



Second Quarter Report

Year-To-Date Results

For the Period Ended September 30, 2016



Énergie NB Power

Operational Highlights

Point Lepreau Nuclear Generating Station

The Point Lepreau Nuclear Generating Station (PLNGS) operated at high power throughout the second quarter of 2016/17, putting approximately 1.45 million megawatt hours of emission-free power on the New Brunswick grid. During this period, PLNGS produced more than half of the total net generation from NB Power generating stations.

The Station has now achieved more than 5.1 million person hours worked without a lost time accident, affirming NB Power's commitment to safety.

NB Power has applied for a five-year Power Reactor Operating Licence (PROL) renewal for PLNGS. The current PROL issued by the Canadian Nuclear Safety Commission (CNSC) expires in June 2017. The CNSC makes decisions on the licensing of major nuclear facilities through a public hearing process. The public hearings for the PLNGS licence will occur January 26 and May 10-11, 2017.

In August 2016, the CNSC published the 2015 Regulatory Oversight Report for Canadian Nuclear Power Plants. Point Lepreau's 2015 integrated plant rating was Satisfactory, on par with the industry average in Canada. PLNGS received a Fully Satisfactory rating for Conventional Health and Safety performance, and a Satisfactory in all other safety control areas.

Studies evaluating Mactaquac project options made public

The decision-making process about the future of Mactaquac Generating Station has reached a milestone in August with the release of final environmental, social, scientific and public engagement reports on the project. Final reports include the Comparative Environmental Review (CER) report, the Social Impact Comparative Review report and the What Was Said report on public engagement. Scientific studies by the Canadian Rivers Institute are also available.

NB Power continues to explore three possible end-of-life options for the Mactaquac Generating Station, including building a new generating station, removing all structures to allow the river to return to a natural flow, or leaving the dam in place but without power generation. NB Power is also considering making substantive repairs by modifying maintenance programs to prolong the life of the Station to approximately 2068. NB Power expects to recommend a path forward by December 2016.

NB Power protects Saint John River salmon with fish passage at Tobique

NB Power is working to improve survival rates of wild Atlantic Salmon and other fish species on the Saint John River watershed with new facilities at Trouser Lake and the installation of downstream fish passage at the Tobique Generating Station during the fall of 2016 and spring of 2017.

The project is a joint effort between NB Power, the federal Department of Fisheries and Oceans (DFO), local conservation groups and First Nations. It is part of a larger plan aimed at improving the protection of fish and fish habitat near NB Power hydro facilities on the Saint John River watershed.

The \$9 million project will include the installation of a floating fish guidance boom in the Tobique headpond, a replacement gate in one of the spillways, a downstream fish collection screen, a trap and transport facility (an elevated platform supporting a plunge pool and two holding tanks) and a pipe to move fish between the collection screen and the trap.

Heat pump rebate moves to Home Insulation Program beginning October 1

After providing \$5 million to customers for approximately 10,000 energy-saving heat pumps in the last year, NB Power moved the rebate to its Home Insulation Energy Savings Program on October 1, 2016 to drive even greater efficiency savings in New Brunswick homes.

Homeowners who do one major insulation upgrade through the Home Insulation Energy Savings Program can receive a \$500 heat pump bonus on eligible heat pump models purchased from one of NB Power's approved heat pump contractors. The stand-alone rebate ended on September 30.

For more information on the above Operational Highlights, please press the hyperlink imbedded in the above titles (where available).

Financial Highlights

The information provided in this report includes year-over-year financial variances for the year-to-date period. 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 change¹. These should be read in conjunction with the audited annual financial statements.

Free Cash Flow² and Change in Net Debt³

Year-to-date free cash outflow was \$29 million compared to the prior year's free cash inflow of \$5 million; the \$34 million variance is due to higher capital expenditures, higher retiring allowance payouts, timing of cash receipts partially offset by timing of fuel purchases and lower OM&A. This year-to-date cash outflow of \$29 million resulted in an increase in net debt (net debt at September 30, 2016 \$4,942 million compared to \$4,913 million at March 31, 2016).

Electricity Operations

NB Power incurred earnings from operations of \$143 million for the six-month period compared to \$111 million for the same period last year.

