011-12	115	2012-13	83	<p>Heavy fuel oil subject to market price fluctuations represent approximately 1 to 5 percent of total supply, and 5 to 10 percent of fuel and purchased power costs.</p> <p>During 2012-13 there was market volatility with heavy fuel oil prices with a high of over \$115/bbl (USD) and a low of just under \$83/bbl (USD).</p> <p>To minimize short to medium term heavy fuel oil price exposure, the Group typically enters into forward purchase contracts for its forecasted in-province and firm export heavy fuel oil requirements.</p>	
Year	Price (\$/US/bbl average)													
2008-09	65													
2009-10	62													
2010-11	75													
2011-12	115													
2012-13	83													
<p>Exchange rates</p>	<p>NB Power is exposed to foreign exchange risk when its purchases of fuel and power in US dollars do not offset the revenue received in US dollars.</p> <p>There was slight volatility in the Canadian dollar during the past year. The value of the Canadian dollar compared to the US dollar fluctuated between \$0.96 and \$1.03 during the year.</p> <p>NB Power typically enters into forward purchase contracts for US dollar requirements net of expected US dollar revenue.</p>													
<p>Nuclear-based generation</p>	<p>In previous years, nuclear generation represented up to 25 percent of total production through the Point Lepreau Generating Station, of which effective operation is essential for NB Power's positive financial performance.</p> <p>On March 28, 2008, the Point Lepreau Generating Station (PLGS) was taken out of service for refurbishment. The station returned to service on November 23, 2012.</p> <p>Represents</p> <ul style="list-style-type: none"> <li>• approximately 5 to 10 percent of total supply requirements, and</li> <li>• approximately 0 to 5 percent of total fuel and purchased power costs.</li> </ul>													

## Financial Performance

### Introduction

This provides an overview of NB Power Group's financial performance for the year.

### Key Measures of Financial Performance

Financial Performance (in millions)	2012-13	2011-12
Net earnings (loss)	\$ 69	\$ 173
Cash flow from operations	\$ 263	\$ 388
Net capital expenditures	\$ 296	\$ 279
Total debt at end of year	\$ 4,714	\$ 4,533
Net increase in debt	\$ 181	\$ 83
Expenditures (revenue) deferred for regulatory purposes <sup>1</sup>	\$ 86	\$ 180

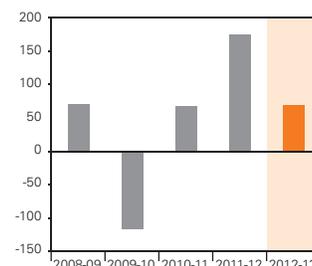
<sup>1</sup> Expenses incurred in the current year related to the Point Lepreau Generating Station refurbishment (period costs and additional energy costs) are deferred and will be collected in future rates.

### Financial Ratios and Percentages

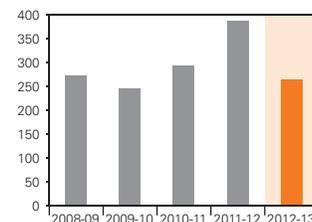
Financial Ratios and Percentages	2012-13	2011-12
Operating margin	10%	18%
Cash flow from operations/capital expenditures	0.89	1.39
Cash flow from operations/total debt	0.06	0.09
Capital expenditures/net book value of property, plant and equipment	7%	7%
Percent of debt in capital structure	90%	91%
Interest coverage ratio <sup>2</sup>	1.03	1.59

<sup>2</sup> Interest coverage ratio is defined as the adjusted earnings before interest and taxes (earnings before interest and taxes net of debt portfolio management fee and investment income) divided by adjusted finance charges (finance charges net of interest income, realized foreign exchange, debt portfolio management fee, interest during construction, debenture discount amortization and deferred interest amortization).

**Net Earnings (Loss)**  
(in millions of dollars)



**Cash Flow from Operations**  
(in millions of dollars)



## Highlights

NB Power's net earnings were \$69 million for the year ended March 31, 2013, compared to \$173 million in the prior year. Earnings before special payments in lieu of income taxes for the year ended March 31, 2013, were \$102 million compared to the prior year's income before special payments in lieu of income taxes of \$231 million. The significant factors that contributed to the \$129 million year-over-year variance were:

- a decrease in gross margin net of regulatory deferrals of \$123 million mainly due to:
  - o Lepreau's reduced capacity factor following its return to commercial operations due to the requirement for boiler water chemistry adjustment and fuelling challenges (in the prior year the equivalent costs for this replacement energy were deferred)
  - o lower hydro flows in 2012-13 at 95 percent of the long-term average compared to 132 percent of the long-term average in 2011-12
  - o higher generating costs due to renewable energy purchases, natural gas curtailments and unplanned and extended outages at Belledune and higher volumes partially offset by:
    - o higher in-province revenue due to colder weather partially offset by decreased weather adjusted residential and industrial transmission load
    - o higher out-of-province revenue due to higher export prices and volumes
- an increase in operations maintenance and administration expense of \$37 million in 2012-13 (see Year-over-Year Results – Expense section for more detail)
- an increase in finance charges of \$5 million (see Year-over-Year Results Expense section for more details)
  - partially offset by:
- a decrease in amortization and decommissioning expense of \$33 million in 2012-13 (see Year-over-Year Results – Expense section for more detail)

Non-capital costs of \$86 million were incurred related to the Point Lepreau Generating Station refurbishment project; however, these costs were deferred in accordance with legislation, (no

impact on the current year's earnings) and will be amortized over the life of the refurbished generating station.

In 2012-13, the NB Power Group's debt increased by \$181 million. The increase was mainly due to financing requirements for the Point Lepreau Generating Station refurbishment project and the related deferred costs (see Liquidity and Capital Resources section for more detail).

## Significant Events

The following significant events impacted the NB Power Group's financial results.

### Point Lepreau Generating Station Refurbishment Project

On November 23, 2012, PLGS returned to commercial operations, marking what is projected to be the beginning of 27 years of providing safe, reliable and non-emitting power for New Brunswickers and our export customers. Total project capital spending was \$1.4 billion.

In early 2013, NB Power presented its case to the New Brunswick Energy and Utilities Board (EUB) over a five-day period on matters relating to the PLGS Deferral Account Balance and Estimated Life. During the hearings, NB Power presented a case based on evidence submitted and explained by various internal and external witnesses. That included foundational evidence for NB Power's estimate of the expected 27-year life of the refurbished plant. It also included internal and expert evidence confirming that NB Power has taken many measures to ensure incurred costs were accurate and appropriately allocated and that accumulated costs included in the PLGS deferral account were necessary and recorded in compliance with regulations. In March 2013, the EUB ruled in NB Power's favour on matters relating to the PLGS Deferral Account Balance and Estimated Life. The Board accepted the positions presented by NB Power on the size and accuracy of the deferral account and on the expected life span of the Station.

The EUB will schedule hearings at a later date to cover the appropriate financing and amortizing methodology to be used to determine the amount to be recovered and the reflection of this recovery on NB Power's rate. NB Power is confident that the current 10-year forecast of modest two percent increases it has set out is adequate to recover the costs of refurbishment.

### Rate Freeze

In January 2011, the NB Power Board of Directors received the Shareholder's mandate letter which included a number of specific directives, one of which directed NB Power to implement a three-year rate freeze ending September 2013. As a result of this directive, the hedging program was extended from purchasing 18 months forward to 36 months forward. This has assisted with mitigating risk related to fuel and purchased power price volatility over the three-year rate freeze.

## International Financial Reporting Standards (IFRS)

During the year, the Accounting Standards Board (AcSB) allowed companies with rate regulated activities to defer their implementation of IFRS. The NB Power Group met the requirements for the deferral and has elected to defer the transition to IFRS until April 1, 2015. That is consistent with what other government business enterprise rate regulated utilities are doing.

## Thermal Decommissioning Liabilities

The Dalhousie Generating Station commenced decommissioning activities during the year with expenditures of \$3 million which drew down the liability (no income statement impact).

## Nuclear Decommissioning Liabilities

The nuclear decommissioning liability was revised to reflect the change in service life of the Nuclear Generating Station asset from 25 to 27 years. As a result the liability increased by \$25 million. Over the life of the plant, the increased amortization will be offset by reduced accretion expense.

## Material Damage and Delay in Start-up Legal Action

In August 2011, Lloyds Underwriting denied insurance claims by NB Power Nuclear and Atomic Energy of Canada Limited, stating that the claims did not fall within the coverage afforded each company's Construction All Risk policy. In February 2012, NB Power Nuclear and Atomic Energy of Canada Limited each commenced separate legal actions against Lloyds Underwriting, claiming coverage under each company's policy related to damage incurred and delays associated with the calandria tube activities. NB Power Nuclear has claimed approximately \$65 million under the material damage section of the policy and \$255 million under the delay in start-up section.

## Continuous Process Improvement

The New Brunswick Energy Blueprint called for NB Power to implement costs reductions and to operate a leaner Crown utility. In 2011-12, NB Power engaged a firm to find efficiencies within the Group that will drive costs savings. The objective of this 36-week long initiative, known as Energy Transformation, was to realize sustainable cost savings through productivity and process improvements. At the end of fiscal 2012-13, \$19 million in sustainable cost savings has been realized.

## Reintegration

The Energy Blueprint calls for the amalgamation of the Group 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. This reintegration, which is scheduled to be complete by October 1, 2013, will reduce costs and allow operating efficiencies, which are necessary for the company to address its debt issues in a very strategic and focused manner.

## Reduce and Shift Demand (RASD)

NB Power has entered into a multi-year agreement with Siemens Canada to integrate Smart Grid technology into the Province's electrical system and create a Centre of Competence based in Fredericton. This agreement will allow NB Power to continue to offer its customers stable rates by modernizing the Provincial electrical system.

Recognizing the New Brunswick Energy Blueprint directive that *"smart grid initiatives be measured in ratepayer benefits and economic activity,"* NB Power and Siemens Canada will work together to accelerate the benefits of reducing and shifting demand while ensuring Siemens's global best practices are part of the implementation.

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 diode lighting. This program is expected to save 27,000,000 kilowatt hours of electricity annually. It is the first major component of the Reduce and Shift Demand strategy aimed at keeping rates low and stable for customers by minimizing the need to build new electricity generation facilities in the future.

## Edmundston Energy Agreement

On April 16, 2012, Edmundston Energy and NB Power announced that they have entered into an agreement that 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 percent 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 percent of Edmundston Energy's needs for the next 20 years.

## Year-Over-Year Results - Revenues

### Introduction

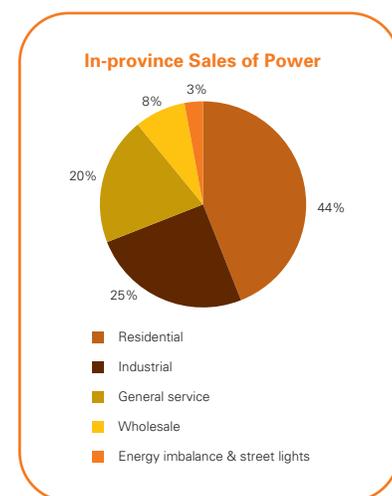
This provides an overview of NB Power's revenues for the year and compares them with previous years.

### Revenue Overview

Revenue (in millions)	2012-13	2011-12
Sales of power		
In-province	\$ 1,282	\$ 1,266
Out-of-province	254	225
Transmission	94	90
Miscellaneous	67	65
Total revenues	\$ 1,697	\$ 1,646
Percent increase (decrease) year-over-year	3%	0%

### In-province Sales of Power

In-province sales of power (in millions)	2012-13	2011-12
Residential	\$ 564	\$ 569
Industrial	321	306
General service	257	271
Wholesale	103	96
Street lights and energy imbalance	37	24
Total	\$ 1,282	\$ 1,266
Percent increase (decrease) year-over-year	1%	2%
GWh	13,163	12,932
Percent increase (decrease) year-over-year	2%	2%



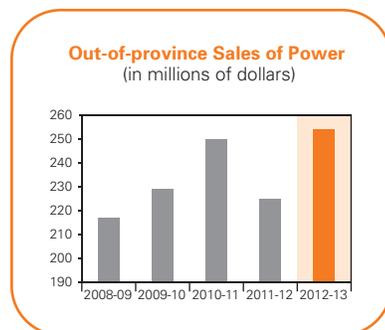
### Major contributors to year-over-year in-province sales variance

In-province sales of power totaled \$1,282 million in 2012-13, representing a \$16 million or one percent increase compared to 2011-12. The main contributors to the year-over-year variance were as follows:

Revenues	By this amount	Due to
<b>Contributing factors</b> increased	\$40 million	colder weather, large industrial renewable energy purchase program sales (LIREPP), and market settlements related to system scheduling
<b>Offsetting factors</b> (decreased )	(\$24 million)	decreased residential load and commissioning energy settlement

## Out-of-province Sales of Power

Out-of-province sales of power (in millions)	2012-13	2011-12
Revenue	\$ 254	\$ 225
Percent increase (decrease)	13%	(10%)
GWh	3,525	3,132
Percent increase (decrease) year-over-year	13%	5%



### Major contributors to year-over-year out-of-province sales variance

In 2012-13, out-of-province sales of power increased by \$29 million or 13 percent compared to 2011-12. The main contributors to the year-over-year variance were:

Revenues	By this amount	Due to
<b>Contributing factors</b>		
increased	\$21 million	higher market prices
	\$8 million	higher volumes mainly due to new contracts to sell energy during the year partially offset by loss of a large contract

## Miscellaneous Revenue

Normally miscellaneous revenue consists primarily of:

- hot water heater rentals
- pole attachment fees
- point-to-point tariff
- generation by-products

### Miscellaneous revenue results

Miscellaneous revenue was \$67 million in 2012-13, an increase of \$2 million compared to 2011-12. This increase was due mainly to a one-time gain on sale of distribution assets to a third party, partially offset by the sale of a dragline in prior year from the former NB Coal company.

## Transmission Revenue

### Transmission revenue

- represents recoveries from the System Operator for the transmission revenue requirement
- largely offset by transmission expenses paid to the System Operator for:
  - o network service
  - o connection fees
  - o point-to-point tariff
  - o scheduling services

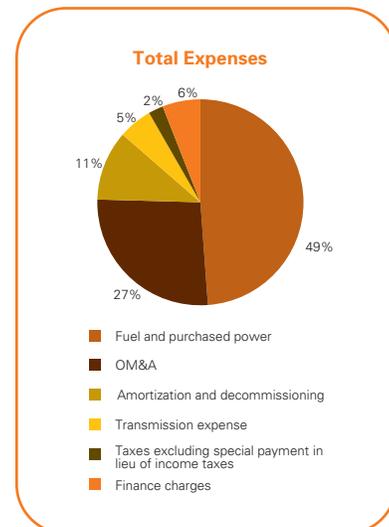
## Year-Over-Year Results - Expenses

### Introduction

This provides an overview of NB Power's expenses for the year and compares them with previous years.

### Expenses Overview

Expenses (in millions)	2012-13		2011-12	
	\$	%	\$	%
Fuel and purchased power	\$819	48%	\$742	45%
Transmission	89	5	87	5
Operations, maintenance and administration	446	26	409	25
Amortization and decommissioning	184	11	217	13
Taxes	39	2	40	2
Finance charges	100	6	95	6
Special payments in lieu of income taxes	33	2	58	4
<b>Total</b>	<b>\$1,710</b>	<b>100%</b>	<b>\$1,648</b>	<b>100%</b>
Percent increase (decrease) year-over-year		4%		(7%)



### Major contributors to year-over-year expense variance

Total expenses increased by \$62 million to \$1,710 million in 2012-13. The variances are as follows:

### Fuel and Purchased Power

Fuel and Purchased Power (in millions)	2012-13		2011-12	
	\$	%	\$	%
Hydro	0	0	0	0
Nuclear	9	0	0	0
Thermal	156	20	185	25
Purchases	654	80	557	75
<b>Total</b>	<b>\$819</b>	<b>100%</b>	<b>\$742</b>	<b>100%</b>
Percent increase (decrease) year-over-year		10%		(15%)

**Major contributors to year-over-year fuel and purchased power expense variance**

The cost of fuel and purchased power was \$819 million in 2012-13, an increase of \$77 million or 10 percent from 2011-12.

