



August 30, 2006

Message from the President and CEO

We are pleased to provide the Balancing Pool's 2006 mid-year report.

Operating income for the six months ended June 30, 2006 was \$62.4 million, compared to a \$4.4 million operating loss for the same period in 2005. This increase of \$66.8 million is attributable to the expiration of MAP II contracts, the termination of the Clover Bar Power Purchase Arrangement ("PPA") in the last quarter of 2005, and a higher average Pool price year-over-year.

We are obligated under the *Electric Utilities Act (2003)* to allocate any forecasted cash surplus to consumers on an annual basis to December 31, 2020. At the start of this year we initiated the allocation of \$1.00 per MWh to Alberta's electricity consumers which resulted in \$26.1 million being paid-out in the six month period ending June 30, 2006. Our cash balance at June 30, 2006 was \$603.9 million, which is a slight decrease from the 2005 year end balance of \$616.5 million. We expect to have strong cash flows for the balance of the year and we will be reviewing the appropriate level of the consumer allocation for 2007.

A major activity during the first quarter of 2006 was preparation for the Genesee PPA auction process. The timing of this auction process has been delayed pending completion of a regulatory review by the Alberta Department of Energy and will resume no earlier than November, 2006. Similar to the recent auction process for the Sheerness PPA, we will offer strip contracts of varying maturities and contract sizes, as well as sale of the entire PPA.

Other significant activities during the first six months of 2006 included successful participation in the regulated rate option ("RRO") auctions and the appointment of external investment managers for the funds received from the sale of the Sheerness PPA in December 2005. We also received a favourable decision in the arbitration of the dispute concerning the calculation of availability incentive payments under the Genesee PPA, which benefited the Genesee MAP II buyers.

I hope stakeholders find the information in this mid-year report valuable and would be pleased to respond to any questions or comments.



Gary Reynolds
President and Chief Executive Officer

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A"), dated August 30, 2006, should be read in conjunction with the unaudited interim financial statements of the Balancing Pool for the six months ended June 30, 2006 and 2005 and in conjunction with the audited financial statements and MD&A for the year ended December 31, 2005. The Audit and Finance Committee reviews the contents of the MD&A and recommends its approval to the Board.

The Balancing Pool's obligations and responsibilities are governed by the *Electric Utilities Act (2003)* (the "Act"). The Balancing Pool is directed to operate in a commercial manner to enhance asset values and manage liabilities.

Results at a Glance

Six months ended June 30 (thousands of dollars)
(unaudited)

	2006	2005
Revenues	212,585	274,436
Operating income (loss)	62,413	(4,384)
Net surplus attributed to the deferral account	35,834	99
<i>Other Information</i>		
Average Pool price per MWh	\$55.23	\$48.68
	June 30 2006	December 31 2005
Cash and cash equivalents	603,897	616,517
Ending deferral account balance	(631,279)	(595,445)
Total assets/liabilities	1,616,683	1,710,878

Revenues and funding

For the six months ended June 30, 2006, revenue from the sale of electricity under the Genesee PPA was \$85.6 million (2005 - \$31,000), representing sale proceeds of generation from the Genesee Power Purchase Arrangement ("PPA")

for the three month period from April 1, 2006 to June 30, 2006 following the expiry of the MAP II contracts on March 31, 2006. The sale of generating capacity revenue decreased by \$153.0 million from the same period in 2005 due to the sale of the Sheerness PPA in 2005 and expiration of the Genesee MAP II contracts in March 2006.

Funding from payments in lieu of tax ("PILOT") was \$22.5 million for the six months ended June 30, 2006 (2005 - \$32.5 million). PILOT funding is not determined by the Balancing Pool, as it is based solely on the income streams of ENMAX, EPCOR, and the City of Medicine Hat that are subject to the PILOT regulation. The decrease from the prior year is due mainly to a restructuring by EPCOR Utilities Inc. which resulted in EPCOR Generation Inc. no longer being subject to the PILOT regulation.

Hydro PPA revenue of \$26.1 million for the six months ended June 30, 2006 (2005 - \$20.3 million) represents accretion of the value of the Hydro PPA asset (as per Canadian Institute of Chartered Accountants ("CICA") guidelines), settled hedging gains and losses, and the difference between the actual Pool price and the Pool price used to value the Hydro PPA asset at the beginning of the year.

