



**balancingpool**  
FOR ALBERTA'S ELECTRICITY CONSUMERS



ANNUAL REPORT

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2000



BALANCING POOL                      TEL 403-543-0380  
#1800 McFARLANE TOWER            FAX 403-543-0388  
700 - 4TH AVENUE S.W.  
CALGARY, AB T2P 3J4                WWW.BALANCINGPOOL.CA

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## MISSION STATEMENT

TO OPTIMIZE THE OPERATIONS AND ADMINISTRATION OF THE BALANCING POOL FOR THE LONG-TERM BENEFIT OF ALBERTA'S END-USE CONSUMERS IN A WAY THAT CONTRIBUTES TO THE DEVELOPMENT AND EVOLUTION OF AN EFFICIENT, COMPETITIVE MARKET FOR ELECTRICITY.

## GUIDING PRINCIPLES

- *Act in the overall, long-term interest of Alberta consumers in the competitive electric industry.*
- *Comply with all applicable laws and regulations, specifically adhering to the deregulation principles that are outlined in the Electric Utilities Act (EUA).*
- *Contribute to the development and evolution of a competitive market. This recognizes that all consumers benefit from a well functioning, competitive wholesale market for electricity.*
- *Maintain the independence of the Power Pool of Alberta.*

## MESSAGE FROM THE POWER POOL COUNCIL

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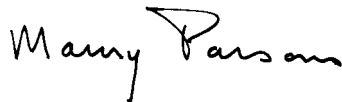


ON BEHALF OF THE POWER POOL COUNCIL AND THE BALANCING POOL COMMITTEE, I AM PLEASED TO PRESENT THIS, OUR FIRST BALANCING POOL ANNUAL REPORT. THIS DOCUMENT IS INTENDED TO PROVIDE ALBERTA ELECTRICITY CONSUMERS AND OTHER INDUSTRY STAKEHOLDERS WITH A DETAILED DISCUSSION OF THE BALANCING POOL'S ACTIVITIES AND FINANCIAL PERFORMANCE FOR THE YEAR.

*We are rigorous in our commitment to fulfill our mandate related to the Balancing Pool. As outlined in this report, the Balancing Pool has extensive responsibilities in our changing electricity industry. We are carrying out our legislated mandate with a clear focus – acting in the interests of Alberta consumers.*

*During such a major industry transition, we believe it's essential that industry stakeholders continue to work together. The Balancing Pool continues to welcome the ongoing input of stakeholders.*

*As the province's electric industry evolves into an efficient, competitive marketplace, we believe all consumers will benefit.*

A handwritten signature in black ink that reads "Maury Parsons". The signature is written in a cursive, slightly slanted style.

Maury Parsons  
Chairman

## MESSAGE FROM THE BALANCING POOL COMMITTEE CHAIR

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**T**HE YEAR 2000 SAW MANY SIGNIFICANT MILESTONES IN THE TRANSITION TO A COMPETITIVE ELECTRIC INDUSTRY IN ALBERTA. ON BEHALF OF CONSUMERS, THE BALANCING POOL PLAYED A PROMINENT ROLE IN THIS TRANSITION, AND CONTINUES TO HAVE IMPORTANT RESPONSIBILITIES AS THE NEW MARKETPLACE EVOLVES.

*As defined in the Electric Utilities Act and the Balancing Pool Regulation, the Power Pool Council was assigned the responsibility and authority to establish and operate the Balancing Pool. We established the Balancing Pool during 1999 and early 2000.*

### *A mission statement guides us:*

*To optimize the operations and administration of the Balancing Pool for the long-term benefit of Alberta's end-use consumers in a way that contributes to the development and evolution of an efficient, competitive market for electricity.*

### *The Balancing Pool has two primary roles:*

- to manage the financial accounts arising from the transition to a competitive generation market on behalf of Alberta electricity consumers, and*
- to meet any obligations and responsibilities associated with both unsold and sold Power Purchase Arrangements (PPAs). The PPAs, which were auctioned in August 2000, are arrangements that provide successful bidders with the rights to the capacity of formerly regulated generating plants.*

### *Balancing Pool Committee Members*



Dale Hildebrand



Jim Joyce



Mick Davies

*During 2000, the Balancing Pool undertook numerous activities related to these roles, including the implementation of the Market Achievement Plan, and our supporting responsibilities in the Government's auction of PPAs. Please refer to the Balancing Pool Administrator's report on the following pages for detailed information about these activities.*

*The Council also established the Balancing Pool Committee, which includes consumer representatives. The Committee's mandate is to evaluate and recommend prudent policies and rules for the management of the Balancing Pool, and to monitor and ensure that the rules and policies are being adhered to and effective. The Committee oversees the administration of the Balancing Pool fund and the development of the investment policy by the Balancing Pool Administrator, Don Gerke, who carries out the day-to-day management on behalf of the Council.*

*I chair the Committee as a representative of Council, and consumers and industry professionals are involved in order to provide a broader perspective on how to achieve the applicable objectives of the Electric Utilities Act.*

