

Q2 QUARTERLY REPORT

for period ended September 30, 2008



Énergie NB Power

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introduction

This is the second in a series of reports that will be shared with the public every three months to demonstrate NB Power's progress in 10 key areas. The report is structured around the 10 key performance indicators outlined by our Board in July 2008. The last key performance indicator is a measurement for the Board itself. The report is presented in this format to show how we track our progress and shape our future in the face of highly volatile fuel prices, environmental issues, and the requirement for competitively priced electricity to power a vibrant future for New Brunswick.

By publishing this quarterly scorecard, NB Power customers will learn more about how we do our work, and will be able to more closely follow our progress, which will, in turn, increase accountability and transparency.





OVERVIEW OF SECOND QUARTER

(July, August, and September 2008)



Before addressing each indicator specifically, here's a quick overview of the second quarter of operations for this fiscal year (April 2008 – March 2009).

The refurbishment of the Point Lepreau Generating Station continues to be our major priority. Over 1,800 people worked on the project in this quarter alone. The magnitude and importance of this project cannot be overstated. It's extremely important because, once complete, the Point Lepreau Generating Station will secure electricity for the next 25-30 years from a Canadian fuel source that is not linked to volatile global fuel pricing, which leads to savings for our customers. Furthermore, once the Station is up and running again, it will help us avoid two million tonnes of CO₂ emissions per year.

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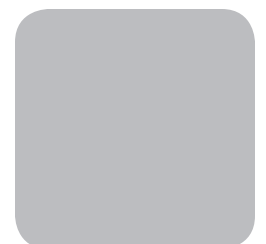
We also focused on completing repairs to the Grand Falls Generating Station, with two of the Station's four units returning to service this quarter. The repairs were necessary because the Station had received considerable damage during the flood in April. We completed the repairs ahead of schedule, creating a savings of about \$5 million worth of power that we would have had to purchase had the Station remained shut down as expected.

We also experienced some minor shutdowns during the quarter:

- The Dalhousie Generating Station Unit 2 experienced an 11-day forced shutdown in July due to a boiler tube leak;
- The Belledune Generating Station experienced a five-day forced shutdown in September due to a boiler tube leak; and
- The Grand Lake Generating Station's planned outage, originally scheduled for April and May, was completed in this quarter.

One particular challenge we faced this quarter is cause for concern for not only NB Power but the public as well. In this quarter alone, there were 12 break-ins and copper thefts at our facilities. These incidents are of significant concern, not only because of the cost of the materials stolen, but the significant electrocution risk that it poses both to the people that break in and steal the copper, and to our employees and others who need to replace the stolen material. A number of these incidents resulted in outages.

Finally, in September, NB Power was awarded the 2008 Canada Awards for Excellence (CAE) Silver recognition for a Healthy Workplace® from the National Quality Institute. This award is very important to us because it recognizes NB Power among private, public and not-for-profit sector organizations that have displayed outstanding performance in the areas of quality and healthy workplaces. Having our people at their best means we are performing at our best for New Brunswickers and are able to recruit and retain the best in the business.



key performance indicators

Each of the Board's key performance indicators, below, is followed by a brief summary of NB Power's activity within this particular quarter (July, August, and September 2008.)



