

# Q1 QUARTERLY REPORT

for period ended June 30, 2008



**Énergie NB Power**

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# where we are

NB Power is committed to keeping you informed about our progress throughout the year. While we regularly communicate a great deal of information about what we do, we believe this new quarterly report will provide more detailed information about how we conduct our business so that it ultimately benefits the people of New Brunswick.

This is the first 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. It is structured around the 10 key performance indicators outlined by our Board in July 2008. Basically, these indicators are consistent with other measurements we've had in place internally to help measure our performance. They are now presented in this format to show how we track our progress and shape our future in the face of ever-rising fuel prices, environmental issues, and the requirement for competitively priced electricity generation to power a vibrant future for New Brunswick.

Key performance indicators, or scorecards, are commonly used by organizations to measure and improve how they operate. 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.

Although the key performance indicators were just announced in July, we are taking the initiative to use these new indicators to report on our activities from April to June (the first quarter of our fiscal year) so that at the end of the year, our customers will have a scorecard for the full year.





# Overview of First Quarter – Q1

(April, May and June, 2008)



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

Without question, we've faced a challenging first quarter. This is, in part, due to significant flooding damage, the most extensive of which was at the Grand Falls Generating Station.

Like many New Brunswickers, NB Power was impacted by the flooding conditions experienced this past spring. The severe flooding along the Saint John River at the end of April resulted in major flooding at the Grand Falls Generating Station powerhouse and switchyard. Although we had to shut down operations for a few months, it's a credit to our employee efforts that they were able to limit the damage, therefore reducing the shutdown time. The shutdown did force us to buy energy to replace what would have otherwise been generated by the Station. This additional \$15 million expense put significant pressure on our overall expenses. However, our employee efforts allowed us to re-open the station in September, therefore shortening the anticipated downtime, and, in turn, reducing the pressure on our expenses, which will ultimately benefit our customers.

We also had to address a manufacturing defect that caused a crack in a major steam line at the Belledune Generating Station. The Station had to be shut down to allow for repairs to the cracked steam line. This resulted in about \$18 million in additional costs.

We were faced with two challenges with the shutdown of the Grand Falls and Belledune generating stations: 1) the added costs of repairs, and 2) replacement of the power that could not be generated by these two stations while they were shut down. We also had to manage the need for replacement energy for the Point Lepreau Generating Station while it's being refurbished. Our employees responded well and we continue to provide New Brunswickers with a reliable supply

of energy from the Coleson Cove Generating Station and by importing replacement energy from other markets.

While we were faced with these issues, we also understood the devastating impact the flood had on our customers living within the damaged area, so we replaced all leased water heaters impacted by the flood, at no cost to our customers.

NB Power also faced the challenges of unpredictable and unstable world fuel prices during the first quarter. Similar to all New Brunswickers, we are having to deal with higher fuel prices. We need fuel to run our operations; in fact, it's one of our greatest expenses. The higher the fuel prices, the more important the challenge becomes in finding ways to lower expenses in other areas.

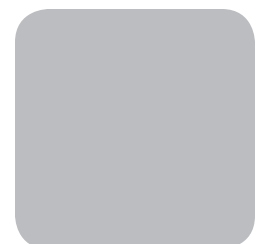
Throughout this first quarter, we continued to focus on four key initiatives:

- Refurbishment of the Point Lepreau Generating Station
- Mitigate the effects of rising fuel costs
- Commitment to the Environment
- Operational excellence

We started the year estimating that we would have a surplus of \$69 million for this fiscal year. The challenges of Q1 put a strain on this budget and while we are working to offset the added expenses, we are now predicting that we will not achieve the original target. While we continue to anticipate a positive bottom line at year-end, our biggest unknown is the amount of energy we can generate with our hydro facilities. The average water flow can vary significantly in any given year, causing swings of as much as \$50 million in energy generation costs. Basically, more water equals lower costs to generate electricity, whereas less water means we have to use more expensive fuels to generate electricity for New Brunswick. Water flows in Q1 were slightly below average. That could worsen or improve by year-end.



