

# Power<sub>for</sub> Tomorrow

2001-2002

*Annual Report*



**Énergie NB Power**

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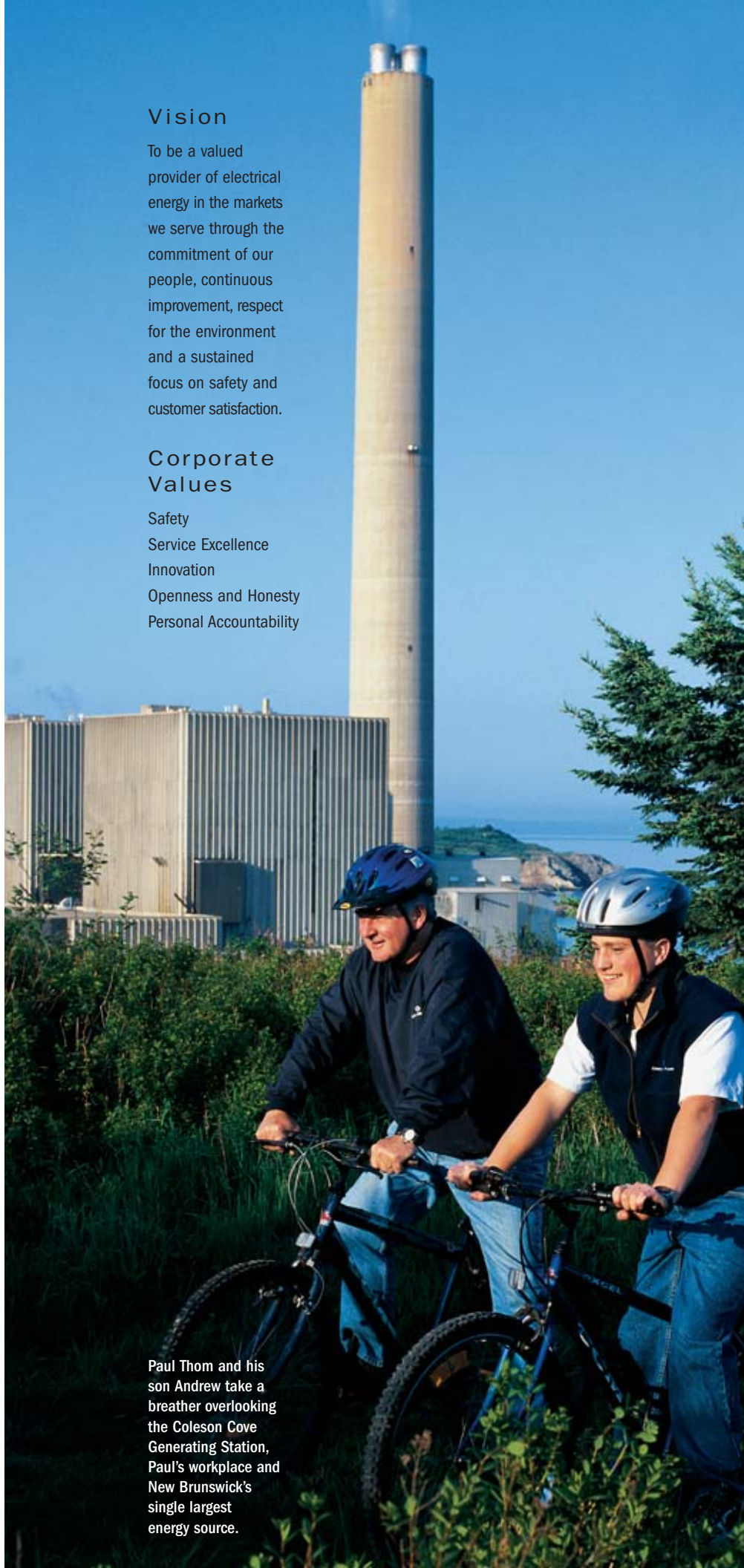
## Vision

To be a valued provider of electrical energy in the markets we serve through the commitment of our people, continuous improvement, respect for the environment and a sustained focus on safety and customer satisfaction.

## Corporate Values

Safety  
Service Excellence  
Innovation  
Openness and Honesty  
Personal Accountability

Paul Thom and his son Andrew take a breather overlooking the Coleson Cove Generating Station, Paul's workplace and New Brunswick's single largest energy source.



June 28, 2002

**To Her Honour**

The Honourable Marilyn Trenholme Counsell, MD  
Lieutenant-Governor of New Brunswick

Madam:

New Brunswick Power Corporation begs leave to submit,  
in accordance with the Electric Power Act, Chapter E-5, of  
the revised Statutes of New Brunswick 1973 as amended,  
the report for the fiscal year ended March 31, 2002.

I am, Your Honour,

Yours very truly,



**Dan Skaling**  
Chair

So we can  
Gr



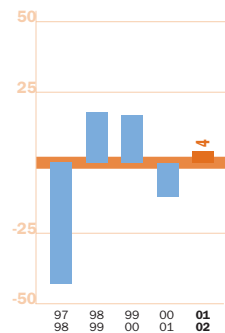
## FINANCIAL HIGHLIGHTS

Financial Performance	2001 2002	2000 2001	1999 2000
in millions of dollars			
Income (loss) before foreign exchange accounting change	\$ 4	\$ (12)	\$ 17
Net income (loss) after foreign exchange accounting change	\$ 20	\$ (78)	\$ 66
Operating cash flow	\$ 234	\$ 214	\$ 237
Free cash flow	\$ 64	\$ 114	\$ 197
Reduction in net debt	\$ 41	\$ 23	\$ 234

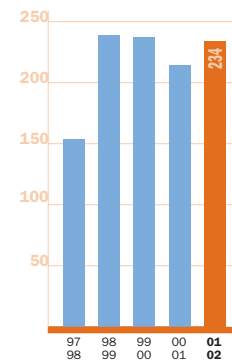
## Financial Ratios and Percentages

Operating margin	22%	21%	28%
Operating cash flow/ capital expenditures	1.67x	1.81x	2.49x
Debt/capital	105%	106%	103%
Interest coverage	1.08x	0.69x	1.23x

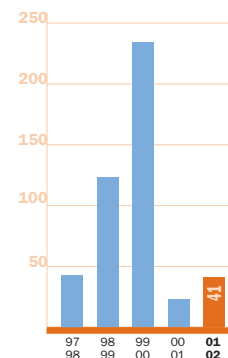
Net Income Before Transfers, Write-Off & Foreign Exchange Change  
(in millions of dollars)



Operating Cash Flow  
(in millions of dollars)



Reduction in Net Debt  
(in millions of dollars)



Even at age 4, Sarah Danks already knows she can depend on NB Power, because her mom works at Coleson Cove, and because she has energy every day.



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# Looking Forward

I am beginning my tenure as Chair of the Board of Directors with great anticipation. This is an exciting time at NB Power as we are on the verge of a significant transformation. Our immediate future is clear – we must undertake significant change today to ensure power for tomorrow.

After completing a public consultation and policy process that began three years ago, the Province of New Brunswick intends to maintain NB Power as a Crown Corporation by undergoing a corporate restructuring, inviting private sector participation in development projects, and ensuring the utility operates on a commercial and financially-sustainable basis.

## Charting a Sound Course

The Corporation's financial progress will provide the starting point for these significant changes. NB Power earned a positive net income of \$20 million in 2001-2002. During the year, operating cash flow of \$234 million funded capital expenditures of \$140 million and reduced net debt by \$41 million. This marks the sixth consecutive year that NB Power has reduced its debt. Since 1996-1997, cash flow from operations funded debt reduction of \$517 million and capital expenditures of \$555 million, a total of \$1.07 billion.

Certainly the Corporation's debt has been reduced significantly, however, the Provincial Government is concerned that higher debt levels from new development projects could adversely affect the provincial credit rating. The Provincial Government's objective is to minimize financial risk to taxpayers while maintaining affordable electricity rates to ratepayers. This will be addressed by changes in the regulatory environment and operating structure recently brought forward by the Provincial Government.

## A Changing Landscape

NB Power has always embraced innovation. Over a generation ago, it met record demands for energy as New Brunswick developed one of the most energy intensive industrial economies in the world. It has been a regional leader in energy trading, recognizing the early value of interconnections. It diversified fuel sources so that customers would not be vulnerable to rapid price changes in any one source. It has been a leader in environmental protection.

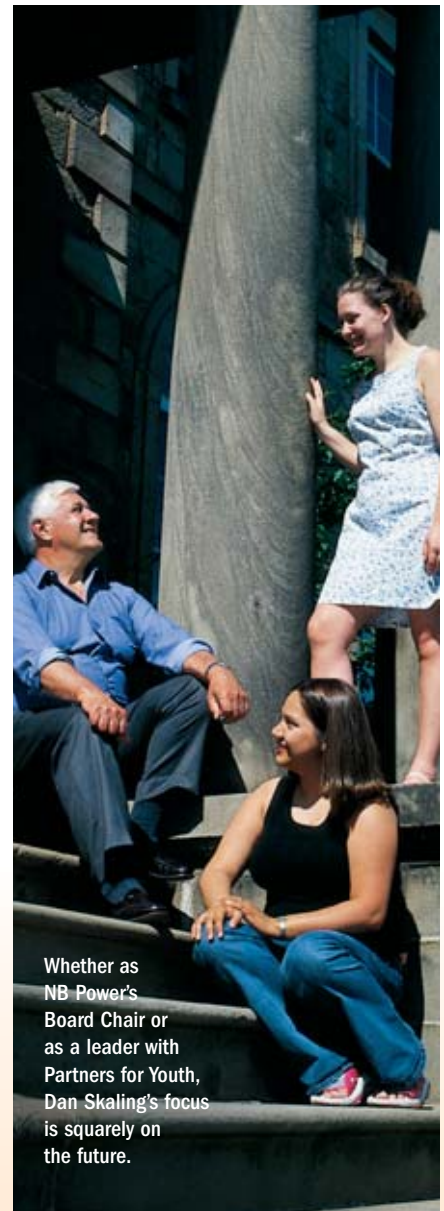
Recently, the Provincial Government issued a new challenge to NB Power – restructure the Corporation to achieve even greater efficiencies and financial strength. On April 1, 2003, NB Power will be restructured into a holding company with operating subsidiaries required to operate on a commercial basis. NB Power will also be soliciting private investment in the refurbishment projects at the Coleson Cove and Point Lepreau Generating Stations. The timing of the restructuring of NB Power is in concert with the introduction of wholesale and large industrial retail competition in New Brunswick.

The Board of Directors' well-established governance structure will be essential during the coming year. To provide direction and oversight on market and financial issues during the transition, we have established a Financial Restructuring Committee. The existing Human Resources Committee will oversee organizational and legal issues. Along with the senior management restructuring project team, we will have every level of the Corporation working to make the transition as smooth as possible within NB Power and seamless for our customers.

I would like to acknowledge the contribution that former chair Max Lewis made to NB Power. His leadership of the Board of Directors over the past three years has positioned NB Power to take full advantage of the restructuring opportunities.

NB Power has performed well for New Brunswickers and has acquired a solid reputation. The commitment we have had in the past still remains for the future – we will continue to provide safe, reliable, and affordable energy to the people of New Brunswick.

**Dan Skaling**  
Chair



Whether as NB Power's Board Chair or as a leader with Partners for Youth, Dan Skaling's focus is squarely on the future.

# Power for Tomorrow

Stewart MacPherson works hard to ensure the province's energy future is secure for all New Brunswickers including his grandson Dax.



During the past several years, NB Power significantly improved its efficiency and financial performance, creating a sound foundation for an investment program to refurbish key generating assets and increase export capability. In 2001-2002, we achieved significant milestones in each of these areas while responding to the new challenge of significant regulatory changes.

- Business cases for the refurbishments of the Coleson Cove and Point Lepreau Generating Stations were completed and project evidence filed with the Board of Commissioners of Public Utilities of New Brunswick (PUB). Following a public hearing, the PUB provided a positive recommendation for the Coleson Cove project. A public hearing on the Point Lepreau project has been completed and a decision is pending. Environmental assessment documentation for both projects will be filed with regulatory agencies during 2002-2003.
- NB Power filed a Comprehensive Study Report with the National Energy Board for the construction of a second international power line.
- The Corporation recorded a positive net income of \$20 million in 2001-2002 as higher operating costs were mitigated by margins from export sales. Healthy operating cash flow of \$234 million funded capital expenditures of \$140 million and debt reduction of \$41 million.
- The Corporation's operational and financial performance contributes to reliable, stable-priced electricity at rates among the lowest in the region. Prior to an overall 2.1 percent rate increase effective April 1, 2002, residential customers had not experienced a rate increase for two years nor had business and industrial customers experienced a rate increase for more than three years.

- NB Power is a member of the New Brunswick Market Design Committee, which is establishing rules for the development of a competitive electricity market. The committee forwarded its report to the Provincial Government in June 2002, and will complete detailed market rules later this year.
- NB Power is supporting a wind energy feasibility project at Lamèque Island and will begin more wind monitoring projects. NB Power and the Government of Canada have agreed in principle on the purchase of green power by federal government facilities. To support development, discussions with other potential green power suppliers and customers will begin.

## Regulatory Environment

The Province of New Brunswick's White Paper—*New Brunswick Energy Policy* (January 2001) outlined a managed transition of the electricity sector to a competitive environment. Implementation of non-utility generation and competition in the wholesale and large industrial sectors is scheduled for April 1, 2003. A Market Design Committee has forwarded recommendations to the Provincial Government on how to introduce electricity competition and protect the interests of customers and the environment.

In early 2002-2003, the Provincial Government decided to maintain NB Power as a Crown Corporation and undertake a major restructuring of the utility, including invitation of private investment in the business development projects. By April 1, 2003, NB Power will be restructured into NB Power Holding with subsidiary companies – NB Power Generation, NB Power Nuclear, NB Power Transmission, and NB Power Distribution/Customer Service. NB Power Transmission will own and operate the transmission system, acting as the Independent System Operator.

NB Power's evolution to subsidiary companies and private investment in generation projects is consistent with the increasingly commercial approach within our Corporation. Our team on these projects will be led by Ken Little, Vice President – Regulatory Affairs. He will work with other members of senior management and the Provincial Departments of Finance and Natural Resources and Energy.

## Financial Performance

NB Power's net income was \$20 million in 2001-2002 compared to a net loss of \$78 million in 2000-2001. Fiscal year financial performance was influenced by several factors. Year-over-year costs were higher because of lower hydro generation, one-time maintenance work at generating stations, and investments in information systems and customer service. Higher costs were mitigated by substantial margins from exports and a year-over-year improvement in capacity factor at the Point Lepreau Generating Station.

In the last four fiscal years, operating cash flow has averaged \$230 million and funded both capital expenditures and debt reduction. This trend continued in 2001-2002 as operating cash flow of \$234 million funded capital expenditures of \$140 million. The net debt was reduced by \$41 million, marking the sixth consecutive year NB Power has reduced its debt.

Effective April 1, 2001, NB Power adopted the Canadian Institute of Chartered Accountants amended standard for foreign exchange translation. NB Power holds \$660 million in U.S. dollar debt and the amended standard increased net income by \$16 million in 2001-2002 and reduced beginning retained earnings by \$172 million.

## Operational Performance

The Generation and Nuclear Business Units continued their focus on unit availability and reliability, factors that contribute to the Corporation's financial performance. Generation's maintenance programs provided a sophisticated approach to early problem detection. To enhance efficiency, stations are moving from planned maintenance outages once every 18 months to once every 24 months. During 2001-2002, Point Lepreau operated with a capacity factor of almost 83 percent, its second highest performance in six years. The Canadian Nuclear Safety Commission's mid-term report recognized the station's performance improvement – this provides a strong foundation for the licence renewal process beginning in 2002-2003.

Transmission completed the second year of its asset renewal program aimed at improving system reliability. The program included completion of a new 138 kV line and terminal refurbishment in southern New Brunswick and numerous other reliability upgrades around the province. Customer Service's commitment to improving relationships with customers was evident by its focus on safety, reliability, and satisfaction. During 2001-2002, reliability performance was better than the Canadian Electricity Association's average except for one month. The introduction of a new customer bill resulted from successfully identifying customer needs, leveraging information management systems, and utilizing communication expertise.

NB Power is committed to being a North American electric utility leader in safety by encouraging safe work practices. NB Power received the Canadian Electricity Association's *2001 President's Award of Excellence for Employee Safety*. Safety programs are undertaken in partnership with the International Brotherhood of Electrical Workers Local 37, which represents unionized employees.

## Generating Change

As we move forward, we are building on the accomplishments of James Hankinson, former President and Chief Executive Officer. For more than five years, he was instrumental in restructuring the Corporation, improving financial performance, and instituting greater management accountability. On behalf of employees, I want to extend appreciation for his significant contribution – his leadership has set NB Power on course for a brighter future.