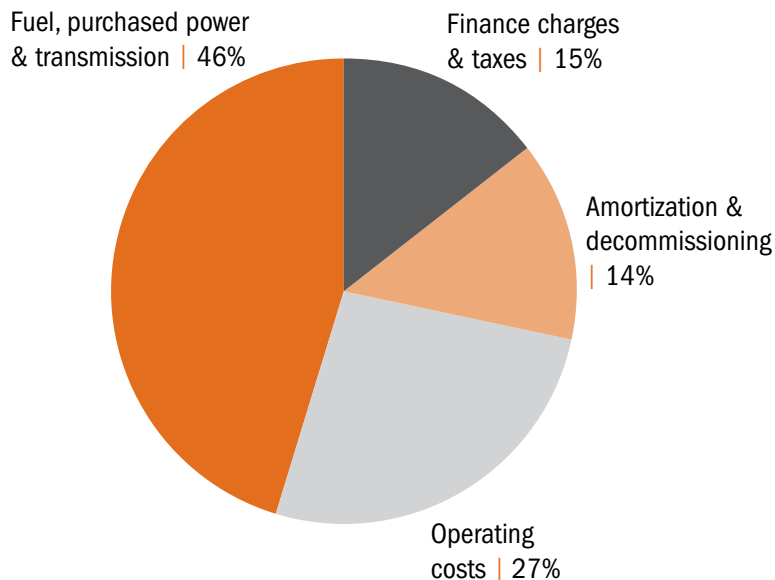
Board KPI 1 Limiting rate increases

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 second quarter:

Fuel and purchased power is NB Power's single biggest expense, representing one half of our total operating expenses. Despite the extreme fluctuation in the price of heavy oil, we have implemented a number of innovative ways to cut fuel costs and we will be able to break even within the 3% rate increase approved this year (2008/09).

Looking forward to 2009/10, we planned last year to make a profit for that year using a three percent rate increase. As we moved through this past year with the unprecedented fuel cost increases, it became apparent that we would incur a loss in 2009/10. (See *Why does NB Power buy fuel 18 months in advance?* on page 5). Fuel costs for 2009/10 have risen \$110 million dollars over the course of the past year compared with the predictions of the market and compared with the numbers used in last year's plan.



NB Power's management team has worked diligently over the past several months to find cost savings to offset the challenges of fuel price increases and other cost inflation for 2009/10. The costs next year could have been higher by some \$53 million if it were not for:

- \$40 million in fuel cost savings by changing the fuel blend and increasing the purchase of lower-cost electricity.
- \$10 million in savings by reducing or deferring selected maintenance work, travel, training, professional services and casual staff.
- Increasing revenue by \$3 million through increasing pole usage fees for other service providers, the sale of intellectual property and excess inventory.

We will also continue to strive for savings throughout our operation. Through these efforts,



we believe we can limit the deficit to approximately \$60 million in 2009/10. NB Power has not run a deficit in the last four years and, it is not something we take lightly, but we believe running a deficit is the right option in these uncertain economic times.

This past quarter, we continued to look at ways to reduce costs through using alternative fuels and different fuel blends. We made progress on this, continuing our petroleum coke tests at the Coleson Cove Generating Station to gather data for an environmental impact assessment application. We also took steps to burn a lower-cost fuel blend at the Belledune Generating Station. We were able to burn more diverse fuels because of the previous investments we made in scrubbers at our generating stations. To burn a lower-cost fuel blend at Belledune, we'll need to invest approximately \$1 million to modify and upgrade equipment but we expect this will offset rising coal prices in 2009/10 and will account for about \$20 million in savings.

We also continue to take advantage of our 24-hour, seven-days-a-week marketing desk to allow us to generate a surplus on exports and achieve direct fuel cost savings through imports, depending on market conditions. If New Brunswick needs

more power, this group will work to find it at the best price. If we can buy power cheaper than we can generate power, we will buy it so we can keep our costs down for our customers. Sometimes we have more power than is required to meet New Brunswick's power needs. If New Brunswick's needs are taken care of, we sell off the surplus at a profit. It's an important part of keeping our power rates lower for our customers.

The Energy Marketing Desk is like the stock exchange, selling and buying electrical power and energy hour by hour. It studies and responds to many factors in order to keep costs low. Each day begins with a meeting to discuss the impact of world conditions, weather, water flows, fuel prices, and business opportunities. It's an environment that changes quickly, even minute by minute, and that's why it is critical that the team is on the job 24 hours a day. We believe our efforts in buying power when it is cheaper than making it, will help us save an additional \$20 million over last year.

We will continue to do what we can to cut and control costs for the remainder of this year and heading into 2009/10.

Why does NB Power buy fuel 18 months in advance?

