

GENERATING VALUE FOR ALBERTA'S CONSUMERS



balancingpool

2007 Annual Report

THE BALANCING POOL

The Balancing Pool was established in 1998 by the Government of Alberta to help manage the transition to competition in Alberta's electric industry. Our current obligations and responsibilities are governed by the *Electric Utilities Act* (effective June 1, 2003) and the *Balancing Pool Regulation*.

GENERATING VALUE FOR ALBERTA'S CONSUMERS

Our legislated duties include:

- To manage generation assets in a commercial manner, specifically any Power Purchase Arrangements (PPAs) held by the Balancing Pool that include the right to exchange electric energy and ancillary services, and any arrangements or agreements derived from these assets;
- To hold the Hydro PPA and manage associated payments;
- To forecast revenues and expenses (incorporating estimates of Pool price volatility and potential expenses related to risk backstop activities) and allocate the forecast surplus or deficiency as evenly as possible through a Consumer Allocation or charge to December 31, 2020;
- To participate in appropriate regulatory, dispute resolution and other proceedings and processes to protect the interests of the Balancing Pool and the value of its assets; and
- To manage risks prudently in all aspects of its operations.

PPAs are one of the mechanisms used by the Government of Alberta to introduce competition into the supply of thermal electric power from regulated generating units. The PPAs were auctioned in 2000 and provide buyers with the rights to formerly regulated generating capacity. The Balancing Pool assumed the unsold Sheerness, Genesee and Clover Bar PPAs. Through a number of contracts that covered periods to 2006, the Balancing Pool transferred electricity capacity and ancillary services associated with these generation assets into the hands of market participants.

The Balancing Pool may sell the Genesee PPA when market conditions are such that a competitive sale will result in the Balancing Pool receiving fair market value, or may terminate a PPA when it proves to be uneconomical. In 2005 the Balancing Pool sold the Sheerness PPA to TransCanada Energy Ltd. and terminated the uneconomical Clover Bar PPA.

Balancing Pool operations are scheduled to wind-up June 30, 2021.

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STAKEHOLDER RECEPTION

Thursday, May 22, 2008
4:00 p.m. to 7:00 p.m.

Centini Restaurant
160 – 8th Avenue S.E.
Calgary, Alberta

MESSAGE TO STAKEHOLDERS FROM THE BOARD CHAIR

Balancing Pool assets continued to generate strong cash flows through 2007. As a result, more than \$250 million will be distributed to Alberta's electricity consumers in 2008.

The Consumer Allocation has grown consistently during the last three years: \$1 per megawatt hour in 2006, \$3 in 2007, and \$5 in 2008. Over this three-year period, more than \$450 million will be distributed to residential, commercial and industrial consumers. The annual Consumer Allocation builds on the \$2 billion paid out in 2001 by the Balancing Pool for the Alberta Government's Consumer Electricity Rebate Program.

There have been no consumer charges since the Balancing Pool assumed its regulated mandate in 1998. Power Purchase Arrangement (PPA) auction proceeds, revenues from sales of assets and contracts for energy capacity and ancillary services, and a prudent investment strategy have all contributed to our surplus cash position. We anticipate Alberta's consumers will continue to benefit from positive allocations into the future.

The Balancing Pool also provides value to Albertans by funding and overseeing a number of reclamation and decommissioning activities throughout the province, as well as meeting environmental obligations related to our management of the Genesee PPA.

The Balancing Pool estimates that more than \$110 million in reclamation and abandonment costs will be required to decommission certain units at the Wabamun generating plant and the H.R. Milner station, and for the reclamation of more than 100 Isolated Generation sites in all parts of Alberta.

Our environmental obligations related to the Genesee PPA have included funding for certain costs related to the installation of new technology to reduce mercury emissions. As Genesee PPA buyer, we have also estimated expenditures of more than \$120 million during the next 12 years to meet new provincial greenhouse gas reduction regulations that became effective in July 2007.

The Balancing Pool's Board members, management team and staff effectively manage and meet a wide range of obligations on behalf of Alberta's electricity consumers. We continue to work constructively with the Minister of Energy, government officials and stakeholders to this end. On behalf of the Board, I extend our thanks to these individuals and teams who continue to help us generate value for Alberta's consumers.



Thomas Cumming
Chair



Thomas Cumming

"Over the period 2006 to 2008 more than \$450 million will be distributed to residential, commercial and industrial electricity consumers."

GOVERNANCE OF THE BALANCING POOL

Adhering to the *Electric Utilities Act* (2003), the Minister of Energy must appoint as members of the Balancing Pool not more than nine individuals who are independent of any person who has a material interest in the Alberta electric industry. Members are appointed by the Minister on the basis of their cumulative expertise in order to enhance the performance of the Balancing Pool in exercising its powers and carrying out its duties, responsibilities and functions. The term of office of a member is three years; a member is eligible to be appointed for a maximum of three terms of office.



Thomas Cumming, Chair, was previously a member of the Power Pool Council, and served as the Market Surveillance Administrator from 2000 to 2003. Tom is also a Director of Pengrowth Corporation and the Canadian Investor Protection Fund. From 1988 to 2000, he was the President and CEO of the Alberta Stock Exchange. Prior to that, he spent 24 years with the Bank of Nova Scotia in Canada, Ireland and England. Tom has a Bachelor of Applied Science degree in Engineering and Business and has been designated a life member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta.



Gordon Ulrich, Vice-Chair, has a strong background in the coal and energy industries, with a 23-year career with Luscar Ltd. that included positions in finance, strategic planning, and as President for 10 years. He was also Director and Chairman of Encal Energy Ltd., an intermediate oil and gas producer. Gordon has a Bachelor of Applied Science in geological engineering and a Masters in Business Administration. He is a Professional Engineer (retired), registered in the provinces of Alberta and British Columbia. Gordon has been very active in community and industry affairs both locally and internationally. He currently serves on the boards of a number of Canadian resource companies.



Peter Flynn holds the Poole Chair in Management for Engineers in the Department of Mechanical Engineering at the University of Alberta. Peter's experience includes senior executive positions in leading telecommunications, energy and industrial management companies. He also has served as Director on several corporate and community boards, including the Board of EPCOR Utilities Inc. for 10 years. Peter holds a Ph.D. in Chemical Engineering from the University of Alberta.



