2012
ANNUAL REPORT

balancingpool

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 include:

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

PPAs are one of the mechanisms used by the Government of Alberta to introduce competition into the supply of thermal electric power from regulated generating units. The PPAs were auctioned in 2000 and provide buyers with the rights to formerly regulated generating capacity.

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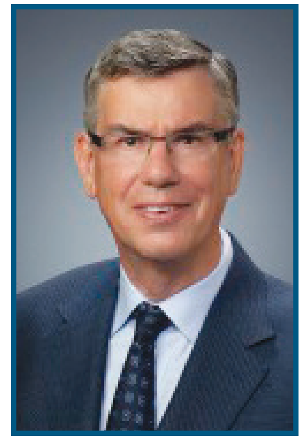
Message to Stakeholders from the Acting Board Chair



William Stedman

Among the Balancing Pool's priorities over the next few years is the return of a significant amount of funds from our financial and energy portfolios to consumers via the Consumer Allocation.

In 2012, we introduced a substantial increase in the allocation to $5.50 per megawatt hour (MWh), resulting in $307 million being paid to Alberta's electricity consumers. We plan to maintain this allocation through 2013.

In 2012, we also began working on the Balancing Pool's Market Achievement Plan IV. This priority initiative entails the transfer of control of the offer rights we hold for the Genesee Power Purchase Arrangement (PPA) to third-party market participants, either through the sale of the full PPA or strip contracts derived from the PPA.

There was considerable change to the Balancing Pool Board in 2012. Three long-term Board Members completed their terms of office in 2012. For nine years, former Board Chair Thomas Cumming, Peter Flynn and Stella Thompson brought their extensive expertise in business and finance to the Balancing Pool. Alberta's electricity consumers continue to benefit from the sound foundation they helped build, thus allowing the Balancing Pool to assume and continue to meet our legislated mandate. More recent Board members Rafi Tahmazian and Mary Ritchie also retired in 2012, and our thanks goes to both of them for their contributions.

A recruitment process for the new Board Chair and members is underway. Once the Minister of Energy concludes this process, we will proceed with the recruitment of a President and Chief Executive Officer.

We look forward to completing these priorities in 2013, and continuing to meet the Balancing Pool's obligations on behalf of Alberta's electricity consumers.

William R. Stedman
Acting 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, Acting 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 Oil Marketing Inc., Secunda Inc. and Keyera Corporation and sits on the advisory board of Birch Hill Equity Inc.

Judith Athaide is the President and CEO of The Cogent Group Inc., an independent consulting firm which assists organizations to transition to, and thrive within, competitive 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 Phoenix Technology Services. 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, the Board of Governors of the Calgary Petroleum Club, and as an Executive on the Calgary Chapter of the ICD.

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 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 Doug Topping, and the Governance and Human Resources Committee is chaired by Judith Athaide.

Bruce Roberts

Report from the Acting President and CEO

2012 Financial Highlights

At the end of 2012, the Balancing Pool had net revenues of approximately $462 million and managed more than $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 Power Purchase Arrangements (PPAs) we hold. Electricity prices in 2012 averaged $64.29 per megawatt hour (MWh), and resulted in net cash flows from the PPAs of $283 million, as compared to $345 million in 2011. We expect average electricity prices to continue to trend lower in 2013.

During the past few years, the Balancing Pool has realized good performance on our investment portfolio. In 2012, the Balancing Pool had a 9.9% average return after fees on our investments, with a balance of more than $1 billion in our portfolio.

We have rationalized our portfolio management to two companies. Our investment strategy continues to be based on prudent investment standards that reflect Balancing Pool portfolio guidelines, and a conservative, diversified asset mix.

Increasing Consumer Allocations

As noted in the message from our Acting Chair, following a review of our contingent liabilities by our Board, we are planning to return a significant amount of the funds we have under investment to Alberta electricity consumers via the Consumer Allocation over the next few years.

As we are required to do annually under the *Electric Utilities Act (2003)*, we announced in October 2012 an allocation to power consumers of $5.50 per MWh of consumption for 2013, for a total of $307 million. Despite lower than anticipated electricity prices during 2012, the performance of our financial and energy portfolios has allowed us to maintain the same level of allocation for 2013 as we paid in 2012.

Since we began paying the Consumer Allocation in 2006, the Balancing Pool has paid consumers a cumulative total of $1.4 billion. Approximately 80% of the annual allocation goes to commercial and industrial electricity consumers, with the remainder to the residential and farm sectors.

Combined with the $2 billion in electricity rebates paid out to consumers from proceeds of the PPA auction in 2001, the Balancing has to date returned almost $3.5 billion to consumers. With the expected mark-to-market value on our assets, an additional $1.8 billion is expected to be returned to consumers through 2020.

Summary of Consumer Allocations 2006 – 2012		
		(millions of dollars)
Year	**$/MWh**	**Total**
2006	**1.00**	54
2007	**3.00**	162
2008	**5.00**	271
2009	**6.50**	344
2010	**3.00**	161
2011	**2.00**	110
2012	**5.50**	307
Total		**1,409**

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 Balancing Pool saw the onset of major commercial issues related to the application by a PPA Owner for termination of the Sundance A Unit. The potential impact of this termination was significantly larger than that of previous commercial issues we have dealt with. In 2012 an independent arbitration panel ruled to refuse the termination claim, ordering the PPA Owner to repair the Units and return them to service. In keeping with the panel's ruling, the Balancing Pool will pay Capacity Payments to the PPA Owner during the period of force majeure. The Balancing Pool also took part in several other commercial dispute resolution processes in 2012.

Market Achievement Plan IV

Since the Balancing Pools' inception in 1999, a key priority has been the transfer of electricity capacity and ancillary services associated with PPA generation assets into the hands of market participants.

