Saint John Energy

Reliable. Innovative. Sustainable.

ANNUAL REPORT 2013

(Financial)

Our commitment to provide our ratepayers with value and satisfaction centres around our Mission and Vision Statements

Our Mission

“We are a Utility Services Provider of Innovative Customer-centred Solutions”

Our Vision

“Continue to Evolve as an Industry-leading Utility Service Provider”

Our Motto

“Excellence in Energy Solutions”

Annual Report (Financial)
of
The Power Commission of The City of Saint John
For The Year 2013

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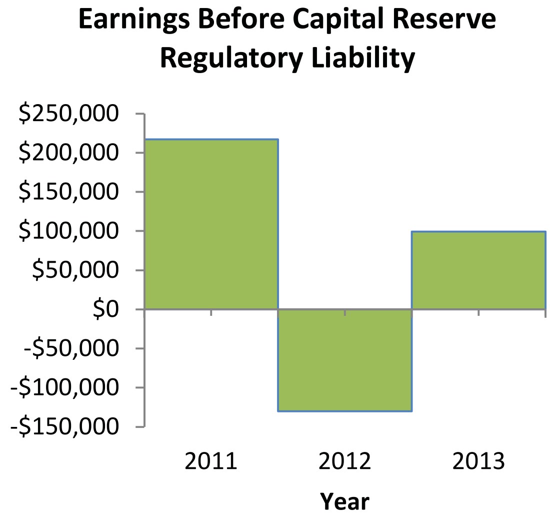
Management Discussion and Analysis

Management's discussion and analysis reviews the financial and operational results for the fiscal year ended December 31, 2013 relative to the previous year. This section should be read in conjunction with Audited Financial Statements and the accompanying notes.



Financial Result Highlights

Saint John Energy's financial results for 2013 showed an improvement of $229,507 as compared to 2012 recording an increase to the Capital reserve regulatory liability of $99,195. This resulted from an increase in earnings from operations before estimated employee future benefits expense of $3,845,294 (up $485,338 over 2012) less employee future benefits expense of $3,746,099 (up $255,831 over 2012).

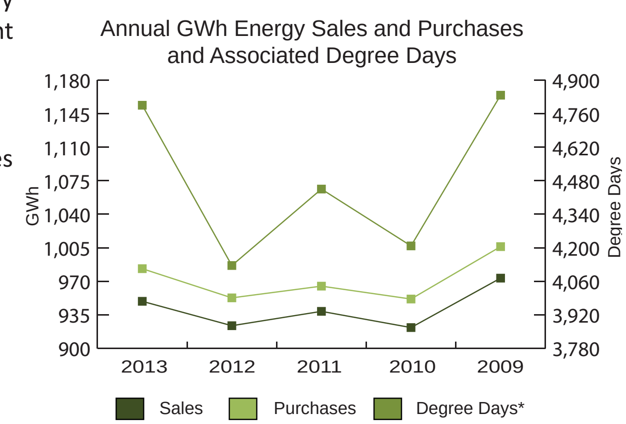
The following significant factors influenced the 2013 financial results leading to the improvement in financial performance as compared to 2012:

- **Electrical Sales and Purchases -** Gross margin increased by $207,582 as energy sales and purchases increased by 2.8% and 3.2% respectively resulting from colder temperatures and a 2% rate increase which went into effect October 1, 2013.

- **Operating Expenses -** Operating expenses decreased by $58,284 year over year with reduced maintenance and staffing costs net of increases to expenses related to consulting services engaged to assist with the planning and implementation of initiatives to achieve Saint John Energy's four main strategic priorities:

    - Financial Stability & Sustainability
    - Customer Focus
    - Organizational Effectiveness
    - Employee Well-Being

- **Other Expenses -** Water Heater expenses decreased by $176,623 as compared to 2012 reflecting lower depreciation costs as the operational lives of the water heater assets have exceeded original expectations.



*The number of Celsius degrees that the mean temperature for a given day is above or below 18 degrees Celsius.

- **Post Employment Benefit Expenses** - Saint John Energy's pension contribution expense increased by $291,000 year over year as a result of a one-time deficit payment of $899,000 required under the Pension Benefits Act and made from January 1st to May 31st 2013, net of reduced contribution expense from June 1st until year-end, due to the conversion of the existing Defined Benefit Pension Plan to a Shared Risk Pension Plan. The conversion to this plan also substantially reduced the financial risk and volatility associated with the pension plan, while ensuring the ability to attract and maintain a high quality work force.

- **Capital Expenditures -** for the purchase or construction of property, plant and equipment were reduced as compared to 2012 by 25.4% as the company deliberately suspended discretionary expenditures and aligned its strategic priorities with available resources until a pension solution was obtained.

- **Cash -** Cash increased by $1,941,596 during the year primarily driven by the reductions in capital expenditures noted above.

Risk Analysis

Saint John Energy is an electric distribution utility in the City of Saint John, New Brunswick, Canada. The utility operates on a cost of service, user pay basis. Saint John Energy's service area is limited to the municipal boundaries of the City of Saint John by legislation. Given these factors, the utility's financial performance could potentially be affected by the following issues:

Energy Conservation - While Saint John Energy is actively seeking new programs and services to encourage its customers to reduce demand and energy consumption, the market, demographics, or technology could drive customers to reduce consumption faster than the utility can transition.

Alternative Heating Solutions (natural gas and heat pumps) - The Saint John area currently has a significant percentage of electric space and water heating customers. Without offsetting economic or population increases, market share could be affected by the adoption of alternative solutions for these requirements.