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# key performance indicators

Each key performance indicator below is followed by a brief summary of NB Power's activity within this particular quarter (April, May and June 2008.)



## 1. Limiting rate increases

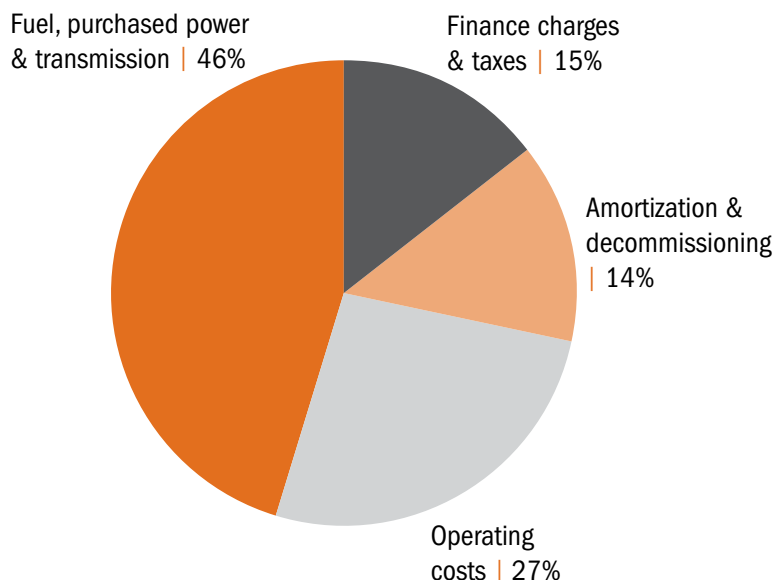
Although fuel costs are rising, management will limit rate increases to three per cent each year over the next three fiscal years: 2008/09, 2009/10 and 2010/11.

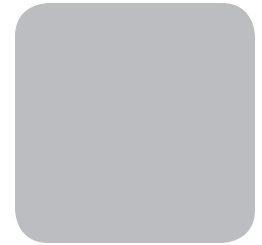
**Actions Q1:** The cost of fuel and purchased power is NB Power's single biggest expense, representing one half of our total operating expenses. This first indicator is a challenging one for us, especially with current world fuel prices continuing to rise this quarter. That said, for fiscal year 2008-09, which began April 1, 2008, we limited our rate increase to 3%.

Since we can't control world fuel prices, we keep looking at alternative fuels. For example, after considerable research in this area, we began a test in Q1 that is showing promising results. We began taking a closer look at the use of petroleum coke, a solid fuel that we mixed with existing liquid fuel, in one unit of our Coleson Cove Generating Station. Our test demonstrated that we have the technology to help us reduce fuel costs by 20-30% in that unit. We continue to closely monitor this approach to make sure it meets all environment standards but, if successful, it could lead to substantially lower generation costs in the future; as much as tens of millions per year.

We also took steps to burn a lower-cost fuel blend at the Belledune Generating Station, thereby further decreasing generation costs.

These efforts are very important because they could help mitigate the rising cost of fuel. What's important to know is that at NB Power, we lock in fuel prices for what fuel we predict we will need in 18 months. We do that to try and build predictability into our costs. In other words, by doing this, we can somewhat predict what our costs will be 18 months from now. Although we can't control the rising costs of fuel, we can exercise some control as to when it impacts our expenses. However it is important to note that when we need to purchase fuel that we did not plan for, such as what happened with the





shutdowns of the Grand Falls and Belledune generating stations, we are impacted immediately by higher fuel costs. We know that, for the most part, the price of fuel in Q1 will not impact our costs in this quarter, but we will begin to feel the effects of these rising prices 18 months from now. This gives us time to find solutions to help offset these rising costs.

We're also taking advantage of our 24-hour, seven-days-a-week marketing desk to allow us to achieve profit on exports and achieve direct fuel cost savings through imports, depending on market conditions. This quarter, the cost of generating

electricity often exceeded the export market prices in New England and reduced the exports to that market. However, our exports were higher than planned as a result of entering into new contracts with Maritime Electric Company Limited and the City of Summerside.

