balancingpool

2013 Annual Report

The Balancing Pool

Generating value for Alberta's consumers

The Balancing Pool was established in 1999 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.*

Our legislated duties and strategic objectives include the following:

- For Power Purchase Arrangements (PPAs) that were sold to the public, act as a backstop related to extraordinary events, including force majeure;
- Participate in regulatory and dispute resolution processes to protect the value of the Balancing Pool's assets, when required on behalf of Alberta electricity consumers;
- Hold the Hydro PPA and manage the associated stream of receipts or payments;
- Act as a buyer for the PPAs that were not sold in the public auction held by the Government of Alberta in 2000 and manage the resulting electricity portfolio in a commercial manner;
- Transfer offer control to market participants by selling PPAs held by the Balancing Pool in whole or through PPA derivative contracts when market conditions will allow the Balancing Pool to receive fair market value;
- Manage the investment accounts prudently; and
- In accordance with the Balancing Pool's mandate, allocate any forecasted cash surplus (or deficit) to electricity consumers in Alberta in annual amounts. This Consumer Allocation is to be managed so that there is no profit or loss over the life of the Balancing Pool with the net economic benefit of the Balancing Pool over its life distributed to Alberta electricity consumers.

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.

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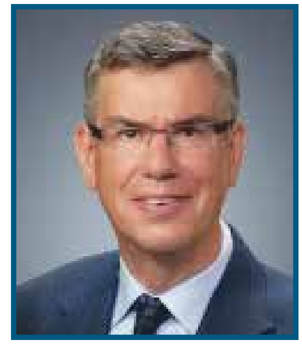
Message to Stakeholders from the Board Chair



William Stedman

During 2013, the Balancing Pool put in place a five-year strategic plan, defined the 2014 sales approach for the Market Achievement Plan (MAP) IV related to the Genesee Power Purchase Arrangement (PPA), and conducted a comprehensive review of staff and management compensation.

The past year, 2013, has been a year of significant milestones and outcomes for the Balancing Pool. In particular, we contributed $313.0 million, by way of a Consumer Allocation of $5.50 per megawatt hour, paid to Alberta's electricity consumers. We intend to maintain this allocation level in 2014. Since 2006, the total allocation from the Balancing Pool to Alberta electricity consumers has exceeded $1.7 billion.

The Board of the Balancing Pool promoted Bruce Roberts to be our new President and Chief Executive Officer. Mr. Roberts has managed previous MAP initiatives at the Balancing Pool. His previous experience is a valuable asset as we move ahead with our long-term strategy.

The Balancing Pool has clarified its direction and priorities going forward, with a new five-year strategic plan. This plan is included on our website.

In 2013, we developed new PPA strips for the Genesee PPA. This important project is discussed in more detail in the CEO's message.

After a recruitment process, the Minister of Energy, the Hon. Ken Hughes, appointed two new Board members in 2013 to fill the vacancies from retiring members at the Balancing Pool. We welcome the extensive financial and managerial expertise which Greg Pollard and Monica Sloan bring to the Balancing Pool. Also in 2013, I accepted the Minister's appointment as Board Chair.

On behalf of all of our Board Members, we look forward to continuing to meet the Balancing Pool's obligations and to generate value for Alberta's electricity consumers.

William R. Stedman
Chair

Governance of the Balancing Pool

Adhering to the *Electric Utilities Act (2003)*, the Minister of Energy appoints members of the Balancing Pool 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.

William R. Stedman, Chair, is the Chairman and Chief Executive Officer of ENTx Capital Corporation, a private holding company. He has held this position since the inception of ENTx in 2001. From 1997 to 2000, he was President and Chief Executive Officer of Pembina Pipeline Corporation, the operating company of Pembina Pipeline Income Fund. Bill was also President and Chief Executive Officer of Pembina Corporation, a privately held oil, gas and pipeline company, from 1993 to 1997. He received a Bachelor of Science from Dalhousie University, a Bachelor of Civil Engineering (with Distinction) from McGill University and a Master of Business Administration from Harvard Business School. He is a director of OMERS Energy Inc., Tundra Energy Marketing Inc. and Keyera Corporation.

Judith Athaide is the President and Chief Executive Officer of The Cogent Group Inc., an independent consulting firm which assists organizations to transition to, and thrive within, competitive energy markets. Her almost 25 years of experience in the energy industry has spanned the value chain from wells to light switch. She has a Bachelor of Commerce degree (Honours), a Masters of Business Administration in Finance and a Bachelor of Science degree in Mechanical Engineering. More recently she has been awarded the designation of ICD.D by the Institute of Corporate Directors. Judith serves on the Board of Directors of Fortis Alberta and chairs the Audit and Finance Committee, and Phoenix Technology Services where she chairs the Compensation Committee. She is also involved in a number of non-profit organizations, including the Business Advisory Council of the University of Alberta's School of Business, as an Executive on the Calgary Chapter of the ICD and as a Govenor of the Calgary Petroleum Club.

Greg Pollard is the Chief Financial Officer of Connacher Oil and Gas Limited, a focused in situ oil sands developer, producer and marketer of bitumen in Alberta. Greg has more than 30 years of experience in the energy field. He led Ernst & Young LLP's Transaction Advisory Services practice in Calgary from 2008 to 2012 following his return from Ernst & Young's Houston, Texas office where he served as Gulf Coast Transaction Advisory Services practice and market leader, as well as oil and gas industry sector leader in the Americas. He is a Chartered Accountant (1979), a Chartered Insolvency Practitioner (1992) CIRP (ret.), and a graduate of the Kellogg School of Management Executive Program (2007). In 2012 he received his ICD.D from the Institute of Corporate Directors.

Monica Sloan is the Managing Director of JKS Holdings Ltd., a private investment capital and operating holding company. She has a background as both a senior executive and management consultant specializing in technology, IT and business strategy within the energy sector. She was Managing Director and CEO of Intervera Data Solutions, President of TSE-listed Kelman Technologies and founding President of Telus Advanced Communications. Monica is a member of a number of public and not-for-profit boards including Aecon Group and Methanex Corporation where she is Chair of the Corporate Governance Committee. Previously she was on the boards of Industrial Alliance Pacific Insurance and Financial Services, the Alberta Electric System Operator and the Calgary Arts Development Authority, and Chair of Biovantage Inc. She is Vice Chair of Opera.ca and past Chair of the Calgary Opera Association serving on the board since 1999. Monica has a BSc in Applied Earth Sciences, a BA in Economics and an MSc Engineering, all from Stanford University and an MBA from Harvard. In 2005 she received her ICD.D from the Institute of Corporate Directors.

Doug Topping is a retired professional electrical engineer registered in Alberta and Ontario and a certified director with the Institute of Corporate Directors. Doug has 40 years of experience in thermal power generating station planning, design, construction, commissioning, operation, maintenance and retirement, primarily in Alberta. His engineering experience includes coal-fired, simple cycle and combined cycle natural gas, hydro, wind and biomass. In addition to the Balancing Pool, Doug's board experience includes directorships with the Canadian Electrictiy Association, Alberta Chamber of Resources, EPCOR Power LP, Alberta Motor Association and Capital Region Housing Corporation.

The Balancing Pool's Audit and Finance Committee is chaired by Judith Athaide, and the Governance and Human Resources Committee is chaired by Doug Topping.

Report from the President and CEO

Bruce Roberts

HIGHLIGHTS OF 2013

In 2013, we undertook significant work to prepare the Balancing Pool for the launch of the Market Achievement Plan (MAP) IV auction early in 2014.

MAP IV Process Defined

Since the Balancing Pool's inception in 1999, a priority has been the transfer of control of electricity capacity and ancillary services associated with Power Purchase Arrangement (PPA) generation assets to market participants.

Aside from the Hydro PPA, the only remaining PPA the Balancing Pool controls is the 800-megawatt (MW) Genesee PPA. Strip contracts for this PPA sold through our previous MAP processes expired at the end of 2006. We have since sold electricity and ancillary services related to this PPA through the spot and forward electricity markets.

Regulatory uncertainty related to federal greenhouse gas regulations and their impact on the potential value of PPAs was one of the factors that delayed subsequent MAP processes. With this regulatory matter resolved, during 2012 - 2013 we retained a consulting firm to assess the state of the market and determine the market's receptivity to a potential Genesee PPA or PPA derivative auction.

In 2014 after approval of our application from the Alberta Utilities Commission (AUC), we will be proceeding with the auction of two 100-MW strip contracts each with a three-year term effective May 1, 2014. These contracts represent a quarter of the Genesee capacity and we anticipate interest from market participants both in and outside of Alberta.

Goals of the MAP IV process are to ensure consumers realize fair market value for the contracts while enhancing competition in the wholesale electricity market by enabling existing and new market participants to acquire a physical position.

Strong Financial Performance Continued in 2013

At the end of 2013, the Balancing Pool had revenues of approximately $811.0 million and managed $2.5 billion in assets on behalf of Alberta's electricity consumers.

The largest source of cash inflow for the Balancing Pool is derived from the sale of electricity and ancillary services from the Genesee and Hydro PPAs we hold. Electricity prices in 2013 averaged $80 per megawatt hour (MWh). This resulted in net cash flows from the PPAs of $317.0 million, as compared to $283.0 million in 2012.

During the past few years, the Balancing Pool has realized good performance on our investment portfolio. In 2013, the Balancing Pool had a $178.4 million return on our investment account—an average return of 18.44 per cent after fees. We have a balance of more than $1.0 billion in our portfolio.

Consumer Allocations Maintained at Increased Level

The Balancing Pool continues to return a significant amount of investment and electricity sales income to Alberta electricity consumers via the Consumer Allocation. In 2012 we substantially increased our Consumer Allocation to $5.50 per MWh of consumption—a level which we have maintained through 2013 and into 2014.

In 2013 the Consumer Allocation amounted to more than $313.0 million. Approximately 80 per cent of the annual allocation goes to commercial and industrial electricity consumers, with the remainder to the residential and farm sectors.

Commercial Issues

Under the terms of the PPAs, the Balancing Pool is exposed to longer term business risks including those related to changes in law, force majeure and PPA termination.

In 2011, the PPA Owner of the Sundance A Units applied for termination. In 2012 an independent arbitration panel refused the termination claim and instead ordered the PPA Owner to repair the Units and return them to service. The Units were returned to service in the fall of 2013. In keeping with the panel's ruling, the Balancing Pool paid capacity payments of about $141.0 million to the PPA Owner during a portion of the outage period.

The Balancing Pool is awaiting pending arbitration on the Keephills Generating Station force majeure application that was made in early 2014.

Strategic Direction

The Balancing Pool's Board of Directors supported the development of our five-year strategic plan. In 2013, our Board approved the plan which identifies five priority areas that reflect our mandate:

- Backstop PPA related extraordinary events;
- Manage our electricity portfolio in a commercial manner;
- Transfer offer control to the market;
- Manage investments prudently; and
- Remit surplus funds to consumers.

A number of strategic initiatives have been developed within each area to ensure our mandate is delivered.

