

2008/09  
FINANCIALS

## Introduction

Management's discussion and analysis reviews the financial and operational results for the fiscal year ended March 31, 2009, relative to the previous year. This section should be read in conjunction with the Combined Financial Statements and the accompanying notes, as well as the Statistical Overview.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Companies included in the Combined Financial Statements

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

- New Brunswick Power Generation Corporation (Genco), which includes
  - New Brunswick Power Coleson Cove Corporation (Colesonco), and
  - NB Coal Limited (NB Coal)
- New Brunswick Power Nuclear Corporation (Nuclearco)
- New Brunswick Power Transmission Corporation (Transco), and
- New Brunswick Power Distribution and Customer Service Corporation (Disco).

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

## Contents of Management's Discussion and Analysis

Topic	Purpose
Financial and operating performance factors	Identifies and explains the effect of factors contributing to variability in earnings.
Financial performance	Explains the year's key financial results.
Significant events	Highlights significant events impacting the balance sheet and earnings results in the past year.
Operating financial results	Explains the operating financial results for 2008/09 including a year-over-year variance analysis.
Regulatory deferrals	Explains the impact of the regulatory deferrals.
Financial instruments	Explains how financial instruments impact financial results.
Liquidity and capital resources	Identifies and explains changes to liquidity and capital resources.
Critical accounting policies	Describes changes in accounting policies, and their impact.
Significant accounting estimates	Explains the estimates made, and how they impact earnings.

## Introduction

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

# FINANCIAL AND OPERATING PERFORMANCE FACTORS

## Impact of financial and operating performance factors

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

## Factors that affect financial and operating performance

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

Factor	Description
Heavy fuel oil based generation	<p>Heavy fuel oil subject to market price fluctuations represent</p> <ul style="list-style-type: none"> <li>• approximately 10 to 15 per cent of total supply, and</li> <li>• 15 to 20 per cent of fuel and purchased power costs.</li> </ul> <p>During 2008/09 there was significant market volatility with heavy fuel oil prices as they increased to all time highs of over \$110/bbl (USD) in July 2008 but began a dramatic decline in September and at year end were approximately in the \$40/bbl (USD) range.</p> <p>To minimize short to medium term heavy fuel oil price exposure, the Group purchases its forecasted in-province and firm export heavy fuel oil requirements 18 months forward.</p>
Exchange rates	<p>NB Power is exposed to foreign exchange risk when its purchases of fuel and power in US dollars exceeds revenue received in US dollars.</p> <p>There was significant volatility in the Canadian dollar during the past year. The value of the Canadian dollar compared to the US dollar fluctuated from 1.00 in May 2008 to 0.77 in March 2009. The volatility was especially prevalent in the fall of 2008.</p> <p>NB Power enters into purchase contracts 18 months forward for US dollar requirements net of expected US dollar revenue.</p>
Coal based generation	<p>Represents</p> <ul style="list-style-type: none"> <li>• approximately 20 to 25 per cent of total supply, and</li> <li>• 15 to 20 per cent of the fuel and purchased power costs. This has increased significantly over the previous year.</li> </ul> <p>Coal is purchased through tendered contracts of one to two year terms.</p>
Purchased power contracts based on natural gas	<p>Represents</p> <ul style="list-style-type: none"> <li>• approximately 5 to 10 per cent of total supply, but</li> <li>• approximately 15 to 20 per cent of the total fuel and purchased power costs.</li> </ul> <p>As a portion of the price of NB Power's purchase power contracts is based on natural gas prices, to manage this exposure the Group enters into purchase contracts 18 months forward.</p>

Factor (continued)	Description (continued)						
Short-term energy purchases	<p>Represent</p> <ul style="list-style-type: none"> <li>• approximately 20 to 25 per cent of total supply requirements, and</li> <li>• approximately 35 to 40 per cent of total fuel and purchased power costs.</li> </ul> <p>Depending on world oil prices, lower cost energy is purchased to displace internal oil-fired generation. NB Power enters into purchase contracts for energy up to 18 months forward to supply fore-casted requirements.</p>						
Out-of-province margins	<p>The Group is a price-taker in regional energy markets. In the normal course of business,</p> <ul style="list-style-type: none"> <li>• lower cost energy is directed to in-province use, and</li> <li>• higher cost energy, that is often heavy fuel oil based and only competitive if its marginal cost is lower than available market prices, is available for out-of-province sales.</li> </ul> <p>Market prices are driven by the cost of natural gas generation. NB Power sells more or less generation out-of-province based on the relationship between</p> <ul style="list-style-type: none"> <li>• world prices for natural gas, and</li> <li>• world prices for heavy fuel oil.</li> </ul> <p>The Group fixes margins by selling forward when not constrained by operating conditions.</p>						
Hydro based generation	<p>Represents NB Power's lowest-cost fuel for generating electricity. It typically accounts for 15 to 20 per cent of total production. The table below describes how hydro flows can increase or decrease generation costs.</p> <table border="1" data-bbox="589 861 1312 1020"> <thead> <tr> <th data-bbox="589 861 846 887">If hydro flows are</th> <th data-bbox="857 861 1312 887">then NB Power</th> </tr> </thead> <tbody> <tr> <td data-bbox="589 904 846 939"><i>below anticipated levels</i></td> <td data-bbox="857 904 1312 956"><i>uses other more expensive fuel to make up the shortfall and increases its generation costs.</i></td> </tr> <tr> <td data-bbox="589 965 846 999"><i>higher than anticipated</i></td> <td data-bbox="857 965 1312 1017"><i>reduces the use of expensive fuels and decreases its generation costs.</i></td> </tr> </tbody> </table> <p>Hydro net generation as a percentage of long-term average over the past ten years has ranged from 70 per cent to 120 per cent of the long-term average.</p>	If hydro flows are	then NB Power	<i>below anticipated levels</i>	<i>uses other more expensive fuel to make up the shortfall and increases its generation costs.</i>	<i>higher than anticipated</i>	<i>reduces the use of expensive fuels and decreases its generation costs.</i>
If hydro flows are	then NB Power						
<i>below anticipated levels</i>	<i>uses other more expensive fuel to make up the shortfall and increases its generation costs.</i>						
<i>higher than anticipated</i>	<i>reduces the use of expensive fuels and decreases its generation costs.</i>						
Nuclear based generation	<p>In previous years, nuclear generation represented up to 25 per cent of total production through the Point Lepreau Generating Station, of which effective operation is essential for NB Power's positive financial performance.</p> <p>On March 28, 2008, Point Lepreau Generating Station began an 18-month refurbishment outage. There was no production from nuclear generation in 2008/09.</p> <p>The additional costs to supply energy and the period costs incurred during the outage are charged to a deferral account (see regulatory deferral section for more details).</p>						

## Measuring financial and operating performance factors

The table below provides explanations of the factors behind NB Power's variability in earnings. The indicative prices quoted in the table below are un-hedged prices.