The coming year will be the most challenging in the Corporation's history. Employees have demonstrated a high level of achievement in generating and delivering reliable, safe, and economic energy. I am confident their capacity for implementing progressive changes will make this transition period beneficial for our owner, the Province of New Brunswick, and our customers.

**Stewart MacPherson**

President and Chief Executive Officer (Acting)

# Senior Management

**Stewart MacPherson**

President and Chief Executive Officer (Acting)



**Douglas Bartlett**

General Manager, Transmission

**Jim Brogan**

Vice President, Generation (Conventional)



**Kenneth Little**

Vice President, Regulatory Affairs

**Sharon MacFarlane**

Vice President, Finance and Information Systems



**Wanda Harrison**

Corporate Secretary and General Counsel

**Roderick White**

Vice President, Nuclear



**Robert Crawford**

General Manager, Customer Service

**Paul Thériault**

Vice President, Human Resources and Administration



**Andrew Cormier**

Vice President, Performance Improvement and President, NB Coal

**Bob Scott**

Director, Public Affairs



# Corporate Profile

NB Power is a Crown Corporation with the legislated mission to provide for the electricity needs of the Province of New Brunswick. The largest electric utility in Atlantic Canada, NB Power operates one of North America's most diverse generation and interconnected transmission systems. Economic generation from hydro, oil, nuclear, coal, and Orimulsion® powered facilities is reliably delivered to 356,440 direct and indirect customers through a network of 32,981 km of power lines and substations and terminals.

NB Power is committed to providing safe, reliable and economic electricity while responding to the unique needs of residential, commercial, industrial, and export customers.

## Generation

Operating one of North America's most diverse generating systems, the Generation Business Unit produces economic electricity at its 14 oil, hydro, coal, Orimulsion®, and diesel powered stations. The network of conventional generating stations has an installed capacity of 3134 MW comprised of thermal capacity of 1923 MW, hydro capacity of 884 MW, and combustion turbine capacity of 327 MW.

## Nuclear

The CANDU 6 – 635 MW unit at Point Lepreau generates low-cost electricity, supplying approximately 30% of in-province energy. Generation from the station is important to the economic and environmental performance of NB Power because it is one of the lowest-cost generators on the system and displaces significant amounts of air emissions.

## Transmission

Responsible for the reliable and safe delivery of electricity to the distribution system, large industrial customers and export customers, the Transmission Business Unit operates and maintains more than 6,600 km of transmission lines, 49 industrial substations, 45 microwave/mobile radio towers, 42 terminal/plant switchyards, and 15 interconnections. The Energy Control Centre is the nerve centre for NB Power's system operations including transmission system access available through the on-line Open Access Same-Time Information System.

## Customer Service

With its commitment to customer satisfaction, the focus of the Customer Service Business Unit is electricity service delivery to residential, commercial, and industrial customers. Staff maintain more than 26,000 km of distribution lines and deliver customer services through regional operations offices, customer contact centres, and account managers.

## Corporate Services

The Corporate Services group comprises Human Resources and Administration, Business Information Systems, Finance, Corporate Planning, Telecommunications, Environment, Legal, and Public Affairs. By providing strategic direction and support, these divisions enable the business units to better perform in the generation and delivery of low cost, reliable electricity.



# An Air of Confidence

With the successful completion of its development plan, NB Power will fulfill its mandate of ensuring an efficient, competitive, and reliable supply of electricity adequate for the economic development of New Brunswick.

## Objectives

- Reliability of supply
- Environmental acceptability
- Economic efficiency
- Financial viability

Customer service representative Jean-Pierre Jones and his daughter Rebecca enjoy northeastern New Brunswick's strong winds — a tremendous potential renewable energy source.

## Province of New Brunswick Energy Policy

The Provincial Government's White Paper—*New Brunswick Energy Policy*, released in January 2001, outlined the managed transition of the electricity sector from the current monopoly structure to a competitive environment. Under the policy, implementation of non-utility generation and competition in the wholesale and large industrial sectors is scheduled for April 1, 2003.

In early 2002-2003, the Provincial Government decided to maintain NB Power as a Crown Corporation and undertake a major restructuring of the utility including the invitation of equity positions or partnerships in the business development projects. By April 1, 2003, NB Power will be restructured into NB Power Holding with four business units operating as subsidiary companies or stand-alone businesses — NB Power Generation, NB Power Nuclear, NB Power Transmission and NB Power Distribution/ Customer Service. The holding company will provide corporate services to the subsidiaries. The new subsidiary companies will operate on a commercial basis and will be required to:

- earn a positive rate of return on equity
- pay a cash dividend to the Province
- pay appropriate income and capital taxes
- borrow funds without a Provincial Government guarantee

NB Power Transmission will own and operate the transmission system and will act as the Independent System Operator, providing non-discriminatory transmission access to customers inside or outside the province.

The possible equity positions or partnerships in the business development projects will be explored in such a manner as to not delay either project should they receive positive regulatory decisions.

A Market Design Committee, comprised of members from NB Power, large industries, environment groups, electric utilities, natural gas marketers, the Board of Commissioners of Public Utilities of New Brunswick (PUB) and the Province of New Brunswick, is developing rules for electricity sector restructuring. The committee has forwarded recommendations to the Provincial Government on how to introduce

electricity competition and protect the interests of customers and the environment. The next step is the development of detailed rules for the operation of the market. The committee report is available at [www.nbmdc-ccmnb.ca](http://www.nbmdc-ccmnb.ca).

NB Power has begun work on issues related to the *Energy Policy* including:

- an open-access transmission tariff
- a standard offer service for customers who do not select a competitive supplier
- rate proposals regarding time of use rates and green pricing options

## NB Power Business Development Plan

Consistent with NB Power's business development plan objectives to ensure the reliability of supply, environmental acceptability, economic efficiency, and financial viability, investment analysis has identified three development projects. These proposed development projects are in various stages of regulatory review and environmental assessments.

### Coleson Cove Generating Station Refurbishment

The continued operation of the 1000 MW oil-fired Coleson Cove Generating Station beyond 2005 requires an upgrade to meet new environmental standards. The proposed \$747 million station refurbishment would include installation of control technologies to reduce emission rates. Significantly lower fuel costs resulting from the conversion of the station to use Orimulsion® finances the new environmental protection equipment.

NB Power filed evidence supporting the refurbishment with the PUB in November 2001. Following a public hearing in January 2002, the PUB recommended to NB Power's Board of Directors that the project proceed. The next project milestone is a provincial environmental impact assessment, which involves an environmental report, a technical analysis by federal and provincial agencies, and public meetings. The refurbishment project is scheduled for completion in November 2004.

### Point Lepreau Nuclear Generating Station Refurbishment

NB Power has completed an assessment to define the scope and cost for the refurbishment of the 635 MW Point Lepreau Nuclear Generating Station. The proposed refurbishment would require replacement of major equipment during an 18-month outage beginning in 2006, along with the construction of new structures at the on-site waste management facility. The \$850 million project would maintain existing production from the station, which provides up to 30% of New Brunswick's electricity, and maintain significant environmental benefits.

NB Power filed its evidence for the project with the PUB in February 2002. In advance of the public hearings in May and June 2002, interrogatories on the project evidence and associated load forecast are being answered. Coincident with the provincial regulatory process examining economic evidence, work is proceeding on the federal environmental impact assessment required for the waste management facility.

### Transmission Projects

Increased opportunities for imports and exports to the New England electricity market would be enhanced with the construction of a second 345 kV transmission line and interconnection. NB Power made an application to the National Energy Board (NEB) for a Certificate of Public Convenience and Necessity to construct, operate and maintain the power line. A Comprehensive Study Report of the environmental assessment of the project was submitted to the NEB in March 2002. The project is planned for completion in 2005.

### Renewable Energy Development

NB Power has been exploring wind energy as part of alternative energy development opportunities and has contributed towards the construction of a tower to measure wind speed on Lamèque Island in northeastern New Brunswick.



# Each year, a new. Generation

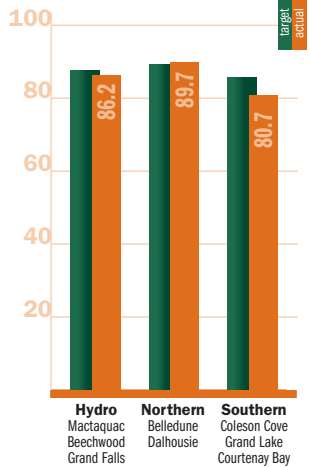
Operating one of North America's most diverse generating systems, the Generation Business Unit produces economic electricity at its 14 oil, hydro, coal, Orimulsion®, and diesel powered stations. The network of conventional generating stations has an installed capacity of 3134 MW comprised of thermal capacity of 1923 MW, hydro capacity of 884 MW, and combustion turbine capacity of 327 MW.

## Objectives

- Meet generation station availability targets
- Better manage operating and capital costs
- Maximize out-of-province margins
- Champion safety of employees, public and equipment
- Operate in compliance with environmental regulations

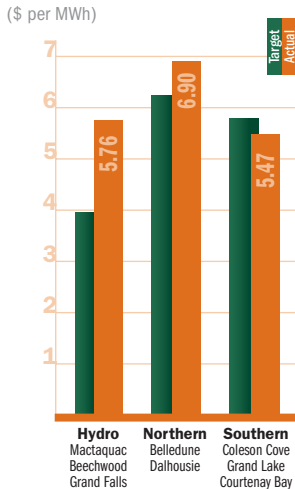
Rob Stone enjoys some quality time with his family, while the Mactaquac Generating Station, where he works, generates energy for the province.

### Unit Availability (%)



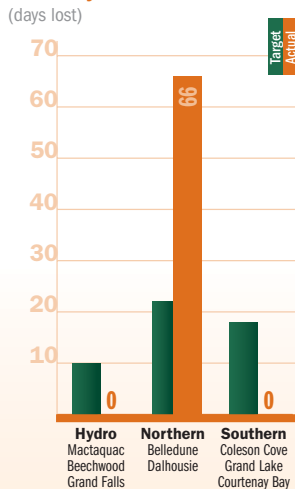
Unit availability is the percentage of time, including planned and unplanned outages, a station is available to generate electricity.

### OM&A Costs (\$ per MWh)



Operations, maintenance and administration costs are tracked to measure efficient resources management.

### Safety (days lost)



The number of days lost due to injury is targeted at an average of 10 days per 200,000 hours worked. (An incident in Dalhousie resulted in one worker missing 66 days.)

## Business Accomplishments

Station availability performance resulted in Generation providing 68% of in-province electricity supply during 2001-2002 and allowed for profitable export sales. The generating stations performed well against measured availability targets, although Dalhousie and Coleson Cove required extended maintenance outages which contributed to higher costs. Out-of-province revenue from export sales increased by \$27 million to \$359 million in 2001-2002 primarily due to volume increases as average market prices in New England were comparable year-over-year. The significant benefits from export sales margins have kept in-province electricity rates 10-15% lower.

A North American association of electric utilities recognized staff at the Belledune Generating Station for their exceptional performance in controlling operations/maintenance costs and achieving generation efficiency.

With the co-operation of the International Brotherhood of Electrical Workers Local 37, Generation successfully completed negotiations that merged five existing labour contracts into one contract representing all employees. The new labour agreement will support productivity improvements and enhance overall labour relations.

Generation again recorded strong safety performance with only two lost-time accidents. Coleson Cove employees celebrated an important safety milestone, surpassing two years without a lost-time accident. Similarly, employees at Belledune and in Hydro have not experienced a lost-time accident in four years.

Audits of the Environmental Management System indicated that generating stations are operating consistent with ISO 14001 standards. As well, NB Power hosted the 2001 Canadian Dam Association Annual Meeting with delegates from across Canada, the United States and several other countries.

## Building a More Competitive Business Unit

Successful completion of the proposed Coleson Cove Generating Station refurbishment project, currently under regulatory review, is key to ensuring reliable power generation, meeting environmental standards, and maintaining competitive rates to support economic growth. The operation of the oil-fired station beyond 2005 requires investments to meet new environmental standards. The proposed refurbishment includes installation of control technologies to reduce emission rates. Lower fuel costs from using Orimulsion® will finance new environmental equipment. In January 2002, following a public review, the Board of Commissioners of Public Utilities of New Brunswick gave a positive recommendation to the project. The next milestone is a provincial environmental impact assessment.

Generation participates in business risk management by addressing many of the variables that determine operational efficiency such as station availability, reliability, and productivity. Business risks in several areas – fuel cost management, reliability, operational objectives, human resources/succession planning and successful refurbishment of the Coleson Cove Generating Station – are being addressed in the on-going risk management program.

The focus on improving generation reliability continued as maintenance programs provided a more refined approach to early problem detection. Conditions-based monitoring, pilot testing projects, and business case analysis of reliability maintenance activities are ongoing at Dalhousie, Belledune and Coleson Cove. To enhance cost control and generation efficiency, stations are also moving to planned maintenance outages from every 18 months to every two years.



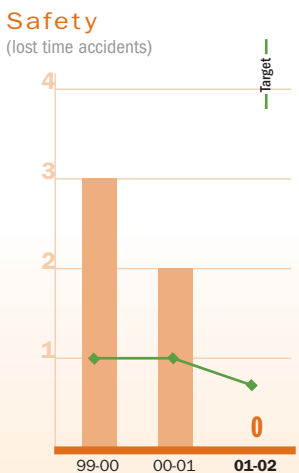
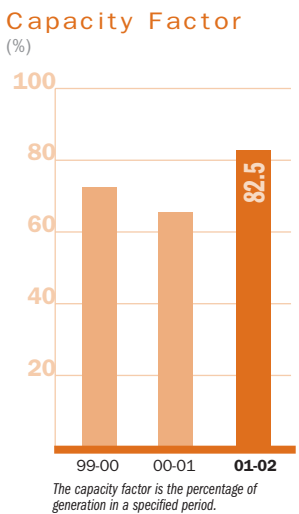
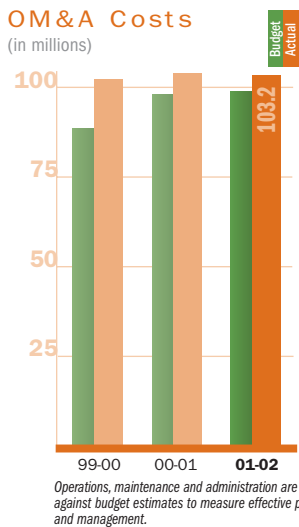
Point Lepreau is important to New Brunswick's energy future, much like the young minds Kathy Abbott is welcoming for a tour.

# Powering the Future

The CANDU 6 – 635 MW unit at Point Lepreau generates low-cost electricity, supplying approximately 30% of in-province energy. Generation from the station is important to the economic and environmental performance of NB Power because it is one of the lowest-cost generators on the system and displaces significant amounts of air emissions.

## Objectives

- Maintain operating licence and prepare for licence renewal process
- Achieve improved WANO rating and complete “areas for improvement”
- Reach a successful refurbishment decision
- Complete preparation activities for the 2002-2003 planned maintenance outage
- Ensure human resources are available to perform work activities
- Operate the station such that safety and capacity factor are optimized



## Business Accomplishments

During 2001-2002, Point Lepreau operated with a capacity factor of 82.5%, its second highest performance in six years. Since 1982, the station's in-service capacity factor has been 82% and it has regularly provided approximately 30% of New Brunswick's electricity. There were five unscheduled outages during the year, collectively lasting 44 days and resulting in a lower-than-budgeted capacity factor.

By emphasizing work procedures and quality methods, Point Lepreau employees worked safely during 2001-2002. Employees built on their success of 2000-2001 when they surpassed another 1,000,000 person hours of work without a lost-time accident. Staff have embraced station safety programs – the STAR Program (Stop, Think, Act and Review) and the Problem Identification and Corrective Action System.

The Canadian Nuclear Safety Commission's (CNSC) mid-term report recognized the station's performance improvements and expects continuation of improvement trends. The station will focus on quality management systems, fire protection, configuration management, emergency preparedness, as well as training and qualifications of certified staff as it prepares its licence renewal application in 2002-2003. Additionally, a World Association of Nuclear Operators (WANO) review recognized Point Lepreau's performance improvement over past reviews.

Security has been at a heightened state since September 11, 2001. The CNSC, which regulates Canadian nuclear facilities, specified new security standards based on threat assessment studies. Among the new initiatives, external on-site response assistance has been put in place, greater security clearance is required for workers and contractors with site access, and security infrastructure has been upgraded.

Point Lepreau became NB Power's first ISO 14001 registered generating station, demonstrating that advanced systems are in place to manage environmental issues. The station's environmental management system focuses on continual improvement through planning, implementation, auditing, corrective actions, and management review.

## Building a More Competitive Business Unit

Point Lepreau's commitment to business planning was evident with the completion of key station planning documents including a one-year business plan, a near-term planned maintenance outage work plan, a refurbishment project plan, and a long-term operations, maintenance and capital plan. An integrated business plan to 2008 is currently being developed.