The year-over-year increase in fuel and purchased power costs was mainly attributable to:

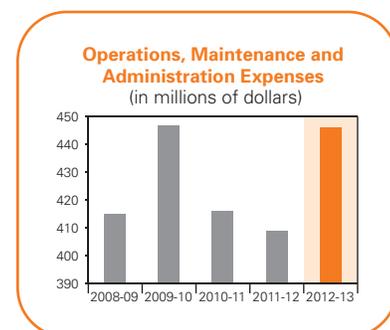
Fuel and purchased power expenses	By this amount	Due to
<b>Contributing factors</b>		
increased	\$49 million	lower hydro flows
increased	\$47 million	higher generating costs mainly due to unplanned and extended outages at Belledune therefore had to run Coleson Cove, natural gas curtailments in current year, and LIREPP purchases
increased	\$45 million	higher overall volumes required
<b>Offsetting factors</b>		
(decreased)	(\$64 million)	lower generating costs mainly due to return to service of PLGS in November <sup>3</sup>

<sup>3</sup> Generation costs were impacted by Lepreau's reduced capacity factor following its return to commercial operations due to the requirement for boiler water chemistry adjustment and fuelling challenges. In the prior year the equivalent costs for this replacement energy were deferred.

**Operations, Maintenance and Administration**

The table below shows the operations, maintenance and administration expenses compared with previous year.

Operations, maintenance and administration (in millions)	2012-13	2011-12
Operations, maintenance and administration expenses	\$ 446	\$ 409
Percent increase (decrease) year-over-year	9%	(2%)



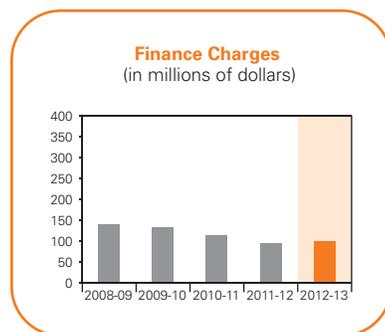
**Major contributors to year-over-year operations, maintenance and administration variance**

Operations, maintenance and administration costs were \$446 million in 2012-13, a \$37 million or nine percent increase compared to 2011-12. The significant changes were:

OM and A	By this amount	Due to
<b>Contributing factors</b>		
increased	\$15 million	Higher labour, hired services and materials at the Point Lepreau Generating station related to restart activities, boiler feed water chemistry issues, and fuel channel end plug issues.
increased	\$11 million	higher hired services and materials related to the outages at the Coleson Cove and Belledune generating stations in current year
increased	\$9 million	higher future employee benefits mainly due to a lower return on plan assets and a lower discount rate
increased	\$4 million	higher labour due to System Operator staff returning to NB Power Transmission during the year
<b>Offsetting factors</b>		
(decreased)	(\$6 million)	lower labour due to savings from efficiencies and more labour allocated to capital in current year

## Finance Charges

Finance Charges (in millions)	2012-13	2011-12
Finance charges	\$ 100	\$ 95
Percent increase (decrease) year-over-year	5%	(17%)



### Contributing factors to changes in finance charges

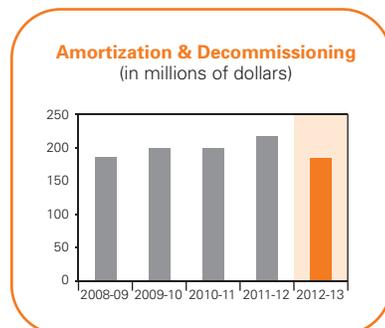
Finance charges were \$100 million in 2012-13 a \$5 million or five percent increase from 2011-12. This was mainly due to:

Finance charges	By this amount	Due to
<b>Contributing factors</b>		
increased	\$20 million	higher interest charges mainly related to less interest capitalized in current year due to return to service of PLGS in November 2012
<b>Offsetting factors</b>		
(decreased)	(\$4 million)	lower long-term interest rates
(decreased)	(\$11 million)	lower debt levels outstanding <sup>4</sup>

<sup>4</sup> Although debt has actually increased since March 2012, the increase is related to capital projects in progress and the deferral. Total debt (other than debt associated with Lepreau capital projects and the deferral) has been reduced since March 2012 mainly due to positive cash flow from operations.

## Amortization and Decommissioning

Amortization and Decommissioning (in millions)	2012-13	2011-12
Amortization and decommissioning	\$ 184	\$ 217
Percent (decrease) increase year-over-year	(15%)	9%



### Contributing factors to changes in amortization and decommissioning

Amortization and decommissioning costs were \$184 million in 2012-13, a \$33 million or 15 percent decrease compared to 2011-12. The significant changes were:

Amortization and decommissioning expenses	By this amount	Due to
<b>Contributing factors</b>		
(decreased)	(\$22 million)	Amortization completed at the Dalhousie Generating Station during 2011-12 and adjustments to decommissioning during the year
(decreased)	(\$21 million)	adjustment to the decommissioning at Grand Lake Generating Station during 2011-12 and 2012-13
(decreased)	(\$10 million)	adjustment to asset lives as a result of a new amortization study in 2012-13
<b>Offsetting factors</b>		
increased	\$21 million	increased amortization at PLGS as the Station returned to service in November 2012

## Special Payments in Lieu of Income Taxes

The NB Power Group is required to make special payments in lieu of income taxes to New Brunswick Electric Finance Corporation (Electric Finance) or recover taxes previously paid through the application of loss carry-backs. These payments or recoveries are based on accounting net earnings multiplied by a rate of 25.00 percent. Special payments (recoveries) are as follows:

Special Payments in Lieu of Income Taxes (in millions)	2012-13	2011-12
Special payments in lieu of income taxes	\$ 33	\$ 58
Percent (decrease) increase year-over-year	(57%)	81%

### Contributing factors to changes in special payments in lieu of income taxes

Special payments in lieu of income taxes were \$33 million in 2012-13, a \$25 million decrease compared to 2011-12. This decrease was due to lower earnings.

## Regulatory Deferrals

### Regulatory Deferral – Point Lepreau Generating Station Refurbishment

#### Background

A legislated regulatory deferral<sup>5</sup> was created for non-capital costs incurred during the refurbishment period of the Point Lepreau Generating Station (March 28, 2008 through November 23, 2012). The refurbishment of the Point Lepreau Generating Station enables electricity to be provided to future generations of customers. The deferral and amortization of these costs over the life of the Station provides for inter-generational equity. The deferral consists of the period costs of Nuclearco, net of any revenues, and the additional costs to supply energy that was charged to Disco by Genco during the period of refurbishment.

<sup>5</sup> Section 143.1 of the Electricity Act which provides for the establishment of this regulatory deferral related to the refurbishment of the Point Lepreau Generating Station.

These amounts are to be recovered by Disco over the operating life of the refurbished Point Lepreau Generating Station and are to be reflected in the charges, rates and tolls Disco charges its customers.

### Impact on earnings before special payments in lieu of taxes

During 2012-13, \$86 million in period costs and additional costs to supply energy were deferred.

The deferral adjustment consisted of:

- \$132 million in period costs
  - \$100 million in additional costs to supply energy
- partially offset by:
- \$123 million in costs included in current rates

In addition to the deferral adjustment on the statement of earnings, interest expense associated with the refurbishment of \$44 million was deferred, which directly reduced finance charges in the year.

### Regulatory Deferral – Lawsuit Settlement with PDVSA

#### Background

On August 23, 2007, the Energy and Utilities Board (EUB) approved a regulatory deferral for the purpose of returning the benefit of the lawsuit settlement with PDVSA to customers in a levelized manner. The deferral is being allocated to customers over 17 years in order to best match the benefit from the settlement to the customers that will pay for the Coleson Cove Generating Station refurbishment.

### Impact on earnings before special payments in lieu of taxes

During 2012-13, \$4 million in cost adjustments from the lawsuit settlement were recognized. The deferral adjustment consisted of:

- \$27 million in amortization and interest savings resulting from the lawsuit settlement (the interest savings will increase as the fuel value of the settlement is received)
- partially offset by:
- \$23 million of a levelized benefit to customers

## Net earnings adjusted to remove the effects of regulatory accounting

As a rate-regulated entity NB Power applies regulatory accounting. If NB Power did not apply regulatory accounting then net (loss) earnings before special payments in lieu of income taxes would be as follows:

	2012-13	2011-12
Net earnings before special payments in lieu of income taxes	102	231
Less regulatory deferral adjustment to earnings	(82)	(175)
Less interest on deferral (reduction to finance charges)	(47)	(40)
Net (loss) earnings before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting	(27)	16

## Financial Instruments

The Group enters into forward contracts for commodities. The accounting impacts of these financial instruments can be found in Note 26 of the Financial Statements.

## Liquidity and Capital Resources

### Introduction

This provides an overview of NB Power's liquidity and capital resources. The two main items that impact NB Power's debt are capital expenditures and cash flow from operating activities.

### Total Debt<sup>6</sup>

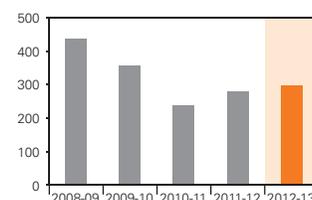
Total Debt (in millions)	2012-13	2011-12
Long-term debt	\$ 3,922	\$ 3,950
Short-term indebtedness	792	583
Total debt	4,714	4,533
Debt/capital	90%	91%
Cash flow from operations/total debt	0.06	0.09

<sup>6</sup> The level of short-term borrowings fluctuates depending on the timing of debt maturities and capital investment requirements. Since restructuring on October 1, 2004 the Group issues long and short-term notes to Electric Finance. Under the authority of the Electricity Act, Electric Finance issues debt in the name of the Province of New Brunswick.

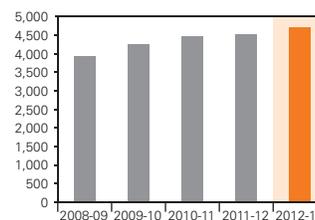
### Factors impacting debt

Change in Total Debt (in millions)	2012-13	2011-12
Total debt - April 1	\$ 4,533	\$ 4,450
Debt requirements:		
Lepreau refurbishment project	156	146
Lepreau deferral adjustment and interest on deferral	137	217
Other capital expenditures	140	133
Debt repayments during the year	(252)	(413)
Total Debt - March 31	\$ 4,714	\$ 4,533

**Capital Expenditures**  
(in millions of dollars)



**Total Net Debt**  
(in millions of dollars)



**Year-over-year change to total debt level**

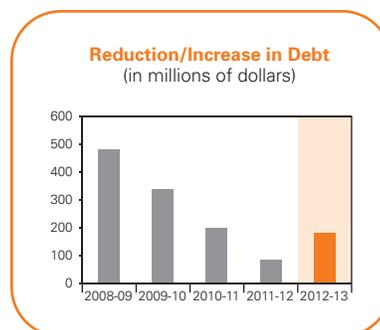
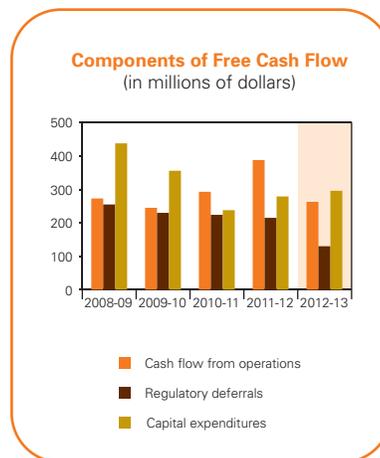
Total debt increased by \$181 million in 2012-13 owing to the following requirements:

- \$156 million of capital spending on the Point Lepreau Generating Station refurbishment project
- \$137 million for the costs deferred (the Nuclearco period costs and additional energy costs incurred during the refurbishment will be recovered through rates over the life of the Point Lepreau Generating Station)
- \$140 million related mainly to regular capital spending, decommissioning expenditures

These debt requirements were partially offset by debt repayments during the year of \$252 million.

**Free Cash Outflow**

Increase in net debt (in millions)	2012-13	2011-12
Cash flow from operations	\$ 263	\$ 388
Capital expenditures less proceeds on disposal	(294)	(264)
Increase in working capital	27	53
Nuclear decommissioning and used fuel management funds - installments and earnings	(23)	(22)
Mark-to market of forward purchasing contracts not eligible for hedge accounting and deferred charges	(4)	0
Decommissioning expenditures	(14)	(13)
Overdraft re-classified to short-term debt	(1)	0
Regulatory deferrals	(129)	(215)
<b>Free cash outflow</b>	<b>\$ (175)</b>	<b>\$ (73)</b>
Dividends paid	(11)	(16)
Change in cash	5	6
<b>(Increase) in total debt</b>	<b>\$ (181)</b>	<b>\$ (83)</b>



**Contributing factors to change in free cash outflow**

Free cash outflow was \$175 million in 2012-13, an increase of \$102 million compared to 2011-12. The primary reasons for the increase were:

Increased cash outflow	Mainly due to
<p><b>Contributing factors</b></p> <p>decreased cash flow from operations</p> <p>increased capital spending</p>	<p>mainly due to lower earnings</p> <ul style="list-style-type: none"> <li>• the Point Lepreau Generating Station refurbishment project</li> <li>• Eel River project</li> <li>• Reduce and Shift Demand project</li> </ul> <p>partially offset by</p> <ul style="list-style-type: none"> <li>• Lower regular capital spending</li> <li>• related to the timing of payments</li> </ul>
<p>increased working capital</p> <p><b>Offsetting factors</b></p> <p>decreased regulatory deferrals</p>	<p>Due to completion of PLGS Refurbishment during the year</p>

## Capital Expenditures

Capital Expenditures (in millions)	2012-13	2011-12
Major-project capital expenditures	\$ 180	\$ 150
Regular-project capital expenditures	\$ 119	\$ 132
Less customer contributions	\$ (3)	\$ (3)
Total capital expenditures	\$ 296	\$ 279

### Contributing factors to changes in capital expenditures

Capital expenditures net of customer contributions were \$296 million in 2012-13. This year-over-year increase of \$17 million or 6 percent resulted primarily from the following:

Capital expenditures	By this amount	Due to
<b>Contributing factors</b> increased	\$31 million	increased spending on the Point Lepreau Generating Station refurbishment project, Eel River project and Reduce and Shift Demand project
<b>Offsetting factors</b> decreased	\$14 million	decreased regular capital spending

## Cash Flow from Operations

Cash Flow from Operations (in millions)	2012-13	2011-12
Cash flow from operations	\$ 263	\$ 388
Percentage (decrease) increase year-over-year	(32%)	32%

### Contributing factors to changes in cash flow from operations

Cash flow from operations in 2012-13 decreased by \$125 million to \$263 million. This decrease resulted from the following:

Cash flow from operations	amount	explanation
<b>Contributing factors</b> (decreased)	(\$104 million)	decreased net earnings
(decreased )	(\$21 million)	decrease in amounts charged to operations not requiring a current cash payment (mainly to decreased amortization and decommissioning)

## Critical Accounting Policy Changes

### Introduction

This provides an overview of NB Power's accounting policies that have changed.

Topic	Purpose
Change in accounting policies for fiscal 2013	There were no changes impacting the financial statements during the fiscal year ended March 31, 2013.
Future change: International Financial Reporting Standards (IFRS)	Describes future changes required by the Corporation related to adopting IFRS.