Financial and Operating Factors behind Variability	2008/09	2007/08	2006/07
<p><b>Range of heavy fuel oil prices (\$US / bbl Platt's NY 3 per cent) throughout the year</b>  <i>Platt's NY 3 per cent is a fuel price index benchmark reported by the dominant price benchmark reporting service Platt's NY 3 per cent refers to the sulphur level of heavy fuel oil against which NB Power benchmarks.</i></p>	\$27 - \$112	\$42 - \$75	\$34 - \$52
<p><b>Range of Canadian dollar throughout the year (\$US equivalent)</b>  <i>Exchange Rate: the rate at which one currency may be converted into another.</i></p>	\$0.77 - \$1.02	\$0.86 - \$1.09	\$0.84 - \$0.91
<p><b>Average International Coal Report coal market price (\$US / ton)</b>  <i>International Coal Report provides news and analysis on the international steam coal and coking coal markets, including evaluations of the major markets and benchmark price assessments for coal trading in the Atlantic and Pacific markets. The report covers data on shipping movements, tenders and contracts, and assesses spot prices for key benchmark prices for physical coal in both the Atlantic and Pacific markets for forward-month delivery.</i></p>	\$117.94	\$96.12	\$60.27
<p><b>Range of natural gas prices (\$US / mmbtu) throughout the year</b>  <i>mmbtu = 1 million British Thermal Units</i></p>	\$3.60 - \$13.60	\$5.40 - \$10.20	\$4.20 - \$8.90
<p><b>Average New England on-peak prices (\$US / MWh)</b>  <i>"On Peak Price" reflects the price of electricity when demand for electricity is highest.</i></p>	\$81.91	\$75.77	\$66.91
<p><b>Hydro net generation as a percentage of long-term average Net generation</b>  <i>Net generation is the amount of electricity generated by a power plant that is transmitted and distributed for consumer use and is the result of gross generation less the electric energy consumed at the generating station for station use.</i>  <i>Long-term average hydro energy is the amount of energy that can potentially be produced using the average river flow, based on the period of record (the period of record for NB Power is 1954-1994)</i></p>	117%	104%	117%
<p><b>Point Lepreau Generating Station net capacity factor</b>  <i>Capacity factor of a power plant is the ratio of the actual output of a power plant over a period of time and its output if it had operated at full capacity the entire time.</i></p>	-	78.2%	78.4%

## Introduction

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

# FINANCIAL PERFORMANCE

## Significance

This demonstrates how effectively the NB Power Group is adhering to its mandate of serving electricity to New Brunswickers while sustaining modest earnings.

## Key measures of financial performance

Financial Performance (in millions)	2008/09	2007/08	2006/07
Net earnings	\$70	\$89	\$21
Cash flow from operations	\$273	\$316	\$238
Capital expenditures	\$438	\$409	\$287
Increase in debt	\$479	\$230	\$84
Expenditures (revenue) deferred for regulatory purposes	\$386	\$(73)	-

## Financial ratios and percentages

Financial Ratios and Percentages	2008/09	2007/08	2006/07
Operating margin	15%	17%	13%
Operating cash flow / capital expenditures	0.62	0.77	0.83
Operating cash flow / total debt	0.07	0.09	0.07
Capital expenditures / Net book value of property, plant and equipment	12%	12%	8%
Per cent of debt in capital structure	93%	91%	93%
Interest coverage ratio <sup>1</sup>	1.28	1.60	1.03

<sup>1</sup>Interest coverage ratio is defined as adjusted finance charges (finance charges net of interest income, realized foreign exchange, debt portfolio management fee, interest during construction, debenture discount amortization and deferred interest amortization) divided by the adjusted earnings before interest and taxes (earnings before interest and taxes net of debt portfolio management fee and investment income). This formula was deemed appropriate by the New Brunswick Energy and Utilities Board (EUB).

## During 2008/09 the NB Power Group

- generated net earnings of \$70 million compared to \$89 million in 2007/08
- generated earning before special payments in lieu of income taxes of \$104 million compared to \$138 million in 2007/08
- achieved an operating margin of 15 per cent compared to 17 per cent in 2007/08
- implemented an average 3.0 per cent rate increase on April 1, 2008, resulting in an additional \$37 million in revenue
- achieved thermal generating station equivalent availability of 87 percent compared to 81 per cent in 2007/08 despite challenges of several forced outages at thermal generating stations
- incurred 17 per cent above long-term average for hydro generation compared to 4 per cent in 2007/08
- invested \$265 million on the Point Lepreau Generating Station refurbishment project
- deferred \$234 million of costs relating to the refurbishment of the Point Lepreau Generating Station which will be amortized over the life of the refurbished generating station (in accordance with the enacted legislation)
- experienced reduced load due to large industrial closures
- suffered damages to the Grand Falls Generating Station and related transmission assets as a result of a flood in spring 2008
- managed financial risk and market volatility through its hedging program
- received deliveries of fuel related to the PDVSA lawsuit settlement.

### *Significant factors contributing to change in year-over-year earnings*

A decrease in gross margin of \$55 million was a significant factor contributing to the change in year-over-year earnings before special payment in lieu of income taxes. The main factors that contributed to the decrease in gross margin were

- lower in-province revenue due to lower load as a result of closure of major industrial customers, and warmer weather
- higher prices of generation and purchased power
- lower out-of-province revenue due to lower volumes

offset by

- higher hydro flows in 2008/09 at 117 per cent of the long-term average compared to 104 per cent of the long-term average in 2007/08
- higher in-province rates due to the implementation of an approved 3.0 per cent average rate and higher average export prices

Other significant factors that contributed to the decrease in year-over-year earnings before special payments in lieu of taxes were

- 2007/08 revenue included a lawsuit settlement with PDVSA of \$29 million
- increased operations maintenance and administration expense in 2008/09 (see operating results – expense section for more detail)

These factors were partially offset by lower amortization expense and lower finance charges.

