



NEW BRUNSWICK
ENERGY & UTILITIES BOARD
COMMISSION DE L'ÉNERGIE ET DES SERVICES PUBLICS
NOUVEAU-BRUNSWICK

ANNUAL REPORT

2016 | 17

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ENERGY & UTILITIES BOARD
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ANNUAL REPORT 2016|17

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CHAIRPERSON'S MESSAGE



I am pleased to present the Annual Report and Financial Statements of the New Brunswick Energy and Utilities Board for the reporting period beginning April 1, 2016 and ending March 31, 2017, pursuant to sections 21 and 22 of the *Energy and Utilities Board Act*.

During this reporting period, the Board received 33 applications and delivered 37 decisions. These applications and decisions related to the different sectors over which the Board has jurisdiction and pertained to the setting of rates for NB Power and Enbridge Gas New Brunswick, the approval of pipeline permits and licenses, the approval of numerous electricity reliability standards, the review of the petroleum products retailers' margins and the granting of licenses for motor carriers.

In addition to applications and hearings, the Board also receives inquiries from the general public that range from questions about changes in energy prices to complaints about the actions of a petroleum retailer or a utility. These inquiries will sometimes require an investigation. The Board dealt with 51 inquiries during the reporting period.

I would like to take this opportunity to thank our employees and Board members for their hard work and dedication over the last year. The Board depends on the professionalism of our entire team, all of whom continue to dedicate themselves to the goal of providing New Brunswickers with effective regulation.

I would particularly like to acknowledge the contributions of Donald Weaver, our Reliability Standards Coordinator, who retired last July after a long career in the public service. His knowledge and experience proved to be invaluable, as the Board assumed responsibility in 2013 for adopting and enforcing electric reliability standards in New Brunswick.

The New Brunswick Energy and Utilities Board looks forward to serving the people of New Brunswick in the area of public utilities regulation and meeting new challenges during the coming year.

A handwritten signature in black ink, appearing to read 'Raymond Gorman', written in a cursive style.

Raymond Gorman, Q.C.
Chairperson

OVERVIEW



The New Brunswick Energy and Utilities Board is an independent, quasi-judicial tribunal, which regulates the industries and utilities under its jurisdiction. The Board is governed by legislation and by common law rules that require fairness in all of its proceedings.

THE BOARD'S MEMBERS AND STAFF

The New Brunswick Energy and Utilities Board consists of five full-time members, including a Chairperson and Vice-Chairperson. The Provincial Cabinet appoints members based on a merit-based nomination process. All appointments are for legislated terms, subject to renewal.

The Board is a quasi-judicial tribunal. It has the same powers that are vested in the Court of Queen's Bench in relation to procedural, evidentiary and enforcement matters. Three members constitute a quorum in its regulatory proceedings. A single member may decide certain matters.

A staff of fourteen assists the Board in its duties. Staff provides legal and administrative support, financial and regulatory support and analysis, pipeline safety inspection and analysis, and electricity reliability and compliance support. An organization chart of Board members and staff appears later in this report.

The Board is a member of CAMPUT, a non-profit association of Canadian federal, provincial and territorial regulatory boards that regulate electric, gas and pipeline utilities. The Board's members and staff are also members of the Canadian Council of Administrative Tribunals (CCAT). The Board's involvement in these and other organizations help to foster national and international relationships in the utility regulatory community, and inform the Board on developments and best practices relevant to its functions.

The Board's main office is located at Suite 1400, 15 Market Square, Saint John. The Board has its Reliability and Compliance office at 520 King Street, Fredericton.

The Board's website is at www.nbeub.ca, and provides information and access to all aspects of the Board's functions, including its governing legislation, past and current regulatory proceedings and decisions, and procedural rules.

GOVERNING LEGISLATION

The Board derives its regulatory mandate and powers from the following New Brunswick statutes, and regulations made under those statutes:

Energy and Utilities Board Act
Electricity Act
Gas Distribution Act, 1999
Pipeline Act, 2005
Petroleum Products Pricing Act
Motor Carrier Act
Motor Vehicle Act

The Board's principal regulatory functions are described in detail later in this report.



BOARD MEMBERS



Raymond Gorman, Q.C.
Chairperson and CEO

BOARD PROCEEDINGS

Governing legislation requires the Board to ensure procedural fairness to all persons affected by its decisions. Common law principles of natural justice, applicable to all regulatory tribunals, also govern its proceedings. The Board has adopted its own *Rules of Procedure* as a guide to parties appearing in Board proceedings.

An application commences most proceedings, which is filed along with supporting written evidence. The Board may commence some proceedings on its own initiative. Notice of the application is normally provided to the public and stakeholders. The procedural rules provide the requirements to apply for intervener status. The Public Intervener is required to intervene in the public interest in relation to most regulatory matters.

In some cases, the Board will schedule an open forum to allow members of the public to express views about the matter, and to either appear before a panel of the Board or make a written submission.

Following a pre-hearing session, the Board publishes a schedule. This establishes deadlines for the interim filing of intervener evidence, information requests, and written responses to information requests. The dates for the final hearing of evidence and submissions are also determined.