During the fiscal year, NB Power and Atomic Energy of Canada Ltd. completed a two-year engineering assessment to define the scope of work for potential station refurbishment. NB Power is proposing to retube the reactor and refurbish other components to extend the station's life to 2032. The project investment is estimated at \$850 million with the refurbishment outage planned from April 2006 to September 2007. The proposed refurbishment is the least-cost option by which NB Power can supply future electricity requirements while meeting emission reduction targets, particularly carbon dioxide emission mitigation. Labour stabilization agreements, currently under negotiation, would be used to ensure a stable labour climate during construction.

NB Power filed project evidence with the Board of Commissioners of Public Utilities of New Brunswick in February 2002. The Corporation has also filed environmental information on the project with the CNSC and the Provincial Department of Environment and Local Government in advance of an environmental impact assessment on the waste management facility.

The Nuclear Business Unit is working diligently to develop and maintain a highly skilled and productive workforce. As part of its succession plan, development programs are underway for station manager alternates and control room operator and shift supervisor positions.



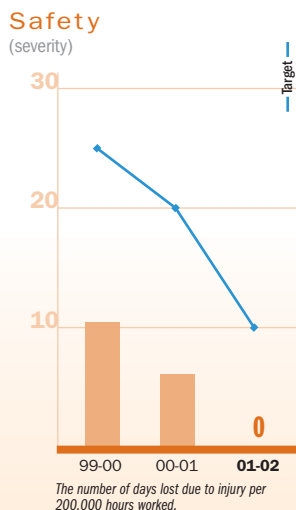
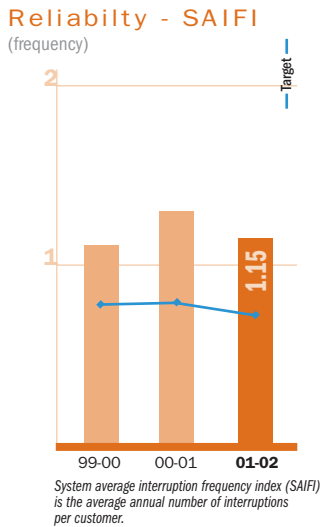
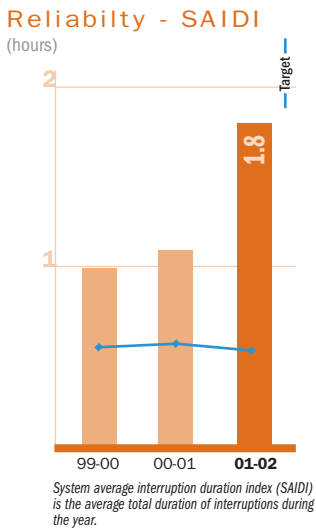
# Poised to Deliver

Responsible for the reliable and safe delivery of electricity to the distribution system, large industrial customers and export customers, the Transmission Business Unit operates and maintains more than 6,600 km of transmission lines, 49 industrial substations, 45 microwave/mobile radio towers, 42 terminal/plant switchyards, and 15 interconnections. The Energy Control Centre is the nerve centre for NB Power's system operations including transmission system access available through the on-line Open Access Same-Time Information System.

## Objectives

- Safety
- Reliability
- Competitive pricing
- Environmental responsibility
- Valued employees who are customer focused

Patrick and Thomas Daley visit their father Dave at the Energy Control Centre, where he monitors NB Power's transmission system.



## Business Accomplishments

Transmission completed the second year of its asset renewal program aimed at improving system reliability. During 2001-2002, the program included completion of a new 138 kV line and terminal upgrades between Oak Bay and Pennfield, and numerous other reliability upgrades. A Reliability Centred Maintenance Program is being implemented to create greater efficiencies in maintenance activities.

Reliability performance results for 2001-2002 demonstrated improvements in most areas of the province with the exception of the Acadian Peninsula which experienced an abnormally high number of interruptions. A new transmission line between Allardville and Tracadie and a new terminal in Tracadie, currently under construction, along with planned maintenance upgrades, will aid in achieving improved reliability in this area.

Transmission is committed to being a leader in safety among North American electric utilities by encouraging safe work practices and ensuring public safety. During 2001-2002, Transmission surpassed an important milestone of one year without a lost-time accident. Safety programs such as Tailboard Conferences and Leadership Field Visits were a continuing focus. Through the Joint Health & Safety Committees, safety programs, and a *Safety Takes You Home* awareness campaign, workers have better integrated safety with their work. These safety programs are undertaken in partnership with the International Brotherhood of Electrical Workers Local 37, which represents unionized employees.

*Rendez-vous 2001* brought together more than 375 employees and contractors for a day-long event of team building, communication, and improved understanding of corporate and business unit challenges and initiatives. *Rendez-vous* also provided the opportunity to share with staff the newly developed vision, mission, goals, and values as well as the *Transmission Business Plan 2001-2002*.

## Building a More Competitive Business Unit

During the fiscal year, Transmission conducted its Operational Risk Assessment refresh in support of the business risk management program. The program has identified system reliability, human resources management, transmission access to New England, and pricing of transmission tariffs and ancillary services as business risks. These risks and their action plans have been integrated into the business planning cycle.

NB Power has been working with Emera (Bangor Hydro Electric) to build a second interconnection to the New England market. Work continues on the regulatory and environmental approvals to construct a 345 kV transmission line which would be utilized for import and export opportunities and provide improved transmission reliability and efficiency.

During 2001-2002, NB Power made an application to the National Energy Board (NEB) for a Certificate of Public Convenience and Necessity to construct, operate, and maintain the power line. A Comprehensive Study Report of the environmental assessment of the project was submitted to the NEB in March 2002.

Senior staff from Transmission were active within the North American Electric Reliability Council (NERC) and the Northeast Power Co-ordinating Council. In compliance with NERC standards, Transmission has completed new training programs for power system operators. It has also put in place a back-up Energy Control Centre.

The implementation of the ISO 14001 environmental management standard is targeted for December 2002. An analysis identifying preliminary compliance conditions – establishing environmental objectives and targets, implementing action plans, measuring performance, and developing an emergency response plan – is being reviewed by the ISO project team.

A woman in a black vest and white shirt is talking to a family on a wooden deck under construction. The family consists of a man, a woman holding a baby, and a young girl. The man is holding a white tool. The woman is holding a tablet. The young girl is sitting on the deck. The background shows the wooden structure of the house under construction.

# Helping our Customers build a Bright Future

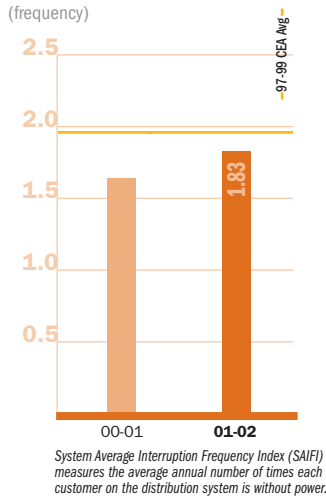
With its commitment to customer satisfaction, the focus of the Customer Service Business Unit is electricity service delivery to residential, commercial, and industrial customers. Staff maintain more than 26,000 km of distribution lines and deliver customer services through regional operations offices, customer contact centres, and account managers.

## Objectives

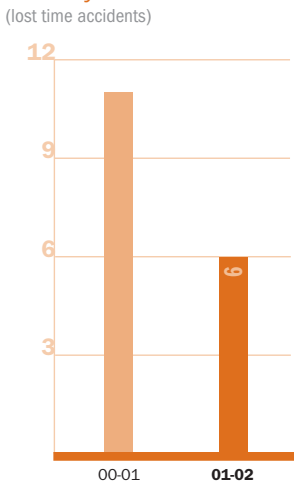
- Have world class safety performance
- Sustain environmental compliance
- Deliver top quartile reliability performance
- Improve cost of service
- Have improved value in our customer's eyes
- Say NB Power is "a great place to work"

Ann Leggatt, energy advisor, often visits with new homeowners to discuss their energy needs.

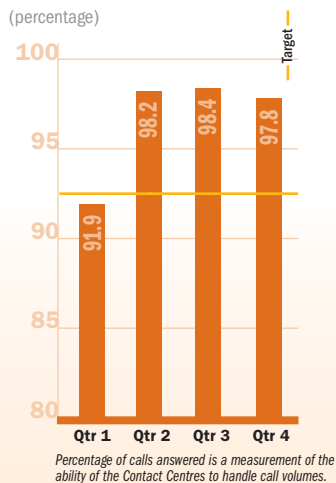
### Reliability - SAIFI



### Safety



### Calls Answered



## Business Accomplishments

Emphasizing its role as the face of NB Power, Customer Service focused on improving relationships with customers. The business unit's commitment was evident internally and externally as it concentrated on safety, service reliability, and customer satisfaction.

During 2001-2002, reliability performance was better than Canadian Electricity Association's (CEA) average every month except November, when there was a severe windstorm. Performance on the frequency of service interruption measurement highlighted successes in preventative maintenance. Also, greater emphasis on storm management preparedness focused efforts on improved external communications, proactive weather monitoring, and optimizing resources to better organize outage response.

Continued focus on safety has contributed to a year-over-year decrease in lost-time accidents from 11 to 6. Activities such as the Tailboard Conferences and Leadership Field Visits were contributing factors. Through the Joint Health and Safety Committees, safety programs, and a *Safety Takes You Home* awareness campaign, workers have better integrated safety with their work. These safety initiatives are undertaken in partnership with the International Brotherhood of Electrical Workers Local 37.

The Customer Contact Centres, which field more than 60,000 customer requests each month, continued to be the initial point of customer contact. The Contact Centre's core business application, the SAP® Customer Care Service for Utilities, was upgraded during the year. Through proactive contact with customers, reinforced by a *Call Us* public awareness campaign, the Contact Centres have made progress in addressing overdue accounts.

The successful introduction of NB Power's new bill was the culmination of a project that identified customer needs, leveraged benefits from information management systems and used communications expertise.

## Building a More Competitive Business Unit

Customer Service employees are the customers' connection with NB Power. Their commitment to quality customer service is essential for future success. During 2001-2002, Customer Service's *Mission, Vision and Values Program* was successfully launched. Ambitious new targets have been established for safety, reliability, customer service, and environmental performance.

When locating new facilities, communication programs ensure that all stakeholders understand the technical, economic, and environmental criteria for the construction and maintenance of transmission and distribution equipment. In addition to public advertising, communication activities in support of projects in Dalhousie, Tracadie, and Allardville included meetings with community residents, property owners, and elected representatives.

A succession plan was integrated with the hiring of new employees in the business unit emphasizing engineering, technical support and line work skills. Customer Service successfully reached a five-year collective bargaining agreement with the International Brotherhood of Electrical Workers Local 37.

By optimizing its relationship with Aliant Telecom, Customer Service has provided increased efficiencies to both organizations. A combined approach to the design and planning of pole work eliminated duplication and minimized customer disruptions. Project work on a new Outage Management System continued during the fiscal year. This upgrade to the service restoration system is planned for 2002-2003 and will enhance its capabilities and improve service information available to customers.

Customer Service continued its commitment to environmental management as implementation of the ISO 14001 environmental management system progressed towards completion by December 2002.

# Helping us Grow

## Business Information Systems

To meet Corporate and business unit information technology (IT) requirements, Business Information Systems continued to upgrade the technical environment and improve its business processes. During 2001-2002, BIS facilitated development of the Corporate Information Technology Strategy, which identified major initiatives requiring IT support over the next three years. The strategy will ensure continued alignment of IT initiatives with Corporate business requirements.

### Objectives

- Provide strategic advice to the business units
- Ensure timely, expert, and efficient services
- Support Corporate management
- Assist business unit development

Technology and business process leadership and support was provided to initiatives in all the business units throughout the year. BIS successfully led a major upgrade of SAP, NB Power's enterprise resource planning software, and assisted the Point Lepreau Generating Station's implementation of the SAP Plant Maintenance module. The Technology Evergreen Refresh Program resulted in the installation of 1480 desktops, 275 laptops, 18 servers, and 43 printers throughout the Corporation. BIS successfully refurbished the Head Office Computer Room with an improved air conditioning system and uninterrupted power supply.

To ensure an effective and value added service in an environment of rapid technological change, BIS continues to review its methods and practices. During 2001-2002, BIS adopted Project Management Institute, Information Technology Infrastructure Library, and ASAP industry practices.



Brett Gallant, NB Power's Kids' Zone grand prize winner, tours the award winning electrical education site, as public affairs representative Jeffrey Carleton looks on.

## Human Resources and Administration

NB Power's focus on employee health and safety continued during 2001-2002 and resulted in improved performance. During the fiscal year, there was a year-over-year reduction in disabling accidents to 8 from 21 and the business units recorded improvements in workplace safety. NB Power received the Canadian Electricity Association's *2001 President's Award of Excellence for Employee Safety*, ranking first in two categories.

Following the restructuring of the collective bargaining process into a business unit model, collective agreements were ratified for two of the four business units. One of the agreements was for a five-year period, which is a first in the public service sector of the province. NB Power will seek opportunities to incorporate conflict resolution strategies into all aspects of its labour relations.

Health education, prevention, and support programs were delivered by Employee Wellness Services. Significant achievements were noted in attendance where short-term absences due to illness have reached their lowest level in seven years. The Early Support Program has been successful in reducing long-term disability claims and successful re-integration of employees into the workplace.

NB Power was one of the first companies in Canada to upgrade its PeopleSoft human resources information management system to an internet-based architecture. To better respond to the Corporation's demographic profile and external labour market trends, efforts have been targeted at human resource planning issues. For example, an Internship Program was launched and a four-year Leadership Development Program was initiated.

## Finance

Focus on process improvement in the Finance Division led to several productivity and effectiveness enhancements. A reorganization of year-end processes moved audit activities from year-end to throughout the year thereby reducing the time to produce audited year-end financial statements by over one month. NB Power's budget development was streamlined, shortening the process and making it more timely and relevant. Lastly, internal audit processes were upgraded and standardized, and training was delivered through a newly-formed Internal Audit Community of Interest Forum.

Finance continued to guide NB Power's Business Risk Management Program as operational risk assessments were refreshed in each business unit. As well, Finance provided extensive support to the preparations for regulatory hearings on the Coleson Cove and Point Lepreau refurbishment projects and the transmission tariff.

Efforts are focused on further development of financial risk management objectives and policies. During 2001-2002, industry best practices on managing financial risk were implemented resulting in enhancements to policies, resources, and systems.

## Public Affairs

Communications programs were undertaken during 2001-2002 for the Coleson Cove and Point Lepreau refurbishment projects and the International Power Line project. Activities included stakeholder meetings, public consultations, media relations, and numerous public relations activities in support of the regulatory and environmental approval processes. Other public relations activities centred on a new media plan for public safety awareness and the New England Governors and Eastern Canadian Premiers forum on regional energy development.

Communication work was a key part of several programs for Customer Service. The introduction of a newly-designed customer bill required communication with customers through bill inserts, direct mail and advertising. To build greater customer awareness about the new telephone self-serve system, a program of bill inserts, bill messages and public advertising was completed. As well, community relations activities were undertaken for new substations in Dalhousie and Dieppe and a new terminal and transmission line project in northeastern New Brunswick.

NB Power teamed with CrescentStudio.com to create an on-line, interactive electrical safety program for children. In the *Kids' Zone*, children test their knowledge on electrical safety by completing interactive puzzles, word searches, and mazes. The site was very well received with over 800 players registered, and the original games earned a New Brunswick multi-media award. In addition, the surplus assets section of the site was upgraded with more material information and the capability for on-line bids. The Corporate Internet site has also proven to be an invaluable communication tool for posting regulatory and environmental information on the business development projects.



# Financial Review 2001-2002

Hazel Savoie, customer service representative, knows how important it is to teach her daughter Lisa the value of preparing for the future.

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The Management Discussion and Analysis reviews financial results from operations for the fiscal year ended March 31, 2002, relative to the previous fiscal year, and the Corporation's financial position at March 31, 2002. Certain factors that may have an impact on future operations are subject to risks and uncertainties that may cause actual results to differ materially from those expressed or implied. The Management Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements and accompanying notes.

## DEREGULATION AND COMPETITION

In January 2001, the Provincial Government's White Paper—*New Brunswick Energy Policy* outlined a managed restructuring of the electricity sector from the current monopoly structure to a more competitive environment. Many recommendations in the White Paper will have an impact on NB Power's future development and operations:

- Beginning April 2003, wholesale and large industrial customers will have the option to obtain electricity from competitive suppliers. Customers leaving the system will be assessed an exit fee or equivalent charge. Market conditions will be reviewed periodically regarding the introduction of retail competition.
- For wholesale and large industrial customers that do not select an alternative supplier, NB Power will have an obligation to provide a standard offer of service under regulated terms and prices consistent with previous service.
- Provincial legislative restrictions on the construction of generation facilities by independent power producers will be removed.
- A Market Design Committee, comprised of many stakeholders, has studied the design, structure and rules for a competitive market. It has forwarded recommendations to the Provincial Government on how to introduce electricity competition and protect the interests of customers and the environment. The next step is the development of detailed rules for the operation of the market prior to the market opening.
- The Board of Commissioners of Public Utilities of New Brunswick will have the authority to regulate the open-access transmission tariff in New Brunswick.