Power Purchase - Saint John Energy, due to its significant percentage of electric space heating customers and the mix of demand and energy which forms the basis of its wholesale power purchase rates, can be subject to short-term swings in weather especially during seasonal transition periods. This can lead to fluctuations in expense which given certain circumstances are not fully recovered from its customers.

Adverse Weather - extreme weather conditions such as ice storms and high winds can effect the utility's ability to maintain system reliability, safety, and the security of its supply. In addition to customer inconvenience these unplanned events can significantly add to the operational cost of the utility.

Year over Year Results – Revenues

The following is a summary of Saint John Energy's revenues for the year with a comparison to the previous year's results:

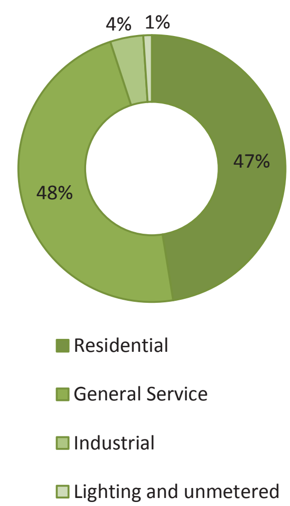
Revenues

Revenue Electrical Operations (in thousands)	2013	2012
Sales of Power	$ 101,399	$ 98,505
Other electrical revenue	501	579
Total Revenues Electrical Operations	**$ 101,900**	**$ 99,084**
Percent Increase (decrease) year over year	2.8%	-0.7%
Other Revenue	**$ 3,802**	**$ 3,588**
Percent Increase (decrease) year over year	6.0%	-0.6%
Total Revenues	**$ 105,702**	**$ 102,672**
Percent Increase (decrease) year over year	3.0%	-0.7%

Sales of Power by Class

Sales of Power by class (in thousands)	2013	2012
Residential	$ 48,137	$ 45,756
General Service	48,197	47,459
Industrial	4,069	4,286
Lighting and unmetered	1,044	1,033
Total Power Sales (exclusive of accrued revenues)	**$ 101,448**	**$ 98,534**
Percent Increase (decrease) year over year	3.0%	-0.9%
GWh	949.0	923.8
Percent Increase (decrease) year over year	2.7%	-1.6%

Power Sales by Type



Major contributors to the year over year variance in electrical sales revenues are as follows:

Revenues (in thousands)	Amount	Reason for variance
Contributing factors		
Increased	$ 2,354	Residential Service - Colder temperatures during the year coupled with an October 1st, 2013 2% rate increase leading to increased sales revenue.
Increased	$ 736	General Service - Colder temperatures during the year coupled with an October 1st, 2013 2% rate increase leading to increased sales revenue.
Offsetting factors		
(decreased)	$ (164)	Small Industrial - economic factors leading to decreased sales.

Other Electrical Revenue

Other electrical revenue consists primarily of:

- Late payment charges
- Miscellaneous service revenue account setup
- Miscellaneous service revenue reconnection fees

Results

Other electrical revenue was $501,000 in 2013, a decrease of $78,000 compared to 2012. This decrease was due mainly to reductions in late payment and reconnection fees, as well as a reduction in the sales of scrap as compared to the previous year.

Other Revenue

Other revenue consists primarily of:

- Water heater rentals
- Street and area lighting rentals
- Pole attachment fees
- Third party contract work

Results

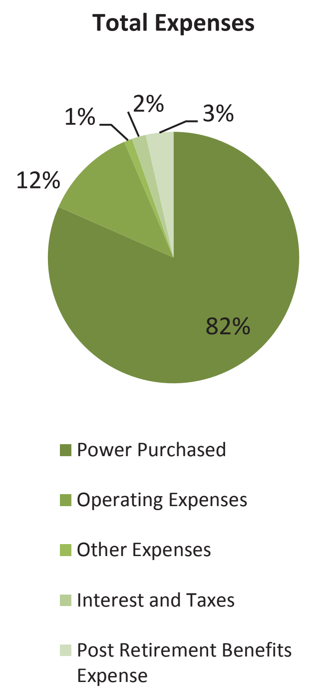
Other revenue was $3,802,000 in 2013, an increase of $214,000 compared to 2012. This increase was due mainly to recoveries for increased maintenance work required on city street lighting, as well as increased gains on the disposal of vehicles when compared to 2012.

Year over Year Results – Expenses

The following is a summary of Saint John Energy's expenses for the year with a comparison to the previous year's results:

Expenses

Expenses (in thousands)	2013	2012
Power Purchased	$ 86,172	$ 83,485
Operating Expenses	12,658	12,717
Other Expenses	1,922	1,993
Interest and Taxes	1,104	1,117
Post Retirement Benefits Expense	3,746	3,490
Total Expenses	**$ 105,603**	**$ 102,802**
Percent Increase (decrease) year over year	2.7%	-0.3%



Power Purchased	2013	2012
NB Power	$ 86,041	$ 83,338
Embedded Generation	130	147
Total Power Purchased	**$ 86,172**	**$ 83,485**
Percent Increase (decrease) year over year	3.2%	-1.8%
GWh	983.1	952.5
Percent Increase (decrease) year over year	3.2%	-1.3%

Major contributors to the year over year variance in power purchases are as follows:

Expenses (in thousands)	Amount	Reason for variance
Contributing factors		
Increased	$ 2,703	NB Power - Colder temperatures during the year coupled with the October 1, 2013 2% rate increase leading to increased power purchases.
Offsetting factors		
(decreased)	$ (17)	Embedded Generation - reduced excess supply leading to lower power purchases.

