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APPENDIX A

NBSO Audited Financial Results for the  
Fiscal Year Ended March 31, 2010

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# **New Brunswick System Operator**

Financial Statements

**March 31, 2010**

(in thousands of dollars)

## **MANAGEMENT'S STATEMENT OF RESPONSIBILITY**

The financial statements of the New Brunswick System Operator (NBSO) were prepared by management, in accordance with Canadian generally accepted accounting principles which involve the use of significant accounting judgments and estimates in selecting and applying appropriate accounting principles.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains systems of internal controls necessary to provide reasonable assurance that the accounting records are reliable, and that NBSO's assets are properly safeguarded. Internal Audit conducts reviews to ensure that the corporation's internal controls and procedures are adequate, consistent and applied uniformly.

The independent audit firm of PricewaterhouseCoopers LLP, Chartered Accountants, has audited and reported on the financial statements. Their opinion is based on their audit conducted by them in accordance with Canadian generally accepted auditing standards to obtain reasonable assurance that the financial statements are free of material misstatement.

The Board of Directors is responsible for evaluating management in the performance of their financial reporting responsibilities, and has approved these financial statements. The Board of Directors reviews and recommends approval of the financial statements and meets periodically with management, the independent auditors and the internal auditor, concerning internal controls and all other matters relating to financial reporting.

A handwritten signature in black ink, appearing to read 'S. Gignac', is written over a circular stamp or seal.

Sylvain Gignac  
President and Chief Executive Officer

July 29, 2010

**Auditors' Report**

**To the Board of Directors of the  
New Brunswick System Operator**

We have audited the balance sheet of the **New Brunswick System Operator (NBSO)** as at March 31, 2010 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of NBSO'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 NBSO as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

# New Brunswick System Operator

## Balance Sheet

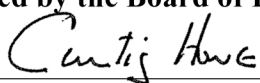
As at March 31, 2010

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(in thousands of dollars)

	2010 \$	2009 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	3,920	2,329
Accounts receivable	8,413	11,137
Prepaid expenses	219	130
	<hr/>	<hr/>
	12,552	13,596
<b>Property and equipment</b> (note 3)	3,000	2,660
	<hr/>	<hr/>
	15,552	16,256
	<hr/>	<hr/>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	10,577	11,389
Deferred regulatory liabilities (note 4)	2,119	1,963
Current portion of capital lease obligations (note 5)	108	92
	<hr/>	<hr/>
	12,804	13,444
<b>Accrued benefit liability</b> (note 6)	284	244
	<hr/>	<hr/>
<b>Obligations under capital lease, net of current portion</b> (note 5)	2,464	2,568
	<hr/>	<hr/>
	15,552	16,256
	<hr/>	<hr/>

Approved by the Board of Directors



Chairman



Director

**New Brunswick System Operator**  
**Statement of Operations and Changes in Net Assets**  
**For the year ended March 31, 2010**

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(in thousands of dollars)

	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Revenues</b>		
Transmission:		
Point-to-point tariff	36,745	32,872
Network tariff	46,004	48,456
Power factor penalty	844	1,028
	<hr/>	<hr/>
	83,593	82,356
Ancillary services	18,917	17,294
Miscellaneous	1,006	1,194
	<hr/>	<hr/>
	103,516	100,844
	<hr/>	<hr/>
<b>Expenses</b>		
Transmission	83,593	82,356
Ancillary services	8,036	7,284
Operation, maintenance and administration	9,461	9,199
Amortization	109	84
	<hr/>	<hr/>
	101,199	98,923
	<hr/>	<hr/>
<b>Other income (expense)</b>		
Interest income	5	94
Interest expense on capital lease	(203)	(252)
	<hr/>	<hr/>
	(198)	(158)
	<hr/>	<hr/>
<b>Deferral of regulatory liabilities</b>	(2,119)	(1,763)
	<hr/>	<hr/>
<b>Net surplus for the year and net assets</b>	-	-
	<hr/>	<hr/>

# New Brunswick System Operator

## Statement of Cash Flows

For the year ended March 31, 2010

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(in thousands of dollars)