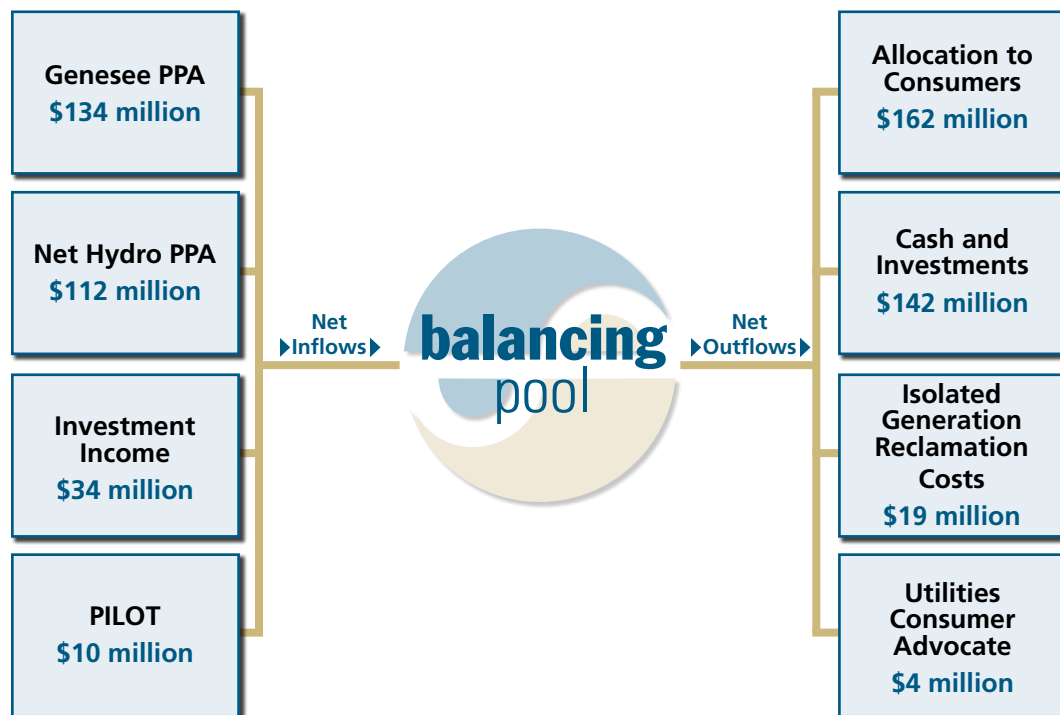
Stella Thompson is a co-founder and principal of Governance West Inc., a company specializing in assisting boards of directors in the governance of their organizations. She was involved in the deregulation of energy commodities from the early days as a Vice-President at Petro-Canada and has extensive experience in many aspects of the oil and gas and electricity industries. Stella has wide-ranging board experience and currently serves on the Boards of Atomic Energy of Canada Ltd., Calgary Airport Authority, Genome Alberta, Reservlogix Corp., and Talisman Energy Inc. She previously served on the Board of ENMAX Corporation for five years. She has a Masters degree in Economics and has been awarded the designation of ICD.D by the Institute of Corporate Directors.

The Balancing Pool's Audit and Finance Committee is chaired by Dr. Flynn, and the Governance and Human Resources Committee is chaired by Ms. Thompson.

REPORT FROM THE PRESIDENT AND CEO

At the end of 2007, the Balancing Pool had revenues of some \$538 million and managed more than \$2.3 billion in assets on behalf of Alberta's electricity consumers.

The chart below provides a snapshot of the Balancing Pool's primary sources of cash flow during 2007, as well as our primary expenditures.



Gary Reynolds

"Both the Genesee and Hydro PPAs continued to generate strong cash flows of \$134 million and \$112 million respectively during 2007 and we forecast this to continue in 2008."

Contribution of Power Purchase Arrangements to Cash Flow

The Balancing Pool continues to hold and manage 762 megawatts (MW) of electricity capacity and ancillary services related to the Genesee Power Purchase Arrangement (PPA). We are also the counterparty to the Hydro PPA which provides the Balancing Pool with cash flows from 1,650 gigawatt hours per annum from the output of 13 hydroelectric plants.

As we reported last year, we had been considering an auction process for the Genesee PPA which was postponed in 2006. Reactivation of the Genesee capacity auction process hinges on:

- the completion of the wholesale power market review by the Alberta Department of Energy and implementation of any resulting market modifications;
- consideration of any implications from currently pending federal greenhouse gas legislation; and
- assessment of market conditions such that a competitive sale will result in the Balancing Pool receiving a fair market value for this asset.

“The investment strategy, reviewed on a regular basis by the Board, is proving to be effective in meeting our objectives of attaining a fair return for Alberta’s consumers for the long term.”

We will continue to keep stakeholders advised of this matter and any proposed plans for the Genesee PPA by the Balancing Pool.

In the interim, the Genesee PPA capacity continues to be sold into the spot market, and ancillary services are being sold through a competitive exchange and to the Alberta Electric System Operator. For the second year, the Balancing Pool continued as a successful participant in the Regulated Rate Option (RRO) auctions where Alberta retailers source a portion of their energy capacity for RRO customers. These auctions continue to offer the Balancing Pool an avenue to manage our price exposure with respect to the Genesee and Hydro PPAs.

Both the Genesee and Hydro PPAs continued to generate strong cash flows of \$134 million and \$112 million respectively during 2007 and we forecast this to continue in 2008.

Strategy related to Investment Portfolio

During 2007, the Balancing Pool continued to refine the long-term investment strategy originally approved in 2006 to manage the funds arising from the sale of the Sheerness PPA and continuing positive cash inflows from operations. At year-end, the total funding of the investment portfolio was \$799 million. Additional external Investment Managers were appointed during 2007 and performance of all external Investment Managers is reviewed on a regular basis. One Investment Manager’s appointment was terminated in late 2007.

The investment strategy is based on prudent investment standards and generally focuses on achievement of a fair return on investments with diversification of the portfolio to reduce risk. The strategy, reviewed on a regular basis by the Board, is proving to be effective in meeting our objectives of attaining a fair return for Alberta’s consumers for the long term. The asset mix allocation within the investment portfolio is as follows:

	Asset Mix	Funding at Year-End
Fixed Income	35-45%	\$255 million
Canadian Equities	25-35%	\$254 million
Non-Canadian Equities	20-40%	\$289 million

During 2007, investment income increased to total \$33.9 million, which is comprised of interest income, dividend income and realized capital gains.

Significant Increase in Consumer Allocation

As noted in our Board Chair’s message, the Balancing Pool’s strong cash flows enabled us to progressively increase the Consumer Allocation over the last three years. In 2007, operating income of \$253 million provided the cash flow from which the \$161 million Consumer Allocation was paid. A \$250 million Allocation will be paid to consumers in 2008. The Allocation is based on \$5 per MW hour of consumption, with approximately 80 per cent going to commercial and industrial electricity consumers, and the remainder to the residential sector.

Our legislated requirement under the *Electric Utilities Act (2003)* is to allocate any forecasted cash surplus to consumers on an annual basis to December 31, 2020. The forecast is determined by current power prices, future price expectations, decommissioning costs and potential costs associated with PPAs.

Decommissioning, Reclamation and Environmental Costs

Our Chair's message has pointed out the monetary obligations the Balancing Pool has related to certain reclamation and abandonment costs associated with PPAs and Isolated Generation units.

Under the terms of the Wabamun Negotiated Settlement Agreement (NSA), the Balancing Pool is actively involved in the decommissioning of Wabamun plant Units 1, 2 and 3 to ensure costs are reasonable and in compliance with the NSA. Decommissioning of the Wabamun units got underway in 2007; the Balancing Pool's obligation to participate in the decommissioning is expected to be completed by June 2009.

In 2007, the Balancing Pool directed more than \$19 million to ongoing reclamation costs for former Isolated Generation sites in Alberta. The Balancing Pool is expected to pay a total of more than \$29 million to complete the remediation of 103 locations. ATCO Electric is managing the remediation project that involves the sites of former diesel-fired generation plants throughout the province.

The Balancing Pool as Genesee PPA buyer is responsible for certain costs that require Alberta facilities that emit more than 100,000 tonnes of greenhouse gases a year to reduce emissions intensity by 12 per cent. Beginning in July 2007, we began to make payments of more than \$10 million annually which will continue over the remaining 12-year Genesee PPA term to meet the requirements of the new provincial regulations. Reductions can be met through improvements to operations, by purchasing Alberta-based credits or by contributing to the Climate Change and Emissions Management Fund.

Also in 2007, we continued to fulfill our mandated responsibilities in assessing and resolving claims of force majeure from PPAs. During the year, force majeure claims from the Sheerness and Battle River PPAs were satisfactorily resolved with payments made during the year totalling less than \$1 million.

Closing

My thanks go to our Board members and to our management and staff for the focus, commitment and hard work that have helped us fulfill our responsibilities in 2007. We look forward the continued input from stakeholders and to fulfilling the Balancing Pool mandate and priorities in 2008.



