



balancingpool

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 CONSUMERS IN ALBERTA

Generally, our legislated duties include:

- To manage the Balancing Pool accounts to ensure that over the life of the Balancing Pool to December 31, 2020 any net positive or negative amount in the accounts is distributed in equal annual amounts in the consumer allocation;
- 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 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 our 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 its generation assets 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. In 2005 the Balancing Pool also terminated the uneconomic Clover Bar PPA.

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

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MESSAGE TO STAKEHOLDERS FROM THE BOARD CHAIR

In 2005, contracts held by market participants for over 2,100 megawatts (MW) of electricity capacity and ancillary services related to Balancing Pool Power Purchase Arrangements (PPAs) began to mature. In light of strong market conditions and the decreasing cost structure of the PPAs, the Balancing Pool determined 2005 would be an opportune time to offer the marketplace not only the purchase of strip contracts for the Sheerness plant capacity, but also the opportunity to bid for the entire Sheerness PPA.

According to our legislated mandate, the Balancing Pool may sell its generation assets when market conditions are such that a competitive sale will result in the Balancing Pool receiving fair market value for the assets. After an aggressive marketing program in Canada and the United States, we concluded the sale of the 756-MW Sheerness PPA in December 2005 for \$585 million. The Sheerness sale attracted exceptional interest from many market participants. The sale resulted in the Balancing Pool being in a cash surplus position at the end of 2005.

This transaction, the termination of the Clover Bar PPA in October 2005 and the Genesee sale process to be completed in 2006 are expected to generate value for Alberta consumers for several years. On January 1, 2006, we began allocating the cash surplus to Alberta's electricity consumers. Residential, commercial and industrial consumers will be credited \$1 per megawatt hour of consumption. The Balancing Pool will implement an effective investment policy that will ensure a stable consumer allocation into the future.

On behalf of the Board, I would like to thank the management team and staff of the Balancing Pool. This knowledgeable and energetic team has provided a concerted effort over a short period of time to realize long-term value for Alberta's consumers from previously regulated generation assets.

I extend my thanks to my colleagues on the Board for their dedication and strategic vision. To industry stakeholders, we greatly appreciate the co-operation and input you have provided, and continue to provide to the Balancing Pool.

The upcoming year will be important for the Balancing Pool as we endeavor to carry out our mandate under the *Electric Utilities Act*. We look forward to continuing to work constructively with Alberta's Minister of Energy, his associates and our stakeholders to this end.



Thomas Cumming
Chair



Thomas Cumming

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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, Western Lakota Energy Services Inc., 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 been very active in community and industry affairs both locally and internationally. He is currently President of Glacier Developments Inc., a private investment company.



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., Canada Foundation for Innovation, Genome Alberta, 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

In 2005 and early 2006, we successfully implemented a number of strategies that have created long-term value for Alberta's electricity consumers. In keeping with our mandate to operate in a commercial manner to enhance asset value and manage liabilities on behalf of consumers, we carried out the following initiatives:

- Termination of the Clover Bar Power Purchase Arrangement (PPA);
- Sale of the Sheerness PPA;
- Marketing for the sale of Genesee capacity;
- Implementing a consumer allocation of \$1 per megawatt (MWh) hour; and
- Ongoing responsibilities related to the Hydro PPA and liability management.

Background on PPA Contracts

Through the Market Achievement Plan (MAP) II, the Balancing Pool transferred more than 2,100 megawatts (MW) of electricity capacity and ancillary services to market participants through strip and unit contracts. These contracts were for the sale of generating capacity related to the Sheerness, Genesee and Clover Bar PPAs. MAP II contracts had staggered maturity dates ranging from July 2005 to March 2006.

As these contracts began to mature, the Balancing Pool continued to revisit our strategy for managing these assets in a commercial manner. We factored in the strength of the marketplace throughout 2005 as Alberta's economic growth generated a strong demand for electricity. The other key factors in our analysis were the economics and cost structures related to the Sheerness and Genesee PPAs.

Termination of Clover Bar PPA

In 2005 we conducted a review of the economics of the Clover Bar PPA as part of an assessment for early termination of this PPA. On 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.

Sheerness Sale Process

During the second half of 2005, the Balancing Pool carried out a sale process for our 756-MW Sheerness PPA. In October 2005 the *Power Purchase Arrangements Regulation* was amended, lifting certain holding restrictions and allowing the participation of a broad range of market participants in the sale process. Bids were accepted from the marketplace for strip contracts with one to five, 10 and 15 year terms, as well as for the entire PPA. Through aggressive marketing in North America, there was strong interest by Canadian and U.S. bidders for all products.

On December 30, 2005, the Balancing Pool completed the sale of the Sheerness PPA to TransCanada Energy Ltd., a subsidiary of TransCanada Corporation, for \$585 million, with an effective date of December 31, 2005.



Gary Reynolds

Our strategy during the sale process resulted in optimizing value for electricity consumers in Alberta.

In keeping with our objectives, we received a fair market value for this asset. The sale price represents 50% of the total proceeds received from the initial auction the Government of Alberta held in 2000 for more than 4,000 MW of PPA capacity. The sale price was also more than \$750 million above the reserve price set in the 2000 auction. Our strategy during the sale process resulted in optimizing value for electricity consumers in Alberta.

