

NB POWER

2026

Rate Rider Surcharge

Chapter 3

Volume II: Independent Information Report

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NB Power

RATE RIDER SURCHARGE

Chapter 3 Highlights

Forecast risk has shifted from NB Power to ratepayers	Underlying financial challenges remain	Costs continue to accumulate
Recovery is being deferred to future ratepayers		

OVERALL CONCLUSION:

The variance account framework has protected NB Power’s financial results by transferring forecast risk to ratepayers, yet deferred balances continue to grow, recovery periods are extending, and the underlying financial challenges remain unresolved.

Results at a Glance

RATE RIDER SURCHARGE

Ratepayers are increasingly bearing financial risks while underlying financial challenges persist



FINDINGS	
	Amendments to the <i>Electricity Act</i> in 2021 ensure certain differences between forecasts and actuals incurred are recovered
	Regulatory changes requested by NB Power
	Net variance account balance has grown to \$384 million in 4 years
	Variance accounts have increased reported net earnings by \$384 million
	Net earnings and percentage of net debt in capital structure targets have not been met in years following implementation
	Recovery period has extended cost deferral to future ratepayers from 2 years to 8 years
	Additions to the variance account balance exceeded amounts recovered from ratepayers in 2 of 3 years

Introduction

- 3.1 NB Power is a provincially owned Crown corporation responsible for generating, transmitting, and distributing electricity in New Brunswick. As such, its forecasting and control of power generation-related costs directly affects its financial performance, long-term planning and the cost of electricity for New Brunswickers.
- 3.2 This report examines NB Power's rate rider, a legislated surcharge or credit on ratepayers' bills that reflects differences between forecasted and actual costs and sales.
- 3.3 As of March 31, 2026, the net variance account balance to be recovered from customers through the rate rider was \$384 million.
- 3.4 The *Regulatory Variance Accounts and Deferral Account Regulation 2022-17* (the Regulation) under the *Electricity Act* establishes how and when variances are recovered from, or reimbursed to ratepayers. This report examines the rate rider framework, including trends in variance account balances, recovery periods, and progress toward intended outcomes.

WORK PERFORMED

- 3.5 This report is informational in nature and does not provide audit assurance. Our work included reviewing documentation supplied by NB Power to the New Brunswick Energy and Utilities Board (EUB) as well as internal documentation and conducting interviews with staff and executives from NB Power and the Department of Energy.
- 3.6 While this report focuses on residential customers for illustration purposes, all customer classes are impacted through similar rate adjustment mechanisms.

Background and Regulatory Context

ELECTRICITY RATE SETTING (PRE-ACCOUNTS)

- 3.7** Customer electricity rates are established based on the annually forecasted cost of providing service. NB Power estimates future costs, including energy supply, generation, transmission, and distribution, and these projected costs form the basis for rate setting.
- 3.8** This process is overseen by the EUB through the General Rate Application. The objective of this oversight is to approve the recovery of prudent and necessary costs while maintaining financial stability.
- 3.9** Accordingly, electricity charges to be collected from ratepayers are based on future forecasted costs at the time of the General Rate Application.
- 3.10** NB Power reports that its complex operating environment results in significant portions of net earnings being outside management control, creating the potential for year-to-year variability. Key drivers of variability were noted as follows:
- customer demand
 - weather events
 - hydro flows
 - external market conditions
 - nuclear generation station performance
- 3.11** It was reported that during the period 2016 to 2020 the total budget variance was approximately \$300 million over budget. The impact of these differences was recognized in NB Power's earnings in the year incurred.
- 3.12** There was no legislated mechanism to recover historical forecast variances. Recovery depended on creating other revenue streams or improving the utility's performance to manage costs.
- 3.13** Under this framework, NB Power initially absorbed forecast variances through its earnings, bearing the financial consequences and retaining a direct incentive to improve forecasting.

LEGISLATIVE CHANGES FOR VARIANCE ACCOUNTS AND RATE RIDERS

- 3.14** In 2019, prior to the legislative changes, NB Power proposed a deferral account for demand-side management costs. The EUB rejected the proposal, finding it was not in the public's best interest because it could:
- allow deferred and carrying costs to build over time
 - shift costs to future ratepayers
 - lead to higher long-term rates despite short-term rate smoothing
- 3.15** A project team led by NB Power and the then Department of Natural Resources and Energy Development developed options for a legislative variance account framework through 2020 and 2021.
- 3.16** On November 10, 2021, an amendment to the *Electricity Act* established two regulatory variance accounts to capture the differences between actual and forecasted electricity sales and supply costs effective April 1, 2022.
- 3.17** The request for these regulatory variance accounts was not made to the EUB and the amendment was subsequently approved by the provincial government through Bill number 77 on December 17, 2021.
- 3.18** The regulatory variance accounts are intended to protect net earnings from variances in revenues and supply costs that arise due to NB Power's complex and unpredictable business environment. The two accounts established were:
- the electricity sales and margin variance account
 - the energy supply cost variance account
- 3.19** The electricity sales and margin variance account records the difference between actual and forecasted in-province electricity sales and out-of-province gross margin.
- 3.20** The energy supply cost variance account records the difference between actual and forecasted fuel and purchased power costs incurred to supply in-province customers.