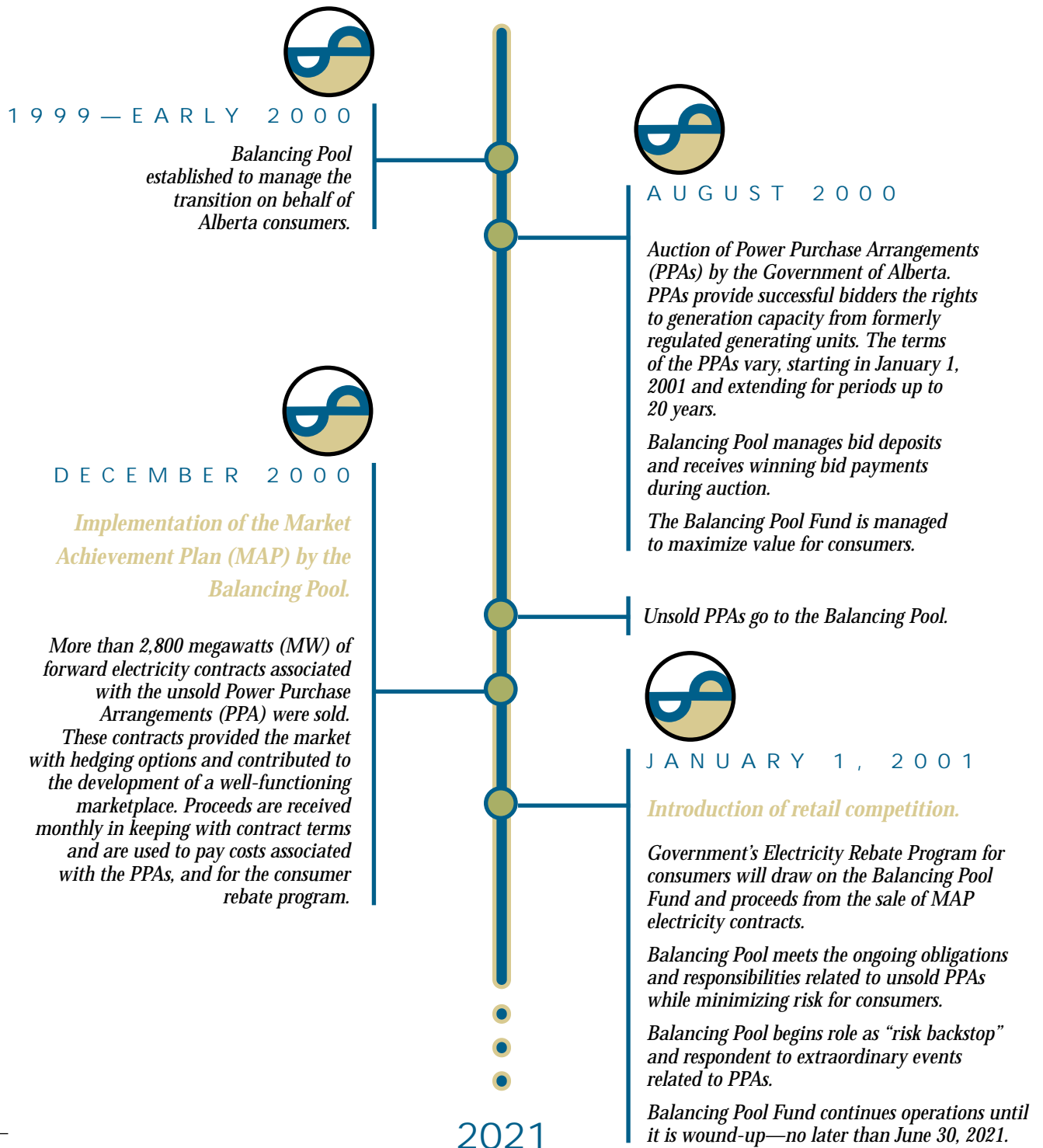
*The Power Pool Council acknowledges the input of stakeholders. The ongoing advice of industry members on the Balancing Pool Committee and the important role of consumers on the Market Achievement Plan Advisory Committee, have contributed greatly to all aspects of the Balancing Pool's policies and operations.*

*The Balancing Pool is committed to consult with stakeholders on the long-term management of the unsold Power Purchase Arrangements, risk management and any matters that would ensure we fulfill our obligations and responsibilities to Alberta consumers.*

A handwritten signature in black ink that reads "Linda Hohol".

*Linda Hohol*  
*Balancing Pool Committee Chair*

# THE TRANSITION TO A COMPETITIVE ELECTRIC INDUSTRY IN ALBERTA AND THE ROLE OF THE BALANCING POOL



## REPORT FROM THE BALANCING POOL ADMINISTRATOR

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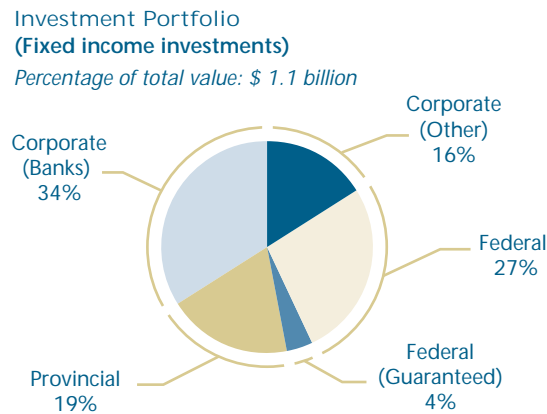
Standing, from left, Don Gerke and Renee Usselman. Seated, from left, Michelle Manuliak and Owen Craig. Not pictured: Bruce Roberts, Doug Heath.

**D**URING 2000, THE BALANCING POOL'S FOCUS TURNED FROM ESTABLISHING PROCESSES AND SYSTEMS TO ENSURE EFFECTIVE OPERATIONS, TO UNDERTAKING A NUMBER OF MAJOR ACTIVITIES THAT SUPPORT THE PROVINCE'S MOVE TO A COMPETITIVE ELECTRIC INDUSTRY.

*Key among these activities is:*

- *investing and managing funds arising from the proceeds of the government's Power Purchase Arrangement (PPA) auction on behalf of consumers;*
- *managing the unsold PPAs and the hydro PPA, and assuming the rights and obligations for these PPAs in accordance with provincial regulations;*
- *implementing the Market Achievement Plan (MAP), which provided the opportunity for Alberta consumers, retailers and marketers to buy energy contracts associated with the unsold PPAs; and*
- *managing extraordinary events associated with the PPAs and acting as a "risk backstop."*

## REPORT FROM THE BALANCING POOL ADMINISTRATOR



### Fund Management

The Government of Alberta, through the Alberta Department of Resource Development (now Alberta Energy), used two mechanisms in 2000 to introduce competition into the supply of thermal power built during regulation (before 1995). Both mechanisms, the auction of PPAs and MAP, generated proceeds for Alberta consumers.

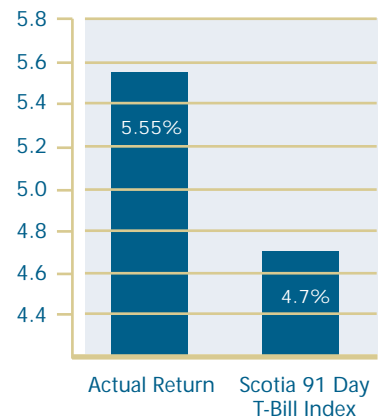
As one of its key roles, the Balancing Pool was established as a financial account to receive and disburse funds arising from this transition to a competitive generation market on behalf of electricity consumers. The Balancing Pool's investment objective is principally to preserve the capital and maintain the liquidity of the Balancing Pool Fund while generating as much income as reasonably possible for distribution to consumers over time.

The auction of PPAs was completed in August 2000. The Balancing Pool supported the administration of the auction including managing bid deposits and receiving winning bid payments. Five bidders paid more than \$1.1 billion for the rights to generation capacity totalling 4,249 megawatts (MW). The terms of the PPAs began on January 1, 2001 for periods of up to 20 years. Proceeds from the auction go to the Balancing Pool-administered Fund.