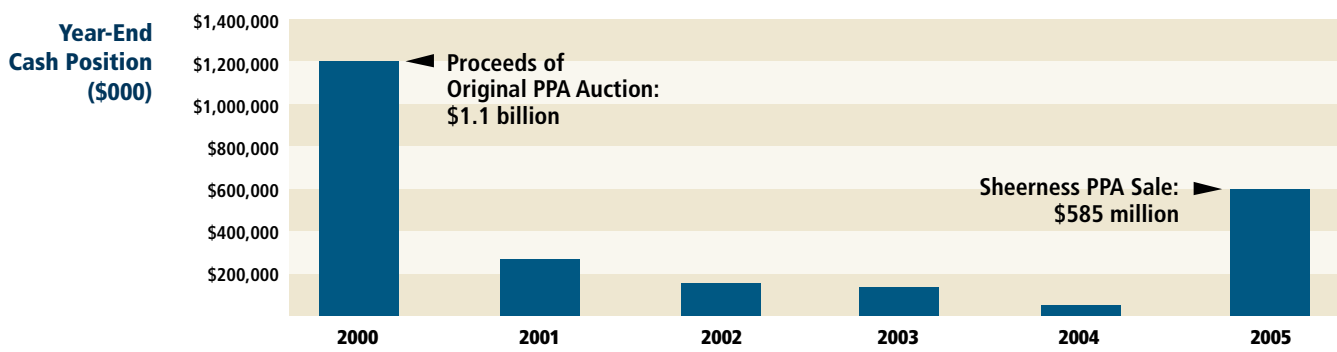
Genesee Sale Process

In December 2005, we invited expressions of interest for the proposed sale of the Genesee PPA capacity. Both strip contracts and the entire PPA representing 762-MW of coal-fired generation capacity are being offered to the marketplace. We continue to offer choice to prospective buyers with respect to both size of contracted capacity and contract term, allowing buyers to tailor their bids to their specific needs. For new participants to Alberta's marketplace, the Genesee PPA capacity offers a low-risk entry, while existing participants have an opportunity to diversify plant risk. The Genesee sale process will be concluded in 2006.

Balancing Pool Financial Position and Consumer Allocation

In our 2004 report, the Balancing Pool advised stakeholders of a projected operating deficit situation through 2005, with a recovery expected in 2006. The Balancing Pool recorded a deficit throughout most of 2005 as a result of carrying costs of our PPAs exceeding revenues received from MAP II contracts.

Following the sale of the Sheerness PPA and the termination of the Clover Bar PPA, the Balancing Pool was in a positive cash position at December 31, 2005. The chart below shows the Balancing Pool's year-end cash position since the year 2000. The significant decrease from 2000 to 2001 reflects the Alberta Government's consumer electricity rebate program of \$2 billion paid out from the proceeds of the original PPA auction and Market Achievement Plan I (MAP I) revenue.



Beginning January 1, 2006, the Balancing Pool allocated a portion of the cash surplus to Alberta's electricity consumers in the amount of \$1 per MWh of consumption, or approximately \$60 million per annum. The Balancing Pool worked with the Alberta Electric System Operator (AESO) to implement the allocation which is included as part of the transmission tariff filed by the AESO. This allocation of surplus funds is expected to continue for several years and as required by the *Electric Utilities Act*, the Balancing Pool will review the consumer allocation on an annual basis. To date, the Balancing Pool has not implemented a charge to consumers.

As outlined in our 2004 report, we secured short-term financing rather than implementing a consumer charge in 2005. Our positive cash position at December 31, 2005 allowed us to repay our entire outstanding short-term bank debt of \$43 million on January 4, 2006. On December 8, 2005, we cancelled a \$50-million unsecured credit facility, and the remaining \$50-million unsecured credit facility was cancelled on January 5, 2006.

The overall surplus for the year changed the Balancing Pool deferral account by \$828 million resulting in an ending payable balance of \$595 million. This account represents the amount by which assets exceed liabilities at the end of 2005.

Our legislated requirement is that any cash surplus be used to manage risks prudently in all aspects of the Balancing Pool's operations. As outlined in the *Power Purchase Arrangements Regulation*, the Balancing Pool's responsibilities include certain decommissioning costs related to generating stations, as well as extraordinary events such as force majeure, unit destruction, buyer or owner default, or change in law resulting in termination of a PPA. Any remaining forecasted surplus is to be allocated in equal amounts to consumers on an annual basis over the remaining life of the Balancing Pool.

Other Activities in 2005

In October 2005, we reported that Dominion Bond Rating Service had upgraded the Balancing Pool's Credit Rating from AA (low) to AA. This upgrade was mainly due to the addition of the two credit facilities and the termination of the Clover Bar PPA. Due to the cash surplus at year end, both credit facilities were no longer required and were subsequently cancelled.

The staff of the Balancing Pool have done and continue to do an outstanding job. Thank you to all our staff over the years for your contribution to the Balancing Pool and to Alberta's electric industry. We look forward to the sale of the Genesee capacity and all the new challenges that follow.

To our Board, we appreciate your guidance and the time you dedicate to ensuring that we continue to fulfill the Balancing Pool's mandate. To our stakeholders, we continue to look forward to working with you as we move into a new phase of Balancing Pool operations.



Gary Reynolds

President and Chief Executive Officer

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

To manage the Balancing Pool accounts to ensure that over the life of the Balancing Pool to December 31, 2020 any net positive or negative amount in the accounts is distributed in equal annual amounts in the consumer allocation.