In many ways, 2013 was a year of defining directions for our ongoing work. Together with our Board members, we continue to work with government officials, agencies and stakeholders on behalf of Alberta's electricity consumers.

Bruce Roberts

Bruce Roberts
President and Chief Executive Officer

April 4, 2014

Management's Discussion and Analysis

Year ended December 31, 2013

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A"), dated April 4, 2014, should be read in conjunction with the audited financial statements of the Balancing Pool for the years ended December 31, 2013 and 2012.

These financial statements for the year ended December 31, 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and have been presented in Canadian dollars.

The Balancing Pool was established in 1999 by the Government of Alberta to help manage the transition to competition in Alberta's electricity industry. Our obligations and responsibilities are governed by the *Electric Utilities Act* (2003) and the *Balancing Pool Regulation*.

Results at a Glance

Years ended December 31	2013	2012	2011
Volume			
Genesee Power Purchase Arrangement [gigawatt hours ("GWh")]	6,084	6,180	6,441
Hydro Power Purchase Arrangement electricity GWh	1,650	1,654	1,650
Hydro Power Purchase Arrangement ancillary Service GWh	1,265	1,269	1,264
Small Power Producer GWh	467	461	515
Hedged volume GWh	3,850	2,767	2,138
Price			
Average Pool Price per megawatt Hour ("MWh")	$80.19	$64.32	$76.21
Average hedge price per MWh	$66.50	$81.07	$80.92
Other			
Consumer Allocation per MWh	$5.50	$5.50	$2.00
Financial Results *(in thousands of dollars)*			
Revenues	810,918	450,523	969,506
Expenses	306,561	401,093	509,648
Income from operating activities	504,357	49,430	459,858
Change in net assets attributable to the Balancing Pool deferral account	457,741	75,455	468,788
Cash, cash equivalents and investments	1,135,211	1,050,429	1,016,331
Total assets	2,492,195	2,577,232	2,817,703
Total liabilities	554,986	784,067	792,984
Net assets attributable to the Balancing Pool deferral account	1,937,209	1,793,165	2,024,719
Net change in cash, cash equivalents and investments	84,782	34,098	245,544
Consumer Allocation	313,697	307,009	110,440

Legislated Duties and Strategic Objectives

Our legislated duties and strategic objectives include the following:

- For Power Purchase Arrangements ("PPAs") that were sold to the public, act as a backstop related to extraordinary events, including force majeure;
- Participate in regulatory and dispute resolution processes to protect the value of the Balancing Pool's assets, when required on behalf of Alberta electricity consumers;
- Hold the Hydro Power Purchase Arrangement ("Hydro PPA") and manage the associated stream of receipts or payments;
- Act as a buyer for the PPAs that were not sold in the public auction held by the Government of Alberta in 2000 and manage the resulting electricity portfolio in a commercial manner;
- Transfer offer control to market participants by selling PPAs held by the Balancing Pool in whole or through PPA derivative contracts when market conditions will allow the Balancing Pool to receive fair market value;
- Manage the investment accounts prudently; and
- In accordance with the Balancing Pool's mandate, allocate any forecasted cash surplus (or deficit) to electricity consumers in Alberta in annual amounts. This Consumer Allocation is to be managed so that there is no profit or loss over the life of the Balancing Pool with the net economic benefit of the Balancing Pool over its life distributed to Alberta electricity consumers.

Force Majeure

Events of force majeure are extraordinary events beyond the reasonable control of the affected PPA counterparty. Related to its risk backstop responsibilities, the Balancing Pool has a statutory obligation to pay certain costs during events of force majeure as set out in the terms of the PPAs.

Financial Assets under Investment

Financial investments held by the Balancing Pool at December 31, 2013 exceeded $1.1 billion (2012 - $1.0 billion). These financial assets are available to mitigate existing or future Balancing Pool liabilities and will otherwise be available for future distribution to Alberta electricity consumers through the Consumer Allocation. The Balancing Pool's Board has approved a long-term investment policy for managing the financial assets. The investment policy is based on prudent investment standards and generally focuses on achievement of a fair return on investments through a diversified investment portfolio to reduce risk. Professional money management firms manage the investment portfolio. The major sources of our investment income include interest, dividends and gains or losses on the sale of investments.

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

Fixed Income	40 – 60 per cent
Canadian Equities	15 – 35 per cent*
Global Equities	15 – 35 per cent*

*Total equity exposure is capped at 60 per cent.

Genesee Power Purchase Arrangement and Related Finance Lease Obligation

The Genesee power purchase arrangement ("Genesee PPA") transfers substantially all of the benefits and some of the risks of ownership to the Balancing Pool. The asset is accounted for as a finance lease as required by IAS 17 *Leases* and is included in PP&E as required by IAS 16 *Property, Plant and Equipment*. The Genesee PPA is recorded at an amount not exceeding the estimated net future cash flows arising from operations over the remaining life of the PPA. The Balancing Pool is not responsible for the daily operation of the Genesee power plant, however the Balancing Pool does retain offer control.

As counterparty to the Genesee PPA, the Balancing Pool is required to make monthly payments to the owner of the generating unit intended to cover fixed and variable costs. Only the capital component of the monthly payment is shown as a finance lease obligation.

Hydro Power Purchase Arrangement

The Hydro power purchase arrangement ("Hydro PPA") is recorded as an asset at the net present value of the estimated net cash receipts over the remaining term of the contract, which expires on December 31, 2020. Future revenues are estimated based on the notional energy and reserve (ancillary services) volumes set out in the Hydro PPA and management's best estimate of future energy and reserve prices. Corresponding expenses reflect the obligations for the remaining term of the contract as set out in the Hydro PPA. The Hydro PPA is recorded as a financial asset since TransAlta Corporation ("TransAlta"), the owner of the hydro plants, retains offer control of the hydro assets under the terms of this PPA.

Payments in Lieu of Tax

Payments in Lieu of Tax ("PILOT") receipts are based on the taxable income of a municipal entity as defined in Section 147 of the *Electric Utilities Act* and the *Payment in Lieu of Tax Regulation of the Act*. In general the PILOT amounts are equal to the amount the municipal entity would be required to pay as tax that year pursuant to the *Income Tax Act of Canada* and the *Alberta Corporate Tax Act*. PILOT payments remitted by the municipal entity are subject to audit by Alberta Tax and Revenue Administration. The Balancing Pool has no control over the PILOT amounts remitted by the municipal entities or the assessments issued by Alberta Tax and Revenue Administration.

Small Power Producer Contracts

Under the *Independent Power and Small Power Regulation*, the Balancing Pool is required to make payments to TransAlta, the administrator of the Small Power Producer ("SPP") contracts to compensate TransAlta for the revenue shortfall during periods when the Pool price falls below the SPP contracted price. Conversely, the Balancing Pool is entitled to receive payments from TransAlta during high price periods when there is a revenue surplus.

The SPP contracts are recorded as a liability calculated as the net present value of the future payments or receipts from SPP related power sales considering any differences between the annual prices set out in the SPP contracts and management's best estimate of the market price forecast over the remaining term of the contracts.

The SPP contracts are recorded as a financial instrument analogous to a fixed for floating swap arrangement.

Reclamation and Abandonment

The reclamation and abandonment provision represents a fixed amount that has been committed for the decommissioning of the H.R. Milner generating station, estimated reclamation and abandonment costs associated with the Isolated Generation sites and estimated decommissioning costs of eligible PPA-related facilities.

Under the Negotiated Settlement Agreement for the H.R. Milner generating station in 2001, the Balancing Pool assumed liability for the costs of decommissioning the station at the end of the contract period. When the asset was sold in 2004, the Balancing Pool retained the liability for decommissioning the generating station. A bilateral agreement was reached in 2011 with Milner Power Limited Partnership where the Balancing Pool's exposure to decommissioning costs is capped at $15.0 million in nominal dollars.

Under the *Isolated Generating Units and Customer Choice Regulations of the Act*, the Balancing Pool is liable for certain amounts relating to the reclamation and abandonment costs associated with Isolated Generation sites.

Pursuant to Section 7 of the *Power Purchase Arrangements Regulation of the Act*, the owner of a PPA-related generating unit who applies to the Alberta Utilities Commission ("AUC") 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 consumers before January 1, 2001 and subsequently through a PPA, provided that the unit has ceased generating electricity and subject to AUC approval. This provision does not apply to PPA-related generating units termination dates that occur after December 31, 2018.

Operations

Revenues

Details of Revenues *(in thousands of dollars)*	**2013**	**2012**	**Variance**
Sale of electricity	419,243	387,779	31,464
Change in fair value of Hydro power purchase arrangement	192,303	(55,183)	247,486
Changes in fair value of Small Power Producer contracts	7,398	(21,146)	28,544
Change in fair value of investments	148,823	67,364	81,459
Investment income – interest and dividends	29,587	28,481	1,106
Payments in lieu of taxes (PILOT)	13,564	43,228	(29,664)
Total revenues	810,918	450,523	360,395

Revenues from the sale of electricity, Hydro PPA and SPP contracts increased in 2013 relative to 2012 primarily as a result of the increase in average Power Pool ("Pool") prices year-over-year. Changes in fair value of investments increased from 2012 due to strong growth in the equity markets. These increased revenues were partially offset by lower PILOT receipts.

Sale of Electricity

Revenue from the sale of electricity and ancillary services derived from the Genesee PPA increased primarily as a result of higher average Pool prices. Average Pool prices were 25 per cent higher in 2013 relative to 2012 mainly due to extended outages on several base loaded generation facilities. The effect of higher prices was partially offset by lower generating volumes experienced during 2013 relative to 2012 due to outages at the Genesee plant.

Change in Fair Value of Hydro Power Purchase Arrangement

Details of Changes in Fair Value of Hydro Power Purchase Arrangement *(in thousands of dollars)*	**2013**	**2012**	**Variance**
Accretion and current year change	149,854	87,824	62,030
Re-valuation of hydro power purchase arrangement gains (losses)	42,449	(143,007)	185,456
Total change in fair value of hydro power purchase arrangement	192,303	(55,183)	247,486

Accretion and current year change increased for 2013 relative to 2012 because actual current year cash receipts exceeded those forecast in the prior year's valuation. Actual cash receipts increased as a result of the higher than expected Pool prices for the year. The value of the Hydro PPA at December 31, 2013 increased relative to 2012 as a result of an increase in the expected future cash flows for electricity and ancillary services from the expected future cash flows in the prior year's valuation calculation.

Change in Fair Value of Small Power Producer Contracts

Details of Changes in Fair Value of Small Power Producer Contracts *(in thousands of dollars)*	**2013**	**2012**	**Variance**
Accretion and current year change	7,654	(4,796)	12,450
Revaluation of Small Power Producer contracts	(256)	(16,350)	16,094
Total change in fair value of Small Power Producer contracts	7,398	(21,146)	28,544

Accretion and current year changes increased mainly due to higher actual current year cash receipts than those forecast in the prior year's valuation. Actual cash receipts increased as a result of the higher than expected Pool price for the year. The revaluation of the SPP contracts at December 31, 2013 resulted in a small loss.