### Future Change International Financial Reporting Standards (IFRS)

#### Background

On February 13, 2008, the Canadian Accounting Standards Board confirmed the adoption of IFRS in place of Canadian GAAP for publicly accountable enterprises. In September 2012 and again in March 2013 the Canadian Accounting Standards Board allowed companies with rate-regulated activities to defer their IFRS implementation by one year. Many rate regulated utilities in Canada, including NB Power, met the requirements for the deferrals and NB Power elected to defer implementation. The transition date for the NB Power Group is April 2015. This will require the restatement, for comparative purposes, of amounts reported by the Group for its year ended March 31, 2015 and of the opening balance sheet as at April 1, 2014.

#### Progress to date and evaluation of impacts

A project team is in place to perform core project work and a Steering Committee is in place to assist with project governance. Regular project status updates are provided to the Audit Committee.

The Group has completed the diagnostic and assessment activities of its transition plan. The differences between Canadian GAAP and IFRS have been determined and the Corporation has substantially completed the determination of the impact on policies, processes, systems and financial statements upon adoption. The Group has completed significant work around the determination of opening balances in the combined statement of financial position and anticipates a significant increase in disclosure resulting from the adoption of IFRS. Areas with significant differences that will impact the Group include: regulatory accounting, property, plant and equipment, employee benefits, asset retirement obligations. There will be adjustments to retained earnings on transition.

#### Rate-regulated accounting

There is currently no specific standard allowing rate-regulated accounting under IFRS. The IASB (International Accounting Standards Board) is developing a new agenda which is anticipated to include a decision on rate-regulated accounting.

### Significant Accounting Estimates

Please refer to note 4(o) of the Financial Statements for a listing of NB Power's significant accounting estimates.



The combined financial statements of NB Power Holding Corporation (the Corporation) have been prepared by management, who are responsible for the integrity, accuracy and fairness of the information. The accounting principles followed in the financial statements are generally accepted in Canada. The financial information presented throughout the annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and records properly maintained. These controls and procedures include

- system security and various financial controls
- quality standards in hiring and training of employees
- a code of conduct
- an organizational structure that provides a well-defined division of responsibilities
- performance accountability
- communication of policies and guidelines through the Corporation

Internal controls are reviewed and evaluated by audit programs, which are subject to scrutiny by external auditors.

The ultimate responsibility for the financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the Audit Committee, which reviews the recommendations of internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the Audit Committee meets regularly with management and with external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that its responsibility has been properly discharged. The Audit Committee reviews the financial statements and recommends them for approval by the Board of Directors.

The Corporation's external auditors, Deloitte and Touche LLP, have conducted an independent examination of the financial statements in accordance with auditing standards generally accepted in Canada, performing such tests and other procedures as they consider necessary to express the opinion in their Auditors' Report.

The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Corporation's financial reporting and the adequacy of internal control systems.

Gaëtan Thomas  
President and CEO

Darren Murphy  
VP Finance and CFO

June 19, 2013

To the Honourable Graydon Nicholas,  
Lieutenant-Governor of New Brunswick,  
Fredericton, New Brunswick

Sir,

We have audited the accompanying combined financial statements of New Brunswick Power Holding Corporation (the "Corporation") which comprise the combined balance sheet as at March 31, 2013, and the combined statements of earnings, retained earnings, comprehensive income, accumulated other comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2013 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants  
June 19, 2013

Saint John, New Brunswick, Canada

COMBINED STATEMENT OF EARNINGS  
(in millions)

For the year ended March 31	2013	2012
<b>Revenues</b>		
Sales of power		
In-province (Note 3)	\$ 1,282	\$ 1,266
Out-of-province (Note 6)	254	225
Transmission revenue (Note 25)	94	90
Miscellaneous	67	65
	1,697	1,646
<b>Expenses</b>		
Fuel and purchased power	819	742
Transmission expense (Note 25)	89	87
Operations, maintenance and administration	446	409
Amortization and decommissioning (Note 7)	184	217
Taxes (Note 8)	39	40
	1,577	1,495
Earnings before undernoted items	120	151
Finance charges (Note 9)	100	95
Regulatory deferrals (Notes 3 and 14)	(82)	(175)
Earnings before special payments in lieu of income taxes	102	231
Special payments in lieu of income taxes (Note 10)	33	58
<b>Net earnings</b>	<b>\$ 69</b>	<b>\$ 173</b>

COMBINED STATEMENT OF RETAINED EARNINGS  
(in millions)

For the year ended March 31	2013	2012
Retained earnings (deficit), beginning of year	\$ 124	\$ (33)
Net earnings for the year	69	173
Dividends declared (Note 25)	(11)	(16)
Retained earnings, end of year	\$ 182	\$ 124

COMBINED BALANCE SHEET  
(in millions)

As at March 31	2013	2012
<b>Current Assets</b>		
Cash	\$ -	\$ 4
Accounts receivable (Note 25)	280	263
Materials, supplies and fuel	206	221
Prepaid expenses	11	15
Current portion of long-term receivable (Note 13)	1	-
Current portion of derivative assets (Note 26)	18	-
Current portion of regulatory assets (Note 14)	20	-
	536	503
<b>Property, Plant and Equipment (Note 15)</b>		
Land, buildings, plant and equipment, at cost	8,241	7,975
Less: accumulated amortization	4,172	4,066
	4,069	3,909
<b>Long-Term Assets</b>		
Nuclear decommissioning and used nuclear fuel management funds (Note 16)	612	584
Long-Term receivable (Note 13)	17	-
Derivative assets (Note 26)	7	-
Regulatory assets (Note 14)	1,052	943
Other assets (Note 17)	3	3
	1,691	1,530
<b>Other Assets</b>		
Future special payments in lieu of income taxes	2	-
Intangible asset (Note 18)	20	20
Deferred pension benefit (Note 19)	19	44
	41	64
<b>Total Assets</b>	<b>\$ 6,337</b>	<b>\$ 6,006</b>

ON BEHALF OF NEW BRUNSWICK POWER HOLDING CORPORATION



Ed Barrett  
Chairman



Gaëtan Thomas  
President and Chief Executive Officer

COMBINED BALANCE SHEET  
(in millions)

As at March 31	2013	2012
<b>Current Liabilities</b>		
Short-term indebtedness (Note 20)	\$ 792	\$ 583
Accounts payable and accruals (Note 25)	255	227
Accrued interest (Note 25)	36	37
Current portion of long-term debt (Note 21)	192	481
Current portion of derivative liabilities (Note 26)	1	77
	1,276	1,405
<b>Long-Term Debt (Note 21)</b>		
Debentures	3,730	3,469
<b>Deferred Liabilities</b>		
Generating station decommissioning and used nuclear fuel management liability (Note 22)	587	549
Other (Note 23)	108	107
Future special payments in lieu of income taxes - other comprehensive income (Note 26)	31	1
Derivative liabilities (Note 26)	1	21
	727	678
<b>Shareholders' Equity</b>		
Capital stock (Note 11)	140	140
Contributed surplus (Note 12)	187	187
Accumulated other comprehensive income	95	3
Retained earnings	182	124
	604	454
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 6,337</b>	<b>\$ 6,006</b>

Commitments, contingencies and guarantees (Note 28)

COMBINED STATEMENT OF COMPREHENSIVE INCOME  
(in millions)

For the year ended March 31	2013	2012
Net earnings	\$ 69	\$ 173
Other comprehensive (loss) income, net of tax		
Net unrealized (loss) gain on derivatives designated as cash flow hedges <sup>1</sup>	49	(100)
Net unrealized gain on mark-to-market of nuclear trust funds <sup>2</sup>	5	49
	54	(51)
Reclassification to income of settled derivatives designated as cash flow hedges <sup>3</sup>	38	42
Other comprehensive (loss) income, net of tax	92	(9)
Comprehensive income	\$ 161	\$ 164

NEW BRUNSWICK POWER HOLDING CORPORATION  
STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME  
(in millions)

For the year ended March 31	2013	2012
Accumulated other comprehensive income beginning of year	\$ 3	\$ 12
Other comprehensive (loss) income for the year	92	(9)
Accumulated other comprehensive income, end of year	\$ 95	\$ 3

<sup>1</sup> Net of tax of \$16 million for the year ended March 31, 2013, as compared to a tax credit of \$35 million at March 31, 2012.

<sup>2</sup> Net of tax of \$2 million for the year ended March 31, 2013, as compared to \$17 million at March 31, 2012.

<sup>3</sup> Net of tax of \$13 million for the year ended March 31, 2013, as compared to \$15 million at March 31, 2012.

COMBINED STATEMENT OF CASH FLOWS  
(in millions)

For the year ended March 31	2013	2012
<b>Operating Activities</b>		
Net earnings for the year	\$ 69	\$ 173
Amounts charged or credited to operations not requiring a cash payment (Note 24)	194	215
	263	388
Nuclear decommissioning and used nuclear fuel management funds instalments and earnings	(23)	(22)
Decommissioning and used fuel management expenditures	(14)	(13)
Regulatory deferrals (Note 14)	(129)	(215)
Net change in non-cash working capital balances	27	53
Mark-to-market derivative assets not eligible for hedge accounting	(4)	-
Deferred charges	1	-
	121	191
<b>Investing Activities</b>		
Expenditure on property, plant and equipment, net of customer contributions	(296)	(279)
Proceeds on disposal and non-cash additions	2	15
	(294)	(264)
<b>Financing Activities</b>		
Debt retirements	(480)	(548)
Proceeds from issuance of long-term debt	450	531
Increase (decrease) in short-term indebtedness	209	100
Dividends paid (Note 25)	(11)	(16)
	168	67
Net cash (outflow) inflow	(5)	(6)
Cash, beginning of year	4	10
<b>Cash, end of year</b>	<b>\$ (1)</b>	<b>\$ 4</b>

## 1. Incorporation and Corporate Structure

### Incorporation

New Brunswick Power Corporation (NB Power) was established as a Crown Corporation of the Province of New Brunswick in 1920 by enactment of the *New Brunswick Electric Power Act*. In 2004, NB Power continued as New Brunswick Power Holding Corporation (Holdco) with new subsidiary operating companies (collectively the NB Power Group or the Group). The subsidiaries include

- New Brunswick Power Generation Corporation (Genco)
  - o includes 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)
- New Brunswick Power Distribution and Customer Service Corporation (Disco)

## 2. Basis of Presentation

The accompanying combined financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a basis consistent with the preceding year (see Note 5). The combined financial statements include the accounts of Holdco and those of its subsidiaries listed above.

## 3. Rate Regulation

This details the effects of a rate regulated environment and its implications on the following rate regulated operating companies (Transco and Disco).

### Transco

#### Components involved

The key components that play a role in Transco's regulation are as follows:

Component	Function
Open Access Transmission Tariff (OATT)	Establishes <ul style="list-style-type: none"> <li>• access to the province's transmission system, without discrimination, for entities generating and selling power and for customers, whether from inside or from outside the province.</li> <li>• how the NB Power Group raises revenues to operate and maintain the transmission system.</li> </ul>
New Brunswick Energy and Utilities Board (EUB)	Oversees and regulates the OATT.
System Operator	<ul style="list-style-type: none"> <li>• Designs and administers the OATT.</li> <li>• Collects revenues from load serving entities - including Genco, Nuclearco and Disco - and reimburses Transco for its revenue requirement.</li> </ul>

## **Expectation of returns**

Transco is intended to collect sufficient revenues to cover its costs, and to provide a return on its equity. The return approved by the regulator for Transco is 9.5 percent (within a range from 8.5 percent to 10.5 percent), and a capital structure of 65 percent debt and 35 percent equity.

## **Disco**

Disco is regulated under a system whereby annual average rate increases greater than three percent or the percentage change in the average Consumer Price Index, whichever is higher, require regulatory approval by the EUB. Under the *EUB Act*, section 24(1), the Minister of Energy may direct the EUB to make an investigation into the need for a rate increase of 3 percent or less and file the report with the Minister.

## **Regulatory assets and liabilities**

Regulatory assets or liabilities may arise as a result of the rate-setting process. If all the required conditions are met, Transco's and Disco's balance sheet can contain

- regulatory assets which represent future revenues associated with certain costs incurred in current or prior periods that are expected to be recovered from customers in future periods through the rate-setting process.
- regulatory liabilities which represent future reductions or limitations of revenue increases associated with amounts that are expected to be refunded to customers.

All amounts deferred as regulatory assets and liabilities are subject to legislation or regulatory approval. As such

- the regulatory authorities could alter the amounts subject to deferral, at which time the change would be reflected in the financial statements
- certain remaining recovery and settlement periods are those expected by management and the actual recovery or settlement periods could differ based on regulatory approval.

For the regulatory deferral related to the Point Lepreau Generating Station refurbishment, the *Electricity Act* was amended to provide guidance on the specific treatment of costs incurred.

For the regulatory deferral related to the lawsuit settlement with PDVSA (Note 14) the EUB ruled how the settlement benefits would be passed on to customers.

## **Transco**

As at March 31, 2013, Transco has a regulatory asset related to allowance for funds used during construction (AFUDC) which is included in property, plant and equipment (see Note 15). The EUB permits AFUDC to be capitalized monthly on capital construction projects. AFUDC is based on Transco's weighted average cost of capital and is amortized over the future life of the related asset. It is expected to be recoverable through the OATT.

## **Disco**

### **Point Lepreau Generating Station refurbishment**

Disco has a regulatory deferral asset relating to refurbishing the Point Lepreau Generating Station. This asset accumulated the following costs over the refurbishment period (March 28, 2008 to November 23, 2013)

- the normal period costs (net of any revenues) incurred by Nuclearco, and
- the costs of replacement power incurred by Genco, during the refurbishment period
- less costs included in current rates.

These amounts will be

- recovered from customers over the refurbished station's operating life, and
- reflected in Disco's charges, rates and tolls to customers (section 143.1 of the *Electricity Act*).

### **Lawsuit settlement with PDVSA**

In 2007-08 Disco recognized a regulatory deferral asset relating to a lawsuit settlement with PDVSA (see Note 14). The settlement's benefits will be

- amortized over the Coleson Cove Generating Station's 23-year useful life, and
- passed on to customers over 17 years, as approved by the EUB, on a levelized basis.

The regulatory deferral reflects Disco's obligation to pass the settlement's net benefits on to the customers, by reducing future rates. The regulatory deferral is in an asset position because the settlement's net benefits are passed on to the customers faster than they are recognized by the Group.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### Net earnings adjusted to remove the effects of regulatory accounting

As a rate regulated entity NB Power applies regulatory accounting. If NB Power did not apply regulatory accounting the net earnings (loss) before special payments in lieu of income taxes would be as follows:

	2013	2012
Net earnings before special payments in lieu of income taxes	102	231
Less regulatory deferral adjustment to earnings	(82)	(175)
Less interest on deferral (reduction to finance charges)	(47)	(40)
Net (loss) earnings before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting	(27)	16

## 4. Significant Accounting Policies

This describes the accounting policies used in preparing the financial statements. It contains the following sections

- a. Materials, supplies and fuel inventory
- b. Property, plant and equipment
- c. Intangible asset
- d. Foreign exchange transactions
- e. Long-term debt
- f. Asset retirement obligations
- g. Pension plans
- h. Retirement allowance
- i. Early retirement programs
- j. Revenues
- k. Financial instruments
- l. Derivatives
- m. Special payments in lieu of taxes
- n. Consolidation of variable interest entities
- o. Use of estimates

### a. Materials, supplies and fuel inventory

Inventories are recorded at the lower of costs or net realizable value. Inventories of materials, supplies and fuel other than nuclear fuel are valued at average cost. Nuclear fuel is valued at cost using the first-in, first-out method.

### b. Property, plant and equipment

#### Cost of additions

The cost of additions to property, plant and equipment is the original cost of

- contracted services
  - direct labour and material
  - interest and allowance for funds used during construction
  - indirect charges for administration
  - asset retirement obligations
  - salvage value and
  - other expenses related to capital projects
- less
- credits for the value of power generated during commissioning
  - contributions in aid of construction, which include customer contributions, and research and development grants and
  - recovery of capital from lawsuit and insurance settlements.