Gary Reynolds
President and Chief Executive Officer

ROLE OF THE BALANCING POOL IN ALBERTA'S COMPETITIVE ELECTRIC INDUSTRY

To manage generation assets in a commercial manner, specifically any Power Purchase Arrangements (PPAs) held by the Balancing Pool that include the right to exchange electric energy and ancillary services, and any arrangements or agreements derived from these assets.

- In January 2001, the Balancing Pool assumed responsibility for unsold PPAs associated with the Sheerness, Genesee, and Clover Bar plants involving 2,146 megawatts (MW) of generation capacity.
- In preparation for assuming the unsold PPAs and related generation capacity, the Balancing Pool offered Market Achievement Plan (MAP) I products in December 2000. More than 2,800 MW of cumulative forward electricity contracts, primarily for 2001 with lesser quantities for 2002 and 2003, were sold to 45 marketers, retailers and end-use consumers.
- The H.R. Milner PPA was terminated in 2001 and the Balancing Pool assumed commercial operation of the station under the terms of a negotiated settlement. This station was sold in January 2004 recognizing a gain of \$17.4 million.
- In 2002 and 2003, MAP II contracts transferred more than 2,100 MW of electricity capacity and ancillary services to 10 market participants.
- October 1, 2005, the Balancing Pool terminated the 628-MW Clover Bar PPA with an \$83-million cash termination payment to EPCOR Generation Inc., the owner of the generating facility.
- December 31, 2005, the Balancing Pool sold the Sheerness PPA to TransCanada Energy Ltd. for a cash payment of \$585 million.
- The Balancing Pool continues to hold and manage 762 MW of electricity capacity and ancillary services related to the Genesee PPA.

To hold the Hydro PPA and manage associated payments.

- The Balancing Pool is counterparty to the Hydro PPA, covering the output of 13 hydroelectric plants that play a role in maintaining electric system reliability.
- Through this PPA, the Balancing Pool receives from or pays to TransAlta Utilities Corporation (TransAlta) net revenue based on notional energy and ancillary services quantities.
- In August 2004, the Balancing Pool concluded a re-negotiation with TransAlta of certain terms related to the Hydro PPA.

To forecast revenues and expenses (incorporating estimates of Pool price volatility and potential expenses related to risk backstop activities) and allocate the forecast surplus or deficiency as evenly as possible through a Consumer Allocation or charge to December 31, 2020.

- PPAs were auctioned in August 2000 with five successful bidders assuming rights to 4,249 MW of generation capacity from formerly regulated units. Auction proceeds of \$1.1 billion were paid into the Balancing Pool account.
- The Alberta Government's 2001 Consumer Electricity Rebate Program, administered by the Balancing Pool, paid out \$2 billion from PPA auction proceeds and MAP I revenue.
- January 1, 2006, the Balancing Pool allocated surplus cash resulting from the sale of the Sheerness PPA to Alberta's electricity consumers in the amount of \$1 per MWh of consumption, or over \$50 million per annum.
- January 1, 2007, the Balancing Pool increases the allocation to Alberta's electricity consumers to \$3 per MWh of consumption, or over \$150 million per annum.
- The consumer allocation as of January 1, 2008 is increased to \$5 per MWh of consumption or \$250 million. A positive allocation is expected to continue into the future and will be reviewed on an annual basis.

To participate in appropriate regulatory dispute resolution and other proceedings and processes to protect the interests of the Balancing Pool and the value of its assets.

- The Balancing Pool has participated in policy review committees dealing with short-term adequacy, credit, wholesale market design, and the Clean Air Strategic Alliance (CASA) electricity sector emissions initiative.

To manage risks prudently in all aspects of its operations.

- The strategic plan addresses potential liabilities of all PPAs and outlines ways to mitigate and manage these liabilities. Reclamation and abandonment costs associated with PPAs and Isolated Generation sites are included.
- The Balancing Pool's Board approved a long-term strategic plan in June 2004. This plan was reviewed and updated in 2006.
- The Balancing Pool has in place an investment policy that is reviewed and approved by the Board of Directors.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated March 18, 2008, should be read in conjunction with the audited financial statements of the Balancing Pool for the years ended December 31, 2007 and 2006. The Audit and Finance Committee reviews the contents of the MD&A and recommends its approval to the Board.

Results at a Glance

<i>Year ended December 31 (in thousands of dollars)</i>	2007	2006
Revenues and funding	538,656	579,226
Operating income before Consumer Allocation	253,900	310,210
Consumer Allocation	161,704	53,814
Cash, cash equivalents and investments	946,929	807,183
Ending deferral account balance	1,360,186	974,630
Total assets/liabilities	2,298,706	1,963,850
<i>Other Information</i>		
Total Volumes (GWh)	8,000	7,900
Average Pool price per MWh	\$66.95	\$80.79

Revenues and Funding

In 2007, revenue from the sale of electricity under the Genesee Power Purchase Arrangement ("PPA") totalled \$441.0 million (2006 – \$345.1 million). The increase in 2007 was because the Balancing Pool had the dispatch rights for the Genesee PPA for the full year compared to only nine months in 2006. During 2006 the Balancing Pool also had revenues of \$66.1 million from the Genesee Market Achievement Plan ("MAP") II contracts which expired on March 31, 2006.

As per Canadian generally accepted accounting principles ("GAAP"), revenue from the Hydro PPA totalled \$53.4 million (2006 – \$118.6 million), which represents annual accretion of the value of the Hydro PPA asset, the difference between the actual cash receipts or payments and the estimated cash receipts or payments used in the valuation of the Hydro PPA asset at the beginning of the year, and settled hedging gains and losses.

Investment income of \$33.9 million (2006 – \$26.9 million) resulted from continued investment of surplus cash flows from operations during 2007. The year-over-year increase in investment income of \$7 million is as a result of higher overall investment balances throughout the year. During 2007 interest income totalled \$23.1 million (2006 – \$24.8 million), dividend income was \$8.0 million (2006 – \$1.7 million), and realized gains were \$14.9 million (2006 – \$0.7 million). Offset against these items were realized foreign exchange losses on global investments of \$10.5 million (2006 – \$0.1 million) and investment management fees of \$1.7 million (2006 – \$0.3 million).

Net funding from payments in lieu of tax ("PILOT") in 2007 was \$10.3 million (2006 – \$22.6 million) as PILOT instalment receipts of \$14.5 million for the 2007 tax year

were offset by PILOT refunds and audit costs relating to prior tax years of \$4.2 million. The year-over-year decrease in PILOT funding of \$12.3 million is mainly due to a decrease in current tax year instalment payments received from the ENMAX group of companies from \$31.7 million in 2006 to \$13.5 million in 2007. This is in addition to the refund of \$10.5 million paid in 2006 to EPCOR Generation Inc. relating to a prior tax year instalments based on a notice of reassessment issued by Alberta Revenue. PILOT is based on the taxable income of a municipal entity as defined in the *Payment in Lieu of Tax Regulation* and are subject to audit by Alberta Revenue. PILOT received in the current year are instalments of 2007 taxes net of adjustments for prior years. Due to municipal entity restructuring and other factors the Balancing Pool does not anticipate that PILOT will be a significant source of funding in future years.

Expenses

Cost of sales of \$251.9 million (2006 – \$248.3 million) is mainly comprised of fixed and variable operating costs payable under the Genesee PPA and transmission charges. The increase in cost of sales from 2006 is due to a new provincial greenhouse gas emissions charge slightly offset by lower transmission costs and lower PPA capacity and incentive payments. PPA capacity payments fluctuate year-over-year as a result of changes in indices, annual fixed costs defined in the PPA, and pass-through charges.