Changes in Fair Value of Investments

Details of Changes in Fair Value of Investments *(in thousands of dollars)*	**2013**	**2012**	**Variance**
Unrealized mark-to-market gains	119,645	65,973	53,672
Realized capital gains	29,178	1,391	27,787
Total change in fair value of investments	148,823	67,364	81,459

The value of investments increased from 2012 as a result of strong growth in the international and Canadian equity markets in 2013. Realized capital gains increased due to the sale of investments in early 2013 compared to a net purchase of investments in 2012.

Investment Income – Interest and Dividends

Details of Investment Income *(in thousands of dollars)*	**2013**	**2012**	**Variance**
Interest income	16,257	16,850	(593)
Dividend income	13,330	11,631	1,699
Total investment income – interest and dividends	29,587	28,481	1,106

Investment income increased mainly due to higher dividend returns over the year as a result of an increase in the proportion of dividend paying stocks held in the portfolio in 2013 relative to the previous year. Interest income decreased slightly with the planned move to shorter duration lower yielding bonds.

Payments In Lieu of Tax

Details of PILOT *(in thousands of dollars)*	**2013**	**2012**	**Variance**
PILOT instalments received for 2013 tax year	27,431	46,271	(18,840)
PILOT instalment re-allocations and refunds for prior tax years	(13,731)	(2,748)	(10,983)
PILOT audit and litigation costs	(136)	(295)	159
Total PILOT revenues	13,564	43,228	(29,664)

Total PILOT revenues decreased compared to 2012 as a result of lower PILOT instalments received from electricity companies controlled by municipalities, and higher re-allocations for prior years. The Balancing Pool has no control over the timing and amount of PILOT instalments remitted by the municipalities or adjustments and / or refunds in relation to reassessments of prior years. PILOT instalments are calculated by the electric companies and are subject to audit by Alberta Tax and Revenue Administration. The Balancing Pool is responsible to pay the PILOT audit and litigation costs incurred by Alberta Tax and Revenue Administration.

Expenses

Details of Expenses *(in thousands of dollars)*	**2013**	**2012**	**Variance**
Cost of sales	307,852	340,750	(32,898)
Force majeure costs	30,347	46,811	(16,464)
Mandated costs	2,776	9,796	(7,020)
General and administrative	3,864	3,313	551
Investment management costs	2,477	2,501	(24)
Reclamation and abandonment	(40,755)	(2,078)	(38,677)
Total expenses	306,561	401,093	(94,532)

Overall total expenses for 2013 decreased from the prior year primarily due to reduced estimates for reclamation and abandonment expenses, reduced force majeure and cost of sales and a reduction in mandated costs.

Cost of Sales

Details of Cost of Sales *(in thousands of dollars)*	**2013**	**2012**	**Variance**
Genesee PPA costs	186,445	220,035	(33,590)
Amortization and depreciation	117,762	117,759	3
Power marketing costs	3,645	2,956	689
Total cost of sales	307,852	340,750	(32,898)

Total cost of sales decreased by 9.6 per cent in 2013 mainly because of lower Genesee PPA costs. Genesee PPA costs include plant capacity payments, variable operating costs including incentive payments, and transmission charges. Capacity payments comprise more than 85 per cent of total costs of sales and these payments vary year-over-year as a result of changes in cost base, cost indices, interest rates and pass-through charges. Changes to the Pool price have a minimal impact on the PPA capacity payments. Capacity payments made in 2013 were $9.4 million lower than those made in 2012. The remainder of the Genesee PPA cost decrease can be attributed to decreases in availability incentive payments ("AIP"). Under the terms of the PPA, the Balancing Pool is compensated via AIP based upon the rolling average Pool price during planned and unplanned outages up to the unit's target availability, except during events of force majeure. AIP received by the Balancing Pool during planned and unplanned outages are offset against AIP paid to the plant owner when the units are exceeding target availability. During 2013, the Genesee units experienced an increased number and duration of outages and higher rolling average Pool prices received during the outages compared with 2012, which in combination resulted in increased AIP to the Balancing Pool and a corresponding reduction in Genesee PPA costs.

Force Majeure Costs

Details of Force Majeure Costs *(in thousands of dollars)*	**2013**	**2012**	**Variance**
Keephills 1 force majeure	29,068	–	29,068
Sundance A force majeure	(5,812)	38,028	(43,840)
Other force majeure costs	7,091	8,783	(1,692)
Total force majeure costs	30,347	46,811	(16,464)

Force majeure costs were 35.2 per cent lower in 2013 than in 2012. The Sundance A force majeure event began in February 2011 and was resolved through binding arbitration in 2012. The Balancing Pool was required to make capacity payments to the owner of the Sundance A PPA in the amount of approximately $7.0 million per month until the units were returned to service. The expected force majeure costs were expensed in 2011 and 2012 and a recovery of $5.8 million was recorded in 2013 as the units were returned to service earlier than anticipated.

On March 25, 2013 the owner of the Keephills 1 PPA issued a notice of force majeure in relation to a generator repair. The unit was returned to service on November 11, 2013. The Balancing Pool expensed $29.1 million in capacity payments that were remitted to the plant owner during this period. The PPA Buyer and the Balancing Pool are disputing the owner's force majeure claim and any future adjustment will be recorded prospectively.

Mandated Costs

Details of Mandated Costs *(in thousands of dollars)*	**2013**	**2012**	**Variance**
Utilities Consumer Advocate ("UCA")	1,934	7,332	(5,398)
Transmission facilities cost monitoring committee ("TFCMC")	250	1,258	(1,008)
Retail market review committee ("RMRC")	592	1,206	(614)
Total mandated costs	2,776	9,796	(7,020)

Mandated costs for 2013 decreased relative to 2012 to reflect adjustments to the cost estimates previously accrued for the UCA, TFCMC and RMRC.

Reclamation and Abandonment Expense

Details of Reclamation and Abandonment Expense *(in thousands of dollars)*	**2013**	**2012**	**Variance**
Isolated generation sites	(5,646)	(2,078)	(3,568)
H.R. Milner generating station	(2,470)	–	(2,470)
Decommissioning costs of PPAs	(32,639)	–	(32,639)
Total reclamation and abandonment expense	(40,755)	(2,078)	(38,677)

The reclamation and abandonment provision and other long-term obligations (H.R. Milner Generating Station) were decreased at December 31, 2013 to reflect updated assumptions related to the discharge of these obligations, resulting in a one-time recovery of reclamation and abandonment expense previously recognized in income of $40.7 million.

Net Realized Gains (Losses) on Financial Derivatives

Details of Net Realized Gains (Losses) on Financial Derivatives *(in thousands of dollars)*	**2013**	**2012**	**Variance**
Realized gains (losses) on financial derivatives	(44,912)	25,810	(70,722)
Gains on financial derivatives from cash deposit posted with Natural Gas Exchange	622	1,552	(930)
Unrealized gains on financial derivatives	218	1,380	(1,162)
Net realized gains (losses) on financial derivatives	(44,072)	28,742	(72,814)

From time to time the Balancing Pool enters into electricity forward sales transactions to reduce the volatility of cash flows from electricity sales. At December 31, 2013 approximately 50 per cent (2012 – 35 per cent) of total electricity volumes were sold at fixed prices through forward sales transactions. Realized losses on financial derivatives recognized in net income in 2013 were a result of higher than expected Pool prices emanating from unanticipated power plant outages in the market. The losses on financial derivatives have been offset by higher energy revenue from the sale of electricity.

Assets

Details of Assets *(in thousands of dollars)*	2013	2012	Variance
Cash and cash equivalents	16,404	39,226	(22,822)
Trade and other receivables	51,122	106,794	(55,672)
Risk management assets	811	1,294	(483)
Investments	1,118,807	1,011,203	107,604
Property, plant and equipment	824,312	942,031	(117,719)
Hydro power purchase arrangement	480,739	476,684	4,055
Total assets	2,492,195	2,577,232	(85,037)

Trade and Other Receivables

Trade and other receivable balances at December 31, 2013 were lower than 2012 mainly due to the timing of the monthly settlement schedule in 2012 that resulted in outstanding receivables related to the Alberta Electric System Operator ("AESO") and Hydro PPA settlement amounts. In 2013, the comparable settlement amounts for the AESO and the Hydro PPA were received before the end of the year, reducing the overall trade receivable balances.

Investments

Investment Returns & Benchmark (Per Cent, %)	2013	2012
Investment returns	18.44	10.10
Benchmark	11.95	7.06
Variance	6.49	3.04

Funds under investment increased by $107.6 million at December 31, 2013 when compared to 2012, primarily due to higher unrealized gains on the portfolio as a result of higher investment returns achieved in 2013. Overall investment returns exceeded the investment benchmark by 6.5 per cent.

Property, Plant and Equipment

As required by IAS 16 *Property, Plant and Equipment*, the Genesee PPA is recorded under Property, Plant and Equipment. The decrease in the net book value from 2012 reflects current year amortization of the Genesee PPA and other capital assets.

The Balancing Pool assumed the PPA buyer role for the Genesee PPA in 2001. At that time, the Genesee PPA's obligations exceeded the fair value of the asset, which resulted in the PPA being recorded as a Capital Asset under previous Canadian GAAP ("Generally Accepted Accounting Principles"). On transition to IFRS on January 1, 2010, the Genesee PPA was accounted for as a finance lease. The cost of the Genesee PPA at January 1, 2010, was determined in accordance with the deemed cost exemption permitted by IFRS 1 which allows for valuation at estimated market value. The estimated market value as at January 1, 2010 was increased by $1,079 million compared to the previous Canadian GAAP net book value. The asset is depreciated over the term of the Genesee PPA.

Non-GAAP (Generally Accepted Accounting Principles) Financial Measures – Genesee PPA Fair Value

Management has fair valued the Genesee PPA by calculating the present value of the estimated future net receipts. This is a market-based valuation and is calculated on a consistent basis as the Hydro PPA. This represents a Non-GAAP measure. Management has disclosed the fair value of the Genesee PPA to facilitate comparison with the Hydro PPA.

The table below reconciles the net book value reported on the financial statements to the estimated fair value of the Genesee PPA.

Genesee Power Purchase Arrangement *(in thousands of dollars)*	**2013**	**2012**
Costs	1,505,670	1,505,670
Accumulated amortization and depreciation	(681,462)	(563,718)
Net book value	824,208	941,952
Genesee PPA lease obligation	(432,900)	(492,981)
Genesee PPA net book value, less lease obligation	391,308	448,971
Revaluation of Genesee PPA – market based	60,050	42,374
Genesee PPA fair value – Non-GAAP measure	451,358	491,345

The remaining term of the Genesee PPA is seven years to December 31, 2020. Key assumptions in this Non-GAAP market based valuation are: a discount rate of 10 per cent (2012 – 10 per cent); an average market electricity price of $50.94 / MWh has been assumed for the period between 2014 to 2016; and an average market electricity price of $66.50 / MWh has been assumed for the period 2017 to 2020 (2012 – $61.50 / MWh for 2013 to 2020). The estimated value varies significantly based on the assumptions used and there is a high degree of measurement uncertainty.

