

# Balancing Pool

## Annual Meeting

April 20, 2005

Calgary, Alberta



# Management Team

**Gary Reynolds**

**President and CEO**

**Gloria Fournier**

**Chief Financial Officer**

**Kevin Asman**

**Director, Commercial**

**Doug Heath**

**Director, Operations & Aggregator**

**Jeff Nish**

**Director, Commercial Contracts**

**Kim Verrier**

**Manager, Finance & Accounting**

**Jim Pasioka**

**Corporate Secretary**



# Meeting Agenda

- Overview of key activities in 2004
- Review of 2004 financial results
- Activities and outlook for 2005
- Closing remarks and questions



# Overview of Key Activities in 2004



# Sale of H.R. Milner Station

- In Jan/04, sale completed for total consideration of \$20.5 million
- \$5.3 million on closing and a further \$2.7 million received via upside sharing provision
- Total gain realized of \$17.4 million
- Milner Station now part of Maxim Power group

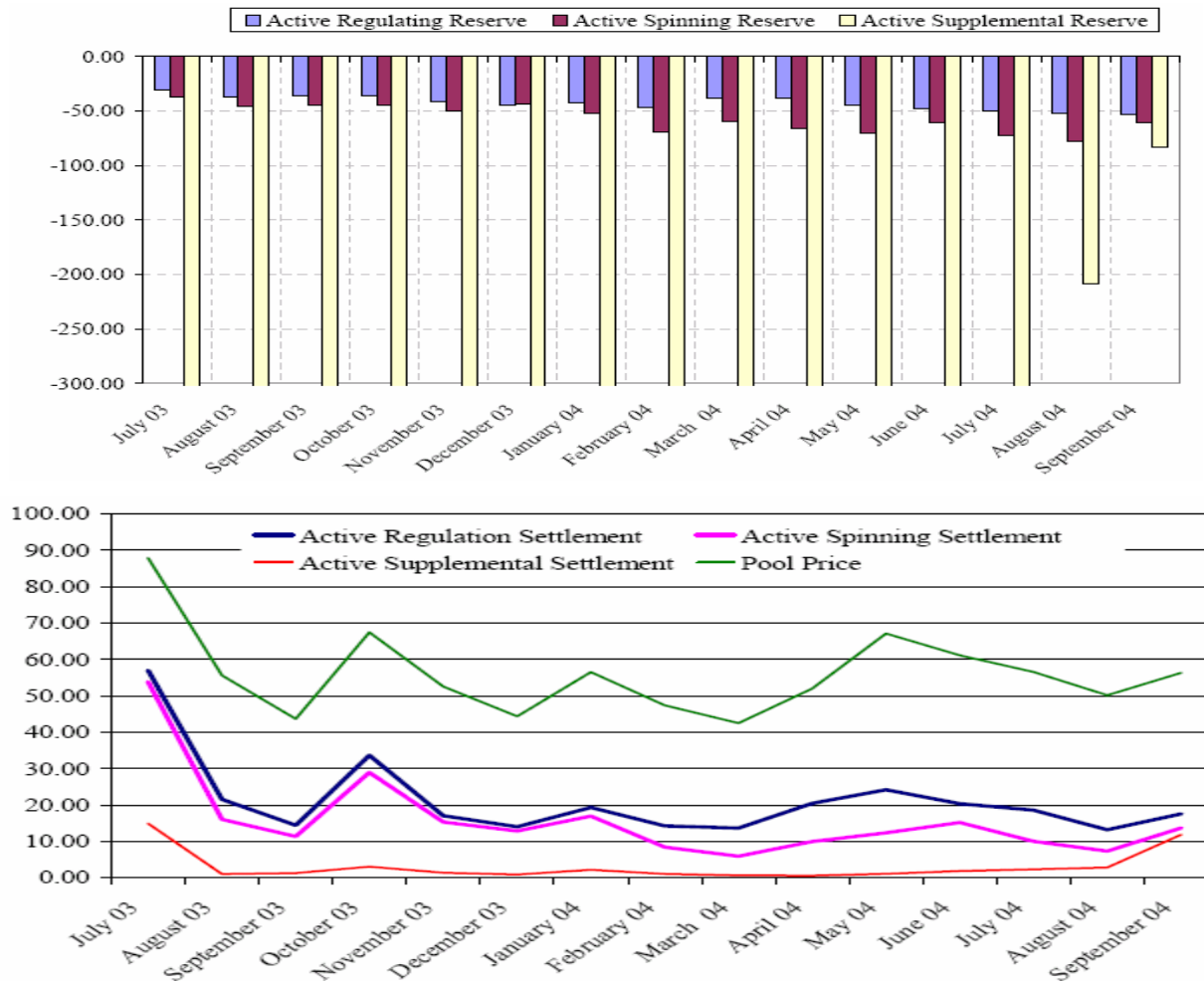


# Renegotiation of Hydro PPA

- In 2003, concern arose that certain terms of Hydro PPA ancillary services agreement resulted in lower value received
- In 2004, the MSA issued report outlining aberrations in market trading activity
- We took steps to renegotiate terms with TransAlta Utilities Corporation
- Revised terms were effective August 1, 2004 and resulted in positive change to the market



# Renegotiation of Hydro PPA



Charts source: Alberta MSA



# Managing Liabilities and Risks

- Battle River force majeure claims – the 2003 and 2004 claims from ATCO were resolved
- In 2004, other force majeure claims resolved at Sheerness and Genesee stations, with further claim at Sundance station still under review
- TransAlta's EUB filing re: Wabamun decommissioning for \$35 million top-up costs—we continue to work towards a negotiated settlement