	2010 \$	2009 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net surplus for the year	–	–
Items not affecting cash		
Amortization	109	84
Net change in non-cash working capital items	1,979	(966)
Net change in accrued benefit liability	40	(69)
	<hr/> 2,128	<hr/> (951)
<b>Investing activities</b>		
Purchase of property and equipment	<hr/> (449)	<hr/> –
<b>Financing activities</b>		
Principal repayments under capital lease	<hr/> (88)	<hr/> (84)
<b>Net increase (decrease) in cash during the year</b>	1,591	(1,035)
<b>Cash – Beginning of year</b>	<hr/> 2,329	<hr/> 3,364
<b>Cash – End of year</b>	<hr/> <hr/> 3,920	<hr/> <hr/> 2,329

# New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

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(in thousands of dollars)

## 1 Nature of operations

The New Brunswick System Operator (“NBSO”) is an independent, government, not-for-profit entity responsible for directing the operation of the transmission system, administering the Open Access Transmission Tariff (OATT) and is the reliability coordinator for the Maritime area.

NBSO has its own independent Board of Directors.

Income arising from the operation of NBSO is exempt from federal and provincial income taxes.

## 2 Significant accounting policies

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and reflect the following significant accounting policies:

### Regulation

NBSO is subject to regulation by the New Brunswick Energy and Utilities Board (EUB) (formerly the New Brunswick Public Utilities Board (PUB)). The regulations cover such matters as tariff rates and accounting policies. NBSO’s accounting policies conform to GAAP in the electricity transmission industry in Canada and also reflect the policies prescribed by the EUB. Costs and credits are deferred on the balance sheet as regulatory assets and liabilities for amounts which would otherwise be included in earnings, when authorized to do so.

### Revenue recognition

Monthly settlements of market participants’ energy imbalance and residual monthly costs are not reflected in NBSO’s Statement of Operations since they do not represent revenues or expenses of NBSO as NBSO merely acts as an intermediary in the settlement process. In this role, NBSO receives and disburses funds to/from market participants in the month following the month in which transactions occurred.

NBSO’s approved tariff, the OATT, allows recovery of NBSO’s operating expenses through Schedule I services provided to market participants. The method of recovery of Schedule I and II costs changed April 2009 as per the November 26, 2008 decision of the EUB. Monthly Schedule I and II revenues collected from market participants are now based on their transmission usage as a proportion of total usage multiplied by one twelfth of the annual revenue requirement. Previously, revenues were earned monthly, weekly, daily or hourly dependent upon transmission reservations.

Transactions from bilateral contracts between market participants are not included as transactions of NBSO.

Other ancillary services and miscellaneous revenues are recognized as the related services are provided.

Transmission revenues, ancillary service revenues, energy imbalances and residual monthly costs are calculated based on metering data provided by market participants and transmitters. The accuracy of these amounts is dependent upon third party meter data collection, estimation and validation procedures which are not the responsibility of the NBSO.

# New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

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(in thousands of dollars)

## 2 Significant accounting policies (continued)

### Property and equipment

NBSO has an arrangement with New Brunswick Power Transmission (NBPT) in which it leases the Energy Control Centre, which has been treated as a capital lease in accordance with the recommendations of EIC 150 "Determining whether an arrangement contains a lease". This property and equipment is carried at cost less accumulated amortization. Amortization has been computed at rates equal to the principal lease repayments using the effective interest method, which is sufficient to amortize the cost of the property and equipment over their estimated useful lives as follows:

Buildings	32 years
Equipment	7 years
Security system	10 years

In 2010, NBSO also has set up capital asset categories for furniture and equipment, leasehold improvements and assets in the course of construction. These are amortized as follows:

Furniture and equipment	10 - 15 years
Leasehold improvements	15 years

Assets in the course of construction are not amortized until the assets are available for use.

### Foreign exchange transactions

Foreign currency revenues and expenses are translated into Canadian dollars at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at the balance sheet date. The resulting foreign currency exchange gains and losses are included in the determination of net surplus for the year.

### Cash

Cash consists of cash and short-term deposits with original maturities of three months or less held with banks. They are classified as financial assets held-for-trading and carried at fair value.