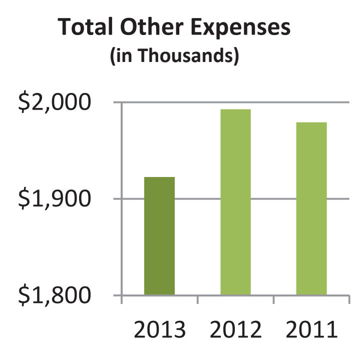
Saint John Energy

Operating expenses	2013	2012
Operations	$ 2,966	$ 3,015
Maintenance	521	715
Customer Billing and Collections	2,394	2,516
Administration	4,036	3,735
Depreciation	2,741	2,736
Total operating expenses	**$ 12,658**	**$ 12,717**
Percent Increase (decrease) year over year	-0.5%	-3.4%

Major contributors to the year over year variance in operating expenses are as follows:

Expenses (in thousands)	Amount	Reason for variance
Contributing factors		
(decreased)	$ (194)	Maintenance - this reduction reflects a shift of labour resources to operational activities related to storm restorations which occurred throughout the year.
(decreased)	$ (123)	Customer Billing and Collections - temporary changes in staff complement.
Offsetting factors		
increased	$ 301	Administration - increased requirement for consulting services.

Other Expenses	2013	2012
Water heater expense	$ 1,349	$ 1,526
Rental expense	573	467
Total other expenses	**$ 1,922**	**$ 1,993**
Percent Increase (decrease) year over year	-3.5%	0.7%



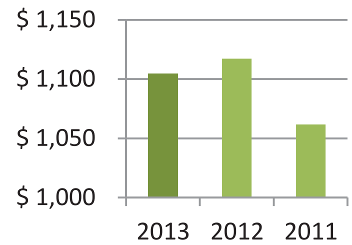
Major contributors to the year over year variance in other expenses are as follows:

Expenses (in thousands)	Amount	Reason for variance
Contributing factors		
(decreased)	$ (177)	Water Heaters - lower depreciation as water heaters reach a fully depreciated state.
Offsetting factors		
increased	$ 106	Street lighting - increased requirement for maintenance on city street lighting.

Interest and Taxes

Interest and Taxes	2013	2012
Interest Revenue	$ (64)	$ (46)
Interest Expense	1	2
Property Tax	480	471
Utility Tax	687	690
Total interest and taxes	**$ 1,104**	**$ 1,117**
Percent Increase (decrease) year over year	-1.2%	5.2%

Total Interest and Taxes
(in Thousands)



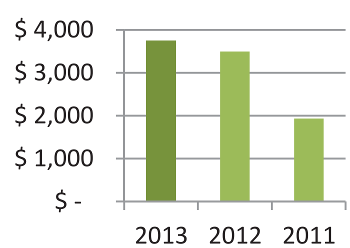
Major contributors to the year over year variance in interest and taxes are as follows:

Expenses (in thousands)	Amount	Reason for variance
Contributing factors		
increased	$ 9	Property tax - Assessment increases on properties.
Offsetting factors		
(decreased)	$ (18)	Interest Revenue - larger cash balances year over year.
(decreased)	$ (3)	Utility tax - reduction in the Provincial levy.

Post Retirement Benefits Expense

Post Retirement Benefits Expense	2013	2012
Pension Plan	$ 2,227	$ 1,936
Post retirement benefits	1,292	1,232
Retiring allowance	193	203
Retiree life insurance	60	62
Executive top-up	(25)	57
Total post retirement benefits expenses	**$ 3,746**	**$ 3,490**
Percent Increase (decrease) year over year	7.3%	80.5%

Total PRBE
(in Thousands)



Major contributors to the year over year variance in post retirement benefits expense are as follows:

Expenses (in thousands)	Amount	Reason for variance
Contributing factors		
increased	$ 687	Defined Benefit Pension - deficit payments required during the year from January to May.
Offsetting factors		
(decreased)	$ (396)	Reduction to expense on conversion to a Shared Risk Pension plan from June to December.
(decreased)	$ (82)	Reduction of the market based discount rate used to estimate future liability expense.

Year over Year Results – Cash Flows

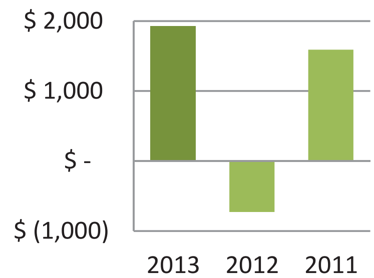
The following is a summary of Saint John Energy's cash flows for the year with a comparison to the previous year's results:

Cash Flows

(in thousands)		2013		2012
Cash flows from operations	$	7,437	$	5,551
Capital expenditures less proceeds on disposal		(3,917)		(5,321)
Cash restricted for reduce & shift demand		(2,189)		-
Increase (decrease) in working capital		598		(958)
Free cash inflow (outflow)	**$**	**1,929**	**$**	**(728)**
Other investments		13		126
Change in cash (increase) decrease		(1,942)		602
Increase in total debt *	**$**	**-**	**$**	**-**

*At the time of this report the Commission had no long-term debt.

Free cash inflow/outflow
(in Thousands)

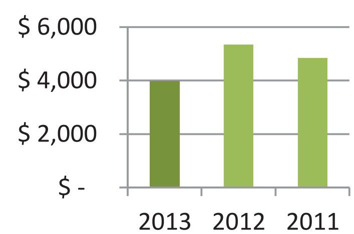


Major contributors to the year over year variance in cash flows are as follows:

Revenues (in thousands)	Amount		Reason for variance
Contributing factors			
increased	$	1,405	Capital Expenditures - reduced regular capital spending.
increased	$	1,555	Working Capital - customer receivables decreased and power purchased payable increased.