- Power Purchase Arrangements (PPAs) were auctioned in August 2000, with five successful bidders assuming rights to 4,249 megawatts (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 Market Achievement Plan (MAP) I revenue.
- January 1, 2006, the Balancing Pool allocates 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 approximately \$60 million per annum. This allocation is expected to continue for several years and will be reviewed on an annual basis.

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 MW of generation capacity.
- In preparation for assuming the unsold PPAs and related generation capacity, the Balancing Pool offered 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 plant under the terms of a negotiated settlement. This plant 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.
- On 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.
- On December 31, 2005, the Balancing Pool sold the Sheerness PPA to TransCanada Energy Ltd. for a cash payment of \$585 million.

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 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 our operations.

- The strategic plan addresses potential liabilities of all PPAs and outlines ways to mitigate and manage these liabilities.
- The Balancing Pool's Board approved a long-term strategic plan in June 2004.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated February 23, 2006, should be read in conjunction with the audited financial statements of the Balancing Pool for the years ended December 31, 2005 and 2004. 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 (thousands of dollars)</i>	2005	2004
Revenues and funding	689,202	620,632
Operating income (loss)	93,123	(28,157)
Net surplus (deficit) attributed to the deferral account	827,990	(63,942)
Ending deferral account balance	(595,445)	232,545
Total assets/liabilities	1,710,878	1,959,227
Cash and cash equivalents	616,517	41,226
Other Information:		
Average Pool price per MWh	\$70.19	\$54.59

In 2005, the Balancing Pool sold the Sheerness Power Purchase Arrangement ("PPA") for \$585.0 million, resulting in a net gain of \$682.8 million and terminated the Clover Bar PPA with a payment of \$82.7 million to EPCOR Generation Inc., resulting in a net gain of \$40.5 million. These net gains were mainly due to the write-off of the remaining PPA lease obligation liabilities. Based on forecasted cash requirements and expected financial position in 2006, the Balancing Pool initiated the allocation of surplus funds to Alberta's electricity consumers in the amount of \$1.00 per megawatt (MWh) of consumption, or approximately \$60 million per annum, beginning January 1, 2006.

The increase in the average Pool price from the prior year resulted in the Balancing Pool receiving more cash from the Hydro PPA and the small power producer contracts.

Revenues and Funding

In 2005, the main source of revenue for the Balancing Pool was the sale of generating capacity related to the Sheerness, Genesee and Clover Bar PPAs. Revenue from this source decreased by \$38.4 million from the prior year to \$453.4 million (2004 – \$491.8 million). This decrease is mainly due to 400 megawatts ("MWs") of Sheerness Market Achievement Plan ("MAP") II contracts expiring on September 30, 2005. This decrease was more than offset by net revenue from the sale of electricity from the 400 MWs in the amount of \$61.4 million.

MAP II contracts for the Genesee PPA expire on March 31, 2006 and are summarized in the table below.

Contract Purchaser	Strip Size
Constellation Energy Commodities Group Inc.	300 MW
Direct Energy Marketing Limited	100 MW
AltaGas Power Holdings Partnership	100 MW
SEEGEN Alberta L.P.	100 MW
BP Canada Energy Company	81 MW
ENMAX Energy Corporation	81 MW
Total	762 MW

Funding from payments in lieu of tax ("PILOT") in 2005 was \$60.8 million (2004 – \$66.8 million). PILOT will fluctuate from year to year, as it is based on the income of the unregulated businesses of ENMAX, EPCOR, and the City of Medicine Hat. PILOT received in the current year are installments of 2005 taxes net of adjustments for prior years. The Balancing Pool does not calculate installment payments, nor does it audit PILOT filings. PILOT installments are calculated by the payor and are subject to audit by Alberta Revenue and adjustments, if any, arising from audits will be recorded in 2006. On January 3, 2006 EPCOR Utilities Inc. announced that it was restructuring certain power generation subsidiaries and as a result, EPCOR Generation Inc. would no longer be subject to PILOT. EPCOR Generation Inc.'s annual PILOT payments to the Balancing Pool over the past few years ranged from \$25 to \$40 million.

As per Canadian generally accepted accounting principles ("GAAP"), revenue from the Hydro PPA totalled \$106.4 million (2004 – \$59.3 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 increased by \$4.6 million from the prior year mainly due to interest received in 2005 for prior year PILOT settlements.

Expenses

Cost of sales of \$533.7 million (2004 – \$561.3 million) is mainly comprised of fixed and variable operating costs payable under the Sheerness, Genesee, and Clover Bar PPAs and transmission charges. The decrease in cost of sales from 2004 is a result of lower PPA capacity and incentive payments, slightly offset by increased energy and transmission costs. 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. Due to the termination of the Clover Bar PPA on October 1, 2005, the current year's cost of sales includes nine months of Clover Bar PPA charges, whereas the prior year included 12 months.

Other PPA charges for 2005 consist mainly of an annual negative bid of \$4.2 million payable under the Rainbow PPA. The Rainbow PPA expired on December 31, 2005.

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") which are included in other regulatory expenses and Office of the Utilities Consumer Advocate. In 2005, the Minister of Energy directed the Balancing Pool to pay \$2.1 million (2004 – \$2.6 million) to the Office of the Utilities Consumer Advocate.