#### Generating station decommissioning and management of used nuclear fuel

Property, plant and equipment also includes the present value of asset retirement obligations related to

- the management of used nuclear fuel, and
- decommissioning of the nuclear and thermal generating stations.

#### Interest and allowance for funds used during construction (AFUDC)

Interest during construction is capitalized monthly based on the weighted average cost of long-term debt, except in Transco where AFUDC is capitalized monthly on capital projects based on the weighted average cost of capital.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### Cost of retired distribution system assets

The cost of distribution system assets retired, net of dismantlement and salvage, is charged to accumulated amortization as deemed appropriate by the New Brunswick Board of Commissioners of Public Utilities (now the EUB).

### Asset amortization

Amortization is provided for all assets sufficient to amortize the net cost of such assets over their estimated useful lives.

### Estimated service lives

The estimated service lives of property, plant and equipment are periodically reviewed and any changes are applied prospectively.

The main categories of property, plant and equipment are being amortized on a straight-line basis based on the following estimated service lives

Assets	Years
Power generating stations	
Nuclear generating station <sup>4</sup>	27 - 52
Hydro generating stations	9 - 99
Thermal generating stations	6 - 53
Combustion turbine generating stations	12 - 39
Transmission system	10 - 60
Terminals and substations	17 - 56
Distribution system	16 - 48
Buildings	45 - 50
Computer systems	6
Motor vehicles	8 - 20

<sup>4</sup> The Nuclear generating station's useful life is based on the refurbished life.

### Recognizing impairment

The Group evaluates its property, plant and equipment to identify impairment whenever conditions indicate that estimated undiscounted future net cash flows may be less than the net carrying amount of assets. If impairment is identified, an impairment loss will be recognized in earnings equal to the amount by which the carrying amount exceeds the fair value.

### c. Intangible assets

The intangible assets are recorded at cost on the balance sheet and amortized over their estimated useful lives (Note 18).

### d. Foreign exchange transactions

Monetary assets and liabilities denominated in foreign currencies

- may be hedged using a forward exchange contract, and
- are translated to Canadian dollars as follows

If a forward exchange contract	Then the exchange rate used is
is not in place	the exchange rate prevailing at the balance sheet date.
is in place	the exchange rate established by the terms of the contract.

Exchange gains and losses resulting from foreign currency translation are reflected in earnings.

### e. Long-term debt

Long-term debt is classified as other liabilities for financial instrument purposes and is recorded at the amortized cost using the effective interest method (see Note 4k). The estimated fair value of long-term debt is disclosed in the notes to the financial statements using market values or estimates of market values based on debt with similar terms and maturities. Debentures discounts and premiums, and deferred interest related to debt financing, are amortized over the lives of the issues to which they pertain. These unamortized debt costs are included in long-term debt.

### f. Asset retirement obligations

This describes the accounting policies related to asset retirement obligations. It contains information on the

- nuclear and thermal generating stations, and
- hydro generating stations, transmission and distribution assets.

### Nuclear and thermal generating stations

NB Power Group provides for the estimated future costs of managing used nuclear fuel, and decommissioning the nuclear and thermal generating stations to return the sites to a state of unrestricted use.

### **Calculations of anticipated costs**

The calculations of the anticipated future costs are based on detailed studies that take into account various assumptions regarding

- the method and timing of dismantling the nuclear and thermal generating stations
- the cost of transporting nuclear material to permanent storage facilities, and
- estimates of inflation rates in the future.

The Group reviews such calculations periodically due to

- potential developments in the decommissioning and used nuclear fuel management technologies, and
- changes in the various assumptions and estimates inherent in the calculations.

The NB Power Group recognizes these liabilities taking into account the time value of money.

### **Calculation methodology**

The Nuclear Waste Management Organization (NWMO) was established by the *Nuclear Fuel Waste Act (NWFA)*. The methodology used by the NB Power Group to calculate the liability for used nuclear fuel management is consistent with the Nuclear Waste Management Organization's (NWMO) recommendations as approved by Natural Resources Canada.

### **Costs recognized as liabilities**

The estimated present values of the following costs have been recognized as a liability as at March 31, 2013

- the fixed cost portion of used nuclear fuel management activities. These are required regardless of the volume of fuel consumed
- the variable cost portion of used nuclear fuel management activities to take into account actual fuel volumes incurred up to March 31, 2013, and
- the costs of decommissioning the nuclear and thermal generating stations at the end of their useful lives.

The liability for used nuclear fuel management is increased for nuclear fuel bundles used each year with the corresponding amounts charged to operations through fuel expense.

The liability accounts are charged for current expenditures incurred related to the following

- used nuclear fuel management, and
- nuclear and thermal plant decommissioning.

### **Accretion expense**

Accretion is the increase in the carrying amount of the liability due to the passage of time.

Accretion is calculated on the liabilities for used nuclear fuel management and nuclear and thermal plant decommissioning. Specifically, the accretion expense is

- calculated using the Group's credit adjusted risk-free rate, and
- included with amortization expense.

### **Hydro generating stations, transmission and distribution assets**

For hydro generating stations, transmission and distribution assets no removal date can be determined. Consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time.

- Hydro generating stations

The Group currently has no intention and is not legally obligated to decommission its hydro generating stations. With either maintenance efforts or rebuilding, the assets are expected to be used for the foreseeable future.

- Transmission and distribution assets

The Group expects to use the majority of its transmission and distribution assets for an indefinite period of time.

If at some future date it becomes possible to estimate the fair value cost of removing assets that the Group is legally required to remove, an asset retirement obligation will be recognized at that time.

## g. Pension plans

This describes the accounting policies related to pension plans. It contains information on the following

- plans in place
- method to determine accrued benefit obligation
- expected return on plan assets
- actuarial gains and losses, and
- transitional asset.

### Plans in place

The NB Power Group employees, excluding Mine Reclamation Inc. employees, are members of the Province of New Brunswick Public Service Superannuation Plan. Mine Reclamation Inc. maintains a private defined benefit pension plan for its employees.

The Province of New Brunswick Public Service Superannuation Plan is a multi-employer, defined benefit plan. Details are as follows

Aspect	Detail
Pension benefits based on	length of service and the average of the highest five consecutive years of earnings
Escalation	annual, based on the Consumer Price Index to a maximum of five or six per cent depending on retirement date.
Contributions	made by the Group and its employees as prescribed in the <i>Public Service Superannuation Act</i> and its regulations.

### Method to determine accrued benefit obligation

The projected benefit method is used in determining the accrued benefit obligation. This method involves complex actuarial calculations using several assumptions including discount rates, expected rates of return on plan assets, projected salary increases, retirement age, mortality and termination rates.

### Expected return on plan assets

The expected return on plan assets is based on the expected long-term rate of return on plan assets and the market related value of plan assets.

## Actuarial gains and losses

Actuarial gains or losses in excess of 10 percent of the greater of the accrued benefit obligation, and the fair value of the plan assets at the beginning of the year are amortized over the expected average remaining service life of the employee group.

### Transitional asset

The transitional asset is the fair market value of the plan assets less the accrued benefit obligation as determined at April 1, 2000, and amortized over the average remaining service life of the employee group.

## h. Retirement allowance

The NB Power Group has a retirement allowance program for certain employees. The program provides a lump-sum payment equal to one week of pay for each full year of employment to a maximum of 26 weeks of pay.

The present value of accrued retirement allowance obligations

- is based on actuarial calculations
- incorporates management's best estimate assumptions on salary and wage projections to expected retirement dates, and
- is amortized on a straight-line basis over the expected average remaining service life of the employee group.

## i. Early retirement programs

The present value of the estimated future costs of early retirement programs is charged to earnings in the year the program is accepted by employees, irrespective of when payments are actually made.

## j. Revenues

### Recognizing revenues

The NB Power Group recognizes revenue when

- persuasive evidence of an arrangement exists
- delivery has occurred
- the price to the buyer is fixed or determinable, and
- collection is reasonably assured.

**Billing schedule**

Billing occurs monthly, according to the table below. Revenue in respect of items not billed at the end of a fiscal period is estimated and accrued.

Customer type	Billing schedule
<ul style="list-style-type: none"> <li>• residential</li> <li>• general service, and</li> <li>• most industrial customers</li> </ul>	on a cyclical basis (i.e. the date on which a customer is billed each month varies from one customer to the next).
<ul style="list-style-type: none"> <li>• industrial transmission</li> <li>• wholesale, and</li> <li>• out-of-province customers</li> </ul>	at the end of each month.

**k. Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity (e.g. accounts receivable / accounts payable).

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued and their characteristics. The instruments are designated into one of the five following categories:

- held-for-trading
- loans and receivables
- available-for-sale
- other liabilities
- held-to-maturity

**Held-for-trading**

Financial assets and liabilities in this category are typically acquired with the intention of reselling them prior to maturity. The Group can choose to designate any financial asset or liability as being held for trading.

The following are classified as held-for-trading assets

- cash
- derivative assets not in a hedging relationship

The following is classified as a held-for-trading liability

- derivative liabilities not in a hedging relationship

**Accounting for held-for-trading assets and liabilities**

These assets and liabilities are measured at fair value at the balance sheet date. Changes in fair value are included in net earnings. These include

- interest earned
- interest accrued
- realized gains and losses, and
- unrealized gains and losses.

**Loans and receivables**

Loans and receivables include accounts receivable and are accounted for at amortized cost using the effective interest method.

**Available-for-sale**

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables, held-to-maturity or held-for-trading investments. Available-for-sale assets include

- nuclear decommissioning fund
- used fuel management funds.

**Accounting for available-for-sale assets**

Available-for-sale-financial assets are recorded as follows

Asset	Accounting treatment
with quoted market prices in an active market	carried at fair value with <ul style="list-style-type: none"> <li>• unrealized gains and losses recognized outside net earnings, in other comprehensive income.</li> <li>• gains and losses transferred to net earnings when they are realized.</li> </ul>
without quoted market prices in an active market	carried at cost.

Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest method.

**Other liabilities**

All the Group's financial liabilities, except for derivative liabilities designated as held-for-trading, are included in this category. They are recorded at amortized cost, using the effective interest method.

**Effective interest method and transaction costs**

The NB Power Group uses the effective interest method to recognize interest income or expense on the above noted financial instruments. The effective interest method discounts estimated future cash payments over an instrument's expected life, or a shorter period if appropriate, down to the net carrying amount at the balance sheet date. The calculation includes earned or incurred

- transaction costs
- fees
- premiums
- discounts.

Transaction costs associated with held-for-trading instruments are expensed as they are incurred.

**Fair value**

The financial instruments carried at fair value are classified using a fair value hierarchy which has three levels (see Note 26). The hierarchy is based on the inputs used in making the fair value measurement.

**I. Derivatives**

A derivative is a financial instrument or other contract with all three of the characteristics below

- value changes with underlying variable (e.g. market index)
- little or no initial investment required
- settled at a future date

Under derivative contracts, the Group settles amounts based on the difference between an index-based monthly cumulative floating price and a fixed price. The resultant fixed price is reflected in net earnings.

**Derivative use and documentation**

The Group uses derivatives to manage or "hedge" certain exposures. It does not use them for speculative or trading purposes. Certain derivative financial instruments held by the Group are eligible for hedge accounting. To be eligible for hedge accounting the Group formally documents

- all relationships between hedging instruments and hedged items at their inception,
- its assessment of the effectiveness of the hedging relationship, and
- its hedging objectives and strategy underlying various hedge transactions.

This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific forecasted transactions.

**Accounting for derivatives**

Derivatives eligible for hedge accounting are recognized on the balance sheet at their fair value. The accounting for changes in fair value depends on their effectiveness as hedges. In broad terms, a derivative is an effective hedge of another item when changes in their fair value or cash flows closely offset each other. Due to the nature of some of the hedging relationships the fair values or cash flows do not perfectly offset, which represents the ineffective portions.

Different portions of changes in a derivative's fair value are recognized as follows

This portion	is recognized in
effective	other comprehensive income, outside net earnings for the year
ineffective	net earnings.

If a hedging instrument is sold or terminated before it matures, or if it ceases to be effective as a hedge,

- the Group ceases hedge accounting at that point, and
- any gains or losses previously accumulated in other comprehensive income are then recognized immediately in net earnings.

**m. Special payments in lieu of taxes**

The NB Power Group, excluding Mine Reclamation Inc., is required under the *Electricity Act* to make special payments in lieu of taxes to New Brunswick Electric Finance Corporation (see Note 25). Total special payments in lieu of taxes consist of

- an income tax component based on accounting net earnings multiplied by a rate of 25.00 percent for the year ended March 31, 2013 as compared to 26.38 percent for the year ended March 31, 2012.
- future special payments in lieu of taxes on other comprehensive income based on a rate of 25.00 percent for the year ended March 31, 2013 as compared to 26.38 per cent for the year ended March 31, 2012.

The Group also recognizes the future special payments in lieu of income taxes benefit of current losses when it is more likely than not that sufficient earnings will be generated in future periods to offset losses previously incurred.

Special payments in lieu of taxes are calculated at the subsidiary operating company level.

**n. Consolidation of variable interest entities**

Variable interest entities refers to entities subject to consolidation according to the provisions of the CICA accounting guidelines AcG-15.

The NB Power Group has several variable interests in the form of power purchase contracts with third-party corporations. The Group has not consolidated the financial results of these third-party entities.

**Rationale: all contracts except one**

For all of these contracts except one, it was determined that there is an insignificant amount of variability being absorbed by the Group as a result of these contracts and therefore consolidation is inappropriate.

**Rationale: the exception**

There is one purchase power contract to purchase all of the capacity and electrical energy produced by a 90 MW co-generation facility that began production in December 2004. Purchases under this contract were \$51 million for the year ended March 31, 2013 as compared to \$39 million for the year ended March 31, 2012.

The Group has been unable to obtain the necessary information, and has therefore been unable to assess whether the third-party corporation is a variable interest entity. As a result, the Group has not consolidated the financial results of this third-party entity.

**o. Use of estimates**

The preparation of financial statements that conform to generally accepted accounting principles requires management to make estimates and assumptions that affect

- the reported amounts of assets and liabilities at the date of the financial statements and
- the reported amounts of revenues and expenses during the reporting period.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

Actual results could differ from the estimates. The following table lists the notes that refer to these estimates

Note reference	Estimate
Note 4b	Property, plant and equipment
Note 4j	Revenues (billing estimates)
Note 7	Amortization and decommissioning of property, plant and equipment
Note 14	Regulatory assets and liabilities
Note 16	Nuclear decommissioning and used nuclear fuel management funds
Note 19	Deferred pension benefit
Note 22	Generating station decommissioning and used nuclear fuel management liability
Note 23	Deferred liabilities - other
Note 26	Financial instruments
Note 28	Commitments, contingencies and guarantees

## 5. Changes in Accounting Policies

### Policies that have changed during the year ended March 31, 2013

There were no changes impacting the financial statements during the year ended March 31, 2013.

### Future accounting changes

#### International Financial Reporting Standards (IFRS)

This describes the issues and impact on the NB Power Group relating to implementing IFRS.

Key dates

Date	Event
September 2012 and February 2013	The Accounting Standards Board (AcSB) allowed companies with rate-regulated activities to defer their IFRS implementation. The NB Power Group met the requirements for the deferral and has elected to defer implementation until the fiscal year ended March 31, 2016.
April 1, 2015	The transition date for the NB Power Group. This will require the restatement, for comparative purposes, of amounts reported by the Group for its year ended March 31, 2015, and of the opening balance sheet as at April 1, 2014.