#### *Change in cash flow*

Cash flow from operations in 2008/09 decreased by \$43 million to \$273 million. This resulted from a decrease in net earnings and a decrease in amortization.

#### *Change in debt level*

The NB Power Group's debt increased by \$479 million in 2008/09. The increase in debt was due to financing requirements for the Point Lepreau Refurbishment project and related deferral.

## **Significant Events**

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

### **Point Lepreau Generating Station Refurbishment Project**

In July 2005 the Province of New Brunswick announced its decision to support the Board's recommendation to refurbish the Point Lepreau Generating Station in partnership with Atomic Energy of Canada Limited (AECL). The refurbishment will extend the Station's life to 2034, providing the NB Power Group with electricity from a fuel source that is not subject to the volatility of heavy fuel-oil pricing. The refurbished Station will also continue to provide an environmental benefit by generating electricity that avoids significant carbon dioxide, sulphur dioxide and nitrogen oxide emissions.

Total project spending to March 31, 2009 was \$806 million. During the year the following milestones were met

- station shutdown and defueling the reactor core by removing all 4,560 fuel bundles from the 380 channels
- turned over the fueling machine vaults, or retube work areas to AECL
- completed feeder tube removal, end fitting removal, and pressure tube removal (this was completed in April 2009)

At March 31, 2009 the project was five months behind schedule as AECL had experienced difficulties with the tooling which led to pressures on the overall timetable for project completion. Station restart is expected by the spring of 2010.

### **Financial Implications of Delay**

Refurbishment of the Point Lepreau Generating Station is largely a turnkey project and, as such, construction cost overruns are the responsibility of the contractor – AECL. There are, however, some financial implications for NB Power, as project owner.

The cash flow implications are as follows

- Nuclearco will spend approximately \$4 million per month in increased project owner costs for facilities, contracted staff, insurance and other costs to support the project
- Disco will spend approximately \$16 million per month in increased replacement power costs while the plant is out of service
- accordingly, each month's delay in the project increases the cash cost of the project by approximately \$20 million.

These will be accounted for as follows

- The capital cost of the project will increase by approximately \$10 million per month of project delay. This consists of
  - \$4 million in increased project owner costs for facilities, contracted staff, insurance and other costs to support the project
  - \$6 million of costs reallocated from operations to the project
- The deferral of Nuclearco period and replacement power costs will increase by approximately \$24 million per month (including incremental cash flows identified above) this consists of
  - \$16 million in increased replacement power costs while the plant is out of service
  - \$8 million in additional Nuclearco period costs reallocated from operations to the deferral

These costs will be amortized and charged to customers over the extended life of the station. (Some portion of these costs may potentially be offset by liquidated damages under the contract with AECL.)

### ***Turbine Upgrade***

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 Point Lepreau Generating Station, an incident occurred when two turbine rotors toppled into the water. Fortunately, there were no workers injured. The two recovered turbine rotors were thoroughly examined and tested at the Siemens factory in the United Kingdom. The evaluations were reviewed and accepted by NB Power and an independent consultant. As a result, the decision to move forward with the installation of the recovered turbine rotors was made. They are scheduled to return to the Station in summer 2009, with no impact on the overall project schedule.

## Grand Falls Generating Station Flood

During the year, NB Power incurred flood damages to the Grand Falls Generating Station and related transmission assets. In bringing these assets back to service NB Power incurred total costs of \$26 million of which a portion was recovered through insurance proceeds.

The following is a breakdown of the costs

- \$9 million related to repairs and maintenance included in OM&A
- \$17 million related to replacement and betterment included in capital

NB Power has claimed and received \$11 million which represents the costs covered by the insurance policy during 2008/09 and has claimed and will receive \$2.5 million from the insurance company in 2009/10.

If there had not had been an outage at Grand Falls Generating Station, hydro generation would have been 25 per cent above the long term average rather than 17 percent.

## Thermal Generating Station Forced Outages

During the year there were unplanned generation outages as follows

- Belledune Generating Station experienced
  - an outage 18 days longer than scheduled due to a cracked hot reheat pipe bend.
  - a five day forced outage in September due to an economizer tube leak
  - a three day outage in November due to a suspected boiler leak and to repair a leak on a steam line drain
  - a two day outage in February to repair a boiler water wall leak.
- Dalhousie Generating Station Unit 2 experienced an 11 day forced outage in July due to a boiler tube leak and was offline for 11 days in March to carry out boiler duct work and fan repairs. Unit 1 was offline for nine days in the fourth quarter (five days in February to repair boiler tube leaks and four days in March to repair duct work).
- Coleson Cove Generating Station experienced a five day extension to a planned outage due to a waterwall leak and a boiler tube leak.

Despite these challenges thermal equivalent availability for the year was 87 per cent.

## US Markets

In the fall of 2008, NB Power received approvals from a number of US agencies that allow it to transact business in the US without the use of a third party. Since December 2008, NB Power has been buying and selling energy with the Independent System Operator – New England without using an intermediary. The benefits realized in the first two months have paid for all costs incurred to obtain these approvals. NB Power expects future benefits to be considerable, particularly after Point Lepreau Generating Station returns to service.

### **PDVSA Lawsuit Settlement**

Throughout the year shipments of fuel were received related to the lawsuit settlement with PDVSA.

### **Industrial Customers**

NB Power's load decreased during the year due to large industrial shut-downs. NB Power continues to work with industrial customers who are experiencing difficulty in order to collect amounts owing to NB Power. The impact on bad debt expense from large industrial customers is estimated to be \$2 million.

### **Rate Increase**

On April 1, 2008, the NB Power Group implemented a three per cent average rate increase across all customer groups, which resulted in a \$37 million increase in revenue. During the year a rate review was conducted by the Energy and Utilities Board (EUB). The EUB released a report to the Minister of Energy, which caused no changes in the rate increase.