Under the *Electric Utilities Act (2003)* (the "Act"), 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, the Balancing Pool receives a payment from TransAlta. In 2005, the Balancing Pool recorded income of \$6.8 million (2004 – \$0.6 million expense), which represents annual accretion of the value of the liability and the difference between the actual Pool price and the Pool price used to value the liability at the beginning of the year.

Operating Income

Operating income in 2005 was \$93.1 million (2004 – \$28.2 million loss). Revenue and funding increased by \$68.6 million from the prior year mainly due to an increase in the sale of electricity as a result of expiring MAP II contracts and an increase in revenue from the Hydro PPA. Expenses decreased by \$52.7 million from the prior year mainly due to a decrease in cost of sales, other PPA and regulatory expenses, and small power producer expense.

Other Income and Expense

The Balancing Pool sold the Sheerness PPA effective December 31, 2005 for \$585.0 million. The net book value of the Sheerness PPA was \$567.4 million, the remaining capital lease obligation was \$665.6 million and expenses related to the sale process were \$0.4 million, resulting in a net gain of \$682.8 million on the sale.

The Balancing Pool terminated the Clover Bar PPA on October 1, 2005, with a payment of \$82.7 million to EPCOR Generation Inc., resulting in a net gain of \$40.5 million after writing off the remaining capital lease obligation of \$123.2 million.

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 the estimated Pool price. Updating the Pool price forecast resulted in the small power producer contracts liability being written-down at year-end by \$7.8 million (2004 – \$10.8 million write-up).

The Hydro PPA 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 priced at estimated Pool prices, less PPA obligations over the remaining term of the PPA to 2020. The value of the Hydro PPA is estimated annually. There was no write-up or write-down of the Hydro PPA in 2005 (2004 – \$30.1 million write-down).

Reclamation and abandonment expense reflects the annual accretion of the decommissioning liability for the H.R. Milner plant in the amount of \$1.0 million (2004 – \$1.0 million). An additional provision has been recorded for the reclamation of the isolated generation sites in the amount of \$19.1 million (2004 – \$11.5 million) due to revised engineering estimates.

Due to the commissioning of the 450-MW Genesee 3 generating facility, the Balancing Pool received \$24.1 million (2004 – nil) from the owners of Genesee 3, EPCOR Power Development Corp. and TransAlta Energy Corp., for Genesee common facilities, pursuant to the *Common Facilities Regulation* of the Act. This regulation requires an owner to pay a share of the common facilities costs to the Balancing Pool when the owner constructs a new generating unit at an existing power plant whose capacity is already contracted under a PPA.

Assets

Cash and Cash Equivalents

Cash and cash equivalents increased by \$575.3 million during the year, resulting in an ending balance of \$616.5 million. This increase in cash is due to the sale of the Sheerness PPA on December 31, 2005 for \$585.0 million.

On December 8, 2005, the Balancing Pool cancelled one of its \$50 million unsecured credit facilities; the other \$50 million unsecured credit facility was cancelled on January 5, 2006.

Long-Term Receivable

The long-term receivable of \$6.6 million (2004 – \$9.6 million) represents the discounted value of the Balancing Pool's share of expected future cash flows from the H.R. Milner plant. The current portion of the overall receivable, \$3.7 million (2004 – \$2.7 million), is reflected in accounts receivable.

Property, Plant and Equipment

The Sheerness, Genesee and Clover Bar PPAs are accounted for as assets acquired by capital lease. At December 31, 2001, based on estimated future electricity market prices at the time, the net book values of the Sheerness, Genesee and Clover Bar PPAs were written down to estimated net future cash flows over the remaining life of the PPAs. At December 31, 2005, the net book value of property, plant and equipment was \$295.3 million (2004 - \$920.2 million). The decline in the net book value from 2004 reflects current year amortization of the Genesee PPA and other assets and the sale of the Sheerness PPA. The Clover Bar PPA was fully depreciated prior to the termination of the PPA on October 1, 2005.

Hydro Power Purchase Arrangement

The estimated value of the Hydro PPA at December 31, 2005 was \$658.7 million (2004 – \$644.0 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 2005 the Balancing Pool received payments, net of PPA obligations and settlement of derivative contracts, of \$91.6 million (2004 – \$74.3 million). The Hydro PPA payments are the amount by which notional energy and reserve (ancillary service) volumes priced at Pool prices exceed PPA obligations. The Balancing Pool utilizes swap contracts to manage its exposure to Pool price fluctuations under the Hydro PPA. In 2005 a hedging loss was recorded in the amount of \$1.6 million (2004 – \$2.6 million gain).

Liabilities

Short-Term Debt

The Balancing Pool's cash balance declined throughout the year with a cash deficit position by the end of the third quarter of 2005 due to the termination of the Clover Bar PPA. Based on this expected short-term cash deficit position, the Balancing Pool had established two credit facilities in 2005.

At the end of 2005, the short-term debt balance was \$43.0 million (2004 – nil). Following the sale of the Sheerness PPA and the resulting cash surplus, the Balancing Pool repaid this short-term debt on January 4, 2006 and cancelled the credit facility on January 5, 2006. The other credit facility had previously been cancelled on December 8, 2005.

Power Purchase Arrangement Lease Obligations

As counterparty to the Sheerness, Genesee and Clover Bar PPAs, the Balancing Pool is required to make monthly payments to the owners of the generating units intended to cover fixed and variable costs. The capital component of the monthly payments is accounted for as a capital lease. With the sale of the Sheerness PPA and the termination of the Clover Bar PPA, the year-end balance of \$892.2 million (2004 – \$1.8 billion) represents the sum of the capital components of the payments required over the remaining term of the Genesee PPA.