In some cases, a written hearing is sufficient to allow the Board to consider the evidence and submissions fairly and effectively. Otherwise, an oral hearing is held, either at the Board's hearing room, or at another venue.

Oral hearings are similar to court proceedings, and follow a process outlined in the *Rules of Procedure*. The applicant presents witnesses for cross-examination by other parties, followed by intervener witnesses. At the conclusion of oral testimony, all parties present final arguments and rebuttals.

All written evidence and hearing transcripts are published on the Board's website, except evidence that is confidential in nature.

FUNDING OF BOARD EXPENSES

The audited financial statements of the Board are included later in this report.

The expenses of the Board are comprised of *direct expenses* that are directly attributable to an entity, such as the costs of a proceeding initiated by a specific company, and *common expenses*, including general operating costs of the Board. The Board collects all of its expenses from each regulated company for its direct expenses and each company's share of common expenses.

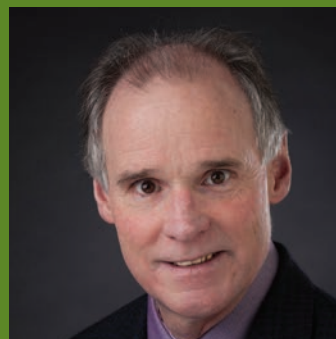
Board funding is also derived from an annual levy to petroleum wholesalers, based on annual motor fuel sales volumes. The current levy is 0.0375 cents per litre. A portion of this levy goes to fund the expenses of the Public Intervener in relation to petroleum margin reviews conducted by the Board.



François Beaulieu
Vice-Chairperson



Michael Costello
Member



Patrick Ervin
Member

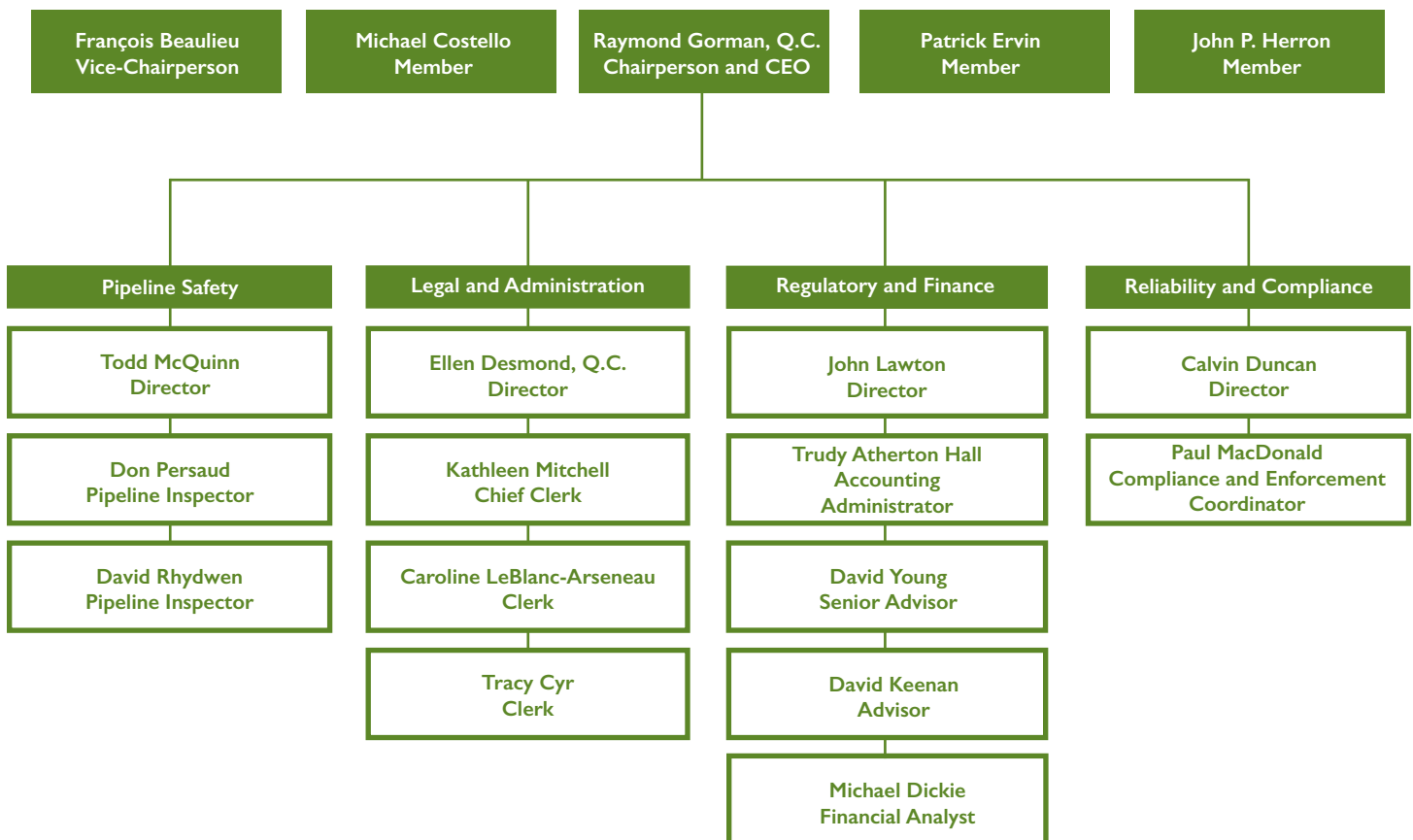


John P. Herron
Member

ORGANIZATION



There is a staff of 14 which includes advisors to the Board, a pipeline safety division and administration.