Under the *Independent Power and Small Power Regulation*, the Balancing Pool is required to make monthly payments to TransAlta Utilities Corporation (“TransAlta”), the utility that administers the Small Power Producer contracts, for the amount by which the Pool price falls below the contracted price for Small Power Producers. If the Pool price is above the contracted price, TransAlta makes a payment to the Balancing Pool. In 2007, the Balancing Pool recorded a loss of \$5.9 million (2006 – income \$6.3 million), which represents annual accretion of the value of the Small Power Producer contracts and the difference between the actual Pool price and the Pool price used to value the Small Power Producer contracts at the beginning of the year.

The Balancing Pool is obligated to make certain payments directed by the Minister of Energy and ordered by the Alberta Energy and Utilities Board (“EUB” – now called the Alberta Utilities Commission) which are included in Office of the Utilities Consumer Advocate and other regulatory expenses. In 2007, the Balancing Pool accrued \$3.7 million (2006 – \$3.9 million) which will be paid to the Office of the Utilities Consumer Advocate when directed by the Minister of Energy.

Operating Income

Operating income before Consumer Allocation in 2007 was \$253.9 million (2006 – \$310.2 million). Revenue and funding decreased by \$40.6 million from the prior year primarily due to the decrease in funding from the Hydro PPA. Expenses increased by \$15.7 million from the prior year primarily due to an expense recognized in the Small Power Producer contracts.

Consumer Allocation

Under the *Electric Utilities Act*, the Balancing Pool is mandated to allocate any forecasted cash surplus (or deficit) to electricity consumers in Alberta in

annual amounts over a period ending June 30, 2021. In 2007 the Balancing Pool continued an allocation of its surplus to electricity consumers in Alberta in the amount of \$3.00 per megawatt hour (“MWh”) of consumption. For the year ending December 31, 2007, this allocation was \$161.7 million (2006 – \$53.8 million). Effective January 1, 2008, this allocation was increased to \$5.00 per MWh of consumption; this allocation will be reviewed on an annual basis.

Other Income and Expense

For accounting purposes the Hydro PPA asset is recorded as a financial instrument calculated as the net present value of estimated cash receipts based on notional energy and reserve (ancillary service) volumes using a conservative Pool price forecast, less PPA obligations over the remaining term of the PPA to 2020. The value of the Hydro PPA is estimated annually. At December 31, 2007 the value of the Hydro PPA asset was increased by \$303.8 million (2006 – \$116.3 million).

For accounting purposes, the liability under the Small Power Producer contracts is recorded as a financial instrument calculated as the net present value of payments or receipts based on the difference between the Small Power Producers’ contract price and a conservative Pool price forecast. The value of the Small Power Producer contracts liability is estimated annually. At December 31, 2007 the value of the Small Power Producer contracts liability was nil (2006 – nil).

Reclamation and abandonment expense reflects a reduction in estimated decommissioning liability for the H.R. Milner generating station to \$15 million based on revised estimates (2006 – \$18.1 million). An additional provision has been recorded for the reclamation of the Isolated Generation sites in the amount of \$16.9 million (2006 – \$10.0 million) due to revised engineering estimates. There was no change recorded to the provision decommissioning the Wabamun plant Units 1, 2, and 3 of \$10.0 million (2006 – \$10 million).

Unrealized foreign exchange losses of \$2.2 million were recorded on the revaluation of the global investment balances at December 31, 2007 (2006 – nil).

Assets

Cash and Cash Equivalents

Cash and cash equivalents decreased by \$218.0 million during the year, resulting in an ending balance of \$147.9 million. The decrease is mainly due to the purchase of long-term investments.

At December 31, 2007, none of the cash and cash equivalents were pledged as security for a Letter of Credit issued by the Balancing Pool (2006 – \$30 million).

Long-Term Receivable

The Balancing Pool received the remaining balance of the Balancing Pool’s share of cash flows from the sale of the H.R. Milner generating station, including the current portion of the overall receivable. The total balance received was \$7.3 million.

Investments

The Balancing Pool continued to invest surplus cash in Canadian fixed-income and Canadian and global equities in 2007. At December 31, 2007, the cost base of the investments was \$799.0 million (2006 – \$441.2) and the fair market value was \$790.3 million (2006 – \$452.3). An unrealized foreign exchange loss of \$2.2 million (2006 – nil) was recorded on the revaluation of the non-Canadian portion of the investment portfolio at year-end.

The Balancing Pool's Board has approved a long-term investment strategy to manage the investment funds. Several external Investment Managers were also appointed in 2006 and their performance is reviewed on a regular basis. The investment strategy is based on prudent investment standards and generally focuses on achievement of a fair return on investments with diversification of the portfolio to reduce risk. The major sources of our investment income include interest, capital gains and dividend income. The strategy, reviewed on a regular basis by the Board, is proving to be effective in meeting our objectives of attaining a fair return for Alberta's consumers into the long term.

The ranges for asset allocation within the investment portfolio are as follows:

Fixed Income	35-45%
Canadian Equities	25-35%
Non-Canadian Equities	20-40%

Property, Plant and Equipment

The Genesee PPA is accounted for as an asset acquired by capital lease. At December 31, 2001, based on estimated future electricity market prices at the time, the net book value of the Genesee PPA was written down. At December 31, 2007, the net book value of property, plant and equipment was \$255.9 million (2006 – \$275.6 million). The decline in the net book value from 2006 reflects current year amortization of the Genesee PPA and other assets.

Hydro Power Purchase Arrangement

The estimated value of the Hydro PPA asset at December 31, 2007 was \$991.0 million (2006 – \$746.1 million). The Hydro PPA is valued at the present value of estimated amounts to be received by the Balancing Pool, net of estimated PPA obligations, over the remaining term of the PPA to 2020. The Hydro PPA is recorded as a financial asset due to the fact that TransAlta Utilities Corporation, the owner of the hydro plants, retains operational control of the hydro assets under the terms of this PPA.

In 2007 the Balancing Pool received, net of PPA obligations and settlement of derivative contracts, \$112.3 million (2006 – \$147.5 million). The Hydro PPA receipts are the amount by which notional energy and reserve (ancillary service) volumes priced at Pool prices exceed PPA obligations. In 2007 there was no hedging activity related to the Hydro PPA (2006 – \$2.9 million loss recorded).

Liabilities

Credit Facility

At December 31, 2007, the Balancing Pool had an uncommitted credit facility available to issue Letters of Credit up to a maximum of \$85.0 million. No cash and cash equivalents had been pledged as security for a Letters of Credit issued under this facility as at December 31, 2007 (2006 – \$30.0 million).

Power Purchase Arrangement Lease Obligation

As counterparty to the Genesee PPA, the Balancing Pool is required to make monthly payments to the owner of the generating unit intended to cover fixed and variable costs. The capital component of the monthly payment is accounted for as a capital lease. The year-end balance of \$783.5 million (2006 – \$838.3 million) represents the sum of the capital component of the payments required over the remaining term of the Genesee PPA.

Reclamation and Abandonment

The reclamation and abandonment liability at December 31, 2007 of \$54.1 million (2006 – \$61.6 million) represents estimated costs to decommission the H.R. Milner station and certain units at Wabamun, as well as estimated reclamation costs associated with the Isolated Generation sites.

In 2007 the Balancing Pool paid \$18.7 million (2006 – \$6.8 million) for reclamation costs of the Isolated Generation sites and \$0.2 million (2006 – \$0.1 million) for decommissioning costs related to Wabamun. At December 31, 2007, the reclamation of 98 of 103 Isolated Generation sites was complete, however, a few large sites still require reclamation. As per EUB Decisions 2002-102 and 2003-036, costs for the Isolated Generation sites are approved by the Remediation Review Committee. The Remediation Review Committee is comprised of representatives of various consumer groups who were signatories to the Negotiated Settlement Agreement.