Hydro Power Purchase Arrangement

The net present value of the Hydro PPA at December 31, 2013 increased by $4.1 million from the same period in 2012. The increase in fair value was the result of higher energy and ancillary service revenues forecasted for the balance of the term as compared to the 2012 year-end valuation calculation.

Liabilities

Details of Liabilities *(in thousands of dollars)*	**2013**	**2012**	**Variance**
Trade and other payables	77,397	137,877	(60,480)
Force majeure provision	–	64,004	(64,004)
Risk management liabilities	235	936	(701)
Genesee power purchase arrangement lease obligation	432,900	492,981	(60,081)
Small Power Producer contracts	16,647	20,620	(3,973)
Reclamation and abandonment provision and other long-term obligation	27,807	67,649	(39,842)
Total liabilities	554,986	784,067	(229,081)

Trade and Other Payables

Trade and other payables balances at December 31, 2013 were lower than 2012 mainly due to the timing of the monthly settlement schedule in 2012 that resulted in outstanding payables related to the Genesee PPA and Consumer Allocation. In 2013, the comparable Genesee payables were settled before the end of the year, reducing the overall trade payable balances.

Force Majeure

There are no remaining events of force majeure for 2013 which the Balancing Pool is required to remit capacity payments to PPA owners. As a result, there is no requirement for a force majeure provision at December 31, 2013. The balance at 2012 is related to the remaining capacity payments to be made to the owner of the Sundance A PPA in 2013 in accordance with the arbitration panel decision.

The Balancing Pool received a notice of force majeure from the plant owner of the Keephills 2 unit on November 27, 2013. The forced outage commenced on January 31, 2014 for a duration of 47 days. The Balancing Pool estimates a capacity payment of approximately $7.4 million. The force majeure claim is currently under investigation.

Genesee Power Purchase Arrangement Lease Obligation

The year-end balance represents the sum of only the capital component of the total payments required over the remaining term of the Genesee PPA. The decrease in 2013 over 2012 reflects the straight-line amortization of the lease obligation.

Small Power Producer Contracts

The net present value of the SPP contract liability at December 31, 2013 decreased by $4.0 million from the same period in 2012. The decrease in fair value can be attributed to the reduction in the remaining term.

Reclamation and Abandonment Provision and Other Long-Term Obligation

Reclamation and Abandonment Provision and Other Long-Term Obligation *(in thousands of dollars)*	**2013**	**2012**	**Variance**
H.R Milner	11,398	13,335	(1,937)
Isolated generation	7,051	13,932	(6,881)
Decommissioning of power purchase arrangements	9,358	40,382	(31,024)
Total reclamation and abandonment provision and other long-term obligation	27,807	67,649	(39,842)

Our assumptions regarding the timing of the decommissioning of the H.R. Milner Generating Station have changed from 2015 to 2020, resulting in a decrease in the present value of the long-term obligation related to this plant of $2.5 million. This is partially offset by the annual accretion expense of the obligation.

For isolated generation sites, we have revised our estimate of the decommissioning costs, the number of isolated generation sites requiring reclamation and the timing of such reclamation activities. This resulted in a $5.6 million decrease in the liability provision from the prior year. The remainder of the variance is due to liabilities paid in the period and annual accretion expense of the obligation.

Similarly, the assumptions underlying the provision for the decommissioning of the PPAs have also changed based on updated estimates of future net decommissioning costs and management's assessment of the probability that an owner of a generating unit will apply to the AUC to decommission the unit within one year of the termination of the PPA. This resulted in a $32.6 million decrease to the provision and is partially offset by the annual accretion expense of $1.6 million.

Balancing Pool Deferral Account

Balancing Pool Deferral Account, Beginning of Year *(in thousands of dollars)*	**2013**	**2012**	**Variance**
Deferral account, beginning of year	1,793,165	2,024,719	(231,554)
Change in net assets attributable to the Balancing Pool deferral account	457,741	75,455	382,286
Consumer Allocation	(313,697)	(307,009)	(6,688)
Deferral account, end of year	1,937,209	1,793,165	144,044

The Balancing Pool deferral account increased from the prior year mainly as a result of higher income from operating activities due to the strong Pool price in 2013, increases in the fair value of the Hydro PPA and SPP contracts and strong returns on the investment portfolio. The fair value increases reflect higher expectations of higher future Pool prices than those used in the prior year as well as reductions in cost of sales for the Genesee PPA. Changes in the fair value of investments were also higher, reflecting a strong investment climate. Consistently strong cash flows over the year allowed the Balancing Pool to maintain the distribution of $5.50 / MWh (2012 - $5.50 / MWh) to consumers over the 2013 calendar year.

Liquidity and Cash Flow

To manage liquidity risk the Balancing Pool holds short-term cash deposits. In addition, management forecasts cash flows for a period of 12 months and beyond and if necessary has the ability to adjust the Consumer Allocation and / or liquidate investments as required. The Balancing Pool also has access to a credit facility of $90.0 million to meet short-term liquidity needs. At December 31, 2013 the Balancing Pool had $19.0 million of unsecured Letters of Credit issued. Our primary uses of funds are for payment of operating expenses, payment of the Genesee PPA lease obligation and payment of the Consumer Allocation.

Cash and Cash Equivalents, Beginning of Year *(in thousands of dollars)*	**2013**	**2012**	**Variance**
Cash and cash equivalents, beginning of year	39,226	114,125	(74,899)
Net cash provided by operating activities	147,285	190,471	(43,186)
Net cash provided by (used in) investing activities	11,998	(43,033)	55,031
Net cash used in financing activities	(182,105)	(222,337)	40,232
Cash and cash equivalents, end of year	16,404	39,226	(22,822)

For the year ended December 31, 2013 the Balancing Pool received $12.0 million from the sale of investments net of re-invested interest, dividends and capital gains (losses) (2012 - $43.0 million purchase of investments net of re-invested interest, dividends and capital gains (losses)), resulting in an increase of $55.0 million of net cash provided by investment activities when compared to 2012.

Net cash used in financing activities for the year ending December 31, 2013 decreased by $40.2 million, primarily as a result of higher net cash receipts from the Hydro PPA resulting from higher average Pool prices year-over-year.

Outlook

Based on forecasted cash flow and the expected financial position for 2014, the Balancing Pool re-established the annual allocation of its financial surplus to electricity consumers in Alberta at $5.50 per MWh of consumption, effective January 1, 2014. The total allocation is estimated to be approximately $318.0 million during 2014, provided there are no changes to the allocation per megawatt of $5.50 / MWh. Future Consumer Allocations will continue to be funded through a combination of receipts from the Genesee PPA, Hydro PPA, PILOT and sale of investments, as required.

Risks and Risk Management

The Balancing Pool is exposed to a variety of risks while executing its mandate. Most of the risks are unique to the organization given its role and responsibilities in the Alberta electric industry. At the time that the Alberta electricity sector was restructured, the Balancing Pool was created to underwrite various risks associated with the PPAs, much like an insurance company underwriting specific risks. The risks the Balancing Pool is exposed to in executing its mandate include the following:

- Force majeure risk

  Events of force majeure are extraordinary events beyond the reasonable control of the affected PPA counterparty. These events include:

  - Extraordinary situations typically covered in force majeure clauses such as natural disasters, war, explosions, sabotage, etc.;
  - A major failure of some or all of the components of the plant which results in the plant being forced to operate at a lower level for a period in excess of 42 days; and
  - Transmission constraints that limit or prevent the delivery of electricity to the grid.

  Under the provisions of the PPAs, when a claim of force majeure is made, the Balancing Pool is required to pay the Owner the capacity payments normally paid by the Buyer. In addition, during events of force majeure availability incentive payment obligations between the Buyer and Owner are suspended.

  The Balancing Pool maintains an adequate amount of liquidity in the investment portfolio to ensure its responsiveness to potential force majeure claims.

- Power market price volatility risk

  As counterparty to the Genesee PPA, Hydro PPA and SPP contracts, the Balancing Pool is exposed to power market price volatility risk.

  The Alberta market prices for electricity are settled at spot market prices and are dependent on many factors including but not limited to the supply and demand of electricity, generating and input costs, and weather conditions. Exposure to power price volatility is partially managed through the execution of the Balancing

Pool's hedging strategy. The Balancing Pool is able to transfer floating price risk by entering into financial swap contracts with market participants. The Balancing Pool has the ability to further reduce its exposure to market prices by selling blocks of the Genesee PPA capacity over long terms.

- **Marketable securities investment returns**

  As at December 31, 2013, the Balancing Pool has accumulated $1,119.0 million in marketable investment accounts. The value of these investments is exposed to changes in capital markets and, as such, faces the risks related to equity market performance, interest rates, foreign exchange rates, and other financial risks. In addition, the liquidity risk of the portfolio must be managed to ensure sufficient funds are available on relatively short notice in response to potential claims, etc.

  The Balancing Pool's investment portfolio is managed by independent investment managers guided by pre-set asset allocations as specified in the Balancing Pool's Statement of Investment Policy.

- **PPA termination and / or unit destruction risk**

  The PPAs contain termination provisions that make accommodations for the PPA to be terminated. Under certain scenarios, the Balancing Pool could be required to pay the PPA Owner the net book value or the Residual Balancing Pool Amount to the PPA Buyer.

  The Balancing Pool maintains an adequate amount of liquidity in the investment portfolio to be responsive to potential PPA termination claims.

- **Change in law risk**

  Changes in law, including regulatory and electricity market design changes, can have a material effect on the values of the PPAs. Costs (and benefits) associated with a change in law are passed onto the PPA Buyer. As the Buyer of the Genesee PPA, the Balancing Pool must assume and be responsible for change in law costs affecting the Genesee units.

  The Balancing Pool is subject to risk associated with changing Federal and Provincial laws, regulations, and any Balancing Pool specific mandate changes.

- **PPA decommissioning risk**

  If a PPA Owner elects to decommission its facility, the Balancing Pool may be required to recompense the Owner for some of its decommissioning costs. The Balancing Pool would be financially liable for decommissioning costs exceeding the amounts the Owner has collected prior to deregulation and subsequently through the PPA payments. Regulation requires such claims to be initiated within one year of the termination of the PPA and before the year 2018.

  The Balancing Pool estimate of its PPA decommissioning liabilities as at December 31, 2013 is $9.4 million based on the present value of management's assessment of the likelihood of occurrence of such an event, the timing and associated costs.

- **PPA Buyer Default risk**

  The PPA regulation contains provisions where, in the event of a Buyer default, the Balancing Pool would assume the role of Buyer and would either hold the PPA or auction the capacity back to the market.

Accounting Policy Changes

There were no significant changes to accounting standards that impacted the Balancing Pool in 2013. The Balancing Pool prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Critical Accounting Estimates

Since a determination of certain 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 made in relation to the following items:

Reclamation and Abandonment Provision – External engineering estimates are used to calculate the anticipated future costs of reclamation and abandonment. The current and long-term portions of the provision are based upon management's best estimate of the timing of the costs.