Aside from the Hydro PPA, the only remaining PPA the Balancing Pool now controls is the 800-MW Genesee PPA. Strip contracts for this PPA sold through our previous Market Achievement Plan (MAP) processes expired at the end of 2006. Regulatory uncertainty related to 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, in the fall of 2012 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. We are now contemplating the sale of the full PPA or physically contingent strip contracts derived from the PPA sometime in 2013.

MAP IV goals include not only transferring control to market participants, but also ensuring consumers realize fair market value, and enhancing competition in the wholesale electricity market by enabling additional market participants to acquire a physical position.

Looking Ahead

On behalf of the Balancing Pool staff, I extend our thanks to the retiring Board members whose expertise, guidance and direction provided a solid foundation from which we continue to fulfill our mandate.

We look forward to ongoing positive working relationships with the continuing Board members, as well as government officials, agencies and stakeholders for the benefit of Alberta's electricity consumers.

Bruce Roberts

Acting President and Chief Executive Officer

Management's Discussion and Analysis

Year ended December 31, 2012

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A"), dated March 13, 2013, should be read in conjunction with the audited financial statements of the Balancing Pool for the years ended December 31, 2012 and 2011.

Results at a Glance

Years ended December 31 *(in thousands of dollars)*	**2012**	2011
Revenues	**476,764**	969,506
Income from operating activities	**78,172**	459,858
Change in net assets attributable to the Balancing Pool deferral account	**75,455**	468,788
Consumer Allocation	**307,009**	110,440
Net change in cash, cash equivalents and investments	**34,098**	245,544
As at December 31 *(in thousands of dollars)*	**2012**	2011
Cash, cash equivalents and investments	**1,050,429**	1,016,331
Net assets attributable to the Balancing Pool deferral account	**1,793,165**	2,024,719
Total liabilities	**784,067**	792,984
Total assets	**2,577,232**	2,817,703
Other Information		
Total Volumes (gigawatt hours [GWh])	**7,800**	8,000
Average Pool price per megawatt hour (MWh)	**$64.32**	$76.21

Operations

Revenues

Details of Revenues *(in thousands of dollars)*	**2012**	2011
Sale of electricity – Genesee power purchase arrangement (PPA)	**416,521**	478,023
Changes in fair value of Hydro power purchase arrangement	**(55,183)**	407,120
Changes in fair value of Small Power Producer contracts	**(21,146)**	34,505
Changes in fair value of Investments	**67,364**	(19,004)
Investment income – Interest and dividends	**25,980**	24,511
Payments in lieu of taxes ("PILOT")	**43,228**	44,351
Total revenues	**476,764**	969,506

Sale of Electricity – Genesee Power Purchase Arrangement

Revenue from the sale of electricity derived from the Genesee Power Purchase Arrangement ("PPA") decreased in 2012 by $61.5 million relative to 2011, primarily as a result of lower realized Power Pool ("Pool") prices year-over-year. Annual average Pool prices decreased year-over-year by approximately 16%.

Sale of electricity for 2012 included $27.4 million of realized gains (2011 – $8.9 million realized loss) on forward sales transactions; during 2012 approximately 35% (2011 – 28%) of total electricity volumes were sold at fixed prices through forward sale transactions. Also included in the sale of electricity are unrealized gains/losses on financial derivatives; at the end of the year there were $0.4 million in net unrealized gains related to forward swaps in place at December 31, 2012 (2011 – $1.0 million net loss).

Change in Fair Value of Hydro Power Purchase Arrangement

The Hydro power purchase arrangement ("Hydro PPA") asset is recorded on the Statement of Financial Position as 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.

Changes in the fair value of this asset are recorded in revenues as gains or losses and include three components: i) annual accretion of the value of the Hydro PPA asset; ii) the difference between the estimated current year cash receipts or payments used in the prior year valuation of the Hydro PPA asset and the actual cash receipts or payments (current year change); and iii) the gain or loss resulting from the annual revaluation of the Hydro PPA asset.

Gains from accretion and current year change of $87.8 million (2011 – $177.4 million) decreased by $89.6 million mainly due to higher than expected 2011 cash receipts which resulted in a higher current year change for that year. The revaluation of the Hydro PPA asset at December 31, 2012 resulted in a $143.0 million loss (2011 – $229.7 million gain) mainly due to a 13% decrease in the expected future market prices for electricity from the price estimate used in the prior year's net present value calculation.

Change in Fair Value of Small Power Producer Contracts

Under the *Independent Power and Small Power Regulation,* the Balancing Pool is required to make payments to the administrator of the Small Power Producer ("SPP") contracts – TransAlta Utilities Corporation ("TransAlta") – for the amount by which the Pool price falls below the SPP contracted price. Conversely, the Balancing Pool is entitled to receive payments from TransAlta for the amount by which the Pool price is above the SPP contracted price. The amount to be paid or received is settled on a monthly basis. At December 31, 2012 there are eight contracts subject to the *Independent Power and Small Power Regulation* (December 31, 2011 – 10).

The SPP contracts are recorded as a liability calculated as the net present value of the future payments or receipts based on the difference between the annual prices set out in the SPP contracts and management's best estimate of the Pool price forecast over the remaining term of the contracts.

Revenues from accretion and current year change include a loss of $4.8 million (2011 – $9.9 million gain). The decrease is mainly due to higher than expected 2011 receipts which resulted in a higher current year change for 2011.

The revaluation of the SPP contract liability at December 31, 2012 resulted in a loss of $16.4 million (2011 – $24.6 million gain) as a result of a 16% decrease in the estimate of future Pool prices from the prior year's valuation.