## Introduction

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

# OPERATING RESULTS 2008/09 - REVENUES

## Revenue Overview

Revenue Overview (in millions)	2008/09	2007/08	2006/07
Sales of power			
In-province	\$1,219	\$1,237	\$1,146
Out-of-province	217	196	215
Miscellaneous	73	99	67
Transmission	89	87	84
Total revenues	\$1,598	\$1,619	\$1,512
Per cent increase (decrease) year-over-year	(1%)	7%	(5%)

## In-province sales of power

In-province sales of power (in millions)	2008/09	2007/08	2006/07
Residential	\$539	\$519	\$470
Industrial	307	362	350
General service	250	248	225
Wholesale	98	94	87
Street lights and energy imbalance	25	14	14
Total	\$1,219	\$1,237	\$1,146
Per cent increase (decrease) year-over-year	(1%)	8%	9%
GWh	13,052	14,250	14,342
Per cent increase (decrease) year-over-year	(8%)	(1%)	3%

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

In-province sales of power totaled \$1,219 million in 2008/09, representing \$18 million or one per cent decrease compared to 2007/08. The main contributors to the year-over-year variance were as follows

Revenues	By this amount	Due to
<i>Contributing factors</i>		
<i>decreased</i>	\$43 million	lower load mainly due to industrial shutdowns
	\$30 million	lower interruptible sales because of volume and price. The volume was lower mainly because two customers switched a portion of their interruptible load to firm supply on April 1, 2008. The price was lower due to lower supply cost.
<i>Offsetting factors</i>		
<i>increased</i>	\$49 million	a three per cent average rate increase implemented on April 1, 2008, and higher industrial unit rates

## Out-of-province sales of power

Out-of-province sales of power (in millions)	2008/09	2007/08	2006/07
Revenue	\$217	\$196	\$215
Per cent increase (decrease)	11%	(9%)	(43%)
GWh	1,891	2,327	2,815
Per cent increase (decrease) year-over-year	(19%)	(17%)	(40%)

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

In 2008/09, out-of-province sales of power increased by \$21 million or 11 per cent compared to 2007/08. The main contributors to the year-over-year variance were:

Revenues	By this amount	Due to
<i>Contributing factors</i>		
<i>increased</i>	\$40 million	higher average prices for export energy due to market conditions
<i>Offsetting factors</i>		
<i>decreased</i>	\$17 million	decreased volumes due to reduction of lower cost energy available for export mainly due to Lepreau refurbishment outage

## Miscellaneous Revenue

Normally miscellaneous revenue consists primarily of

- water heater rentals
- pole attachment fees
- the sale of steam and generation by-products, and
- fees for secondment services provided to the New Brunswick System Operator (System Operator).

## Miscellaneous revenue results

Miscellaneous revenue was \$73 million in 2008/09, a decrease of \$26 million compared to 2007/08. This decrease was mainly due to \$29 million of the PDVSA lawsuit settlement included in 2007/08 which was applied to a prior year write-off related to the Coleson Cove Generating Station fuel delivery system.

## Transmission Revenue

Transmission revenue

- represents recoveries from the System Operator for the transmission revenue requirement
- includes revenue generated from the International Power Line, and
- is largely offset by transmission expenses paid to the System Operator for
  - connection fees
  - point-to-point tariff, and
  - scheduling services.

## Introduction

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

# OPERATING RESULTS 2008/09 - EXPENSES

## Expenses overview

Expenses (in millions)	2008/09		2007/08		2006/07	
	\$	%	\$	%	\$	%
Fuel and purchased power <sup>2</sup>	\$869	49%	\$585	38%	\$560	38%
Operations, maintenance & administration	415	23	397	26	389	26
Amortization and decommissioning	186	11	216	14	220	15
Transmission	82	5	85	5	85	6
Taxes	43	2	43	3	49	3
Finance charges	140	8	175	11	180	12
Special payments in lieu of income taxes	34	2	49	3	8	0
Total	\$1,769	100%	\$1,550	100%	\$1,491	100%
Per cent increase year-over-year		14%		4%		0%

<sup>2</sup>The regulatory deferral for the costs associated with Point Lepreau refurbishment outage has not been netted from the fuel and purchased power costs (see the regulatory deferral section for more details).

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

Total expenses increased by \$219 million to \$1,769 million in 2008/09. This increase resulted mainly from the following factors:

Expense	Change	Explanation
<b>Contributing factors</b>		
<i>fuel and purchased power</i>	increased by \$284 million	<ul style="list-style-type: none"> <li>increased prices for fuel and purchased power</li> <li>no nuclear generation in 2008/09, resulting in additional costs for replacement energy partially offset by</li> <li>lower load requirements, and</li> <li>higher hydro availability</li> </ul>
<i>operations, maintenance and administration</i>	increased by \$18 million	<ul style="list-style-type: none"> <li>net increased labour expense</li> <li>increased pension expense</li> <li>higher costs associated with Nuclearco OM&amp;A projects</li> </ul>
<b>Offsetting factors</b>		
<i>amortization and decommissioning</i>	decreased by \$30 million	<ul style="list-style-type: none"> <li>reduced Nulcearco amortization resulting from the service life completion (fully amortized) of major components being refurbished at the Point Lepreau Generating Station</li> <li>reduced asset cost base as a result of the lawsuit settlement with PDVSA</li> </ul>
<i>finance charges</i>	decreased by \$35 million	<ul style="list-style-type: none"> <li>lower interest rates and reduced debt levels<sup>3</sup></li> <li>foreign exchange gains on exposure not subject to forward purchasing related mainly to short-term debt and payable transactions during a period of high variability</li> </ul>
<i>special payments in lieu of income taxes</i>	decreased by \$15 million	<ul style="list-style-type: none"> <li>lower year-over-year earnings.</li> </ul>

<sup>3</sup> Although debt has actually increased since March 2008, the increase is related to capital projects in progress and the deferral. Total debt other than debt associated with capital projects in progress and the deferral has been reduced since March 2008 mainly due to positive net earnings.

## Fuel and Purchased Power

Fuel and Purchased Power (in millions)	2008/09		2007/08		2006/07	
	\$	%	\$	%	\$	%
Hydro	0	0	0	0	0	0
Nuclear	0	0	18	3	12	2
Thermal	380	44	230	40	297	53
Purchases	489	56	337	57	251	45
<b>Total</b>	<b>\$869</b>	<b>100%</b>	<b>\$585</b>	<b>100%</b>	<b>\$560</b>	<b>100%</b>
Per cent increase year-over-year		48%		4%		9%

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

The cost of fuel and purchased power was \$869 million in 2008/09, an increase of \$284 million or 49 per cent from 2007/08.

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

Fuel and purchased power expenses	By this amount	Due to
<i>Contributing factors</i>		
<i>increased</i>	\$254 million <sup>4</sup>	generation and purchased power mix variances due to <ul style="list-style-type: none"> <li>no nuclear generation due to the Point Lepreau Refurbishment outage</li> <li>forced outages at Belledune, Dalhousie, and Coleson Cove Generating Stations</li> </ul>
<i>increased</i>	\$151 million	higher overall fuel and purchased power prices
<i>Offsetting factors</i>		
<i>decreased</i>	\$28 million	increased hydro flows to 117 per cent of the long-term average in 2008/09 compared to 104 per cent in 2007/08.
<i>decreased</i>	\$109 million	reduced load requirements due to industrial shut-downs and reduced out-of-province sales.