Capital Expenditures		2013		2012
Project capital expenditures	$	3,657	$	4,429
Less customer contributions		(359)		(596)
Other capital expenditures		684		1,505
Total capital expenditures	**$**	**3,981**	**$**	**5,338**
Percent Increase (decrease) year over year		-25.4%		10.3%

Total Capital Expenditures
(in Thousands)



Major contributors to the year over year variance in capital expenditures are as follows:

Capital Expenditures (in thousands)	Amount		Reason for variance
Contributing factors			
(decreased)	$	(1,593)	Resulting from a combination of the deliberate curtailment of expenditures pending a solution for the Commission's pension plan and a year over year reduction in comparable capital spending.
Offsetting factors			
increased	$	237	Increase in customer contribution related projects.

Management Report

The financial statements of The Power Commission of the City of Saint John are the responsibility of management and have been approved by the Commission. They have been prepared in accordance with generally accepted accounting principles as established in Canada. The financial statements have been prepared within reasonable limits of materiality, incorporating Management's best judgment regarding all necessary estimates and all other data. These principles have been applied on a basis consistent with that of the preceding year. The financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management maintains a comprehensive system of internal controls including written policies and procedures and an organizational structure that segregates duties to ensure the integrity and objectivity of the financial data. These measures provide reasonable assurance that transactions are recorded and executed in compliance with legislation and required authority, that assets are properly safeguarded and that reliable financial records are maintained.

The Audit Committee reviews the annual financial statements and recommends their approval to the Board of Commissioners. The Audit Committee meets with Management and external auditors to discuss the results of the audit, the adequacy of the internal accounting controls and financial reporting processes.

The responsibility of the external auditors, KPMG LLP, is to express an independent, professional opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' report which follows outlines the scope of their examination and their opinion.

On behalf of Management:

Raymond Robinson
President & Chief Executive Officer

Marta Kelly
Vice President, Finance & Administration

April 24, 2014

KPMG LLP
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners

We have audited the accompanying financial statements of the Power Commission of the City of Saint John, which comprise the balance sheet as at December 31, 2013, the statements of operations and cash flows for the year then ended, and notes, comprising 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 generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 whether the financial statements are free of 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 our judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Commission'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 Commission's internal control. An audit 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 qualified audit opinion.

Basis for Qualified Opinion

As described in Note 8(a) to the financial statements, the Commission replaced its defined benefits pension plan (the predecessor plan) with a shared risk pension plan on June 1, 2013. The Commission considers the implementation of the shared risk plan to be a settlement of the predecessor plan and wrote off the employee future benefits asset of $6,306,728 that was carried forward from December 31, 2012 to the capital reserve regulatory liability. Canadian generally accepted accounting principles require that the implementation of the shared risk pension plan be accounted for as an amendment to the predecessor plan and that the employee future benefits asset continue to be deferred and amortized. Had the Commission continued to defer and amortize the employee future benefits asset as required by Canadian generally accepted accounting principles, the balance sheet as at December 31, 2013 would reflect an employee future benefits asset and the capital reserve regulatory liability would be increased by the asset amount. The determination of the amount of the adjustment which would not exceed $6,306,728 would require an actuarial valuation as at December 31, 2013 which was not prepared.

Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, these financial statements present fairly, in all material respects, the financial position of the Power Commission of the City of Saint John as at December 31, 2013 and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

April 24, 2014
Saint John, Canada

	2013	2012

Assets

	2013	2012
Property, plant and equipment (note 5):		
Land, buildings, plant and equipment	$ 109,430,283	$ 105,870,139
Less accumulated amortization	52,455,749	48,827,003
	56,974,534	57,043,136
Long-term assets:		
Loans receivable	64,549	78,399
Restricted investments	45,998	45,029
	110,547	123,428
Current assets:		
Cash	4,364,832	2,423,236
Restricted cash (note 6)	2,189,324	-
Accounts receivable (note 7)	10,428,260	9,877,861
Accrued revenue receivable	4,436,928	4,486,178
Inventories	2,245,077	2,495,711
Prepaid expenses	551,224	536,229
Harmonized sales tax recoverable	1,077,777	1,004,620
	25,293,422	20,823,835
Employee future benefits (note 8)	-	6,306,728
	$ 82,378,503	$ 84,297,127

Liabilities

	2013	2012
Current liabilities:		
Payable to New Brunswick Power	$ 11,462,985	$ 10,279,729
Accounts payable and accrued liabilities	2,157,969	2,457,345
Customer account deposits	1,004,724	952,132
Reduce and shift demand liability (note 6)	2,189,324	-
	16,815,002	13,689,206
Employee future benefits liability (note 8)	14,042,880	12,879,767
Capital reserve regulatory liability (note 2)	51,520,621	57,728,154
Commitment (note 10)		
	$ 82,378,503	$ 84,297,127

See accompanying notes to financial statements.

On behalf of the Board:

Shelley M. Rinehart Chairperson

Ray Robinson President & Chief Executive Officer

Statement of Operations

December 31, 2013, with comparative figures for 2012

	2013	2012
Electrical operations:		
Revenue	$ 101,398,702	$ 98,504,838
Energy purchased	86,171,639	83,485,357
Gross margin	15,227,063	15,019,481
Other revenue	501,285	579,032
Net revenue from electrical operations	15,728,348	15,598,513
Operating expenses	12,658,385	12,716,669
Earnings from electrical operations	3,069,963	2,881,844
Other revenue (expenses):		
Waterheater rental revenue	2,597,795	2,571,139
Waterheater expense	(1,349,206)	(1,525,829)
Rental income	1,072,536	933,284
Rental expense	(573,222)	(466,751)
Other non-electrical revenue	131,652	83,457
	1,879,555	1,595,300
Earnings before undernoted	4,949,518	4,477,144
Interest and taxes	1,104,224	1,117,188
Earnings from operations before estimated employee future benefits expense	3,845,294	3,359,956
Estimated employee future benefits expense (note 8)	3,746,099	3,490,268
Earnings (loss) before capital reserve regulatory liability	99,195	(130,312)
Capital reserve regulatory liability	(99,195)	130,312
	$ -	$ -

See accompanying notes to financial statements.

