

# Q3 QUARTERLY REPORT

for period ending December 31, 2008



**Énergie NB Power**

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# introduction

This quarterly report, the third produced this fiscal year, focuses on the progress NB Power has made in 10 key business areas for the benefit of New Brunswickers. It also highlights other key successes and challenges from October to December 2008. This report allows us to show you how we make decisions and conduct business on behalf of the people of New Brunswick. It outlines the details of our very complex network of power generation and delivery, and tracks our progress as we face the challenge of providing reliable electricity at the lowest possible cost to New Brunswickers.

By publishing these quarterly reports, New Brunswickers learn more about how we do our work, and are able to more closely follow our progress. This helps increase our accountability and transparency.





## OVERVIEW OF THIRD QUARTER

(October, November and December 2008)



Before addressing each indicator specifically, here's a general overview of the third quarter operations of this fiscal year (October to December 2008).

The Point Lepreau Generating Station Refurbishment Project remains the top priority for us. Once complete, the Station will secure electricity for the next 25-30 years from a Canadian fuel source that is not linked to volatile global fuel pricing. This will lead to greater stability in price for our customers. Furthermore, once the Station returns to service, it will help us avoid approximately two million tonnes of CO<sub>2</sub> emissions per year, a positive and sustainable contribution towards cleaner air for New Brunswick.

At present, the Project is approximately three to four months behind schedule. It is common to experience delays in projects of this magnitude, particularly since this is the first station in the world to undergo a refurbishment of this nature. We continue to work cooperatively with AECL to look for areas where we may recover time on our schedule. Workers remain dedicated to successfully completing this project for the people of New Brunswick. For more details on this project, see page 8.

This quarter, hydro generation was approximately 46 per cent above the long-term average. When the water flow is higher than normal, we experience considerable cost savings because hydro is the least costly of NB Power's generation choices. The higher-than-normal water flow helped to reduce our overall generation costs. We were able to take full advantage of high water flows from all units at the Grand Falls Generating Station, which had been shut down since May 1, 2008, due to damage sustained during spring flooding. The Station came back online in early October, six weeks ahead of schedule. The early start-up was the direct result of the hard work and dedication of our employees and contractors. Together, they saved NB Power approximately five million dollars in lost generation.

Winter in New Brunswick continues to be challenging for us. A series of storms causing snow, freezing rain, ice pellets and high winds caused many power outages throughout the province as

well as in Nova Scotia and Maine. Our dedicated crews gave up precious time with their family and friends to respond to these outages.

In December 2008, after restoring power to 15,000 NB Power customers, 18 of our crews consisting of 45 employees went to help our neighbours in Maine restore power after a severe ice storm.

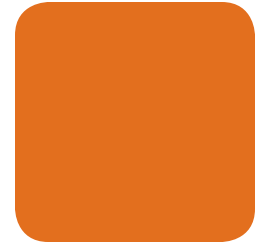
Days later, another storm hit New Brunswick and our crews worked safely to restore power to our customers. The next day, Christmas Eve, we received a request for assistance from Nova Scotia Power and our crews were quick to lend a hand. They worked Christmas Eve, Christmas Day and Boxing Day to get Nova Scotians back online so that they could enjoy their holidays. Though employees sacrificed time at home with their own families, they knew their work was appreciated by the people they helped. Residents came out of their homes to thank them, hug them, and give out Christmas cards.

"Our crews spent the holidays working in Nova Scotia because we knew it was the right thing to do," said Harry MacLean, Manager of Field Operations.

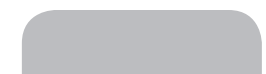
We are fortunate to have a cooperative spirit amongst neighbouring utilities and are able to support each other in times of need.

Another milestone we achieved this fall was being selected as an inductee into the 2008 Palladium Balanced Scorecard Hall of Fame for Executing Strategy™. NB Power was one of four North American organizations inducted into the Hall of Fame this year. In the nine-year history of this honour, NB Power is the only New Brunswick company to be acknowledged.

Financially, NB Power's operations continue to track positively against our targeted net earnings of \$69 million. Earlier this year, we faced significant challenges, including the shutdown of the Grand Falls Generating Station due to flooding damage and a major steam pipe leak at the Belledune Generating Station. These challenges were offset by increased hydro generation and the continued success of the energy marketing desk activities this quarter.



