

Appendix I – Summary of Recent Concerns Raised by the Auditor General Regarding NB Power

Year, Volume and Chapter	Key Areas of Concern
<p>2018 Auditor General Report Volume III, Chapter 3</p>	<p>Government Interference</p> <ul style="list-style-type: none"> • Future government interference in NB Power’s rate setting process may jeopardize the accounting method used to record NB Power in the Province’s consolidated financial statements. NB Power must be independent and self-sustaining to continue with current accounting treatment. The more governments interfere in NB Power’s business, the less independent NB Power is from government. • Respect for the independent rate setting regulatory process must exist in substance and form. • If NB Power was no longer classified as a Government Business Enterprise for accounting purposes, all debts, assets, liabilities, revenue and expenses would be included in the Province’s consolidated financial statements.
<p>2019 Auditor General Report Volume III, Chapter 5</p>	<p>Ability to Self-Sustain Operations</p> <ul style="list-style-type: none"> • Net earnings (surplus) continues to remain at a break-even level and debt remains at an elevated level • NB Power did not meet its requirement under the <i>Electricity Act</i> for an 80-to-20 debt-to-equity ratio again this year and does not expect to meet this requirement until 2029 • Significant investment remains on the horizon for assets such as the Mactaquac Generating Station • NB Power’s attempt to create new regulatory deferral accounts to allow costs to be moved to future periods was denied by the Energy and Utilities Board • Significant future operating and financial challenges on the horizon such as carbon tax.

Appendix I – Summary of Recent Concerns Raised by the Auditor General Regarding NB Power (continued)

Date, Volume and Chapter	Key Areas of Concern
<p>2020 Auditor General Report</p> <p>Volume II, Chapter 3</p>	<p>NB Power’s Debt</p> <ul style="list-style-type: none"> • NB Power has the highest debt to equity ratio at 94% compared to peer utilities in Canada. • Rating agencies signal NB Power is the Province’s largest contingent risk and debt to equity remains very high in relation to other provincial utilities. • Debt reduction is not a top priority • 10 Year Plans constantly move the debt-to-equity target date into the future. • Optimistic forecast leads to inaccurate projected net income and lack of debt reduction.
<p>2020 Auditor General Report</p> <p>Volume III, Chapter 5</p>	<p>Ability to Self-Sustain Operations</p> <ul style="list-style-type: none"> • NB Power’s ability to self-sustain its operations appears to be deteriorating from year to year and our concerns are increasing. • NB Power had a net loss of \$16 million in 2020 and it continues to carry a large debt load (\$4.8 billion). • A recent decision by NB Power to defer its approved 1.9% rate increase that would have been effective April 1, 2020 will further limit NB Power’s ability to repay debt in the future.
<p>2021 Auditor General Report</p> <p>Volume III, Chapter 4</p>	<p>Ability to Self-Sustain Operations</p> <ul style="list-style-type: none"> • We noted again this year NB Power’s ability to self-sustain its operations continues to worsen. • Income remains at break-even levels. If mark-to-market income is removed, NB Power has not made a profit since 2016. • NB Power did not meet its requirement under the <i>Electricity Act</i> for an 80-to-20 debt-to-equity ratio. Their long-term plan indicates they do not expect to meet this requirement until 2027. • Significant capital investments remain on the horizon for NB Power. NB Power’s regulator, the Energy and Utilities Board (EUB) has not always approved rate increases requested by NB Power.