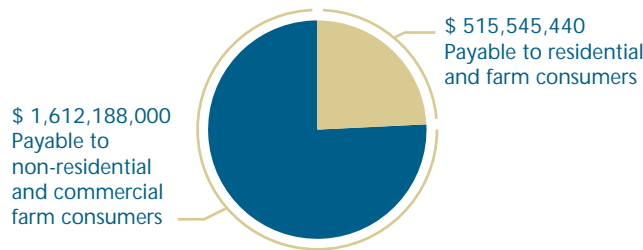
The Balancing Pool Administrator (BPA) has responsibility for all aspects of the investment of the Fund. The Balancing Pool Committee oversees the administration of the Fund and the development of the investment policy by the BPA. The BPA provides quarterly reports to the Committee and the Power Pool Council.

The Electric Utilities Act provides that any excess or shortfall of funds in the Balancing Pool account be allocated to, or provided by, electricity consumers. The Fund is distributed to consumers under the Allocation Regulation. The Balancing Pool is required to be wound-up not later than June 30, 2021. Upon wind-up, the final distribution to consumers will be made.

Investment Portfolio Performance  
One Year



Electricity Rebate Program



*MAP was implemented by the Balancing Pool in December 2000. (See below for more information on MAP implementation). The net proceeds from the sale, about \$1.0 billion, are being received monthly over the term of the contracts and are being directed to the consumer rebate program.*

**Rebate Program for Consumers**

*In December 2000 the Minister of Resource Development for Alberta announced the rebate program. More than one million Alberta residential and farm consumers are entitled to monthly rebates on their electricity bills of \$40. Non-residential and commercial farm consumers will receive \$0.036 per kilowatt hour for consumption of more than 44 million MW hours.*

*During 2001, the Balancing Pool Fund will make payments to Alberta consumers of about \$2.1 billion in keeping with the government's Electricity Rebate Program. The rebates will be funded from the proceeds of the PPA auction, as well as the MAP auction.*

**Responsibilities Related to Unsold PPAs — Thermal and Hydro**

*On behalf of Alberta electricity consumers, the Balancing Pool assumed all rights and obligations as a buyer of the unsold PPAs. The unsold PPAs represent 2,291 MW of committed capacity from the following power plants: H.R. Milner 144 MW, Genesee 762 MW, Sheerness 756 MW, and Cloverbar 629 MW.*

*The H.R. Milner PPA was terminated on January 1, 2001 (please see Management's Discussion and Analysis for details). The plant is being offered for sale to the open market by a Sale Committee consisting of representatives from Alberta Power (2000) Ltd., and the operator, which is, ATCO Power Ltd., consumer groups and the Balancing Pool.*

*As of January 1, 2001, the Balancing Pool is the counterparty to the hydro PPA. This PPA covers output from the 13 hydroelectric plants owned and operated by TransAlta Utilities Corporation. It was not offered for auction because of the special operating characteristics of these plants and their role in maintaining the reliability of the provincial electric system. TransAlta has the right to sell the output from the plants, which is unlike the thermal PPAs where the buyer establishes and executes the strategy for selling plant output. The Balancing Pool receives payments from TransAlta based upon an amount of electricity and ancillary services outlined in the PPA at the market price in effect. The current amount under the agreement is 1,650 gigawatt hours (GWh) per annum. In exchange, the Balancing Pool is obligated to pay TransAlta the fixed and variable costs of operating the plants.*

#### ***Implementation of the Market Achievement Plan (MAP)***

*Following the PPA auction in August 2000, the Alberta Department of Resource Development prepared a policy with respect to the forward and spot sale of energy the Balancing Pool is entitled to through its ownership of the unsold PPAs. An advisory committee comprised of Alberta consumer groups and other industry representatives worked with the Department and the Balancing Pool to develop the program.*

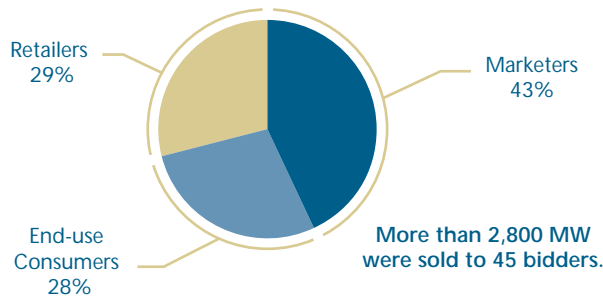
*On December 4 and 5, 2000, the Balancing Pool offered for sale to the open marketplace electricity contracts for 2001, 2002 and 2003 based on the unsold PPAs.*

*Response from the marketplace was positive with 62 bidders taking part in a competitive auction.*

*More than 2,800 MW of electricity contracts in total were sold to 45 successful bidders. Buyers in the sale included marketers, retailers and end-use consumers. Certain holding restrictions applied to ensure that no one buyer could unduly influence Alberta's electricity marketplace, and to ensure that the majority of the energy is made available to serve the electricity needs of Alberta consumers.*

## REPORT FROM THE BALANCING POOL ADMINISTRATOR

### Map Auction Buyers



*The Balancing Pool successfully marketed and completed the sale within an extremely tight timeframe in order to bring the electricity into the marketplace by January 1, 2001— on schedule with the introduction of retail competition.*

*While the funds raised in the auction were significant, a much larger benefit for consumers is the move to a more competitive and well functioning marketplace.*

*The following objectives were met successfully:*

- promote the entry of more marketplace participants;*
- contribute to the development of a forwards market; and*
- achieve price transparency in forwards markets thus contributing to price certainty for consumers.*

### *Extraordinary Events*

*The Balancing Pool also is responsible to respond to certain extraordinary events during the operating period of the PPAs such as force majeure, unit destruction, buyer or owner default or a change in law resulting in termination.*

*In August 2000, TransAlta Utilities Corporation's Wabamun 4 unit, covered by a PPA sold to ENMAX Corporation, experienced operational difficulties. The owner does not expect the unit to resume operations until repairs are complete in May 2001. The Balancing Pool is assessing and verifying the occurrence and has not yet made a decision on whether this is an event of force majeure as submitted by the owner.*

*In the event of force majeure incidents, the Balancing Pool is required to make the capacity payments on behalf of the PPA buyer. If there is default on the part of the purchasers or the owners of the PPAs, the Balancing Pool would take over and act as counterparty. This would require the Balancing Pool to assume certain rights and obligations of ownership such as paying the generating plant's fixed and variable costs to the facility's owner.*

