

*NEW BRUNSWICK ENERGY AND
UTILITIES BOARD*

**IN THE MATTER OF a Review of the
New Brunswick System Operator's
2010/2011 Revenue Requirement**

APPENDIX A

*NBSO Audited Financial Results for the Fiscal
Year Ended March 31, 2009*



New Brunswick System Operator

Financial Statements

March 31, 2009

(in thousands of dollars)

June 18, 2009

Auditors' Report

To the Board of Directors of New Brunswick System Operator

We have audited the balance sheet of **New Brunswick System Operator** (NBSO) as at March 31, 2009 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, 2009 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

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.

Sylvain Gignac
President and Chief Executive Officer

Curtis Howe
Chairman

New Brunswick System Operator

Balance Sheet

As at March 31, 2009

(in thousands of dollars)

	2009 \$	2008 \$
Assets		
Current assets		
Cash	2,329	3,364
Accounts receivable	11,137	10,329
Prepaid expenses	130	89
	<hr/>	<hr/>
	13,596	13,782
Property, plant and equipment (note 3)	<hr/>	<hr/>
	2,660	2,744
	<hr/>	<hr/>
	16,256	16,526
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	11,389	10,450
Deferred regulatory liabilities (note 4)	1,963	3,019
Current portion of capital lease obligations (note 5)	92	84
	<hr/>	<hr/>
	13,444	13,553
Accrued benefit liability (note 6)	244	313
Obligations under capital lease , net of current portion (note 5)	<hr/>	<hr/>
	2,568	2,660
	<hr/>	<hr/>
	16,256	16,526

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, 2009

(in thousands of dollars)

	2009	2008
	\$	\$
Revenues		
Transmission:		
Point-to-point tariff	32,872	27,553
Network tariff	48,456	50,725
Power factor penalty	1,028	1,751
	<hr/>	<hr/>
	82,356	80,029
Ancillary services	17,294	16,657
Miscellaneous	1,194	881
	<hr/>	<hr/>
	100,844	97,567
Expenses		
Transmission	82,356	80,029
Ancillary services	7,284	7,067
Operation, maintenance and administration	9,199	7,576
Amortization	84	72
	<hr/>	<hr/>
	98,923	94,744
Other income (expense)		
Interest income	94	148
Interest expense on capital lease	(252)	(252)
	<hr/>	<hr/>
	(158)	(104)
Deferral of regulatory liabilities		
	<hr/>	<hr/>
	(1,763)	(2,719)
Net profit for the year and net assets		
	<hr/>	<hr/>
	-	-

New Brunswick System Operator

Statement of Cash Flows

For the year ended March 31, 2009

(in thousands of dollars)

	2009 \$	2008 \$
Cash provided by (used in)		
Operating activities		
Net profit for the year	—	—
Items not affecting cash		
Amortization	84	72
Net change in non-cash working capital items	(966)	1,291
Net change in accrued benefit liability	(69)	103
	<u>(951)</u>	<u>1,466</u>
Financing activities		
Principal repayments under capital lease	<u>(84)</u>	<u>(72)</u>
Net (decrease) increase in cash during the year	(1,035)	1,394
Cash – Beginning of year	<u>3,364</u>	<u>1,970</u>
Cash – End of year	<u>2,329</u>	<u>3,364</u>
Cash flows from operating activities include		
Interest received	94	148
Interest paid	252	252

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2009

(in thousands of dollars)

1 Nature of operations

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 and its functions are carried out by the employees located at New Brunswick Power Transmission’s (NBPT) Energy Control Centre, 77 Canada Street, Fredericton, NB. Some are direct employees of NBSO (10) while the remainder (approximately 37) are seconded under contract from NBPT.

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 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). The regulations cover such matters as tariff rates and accounting policies. NBSO’s accounting policies conform to generally accepted accounting principles 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 transactions occurred.