RELIABILITY & COMPLIANCE



The Board adopts and enforces standards to address the reliability of the bulk power system, which includes large scale electrical generation facilities and high voltage transmission systems within the Province.

Reliability standards are a set of rules or requirements that generally apply to the North American electricity grid. Because of the interconnected nature of the grid, reliability standards are aimed at providing a continuous flow of power in the Province and minimizing instability, uncontrolled flows of electricity or cascading power failures within the grid.

The Reliability Standards Regulation – Electricity Act sets out specific requirements for the Board's approval of reliability standards and related compliance, monitoring and enforcement processes. The Board's reliability standards align with those of the North American Electric Reliability Corporation, an international regulatory authority whose mission is to assure the reliability and security of the bulk power system in North America.

COMPLIANCE MONITORING The Board engages Northeast Power Coordinating Council (NPCC) to assist the Board in compliance monitoring and making recommendations on potential violations, mitigation plans and related enforcement actions. NPCC is responsible for promoting and enhancing the reliability of the bulk power system in Northeastern North America.

RELIABILITY STANDARDS When a reliability standard receives regulatory approval in the United States, NB Power is required to submit a corresponding proposal to the Board for approval, with appropriate modifications for New Brunswick. During the 2016/17 reporting period, the Board approved five new reliability standards, revisions to 20 others, and the retirement of 22 standards. There are 110 reliability standards enforced in the Province, consisting of more than 1,200 individual requirements.

The Board is responsible for administering the New Brunswick Compliance Monitoring and Enforcement Program established by regulation. As part of its responsibility, the Board implements an Annual Implementation Plan for compliance monitoring, which includes regular auditing processes and enforcement actions.

There are five Registered Entities, including NB Power, that perform one or more functions related to the bulk power system in the Province, and which are responsible for compliance with applicable reliability standards.

COMPLIANCE ACTIVITIES In 2016/17 the Board performed an audit of NB Power's compliance with its function as a distribution provider. In addition, registered entities submitted 186 compliance self-certification and data submittal reports to the Board for review through the compliance program.

The Board also approved 33 mitigation plans filed by registered entities to address potential reliability standards violations. Ten of the mitigation plans submitted for lower risk potential violations were processed as part of the Find Fix Track compliance program process, which is a streamlined enforcement process to deal with lower risk potential violations. These lower risk potential violations were fully mitigated under the Find Fix Track process in 2016/17 and are deemed to be remediated.

The Board continues to refine its risk-based compliance monitoring plans. In this process, Board staff refers to Inherent Risk Assessments, which evaluate risks to the bulk power system posed by Registered Entities, and Internal Controls Evaluations, which evaluate internal controls of Registered Entities.

ELECTRICITY



The Board's responsibilities include approving electricity rates for NB Power customers and approving a tariff for the provision of electricity transmission services. NB Power must also seek the Board's approval for any NB Power capital projects of \$50 million or more.

NB Power is required to seek the Board's approval of rates it proposes to charge to customers for each of its fiscal years. In setting just and reasonable rates, the Board bases its decision on NB Power's revenue requirements, taking into consideration a number of factors, including items specified by legislation.

2016/17 RATES In December 2015, NB Power applied for approval of 2016/17 rates, requesting an increase of two percent for all customer classes. This was the second rate application before the Board, under 2013 legislation which requires NB Power to apply for approval of rates for each fiscal year:

The hearing of the application was held in May 2016. The Board issued a partial ruling in June. It found that a proposed 4.7 percent budget increase for salaries and benefits expenses was not reasonable and instead approved a three percent increase. This reduced the company's budget by \$4.7 million and lowered the customer rate increase to 1.66 percent, effective as of July 1, 2016.

2017/18 RATES NB Power filed its rate application for its 2017/18 fiscal year in October 2016, which sought an average two percent rate increase, beginning in April 2017. Following a public hearing in February 2017, the Board issued two partial decisions in March. The Board disallowed a portion of the projected costs, which reduced the average rate increase to 1.77 percent. The rate schedules for all customer classes were approved by the Board to take effect on April 1, 2017.

FUTURE MATTERS The Board is expecting several applications in the upcoming financial year in relation to the electricity sector, including a general rate application for 2018/19, a transmission tariff application, and one or more applications related to major capital project approvals.

NATURAL GAS



The Board's regulatory activities in the natural gas sector are primarily in relation to Enbridge Gas New Brunswick, which holds the general franchise for gas distribution in the Province.