We were also able to take advantage of the lower New England prices and purchased energy from outside New Brunswick when it was more economical than using energy generated at our heavy fuel-oil based stations. This resulted in significant savings for New Brunswick.



## 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 Q1:** NB Power worked with Efficiency NB to begin establishing roles and responsibilities to ensure we avoid overlap of duties and create a strong co-operative partnership. Our common goal is to offer easy, cost-efficient ideas and programs to help New Brunswickers conserve energy and stretch their energy dollars. NB Power's role is to educate and help consumers save money on their electricity costs.

At the same time, in April, we held our first Earth Day Challenge where grade six classes across the province were asked to demonstrate how their class would take measures to conserve electricity. Submissions from students clearly indicated our youngest and most impressionable customers can have big impacts on the environment and

electricity use. In fact, one of the submissions involved students who became "energy police" by enforcing the conservation laws they had created by fining parents and teachers a quarter every time they did things like leaving a light on in an unused room. This event was an important first step in educating the new generation.

"Not only does Earth Day make people in the community aware of the need to conserve energy, but it gives young people an opportunity to broaden their knowledge and to make a difference." – Sharon McCracken, Vice Principal, Rothesay Park School.





### 3. Delivering electricity reliably and efficiently

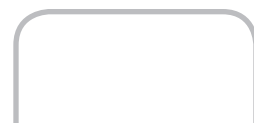
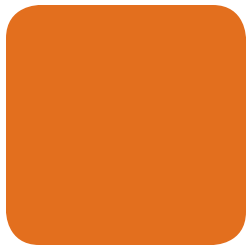
The reliable and efficient delivery of electricity is fundamental to our service to New Brunswickers. To ensure the reliability of your electric power we will set and report on service targets for Fiscal 2008/09.

**Actions in Q1:** In Q1, NB Power continued to focus on reliable generation and system operations to ensure adequate capacity and energy is available to meet New Brunswick's requirements, especially through the flooding conditions this past spring and throughout the period of the Point Lepreau Generating Station refurbishment outage.

In April, we activated a special team in the Customer Interaction Centre to work with customers faced with the damage left behind by the flood. This team was in place to help

these customers with additional support and information. We worked closely with the New Brunswick Emergency Measures Organization to ensure our customers' electrical service was restored as soon as safely possible. Approximately 760 disconnections were required due to the flooding. Our crews initially worked to safely disconnect homes that were identified as a risk, and reconnected homes once the water receded.

All of NB Power's dams on the Saint John River remained safe from the flood, due in part to some preventive measures taken at each facility. The Beechwood Hydro Generating Station was temporarily shut down because the difference between water levels above and below the dam was too small to produce energy. Beechwood returned to service on May 3 as the water level below the dam returned to near normal levels. The Grand Falls Hydro Generating Station was also shut down for safety reasons on May 1 after the Station's powerhouse was flooded.





## 4. Reducing CO<sub>2</sub> emissions

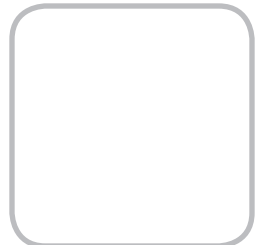
With the real possibility of a carbon tax and carbon credits becoming part of the energy market, NB Power will reduce the amount of CO<sub>2</sub> it generates from seven million tons to five million tons by 2012 to protect against a substantial increase in environmental costs.

**Actions in Q1:** Developments in the area of both national and provincial environmental regulatory frameworks have led to an increased focus on the reduction of greenhouse gasses and air pollutants. It's just a matter of time before a direct and hefty financial cost is attached to greenhouse gas emissions, either in the form of a cap-and-trade system or possibly a carbon tax. In Q1, we continued our work with the Canadian Electrical Association, of which NB Power is a member, to look at what energy issues may need to be addressed, and to make recommendations to government to help guide legislation and regulations in this area. We also began to more closely examine the impacts of potential carbon reduction regimes ranging from taxes to cap-and-trade programs.