	2013	2012
Cash provided by (used in):		
Operations:		
Items not involving cash:		
Capital reserve regulatory liability	$ 99,195	$ (130,312)
Amortization of property, plant and equipment	4,049,023	4,152,192
Gain on disposal of property, plant and equipment	(63,724)	(16,364)
Estimated employee future benefit expense in excess of benefits paid	1,163,113	1,545,953
Increase in reduce and shift demand liability	2,189,324	-
	7,436,931	5,551,469
Change in non-cash operating working capital:		
Accounts receivable	(550,399)	(1,218,621)
Accrued revenue receivable	49,250	28,839
Inventories	250,634	(12,107)
Prepaid expenses	(14,995)	59,468
Harmonized sales tax recoverable	(73,157)	(5,992)
Payable to New Brunswick Power	1,183,256	161,382
Accounts payable and accrued liabilities	(299,376)	205,439
Customer account deposits	52,592	(176,096)
	597,805	(957,688)
Cash flows from operations	8,034,736	4,593,781
Investments:		
Loans repaid	13,850	129,579
Change in restricted investments	(969)	(3,763)
Proceeds from disposal of property, plant and equipment	64,552	16,364
Purchases of property, plant and equipment	(3,981,249)	(5,337,825)
Cash restricted for reduce and shift demand projects	(2,189,324)	-
Cash flows from investments	(6,093,140)	(5,195,645)
Increase (decrease) in cash	1,941,596	(601,864)
Cash, beginning of year	2,423,236	3,025,100
Cash, end of year	$ 4,364,832	$ 2,423,236

See accompanying notes to financial statements.

1. Nature of operations:

The Power Commission of the City of Saint John (the Commission) is the principal supplier of electrical energy to the residential, general, industrial and municipal sectors of the City of Saint John. The majority of the electrical energy is purchased from New Brunswick Power. The Commission operates under the name "Saint John Energy".

The Commission's operations are governed by By-Laws, the Electricity Act and the Municipalities Act. The By-Laws also set out the role of the Commission's Board of Commissioners. The duties of the Commissioners include approving the annual utility capital and operating budgets, approving all rates and charges, overseeing the conduct of the Commission's business to evaluate whether the business is being properly managed and to ensure awareness of and adherence to applicable legislation. Appointments to the Board of Commissioners are made by the City of Saint John. The Board of Commissioners acts in the best interests of ratepayers and its voting members are not employees of the Commission.

The Commission is exempt from income taxes, but it pays property and utility taxes based respectively on the value of the Commission's land and buildings and the net book value of its distribution assets.

Rate regulation

In establishing the rates that it charges its customers, the Commission must follow the economic regulatory framework set out in the Municipalities Act. The Municipalities Act requires the Commission to make such charges to the users of its services as to produce annually or quadrennially balanced budgets. Surpluses or deficits at the end of each budget period are required to be debited or credited to the second next ensuing year or spread over a four year period commencing on the second next ensuing year. The Municipalities Act also permits the Commission to establish, manage and contribute to an operating reserve fund and a capital reserve fund in accordance with set regulations. Pursuant to these principles, the Board of Commissioners, acting as rate regulator, approves the amount and timing of changes to customer service charges as well as the annual capital and operating budgets.

The Commission plans its operations to essentially result in an annual financial breakeven position after any appropriations to the operating and capital reserve funds. In accordance with the regulations, money held in an operating or capital reserve fund is used for no purpose other than the payment of expenses incurred by the Commission in the provision of service.

2. Financial statement effects of rate regulation:

Rate regulation affects the accounting for a transaction or event and results in the recognition of regulatory assets and regulatory liabilities. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, that are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to benefit the customers as a result of the rate-setting process.

	2013	2012
Capital reserve regulatory liability, beginning of year	$ 57,728,154	$ 57,858,466
Earnings (loss) before capital reserve regulatory liability	99,195	(130,312)
Employee future benefits asset write off on transition to shared risk pension plan (note 8a)	(6,306,728)	-
Capital reserve regulatory liability, end of year	$ 51,520,621	$ 57,728,154

When establishing rates to be charged to customers, the rate regulator, which is the Commission's Board of Commissioners, considers the operating and capital budgets for the respective period. Rates are set so as to achieve specific and full recovery of all the Commission's operating costs. For the specific benefit of all ratepayers, the Commission is also entitled by regulatory statutes to collect funds from customers in advance of actual costs being incurred (i.e. the capital reserve regulatory liability). The capital reserve regulatory liability is used for no purpose other than for future payment of expenses incurred by the Commission in the provision of service.

In the absence of rate regulation, the Commission's capital reserve regulatory liability would not be recognized. In 2013, $99,195 was recognized as an addition to the capital reserve regulatory liability by recording a corresponding credit to the statement of operations.

Other items affected by rate regulation

In setting rates, the Commission is permitted by its regulator to include in property, plant and equipment certain costs and charges that exceed amounts that would be allowed to be capitalized in similar circumstances in the absence of rate regulation. These costs are comprised of administration and general expenses and realized gains and losses on derecognition of items of property, plant and equipment. Such costs and charges are included in the rates that are charged to customers over the useful life of the Commission's distribution assets.