3.21 The net balance of these two variance accounts is combined to determine the rate rider. A net balance results in either a surcharge or a credit to ratepayers:

	Net Positive Balance (Costs higher or sales lower than expected)		Net Negative Balance (Costs lower or sales higher than expected)
Ratepayers pay a surcharge to recover the difference		Ratepayers receive a credit to refund the difference	

3.22 The variance accounts carry forward their balance each year. Every year, NB Power files with the EUB to determine:

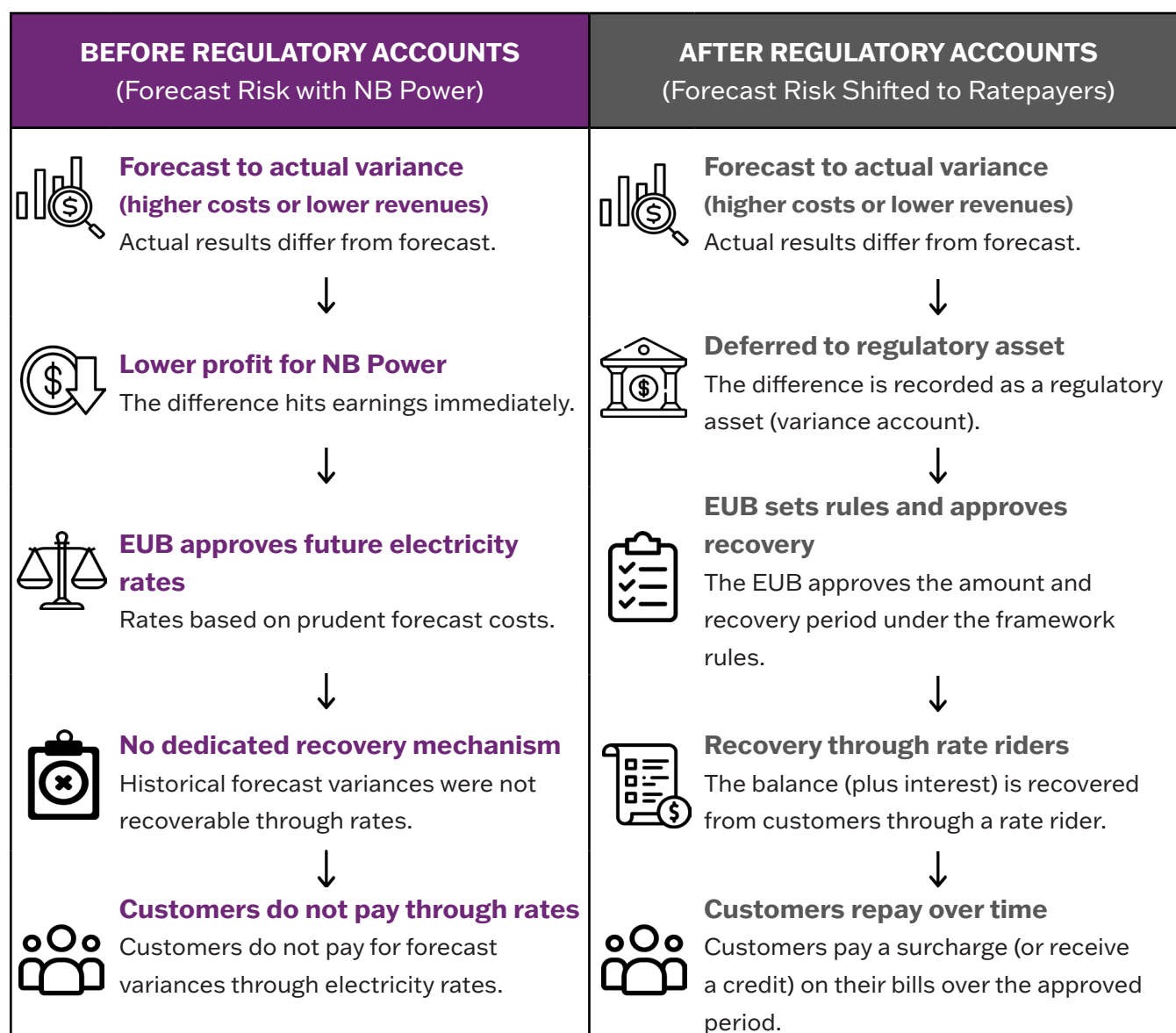
- the amount to be recovered or reimbursed in the year
- the years over which recovery or reimbursement will occur
- the rate rider (cents/kWh) applied to customer bills

3.23 Legislation limits the EUB’s discretion over which amounts may be recorded in the variance accounts. Subsection 117.4(6) of the *Electricity Act* deems variances calculated under the Act and regulations to be prudent and necessary.

3.24 As a result, amounts recorded in the variance account are effectively approved for recovery from, or reimbursement to ratepayers without further EUB prudence review.

3.25 Under this framework, when unfavorable variances arise between actual and forecasted sales and margin or costs, the amount of the variance is deferred and later recovered from ratepayers. This mechanism protects NB Power’s net earnings from variability associated with these costs and shifts financial risk related to forecasting to future ratepayers.