"NB Power crews were a big help to us in our recovery from one of the worst storms to ever hit our area. We're happy that we can count on them to lend a hand, and they can count on us to return the favor someday."  
- Doug Herling,  
Vice President  
of Operations at  
Central Maine Power.



# key performance indicators

Each of the Board's key performance indicators, outlined below is followed by a brief summary of NB Power's activity within this particular quarter.



## Board KPI 1 Limiting rate increases

Although fuel costs are rising, management will limit rate increases to three per cent each year over the next three fiscal years: 2008/09, 2009/10 and 2010/11.”

### Actions in third quarter:

Fuel and purchased power remains NB Power's single biggest expense, representing half of our total operating expenses.

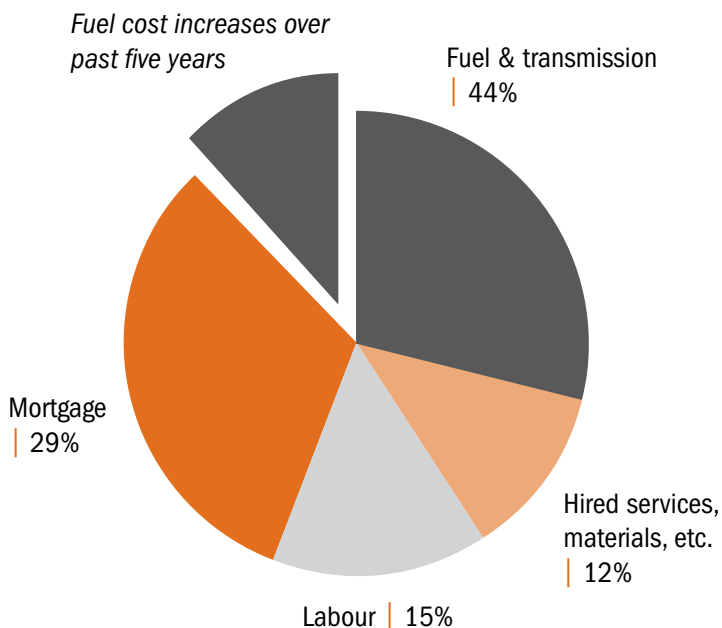
With this in mind, we continue to take advantage of our 24-hour, seven-days-a-week marketing desk to allow us to generate extra revenue on exports and achieve direct fuel cost savings through imports, depending on market conditions. When we need more power, this group works to find it at the best price. When we can buy power cheaper than we

can generate it, we buy it so we can keep our costs down for our customers. Only when we have more power than is required to meet New Brunswick's power needs, will we sell off the "surplus" to help lower our costs. This extra revenue source plays an important role in keeping rates lower for our customers.

Due to significant decreases in the price of heavy fuel oil, we had increased opportunities to sell energy into New England this quarter. In addition, we continue to benefit from the 18-month contracts for the supply of capacity and energy to Maritime Electric Company Limited and the City of Summerside that were signed in April 2008. Profits from all of these sales go towards keeping our costs down.

Another important development this quarter will now allow NB Power to more easily do business with the United States. Historically, we've made sales into the U.S. by delivering capacity and energy to the New Brunswick/Maine border and then using a third party to make transactions in the U.S. on our behalf. We are now fully authorized to do business in the U.S., without the use of a broker. We continue to actively seek sales opportunities in Maine.

We continue to address challenges in reducing and controlling costs for the remainder of this year and heading into 2009/10.





## Board KPI 2 Reducing electricity consumption

NB Power, working with Efficiency NB, will help our customers get more for their electricity dollar by helping them maximize ways to conserve electricity.

### Actions in third quarter:

Conservation and energy efficiency have always been viable options to reducing energy costs. In this quarter, several new activities were introduced to educate our customers, employees, communities and schools about conservation and energy efficiency.

The CEO and President of both Efficiency NB and NB Power signed a Memorandum of Understanding that clearly outlines how the two parties will work together to raise awareness about conservation and energy efficiency.

“We’re pleased to be working with NB Power to educate our students about the importance of conservation. They’re able to come in and bring resources and provide interesting and innovative opportunities for children to learn.” – Chris Treadwell, Principal of Park Street School in Fredericton

NB Power, Efficiency NB and Natural Resources Canada completed three workshops with municipalities in Grand Falls, Miramichi and Fredericton called “Dollars to \$ense - Spot the Energy Savings”. These workshops provide information on how municipalities can make their communities more energy efficient and save on municipal energy costs. Three more workshops are planned for next quarter in Grand Anse, Saint John and Bouctouche.