Small Power Producer Contracts

The Balancing Pool's legislated obligation related to Small Power Producer contracts is recorded as a liability valued at the net present value of estimated amounts to be paid or received by the Balancing Pool over the remaining terms of the contracts. This obligation is recorded as a financial liability due to the Balancing Pool not having operational control of the assets. The estimated value of the Small Power Producer contracts liability at December 31, 2007 was nil (2006 – nil).

In 2007 the Balancing Pool paid \$0.5 million (2006 – received \$6.9 million) under this obligation. An amount paid or received by the Balancing Pool in a given year depends upon the difference between the contract price for the Small Power Producer and the Pool price.

Balancing Pool Deferral Account

The Balancing Pool deferral account at December 31, 2007 was \$1,360.2 million, which is an increase of \$385.6 million from the prior year's balance. This account represents the amount by which assets exceed liabilities at the end of 2007.

Contributing factors to the surplus of \$385.6 million allocated to the deferral account, including operating income of \$253.9 million, were the increase in the value of the Hydro PPA asset (\$303.7 million), slightly offset by the Consumer Allocation expense (\$161.7 million) and reclamation and abandonment expense (\$13.7 million).

New Accounting Standards

The Canadian Institute of Chartered Accountants ("CICA") issued new accounting standards for fiscal years beginning on or after October 1, 2006. These new standards include, section 3855, Financial Instruments – Recognition and Measurement, and section 3865, Hedges; the impact of adopting these new standards is being evaluated. The CICA will allow a private company to delay adoption of the new standards for one year, and as a result, the Balancing Pool will adopt the new standards for the fiscal year beginning January 1, 2008.

Outlook

The Balancing Pool expects strong cash inflows in 2008 from the Genesee and Hydro PPAs and expects significant cash outflows for the Consumer Allocation and decommissioning and reclamation costs.

Based on forecasted cash flow and expected financial position for 2008, effective January 1, 2008, the Balancing Pool increased the allocation of its surplus to electricity consumers in Alberta to \$5.00 per MWh of consumption, or over \$277 million per annum. The Consumer Allocation is reviewed on an annual basis.

Under the *Electric Utilities Act*, the Balancing Pool is mandated to sell generation assets when market conditions are such that a fair market value will be obtained in a competitive sale process. At present, there are two major areas of market uncertainty being (i) finalization and implementation of the Department of Energy's regulatory policy review related to limits on the holding of generation capacity in Alberta and (ii) pending federal legislation with respect to greenhouse gas emission standards that may impact the cost structure of the Genesee PPA. Given these elements of high uncertainty, the Balancing Pool deems it appropriate to delay any PPA auction process until these major issues are finalized.

Risk Management

The Balancing Pool is exposed to a number of business risks including:

PPA Risk: Under terms of the PPAs the Balancing Pool is exposed to longer term risks including change in law, force majeure and PPA termination risks. Pursuant to Section 96 of the *Electric Utilities Act (2003)* where a PPA is terminated by the plant owner ("Owner"), except for total destruction of a unit or plant, the PPA is deemed

to have been sold to the Balancing Pool. Owner-initiated termination would generally be as a result of a default by the PPA Buyer in performing its obligations. In this instance, the Balancing Pool would be entitled to receive a termination payment from the Buyer equal to the net present value of the PPA to the Buyer. Buyer-initiated termination could be as a result of a change in law making the PPA uneconomic for the Buyer, an event of force majeure lasting greater than six months, Owner default in performing its obligations, or Buyer buyout of the PPA. Termination under these provisions would result in the immediate transfer of the PPA to the Balancing Pool. Identifying, quantifying and devising strategies for mitigating these risks are an ongoing responsibility of the Balancing Pool.

Fluctuating Market Prices: Changes in the market price for electricity and ancillary services affect the amount of income that the Balancing Pool receives from the Genesee and Hydro PPAs. Changes in the market price for electricity also affect the amounts paid or received by the Balancing Pool under the Small Power Producer contracts. Electricity prices are highly volatile, and are affected by supply and demand, which in turn are influenced by fuel costs (e.g. natural gas prices), weather patterns, plant availability and power imports or exports. Market price risk can be managed through the use of purchase and sales contracts for electricity.

Currency and Interest Rate Risk: The Balancing Pool is exposed to currency risk and interest rate risk in that there is the possibility that investments will change in value due to fluctuations in foreign currency exchange rates and market interest rates.

Plant Availability: Changes in plant availability can impact the expected generation and associated revenues of the Balancing Pool. If the plant output managed by the Balancing Pool is sold forward and the plants are not available to supply delivery obligations not otherwise covered by force majeure provisions, the Balancing Pool would be required to purchase energy at the prevailing market price to cover the shortfall in generation.

Counterparty Credit Risk: The Balancing Pool is exposed to counterparty credit risk. In the event of a default on payments from counterparties to the Hydro PPA or forward sale contracts, a financial loss may be experienced by the Balancing Pool. Credit risk is managed in accordance with the Credit Policy and is regularly monitored by management and members of the Audit and Finance Committee and the Board.

Risk Management Policy: The Balancing Pool has developed a Risk Management Policy that defines the organization's tolerance for risk and sets out procedures for quantifying and monitoring exposures. Exposures and compliance with the Policy are regularly monitored by management and members of the Audit and Finance Committee and the Board.

Forward-Looking Information

Certain information in this MD&A is forward-looking information and relates 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.



FINANCIAL STATEMENTS

Year ended December 31, 2007

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements included in the Annual Report are the responsibility of management and have been approved by the Board members of the Balancing Pool. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) and include the use of estimates and assumptions. Estimates and assumptions have been made using careful judgment and with all information available up to March 18, 2008. Financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

To discharge its responsibility for financial reporting, management maintains a system of internal controls designed to provide reasonable assurance that the Balancing Pool's assets are safeguarded, that transactions are properly authorized and that financial information is relevant, accurate and available on a timely basis.

The Balancing Pool Board members have appointed an Audit and Finance Committee that reviews the financial statements with management and the external auditors before the financial statements are submitted to the Balancing Pool Board members for approval. The external auditors have full and open access to the Audit and Finance Committee without obtaining prior management approval.

The financial statements have been examined by PricewaterhouseCoopers LLP, the Balancing Pool's external independent auditors. The responsibility of these external auditors is to examine the financial statements and to express an opinion on the fairness of the financial statements in accordance with Canadian GAAP. The auditors' report outlines the scope of their examination and states their opinion.



Gary Reynolds
President and Chief Executive Officer
March 18, 2008

AUDITORS' REPORT TO THE BOARD MEMBERS OF THE BALANCING POOL

We have audited the Balance Sheets of the Balancing Pool as at December 31, 2007 and 2006 and the Statements of Operations and Balancing Pool Deferral Account and Cash Flows for the years then ended. These financial statements are the responsibility of the Balancing Pool's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Balancing Pool as at December 31, 2007 and 2006 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

March 18, 2008

BALANCE SHEETS

<i>As at December 31 (in thousands of dollars)</i>	2007	2006
Assets		
Current assets		
Cash and cash equivalents (Note 3)	147,919	365,931
Accounts receivable and prepaid expenses	104,052	133,395
Current portion of Hydro power purchase arrangement (Note 9)	97,000	103,600
	348,971	602,926
Long-term receivable (Note 4)	–	1,062
Investments (Note 5)	799,010	441,252
Property, plant and equipment (Note 6)	255,850	275,576
Deferred charges	852	489
Hydro power purchase arrangement (Note 9)	894,023	642,545
	2,298,706	1,963,850
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	100,920	89,270
Current portion of power purchase arrangement lease obligation (Note 6)	55,539	54,834
Current portion of reclamation and abandonment provision (Note 8)	22,150	15,000
	178,609	159,104
Power purchase arrangement lease obligation (Note 6)	727,956	783,495
Reclamation and abandonment provision (Note 8)	31,955	46,621
Small Power Producer contracts (Note 9)	–	–
Balancing Pool deferral account (Note 1)	1,360,186	974,630
	2,298,706	1,963,850
Equity (Note 1)	–	–
Contingencies and commitments (Note 10)	2,298,706	1,963,850