*Other Activities*

*In keeping with the Balancing Pool Regulation, the Balancing Pool developed a number of new rules in 2000 to facilitate its activities. Rules are developed and implemented as necessary.*

*Looking Ahead*

*We are working with Alberta Energy to determine the next steps in the implementation of MAP including how the remaining unsold PPA capacity will be offered to the electricity market.*

*The Balancing Pool will continue to manage the PPAs we hold to achieve maximum value for consumers while contributing to the development and evolution of an efficient, competitive market.*

*As part of the H.R. Milner Sale Committee, we will work to achieve a timely and successful sale of this plant on behalf of Alberta consumers.*

*The Balancing Pool is taking a proactive role in the Industry Structure Review being conducted for Alberta Energy. Under review in 2001 are the functions of the Power Pool of Alberta, the Transmission Administrator and the Balancing Pool. The Balancing Pool will co-operate with the Department in ensuring the review of role, function, governance and funding of these entities provides for the efficient and reliable operation of Alberta's electricity marketplace.*

*I would like to thank the Balancing Pool staff for their extra efforts particularly around the implementation of MAP.*

*We appreciate the guidance of the Balancing Pool Committee members in all of our activities. And we recognize the co-operation, feedback and input from hundreds of industry stakeholders in helping to make the transition to a competitive electric industry.*

*We look forward to providing you regular reports as we fulfill our obligations to Alberta consumers.*



*Don Gerke  
Balancing Pool Administrator*



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FOR ALBERTA'S ELECTRICITY CONSUMERS



## MANAGEMENT'S DISCUSSION AND ANALYSIS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*Net income for 2000, the first year of the Balancing Pool operations, was \$16.0 million.*

*Year ended December 31  
(thousands of dollars)*

	<b>2000</b>	1999
<i>Net income</i>	<b>15,976</b>	0
<i>Assets</i>	<b>4,199,549</b>	290
<i>Balancing Pool Deferral Account</i>	<b>329,797</b>	0
<i>Total assets</i>	<b>4,529,346</b>	290
<i>Total liabilities</i>	<b>4,529,346</b>	290

*The Balancing Pool Deferral Account at the end of the year was \$330 million.*

*This is the amount that will be required to fund the portion of the Balancing Pool's liabilities that are in excess of its assets. This liability is expected to be funded by the proceeds from the Market Achievement Plan (MAP) auction held in December 2000 (approximately \$1 billion) which will be received monthly beginning in February 2001.*

*The shortfall of assets over liabilities arises as a result of the method of accounting for the 2001 payment of the electricity rebates (\$2.1 billion) and the method of accounting for the expected funding sources. The rebates will be funded from the proceeds of the Power Purchase Arrangement (PPA) auction (\$1.1 billion) and the expected net proceeds from the MAP auction. The MAP proceeds will be recorded on a monthly basis beginning in January 2001 as the electricity under the contracts is delivered, and therefore the MAP proceeds have not been recorded as an asset on the Balance Sheet.*

*Net earnings of \$16 million was as a result of investment returns on the Balancing Pool Investment Fund. The Fund is principally made up of proceeds from the PPA auction and is invested in highly liquid, high quality fixed income investments.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### IMPLEMENTATION OF THE MARKET ACHIEVEMENT PLAN

*The gross proceeds from the (MAP) auction of \$2.3 billion, are received by the Balancing Pool over the term of the contracts. The proceeds are used to meet Balancing Pool obligations including paying capital and operating costs to the owners of the plants associated with the unsold PPAs. The residual, estimated to be about \$1 billion, will be allocated to consumers in keeping with government regulations.*

*The 2000 MAP sale of contracts primarily covered capacity for 2001, with lesser quantities sold for 2002 and 2003. The Balancing Pool is working with Alberta Energy, and consulting with the MAP Advisory Committee about how to manage capacity for 2002 and beyond. Information on subsequent phases of MAP implementation will be provided to stakeholders as soon as they are determined.*

### SALE OF H.R. MILNER

*The H. R. Milner Station is a coal-fired thermal electric generating plant owned by Alberta Power (2000) Ltd., an ATCO company, and operated by ATCO Power Ltd. The H.R. Milner PPA was withdrawn from the government's PPA auction in August 2000 following uncertainty surrounding the plant's coal supply. The Balancing Pool became the counterparty to this PPA, and entered into a negotiated settlement with the generator-owner of this 144 MW plant. The parties agreed that the PPA be terminated on January 1, 2001 and Alberta Power was paid the remaining net book value of the plant assets (\$60 million) plus other adjustments. The plant is being operated by ATCO on behalf of the Balancing Pool and efforts are being made to sell the plant for the benefit of electricity consumers in Alberta pursuant to an operating agreement effective January 1, 2001. Under the agreement, the Balancing Pool pays the operating costs of the plant plus a management fee to ATCO.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*The Balancing Pool has secured a short-term fuel supply contract with Luscar Coal to supply coal to the H.R. Milner plant from Luscar's OBED Mountain Mine. The contract will allow the plant to operate until it is sold and to continue to provide much-needed transmission system support in the area.*

*The H.R. Milner Station will be offered for sale by a Sale Committee, consisting of representatives from ATCO Power, consumer groups and the Balancing Pool. An important first task for the Sale Committee was the appointment of an independent consultant to develop and implement the marketing process. Following a request for proposals, the Sale Committee appointed Macquarie North America Ltd. ("Macquarie") as the independent consultant. Macquarie is working with the Sale Committee on the development of a marketing process. It is anticipated that the marketing process will commence in May 2001, with the intention of selecting a successful purchaser in the last quarter of 2001.*

### HYDRO PPA

*The Hydro PPA has been recorded as an asset on the Balance Sheet at the estimated value of future revenues in excess of costs discounted at 8% over the life of the arrangement. This PPA is accounted for differently than the unsold thermal PPAs because it is a financial contract. TransAlta Utilities Corporation, the owner of the hydro facilities, retains operational control of the hydro assets under the terms of this PPA.*

### THERMAL PPAs

*The unsold thermal PPAs that are held by the Balancing Pool have been recorded as a capital asset at their net book value at December 31, 2000 as determined under capital lease accounting methods. The capital asset will be depreciated beginning in 2001.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### WABAMUN 4 OPERATING PROBLEMS

*In August 2000, TransAlta Utilities Corporation's Wabamun 4 unit, covered by a PPA sold to ENMAX Corporation, experienced operational difficulties. The unit was shut down for repairs and is not expected to return to service until May 31, 2001. Capacity payments for this PPA for the five-month period from January 1, 2001 (when the PPA came into effect) to May 31, 2001 are estimated to be more than \$17 million.*