### Financial assets and liabilities

Accounts receivable are classified as Loans and Receivables and accounts payable and accrued liabilities, deferred regulatory liabilities and capital lease obligations are classified as Other Financial Liabilities. These financial assets and liabilities are initially measured at fair value and, after initial recognition, they are measured at amortized cost using the effective interest method.

# New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

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(in thousands of dollars)

## 2 Significant accounting policies (continued)

### Employee benefit plans

Benefit obligations for defined benefit post-retirement plans are determined by independent actuaries using the project benefit method pro-rated on service and management's best estimate of salary escalation and retirement ages of employees.

The benefits charge or credit recognized consists of:

- the aggregate of the actuarially computed cost of benefits provided in respect of the current period's service;
- imputed interest on the accrued benefit obligation;
- the amortization of past service costs from plan amendments, over the average remaining service period of employees active at the date of amendment; and
- the amortization of experience gains or losses, in excess of 10% of the accrued benefit plan obligation at the beginning of the period over the average remaining service period of employees.

Defined contribution plan accounting is applied to multi-employer defined benefit pension plans for which the NBSO has insufficient information to apply defined benefit plan accounting. The benefit cost is the NBSO's required contributions to the plan.

### Management estimates

The preparation of financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Actual results could differ from the estimates.

# New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

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(in thousands of dollars)

## 3 Property and equipment

			<b>2010</b>	<b>2009</b>
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>	<b>\$</b>
		<b>\$</b>		
<b>Assets leased from NBPT</b> (note 5)				
Building	2,426	83	2,343	2,356
Equipment	446	283	163	232
Security system	77	11	66	72
	2,949	377	2,572	2,660
<b>Other assets</b>				
Leasehold improvements	87	–	87	–
Furniture and equipment	296	8	288	–
Assets in the course of construction	53	–	53	–
	436	8	428	–
	3,385	385	3,000	2,660

In 2010, the NBSO made leasehold improvements to the Energy Control Center as well as purchasing equipment for the Control Room. Additionally, furniture was purchased for another leased office location.

At the end of 2010, certain costs have been treated as construction in progress. These costs are partial costs for replacement of the Supervisory Control and Data Acquisition/Energy Management System also known as SCADA/EMS. This project will continue in 2011.

# New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

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(in thousands of dollars)

## 4 Deferred regulatory liabilities

The following regulatory liabilities were included in the “Deferred Regulatory Liabilities” line on the balance sheet:

	<b>Unforeseen future events \$</b>	<b>Surplus (Deficit) \$</b>	<b>Total \$</b>
March 31, 2009	200	1,763	1,963
Distributions in the year	(200)	(1,763)	(1,963)
Deferrals in the year	–	2,119	2,119
March 31, 2010	–	2,119	2,119

The PUB previously approved the retention by NBSO of \$300 to cover unforeseen future events. In 2008, a Settlement Agreement was filed with the EUB and became part of the application for changes to the tariff. In its decision of November 26, 2008 the EUB approved the elimination of the retained surplus account. \$100 was included in the rebate of the 2007/08 surplus. The remaining \$200 was rebated with the surplus from 2008/09 in the current year.

In addition, the PUB decided that it is not appropriate for NBSO, as a not-for-profit entity, to have a surplus or a deficit. The surplus of \$1,763 reported in 2009 was distributed to market participants in July 2009, and the current year’s surplus has been deferred and is expected to be rebated later in calendar 2010. Included in the fiscal 2010 net surplus of \$2,119, is a deficit of \$55 arising from regulation and load following for wind (Schedule 3c service). It is NBSO’s intent not to net this deficit against the overall surplus, but rather to carry the deficit forward to offset potential future surpluses from Schedule 3c. No amounts have been recorded relating to this deficit pending approval by the EUB.

# New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

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(in thousands of dollars)

## 5 Obligations under capital lease

Effective April 30, 2005, NBSO entered into an agreement with NBPT under which NBSO became responsible for the full cost of the Energy Control Centre. This arrangement has been accounted for as a capital lease. Interest is being charged at 8% (2009 - 9%) and monthly payments of principal and interest for fiscal 2010 amount to \$18 (2009 - \$20) for the building and \$7 (2009 - \$8) for the equipment and security system.