Changes in Fair Value of Investments

a) Revenue Realized on Sale of Investments

During 2012, the Balancing Pool sold investments realizing a capital gain of $1.4 million (2011 – $11.9 million loss).

b) Unrealized Market Gain (Loss)

At December 31, 2012 an unrealized market gain of $66.0 million was recorded in revenue (2011 – $7.1 million unrealized loss).

Investment Income – Interest and Dividends

(in thousands of dollars)	**2012**	2011
Interest income	**16,850**	12,745
Dividend income	**11,631**	14,175
Fund management fees	**(2,501)**	(2,409)
Total investment income – interest and dividends	**25,980**	24,511

Investment income increased by $1.5 million as a result of a $4.1 million increase in interest income due to higher realized interest rates in 2012, offset by a $2.5 million decrease in dividend income which is largely due to a shift in fund structure mid-way through 2011.

Payments In Lieu of Tax

During 2012, the Balancing Pool received PILOT instalments from the ENMAX group of companies, City of Medicine Hat and the City of Lethbridge. Net funding from PILOT in 2012 was $43.2 million (2011 – $44.4 million). PILOT included 2012 instalment receipts of $46.2 million (2011 – $32.3 million) and instalment receipts for prior tax years of $56.1 million (2011 – $19.0 million). These were offset by PILOT refunds and audit costs relating to prior tax years of $59.1 million (2011 – $6.9 million). PILOT are based on the taxable income of a municipal entity as defined in the *Payment in Lieu of Tax Regulation of the Act* and are subject to audit by Alberta Tax and Revenue Administration.

Expenses

Details of Expenses *(in thousands of dollars)*	**2012**	2011
Cost of sales	**340,750**	375,532
Force majeure costs	**46,811**	123,954
Mandated costs	**9,796**	7,871
General and administrative	**3,313**	3,750
Reclamation and abandonment	**(2,078)**	(1,459)
Total expenses	**398,592**	509,648

Cost of Sales

Cost of sales includes capacity payments, variable operating costs, transmission charges and amortization and depreciation relating to the Genesee PPA and other capital assets. The decrease in cost of sales for 2012 of $34.8 million is due to decreased capacity payments, incentive payments and transmission charges. PPA capacity payments, which comprise more than 85% of costs of sales, vary year-over-year as a result of changes in rate base, indices, interest rates and pass-through charges. Changes to the Pool price have a minimal impact on the PPA capacity payments.

Force Majeure Costs

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. Force majeure costs of $46.8 million were recorded in 2012 (2011 – $123.9 million). This amount is comprised of $38.0 million (2011 – $109.0 million) relating to the Sundance 1 and 2 force majeure event declared by a PPA owner on February 8, 2011 and other force majeure related expenses of $8.8 million (2011 – $14.9 million).

The Sundance 1 and 2 unit force majeure event was resolved through binding arbitration in 2012 with the Balancing Pool required to make capacity payments to the owner of the PPA in the amount of approximately $7.0 million per month until the units are returned to service, currently estimated by the owner to be the fall of 2013.

Mandated Costs

The Balancing Pool paid costs of $9.8 million (2011 – $7.9 million) to fund 80% of the annual operating costs of the Office of the Utilities Consumer Advocate ("UCA") and 100% of the annual costs of the Transmission Cost Monitoring Committee ("TCMC") and the Retail Market Review Committee ("RMRC"). This amount is recorded in expenses and is made up of $7.3 million related to the UCA (2011 – $7.2 million) and $2.5 million related to the TCMC and RMRC (2011 – $0.7 million). The Balancing Pool made these payments under the direction of the Minister of Energy.

Reclamation and Abandonment

Reclamation and abandonment reflects a decrease of $2.1 million to the reclamation and abandonment provision as a result of change in estimation for the isolated generation sites (2011 – $1.5 million decrease). 2012 reclamation and abandonment expenditures were $11.4 million (2011 – $8.7 million).

Other Income (Expense)

Details of Other Income (Expense) *(in thousands of dollars)*	**2012**	2011
Finance expense	**(3,007)**	(1,987)
Other income	**290**	10,917
Total other income (expense)	**(2,717)**	8,930

Finance Expense

Finance expense of $3.0 million (2011 – $2.0 million) includes accretion expense for the H.R. Milner Generating Station, Isolated Generation sites and PPA decommissioning provisions.

Other Income

Other income of $0.3 million (2011 – $10.9 million) relates to a capital cost allowance benefit received in 2012 arising from the H.R. Milner negotiated settlement. In 2011, the Balancing Pool received a one-time payment of $10.9 million for the new unit constructed at the Keephills generating station. Under the *Common Facilities Cost Regulation*, the owner of a power plant with units under a PPA must pay to the Balancing Pool a share of the cost of the common facilities when the owner builds a new generating unit at that plant.

Assets

Cash and Cash Equivalents

Cash and cash equivalents decreased by $74.9 million during the year, resulting in an ending balance of $39.2 million. The decrease in cash was primarily due to the increase in the 2012 Consumer Allocation relative to 2011 and the transfer of excess cash to the investment portfolio during the year.

Investments

In 2012 the Balancing Pool continued to invest in fixed-income securities as well as Canadian and global equities.

The Balancing Pool's Board has approved a long-term investment policy for managing the investment funds. 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. The investment portfolio is managed by professional money management firms. The major sources of our investment income include interest, dividend income 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%
Canadian Equities	15 – 35%
Global Equities	15 – 35%

Total equity investments are capped at 60%.

Property, Plant and Equipment

At December 31, 2012, the net book value of property, plant and equipment was $942.0 million (2011 – $1,059.8 million). The decrease in the net book value from 2011 reflects current year amortization of the Genesee PPA and other capital assets.