3. Significant accounting policies:

(a) Rate regulation:

The Commission operates under cost-of-service regulation as required by the statutes governing the charges for the services that it provides. The timing of recognition of certain assets, liabilities, revenues and expenses as a result of rate regulation may differ from that otherwise expected using generally accepted accounting principles for entities not subject to rate regulation. Details of the financial statement items affected by regulatory accounting are set out in note 2.

(b) Inventories:

Inventories of merchandise, construction and maintenance supplies, are measured at the lower of cost and net realizable value.

(c) Property, plant and equipment:

Property, plant and equipment are stated at cost, net of any recoveries. Amortization is provided using the straight-line method at the following annual rates:

Asset	Rate
Distribution system	3.33% and 4%
Distribution system rental equipment	3.33% and 4%
Administration building	2.5%
Furniture and office equipment	10% and 20%
Computer equipment and software	10% and 33.33%
Tools and equipment	10% and 20%
Vehicles	10% and 16.67%
Waterheaters	6.67% and 12.5%

(d) Revenue:

Revenue is recognized when service is delivered to the customer. Residential, General Service and Industrial customers are billed monthly on a cyclical basis. An estimate of electrical revenue from deliveries not yet billed at year end is accrued. Billings for all other goods and services are rendered when delivered to the customer. The customer's ability to pay is reasonably assured through a pre-qualification and deposit process.

3. Significant accounting policies (continued):

(e) Comprehensive income and financial instruments:

CICA Section 3855, *Financial Instruments – Recognition and Measurement* (Section 3855) establishes guidance for recognizing and measuring financial assets, financial liabilities and non-financial derivative instruments. All financial instruments must be classified into a defined category, namely, held-for-trading financial assets or financial liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. The standard requires that financial instruments be included on the Commission's balance sheet and measured at fair value, except for loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at cost or amortized cost. Gains and losses on held-for-trading financial assets and financial liabilities are recognized in net earnings in the period in which they arise. Unrealized gains and losses on available-for-sale financial assets are recognized in other comprehensive income until the financial asset is derecognized or impaired, at which time any unrealized gains or losses are recorded in net earnings. Transaction costs other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are amortized using the effective interest method.

As a result of Section 3855, the following classifications were adopted:

- Cash is classified as held-for-trading and is measured at fair value.
- Restricted investments are designated as held-to-maturity and are measured at cost.
- Accounts receivable, accrued revenue receivable, and loans receivable are designated as loans and receivables and are measured at amortized cost using the effective interest rate method, which correspond to the initial recorded fair value less scheduled principal repayments and reductions for impairment or doubtful accounts.
- Payable to New Brunswick Power, accounts payable and accrued liabilities, and customer account deposits are designated as other liabilities and are measured at amortized cost using the effective interest rate method, which corresponds to the initial recorded fair value less scheduled principal repayments.
- The fair value of cash, accounts receivable, accrued revenue receivable, bank indebtedness, payable to New Brunswick Power, and accounts payable and accrued liabilities approximate their carrying value because of the short term to maturity of these financial instruments.
- The fair value of the loans receivable approximates their carrying value.

3. Significant accounting policies (continued):

(e) Comprehensive income and financial instruments (continued):

- The value of the restricted investments as at December 31, 2013 was $45,998.

The Commission had no “other comprehensive income or loss” transactions during the period ended December 31, 2013 and no opening or closing balances for accumulated other comprehensive income or loss.

(f) Employee benefit plans:

The Commission has the following accounting policies with respect to these benefit plans:

Shared risk pension plan:

- Contributions made to the shared risk pension plan (SRP) will be charged to operations as an expense in the year they become due.

- On an annual basis, the Commission will confirm with the independent SRP board of trustees that for two consecutive years the plan obligation does not exceed the pension assets or the pension assets do not exceed the plan obligation requiring an increase or decrease in the contribution rate to a maximum of 2%. Any increase or decrease in contributions will be recorded in the period as they become due beginning in the period of the triggering event.

Other retirement benefits:

- The cost of the other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees, expected health care costs and insurance costs.

- When a restructuring of a benefit gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

- Past service costs from plan amendments are amortized on a straight-line basis over the estimated average remaining service period of employees active at the date of the amendment.

- The transitional liability related to the past service cost of the supplemental plans providing other retirement benefits and post employment benefits is amortized on a straight-line basis over the estimated remaining service periods of the employees that participate in these plans.

3. Significant accounting policies (continued):

(f) Employee benefit plans (continued):

Other retirement benefits (continued):

- Any excess of the net actuarial gain (loss) over 10% of the benefit obligation is amortized over the estimated average remaining service period of active employees. The estimated average remaining service period for employees eligible for other retirement benefits is specific to the employee group. The estimated average remaining service period of the active employees covered by the post employment benefits is 14 (2012 - 14) years.

(g) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The asset and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(h) Use of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

4. Future changes to financial reporting framework:

On February 13, 2008, the Canadian Accounting Standards Board (AcSB) confirmed the adoption of International Financial Reporting Standards (IFRS) for publicly accountable enterprises in Canada, effective for annual financial statements for fiscal years beginning on or after January 1, 2011. As IFRS did not contain a standard on rate-regulation, the AcSB decided on September 10, 2010 that qualifying entities with rate-regulated activities would be permitted to continue applying pre-changeover Canadian GAAP for an additional year. Further deferrals were issued in March 2012, September 2012 and February 2013, extending the transition date to January 1, 2013, 2014 and 2015, respectively.

In light of the recent decision of the IASB to proceed with the publication of an interim standard for first-time adopters of IFRSs that provides guidance on the accounting for rate-regulated activities until its comprehensive project is completed, the AcSB decided against further extending its deferral of the mandatory date for first-time adoption of IFRSs by rate-regulated entities. The deferral expires at the end of 2014.