Nuclear power offers New Brunswick a significant power source that is free of carbon emissions, which is why the refurbishment of the Point Lepreau Generating Station, for which the construction phase began in Q1, remains the main focus for us. This work will extend the life of the Station by 25 years and help us reduce our carbon footprint. Once the Station is up and running again it will help us avoid two million tonnes of CO<sub>2</sub> emissions per year.

Since every little bit helps, we also conducted audits of our facilities to look at how we might change our lighting and use more efficient equipment. Similar to our homes, there's real value in exploring all options that might help reduce the energy we consume.

On a larger scale, NB Power is actively pursuing wind energy, as you will see in the next indicator. The proposed wind developments are forecasted to reduce CO<sub>2</sub> emissions by one million tonnes per year, once all are in operation.





## 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 Q1:** NB Power is actively pursuing renewable energy opportunities. We've entered into agreements for the purchase of a total of 313 megawatts of wind to be online by 2009. The 96-megawatt Kent Hills Wind Farm site work, done by owner-operator TransAlta, began in May 2008 and is progressing well with a targeted in-service date of December 2008. Preliminary site work began at the Caribou wind site in June and we expect work to begin at the Aulac and Lamèque sites soon.

We've also had increasing interest from customers who want to control their energy costs by generating their own energy, so in Q1 we placed more detailed information on our Web site regarding net metering. NB Power's net metering program provides customers the option to connect 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](http://www.nbpower.com) for more information on this program.

NB Power's net metering program provides customers the option to connect their own environmentally friendly generation unit to NB Power's distribution system.



## 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 and that 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 Q1:** The refurbishment of the Point Lepreau Generating Station is the first of its kind in the world. This project is very important because, once complete, the Point Lepreau Generating Station will secure electricity for years to come from a Canadian fuel source that is not linked to unstable global fuel pricing. It will also continue to provide an environmental benefit by generating electricity that avoids

significant carbon dioxide, sulphur dioxide and nitrogen oxide emissions.

Prior to this refurbishment, Point Lepreau Generating Station supplied about 25% of the electricity consumed in the province. This is another reason why our team is focused on this project to ensure it is completed on time and on budget, and that we secure this significant source of power for years to come.



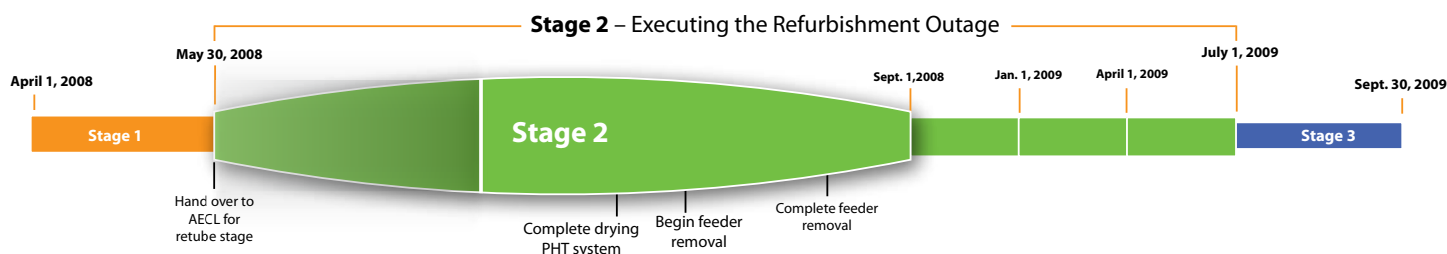


This work will take over a year to complete and is expected to extend the station's life by 25 years. As of the end of Q1, the project is on time and on budget. The Station is scheduled to return to service in the fall of 2009. For more information on this project, or to sign up for our bi-weekly Refurb Report, please visit the Powering the Future Web site at: [www.poweringthefuture.nbpower.com](http://www.poweringthefuture.nbpower.com)

and returning the Station to service. In April, at the beginning of Q1, we successfully shut down the station and removed all fuel, preparing it for Stage 2 of the project, which began a month later. In Stage 2 of the project, the station was turned over to the contractor responsible for the refurbishing.