Revenue from electricity sales within New Brunswick totaled \$573 million for the six-month period, which was \$10 million or less than 1% higher than the same period last year. The increase was primarily attributed to the rate increases in October 2015 and July 2016. Out-of-province revenues of \$115 million were \$46 million or 29% lower than the same period last year mainly due to lower volumes related to serving fewer standard offer service contracts and by lower prices due to market conditions.

Expenses attributed to electricity operations were \$581 million for the six-month period, a decrease of \$71 million or 11% lower than the same period last year. The decrease was primarily a result of a \$60 million decrease in fuel and purchased power costs, a \$7 million decrease in depreciation and amortization, and a \$5 million decrease in operations, maintenance and administration (OM&A) costs. The decrease in fuel and purchased power costs was primarily due to lower volumes required as there were less export and in-province sales and lower supply costs. The decrease in depreciation and amortization was mainly related to asset life changes at Coleson Cove and Belledune. The decrease in OM&A was mainly due to additional costs being capitalized associated with the Point Lepreau Generating Station planned maintenance outage.

Other Income and Expenses

Finance charges and other income and unrealized gains on investments are \$49 million or 35% lower than the same period last year. The decrease is mainly due to unrealized gains on mark-to-market nuclear funds versus losses in prior year, and lower interest on long-term debt. NB Power financial results are impacted by the volatility of market conditions as it relates to nuclear fund investments. Changes in the market value of these funds largely flow through net earnings and can significantly impact results. A 1% change in the value of the funds can change net earnings by over \$7 million.

Financial Overview

Net earnings for the period ended September 30, 2016 were \$45 million, which represents a \$81 million increase in earnings compared to the same period in the prior year. The increase was largely a result of increased unrealized mark-to-market gains on nuclear trust fund investments, lower interest on long-term debt, and an increase in gross margin.

¹ Certain comparative figures have been restated to reflect adjustments made to the period results subsequent to the issuance of the prior year quarterly report.

² Free cash flow is defined as the net cash flow from operating activities and investing activities less earnings on sinking funds, foreign exchange on debt, and deferred debt costs (additions to, and amortization of premiums and discounts).

³ Net debt includes short-term debt, current portion of long-term debt and long-term debt, sinking funds, and cash.

Consolidated Statement of Earnings

In Millions of Dollars
(Unaudited)

Six months ended September 30

| | 2016 | 2015 | Variance |
|--|-------------|---------------|-------------|
| Revenues | | | |
| In-province | \$573 | \$563 | \$10 |
| Out-of-province | 115 | 161 | (46) |
| Miscellaneous | 36 | 39 | (3) |
| | 724 | 763 | (39) |
| Expenses | | | |
| Fuel and purchased power | (231) | (291) | 60 |
| Operations, maintenance and administration | (213) | (218) | 5 |
| Taxes | (21) | (20) | (1) |
| Depreciation and amortization | (116) | (123) | 7 |
| | (581) | (652) | 71 |
| Net earnings from operations | 143 | 111 | 32 |
| Finance charges and other income | (123) | (125) | 2 |
| Unrealized gains (losses) on investments | 31 | (16) | 47 |
| Net earnings (loss) before changes in regulatory balances | \$51 | (\$30) | \$81 |
| Net changes in regulatory balances | (6) | (6) | - |
| Net earnings (loss) | \$45 | (\$36) | \$81 |

Consolidated Statement of Financial Position

In Millions of Dollars
(Unaudited)

| Assets | As at Sept. 30, 2016 | As at Sept. 30, 2015 | As at March 31, 2016 |
|---|-------------------------|-------------------------|-------------------------|
| Current assets | | | |
| Cash | \$1 | \$1 | \$2 |
| Accounts receivable | 148 | 152 | 235 |
| Materials, supplies and fuel | 194 | 214 | 204 |
| Prepaid expenses | 31 | 29 | 11 |
| Current portion of long-term receivable | - | - | 1 |
| Derivative assets | 9 | 92 | 16 |
| Total Current Assets | 383 | 488 | 469 |
| Property, plant and equipment | 4,295 | 4,379 | 4,237 |
| Sinking fund receivable | 483 | 496 | 464 |
| Long-term and other assets | 763 | 763 | 725 |
| Total Assets | \$5,924 | \$6,126 | \$5,895 |
| Regulatory balances | 1,015 | 1,025 | 1,021 |
| Total Assets and Regulatory Balances | \$6,939 | \$7,151 | \$6,916 |