NB Power also provided support for the Provincial Capital Commission Lights Across the Province

initiative, which gave energy-efficient holiday LED lights to 50 communities in New Brunswick this year. These lights last longer and use less electricity; resulting in cost savings. They are also cool to the touch, and therefore safer. We provided messages on the back of our bills and helped facilitate the delivery of the lights to municipalities throughout the province.

In this quarter, we partnered with the Department of Education and the Royal Conservatory of Music’s “Learning through the Arts” program. Specially-trained local artists are working with teachers in three New Brunswick elementary schools (20 classes) to create lessons that complement the curriculum and bring engaging activities into the classroom through various forms of art. The following schools were selected to participate in our “Learning through the Arts” pilot program:

- Park Street School (Fredericton)
- Elsipogtog First Nation School (Elsipogtog)
- Académie Assomption (Bathurst)

Children are consumers of electricity from an early age and the wise use of electricity will benefit them for years to come. We also recognize the importance of making learning fun.

We’ve also been working with Science East and signed a sponsorship agreement to establish a Conservation Education Outreach pilot targeting middle school students. We will be able to share more with you as the initiative progresses.

Finally, NB Power’s energy management tool known as the “Home Energy Centre” is now available as part of our new Customer Self-Serve website. Customers are encouraged to visit the site at [www.nbpower.com](http://www.nbpower.com) to learn how to save money on their home electricity bill.



The students worked together to create art that represented the sounds in different natural and man-made environments. This poster represents the sounds in the woods, such as the crunching of leaves, birds chirping and water trickling down streams.



## Board KPI 3 Delivering electricity reliably and efficiently

The reliable and efficient delivery of electricity is fundamental to our service to New Brunswickers. To ensure the reliability of your electric power we will set and report on service targets for Fiscal 2008/09.



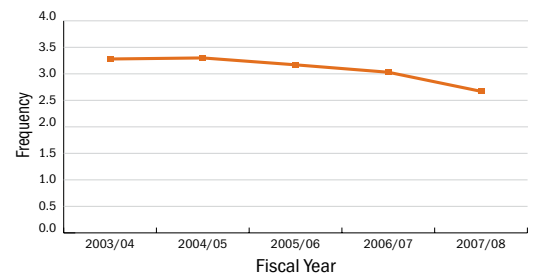
### Actions in third quarter:

Ensuring a constant reliable source of energy for all New Brunswickers remains a priority. We pride ourselves in knowing we deliver a reliable source of electricity, but we continuously challenge ourselves to do better.

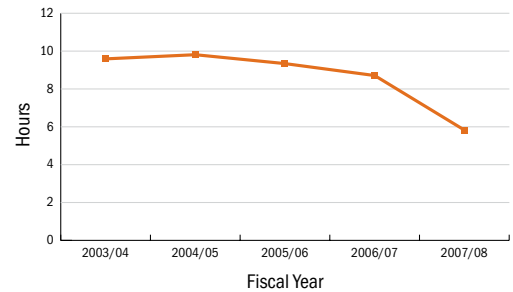
One of our key activities in this quarter was the introduction of a major component of the Customer Service Delivery (CSD) Project – the Customer Self-Serve website. CSD is a multi-year project that includes a complete review of customer service processes. The goal is to improve customer service and to better meet our customers' needs. By improving how we do things, we will find cost savings, which will help limit future rate increases.

The first release of the self-serve website was launched to the public on December 18, 2008. Further enhancements to the website, including paperless billing and allowing customers to view planned outages, will be implemented in the fourth quarter.