# Industry Policy Reviews

During 2004, we have been active in a number of industry and government policy reviews:

- CASA emissions initiative: 1<sup>st</sup> phase complete
- Short-term Adequacy Review: completed
- Wholesale Market Review: in process
- AESO Credit Review: ongoing



# Review of 2004 Financial Results



# 2004 Metrics

## Market Prices:

	<u>2004</u>	<u>2003</u>
Average Pool price:	\$54.59	\$62.99
Market Heat rate:	8.8	9.9

## PPA Generation Volumes (in GWh):

	<u>2004</u>	<u>2003</u>	<u>Avg Capacity Factor</u>
Sheerness	6,013	6,044	91.0%
Genesee	6,279	6,209	93.5%
Clover Bar	163	130	3%
Hydro (fixed volume)	1,650	1,650	N/A



# Statement of Operations – Revenues and Funding

(in millions)	<u>2004</u>	<u>2003</u>
MAP II sales	\$492	\$456
Sale of electricity	-	116
PILOT	67	39
Hydro PPA	59	42
Investment Income	3	6
Total Revenues and funding	<u>\$621</u>	<u>\$659</u>



# Statement of Operations – Expenses

(in millions)

	<u>2004</u>	<u>2003</u>
Cost of sales	\$561	\$584
Amortization	59	59
Regulatory expenses	14	6
Other PPA charges	11	4
Other expenses	3	3
SPP contracts	1	4
Total Expenses	<u>\$649</u>	<u>\$660</u>



# Operating Results

(in millions)

	<u>2004</u>	<u>2003</u>
Revenues	\$621	\$659
Expenses	<u>(649)</u>	<u>(660)</u>
Operating loss	(28)	(1)
Other income (expense)	(53)	10
Discontinued operations	17	(1)
Net surplus (deficit) attributed to the deferral account	<u>(64)</u>	<u>8</u>



# Other Income & Expense

(in millions)

	<u>2004</u>	<u>2003</u>
Reclamation & abandonment	(\$12)	(\$1)
Revaluation SPP contracts	(11)	34
Revaluation of Hydro PPA	(30)	(29)
Other	-	6
Other income (expense)	<u>(53)</u>	<u>10</u>



# Balance Sheet - Assets

Total asset balance                      \$ 2 billion

Comprised mainly of:

Cash and investments                      \$ 41 million

Thermal PPAs                                \$ 920 million

Hydro PPA                                    \$ 644 million

Deferral account                            \$ 232 million

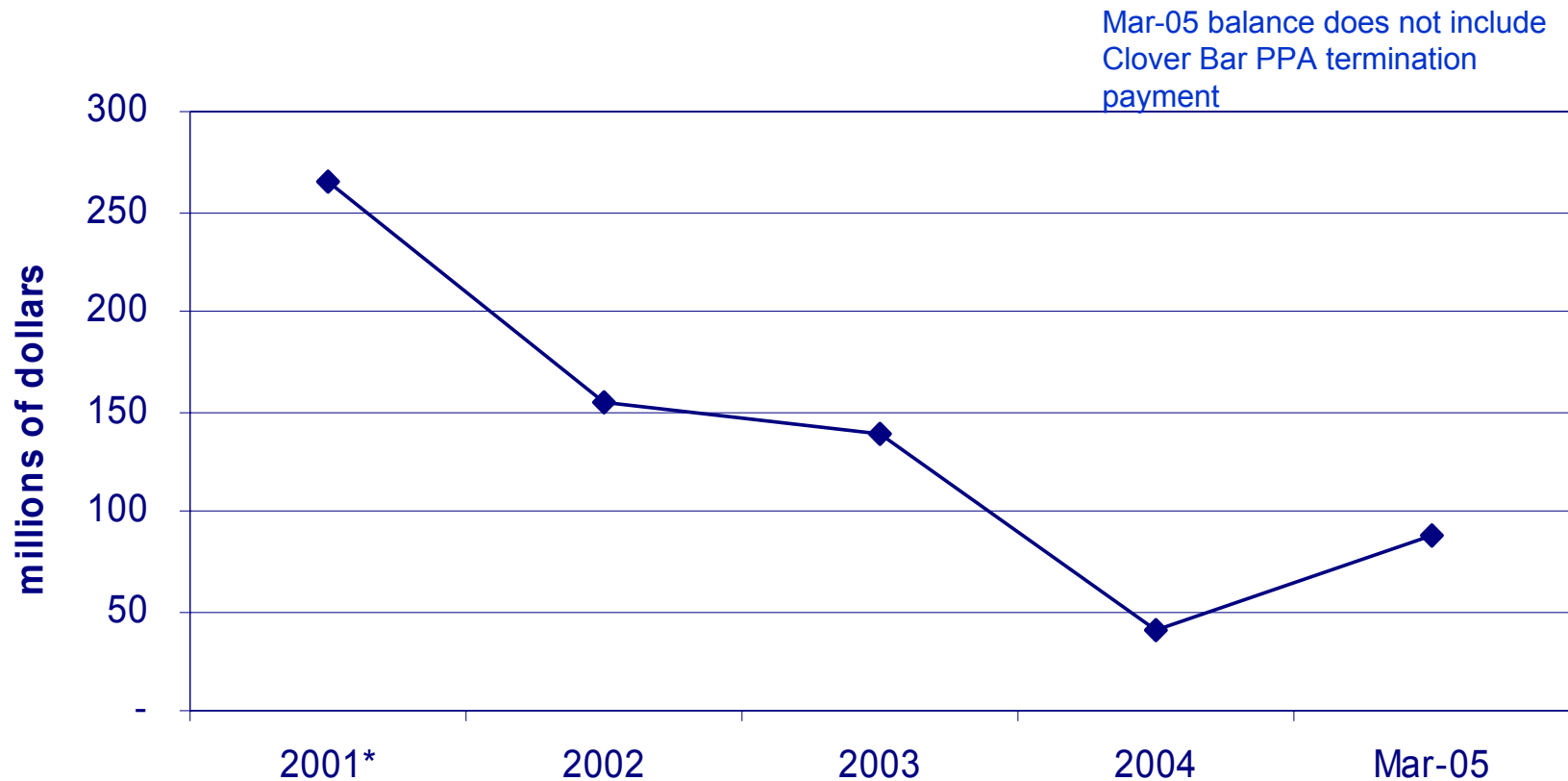


# Balance Sheet - Liabilities

- Major liability is the PPA future lease obligation of \$1.8 billion
- Under legislation, the Balancing Pool has responsibility for the following liabilities:
  - H.R Milner \$ 16 million
  - R & A for Isolated Generation \$ 18 million
  - Small power producer contracts \$ 44 million



# Liquidity Position



\*Ending cash balance in 2000 was \$1.2 billion which was mainly rebated to consumers in 2001.



# Financial Forecast

- A cash deficit is expected in Q3 of 2005, but expected to be short-term and will be funded by bank borrowing
- An unsecured credit facility in place to borrow \$50 million; an additional \$50 million will be put in place later in the year.
- Our expectation is to return to positive cash flow in 2006, depending upon Pool prices and value generated from assets under management



# Change in Credit Policy

- In March 2005, we revised maximum unsecured credit limits for rated companies:

(in millions)

<u>Credit Rating</u>	<u>Previous Credit Limits</u>	<u>Revised Maximum Credit Limits</u>
AAA	\$25	\$50
AA	\$20	\$40
A	\$15	\$25
BBB	\$10	\$20
BBB-	nil	\$10

- Will lower the cost of credit to most MAP buyers and have positive impact on MAP III sale process



# Update for 2005:

## Termination of Clover Bar PPA

## MAP III Sale Process



# Constraints of Clover Bar PPA

Clover Bar Station built in the 1970's with gas boiler technology

Various physical and PPA-related limitations including:

- High heat rate of 15 at minimum output to 11 at maximum output
- 10 hour lead time to start the units
- Maximum 20 cold starts per year
- Long ramp time (1 hour to full generation)



# Clover Bar PPA: Cost Structure

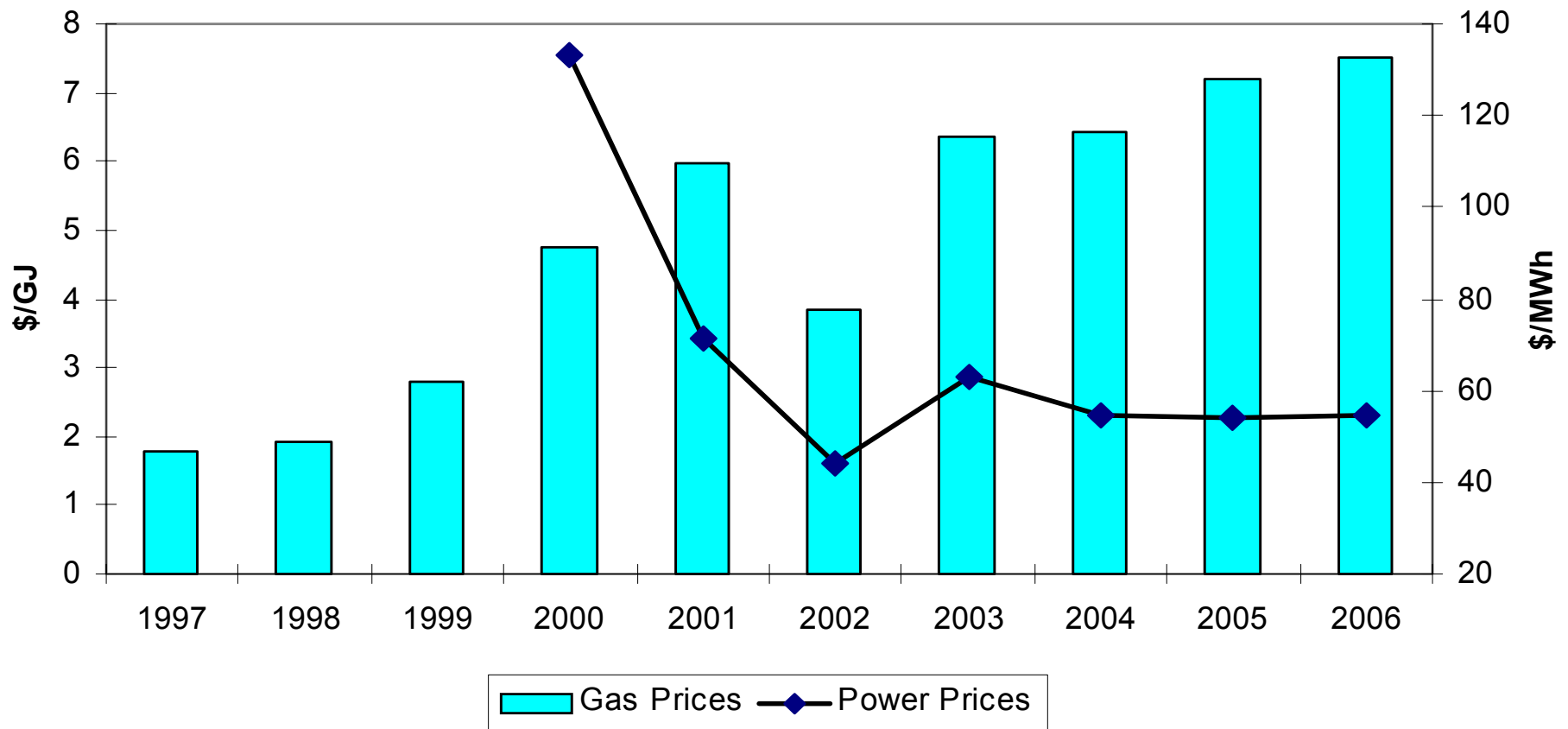
- **Variable costs @ \$6 GJ AECO Gas:**
  - \$100/MWh @ min'm load
  - \$75/MWh @ max'm load

Market heat rates need to be higher than 12 GJ/MWh just to cover the variable costs

Heat rates not expected to rise significantly enough to make the PPA economic over remaining term



## AECO Gas prices vs Alberta Power prices



# Clover Bar PPA Termination

- Unable to negotiate any changes that would decrease the costs and increase the value of PPA

PPA Fixed costs avoided:	\$262 million
Termination payment:	<u>\$ 82 million</u>
<b>Net cost savings:</b>	<b>\$180 million</b>