Hydro Power Purchase Arrangement and Small Power Producer Contracts – The net present value of future cash flows is estimated using:
- estimated future electricity prices;
- escalated costs as per contract term; and
- future cash flows discounted to net present value at 10 per cent (2011 – 10 per cent).

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.

Forward-Looking Information

Certain information in this MD&A is forward-looking information and relates to, among other things, anticipated financial market performance, future power prices 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 of generating asset and price of energy commodities; regulatory decisions; extraordinary events related to the various PPAs; the ability of the Balancing Pool to successfully implement the initiatives referred to in this MD&A; and other electricity market factors.

Financial Statements

Years ended December 31, 2013 and 2012 pwc

April 4, 2014

Independent Auditor's Report

To the members of the Board of the Balancing Pool

We have audited the accompanying financial statements of the Balancing Pool, which comprise the statements of financial position as at December 31, 2013 and December 31, 2012 and the statements of income and comprehensive income and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Balancing Pool as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

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Statements of Financial Position

(in thousands of Canadian dollars)	**December 31, 2013**	**December 31, 2012**
Assets		
Current assets		
Cash and cash equivalents	16,404	39,226
Trade and other receivables (Note 5)	51,122	106,794
Current portion of Hydro power purchase arrangement (Note 6 b i)	84,212	86,062
Risk management assets (Note 6 b iii)	811	1,294
	152,549	233,376
Investments (Note 7)	1,118,807	1,011,203
Property, plant and equipment (Note 8 a)	824,312	942,031
Hydro power purchase arrangement (Note 6 b i)	396,527	390,622
Total Assets	2,492,195	2,577,232
Liabilities		
Current liabilities		
Trade and other payables (Note 9)	77,397	137,877
Force majeure provision (Note 10, 16)	-	64,004
Current portion of power purchase arrangement lease obligation (Note 8 b)	59,244	60,081
Current portion of Small Power Producer contracts (Note 6 b ii)	7,567	6,291
Current portion of reclamation and abandonment provision (Note 11)	6,862	10,500
Risk management liabilities (Note 6 b iii)	235	936
	151,305	279,689
Genesee power purchase arrangement lease obligation (Note 8 b)	373,656	432,900
Small Power Producer contracts (Note 6 b ii)	9,080	14,329
Reclamation and abandonment provision and other long-term obligation (Note 11)	20,945	57,149
Total Liabilities	554,986	784,067
Net assets attributable to the Balancing Pool deferral account (Note 1, 12)	1,937,209	1,793,165
Contingencies and commitments (Note 13)		
Subsequent Event (Note 16)		

On behalf of the Balancing Pool:

William Stedman
Chair

Judith Athaide
Audit and Finance Committee Chair

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

Statements of Income and Comprehensive Income

(in thousands of Canadian dollars)	December 31, 2013	December 31, 2012
Revenues		
Sale of electricity	419,243	387,779
Changes in fair value of Hydro power purchase arrangement (Note 6 b i)	192,303	(55,183)
Changes in fair value of Small Power Producer contracts (Note 6 b ii)	7,398	(21,146)
Changes in fair value of investments (Note 7)	148,823	67,364
Investment income – interest and dividends	29,587	28,481
Payments in lieu of tax (Note 13)	13,564	43,228
	810,918	450,523
Expenses		
Cost of sales (Note 14)	307,852	340,750
Force majeure costs (Note 10)	30,347	46,811
Mandated costs (Note 15)	2,776	9,796
General and administrative	3,864	3,313
Investment management costs	2,477	2,501
Reclamation and abandonment (Note 11)	(40,755)	(2,078)
	306,561	401,093
Income from operating activities	504,357	49,430
Other income (expense)		
Net (losses) / gains on financial derivatives (Note 6 b iii)	(44,072)	28,742
Finance expense (Note 11)	(2,706)	(3,007)
Other income	162	290
	(46,616)	26,025
Change in net assets attributable to the Balancing Pool deferral account	457,741	75,455

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

Statements of Cash Flows

(in thousands of Canadian dollars)	December 31, 2013	December 31, 2012
Cash flow provided by (used in)		
Operating activities		
Change in net assets attributable to the Balancing Pool deferral account	457,741	75,455
Items not affecting cash		
Amortization and depreciation (Note 8 a)	117,762	117,759
Force majeure provision (Note 10)	23,256	38,028
Reclamation and abandonment provision (Note 11)	(40,755)	(2,078)
Fair value changes on Small Power Producer contracts (Note 6 b ii)	(7,398)	21,146
Fair value changes on Hydro power purchase arrangement (Note 6 b i)	(192,303)	55,183
Fair value changes on financial derivative instruments (Note 6 b iii)	(218)	(1,380)
Fair value changes on financial investments (Note 7)	(119,645)	(65,973)
Finance expense (Note 11)	2,706	3,007
Force majeure expenditures (Note 10)	(87,260)	(83,024)
Reclamation and abandonment expenditures (Note 11)	(1,793)	(11,395)
Net change in non-cash working capital:		
Trade receivables	55,873	(61,672)
Other receivables	(201)	13,848
Trade payables	(62,440)	80,962
Other payables	1,960	10,605
Net cash provided by operating activities	147,285	190,471
Investing activities		
Sale (purchase) of investments	12,041	(43,024)
Purchase of property, plant and equipment (Note 8 a)	(43)	(9)
Net cash provided by (used in) investing activities	11,998	(43,033)
Financing activities		
Hydro power purchase arrangement net cash receipts (Note 6 b i)	188,248	147,992
Payment of power purchase arrangement lease obligation (Note 8 b)	(60,081)	(59,948)
Small Power Producer contracts net (payments) receipts (Note 6 b ii)	3,425	(3,372)
Payment of the Consumer Allocation (Note 12)	(313,697)	(307,009)
Net cash used in financing activities	(182,105)	(222,337)
Change in cash and cash equivalents	(22,822)	(74,899)
Cash and cash equivalents, beginning of year	39,226	114,125
Cash and cash equivalents, end of year	16,404	39,226

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

Notes to Financial Statements

1. Reporting Entity and 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 "Corporation"). The assets and liabilities of the Council that related to the duties, responsibilities and powers of the Balancing Pool were transferred to the Balancing Pool.

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

The Balancing Pool is required to respond to certain extraordinary events during the operating period of all of the Power Purchase Arrangements ("PPAs") such as force majeure, unit destruction, buyer or owner default or termination of a PPA. In situations resulting in termination of a PPA by a Buyer, the Balancing Pool will assume all remaining rights and obligations pursuant to the PPA assuming the PPA continues. The Balancing Pool acted as buyer of the 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 head office and records of the Balancing Pool are located at suite 2350 330 5th Avenue S.W., Calgary, Alberta, Canada.

Activities of the Balancing Pool

The initial allocation of assets and liabilities to the Balancing Pool was charged to a 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. Any excess or shortfall of funds in the accounts is to be allocated to, or provided by, electricity consumers over time.

Revenues

The Balancing Pool has five primary sources of revenue:

i) Sale of electricity

The Balancing Pool earns revenue from the sale of electricity from the Genesee Power Purchase Arrangement ("Genesee PPA").

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

ii) Hydro Power Purchase Arrangement ("Hydro PPA")

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 and any revaluation adjustment is included in net results of income.

iii) Small Power Producer ("SPP") contracts

Under the *Independent Power and Small Power Regulation*, any surplus or deficit from contracts that a utility company entered into with Small Power Producers pursuant to the *Small Power Research and Development Act* will be paid to or received from the Balancing Pool. The net present value of these estimated payments is recorded as a liability and any revaluation adjustment included in net results of income.

iv) Investment income

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

v) Payments in lieu of tax ("PILOT")

Pursuant to Section 147 of the Act, the Balancing Pool collects from electricity companies controlled by municipalities a notional amount of tax that would otherwise be payable if these entities were subject to tax. The Balancing Pool does not calculate instalment payments and it does not audit PILOT findings. PILOT instalments are calculated by the payer and are subject to audit by Alberta Tax and Revenue Administration.

Expenses

The Balancing Pool has expenditures, which include:

i) Cost of sales

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

ii) Other costs

Under the terms of government legislation, the Balancing Pool is obligated to make payments to certain entities for such matters as reclamation and abandonment and force majeure. The Minister of Energy may direct the Balancing Pool to fund specific payments under Section 148 of the Act which are included in mandated costs.

2. Basis of Presentation

These financial statements for the year ended December 31, 2013 have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include as comparative information from the period and year ended December 31, 2012.

These financial statements were authorized and approved for issue by the members of the Board of the Balancing Pool on April 4, 2013.

3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these financial statements are as follows:

Basis of Measurement

These financial statements have been prepared on a historical cost convention, except for the revaluation of certain financial instruments which are measured at fair value.

Revenue Recognition

(a) Sale of electricity

Revenues from the sale of electricity and ancillary services are recognized on an accrual basis in the period in which generation occurred. The accounting treatment for gains and losses settled under financial derivative contracts is described in the Risk Management Assets and Liabilities section of this note. Sale of electricity is measured at the fair value of the consideration received or receivable.

(b) Hydro Power Purchase Arrangement

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

(c) Small Power Producer contracts

Small Power Producer contracts are recorded at the present value of the estimated future net payments to be received (or paid) under these contracts. The change in value of this liability with the passage of time (accretion) is recognized on an accrual basis. Any change in valuation as a result of changes in underlying assumptions is recognized in income from operating activities.

(d) Investment income

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

(e) Payments in lieu of tax

PILOT funds are accrued based on the payers' instalments for a particular tax year. PILOT payments are calculated by payers and are subject to assessment and audit by Alberta Tax and Revenue Administration. Adjustments, if any, arising from audits will be recorded in the current year.

Income Taxes

No provision has been made for current or future income tax as the Balancing Pool is exempt from Federal and Provincial tax.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash at bank and on hand.

Trade and Other Receivables and Prepaid Expenses

Trade and other receivables are classified as loans and receivables and are measured at amortized cost. At each period end date, the Balancing Pool assesses whether receivables are impaired and any impairment is recognized.

Hydro Power Purchase Arrangement and Small Power Producer Contracts

The Hydro PPA and Small Power Producer contracts are derivative financial instruments classified as held for trading. They are recorded as of the period end date at their fair value, which is measured as the present value of the estimated future net payments to be received (or paid) under the contracts and reflect management's best estimates based on generally accepted valuation techniques or models and supported by observable market prices and rates when available. Given the long-term nature of these contracts, observable market prices are not available beyond the next few years. Methodologies have been developed to determine the fair value for these contracts based on extrapolation of observable future prices and rates.

Electricity Price Risk Management and Financial Instruments Risk Management Assets and Liabilities

The Balancing Pool utilizes swap contracts to manage its exposure to electricity price fluctuations 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.

Derivative financial instruments are classified as held for trading and are recorded at fair value. All changes in fair value are included in results of income.