System Average Interruption Frequency Trend



System Average Interruption Duration Trend

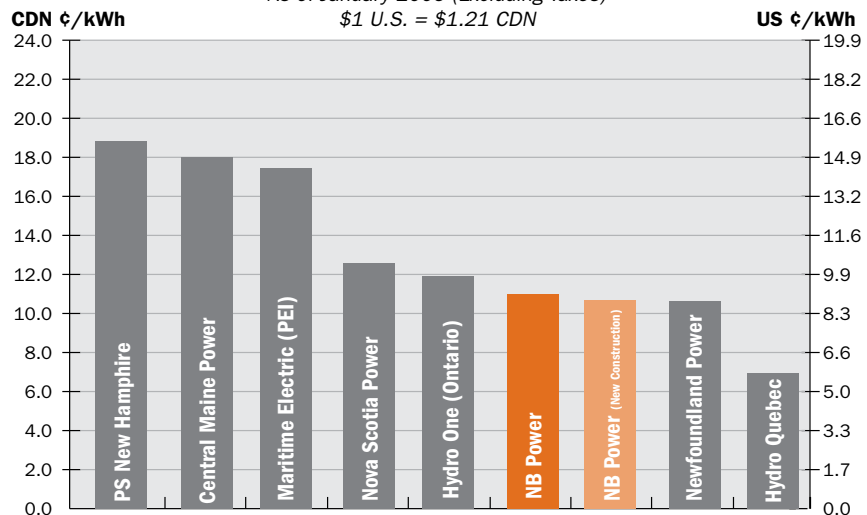


### RESIDENTIAL RATE COMPARISON – EASTERN CANADA & U.S.

Based on average consumption of 1,350 kWh/month

As of January 2009 (Excluding Taxes)

\$1 U.S. = \$1.21 CDN





## Board KPI 4 Reducing CO<sub>2</sub> emissions

With the real possibility of a carbon tax and carbon credits becoming part of the energy market, NB Power will reduce the amount of CO<sub>2</sub> it generates from seven million tons to five million tons by 2012 to protect against a substantial increase in environmental costs.

### Actions in third quarter:

Reducing CO<sub>2</sub> emissions is a key initiative for NB Power. A greater focus on wind energy is one way to help reduce emissions. In this quarter, all of our wind projects progressed well. TransAlta's Kent Hills Wind Farm is a prime example. The site work has been completed and the transmission line went

into service on October 27, 2008 and commercial operation of the wind farm started in December 2008.

A request for proposal for an additional 300 MW of wind power was issued in May 2007 and two vendors were selected for a total of four projects: Caribou (two sites), Lamèque and Aulac.



## Board KPI 5 Maximizing “Made-in-New Brunswick” energy options

Also looking to the future, it is important that NB Power maximize its “made-in-New Brunswick” energy options to guard against fluctuations in global energy prices. The first step will be to have NB Power integrate a minimum of 300 MW of wind energy into its grid by 2010.

### Actions in third quarter:

As always, we continue to look for opportunities to lower power generation costs, which will ultimately lead to savings for our customers. For the past several months we've been exploring alternative fuels and different fuel blends, including petroleum coke, at the Coleson Cove Generating Station.

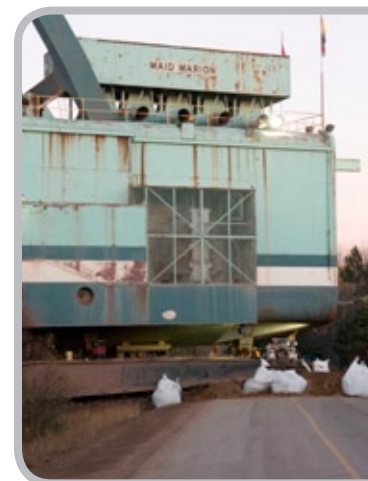
We've come up with a truly “Made-in-New Brunswick” energy option. In November 2008, we submitted an application for Environmental Impact Assessment approval for long-term use of alternative fuels and different fuel blends at the Coleson Cove Generating Station. During our testing, results showed that

- emission levels are favourable
- existing environmental technology is working well, and
- there has been no detrimental effect on existing equipment as a result of burning the new fuel blend.

As part of the EIA process, we held a public information session in early December 2008 to allow the public to ask questions or voice concerns about the fuel blending project. This session was well attended and provided a great opportunity for community members to further communicate with Station staff. While the Station's Community Liaison Committee works closely with the community on a regular basis, this session was another way to share information about this unique project.

Our Strategic Planning Group continues to look at lower-cost fuel alternatives for the Dalhousie Generating Station. The work at this point is preliminary and will lead to a decision on whether or not it's feasible to convert one unit at the Station to a petroleum coke/heavy fuel oil blend.

In order to address coal supply issues, NB Coal moved its dragline to a new mine site located at Albright's Corner. The dragline (pictured here) began the move in late September and arrived at the new mine site on November 21, 2008 and mining resumed in late November.