## 6. Out-Of-Province Revenues

Out-of-province revenues were as follows

	2013	2012
United States customers	\$ 150	\$ 103
Canadian customers	104	122
Out-of-province revenues	\$ 254	\$ 225

## 7. Amortization and Decommissioning

	2013	2012
Amortization	\$ 153	\$ 187
Decommissioning	31	30
Amortization and decommissioning	\$ 184	\$ 217

## 8. Taxes

	2013	2012
Property taxes	\$ 22	\$ 23
Utility and right of way taxes	17	17
Taxes	\$ 39	\$ 40

## 9. Finances

	2013	2012
Interest expense (Note 25)	\$ 191	\$ 201
Less: Earnings from trust funds and other investments	(23)	(22)
	168	179
Debt portfolio management fee (Note 25)	29	29
Realized foreign exchange (gains) or losses	2	-
	199	208
Less: Interest capitalized	(99)	(113)
Finance charges	\$ 100	\$ 95

## Interest paid during the year

Interest paid during the year was \$192 million compared to \$203 million in 2012. Interest received on investments during the year was \$23 million compared to \$22 million in 2012.

## 10. Special Payments in Lieu of Income Taxes

This describes NB Power Group's special payments in lieu of income taxes. It contains information on the following:

- special payments in lieu of income taxes for the year
- future special payments in lieu of income taxes - other comprehensive income.

### Special payments for the year

Special payments in lieu of income taxes were as follows

	2013	2012
Earnings before special payments in lieu of income taxes	\$ 102	\$ 231
Loss (earnings) not subject to payments in lieu of income taxes (Mine Reclamation Inc.)	4	(12)
Earnings subject to special payments in lieu of income taxes	106	219
Income tax rate	25.00%	26.38%
	27	57
Rate differential related to loss carryforward/ carryback and impairment of carryforward/carryback asset	6	1
	\$ 33	\$ 58

Special payments in lieu of taxes paid during the year were \$32 million compared to \$60 million in 2012.

**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

For the year ended March 31, 2013

**Future special payments in lieu of income taxes - other comprehensive income**

Future special payments for other comprehensive income were as follows

	2013	2012
Other comprehensive income (loss) before special payments in lieu of income taxes	\$ 123	\$ (12)
Income tax rate	25.00%	28.88%
Special payments in lieu of income taxes (recovery)	31	(4)

Special payments in lieu of income taxes are calculated at the subsidiary operating company level.

**11. Capital Stock**

The NB Power Group, with the New Brunswick Electric Finance Corporation's (Electric Finance) approval, is authorized to issue an unlimited number of Class A or Class B shares without nominal or par value.

Capital stock issued and outstanding is as follows

	Class A	Class B
Number of shares	1	1,006
Voting or non-voting	Voting	Non-voting
Shareholder	New Brunswick Minister of Energy	Electric Finance
Value	Nominal	\$140 (stated value)
Dividend entitlement	Cannot be paid dividends until such time that there are no longer any Class B shares outstanding.	Received when declared by the Group's Boards of Directors.  The designated percentage of the dividends declared may vary based upon the discretion of the Shareholder and the financial position of the Group.  Dividends are declared by Transco and paid at the subsidiary operating company level.

## 12. Capital Management

The Group's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis at the lowest possible cost to customers. The Group's borrowings are completed with Electric Finance acting as an agent for the Group with the guarantee of the Province of New Brunswick. The Group is predominantly debt financed.

The Group's capital structure includes the following

At March 31	2013	2012
Long-term debt payable within one year	\$ 192	\$ 481
Less: Cash	-	4
	192	477
Short-term indebtedness	792	583
Long-term debt	3,730	3,469
Total Debt	4,714	4,529
Capital stock	140	140
Contributed surplus	187	187
Retained earnings (deficit)	182	124
Total capital	\$ 5,223	\$ 4,980
Percentage of net debt <sup>5</sup> in capital structure	90%	91%

<sup>5</sup> Net debt is long-term debt, short-term debt and cash.

## 13. Long-Term Receivable

During the year the NB Power Group sold distribution assets to a third party. The transaction was partially offset by a purchase of hot water heater assets from the same third party. The net balance of \$18 million will be collected over 20 years, with interest at a rate of 3.85% per annum.

Long-term receivable	2013	2012
Opening balance	\$ 18	\$ -
Payments made	-	-
Less current portion	1	-
Ending balance	\$ 17	\$ -

**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

For the year ended March 31, 2013

**14. Regulatory Assets and Liabilities**

Disco has regulatory assets totaling \$1,072 million at March 31, 2013 compared to \$943 at March 31, 2012. A reconciliation of the two regulatory assets is as follows

<b>Regulatory asset (liability) - lawsuit settlement with PDVSA</b>	<b>2013</b>	<b>2012</b>
Opening balance	\$ 53	\$ 55
Deferral adjustment on Statement of Earnings		
Amortization and interest savings	(27)	(27)
Levelized benefit to customers <sup>6</sup>	23	22
	(4)	(5)
Interest on deferral	3	3
	(1)	(2)
Closing balance	\$ 52	\$ 53

<b>Regulatory asset - Point Lepreau Generating Station deferral</b>	<b>2013</b>	<b>2012</b>
Opening balance	\$ 890	\$ 673
Deferral adjustment on Statement of Earnings		
Period costs	132	189
Additional costs to supply energy	100	200
Offset for costs included in current rates	(123)	(209)
Amortization of deferral	(23)	-
	86	180
Interest on deferral	44	37
Closing balance	\$ 1,020	\$ 890
Current portion of regulatory assets <sup>7</sup>	20	-
Long-term portion of regulatory assets	1,052	943
Total regulatory assets	\$ 1,072	\$ 943

<b>Regulatory deferral adjustment to earnings</b>	<b>2013</b>	<b>2012</b>
Lawsuit settlement with PDVSA	\$ 4	\$ 5
Point Lepreau Generating Station deferral	(86)	(180)
Regulatory deferral adjustment to earnings	\$ (82)	\$ (175)

<sup>6</sup> Relates to the current year portion of the projected benefits of the lawsuit settlement that are passed onto customers on a levelized basis over the next 11 years.

<sup>7</sup> Represents amounts due from rate payers in current year.

## 15. Property, Plant and Equipment

Cost, accumulated amortization and net book value for property, plant and equipment is as follows

	2013			2012		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Power generating stations	\$ 6,006	\$ 2,990	\$ 3,016	\$ 4,467	\$ 2,915	\$ 1,552
Transmission system	398	206	192	394	200	194
Terminals and substations	545	314	231	542	308	234
Distribution system	875	447	428	861	440	421
Buildings	64	40	24	63	39	24
Computer systems	135	115	20	129	108	21
Motor vehicles	80	43	37	77	40	37
Miscellaneous assets	41	17	24	39	16	23
Construction-in-progress	97	-	97	1,403	-	1,403
<b>Total</b>	<b>\$ 8,241</b>	<b>\$ 4,172</b>	<b>\$ 4,069</b>	<b>\$ 7,975</b>	<b>\$ 4,066</b>	<b>\$ 3,909</b>

The charge for equity capital (allowance for funds used during construction) included for 2013 was \$1 million compared to \$1 million in 2012.

## 16. Nuclear Decommissioning and Used Nuclear Fuel Management Funds

This describes the segregated funds established by NB Power Group regarding nuclear decommissioning and used fuel management. It contains information on the following

- fund requirements
- NB Power Group's funds
- status of NB Power Group's funds.

### Fund requirements

The *Nuclear Fuel Waste Act* requires owners of used nuclear fuel in Canada to establish trust funds to finance the long-term management of used nuclear fuel. In June 2007, the Government of Canada announced its decision to accept the long-term disposal plan proposed by the Nuclear Waste Management Organization. This is an entity created by the *Nuclear Fuel Waste Act* and owned by major owners of nuclear used fuel.

The Canadian Nuclear Safety Commission (CNSC) requires the Group to maintain certain segregated funds to meet license conditions for the Point Lepreau Generating Station. The money contained in these established funds will be used to meet the *Nuclear Fuel Waste Act* requirements.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### NB Power Group's funds

The NB Power Group has established the following funds, each held in a custodial account.

Fund	Trustee	Purpose	Funding requirement
Decommissioning segregated fund and used nuclear fuel segregated fund	Provincial Minister of Finance	To meet the license conditions for the Point Lepreau Generating Station set by the CNSC	Established yearly based on the current obligations and market value of the funds. The amount of the contribution in the 2012-13 year was nil (2011-12 - nil).
Used nuclear fuel trust fund	Federal Minister of Finance	To meet the <i>Nuclear Fuel Waste Act</i> and to meet the CNSC requirements	The Act requires the Group to deposit to the trust fund an amount based on the approved funding formula.  The amount of the contribution in the 2012-13 year was \$5 million (2011-12 - \$5 million).

### Status of NB Power Group's funds

The status of each fund is as follows

	2013	2012
<b>Nuclear Decommissioning Fund</b>		
Decommissioning segregated fund	\$ 199	\$ 189
Used Nuclear Fuel Management Funds		
1. Used nuclear fuel segregated fund	310	301
2. Used nuclear fuel trust fund	103	94
	413	395
Total nuclear decommissioning and used nuclear fuel management funds <sup>8</sup>	\$ 612	\$ 584

<sup>8</sup> Includes a mark-to-market adjustment at March 31, 2013 of \$107 million as compared to \$102 million at March 31, 2012.

### 17. Other Asset

The Group entered into a 15-year agreement to have an outside party build and operate an ash separation facility at the Belledune Generating Station to process the fly ash produced at the plant. The \$6 million investment in 2007 represents the Group's required share of the cost of the facility. Pursuant to this agreement, the Group will receive royalties on the sale of the processed ash over the term of the agreement. The investment is being amortized on a straight line basis over the life of the agreement.

	2013	2012
Ash separation asset	\$ 3	\$ 3

### 18. Intangible Asset

In 2008 the Group purchased the Nepisiguit generating facility. The purchase consisted of land, a dam, equipment, and the assignment of a statutory right to generate electricity on the Nepisiguit River. The estimated fair market value of the assignment of rights was \$22 million and is being amortized over the remaining useful life of the facility (50 years).

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

In 2013 the Group purchased a customer list (the benefit to include more customers in the Reduce and Shift Demand initiatives). The customer list is valued at \$1 million and is being amortized over 20 years.

	2013	2012
Intangible asset Nepisiguit Falls	\$ 22	\$ 22
Accumulated amortization Nepisiguit Falls	(3)	(2)
	19	20
Intangible asset customer list	1	-
Accumulated amortization customer list	-	-
	1	-
	\$ 20	\$ 20

## 19. Deffered Pension Benefit

This describes details associated with NB Power Group's deferred pension benefit. It contains information on the following

- applicable pension plans
- assumptions
- costs
- assets and obligations
- contributions.

### Applicable pension plans

NB Power Group employees, excluding Mine Reclamation Inc. employees, are members of the Province of New Brunswick Public Service Superannuation Plan as described in Note 4(g). Pension assets and liabilities for the NB Power Group plan and the Mine Reclamation Inc. plan are measured as at March 31, 2013. The most recent actuarial valuations for funding purposes for the Public Service Superannuation Plan were completed as at April 1, 2012. The most recent actuarial valuation for funding purposes for the Mine Reclamation Inc. Plan was completed as at January 1, 2011. The next valuation for funding purposes for Mine Reclamation Inc. is required to be completed as at January 1, 2014.

## Assumptions

Management's significant assumptions include the following

	2013 (%)	2012 (%)
Discount rate used to determine the accrued benefit obligation	4.30	4.90
Expected long-term rate of return on plan assets	6.96	6.96
Expected salary increases	2.50	2.50

## Costs

The costs recognized and included in operations maintenance and administration expense for the year are

	2013	2012
Current service cost	\$ 27	\$ 19
Interest on accrued benefit obligation	79	78
Actual (gain) on plan assets	(93)	(47)
Difference between actual and expected return on plan assets	17	(24)
Actuarial losses on accrued benefit obligation	320	199
Difference between actuarial loss recognized for the year and actuarial loss on accrued benefit obligation for the year	(292)	(183)
Amortization of transitional asset	(3)	(3)
	\$ 55	\$ 39

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### Assets and obligations

The status of the assets and obligations of the Group's share of the Public Service Superannuation Plan and the private plan of Mine Reclamation Inc. as at March 31 was as follows

	2013	2012
Pension fund assets at fair value	\$ 1,184	\$ 1,104
Accrued benefit obligation	(1,977)	(1,593)
Pension deficit	(793)	(489)
Unamortized transitional asset	(10)	(13)
Unamortized losses	822	546
Deferred pension benefit	\$ 19	\$ 44

### Contributions

In accordance with prescribed regulations, contributions were as follows

	2013	2012
Employee contributions	\$ 12	\$ 12
Employer contributions	\$ 29	\$ 28

## 20. Short-Term Indebtedness

The Group borrows funds for temporary purposes from Electric Finance. The short-term borrowings due to Electric Finance were \$792 million (including \$1 million in overdraft) at March 31, 2013, as compared to \$583 at March 31, 2012.

## 21. Long-Term Debt

The Group borrows funds from Electric Finance to finance long-term requirements. This provides details around the Group's long-term debt. It contains information on

- year-end long-term borrowings
- terms
- interest rates
- debt portfolio management fee, and
- principal repayments.

### Year-end long-term borrowings

Long-term borrowings at year-end were as follows

	2013	2012
Debentures held by Electric Finance	\$ 3,962	\$ 3,992
	3,962	3,992
Unamortized discounts and premiums	(40)	(42)
	3,922	3,950
Less: Current portion	(192)	(481)
Long-term debt	\$ 3,730	\$ 3,469

### Terms

The maturity dates of the debentures range from 2013 to 2042. The terms of all but one of the debentures are such that the Group is required to make annual repayments of one percent of the original amount of each debenture on the anniversary date of its maturity. These payments will be made until the actual maturity dates of the debentures, at which time the remaining principal amounts will be repaid. The exception is a floating rate issue that has no prepayments and matures in 2016.

### Interest rates

All but one of the debentures bears interest at fixed rates ranging from 3.35 to 8.75 percent. The weighted average coupon interest rate on all debentures outstanding at March 31, 2013 is 4.42 percent as compared to 4.70 percent at March 31, 2012. The exception is a floating rate issue whose interest rate is reset on a quarterly basis and is based on the Canadian Dealer Offered Rate (CDOR) plus 4 basis points. At March 31, 2013 the CDOR rate plus 4 basis points was 1.325 percent.

### Debt portfolio management fee

The Group pays an annual debt portfolio management fee to Electric Finance amounting to 0.6489 percent of the total long-term debt and short-term indebtedness, measured as at the beginning of the fiscal year.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### Principal repayments

Long-term debt principal repayments are due as follows

Year Ending	Principal Repayment
March 31, 2014 - current portion	\$ 192
March 31, 2015	39
March 31, 2016	443
March 31, 2017	313
March 31, 2018	410
March 31, 2019 and thereafter	2,565
Long-term portion	\$ 3,770
	\$ 3,962

## 22. Generating Station Decommissioning and Used Nuclear Fuel Management Liability

This provides details of NB Power Group's asset retirement obligations. It contains information on

- nature of the liability
- assumptions used for the liabilities
- liabilities at year-end

### Nature of the liability

Details of the liabilities are as follows

Liability	Nature	Funding Details
Thermal generating station decommissioning	Cost of decommissioning the thermal generating stations after the end of their service lives.	The liability is not funded.
Nuclear generating station decommissioning	Cost of decommissioning the nuclear generating station after the end of its service life.	See Note 16 for details on the funding of this liability.
Used nuclear fuel management	Cost of interim and long-term management of used nuclear fuel bundles generated by the nuclear generating station.	See Note 16 for details on the funding of this liability.

