balancingpool

2016 Annual Report

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Message to Stakeholders from the Board Chair

Robert Bhatia

2016 was a year of change and challenges for Alberta's electricity industry as well as the Balancing Pool.

During the latter part of 2015 and first quarter of 2016, the Balancing Pool received notices of termination for six of the seven Power Purchase Arrangements (PPAs). The Balancing Pool immediately assumed responsibility for all financial obligations associated with the terminated PPAs. In December 2016, negotiated settlements were reached regarding the termination of the Sundance A, Sundance B, Sundance C and Sheerness PPAs.

The Balancing Pool's priority in 2017 will be to work with the various stakeholders to evaluate the PPAs and determine whether to terminate or continue managing the PPAs.

I assumed the position of Board Chair at the end of November 2016. In March 2017 Greg Pollard was reappointed to the Board and Adam Hedayat, Sandra Scott and Michelle Plouffe were also appointed to the Board.

I would like to thank the previous Chair and Members of the Board for their dedication and assistance. As well I would like to thank the staff for their support and hard work over the previous year.

Our Board and staff look forward to a constructive working relationship with stakeholders as the Balancing Pool fulfills its role in the electricity industry.

Robert Bhatia
Chair

April 26, 2017

Governance of the Balancing Pool

Adhering to the *Electric Utilities Act (2003)*, the Minister of Energy appoints members of the Balancing Pool's board of directors 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 Balancing Pool's Current Board

Robert Bhatia, Chair, served 10 years as a Deputy Minister with the Province of Alberta responsible for four major portfolios: Finance, Revenue, Seniors and Government Services. He is an experienced senior executive with more than 30 years of management and leadership experience. He has had significant responsibility for execution of multiple major corporate and financing transactions including the creation of TELUS and divestiture of an interest in Syncrude. Robert holds a Bachelor's Degree in Economics from the University of Alberta and a Master's degree in Economics from Queen's University. He holds the Institute of Corporate Directors ICD.D certification and has been an examiner for the Institute. Until recently, he was a Public Member on the City of Edmonton's Audit Committee. He chairs the Alberta Insurance Council Audit Committee.

Adam Hedayat is a business executive with extensive expertise and leadership roles in the Canadian and international energy sectors. For over 40 years, Adam contributed to the growth of several leading energy organizations such as SaskPower Commercial, TransAlta Corporation of Canada, and Morrison Knudsen of the USA (currently known as the Washington Group). Adam served as Chairman of the Board of Directors of Guyana Power & Light (GPL) since its inception in October 1999 to April 2003. GPL is a fully integrated utility serving the country of Guyana in South America with 1,100 employees. He also served as Chairman and CEO of Northstone Power Corp. Northstone is an independent power producer (IPP) in the deregulated Alberta electricity market. Previously, he served as Chairman of the Board of Drayton Valley Power, a TSE publicly traded income fund in Canada with four electricity-generating plants. Adam is a 1975 graduate in Electrical Engineering from the University of Calgary. He is a member of the Associations of Professional Engineers in the Provinces of Alberta and Saskatchewan. In 2006, he received his ICD.D designation from the Institute of Corporate Directors.

Michelle Plouffe has over 20 years of legal experience and has worked in private practice and in the utilities, health and post-secondary sectors. She obtained her Bachelor of Arts degree (with distinction) (1992) and her Law degree (1995) from the University of Alberta. After being admitted to the Alberta Bar in 1996, she began practising at Bishop & McKenzie then later moved to Brownlee LLP in 1998. Michelle later became legal counsel with EPCOR Utilities Inc. where she practised in various areas of law. She moved to Alberta Health Services in 2007 and in 2008 became their Associate General Counsel, Litigation, Employment and Regulatory. Michelle joined MacEwan University in 2012 as Vice-President, General Counsel and Compliance Officer. Michelle has been a Board Member for the Association of Corporate Counsel, Alberta Chapter, and is currently the Chair of the Hospital Privileges Appeal Board. She has been a volunteer member of the Law Society Audit Committee and is currently a volunteer member of the Conduct Committee.

Greg Pollard was 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 and Restructuring Professional (CAIRP – 1992) (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.

Sandra Scott is a business executive and management consultant who has worked in the energy and information technology sectors for 30 years. Until 2016, she was the Executive Vice-President of Alberta Technology Innovates Futures (AITF). Prior to AITF, Sandra was the Senior Vice-President and CIO at the Alberta Electric System Operator (AESO). Ms. Scott was the Calgary Managing Partner for AGTI Consulting, a firm providing business and IT consulting services across Western Canada. As Vice-President at QC Data Ltd., she held responsibility for Operations management across a wide variety of international business units providing innovative information management and business solutions to the Energy and Utility Sectors. She has actively participated on a number of Industry Associations including President of the Canadian Well Logging Society and President of the Calgary Chapter of the Computer Information Processing Society. Sandra has served on the boards of the Motive Action Training Foundation and the Southern Alberta Women's Hockey Association. Sandra holds a Bachelor of Science degree with a major in Geology from the University of Calgary.