NB Power has a practice of locking in prices for fuel 18 months in advance so that we can provide predictable rates to our customers. Consequently, the lower fuel prices, which we have seen in recent months, will be realized for NB Power customers, but will only be reflected in our rate 18 months from now. In next year's budget, however, we will continue to be affected by higher fuel costs. The benefits of lower fuel prices will accrue to New Brunswickers, but it is a matter of timing. NB Power does not take speculative positions in the fuel commodity markets. Rather, each month, we fix prices for the 18th month forward, thereby capturing the ups and downs in the market, but moving the effect of those ups and downs forward by 18 months so that rates can be predicted.



Board KPI 2 Reducing electricity consumption

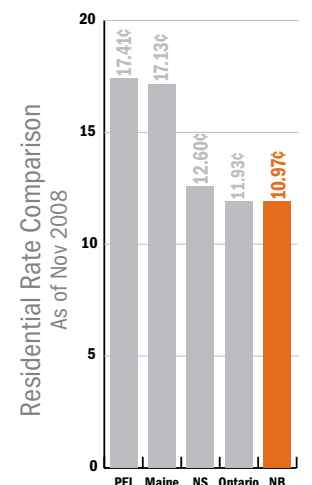
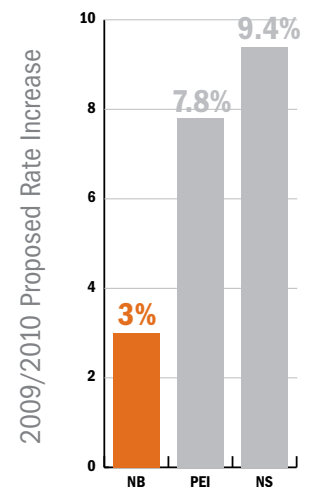
NB Power, working with Efficiency NB, will help our customers get more for their electricity dollar by helping them maximize ways to conserve electricity.

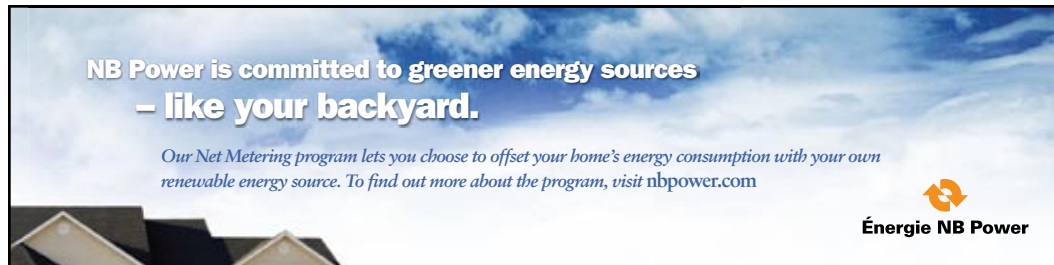
Actions in second quarter:

NB Power continued to work closely with Efficiency NB with the common goal to offer easy, cost-efficient ideas and programs to help New Brunswickers conserve energy and stretch their energy dollars. We worked towards establishing a memorandum of understanding with Efficiency NB that will help clarify each of our roles. NB Power's role is to educate and help consumers save money on their electricity costs.

Several new activities were launched this quarter to educate customers, employees, communities and schools about conservation and energy efficiency:

- **Net metering** – We promoted net metering in a special supplement of the Telegraph Journal. NB Power's net metering program provides customers the option of connecting their own environmentally friendly generation unit to NB Power's distribution system. This program allows customers to generate their own electricity to offset their own consumption, while still remaining connected to NB Power's distribution system to meet their electricity demands when their generation unit cannot. Visit www.nbpower.com for more information on this program.