Enbridge delivers natural gas by pipeline to almost 12,000 customers in ten New Brunswick communities. Enbridge must seek the Board's approval of its customer distribution rates, which are determined following a Board hearing of evidence and submissions by Enbridge and interveners. Separate rate applications by Enbridge for calendar years 2016 and 2017 were considered during the Board's 2016/17 fiscal year.

2016 RATES In April 2016, the Board approved Enbridge's distribution rates for 2016, following a public hearing held earlier that year. The Board disallowed executive risk insurance costs in its decision. This was offset by the Board's disallowing capitalization of marketing expenses, which increased operating costs. These offsets resulted in little overall difference in the proposed revenue requirement. The Board accepted the rates as proposed by Enbridge.

2017 RATES In July 2016, Enbridge applied for approval of its 2017 distribution rates. A hearing was held in October. The Board issued its decision in late November, in which it directed Enbridge to reduce its capital budget in order to reduce its revenue requirement by \$100,000. The Board approved adjusted rates to take effect on January 1, 2017.

GAS MARKETERS New Brunswick allows competition for the sale of natural gas. There were eight gas marketers in 2016/17 certified by the Board to sell natural gas to customers via the distribution system. Gas marketers are subject to a code of conduct established by the Board, which includes fair marketing practices and the confidentiality of customer information.

As the general franchisee for gas distribution, Enbridge may only sell or offer to sell gas under conditions defined by regulation. This is to ensure that Enbridge does not use its market position as the general franchise distributor to unfairly compete with other gas marketers. The Board annually reviews Enbridge's gas sales to determine whether its gas prices are appropriate.

STATUTORY AMENDMENTS In December 2016, the provincial government amended the *Gas Distribution Act, 1999*. The amendments provide the Board with greater discretion, subject to short-term constraints, in relation to how it approves distribution rates.

The amendments also require companies that deliver natural gas by means other than pipeline (typically compressed natural gas by truck), to be licenced by the Board. Facilities that receive gas other than by pipeline are also required to be approved by the Board. The Board responded to this new requirement by initiating an application process. Licences to Deliver Gas were issued by the Board to two companies, and an Approval of an Eligible Facility was issued to one company.

PIPELINE SAFETY



The mandate of the Pipeline Safety Division is to ensure the safety of pipelines under the Board's jurisdiction, which covers intra-provincial pipelines transmitting oil, natural gas, minerals and other fluids. The design, construction, operation and abandonment of pipelines must provide for the safety and protection of the public, company employees, property and the environment. This is accomplished by inspections, education, compliance audits and damage prevention programs.

PERMITS AND LICENCING Any person wishing to construct a pipeline must apply to the Board for a permit. Before issuing a permit, the Board considers the location of the proposed pipeline and its effect upon public health and safety and the environment. Enbridge Gas New Brunswick was granted a blanket permit in 2000 to construct natural gas pipelines within certain municipalities.

Before a pipeline goes into service, the operator must apply for a licence to operate. The Pipeline Safety Division inspects the construction and testing of pipelines as part of the licensing approval process. After a pipeline has been tested to its satisfaction, the Board may issue a licence to operate the pipeline.

DIVISION ROLES The Energy and Utilities Board's jurisdiction covers 1,338 km of intra-provincial pipelines, including 1,278 km of natural gas pipelines. The Pipeline Safety Division provides information through meetings and publications to explain legislated safety requirements. Inspections and audits are conducted on a regular basis.

The Division also investigates pipeline related incidents, mostly comprising of third party damage to installed pipelines. In 2016/17 there were 15 such incidents, which is a low rate compared to previous years and other provinces. The Atlantic Canada Common Ground Alliance represents 12 member companies and municipalities which collaborate to promote the protection of underground infrastructure by providing a One-Call pre-excavation location service.

PIPELINE DECISIONS During 2016/17, the Board made a number of decisions in relation to pipeline activity, as outlined below.

Enbridge was granted a licence to operate a 2" high pressure pipeline on DesBrisay Avenue in Moncton.

The Board granted approval to Enbridge to relocate a 2" high pressure pipeline on Woolridge Street in Riverview.

Enbridge was approved to replace approximately 1.5 km of 4" high pressure pipeline on Bishop Drive in Fredericton, with 6" high pressure pipe.

Enbridge was permitted to abandon approximately 0.8 km of 2" high pressure pipeline on Crown Street in Saint John. This was replaced with a section of 6" high pressure pipe.

Irving Oil Terminals and Pipelines, GP was allowed to suspend the operations of the Coleson Cove fuel delivery pipeline in March 2016. Approval was granted to reactivate operation of this pipeline in January 2017, and again to suspend operation in February 2017.

Irving Oil Terminals and Pipelines was permitted to temporarily change the service of a 20" crude pipeline to naphtha service, due to a refinery turnaround project.

PETROLEUM PRODUCTS



The Board regulates wholesale and retail petroleum sales in New Brunswick, through weekly settings of maximum prices for motor fuels and heating fuels. This includes all grades of gasoline, ultra-low sulphur diesel fuel, furnace oil, and propane used for space heating.