Hydro Power Purchase Arrangement

The net present value of the Hydro PPA asset at December 31, 2012 was $476.7 million (2011 – $679.9 million). The Hydro PPA is valued at the present value of estimated amounts to be received by the Balancing Pool, net of estimated PPA obligations, over the remaining term of the PPA to 2020. The Hydro PPA is recorded as a financial asset due to the fact that TransAlta, the owner of the hydro plants, retains operational control of the hydro assets under the terms of this PPA.

Liabilities

Power Purchase Arrangement Lease Obligation

As counterparty to the Genesee PPA, the Balancing Pool is required to make monthly payments to the owner of the generating unit intended to cover fixed and variable costs. The capital component of the monthly payment is accounted for as a finance lease. The year-end balance of $493.0 million (2011 – $552.9 million) represents the sum of the capital component of the payments required over the remaining term of the Genesee PPA.

Small Power Producer Contracts

The Balancing Pool's legislated obligation related to SPP contracts is recorded at the net present value of estimated amounts to be received or paid by the Balancing Pool over the remaining terms of the contracts. This is recorded as a financial instrument as the Balancing Pool does not have operational control of the contracts. The estimated value of the SPP contracts at December 31, 2012 was a net liability of $20.6 million (2011 – $2.8 million).

Reclamation and Abandonment Provision and Other Long-Term Obligation

The reclamation and abandonment liability at December 31, 2012 of $67.6 million (2011 – $78.1 million) represents estimated costs to decommission the H.R. Milner generating station, estimated reclamation and abandonment costs associated with the Isolated Generation sites and estimated decommissioning costs of the PPAs.

In 2012 the Balancing Pool paid $11.4 million (2011 – $8.7 million) for reclamation costs of the Isolated Generation sites. At December 31, 2012, the reclamation of 100 of 103 Isolated Generation sites was complete, however, a few large sites remain. As per Energy Utilities Board Decisions 2002-102 and 2003-036, costs for the Isolated Generation sites are approved by the Remediation Review Committee of which the Balancing Pool is not a member. The Remediation Review Committee is comprised of representatives of various consumer groups who were signatories to the Negotiated Settlement Agreement.

Balancing Pool Deferral Account

The deferral account liability at December 31, 2012 was $1,793.2 million (2011 – $2,024.7 million). The changes in the deferral account in the current year include a change in net assets attributable to the deferral account of $75.5 million of net surplus (2011 – $468.8 million of net surplus) and Consumer Allocation payments of $307.0 million (2011 – $110.4 million).

Under the *Electric Utilities Act,* the Balancing Pool is mandated to allocate any forecasted cash surplus (or deficit) to electricity consumers in Alberta in annual amounts. In 2012 the Balancing Pool made allocations of its surplus to electricity consumers in Alberta of $5.50 per megawatt hour ("MWh") of consumption (2011 – $2.00). For the year ending December 31, 2012 the Consumer Allocation was $307.0 million (2011 – $110.4 million). For 2013, the Consumer Allocation will continue to be $5.50 per MWh of consumption; this allocation is typically reviewed on an annual basis. The Balancing Pool has the ability to re-visit the Consumer Allocation during the year.

Accounting Policy Changes

There were no significant changes to accounting standards that impacted the Balancing Pool in 2012. 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 some assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions which have been made using careful judgment. Actual results will differ from these estimates. In particular, there were significant accounting estimates 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% (2011 – 10%).

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.

Outlook

Based on forecasted cash flow and expected financial position for 2013, effective January 1, 2013, the Balancing Pool re-established the allocation of its surplus to electricity consumers in Alberta at $5.50 per MWh of consumption. The total allocation is estimated at approximately $310.0 million during the year. The Consumer Allocation is reviewed on an annual basis.

Forward-Looking Information

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

Financial Statements

Year ended December 31, 2012

balancingpool

Management's Responsibility for The Financial Statements

The financial statements included in the Annual Report are the responsibility of management and have been approved by the Board members of the Balancing Pool. These financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include the use of estimates and assumptions. Estimates and assumptions have been made using careful judgment and with all information available up to March 13, 2013. Financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

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

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

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

Bruce Roberts

Bruce Roberts
Acting President and Chief Executive Officer

March 13, 2013

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 statement of financial position as at December 31, 2012 and December 31, 2011 and the statements of income and comprehensive income and cash flows for the years ended December 31, 2012 and December 31, 2011, 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 audits 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, 2012 and December 31, 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta
March 13, 2013

PricewaterhouseCoopers LLP, Chartered Accountants
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T: 403 509 7500, F: 403 781 1825, www.pwc.com/ca

Statement of Financial Position

As at December 31 *(in thousands of dollars)*	**December 31, 2012**	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	**39,226**	114,125
Trade and other receivables (Note 5)	**106,794**	58,970
Current portion of Hydro power purchase arrangement (Note 6 b i)	**86,062**	128,000
Risk management assets (Note 6 b iii)	**1,294**	2,762
	233,376	303,857
Investments (Note 7)	**1,011,203**	902,206
Property, plant and equipment (Note 8 a)	**942,031**	1,059,781
Hydro power purchase arrangement (Note 6 b i)	**390,622**	551,859
Total Assets	**2,577,232**	2,817,703
Liabilities		
Current liabilities		
Trade and other payables (Note 9)	**137,877**	46,310
Force majeure provision (Note 10)	**64,004**	109,000
Current portion of power purchase arrangement lease obligation (Note 8 b)	**60,081**	59,948
Current portion of Small Power Producer contracts (Note 6 b ii)	**6,291**	1,100
Current portion of reclamation and abandonment provision (Note 11)	**10,500**	19,000
Risk management liabilities (Note 6 b iii)	**936**	3,784
	279,689	239,142
Genesee power purchase arrangement lease obligation (Note 8 b)	**432,900**	492,981
Small Power Producer contracts (Note 6 b ii)	**14,329**	1,746
Reclamation and abandonment provision and other long-term obligation (Note 11)	**57,149**	59,115
Total Liabilities	**784,067**	792,984
Net assets attributable to the Balancing Pool deferral account (Note 1,12)	**1,793,165**	2,024,719
Contingencies and commitments (Note 13)		