The minimum annual lease payments under this arrangement are as follows:

	\$
Year ending March 31, 2011	302
2012	302
2013	224
2014	224
2015	224
Thereafter	<u>4,579</u>
	5,855
Less: Imputed interest	<u>3,283</u>
	<u>2,572</u>
Due in less than one year	108
Due after one year	<u>2,464</u>
	<u>2,572</u>

Under the current arrangement, capital additions other than leasehold improvements to the Energy Control Centre are financed and amortized by NBPT.

## 6 Employee future benefits

NBSO has the following plans providing pension and other post employment benefits to its employees:

### *Pensions*

NBSO's employees participate in a multi-employer contributory defined benefit pension plan, administered by the Province of New Brunswick under the Public Service Superannuation Act ("PSSA"). The plan provides pensions to employees of the Provincial Government and certain Crown corporations and agencies based on length of service and highest successive five-year average salary.

# New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

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(in thousands of dollars)

## 6 Employee future benefits (continued)

### *Pensions (continued)*

The plan was 96.1% funded as of April 1, 2008, the date of the most recent external valuation of the plan. The Province has advised participating corporations that the unfunded liability is being funded through annual escalating payments. Payments by NBSO to the plan during the year to March 31, 2010 were \$143 (2009 - \$121) and future payments, if required, will increase by the annual growth in CPI plus 2%. Future actuarial valuations may change the funding requirement.

### *Executive supplemental pension benefits*

NBSO also has an unfunded, non-contributory pension plan that provides supplemental pension benefits over and above those provided by the PSSA to certain designated executives.

### *Retirement allowances*

The retirement allowance program is an unfunded non-contributory plan that provides employees a lump-sum payment upon retirement, equal to one week of pay for each full year of employment to a maximum of 26 weeks of pay. Previous years of employment with the Provincial Government and certain Crown corporations and agencies qualify toward the participants' entitlements under this plan.

### *Other post retirement benefits*

Employees of NBSO are entitled to a life insurance benefit of \$15 payable in the event of death after retirement. In addition, executives who retire after age 60 are entitled to an extension of their group benefits to age 65, at NBSO's expense.

The net benefit cost recognized during the year to March 31, 2010 in relation to the executive supplemental pension benefits, retirement allowances and other post retirement benefits plans was \$57 (2009 - \$108).

Information about NBSO's executive supplemental pension benefits, retirement allowances and other post retirement benefit plans as at March 31, 2010 (measurement date), based on extrapolations of actuarial valuations prepared as at April 1, 2009 for accounting purposes are as follows:

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Accrued benefit obligation	386	403
Unamortized past service costs and actuarial losses	(102)	(159)
<b>Accrued benefit liability</b>	<b>284</b>	<b>244</b>

# New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

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(in thousands of dollars)

## 6 Employee future benefits (continued)

*Other post retirement benefits (continued)*

The significant actuarial assumptions adopted in measuring NBSO's accrued benefit obligation and net benefit cost for the executive supplemental pension benefits, retirement allowances and other post retirement benefits plans are as follows:

	2010	2009
Discount rate at end of year used to determine the accrued benefit obligation	6.30%	6.50%
Discount rate at beginning of year used to determine the net benefit cost	6.50%	5.25%
Rate of compensation increase to determine the accrued benefit obligation and the net benefit cost	2.50%	2.50%

A 10% and 7% annual rate of increase in per capita costs of covered medical care and dental benefits respectively has been assumed for 2010. Medical cost inflation is assumed to decrease to 7% by 2014 and remain at that level thereafter.

## 7 Financial instruments

### Fair value

NBSO's financial statements include cash, accounts receivable and payable, deferred regulatory liabilities and capital lease obligations. Due to the short-term maturity of cash, accounts receivable and payable, the carrying value of these instruments are reasonable estimates of their fair value. The fair value of deferred regulatory liabilities has not been determined as it cannot be readily measured as there are no specified repayment terms. The fair value of the capital lease obligations payable to NBPT is affected by changes in the prevailing level of interest rates. NBSO has not entered into any financial instruments to hedge the fair value exposure associated with this item. The carrying value of this obligation is believed to be a reasonable approximation of its fair value.

