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# THIRD QUARTER REPORT

## YEAR-TO-DATE RESULTS

For the period ended  
December 31, 2017



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## OPERATIONAL HIGHLIGHTS

There are several global trends impacting energy providers – climate change, changes in customer expectations and behaviours, digitalization, aging infrastructures, micro-producers, competition, and more. As a result, NB Power is compelled to conduct business differently in order to help ensure adequate energy supply, meet customer expectations, integrate renewable resources, and provide low and stable rates.

The following are examples of initiatives announced over the quarter that help demonstrate NB Power's investments in building a smarter, more resilient, flexible and responsive power grid, and providing customers with more ways to save energy, time, and money.

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### **Energy efficiency investments upwards of \$234 million over the next five years**

New Brunswickers will benefit from investments in energy efficiency programs for homes, businesses and public spaces totaling up to \$234 million over the next five years.

These investments include up to \$82 million from NB Power, up to \$51 million from the federal government through the Low Carbon Economy Fund, and \$101 million for energy retrofits and renewable energy upgrades in provincial government buildings. These investments will reduce greenhouse gas emissions, create jobs and provide savings to consumers.

The \$234 million investment could support an estimated \$150 million growth in gross domestic product and up to 400 jobs over the five-year period. The multi-year investments will begin in spring 2018.

NB Power's investment of up to \$82 million will be made over three years and feature new and enhanced programs for homeowners, businesses and industry to reduce energy consumption. The new funding includes \$44.7 million for residential customers, \$32 million for commercial and industrial customers, and \$5.7 million to support public education and market transformation projects.

On their own, the new and enhanced NB Power programs could help New Brunswick avoid about 129,000 tonnes of CO<sub>2</sub> emissions, or the equivalent of taking 27,000 cars off the road. Investing in energy efficiency is a key part of NB Power's long-term strategy to ensure New Brunswickers have clean, reliable energy at stable prices for generations to come by reducing demand on the grid and investing in its modernization.

### **Work completed to storm harden causeway between Lameque/Shippagan**

NB Power constructed footings for 17 steel power poles to be placed on the Lameque causeway to strengthen its transmission system from Lameque to Shippagan. This work was completed as a result of a thunderstorm with 190-kilometre per hour winds which broke 30 poles in the Acadia Peninsula. (The installation of new steel poles, wire, and LED lighting was completed in January 2018.)

NB Power is also strengthening infrastructure in 11 communities in the province by installing storm structures in exposed areas. NB Power's multi-year transmission line rebuild program, which includes \$20 to \$27 million annually in reliability improvements, is part of the utility's more than \$100 million annual investment in transmission and distribution improvements.

### **NB Power seeks new fuel source for Belledune Generating Station**

NB Power is analyzing cleaner alternative fuel sources to power the Belledune station, including hydrogen, biomass and natural gas. This initiative is part of a larger strategy to reduce greenhouse gas emissions across a variety of sectors.

NB Power is also implementing other initiatives to reduce its greenhouse gas emissions, including a variety of consumer-based energy efficiency programs, smart grid applications, and demand side management.

## OPERATIONAL HIGHLIGHTS

### **Fish passage now open at Tobique Generating Station**

Improved survival rates of wild Atlantic salmon and other fish species on the St. John River watershed is the goal of a downstream fish passage at the Tobique Generating Station. The passageway, which was unveiled on November 20, 2017, was constructed by NB Power at a cost of \$9 million.

The project was a joint effort among NB Power, the federal Department of Fisheries and Oceans, local conservation groups and First Nations. It is part of a larger plan aimed at improving the protection of fish and fish habitat near hydro facilities on the St. John River watershed.

In 2010, a protocol agreement was signed by NB Power and the Department of Fisheries and Oceans to improve the protection of fish and fish habitat around hydro facilities on the St. John River watershed. The agreement has resulted in NB Power working with First Nations and stakeholder groups to identify, prioritize, and address issues related to fish and fish habitat on the river, including the need for research and safe passage for salmon runs through the Tobique Generating Station.

### **NB Power files rate application to improve options for customers**

On October 5, 2017, NB Power filed a rate application with the Energy and Utilities Board which, if approved, will help the utility to better service its debt obligations and to continue on a path to improve customer service, invest in new technologies, and increase renewable energy projects.

The rate application is for an average 2% increase, amounting to an extra \$4 a month for the average household in New Brunswick.

Any rate increase can be a challenge for our customers, which is why we continue to drive costs out of our business through continuous improvement while helping customers reduce their energy use. If the Energy and Utilities Board approves the application, New Brunswick would still have the lowest electricity rates in the Maritimes.