On behalf of the Balancing Pool:

William Stedman
Acting Chair

Douglas Topping
Audit and Finance Committee Chair

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

Statements of Income and Comprehensive Income

For the year ended December 31 *(in thousands of dollars)*	**December 31, 2012**	December 31, 2011
Revenues		
Sale of electricity	**416,521**	478,023
Changes in fair value of Hydro power purchase arrangement (Note 6 b i)	**(55,183)**	407,120
Changes in fair value of Small Power Producer contracts (Note 6 b ii)	**(21,146)**	34,505
Changes in fair value of investments (Note 7)	**67,364**	(19,004)
Investment income – interest and dividends	**25,980**	24,511
Payments in lieu of tax	**43,228**	44,351
	476,764	969,506
Expenses		
Cost of sales (Note 14)	**340,750**	375,532
Force majeure costs	**46,811**	123,954
Mandated costs (Note 15)	**9,796**	7,871
General and administrative	**3,313**	3,750
Reclamation and abandonment (Note 11)	**(2,078)**	(1,459)
	398,592	509,648
Income from operating activities	**78,172**	459,858
Other income (expense)		
Finance expense (Note 11)	**(3,007)**	(1,987)
Other income	**290**	10,917
	(2,717)	8,930
Change in net assets attributable to the Balancing Pool deferral account	**75,455**	468,788

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

Statements of Cash Flows

For the year ended December 31 *(in thousands of dollars)*	**December 31, 2012**	December 31, 2011
Cash flow provided by (used in)		
Operating activities		
Change in net assets attributable to the Balancing Pool deferral account	**75,455**	468,788
Items not affecting cash		
Amortization and depreciation (Note 8 a)	**117,759**	117,755
Force majeure provision (Note 10)	**(44,996)**	109,000
Reclamation and abandonment provision (Note 11)	**(2,078)**	(1,459)
Fair value changes on Small Power Producer contracts (Note 6 b ii)	**21,146**	(34,505)
Fair value changes on Hydro power purchase arrangement (Note 6 b i)	**55,183**	(407,120)
Fair value changes on financial derivative instruments (Note 6 b iii)	**(1,380)**	(78)
Fair value changes on financial investments (Note 7)	**(65,973)**	7,091
Finance expense (Note 11)	**3,007**	1,987
Reclamation and abandonment expenditures (Note 11)	**(11,395)**	(8,654)
Net change in non-cash working capital:		
Trade receivables	**(61,672)**	2,223
Other receivables	**13,848**	(11,530)
Trade payables	**80,962**	(7,849)
Other payables	**10,605**	(5,783)
Net cash provided by operating activities	**190,471**	229,866
Investing activities		
Purchase of investments	**(43,024)**	(152,704)
Purchase of property, plant and equipment (Note 8 a)	**(9)**	–
Net cash used in investing activities	**(43,033)**	(152,704)
Financing activities		
Hydro power purchase arrangement net cash receipts (Note 6 b i)	**147,992**	189,342
Payment of power purchase arrangement lease obligation (Note 8 b)	**(59,948)**	(58,874)
Small Power Producer contracts net (payments) receipts (Note 6 b ii)	**(3,372)**	2,741
Payment of the Consumer Allocation (Note 12)	**(307,009)**	(110,440)
Net cash (used in) provided by financing activities	**(222,337)**	22,769
Change in cash and cash equivalents	**(74,899)**	99,931
Cash and cash equivalents, beginning of year	**114,125**	14,194
Cash and cash equivalents, end of year	**39,226**	114,125

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

Activities of the Balancing Pool

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

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 on the Statement of Financial Position and any revaluation adjustment 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 an asset or liability on the Statement of Financial Position 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 payor 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, 2012 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, 2011.

These financial statements were authorized and approved for issue by the members of the Board of the Balancing Pool on March 13, 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.

(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

SPP 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 net of fund management fees.

(e) Payments in lieu of tax

PILOT are accrued based on the payors' instalments for a particular tax year. PILOT payments are calculated by payors and are subject to assessment and audit by Alberta 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 under the Act the Balancing Pool is required to operate so that no profit or loss results.

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 SPP contracts are recorded as of the period end date at 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 first few years. Methodologies have been developed to determine the fair value for these contracts based on extrapolation of observable future prices and rates. The changes in these Level 3 financial instruments for the years ended December 31, 2012 and 2011 are presented in Note 6 b i and Note 6 b ii respectively.

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. Amounts settled under these contracts are recorded as sale of electricity.

Derivative financial instruments are classified as held at fair value through income or loss and are recorded on the Statement of Financial Position at fair value. All changes in fair value are included in results of income on the Statement of Income and Comprehensive Income.

Investments

Fixed income and equity securities are classified as held at fair value through income and loss and recorded in the financial statements 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 net results of income.

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

PP&E are stated at cost less accumulated depreciation and accumulated impairment losses. The major categories of PP&E are depreciated on a straight-line basis and include:

Genesee PPA	10 years
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 risks of ownership and is therefore treated as if the asset had been purchased outright. The 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 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 (the "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 sell.

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 *Power 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.

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

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 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 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.

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 will be adopted by the Balancing Pool effective January 1, 2013.