*The Balancing Pool is assessing and verifying this matter and has not yet made a decision on whether this is an event of force majeure as defined in the PPAs and as submitted by the owner. If it is confirmed to be a force majeure event, the Balancing Pool is obligated to pay the capacity payments during the period the plant is out of service.*

### RISK MANAGEMENT

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

***Fluctuating Market Prices:** Changes in the market price for electricity and ancillary services influence the amount of income the Balancing Pool receives from the hydro PPA and any thermal PPAs it holds. Electricity prices are highly volatile. This volatility is caused by market factors such as supply and demand, fuel costs (e.g. natural gas) and weather patterns.*

*Changes in power plant fuel costs (e.g. natural gas prices) will also affect the net earnings from the PPAs that the Balancing Pool holds.*

*These inherent market risks are managed through the use of purchase and sales contracts for both electricity and plant fuels.*

***Plant Availability:** Most of the expected available capacity for 2001 from the PPAs that the Balancing Pool holds was sold at the MAP auction on a transmission system firm delivery basis. In the event that the PPA units are not available to supply these delivery obligations, the Balancing Pool will need to purchase energy at the prevailing market price to cover the shortfall.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

***Counterparty Credit Risk:*** *The Balancing Pool is exposed to counterparty credit risk. In the event that there is a default on payments due by the counterparties to the hydro PPA, MAP contracts and the commodity swap contract, (which is described in Note 13 to the financial statements) this would cause financial loss to the Balancing Pool.*

*The review and management of risk is an ongoing Balancing Pool priority. During 1999 and 2000, the Balancing Pool conducted a thorough analysis and review of the exposure it assumes to market price volatility as counterparty to the hydro PPA. The Power Pool Council and Balancing Pool considered the use of financial instruments, to manage this volatility. A decision was made and approved by the Council to hold the hydro PPA and retain the natural hedge. Stakeholders were consulted through the MAP Advisory Committee.*

## FORWARD-LOOKING INFORMATION

*Certain information in this Management's Discussion and Analysis (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, which 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.*



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FOR ALBERTA'S ELECTRICITY CONSUMERS



## **FINANCIAL STATEMENTS**

**DECEMBER 31, 2000**

*(in thousands of dollars)*

## AUDITORS' REPORT

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### *To the Power Pool Council*

*We have audited the balance sheet of the **Balancing Pool** as at December 31, 2000 and the statement of Earnings and Balancing Pool Deferral Account for the year 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 audit.*

*We conducted our audit 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, 2000 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.*

*PricewaterhouseCoopers LLP*

**Chartered Accountants**  
Calgary, Alberta  
February 28, 2001

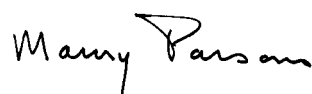
## FINANCIAL STATEMENTS

### Balance sheet

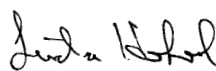
<i>As at December 31, 2000</i>	<b>2000</b>	1999
<i>(in thousands of dollars)</i>		
<b>Assets</b>		
<b>Current assets</b>		
Cash (Note 3)	88,895	—
Accounts receivable	7,401	
Investments (Note 4)	1,102,886	
	<b>1,199,182</b>	—
<b>Hydro Power Purchase Arrangement (Note 13)</b>	<b>734,988</b>	—
<b>Capital assets (Note 5)</b>	<b>2,264,523</b>	—
Deferred charges (Note 6)	856	290
Balancing Pool Deferral Account (Note 1)	329,797	—
	<b>4,529,346</b>	<b>290</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Due to entity under common control (Note 12)	149	290
Accounts payable	4,419	—
Payable to Market Achievement Plan auction participants	7,206	—
Electricity rebates (Note 9)	2,127,733	—
Accrued liabilities	60,227	—
Current portion of capital lease obligations (Note 5)	109,185	—
Current portion of regulatory deferral payable (Note 7)	61,413	—
Current portion of reclamation and abandonment provision (Note 8)	5,250	—
	<b>2,375,582</b>	<b>290</b>
<b>Capital lease obligations (Note 5)</b>	<b>2,078,837</b>	—
<b>Reclamation and abandonment provision (Note 8)</b>	<b>24,798</b>	—
<b>Regulatory deferral payable (Note 7)</b>	<b>18,962</b>	—
<b>Small power producer contracts (Note 13)</b>	<b>31,167</b>	—
	<b>4,529,346</b>	<b>290</b>
<b>Equity (Note 1)</b>	—	—
<b>Contingencies (Note 10)</b>	<b>4,529,346</b>	<b>290</b>

The accompanying notes to the financial statements are an integral part of these statements.

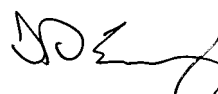
**On behalf of the Balancing Pool:**



Maury Parsons  
Council Chairman



Linda Hohol  
Council Member



Tom Cumming  
Council Member

## FINANCIAL STATEMENTS

### *Statement of Earnings and Balancing Pool Deferral Account*

<i>For the year ended December 31, 2000</i>	<b>2000</b>	<b>1999</b>
<i>(in thousands of dollars)</i>		
<b>Revenue</b>		
<i>Investment income</i>	<b>16,827</b>	—
<b>Expenses</b>		
<i>General and administrative</i>	<b>851</b>	—
<b>Net income</b>	<b>15,976</b>	—
<b>Increase(decrease) in the Balancing Pool Deferral Account</b>		
<i>Net income</i>	<b>15,976</b>	—
<i>Proceeds of August 2000 Power Purchase Arrangement auction</i>	<b>1,175,900</b>	—
<i>Electricity rebate</i>	<b>(2,127,733)</b>	—
<i>Increase in capital assets and deferred charges</i>	<b>2,265,089</b>	290
<i>Hydro Power Purchase Arrangement</i>	<b>734,988</b>	—
<i>Other working capital items</i>	<b>(64,405)</b>	(290)
<i>Capital lease obligations</i>	<b>(2,188,022)</b>	—
<i>Reclamation and abandonment provision</i>	<b>(30,048)</b>	—
<i>Regulatory deferral payable</i>	<b>(80,375)</b>	—
<i>Small Power Producer Contracts</i>	<b>(31,167)</b>	—
<b>Balancing Pool Deferral Account - end of year</b>	<b>(329,797)</b>	—

The accompanying notes to the financial statements are an integral part of these statements.