The application also includes a proposal to develop an Advanced Metering Infrastructure. Advanced Metering Infrastructure is a well-established and safe technology that will help improve efficiency, reliability, and security of our power grid. There are 10 million such meters in use in Canada and 50 million in use in the U.S.

The Advanced Metering Infrastructure technology allows two-way communication with customers, giving them a more complete and timely picture of their energy usage. It will also allow NB Power to pinpoint outages very quickly without customers having to notify their energy company, providing a greater ability to restore power more quickly.

The Energy and Utilities Board hearings are being held in February 2018.

### **NB Power adds to its eCharge Network**

The eCharge Network is NB Power's public charging program for plug-in electric vehicles (EVs), currently comprising 19 standard level-2 (240 Volt) and 10 fast (400 Volt) charging stations located throughout the province. The establishment of such an infrastructure supports the adoption and use of EVs throughout New Brunswick. Using the NB Power eCharge Network's charging stations for electric vehicles, New Brunswickers can save significantly on fuel costs and lessen their impact on the environment.

During this quarter, NB Power completed the first phase of fast-charging infrastructure along the TransCanada highway with the commissioning of a fast-charging station in Moncton at the Magnetic Hill Irving. EVs can now charge on Mountain Road in Moncton at a fast-charging or standard level-2 station. NB Power and the Atlantic Host Hotel also commissioned a standard level-2 charging station in Bathurst.

With a 124 per cent year-over-year increase, New Brunswick is Canada's fastest growing EV market.

# FINANCIAL HIGHLIGHTS<sup>1</sup>

## Electricity operations

NB Power's operating earnings were \$185 million for the nine-month period, which was \$20 million or 10 per cent lower than the same period last year.

Revenue from electricity sales within New Brunswick totaled \$962 million for the nine-month period, which was \$23 million or two per cent higher than the same period last year. This increase was primarily attributed to higher electricity prices and higher renewable energy sales. Out-of-province revenues of \$195 million were \$16 million or nine per cent higher than the same period last year mainly due to higher export sales.

Expenses attributed to electricity operations were \$1,032 million for the nine-month period, an increase of \$64 million or seven per cent higher than the same period last year. The increase was primarily as a result of an increase in fuel and purchased power cost of \$49 million, a \$10 million increase in depreciation and amortization, and a \$4 million increase in operations, maintenance and administration (OM&A).

Fuel and purchased power costs were \$49 million higher primarily as a result of higher volumes of electricity sold and lower hydro flows. Hydro flows were 17 per cent lower than the previous year and 16 per cent below the long-term average. Depreciation expense was \$10 million higher as a result of the 2016/17 Point Lepreau Nuclear Generating Station (PLNGS) planned capital maintenance outage. The \$4 million increase in OM&A was primarily due to more non-capital maintenance work being completed at the PLNGS in current year.

## Other income and expenses

NB Power's other income and expenses (finance costs, sinking funds and other investment income, and market value gains on investments) were \$156 million, an increase of \$4 million or three per cent higher than the same period last year. Less favourable market conditions led to a decrease in the gains on the investments year-over-year.

## Financial overview

Net earnings for the period ended December 31, 2017 was \$19 million, which represents a \$25 million decrease in earnings compared to the same period last year. The decreased earnings is largely the result of a decrease in gross margin (in and out-of-province revenue less fuel and purchased power costs), higher OM&A costs, and weaker financial investment performance.

## Debt management

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

(in millions)	31 Dec. 2017	31 March 2017	Change
Total debt	\$5,436	\$5,404	\$32
Cash	4	1	3
Sinking fund receivable	534	503	31
Total net debt <sup>2</sup>	\$4,898	\$4,900	\$(2)

Debt reduction is achieved when there is surplus cash after providing for the day-to-day operating and investing requirements. As the table above illustrates, net debt was reduced by \$2 million during the period.

<sup>1</sup>The financial information contained in the report includes abbreviated and condensed financial statements which have not been audited and contains financial estimates that are subject to change. Certain comparative figures have been restated to reflect adjustments made to the period results subsequent to the issuance of the prior year quarterly report.

<sup>2</sup>Net debt includes short-term debt, current portion of long-term debt and long-term debt, less sinking funds and cash.