Investments

The Corporation has designated its fixed income and equity securities upon initial recognition at fair value through profit and loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. They are recorded at estimated fair value, as of the period end date, measured based on the bid price in active markets. Unrealized gains or losses resulting from changes in fair value are recorded in income.

Property, Plant and Equipment ("PP&E")

PP&E are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of the asset. When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Gains and losses on disposal of an item of property, plant, and equipment are determined by comparing the proceeds from disposal with the carrying amount of PP&E, and are recognised within other income in profit and loss. The major categories of PP&E are depreciated on a straight-line basis and include:

Genesee PPA	10 years (As at January 1, 2010 on transition to IFRS)
Office Equipment	3 - 5 years

Genesee Power Purchase Arrangement and Related Finance Lease Obligation

The Genesee PPA transfers to the Balancing Pool substantially all the benefits and some of the risks of ownership and therefore the arrangement is classified as a finance lease, with the Company as the lessee. A lease is a finance lease when the terms of the lease transfer substantially all of the risks and rewards incidental to ownership of the leased assets to the lessee. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and expenses. The corresponding rental obligations are included in accounts payable.

The capitalised asset is included in PP&E at an amount not exceeding the estimated net future cash flows arising from operations over the remaining life of the PPA. The Genesee PPA is stated at cost, less accumulated depreciation and amortization. The cost of the Genesee PPA at January 1, 2010, the date of transition to IFRS, was determined in accordance with the deemed cost exemption permitted by IFRS 1 which allows for valuation at estimated market value at that time. The previous Canadian GAAP net book value was $1,079.0 million lower than estimated market value. The asset is depreciated over the remaining term of the Genesee PPA at January 1, 2010. The capital element of the leasing commitment is shown as a Genesee PPA lease obligation.

Impairment – Property, Plant and Equipment

For the purpose of impairment testing, PP&E is grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets – cash generating unit ("CGU").

The carrying amounts of PP&E are reviewed at each reporting date to determine whether there is any indication of impairment, such as decreased forward electricity prices. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount is the greater of the value in use or fair value less costs to dispose.

Value in use is based on the estimated future cash flows discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The recoverable amount is generally computed by reference to the present value of the future cash flows. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the Statement of Income and Comprehensive Income.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been permitted to be recognized.

Reclamation and Abandonment Obligations

Reclamation and abandonment obligations include legal obligations to retire tangible long-lived assets such as generation and production facilities. A provision is made for the estimated cost of site restoration.

Reclamation and abandonment obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the period end date. Subsequent to the initial measurement, the obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as a finance expense and increases / decreases due to changes in the estimated future cash flows are expensed. Actual costs incurred upon settlement of the reclamation and abandonment obligations are charged against the provision to the extent the provision was established.

The Balancing Pool's estimates of reclamation and abandonment obligations are based on reclamation standards that meet current regulatory requirements. The estimate of the total liability of future site restoration costs may be subject to change based on amendments to laws and regulations. Accordingly, the amount of the liability will be subject to re-measurement at each period end date.

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

Pursuant to Section 7 of the P*ower Purchase Arrangements Regulation of the Act*, the owner of a generating unit who applies to the Alberta Utilities Commission ("AUC") 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 consumers before January 1, 2001 and subsequently through a PPA, provided that the unit has ceased generating electricity and subject to AUC approval. This provision does not apply after December 31, 2018.

The reclamation and abandonment provision includes an obligation representing future costs associated with PPA decommissioning costs in which the Balancing Pool estimates PPA owners will elect to discontinue operations and decommission the respective plants immediately following the PPA contract end dates and thereby pass any underfunded decommissioning liabilities to the Balancing Pool as per their contractual rights.

Accounting Standards Adopted

IFRS 13 – *Fair Value Measurement* – aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across all IFRS standards. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. IFRS 13 has been adopted by the Balancing Pool effective January 1, 2013.

Accounting Standards Issued But Not Yet Adopted

The IASB issued the following standards which are relevant but have not yet been adopted by the Balancing Pool. The Balancing Pool is in the process of assessing the impact that the new and amended standards will have on its financial statements and in the process of deciding whether to early adopt any of the new requirements.

IFRS 9 – *Financial Instruments* – is the first standard issued as part of a wider project to replace IAS 39 – *Financial Instruments – Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the nature of the entity's business and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets continues to apply. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with early adoption permitted.

4. Significant Accounting Judgments, Estimates and Assumptions

The timely preparation of the financial statements requires that management make estimates and assumptions and uses judgment regarding the reported value of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses reported for the year. Such estimates reflect management's best estimate of future events as of the date of the financial statements. These financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below. Accordingly, actual results will differ from estimated amounts as future confirming events occur.

Critical Judgments in Applying Accounting Policies

Management has made critical judgments when forecasting future power prices and when estimating the probability that specific PPA owners will elect to decommission the PPA-related generating units within one year of termination of the PPA. These critical judgments have been made in the process of applying accounting policies and have a significant effect on the amounts recognized in the financial statements.

Key Sources of Estimation Uncertainty

Since the determination of certain assets, liabilities, revenues and expenses are dependent upon and determined by future events, the preparation of these financial statements requires the use of estimates and assumptions. These estimates and assumptions have been made using careful judgment. Actual results are likely to differ from the results derived using these estimates. The following are items that have been derived using key assumptions concerning future outcomes and subject to several other key sources of estimation uncertainty. As a consequence, there is a significant risk of a material adjustment to the carrying amount of assets and liabilities within the next financial year:

i) Property, plant and equipment (Note 8 a)

ii) Hydro power purchase arrangement (Note 6 b i)

iii) Force majeure provision (Note 10)

iv) Reclamation and abandonment provision and other long-term obligation (Note 11)

v) Small Power Producer contracts (Note 6 b ii)

vi) Risk management assets and liabilities (Note 6 b iii)

In the opinion of management, these financial statements have been properly prepared in accordance with IFRS, within reasonable limits of materiality and the framework of the significant accounting policies summarized in Note 3 to the financial statements.

5. Trade and Other Receivables

(in thousands of dollars)	December 31, 2013	December 31, 2012
Trade receivables	50,789	106,662
Other receivables	333	132
	51,122	106,794

6. Accounting for Financial Instruments

6. a) Risk Management Overview

The Balancing Pool's activities expose the company to a variety of financial risks: market risk (including PPA risk, fluctuating market prices, plant availability and currency and interest rate risk), credit risk and liquidity risk. The Balancing Pool has developed Risk Management and Credit Policies that define the organization's tolerance for risk and set out procedures for quantifying and monitoring exposures. Exposures and compliance with the policies are regularly monitored by management, the Audit and Finance Committee and the Board.

Market Risk – Power

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

ii) Plant Availability: Changes in plant availability can impact the expected generation volumes and associated revenues and expenses of the Balancing Pool. According to the terms of the PPA, the Balancing Pool is entitled to availability incentive payments when the plant generates at levels below target. If the plant generates above the target availability, the Balancing Pool is required to make payments to the owner of the plant. The Balancing Pool is not entitled to availability incentive payments during an event of force majeure.

Market Risk – Investments

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

- A $0.01 change in the Canadian Dollar exchange rate versus the United States Dollar would have an estimated $1.7 million impact on investment valuations.
- A $0.01 change in the Canadian Dollar exchange rate versus the Euro would have an estimated $0.9 million impact on investment valuations.
- A 1 per cent change in the floating interest rate on investments would have an estimated $0.2 million impact on cash and cash equivalents.
- A 1 per cent change on the long-term government bond rate would have an estimated $8.8 million impact on Genesee PPA annual capacity payments.

ii) Price Risk: The investment portfolio is exposed to equity securities price risk. This arises from investments held in the investment portfolio for which prices in the future are uncertain. Where non-monetary financial instruments – for example, equity securities – are denominated in currencies other than the Canadian dollar, the price initially expressed in foreign currency and then converted into Canadian dollars will also fluctuate because of changes in foreign exchange rates. Item (i) "Currency and Interest Rate Risk" above sets out how this component of price risk is measured. Under the Balancing Pool's investment policy, price risk is managed through diversification and selection of securities and other financial instruments within specified limits set by the Board. Between 15 per cent and 35 per cent of the net assets attributable to the investment portfolio are expected to be invested in Canadian equity securities and between 15 per cent and 35 per cent in Global equities, subject to a 60 per cent cap on total equity. Between 40 per cent and 6 per cent of the net assets attributable to the investment portfolio are expected to be invested in fixed income securities. The investment policy requires that the overall market position be monitored on a daily basis by the investment manager and is reviewed on an annual basis by the Board. Compliance with the investment policy is reported to the Board on a quarterly basis.

The table below is a summary of the significant sector concentrations within the investment portfolio at December 31, 2013.

	% of Total Fund Value					
	2013			2012		
Sector	Fixed Income Portfolio %	Canadian Equity Portfolio %	Global Equity Portfolio %	Fixed Income Portfolio %	Canadian Equity Portfolio %	Global Equity Portfolio %
Information technology	0.0	5.5	10.9	0.0	3.8	10.1
Financials	29.2	36.3	18.5	26.8	35.1	16.6
Energy	4.7	19.0	5.6	5.1	20.9	7.8
Health care	0.0	1.1	12.7	0.0	2.3	12.4
Consumer staples	0.1	6.3	9.0	0.1	6.3	9.4
Industrials	0.9	12.8	16.4	1.6	13.3	17.3
Consumer discretionary	0.7	7.4	11.4	0.5	7.4	10.8
Utilities	1.8	0.9	0.0	2.2	0.5	1.2
Infrastructure	4.5	0.0	0.0	4.8	0.0	0.0
Materials	0.0	6.2	7.6	0.0	5.5	7.9
Telecommunication services	3.1	3.9	3.4	3.4	4.9	3.0
Federal	14.3	0.0	0.0	16.3	0.0	0.0
Provincial / municipal	29.8	0.0	0.0	29.1	0.0	0.0
Cash & cash equivalents	10.9	0.6	4.5	10.1	0.0	3.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Based on the carrying amount of these assets, a 10 per cent increase or decrease in market prices would result in estimated gains or losses of $49.4 million for the Fixed Income Portfolio, $25.3 million for the Canadian Equity Portfolio and $37.2 million for the Global Equity Portfolio (December 31, 2012 – $47.8 million, $22.7 million and $30.6 million respectively).

iii) 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, Small Power Producer contracts, forward sale contracts or mark-to-market on forward sale contracts, a financial loss may be experienced by the Balancing Pool. Credit risk is managed in accordance with the Credit Policy which requires that all counterparties be investment-grade level and is regularly monitored by management and the Audit and Finance Committee. The Balancing Pool does not consider any of the trade accounts receivable to be impaired or past due.

iv) Liquidity Risk: Liquidity risk is the risk that the Balancing Pool will not be able to meet its financial obligations as they fall due. To manage this risk, management forecasts cash flows for a period of 12 months and beyond and has the ability to make adjustments to the Consumer Allocation and / or liquidate investments as required.