<sup>4</sup>Most of this amount is offset through the Point Lepreau regulatory deferral (see regulatory deferrals section).

## Operations, Maintenance and Administration

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

<b>Operations, Maintenance &amp; Administration (in millions)</b>	<b>2008/09</b>	<b>2007/08</b>	<b>2006/07</b>
<i>Operations, Maintenance &amp; Administration expenses</i>	\$415	\$397	\$389
<i>Per cent increase year-over-year</i>	5%	2%	4%

### Major contributors to year-over-year Operations, Maintenance and Administration variance

Operations, maintenance and administration costs were \$415 million in 2008/09, an \$18 million or five per cent increase compared to 2007/08. The significant changes were

<b>Operations, maintenance and administration expenses</b>	<b>By this amount</b>	<b>Due to</b>
<b>Contributing factors</b>		
<i>increased</i>	\$12 million	increased labor as a result of annual scale escalations
<i>increased</i>	\$8 million	higher pension interest and amortization expense due to lower expected return on plan assets in 2007/08
<i>increased</i>	\$9 million	OM&A projects scheduled during the Point Lepreau Generating Station refurbishment outage. The reactor shut-down provided an opportunity to perform OM&A work in areas that are inaccessible when the reactor is running
<b>Offsetting factors</b>		
<i>decreased</i>	\$16 million	resources that would normally perform OM&A work (last year preparing the thermal and nuclear stations for the refurbishment outage) were reallocated to the Point Lepreau Refurbishment project (capital)

## Amortization and Decommissioning

<b>Amortization and Decommissioning (in millions)</b>	<b>2008/09</b>	<b>2007/08</b>	<b>2006/07</b>
<i>Amortization and decommissioning</i>	\$186	\$216	\$220
<i>Per cent increase (decrease) year-over-year</i>	(14%)	(2%)	2%

## Contributing factors to changes in Amortization and Decommissioning

Amortization and decommissioning costs were \$186 million in 2008/09, a \$30 million decrease mainly due to

<b>Amortization and decommissioning expenses</b>	<b>By this amount</b>	<b>Due to</b>
<i>Contributing factors</i>		
<i>decreased</i>	\$4 million	a reduction in the net book value of the Coleson Cove Generating Station resulting from the lawsuit settlement with PDVSA  The reduced amortization associated with the lawsuit settlement with PDVSA was offset through the regulatory deferral with no impact on net earnings (refer to section Impact of Lawsuit Settlement with PDVSA and Regulatory Deferral on Earnings)
<i>decreased</i>	\$26 million	reduced Nulcearco amortization resulting from the service life completion (fully amortized) of major components being refurbished at the Point Lepreau Generating Station
<i>increased</i>	\$2 million	increased amortization as a result of asset life changes resulting from an amortization study

## Finance charges

<b>Finance Charges (in millions)</b>	<b>2008/09</b>	<b>2007/08</b>	<b>2006/07</b>
<i>Finance charges</i>	\$140	\$175	\$180
<i>Per cent increase (decrease) year-over-year</i>	(20%)	(3%)	(10%)

## Contributing factors to changes in finance charges

Finance charges were \$140 million in 2008/09, a \$35 million or twenty per cent decrease from 2007/08. This was mainly due to

Finance charges	By this amount	Due to
<b>Contributing factors</b>		
<i>decreased</i>	\$12 million	improved rates on debt refinancing and reduced debt levels <sup>5</sup>
<i>decreased</i>	\$17 million	foreign exchange gains on exposure not subject to forward purchasing primarily related to short-term debt and payable transactions during a period of high variability

## Special payments in lieu of income taxes

The NB Power Group made special payments in lieu of income taxes to Electric Finance. These payments consist of an income tax component based on accounting net earnings multiplied by a rate of 32.38 per cent. Special payments are as follows:

Special Payments in Lieu of Income Taxes (in millions)	2008/09	2007/08	2006/07
<i>Special payments in lieu of income taxes</i>	\$34	\$49	\$8
<i>Per cent increase (decrease) year-over-year</i>	(31%)	513%	(86%)

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

Special payments in lieu of income taxes were \$34 million in 2008/09, a \$15 million decrease compared to 2007/08. This decrease was mainly due to lower earnings in 2008/09.

<sup>5</sup>Although debt has actually increased since March 2008, the increase is related to capital projects in progress and the deferral. Total debt other than debt associated with capital projects in progress and the deferral has been reduced since March 2008 mainly due to positive earnings.

## Regulatory Deferrals

### *Regulatory Deferral – Point Lepreau Generating Station refurbishment*

#### Background

A regulatory deferral was created for costs incurred during the refurbishment of the Nuclear Generating Station. The refurbishment of the Nuclear Generating Station will enable electricity to be provided to future generations of customers. The deferral and amortization of these costs over the life of the Station provides for inter-generational equity. Legislation was proclaimed (section 143.1 of the Electricity Act) which provides for the establishment of this regulatory deferral related to the refurbishment of the Point Lepreau Generating Station. The deferral consists of

- the period costs of Nuclearco, net of any revenues, and
- the additional costs to supply energy that are charged to Disco by Genco during the period of refurbishment.

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

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

During 2008/09 \$234 million in period costs and additional costs to supply energy were deferred.

The deferral adjustment consisted of

- period costs - \$176 million
- additional cost to supply energy - \$58 million

In addition to the deferral adjustment on the statement of earnings, interest expense associated with the refurbishment of \$4 million was deferred, which directly reduced finance charges.