The Board determines weekly maximum petroleum prices using a process prescribed by governing legislation and regulations. This involves establishing a benchmark price for each type of petroleum product, based on published product reference prices in actively traded markets, such as the New York Mercantile Exchange. The maximum regulated price for each product consists of the benchmark prices, the maximum wholesale and retail margins, applicable taxes, plus a delivery cost allowance. A full service charge may be added where applicable. Weekly maximum price settings take effect every Thursday.

The Board has authority to adjust the maximum wholesale and retail margins, as well as the delivery cost allowance and the full service charge. This is done following a public hearing, during which the Board examines evidence that would support any adjustments. The Board conducted three previous margin reviews between 2008 and 2013, and initiated its fourth review in 2016.

RETAIL MARGIN REVIEW In July 2016, the Board engaged Gardner Pinfold Consulting Economists to conduct a survey and analysis of existing retail margins and to make recommendations for changes. Gardner Pinfold submitted its report in October. A public hearing was held in Fredericton in January 2017, and the Board's decision was released in May.

Approved increases to the retail margins and delivery cost came into effect on May 11, 2017. The Board adjusted the maximum retail margin for motor fuels by 0.1 cents per litre (cpl), the maximum actual delivery cost by 0.5 cpl, and the maximum retail margin for furnace oil by 0.3 cpl. No other adjustments were approved.

SITE INSPECTIONS As part of its ongoing market monitoring responsibility, Board staff conducted numerous site inspections and site visits with petroleum wholesalers and retailers during 2016/17.

INQUIRIES The public regularly contacts the Board with questions about petroleum products and pricing. During 2016/17 Board staff responded to 17 such inquiries, representing one-third of all inquiries received by the Board.

MOTOR CARRIER

In granting an application for a motor carrier licence, the Board must be satisfied that it would not be detrimental to the interests of the users of public transportation services, to provincial economic or social development, or to commercial activities.

The Board regulates the operation of public motor buses through the issuance of motor carrier licences to approved applicants for specified routes or areas, and as a regular (scheduled) or irregular (charter) service. The Board ensures that applicants certify that legislated insurance requirements are met. The Board may also impose any conditions that it considers necessary.

LICENCES There are currently 35 licenced motor carrier operations in the Province, including five providing scheduled services. In 2016/17, the Board approved four applications for new charter licences, and granted five temporary permits.

Every licenced motor carrier providing scheduled service is deemed by legislation to be a public utility, and may not abandon or discontinue a service under its licence without an order of the Board, following a hearing. In the exercise of its mandate, the Board exercises supervision over the activities of motor carriers, including its fares, routes and schedules.

FARES In its regulation of fares, the Board implemented a fuel surcharge mechanism in 2012 for Coach Atlantic (operating as Maritime Bus), which provides daily intercity service in New Brunswick and neighboring provinces. This reduces the need for regular fare adjustment applications to the Board, due to fluctuating diesel fuel prices.



Legislation permits the Board to coordinate motor carrier hearings with other jurisdictions. The fuel adjustment mechanism operates in conjunction with the Nova Scotia Utility and Review Board's own review. This ensures that passengers enjoy uniform fares (based on distance travelled) within the region served by Coach Atlantic. During 2016/17, the Board undertook quarterly reviews of the fuel surcharge. Low diesel fuel prices over that period resulted in there being no fuel surcharge.



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INDEPENDENT AUDITORS' REPORT

To the Chairman and Members of the New Brunswick Energy and Utilities Board

We have audited the statement of financial position of the New Brunswick Energy and Utilities Board, as at March 31, 2017 and the statements of change in accumulated surplus by sector, net financial assets, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the New Brunswick Energy and Utilities Board as at March 31, 2017 and the results of its operations and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Saint John, NB
June 5, 2017



CHARTERED PROFESSIONAL ACCOUNTANTS

STATEMENT OF FINANCIAL POSITION

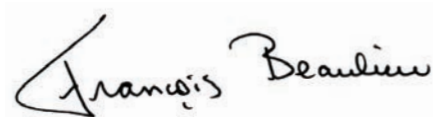
AS AT MARCH 31, 2017

	2017	2016
FINANCIAL ASSETS		
Cash (Notes 2 and 3)	\$ 1,197,991	\$ 1,042,242
Accounts receivable (Notes 2, 3 and 4)	<u>123,905</u>	<u>46,995</u>
	<u>1,321,896</u>	<u>1,089,237</u>
LIABILITIES		
Accounts payable and accrued liabilities (Notes 2, 3 and 5)	231,852	71,961
Reserve for future hearings (Notes 2, 3 and 12)	596,700	589,886
Future employee benefits (Note 13)	<u>230,409</u>	<u>200,413</u>
	<u>1,058,961</u>	<u>862,260</u>
NET FINANCIAL ASSETS	<u>262,935</u>	<u>226,977</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Notes 2 and 6)	90,933	78,251
Prepaid expenses	<u>147,965</u>	<u>145,031</u>
	<u>238,898</u>	<u>223,282</u>
ACCUMULATED SURPLUS	<u>\$ 501,833</u>	<u>\$ 450,259</u>
COMMITMENTS (Note 15)		