## CONSOLIDATED STATEMENT OF EARNINGS (LOSS)

In millions of dollars (Unaudited)

	Nine months ended December 31		
	2017	2016	Variance
<b>Revenue</b>			
In-province	\$962	\$939	\$23
Out-of-province	195	179	16
Miscellaneous	60	55	5
<b>Total revenue</b>	<b>1,217</b>	<b>1,173</b>	<b>44</b>
<b>Expenses</b>			
Fuel and purchased power	(459)	(410)	(49)
Operations, maintenance and administration	(353)	(349)	(4)
Taxes	(33)	(32)	(1)
Depreciation and amortization	(187)	(177)	(10)
<b>Total operating expenses</b>	<b>(1,032)</b>	<b>(968)</b>	<b>(64)</b>
<b>Operating earnings</b>	<b>185</b>	<b>205</b>	<b>(20)</b>
Finance costs	(186)	(215)	29
Sinking funds and other investment income	1	30	(29)
Unrealized gains on investments	29	33	(4)
<b>Net earnings before changes in regulatory balances</b>	<b>29</b>	<b>53</b>	<b>(24)</b>
Net changes in regulatory balances	(10)	(9)	(1)
<b>Net earnings (loss)</b>	<b>\$19</b>	<b>\$44</b>	<b>\$(25)</b>

## OPERATING STATISTICS

	Nine months ended December 31		
	2017	2016	Variance
In-province sales (GWh)	9,045	8,966	79
Export sales (GWh)	2,751	2,384	367
Hydro flows above (below) long-term average (%)	(16)	1	(17)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In millions of dollars (Unaudited)

<b>Assets</b>	As at Dec. 31, 2017	As at Dec. 31, 2016	As at March 31, 2017
<b>Current assets</b>			
Cash	\$4	\$4	\$1
Accounts receivable	252	225	255
Materials, supplies and fuel	148	181	168
Prepaid expenses	24	21	13
Derivative assets	17	16	7
<b>Total current assets</b>	<b>445</b>	<b>447</b>	<b>444</b>
<b>Non-current assets</b>			
Property, plant and equipment	4,337	4,275	4,280
Sinking fund receivable	534	505	503
Long-term and other assets	758	750	732
<b>Total non-current assets</b>	<b>5,629</b>	<b>5,530</b>	<b>5,515</b>
<b>Total assets</b>	<b>6,074</b>	<b>5,977</b>	<b>5,959</b>
Regulatory balances	999	1,012	1,009
<b>Total assets and regulatory balances</b>	<b>\$7,073</b>	<b>\$6,989</b>	<b>\$6,968</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In millions of dollars (Unaudited)

<b>Liabilities and equity</b>	As at Dec. 31, 2017	As at Dec. 31, 2016	As at March 31, 2017
<b>Current liabilities</b>			
Short-term indebtedness	\$732	\$899	\$977
Accounts payable and accrued interest	316	270	297
Current portion of long-term debt	650	100	420
Derivative liabilities	12	42	14
<b>Total current liabilities</b>	<b>1,710</b>	<b>1,311</b>	<b>1,708</b>
<b>Non-current liabilities</b>			
Long-term debt	4,054	4,430	4,007
Deferred liabilities and derivative liabilities	953	919	933
<b>Total non-current liabilities</b>	<b>5,007</b>	<b>5,349</b>	<b>4,940</b>
<b>Total liabilities</b>	<b>6,717</b>	<b>6,660</b>	<b>6,648</b>
<b>Total equity</b>	<b>356</b>	<b>329</b>	<b>320</b>
<b>Total liabilities and equity</b>	<b>\$7,073</b>	<b>\$6,989</b>	<b>\$6,968</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

In millions of dollars (Unaudited)

	Nine months ended December 31	
	2017	2016
<b>Operating activities</b>		
Cash receipts from customers	\$1,233	\$1,211
Cash paid to suppliers and employees	(811)	(823)
Interest paid	(186)	(189)
<b>Cash provided by operating activities</b>	<b>\$236</b>	<b>\$199</b>
<b>Investing activities</b>		
Cash invested in property, plant and equipment	\$(237)	\$(207)
Cash expenditure on decommissioning	(12)	(16)
<b>Cash used in investing activities</b>	<b>\$(249)</b>	<b>\$(223)</b>
<b>Financing activities</b>		
Cash from long-term debt	\$295	\$295
Debt retirements	-	(300)
Repayment of short-term indebtedness	(245)	44
Sinking fund withdrawals and purchases (net)	(34)	(13)
<b>Cash provided by (used in) financing activities</b>	<b>\$16</b>	<b>\$26</b>
Net cash inflow (outflow)	\$3	\$2
Cash, beginning of period	1	2
<b>Cash, end of period</b>	<b>\$4</b>	<b>\$4</b>