For the six months ended June 30, 2006, investment income was \$12.3 million (2005 - \$2.5 million). The increase in investment income is a result of the Balancing Pool having significantly higher cash balances following the sale of the Sheerness PPA.

Expenses

Cost of sales of \$132.3 million for the six months ended June 30, 2006 (2005 - \$241.5 million) is comprised of fixed and variable operating costs payable under the Genesee PPA and transmission charges. The decrease in cost of sales from 2005 is a result of the sale of the Sheerness PPA and termination of the Clover Bar PPA in 2005.

Amortization and depreciation decreased by \$19.3 million from the prior year due to the sale of the Sheerness PPA on December 31, 2005.

The Balancing Pool is obligated to make certain payments directed by the Minister of Energy. For the six months ended June 30, 2006, \$2.5 million (2005 - \$1.8 million) has been accrued for, but not yet paid to, the Office of the Utilities Consumer Advocate.

Under the Act, the Balancing Pool is required to make monthly payments to TransAlta, the utility that administers the small power producer contract payments, for the amount by which Pool price falls below contracted amounts for

small power producers. Small power producer contract expense of \$3.8 million for the six months ended June 30, 2006 (2005 - \$2.1 million) represents accretion of the value of the liability (as per CICA guidelines) and the difference between the actual Pool price and the Pool price used to value the liability at the beginning of the year. For the six months ended June 30, 2006, the Balancing Pool paid \$3.5 million (2005 - \$4.3 million) to small power producers.

Operating Income

Operating income for the six months ended June 30, 2006 was \$62.4 million, compared to a loss of \$4.4 million in the same period in 2005. This increase in income is mainly due to the expiration of the MAP II contracts, termination of the Clover Bar PPA in the last quarter of 2005, and an increase of \$6.55 per MWh in the average Pool price year-over-year.

Other Income and Expense

Effective January 1, 2006, the Balancing Pool initiated the allocation of a cash surplus to Alberta's electricity consumers in the amount of \$1.00 per MWh of consumption. To date, the Balancing Pool has made consumer allocation payments of \$26.1 million (2005 – nil). The Balancing Pool is obligated under the Act to allocate any forecasted cash surplus to consumers on an annual basis to December 31, 2020.

The reclamation and abandonment provision for the H.R. Milner plant is increasing by \$1.0 million per year and hence the reclamation and abandonment expense of \$0.5 million reflects six months of the annual provision. For the six months ended June 30, 2006, the Balancing Pool paid \$3.1 million (2005 - \$4,000) for actual reclamation costs incurred for the isolated generation sites.

Cash and Cash Equivalents

At June 30, 2006, the cash and cash equivalents balance was \$603.9 million compared to \$616.5 million at December 31, 2005. This decrease is mainly due to cash payments for the consumer allocation and repayment of short-term debt.

Outlook

Based on power price forecasts for the second half of 2006, strong cash flows are expected for the balance of the year which could result in an increase in our year-end cash position. We will be reviewing the amount of the consumer allocation for 2007 and communicating the decision to stakeholders before the end of this year.

The timing of the auction process for the Genesee PPA capacity will follow the finalization of the Department of Energy's regulatory review process. Based on our current assessment of timelines in this regard, the auction process will resume no earlier than November 2006. In the same fashion as the recent auction process for the Sheerness PPA, the Genesee auction process will offer strip contracts of differing sizes and maturities, as well as the sale of the entire PPA.

The Wabamun Negotiated Settlement Agreement ("NSA") related to the decommissioning of Wabamun Units 1, 2, and 3, was signed with TransAlta Utilities Corporation ("TransAlta") and filed with the Alberta Energy and Utilities Board on August 9, 2006. The NSA specifies the decommissioning cost categories for which the Balancing Pool and TransAlta respectively will be responsible. The Balancing Pool will actively manage the Wabamun decommissioning NSA to ensure that decommissioning costs are reasonable and in compliance with the agreement. The targeted completion date of the project is June, 2009.

Forward-Looking Information

Certain information in this MD&A is forward-looking information and related to, among other things, anticipated financial performance, operational prospects and strategies. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "target" or similar words suggesting future outcomes. By their nature, such statements are subject to various risks and uncertainties that could cause the Balancing Pool's actual results and experience to differ materially from the anticipated results. Such risks and uncertainties include, but are not limited to: availability and price of energy commodities; regulatory decisions; the ability of the Balancing Pool to successfully implement the initiatives referred to in this MD&A; and electricity market factors (such as cost of transmission).