The Balancing Pool's Audit and Finance Committee is chaired by Greg Pollard, and the Governance and Human Resources Committee is chaired by Michelle Plouffe.

Remuneration of Board Members

A summary of remuneration Members are eligible to receive as at December 31, 2016, is as follows:

- Chair – retainer $85,000 / year
- Member – retainer $27,500 / year
- Committee Chair – retainer $5,000 / year
- Board / Committee meetings – $1,100 / meeting

The Chair of the Balancing Pool does not receive meeting fees for Board or Committee meetings or additional Balancing Pool business.

2016 Meeting Attendance and Remuneration

Please note: The table below includes former Board Chair William Stedman and Monica Sloan who resigned from the Board effective November 30, 2016.

	Meeting Attendance			
Balancing Pool Board Member	Board	Audit & Finance	Governance & Human Resource	2016 Remuneration ($)[1]
Robert Bhatia[2]	1 of 1	-	-	$7,083
Greg Pollard	13 of 13	4 of 4	-	$50,099
Monica Sloan[3]	10 of 13	-	3 of 3	$44,922
William Stedman[3]	12 of 13	4 of 4	3 of 3	$83,416
Attendance	36 of 40	12 of 12	6 of 6	

[1] 2016 Remuneration includes base retainer, Committee Chair retainer, Member meeting fees, and benefits
[2] Robert Bhatia joined the Board in November 2016.
[3] William Stedman and Monica Sloan resigned effective November 30, 2016

Report from the President and CEO

OVERVIEW OF SIGNIFICANT EVENTS IN 2016

Bruce Roberts

Power Purchase Arrangement Termination Notices

2016 was an extremely challenging year for the Balancing Pool. Changes to the *Specified Gas Emitter Regulation* (SGER) and related *Climate Change and Emissions Management Fund* that came into force on January 1, 2016 increased costs to various Power Purchase Arrangement (PPA) Buyers and triggered the termination of six PPAs at various points during the first half of 2016.

The table below summarizes the dates of PPA termination notices by the respective Buyers.

Date of Termination Notice	Power Purchase Arrangement	PPA Buyer
December 11, 2015	Battle River 5	ENMAX PPA Management (ENMAX)
March 7, 2016	Sheerness	TransCanada Energy Ltd. (TCE)
March 7, 2016	Sundance A	TransCanada Energy Ltd.
March 7, 2016	Sundance B	ASTC Power Partnership (ASTC)
March 24, 2016	Sundance C	Capital Power PPA Management Inc. (CP)
May 5, 2016	Keephills	ENMAX Energy Corporation

According to the *Balancing Pool Regulation*, in the event of a Buyer termination the Balancing Pool is required to assume responsibility for ongoing capacity payments and other PPA-related costs. The Balancing Pool also assumes responsibility for selling the output from these PPAs into the wholesale electricity market.

The PPA terminations imposed significant financial liabilities on the Balancing Pool that, in combination with the continuing low price environment in the wholesale electricity market, have constrained the Balancing Pool's ability to discharge its financial obligations.

To meet these financial obligations for 2016, the Balancing Pool divested the assets in its investment portfolio drawing down the investment portfolio by approximately $680 million.

Based on forecast future market electricity prices the Balancing Pool expects the unavoidable costs of meeting the obligations under the PPAs will continue to exceed the economic benefits derived from them over the balance of the PPA term.

The Government of Alberta enacted legislation in December 2016 that allows it to loan funds to the Balancing Pool in order to meet the corporation's ongoing financial obligations. The changes contained in the *Electric Utilities Act* along with supporting regulations give the Balancing Pool until 2030 to recover costs from consumers.

Since 2006, the Balancing Pool has distributed $2.6 billion to electricity consumers by way of the Consumer Allocation. The total distribution to electricity consumers including the original auction proceeds is $4.7 billion.

With the return of the PPAs, the Balancing Pool currently has a total energy offer control of about 3,877 megawatts (MW) or 24.6% of the overall capacity in the Alberta's wholesale electricity market. The Balancing Pool has the option to terminate the PPAs by paying the Owner a termination payment equal to the net book value. In 2017 the Balancing Pool's priority will be to evaluate whether to terminate the PPAs where these terminations can be economically justified.

Looking Ahead

On behalf of the staff of the Balancing Pool, I would like to thank former Board Chair William Stedman and Board Member Monica Sloan for the extensive industry and management experience they brought to the Balancing Pool.

The challenges facing the Balancing Pool in the coming years are complex. Our management and staff look forward to the direction of our new Board as we fulfill our role on behalf of Alberta's electricity consumers.

Bruce Roberts
President and Chief Executive Officer

April 26, 2017

Management's Discussion and Analysis

Year Ended December 31, 2016

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A"), dated April 26, 2017, should be read in conjunction with the audited financial statements of the Balancing Pool for the years ended December 31, 2016 and 2015.

The financial statements for the year ended December 31, 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars.