APPROVED ON BEHALF OF THE BOARD:



Chairperson



Vice-Chairperson

STATEMENT OF CHANGE IN ACCUMULATED SURPLUS BY SECTOR

FOR THE YEAR ENDED MARCH 31, 2017

	Balance at Beginning of Year	Surplus (Deficit)	Balance at End of Year
ELECTRICITY SECTOR	\$ 264,056	\$ 87,681	\$ 351,737
NATURAL GAS SECTOR	45,777	15,992	61,769
PIPELINE SECTOR	140,426	(52,099)	88,327
PETROLEUM SECTOR	-	-	-
MOTOR CARRIER SECTOR	-	-	-
	<u>\$ 450,259</u>	<u>\$ 51,574</u>	<u>\$ 501,833</u>

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

AS AT MARCH 31, 2017

	2017	2016
Surplus (deficit) of revenue over expenses	\$ 51,574	\$ (50,238)
Purchase of tangible capital assets	(35,525)	(58,779)
Proceeds on disposal of tangible capital assets	3,100	17,586
Amortization of tangible capital assets	22,843	17,640
Gain on disposal of tangible capital assets	<u>(3,100)</u>	<u>(1,523)</u>
	38,892	(75,314)
Increase in prepaid expenses	<u>(2,934)</u>	<u>(144,120)</u>
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	35,958	(219,434)
NET FINANCIAL ASSETS AT BEGINNING OF YEAR	<u>226,977</u>	<u>446,411</u>
NET FINANCIAL ASSETS AT END OF YEAR	<u>\$ 262,935</u>	<u>\$ 226,977</u>

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2017

	2017 Budget	2017 Actual	2016 Actual
REVENUE (Note 2)			
Electricity Sector (Note 7)	\$ 2,597,363	\$ 2,344,027	\$ 1,786,889
Natural Gas Sector (Note 8)	517,180	473,476	455,200
Pipeline Sector (Note 9)	570,182	435,371	607,312
Petroleum Sector (Notes 10 and 12)	<u>778,745</u>	<u>680,608</u>	<u>409,859</u>
	<u>4,463,470</u>	<u>3,933,482</u>	<u>3,259,260</u>
DIRECT EXPENSES (Note 2)			
Electricity Sector	775,000	673,818	284,341
Natural Gas Sector	35,000	27,210	27,971
Pipeline Sector	5,000	3,311	5,634
Petroleum Sector (Note 12)	<u>200,000</u>	<u>172,274</u>	<u>37,918</u>
	<u>1,015,000</u>	<u>876,613</u>	<u>355,864</u>
NET REVENUE BEFORE COMMON EXPENSES	<u>3,448,470</u>	<u>3,056,869</u>	<u>2,903,396</u>
COMMON EXPENSES (Note 2)			
Salaries and benefits	2,709,218	2,454,452	2,334,862
Office and administration (Note 15)	589,752	451,228	498,231
Training	118,000	76,772	102,901
Amortization	<u>31,500</u>	<u>22,843</u>	<u>17,640</u>
	<u>3,448,470</u>	<u>3,005,295</u>	<u>2,953,634</u>
SURPLUS (DEFICIT) OF REVENUE OVER EXPENSES	<u>\$ -</u>	<u>\$ 51,574</u>	<u>\$ (50,238)</u>

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2017

	2017	2016
CASH PROVIDED BY (USED IN)		
Operating activities		
Surplus (deficit) of revenue over expenses	\$ 51,574	\$ (50,238)
Items not involving cash		
Amortization	22,843	17,640
Gain on disposal of tangible capital assets	<u>(3,100)</u>	<u>(1,523)</u>
	71,317	(34,121)
Changes in non-cash working capital balances		
Accounts receivable	(76,910)	(7,438)
Prepaid expenses	(2,934)	(144,120)
Accounts payable and accrued liabilities	159,891	(39,439)
Reserve for future hearings	6,814	275,368
Future employee benefits	<u>29,996</u>	<u>29,142</u>
	<u>188,174</u>	<u>79,392</u>
Investing activities		
Purchase of tangible capital assets	(35,525)	(58,779)
Proceeds on disposal of tangible capital assets	<u>3,100</u>	<u>17,586</u>
	<u>(32,425)</u>	<u>(41,193)</u>
INCREASE IN CASH	155,749	38,199
CASH AT BEGINNING OF YEAR	<u>1,042,242</u>	<u>1,004,043</u>
CASH AT END OF YEAR	<u>\$ 1,197,991</u>	<u>\$ 1,042,242</u>
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest received	<u>\$ 15,107</u>	<u>\$ 14,447</u>

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

1. PURPOSE OF THE ORGANIZATION

On February 1, 2007, the Public Utilities Act was replaced by the Energy and Utilities Board Act (the "Act"). As a result, the name of the Board was changed from the Board of Commissioners of Public Utilities of the Province of New Brunswick to the New Brunswick Energy and Utilities Board (the "Board"). Pursuant to amendments to the Act in 2013, the part time Board member positions were replaced with three full time members. The Board is now comprised of five full time members which include a chairperson and a vice chairperson.