### *Regulatory Deferral – Lawsuit settlement with PDVSA*

#### Background

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

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

During 2008/09 \$152 million in cost savings from the lawsuit settlement offset by a mark-to-market accounting adjustment were deferred. The deferral adjustment consisted of

- amortization and interest savings resulting from the lawsuit settlement (these will increase as the fuel value of the settlement is received) - \$18 million
- offset by
- cost adjustment on shipments received - \$10 million
  - levelized benefit to customers - \$25 million
  - an accounting adjustment related to the mark-to-market losses related to the long-term fuel contract (these mark-to-market adjustments are temporary and will reverse when the fuel shipments have been received) - \$135 million

## Financial Instruments

### Summary of impacts of financial instruments

The following table summarizes the impact of the financial instruments recorded on the balance sheet at March 31, 2009. These include

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

	Nuclear Trust Funds	Long term receivable PDVSA	Foreign Exchange	Heavy Fuel Oil	Natural Gas	Freight	Electricity Sale	Electricity Purchase	Interest Rates	Total
Accrued settlement value on de-designated forward contracts <sup>6</sup>	-	-	8	1	-	-	7	(8)	-	8
Mark-to-market on long-term receivable - PDVSA <sup>7</sup>	-	(14)	-	-	-	-	-	-	-	(14)
Current portion of derivative assets	-	-	82	-	-	-	-	-	-	82
Long-term portion of derivative assets	-	-	2	-	-	-	-	-	-	2
Mark-to-market on Nuclear Funds (Note 16)	15	-	-	-	-	-	-	-	-	15
Current portion of derivative liabilities	-	-	-	(40)	(76)	(28)	-	(23)	(43)	(210)
Long-term portion of derivative liabilities	-	-	-	-	(2)	-	-	(5)	-	(7)
Assets (liabilities)	15	(14)	92	(39)	(78)	(28)	7	(36)	(43)	(124)

<sup>6</sup>Included in account receivable and/or accounts payable

<sup>7</sup>Included in long-term receivable, loss is offset by a regulatory deferral.

The impact of the financial instruments at March 31, 2009 resulted in a net liability position of \$124 million (see previous table). Of the \$124 million recognized on the balance sheet

- \$34 million is recognized in retained earnings
- \$90 million (\$61 million after tax) is recognized in accumulated other comprehensive income (AOCI)

A reconciliation of these amounts is summarized in the following tables

Retained earnings impact	Nuclear Trust Funds	Long term receivable PDVSA <sup>8</sup>	Foreign Exchange	Heavy Fuel Oil	Natural Gas	Freight <sup>8</sup>	Electricity Sale	Electricity Purchase	Interest Rates	Total
Balance - April 1, 2008	-	89	(2)	30	-	3	(3)	1	-	118
<b>Current year adjustments</b>										
Change in value of derivatives not subject to hedge accounting	-	-	-	-	-	-	10	-	-	10
Mark-to-market of lawsuit settlement and related contracts	-	(103)	-	-	-	(32)	-	-	-	(135)
De-designated hedge adjustments - 2008/09	-	-	16	13	-	1	-	(17)	-	13
Reversal of de-designated hedge adjustments	-	-	(6)	(42)	-	-	-	8	-	(40)
	-	(103)	10	(29)	-	(31)	10	(9)	-	(152)
Balance - March 31, 2009	-	(14)	8	1	-	(28)	7	(8)	-	(34)

<sup>8</sup>The earnings impact of the mark-to-market of the long-term receivable and freight contracts related to PDVSA lawsuit settlement shipments are fully offset through a regulatory deferral.

AOCI Impact	Nuclear Trust Funds	Long term receivable PDVSA	Foreign Exchange	Heavy Fuel Oil	Natural Gas	Freight	Electricity Sale	Electricity Purchase	Interest Rates	Total
Accumulated other comprehensive income (loss) - April 1, 2008	32	-	(15)	21	20	10	-	10	(14)	64
2008/09 impact of mark-to-market adjustments	(17)	-	99	(61)	(98)	(10)	-	(38)	(29)	(154)
	15	-	84	(40)	(78)	-	-	(28)	(43)	(90)
Future special payments in lieu of income taxes reflected in accumulated other comprehensive income	(5)	-	(27)	13	25	-	-	9	14	29
Accumulated other comprehensive income (loss) - March 31, 2008	10	-	57	(27)	(53)	-	-	(19)	(29)	(61)

## Introduction

This provides an overview of NB Power's liquidity and capital resources.

# LIQUIDITY AND CAPITAL RESOURCES

## Capital expenditures

Capital Expenditures (in millions)	2008/09	2007/08	2006/07
<i>Major project capital expenditures</i>	\$289	\$262	\$182
<i>Regular project capital expenditures</i>	\$163	\$153	110
<i>Customer contributions and proceeds on disposal</i>	\$(14)	\$(6)	\$(5)
<i>Total capital expenditures</i>	\$438	\$409	\$287

## Contributing factors to changes in capital expenditures

Capital expenditures, net of proceeds on disposal and customer contributions, were \$438 million in 2008/09. This \$29 million or seven per cent increase compared to 2007/08 resulted primarily from the following

Capital expenditures	By this amount	Due to
<i>Contributing factors</i>		
<i>increased</i>	\$70 million	Point Lepreau Generating Station refurbishment project spending
<i>increased</i>	\$6 million	spending on the turbine upgrade project at Point Lepreau Generating Station
<i>Offsetting factors</i>		
<i>decreased</i>	\$37 million	2007/08 purchase of Nepisiguit Hydro Generating Station
<i>decreased</i>	\$12 million	completion of the International Power Line project

## Cash flow from operations

Cash Flow from Operations (in millions)	2008/09	2007/08	2006/07
Cash flow from operations	\$273	\$316	\$238
Percentage increase (decrease) year-over-year	(14%)	33%	(25%)

## Contributing factors to changes in Cash flow from operations

Cash flow from operations in 2008/09 decreased by \$43 million to \$273 million. This decrease resulted from the following

Cash flow from operations	amount	explanation
<i>Contributing factors</i>		
decreased	\$19 million	decrease in net earnings
decreased	\$24 million	decrease in amounts charged to operations not requiring a current cash payment (mostly amortization)

## Change in total debt level

Reduction (Increase) in Net Debt (in millions)	2008/09	2007/08	2006/07
Cash flow from operations	\$273	\$316	\$238
Capital expenditures	(438)	(409)	(287)
Recovery of capital (related to PDVSA fuel shipments received)	57	86	-
Decrease (increase) in working capital	(60)	(80)	13
Nuclear decommissioning and used fuel management funds – installments and earnings	(35)	(141)	(13)
Decommissioning expenditures	(2)	(1)	-
Regulatory deferrals excluding mark-to-market adjustments	(255)	(20)	(3)
<b>Free cash outflow</b>	<b>\$(460)</b>	<b>\$(249)</b>	<b>\$(52)</b>
Dividends paid	(13)	(11)	(13)
Change in cash	(6)	30	(9)
<b>Increase in total debt</b>	<b>\$(479)</b>	<b>\$(230)</b>	<b>\$(74)</b>