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

Results at a Glance

Years ended December 31	2016	2015	2014
Volume — gigawatt hours ("GWh")			
Genesee power purchase arrangement ("PPA")	6,469	6,509	6,235
Battle River 5 PPA	1,610	-	-
Sundance A PPA	2,611	-	-
Sundance B PPA	3,032	-	-
Sundance C PPA	3,904	-	-
Sheerness PPA	4,175	-	-
Keephills PPA	3,432	-	-
Hydro power purchase arrangement electricity	1,625	1,622	1,621
Hydro power purchase arrangement ancillary services	1,269	1,264	1,265
Small Power Producer	127	162	348
Total electricity and ancillary service volume	28,254	9,557	9,469
Price — per megawatt hour ("MWh")			
Average electricity market price	$18.28	$33.34	$49.42
Other			
Consumer Allocation per MWh	$3.25	$5.50	$5.50
Financial Results *(in thousands of dollars)*			
Revenues	357,581	288,587	352,275
Expenses	2,908,034	751,888	391,121
Loss from operating activities	(2,550,453)	(463,301)	(38,846)
Change in net liabilities attributable to the Balancing Pool deferral account	(2,551,136)	(464,109)	(49,805)
Cash, cash equivalents and investments	31,762	709,792	1,011,323
Total assets	314,573	1,299,463	2,051,611
Total liabilities	2,281,361	524,948	488,874
Net assets (liabilities) attributable to the Balancing Pool deferral account	(1,966,788)	774,515	1,562,737
Net change in cash, cash equivalents and investments	(678,030)	(301,531)	(123,888)
Consumer Allocation	190,167	324,113	324,667

Significant Events

Power Purchase Arrangement Terminations

The Balancing Pool received formal notice from a number of PPA Buyers of their intention to terminate their respective PPAs.

Date of Termination Notice	Power Purchase Arrangement	PPA Buyer
December 11, 2015	Battle River 5	ENMAX PPA Management ("ENMAX")
March 07, 2016	Sheerness	TransCanada Energy Ltd. ("TCE")
March 07, 2016	Sundance A	TransCanada Energy Ltd.
March 07, 2016	Sundance B	ASTC Power Partnership ("ASTC")
March 24, 2016	Sundance C	Capital Power PPA Management Inc. ("CP")
May 05, 2016	Keephills	ENMAX Energy Corporation ("ENMAX Corp")

According to the *Balancing Pool Regulation*, the Balancing Pool is required to conduct an investigation to assess and verify the legitimacy of the terminations. The Balancing Pool immediately assumes the responsibility for making Capacity and Energy Payments to the Owners of the generating stations associated with the terminated PPAs.

On January 27, 2016 the Balancing Pool verified the Battle River 5 termination and confirmed with ENMAX its right to terminate the Battle River 5 PPA pursuant to Article 4.3(j) thereof.

On July 25, 2016, the Attorney General of Alberta filed an application with the Alberta Court of Queen's Bench seeking declarations relating to the validity of certain provisions of the Battle River 5 PPA, Sundance A PPA, Sundance B PPA, Sundance C PPA, Sheerness PPA and Keephills PPA. The Attorney General also sought judicial review of the Balancing Pool's decision to accept the termination by ENMAX PPA Management Inc. of the Battle River 5 PPA. The Balancing Pool, the Alberta Utilities Commission ("AUC"), ENMAX PPA Management Inc. and other parties with interests in PPAs were named as respondents.

On November 24, 2016 the Government of Alberta reached settlement agreements with the Buyers of the Sundance A, Sundance B, Sundance C, and Sheerness PPAs. As a result of these settlement agreements, the Balancing Pool has received various reimbursements in relation to the settlements reached with the various PPA Buyers. The reimbursements have been recorded as an offset against the expenses related to the provision for other long-term obligations in the Statement of Loss and Comprehensive Loss. Please refer to Notes 13 and 15 of the financial statements.

Legislated Duties

The Balancing Pool's legislated duties include the following:

- Act as a risk backstop in relation to extraordinary events such as force majeure;
- Act as a buyer for the PPAs that were not sold in the public auction held by the Government of Alberta in 2000 or that have subsequently been terminated by third party buyers and manage the resulting electricity portfolio and / or where feasible terminate the PPAs with the Owners;
- Allocate (or collect) any forecasted cash surplus (or deficit) to (from) electricity consumers in Alberta in annual amounts over the life of the Balancing Pool;
- Hold the Hydro Power Purchase Arrangement ("Hydro PPA") and manage the associated stream of receipts or payments;
- Participate in regulatory and dispute resolution processes.

Assets

Details of Assets *(in thousands of dollars)*	**2016**	**2015**
Cash and cash equivalents	16,078	5,073
Trade and other receivables	77,157	16,093
Long-term receivable	7,824	-
Investments	15,684	704,719
Property, plant and equipment	57	330,945
Hydro power purchase arrangement	48,484	242,633
Intangible assets	149,289	-
Total assets	314,573	1,299,463

Trade and Other Receivables

Trade and other receivables balance at December 31, 2016 includes sale of electricity revenues receivable for Battle River 5, Sundance A, Sundance B, Sundance C, Sheerness, Keephills and Genesee PPAs. The balance at year-end 2015 includes the Genesee PPA only.