4. Significant Accounting Judgments, Estimates and Assumptions

The timely preparation of the financial statements requires that management make estimates and assumptions and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Such estimates represent 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

There were no critical judgments, apart from those involving estimation, that management has made in the process of applying accounting policies and that have a significant effect on the amounts recognized in the financial statements.

Key Sources of Estimation Uncertainty

Since a determination of some assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions which have been made using careful judgment. Actual results will differ from these estimates. The following are items that contain key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in 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, 2012**	December 31, 2011
Trade receivables	**106,662**	44,990
Other receivables	**132**	13,980
	106,794	58,970

6. Accounting for Financial Instruments

6. a) Risk Management Overview

The Balancing Pool's activities expose it 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) PPA Risk: Under terms of the PPAs the Balancing Pool is exposed to longer term risks including change in law, force majeure and PPA termination risks. Risks under change in law could include new provincial and federal legislation relating to environmental emission standards, which if enacted, may result in the PPA becoming unprofitable to the buyer, in which case the PPA could then be terminated and consequently returned to the Balancing Pool. Pursuant to Section 96 of the *Electric Utilities Act (2003)* where a PPA is terminated by the plant owner, except for total destruction of a unit or plant, the PPA is deemed to have been sold to the Balancing Pool. Owner-initiated termination would generally be as a result of a default by the PPA buyer in performing its obligations; in this instance, the Balancing Pool would be entitled to receive a termination payment from the buyer equal to the amount of net profit the buyer would have lost by continuing to hold the PPA until the end of the effective term. Buyer-initiated termination could be as a result of a change in law making the PPA uneconomic for the buyer, an event of force majeure lasting greater than six months, or plant owner default in performing its obligations. Termination under these provisions would result in the immediate transfer of the PPA to the Balancing Pool. Identifying, quantifying and devising strategies for mitigating these risks are an ongoing responsibility of the Balancing Pool.

ii) 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.

iii) Plant Availability: Changes in plant availability can impact the expected generation 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 below target availability which is a mitigating factor. 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 in that there is the possibility that investments will change in value 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 $1.6 million impact on investment valuations and a $0.01 change in the Canadian Dollar exchange rate versus the Euro would have an estimated $0.7 million impact on investment valuations. Likewise a 1% change in the floating interest rate on investments would have an estimated $0.4 million impact on cash and cash equivalents. A 1% 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% and 35% of the net assets attributable to the investment portfolio are expected to be invested in Canadian equity securities and between 15% and 35% in Global equities, subject to a 60% cap on total equity. Between 40% and 60% 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.

	2012			2011		
Sector	Fixed Income Portfolio %	Canadian Equity Portfolio %	Global Equity Portfolio %	Fixed Income Portfolio %	Canadian Equity Portfolio %	Global Equity Portfolio %
Information technology	0.0	3.8	10.1	0.0	4.2	11.3
Financials	26.8	35.1	16.6	23.1	35.6	15.9
Energy	5.1	20.9	7.8	4.3	23.8	7.8
Health care	0.0	2.3	12.4	0.0	3.3	12.7
Consumer staples	0.1	6.3	9.4	0.0	5.1	8.9
Industrials	1.6	13.3	17.3	1.8	11.8	17.5
Consumer discretionary	0.5	7.4	10.8	0.1	6.1	9.0
Utilities	2.2	0.5	1.2	1.3	0.0	1.0
Infrastructure	4.8	0.0	0.0	5.8	0.0	0.0
Materials	0.0	5.5	7.9	0.0	4.5	9.1
Telecommunication services	3.4	4.9	3.0	3.6	5.6	2.8
Federal	16.3	0.0	0.0	24.6	0.0	0.0
Provincial/municipal	29.1	0.0	0.0	26.2	0.0	0.0
Cash & cash equivalents	10.1	0.0	3.5	9.2	0.0	4.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Based on the carrying amount of these assets, a 10% increase or decrease in market prices would result in estimated gains or losses of $47.8 million for the Fixed Income Portfolio, $22.7 million for the Canadian Equity Portfolio and $30.6 million for the Global Equity Portfolio. (December 31, 2011 – $45.5 million, $21.5 million and $23.2 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 could make adjustments to the Consumer Allocation and/or liquidate investments as required.

At the reporting date, the Balancing Pool held short-term deposits of $39.2 million (2011 – $114.1 million) that are expected to readily generate cash inflows for managing liquidity risk.

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, 2012				
Trade payables	120,387	-	-	-	120,387
Other payables	-	17,490	-	-	17,490
Force majeure provision	-	64,004	-	-	64,004
Current portion of power purchase arrangement lease obligation	-	60,081	-	-	60,081
Current portion of Small Power Producer contracts	-	6,291	-	-	6,291
Current portion of reclamation and abandonment provision	-	10,500	-	-	10,500
Risk management liabilities	-	936	-	-	936
Genesee power purchase arrangement lease obligation	-	-	243,274	189,626	432,900
Small Power Producer contracts	-	-	-	14,329	14,329
Reclamation and abandonment provision and other long-term obligation	-	-	16,767	40,382	57,149
	December 31, 2011				
Trade payables	39,425	-	-	-	39,425
Other payables	-	6,885	-	-	6,885
Force majeure provision	-	109,000	-	-	109,000
Current portion of power purchase arrangement lease obligation	-	59,948	-	-	59,948
Current portion of Small Power Producer contracts	-	1,100	-	-	1,100
Current portion of reclamation and abandonment provision	-	19,000	-	-	19,000
Risk management liabilities	-	3,784	-	-	3,784
Genesee power purchase arrangement lease obligation	-	-	241,994	250,987	492,981
Small Power Producer contracts	-	-	-	1,746	1,746
Reclamation and abandonment provision and other long-term obligation	-	-	7,463	51,652	59,115

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 1,650 gigawatt hours per annum for 2013 and 1,620 gigawatt hours per annum from 2014 to 2020. Hydro PPA receipts or payments are settled on a monthly basis.