Complete information on the Provincial Government's White Paper—*New Brunswick Energy Policy* may be found at <http://www.gnb.ca/0085/index-e.asp>. The Market Design Committee Report is available at <http://www.nbmdc-ccmnb.ca>.

In early 2002–2003, the Provincial Government decided to maintain NB Power as a Crown Corporation and complete a major restructuring of the utility including the invitation of equity positions or partnerships in the business development projects. By April 1, 2003, NB Power will be restructured into NB Power Holding with the four business units operating as subsidiary companies or stand-alone businesses – NB Power Generation, NB Power Nuclear, NB Power Transmission, and NB Power Distribution/Customer Service. The holding company will provide corporate services to the subsidiaries. The new subsidiary companies will operate on a commercial basis and will be required to:

- earn a positive rate of return on equity
- pay a cash dividend to the Province
- pay appropriate income and capital taxes
- borrow funds without a Provincial Government guarantee

NB Power Transmission will own and operate the transmission system and will act as the Independent System Operator, providing non-discriminatory transmission access to customers inside or outside the province.

## HIGHLIGHTS

Financial Performance	2001 2002	2000 2001	1999 2000
in millions of dollars			
Income (loss) before foreign exchange accounting change	\$ 4	\$ (12)	\$ 17
Net income (loss) after foreign exchange accounting change	\$ 20	\$ (78)	\$ 66
Operating cash flow	\$ 234	\$ 214	\$ 237
Free cash flow	\$ 64	\$ 114	\$ 197
Reduction in net debt	\$ 41	\$ 23	\$ 234

### Financial Ratios and Percentages

Operating margin	22%	21%	28%
Operating cash flow/ capital expenditures	1.67x	1.81x	2.49x
Debt/capital	105%	106%	103%
Interest coverage	1.08x	0.69x	1.23x

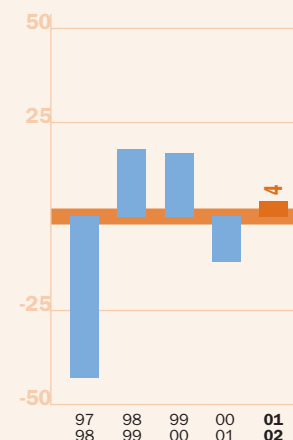
NB Power's net income was \$20 million in 2001–2002 compared to a net loss of \$78 million in 2000–2001. The 2001–2002 net income from operations before a foreign exchange accounting adjustment was \$4 million compared to a net loss of \$12 million the previous year.

The 2001–2002 net income was significantly affected by several factors. During the year, water flows were at the lowest level since the late 1960's and, as a result, hydro generation had to be replaced with more expensive thermal generation. This increased fuel costs by \$21 million compared to the previous year. One-time maintenance costs were incurred at three thermal generating stations, the most significant being turbine repairs at the Coleson Cove Generating Station. This unplanned maintenance work, coupled with costs incurred to enhance Customer Service operations and improve system functionality in Business Information Systems, contributed to a \$19 million increase in maintenance and administration costs compared to the previous year.

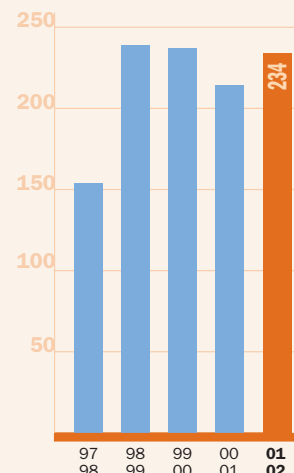
These negative pressures on income were mitigated by substantial gross margins from exports which reached a record high of \$170 million in 2001–2002. As well, the Point Lepreau Generating Station achieved a capacity factor of 82.5% which was an improvement over the level of 65% achieved in 2000–2001.

Operating cash flow in 2001–2002 continued to be strong at \$234 million, an increase of \$20 million or 9.3% from 2000–2001. Over the last four years, operating cash flow has averaged \$230 million per year, funding both capital expenditures and debt reduction. Since 1996–1997 net debt has been reduced by \$517 million.

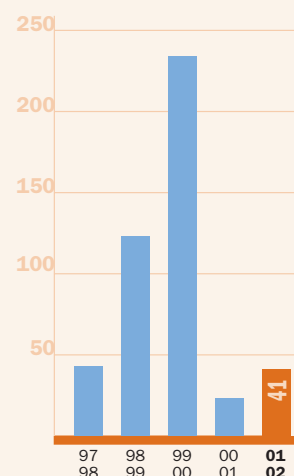
Net Income Before Transfers, Write-Off & Foreign Exchange Change  
(in millions of dollars)



Operating Cash Flow  
(in millions of dollars)



Reduction in Net Debt  
(in millions of dollars)



## ACCOUNTING ADJUSTMENT

Effective April 1, 2001, NB Power adopted the Canadian Institute of Chartered Accountants (CICA) amended standard for foreign exchange translation. The amended standard no longer allows foreign exchange gains or losses on long-term debt to be deferred and amortized over the life of the related debt issue. Income and retained earnings from prior years have been restated to reflect the amended standard.

The CICA change in accounting standards had a significant impact on reported net income and the Corporation's equity because of its \$660 million in US dollar debt. At April 1, 2001, the Corporation had \$172 million in unamortized foreign exchange losses related to this US dollar debt. Adoption of the amended standard increased net income by \$16 million in 2001–2002 and reduced beginning retained earnings by \$172 million.

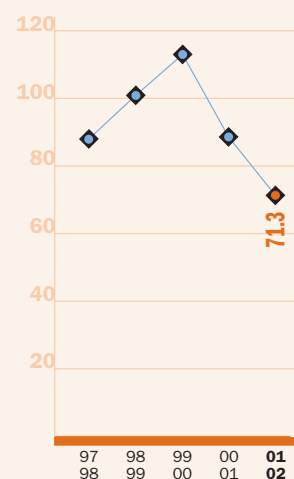
In 2000–2001, the amended standard decreased net income by \$66 million and reduced beginning retained earnings by \$106 million. In 1999–2000, the amended standard increased net income by \$49 million and reduced beginning retained earnings by \$154 million.

As a result of the amended standard, NB Power has implemented a hedging strategy to mitigate exposure to net income volatility in the future.

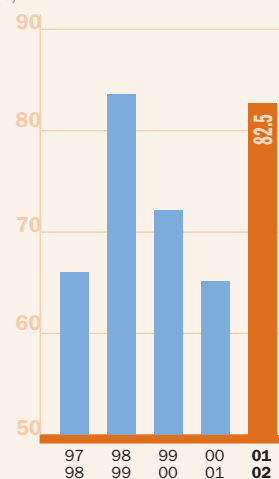
## FINANCIAL AND OPERATING PERFORMANCE INDICATORS

<b>Financial Performance</b>	<b>2001 2002</b>	2000 2001	1999 2000
Hydro net generation as percentage of long-term average	<b>71.3%</b>	88.6%	113.0%
Point Lepreau Generating Station net capacity factor	<b>82.5%</b>	65%	72.1%
Canadian dollar at March 31st (\$US equivalent)	<b>\$ 0.628</b>	\$ 0.634	\$ 0.688
Average heavy fuel oil price (\$US/bbl Platt's NY 3%)	<b>\$ 16.72</b>	\$ 20.28	\$ 16.70
Average natural gas price (\$US/mmBTU)	<b>\$ 3.09</b>	\$ 5.22	\$ 2.52
Average New England on-peak prices (\$US/MWh)	<b>\$ 41.26</b>	\$ 57.18	\$ 39.44

**Hydro Net Generation**  
(% of long-term average)



**Point Lepreau Net Capacity Factor**  
(%)

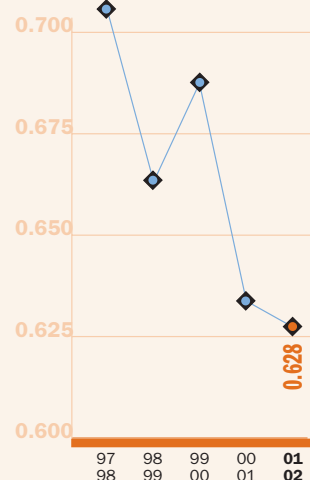


During 2001–2002, NB Power’s operating results were significantly affected by six major factors:

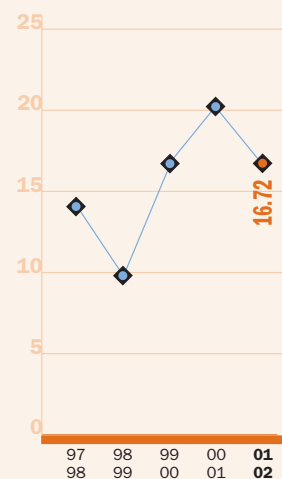
1. **Hydro Generation** – Hydro generation is budgeted at long-term average water flows but over the last three years levels have ranged from 71.3% to 113% of the average. A 1% change in hydro performance increases or decreases costs by approximately \$1 million. During 2001–2002, with water flows at 71.3% of average, the increase in replacement fuel costs was \$21 million compared to the previous year.
2. **Nuclear Generation** – Nuclear net capacity factor over the last three years has fluctuated from 65% to 82.5%. A 1% change in nuclear capacity increases or decreases costs by \$2.5 million. During 2001–2002, nuclear performance was 82.5% which reduced fuel costs by \$44 million compared to the previous year.
3. **Exchange Rates** – The Canadian dollar has declined by 6 cents over the past three years. In 2001–2002, the Canadian dollar declined by 0.6 cents compared to a decline of 5.4 cents the previous year. This had a significant impact on the foreign exchange translation costs of US dollar debt and reduced foreign exchange costs by \$78 million compared to the previous year.
4. **Oil Prices** – In 2001–2002, heavy fuel oil prices declined by 18% compared to the previous year. During 2001–2002, heavy fuel oil costs to supply in-province load declined by \$5 million year-over-year.
5. **Natural Gas Prices** – Natural gas prices have fluctuated by 41% to 107% year-over-year. Beginning in 2001–2002, the Corporation has a purchase contract with a third party that is tied to natural gas prices.
6. **New England Market Prices** – In 2001–2002, New England on-peak prices declined by 28% compared to the previous year. Despite the decline in on-peak prices, the Corporation did not experience a significant year-over-year difference in the average price earned from the New England market because it utilized a balance of spot price sales and sale contracts based on forward prices.

Further information on how the Corporation mitigates the risks associated with these operating factors is in the Corporate Risk Management section.

Canadian Versus US\$ at March 31



Heavy Fuel Oil Price (\$US/BBL average)



## OPERATING RESULTS 2001–2002

### Revenue Overview

	2001 2002	2000 2001	1999 2000
in millions of dollars			
Sale of power			
In-province	\$ 919	\$ 931	\$ 888
Out-of-province	359	332	329
Miscellaneous	41	46	31
<b>TOTAL REVENUES</b>	<b>\$ 1,319</b>	<b>\$ 1,309</b>	<b>\$ 1,248</b>
% increase	.8%	4.9%	3.7%

Total revenue was \$1.319 billion in 2001–2002, an increase of \$10 million or .8% from 2000–2001.

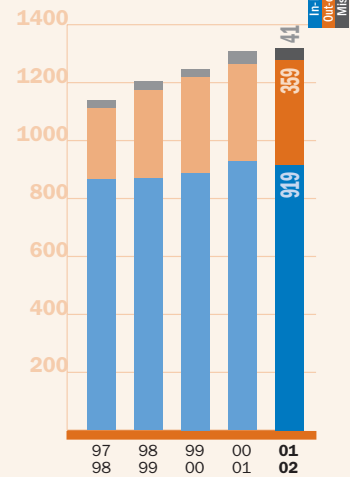
### In-Province Revenue

	2001 2002	2000 2001	1999 2000
in millions of dollars			
Residential	\$ 359	\$ 364	\$ 340
Industrial	293	298	288
General service	180	178	176
Wholesale	70	73	71
Street lights	17	18	13
<b>TOTAL</b>	<b>\$ 919</b>	<b>\$ 931</b>	<b>\$ 888</b>
GWh	<b>13,795</b>	14,011	13,587

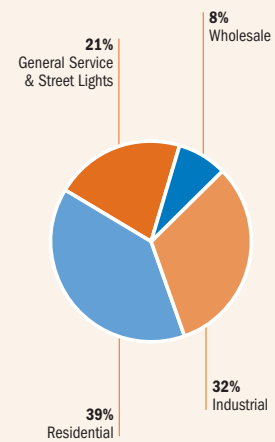
In-province revenue was \$919 million in 2001–2002, a decrease of \$12 million or 1.3% from 2000–2001. Weather in 2001–2002 was warmer than the previous fiscal year which caused a revenue decline in the weather-sensitive customer sectors (residential, general service, and wholesale) of \$26 million. Industrial revenue was down \$5 million year-over-year as a result of inventory shutdowns and lower production levels primarily in the pulp and paper sector. Industrial and weather-related revenue decreases were partially offset by growth in the residential and general service sectors which increased revenues by \$19 million compared to the previous year. Revenue from residential customers was higher due to an increase in the number of customers, while the increase in the general service sector was due to greater consumption.

### Revenue Analysis

(in millions of dollars)



### In-Province Revenue



### Out-of-Province Revenue

	2001 2002	2000 2001	1999 2000
in millions of dollars			
Revenue	\$ 359	\$ 332	\$ 329
GWh	5,264	4,878	6,255

Out-of-province revenue was \$359 million in 2001–2002, an increase of \$27 million or 8.1% from 2001, primarily due to a sales volume increase. Despite a decline in on-peak prices, the Corporation did not experience a significant year-over-year difference in the average price earned from the New England market because it utilized a balance of spot price sales and sale contracts based on forward prices. Margins on export sales have kept electricity rates to in-province customers 10–15% lower.

### Miscellaneous Revenue

Miscellaneous revenue, which consists of water heater rentals, transmission tariffs, ancillary services and the sale of steam and generation by-products, was \$41 million in 2001–2002, a decrease of \$5 million or 10.9% from 2000–2001. Transmission tariff revenue declined by \$3 million due to reduced reservations from electric utilities outside the province. Sale of steam declined by \$1 million as the related contract is linked to oil prices which had declined from the previous year. Other miscellaneous revenue declined by \$1 million.

## EXPENSES

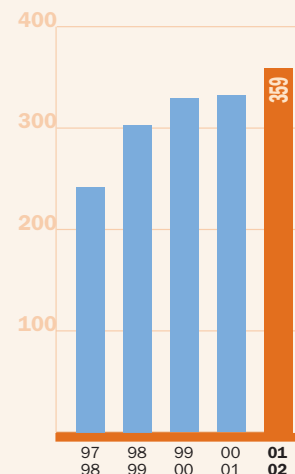
### Expense Overview

	2001 2002		2000 2001		1999 2000	
in millions of dollars						
	\$	%	\$	%	\$	%
Fuel and purchased power	\$ 489	38	\$ 501	36	\$ 395	33
OM&A	344	26	325	23	320	27
Amortization & decommissioning	200	15	205	15	190	16
Finance charges	266	21	356	26	277	24
<b>TOTAL</b>	<b>\$1,299</b>	<b>100</b>	<b>\$1,387</b>	<b>100</b>	<b>\$1,182</b>	<b>100</b>

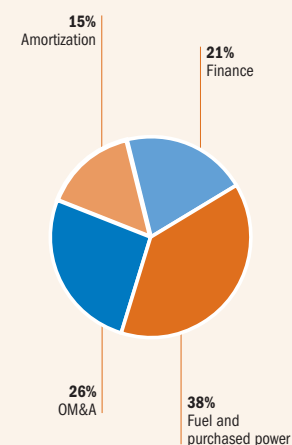
Total expenses were \$1.299 billion in 2001–2002, a decrease of \$88 million or 6.3% from 2000–2001. This decline was primarily due to the significant drop in finance charges of \$90 million, \$78 million of which resulted from the reduction in foreign exchange translation on long-term US dollar debt. The Canadian dollar declined by 0.6 cents in 2001–2002 compared to a decline of 5.4 cents in 2000–2001.