Long-Term Receivable

The long-term receivable of $7.8 million, which comprises cash and emission credits receivable, is related to the negotiated settlements reached on the termination of certain PPAs.

Investments

Prior to April 1, 2016, the Balancing Pool's Board approved a long-term investment policy for managing the financial assets. The investment policy was based on investment standards that were deemed prudent by the Board of Directors and generally focused on achievement of a fair return on investments through a diversified investment portfolio to reduce risk. Professional money management firms managed the investment portfolio. The major sources of the Balancing Pool's investment income included interest, dividends and gains or losses on the sale of investments.

In light of the PPA terminations, on April 1, 2016 the Balancing Pool's Board of Directors approved a liquidation strategy of the financial assets under investment.

Over 2016, the investment portfolio was liquidated and drawn down by $689.0 million relative to year-end 2015. The investment funds were used to meet the obligations of the Balancing Pool.

Property, Plant and Equipment

As required by IAS 16 *Property, Plant and Equipment*, the Genesee PPA was recorded under Property, Plant and Equipment. The decrease in the net book value at year-end 2016 primarily reflects the impairment loss of $264.7 million on the Genesee PPA. The decrease in value of the Genesee PPA can be primarily attributed to the decline in the forward electricity market prices.

Hydro Power Purchase Arrangement

The 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. The net present value of the Hydro PPA at December 31, 2016 decreased by $194.1 million relative to the same period in 2015.

The decrease in fair value is the result of a reduction in the estimated energy and ancillary service revenues forecasted for the balance of the term relative to the 2015 year-end valuation calculation. Forecasted energy and ancillary service revenues declined due to the decrease in prevailing electricity market prices.

Intangible Assets

Intangible assets include emission credits held for compliance purposes. At December 31, 2016 the Balancing Pool held 7.4 million tonnes of emission credits. Approximately 7.0 million tonnes of the emission credits held are related to the negotiated settlements on certain terminated PPAs.

Liabilities

Details of Liabilities *(in thousands of dollars)*	**2016**	**2015**
Trade and other payables	372,123	74,580
Hydro power purchase arrangement	10,053	-
Genesee power purchase arrangement lease obligation	-	312,511
Small Power Producer contracts	11,339	11,368
Reclamation and abandonment provision	30,032	29,689
Other long-term obligations	1,857,814	96,700
Total liabilities	2,281,361	524,948

Trade and Other Payables

Trade and other payables balances at December 31, 2016 were higher than 2015 due to costs included for Battle River 5, Sundance A, Sundance B, Sundance C, Sheerness, Keephills and Genesee PPAs. PILOT refunds that were accrued in 2016 have also contributed to higher trade and other payables.

Hydro PPA

The current provision for the Hydro PPA is recorded as a liability at year-end 2016 as the estimated costs associated with the Hydro PPA for the coming year exceed the estimated revenues resulting in the $10.0 million liability.

Genesee Power Purchase Arrangement Lease Obligation

The Genesee PPA lease obligation was reclassified to other long-term obligations due to the impairment and the estimated future losses exceeding the estimated economic benefits.

Small Power Producer Contracts

The *Small Power Research and Development Act* required TransAlta Corporation to act as counterparty to the Small Power Producer ("SPP") contracts and to compensate the small power producers for energy delivered under the contract at a specified price.

Under the *Independent Power and Small Power Regulation*, the Balancing Pool is required to make payments to TransAlta Corporation to compensate the company for any revenue shortfall experienced during periods when the electricity market price falls below the SPP contracted price. Conversely, the Balancing Pool is entitled to receive payments from TransAlta Corporation during high price periods when there is a revenue surplus relative to the contract price.

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 electricity 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 Provision

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.

The terms of the 2001 Asset Sale Agreement for the H.R. Milner generating station between the Balancing Pool and ATCO Power Ltd ("ATCO") enabled the ongoing operation of the facility by ATCO on behalf of the Balancing Pool. The Balancing Pool assumed liability for the costs of decommissioning the station at the end of operations. When the asset was subsequently sold by the Balancing Pool to Milner Power Limited Partnership 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 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 the PPA term. Decommissioning cost recovery by the Owner is subject to review and approval by the AUC and is conditional on the unit ceasing operations within one year of PPA termination. This provision does not apply to PPA-related generating unit's termination dates that occur after December 31, 2018.

Details of Reclamation and Abandonment Provision *(in thousands of dollars)*	**2016**	**2015**
H.R Milner	14,616	13,128
Isolated Generation sites	6,956	5,463
Decommissioning of power purchase arrangements	8,460	11,198
Total reclamation and abandonment provision	30,032	29,789

The increase in the H.R Milner provision reflects a change in annual accretion expense of the obligation.