## Board KPI 6 Refurbishing Point Lepreau Generating Station

NB Power has a tradition of industry leadership in providing effective energy solutions. The refurbishment of the Point Lepreau Generating Station is the first of its kind in the world. Being on time and on budget will save New Brunswickers hundreds of millions of dollars. Although AECL is the primary contractor for the project, NB Power will manage the project to ensure that it is delivered on time and on budget.

### Actions in third quarter:

The Point Lepreau Generating Station (PLGS) Refurbishment Project is an 18-month, \$1.4 billion project (including replacement energy costs), which began on March 28, 2008 and is expected to extend the station's life by 25-30 years. The Station is currently shut down and is scheduled to return to service in late 2009. It is the first of the world's fleet of CANDU 6 reactors to undergo a refurbishment of this nature.

In October 2008, three new low pressure turbine rotors arrived at the Port of Saint John. While loading onto a barge in preparation for transport to PLGS, an incident occurred when two turbine rotors toppled into the water. Fortunately, there

were no workers injured. The turbine rotors were recovered and in December 2008 they were sent to the United Kingdom where they have undergone extensive examination and testing. We are optimistic that we will be able to install the recovered turbine rotors at the Station. Should this not be the case, we are prepared to reinstall the original turbine rotors.

At the end of December 2008, NB Power employees reached 2.3 million person hours on the project; that is equivalent to one person working approximately 291,000 eight-hour days. Safety remains a top priority for all NB Power employees and contractors working on site.

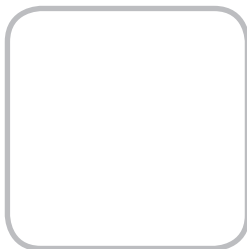
Throughout the third quarter, the project schedule continued to be challenged. While the project is approximately three to four months behind schedule, we are working collaboratively with AECL to find opportunities to recover lost time.

Direct project cost overruns due to project delays are the responsibility of AECL. NB Power is responsible for the cost of replacement energy that would be required during an extended outage. This replacement energy costs approximately \$1 million per day.

For more information on this project or to view our bi-weekly Refurb Reports, please visit the Powering the Future website at: [www.poweringthefuture.nbpower.com](http://www.poweringthefuture.nbpower.com).



A low pressure turbine rotor weighs approximately 107 tons, or about half the weight of a diesel locomotive engine.





## Board KPI 7 Planning for the future

It is essential that NB Power understands and anticipates its future business climate.

A special Strategic Planning Group will be re-instated with a mandate to source the least cost fuel alternative by, among others, working with neighbouring jurisdictions on transmission, generation, conservation, green energy alternatives and CO<sub>2</sub> reduction alternatives.



### Actions in third quarter:

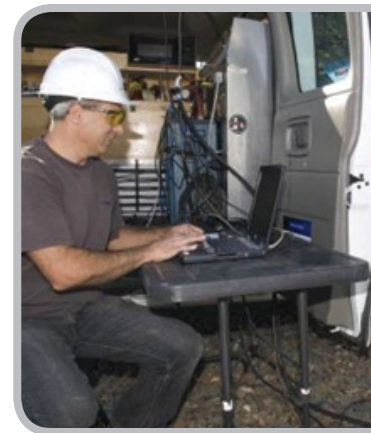
NB Power's success and proven record in innovation lies squarely with its people, the dedicated group of experts in the energy industry who continually strive to improve business processes and to anticipate where the industry is going. We understand the importance of having a strong workforce focused on the future and long-term success.

With this in mind, we continued the Workforce Management (WFM) project this quarter, a multi-year business process, which includes a comprehensive review of core work manage-

ment and maintenance management processes, and implementation of an integrated set of technologies that support NB Power's operational requirements.

Development is well underway for the spring 2009 implementation of new business processes for engineering and complex maintenance orders and work planning.

This approach will generate the opportunities NB Power is seeking as we plan for the future and continue to better understand and anticipate our future business needs.



### Governance and Structure – two separate but very important things

NB Power's organizational structure and governance are two separate items and both are key to NB Power's success. For this reason, we felt it was important to explain both, in relation to how we conduct business on behalf of the people of this province.