Reclamation and Abandonment

The reclamation and abandonment liability at December 31, 2005 of \$45.0 million (2004 – \$34.6 million) represents estimated costs to decommission the H.R. Milner plant and estimated reclamation costs associated with the isolated generation sites. In 2005 the Balancing Pool paid \$9.5 million (2004 – \$12.8 million) and \$0.1 million (2004 – nil), respectively for reclamation costs of the isolated generation sites and decommissioning costs related to the H.R. Milner plant. At December 31, 2005, the reclamation of 61 of 103 isolated generation sites was complete. However, as a number of large sites still require reclamation, remaining reclamation expenditures represent approximately 50% of the total projected cost.

Small Power Producer Contracts

The Balancing Pool's legislated obligation related to small power producer contracts is recorded as a liability on the balance sheet at the present value of net 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 amount of the liability at December 31, 2005 is \$30.3 million (2004 – \$44.0 million).

In 2005 the Balancing Pool received \$0.9 million under this obligation (2004 – \$6.4 million payment). 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, 2005 was a payable balance of \$595.4 million, which is a difference of \$828.0 million from the prior year receivable balance. This account represents the amount by which assets exceed liabilities at the end of 2005.

Contributing factors to the surplus of \$828.0 million (2004 – \$63.9 million deficit) allocated to the deferral account, including operating income of \$93.1 million (2004 – \$28.2 million loss), were a gain on the sale of the Sheerness PPA (\$682.8 million), gain on the termination of the Clover Bar PPA (\$40.5 million) and income related to Genesee common facilities (\$24.1 million). In addition, the small power producer liability was written down by \$7.8 million (2004 – \$10.8 million write-up).

As announced in November 2005, based on forecasted cash flow and expected financial position for 2006, the Balancing Pool initiated the allocation of its surplus to electricity consumers in Alberta in the amount of \$1.00 per MWh of consumption, beginning January 1, 2006. This allocation of surplus funds is expected to continue for several years and will be reviewed on an annual basis.

Outlook

Decommissioning

Regulation provides that the owner of a generating unit who applies to the EUB to decommission a unit within one year after it is no longer subject to a PPA is entitled to receive from the Balancing Pool the amount by which actual approved decommissioning costs exceed amounts collected from customers and subsequently through a PPA, subject to EUB approval. If the approved decommissioning costs are lower than amounts collected by the plant owner, the excess must be paid to the Balancing Pool. In March 2004 TransAlta Utilities Corporation amended its November 2003 Wabamun Unit 3 decommissioning application to the EUB to include decommissioning of Wabamun Units 1 and 2 and requested \$35.4 million from the Balancing Pool. The Balancing Pool participated in discussions in 2005 related to a negotiated settlement, and these discussions continue into 2006. Due to the uncertainty of the amount which the Balancing Pool may be required to pay, if any, the amount will be reported as an expense when paid.

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 generating capacity of PPAs it holds. Changes in market prices also affect the payments received by the Balancing Pool under the Hydro PPA, and 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.

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 and MAP II contracts or other 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, 2005

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 February 23, 2006. Financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

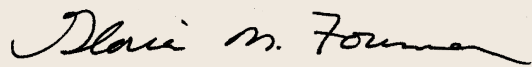
To discharge its responsibility for financial reporting, management maintains a system of internal controls designed to provide reasonable assurance that the Balancing Pool's assets are safeguarded, that transactions are properly authorized and that financial information is relevant, accurate and available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



Gloria Fournier, CA
Chief Financial Officer

February 23, 2006

AUDITORS' REPORT TO THE BOARD MEMBERS OF THE BALANCING POOL

We have audited the Balance Sheets of the Balancing Pool as at December 31, 2005 and 2004 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, 2005 and 2004 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

February 23, 2006

BALANCE SHEETS

<i>As at December 31 (in thousands of dollars)</i>	2005	2004
Assets		
Current assets		
Cash and cash equivalents	616,517	41,226
Accounts receivable and prepaid expenses	133,343	109,484
Current portion of Hydro power purchase arrangement (Note 8)	68,000	24,000
	817,860	174,710
Long-term receivable (Note 3)	6,630	9,622
Property, plant and equipment (Note 4)	295,302	920,248
Deferred charges (Note 5)	354	2,102
Hydro power purchase arrangement (Note 8)	590,732	620,000
Balancing Pool deferral account (Note 1)	–	232,545
	1,710,878	1,959,227
Liabilities		
Current liabilities		
Short-term debt (Note 6)	42,984	–
Accounts payable and accrued liabilities	104,947	91,358
Current portion of power purchase arrangement lease obligations (Note 4)	53,855	113,163
Current portion of reclamation and abandonment provision (Note 7)	17,600	11,822
Current portion of small power producer contracts (Note 8)	1,100	8,000
	220,486	224,343
Power purchase arrangement lease obligations (Note 4)	838,329	1,676,127
Reclamation and abandonment provision (Note 7)	27,418	22,757
Small power producer contracts (Note 8)	29,200	36,000
Balancing Pool deferral account (Note 1)	595,445	–
	1,710,878	1,959,227
Equity (Note 1)	–	–
Contingencies and commitments (Note 12)	1,710,878	1,959,227