For Isolated Generation sites, the Balancing Pool has revised the estimate of the decommissioning costs, the number of Isolated Generation sites requiring reclamation and the timing of such reclamation activities. This resulted in a $1.8 million increase in the liability provision from the prior year. Annual accretion expense increased the provision as well by $0.1 million. These increases to the provision were offset by liabilities paid during 2016 of $0.5 million resulting in an overall increase to the provision of $1.5 million.

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. The change resulted in a $3.0 million decrease to the provision, offset by annual accretion expense of $0.3 million.

Other Long-Term Obligations (Power Purchase Arrangements)

As counterparty to the PPAs, the Balancing Pool is required to make monthly payments to the owner of the generating units intended to cover fixed and variable costs. The Balancing Pool is not responsible for the daily operation of the power plants, however the Balancing Pool does retain offer control.

An onerous contract provision is required when the unavoidable cost of meeting the obligations under the PPA exceed the economic benefits expected to be derived from the PPA. The provision is measured at the lower of the expected cost of terminating the arrangement and the expected cost of continuing performance under the arrangement. The Balancing Pool has recognized onerous contract provisions for the following PPAs: Battle River 5, Sheerness, Sundance A, Sundance B, Sundance C, Keephills and Genesee.

Details of Other Long-Term Obligations *(in thousands of dollars)*	**2016**	**2015**
Battle River 5 PPA	151,557	96,700
Sundance A PPA	90,892	-
Sundance B PPA	199,775	-
Sundance C PPA	150,169	-
Sheerness PPA	382,244	-
Keephills PPA	256,527	-
Genesee PPA	626,650	-
Total other long-term obligations	1,857,814	96,700

An onerous contract provision of $1,857.8 million was recognized at December 31, 2016 for the PPAs.

Balancing Pool Deferral Account

Balancing Pool Deferral Account *(in thousands of dollars)*	**2016**	**2015**
Deferral account, beginning of year	774,515	1,562,737
Change in net liabilities attributable to the Balancing Pool deferral account	(2,551,136)	(464,109)
Consumer allocation	(190,167)	(324,113)
Deferral account, end of year	(1,966,788)	774,515

The Balancing Pool's deferral account decreased by $2,704.4 million at 2016 year-end relative to the prior year. The decrease in the deferral account is a result of the Balancing Pool assuming responsibility for the financial obligations associated with the terminated PPAs, the decline in the fair value of the Hydro PPA, the impairment loss on the Genesee PPA and the distribution of the Consumer Allocation of $3.25/MWh paid out over 2016 (2015 – $5.50/MWh).

Consumer Allocation (Collection)

The Consumer Allocation (collection) is reviewed and approved annually by the Board of the Balancing Pool in accordance with the *Balancing Pool Regulation*. The Government of Alberta set the Consumer Collection at $65.0 million for 2017.

Operations

Revenues

Details of Revenues *(in thousands of dollars)*	**2016**	**2015**
Sale of electricity	463,923	151,083
Sale of generating capacity and termination revenue	28,743	71,510
Change in fair value of investments	(6,572)	35,535
Investment income – interest and dividends	4,836	26,555
Payments (refunds) in lieu of taxes ("PILOT")	(133,349)	3,904
Total revenues	357,581	288,587

Overall revenues increased in 2016 relative to 2015 primarily as a result of the inclusion of electricity revenues associated with the terminated PPAs. The increase in electricity revenues was partially off-set by lower Payments (Refunds) in Lieu of Taxes (PILOT) receipts and pending payments (refund) of $102.6 million in 2016 relative to 2015, as well as additional PILOT refund payments accrued in 2016.

Sale of Electricity and Generating Capacity and Termination Revenue

Sale of Electricity *(in thousands of dollars)*	**2016**	**2015**
Battle River 5 PPA	32,572	-
Sundance A PPA	48,317	-
Sundance B PPA	59,472	-
Sundance C PPA	71,362	-
Sheerness PPA	78,665	-
Keephills PPA	63,179	-
Genesee PPA	110,356	151,083
Total sale of electricity	463,923	151,083

Sale of electricity in 2016 is comprised of revenues from the various PPAs as detailed on the table above. Revenues from sale of electricity for the Genesee PPA in 2016 declined relative to 2015 primarily because of the reduction in the realized electricity market price in 2016.

The Balancing Pool sold two 100-MW strip contracts for generating capacity from the Genesee PPA in the last quarter of 2014. The strip contracts generated $28.7 million in revenues for 2016. The decrease in revenue for 2016 relative to 2015 was due to the termination of both 100-MW strip contracts in early 2016.

Changes in Fair Value of Investments

Details of Changes in Fair Value of Investments *(in thousands of dollars)*	**2016**	**2015**
Unrealized mark-to-market gains (losses)	(121,707)	(54,087)
Realized capital gains	115,135	89,622
Total change in fair value of investments	(6,572)	35,535

The value of investments decreased in 2016 relative to 2015 as a result of liquidating the investment portfolio.