## Contributing factors to changes in total debt

Free cash outflow was \$460 million in 2008/09, an increase of \$211 million compared to 2007/08. The primary reasons for the increase were

Increased cash outflow	Due to
<b>Contributing factors</b>	
<i>Decreased cash flow from operations</i>	<ul style="list-style-type: none"> <li>• lower earnings</li> <li>• decrease in amounts not requiring a cash payment (mostly amortization)</li> </ul>
<i>increased capital spending</i>	<ul style="list-style-type: none"> <li>• the Point Lepreau Generating Station refurbishment project,</li> <li>• Point Lepreau Generating Station turbine upgrade project</li> </ul>
<i>Increased regulatory deferrals (excluding mark-to-market adjustment)</i>	<ul style="list-style-type: none"> <li>• net change in regulatory deferrals related to the Point Lepreau Generating Station refurbishment project and the PDVSA lawsuit settlement</li> </ul>
<b>Offsetting factors</b>	
<i>Nuclear decommissioning and used fuel management funds</i>	<ul style="list-style-type: none"> <li>• higher earnings and installments in 2007/08</li> </ul>

## Total Debt

Total Debt (in millions)	2008/09	2007/08	2006/07
<i>Long-term debt</i>	\$3,464	\$3,162	\$3,205
<i>Short-term indebtedness</i>	450	273	0
<b>Total debt</b>	<b>3,914</b>	<b>3,435</b>	<b>\$3,205</b>
<i>Debt/capital</i>	93%	91%	93%
<i>Cash flow from operations/total debt</i>	0.07	0.09	0.07

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

Total debt increased by \$479 million in 2008/09 compared to a \$230 million increase in 2007/08 mainly due to

- debt issues associated with the Point Lepreau Generating Station refurbishment project and the deferral.

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

## Introduction

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

# CRITICAL ACCOUNTING POLICIES

Topic	Purpose
Change in Accounting Policies for fiscal 2009	The table below outlines accounting policy changes adopted by the NB Power Group during the past fiscal year regarding <ul style="list-style-type: none"> <li>• Inventories</li> <li>• Financial Instruments – Disclosure and Presentation</li> <li>• Capital Disclosures, and</li> <li>• Credit Risk and the Fair Value of Financial Assets and Liabilities.</li> </ul>
Future change: International Financial Reporting Standards (IFRS)	Describes future changes required by the Corporation related to adopting IFRS.
Future change: Rate Regulated Operations	Describes future changes required by the Corporation related to CICA Handbook amendments on rate regulated operations.

## Change in Accounting Policies for fiscal 2009

Canadian Institute of Chartered Accountants (CICA) Handbook Section change adopted by the Group	Requirements of the section on the NB Power Group	Effect on 2009 reported results
<b>Inventories</b>		
<p>Implemented April 1, 2008:</p> <ul style="list-style-type: none"> <li>• Section 3031, Inventories.</li> </ul> <p><i>Replaced</i></p> <ul style="list-style-type: none"> <li>• Section 3030, Inventories.</li> </ul> <p>NOTE: Refer to note 5 in the combined financial statements.</p>	<p>This Section describes the</p> <ul style="list-style-type: none"> <li>• recognition</li> <li>• measurement</li> <li>• reporting, and</li> <li>• disclosure recommendations with respect to inventory.</li> </ul> <p>This Section</p> <ul style="list-style-type: none"> <li>• requires inventories to be measured at the lower of cost or net realizable value</li> <li>• no longer permits the last-in first-out (LIFO) measurement methodology; and</li> <li>• requires the reversal of previous inventory write-downs to net realizable value where necessary.</li> <li>• capitalizes inventory that meets the definition of major spare parts.</li> </ul>	<p>These were applied retrospectively with prior year restatement.</p> <p>As at April 1, 2008 \$8 million (April 1, 2007 - \$8 million) were reclassified to capital assets on the balance sheet as they</p> <ul style="list-style-type: none"> <li>• met the definition of a spare part</li> <li>• will be used over more than one period and,</li> <li>• will only be used in connection with capital assets.</li> </ul>
<b>Financial Instruments – Disclosure and Presentation</b>		
<p>Implemented April 1, 2008:</p> <p>Sections</p> <ul style="list-style-type: none"> <li>• 3862, Financial Instruments – Disclosures, and</li> <li>• 3863, Financial Instruments – Presentation</li> </ul> <p><i>Replaced</i></p> <ul style="list-style-type: none"> <li>• Section 3861, Financial Instruments – Disclosure and Presentation.</li> </ul> <p>Refer to notes, 5 and 27 in the combined financial statements.</p>	<p>These Sections describe reporting and disclosure guidelines with respect to financial instruments. They require the Corporation to disclose quantitative and qualitative information in order for the readers to understand the nature, and extent of risks associated with the Corporation's financial instruments.</p>	<p>Additional disclosure was added.</p>
<b>Capital Disclosures</b>		
<p>Implemented April 1, 2008:</p> <p>Section 1535, <i>Capital Disclosures</i>.</p> <p>Refer to notes 5 and 13 in the combined financial statements.</p>	<p>This Section requires the Corporation to disclose quantitative and qualitative information regarding objective policies and processes for managing capital.</p>	<p>Additional disclosure was added.</p>
<b>Credit Risk and the Fair Value of Financial Assets and Liabilities</b>		
<p>Implemented January 20, 2009:</p> <p>EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities.</p> <p>Refer to notes 5 and 27 in the combined financial statements.</p>	<p>This EIC requires that the fair value of financial instruments, including derivative financial instruments, takes into account the counterparties' credit risks for assets and the Corporation's credit risk for liabilities.</p>	<p>The effects on the Corporation's financial results were immaterial in 2008/09.</p>

## Future Change International Financial Reporting Standards (IFRS)

### Background

The table below describes the background behind adoption of the IFRS.