### Out-of-Province Revenue

(in millions of dollars)



### Total Expenses



Fuel and Purchased Power	2001		2000		1999	
	2002		2001		2000	
in millions of dollars	\$	%	\$	%	\$	%
Hydro	\$ 0	0	\$ 0	0	\$ 0	0
Nuclear	6	1.2	4	.8	5	1.3
Thermal	381	77.9	397	79.2	220	55.7
Purchases	102	20.9	100	20.0	170	43.0
<b>TOTAL</b>	<b>\$ 489</b>	<b>100</b>	<b>\$ 501</b>	<b>100</b>	<b>\$ 395</b>	<b>100</b>

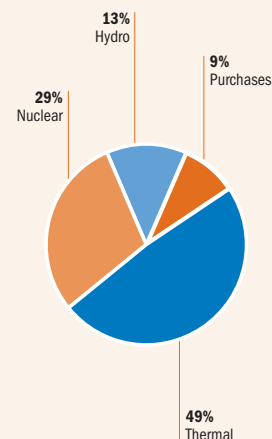
The cost of fuel and purchased power was \$489 million in 2001–2002, a decrease of \$12 million or 2.4% from 2000–2001. Heavy fuel oil represented 50% of this spending, while purchased power from utilities in Nova Scotia, Maine, Quebec, and New Brunswick accounted for 20%. The year-over-year decline in fuel and purchased power costs was attributable to:

- In-province load declined by 2.1%, primarily due to warmer weather, which reduced costs by \$14 million.
- Nuclear net capacity improved, which reduced costs by \$44 million. The nuclear station net capacity factor in 2001–2002 was 82.5% compared to 65% in 2000–2001. The more electricity that can be produced from nuclear, the less NB Power must utilize more expensive thermal generation and purchases of power.
- Lower heavy fuel oil prices reduced the cost to supply export sales by \$11 million and the cost to supply in province load by \$5 million.

These cost reductions were offset by cost increases:

- Lower hydro generation increased costs by \$21 million when it was replaced with more expensive thermal generation. Hydro performance was 71.3% of long-term average in 2001–2002 compared to 88.6% in 2000–2001.
- The Canadian dollar declined compared to the US dollar which increased fuel costs by \$9 million because most thermal fuels are purchased in US dollars.
- Coal prices were higher which increased costs to supply in-province load by \$11 million.
- Due to increased contract prices, purchases to supply in-province load increased \$13 million.
- Reduced capacity of thermal units and other dispatch changes to supply in-province load increased costs by \$8 million.

**In-Province Supply**  
(in millions of KWh)



**Operations,  
Maintenance and  
Administration Expenses**

	2001 2002	2000 2001	1999 2000
in millions of dollars			
OM&A expenses	\$ 344	\$ 325	\$ 320

Operations, maintenance and administration costs were \$344 million in 2001–2002, an increase of \$19 million or 5.8% from 2000–2001. The increase was due to:

- Unplanned one-time maintenance costs incurred at the Coleson Cove, Belledune and Dalhousie Generating Stations. The most significant increase was due to turbine repairs at the Coleson Cove Generating Station.
- Increased operating costs were incurred in the Customer Service and Transmission Business Units in support of the five-year asset renewal program.
- Increased costs were required to support information technology system investments.

**Amortization and  
Decommissioning**

	2001 2002	2000 2001	1999 2000
in millions of dollars			
Amortization and decommissioning	\$ 200	\$ 205	\$ 190

Amortization and decommissioning costs were \$200 million in 2001–2002, a decrease of \$5 million or 2.4% from 2000–2001. The decline occurred because the 2000–2001 results included a one-time \$7 million write-down of a surplus dragline at NB Coal. In 2001–2002, increases occurred due to investments in generating station assets and a reduction in the service lives of information system assets.

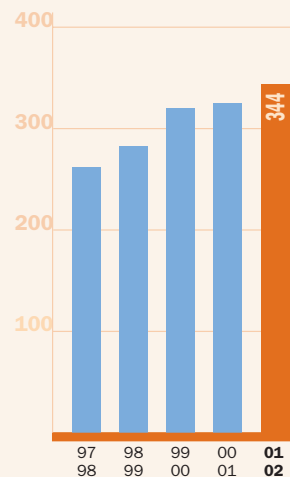
**Finance  
Charges**

	2001 2002	2000 2001	1999 2000
in millions of dollars			
Finance Charges	\$ 266	\$ 356	\$ 277

Finance charges were \$266 million in 2001–2002, a decrease of \$90 million or 25.3% from 2000–2001. The change in the foreign exchange translation on long-term US dollar debt caused a decline of \$78 million because the Canadian dollar declined by 0.6 cents in 2001–2002 compared to a decline of 5.4 cents in 2000–2001. Interest costs declined by \$12 million due to reduction in debt and the replacement of higher interest debt issues with new debt issues at lower interest rates.

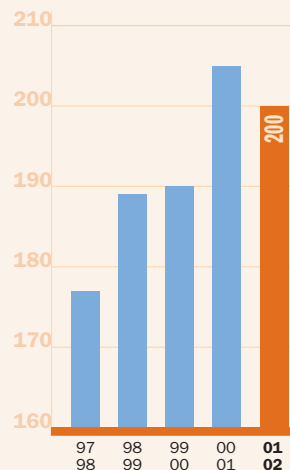
**OM&A Expenses**

(in millions of dollars)



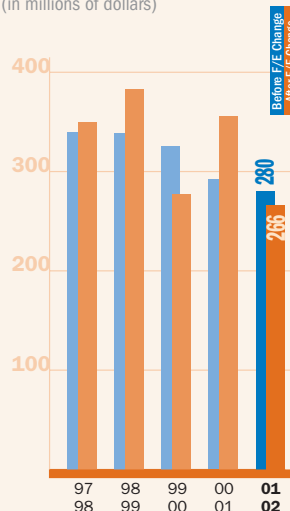
**Amortization &  
Decommissioning**

(in millions of dollars)



**Finance Charges**

(in millions of dollars)



## LIQUIDITY AND CAPITAL RESOURCES

Capital Expenditures	2001 2002	2000 2001	1999 2000
in millions of dollars			
Capital expenditures	\$ 140	\$ 118	\$ 95

Capital expenditures were \$140 million in 2001–2002, an increase of \$22 million or 18.6% from 2000–2001. The capital expenditures included pre-engineering analysis and other work required for a decision on refurbishment of the Point Lepreau Generating Station. Other capital expenditures included preparatory work to support the Coleson Cove Generating Station refurbishment project and various projects to strengthen transmission and distribution system infrastructure.

Cash Flow	2001 2002	2000 2001	1999 2000
in millions of dollars			
Operating cash flow	\$ 234	\$ 214	\$ 237
Free cash flow	\$ 64	\$ 114	\$ 197

Operating cash flow was \$234 million in 2001–2002, an increase of \$20 million or 9.3% from 2000–2001. The improvement in net income year-over-year was the main reason for the increase. Operating cash flow in 2001–2002 exceeded capital expenditure requirements enabling the Corporation to pay down debt for the sixth year in a row.

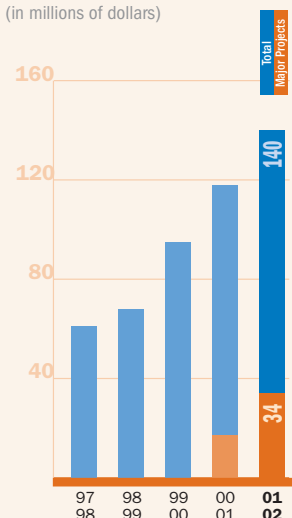
Free cash flow was \$64 million in 2001–2002, a decrease of \$50 million or 43.9% from 2000–2001. The reasons for the decline were higher capital spending and higher working capital due to fuel inventory at fiscal year end.

Free Cash Flow	2001 2002	2000 2001	1999 2000
in millions of dollars			
Operating cash flow	\$ 234	\$ 214	\$ 237
Capital expenditures	(140)	(118)	(95)
Proceeds on disposal and customer contributions	5	2	41
Decrease (increase) in working capital	(35)	16	22
Unfunded pension liability payment	0	0	(8)
<b>FREE CASH FLOW</b>	<b>\$ 64</b>	<b>\$ 114</b>	<b>\$ 197</b>

Free cash flow is the operating cash flow less capital expenditures, plus proceeds on disposals of assets, customer contributions for capital expenditures and changes in working capital.

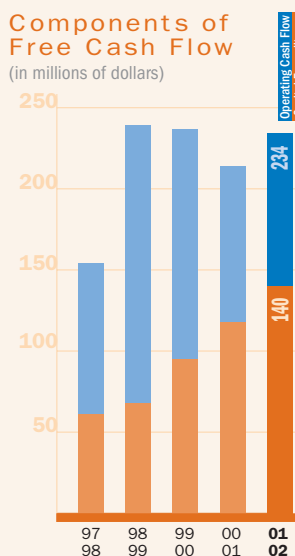
### Capital Expenditures

(in millions of dollars)



### Components of Free Cash Flow

(in millions of dollars)



<b>Debt</b>	<b>2001</b>	2000	1999
	<b>2002</b>	2001	2000
in millions of dollars			
Free cash flow	\$ 64	\$ 114	\$ 197
Foreign exchange adjustment	(4)	(82)	37
Deferred debt costs	(19)	(9)	0
<b>REDUCTION IN NET DEBT</b>	<b>\$ 41</b>	<b>\$ 23</b>	<b>\$ 234</b>

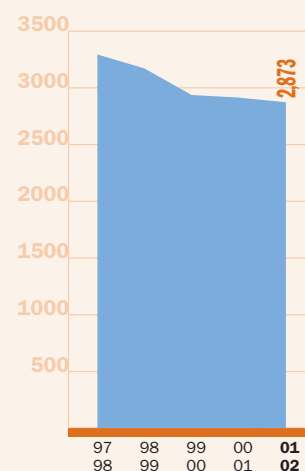
Debt reduction was \$41 million in 2001–2002, an increase of \$18 million or 78.3% from 2000–2001. Free cash flow declined by \$50 million in 2001–2002 compared to 2000–2001 but this was more than offset by the change in the foreign exchange translation of long-term US dollar debt. The Canadian dollar compared to the US dollar declined by 5.4 cents in 2000–2001 while the corresponding decline in 2001–2002 was 0.6 cents.

<b>Total Net Debt</b>	<b>2001</b>	2000	1999
	<b>2002</b>	2001	2000
in millions of dollars			
Long-term debt, net of sinking fund investments	\$ 2,890	\$ 2,869	\$ 2,795
Short-term indebtedness	0	102	176
Cash and short-term investments	(17)	(57)	(34)
<b>TOTAL NET DEBT</b>	<b>\$ 2,873</b>	<b>\$ 2,914</b>	<b>\$ 2,937</b>

Net debt is defined as the total of long- and short-term debt less sinking fund investments, cash and short-term investments.

The Corporation accesses capital markets through debt issued by the Province of New Brunswick. The level of the Corporation’s short-term borrowings fluctuates depending on timing of debt maturities and capital investment requirements. Four debt issues, totalling \$250 million, with coupon interest rates ranging from 9.25% to 10.5%, matured in 2001–2002. New issues totalling \$300 million have an average effective interest rate of 6.56%. The Corporation replaces higher interest debt issues with new issues having lower rates whenever opportunities arise.

**Total Net Debt**  
(in millions of dollars)



## CORPORATE RISK MANAGEMENT

NB Power manages risk through the Executive Risk Management Committee and associated governance process. The committee is responsible for the sponsorship, implementation and co-ordination of the risk management processes. The key risk areas reporting to the committee are: financial hedging, business risk management, safety, environment, and insurance.

### Financial Hedging

The Financial Hedging Committee is responsible for monitoring and controlling the financial risk exposure of NB Power to help ensure the predictability and sustainability of cash flow and net income. The committee is responsible to monitor the following financial risks:

- **Fuel Price Risk** – The Corporation has net exposures to fuel prices, notably heavy fuel oil and natural gas. Gross operating margins have a high exposure to fuel prices, offset by some revenues tied to fuel price. To reduce exposure to fuel price volatility, the Corporation hedges within predefined tolerance levels for predicted in-province and export requirements.
- **Foreign Exchange Risk** – The Corporation has a net exposure to the Canadian dollar versus the US dollar. The Corporation is sensitive to debt priced in US dollars, fuel and purchased power largely priced in US dollars and revenue received in US dollars. It hedges within predefined tolerance levels for known and predicted US dollars requirements. Effective April 2002, the Corporation adopted a strategy to effectively hedge \$610 million of its \$660 million outstanding US dollar debt.
- **Interest Rate Risk** – The Corporation has debt exposed to interest rate fluctuations. In an effort to reduce the effect of adverse interest rate changes, the Corporation may hedge a percentage of predicted refinancing exposures for up to forty-two months.

Economic / Operational Variable	Sensitivity/ Variance (+/-)	Net Income Impact 2001–2002* in millions of dollars
Canadian Dollar (US\$)	US \$0.01	\$ 1
Oil (US\$/bbl)	US \$1/bbl	\$ 4
Natural Gas (US\$/mmBTU)	US \$1/mmBTU	\$ 1
Energy Exports (US\$/MWh)	US \$1/MWh	\$ 7

\* Net income impact after hedging.

### Business Risk Management

NB Power has completed the third year of a program with Ernst & Young LLP to integrate risk management with business operations and implement sophisticated risk assessment and control processes. The status of action plans to address the following identified corporate risks are reported to the Executive Risk Management Committee:

- Export Markets – maintain and expand access to export markets
- Point Lepreau Generating Station refurbishment – effectively manage refurbishment project
- Coleson Cove Generating Station refurbishment – effectively manage refurbishment project
- Leadership – attract, develop, and retain strong leaders and deploy leaders to high priority areas
- Generation Reliability – exercise due diligence in maintaining generation reliability
- Transmission Reliability – exercise due diligence in maintaining transmission reliability

Operational risk refreshes were completed in all business units for 2001–2002 as well as in Business Information Systems and Human Resources. The results of the refreshes were reported to the Audit Committee of the Board of Directors, and the status of action plans to address identified risks were reported to the Executive as part of monthly business unit reporting.

## Safety

The mandate of NB Power's Health and Safety Department is to maximize healthy and safe working conditions for all employees and contractors, and to promote electrical safety to the public. Audits are an on-going measure of various safety initiatives. The New Brunswick Workplace Health and Safety Compensation Commission risk management audits are conducted in the business units with the assistance of Health and Safety. The Health and Safety Department reports to the Executive Risk Management Committee on the status of the programs in place to manage health and safety risks. As well, the Human Resource and Corporate Governance Committee of the Board of Directors ensures that due diligence is exercised relative to the health and safety of employees and the public. The committee receives regular reports on the health and safety compliance management system and the public safety program.

## Environment

Environmental protection programs are implemented in each business unit and employees are expected to perform their work in an environmentally responsible manner. The business units integrate the Corporation's Environmental Policy with their operations, and to provide support, the Corporate Environmental Affairs Division assists the business units to:

- integrate environmental management with operations and project planning
- acquire regulatory approvals for facilities and new construction
- monitor compliance with regulatory approvals and report to regulating agencies
- consult with external agencies and stakeholders on environmental issues
- provide environmental information to customers, staff, regulatory authorities and the public
- monitor and provide input on new and revised environmental standards and legislation

The Environmental Affairs Department reports to the Executive Risk Management Committee on the status of the programs in place to manage environmental risks, including current and future issues. External auditors, through discussions and examinations, assess on an annual basis the completeness, valuation and disclosure of material environmental liabilities and contingencies in the Corporation's financial statements. NB Power publishes an annual environmental performance report available at <http://www.nbpower.com/en/enviro/performance/report/index.html>.

## Insurance

NB Power maintains a Risk Management Insurance Department whose policies and coverage limits are in compliance with electric utility industry practices in North America. Insurance coverage relates to nuclear property and liability, conventional property and liability including Auto, Environmental, Marine and Director's and Officer's liability. A Risk Management Insurance Overview report is made annually to the Executive Risk Management Committee and the Audit Committee of the Board of Directors.

May 14, 2002

NB Power's financial statements have been prepared by management, who are responsible for the integrity, accuracy and fairness of the information. The accounting principles followed in the financial statements are generally accepted in Canada. The financial information presented throughout the annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and records properly maintained. These controls and procedures include:

- system security and various financial controls
- quality standards in hiring and training of employees
- a code of conduct
- an organizational structure that provides a well-defined division of responsibilities
- performance accountability
- communication of policies and guidelines through the Corporation

Internal controls are reviewed and evaluated by audit programs which are subject to scrutiny by external auditors.

The ultimate responsibility for the financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the Audit Committee which reviews the recommendations of internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the Audit Committee meets regularly with management and with external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that its responsibilities have been properly discharged. The Audit Committee reviews the financial statements and recommends them for approval by the Board of Directors.

The Corporation's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the financial statements in accordance with auditing standards generally accepted in Canada, performing such tests and other procedures as they consider necessary to express the opinion in their Auditors' Report. The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Corporation's financial reporting and the adequacy of internal control systems.