The Board has regulatory responsibilities under various Acts primarily involving electricity, pipelines, natural gas, petroleum products and public motor busses. The Board operates with funds received from the industries it regulates.

The Government of New Brunswick on May 7th, 2013 introduced Bill 39, the "Electricity Act". This new legislation became effective on October 1, 2013. As a result of the change in legislation, the Board's mandate for the electricity sector changed, adding responsibility for approval of reliability standards, compliance monitoring and enforcement. As a result, the Board hired three new staff previously employed by the New Brunswick System Operator and opened a sub-office in Fredericton. The various companies operating within the New Brunswick Power group of companies were restructured into the New Brunswick Power Corporation and the Board's regulatory responsibilities changed as a result of the restructuring.

The Board is exempt from income tax under Section 149(1)(d) of the Income Tax Act of Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements were prepared in accordance with Canadian public sector accounting standards ("PSAS").

Tangible Capital Assets

Tangible capital assets are recorded at cost. Minor expenditures for furniture and fixtures are expensed in the year of acquisition. Amortization is recorded using the straight-line method at the following annual rates:

Computer equipment	33 1/3%
Vehicles	20%, 25%

Revenue Recognition

The Board follows the deferral method of accounting for revenue. Restricted revenue is recognized as revenue in the year in which the related expenses are incurred. Unrestricted revenue is recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Interest revenue is recorded on an accrual basis.

Common Expense Allocations

In determining the surplus (deficit) for each of the sectors, common expenses have been allocated based on management's best judgment and actual activity during the year.

Direct Expenses

Direct expenses may include consultants' fees, hearing costs, travel, training, out of pocket expenses and assessments from the North American Electric Reliability Corporation ("NERC") directly attributable to a specific area of regulatory responsibility.

Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, equity instruments with actively traded markets are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are reported at amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale or issue of financial instruments are expensed when incurred.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Board considers cash on hand and balances with banks, net of overdrafts, as cash or cash equivalents.

Measurement Uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the period in which they become known.

Examples of significant estimates include:

- the estimated useful lives of assets;
- the recoverability of tangible capital assets; and
- the calculation of future employee benefits.

3. FINANCIAL INSTRUMENTS

The Board is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the Board's risk exposure and concentration as of March 31, 2017:

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Board is subject to credit risk through accounts receivable. The Board minimizes its credit risk through ongoing credit management. The Board does not have significant credit risk exposure to any individual customer.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Board is exposed to this risk mainly in respect of its receipt of funds from its customers and other related sources, accounts payable and accrued liabilities and other obligations.

Currency Risk

Currency risk is the risk to the Board that may arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Board is exposed to foreign currency exchange risk for expenses incurred in U.S. dollars.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Board manages exposure through its normal operating and financing activities. The Board is not exposed to interest rate risk as it does not have any interest bearing debt.

NOTES TO FINANCIAL STATEMENTS

4. ACCOUNTS RECEIVABLE

	2017	2016
Trade accounts receivable	\$ 83,110	\$ 7,319
Employee vacation	-	9,494
HST receivable	39,797	24,944
Travel advances	998	5,238
	<u>\$ 123,905</u>	<u>\$ 46,995</u>

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
Trade accounts payable	\$ 84,287	\$ 28,206
Due to Province of New Brunswick	12,439	4,139
Wages and benefits	<u>135,126</u>	<u>39,616</u>
	<u>\$ 231,852</u>	<u>\$ 71,961</u>

6. TANGIBLE CAPITAL ASSETS

	2017			
	Cost	Accumulated Amortization	Net	2016 Net
Computer equipment	\$ 27,249	\$ 8,527	\$ 18,722	\$ 16,950
Vehicles	<u>117,263</u>	<u>45,052</u>	<u>72,211</u>	<u>61,301</u>
	<u>\$ 144,512</u>	<u>\$ 53,579</u>	<u>\$ 90,933</u>	<u>\$ 78,251</u>

7. ELECTRICITY SECTOR REVENUE

In accordance with Section 50 of the Energy and Utilities Board Act, certain corporations are assessed each year for their estimated direct expenses together with their estimated share of the Board's common expense budget. Assessments are adjusted to include the audited surplus or deficit from the prior year.

	2017	2016
Estimate of common expenses	\$ 1,822,363	\$ 1,681,734
Estimate of direct expenses	<u>775,000</u>	<u>303,000</u>
	2,597,363	1,984,734
Surplus from prior year	<u>(264,056)</u>	<u>(345,879)</u>
Assessment of electric utilities	2,333,307	1,638,855
Add: NERC assessment	-	137,322
Add: other income	-	800
Add: interest income	<u>10,720</u>	<u>9,912</u>
	<u>\$ 2,344,027</u>	<u>\$ 1,786,889</u>

8. NATURAL GAS SECTOR REVENUE

In accordance with Section 50 of the Energy and Utilities Board Act, natural gas distributors are assessed each year for their estimated direct expenses together with their estimated share of the Board's common expense budget. Assessments are adjusted to include the audited surplus or deficit from the prior year.