## 1 NATURE OF OPERATIONS

### FORMATION AND DUTIES OF THE BALANCING POOL

*The Power Pool Council (the “corporation”) was incorporated on May 17, 1995 under the Electric Utilities Act (the “Act”) of the Province of Alberta. The corporation consists of individual members independent of persons having a material interest in the Alberta electric industry. The corporation commenced operations under the name Power Pool of Alberta on January 1, 1996. The duties of the Power Pool Council were expanded on April 30, 1998 through an amendment to the Act to include the operations of the Balancing Pool. The corporation is a not-for-profit organization and no share capital has been issued.*

*The Balancing Pool was established as a financial account to receive and disburse funds arising from the transition to a competitive electricity market in Alberta on behalf of consumers. In addition to receiving and disbursing funds, the Balancing Pool acts as counterparty to the Power Purchase Arrangements (“PPAs”) that were not sold at the public auction held by the Government of Alberta in August 2000. The Balancing Pool, on behalf of electricity consumers, has assumed all rights and obligations of a buyer of these PPAs. The Balancing Pool is also required to respond to certain extraordinary circumstances during the operating period of the PPAs such as force majeure, unit destruction, buyer or owner default or a change in law resulting in termination of the PPA. In situations resulting in termination, the Balancing Pool will assume all rights and obligations of the PPA.*

*The corporation also operates a competitive power pool which is to be an efficient market for electricity in the Province of Alberta based on fair and open competition where all eligible persons wishing to exchange electric energy may do so on non-discriminatory terms. The main functions of the Power Pool of Alberta are receiving bids and offers for the purchase and sale of electricity, preparing demand forecasts and supply schedules, determining the order in which purchasers and suppliers are dispatched to satisfy demand, reporting the hourly Pool Price, carrying out financial settlements for electric energy exchanged, providing trade and Pool Price information and carrying out surveillance of the electricity market. The operations of the Power Pool are reported separately and are not consolidated in these financial statements.*

## ACTIVITIES OF THE BALANCING POOL

*The Act provides that any excess or shortfall of funds in the Balancing Pool account be allocated to or provided by electricity consumers over a period of 20 years starting January 1, 2001. No profit or loss will result from its operations.*

*Differences between revenues and expenditures of the Balancing Pool are recorded in the Balancing Pool Deferral Account. Amounts in this account will be collected from or refunded to consumers in Alberta.*

## REVENUE AND FUNDING

*The Balancing Pool has seven primary sources of revenue and funding:*

i) *Proceeds of Power Purchase Arrangement auction*

*A significant component of the transition to a competitive market was the Government of Alberta's public auction of the PPAs held in August 2000. Purchasers of PPAs acquired the rights to the generation capacity of regulated generating units in Alberta beginning on January 1, 2001 for periods of up to 20 years. The proceeds of the auction were deposited into the Balancing Pool.*

ii) *Proceeds of Market Achievement Plan (MAP) auction*

*In December 2000 an auction was held by the Balancing Pool in accordance with the MAP. The purpose of this auction was to sell the rights to generation from those PPAs that had not been auctioned by the Government of Alberta in the auction noted in (i) above.*

*Forward electricity contracts were sold at the MAP auction for periods of one to three years beginning on January 1, 2001. The proceeds of this auction will be received in the form of monthly payments over the period of the respective contracts.*

iii) *Hydro Power Purchase Arrangement*

*As a result of deregulation, the Balancing Pool has obtained the rights to the net revenues derived from the operation of certain hydro projects in the province.*

iv) *Investment Income*

*The proceeds from the auctions and arrangements noted above are expected to generate investment income for the Balancing Pool.*

v) *Thermal Generation Asset*

*The Balancing Pool will generate revenue and incur operating costs resulting from the operation of a thermal generating asset (H.R. Milner).*

vi) *Ancillary Services*

*The Balancing Pool sells available ancillary services from its thermal generation asset and generation units covered by the PPAs to Alberta's Transmission Administrator.*

vii) *Payments in Lieu of Taxes*

*Pursuant to Section 31.994 of the Act, the Balancing Pool collects from municipalities and companies controlled by municipalities, amounts equal to those for which they would be liable if they were subject to tax.*

## EXPENSES AND DISBURSEMENTS

### *The Balancing Pool has four primary expenditures:*

i) *Rebates*

*The Balancing Pool has the responsibility to pay rebates to electricity consumers in Alberta in 2001. These rebates were set by the Government of Alberta through regulation.*

ii) *Power Purchase Arrangements*

*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 PPAs held by the Balancing Pool.*

iii) *Transmission Costs*

*The Balancing Pool is obligated to pay transmission costs associated with its thermal generation asset and the output from its PPAs.*

iv) *Miscellaneous Obligations*

*Under the terms of the various deregulation legislation, the Balancing Pool is obligated to make payments to certain entities for such matters as reclamation and abandonment costs of isolated generation sites, regulatory deferral accounts of utilities, and small power producer contracts under the Small Power Research and Development Act.*

## 2 SIGNIFICANT ACCOUNTING POLICIES

*The financial statements of the Balancing Pool have been prepared by Management in accordance with Canadian generally accepted accounting principles (Canadian GAAP). Since a determination of many 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 judgement. Actual results will differ from these estimates. In particular, there were significant accounting estimates in relation to the following provisions:*

- i) Regulatory deferral accounts (Note 7)*
- ii) Electricity rebates (Note 9)*
- iii) Reclamation and abandonment provisions (Note 8)*
- iv) Hydro Power Purchase Arrangement (Note 13)*
- v) Small power producer contracts (Note 13)*

*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

#### *Thermal power purchase arrangements*

*Revenue from electricity sold under PPAs held by the Balancing Pool is recognized on an accrual basis.*

#### *Hydro power purchase arrangements*

*Revenue from the Hydro PPA is recognized on an accrual basis. The Hydro PPA is recorded on the Balance Sheet at the present value of the expected future net revenue from this arrangement with changes in this value being recognized in earnings.*

#### *MAP contracts*

*Proceeds from the forward sale of MAP contracts for the years 2001, 2002 and 2003 are recognized beginning in January, 2001 on a monthly basis over the period of the contracts.*

### *Investment income*

*Investments consist of highly liquid, high quality fixed income investments. Income from these investments is recognized on an accrual basis.*

### *Payment in lieu of income taxes*

*Pursuant to Section 31.994 of the Act, the Balancing Pool collects from municipalities and entities controlled by municipalities amounts equal to those for which they would be liable for if they were subject to tax.*