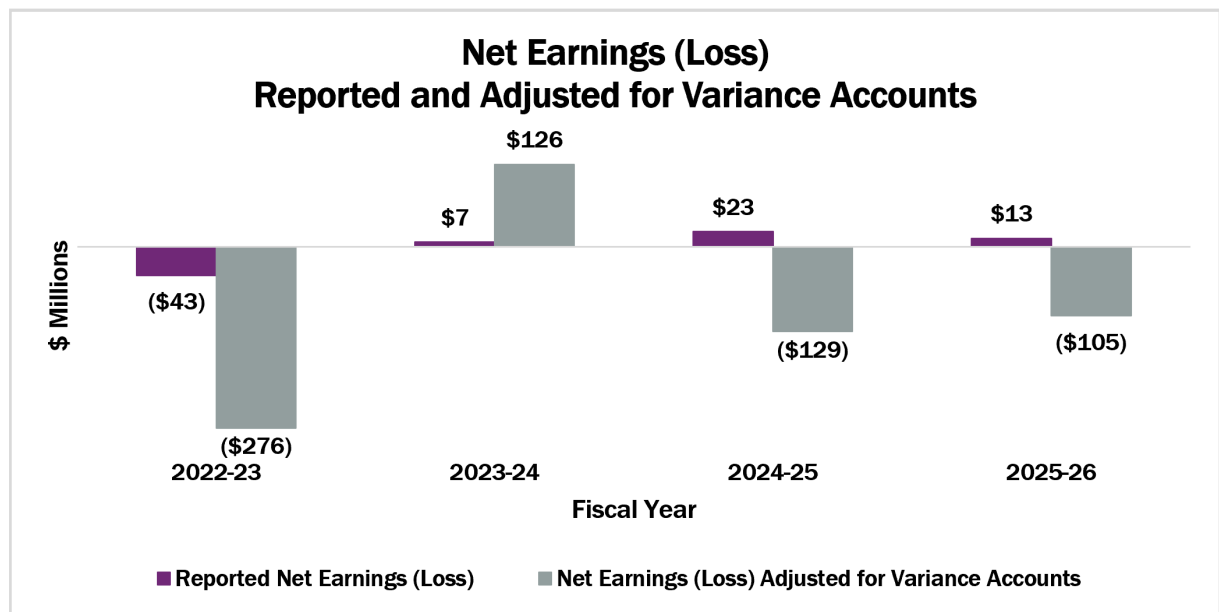
3.26 The following flowcharts illustrate how differences between forecasted and actual costs are treated before and after the establishment of the variance accounts:



3.27 These changes shift the timing and location of risk, reducing the impact of forecast variances on NB Power's earnings while increasing reliance on recovery from ratepayers over time.

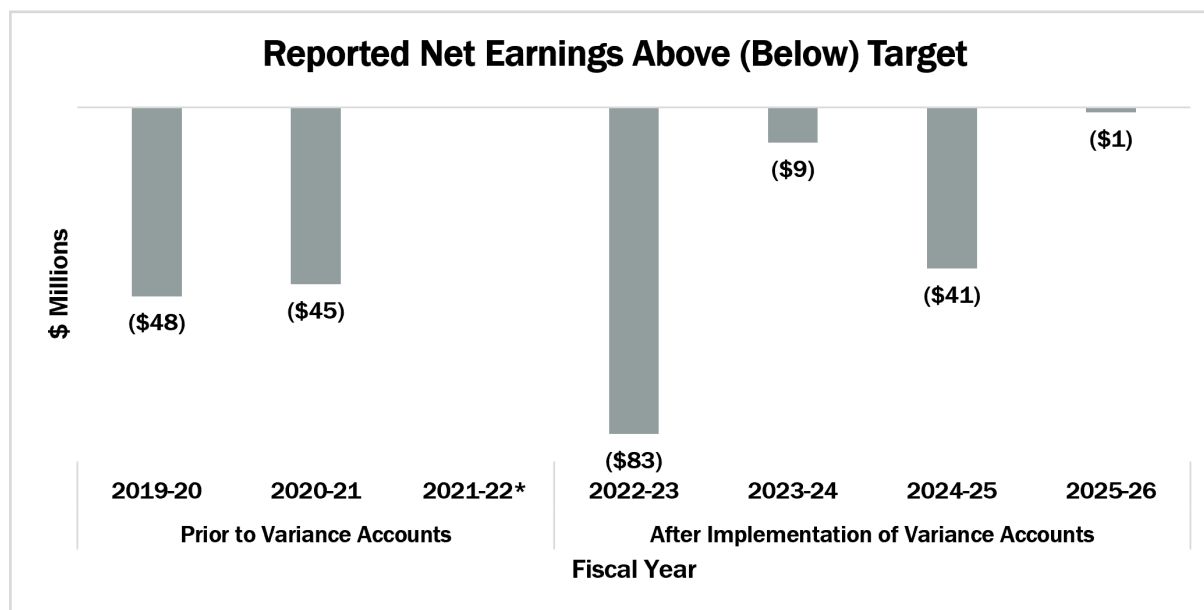
Financial Outcomes Not Being Met

- 3.28** NB Power has reported that the changes to the legislation for the variance account framework will reduce variability in net earnings and support consistent achievement of financial targets, such as net earnings and the percentage of net debt in capital structure.
- 3.29** Since implementation, the variance account framework has increased net earnings by \$384 million. The following graph shows the impact on reported net earnings based on the annual change in variance account balances and recoveries recognized through rate riders:



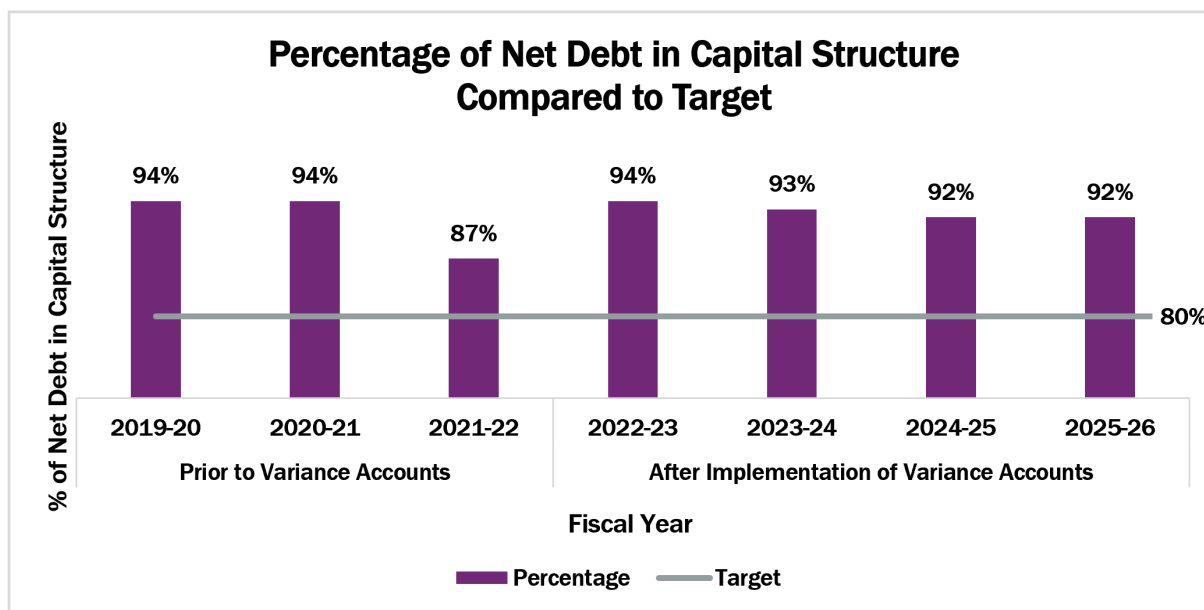
Source: Prepared by AGNB based on data from NB Power Annual Financial Statements (unaudited)

3.30 While the variance account framework materially affected reported net earnings, NB Power has not met its established target in any of the four fiscal years since implementation. Net earnings (loss) fell below target by amounts ranging from \$1 million to \$83 million:



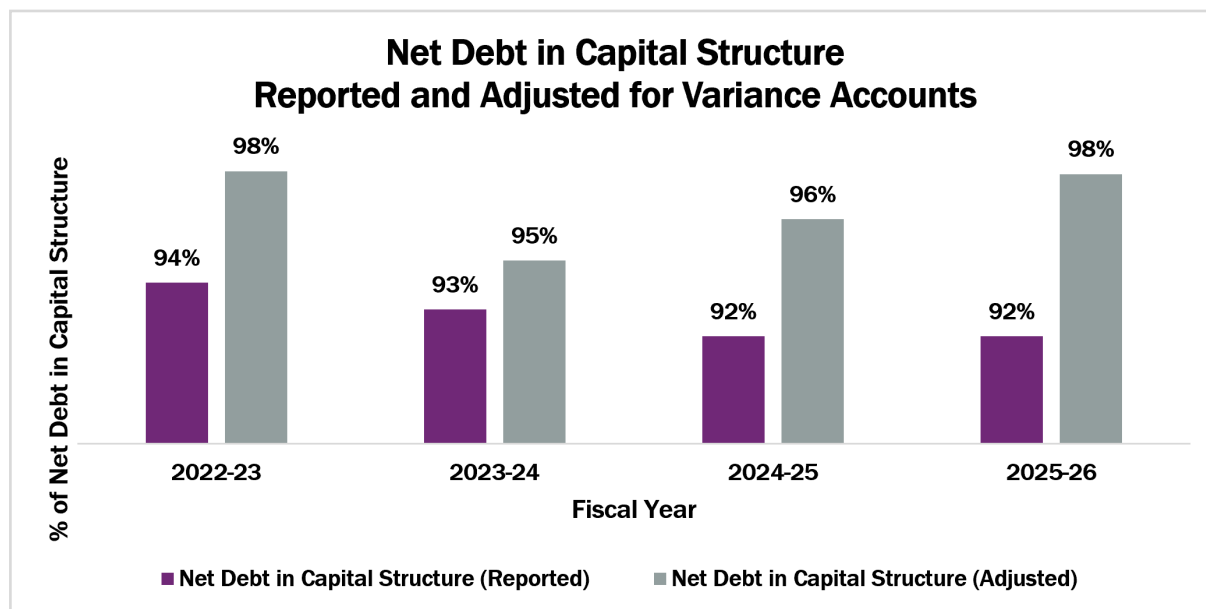
Source: Prepared by AGNB based on data from NB Power Annual Financial Statements (unaudited)
 *In 2021-22, NB Power did not set a target for net earnings and instead reported against an operating earnings target.