Stewart MacPherson,  
President and  
Chief Executive Officer (Acting)



Sharon MacFarlane,  
Vice President –  
Finance and Information Systems

May 14, 2002


The Honourable Marilyn Trenholme Counsell, MD  
Lieutenant-Governor of New Brunswick  
Fredericton, New Brunswick

Madam:

We have audited the consolidated balance sheet of New Brunswick Power Corporation as at March 31, 2002 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Deloitte & Touche LLP  
Chartered Accountants

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS (DEFICIT)

Year ended March 31, 2002

(in millions)

	<b>2002</b>	2001 Restated (See Note 2)
<b>Revenues</b>		
Sales of power (Note 3)		
In-province	<b>\$ 919</b>	\$ 931
Out-of-province	<b>359</b>	332
Miscellaneous	<b>41</b>	46
	<b>1,319</b>	1,309
<b>Expenses</b>		
Purchased power	<b>102</b>	100
Fuel	<b>387</b>	401
Operation, maintenance and administration	<b>344</b>	325
Amortization and decommissioning (Note 4)	<b>200</b>	205
	<b>1,033</b>	1,031
Income before finance charges	<b>286</b>	278
Finance charges (Note 5)	<b>266</b>	356
<b>Net Income (Loss) for the Year</b>	<b>20</b>	(78)
<b>Retained Earnings (Deficit)</b>		
Opening retained earnings as previously reported		20
Effect of change in accounting policy (Note 2)		(106)
Opening deficit as restated	<b>(164)</b>	(86)
Deficit end of year	<b>\$ (144)</b>	\$ (164)

## CONSOLIDATED BALANCE SHEET

as at March 31, 2002

(in millions)

	2002	2001 Restated (See Note 2)
<b>Property, Plant and Equipment (Note 6)</b>		
Land, buildings, plant and equipment, at cost	<b>\$ 5,400</b>	\$ 5,323
Less: accumulated amortization	<b>2,560</b>	2,417
	<b>2,840</b>	2,906
<b>Current Assets</b>		
Cash and short-term investments (Note 7)	<b>17</b>	57
Accounts receivable	<b>169</b>	174
Materials, supplies and fuel	<b>102</b>	78
Prepaid expenses	<b>5</b>	4
	<b>293</b>	313
<b>Deferred Charges</b>		
Deferred debt costs, less amounts amortized	<b>42</b>	27
Deferred pension benefit (Note 8)	<b>61</b>	52
	<b>103</b>	79
	<b>\$ 3,236</b>	\$ 3,298

On behalf of New Brunswick Power Corporation



Dan Skaling  
Chair



Barbara S. Bender, CA  
Chair - Audit Committee

## CONSOLIDATED BALANCE SHEET

as at March 31, 2002

(in millions)

	2002	2001 Restated (See Note 2)
<b>Long-Term Debt (Note 10)</b>		
Debentures and other loans	<b>\$ 2,530</b>	\$ 2,950
Less: sinking funds	<b>359</b>	326
	<b>2,171</b>	2,624
<b>Current Liabilities</b>		
Short-term indebtedness (Note 11)	-	102
Accounts payable and accruals	<b>149</b>	164
Accrued interest	<b>73</b>	73
Current portion of long-term debt (Note 10)	<b>719</b>	245
	<b>941</b>	584
<b>Deferred Liabilities</b>		
Plant decommissioning and used nuclear fuel management (Note 12)	<b>234</b>	221
Other (Notes 9 and 13)	<b>34</b>	33
	<b>268</b>	254
<b>Deficit</b>		
Deficit (Note 2)	<b>(144)</b>	(164)
	<b>\$ 3,236</b>	\$ 3,298

## CONSOLIDATED STATEMENT OF CASH FLOW

Year ended March 31, 2002

(in millions)

	2002	2001 Restated (See Note 2)
<b>Net Inflow (Outflow) of Cash Related to the Following Activities:</b>		
<b>Operating</b>		
Net income (loss) for the year	\$ 20	\$ (78)
Amounts charged or credited to operations not requiring a current cash payment (Note 14)	214	292
	<b>234</b>	214
Net change in non-cash working capital balances	(35)	16
	<b>199</b>	230
<b>Financing</b>		
Debt retirements net of sinking fund proceeds	(229)	(252)
Sinking fund installments and earnings	(56)	(56)
Proceeds from long-term debt obligations	283	291
Increase (decrease) in short-term indebtedness	(102)	(74)
	<b>(104)</b>	(91)
<b>Investing</b>		
Expenditure on property, plant and equipment	(140)	(118)
Proceeds on disposal and customer contributions	5	2
	<b>(135)</b>	(116)
<b>Net Cash Inflow (Outflow)</b>	<b>(40)</b>	23
<b>Cash and Short-term Investments</b>		
<b>Beginning of Year</b>	<b>57</b>	34
<b>End of Year</b>	<b>\$ 17</b>	\$ 57

## 1. SIGNIFICANT ACCOUNTING POLICIES

The New Brunswick Power Corporation (“the Corporation”), established in 1920 as a Crown Corporation of the Province of New Brunswick by enactment of the New Brunswick Electric Power Act, has a corporate mission to provide for the continuous supply of energy adequate for the needs and future development of the Province and to promote economy and efficiency in the generation, distribution, supply, sale and use of power.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The financial statements include the accounts of the Corporation and those of its wholly owned subsidiary, N.B. Coal Limited (N.B.Coal).

### a. Regulation

The Corporation is regulated under a system whereby annual average rate increases greater than three percent, or the Consumer Price Index, whichever is higher, require regulatory review by the Board of Commissioners of Public Utilities of the Province of New Brunswick (PUB). The Corporation must also apply to the PUB before making any expenditure greater than \$75 million in relation to upgrading, maintaining or decommissioning a generating facility.

### b. Property, plant and equipment

The cost of additions to property, plant and equipment is the original cost of contracted services, direct labour and material, interest on funds used during construction and indirect charges for administration and other expenses, less credits for the value of power generated during commissioning.

Interest during construction is capitalized monthly based on the cost of long-term borrowings. When significant assets are removed from service for extended periods of time for refurbishment, interest during construction is charged based on the net book value of the asset concerned.

Contributions in aid of construction which include amounts received from customers as well as research and development grants in respect of new facilities, are netted against the cost of related assets. Amounts received from customers are being amortized over the estimated service lives of the related assets.

The cost of distribution assets retired, net of dismantlement and salvage, is charged to accumulated amortization. For all other property, plant and equipment dispositions, the cost and accumulated amortization is removed from the accounts with the gain or loss on disposal being reflected in income.

Amortization is provided for all assets sufficient to amortize the cost of such assets, less estimated salvage value, over their estimated service lives. The estimated service lives of fixed assets are periodically reviewed and any changes are applied prospectively. Amortization is suspended when significant assets are removed from service for extended periods for refurbishment. Amortization is provided on certain mining equipment on an increasing charge basis, the amortization amount being based on the amount of related debt retirement required during the year. All other assets are amortized on a straight-line basis. Amortization is provided on the net cost of property, plant and equipment in respect of which grants have been provided and on amounts contributed by customers.

The main categories of property, plant and equipment have been amortized based on the following average estimated service lives:

Assets	Years
Hydro Generating Stations	70
Thermal Generating Stations	35
Nuclear Generating Station	25
Combustion Turbine Generating Stations	25
Terminals and Substations	40
Transmission System	35 – 55
Distribution System	10 – 35
Buildings	
General	40
Head Office	50
Communications and Computer Systems	3 – 15
Mining Equipment	20 – 35
Motor Vehicles	4 – 10

**c. Cash and Short-Term investments**

Cash and short-term investments, which are stated at cost, consist of balances with banks and investments in money market instruments.

**d. Inventories**

Inventories of materials and supplies, and fuel, other than nuclear fuel, are valued at average cost. Nuclear fuel is valued at cost using the first-in, first-out method.

**e. Deferred debt costs**

The Corporation amortizes debenture discounts and premiums, the expenses of issues, and the deferred interest related to anticipated debt refinancing, over the lives of the issues to which they pertain.

**f. Foreign exchange transactions**

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian (Cdn) dollars at rates of exchange prevailing at the balance sheet date except where such items have been hedged by the acquisition of a forward exchange contract, in which case the rate established by the terms of the contract is used in the translation. Exchange gains and losses resulting from foreign currency translation are reflected in income.

**g. Long-term debt**

Long-term debt is recorded on the balance sheet at cost. The estimated fair value of long-term debt is disclosed in the notes to the financial statements using market values or estimates of market values based on debt with similar terms and maturities. The estimated fair value does not include costs that would be incurred to exchange or settle the debt.

**h. Plant decommissioning and used nuclear fuel management**

In order to provide for the estimated future costs of permanently disposing of used nuclear fuel and decommissioning the nuclear generating station to return the site to a state of unrestricted use, the Corporation annually charges income with amounts calculated to be sufficient, when accumulated with interest, to cover the total costs of these future activities as they occur. The calculations of the anticipated future costs are based on detailed studies which take into account various assumptions regarding the method and timing of dismantlement of the nuclear facility, the cost of transportation of nuclear material to permanent disposal facilities, and estimates of interest and inflation rates in the future. With respect to used nuclear fuel, the annual charge is related to the amount of nuclear fuel consumed in each year while decommissioning requirements are charged on a straight-line basis over the life of the station.

The Corporation also provides, through an annual charge to income, for the estimated future costs of decommissioning its thermal generating stations. The amount of the charge, when accumulated with interest, is intended to cover the total costs of decommissioning activities as they occur.

The annual charges to income each year to cover the costs of these future activities are accumulated in a deferred liability account, together with interest compounded annually. Interest is calculated at the Corporation's long-term borrowing rate and is charged to income annually.

Expenditures incurred on a current basis relating to used nuclear fuel management and plant decommissioning are charged against the deferred liability account.

In view of potential developments in the technology of decommissioning and used nuclear fuel management, and because of the various assumptions and estimates inherent in the calculations, the Corporation reviews such calculations periodically, making adjustments as necessary on a prospective basis.

### i. Pension plans

Corporation employees are members of the Province of New Brunswick Public Service Superannuation Plan. This multi-employer plan provides pensions based on length of service and the average of the highest five consecutive years of earnings. The Corporation and its employees make contributions to the plan as prescribed in the Public Service Superannuation Act and its regulations. N.B. Coal maintains a private contributory defined benefit pension plan for its employees.

Under both plans, pension costs are actuarially determined using the projected benefit method, pro-rated on services and management's best estimate assumptions. Experience gains or losses in excess of 10% of the greater of the pension assets and pension obligations are amortized over the expected average remaining service life of the employee group. The fair market value of the plan assets less the accrued benefit obligation as determined at April 1, 2000, is amortized over the average remaining service life of the employee group.

### j. Retiring allowance

The Corporation has a retiring allowance program for employees that provides a lump-sum payment equal to one week of pay for each full year of employment to a maximum of 26 weeks of pay. The actuarial present value of accrued retiring allowance obligations for past service is amortized on a straight line basis over the expected average remaining service life of the employee group.

### k. Early retirement programs

The total cost of such programs is charged to income in the year the program is initiated, irrespective of when payments are actually made.

### l. Revenue

Billings to residential and general service customers are rendered monthly on a cyclical basis. All other customers are billed at the end of each month. Revenue in respect of items not billed at the end of a fiscal period is estimated and accrued.

### m. Derivative financial instruments

The Corporation periodically uses the following derivative financial instruments to manage the following risks:

Derivative Financial Instrument	Risk
Forward Exchange Contracts	Exchange risk related to future US dollar purchases, and interest and principal obligations on US denominated long-term debt
Interest Rate Agreements	Risk related to changes in interest rates on planned refinancing of debt
Electricity Swap Contracts	Risk related to changes in electricity prices on export electricity sales
Oil and Natural Gas Swaps	Risk related to changes in the cost of heavy fuel oil used in the operations of its generating stations and on a purchase contract based on natural gas prices

Gains, losses, revenues and expenses associated with derivative contracts are recognized in income on the same basis as the underlying hedged transaction. The Corporation only enters into derivative financial instruments to manage underlying exposures.

### n. Use of estimates

#### General

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from the estimates.

### **Decommissioning and used nuclear fuel management costs and amortization of nuclear generating station**

As indicated in Note 1h, the Corporation annually charges income with amounts calculated to be adequate, when accumulated with interest, to cover the total costs of permanently disposing of used nuclear fuel and for decommissioning the nuclear generating station to return the site to a state of unrestricted use. Because of the various assumptions and estimates inherent in the calculations, the Corporation periodically reviews these estimates and adjusts them on a prospective basis if necessary.

The Corporation updated its estimates during the year for the costs of permanently disposing of used nuclear fuel and decommissioning the nuclear generating station. The update considered the impacts on the estimates of changes in costs, interest rates and inflation rates.

The annual charges for used nuclear fuel disposal and decommissioning costs are further impacted by the timing of the end of the generating station service life and the consequent timing of decommissioning. The current year update did not consider any changes in these factors beyond the last reviews completed in 1996.

The reviews completed in 1996 reflected a generating station service life of 2014. However, in the year ended March 31, 1999, the service life of the Point Lepreau generating station, for amortization purposes, was changed to 2008.

The Corporation has filed evidence with the Board of Commissioners of Public Utilities (PUB) seeking a recommendation to refurbish the nuclear generating station to extend its service life to 2032, and expects to receive a response in 2002. The Corporation's Board of Directors, upon receiving the recommendation of the PUB, will make a decision on whether or not to refurbish the station, which will impact the estimates for used nuclear fuel management and decommissioning costs, and amortization. If a decision is made to refurbish the nuclear generating station and extend its service life, the annual charges for used nuclear fuel management and decommissioning will decrease from their current level by \$1 million and the annual charge for amortization will decrease by \$25 million. If a decision is made not to refurbish the plant, the annual charges for used nuclear fuel management and decommissioning will increase in the range from \$11 to \$22 million and the annual charge for amortization will increase in the range from \$0 to \$33 million from current levels, depending on the year of the planned shutdown of the generating station.

In view of the uncertainty relating to the decision on refurbishment that will determine the estimated service life for the nuclear generating station, the Corporation's financial statements continue to reflect the 1996 reviews for purposes of calculating the annual charge for used nuclear fuel management and decommissioning. Accordingly, when the refurbishment decision is made in 2002, it is reasonably possible that the annual charges to income for used nuclear fuel management and decommissioning of the nuclear generating station and its amortization will differ, and could differ materially, from the estimated amounts provided in these financial statements.

## **2. CHANGE IN ACCOUNTING POLICY**

Effective April 1, 2001, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) amended standards for foreign exchange translation. The amended standard no longer allows foreign exchange gains or losses on long-term debt to be deferred and amortized over the life of the related debt issue. Income and retained earnings from prior years have been restated to reflect the amended standard. Adoption of the amended standard increased net income by \$16 million (2001 – reduced net income by \$66 million) and reduced opening retained earnings by \$172 million (2001 – \$106 million).

## **3. SALES**

- a) Power sales to the Province of New Brunswick and other government owned organizations are recorded at normal commercial rates.
- b) Out-of-province sales of power include \$194 million (2001 – \$234 million) to utilities in the United States.

#### 4. AMORTIZATION AND DECOMMISSIONING

	2002	2001
Amortization expense	\$ 197	\$ 202
Charges for decommissioning	3	3
	<b>\$ 200</b>	<b>\$ 205</b>

#### 5. FINANCE CHARGES

	2002	2001
Interest expense	\$ 265	\$ 284
Less: Income from sinking funds and other investments	(24)	(25)
Less: Interest income on pension plan	(8)	(16)
	<b>233</b>	243
Provincial government guarantee fee	19	19
Amortization of deferred debt costs	4	4
Unrealized foreign exchange losses	4	82
Realized foreign exchange losses	11	12
	<b>271</b>	360
Less: Interest capitalized	(5)	(4)
	<b>\$ 266</b>	<b>\$ 356</b>

Interest paid on debt during the year was \$263 million (2001 – \$288 million). Interest received on investments during the year was \$22 million (2001 – \$23 million).

#### 6. PROPERTY, PLANT AND EQUIPMENT

	2002		2001	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Power generating stations	\$ 3,667	\$ 1,787	\$ 3,672	\$ 1,688
Transmission system	272	121	261	117
Terminals and substations	408	203	396	193
Distribution system	693	288	673	272
Buildings and properties	58	27	57	25
Communications and computer systems	62	26	61	22
Mining equipment and related assets	74	65	74	62
Motor vehicles	48	31	45	28
Miscellaneous assets	20	12	18	10
Construction-in-progress	98	–	66	–
	<b>\$ 5,400</b>	<b>\$ 2,560</b>	<b>\$ 5,323</b>	<b>\$ 2,417</b>

#### 7. CASH AND SHORT-TERM INVESTMENTS

	2002	2001
Cash	\$ 13	\$ 53
Short-term investments	4	4
	<b>\$ 17</b>	<b>\$ 57</b>

#### 8. DEFERRED PENSION BENEFIT

Corporation employees are members of the Province of New Brunswick Public Service Superannuation Plan (Public Service Plan) as described in Note 1i. Actuarial valuations are prepared periodically to determine the costs of the pension benefits and the appropriate amounts of contributions to the fund. The latest actuarial valuation completed on the Public Service Plan was April 1, 2000.