There are three stages to this project: In the first stage, NB Power was responsible for the shutdown and removal of fuel; Stage 2 involves executing the outage; and Stage 3 will involve commissioning

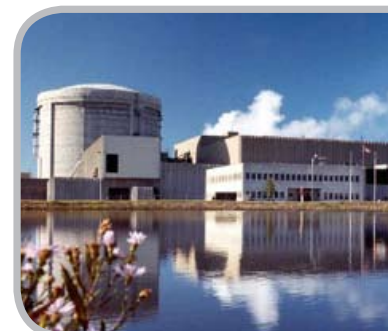
Throughout this project the focus will be on safety, with safety meetings and pre-job briefings being held as part of the standard for executing jobs. We recently reached a milestone of over 2.5 million person-hours at the Station without a "loss-time" accident.



## 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 Q1:** The per-barrel price for oil was higher than it has ever been and coal prices had more than doubled in the past year. In addition, world-wide attention to climate change and greenhouse gas emissions has resulted in unparalleled environmental regulation proposals from all levels of government. This led to increased momentum in the energy portfolio as our Province establishes New Brunswick as the Energy Hub.

As we look to the future, we know that our business will continue to be challenged and our customers will continue to expect us to deliver the lowest-possible rates. To respond to these challenges and those that lay ahead, we established a Strategic Planning Group that will be responsible for medium and long-term strategic planning. The strategic planning group is working on an integrated strategic plan to ensure production and delivery of electricity to power a more vibrant, self-sufficient New Brunswick. Planning in the face of rising fuel prices and CO<sub>2</sub> costs, will lead us to look at renewable sources and baseload nuclear for the future and efficiency of use.





## 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 Q1:** NB Power recently joined a task force to work with the Forest Product Association to look at biomass. Biomass energy (bioenergy) is energy stored in non-fossil organic materials such as wood. Like the energy in fossil fuels, bioenergy is derived from solar energy that has been stored in plants through the process of photosynthesis. In Q1, we worked with the Forest Product Association to provide recommendations to government and industry on how the proper management of biomass could contribute to the Province's energy needs.

NB Power also has a strong partnership with Labour, and without this strong partnership some of our key projects would not be as successful as they need to be. For example, our partnership with Labour was critical to the success of the first phase of the Point Lepreau Refurbishment project.

Safety is only possible with a solid partnership with our labour force. A strong partnership allowed us to achieve zero loss time for the first quarter. The safety of our employees is paramount but it also translates into better efficiencies and operational excellence, which, ultimately, benefits our customers.

This partnership is also helping us implement a new internal recruitment process that is also improving efficiencies.





## 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.

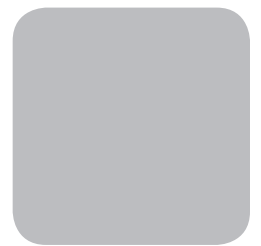
**Actions in Q1:** As mentioned earlier in this document, NB Power is committed to keeping the people of New Brunswick informed about the company's progress throughout the year. This is the first in a series of reports that will be shared within six weeks of the end of each quarter to demonstrate NB Power's progress in 10 key areas of business. This quarterly report is intended to publicly demonstrate how we stay on track and meet challenges in the face of ever-rising 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.



## 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 Q1:** Performance-based incentives have become an industry standard because the industry is highly competitive and it's becoming increasingly difficult to recruit and keep the highly-skilled people we depend on, especially the Executive team, the group most accountable for NB Power's performance. Competitive salaries and performance-based incentives allow the Board to reward exceptional performance when challenging objectives are met. To this end, in Q1, the Board looked at companies such as Nova Scotia Power, Fortis Inc., Hydro Quebec, Newfoundland and Labrador Hydro Electric Corporation and SaskPower for a better understanding of what is the standard across the industry in this country.



# what's next?

Without question, the first quarter of this fiscal year was a **challenging one**. Our dedicated and innovative team of employees overcame challenges to ensure our customers' needs were taken care of. While the organization dealt with emergency situations in a very professional manner, it also kept its eye on the future, recognizing the need to be innovative and to continuously focus on providing our customers with a reliable source of electricity.

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