- **Partnerships** - We partnered with the City of Bathurst and the Municipality Associations during this quarter to help provide conservation information in kits that were sent to area residents.
 - **The Employee Conservation Olympic Challenge** – As a fun and unique way to celebrate 2008 Beijing Olympic Games and promote conservation, NB Power employees accepted the challenge to come up with ideas on how to conserve electricity. After reviewing over 100 submissions, Gold, Silver and Bronze medals were awarded. The top three ideas included:
 - a program designed for youth organizations such as Girl Guides, Scouts and Beavers;
 - a program where students could estimate how much electricity their school consumes. This would allow students to utilize their planning and analytical skills while learning to conserve electricity;
 - sending conservation tips to customers via an electronic newsletter, asking them to share their conservation stories with others across the province via a Web site.
- We're closely examining all of these ideas and we hope to report back on these in a future report.



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 second quarter:

As in every quarter, ensuring a constant reliable source of energy for all New Brunswickers is always our priority. We pride ourselves in knowing we deliver a reliable source of electricity but we continuously challenge ourselves to do better.

For example, recent upgrades to our Outage Management System have helped us track more specific information about outages and helped

us pin-point problems quicker. Therefore, we're now able to more easily identify customers who experience multiple or long interruptions with their electricity, and track their duration. We are only one of a handful of utilities in the country able to track this type of information. Because of this improved technology, we are able to better locate the exact problem area and respond quicker, which ultimately leads to better service to our customers.





Board KPI 4 Reducing CO₂ 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 CO₂ it generates from seven million tons to five million tons by 2012 to protect against a substantial increase in environmental costs.

Actions in second quarter:

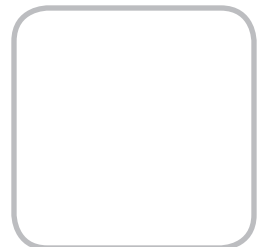
A key element of our carbon regulation program is the refurbishment of the Point Lepreau Generating Station, which is free of carbon emissions. The refurbishment, which will be completed in 2009/10, will extend the life of the station by 25-30 years and help reduce the carbon footprint. More information is available by visiting the Powering the Future Web site at: www.poweringthefuture.nbpower.com

We established a long-term plan so we can meet proposed federal regulations. We also continued to work with Canadian Electrical Association (CEA), of which we are a member, to make recommendations to government to help guide legislation and regulations in this area.

We continue to look at opportunities with wind power and we're working with the N.B. Department of Energy and Dr. Yves Gagnon on their community wind initiative and investigating further hydro opportunities.

In addition, we continued to work with an Industry Offsets Provincial Group (IPOG) that is made up of industry, oil and gas, non-government and provincial government representatives. The group is developing protocols with respect to carbon offset credits. This work is being led by our Strategic Planning Group.

NB Power continued to actively pursue wind energy, as discussed in the next indicator, and other forms of renewable energy.





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 second quarter:

NB Power is actively pursuing renewable energy opportunities. In January of this year we entered into agreements for the purchase of a total of 213 megawatts of wind to be online by 2009.

By the end of this second quarter, TransAlta’s 96-megawatt Kent Hills Wind Farm site work was nearing completion and remains on schedule with a targeted in-service date of December 2008. TransAlta is the Calgary-based company that is developing this 32-turbine wind farm about 40 kilometres (25 miles) southwest of Moncton. The power from this project will be supplied to the provincial electrical grid under a 25-year purchase agreement. Once fully operational, the farm will generate about 275,000 MWh of clean, renewable energy annually. That will be enough to power more than 17,250 homes every year and reduce carbon emissions by 192,500 tonnes annually.

The Environmental Impact Assessment for the 99MW wind farm in the Caribou Mountain area near Bathurst was approved in July. Clearing of the site began in September and the project is expected to be fully operational by the end of next year. The wind farm will have 16 wind turbines in one location on Caribou Mountain and another 17 turbines nearby. Together, these turbines are expected to generate enough power to support 19,000 homes.

Work on the Aulac and Lamèque projects is in the initial stages. The 64.6MW wind farm in Aulac will have 43 turbines while the 49.5 MW wind farm in Lamèque will have 33 turbines. Public consultation with landowners for the Lamèque project is scheduled to be completed by the end of December and the Environmental Impact Assessment for this project is scheduled for January 2009.