3.31 Similarly, NB Power's percentage of net debt in capital structure remained above its 80% target in all years:



Source: Prepared by AGNB based on data from NB Power Annual Financial Statements (unaudited)

3.32 The variance account framework increased reported net earnings by approximately \$384 million since implementation. By preserving retained earnings, the framework also improved NB Power's reported percentage of net debt in capital structure by six percentage points in 2025-26. The following graph compares the reported percentage of net debt in capital structure to an illustrative percentage adjusted for the regulatory variance accounts:

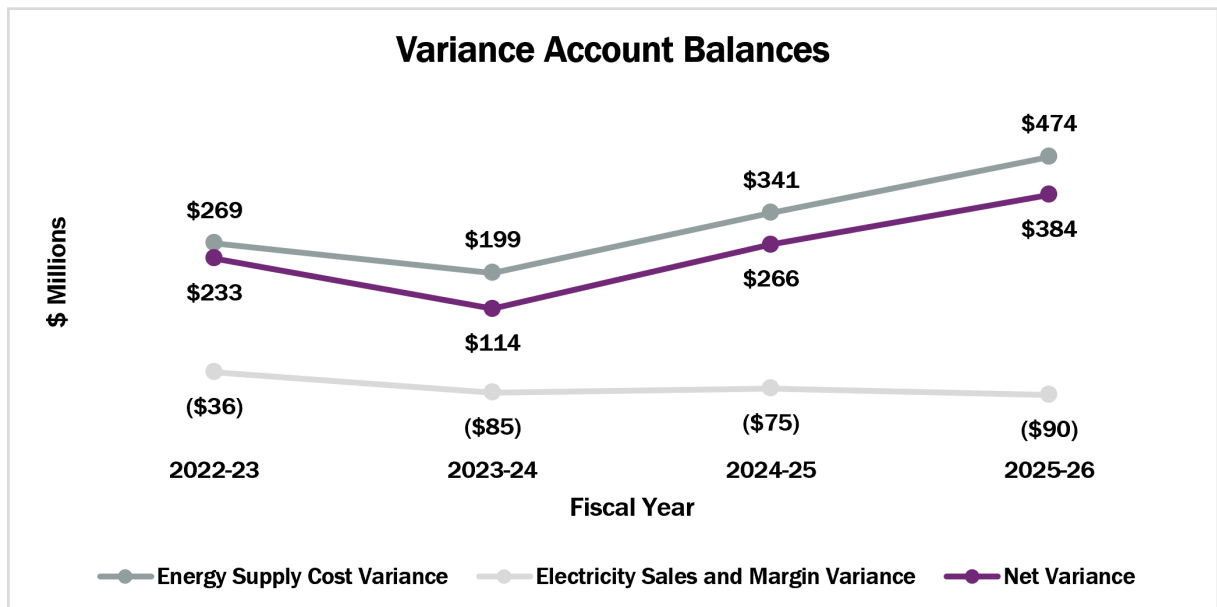


Source: Prepared by AGNB based on data from NB Power Annual Financial Statements (unaudited)

Risks Associated with Deferral Accounts Are Materializing

GROWTH OF VARIANCE ACCOUNT SHOWS COSTS BUILDING OVER TIME

3.33 Since the introduction of the variance accounts, the total balance has grown to \$384 million. The following graph shows the growth in the balances from the time of implementation:



Source: Prepared by AGNB based on data from NB Power (unaudited)