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2009

(in thousands of dollars)

2 Significant accounting policies (continued)

Revenue recognition (continued)

NBSO's approved tariff, the OATT, allows recovery of NBSO's operating expenses through Schedule I services provided to market participants. The revenue from Schedule I is earned monthly, weekly, daily or hourly dependent upon transmission reservations. Market participants are then billed for such services in the subsequent month. The method of recovery of Schedule I and II costs will change commencing April 2009 as per the November 26, 2008 decision of the EUB. Monthly Schedule I and II revenues collected from market participants will be based on their transmission usage as a proportion of total usage multiplied by one twelfth of the annual revenue requirement.

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.

Transmission revenues (and expenses), ancillary service revenues, and energy settlements for the year are net of \$18, \$13 and \$1,331 adjustments relating to prior years respectively, resulting from multi month adjustments that were made in July 2008 and February 2009 arising from incorrect use of metering data in billings and settlements. In total these items represent less than 0.1% of total energy transaction flows across the grid for the year. NBSO has had a review of the meter mapping diagrams and totalization process performed to ensure that all required receipt and delivery points on the transmission system were identified in TMeters and that only those points were used in billing and settlements. Several procedural recommendations were adopted to enhance the integrity of the data in the metering system and the totalization of that data.

Property, plant and equipment

NBSO has an arrangement with 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, plant 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, plant and equipment over their estimated useful lives as follows:

Buildings	32 years
Equipment	7 years
Security system	10 years

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 income for the year.

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2009

(in thousands of dollars)

2 Significant accounting policies (continued)

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.

Employee benefit plans

Benefit obligations for defined benefit post-retirement plans are determined by independent actuaries using the project benefit method prorated 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 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 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, 2009

(in thousands of dollars)

3 Property, plant and equipment

			<u>2009</u>	<u>2008</u>
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Building	2,414	58	2,356	2,373
Equipment	445	213	232	294
Security system	77	5	72	77
	<u>2,936</u>	<u>276</u>	<u>2,660</u>	<u>2,744</u>

The above assets represent the assets of the Energy Control Centre leased from NBPT (note 5).

4 Deferred regulatory liabilities

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

	Unforeseen future events \$	Surplus (Deficit) \$	Total \$
March 31, 2008	300	2,719	3,019
Distributions in year	(100)	(2,719)	(2,819)
Deferrals in year	–	1,763	1,763
March 31, 2009	<u>200</u>	<u>1,763</u>	<u>1,963</u>

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 2007/08 surplus. The remaining \$200 is to be rebated with the surplus from 2008/09.

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 \$2,719 reported in 2008 was distributed to market participants in December 2008, and the current year's surplus has been deferred and is expected to be rebated later in calendar 2009.

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2009

(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 9% and monthly payments of principal and interest amount to \$20 for the building and \$8 for the equipment and security system.

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

	\$
Year ending March 31, 2010	336
2011	336
2012	336
2013	256
2014	249
Thereafter	<u>5,520</u>
	7,033
Less: imputed interest	<u>4,373</u>
	<u>2,660</u>
Due in less than one year	92
Due after one year	<u>2,568</u>
	<u>2,660</u>

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2009

(in thousands of dollars)

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.

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, 2009 were \$121 (2008 - \$90), 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 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 for employees and two weeks of pay for each full year of employment to a maximum of 250 days of pay for certain designated executives. 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, 2009 in relation to the executive supplemental pension benefits, retirement allowances and other post retirement benefits plans was \$110 (2008 - \$102).

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2009

(in thousands of dollars)

6 Employee future benefits (continued)

Information about NBSO's executive supplemental pension benefits, retirement allowances and other post retirement benefit plans as at March 31, 2009 (measurement date) based on extrapolations of actuarial valuations prepared as at April 1, 2008 (2008 - April 1, 2007) for accounting purposes are as follows:

	2009	2008
	\$	\$
Accrued benefit obligation	403	533
Unamortized past service costs and actuarial losses	(159)	(220)
Accrued benefit liability	244	313

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

	2009	2008
Discount rate at end of year used to determine the accrued benefit obligation	6.50%	5.25%
Discount rate at beginning of year used to determine the net benefit cost	5.25%	5.25%
Rate of compensation increase at end of year to determine the accrued benefit obligation	2.50%	2.50%
Rate of compensation increase at beginning of year used to determine the net benefit cost	2.50%	2.50%

A 9% and 5% annual rate of increase in per capita costs of covered medical care and dental benefits respectively has been assumed for 2009. Medical cost inflation is assumed to decrease to 5% by 2013 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.