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>	2005	2004
Revenues and funding		
Sale of generating capacity	453,396	491,817
Sale of electricity	61,446	123
Payments in lieu of tax	60,817	66,773
Hydro power purchase arrangement (Note 8)	106,364	59,330
Investment income	7,179	2,589
	689,202	620,632
Expenses		
Cost of sales	533,742	561,340
Other power purchase arrangement charges	4,460	10,604
Amortization and depreciation	58,972	58,989
Other regulatory expenses (Note 9)	(42)	11,237
General and administrative	3,574	3,458
Office of the Utilities Consumer Advocate	2,142	2,583
Small power producer contracts (Note 8)	(6,769)	578
	596,079	648,789
Operating income (loss)	93,123	(28,157)
Other income (expense)		
Gain on sale of Sheerness power purchase arrangement (Note 4)	682,751	–
Gain on termination of Clover Bar power purchase arrangement (Note 4)	40,476	–
Revaluation of small power producer contracts	7,816	(10,843)
Revaluation of Hydro power purchase arrangement	–	(30,073)
Interest expense (Note 10)	(545)	(22)
Reclamation and abandonment	(20,078)	(12,500)
Other (Note 11)	24,447	281
	734,867	(53,157)
Gain on disposal of discontinued operations (Note 3)	–	17,372
Net surplus (deficit) attributed to the deferral account	827,990	(63,942)
Balancing Pool deferral account, beginning of year	232,545	168,603
Balancing Pool deferral account, end of year	(595,445)	232,545

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>	2005	2004
Operating activities		
Net surplus (deficit) attributed to the deferral account	827,990	(63,942)
Items not affecting cash		
Amortization and depreciation	58,972	58,989
Reclamation and abandonment provision	20,078	12,500
Increase (decrease) in small power producer contracts	(14,585)	11,421
Revaluation of other assets and liabilities	–	21
Increase in Hydro power purchase arrangement	(106,364)	(29,257)
Gain on disposal of discontinued operations (Note 3)	–	(17,372)
Gain on sale of Sheerness power purchase arrangement (Note 4)	(682,751)	–
Gain on termination of Clover Bar power purchase arrangement (Note 4)	(40,476)	–
Reclamation and abandonment expenditures	(9,639)	(12,773)
Net change in non-cash working capital	(6,111)	(19,532)
	47,114	(59,945)
Investing activities		
Net proceeds on sale of Sheerness power purchase arrangement (Note 4)	584,561	5,323
Deferred charges	331	4,038
Payment for termination of Clover Bar power purchase arrangement (Note 4)	(82,660)	–
Regulatory deferral	–	(5,824)
Additions to property, plant and equipment	(13)	(131)
	502,219	3,406
Financing activities		
Net Hydro power purchase arrangement receipts	91,632	74,257
Power purchase arrangement lease obligations	(108,376)	(107,655)
Short-term debt	42,984	–
Small power producer contracts receipts (payments)	885	(6,421)
Payment of electricity rebates	(1,167)	(799)
	25,958	(40,618)
Increase (decrease) in cash and cash equivalents	575,291	(97,157)
Cash and cash equivalents, beginning of year	41,226	138,383
Cash and cash equivalents, end of year	616,517	41,226

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.

The corporation is a not-for-profit organization and no share capital has been issued. The Balancing Pool Board consists of individual members independent of persons having a material interest in the Alberta electric industry.

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 equal annual amounts over a period ending June 30, 2021.

Measurement Uncertainty

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 period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may 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 generating capacity and electricity

The Balancing Pool earns revenue from the sale of generating capacity and electricity. The Balancing Pool sold generating capacity contracts for the offer rights and energy capacity output of the Sheerness, Genesee and Clover Bar plants, which at the time were held under PPAs. The Sheerness and Clover Bar generating capacity contracts expired in 2005, while the Genesee generating capacity contracts expire in March 2006.

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

ii) 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.

iii) 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.

iv) Investment income

Cash and cash equivalents held by the Balancing Pool generate investment income.

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 owners of the generation assets that are operated under the terms of the PPA held by the Balancing Pool. Transmission costs are included in cost of sales. In 2005, the Balancing Pool held the Sheerness and Genesee PPAs for the entire year and the Clover Bar PPA for nine months to September 30, 2005.

ii) Consumer allocation

Under the Act, the Balancing Pool is obligated to allocate a forecasted cash surplus to electricity consumers in Alberta in equal 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 of isolated generation sites. 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 arrangements (Note 4)*
- ii) Reclamation and abandonment provision (Note 7)*
- iii) Hydro power purchase arrangement (Note 8)*
- iv) Small power producer contracts (Note 8)*

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 generating capacity and electricity

Revenues from the sale of generating capacity, electricity and ancillary services are recognized on an accrual basis in the period 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 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 from underlying assumptions is recognized as income or expense annually.

(d) Investment income

Income from investments is recognized as earned.

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 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 includes cash and short-term investments.

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. The asset is depreciated over the term of the PPA. The capital element of the leasing commitment is shown as a PPA lease obligation. In 2005, the Balancing Pool held the Sheerness and Genesee PPAs for the entire year and the Clover Bar PPA for nine months to September 30, 2005.

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 an 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 plant which is being accreted annually; revisions to this estimate will be charged or credited to income.

