NB Power Debt Challenges

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Why Is This Important?

- NB Power debt is $4.9 billion as of 2020;
- NB Power's debt has increased $2 billion since 2002;
- Planned major capital projects estimated to cost $3 to $4 billion; and
- All NB Power debt is issued by the Province of New Brunswick.

Key Findings

- NB Power has not been able to make significant progress toward achieving the legislated debt to equity target;
- NB Power would need to reduce debt on average, $65 million per year to achieve 2027 target;
- NB Power has reduced debt, on average, $20 million annually since the Point Lepreau refurbishment project was completed in 2013;
- NB Power is not achieving debt reduction as outlined in its 10 Year Plan; and
- NB Power's 10 Year Plan forecasting methodology needs to change.

What We Found

High Debt to Equity Compared to Peers

- NB Power has the highest debt to equity ratio at 94% and worst 10-year average interest coverage ratio compared to peer utilities in Canada.
- No other peer utility has reached a debt to equity ratio as high as 90%. All peer utilities except NB Power and Manitoba Hydro have achieved their debt to equity target over the past decade.
- NB Power has lower rate increases compared to peer utilities with high debt level.

Impact on Province of New Brunswick

- 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.
- There is an impact to all New Brunswickers when NB Power financial targets are not met.
- Significant concerns of sustainability exist, given:
  - NB Power's net income did not meet the Province's expectations by $195 million over the last four years; and
  - Planned major capital projects.

Debt Reduction Not a Top Priority

Inaccurate forecasting leads to lack of debt reduction

- 10 Year Plans constantly move the debt to equity target date into the future.
- Optimistic forecast leads to inaccurate projected net income.
  - Actual net earnings off base year projections by an average of $50 million a year.
  - Fuel and purchased power expense $87 million higher than projected, on average.
  - Major risks and uncertainties not quantified such as Point Lepreau capacity factor, hydro flow, and major weather events.
- 2020 capital expenditures $126 million higher than projected in 10 Year Plan 2017-26.