On behalf of the Balancing Pool:



Thomas Cumming
Chair



Peter Flynn
Audit and Finance Committee Chair

The accompanying notes are an integral part of these financial statements

STATEMENTS OF OPERATIONS AND BALANCING POOL DEFERRAL ACCOUNT

<i>For the year ended December 31 (in thousands of dollars)</i>	2007	2006
Revenues and funding		
Sale of electricity	441,011	345,081
Sale of generating capacity	–	66,111
Hydro power purchase arrangement (Note 9)	53,451	118,583
Investment income	33,923	26,866
Payments in lieu of tax	10,271	22,585
	538,656	579,226
Expenses		
Cost of sales	251,937	248,279
Amortization and depreciation	19,722	20,085
Office of the Utilities Consumer Advocate	3,690	3,910
General and administrative	2,590	2,549
Other power purchase arrangement expenses	877	468
Small Power Producer contracts (Note 9)	5,940	(6,275)
	284,756	269,016
Operating income before Consumer Allocation	253,900	310,210
Consumer allocation	(161,704)	(53,814)
Operating income after Consumer Allocation	92,196	256,396
Other income (expense)		
Revaluation of Hydro power purchase arrangement	303,770	116,300
Revaluation of Small Power Producer contracts	5,471	30,945
Reclamation and abandonment	(13,683)	(23,525)
Unrealized foreign exchange loss	(2,198)	–
Other	–	269
	293,360	123,989
Loss from discontinued operations (Note 11)	–	(1,200)
Net surplus attributed to the deferral account	385,556	379,185
Balancing Pool deferral account, beginning of year	974,630	595,445
Balancing Pool deferral account, end of year	1,360,186	974,630

The accompanying notes are an integral part of these financial statements

STATEMENTS OF CASH FLOWS

<i>For the year ended December 31 (in thousands of dollars)</i>	2007	2006
Operating activities		
Net surplus attributed to the deferral account	385,556	379,185
Items not affecting cash		
Amortization and depreciation	19,722	20,085
Reclamation and abandonment provision	11,309	23,525
Decrease in Small Power Producer contracts	469	(37,220)
Increase in Hydro power purchase arrangement	(357,221)	(234,883)
Unrealized foreign exchange loss	2,198	–
Reclamation and abandonment expenditures	(18,825)	(6,922)
Net change in non-cash working capital	42,760	(10,161)
	85,968	133,609
Investing activities		
Purchase of investments	(359,956)	(441,252)
Deferred charges	(363)	(489)
Net (additions)/dispositions to property, plant and equipment	4	(5)
	(360,315)	(441,746)
Financing activities		
Net Hydro power purchase arrangement receipts	112,343	147,470
Power purchase arrangement lease obligation	(55,539)	(53,855)
Short-term debt	–	(42,984)
Increase/(decrease) in Small Power Producer contracts receipts	(469)	6,920
	56,335	57,551
Decrease in cash and cash equivalents	(218,012)	(250,586)
Cash and cash equivalents, beginning of year	365,931	616,517
Cash and cash equivalents, end of year	147,919	365,931

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations

Formation and Duties of the Balancing Pool

The Balancing Pool was created by the Government of Alberta to help manage certain assets, revenues and expenses arising from the transition to competition in Alberta's electric industry. The Balancing Pool was originally established in 1998 as a separate financial account of the Power Pool Council ("the Council") and commenced operations in 1999. The Council was a statutory corporation established under the *Electric Utilities Act of Alberta (1995)*. The requirement to establish the Balancing Pool was set out in the *Balancing Pool Regulation*.

With the proclamation of the *Electric Utilities Act (2003)* (the "Act") on June 1, 2003 the Balancing Pool was established as a separate statutory corporation. The assets and liabilities of the Council that related to the duties, responsibilities and powers of the Balancing Pool were transferred to the Balancing Pool.

Under the Act the corporation is required to operate with no profit or loss over its life and no share capital for the corporation has been issued. The Balancing Pool Board consists of individual members independent of persons having a material interest in the Alberta electric industry. The members of the Board are appointed by the Minister of Energy of the Government of Alberta.

The Balancing Pool acted as Buyer of the Power Purchase Arrangements ("PPAs") that were not sold at the public auction held by the Government of Alberta in August 2000, assuming all rights and obligations of a buyer of these PPAs. Under the Act the Balancing Pool is required to manage generation assets in a commercial manner. The Balancing Pool is also required to respond to certain extraordinary circumstances during the operating period of all of the PPAs such as force majeure, unit destruction, buyer or owner default or a change in law resulting in termination of a PPA. In situations resulting in termination of a PPA, the Balancing Pool will assume all remaining rights and obligations pursuant to the PPA.

Activities of the Balancing Pool

The initial allocation of assets and liabilities to the Balancing Pool was charged to the deferral account. Differences between annual revenues and expenditures are also charged or credited to the Balancing Pool deferral account. The Act requires that the Balancing Pool forecast its revenues and expenses over the expected life of the Balancing Pool. Any excess or shortfall of funds in the accounts is to be allocated to, or provided by, electricity consumers in annual amounts over a period ending June 30, 2021.

Use of Estimates

The timely preparation of the financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires that management make estimates and assumptions and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results will differ from estimated amounts as future confirming events occur.

Revenue and Funding

The Balancing Pool has four primary sources of revenue and funding:

i) Sale of electricity and generating capacity

The Balancing Pool earns revenue from the sale of electricity and generating capacity. In prior years the Balancing Pool sold generating capacity contracts for the offer rights and energy capacity output of the Genesee plant; the Genesee generating capacity contracts expired in March 2006.

Generating capacity that is not otherwise contracted is sold into the spot market. Ancillary services (or system support services) from the Genesee PPA are sold through a competitive exchange and to the Alberta Electric System Operator ("AESO").

ii) Hydro power purchase arrangement

Under the terms of government legislation, the Balancing Pool has obtained the right to a stream of payments from the owner of certain hydro plants in the province of Alberta. These payments are calculated based on the Pool price multiplied by a notional amount of production as outlined in the PPA less PPA obligations. The net present value of these estimated payments is recorded as an asset on the Balance Sheet.

iii) Investment income

Cash, cash equivalents and investments held by the Balancing Pool generate investment income consisting of interest, dividends and capital gains and losses.

iv) Payments in lieu of tax

Pursuant to Section 147 of the Act, the Balancing Pool collects from electricity companies controlled by municipalities a notional amount of tax that would otherwise be payable if these entities were subject to tax. The Balancing Pool does not calculate instalment payments and it does not audit PILOT findings. PILOT instalments are calculated by the payor and are subject to audit by Alberta Revenue; adjustments, if any, arising from audits will be recorded in the current year.

Expenses and Disbursements

The Balancing Pool has three primary expenditures:

i) Cost of sales

The Balancing Pool is obligated to pay certain fixed and variable costs to the owner of the generation asset that is operated under the terms of the Genesee PPA. Transmission costs are included in cost of sales.

ii) Consumer allocation

Under the Act, the Balancing Pool is obligated to allocate a forecasted cash surplus to electricity consumers in Alberta in annual amounts over a period ending June 30, 2021.

iii) Miscellaneous costs

Under the terms of government legislation, the Balancing Pool is obligated to make payments to certain entities for such matters as force majeure and reclamation and abandonment costs. The Minister of Energy may direct the Balancing Pool to fund specific payments under Section 148 of the Act; these amounts, if any, are included in other regulatory expenses and Office of the Utilities Consumer Advocate.