3. Long-Term Receivable

<i>(in thousands of dollars)</i>	2005	2004
Long-term receivable	10,325	12,347
Less: Current portion included in accounts receivable	(3,695)	(2,725)
	6,630	9,622

In January 2004, the Balancing Pool concluded the sale of the H.R. Milner power station to Milner Power Limited Partnership ("Milner Power"), resulting in a gain of \$17.4 million. Net sale proceeds were \$5.3 million received on closing and a further \$15.0 million which may be earned based on a 20% share of net cash flow in future years.

At December 31, 2004, a long-term receivable of \$12.3 million was recorded based on the discounted value of expected future cash proceeds from the sale. Based on Milner Power's 2004 actual cash flow, the Balancing Pool received cash of \$2.8 million in 2005, accounted for as a \$2.0 million draw down of the receivable and the discount of \$0.8 million recorded as interest income. Based on Milner Power's 2005 actual cash flow, the Balancing Pool expects to receive \$4.8 million in 2006, accounted for as a \$3.7 million draw down of the receivable and the discount of \$1.1 million recorded as interest income.

4. Property, Plant and Equipment and Related Lease Obligations

a) Property, Plant and Equipment

<i>(in thousands of dollars)</i>	2005	2004
Power purchase arrangements	426,819	1,197,402
Less: accumulated amortization	(131,818)	(277,504)
	295,001	919,898
Other assets	456	443
Less: accumulated amortization	(155)	(93)
	301	350
	295,302	920,248

Power purchase arrangements

Under the terms of the Act, the Balancing Pool assumed the role of the counterparty to the Sheerness, Genesee and Clover Bar PPAs, accounted for as capital leases. The Sheerness PPA was sold in December 2005 and the Clover Bar PPA was terminated in October 2005.

On December 31, 2005, the Balancing Pool completed the sale of the 756-megawatt ("MW") Sheerness PPA to TransCanada Energy Ltd. for cash of \$585.0 million, resulting in a gain of \$682.8 million. The net book value of the Sheerness PPA was \$567.4 million, remaining capital lease obligation \$665.6 million and expenses related to the sale process \$0.4 million. Net cash proceeds were \$584.6 million.

On October 1, 2005, the Balancing Pool terminated the 628-MW Clover Bar PPA with a termination payment of \$82.7 million to EPCOR Generation Inc., resulting in a gain of \$40.5 million after writing off the remaining capital lease obligation of \$123.2 million. The Clover Bar PPA was fully depreciated at October 1, 2005.

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>	
2006	53,855
2007	54,834
2008	55,539
2009	58,309
2010	57,844
Thereafter	611,803
	892,184
Less: Current portion	(53,855)
	838,329

5. Deferred Charges

<i>(in thousands of dollars)</i>	2005		2004	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
MAP costs	5,143	4,789	354	1,773
Sundance force majeure payment	–	–	–	329
	5,143	4,789	354	2,102

MAP costs are amortized on a straight-line basis over the average term of the MAP contracts. MAP II costs will be fully amortized by March 31, 2006.

6. Short-Term Debt

<i>(in thousands of dollars)</i>	2005		2004	
	Outstanding	Interest	Outstanding	Interest
Bank debt	42,984	3.03%	–	–

On February 16, 2005, the Balancing Pool finalized an unsecured credit facility to borrow up to \$50 million; this credit facility was cancelled on December 8, 2005.

On August 2, 2005, the Balancing Pool finalized an additional unsecured credit facility to borrow up to \$50 million. A commitment fee was paid on the amount of the credit facility not utilized. At December 31, 2005, the utilized portion of this credit facility was \$43 million. The Balancing Pool fully repaid the outstanding short-term debt on January 4, 2006, and cancelled this credit facility on January 5, 2006.

7. Reclamation and Abandonment Provision

<i>(in thousands of dollars)</i>	2005	2004
H.R. Milner plant decommissioning costs	17,110	16,257
Isolated generation site reclamation costs	27,908	18,322
	45,018	34,579
Less: Current portion	(17,600)	(11,822)
	27,418	22,757

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

<i>(in thousands of dollars)</i>	
Balance, December 31, 2004	34,579
Increase in liability provision	19,078
Liabilities paid in period	(9,639)
Accretion expense	1,000
Balance, December 31, 2005	45,018

a) H.R. Milner Plant

Under the Negotiated Settlement Agreement for the H.R. Milner Station in 2001, the Balancing Pool assumed liability for the costs of decommissioning the plant at the end of the contract period. When the asset was sold effective January 1, 2004, the Balancing Pool retained the liability for decommissioning the plant.

b) Isolated Generation Site Reclamation Costs

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 2005, an additional provision of \$19.1 million was recorded for reclamation of the isolated generation sites due to revised engineering estimates.

<i>(in thousands of dollars)</i>	2005	2004
Isolated generation site reclamation costs	27,908	18,322
Less: Current portion	(17,600)	(11,822)
	10,308	6,500

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.

8. Financial Instruments

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 the net of 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 15 years to 2020. At year-end the present value of the PPA was estimated at \$659 million. Key assumptions in this valuation are a discount rate of 6% and an estimate of escalated future market prices for electricity.

<i>(in thousands of dollars)</i>	2005	2004
Hydro power purchase arrangement, opening balance	644,000	689,000
Accretion and current year change	106,364	59,330
Net cash receipts	(91,632)	(74,257)
Revaluation of Hydro power purchase arrangement asset	–	(30,073)
	658,732	644,000
Less: Current portion	(68,000)	(24,000)
	590,732	620,000

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 \$706 million; if the market price of electricity is decreased by 10% the value is reduced to \$523 million.