The table below analyzes the Balancing Pool's non-derivative and net-settled financial liabilities into relevant maturity groupings based on the remaining period from the period end date to the contract maturity date.

	Less than 3 months	3 months to 1 year	2 – 5 years	Over 5 years	Total
	December 31, 2013				
Trade payables	57,947	-	-	-	57,947
Other payables	-	19,000	450	-	19,450
Risk management liabilities	-	235	-	-	235
Genesee power purchase arrangement lease obligation	14,811	44,433	246,416	127,240	432,900
Small Power Producer contracts	1,892	5,675	7,547	1,533	16,647
Reclamation and abandonment provision and other long-term obligation	1,715	5,147	9,547	11,398	27,807
Total	76,365	74,490	263,960	140,171	554,986
	December 31, 2012				
Trade payables	120,387	-	-	-	120,387
Other payables	-	17,490	-	-	17,490
Force majeure provision	-	64,004	-	-	64,004
Risk management liabilities	-	936	-	-	936
Genesee power purchase arrangement lease obligation	-	60,081	243,274	189,626	492,981
Small Power Producer contracts	-	6,291	-	14,329	20,620
Reclamation and abandonment provision and other long-term obligation	-	10,500	16,767	40,382	67,649
Total	120,387	159,302	260,041	244,337	784,067

6 b) Analysis of Financial Instruments

i) 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 Hydro PPA obligations, over the remaining term of the Hydro PPA.

The notional production of electricity under the Hydro PPA is 1,620 gigawatt hours ("GWh") per annum from 2014 to 2020. Hydro PPA receipts or payments are settled on a monthly basis.

The remaining term of the Hydro PPA is seven years to December 31, 2020. At December 31, 2013, the net present value of the Hydro PPA was estimated at $480.7 million (2012 – $476.7 million). Key assumptions in this valuation are: a discount rate of 10 per cent (2012 – 10 per cent); an average market electricity price of $50.94 / megawatt hour ("MWh") has been assumed for the period between 2014 to 2016; and an average market electricity price of $66.50 / MWh has been assumed for the period 2017 to 2020 (2012 – $61.50 / MWh for 2013 to 2020).

Hydro Power Purchase Arrangement *(in thousands of dollars)*	**2013**	**2012**
Hydro power purchase arrangement, opening balance	476,684	679,859
Accretion and current year change	149,854	87,824
Net cash receipts	(188,248)	(147,992)
Revaluation of hydro power purchase arrangement asset	42,449	(143,007)
Hydro power purchase arrangement, closing balance	480,739	476,684
Less: Current portion	(84,212)	(86,062)
	396,527	390,622

The estimated value of this asset varies significantly based on the assumptions used and there is a high degree of measurement uncertainty. The following table summarizes the impact on the Hydro PPA value when the average market price is increased or decreased by 10 per cent and the discount rate is increased or decreased by 1 per cent, all other inputs being constant.

	Impact of change to price volatility		**Impact of change to discount rate**	
(in thousands of dollars)	**Increase price by 10%**	**Decrease price by 10%**	**Increase discount rate by 1%**	**Decrease discount rate by 1%**
Increase / (decrease) in fair value as at December 31, 2013	82,379	(82,356)	(17,021)	17,975

ii) Small Power Producer Contracts

There are six (2012 – 8) contracts remaining with total allocated capacity of 69 (2012 – 82) megawatts ("MW") at December 31, 2013. Contract prices range from $68.10 / MWh to $79.70 / MWh. Contract completion dates range between 2014 and 2019. Under these contracts the price that the Small Power Producer receives from the counterparty 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, 2013, the net present value of cash flows to or from the Balancing Pool for these contracts was estimated to be $16.6 million liability (2012 – $20.6 million liability). The estimated value of this liability varies significantly based on the assumptions used and there is a high degree of measurement uncertainty. Key assumptions in this valuation are: a discount rate of 10 per cent (2012 – 10 per cent); an average market electricity price of $50.94 / MWh for 2014 to 2016; and an average market electricity price of $66.00 / MWh for 2017 to 2019 (2012 - $60.00 / MWh for 2013 to 2019).

Small Power Producer Contracts *(in thousands of dollars)*	**2013**	**2012**
Small Power Producer contracts, opening balance	(20,620)	(2,846)
Accretion and current year change	7,654	(4,796)
Net cash payments (receipts)	(3,425)	3,372
Revaluation of Small Power Producer contracts	(256)	(16,350)
Small Power Producer contracts, closing balance	(16,647)	(20,620)
Less: Current portion	7,567	6,291
	(9,080)	(14,329)

The valuation of these contracts varies significantly depending on the assumptions used. The following table summarizes the impact on the Small Power Producer Contract value when the market price is increased or decreased by 10 per cent and the discount rate is increased or decreased by 1 per cent, all other inputs being constant.

	Impact of change to price volatility		**Impact of change to discount rate**	
(in thousands of dollars)	**Increase price by 10%**	**Decrease price by 10%**	**Increase discount rate by 1%**	**Decrease discount rate by 1%**
Increase / (decrease) in fair value as at December 31, 2013	(4,190)	4,191	(320)	332

iii) Financial Derivatives – Electricity Price Risk Management Activities

The Balancing Pool enters into derivative swap contracts to manage its exposure to changes in electricity prices. At December 31, 2013, the Balancing Pool had derivative swap contracts outstanding with a net unrealized fair value gain of $0.6 million (2012 – $0.4 million). These swap contracts require payments to (or receipts from) counterparties based on the differential between the fixed contract price and variable Pool prices as published by the AESO. The swap contracts typically require the Balancing Pool to pay a variable price and the counterparty to pay a fixed price.

The following table provides disclosure on the movements in the fair value of the Balancing Pool's net risk management current assets and current liabilities.

Risk Management Assets and Liabilities *(in thousands of dollars)*	**Assets**	**Liabilities**	**Net**
Outstanding at January 1, 2012	2,762	3,784	(1,022)
Changes in value attributable to:			
Market changes	(33,291)	(6,951)	(26,340)
New contracts entered during the year	1,294	936	358
New contracts entered during the year (cash settled)	3,195	1,643	1,552
Net realized gains (losses) on contracts settled during the year (a)	27,334	1,524	25,810
Net changes in value during 2012	(1,468)	(2,848)	1,380
Outstanding at December 31, 2012	1,294	936	358
Market changes	(57,055)	(100,987)	43,932
New contracts entered during the year	811	235	576
New contracts entered during the year (cash settled)	507	(115)	622
Net realized gains (losses) on contracts settled during the year (a)	55,254	100,166	(44,912)
Net changes in value during 2013	(483)	(701)	218
Outstanding at December 31, 2013	811	235	576

(a) Amounts settled under financial derivative contracts are recorded on an accrual basis in revenue against the applicable exposure. During 2013, the Balancing Pool realized $44.3 million in financial derivative losses (2012 – $27.3 million in financial derivatives gains). Natural Gas Exchange ("NGX") financial derivatives are cash settled daily. Included in net realized gains (losses) is a net gain of $0.6 million (2012 – $1.6 million gain) in cash settlement with NGX related to 2014 financial derivatives in place at December 31, 2013.

6 c) Fair Value Hierarchy

Financial Instruments carried at fair value are categorized as follows:

(in thousands of dollars)	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
Assets				
Cash and cash equivalents	16,404	-	-	16,404
Investments – fixed income securities	-	493,585	-	493,585
Investments – equity securities	-	625,222	-	625,222
Risk management assets	-	811	-	811
Hydro power purchase arrangement	-	-	480,739	480,739
	16,404	1,119,618	480,739	1,616,761
Liabilities				
Small Power Producer contracts	-	-	16,647	16,647
Risk management liabilities	-	235	-	235
	-	235	16,647	16,882
	16,404	1,119,383	464,092	1,599,879

i) Level 1

Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities.

ii) Level 2

Assets and liabilities in Level 2 include valuations using inputs other than Level 1 quoted prices for which all significant inputs are observable, either directly or indirectly. Fair values for equity and fixed income investments are determined using quoted market prices in active markets. Risk Management Assets and Liabilities include derivatives with values based upon observable future market price curves published by NGX.

iii) Level 3

Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Changes in valuation methods may result in transfers into or out of an assigned level. There were no transfers between Level 3 and Level 2. The Hydro PPA and Small Power Producer contract values are determined using discounted cash flow forecast methods and supported by observable market prices and rates when available. Given the long-term nature of these contracts, observable market prices are not available beyond the first few years. Methodologies have been developed to determine the fair value for these contracts based on extrapolation of observable future prices and rates. Management reviews the discounted cash flow forecasts on an annual basis. The changes in value, key assumptions and sensitivities in Level 3 instruments for the years ended December 31, 2013 and 2012 are disclosed in note 6 b i) and in note 6 b ii).

7. Investments

(in thousands of dollars)	December 31, 2013 Market Value	December 31, 2013 Cost	December 31, 2012 Market Value	December 31, 2012 Cost
Fixed income securities	493,585	493,715	477,701	468,057
Canadian equities	253,053	189,732	227,255	203,407
Global equities	372,169	250,504	306,247	274,528
Total investments	1,118,807	933,951	1,011,203	945,992

The following table provides disclosure on the movements in the fair value of the investments.

Unrealized Market Gain (Loss) *(in thousands of dollars)*	Fixed Income Securities	Canadian Equities	Global Equities	Totals
Unrealized market gain (loss), January 1, 2012	9,250	1,767	(11,779)	(762)
Changes in value attributable to:				
Change during the year	1,543	26,717	39,104	67,364
Realized (gain) loss on sales of investments	(1,149)	(4,636)	4,394	(1,391)
Net change during the year	394	22,081	43,498	65,973
Unrealized market gain (loss), December 31, 2012	9,644	23,848	31,719	65,211
Changes in value attributable to:				
Change during the year	4,848	40,075	103,900	148,823
Realized (gain) loss on sales of investments	(14,622)	(602)	(13,954)	(29,178)
Net change during the year	(9,774)	39,473	89,946	119,645
Unrealized market gain (loss), December 31, 2013	(130)	63,321	121,665	184,856

8. Property, Plant and Equipment and Related Lease Obligation

8 a) Property, Plant and Equipment

(in thousands of dollars)	Genesee PPA	Office Equipment	Total
Costs			
Balance as at December 31, 2011	1,505,670	467	1,506,137
Additions	-	9	9
Balance as at December 31, 2012	1,505,670	476	1,506,146
Additions	-	43	43
Balance as at December 31, 2013	1,505,670	519	1,506,189
Accumulated Amortization and Depreciation			
Balance as at December 31, 2011	445,974	382	446,356
Amortization and Depreciation	117,744	15	117,759
Balance as at December 31, 2012	563,718	397	564,115
Amortization and Depreciation	117,744	18	117,762
Balance as at December 31, 2013	681,462	415	681,877
Net Book Value			
As at December 31, 2012	941,952	79	942,031
As at December 31, 2013	824,208	104	824,312

As at each period end date, the Balancing Pool has determined that no impairment losses have occurred with respect to PP&E.