#### Governance

NB Power adopted the Carver Model of governance in October 2004. The model essentially allows for the Boards of Directors to focus on the big issues, to delegate clearly and appropriately, to monitor and control management's job but not overstep their boundaries, to rigorously evaluate the organization's performance, and to truly lead the organization. NB Power's governance structure is working effectively and is based on best practices. The New Brunswick Auditor General has reviewed this well-recognized model of governance as well as our reporting process to government. For more information on this model, check out [www.carvergovernance.com/model.htm](http://www.carvergovernance.com/model.htm).

#### Structure

In October 2004, NB Power was restructured into a holding company and four operating companies: NB Power Holding (Holdco), NB Power Distribution and Customer Service (Disco), NB Power Generation (Genco), NB Power Nuclear (Nuclearco) and NB Power Transmission (Transco).

NB Power's Boards of Directors are comprised of the President and CEO of the Group and 11 directors appointed by the Lieutenant-Governor-in-Council (the provincial cabinet), with one director designated as Chair.

Board members are business and community leaders representing a range of interests with the responsibility of directing the affairs of NB Power in a manner consistent with sound business practices.

The President and CEO of NB Power reports to the Boards of Directors, who in turn reports to the Minister of Energy. NB Power also provides monthly financial and operating reports to the Electric Finance Corporation (EFC) which is chaired by the Minister of Finance and is vice-chaired by the Minister of Energy.

The Energy and Utilities Board (EUB) oversees our changes to charges, rates and tolls of Disco through rate applications. In a report released on June 26, 2008, the EUB stated that after reviewing the current regulatory structure, a problem is evident. The report stated that the current regulatory structure does not adequately provide the EUB with information required to make rate application decisions.

The Premier and the Minister of Energy have acknowledged that this regulatory structure is complex and needs to be addressed. Two consultants have been appointed by the government to conduct a review of the electricity market in New Brunswick as well as the regulatory structure in question.





## Board KPI 8 Contributing to a strong economy

Building a strong economy is important to all New Brunswickers. Management will take an active role, working with business, labour and governments to foster economic opportunities in the Province.

### Actions in third quarter:

Although NB Power's mandate is to provide a reliable source of energy for the province, we also have a role to play in working with the broader community to create a stronger economy. For example, NB Power is a member of the No Disconnect Policy Liaison Committee. This committee is comprised of representatives from the Department of Energy, Department of Social Development and New Brunswick Municipal Electric Utilities (represented by Saint John Energy). The committee's role is to assist New Brunswickers in coping with their winter heating bills.

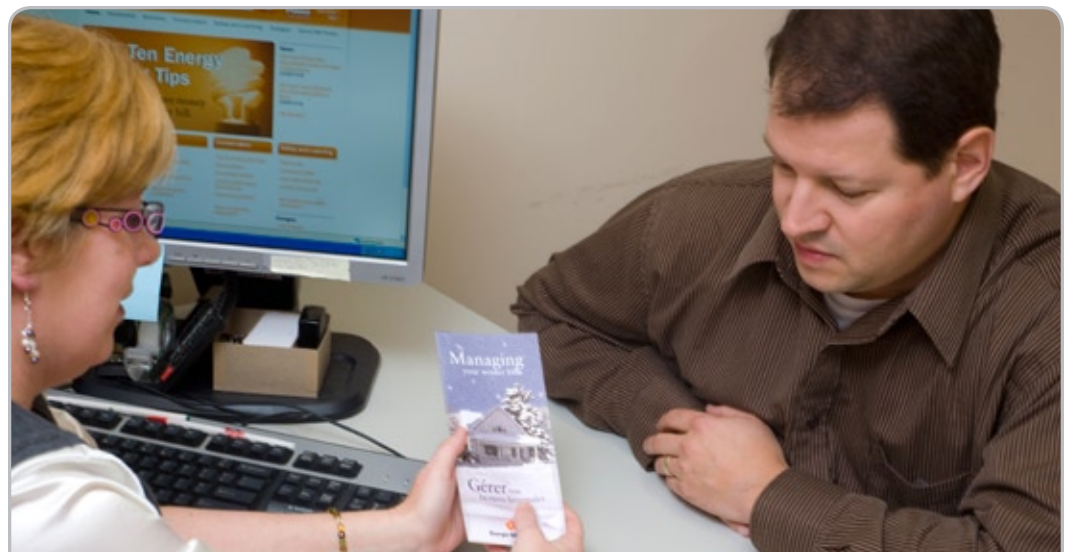
We also recently let the public know that we have extended the existing winter no disconnection policy until the end of April 2009 for residential customers experiencing legitimate economic need. We refer any customer indicating economic need to the Department of Social Development to determine their eligibility for government programs. We continue to work with customers to ensure that disconnection of electrical service remains the last resort.