# Clover Bar PPA Termination

- Net cost savings of \$180 million is integral to our objective to minimize charges to consumers
- Consultations took place with consumer representatives and the Minister of Energy with an overwhelming majority supportive of decision to terminate
- On April 1<sup>st</sup>, 6 month's notice given to terminate PPA on October 1, 2005 which coincides with last maturity date of MAP II contracts



# Future of Clover Bar Station

- Upon PPA termination, the Clover Bar Station will return to EPCOR
- Options include running the station, repowering, decommissioning and/or potentially providing “reliability support”
- If decommission, EPCOR has until Sept 30<sup>th</sup>, 2006 to file for decommissioning for additional top-up costs



# Update of MAP III Sale Process



# Current MAP II Holdings

<u>Company</u>	<u>Clover Bar</u>	<u>Sheerness</u>	<u>Genesee</u>	<u>Total</u>
Constellation	157	100	300	557
UBS	157	278		435
El Paso	157	100		257
Direct Energy		100	100	200
Sempra	157			157
AltaGas			100	100
Seegen			100	100
TransCanada		100		100
Enmax			81	81
BP			81	81
Candela		78		78
<b>Total</b>	<b>628</b>	<b>756</b>	<b>762</b>	<b>2,146</b>

# Planning for MAP III

In March 2005, input re MAP III was received from market participants, with highlights as follows:

- Confirmed high level of interest from buyers
- Preference to continue with existing contract structure
- Contract sizes of 25 MW and up
- Contract terms ranging from 1 to 15 years
- Strong interest in having offer rights
- Divergent views on timing of sales i.e. one-time vs. multiple auctions in 2005/2006 vs. ongoing annual auctions
- Major concern is potential for market design changes that would impact the MAP contracts



# Planning for MAP III

Current MAP II contracts expire:

- **Sept. 30, 2005**                      **400 MW Sheerness**
- **Dec. 31, 2005**                      **356 MW Sheerness**
- **March 31, 2006**                      **762 MW Genesee**
  
- Flexibility in future maturity dates of MAP III contracts will minimize “lumpy” maturity schedule
  
- Also will allow participants to bid where they see the most value and optimize the value of the MAP sale process.



# MAP III Timeline

**April 2005**

Product design re term, contract size and PPA risk sharing.

**May 2005**

Information Memorandum distributed.  
Wholesale Market Policy finalized.

**June 2005**

Decision of “Plan A” or “Plan B”.  
Finalization of contract and sale process.



# MAP III “Plan A”

**July 2005:** Feedback on Sheerness contract

**Aug 2005:** Initial final bids due for Oct 1<sup>st</sup> close

**Sept 2005:** Final bids due for Oct 1<sup>st</sup> close

**Q4/05- Q1/06:** Sale of Sheerness MAP contracts

**Q2/06- Q3/06:** Sale of Genesee MAP contracts



# MAP III “Plan B”

- Need for “Plan B” if Wholesale Market Policy timeline is protracted and/or if implications of policy changes are not understood by market participants
- In this event, Balancing Pool will solicit bids only for short-term contracts to allow time for implications of market policy changes to be understood
- Decision will be made and communicated to market participants by end of June 2005



# MAP III Summary

- Demand for MAP III product will be high
- PPAs are “in the money” vis-à-vis market prices; reserve bids will be established and MAP contracts will be sold only if bids exceed reserve prices
- Will consider selling the entire PPAs if appropriate value can be realized
- We are receptive to discussions with prospective bidders that provide innovative ideas in maximizing the value of their bid



# In Closing

- We remain focused on operating in a commercial manner to enhance asset value and manage liabilities
- We will provide regular updates to stakeholders on the MAP III process and a mid-year report on our six month financial results
- Our thanks go to our stakeholders for your continued input and support

[www.balancingpool.ca](http://www.balancingpool.ca)



# 2005 Outlook....Marathons

- Gloria Fournier  
109<sup>th</sup> Boston Marathon  
Time - **3:51:47**
- Peter Flynn  
20<sup>th</sup> Big Sur Marathon  
Time - **TBD**



# 2005 Outlook....Baby Boom

Something in the water at Calgary Place?

Jared Layton: Baby girl on April 16<sup>th</sup>

Brian Wirvin: Expecting July/05

Tracy Coutts: Expecting Sept/05

Kevin Asman: Expecting Sept/05

.....Balancing Pool remains bullish on  
future load growth in Alberta!



Comments and Questions ?