2. Significant Accounting Policies

The financial statements of the Balancing Pool have been prepared by management in accordance with Canadian GAAP. Certain comparative figures have been reclassified to conform to the current year's presentation. Since a determination of some assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions which have been made using careful judgment. Actual results will differ from these estimates. In particular, there were significant accounting estimates in relation to the following items:

- i) **Power purchase arrangement** (Note 6)
- ii) **Reclamation and abandonment provision** (Note 8)
- iii) **Hydro power purchase arrangement** (Note 9)
- iv) **Small Power Producer contracts** (Note 9)

In the opinion of management, these financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Revenue Recognition

a) Sale of electricity and generating capacity

Revenues from the sale of electricity, generating capacity and ancillary services are recognized on an accrual basis in the period in which generation occurred.

b) Payments in lieu of tax

Payments in lieu of tax ("PILOT") are accrued based on the payors' instalments for a particular tax year. PILOT payments are calculated by payors and are subject to assessment and audit by Alberta Revenue.

c) Hydro power purchase arrangement

The Hydro PPA is recorded at the present value of the estimated future net payments to be received under this PPA. The increase in value of this asset with the passage of time (accretion) is recognized on an accrual basis. Any change in valuation as a result of changes in underlying assumptions is recognized as income or expense annually.

d) Investment income

Investment income from interest and dividends is recorded on an accrual basis when there is reasonable assurance as to its measurement and collectability. Investment income also includes realized gains and losses on investments sold and realized foreign currency exchange rate gains and losses on sale of foreign investments.

Price Risk Management and Financial Instruments

The Balancing Pool utilizes a variety of instruments to manage its exposure to electricity price fluctuations, including swap contracts which require payments to (or receipts from) counterparties based on the differential between fixed and variable prices for electricity and other contractual arrangements. The estimated fair value of all derivative instruments is based on reported values in the electricity forward market. Amounts settled under these contracts are recorded on an accrual basis against the applicable exposure.

Income Taxes

No provision has been made for income tax as the Balancing Pool is a not-for-profit organization as set out in the Act.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and highly liquid short-term investments with maturities of three months or less.

Investments

Investments are recorded in the financial statements at cost, as of the trade date, plus accrued investment income. For fixed-income securities, cost includes the amortization of the discount or premium using the straight-line method over the life of the investment. For information purposes, fair value of the investments is disclosed in Note 5, which is based on quoted market prices. If there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss, and this new value is deemed to be cost.

The cost of disposals is determined on an average cost basis.

Power Purchase Arrangement and Related Capital Lease Obligation

The PPA transfers to the Balancing Pool substantially all the benefits and risks of ownership and is therefore treated as if the asset had been purchased outright. The asset is included in property, plant and equipment at an amount not exceeding the estimated net future cash flows arising from operations over the remaining life of the PPA. At December 31, 2001 based upon estimated future electricity prices at the time, the net book value of the Genesee PPA was written down to \$426.8 million. The asset is depreciated over the term of the PPA. The capital element of the leasing commitment is shown as a PPA lease obligation.

Reclamation and Abandonment

The Balancing Pool has recorded an estimate of the cost to remediate certain Isolated Generating unit sites in Alberta. Actual costs incurred to remediate these sites will reduce this liability and any increase in this liability will be charged to expense when estimated costs are known to exceed the remaining liability balance. An amount has also been provided for the decommissioning of the H.R. Milner generating station which is being accreted annually; revisions to this estimate will be charged or credited to income. An amount has also been provided for the decommissioning of the Wabamun plant Units 1, 2, and 3; revisions to these estimates will be charged or credited to income.

3. Cash and Cash Equivalents

At December 31, 2007, no cash and cash equivalents were pledged as security for a Letter of Credit issued (Note 7). At December 31, 2006, cash and cash equivalents in the amount of \$30.0 million were pledged as security.

4. Long-Term Receivable

<i>(in thousands of dollars)</i>	2007	2006
Total receivable	–	6,630
Less: Current portion included in accounts receivable	–	(5,568)
Long-term receivable	–	1,062

In January 2004, the Balancing Pool concluded the sale of the H.R. Milner power station to Milner Power Limited Partnership (“Milner Power”). Net sale proceeds were \$5.3 million received on closing and a further \$15.0 million which could be earned based on a 20% share of net cash flow in future years. In 2004, a long-term receivable of \$12.3 million was recorded based on the discounted value of expected future cash proceeds from the sale.

During 2007 the Balancing Pool received payment of \$7.3 million in full consideration for the discounted value of the expected future cash flows. Interest income of \$0.7 million was included in this amount.

5. Investments

<i>(in thousands of dollars)</i>	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Canadian equities	255,233	258,691	151,543	163,281
Canadian fixed-income	254,243	249,361	188,779	188,261
Global equities	289,534	282,255	100,930	100,771
	799,010	790,307	441,252	452,313

6. Property, Plant and Equipment and Related Lease Obligation

a) Property, Plant and Equipment

<i>(in thousands of dollars)</i>	2007	2006
Power purchase arrangement	426,819	426,819
Less: Accumulated amortization	(171,152)	(151,485)
	255,667	275,334
Other assets	456	461
Less: Accumulated amortization	(273)	(219)
	183	242
	255,850	275,576

Power purchase arrangement

Under the terms of the Act, the Balancing Pool assumed the role of the counterparty to the Genesee PPA, which has been accounted for as a capital lease.

b) Power Purchase Arrangement Lease Obligation

The estimated future annual lease payments (capital component of the Genesee PPA payments) are as follows:

<i>(in thousands of dollars)</i>	
2008	55,539
2009	58,309
2010	57,844
2011	58,874
2012	59,948
Thereafter	492,981
	<hr/>
	783,495
Less: Current portion	(55,539)
	<hr/>
	727,956

7. Short-Term Debt and Credit Facility

At December 31, 2007, the Balancing Pool had \$5 million of unsecured Letters of Credit issued and an uncommitted credit facility available to issue Letters of Credit up to a maximum of \$85.0 million. As security for a Letter of Credit issued under this credit facility, no cash nor cash equivalents were hypothecated at December 31, 2007 (\$30 million at December 31, 2006) (Note 3).

8. Reclamation and Abandonment Provision

<i>(in thousands of dollars)</i>	2007	2006
H.R. Milner generating station ^a	15,000	18,067
Isolated Generation sites ^b	29,300	31,061
Wabamun plant Units 1, 2, 3 ^c	9,805	9,968
Rainbow Lake generating station Units 1, 2, 3 ^d	–	2,525
	<hr/>	
	54,105	61,621
Less: Current portion	(22,150)	(15,000)
	<hr/>	
	31,955	46,621

A reconciliation between the opening and closing reclamation and abandonment provisions is provided below:

<i>(in thousands of dollars)</i>	
Balance, December 31, 2005	45,018
Increase in liability provision	22,525
Liabilities paid in period	(6,922)
Accretion expense	1,000
Balance, December 31, 2006	61,621
Increase in liability provision	10,309
Liabilities paid in period	(18,825)
Accretion expense	1,000
Balance, December 31, 2007	54,105

a) H.R. Milner Generating Station

Under the Negotiated Settlement Agreement for the H.R. Milner generating station in 2001, the Balancing Pool assumed liability for the costs of decommissioning the station at the end of the contract period. When the asset was sold in 2004, the Balancing Pool retained the liability for decommissioning the generating station. In 2007, the provision was reduced by \$4.1 million based on revised engineering estimates.

b) Isolated Generation Sites

In December 2000, the Minister of Energy approved a regulation whereby the Balancing Pool is liable for certain amounts relating to the reclamation costs associated with Isolated Generation units. In 2007 an additional provision of \$16.9 million was recorded for reclamation of the Isolated Generation sites due to revised engineering estimates.