The actuarial method used incorporates management's or the plan owner's best estimate assumptions to determine the present value of accrued pension benefit obligations based on projections of salaries and wages to normal retirement dates. The pension calculations were completed using a discount rate of 6.5% on the obligation and a rate of return of 7.5% on assets. Salary increases are assumed to be 2.5%.

The status of the costs and obligations of the Corporation's share of the Public Service Plan and N.B. Coal's private plan as at March 31, 2002 was as follows:

	2002	2001
Pension fund assets (market value)	\$ 678	\$ 664
Accrued pension obligations	\$ 676	\$ 653
Pension surplus	\$ 2	\$ 11
Cost of benefits for the year	\$ 10	\$ 10
Interest cost on accrued benefits	43	41
Interest on pension fund assets	(49)	(53)
Amortization of transitional surplus	(4)	(4)
Amortization of gains/losses	2	-
Pension expense	\$ 2	\$ (6)

Employees contributed \$9 million (2001 – \$9 million) and the Corporation contributed \$11 million to the plan (2001 – \$8 million) during the year. Benefit payments from the plan to retirees were \$29 million (2001 – \$25 million). Total contributions to date in excess of pension expense, in the amount of \$61 million (2001 – \$52 million) have been recorded as an asset under deferred charges.

## 9. RETIRING ALLOWANCE LIABILITY

The Corporation has a retiring allowance program for employees as described in Note 1j. Actuarial calculations are prepared to determine the amount of the Corporation's obligations for retiring allowances. The actuarial method used incorporates management's best estimate assumptions to determine the present value of the accrued retiring allowance obligation based on projections of salaries and wages to normal retirement dates. The interest rate used in the calculation of this obligation was 6.5% and the assumed rate of salary escalation was 2.5%. The latest actuarial calculation was done as at April 1, 2000.

The retiring allowance obligation as at March 31, 2002 is \$24 million (2001 – \$22 million). The retiring allowance expense for the year ended March 31, 2002 was \$4 million (2001 – \$4 million).

The cumulative amount expensed in excess of amounts paid out under the retirement allowance program has been set up as a liability under deferred liabilities (See Note 13).

## 10. LONG-TERM DEBT

	2002	2001
Debentures guaranteed by the Province of New Brunswick	\$ 125	\$ 125
Debentures held by the Province of New Brunswick	3,114	3,060
Other loans	10	10
	<b>3,249</b>	3,195
Less: Payments due within one year	719	245
	<b>\$ 2,530</b>	\$ 2,950

### Debentures and notes

Date of maturity	Average Interest Rate	CDN	US	2002	2001
Years ending:					
March 31, 2002	9.6%	-	-	-	250
March 31, 2003	8.0%	500	185	685	689
March 31, 2004	7.5%	100	-	100	100
March 31, 2005	-	-	-	-	-
March 31, 2006	8.1%	200	-	200	200
March 31, 2007	6.8%	70	-	70	-
1-5 Years	7.9%	870	185	1,055	1,239
6-10 years	7.7%	975	-	975	495
11-30 Years	8.5%	350	860	1,209	1,451
Debentures and notes		\$2,195	\$1,045	\$3,239	\$3,185
Loans payable in annual installments of principal and interest at rates varying from 4.5% to 8.25% per annum to the year 2011.				10	10
Total long-term debt				\$3,249	\$3,195

The US\$ debenture balance outstanding at March 31, 2002 is US\$ 660 million. (See Note 18)

The weighted average coupon interest rate on all debentures and notes outstanding at March 31, 2002 is 8.06% (2001 – 8.39%).

### Long-term debt payments

Long-term debt maturities and sinking fund requirements in respect of debt outstanding at March 31, 2002 are as follows for the five years ending March 31, 2007:

	Debt maturities and sinking fund obligations (in millions)
Year ending March 31, 2003	719
Year ending March 31, 2004	126
Year ending March 31, 2005	25
Year ending March 31, 2006	225
Year ending March 31, 2007	93

Exchange rates in effect at March 31, 2002 are used for debt denominated in foreign currencies.

### Sinking funds

The Minister of Finance of the Province of New Brunswick, as Trustee for the Corporation, maintains a sinking fund for all debenture issues where required. Sinking fund earnings are reflected in the Corporation's income. Corporation debentures held in the fund are cancelled at maturity or on the debenture call date. Sinking fund investments are deducted from long-term debt except where the legally enforceable right to offset does not exist. The amount not offset and reclassified as investments is immaterial (2001 – immaterial) (See Note 18).

### Guarantee fee

The Corporation pays an annual guarantee fee to the Province of New Brunswick, amounting to 0.6489% of the total, as at the previous year end, of long-term debt guaranteed by the Province, debentures held by the Province and short-term indebtedness to the Province, less the balance held in sinking funds.

## 11. SHORT-TERM INDEBTEDNESS

The Corporation borrows funds for temporary purposes from the Province of New Brunswick. The short-term borrowings from the Province of New Brunswick are \$0 at March 31, 2002 (2001 – \$102 million).

The Corporation may also borrow from banks from time to time. Such borrowings are payable on demand. The Corporation has bank lines of credit, guaranteed by the Province of New Brunswick, for short-term borrowings totaling \$89 million.

N.B. Coal has bank lines of credit totaling \$4 million, which are secured by a general assignment of book debts.

## 12. PLANT DECOMMISSIONING AND USED NUCLEAR FUEL MANAGEMENT

	2002	2001
Used nuclear fuel management	\$ 117	\$ 113
Nuclear decommissioning	98	92
Thermal decommissioning	19	16
	<b>\$ 234</b>	<b>\$ 221</b>

As described in Note 1h, the \$234 million recorded liability shown above, together with future annual charges to income, when accumulated with interest, will be adequate to cover the total costs of these future activities as they occur.

The obligation is not funded.

## 13. DEFERRED LIABILITIES - OTHER

	2002	2001
Early retirement programs	\$ 27	\$ 29
Retirement allowance program (See Note 9)	10	8
	<b>37</b>	<b>37</b>
Less: Amounts due within one year	3	4
	<b>\$ 34</b>	<b>\$ 33</b>

## 14. AMOUNTS CHARGED OR CREDITED TO OPERATIONS NOT REQUIRING A CURRENT CASH PAYMENT

	2002	2001
Amortization and decommissioning	\$ 200	\$ 205
Amortization of deferred debt costs	4	4
Unrealized foreign exchange losses	4	82
Disposal of nuclear fuel consumed during the year	(1)	(2)
Interest on plant decommissioning and used nuclear fuel management	15	14
Retirement expenses less related cash payments	1	3
Reduction in pension expense	(9)	(14)
	<b>\$ 214</b>	<b>\$ 292</b>

## 15. FINANCIAL INSTRUMENTS

### Foreign exchange risk management

At March 31, 2002, the Corporation had outstanding forward exchange contracts representing a net commitment to purchase US\$ 355 million (2001 – US\$ 124 million) maturing over the next sixteen months. The weighted average rate of exchange protected by these contracts is CDN \$1.5640.

The fair value of forward exchange contracts as at March 31, 2002 is \$568 million (2001 – \$196 million). If the contracts had been closed out at March 31, 2002 the gain would have been \$12 million (2001 – \$8 million).

### Fuel price risk management

At March 31, 2002, the Corporation had outstanding heavy fuel oil swap contracts totaling \$79 million (2001 – \$62 million) maturing over the next eighteen months. The fair market value of the heavy fuel oil swap agreements as at March 31, 2002 is \$89 million (2001 – \$58 million).

At March 31, 2002, the Corporation had outstanding natural gas swap contracts totaling \$15 million maturing over the next twelve months. The fair market value of the natural gas swap agreements as at March 31, 2002 is \$19 million. No natural gas hedges were in place as at March 31, 2001.

Under the agreements, the Corporation exchanges monthly payments based on the differential between a fixed price and a monthly cumulative floating price for the associated fuel. The differential to be paid or received is reflected in the cost of fuel.

If the outstanding swap contracts for which gains and losses accrue to the Corporation had been closed out at March 31, 2002, the gain would have been \$10 million for heavy fuel oil swaps (2001 – loss of \$4 million), and \$4 million for natural gas swaps.

### Electricity risk management

At March 31, 2002, the Corporation had outstanding electricity swap contracts totaling \$8 million maturing over the next five months. The fair market value of the electricity swap agreements as at March 31, 2002 is \$9 million. No electricity swap contracts were in place as at March 31, 2001.

If the contracts had been closed out at March 31, 2002 the loss would have been \$1 million.

### Interest rate risk management

The Corporation has entered into interest rate swap agreements which will become effective from July 1, 2002 to November 15, 2002 with termination dates from October 1, 2012 to February 17, 2013. These agreements have a notional principal amount of \$225 million (2001 – \$450 million). The Corporation will pay a weighted average fixed rate of 6.5612%. If the outstanding interest rate swaps had been closed out as of March 31, 2002, the loss would have been \$4 million (2001 – \$17 million).

### Fair value of debt and sinking funds

The estimated fair value of long-term debt as at March 31, 2002 is \$3,685 million compared to a book value of \$3,249 million (2001 – \$3,620 million compared to \$3,195 million). The estimated fair value of all sinking funds as at March 31, 2002 is \$381 million compared to a book value of \$359 million (2001 – \$346 million compared to \$326 million).

### Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Corporation conducts a thorough assessment of debtors prior to granting credit and actively monitors the financial health of its debtors on an on-going basis. The estimated fair value of credit risk is deemed to be the sum of accounts receivable net of applicable reserves and the total gross unrealized gains for financial instruments. Accounts receivable, net of applicable reserves is \$169 million (2001 – \$174 million). The gross unrealized gains, net of losses, from the foreign exchange, interest rate, electricity and fuel price risk management instruments is \$21 million.

## 16. COMMITMENTS

### Coleson Cove Generating Station Refurbishment

Subject to successful completion of the environmental impact assessment, the Corporation plans to refurbish the 1,000 megawatt Coleson Cove generating station including converting it to burn Orimulsion® fuel. Construction is scheduled to commence in September 2002. The estimated cost of the refurbishment is \$747 million. Expenditures to March 31, 2002 amounted to \$7 million.

### Belledune Wharf

The Corporation has entered into an operating lease expiring in 2013, with a twenty year renewal option, for the port facility at Belledune. This lease provides for annual charges of approximately \$4.5 million.

### Courtenay Bay Generating Station

The Corporation has entered into a lease agreement for site facilities, expiring in 2021, with a five year option to extend. The tenant has repowered an existing 100 MW unit to a 280 MW combined cycle natural gas unit which began commercial operation effective September 2001.

The Corporation has also entered into a related power purchase and transmission access agreement expiring in 2021, with a five year option to extend, with the same third party. The Corporation will purchase all the electrical energy produced by the re-powered 280 MW combined cycle natural gas unit during the winter period, November 1 to March 31, and from time to time, some or all of the electrical energy produced during the summer period.

### Gas Transportation Agreement

The Corporation has entered into an agreement expiring in 2015, for firm natural gas transportation service to the re-powered Courtenay Bay Generating Station. The cost of transportation will be recovered from the tenant referred to in the lease of the generating station.

### Orimulsion® Fuel Supply

The Corporation has entered into a twenty-year agreement to purchase Orimulsion® fuel for the Dalhousie generating station from 1990, continuing year to year thereafter unless terminated by either party.

### Computer Equipment

The Corporation has entered into operating leases relating to computer equipment. The future minimum lease payments under these leases are as follows

	2002	2001
2003	\$ 4	\$ 1
2004	3	1
2005	2	-
	\$ 9	\$ 2

## 17. CONTINGENCY

N.B. Coal has an ongoing environmental responsibility to treat acidic water drainage from an inactive mine. Ongoing cost of treatment is approximately \$0.5 million per year.

## 18. SUBSEQUENT EVENTS

### a. Restructuring the Corporation

Subsequent to year end, the New Brunswick provincial government announced that there will be a structural and financial separation of the Corporation's four business units and corporate services with greater emphasis on the commercial development of the business units. By April 1, 2003, the Corporation will be restructured or unbundled into NB Power Holding with the four business units operating as subsidiary companies – NB Power Generation, NB Power Nuclear, NB Power Transmission, and NB Power Distribution/ Customer Service. The holding company will provide corporate services to the subsidiaries.

The new subsidiary companies will be directed to operate on a commercial basis similar to other energy companies. They will be responsible for financial statements, business plans, and benchmarking for regulatory purposes.

The subsidiaries will be required to:

- earn a positive rate of return on equity
- pay a cash dividend to the Province
- pay appropriate income and capital taxes
- borrow funds without a provincial government guarantee

Legislation to effect this restructuring is expected in early 2003. Also invitations for equity positions or partnerships will be sought for the Coleson Cove and Point Lepreau generating station refurbishment projects.

### b. Financial Instruments

Subsequent to year end, the Corporation entered into cross currency interest rate swaps to hedge foreign exchange risk associated with \$200 million of its outstanding \$US debentures. Also, subsequent to year end, certain US denominated sinking fund assets were assigned to provide a hedge against an additional US\$ 200 million in outstanding debentures.

Also, subsequent to year end, a legislative change was made to debenture provisions to allow the Corporation, as debentures mature, to either withdraw the value of the sinking funds accumulated for the maturing debentures, or leave these funds in the sinking fund to be withdrawn later at the date of maturity of other debentures.

## 19. COMPARATIVE FIGURES

Certain 2001 figures have been reclassified to conform with 2002 financial statement presentation.

Statement of Generation	2001 2002	2000 2001	1999 2000	1998 1999	1997 1998
in millions of KWh					
Hydro	1,910	2,373	3,018	2,696	2,357
Thermal	12,206	12,507	9,763	12,430	10,914
Nuclear	4,938	3,899	4,323	4,970	3,962
Combustion turbine	13	39	19	3	9
Purchases	1,945	2,092	4,712	2,568	3,148
<b>GROSS GENERATION AND PURCHASES</b>	<b>21,012</b>	20,910	21,835	22,667	20,390
Station service	1,121	1,086	985	1,092	1,004
<b>NET GENERATION AND PURCHASES</b>	<b>19,891</b>	19,824	20,850	21,575	19,386
Losses – transformer and transmission	498	603	688	663	627
<b>TOTAL ENERGY AVAILABLE FOR DISTRIBUTION</b>	<b>19,393</b>	19,221	20,162	20,912	18,759

Statement of Sales	2001 2002	2000 2001	1999 2000	1998 1999	1997 1998
in millions of KWh					
Wholesale	1,132	1,171	1,126	1,069	1,091
Industrial	6,007	6,068	5,924	5,985	6,003
General service	2,119	2,111	2,093	2,036	2,049
Residential	4,463	4,587	4,371	4,387	4,510
Street lights	74	74	73	72	71
<b>TOTAL IN-PROVINCE SALES</b>	<b>13,795</b>	14,011	13,587	13,549	13,724
Interconnections	5,264	4,878	6,255	7,048	4,771
<b>TOTAL SALES</b>	<b>19,059</b>	18,889	19,842	20,597	18,495
Distribution losses	334	332	320	315	264
<b>TOTAL ENERGY DISTRIBUTED AND SOLD</b>	<b>19,393</b>	19,221	20,162	20,912	18,759

Statement of Sales	2001 2002	2000 2001	1999 2000	1998 1999	1997 1998
in millions of dollars					
Wholesale	\$ 70	\$ 73	\$ 71	\$ 68	\$ 69
Industrial	293	298	288	283	280
General service	180	178	176	170	168
Residential	359	364	340	335	336
Street lights	17	18	13	16	16
<b>TOTAL IN-PROVINCE SALES</b>	<b>919</b>	931	888	872	869
Interconnections	359	332	329	303	242
<b>SALES OF POWER</b>	<b>1,278</b>	1,263	1,217	1,175	1,111
Miscellaneous	41	46	31	29	29
<b>TOTAL REVENUE</b>	<b>\$ 1,319</b>	\$ 1,309	\$ 1,248	\$ 1,204	\$ 1,140

Statement of In-Province Generation	2001	2000	1999	1998	1997
	2002	2001	2000	1999	1998
in millions of kWh					
Hydro	1,910	2,373	3,019	2,696	2,357
Coal and petroleum coke	3,500	3,762	3,677	3,065	3,291
Heavy fuel oil	2,706	3,232	1,796	3,114	3,496
Orimulsion®	1,618	1,761	1,830	1,509	1,699
Nuclear	4,638	3,567	3,980	4,558	3,640
Combustion turbine	4	12	4	1	4
Purchases	1,344	1,302	1,249	574	1,116
<b>GROSS GENERATION AND PURCHASES</b>	<b>15,720</b>	16,009	15,555	15,517	15,603
Station service	1,093	1,065	958	989	988
<b>NET GENERATION AND PURCHASES</b>	<b>14,627</b>	14,944	14,597	14,528	14,615
Losses – transformer and transmission	498	603	688	663	627
<b>TOTAL ENERGY AVAILABLE FOR DISTRIBUTION</b>	<b>14,129</b>	14,341	13,909	13,865	13,988