The remaining term of the Hydro PPA is eight years to 2020. At December 31, 2012, the net present value of the Hydro PPA was estimated at $476.7 million (2011 – $680.0 million). Key assumptions in this valuation are a discount rate of 10% (2011 – 10%) and an average market electricity price of $52.30/megawatt hour ("MWh") for 2013 to 2015 and an average market electricity price of $67.00/MWh for 2016 to 2020 (2011 – $71.00/MWh for 2013 to 2020).

Hydro Power Purchase Arrangement *(in thousands of dollars)*	**2012**	2011
Hydro power purchase arrangement, opening balance	**679,859**	462,081
Accretion and current year change	**87,824**	177,392
Net cash receipts	**(147,992)**	(189,342)
Revaluation of hydro power purchase arrangement asset	**(143,007)**	229,728
Hydro power purchase arrangement, closing balance	**476,684**	679,859
Less: Current portion	**(86,062)**	(128,000)
	390,622	551,859

The estimated value of this asset varies significantly based on the assumptions used and there is a high degree of measurement uncertainty. For example, if the forecasted average market price of electricity is decreased by 10% the value is reduced to $386 million; if the discount rate is decreased to 6% the value is increased to $563 million.

ii) Small Power Producer Contracts

There are eight (2011 – 10) contracts with total allocated capacity of 82 (2011 – 82) megawatts ("MW"). Contract prices range from $65.50/MWh to $79.70/MWh. Contract completion dates range between 2013 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, 2012, the net present value of cash flows to or from the Balancing Pool for these contracts was estimated to be $20.6 million liability (2011 – $2.8 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% (2011 – 10%) and an average market electricity price of $52.30/MWh for 2013 to 2015 and an average market electricity price of $66.50/MWh for 2016 to 2019 (2011 - $71.00/MWh for 2013 to 2019).

Small Power Producer Contracts *(in thousands of dollars)*	**2012**	2011
Small Power Producer contracts, opening balance	**(2,846)**	(34,610)
Accretion and current year change	**(4,796)**	9,913
Net cash payments (receipts)	**3,372**	(2,741)
Revaluation of Small Power Producer contracts	**(16,350)**	24,592
Small Power Producer contracts, closing balance	**(20,620)**	(2,846)
Less: Current portion	**6,291**	1,100
	(14,329)	(1,746)

The valuation of these contracts varies significantly depending on the assumptions used. For example, if the forecast market price of electricity is decreased by 10% the value is increased to a $27 million liability; if the discount rate is decreased to 6% the value is increased to a $23 million liability.

iii) Financial Derivatives – Electricity Price Risk Management Activities

At December 31, 2012, the Balancing Pool had derivative swap contracts outstanding to manage its exposure to changes in electricity prices with a net unrealized fair value gain of $0.4 million (2011 – $1.0 million loss). 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 estimated volume in MWh and weighted average fixed and market price per MWh is provided below:

Effective Term	MWh	Weighted Average Fixed Price	Weighted Average Market Price
Q1, 2013	555,505	61.98	61.28
Q2, 2013	294,360	58.63	51.30
Q3, 2013	242,520	59.72	61.94
Q4, 2013	261,820	59.75	58.52

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, 2011	-	1,100	(1,100)
Changes in value attributable to:			
Market changes	(24,205)	(33,737)	9,532
New contracts entered during the year	2,762	3,784	(1,022)
New contracts entered during the year (cash settled)	7,698	7,234	464
Net realized gains/losses on contracts settled during the year (a)	16,507	25,403	(8,896)
Net changes in value during 2011	2,762	2,684	78
Outstanding at December 31, 2011	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

(a) Amounts settled under financial derivative contracts are recorded on an accrual basis in revenue against the applicable exposure. During 2012, the Balancing Pool realized $25.8 million in financial derivative gains (2011 – $8.9 million in financial derivatives losses) which have been included in sale of electricity. Natural Gas Exchange ("NGX") financial derivatives are cash settled daily. At December 31, 2012 the Balancing Pool had a net gain of $1.6 million in cash settlement with NGX related to the 2013 financial derivatives (2011 – $0.5 million).

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	Significant other observable inputs	Significant unobserv-able inputs	Total
	Level 1	Level 2	Level 3	
Assets				
Cash and cash equivalents	39,226	-	-	39,226
Investments – fixed Income securities	-	477,701	-	477,701
Investments – equity securities	-	533,502	-	533,502
Risk management assets	-	1,294	-	1,294
Hydro power purchase arrangement	-	-	476,684	476,684
	39,226	1,012,497	476,684	1,528,407
Liabilities				
Small Power Producer contracts	-	-	20,620	20,620
Risk management liabilities	-	936	-	936
	-	936	20,620	21,556
	39,226	1,011,561	456,064	1,506,851

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. 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. 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. The changes in Level 3 instruments for the years ended December 31, 2012 and 2011 are disclosed in note 6 b i) and in note 6 b ii).