	2017	2016
Estimate of common expenses	\$ 482,180	\$ 476,730
Estimate of direct expenses	<u>35,000</u>	<u>51,000</u>
	517,180	527,730
Surplus from prior year	<u>(45,777)</u>	<u>(75,285)</u>
Assessment of natural gas distributors	471,403	452,445
Add: other income	200	400
Add: interest income	<u>1,873</u>	<u>2,355</u>
	<u>\$ 473,476</u>	<u>\$ 455,200</u>

NOTES TO FINANCIAL STATEMENTS

9. PIPELINE SECTOR REVENUE

In accordance with Section 50 of the Energy and Utilities Board Act, certain pipeline owners are assessed each year for their estimated direct expenses together with their estimated share of the Board's common expense budget. Fees paid by single end use franchisees to the Department of Energy and Resource Development were submitted by the Department to the Board to be used to reduce common expenses for regulation of pipelines.

	2017	2016
Estimate of common expenses	\$ 565,182	\$ 675,042
Less: amounts from Department of Energy and Resource Development	<u>-</u>	<u>399,521</u>
Estimate of net common expenses	565,182	275,521
Estimate of direct expenses	<u>5,000</u>	<u>9,500</u>
	570,182	285,021
Surplus from prior year	<u>(140,426)</u>	<u>(79,333)</u>
Assessment of pipeline owners	429,756	205,688
Add: amounts from Department of Energy and Resource Development	-	399,521
Add: other income (expense)	3,100	(77)
Add: interest income	<u>2,515</u>	<u>2,180</u>
	<u>\$ 435,371</u>	<u>\$ 607,312</u>

10. PETROLEUM SECTOR REVENUE

Section 26 of the Petroleum Products Pricing Act (the "PPP Act") requires each wholesaler, as defined in the Gasoline and Motive Fuel Act, to pay an annual levy to the Board. Per amended legislation passed on September 2014, the levy shall be based on the volume of gasoline and motive fuel, as defined by the Gasoline and Motive Fuel Tax Act, or based on each litre of gasoline and motive fuel sold in the twelve month period ending October 31st proceeding the calendar year for which its wholesaler's license was issued. The levy is used to defray the Board's expenses under the PPP Act as well as defraying the expenses incurred by the Public Intervenor for the Energy Sector as a result of a review conducted by the Board under subsection 14(1).

11. ASSESSMENT FOR PUBLIC INTERVENER

Pursuant to Section 51 of the Act, the costs incurred by the Attorney General under Section 49 of the Act are to be collected by the Board and remitted to the Minister of Finance. During the year, \$407,380 (2016 - \$619,407) was remitted to the Minister of Finance. The funds remitted consisted of direct assessments collected from the Electricity, Natural Gas and Pipeline Sectors totaling \$368,394 (2016 - \$596,653), and \$38,986 (2016 - \$22,754) collected from the Petroleum Sector via levies. The amounts directly assessed to the Electricity, Natural Gas and Pipeline Sectors are not included in the revenue and expenses of the Board. An amount of \$9,330 (2016 - nil) is due to the Minister of Finance as at March 31, 2017 and is included in accounts payable.

12. RESERVE FOR FUTURE HEARINGS

The Board has established a reserve to assist in the cost of future hearings in the Petroleum Sector. The levies received to cover the costs of such hearings are included in the reserve and will be recognized when the hearing costs are incurred. The activity during the year was as follows:

	2017	2016
Balance at beginning of year	\$ 589,886	\$ 314,518
Add: levies contributed to the reserve	<u>6,814</u>	<u>275,368</u>
Balance at end of year	<u>\$ 596,700</u>	<u>\$ 589,886</u>

13. FUTURE EMPLOYEE BENEFITS

The Board has a liability related to the eligibility of the chairman for Deputy Minister pension/termination benefits including supplemental pension benefits of one year (or part year) of service to a maximum of five years of service. The Board has accrued \$230,409 (2016 - \$200,413) for this future employee benefit.

14. PENSION PLAN

On January 1, 2014, the Province replaced the Public Service Superannuation Act ("PSSA") with the Public Service Shared Risk Plan ("PSSRP"), which is now known as the New Brunswick Public Service Pension Plan ("NBPSPP"). For pension entitlements earned after January 1, 2014, the employer will make defined contributions to the plan, with no guarantee of the benefit payout at retirement. The NBPSPP will pay cost of living increases and other ancillary benefits only to the extent that funds are available for such benefits. The NBPSPP is governed by an independent board of trustees. Other changes include retirement age as well as increases in pension reduction for early retirement.

NOTES TO FINANCIAL STATEMENTS

15. COMMITMENTS

Saint John

The Board has signed a lease for its office premises for a ten year period commencing March 1, 2011.

The minimum annual lease payments due are as follows:

2018	\$	177,967
2019		177,967
2020		177,967
2021		<u>163,136</u>
	\$	<u>697,037</u>

Fredericton

The Board has signed a lease for its office premises for a five year period commencing March 1, 2014.

The minimum annual lease payments due are as follows:

2018	\$	34,821
2019		<u>31,919</u>
	\$	<u>66,740</u>

