Énergie NB Power

NB Power Quarterly Report

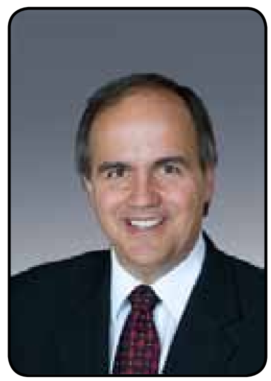
First Quarter

2011-2012 Q1

Message from the Chairman of the Board and the President and CEO

In its Shareholder's Mandate Letter of January 26, 2011, the Province of New Brunswick asked that NB Power make updated financial statements available to the public on a quarterly basis. This quarterly report contains unaudited financial highlights and discusses the primary factors that have an impact on the financial results and operations of the NB Power Group.

The information provided includes year-over-year financial variances for the first quarter (April to June). The financial information contained in the report has not been audited, and it contains financial estimates that are subject to change. The audited financial statements for the year ended March 31, 2011, are available on the NB Power website (www.nbpower.com).



Ed Barrett
Chairman,
NB Power Board of Directors

Gaëtan Thomas
President
and Chief Executive Officer

This Public Quarterly Report discusses the operating and financial results for the NB Power Group of Companies which include the accounts for the New Brunswick Power Holding Corporation (Holdco) and its subsidiary operating companies (collectively the NB Power Group or the Group). The subsidiaries include:

- New Brunswick Power Generation Corporation (Genco);
    - including New Brunswick Power Coleson Cove Corporation (Colesonco) and Mine Reclamation Inc. (formerly NB Coal Limited);
- New Brunswick Power Nuclear Corporation (Nuclearco);
- New Brunswick Power Transmission Corporation (Transco); and
- New Brunswick Power Distribution and Customer Service Corporation (Disco).

Operational Highlights

POINT LEPREAU GENERATING STATION

On April 6, 2011, the Canadian Nuclear Safety Commission (CNSC) announced that the Power Reactor Operating License for the Point Lepreau Generating Station would be renewed until June 30, 2012. As part of this decision, Nuclearco is required to seek CNSC approval before reloading fuel in the reactor and proceeding with the restart following the refurbishment outage.

AECL remains on track to meet the target date of May 2012 for the completion of Phase 2 of the refurbishment project. At the end of the quarter, calandria tube installation was progressing well with installation and leak testing activity 75 per cent complete. Subsequent to quarter end, 100 per cent of the calandria tubes have been installed and successfully passed leak tests.

NB Power has a team in place to ensure the remaining commissioning activities are carried out in accordance with all operating and regulatory requirements. Public project updates will continue to be issued on a regular basis and will include progress against project milestones.

FUKUSHIMA LESSONS LEARNED

In the aftermath of the devastating earthquake and tsunami in Japan on March 11, 2011, and the subsequent nuclear events, a team was formed at the Point Lepreau Generating Station to monitor developments and review lessons learned from the events. This team of nuclear experts continues to focus on this important work.

In April 2011, the CNSC requested that all nuclear power plants in Canada respond to several requests regarding lessons learned from the events in Japan. NB Power's preliminary re-examination of the safety case for PLGS demonstrates continued confidence that the risks associated with the operation of the station remain very low. NB Power's safety case remains strong; however, NB Power is examining further areas for improvement in light of these events.

RESPONSE TO THE SHAREHOLDER'S MANDATE LETTER

In early 2011, NB Power received a Shareholder's Mandate Letter. The Province has mandated that NB Power operate like a commercial enterprise, provide safe and reliable service, operate in a manner that secures competitive rates for its customers, and maintain and enhance shareholder value through efficient operations and long-term debt and asset management.

Management, in conjunction with its Board of Directors, focused attention on prioritizing activities to respond to the Shareholder's Mandate Letter. Three priorities have been established.

- Target being a top-quartile performer as compared to public and private utilities in North America.
- Systematically reduce debt to ensure that NB Power is in a financial position to invest in new generation that will ensure stable rates for New Brunswick.
- Invest in technology, educate customers and incent consumption that will reduce and shift demand for electricity and ultimately defer future generation investment.

During the first quarter, NB Power began a review process aimed at further reducing its operational costs and optimizing performance. A project team has been established to evaluate the impact and effectiveness of current processes and to identify necessary changes.

Financial Highlights

The information provided in this report includes year-over-year financial variances for the first quarter (April to June). The financial information contained in the report includes abbreviated and condensed financial statements which have not been audited and contains financial estimates that are subject to change. These should be read in conjunction with the audited financial statements for the year ended March 31, 2011.

YEAR-TO-DATE

NB Power Group recorded net earnings for the period of $58 million, compared to an $8 million net loss for the same period in 2010/11. The $66 million increase in earnings was largely as a result of

Revenues

In-province revenue was $16 million higher than the same period in 2010/11 mainly due to a rate increase implemented in June 2010 and colder weather in 2011/12.

Out-of-province revenue was $2 million lower than the same period in 2010/11 mainly due to export market prices being lower in 2011/12 as a result of market conditions.