**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

For the year ended March 31, 2013

**Assumptions used for the liabilities**

The key assumptions on which the liabilities were based are as follows

	<b>Thermal decommissioning</b>	<b>Nuclear decommissioning</b>	<b>Used nuclear fuel management</b>
Undiscounted amount of estimated cash flows to settle liability			
- 2013	\$ 165	\$ 925	\$ 676
- 2012	\$ 175	\$ 907	\$ 662
Reason for the increase or decrease	Decommissioning spending offset by escalation and changes to the liability resulting from updated cost estimates and revisions to timing of cash flows.	Escalation and changes to the liability resulting from revisions to timing of cash flows.	Escalation and changes to the liability resulting from updated cost estimates and revisions to timing of cash flows.
Cash expenditures required until the year	2039	2081	2164
Rate used to discount cash flows			
- for initial recognition of the liability	7.1%	7.1%	7.1%
- for subsequent recognition of additional liability	4.4% to 6.3%	4.4% to 5.9%	4.4% to 5.9%
Inflation rate to determine asset retirement obligation	1.8% to 2.5%	2.0%	1.9% to 4.1%

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### Liabilities at year-end

The liabilities for thermal generating and nuclear generating stations decommissioning and used nuclear fuel management consists of the following

	2013	2012
<b>Thermal generating station decommissioning liability</b>		
Balance, beginning of year	\$ 114	\$ 91
Add: Liabilities incurred, including revisions to cash flows	(4)	26
Add: Accretion expense	6	6
Less: Expenditures	(10)	(9)
Balance, end of year	\$ 106	\$ 114
<b>Nuclear generating station decommissioning liability</b>		
Balance, beginning of year	\$ 164	\$ 155
Add: Liabilities incurred, including revisions to cash flows	24	-
Add: Accretion expense	10	9
Balance, end of year	\$ 198	\$ 164
<b>Used nuclear fuel management liability</b>		
Balance, beginning of year	\$ 271	\$ 243
Add: Liabilities incurred, including revisions to cash flows	-	15
Add: Accretion expense	14	14
Less: Expenditures	(2)	(1)
Balance, end of year	\$ 283	\$ 271
Total generating station decommissioning and used nuclear fuel management liability	\$ 587	\$ 549

### 23. Deferred Liabilities - Other

This provides details around the NB Power Group's other deferred liabilities. It contains information on the following

- early retirement liability
- retirement allowance liability
- Mine Reclamation Inc. environmental liability.

The table below summarizes the Group's deferred liabilities - other

	2013	2012
Early retirement programs	\$ 69	\$ 68
Retirement allowance program	26	26
Other future employee benefits payable	7	7
Mine Reclamation Inc. land reclamation	3	3
Mine Reclamation Inc. environmental liability	10	10
	115	114
Less: amounts due within one year <sup>9</sup>	(7)	(7)
Deferred liabilities - other	\$ 108	\$ 107

<sup>9</sup> Amounts due within one year are included in accounts payable and accruals.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### Early retirement liability

The NB Power Group has an unfunded early retirement program as described in Note 4(i). The latest actuarial calculation to estimate the liability was completed as at April 1, 2012.

The table shows

- Management's significant assumptions
- the costs recognized for the period, and
- the status of the obligation of the Group at year-end.

	2013	2012
<b>Assumption</b>		
Discount rate used to determine the early retirement liability	4.30%	4.90%
<b>Cost</b>		
Current service cost	\$ 3	\$ -
Interest on early retirement liability	5	5
Costs recognized for the year	\$ 8	\$ 5
<b>Obligation</b>		
Accrued benefit obligation	\$ 89	\$ 81
Unamortized losses	(20)	(13)
Early retirement liability	\$ 69	\$ 68

### Retirement allowance liability

The Group has an unfunded retirement allowance program as described in Note 4(h). The latest actuarial calculation to estimate the liability was completed as at April 1, 2012.

#### Assumptions

Management's significant assumptions include the following

	2013 (%)	2012 (%)
Discount rate used to determine the accrued benefit obligation	4.30	4.90
Expected salary increases	2.50	2.50

This table shows

- the costs recognized for the year, and
- the status of the obligation of the Group at year-end

	2013	2012
<b>Costs recognized for the year</b>		
Current service cost	\$ 2	\$ 2
Interest on retirement allowance liability	4	4
Costs recognized for the year	\$ 6	\$ 6
<b>Obligation</b>		
Accrued benefit obligation	\$ 49	\$ 47
Unamortized losses	(23)	(21)
Retirement allowance liability	\$ 26	\$ 26

### Mine Reclamation Inc. environmental liability

The Group and its subsidiary, Mine Reclamation Inc., have a long-term plan to treat acidic water drainage from an inactive mine. Mine Reclamation Inc. has recognized an unfunded environmental liability equal to the net present value of the expected future costs using a discount rate of 7.75% for the initial recognition of the liability and 4.39% for subsequent future cash flows.

The liability is as follows

	2013	2012
Balance, beginning of year	\$ 10	\$ 10
Add: Accretion expense	1	1
Less: Revision to cash flows	(1)	-
Expenditures	-	(1)
Balance, end of year	\$ 10	\$ 10

### Cash flows required to settle the liability

The total undiscounted amount of the estimated cash flows required to settle the liability is \$15 million.

## 24. Amounts Charged or Credited to Operations Not Requiring a Current Cash Payment

The amounts are as follows

	2013	2012
Amortization, decommissioning, and gain or loss on disposal	\$ 169	\$ 202
Retirement expense payments	3	1
Pension expense less related funding	24	10
Future payments in lieu of income taxes	(2)	2
	\$ 194	\$ 215

## 25. Related Party Transactions

Related parties of the NB Power Group include Electric Finance, New Brunswick System Operator (System Operator), and the Province of New Brunswick.

Electric Finance and the System Operator were established by the *Electricity Act* as follows:

- Electric Finance, a Crown Corporation and agent of the Crown, whose purpose is to facilitate the conversion of Holdco's debt to appropriate levels in the subsidiary operating companies and to assume and reduce the remaining portion of NB Power's debt
- System Operator, a not-for-profit body whose purpose is to independently direct the operation of the electricity market, and to maintain the long-term adequacy and reliability of the electricity system.

This note outlines transactions with these related parties.

## Revenues and expenses

The following related party revenues and expenses are included in the financial results for the year ending March 31,

	Electric Finance		System Operator	
	2013	2012	2013	2012
<b>Revenues</b>				
Transmission revenue	\$ -	\$ -	\$ 94	\$ 90
Miscellaneous revenue	-	-	4	1
	\$ -	\$ -	\$ 98	\$ 91
<b>Expenses</b>				
Transmission	-	-	87	85
Other	-	-	14	2
Interest	191	201	-	-
Debt portfolio management fee	29	29	-	-
Special payments in lieu of income taxes	33	58	-	-
	\$ 253	\$ 288	\$ 101	\$ 87

## Receivables and payables

The following related party receivable and payable balances existed as at March 31,

	Electric Finance		System Operator	
	2013	2012	2013	2012
Accounts receivable	\$ 17	\$ 11	\$ 13	\$ 10
Accounts payable	21	10	8	6
Accrued interest payable	36	37	-	-

The amounts included in accounts receivable and accounts payable for related parties are subject to the normal payment terms extended to unrelated parties.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### Dividends

During the year the Group declared and paid \$11 million in dividends, as compared to \$16 million in 2012, to Electric Finance.

### Debt and guarantees

The Group has debt payable to Electric Finance (Note 20 and 21) which is guaranteed by the Province of New Brunswick.

Electric Finance has provided certain guarantees for the Group to significant third-party creditors with respect to banking arrangements, trade payables and derivative financial instrument obligations.

### Payments to the Province of New Brunswick

During the year the Group made payments to the Province of New Brunswick for property taxes, utility taxes and right of way taxes of \$39 million, as compared to \$40 million in 2012 (see Note 8). The Group also made payments to New Brunswick Investment Management Corporation related to pension plans (see Note 19).

## 26. Financial Instruments

A financial instrument (see Note 4(k)) is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity (e.g. accounts receivable/accounts payable).

### Fair value of financial instruments

Fair value represents an estimate of the consideration that would be agreed on in an arm's length transaction between knowledgeable, willing parties under no compulsion to act.

A financial instrument's fair value at a given date (including fair values of forward contracts used for hedging purposes, and other derivative positions) reflects, among other things, differences between the instrument's contractual terms and the terms currently available in the market.

The financial instruments carried at fair value are classified using a fair value hierarchy which has three levels.

Hierarchy Level	Fair values are determined	Includes these financial instruments
1	using inputs that are quoted prices in active markets for identical assets or liabilities.	<ul style="list-style-type: none"><li>• the nuclear decommissioning fund</li><li>• the used fuel management funds</li><li>• other financial assets and liabilities (the fair value approximates the carrying value due to their short-term maturity)</li></ul>
2	using internal models using observable market prices as inputs	<ul style="list-style-type: none"><li>• derivative assets</li><li>• derivative liabilities</li><li>• long-term debt</li></ul>
3	based on internal models using inputs that are not based on observable market data.	The Group currently does not have any fair values in level 3.

### Valuation dates

For all of its financial assets and liabilities, the Group discloses fair values as at March 31, 2013.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### Outstanding financial instruments

This details the Group's outstanding financial instruments at March 31, 2013. It contains information on the following instruments

- a. Long-term debt
- b. Nuclear decommissioning and used fuel management funds
- c. Derivative instruments in hedging relationships
  - i. foreign exchange contracts
  - ii. heavy fuel oil contracts
  - iii. natural gas contracts
  - iv. coal contracts
  - v. electricity contracts
- d. Other financial assets and liabilities

#### a. Long-term debt

This financial instrument is categorized within financial instruments as other liabilities and is recorded on the combined balance sheet at book value.

At March 31, the Group had outstanding long-term debt as follows

	Hierarchy level	2013	2012
Cost (see Note 21)		\$ 3,922	\$ 3,950
Fair value	2	4,475	\$ 4,474

#### b. Nuclear decommissioning and used fuel management funds

This financial instrument is categorized as available-for-sale and is recorded on the Combined Balance Sheet at fair value.

At March 31, the Group had outstanding nuclear decommissioning and used fuel management funds as follows

	Hierarchy level	2013	2012
Cost		\$ 505	\$ 482
Fair value (see Note 16)	1	\$ 612	\$ 584
Gain in market value (included in AOCI)		\$ 107	\$ 102

### c. Derivative instruments<sup>10</sup>

#### i. Foreign exchange contracts

This financial instrument is recorded on the combined balance sheet at fair value.

The Group hedges exchange risk relating to net forecasted US dollar requirements, by entering into forward contracts to sell Canadian dollars and to acquire US dollars. At March 31, it had outstanding contracts maturing over the next 54 months as follows

	Hierarchy level	2013	2012
Net commitment to purchase (\$US in millions)		\$ 429	\$ 623
Weighted average exchange rate (\$US / \$CAD)		1.0229	1.0174
Fair value (liability)	2	\$ 2	\$ (6)

<sup>10</sup>A derivative asset represents a favorable mark-to-market position, whereas a derivative liability represents an unfavorable mark-to-market position.

#### ii. Heavy fuel oil contracts

This financial instrument is recorded on the Combined Balance Sheet at fair value.

The Group hedges its anticipated exposure to changes in the cost of heavy fuel oil.

At March 31, it has no outstanding contracts.

	Hierarchy level	2013	2012
Net notional amount (in millions of barrels)		-	0.2
Weighted average fixed price (in \$US per barrel)		\$ -	\$ 94.76
Fair value asset	2	\$ -	\$ 2

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### iii. Natural gas contracts

This financial instrument is recorded on the Combined Balance Sheet at fair value.

The Group hedges its anticipated exposure to changes in natural gas prices. At March 31, it had outstanding contracts maturing over the next 24 months as follows

	Hierarchy level	2013	2012
Net notional amount (in millions of mmbtu)		20.6	15.8
Weighted average fixed price (in \$US per mmbtu)		\$ 4.74	\$ 5.48
Fair value (liability) asset	2	\$ (1)	\$ -

### iv. Coal contracts

This financial instrument is recorded on the Combined Balance Sheet at fair value.

The Group hedges its anticipated exposure to changes in coal prices. At March 31, it had no outstanding contracts.

	Hierarchy level	2013	2012
Net notional amount (in millions of metric tonnes)		-	0.04
Weighted average fixed price (in \$US per metric tonne)		\$ -	\$ 98.40
Fair value asset	2	\$ -	\$ -

### v. Electricity contracts

This financial instrument is recorded on the Combined Balance Sheet at fair value.

The Group hedges, to the extent possible, its anticipated exposure relating to changes in electricity prices.

At March 31 the Group had outstanding electricity purchase contracts maturing over the next 45 months as follows

	Hierarchy level	2013	2012
Notional amount (in millions of MWh)		5.2	4.9
Weighted average fixed price (in \$US per MWh)		\$ 48.82	\$ 51.98
Fair value asset (liability)	2	\$ 22	\$ (68)

### d. Other financial assets and financial liabilities

The fair value of other financial assets and financial liabilities on the Combined Balance Sheet approximate their carrying values due to their short-term maturity.

## Summary of impacts of financial instruments

The following table summarizes the impact of financial instruments recorded on the balance sheet at March 31, 2013. These include

- the fair value of the derivative instruments in hedging relationships
- the fair value of the derivatives no longer qualifying for hedge accounting
- the market value change on the long-term receivable and nuclear trust funds

	Nuclear Trust Funds	Foreign Exchange	Heavy Fuel Oil	Natural Gas	Electricity	Total
Current portion of derivative assets	-	1	-	1	16	18
Long-term portion of derivative assets	-	1	-	-	6	7
Mark-to-market on Nuclear Funds (Note 16)	107	-	-	-	-	107
Current Portion of derivative liabilities	-	-	-	(1)	-	(1)
Long-term portion of derivative liabilities	-	-	-	(1)	-	(1)
Assets (liabilities)	107	2	-	(1)	22	130

The impact of financial instruments at March 31, 2013 resulted in a net asset of \$130 million (see previous table). Of the \$130 million recognized on the balance sheet

- \$4 million is recognized in retained earnings
- \$126 million gain (\$95 million gain after tax) is recognized in accumulated other comprehensive income (AOCI)

A reconciliation of these amounts are summarized in the following tables

The retained earnings impact table includes financial instruments that do not qualify for hedge accounting.

Retained earnings impact	Nuclear Trust Funds	Foreign Exchange	Heavy Fuel Oil	Natural Gas	Electricity	Total
<b>Balance - April 1, 2012</b>	-	-	2	-	-	2
<b>Current year adjustments</b>						
De-designated hedge adjustments	-	-	-	3	1	4
Settlements	-	-	(2)	-	-	(2)
	-	-	(2)	3	1	2
<b>Balance March 31, 2013</b>	-	-	-	3	1	4

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

The AOCI impact table includes financial instruments that qualify for hedge accounting.

AOCI impact	Nuclear Trust Funds	Foreign Exchange	Heavy Fuel Oil	Natural Gas	Electricity	Total
Accumulated other comprehensive income (loss) (before tax) - April 1, 2012	102	(6)	-	(24)	(68)	4
Current year impact of mark-to-market adjustments <sup>11</sup>	5	8	-	20	89	122
	<b>107</b>	<b>2</b>	<b>-</b>	<b>(4)</b>	<b>21</b>	<b>126</b>
Future special payments in lieu of income taxes reflected in AOCI	(27)	-	-	1	(5)	(31)
<b>Balance March 31, 2013</b>	<b>80</b>	<b>2</b>	<b>-</b>	<b>(3)</b>	<b>16</b>	<b>95</b>

<sup>11</sup>The current year's impact of mark-to-market adjustments does not reflect the impact of year-over-year tax rate changes of \$(1) million which is not reflected in the OCI statement.

## 27. Financial Instrument Risk Management

This describes the following types of risk:

- credit risk
- market risk, and
- liquidity risk

### Credit Risk

Credit risk is a risk that a financial loss will occur due to a counterparty failing to perform its obligations under the terms of a financial instrument.

### Managing credit risk

To manage credit risk, the Group

- conducts a thorough assessment of counterparties prior to granting credit, and
- actively monitors the financial health of its significant counterparties, and the potential exposure to them on an on-going basis.