8 b) Genesee Power Purchase Arrangement Lease Obligation

Under the terms of the Act, the Balancing Pool assumed the role of the counterparty to the Genesee PPA, which has been accounted for as a finance lease. The estimated future annual lease payments (capital component of the Genesee PPA payments) are as follows:

(in thousands of dollars)	
2014	59,244
2015	61,145
2016	61,524
2017	61,361
2018	62,385
Thereafter	127,241
	432,900
Less: Current portion	(59,244)
	373,656

9. Trade and Other Payables

(in thousands of dollars)	December 31, 2013	December 31, 2012
Trade payables	57,947	120,387
Accrued liabilities	19,450	17,490
	77,397	137,877

10. Force Majeure Provision

On February 8, 2011 the owner of the Sundance A PPA issued a notice of termination for destruction of the Sundance 1 and 2 units under the terms of the PPA. On February 18, 2011 the PPA buyer disputed the owner's determination with the issue to be resolved via binding arbitration. Management recorded a provision of $109.0 million at December 31, 2011 in accordance with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* – pending the arbitration panel decision.

The arbitration panel issued its determination on July 20, 2012 regarding Sundance A. The panel determined that the PPA should not be terminated, however the panel granted a force majeure claim to the owner in accordance with the terms of the Sundance A PPA for the period after November 2011 and ending with the units returning to service. In 2012, the Balancing Pool increased the provision by $38.0 million to account for the extended force majeure period. In the fall of 2013, the Sundance A unit returned to service earlier than anticipated resulting in a recovery of $5.8 million to the Balancing Pool.

On March 25, 2013, the owner of the Keephills 1 PPA issued a notice of force majeure. The Balancing Pool established a provision of $29.1 million. The duration of the force majeure claim was from March 2013 to October 2013. The PPA buyer and the Balancing Pool have disputed the owner's claim.

In 2013 the Balancing Pool remitted $87.3 million (2012 – $83.0 million) in capacity payments to the plant owners.

(in thousands of dollars)	Sundance A	Keephills 1	Force Majeure Provision
At January 1, 2012	109,000	-	109,000
Increase in liability provision	38,028	-	38,028
Liabilities paid in period	(83,024)	-	(83,024)
At December 31, 2012	64,004	-	64,004
(Decrease) increase in liability provision	(5,812)	29,068	23,256
Liabilities paid in period	(58,192)	(29,068)	(87,260)
At December 31, 2013	-	-	-

11. Reclamation and Abandonment Provision and Other Long-Term Obligations

	Other Long-Term Obligation	Reclamation and Abandonment Provision		
(in thousands of dollars)	H.R. Milner Generating Station	Isolated Generation Sites	Costs of PPAs	Total
At January 1, 2012	12,822	26,464	38,829	78,115
Net increase (decrease) in liability provision	-	(2,078)	-	(2,078)
Liabilities paid in period	-	(11,395)	-	(11,395)
Accretion expense	513	941	1,553	3,007
At December 31, 2012	13,335	13,932	40,382	67,649
Less: Current portion	-	(10,500)	-	(10,500)
	13,335	3,432	40,382	57,149
At January 1, 2013	13,335	13,932	40,382	67,649
Net increase (decrease) in liability provision	(2,470)	(5,646)	(32,639)	(40,755)
Liabilities paid in period	-	(1,793)	-	(1,793)
Accretion expense	533	558	1,615	2,706
At December 31, 2013	11,398	7,051	9,358	27,807
Less: Current portion	-	(6,862)	-	(6,862)
	11,398	189	9,358	20,945

11 a) Decommissioning Costs of H.R. Milner Generating Station

Under the Negotiated Settlement Agreement for the H.R. Milner generating station which was executed in 2001, the Balancing Pool assumed liability for the costs of decommissioning the station at the end of the contract period. When the asset was sold in 2004, the Balancing Pool retained the liability for decommissioning the generating station. In 2011 a bilateral agreement was reached with Milner Power Limited Partnership wherein the Balancing Pool's decommissioning cost was capped at $15.0 million. It is estimated that the related costs will be incurred in 2020. These costs have been discounted at 4 per cent (2012 – 4 per cent) yielding the present value of the related liability. At December 31, 2013, a reduction of $2.5 million was recorded to reflect a change in the estimated payment date.

11 b) Isolated Generation Sites

Under the *Isolated Generating Units* and *Customer Choice Regulations of the Act*, the Balancing Pool is liable for certain amounts relating to the reclamation and abandonment costs associated with Isolated Generation sites. In 2013 $1.7 million (2012 – $11.4 million) expenditures were incurred. Pursuant to the Negotiated Settlement Agreements approved by the AUC, the ultimate payment of these costs must be reviewed and approved by the Remediation Review Committee. The Remediation Review Committee was established to monitor and approve all costs associated with Isolated Generation. Estimated reclamation and abandonment costs were discounted at 4 per cent (2012 – 4 per cent). The current and long-term portions of the provision are based upon management's best estimate and the timing of the costs. At December 31, 2013, a reduction of $5.6 million (2012 - $2.0 million reduction) was recorded to reflect a change in estimation.

11 c) Decommissioning Costs of PPAs

Pursuant to Section 7 of the *Power Purchase Arrangements Regulation of the Act*, the owner of a generating unit who applies to the AUC 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 consumers before January 1, 2001 and subsequently through a PPA, provided that the unit has ceased generating electricity and subject to AUC approval. At December 31, 2013, the Balancing Pool recorded a $32.6 million reduction to the provision for decommissioning the PPAs. This provision does not apply after December 31, 2018.

The provision is based upon management's best estimate of decommissioning costs, assessment of provincial and federal environmental legislation and the probability an owner of a generating unit will apply to the AUC to decommission the unit within one year of the termination of the PPA. Estimated decommissioning costs were discounted at 4 per cent (2012 – 4 per cent). The estimate of the decommissioning costs before discounting and probability weighting is $58.0 million.

12. Capital Management

The Balancing Pool's objective when managing capital is to operate as per the requirements of the *Electric Utilities Act (2003)* which requires the Balancing Pool to operate with no profit or loss and no share capital and to forecast its revenues, expenses, and cash flows. Any excess or shortfall of funds in the accounts is to be allocated to, or provided by, electricity consumers over time. During 2009, the Alberta Government enacted amendments to the *Electric Utilities Act (2003)* that have removed the requirement for the winding-up of the Balancing Pool by June 30, 2021.

A reconciliation of the opening and closing Balancing Pool deferral account is provided below.

Balancing Pool Deferral Account *(in thousands of dollars)*	**2013**	**2012**
Deferral account, beginning of year	1,793,165	2,024,719
Change in net assets attributable to the Balancing Pool deferral account	457,741	75,455
Payment of Consumer Allocation	(313,697)	(307,009)
Deferral account, end of year	1,937,209	1,793,165

Effective for 2014, the Balancing Pool has approved the allocation to Alberta's electricity consumers at $5.50 per MWh of consumption resulting in an estimated payment of $318.0 million (2013 – $5.50 per MWh, $313.7 million). The Consumer Allocation is reviewed and approved by the Board of the Balancing Pool and may be revised at the Board's discretion.

13. Contingencies and Commitments

Other Power Purchase Arrangements

Pursuant to Section 96 of the Act, where a PPA is terminated except under Section 15.2 of the PPA, the PPA is deemed to have been sold to the Balancing Pool. Buyer-initiated termination could be triggered by a change in law which renders the PPA uneconomic for the buyer, an event of force majeure lasting greater than six months or owner default in performing its obligations. Termination under these provisions would result in the immediate transfer of the PPA to the Balancing Pool. The Balancing Pool would then assume responsibility for ongoing capacity payments and other PPA-related costs and would be responsible for selling the output into the wholesale power market.

Payments In Lieu of Tax

In 2013, Alberta Tax and Revenue Administration issued Notice of Reassessments to a municipal entity related to its 2007 – 2012 taxation years. The reassessments required a payment to the Balancing Pool of $46.8 million and a refund of $19.3 million. To date, the Balancing Pool has re-allocated the $19.3 million refund to the outstanding balance as instructed by the municipal entity. The municipal entity has filed a Notice of Objection related to these taxation years. Due to the uncertainty of the outcome of the appeal process, no amount has been recorded in the financial statements in this regard.

Disputed Amounts

Disputed amounts for commercial matters are expensed as incurred and reversed on recovery.

Credit Facility

At December 31, 2013, the Balancing Pool had $19.0 million of unsecured Letters of Credit issued and an uncommitted credit facility available to issue Letters of Credit up to a maximum of $90.0 million.

14. Cost of Sales

(in thousands of dollars)	**December 31, 2013**	**December 31, 2012**
Cost of power purchase arrangements	190,090	222,991
Amortization and depreciation	117,762	117,759
	307,852	340,750

15. Related Party Transactions

Key Management Compensation

Key management includes members of the Board of the Balancing Pool and the Chief Executive Officer. The compensation paid or payable to key management for employee services is shown below.

Key Management Compensation *(in thousands of dollars)*	**2013**	**2012**
Salaries, other short-term employee benefits and termination benefits	991	854
Post-employment benefits	-	-
Termination benefits	-	-
Total	991	854

Government-Related Entity

The Balancing Pool considers itself to be a government-related entity as defined by IAS 24 – *Related Party Disclosure* – and applies the exemption from the disclosure requirements of Paragraph 18 of IAS 24 – *Related Party Disclosure*. The members of the Board are appointed by the Minister of Energy of the Government of Alberta. The Balancing Pool had no significant transactions with the Government of Alberta during 2013 and 2012.

As directed by the Minister of Energy the Balancing Pool is mandated to make payments to the Office of the Utilities Consumer Advocate ("UCA") to cover 80 per cent of their annual operating costs and 100 per cent of the annual costs for the Transmission Facilities Cost Monitoring Committee ("TFCMC") and the Retail Market Review Committee ("RMRC").

In 2013, the Balancing Pool expensed $1.9 million (2012 – $7.3 million) for the UCA and $0.8 million (2012 - $2.5 million) for the TFCMC and RMRC. The Balancing Pool received a revised estimate from the Alberta Government for the 2012 calendar year UCA and TFCMC costs. The UCA and TFCMC estimated costs were reduced by $3.0 million for 2012. The $3.0 million reduction in estimated costs for 2012 was treated prospectively and recorded in 2013.

16. Subsequent Event

The Balancing Pool received a notice of force majeure from the plant owner of the Keephills 2 unit on November 27, 2013. The forced outage commenced on January 31, 2014 for a duration of 47 days. The Balancing Pool estimates a capacity payment of approximately $7.4 million. The force majeure claim is currently under investigation.

Corporate Information

Balancing Pool Contacts

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President and Chief Executive Officer

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BUSINESS DEVELOPMENT TEAM
Eagle Kwok, Director of Planning and Development

ANALYTICAL TEAM
Greg Wagner, Director of Asset Optimization
Ben Chappell, Portfolio Manager
Jordan Persaud, Analyst
James Lerner, Analyst

FINANCIAL TEAM
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