In addition to the above, our Customer Interaction Centre team members work with our customers to promote Equalized Payment Plans as a viable option, and Credit Counselling Services of Atlantic Canada (CCSAC) has completed refresher training for all Customer Interaction Centre employees.

We're also partnering with CCSAC to hold province-wide workshops where people can seek financial advice and our team members are making sure that customers know that these workshops are available.

We're also a proud supporter of the Salvation Army's "Warm Hearts, Warm Homes" program, which was recently introduced. We're pleased to sponsor this program by contributing \$150,000. For more on this program, visit: [www.gnb.ca/cnb/promos/heat/Warm-e.asp](http://www.gnb.ca/cnb/promos/heat/Warm-e.asp).

In addition, we'll match donations made by our employees dollar-for-dollar, up to \$25,000. In order to match funds and have these funds in the hands of those who need it the most, our campaign will end on February 27, 2009.



The following information was also shared with our customers this past fall with their bill and on our website:

- A government information pamphlet called Facts and Tips on Winter Heating
- Managing Your Winter Bills pamphlet, which promotes Equalized Payment Plans (budget billing)
- Winter Operating Guidelines for Residential Customer with Overdue Accounts



## Board KPI 9 Communicating with New Brunswickers

In an effort to better serve our customers and New Brunswick, NB Power will issue quarterly reports detailing the status, opportunities and challenges of the electricity market globally and in New Brunswick. These reports will note NB Power’s quarterly progress in achieving its key performance indicators.

### Actions in third quarter:

NB Power is committed to keeping the people of New Brunswick informed about the company’s progress throughout the year. This third quarterly report publicly demonstrates how we stay on track and meet the demand for sufficient electricity generation to power all of New Brunswick’s homes and businesses. This

quarterly report allows NB Power customers to more closely follow our progress, which will, in turn, increase accountability and transparency.

We continue to update information available on our website. Fact sheets, reports and press releases are but a few of the additions that were made since the last quarter.



## Board KPI 10 Recruiting and retaining the right leadership

The energy industry is highly competitive and highly skilled. Successful utilities are more dependent on having the right people in the right jobs than they are on “wires”. To this end, the Boards of Directors will set performance-based incentives for the executive and these will be set to industry standards. Specifically, salaries for the executive will target the mid-range when set against competitors. These salary ranges will neither be the highest, nor the lowest in the industry. The Board has set performance-pay envelopes for senior executives which can reach up to 25 per cent of their salaries. Performance management will ensure the greatest likelihood of success for New Brunswickers.

### Actions in third quarter:

As noted in our last report, the government requested that we suspend the incentive portion of the plan. The Board noted that

the management of NB Power has agreed to this request. As a result, there are no further developments to report this quarter.



# what's next?

In the next quarter, we will continue to aggressively address project schedule challenges at the Point Lepreau Generating Station. We will also work collaboratively with AECL to recover lost schedule time.

We will continue to creatively look for cost savings throughout the organization and increase our education initiatives. Our employees will become more involved in local schools with programs designed to teach students about conservation and safety around electricity.

These quarterly reports show you how we make decisions and conduct business on behalf of New Brunswickers. By continuing to share information about our progress, we are improving our accountability and transparency.

Our next quarterly report will be released in May and will address our progress in our last quarter of the year - January, February and March 2009.



## About NB Power

The NB Power Group provides residents of New Brunswick electricity at the lowest possible cost, consistent with safety, reliability and the environment. The electricity is generated at 16 facilities and delivered via power lines, substations, and terminals to more than 375,000 direct and indirect customers within New Brunswick. In addition, the Group exports electricity to New England, Quebec, Nova Scotia and Prince Edward Island.

## Mission

To provide electricity at the lowest possible cost, consistent with safety, reliability and the environment

## Vision

To achieve a level of excellence that will rank the NB Power Group among the best-run utilities and that will contribute to a more vibrant New Brunswick.

We welcome your feedback.

### NB Power

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