The following is a summary of the fair value of the Group's financial instruments that were exposed to credit risk at March 31

Financial assets	Designated category	2013 Fair value	2012 Fair value
Cash	Held for trading	\$ -	\$ 4
Accounts receivable	Loans and receivables	280	263
Long-term receivable	Loans and receivables	18	-
Derivative assets	Held for trading	25	-
Nuclear decommissioning and used nuclear fuel management funds	Available for sale	612	584
		<b>\$ 935</b>	<b>\$ 851</b>

### Cash

The credit risk associated with cash is considered to be low as the funds are deposited with Canadian chartered banks.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### Accounts receivable

Accounts receivable is largely a combination of receivables from residential and commercial customers in-province and out-of-province. To reduce credit risk, the Group monitors outstanding receivables and pursues collection of overdue amounts.

The following table shows a summary of accounts receivable by the number of days outstanding for the Group as at March 31

Accounts receivable	2013	2012
Trade		
Trade receivables - current	\$ 197	\$ 184
60-89 days	2	2
Greater than 90 days	6	9
	205	195
Allowance for doubtful accounts	(5)	(5)
Miscellaneous <sup>12</sup>	64	62
Special payments in lieu of income taxes	16	11
	\$ 280	\$ 263

<sup>12</sup> Miscellaneous receivables include non-electricity sales, accruals and accrued hedge settlements.

### Allowance for doubtful accounts

The allowance for doubtful accounts is

- reviewed on a regular basis, and
- based on the estimate of outstanding accounts that are at risk of being uncollectible.

Reconciliation of allowance for doubtful accounts	2013	2012
Balance, beginning of year	\$ 5	\$ 4
Increase during the year	4	6
Bad debts recovery during the year	1	-
Bad debts written off during the year	(5)	(5)
	\$ 5	\$ 5

### Concentration of credit risk

No significant concentration of credit risk exists within accounts receivable as the receivables are spread across numerous in-province and out-of-province customers. In certain circumstances the Group holds deposits or requires letters of credit.

### Nuclear decommissioning and used fuel management funds

The Group limits its credit risk associated with the nuclear decommissioning and used fuel management trust funds by investing in liquid securities tied to creditworthy counterparties. The current portfolio comprises mainly provincial and federal government bonds. The related credit risk associated with these funds is considered to be low.

### Derivative Assets

The Group only enters into derivative financial instrument transactions with highly creditworthy counterparties. All of the counterparties with which the Group has outstanding positions have investment grade credit ratings assigned to them by external rating agencies.

The Group

- monitors counterparty credit limits on an ongoing basis, and
- requests collateral for exposures that exceed assigned credit limits.

There is a concentration of credit risk at March 31, 2013 in relation to derivative assets, as the bulk of the derivative asset balance is tied to a few counterparties. However, since the majority of the amount is associated with counterparties that are Canadian chartered banks and other reputable financial institutions the associated credit risk is considered to be low.

### Market Risk

Market risk is the risk that the Group's earnings or financial instrument values will fluctuate due to changes in market prices.

The Group is exposed to a variety of market price risks such as changes in

- foreign exchange rates
- interest rates
- commodity prices, and
- freight prices.

The Group manages these exposures through the use of forwards and other derivative instruments in accordance with Board approved policies.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

The following table provides a sensitivity analysis which shows the dollar value impact of small changes in various market rates and prices. The amounts shown are derived from outstanding volumes of financial instruments that existed at March 31, 2013.

(millions of dollars)	Impact on earnings before special payments in lieu of income taxes <sup>13</sup>	Impact on other comprehensive income before tax
Exchange and interest rates		
1 cent change in CAD/USD exchange rate	\$ -	\$ 4
0.5% change in short-term debt rates	3	-
0.5% change in investment yields	-	38
Commodity prices		
\$1/mmbtu change in natural gas prices	8	13
\$5/MWh changes in electricity prices	-	26

<sup>13</sup> These impacts are not included in other comprehensive income as the financial instruments are either not derivatives or not eligible for hedge accounting.

### Liquidity Risk

Liquidity risk is a risk that the Group will have difficulty or be unable to meet its financial obligations associated with financial liabilities.

The Group forecasts its financing requirements on a consistent basis so that it can plan and arrange for financing to meet financial obligations as they come due. The following table summarizes the contractual maturities of the Group's financial liabilities at March 31, 2013 and in future years.

Financial liability	Carrying amount	Contractual cash flows	2014	2015	2016	2017 and thereafter
Short-term indebtedness	\$ 792	\$ 792	\$ 792	-	-	-
Accounts payable and accruals	255	255	255	-	-	-
Accrued interest	36	36	36	-	-	-
Derivative liabilities	2	2	1	1	-	-
Long-term debt	3,922	3,962	192	39	443	3,288
Interest on long-term-debt	-	1,908	174	164	162	1,408
	\$ 5,007	\$ 6,955	\$ 1,450	\$ 204	\$ 605	\$ 4,696

The Group has the ability to generate sufficient funding to meet these financial obligations.

## 28. Commitments, Contingencies and Guarantees

This details the commitments, contingencies and guarantees in place at NB Power.

### Belledune Wharf

The Group has entered into an operating lease agreement for use of the port facility at Belledune. The agreement expired in 2013 and will be renewed on April 1, 2013 for a 10 year term, with a 10 year option to renew with the same party. This lease provides for annual charges of approximately \$4 million.

## Courtenay Bay Generating Station

This details the agreements that the Group has in place regarding the Courtenay Bay Generating Station. It contains information on agreements in the following areas

- rental of site facilities
- power purchase and transmission access
- natural gas transportation service.

### Rental of site facilities

The Group has entered into a lease agreement for rental of site facilities. The agreement expires in 2021 with a five-year option to extend.

## Power purchase agreements

The Group has other power purchase agreements with third parties, as follows

Initial duration of agreement	End date	Amount of energy	Agreement to purchase
20 years	2024	90 MW	all the capacity and electrical energy produced by a co-generation facility.
30 years	2027	38.5 MW	38.5 MW capacity and energy from a co-generation facility.
25 years	2033	96 MW	all the electrical energy of a wind generation facility.
5 years	2014	99 MW	90% of all the electrical energy of a wind generation facility.
20 years	2029	48 MW	all the electrical energy of a wind generation facility.
20 years	2029	51 MW	all the electrical energy of a wind generation facility.
25 years	2034	45 MW	all the electrical energy of a wind generation facility.
25 years	2035	54 MW	all the electrical energy of a wind generation facility.
20 years	2032	8.8 MW	all of the capacity, energy, and environmental attributes generated by the generating stations.

### Energy Sales and Transmission Rights Assignment Agreement (ESTRA)

The Group has entered into an ESTRA. The minimum take is 1,500,000 MWh for each of the next 5 years. At the end of the first contract year either party may terminate this agreement by providing at least 60 days prior, written notice to the other party.

### Power purchase and transmission access

The Group has a related power purchase and transmission access agreement. The agreement expires in 2021 with a five-year option to extend with the same third party.

The Group will purchase all the electrical energy produced by a 280 MW combined cycle natural gas unit during the winter period, November 1 to March 31, and from time-to-time some or all of the electrical energy produced during the summer period.

### Natural gas transportation service

The Group has entered into an agreement expiring in 2015 for firm natural gas transportation service to Courtenay Bay Generating Station. The cost of transportation will be recovered from the tenant that is a party to the lease agreement mentioned above.

### Coleson Cove - Fuel Supply Agreement

#### Supply

The Group entered into a 10 year agreement expiring in 2020 for the supply of the fuel oil requirements for the Coleson Cove Generating Station.

#### Delivery

The Group entered into a 10 year agreement expiring in 2020 for the delivery of fuel via a pipeline owned by a third party.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### Belledune - Fuel Supply Agreement

The Group entered into a 5 year agreement expiring at the end of 2016 for the supply of the coal requirements for the Belledune Generating Station.

#### Delivery

The remaining coal delivery is as follows

- 2013-14 approximately 320,000 tonnes at \$116 per tonne
- 2014-15 approximately 320,000 tonnes at \$113 per tonne
- 2015-16 approximately 320,000 tonnes will be shipped at a floating rate
- 2016-17 approximately 256,000 tonnes will be shipped at a floating rate.

### Gypsum Contract

The Group entered into a 21.5 year contract expiring in 2026 to supply a third party with synthetic gypsum. In the event of a production shortfall, the Group must pay the third party for the difference between actual gypsum supplied and the minimum amount of gypsum agreed to in the contract.

### Transmission power line

To ensure financial viability of the International Power Line project, the Corporation signed Commitment Agreements with load serving entities in the Maritimes for the equivalent of long-term firm transmission reservations through fiscal 2032.

### Transmission reservations

For the purposes of delivering electricity to out-of-province markets, the Group has committed to long-term transmission reservations with the System Operator.

### Ancillary services contracts

The NB Power Group has entered into three ancillary services contracts with the System Operator. The Group's obligation is to supply ancillary services for the life of the heritage assets (generation assets that were already held prior to restructuring). The services provided are

- reactive power and voltage support
- automatic generation control
- load following
- operating reserve, and
- black start capability.

### Environmental liability

The Coleson Cove Generating Station was commissioned in 1976. As part of a decommissioning study for the station it was discovered that there are elevated levels of vanadium and nickel in the water and sediment in Shannon Brook. Shannon Brook originates on the Coleson Cove property, and flows out to the Musquash Estuary. NB Power has retained a firm to conduct studies as to the cause of the elevated levels of nickel and vanadium.

### Large Industrial Renewable Energy Purchases Program

NB Power purchases electricity from renewable sources, such as biomass and river hydro, from qualifying large industrial customers who have renewable electricity generating facilities located in New Brunswick.

The program is included in the *Electricity Act* under the renewable portfolio standard regulation and commenced January 1, 2012. There are four program agreements in place. From April 1, 2012 to March 31, 2013, 428 GWh of qualified renewable energy was purchased under the program.

The Large Industrial Renewable Energy Purchase Program allows NB Power to purchase renewable energy generated by its largest customers at a set rate. This renewable energy will count towards meeting our Province's renewable energy targets at a purchase price at or below the current market price for most forms of renewable energy.

### Reduce and Shift Demand (RASD)

NB Power entered into an agreement dated July 25, 2012 as a result of the Smart Grid Initiative. The Master Services Engineering Agreement indicates that in the initial term ending September 15, 2017 (with options for subsequent renewal periods), that NB Power agrees to a minimum expenditure, subject to rights of termination and cost containment obligations, of \$35 million.

### Legal Proceedings

The NB Power Group may, from time to time, be involved in legal proceedings, claims and litigations that arise in the ordinary course of business which the Group believes would not reasonably be expected to have a material adverse effect on the financial condition of the NB Power Group.

## 29. Segmented Information

This provides information for the specific segments that make up the NB Power Group. It contains information on the following

- the Group's five business segments
- significant inter-company agreements
- financial overview for the current and previous years.

### The Group's five business segments

The Group is organized and operates under the following five reportable business segments.

Business segment	Responsibility
Genco	operating and maintaining the oil, coal, and diesel-powered generating stations.
Nuclearco	operating and maintaining the Point Lepreau Generating Station.
Transco	operating and maintaining the transmission system.
Disco	operating and maintaining the distribution system. Disco is designated as the standard service supplier for the Province of New Brunswick and is obligated to provide standard services to residential, commercial, wholesale and industrial customers located throughout the province.
Holdco (unconsolidated)	providing <ul style="list-style-type: none"> <li>• strategic direction, governance and support to the other business segments for communications, finance, human resources, legal, governance, and risk management, and</li> <li>• shared services on a cost-recovery basis.</li> </ul>

### Significant inter-company agreements

The Group has entered into a number of significant inter-company power purchase agreements. They are as follows

- power purchase agreement - Disco and Nuclearco
- power purchase agreement - Disco and Colesonco, and
- power purchase agreement - Disco and Genco.

#### Power purchase agreement - Disco and Nuclearco

Disco and Nuclearco entered into a power purchase agreement as follows

Aspect	Detail
Terms of the agreement	Disco purchases 95 percent of <ul style="list-style-type: none"> <li>• the Point Lepreau Generating Station's post-refurbishment 705 MW capacity, and</li> <li>• the electricity produced</li> </ul>
Expiration	The agreement expires in 27 years, the expected life of the Station. Disco has annual renewal options thereafter.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### Power purchase agreement - Disco and Colesonco

Disco and Colesonco entered into a 25-year tolling agreement as follows

Aspect	Detail
Terms of the agreement	<p>Disco purchases tolling capacity and related services to convert fuel to electricity. The agreement requires the sale of all energy generated at Coleson Cove Generating Station to Disco.</p> <p>Under the Colesonco purchase power agreement Disco pays a monthly capacity payment based on plant capacity (\$/MW-month) and a monthly payment towards plant operations and maintenance, and a charge in \$/MWh to cover variable costs, excluding fuel, and provide a nominal incentive to operate the plant as and when required.</p> <p>All of the capacity and energy delivered under the Colesonco purchase power agreement is made available to Genco to be dispatched along with other generation resources so as to minimize the overall cost of production to meet in-province requirements.</p> <p>The billing from Colesonco is passed over to Genco. Genco pays Disco and Disco in turn pays Colesonco. The Genco purchase power agreement capacity and energy charges incorporate all of the Colesonco capacity charges, monthly payment towards operation and maintenance and the variable charges related to in-province energy supply.</p>
Expiration	The agreement expires in March 2030.

### Power purchase agreement - Disco and Genco

Disco and Genco entered into a long-term power purchase agreement as follows

Aspect	Detail
Terms of the agreement	<p>Genco supplies capacity and energy to Disco.</p> <p>The commitment at March 31, 2013 was 2,358 MW of base capacity and 1,161 MW of peaking capacity.</p> <p>Under the Genco purchase power agreement, Disco has access to the capacity of all of the generation resources available to Genco. These include power purchase agreements that Genco has with third parties.</p> <p>The pricing has two parts, a capacity price (\$/MW) and an energy price (\$/MWh). The capacity price covers the capital related costs associated with the generating plants including Coleson Cove. The price applies to the base load capacity nominated by Disco to meet its supply obligations.</p>
Expiration	<p>The agreement expires when</p> <ul style="list-style-type: none"><li>• all of Genco's heritage assets, including third-party power purchase agreements, are retired or expire, or</li><li>• Disco reduces its nominated capacity under the terms of the agreement to zero.</li></ul>

**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

For the year ended March 31, 2013

**Financial Overview - 2013**

	Genco	Nuclearco	Transco	Disco	Holdco (Unconsolidated)	Eliminations	Total
Sales of power							
In-province	\$ 13	\$ -	\$ -	\$ 1,273	\$ -	\$ (4)	\$ 1,282
Out-of-province	240	14	-	-	-	-	254
Inter-company	739	218	-	6	-	(963)	-
Transmission	6	1	87	-	-	-	94
Miscellaneous	4	1	5	57	-	-	67
Other inter-company	3	-	18	3	86	(110)	-
<b>Total revenues</b>	<b>1,005</b>	<b>234</b>	<b>110</b>	<b>1,339</b>	<b>86</b>	<b>(1,077)</b>	<b>1,697</b>
Fuel and purchased power	711	9	-	1,061	-	(962)	819
Transmission	34	2	-	61	-	(8)	89
Operations, maintenance and administration	115	179	55	120	77	(100)	446
Amortization and decommissioning	71	63	15	32	3	-	184
Taxes	14	6	7	11	1	-	39
Finance charges	62	14	9	15	7	(7)	100
Regulatory deferral	-	-	-	(82)	-	-	(82)
Special payments in lieu of income taxes (recovery)	(1)	(2)	7	30	(1)	-	33
<b>Total expenses</b>	<b>1,006</b>	<b>271</b>	<b>93</b>	<b>1,248</b>	<b>87</b>	<b>(1,077)</b>	<b>1,628</b>
<b>Net earnings (loss)</b>	<b>\$ (1)</b>	<b>\$ (37)</b>	<b>\$ 17</b>	<b>\$ 91</b>	<b>\$ (1)</b>	<b>\$ -</b>	<b>\$ 69</b>
<b>Total assets</b>	<b>\$ 1,417</b>	<b>\$ 2,644</b>	<b>\$ 416</b>	<b>\$ 1,929</b>	<b>\$ 558</b>	<b>\$ (627)</b>	<b>\$ 6,337</b>
<b>Capital expenditures (net of customer contributions)</b>	<b>\$ 21</b>	<b>\$ 190</b>	<b>\$ 31</b>	<b>\$ 51</b>	<b>\$ 3</b>	<b>\$ -</b>	<b>\$ 296</b>