Small Power Producer Contracts

Under the *Independent Power and Small Power Regulation*, issued under the Act, 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 MW. Contract prices range from \$60/megawatt hour (“MWh”) to \$70/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, 2005, the Balancing Pool has estimated that the net present value of these contracts results in a liability of \$30.3 million. Key assumptions in this valuation are a discount rate of 6% and an estimate of escalated future market prices for electricity.

<i>(in thousands of dollars)</i>	2005	2004
Small power producer contracts, opening balance	44,000	39,000
Accretion and current year change	(6,769)	578
Net cash receipts (payments)	885	(6,421)
Revaluation of small power producer contracts liability	(7,816)	10,843
	30,300	44,000
Less: Current portion	(1,100)	(8,000)
	29,200	36,000

The valuation of this liability varies significantly depending on the assumptions used. For example, if the discount rate is reduced to 5% the liability is increased to \$32 million; if the market price of electricity is decreased by 10% the liability is increased to \$54 million.

Risk Management Activities

At December 31, 2005, 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 fixed and variable Pool prices as published by the AESO. The swap contracts require the Balancing Pool to pay the variable price and the counterparty to pay the fixed price. The volume in MWh and weighted average price per MWh is provided below:

Effective Term	MWh	Weighted Average Price
Q1, 2006	327,000	\$77.09
Q2, 2006	109,150	\$63.20
Q3, 2006	110,400	\$73.48
Q4, 2006	110,450	\$71.50

At December 31, 2004, the Balancing Pool had no derivative contracts outstanding.

The Balancing Pool is exposed to counterparty credit risk associated with generating capacity contracts (MAP II), the Hydro PPA and the small power producer contracts. Market and credit risk exposures are managed in accordance with the Balancing Pool's Risk Management and Credit Policies.

9. Other Regulatory Expenses

Other regulatory expenses are comprised of the following costs:

<i>(in thousands of dollars)</i>	2005	2004
Payment directed by the Minister of Energy	(42)	11,237
	(42)	11,237

In 2004, the Minister of Energy directed the Balancing Pool to pay \$11.2 million for 2001 post final settlement market adjustments. A small portion of this provision was written-off in 2005 as it was no longer required.

10. Interest Expense

Interest expense is comprised of the following:

<i>(in thousands of dollars)</i>	2005	2004
Short-term interest and other financing charges	386	–
Other	159	22
	545	22

11. Other Income

Other income is comprised of the following:

<i>(in thousands of dollars)</i>	2005	2004
Genesee common facilities	24,061	–
Regulatory deferral	–	45
Electricity rebates	100	(66)
H.R. Milner tax benefit	286	302
	24,447	281

As a result of the commissioning of the 450-MW Genesee 3 generating facility on March 1, 2005, the Balancing Pool received \$24.1 million from EPCOR Power Development Corp. and TransAlta Energy Corp. for Genesee common facilities, pursuant to the *Common Facilities Regulation* of the Act. This regulation requires an owner to pay a share of the common facilities costs to the Balancing Pool when the owner constructs a new generating unit at an existing power plant whose capacity is already contracted under a PPA.

12. Contingencies and Commitments

H.R. Milner Proceeds of Sale

As part of the sale price of the H.R. Milner plant, the Balancing Pool may still receive up to \$12 million based on a 20% share of net cash flow in future years (Note 3).

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*, made under the Act, provided the unit has ceased generating 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, subject to EUB approval.

In March 2004, TransAlta Utilities Corporation amended its November 2003 Wabamun Unit 3 decommissioning application to the EUB to include decommissioning of Wabamun Units 1 and 2 and requested \$35.4 million from the Balancing Pool. The Balancing Pool participated in discussions in 2005 related to a negotiated settlement, and these discussions continue into 2006. Due to the uncertainty of the amount which the Balancing Pool may be required to pay, if any, the amount will be reported as an expense when paid.

H.R. Milner Coal Dispute

A statement of claim was filed on December 8, 2004 regarding breach of terms of a May 17, 2002 Coal Supply Agreement for the H.R. Milner power station. The potential outcome of this claim is not currently known, but is not expected to have a material impact on the Balancing Pool.

13. Subsequent Events

Consumer Allocation

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 or approximately \$60 million per annum.

Payments in Lieu of Tax

On January 3, 2006 EPCOR Utilities Inc. announced it was restructuring certain power generation subsidiaries and as a result, EPCOR Generation Inc. would no longer be subject to and make payments to the Balancing Pool under PILOT Regulation. Annual PILOT payments from EPCOR Generation Inc. to the Balancing Pool over the past few years ranged from \$25 to \$40 million.

Short-Term Debt

On January 4, 2006, the Balancing Pool repaid outstanding short-term debt of \$43 million. On January 5, 2006, the Balancing Pool cancelled its remaining \$50 million unsecured credit facility.

Genesee Power Purchase Arrangement

The Balancing Pool disputed the method by which EPCOR Generation Inc. calculated the availability incentive payment under the Genesee PPA. On March 29, 2006, the arbitration decision was released with a favourable decision for the Balancing Pool. The Balancing Pool expects to receive a refund of a portion of the availability incentive payments paid to EPCOR Generation Inc. in prior years.

CORPORATE INFORMATION

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Kim Verrier

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