## INCOME TAXES

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

## CAPITAL AND OPERATING LEASES

*The PPAs transfer to the corporation substantially all the benefits and risks of ownership and are therefore treated as if the asset had been purchased outright. The assets are included in capital assets at the net book value in the PPA at January 1, 2001. The capital element of the leasing commitments is shown as obligations under capital leases. Assets held under capital leases are depreciated over the shorter of the lease terms and the useful lives of the assets.*

## THERMAL GENERATION ASSET

*The thermal generation asset (H.R. Milner) is recorded in the accounts at cost and is amortized over a 33 month period beginning on January 1, 2001.*

## RECLAMATION AND ABANDONMENT

*The Balancing Pool has recorded an estimate of the cost to abandon and reclaim certain generating unit sites in Alberta. Actual costs incurred to abandon and reclaim these sites will reduce this liability. Costs incurred in excess of this liability will be charged to expense.*

## 3 CASH

*The cash balance includes \$7,206,000 of refundable deposits repayable to MAP auction participants.*

## 4 INVESTMENTS

Investments consist of highly liquid, high quality fixed income investments. At December 31, 2000 these investments had an average yield of 5.5%.

## 5 CAPITAL ASSETS

<i>(in thousands of dollars)</i>	<b>2000</b>	1999
Capital leases	<b>2,188,022</b>	—
Thermal generation assets	<b>76,501</b>	—
	<b>2,264,523</b>	—

### CAPITAL LEASES

Under the terms of the Act, the Balancing Pool has assumed the role of the counterparty to the Sheerness, Genesee and Cloverbar PPAs. These PPAs have been accounted for as capital leases and have been recorded at the net book value outlined in the PPAs at December 31, 2000. The market value for these assets is unknown.

The future minimum annual payments under the leases are as follows:

<i>(in thousands of dollars)</i>	<b>2000</b>	1999
2001	<b>109,185</b>	—
2002	<b>105,972</b>	—
2003	<b>110,229</b>	—
2004	<b>109,694</b>	—
2005	<b>116,608</b>	—
Thereafter	<b>1,636,334</b>	—
	<b>2,188,022</b>	—
Less: Current portion	<b>(109,185)</b>	—
	<b>2,078,837</b>	—

### THERMAL GENERATION ASSETS

The balance relates to the purchase of the power generating rights of the H.R. Milner plant for the period January 1, 2001 to September 30, 2002 with a right of renewal for a further year. The purchase price also includes the estimated costs of decommissioning the plant at the end of the contract period.

## 6 DEFERRED CHARGES

<i>(in thousands of dollars)</i>	<b>2000</b>	1999
MAP auction costs	<b>566</b>	—
Start-up costs	<b>290</b>	290
	<b>856</b>	290

The balance will be amortized on a straight-line basis over three years beginning on January 1, 2001.

## 7 REGULATORY DEFERRAL ACCOUNTS

As a result of decisions by the Alberta Energy and Utilities Board (the “Board”) the Balancing Pool is required to reimburse certain Alberta utilities for unamortized deferral accounts, interest on utility company deferral accounts, and other residual balances. At December 31, 2000 an estimate of these amounts has been made. The ultimate amounts and the amortization period will be determined by the Board. This amount is composed of the following balances:

<i>(in thousands of dollars)</i>	<b>2000</b>	1999
Regulatory deferral accounts	<b>80,375</b>	—
Less: Current portion	<b>(61,413)</b>	—
	<b>18,962</b>	—

## 8 RECLAMATION AND ABANDONMENT PROVISION

<i>(in thousands of dollars)</i>	<b>2000</b>	1999
H.R. Milner plant decommissioning costs	<b>13,098</b>	—
Isolated generation site reclamation costs	<b>16,950</b>	—
	<b>30,048</b>	—
Less: Current portion	<b>(5,250)</b>	—
	<b>24,798</b>	—

(a) *H.R. Milner Plant*

*Under the H.R. Milner purchase agreement (Note 5) the Balancing Pool assumed liability for the costs of decommissioning the plant at the end of the contract period. The estimated costs of decommissioning the plant are included in the capitalized purchase price.*

(b) *Isolated Generation Site Reclamation Costs*

*In December, 2000 the Minister of Resource Development for Alberta approved a regulation whereby the Balancing Pool is liable for certain amounts relating to the reclamation costs associated with isolated generation units. The Balancing Pool has made estimates of these costs for sites in service and abandoned sites which have not been reclaimed as at December 31, 2000 based on its analysis of the reclamation requirements and an estimate of the number of abandoned sites.*

*The provision is made up as follows:*

<i>(in thousands of dollars)</i>	<b>2000</b>	1999
<i>Sites in service</i>	<b>5,250</b>	—
<i>Abandoned sites</i>	<b>11,700</b>	—
	<b>16,950</b>	—
<i>Less: Current portion</i>	<b>(5,250)</b>	—
	<b>11,700</b>	—

*The ultimate payment of these costs is dependant upon approval of these costs by the Board.*

## **9 ELECTRICITY REBATES**

*In December of 2000 the Alberta Minister of Resource Development announced a program whereby residential and commercial customers in Alberta would be entitled to rebates on their monthly electricity bills in 2001 equal to \$40 per month for residential and farm customers and \$0.036 per kilowatt hour for non-residential and farm customers. The Balancing Pool has recorded a liability for these payments at December 31, 2000 based on its estimate of 1,074,053 residential and farm customers and consumption of 44,783,000 megawatt (MW) hours of electricity by non-residential and farm customers. The actual amount paid out under this program may be different than this estimate if the number of residential and farm customers or their consumption is different from these assumptions.*

## 10 CONTINGENCIES

### THERMAL POWER PURCHASE ARRANGEMENTS

*In the event of force majeure incidents as contemplated in the PPAs, the Balancing Pool is required to make the capacity payments on behalf of the PPA buyer. If there is default on the part of the purchasers or the owners of the PPAs, the Balancing Pool would take over and act as counterparty. This would require the Balancing Pool to assume certain rights and obligations of ownership such as paying the fixed and variable costs of the owner of the generation facility and may require the recognition of additional capital leases in the Balancing Pool's financial statements.*

*As at December 31, 2000 assets relating to a generating plant with a committed capacity of 548 MW of electricity had experienced operational difficulties. The Balancing Pool had not determined at the time of preparation of these financial statements whether these operational difficulties constituted a force majeure event. Until such determination is made, no accounting recognition will be made in the financial statements of the Balancing Pool. The utility involved expects the plant to be operational by May 31, 2001. The capacity payments for this PPA for the five month period ending on May 31, 2001 are estimated to be \$17,435,000.*