7. Investments

(in thousands of dollars)	December 31, 2012		December 31, 2011	
	Market Value	Cost	Market Value	Cost
Fixed income securities	**477,701**	**468,057**	454,609	445,359
Canadian equities	**227,255**	**203,407**	215,457	213,690
Global equities	**306,247**	**274,528**	232,140	243,919
Total investments	**1,011,203**	**945,992**	902,206	902,968

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), December 31, 2010	12,899	18,229	(19,307)	11,821
Fixed income IFRS transition from cost to market value	(5,492)	-	-	(5,492)
Unrealized market gain (loss), January 1, 2011	7,407	18,229	(19,307)	6,329
Change during the year	2,481	(14,353)	(7,132)	(19,004)
Realized (gains) losses on sales of investments	(638)	(2,109)	14,660	11,913
Net change during the year	1,843	(16,462)	7,528	(7,091)
Unrealized market gain (loss), December 31, 2011	9,250	1,767	(11,779)	(762)
Change during the year	1,543	26,717	39,104	67,364
Realized (gains) losses 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

8. Property, Plant and Equipment and Related Lease Obligation

a) Property, Plant and Equipment

(in thousands of dollars)	Genesee PPA	Office Equipment	Total
Year ended December 31, 2011			
At January 1, 2011	1,177,440	96	1,177,536
Amortization and depreciation	(117,744)	(11)	(117,755)
At December 31, 2011	1,059,696	85	1,059,781
At December 31, 2011			
Cost	1,505,670	467	1,506,137
Accumulated amortization and depreciation	(445,974)	(382)	(446,356)
Net book value	1,059,696	85	1,059,781
Year ended December 31, 2012			
At January 1, 2012	1,059,696	85	1,059,781
Additions	-	9	9
Amortization and depreciation	(117,744)	(15)	(117,759)
At December 31, 2012	941,952	79	942,031
At December 31, 2012			
Cost	1,505,670	476	1,506,146
Accumulated amortization and depreciation	(563,718)	(397)	(564,115)
Net book value	941,952	79	942,031

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

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)	
2013	60,081
2014	59,244
2015	61,145
2016	61,524
2017	61,361
Thereafter	189,626
	492,981
Less: Current portion	(60,081)
	432,900

9. Trade and other payables

(in thousands of dollars)	**December 31, 2012**	**December 31, 2011**
Trade payables	**120,387**	39,425
Accrued liabilities	**17,490**	6,885
	137,877	46,310

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. 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. The Balancing Pool is required to make capacity payments to the owner for approximately $7.0 million per month during the period of force majeure until such time that the units are returned to service, currently estimated for fall of 2013. This resulted in an increase to the force majeure provision of $38.0 million in the current year to reflect the estimated duration of the force majeure claim.

In 2012 the Balancing Pool remitted $83.0 million (2011 – nil) in capacity payments to the owner.

	Force Majeure Provision
At January 1, 2011	-
Increase in liability provision	109,000
Liabilities paid in period	-
At December 31, 2011	109,000
Increase in liability provision	38,028
Liabilities paid in period	(83,024)
At December 31, 2012	64,004

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

	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, 2011	19,587	29,318	37,336	86,241
Net increase (decrease) in liability provision	(7,259)	5,800	-	(1,459)
Liabilities paid in period	-	(8,654)	-	(8,654)
Accretion expense	494	-	1,493	1,987
At December 31, 2011	12,822	26,464	38,829	78,115
Less: Current portion	-	(19,000)	-	(19,000)
	12,822	7,464	38,829	59,115
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

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

Under the Negotiated Settlement Agreement for the H.R. Milner generating station in 2001, the Balancing Pool assumed liability for the costs of decommissioning the station at the end of the contract period. When the asset was sold in 2004, the Balancing Pool retained the liability for decommissioning the generating station. In 2011 a bilateral agreement was reached with Milner Power limited Partnership where the Balancing Pool's decommissioning cost will be $15 million, estimated to be incurred in 2015, discounted at 4% (2011 – 4%).

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 2012 $11.4 million (2011 – $8.7 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% (2011 – 0%). The current and long-term portions of the provision are based upon management's best estimate and the timing of the costs.

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. Estimated decommissioning costs were discounted at 4% (2011 – 4%).

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 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. 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)*	**2012**	2011
Deferral account, beginning of year	**2,024,719**	1,666,371
Change in net assets attributable to the Balancing Pool deferral account	**75,455**	468,788
Payment of Consumer Allocation	**(307,009)**	(110,440)
Deferral account, end of year	**1,793,165**	2,024,719

Effective for 2013, 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 $310 million per annum (2012 – $5.50 per MWh, $307 million per annum). The Consumer Allocation is reviewed and approved by the Board of the Balancing Pool.

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.

Payments In Lieu of Tax

In 2012, Alberta Tax and Revenue Administration issued Notice of Reassessments to a municipal entity related to its 2005, 2007 and 2008 taxation years. The reassessments required a payment to the Balancing Pool of $47.2 million. To date, the Balancing Pool has received $3.2 million towards the 2007 assessment. 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, 2012, the Balancing Pool had $30 million of unsecured Letters of Credit issued and an uncommitted credit facility available to issue Letters of Credit up to a maximum of $90 million.

14. Cost of Sales

(in thousands of dollars)	**December 31, 2012**	December 31, 2011
Cost of power purchase arrangements	**222,991**	257,777
Amortization and depreciation	**117,759**	117,755
	340,750	375,532

15. Related Party Transactions

Key Management Compensation

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

Key Management Compensation *(in thousands of dollars)*	**2012**	2011
Salaries, other short-term employee benefits and termination benefits	**854**	1,856
Total	**854**	1,856

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 2012 and 2011.

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% of their annual operating costs and 100% of the annual costs for the Transmission Cost Monitoring Committee ("TCMC") and Retail Market Review Committees ("RMRC"). In 2012, the Balancing Pool expensed $7.3 million (2011 – $7.2 million) for the UCA and $2.5 million (2011 - $0.7 million) for the TCMC and RMRC.

Corporate Information

Corporate Information

Balancing Pool Contacts

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Acting President and Chief Executive Officer

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BUSINESS DEVELOPMENT TEAM
Eagle Kwok, Director of Planning and Development

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Ben Chappell, Senior Analyst
Jordan Persaud, Analyst
James Lerner, Analyst

FINANCIAL TEAM
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