Balancing Pool

Balance Sheets

(in thousands of dollars)

	As at June 30, 2006 (unaudited)	As at December 31 2005 (audited)
Assets		
Current assets		
Cash and cash equivalents	603,897	616,517
Accounts receivable and prepaid expenses	76,001	133,343
Current portion of Hydro power purchase arrangement	70,522	68,000
	<u>750,420</u>	<u>817,860</u>
Long-term receivable	4,130	6,630
Property, plant and equipment	285,436	295,302
Deferred charges	(11)	354
Hydro power purchase arrangement	576,708	590,732
	<u>1,616,683</u>	<u>1,710,878</u>
Liabilities		
Current liabilities		
Short-term debt	-	42,984
Accounts payable and accrued liabilities	47,118	104,947
Current portion of power purchase arrangement lease obligation	54,345	53,855
Current portion of reclamation and abandonment provision	24,770	17,600
Current portion of small power producer contracts	3,770	1,100
	<u>130,003</u>	<u>220,486</u>
Power purchase arrangement lease obligation	810,912	838,329
Reclamation and abandonment provision	17,610	27,418
Small power producer contracts	26,879	29,200
Balancing Pool deferral account	631,279	595,445
	<u>1,616,683</u>	<u>1,710,878</u>
Equity	<u>-</u>	<u>-</u>
Contingencies and commitments	<u>1,616,683</u>	<u>1,710,878</u>

Balancing Pool

Statements of Operations and Balancing Pool Deferral Account

For the six months ended June 30 (in thousands of dollars)
(unaudited)

	2006	2005
Revenues and funding		
Sale of electricity	85,589	31
Sale of generating capacity	66,111	219,130
Payments in lieu of tax	22,517	32,475
Hydro power purchase arrangement	26,101	20,254
Investment income	12,267	2,546
	<u>212,585</u>	<u>274,436</u>
Expenses		
Cost of sales	132,314	241,470
Other power purchase arrangement charges	52	2,203
Amortization and depreciation	10,220	29,485
General and administrative	1,235	1,827
Office of the Utilities Consumer Advocate	2,514	1,781
Small power producer contracts	3,837	2,054
	<u>150,172</u>	<u>278,820</u>
Operating income (loss)	62,413	(4,384)
Other income (expense)		
Consumer allocation	(26,104)	-
Reclamation and abandonment	(500)	(19,578)
Other	25	24,061
	<u>(26,579)</u>	<u>4,483</u>
Net surplus attributed to the deferral account	35,834	99
Balancing Pool deferral account, beginning of period	<u>(595,445)</u>	<u>232,545</u>
Balancing Pool deferral account, end of period	<u>(631,279)</u>	<u>232,446</u>

Balancing Pool

Statements of Cash Flows

For the six months ended June 30 (in thousands of dollars)
(unaudited)

	2006	2005
Operating activities		
Net surplus attributed to the deferral account	35,834	99
Items not affecting cash		
Amortization and depreciation	10,220	29,485
Reclamation and abandonment provision	500	19,578
Increase in Hydro power purchase arrangement	(26,101)	(19,993)
Increase in small power producer contracts	3,837	2,050
Reclamation and abandonment expenditures	(3,138)	(4)
Net change in non-cash working capital	2,013	39,394
	<u>23,165</u>	<u>70,609</u>
Investing activities		
Deferred charges	11	(100)
Additions to property, plant and equipment	-	(12)
	<u>11</u>	<u>(112)</u>
Financing activities		
Net Hydro power purchase arrangement receipts	37,603	10,445
Power purchase arrangement lease obligation	(26,927)	(56,581)
Short-term debt	(42,984)	-
Small power producer contracts payments	(3,488)	(4,286)
	<u>(35,796)</u>	<u>(50,422)</u>
Increase (decrease) in cash and cash equivalents	(12,620)	20,075
Cash and cash equivalents, beginning of period	<u>616,517</u>	<u>41,226</u>
Cash and cash equivalents, end of period	<u>603,897</u>	<u>61,301</u>