Since the Commission is a qualifying entity for purposes of the IFRS deferral, the Commission has elected to take the deferral issued by the AcSB and continue to report under pre-changeover Canadian GAAP up to the financial year ending December 31, 2014.

The interim standard IFRS 14 Regulatory Deferral Accounts has been published on January 30, 2014 and permits an entity that adopts IFRS to continue to use, its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulated items. In 2014, the Commissioners approved the adoption of IFRS for the year beginning on January 1, 2015. Accordingly, the Commission's financial statements for 2015 are expected to be prepared in accordance with IFRS and applied to the Commission’s opening IFRS consolidated statement of financial position as at January 1, 2014.

The Commission has an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its financial statements. Although the impact of the adoption of IFRS on the Commission's financial position and results of operations is not yet reasonably determinable or estimable, the Commission does expect a significant increase in financial statement disclosure requirements resulting from the adoption of IFRS, and is reviewing the requirement to design the systems and related process changes, which may be required in order to provide the additional information to make these disclosures.

5. Property, plant and equipment:

			2013	2012
	Cost	Accumulated amortization	Net book value	Net book value
Distribution system	$ 66,199,454	$ 29,756,459	$ 36,442,995	$ 32,042,029
Distribution system rental equipment	2,695,461	1,132,147	1,563,314	1,566,474
Administration building	13,741,557	1,803,858	11,937,699	12,225,675
Furniture and office equipment	819,883	651,170	168,713	243,879
Computer equipment and software	3,541,073	3,311,331	229,742	286,332
Tools and equipment	935,122	649,453	285,669	304,202
Vehicles	3,530,487	2,645,267	885,220	1,177,499
Waterheaters	16,958,989	12,506,064	4,452,925	4,995,817
Distribution system under construction	1,008,257	-	1,008,257	4,201,229
	$109,430,283	$ 52,455,749	$ 56,974,534	$ 57,043,136

During the year, approximately $77,900 (2012 - $74,000) of amortization was capitalized.

Amortization expense on property, plant and equipment of $3,035,117 (2012 - $3,026,606) is included in operating expenses, $912,017 (2012 - $1,025,920) is included in waterheater expense and $101,889 (2012 - $99,666) is included in rental expense.

6. Restricted cash:

The restricted cash represents credits received from NB Power as part of the current supply agreement and are restricted from day to day use in operations of the Commission. The Commission, as per the supply agreement, is to invest these credits in a manner consistent with NB Power's Reduce and Shift Demand initiatives. The parties agree that such investments must be cost effective and mutually beneficial to the Commission and NB Power.

7. Accounts receivable:

	2013	2012
Customer accounts	$ 9,495,498	$ 8,772,114
Sundry	1,032,565	1,155,739
	10,528,063	9,927,853
Less allowance for doubtful accounts	(99,803)	(49,992)
	$ 10,428,260	$ 9,877,861

8. Employee future benefits:

(a) Conversion to shared risk pension plan

As of June 1, 2013, the Commission offers pension employment benefits under a Shared Risk Pension Plan (SRP). The shared risk pension plan was established under the New Brunswick Pension Benefits Act. The SRP required an independent board of trustees to be established which is responsible for the governance and financial reporting of the plan. Therefore, these financial statements do not report the funded status of the SRP or other disclosures for a sponsor defined benefit pension plan. Future annual actuarial reviews will be the responsibility of the independent pension plan board.

From January 1, 2013 through May 30, 2013, the Commission made payments totaling $1,529,995 to satisfy the pre-changeover funding requirements of the defined benefits pension plan. The amounts were included in the periods employee future benefits expense in the statement of operations. On conversion on June 1, 2013, the Commission wrote off the future benefit asset of $6,306,728 to the capital reserve liability.

The Commission and the members of the SRP agreed to the following terms to fund the SRP:

- Employees contribute 9% of pensionable earnings
- Employer contributes 9% of pensionable earnings
- Employer contributes an additional 8.5% of pensionable earnings on a temporary basis until May 31, 2028 (15 years remaining) or until SRP's assets exceed the pension obligation by 140%.

8. Employee future benefits (continued):

(b) Conversion to shared risk pension plan (continued)

Should, for two consecutive years, the SRP's obligation exceed the pension asset (pension asset exceeds the obligation) the employee and employer contribution rate may each increase (decrease) 2%. As the plan has not yet been in existence for two years, this 'triggering event' can occur at the earliest in 2015. This 2% increase (decrease) in contribution rate is the maximum change in contribution for the Commission, with respect to the SRP.

From June 1, 2013 through December 31, 2013, the Commission remitted payments of $697,069 to the SRP trustees. The employees contributed $358,282.

(c) The present value of accrued benefit and obligations of the other retirement, healthcare and insurance benefits were calculated in detailed actuarial reports on January 1, 2012. The next detailed actuarial report is scheduled to be prepared on January 1, 2015.