### Credit risk

Financial instruments which potentially subject NBSO to concentrations of credit risk primarily consist of accounts receivable billings due from market participants, the majority of which relate to 2 customers, namely New Brunswick Power Generation and New Brunswick Power Distribution and Customer Service for \$7,459 (2009 - \$9,185). No allowance has been provided for accounts receivable at March 31, 2010 as management considers all accounts receivable to be probable of collection. NBSO's tariffs establish specific periods for the adjustment of settlement invoices as originally billed and for challenges to amounts billed for a particular service month.

# New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

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(in thousands of dollars)

## 7 Financial instruments (continued)

### Credit risk (continued)

Subsequent invoices issued during the settlement adjustment period “true up” amounts previously billed. After all true up invoices are issued during the settlement adjustment period, market participants may challenge the amounts billed for a particular service month. If NBSO agrees with the provisions of the challenge, a final invoice is issued for that service month. As a result, NBSO is exposed to credit risk until all settlement adjustments and final invoices for each service month are finalized and liquidated. However, NBSO is allowed to recover bad debt losses from the remaining market participants in future billings.

As per OATT, Section 7.1, each invoice shall be subject to adjustment for any errors in calculations, meter readings, estimating or otherwise, up to twelve months after the date of original issuance. These invoices may be challenged by market participants up to 10 days after the date of original issuance.

### Interest rate risk

NBSO is exposed to interest rate risk as future changes in the prevailing level of interest rates affects the cash flows associated with its cash. NBSO has not entered into any financial instrument contracts to hedge this interest rate exposure.

### Currency risk

NBSO is subject to minimal foreign exchange risk as less than 1% of its revenues and less than 1% of its expenses are denominated in foreign currencies. NBSO has not entered into any foreign exchange contracts to minimize the effects of foreign exchange fluctuations on its operations on these financial statements.

# New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

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(in thousands of dollars)

## 8 Related party transactions

The NBSO is related to the NB Power group of companies through common ownership by the Province of New Brunswick.

### Revenue and expenses

The following related party revenues and expenses are included in the financial results for the year ended March 31:

	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Revenue</b>		
Transmission revenue	70,218	67,837
Ancillary services	16,217	14,392
Miscellaneous	577	641
<b>Expenses</b>		
Transmission expense	83,465	82,221
Operations expenses	5,724	5,841
Ancillary services	7,157	7,284
Miscellaneous	246	219

### Receivables and payables

The following related party receivable and payable balances existed as at March 31. The amounts included in accounts receivable and accounts payable are subject to the normal payment terms extended to unrelated parties:

	<b>2010</b>	<b>2009</b>
	\$	\$
Accounts receivable	7,484	9,305
Accounts payable	8,259	8,857

## 9 Supplemental cash flow information

	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Cash flows from operating activities include</b>		
Interest received	5	94
Interest paid	203	252

July 29, 2010

**Additional Comments of Auditors**

Energy imbalance and residual monthly costs are presented as supplementary information only. In this respect, they do not form part of the financial statements of New Brunswick System Operator (NBSO) for the year ended March 31, 2010 and hence are excluded from the opinion expressed in our report dated July 29, 2010 to the Board of Directors on such financial statements. The information in these schedules has been subject to audit procedures only to the extent necessary to express an opinion on the financial statements of NBSO and, in our opinion, is fairly presented in all respects material to those financial statements.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

# **New Brunswick System Operator**

Supplemental information (unaudited)

**For the year ended March 31, 2010**

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(in thousands of dollars)

## **Energy imbalance and residual monthly costs**

The total energy imbalance and residual monthly costs that represent the settlement of the transactional volume of energy and energy related products in NBSO's market during the year ended March 31, 2010 amounted to \$19,832 (2009 - \$24,369). The above amounts include \$14,508 (2009 - \$21,995) credited to and \$14,671 (2009 - \$20,801) charged to the NB Power group of companies.

Energy settlements for the year include \$381 of adjustments relating to prior years, resulting from multi month adjustments made in February 2010 arising from incorrect use of metering data provided to the NBSO.