Investment Income – Interest and Dividends

Details of Investment Income *(in thousands of dollars)*	**2016**	**2015**
Interest income	4,100	12,070
Dividend income	736	14,485
Total investment income – interest and dividends	4,836	26,555

Investment income decreased primarily due to a lower investment balance through 2016 relative to 2015.

Payments (Refunds) in Lieu of Tax

PILOT receipts (refunds) 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 of corporate income tax the municipal entity would be required to pay in a given year pursuant to the *Income Tax Act of Canada* and the *Alberta Corporate Tax Act* if it were subject to income tax. PILOT receipts are calculated by the municipal entity and 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 re-assessments issued by Alberta Tax and Revenue Administration.

Details of PILOT *(in thousands of dollars)*	**2016**	**2015**
PILOT instalments received for current tax year	828	7,179
PILOT instalment re-allocations and refunds for prior tax years	(133,671)	(284)
PILOT audit and litigation costs	(506)	(2,991)
Total PILOT revenues (refund)	(133,349)	3,904

Total PILOT revenues for 2016 decreased relative to 2015 because of lower PILOT instalments received in the current year and refunds processed and accrued for prior tax years.

The Balancing Pool is also responsible for paying the PILOT audit and litigation costs incurred by Alberta Tax and Revenue Administration.

A municipal entity subject to PILOT has disagreed with many aspects of the re-assessments issued by Alberta Tax and Revenue Administration and has filed notices of objection for all tax years dating back to 2001. The municipal entity proceeded with litigation to resolve the various tax matters in 2016. Several matters were adjudicated over the year that ultimately resulted in a pending refund of $96.0 million to the municipal entity. The matter is currently under appeal, however the Balancing Pool has accrued the pending refund through a reduction in revenue. The total PILOT amounts that remain under dispute with the municipal entity are approximately $61.7 million for the period from 2001 to 2015. A provision of $30.3 million has been recorded as a reduction in revenue in relation to the remaining disputed matters.

Subsequent to year end, in April 2017 a cash refund was issued to a municipal entity subject to PILOT for $6.6 million related to prior tax years. The amount was accrued in 2016.

Expenses

Details of Expense *(in thousands of dollars)*	**2016**	**2015**
Power purchase arrangement provision	1,762,437	96,700
Cost of sales	639,663	321,166
Impairment loss	264,678	221,960
Change in fair value of Hydro power purchase arrangement	222,670	81,286
Mandated costs	6,155	5,958
Changes in fair value of Small Power Producer contracts	6,048	4,341
General and administrative	3,814	2,568
Force majeure costs	2,110	12,793
Investment management fees	534	2,352
Reclamation and abandonment provision	(75)	2,764
Total expenses	2,908,034	751,888

Overall, total expenses for 2016 increased from the prior year primarily due to the onerous contract provision recorded for the terminated PPAs and the Genesee PPA. Cost of sales also increased due to the terminated PPAs as the Balancing Pool assumed responsibility for the costs associated with the terminated PPAs at various dates in 2016.

Power Purchase Arrangement Provision

Power Purchase Arrangement Provision *(in thousands of dollars)*	**2016**	**2015**
PPA provision for onerous contracts	2,200,084	96,700
Re-class Genesee lease obligation to other long-term obligation	(250,987)	-
PPA provision recoveries related to negotiated settlements	(186,660)	-
Total power purchase arrangement provision	1,762,437	96,700

In 2016, the Power Purchase Arrangement Provision is comprised of the onerous contract provisions established for the terminated PPAs (Battle River 5, Sundance A, Sundance B, Sundance C, Sheerness and Keephills) and the Genesee PPA. The onerous contract provision for 2015 reflects only the Battle River 5 PPA as the other PPAs had not been terminated in 2015.

Included as an off-set to PPA provision expense are the recoveries related to the negotiated settlements reached in December 2016 for Sundance A, Sundance B, Sundance C and Sheerness PPAs.

Cost of Sales

Details of Cost of Sales *(in thousands of dollars)*	**2016**	**2015**
PPA costs	1,003,579	207,752
Amortization and depreciation on assets	66,210	110,595
Power marketing costs	8,844	2,819
Losses recorded against other long-term obligations	(438,970)	-
Total cost of sales	639,663	321,166

The PPA costs include plant capacity payments, variable operating costs including incentive payments, and transmission charges. Capacity payments comprise more than 90% of the PPA costs and these payments vary year-over-year as a result of changes in capital cost base, cost indices, interest rates and pass-through charges. Changes to the electricity market price have a minimal impact on the PPA capacity payments

PPA costs of $1,003.6 million in 2016 include the costs associated with Battle River 5, Sundance A, Sundance B, Sundance C, Sheerness, Keephills and Genesee PPAs. The costs for 2015 only include the PPA cost associated with the Genesee PPA.

Amortization and depreciation costs declined in 2016 relative to 2015 as a result of the $222.0 million impairment loss recorded against the Genesee PPA at December 31, 2015.