We also continued to explore options for another 100MW of wind energy.





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.

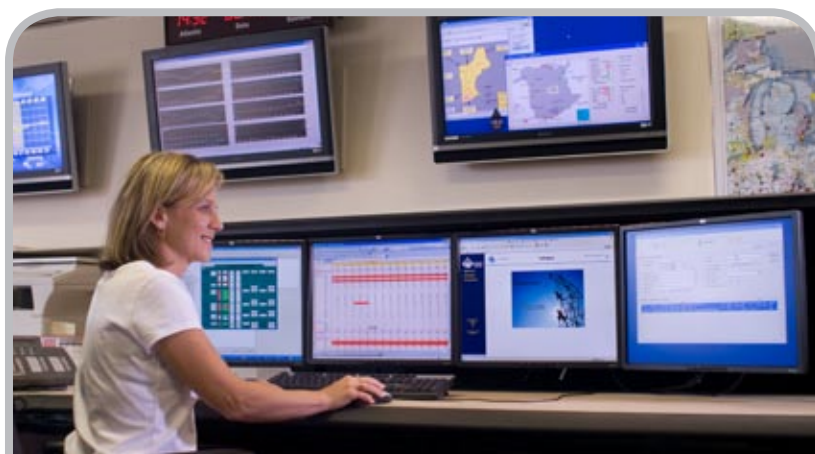
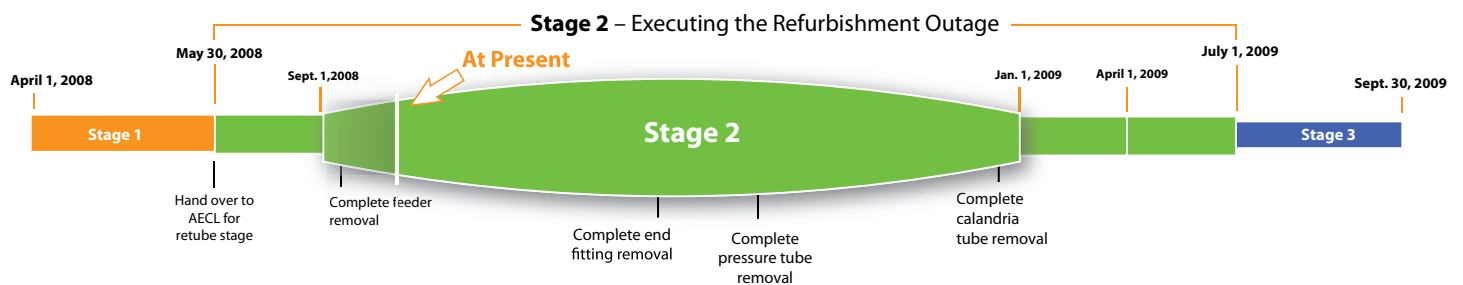
Actions in second quarter:

The refurbishment of the Point Lepreau Generating Station is the first of its kind in the world. This 18-month, \$1.4 billion (including replacement energy costs) refurbishment project began on March 28, 2008 and is expected to extend the station's life by 25-30 years. The Station is currently shut down for refurbishment and is scheduled to return to service in the fall of 2009.

Because this project is the first of its kind in the world, we planned every step very carefully and we're also prepared for any contingencies along the way. Key activities completed in this second quarter include: the safe removal of all heavy water from the reactor in preparation for the removal of all 760 feeder pipes, the removal of these pipes, and the installation of the fuel channel removal platform, which is required in order to proceed with the reactor disassembly.

To help ensure the project is completed on schedule, we recently sent 20 members of our nuclear team over to Atomic Energy of Canada Limited, who is responsible for this second phase of the project.

For more information on this project or to view our bi-weekly Refurb Report, please visit the Powering the Future Web site at: www.poweringthefuture.nbpower.com.



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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 CO₂ reduction alternatives.