Liabilities and Shareholder's Equity

| | | | |
|---|----------------|----------------|----------------|
| Current liabilities | | | |
| Short-term indebtedness | \$904 | \$830 | \$855 |
| Accounts payable and accrued interest | 230 | 276 | 296 |
| Current portion of long-term debt | 100 | 780 | 400 |
| Derivative liabilities | 75 | 128 | 95 |
| Total Current Liabilities | 1,309 | 2,014 | 1,646 |
| Long-term debt | 4,422 | 3,797 | 4,124 |
| Deferred liabilities and derivative liabilities | 923 | 1,117 | 939 |
| Shareholder's equity | 285 | 223 | 207 |
| Total Liabilities and Shareholder's Equity | \$6,939 | \$7,151 | \$6,916 |

Consolidated Statement of Cash Flows

In Millions of Dollars
(Unaudited)

Six months ended September 30

| Operating Activities | 2016 | 2015 |
|---|----------------|----------------|
| Net earnings (loss) | \$ 45 | (\$36) |
| Finance costs | 138 | 137 |
| Depreciation and amortization | 116 | 127 |
| Amounts charged or credited to operations not requiring a cash payment | (39) | 11 |
| Net change in non-cash working capital balances | 14 | 25 |
| Interest paid | (120) | (140) |
| Post-employment benefits | (21) | (1) |
| Customer contributions | 6 | 1 |
| Cash Provided by Operating Activities | \$139 | \$124 |
| Investing Activities | | |
| Expenditure on property, plant and equipment, net of proceeds on disposal | (169) | (117) |
| Cash expenditure on decommissioning | (11) | (7) |
| Cash Used in Investing Activities | (\$180) | (\$124) |
| Financing Activities | | |
| Proceeds from long-term debt net of non-cash components | 696 | 50 |
| Increase in short-term indebtedness | 49 | 46 |
| Sinking fund installments/redemptions | (5) | 2 |
| Debt retirements | (700) | (100) |
| Cash Provided by (used in) Financing Activities | \$40 | (\$2) |
| Net cash (outflow) | (\$1) | (\$2) |
| Cash, beginning of period | 2 | 3 |
| Cash, end of period | \$ 1 | \$1 |

Key Performance Indicators

One of the three key strategies of NB Power's Strategic Plan is that NB Power will target being a top-quartile performer as compared to public and private utilities in North America. The Targets shown in the key performance indicators below are in-year targets toward achieving our ultimate goal of top-quartile performance. These key performance indicators were selected to reflect our core areas of focus: financial results, reliability and safety. These year-to-date measures are monitored on a quarterly basis.

| Measures | Actual | Target | Description |
|--|--------|--------|--|
| Financial Results | | | |
| Net Earnings (\$ millions) | 45 | 44 | Net earnings is a measure of our profitability. |
| OM&A (\$ millions) | 213 | 210 | Operations, maintenance and administration (OM&A) costs are largely controllable by management over the medium term and are an important measure of financial success. |
| Net Debt (\$ millions) | 4,942 | 4,877 | The total amount of short and long-term debt outstanding less deferred debt charges and cash. |
| Reliability | | | |
| System Average Interruption Duration Index (SAIDI) ↓ is better | 3.51 | 2.52 | System Average Interruption Duration Index (SAIDI) is a standard utility indice that measures average total outage duration. |
| System Average Interruption Frequency Index (SAIFI) ↓ is better | 1.86 | 1.60 | System Average Interruption Frequency Index (SAIFI) is a standard utility indice that measures the average frequency of interruption per customer served. |
| Point Lepreau Nuclear Generating Station (PLNGS) Capacity Factor (%)* ↑ is better | 59.5 | 70.1 | Capacity factor is the total amount of energy Point Lepreau produced during the year divided by the amount of energy the Station would have produced at full capacity. |
| Safety | | | |
| All Injury Frequency Rate | 0.66 | 0 | The all injury rate represents a summary of all injuries per each 200,000 hours of actual hours worked. |
| Lost-Time Injury Severity Rate | 5.60 | 0 | The lost-time injury rate represents the total number of work days lost per each 200,000 hours of actual hours worked. |

*Note: Lower year-to-date target reflects a planned maintenance outage at PLNGS.