Accrued employee future benefit liability:

	2013	2012
Employee future benefits - liability		
Retirement allowance	$ 1,273,787	$ 1,162,907
Post-employment health care	577,654	639,212
Retiree life insurance	384,889	346,966
	2,236,330	2,149,085
Post-employment benefits - liability	11,806,550	10,730,682
	$ 14,042,880	$ 12,879,767

(d) Estimated employee future benefit expense:

	2013	2012
Pension plan	$ 1,529,995	$ 1,941,583
Retiring allowance	192,924	319,991
Post-employment benefits	1,326,111	1,228,694
Employer contributions to SRP	697,069	-
Estimated employee future benefit expense	$ 3,746,099	$ 3,490,268

8. Employee future benefits (continued):

(e) Other retirement, health care and insurance benefit liability:

	2013	2012
Retiring allowance, benefits and life insurance	$ 2,354,921	$ 2,675,762
Post-employment heath care	9,505,189	11,191,674
	$ 11,860,110	$ 13,867,436

(f) Significant actuarial assumptions:

	Supplemental plans	
	2013	2012
Discount rate	4.90%	3.81%
Expected long-term rate of return on plan assets	n/a	5.8%
Rate of compensation increase	3.5%	3.5%
Expected average remaining service life:		
Retiring allowance and other retirement benefits	17 years	17 years
Health care and life insurance benefits	14 years	14 years
Rate increase for health care benefits	5.0%	5.0%
Rate increase for retiree life insurance	2.5%	2.5%

For measurement purposes, a 5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2014 and will remain at that level thereafter. An increase of 2.5% per annum was assumed for the retiree life insurance.

(g) Other information about the Commission's other post employment benefits is as follows:

	Supplemental plans	
	2013	2012
Retirement allowance and other retirement benefits paid or payable	$ 81,641	$ 202,772
Employer contributions for health care and insurance benefits for retirees	237,714	201,864

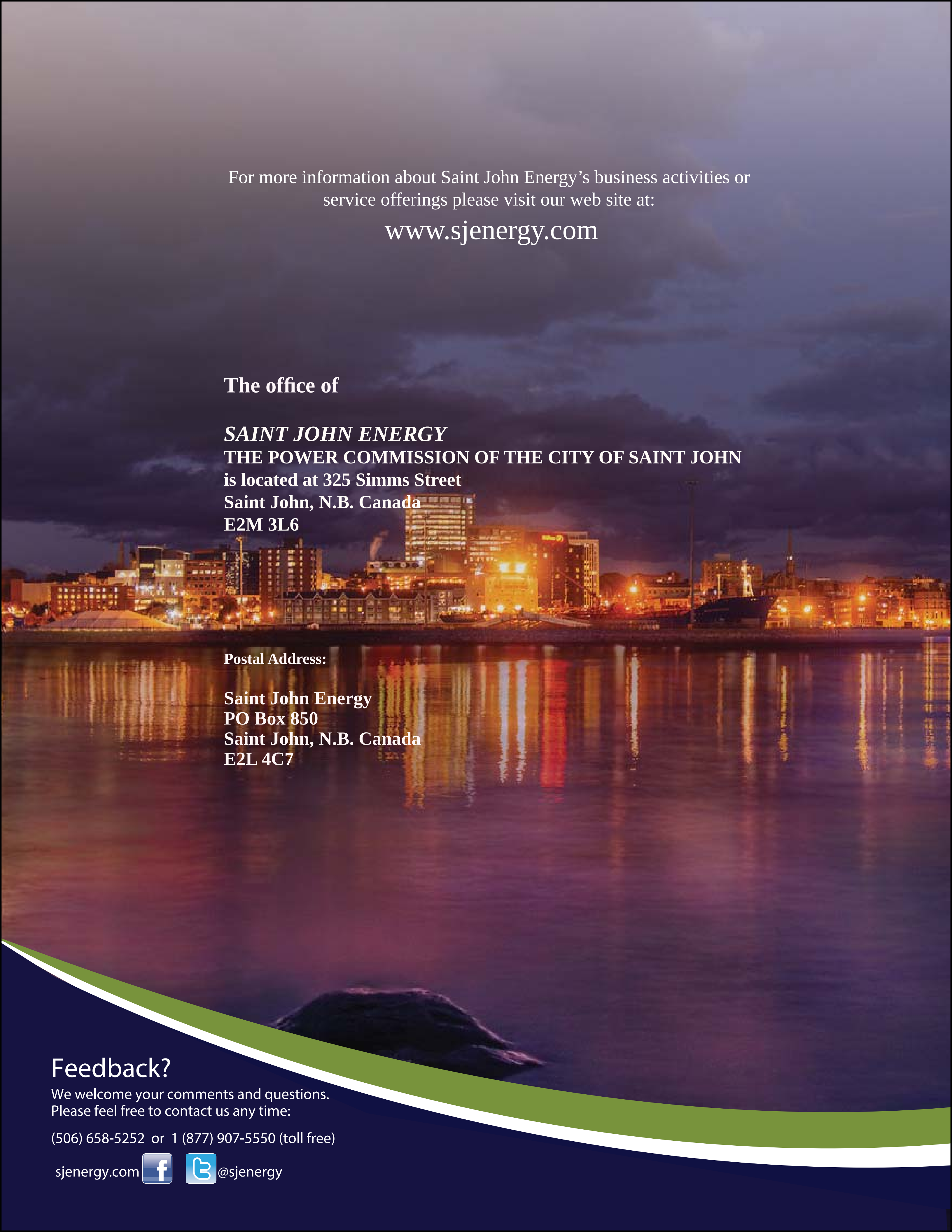
9. Financial instruments:

Credit risk:

The Commission is exposed to potential credit-related losses in the event of an inability to collect its accounts and loans receivable. In order to reduce this economic risk, the Commission has procedures in place to monitor collectibility which require an ongoing assessment and corrective action, if necessary.

10. Commitment:

The majority of electrical energy sold by the Commission to its customers is purchased from the New Brunswick Power under a supply agreement. During 2012, the supply agreement was amended to extend the term for a period of ten years to March 31, 2022. Thereafter, the agreement is extended from year to year unless either party provides 12 months written notice to the other party of its intention to terminate.



For more information about Saint John Energy's business activities or service offerings please visit our web site at:

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