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### Financial Overview - 2012

	Genco	Nuclearco	Transco	Disco	Holdco (Unconsolidated)	Eliminations	Total
Sales of power							
In-province	\$ -	\$ -	\$ -	\$ 1,267	\$ -	\$ (1)	\$ 1,266
Out-of-province	215	10	-	-	-	-	225
Inter-company	815	188	-	5	-	(1,008)	-
Transmission	7	1	82	-	-	-	90
Miscellaneous	20	2	3	40	-	-	65
Other inter-company	-	-	20	4	80	(104)	-
<b>Total revenues</b>	<b>1,057</b>	<b>201</b>	<b>105</b>	<b>1,316</b>	<b>80</b>	<b>(1,113)</b>	<b>1,646</b>
Fuel and purchased power	674	-	-	1,071	-	(1,003)	742
Transmission	36	2	-	58	-	(9)	87
Operations, maintenance and administration	102	163	49	120	71	(96)	409
Amortization and decommissioning	116	41	19	38	3	-	217
Taxes	14	6	8	11	1	-	40
Finance charges	73	(11)	10	23	5	(5)	95
Regulatory deferral	-	-	-	(175)	-	-	(175)
Special payments in lieu of income taxes (recovery)	8	-	5	45	-	-	58
<b>Total expenses</b>	<b>1,023</b>	<b>201</b>	<b>91</b>	<b>1,191</b>	<b>80</b>	<b>(1,113)</b>	<b>1,473</b>
<b>Net (loss) earnings</b>	<b>\$ 34</b>	<b>\$ -</b>	<b>\$ 14</b>	<b>\$ 125</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 173</b>
<b>Total assets</b>	<b>\$ 1,479</b>	<b>\$ 2,470</b>	<b>\$ 402</b>	<b>\$ 1,775</b>	<b>\$ 469</b>	<b>\$ (589)</b>	<b>\$ 6,006</b>
<b>Capital expenditures (net of customer contributions)</b>	<b>\$ 12</b>	<b>\$ 202</b>	<b>\$ 19</b>	<b>\$ 44</b>	<b>\$ 2</b>	<b>\$ -</b>	<b>\$ 279</b>

## 30. Subsequent Event

In April 2013 the Group announced that it will be phasing out the retirement allowance for non-union employees. Accumulation of service, for the purposes of calculating retirement allowance, ceased on April 30, 2013. This results in a curtailment and settlement of the retirement allowance plan, resulting in a \$7 million expense in fiscal 2013-14.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### Statement of Generation

(millions of kWh)	2012-13	2011-12	2010-11	2009-10	2008-09
Hydro	2,585	3,582	3,132	3,221	3,172
Thermal	3,273	3,823	4,453	6,303	8,089
Nuclear	1,598	-	-	-	-
Combustion turbine	7	2	2	1	3
Purchases	10,595	9,780	9,546	6,772	5,295
<b>Gross generation and purchases</b>	<b>18,058</b>	<b>17,187</b>	17,133	16,297	16,559
Station service	515	355	414	491	535
<b>Net generation and purchases</b>	<b>17,543</b>	<b>16,832</b>	<b>16,719</b>	15,806	16,024
Losses - transformer and transmission	539	568	709	647	757
<b>Total energy available for distribution</b>	<b>17,004</b>	<b>16,264</b>	<b>16,010</b>	15,159	15,267

### Statement of Sales

(millions of kWh)	2012-13	2011-12	2010-11	2009-10	2008-09
Wholesale	1,186	1,106	1,128	1,145	1,207
Industrial	4,382	4,364	4,341	4,164	4,362
General service	2,310	2,334	2,294	2,304	2,372
Residential	4,932	4,983	4,840	4,857	5,036
Street lights	75	75	75	75	75
<b>Total in-province sales</b>	<b>12,885</b>	<b>12,862</b>	<b>12,678</b>	<b>12,545</b>	<b>13,052</b>
Interconnections	3,725	3,132	2,994	2,326	1,891
<b>Total sales</b>	<b>16,610</b>	<b>15,994</b>	<b>15,672</b>	<b>14,871</b>	<b>14,943</b>
Distribution losses	394	270	338	288	324
<b>Total energy distributed and sold</b>	<b>17,004</b>	<b>16,264</b>	<b>16,010</b>	<b>15,159</b>	<b>15,267</b>

### Statement of Revenue

(in millions)	2012-13	2011-12	2010-11	2009-10	2008-09
Wholesale	\$ 103	\$ 96	\$ 97	\$ 96	\$ 98
Industrial	321	306	311	294	307
General service	257	271	264	254	250
Residential	564	569	551	540	539
Street lights and energy imbalance	37	24	23	23	25
<b>Total in-province sales of power</b>	<b>1,282</b>	<b>1,266</b>	<b>1,246</b>	1,207	1,219
Interconnections	254	225	250	229	217
<b>Sales of power</b>	<b>1,536</b>	<b>1,491</b>	<b>1,496</b>	1,436	1,436
Gain (loss) on mark-to-market of long-term receivable	-	-	(22)	49	(145)
Miscellaneous	67	65	51	59	73
Transmission revenue	94	90	91	91	89
<b>Total revenue</b>	<b>\$ 1,697</b>	<b>\$ 1,646</b>	<b>\$ 1,616</b>	\$ 1,635	\$ 1,453

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### Statement of In-province Generation

(millions of kWh)	2012-13	2011-12	2010-11	2009-10	2008-09
Hydro	2,550	3,324	3,066	3,205	3,149
Coal and petroleum coke	2,326	2,683	2,672	2,952	3,515
Heavy fuel oil	224	288	875	1,851	3,201
Nuclear	1,312	-	-	-	-
Purchases <sup>1</sup>	7,456	7,357	7,085	5,473	4,272
Net generation and purchases	13,868	13,652	13,698	13,481	14,137
Losses - transformer and transmission	539	568	709	647	757
<b>Total energy available for distribution</b>	<b>13,329</b>	<b>13,084</b>	<b>12,989</b>	12,834	13,380

### Operating Statistics

	2012-13	2011-12	2010-11	2009-10	2008-09
Transmission lines - km	6,849	6,849	6,848	6,841	6,829
Distribution lines - km	20,815	20,786	20,602	20,595	20,397
Residential customers	318,834	319,102	316,104	312,779	309,623
Industrial customers <sup>1</sup>	1,840	1,860	1,875	1,898	1,904
General service customers	25,400	25,512	25,330	25,113	24,984
Non-metered customers	2,717	2,736	2,616	2,632	2,486
Direct customers	348,791	349,210	345,925	342,422	338,997
Indirect customers <sup>1</sup>	45,794	41,981	42,010	41,861	41,685
<b>Total customers</b>	<b>394,585</b>	<b>391,191</b>	<b>387,935</b>	384,283	380,682
Positions - regular	2,276	2,283	2,343	2,509	2,477
Positions - temporary	77	104	117	164	198
Positions - Mine Reclamation Inc. <sup>1</sup>	8	9	15	15	54
<b>Total positions</b>	<b>2,361</b>	<b>2,396</b>	<b>2,475</b>	<b>2,688</b>	<b>2,729</b>

<sup>1</sup>Certain comparative figures have been reclassified to conform to the current year's presentation Income Statement Summary

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### Income Statement Summary

(in millions)	2012-13	2011-12	2010-11	2009-10	2008-09
In-province sales of power	\$ 1,282	\$ 1,266	\$ 1,246	\$ 1,207	\$ 1,219
Out-of-province sales of power	254	225	250	229	217
Miscellaneous revenue	67	65	51	59	73
Gain (loss) on mark-to-market of long-term receivable	-	-	(22)	49	(145)
Transmission revenue	94	90	91	91	89
Total fuel and purchased power	819	742	874	887	869
Transmission expenses	89	87	90	86	82
Operations, maintenance and administration	446	409	416	447	415
Regulatory deferral	(82)	(175)	(216)	(147)	(386)
Amortization and decommissioning	184	217	199	199	186
Taxes, other than special payments in lieu of income taxes	39	40	40	40	43
Finance charges	100	95	114	132	140
Impairment of long-term asset	-	-	-	161	-
Special payments in lieu of income taxes	33	58	32	(53)	34
<b>Net (loss) earnings</b>	<b>\$ 69</b>	<b>\$ 173</b>	<b>\$ 67</b>	<b>\$ (117)</b>	<b>\$ 70</b>

### Balance Sheet Summary March 31

(in millions)	2012-13	2011-12	2010-11	2009-10	2008-09
<b>Assets</b>					
Current assets	\$ 536	\$ 503	\$ 542	\$ 613	\$ 736
Property, plant and equipment <sup>2</sup>	4,069	3,909	3,773	3,703	3,585
Long-term assets <sup>2</sup>	1,691	1,530	1,242	947	758
Other assets	41	64	75	116	111
<b>Total assets</b>	<b>\$ 6,337</b>	<b>\$ 6,006</b>	<b>\$ 5,632</b>	<b>\$ 5,379</b>	<b>\$ 5,190</b>
<b>Liabilities and Shareholders' Equity</b>					
Current liabilities	\$ 1,276	\$ 1,405	\$ 1,297	\$ 1,154	\$ 1,377
Long-term debt	3,730	3,469	3,417	3,481	3,051
Deferred liabilities	727	678	612	570	457
Shareholders' equity	604	454	306	174	305
<b>Total liabilities and shareholders' equity</b>	<b>\$6,337</b>	<b>\$ 6,006</b>	<b>\$ 5,632</b>	<b>\$ 5,379</b>	<b>\$ 5,190</b>

<sup>2</sup> Certain comparative figures have been reclassified to conform to the current year's presentation

**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

For the year ended March 31, 2013

**Cash Flow Summary**

<b>(in millions)</b>	<b>2012-13</b>	<b>2011-12</b>	<b>2010-11</b>	<b>2009-10</b>	<b>2008-09</b>
Cash flow from operations	\$ 263	\$ 388	\$ 293	\$ 245	\$ 273
Change in working capital	28	53	(36)	(65)	(60)
Nuclear trust fund payments and earnings	(23)	(22)	(22)	(21)	(35)
Regulatory deferrals excluding mark-to-market adjustments	(129)	(215)	(224)	(230)	(255)
Other	(18)	(13)	(10)	(7)	(2)
Operating activities	121	191	1	(78)	(79)
Investing activities	(294)	(264)	(183)	(250)	(381)
Financing activities	168	67	188	326	466
<b>Net cash (outflow) inflow</b>	(5)	(6)	6	(2)	6
Cash and short-term investments					
<b>Beginning of year</b>	4	10	4	6	0
<b>End of year</b>	\$ (1)	\$ 4	\$ 10	\$ 4	\$ 6

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2013

### Finance Charges

(in millions)	2012-13	2011-12	2010-11	2009-10	2008-09
Interest expense	\$ 191	\$ 201	\$ 202	\$ 197	\$ 193
Income from sinking funds, trust funds, and other	(23)	(22)	(21)	(22)	(21)
Debt portfolio management fee	29	29	28	26	22
Amortization of deferred debt costs	-	-	1	3	2
Foreign exchange (gain) or loss	2	-	1	4	(11)
Interest deferred <sup>10</sup>	(47)	(40)	(30)	(18)	(4)
Interest capitalized <sup>10</sup>	(52)	(73)	(67)	(58)	(41)
Net finance charges	\$ 100	\$ 95	\$ 114	\$ 132	\$ 140

### Financial Ratios

	2012-13	2011-12	2010-11	2009-10	2008-09
Operating margin <sup>3</sup>	10.2%	18.0%	11.4%	-3.9%	15.3%
Cash flow from operations / capital expenditures <sup>4</sup>	0.89	1.39	1.23	0.69	0.62
Cash flow from operations / total debt	0.06	0.09	0.07	0.06	0.07
Debt / capital <sup>5</sup>	90%	91%	94%	96%	93%
Interest coverage ratio <sup>6</sup>	1.03	1.59	1.02	(0.21)	1.26

### Other Statistics

	2012-13	2011-12	2010-11	2009-10	2008-09
Rate increase	0.0%	0.0%	3.0%	3.0%	3.0%
CPI (New Brunswick)	1.7%	3.5%	2.1%	0.3%	1.7%
GDP increases (New Brunswick) <sup>7</sup>	0.7%	1.2%	3.1%	-0.4%	-0.2%
Capital expenditures (millions) <sup>8,10</sup>	\$296	\$279	\$238	\$356	\$438
Change in total debt (millions)	\$181	\$83	\$197	\$339	\$479
Per cent breakdown of long-term debt					
Canadian dollar	100%	100%	100%	100%	100%
US dollar <sup>9</sup>	0%	0%	0%	0%	0%
Weighted average coupon interest rate	4.4%	4.7%	5.2%	5.2%	5.5%
Canadian Dollar - March 31 <sup>10</sup>	\$1.016	\$1.009	\$1.029	\$0.985	\$0.794

<sup>3</sup> Operating margin = (net income before finance charges - debt portfolio management fee) / total revenue

<sup>4</sup> Capital expenditures are net of customer contributions

<sup>5</sup> Debt ratio = (debt) / (debt + equity), where debt = (long-term debt + short-term indebtedness)

<sup>6</sup> Interest coverage ratio = [net income before finance charges + (income from sinking funds, trust funds, and other investments - debt portfolio management fee)] / (interest expense)

<sup>7</sup> In its 2012/13 budget documents, the Provincial Government restated its GDP growth rates for the past years

<sup>8</sup> Capital expenditures are net of customer contributions

<sup>9</sup> All U. S. denominated debt was transferred to New Brunswick Electric Finance Corporation on October 1, 2004

<sup>10</sup> Certain comparative figures have been reclassified to conform to the current year's presentation



Generating Capacity Thermal	
Coleson Cove	972 MW
Belledune	467 MW
<b>Total Thermal</b>	<b>1,439 MW</b>

Generating Capacity Hydro	
Mactaquac	668 MW
Beechwood	112 MW
Grand Falls	66 MW
Tobique	20 MW
Nepisiguit Falls	11 MW
Sisson	9 MW
Milltown	3 MW
<b>Total Hydro</b>	<b>889 MW</b>

Generating Capacity Nuclear	
Point Lepreau	660 MW

Generating Capacity Combustion Turbine	
Millbank	397 MW
Ste.-Rose	99 MW
Grand Manan	29 MW
<b>Total Combustion Turbine</b>	<b>525 MW</b>

Total Generating Capacity	
Thermal	1,439 MW
Hydro	889 MW
Nuclear	660 MW
Combustion Turbine	525 MW
<b>Total Generating Capacity</b>	<b>3,513 MW</b>

Power Purchase Agreement (PPA)	
Wind	294 MW

Other Power Purchase Agreement (PPA)	
Bayside (Natural Gas)	285 MW
Grandview (Natural Gas)	90 MW
Twin Rivers (Biomass)	39 MW
St George (Hydro)	15 MW
Edmundston Hydro	7 MW
Other Renewable	1 MW
<b>Total</b>	<b>437 MW</b>

Number of Lines	
Distribution lines	20,815 km
Transmission lines	6,849 km

Exporting and Importing Capacity	
Export capacity	2,270 MW
Import capacity	1,775 MW

Number of Customers	
# of direct customers	348,791
# of indirect customers	45,794
<b>Total Customers</b>	<b>394,585</b>



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