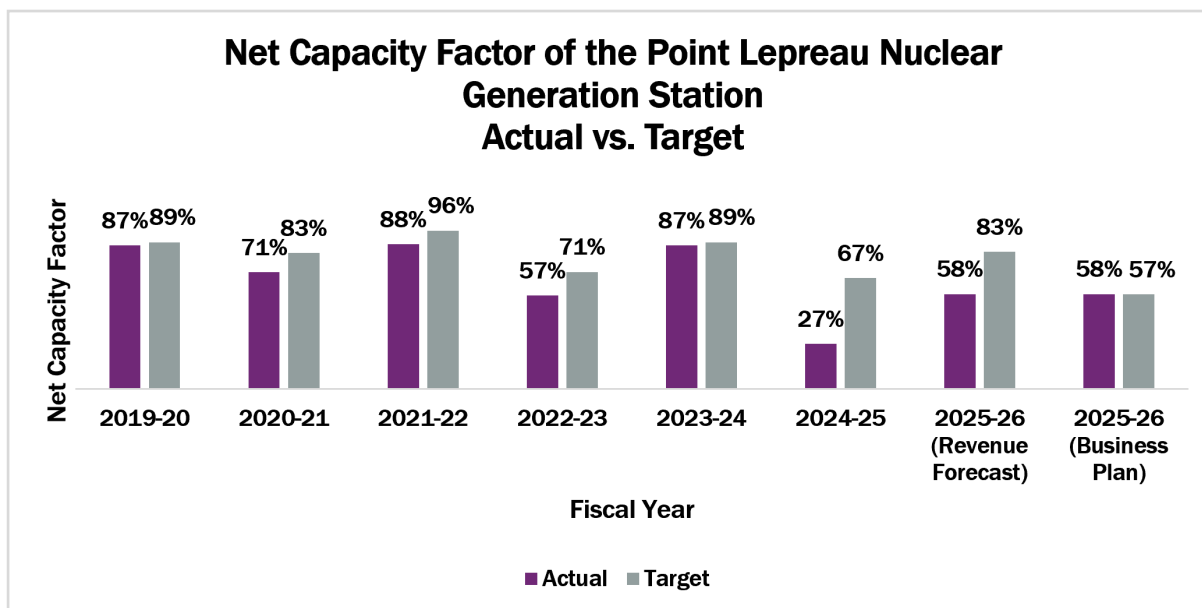
3.34 Although the electricity sales and margin variance account has remained relatively stable, growth in the total balance has been driven by variances in the energy supply cost variance account.

3.35 NB Power's annual variance account recovery filings identify key drivers for the increases in the energy supply cost variance account:

- 4/4 filings identified outages at the Point Lepreau Nuclear Generation Station
- 2/4 filings identified lower hydro generation

3.36 NB Power reports that these key drivers have resulted in cost overruns as they required NB Power to acquire higher-cost replacement fuel and power.

3.37 The performance of Point Lepreau Nuclear Generation Station is repeatedly cited for its impact on net earnings. The following graph shows that over the past seven fiscal years, its performance net capacity factor target has consistently not been met:



Source: Prepared by AGNB based on data from NB Power Annual Financial Statements (unaudited)

Note: 2025-26 (Revenue Forecast) is the target initially set based on a two-year forecast. 2025-26 (Business Plan) is the target subsequently set in NB Power's annual business plan.

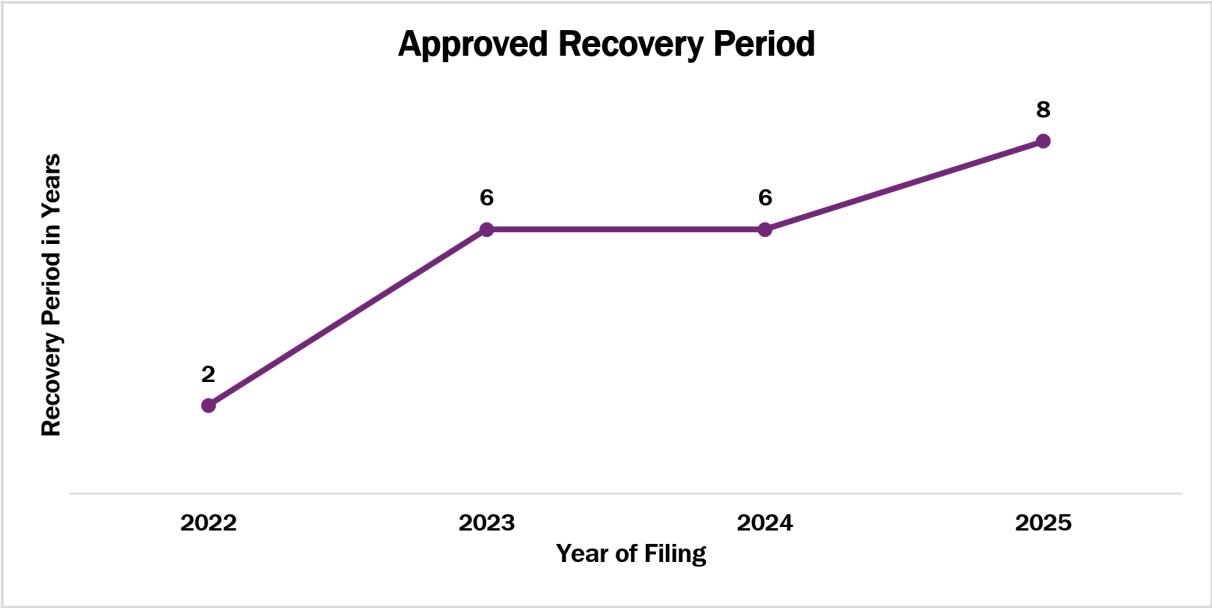
3.38 According to NB Power, outages at the Point Lepreau Nuclear Generating Station result in increased costs due to the need to procure higher-cost replacement energy.

3.39 The unplanned outage at Point Lepreau Nuclear Generating Station in 2024-25 added an estimated \$143 million in replacement power costs.

INCREASING COST BURDEN ON FUTURE RATEPAYERS

3.40 The recovery period of the variance account balance that is approved by the EUB is based on the recovery or reimbursement calculations set out in the Regulation. Subsection 12(4) limits annual recoveries to no more than 3% of forecasted in-province revenue. In each of the three years where a recovery was approved, the recovery equaled the maximum amount permitted under the Regulation.