<i>(in thousands of dollars)</i>	2007	2006
Isolated Generation sites	29,300	31,061
Less: Current portion	(17,250)	(15,000)
	12,050	16,061

Pursuant to the Negotiated Settlement Agreements approved by the Alberta Energy and Utilities Board ("EUB"), the ultimate payment of these costs must be reviewed and approved by an appointed Committee.

c) Wabamun Plant

The Negotiated Settlement Agreement (“NSA”) to decommission Wabamun Units 1, 2, and 3, was approved by the EUB on December 19, 2006 under decision 2006-129. The NSA specifies the decommissioning cost categories for which the Balancing Pool and TransAlta Utilities Corporation respectively will be responsible. It is estimated that approximately half of the amounts accrued for this decommissioning will be spent in 2008.

d) Rainbow Lake Generating Station

Alberta Power (2000) Ltd. filed an application with the EUB in December 2006 to decommission Units 1, 2, and 3 at the Rainbow Lake generating station (“Rainbow”). During 2007 Alberta Power (2000) Ltd. received a request from the Alberta Electric System Operator to keep the Rainbow generating station in operation in order to provide transmission support. As a result of this request Alberta Power (2000) Ltd. has withdrawn the application to decommission the Rainbow generating station and the Balancing Pool has reduced its liability to nil.

9. Financial Contracts

Hydro Power Purchase Arrangement

The Balancing Pool is the counterparty to the Hydro PPA, a financial arrangement recorded as an asset at the present value of estimated amounts to be received, net of PPA obligations, over the remaining term of the PPA. The Balancing Pool has no responsibility for the operational control of the hydro generating units and receives from (or pays to) the owner of the hydro plants revenues based on Pool prices and notional energy and reserve (ancillary service) volumes defined in the PPA, less the PPA fixed and variable costs.

The notional production of electricity under the PPA is 1,650 gigawatt hours per annum until 2013 and 1,620 gigawatt hours per annum from 2014 to 2020. Hydro PPA receipts or payments are settled on a monthly basis.

The remaining term of the PPA is 13 years to 2020. At December 31, 2007, the net present value of the PPA was estimated at \$991 million. Key assumptions in this valuation are a discount rate of 6% and a conservative forecast of market prices for electricity.

<i>(in thousands of dollars)</i>	2007	2006
Hydro power purchase arrangement, opening balance	746,145	658,732
Accretion and current year change	53,451	118,583
Net cash receipts	(112,343)	(147,470)
Revaluation of Hydro power purchase arrangement asset	303,770	116,300
	991,023	746,145
Less: Current portion	(97,000)	(103,600)
	894,023	642,545

The valuation of this asset varies significantly based on the assumptions used. For example, if the discount rate is reduced to 5% the value is increased to \$1,055 million; if the market price of electricity is decreased by 10% the value is reduced to \$791 million.

Small Power Producer Contracts

Under the *Independent Power and Small Power Regulation*, any surplus or deficit from contracts that a utility company entered into with Small Power Producers pursuant to the *Small Power Research and Development Act* will be paid to or received from the Balancing Pool.

There are 15 contracts with total allocated capacity of 108 megawatts ("MW"). Contract prices range from \$60/megawatt hour ("MWh") to \$75/MWh. Contract completion dates range between April 1, 2011 and February 15, 2019. Under these contracts the price that the Small Power Producer receives from the utility company is either fixed or fixed plus an escalation factor. If the market price is below the contract price, the Balancing Pool must pay the difference to the utility company. If the market price exceeds the contract price, the utility company must pay the difference to the Balancing Pool. At December 31, 2007, the net present value of cash flows to or from the Balancing Pool for these contracts was estimated to be nil. Key assumptions in this valuation are a discount rate of 6% and a conservative forecast of market prices for electricity.

The valuation of these contracts varies significantly depending on the assumptions used. For example, if the discount rate is reduced to 5% the value is increased to a \$1.4 million asset; if the market price of electricity is decreased by 10% the value is decreased to a \$23 million liability.

Risk Management Activities

At December 31, 2007, the Balancing Pool had derivative swap contracts outstanding to manage its exposure to changes in electricity prices. These swap contracts require payments to (or receipts from) counterparties based on the differential between the fixed contract price and variable Pool prices as published by the AESO. The swap contracts require the Balancing Pool to pay a variable price and the counterparty to pay a fixed price. The estimated volume in MWh and weighted average price per MWh is provided below:

Effective Term	MWh	Weighted Average Price
Q1, 2008	353,646	\$89.35
Q2, 2008	301,320	\$89.20
Q3, 2008	337,824	\$103.17
Q4, 2008	377,739	\$103.11

The Balancing Pool is exposed to counterparty credit risk associated with the Hydro PPA, Small Power Producer contracts, and swap contracts. Market and credit risk exposures are managed in accordance with the Balancing Pool's Risk Management and Credit Policies.

10. Contingencies and Commitments

Other Power Purchase Arrangements

Pursuant to Section 96 of the Act, where a PPA is terminated by the plant owner ("Owner"), except for total destruction of a unit or plant, the PPA is deemed to have been sold to the Balancing Pool. Owner-initiated termination would generally be as a result of a default by the Buyer in performing its obligations. Buyer-initiated termination could be as a result of a change in law making the PPA uneconomic for the Buyer, an event of force majeure lasting greater than six months, Owner default in performing its obligations, or Buyer buyout of the PPA. Termination under these provisions would result in the immediate transfer of the PPA to the Balancing Pool.

Decommissioning Costs

Pursuant to Section 5 of the *Power Purchase Arrangements Regulation*, the owner of a generating unit who applies to the EUB to decommission a unit within one year of the termination of the PPA is entitled to receive from the Balancing Pool the amount by which the decommissioning costs exceed the amount the owner collected from customers before January 1, 2001 and subsequently through a PPA, provided that the unit has ceased generating electricity and subject to EUB approval.

Payments in Lieu of Tax

ENMAX Energy Corporation ("ENMAX") filed Notices of Objection related to its 2001 and 2002 taxation years. Amounts under dispute that were paid to the Balancing Pool for each of the years, respectively, were \$16.9 million including interest of \$3.2 million, and \$23.7 million including interest of \$5.0 million. Due to the uncertainty of the outcome of the appeal process, no provision has been made in the financial statements.

In July 2007, Alberta Finance, Tax and Revenue Administration issued a Notice of Reassessment to ENMAX related to its 2003 taxation year. This reassessment required a payment to the Balancing Pool of \$62.0 million, including interest and penalties of \$9.1 million. The Balancing Pool has not received any amounts payable under this Notice of Reassessment and ENMAX has filed a Notice of Objection related to this taxation year. Due to the uncertainty of the outcome of the appeal process, no amount has been recorded in the financial statements in this regard.

Consumer Allocation

Effective January 1, 2008, the Balancing Pool increased the allocation of a cash surplus to Alberta's electricity consumers to \$5.00 per MWh of consumption, or over \$277 million per annum. The Consumer Allocation is reviewed on an annual basis.

11. Discontinued Operations

During 2005 the Balancing Pool sold the 756-MW Sheerness PPA and terminated the 628-MW Clover Bar PPA. Adjustments totalling \$1.2 million were recorded in 2006 related to the operating costs of the Sheerness and Clover Bar PPAs and the Clover Bar PPA termination payment.

CORPORATE INFORMATION

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