In 2016 losses from the PPAs of $438.9 million were recorded against the onerous contract provisions established for the terminated PPAs and the Genesee PPA.

Impairment Loss

The impairment loss of $264.7 million recorded in relation to the Genesee PPA increased in 2016 relative to 2015 as a result of the decline in the forward electricity market price and increased environmental compliance costs. The Genesee PPA was fully impaired at December 31, 2016.

Change in Fair Value of Hydro Power Purchase Arrangement

Details of Changes in Fair Value of Hydro Power Purchase Arrangement *(in thousands of dollars)*	**2016**	**2015**
Accretion and current year change	20,109	(19,126)
Re-valuation of Hydro power purchase arrangement loss	202,561	100,412
Total change in fair value of Hydro power purchase arrangement	222,670	81,286

Accretion and current year change decreased for 2016 relative to 2015 due to actual current year cash receipts that were lower than those forecast in the prior year's valuation. Actual cash receipts decreased because of the lower than expected electricity market prices for the year. The value of the Hydro PPA at December 31, 2016 decreased relative to 2015 as a result of a decrease in the expected future cash flows for electricity and ancillary services relative to those used in the prior year's valuation calculation.

Mandated Costs

Details of Mandated Costs *(in thousands of dollars)*	**2016**	**2015**
Utilities consumer advocate ("UCA")	5,427	4,795
Transmission facilities cost monitoring committee ("TFCMC")	208	226
Retail market review committee ("RMRC")	520	763
Consulting	-	174
Total mandated costs	6,155	5,958

Mandated costs in 2016 increased marginally relative to 2015 to reflect changes in estimated costs previously accrued for the UCA. The increased costs for the UCA were partially offset by lower costs previously accrued for the TFCMC and RMRC.

Change in Fair Value of Small Power Producer Contracts

Details of Changes in Fair Value of Small Power Producer Contracts *(in thousands of dollars)*	**2016**	**2015**
Accretion and current year change	1,391	1,301
Revaluation of Small Power Producer contracts	4,657	3,040
Total change in fair value of Small Power Producer contracts	6,048	4,341

Accretion and current year change increased year-over-year due to higher actual current year cash payments than those forecast in the prior year's valuation. Actual cash payments increased as a result of the lower than expected electricity market price for the year. The value of the liability related to the SPP contracts at December 31, 2016 increased relative to 2015 as a result of an increase in the expected net payments relative to the prior year's valuation calculation. Net payments are expected to increase going forward as a result of the decline of the forward market price relative to the fixed SPP contract price.

Force Majeure Costs

Events of force majeure are extraordinary events that are determined to be 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.

Force majeure costs of $2.1 million for 2016 represent legal and consulting expenditures related to disputed force majeure claims from prior years. There were no new force majeure claims initiated in 2016.

Liquidity and Cash Flow

To manage liquidity risk, the Balancing Pool forecasts cash flows for a period of 12 months and beyond to the end of 2030. During 2016 the investment portfolio was liquidated to meet cash flow requirements.

In December 2016, the Government of Alberta enacted changes to the *Electric Utilities Act* that allow Alberta Treasury Board and Finance to loan funds to the Balancing Pool at the recommendation of the Minister of Energy.

The Balancing Pool's primary uses of funds were for payment of the obligations associated with the PPAs, the Consumer Allocation and operating expenses.

Cash and Cash Equivalents *(in thousands of dollars)*	**2016**	**2015**
Cash and cash equivalents, beginning of year	5,073	36,641
Net cash provided by (used in) operating activities	(270,635)	109,964
Net cash provided by investing activities	557,876	215,820
Net cash used in financing activities	(276,236)	(357,352)
Cash and cash equivalents, end of year	16,078	5,073

For the year ended December 31, 2016 the Balancing Pool received $418.0 million from the sale of investments net of re-invested interest, dividends and capital gains (2015 – $215.8 million) resulting in an increase of $202.2 million of net cash provided by investing activities relative to 2015.

Outlook

As per changes to the *Balancing Pool Regulation* enacted in December 2016, effective January 1, 2017, the annual consumer collection from electricity consumers in Alberta was set at an estimated annual collection of $65.0 million (2016 – $3.25/MWh, $190.0 million Consumer Allocation).

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. 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.

- **Power market price volatility risk**

  As counterparty to the PPAs, 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, natural gas prices and weather conditions.

- **Unit destruction**

  In the event that a unit is destroyed and cannot be repaired by the Owner, the Balancing Pool could be required to pay the Residual Balancing Pool Amount to the PPA Buyer and the Net Book Value less any Insurance Proceeds to the Owner of the unit.

- **Change in law risk**

  Changes in law, including regulatory, environmental 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 from plant Owners to the PPA Buyer. As the default Buyer of the various PPAs, the Balancing Pool must assume and be responsible for change in law costs affecting the generating 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 end of 2018.