3.41 As the variance account balance has increased, the recovery period has also expanded. The following graph shows the annual approved recovery period for variance account amounts to be collected from ratepayers increasing from two to eight years:



Source: Prepared by AGNB based on data from NB Power (unaudited)

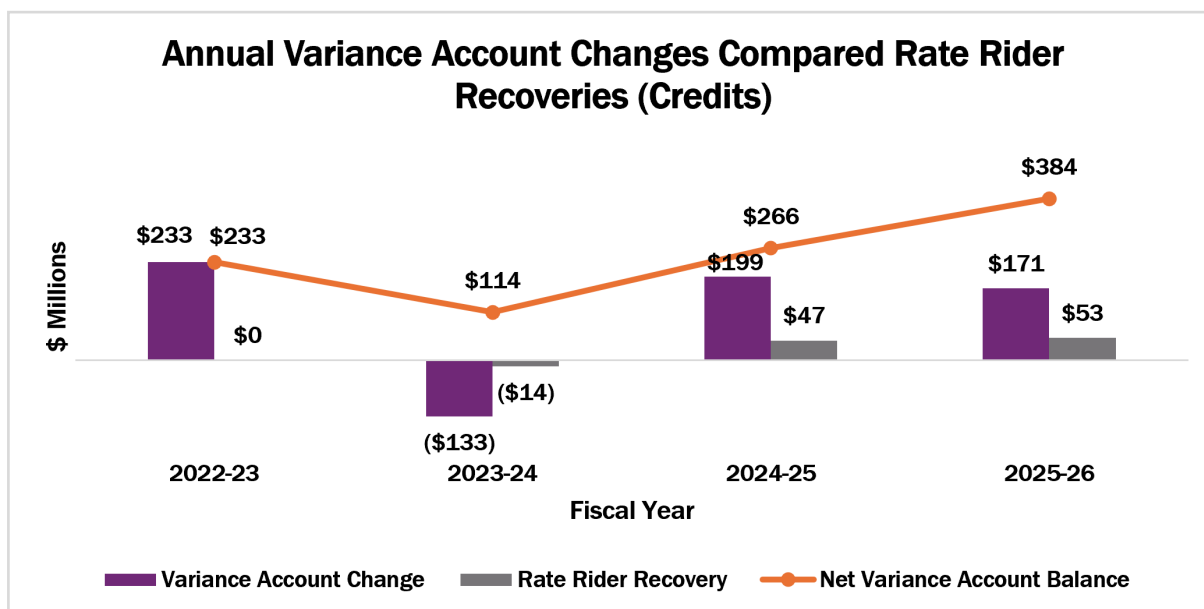
3.42 As of October 31, 2025, the balance is expected to be recovered over eight years, through fiscal 2033-34. However, legislation does not limit the length of the recovery period.

3.43 The growth in both the variance account balance and the recovery period increases the extent to which amounts added to the balance are deferred and shifts the financial burden to future ratepayers.

GROWTH OF VARIANCE ACCOUNT EXCEEDS RECOVERY

3.44 As of March 31, 2026, net additions of \$437 million and associated interest of \$33 million have been offset by \$86 million in recoveries since implementation. As a result, the variance account balance has grown to \$384 million over four years. This growth raises concerns about whether recoveries subject to the Regulation’s 3% maximum recovery are keeping pace with ongoing additions to the balance.

3.45 The following graph compares annual changes to the variance account balance, including interest, to amounts recovered from (returned to) ratepayers through rate riders:



Source: Prepared by AGNB based on data from NB Power (unaudited)

3.46 In two of three fiscal years, annual increases to the variance account balance exceeded amounts recovered from ratepayers. In 2025-26, additions exceeded recoveries by \$118 million.

3.47 As a result, the variance account balance has continued to grow despite ongoing collections through rate riders. Where annual additions exceed recoveries, balances will continue to accumulate, extending recovery periods and increasing the amount of costs deferred to future ratepayers.

3.48 At October 31, 2025, the variance account balance is expected to be recovered over eight years. While NB Power expects full recovery under the current legislative framework, continued growth in the balance could further extend recovery periods.

3.49 Larger balances held over longer periods may increase NB Power’s reliance on debt or other financing to cover costs not yet recovered from customers, resulting in additional interest and financing costs.

IMPACT ON RESIDENTIAL RATEPAYERS

3.50 Residential customers can identify the rate rider surcharge on their bills under the “Variance account amount for electricity you used” section as shown in Appendix II.

3.51 The rate rider surcharge is separate from the standard electricity usage charge and is applied as an additional cents-per-kilowatt-hour charge (c/kWh).

- 3.52** Based on the example bill provided from February 2025 in Appendix II, the residential electricity rate was 13.46 c/kWh, while the monthly rate rider surcharge was approximately 0.38 c/kWh. The rate rider increased the amount charged for electricity usage by 2.82%.
- 3.53** The customer shown in Appendix II paid \$11.10 in rate rider charges for the month. Should electricity consumption remain the same for the year, this would amount to an annual total of approximately \$133.20.
- 3.54** If the variance account balance continues to grow, ratepayers may face increasing surcharge amounts over time, contributing to higher overall electricity costs.