Actions in second quarter:

The Strategic Planning Group was formed under the direction of Darrell Bishop, Executive Vice-President, Strategic Planning. Drawing senior staff from across the NB Power Group, it assumed the critical role of sourcing lower-cost alternative fuels and supporting modifications to generating stations to burn these fuels. For the longer term, this group has also begun to explore new power supply options focusing on renewable sources such as wind, hydro, biomass and, eventually, additional nuclear generation. In particular, the Group is looking at the potential for wind and hydro projects in Northern New Brunswick.

Working with customers, stakeholders, neighboring jurisdictions and provincial and federal governments on these new generation options, electricity conservation programs, and transmission additions, we are developing a long-term plan to provide for a reliable, sustainable and economic supply of electricity for New Brunswick.

The Strategic Planning Group is undertaking a number of initiatives to address fuel price and environmental challenges in the short term and will deliver a long-term Integrated Resource Plan by March 2010. The Integrated Resource Plan will examine and make recommendations on the long-term future of energy demand and supply in New Brunswick.



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 second quarter:

NB Power joined the Atlantic Bio Energy Task Force that is made up of regional government, industry, federal and regional organizations and post-secondary institutions. The group has come together to better understand what opportunities may exist in the area of wood-based bio products, while considering sustainable use of resources, current regional operations, maturing of new technologies, the current regulatory environment, and economic

impact. The outcome will be a study that will outline opportunities for potential for new green energy and bio-fuels that will be developed through the use of world-class technology on the basis of environmental sustainability.

NB Power also continues to work with New Brunswick companies to study potential co-generation projects. So far, none of these projects has proven to be economically advantageous for industry or for the rate payers but we will continue to study all alternatives.





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 second quarter:

NB Power is committed to keeping the people of New Brunswick informed about the company’s progress throughout the year. This second quarterly report is intended to publicly demonstrate how we stay on track and meet challenges in the face of volatile fuel prices and

the demand for sufficient electricity generation to power New Brunswick’s future. By publishing this quarterly scorecard, NB Power customers will be able to more closely follow our progress, which will, in turn, increase accountability and transparency.



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 Board 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 second quarter:

The legislation governing NB Power gives the authority to the Board of Directors for establishing compensation policy. The practice over several administrations has been for the policy to include both a salary and an incentive plan component. In prior years, the incentive plan was measured against the goals outlined in the company’s objectives. This was the case in fiscal 2004/2005, 2005/2006, 2006/2007 and 2007/2008. These measurement criteria however were not made public at the time. Payments were made in 2004/2005 and 2007/2008 in accordance with the objectives. Payments were foregone in 2005/2006 at management’s initiative because of economic conditions at the time.

In an effort to provide more openness and accountability for the fiscal year 2008/2009, the Board introduced a new system, making public a series of key performance indicators that would

be used by the Board in measuring management’s performance. In order to enhance its accountability to stakeholders, the Board has undertaken to report publicly every year on its evaluation of these indicators. A system that combines the public disclosure of key performance indicators with an incentive plan was considered by the Board to be at the forefront of corporate governance.

In these difficult economic times, the government has requested that the company suspend the incentive portion of the plan and the Board notes that the management of the company has agreed to that request.

The energy industry is competitive when it comes to recruiting and retaining senior executives. In establishing its policies, the Board had looked at companies such as Fortis Inc., Hydro Quebec, Newfoundland and Labrador Hydro Electric Corporation and SaskPower to try and establish a comparable executive compensation package. The Board did establish a compensation package that falls in the mid-range of similar executive groups.



what's next?

Overall, the second quarter of our fiscal year was very successful, operationally. Our thermal generation, transmission system, and customer distribution system operated well, and hydro generation was above average. While the challenges of the first quarter put a strain on our budget, the results of the second quarter helped us recover some of the ground we lost in the first part of the fiscal year.

This is the second time we've produced such a report and it offered highlights for our second quarter – July, August and September 2008. Our next quarterly report will be released in February and it will address our progress in the third quarter – October, November, and December 2008.



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.

Energie NB Power

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