In the first quarter of 2010/11 there was a mark-to-market loss of $18 million on the long-term receivable related to the Petroleos de Venezuela S.A (PDVSA) in–kind settlement. As all PDVSA fuel shipments have now been received by NB Power, there is no longer a receivable to mark-to-market.

Expenses

Fuel and purchased power and transmission expense decreased $44 million compared to the same period in 2010/11 mainly due to a 37 per cent increase in hydro generation and lower overall generation costs as a result of economic energy purchases.

OM&A expense decreased $24 million compared to the same period in 2010/11 mainly attributable to ongoing cost reductions which include staff reductions, reduced overtime and hired services partially offset by higher pension expense in 2011/12 as a result of financial market conditions.

Amortization expense decreased $6 million compared to the same period in 2010/11 mainly due to changes in the expected service life of certain pieces of equipment in some of our generating stations.

Special payments in lieu of income taxes increased $25 million compared to the same period in 2010/11 due to higher earnings in 2011/12.

Regulatory deferrals – NB Power is a rate regulated entity, which can apply regulatory accounting. This results in the non-capital costs associated with the Point Lepreau refurbishment project, both replacement energy costs and period costs and the costs/savings related to the PDVSA lawsuit settlement which are incurred during the year being removed/deferred from earnings. These deferred costs will be expensed over the remaining lives of the assets.

The current quarter variance of $16 million is mainly related to an accounting adjustment in 2010/11 to reflect the current market value of the PDVSA in-kind settlement.

Change in Debt [1]

Debt at June 30, 2011 was $4,445 million compared to $4,450 million at March 31, 2011, a decrease of $5 million which was comprised of debt retirements ($12 million) and reduction of short-term debt ($135 million) partially offset by proceeds from long-term debt issues ($130 million).
NB Power was able to reduce debt by $5 million as a result of increased cash flows from operating activities partially offset by increased capital spending.

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[1] Debt includes short-term debt, current portion of long-term debt and long-term debt.

Combined Statement of Earnings
In Millions of Dollars
(Unaudited)

	Three months ended June 30		
	2011	**2010**	**Variance**
Revenues			
In-province revenue	282	266	16
Out-of-province revenue	53	55	(2)
Transmission revenue	21	21	0
Miscellaneous revenue	13	12	1
(Loss) gain on mark-to-market of long-term receivable and associated contracts	-	(18)	18
	369	336	33
Expenses			
Fuel & purchased power	128	171	(43)
Transmission expense	20	21	(1)
Operations, maintenance and administration	100	124	(24)
Amortization and decommissioning	48	54	(6)
Taxes	10	10	0
Regulatory deferrals	(44)	(60)	16
Finance charges	28	28	0
	290	348	(58)
Earnings (loss) before special payment in lieu of income taxes	79	(12)	91
Special payments in lieu of income taxes	21	(4)	25
Net earnings (loss)	**$58**	**($8)**	**$66**

Combined Balance Sheet
In Millions of Dollars
(Unaudited)

Assets	As at Jun 30, 2011	As at Jun 30, 2010	As at March 31, 2011
Current assets			
Cash and short-term investments	7	15	10
Accounts receivable	201	199	266
Materials, supplies and fuel	260	213	252
Prepaid expenses	26	32	9
Current portion of long-term receivable	0	19	0
Current portion of derivative assets	2	3	5
	496	481	542
Property, plant and equipment	3,791	3,714	3,773
Long-term and other assets	1,377	1,137	1,317
Total Assets	**$5,664**	**$5,332**	**$5,632**
Liabilities and Shareholders' Equity			
Current liabilities			
Short-term indebtedness	359	623	483
Accounts payable and accrued interest	213	261	237
Current portion of long-term debt	551	38	550
Current portion of derivative liabilities	32	62	27
	1,155	984	1,297
Long-term debt	3,535	3,570	3,417
Deferred liabilities	616	569	612
Shareholders' Equity	358	209	306
	$5,664	**5,332**	**5,632**

Combined Statement of Cash Flows
In Millions of Dollars
(Unaudited)

	Three months ended June 30	
	2011	**2010**
Operating Activities		
Net earnings (loss) for the year	58	(8)
Amounts not requiring a current cash payment	54	42
Nuclear decommissioning and used fuel management funds installments and earnings	(6)	(5)
Decommissioning liability expenditures	(2)	(1)
Deferred fuel charges	-	-
Regulatory deferrals excluding mark-to-market adjustments	(54)	(48)
Net change in non-cash working capital	15	75
	$65	**$55**
Investing Activities		
Expenditure on property, plant and equipment, net of proceeds on disposal and customer contributions	(59)	(59)
Recovery of capital	-	39
	($59)	**($20)**
Financing Activities		
Debt retirements	(12)	(72)
Proceeds from long-term debt obligations	130	100
Increase (decrease) in short-term debt	(123)	(50)
Dividends paid	(4)	(2)
	($9)	**($24)**
Net Cash (outflow) inflow	(3)	11
Cash, beginning of period	10	4
Cash, end of period	**$7**	**$15**