Conclusion

- 3.55** The variance account framework has significantly reduced the impact of cost and revenue variances on NB Power's annual financial results by allowing these amounts to be deferred and recovered from ratepayers over time.
- 3.56** Since implementation, the variance account framework has increased reported net earnings by approximately \$384 million and improved reported financial indicators. However, NB Power has continued to fall short of its established financial targets, suggesting the underlying financial and operational challenges remain unresolved.
- 3.57** The net balance of deferred costs has grown faster than recoveries, extending the recovery period from two to eight years.
- 3.58** While the legislative framework provides for recovery of these balances from ratepayers, it limits the EUB's discretion to review the prudence of amounts recorded in the accounts.
- 3.59** Recovery of variance account balances is constrained by the Regulation's 3% recovery cap. The long-term sustainability of the framework therefore depends on NB Power's future operating performance and its ability to limit further additions to the accounts.

Appendix I: Summary Timeline

Date	Milestone
July 16, 2019	EUB denies NB Power's request for a regulatory deferral account.
2020 - 2021	NB Power and the then Department of Natural Resources and Energy Development develop options for a legislative regulatory variance account framework.
November 10, 2021	Bill 77 introduced, proposing amendments to establish regulatory variance accounts.
December 17, 2021	Bill 77 receives Royal Assent.
April 1, 2022	Legislative amendments establishing the regulatory variance account framework come into force.

Appendix II: Sample Residential Bill

Page 1



Énergie NB Power

Service delivered to/Service livré à
JAMES SAMPLE
555 UTILITY WAY, METERVILLE, NB X1X 1X1

Joint customer
Client conjoint
SOPHIE SMART-SAMPLE

Summary of Charges/Sommaire des frais

Amount due last month/Montant dû du mois dernier	605.87
Less payment - Thank you/Moins le paiement - Merci received on Feb 09, 2025/reçu le 09 févr. 2025	-605.87
Your balance/Votre solde	0.00
Current charges for Jan 14, 2025 - Feb 11, 2025 Frais courants du 14 janv. 2025 au 11 févr. 2025	
Monthly service charge/Frais de service mensuels	29.57
Charges for electricity you used/Vos frais d'utilisation d'électricité on the 2922 kilowatt-hours you used pour les 2922 kilowatt-heures utilisés @ 13.46 ¢ /kWh	393.30
Variance account amount for electricity you used Montant du compte d'écart pour l'électricité consommée	11.10
Dusk-to-dawn lighting charges/Frais - lumière sentinelle 1-100W/LED Light only/Lumière uniquement	17.49
Variance account amount for lighting charges Montant du compte d'écart pour les frais d'éclairage	0.06
SureConnect/ConnexSûre (1-30 Amp)	25.99
Water heater service/Service de chauffe-eau (1-180 Litre)	8.99
HST/TVH #11924 6924	72.98
GNB 10% Rebate/Remise de 10 % du GNB	-40.44

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Your electricity bill

Votre facture d'électricité

Your account number
Votre numéro de compte
1234567-0

Bill date/Date de facturation
Feb 13, 2025/13 févr. 2025

Bill number/Numéro de facture
12345678909

Rate category/Catégorie de tarif
Residential Rural/Domestique - Rural

Meter number/Numéro du compteur
1233567

Your electricity use this period

Électricité consommée pendant la période

Meter reading on Feb 11, 2025	
Relevé du compteur au 11 févr. 2025	16296
Previous reading/Relevé précédent	-13374

Equals current use of
Soit une utilisation de 2922 kWh

Your electricity use at a glance

Aperçu de votre utilisation d'électricité

Meter read date Date de relevé du compteur	Billing days Jours de facturation	Electricity Électricité (kWh)	Cost Coût (\$)
Feb./févr. 11, 2025	29	2922	433.97
Jan./janv. 13, 2025	33	3283	483.94
Feb./févr. 08, 2024	28	2335	310.66

How to contact us/Pour nous joindre

For service and bill inquiries
Questions sur le service ou la facture

Variance account amount for electricity you used Montant du compte d'écart pour l'électricité consommée	11.10
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Appendix III:

Independent Information Report

This independent information report was prepared by the Office of the Auditor General of New Brunswick (AGNB) on NB Power and its regulatory variance accounts. This report is not an audit and does not express an audit opinion. Our responsibility was to provide objective information to assist the Legislative Assembly in its scrutiny of NB Power with respect to this initiative. To ensure this report is credible, we obtained confirmation that the information to be reported is accurate from NB Power.

This work was conducted under the authority of the *Auditor General Act*. AGNB applies the Canadian Standard on Quality Management 1 – Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements. This standard requires our office to design, implement, and operate a system of quality management, including policies or procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting our work, we have complied with the independence and other ethical requirements of the Rules of Professional Conduct of Chartered Professional Accountants of New Brunswick and the Code of Professional Conduct of the Office of the Auditor General of New Brunswick. Both the Rules of Professional Conduct and the Code are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

DATE OF THE REPORT

We concluded our work on NB Power and its regulatory variance accounts on August 31, 2026, in Fredericton, New Brunswick.