Peak Demand and Capacity	2001	2000	1999	1998	1997
	2002	2001	2000	1999	1998
in MW					
System net generating capacity	3,769	3,920	4,119	4,119	4,119
Firm capacity purchases	499	347	349	349	49
<b>TOTAL AVAILABLE RESOURCES</b>	<b>4,268</b>	4,267	4,468	4,468	4,168
In-province system net peak demand	2,768	2,893	2,856	2,786	2,792
Firm exports	863	464	427	531	492
Operating reserve	624	644	629	684	684
<b>TOTAL REQUIREMENT</b>	<b>4,255</b>	4,001	3,912	4,001	3,968

Operating Statistics	2001	2000	1999	1998	1997
	2002	2001	2000	1999	1998
March 31					
Transmission lines – km	6,665	6,706	6,660	6,660	6,660
Distribution lines – km	26,316	25,753	25,621	25,475	25,475
Residential customers	286,464	283,743	280,513	276,360	274,116
Industrial customers	1,854	1,851	1,847	1,834	1,832
General service customers	23,635	23,535	23,345	23,103	22,985
Non-metered customers	2,710	2,901	3,250	2,116	2,573
Direct customers	314,663	312,030	308,955	303,413	301,506
Indirect customers	41,777	41,694	41,678	40,673	40,589
<b>TOTAL CUSTOMERS</b>	<b>356,440</b>	353,724	350,633	344,086	342,095
Employees – regular	2,489	2,428	2,445	2,463	2,450
Employees – temporary	131	77	84	69	55
Employees – N.B. Coal Limited	76	101	102	103	103

Income Statement Summary	2001 2002	2000 2001	1999 2000	1998 1999	1997 1998
in millions of dollars					
In-province revenue	\$ 919	\$ 931	\$ 888	\$ 872	\$ 869
Out-of-province revenue	359	332	329	303	242
Miscellaneous	41	46	31	29	29
Total fuel and purchases	489	501	395	374	404
Operations, maintenance and administration	344	325	320	283	262
Amortization and decommissioning	200	205	190	189	177
Finance charges	266	356	277	383	350
Income (loss) before transfers and write-off	20	(78)	66	(25)	(53)
Fuel channel account transfer	-	-	-	9	22
Income (loss) before write-off	20	(78)	66	(16)	(31)
Write off of deferred cost	-	-	-	450	-
Net income (loss)	\$ 20	\$ (78)	\$ 66	\$ (466)	\$ (31)
Interest coverage ratio <sup>1</sup>	1.08x	.69x	1.23x	.91x	.82x

1 Interest coverage ratio = [net income before transfers and write-off + (interest expense + realized foreign exchange - income from sinking funds and other investments - interest on pension)] / (interest expense + realized foreign exchange - income from sinking funds and other investments - interest on pension)

Balance Sheet Information	2001 2002	2000 2001	1999 2000	1998 1999	1997 1998
March 31 - in millions of dollars					
<b>ASSETS</b>					
Property, plant and equipment	\$ 2,840	\$ 2,906	\$ 2,997	\$ 3,130	\$ 3,252
Long-term assets	-	-	17	56	70
Current assets	293	313	285	275	274
Deferred charges	103	79	60	51	490
<b>TOTAL ASSETS</b>	<b>\$ 3,236</b>	<b>\$ 3,298</b>	<b>\$ 3,359</b>	<b>\$ 3,512</b>	<b>\$ 4,086</b>
<b>LIABILITIES</b>					
Long-term debt	\$ 2,171	\$ 2,624	\$ 2,578	\$ 2,945	\$ 3,075
Current liabilities	941	584	628	501	483
Deferred liabilities	268	254	239	218	214
Equity (deficit)	(144)	(164)	(86)	(152)	314
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 3,236</b>	<b>\$ 3,298</b>	<b>\$ 3,359</b>	<b>\$ 3,512</b>	<b>\$ 4,086</b>
Debt ratio <sup>2</sup>	105%	106%	103%	105%	92%

2 Debt ratio = (debt) / (debt + equity), where debt = (long-term debt + short-term indebtedness + used nuclear fuel management and plant decommissioning + fuel channel removal - cash and short-term investments - sinking fund investments)

**Financial Statistics**

	<b>2001 2002</b>	2000 2001	1999 2000	1998 1999	1997 1998
in millions of dollars					
<b>FINANCE COSTS</b>					
Interest expense	\$ <b>265</b>	\$ 284	\$ 307	\$ 321	\$ 326
Income from sinking fund, pension plan and other investments	<b>(32)</b>	(41)	(33)	(41)	(35)
Provincial Government guarantee fee	<b>19</b>	19	20	21	21
Amortization of deferred debt costs	<b>4</b>	4	5	4	4
Foreign exchange (gain) or loss	<b>15</b>	94	(20)	80	35
Interest capitalized	<b>(5)</b>	(4)	(2)	(2)	(1)
<b>NET FINANCIAL EXPENSE</b>	<b>\$ 266</b>	\$ 356	\$ 277	\$ 383	\$ 350
<b>OTHER STATISTICS</b>					
Rate increase*	–	3.0%	–	2.9%	2.9%
CPI (New Brunswick)	<b>1.7%</b>	3.3%	1.6%	0.6%	1.9%
GDP increases (New Brunswick)	<b>2.1%</b>	3.5%	4.2%	4.0%	0.4%
Capital expenditures (millions)	\$ <b>140</b>	\$ 118	\$ 95	\$ 68	\$ 61
Change in total debt (millions) (net of sinking funds, cash and investments)	\$ <b>(41)</b>	\$ (23)	\$ (234)	\$ (123)	\$ (43)
% Breakdown of long-term debt:					
Canadian dollar	<b>68%</b>	67%	69%	70%	71%
US dollar	<b>32%</b>	33%	31%	30%	29%
Weighted average coupon interest rate	<b>8.1%</b>	8.4%	8.9%	9.1%	9.1%
Canadian Dollar – March 31st	<b>\$ 0.628</b>	\$ 0.634	\$ 0.688	\$ 0.663	\$ 0.706

\* Rate increase in 2000–2001 was for residential customers only.

# Corporate Governance

NB Power's mandate is to provide for the continuous supply of energy adequate for the needs and future development of the Province and to promote economy and efficiency in the generation, distribution, supply, sale, and use of power.

NB Power's Board of Directors and management are committed to high standards of corporate governance and believe that a sound governance system will support the achievement of the legislated mandate.

NB Power's governance practices are consistent with the recommendations from a number of organizations, including the Toronto Stock Exchange (TSE Guidelines) and the Conference Board of Canada.

## Mandate of the Board

The Board of Directors is responsible for ensuring that the following programs are in place:

- internal accounting and management information systems
- system to identify and manage the principal risks to the business
- strategic planning process
- succession plan for senior management
- communication policy

Under the direction of the Board, senior management is responsible for the operation of NB Power and may pursue approved strategic initiatives within the framework of authorized budgets and policies.

## Composition and Independence of the Board

The Board of Directors consists of 10 members, all unrelated directors, in addition to the President and Chief Executive Officer who is an *ex officio* member of the Board. Each director is required to sign annually a detailed declaration on employment, business and personal relationships which would, or could reasonably be perceived to, interfere with their ability to act in the best interests of the Corporation. Occasionally, the Board and its committees hold *in camera* meetings without senior management present.

## Committees of the Board

The Board of Directors has established committees to oversee the principal risks to the Corporation.

### Audit Committee

The Audit Committee assesses the integrity of the Corporation's financial reporting, internal control and management information systems, and audit processes. The committee has direct communication with NB Power's independent auditors and meets regularly with the auditors without management present. It is also responsible for monitoring the development and implementation of business risk management plans and control procedures.

### Environment Committee

The Environment Committee reviews and advises the Board on the suitability of and adherence to NB Power's Environmental Policy Statement. The Committee monitors the Environmental Management Programs within the Corporation and reviews the *Environmental Performance Report*, a stand-alone report that outlines environmental challenges and achievements. External auditors, through discussions and examinations, assess on an annual basis the completeness, valuation, and disclosure of material environmental liabilities and contingencies in the Corporation's financial statements.

### Human Resources and Corporate Governance Committee

The Human Resources and Corporate Governance Committee reviews the Corporation's human resources strategy, policies, and programs. The committee is responsible for developing and monitoring the Corporation's governance process. It also reviews matters relative to executive succession planning, performance review, and compensation.

These committees report to the Board at its regular meetings.

## Meeting the Board Stewardship Role

To assist its members in meeting their stewardship roles, the Board has implemented guidelines defining the scope of Director duties and responsibilities. The Board also conducts an annual review of its effectiveness as a whole, a process co-ordinated by the Chair of the Human Resources and Corporate Governance Committee.

Management assists Directors by providing them with reports at each regular meeting on developments affecting the Corporation. New Directors benefit from a formal orientation program providing them with current data pertaining to operations and issues facing the Corporation. Board meetings are periodically held at various field locations affording Directors the opportunity to observe operations and meet employees.

The business objectives and key results, on which the President and Chief Executive Officer is measured, are established annually by the Board of Directors. The Board also monitors and reviews the performance of the President and Chief Executive Officer on an annual basis.

## Compliance with Corporate Governance Guidelines

To continually enhance the effectiveness of its governance, the Board of Directors has focused its attention on the following areas:

- The Board reviewed management's long-range plans, programs, performance targets, and budgets.
- The Board, through its Audit Committee, monitored the Enterprise Risk Management Policy, a process to identify, assess, monitor, and manage business risks in order to optimize business value and improve decision making.
- The Environment Committee focused on environment management system implementation, compliance audits, facility re-licensing, changes to environmental legislation, emerging issues and environmental aspects of capital projects.
- The Human Resources and Corporate Governance Committee ensured that due diligence was exercised relative to the health and safety of NB Power employees and the public. It reviewed performance in the areas of employee safety and public safety programs. It reviewed management's plans and programs to address succession planning at the senior levels of the Corporation. It reviewed the annual response to the Conflict of Interest questionnaire for Board Members and the Executive. Lastly, the Human Resources and Corporate Governance Committee reviewed and approved corporate and business unit goals and objectives to serve as guides in the performance assessment of senior management.

# Board of Directors

## Dan Skaling Chair

Mr. Skaling has extensive business and senior management experience and over the past 20 years he has served as a senior official in both the provincial and federal governments. He is President of Venture Communications Inc.

## Jean-Marc Violette Vice-Chair

Mr. Violette is a farmer and wood lot manager in St. Leonard and has been active in the agriculture sector. He has served on the Farm Debt Review Board and the Farm Development Board.

## Stewart MacPherson President and CEO (Acting)

Mr. MacPherson was appointed President and CEO on January 1, 2002. He has been employed by NB Power for 35 years and served in senior management positions in customer service, business information systems and corporate planning. From 1998 to 2001, he was vice-president - corporate planning.

## Lino J. Celeste

Mr. Celeste is a director on the board of Aliant Inc. and serves on the board of Manulife Financial Corporation. He also serves as chair of the Saint John Foundation.

## Bernard Cyr

Mr. Cyr is owner of Cyr Holdings, which operates the Château Moncton Hotel, develops commercial properties, and operates various restaurants. Mr. Cyr is also owner and franchisor of the Dooly's group. He is a director of Assomption Vie and serves as president of the development committee for the Université de Moncton.

## Barbara S. Bender, CA

Ms. Bender is vice-president of Spartan Systems in Saint John and has been executive director of the N.B. Institute of Chartered Accountants. She is director of the Public Service Pension Investment Board and serves on their audit committee. Ms. Bender is also the public representative on the N.B. College of Physicians and Surgeons.

## Philippe DesRosiers

A former vice-president of the National Bank, Mr. DesRosiers was responsible for retail, corporate and commercial banking in Atlantic Canada.

## Roger Clinch

Mr. Clinch is a senior executive with Noranda in New Brunswick where he is responsible for communication and information services.

## Leon Furlong

Mr. Furlong is past president and chief executive officer of Atlantic Blue Cross Care. He also serves on the board of directors for several companies including Blue Cross Life Insurance Company of Canada and Resurgo Inc.

## Thomas Soucy

Mr. Soucy is general manager of Groupe Westco in St-Francois, N.B. He is a member of the Canadian Poultry and Egg Processing Council.

## Board Committees

### The Audit Committee

Barbara S. Bender – Chair, Lino J. Celeste, Dan Skaling, Jean-Marc Violette and Thomas Soucy.

### The Financial Restructuring Committee

Leon Furlong - Chair, Lino J. Celeste, Philippe DesRosiers and Dan Skaling.

### The Environment Committee

Philippe DesRosiers – Chair, Roger Clinch, Jean-Marc Violette, Leon Furlong and Dan Skaling (*ex officio*).

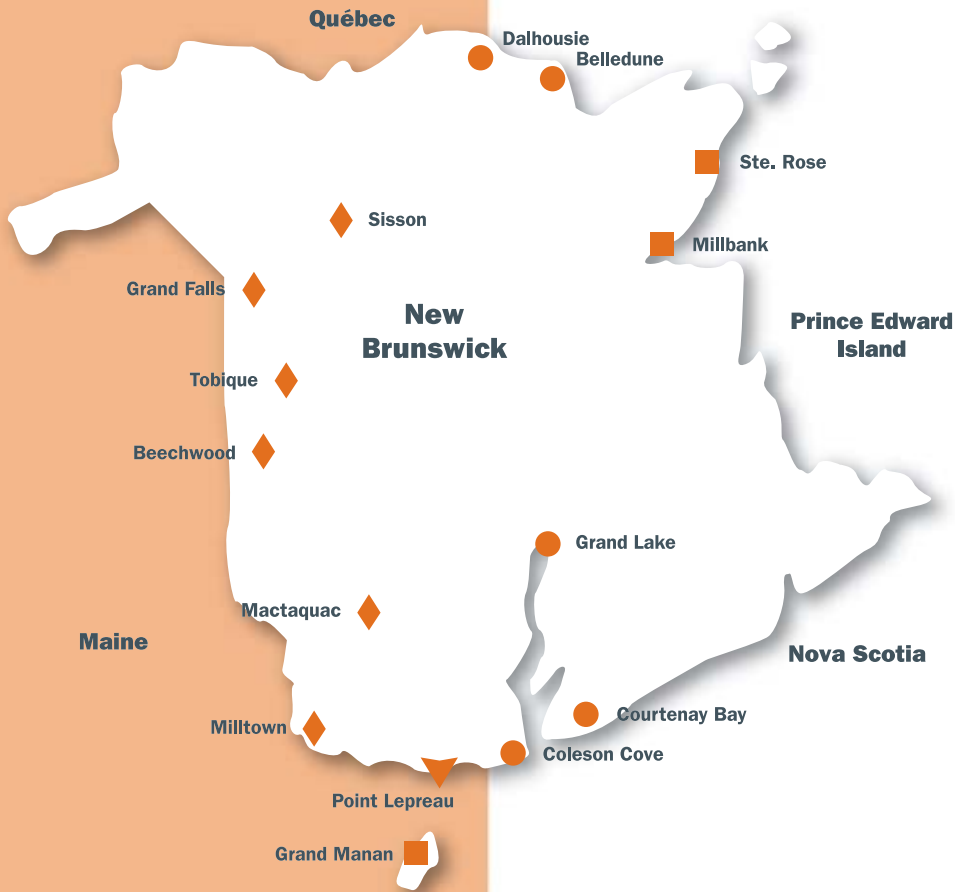
### The Human Resources and Corporate Governance Committee

Roger Clinch – Chair, Dan Skaling, Lino J. Celeste, Bernard Cyr and Philippe DesRosiers.



From left to right: Roger Clinch, Thomas Soucy, Lino J. Celeste, Dan Skaling, Stewart MacPherson, Jean-Marc Violette, Barbara S. Bender, Bernard Cyr, Leon Furlong, Philippe DesRosiers

# System Map



- Thermal Station ●
- Nuclear Station ▼
- Hydro Station ◆
- Combustion Turbine ■

## Generating Capacity

### Thermal

Grand Lake	57 MW
Courtenay Bay	110 MW
Dalhousie	300 MW
Coleson Cove	998 MW
Belledune	458 MW
<b>TOTAL THERMAL</b>	<b>1923 MW</b>

### Nuclear

Point Lepreau	635 MW
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### Hydro

Milltown	4 MW
Tobique	20 MW
Sission	9 MW
Grand Falls	66 MW
Beechwood	113 MW
Mactaquac	672 MW
<b>TOTAL HYDRO</b>	<b>884 MW</b>

### Combustion Turbine

Grand Manan	28 MW
Millbank	199 MW
Ste-Rose	100 MW
<b>TOTAL COMBUSTION TURBINE</b>	<b>327 MW</b>

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Jérémie Lirette  
is ready to be a  
power line technician  
just like his dad,  
Raymond, his uncles,  
and his grandfather.