*On February 8, 2001 a utility filed an application with the Board for recovery from the Balancing Pool of additional costs in the amount of \$21 million relating to the temporary suspension of a generating unit for the period October 1, 2000 to December 31, 2000. The Board has neither determined a process for hearing this matter nor issued a decision in this respect. In the event that the Balancing Pool is directed by the Board to pay all costs that were incurred by all utilities in Alberta related to the generating unit for that period, the estimated additional amount is \$120 million.*

## 11 COMMITMENTS

### PLANT OPERATING AGREEMENT

*The Balancing Pool has entered into an operating agreement in relation to the H.R. Milner plant. This agreement is effective January 1, 2001 for a term of 21 months with an option to extend for a further 12 months. Under the agreement, the Balancing Pool must pay the operating costs of the plant. The minimum payment on account of operating costs under the contract is \$500,000 per annum.*

## COAL PURCHASE AGREEMENT

*A coal purchase agreement has been entered into to supply the H.R. Milner plant with fuel for a term of 21 months with an option to extend for a further 12 months. The agreement provides for a minimum delivery of 400,000 tonnes of coal in 2001 and 300,000 tonnes in 2002. The price of the coal under the contract is not disclosed due to the commercially sensitive nature of this information.*

## ANCILLARY SERVICES

*Pursuant to an Ancillary Services Supply Agreement dated January 1, 2001, the Balancing Pool has agreed to act as a service provider for the period January 1, 2001 to July 3, 2001 to the Transmission Administrator, ESBI Alberta Ltd (“ESBI”). Under the terms of this agreement, ESBI shall be entitled to purchase from the Balancing Pool certain ancillary services in amounts up to 356 MW per hour.*

*The payment for the services provided is calculated by reference to a set formula which is tied to Power Pool prices.*

## 12 RELATED PARTY TRANSACTIONS

*The Power Pool of Alberta, an entity under common control, funded the Balancing Pool start-up costs during the year ended December 31, 1999. Amounts due to the Power Pool of Alberta bear interest at bank prime with no fixed terms of repayment.*

## 13 FINANCIAL INSTRUMENTS

### BALANCE SHEET

*Financial instruments recognized on the balance sheet consist of cash, accounts receivable, accounts payable and accrued liabilities and investments. Due to the short-term nature of these instruments their fair value approximates the carrying amount.*

## RISKS

*The Balancing Pool is exposed to various risks including:*

- a) *Price risk – changes in the market price for natural gas, electricity and ancillary services will influence the amount of income that the Balancing Pool will receive from the Hydro PPA and the Thermal PPAs.*
- b) *Credit risk – there is a risk that counterparties to Hydro PPA, the MAP contracts, and the commodity swap contract held by the Balancing Pool or the utility holding the small power producer contracts will default on payments, thus causing financial loss to the Balancing Pool.*

## COMMODITY SWAP

*The Balancing Pool has entered into a commodity swap transaction whereby it has fixed the price of natural gas that is purchased for consumption at the H.R. Milner and the Cloverbar generating stations. Under the terms of this agreement the price of natural gas is fixed for pre-determined volumes that vary throughout the year ending on December 31, 2001.*

*The Balancing Pool's pricing strategy for electricity generated from these assets is related to the cost of gas consumed. As a result of the commercially sensitive nature of this information, the terms of this commodity swap are not disclosed.*

## HYDRO POWER PURCHASE ARRANGEMENT

*The Balancing Pool is the counterparty to the Hydro PPA, a financial arrangement recorded on the Balance Sheet at the estimated market value. This is unlike the thermal PPA's under which the Balancing Pool influences the operational control of the generating units and which are recorded at the owner's net book value at December 31, 2000. The Balancing Pool will receive payments from the owner of the hydro plants based upon a notional level of production of electricity and ancillary services at the market price in effect. In exchange, the Balancing Pool is obligated to pay the owner the fixed and variable costs of operating the plants. The total notional production under the agreement is 1,650 gigawatt hours per annum.*

*The contract starts on January 1, 2001. At year-end the contract was valued at \$734,988,000. Key assumptions in this valuation were:*

- a) *A discount rate of 8%.*
- b) *Annual market prices of electricity averaging \$46/ MW hour over the 20-year period. Average annual ancillary services revenue of \$41 million over the 20-year period.*

*A 10% increase or decrease in the annual 20-year Power Pool price forecast increases or decreases the asset value by \$129 million.*

## SMALL POWER PRODUCER CONTRACTS

*Under AR 285/95 Independent Power and Small Power Regulation, as amended, issued under the Act, any surplus or deficit on 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 charged from the Balancing Pool.*

*There are 18 contracts for a total allocated capacity of 108 MW in 2001. Contract prices for 2001 range from \$0.0619/MW hour to \$0.0600/MW hour. Contract completion dates range between July 25, 2001 and December 31, 2014; the majority of these contracts expire after 2010. Under these contracts the price that the small power producer receives 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 producer. If the market price exceeds the contract price the producer must pay the differential to the Balancing Pool. At December 31, 2000 the Balancing Pool has estimated that the net present value of these contracts results in a liability of \$31,167,000. Key assumptions in this valuation were the use of a discount rate of 8% and an average 20-year expected market price of electricity of \$46/MW hour.*

## MARKET ACHIEVEMENT PLAN CONTRACTS

*In November 2000 the Balancing Pool conducted an auction of forward contracts for the sale of electricity during the fiscal years ended December 31, 2001, 2002 and 2003. These contracts require the purchaser to pay an agreed amount and to accept specified volumes of electricity during the period of the contract. Revenue from the sale of these forward contracts has not been recorded in the accounts of the Balancing Pool at December 31, 2000. Revenue will be recorded on a monthly basis beginning in January 2001, as it becomes collectible. A summary of these contracts is as follows:*

Year	Type of electricity	Hourly volume sold (megawatts)	Average price per megawatt/hour
2001	Base load	1,493	116.63
2001	On peak	451	153.79
2002	Base load	651	66.82
2003	Base load	210	60.07

## 14 STATEMENT OF CASH FLOWS

*Since cash flows primarily have arisen from the PPA auction and subsequent investments, no statement of cash flows has been presented.*





**balancingpool**  
FOR ALBERTA'S ELECTRICITY CONSUMERS

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BALANCING POOL

#1800 MCFARLANE TOWER

700 - 4TH AVENUE S.W.

CALGARY, AB T2P 3J4

TEL 403-543-0380

FAX 403-543-0388

[WWW.BALANCINGPOOL.CA](http://WWW.BALANCINGPOOL.CA)