Date	The Accounting Standards Board (AcSB)
<i>February 2008</i>	confirmed that publicly accountable enterprises in Canada must use IFRS for fiscal years beginning on or after January 1, 2011.
<i>April 2008</i>	issued an IFRS Omnibus Exposure Draft. The draft proposed that publicly accountable enterprises must apply IFRS, in full and without modification, for fiscal years beginning on or after January 1, 2011.
<i>March 2009</i>	issued a second IFRS Omnibus Exposure Draft. The Exposure Draft <ul style="list-style-type: none"><li>• incorporates into Canadian GAAP any amendments made to IFRS since the 2007 Bound Volume was published, and</li><li>• addresses the following:<ul style="list-style-type: none"><li>• the definition of publicly accountable enterprises</li><li>• the mandatory effective date for the adoption of IFRS by publicly accountable enterprises, and</li><li>• the disposition of the Emerging Issues Committee.</li></ul></li></ul>

### NB Power Group's approach

The Group has

- developed a three-phase conversion plan, and is well underway towards achieving a completed IFRS conversion.
- established a Steering Committee to oversee the work performed by
  - internal staff assigned to this project, and
  - external resources engaged to assist with the transition.

The Audit Committee receives regular updates on the progress of the project.

## NB Power Group's three-phase conversion plan

The Group's three-phase conversion plan is as follows:

Phase	Description	Status
<i>Scoping</i>	<p>Group identified the areas likely to have the most significant impact on the Group. Specifically, they will</p> <ul style="list-style-type: none"> <li>• require significant work to achieve conversion to IFRS and/or</li> <li>• have a large dollar impact on the Group.</li> </ul> <p>These high impact areas are:</p> <ul style="list-style-type: none"> <li>• rate regulated accounting</li> <li>• leases</li> <li>• financial instruments and hedging</li> <li>• impairment of assets</li> <li>• asset retirement obligations</li> <li>• employee future benefits</li> <li>• provisions and contingencies, and</li> <li>• property, plant and equipment.</li> </ul>	Complete
<i>Deep dive</i>	<p>The Group</p> <ul style="list-style-type: none"> <li>• analysed the medium and low impact areas</li> <li>• developed a gap analysis between IFRS and Canadian GAAP</li> <li>• performed an introductory mapping of the financial statement disclosure changes needed, and</li> <li>• examined accounting policy choices available upon conversion.</li> </ul>	Substantially complete
<i>Adapting</i>	<p>The Group will</p> <ul style="list-style-type: none"> <li>• update IT systems to accommodate all necessary changes</li> <li>• prepare all reconciliations necessary to move from Canadian GAAP statements to opening IFRS statements</li> <li>• train and educate the staff.</li> </ul>	<p>Will be partially completed in the 2009-10 fiscal year.</p> <p>The impacts of converting to IFRS</p> <ul style="list-style-type: none"> <li>• are currently being evaluated but</li> <li>• cannot yet be reasonably determined.</li> </ul>

### Future Change: Rate Regulated Operations

Effective for fiscal years beginning on or after January 1, 2009, certain sections of the CICA Handbook regarding rate regulated accounting have changed. These amendments were made because IFRS does not have any specific provisions for regulatory accounting.

#### Description of the changes

The exemption for regulated entities regarding future income taxes will be removed. The intent is that both regulated and non-regulated entities will have comparable financial statements regarding future income taxes.

#### The effect on the Group

The changes for the Corporation are minimal. There will be no income statement effect on the Corporation's financial results, as a result of these amendments.

The main change is that NB Power will establish the following:

- a future tax asset, in conjunction with the regulatory deferrals (Point Lepreau and PDVSA), and
- an offsetting future tax liability, due to the fact that the full amount of the deferrals will be collectible as a result of the deferrals being established in legislation and approved by Nb Power's regulator.

## Introduction

This provides an overview of significant accounting estimates that NB Power uses.

# SIGNIFICANT ACCOUNTING ESTIMATES

## Amortization

The NB Power Group has an amortization review process whereby the service lives of major asset categories are reviewed every five years or more frequently as circumstances warrant. These reviews include

- physical inspection of the asset and
- review of
  - maintenance and retirement history
  - technological obsolescence and
  - industry practices.

During 2007/08 an independent firm performed an amortization review of the asset categories. The study confirmed that the NB Power group's amortization practices and policies and rates are reasonable and conform to accepted amortization practices. The results of the study were implemented in Disco in the 2007/08 year and the in the remaining companies in 2008/09.

## Amortization expense

The amortization expense (refer to Note 7) for the year ended March 31, 2009 was \$165 million compared to \$197 million in 2008. The current estimated useful lives of assets are in Note 4(b) of the Financial Statements.

## Asset retirement obligations: Generating Station Decommissioning and Used Nuclear Fuel Management

An asset retirement obligation is a legal obligation associated with the decommissioning of a long-lived asset.

## How NB Power handles asset retirement obligations

The NB Power Group follows the Canadian Institute of Chartered Accountants standard for asset retirement obligations which requires recognition of the net present value of these liabilities when assets are created.

## Key assumptions

The key assumptions on which the liabilities are based are disclosed in Note 22 of the Financial Statements and these assumptions are updated on a periodic basis. Most of the NB Power Group's asset retirement obligations are in Nuclearco.

## **Nuclear waste management trust fund**

The NB Power Group has established a trust fund pursuant to the Nuclear Fuel Waste Act (refer to Note 16). The Nuclear Fuel Waste Act requires major owners of used nuclear fuel in Canada to establish trust funds to finance the long-term management of used nuclear fuel.

The funding requirement was finalized and approved by the federal government April 7, 2009 prior to this date the Act required the Group to contribute \$4 million annually. This was contributed in November 2008.

An additional \$3 million was contributed in April of 2009 for a total of \$7 million for 2008/09.

## **Thermal and nuclear decommissioning expense**

The thermal and nuclear decommissioning expense (refer to Note 7) for the year ended March 31, 2009 is \$21 million compared to \$19 million in 2008.

## **Future Employee Benefits**

Employees of the NB Power Group belong to the Province of New Brunswick's superannuation defined benefit pension plan (refer to Note 19) The Group has a retirement allowance program and periodically has early retirement costs (refer to Note 23).

## **Unbilled Revenue**

As the NB Power Group bills residential and general service customers on a cyclical basis, the revenue for energy supplied but not billed at the end of each fiscal period is estimated and recorded. This estimate is based on substation readings and average rates.

The revenue accrued at March 31, 2009 was \$ 42 million compared to \$46 million in 2008 (refer to Note 4(j)).

## **Overhead to Capital**

The Group adds an overhead charge to capital projects for indirect charges for administration and other expenses.

The amount of overhead charged to capital in the year ended March 31, 2009 is \$21 million compared to \$20 million in 2008 (refer to Note 4(b)).

## **Long-term receivable**

At March 31, 2009 the Group has a long-term receivable for \$147 million representing a commitment to deliver fuel in the future (refer to Note 13).



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