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2009

(in thousands of dollars)

7 Financial instruments (continued)

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 relates to 2 customers, namely New Brunswick Power Generation and New Brunswick Power Distribution and Customer Service for \$9,185 (2008 - \$7,639). No allowance has been provided for accounts receivable at March 31, 2009 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.

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 or these financial statements.

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2009

(in thousands of dollars)

8 Economic dependence on related parties

NBSO has entered into the following agreements and contracts with the NB Power group of companies, which are related through common ownership by the Province of New Brunswick.

Operating agreement with transmitters

In order to be able to comply with the provisions of the Electricity Act and the Market rules, NBSO has entered into agreements with transmitters to direct the operation of the Transmission system, direct the operation and maintain the reliability of the System Operator controlled grid and maintain the reliability of the integrated electricity system. Tariff charges collected and remitted to NBPT for the year to March 31, 2009 amounted to \$82,221 before tax (2008 - \$79,890).

Agreement for the secondment of employees from NBPT

In order for NBSO to fulfill the tasks and functions necessary to meet its responsibilities under the Electricity Act, designated employees of NBPT who work at its Energy Control Center are seconded to NBSO. Under the terms of the agreement, NBSO is responsible for the full cost of the Energy Control Centre and its employees. For the year ended March 31, 2009, NBSO remitted \$5,376 before tax (2008 - \$5,154) to NBPT. The current agreement ends March 31, 2013. Unless written notification of termination is given by either party on or before the commencement of the last year of the contract period, the agreement is renewed for a further five years, to a maximum of four more renewals (March 23, 2033).

Services agreement with NBPT

NBPT agrees to provide certain services (e.g. human resources, payroll, benefits administration, business information systems, etc.) for the direct employees of NBSO. The current agreement ends March 31, 2009. Unless written notification of termination is given by either party on or before September 30, 2009 the agreement will automatically renew for a one year period. In subsequent years, renewal will be automatic unless written notice of termination is given on or before September 30 of the previous year. NBPT charged NBSO \$86 before tax (2008 - \$49) for such services during the year ended March 31, 2009.

Ancillary services contracts with NB Power Generation NB Power Nuclear and NB Power Colson Cove

The market rules require that NBSO obtain ancillary services under contract from Market Participants for registered facilities. The contract terms are tied to the estimated shutdown dates of the contracted facilities. Amounts paid to these parties during the year ended March 31, 2009 for such contracts amounted to \$7,284 before tax (2008 - \$7,067).

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2009

(in thousands of dollars)

8 Economic dependence on related parties (continued)

Service agreement for Network Integration Transmission Service

NBSO agrees to provide and NB Power Distribution and Customer Service agrees to take and pay for Network Integration Service in accordance with the provisions of Part III of the Tariff and this agreement. Service under this agreement can be terminated by either party, upon the expiration of 12 months written notice to the other party. Revenues under this agreement amounted to \$48,072 (2008 - \$50,313) for the year ended March 31, 2009.

In addition to the above agreements, transmission tariff revenues include \$18,761 (2008 - \$19,340) charged to the NB Power group of companies, as market participants.

At March 31, 2009, accounts receivable included \$9,305 (2008 - \$7,807) and accounts payable and accrued liabilities included \$8,857 (2008 - \$8,449) due from/to the NB Power group of companies respectively.

June 18, 2009

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, 2009 and hence are excluded from the opinion expressed in our report dated June 18, 2009 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.

Chartered Accountants

New Brunswick System Operator

Supplemental information (unaudited)

For the year ended March 31, 2009

(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, 2009 amounted to \$24,369 (2008 - \$29,371). The above amounts include \$21,995 (2008 - \$25,349) credited to and \$20,801 (2008 - \$26,872) charged to the NB Power group of companies.