- **Alberta Climate Leadership Plan**

  In November 2015, the Government of Alberta announced the Climate Leadership Plan ("CLP"). The CLP establishes a framework for the retirement of coal-fired generation by 2030, compliance requirements for coal emissions and renewable generation procurement to replace coal-fired generation. While these anticipated impacts have been reflected in the valuations, the CLP has not been enacted into law and some specifics of the policy have not been finalized. The final plan could have an impact on the value of the PPAs.

- **Liquidity**

  To meet short-term liquidity needs, the Balancing Pool has a loan agreement in place with Alberta Treasury Board and Finance.

Internal Controls

The Chief Executive Officer ("CEO") and the Controller of the Balancing Pool have established and maintained internal controls over financial reporting ("ICFR") in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with Generally Accepted Accounting Principles ("GAAP").

The CEO and the Controller have evaluated the design and operating effectiveness of the Balancing Pool's ICFR as of December 31, 2016 and, based on the evaluation, have concluded that the controls are effective in providing such reasonable assurance. There are no changes to the internal controls that have materially affected the Balancing Pool's ICFR during 2016.

Accounting Policy Changes

There were no significant changes to accounting standards that impacted the Balancing Pool in 2016. 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.

Onerous Contract Provision – The provision for the PPAs (Genesee, Battle River 5, Sundance A, Sundance B, Sundance C, Sheerness and Keephills) have been estimated using estimated future electricity prices, anticipated impacts of pending environmental legislation, escalated costs as per the contract terms and future cash outflows discounted to the net present value at a range of 0.6% to 1% (2015 – 2.7%).

Hydro Power Purchase Arrangement Valuation, Small Power Producer Contracts Valuation and Genesee Power Purchase Arrangement Impairment Assessment – The net present value of future cash flows is estimated using:

- estimated future electricity market prices;
- escalated costs as per contract term; and
- future cash flows discounted to net present value with a range of 0.6% to 10.2% (2015 – 10.1%).

In the opinion of management, the Corporation's audited 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, 2016 and 2015

April 26, 2017

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, 2016 and December 31, 2015 and the statements of loss and comprehensive loss 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 the 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, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

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Statements of Financial Position

(in thousands of Canadian dollars)	2016	2015
Assets		
Current assets		
Cash and cash equivalents	16,078	5,073
Trade and other receivables (Note 5)	77,157	16,093
Current portion of Hydro power purchase arrangement (Note 8 b i)	-	26,147
	93,235	47,313
Long-term receivables (Note 6)	7,824	-
Investments (Note 9)	15,684	704,719
Property, plant and equipment (Note 10 a)	57	330,945
Hydro power purchase arrangement (Note 8 b i)	48,484	216,486
Intangible assets (Note 7)	149,289	-
Total Assets	314,573	1,299,463
Liabilities		
Current liabilities		
Trade and other payables (Note 11)	372,123	74,580
Current portion of Hydro power purchase arrangement (Note 8 b i)	10,053	-
Current portion of power purchase arrangement lease obligation (Note 10 b)	-	61,524
Current portion of Small Power Producer contracts (Note 8 b ii)	5,902	5,834
Current portion of reclamation and abandonment provision (Note 12)	3,671	2,925
Current portion of other long-term obligations (Note 13)	1,446,361	44,200
	1,838,110	189,063
Genesee power purchase arrangement lease obligation (Note 10 b)	-	250,987
Small Power Producer contracts (Note 8 b ii)	5,437	5,534
Reclamation and abandonment provision (Note 12)	26,361	26,864
Other long-term obligations (Note 13)	411,453	52,500
Total Liabilities	2,281,361	524,948
Net assets (liabilities) attributable to the Balancing Pool deferral account (Note 1, 14)	(1,966,788)	774,515
Contingencies and commitments (Note 15)		
Subsequent events (Note 18)		

On behalf of the Balancing Pool:

Robert Bhatia
Chair

Greg Pollard
Audit and Finance Committee Chair

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

Statements of Loss and Comprehensive Loss

(in thousands of Canadian dollars)	**2016**	**2015**
Revenues		
Sale of electricity	463,923	151,083
Sale of generating capacity and termination revenue (Note 15)	28,743	71,510
Changes in fair value of investments (Note 9)	(6,572)	35,535
Investment income – interest and dividends	4,836	26,555
Payments (refunds) in lieu of tax (Note 15, 18)	(133,349)	3,904
	357,581	288,587
Expenses		
Power purchase arrangement provision (Note 13)	1, 762,437	96,700
Cost of sales (Note 10 a, 16)	639,663	321,166
Impairment loss (Note 10 a)	264,678	221,960
Changes in fair value of Hydro power purchase arrangement (Note 8 b i)	222,670	81,286
Mandated costs (Note 17)	6,155	5,958
Changes in fair value of Small Power Producer contracts (Note 8 b ii)	6,048	4,341
General and administrative	3,814	2,568
Force majeure costs	2,110	12,793
Investment management costs	534	2,352
Reclamation and abandonment provision (Note 12)	(75)	2,764
	2,908,034	751,888
Income from operating activities	(2,550,453)	(463,301)
Other income (expense)		
Net (losses) gains on financial derivatives (Note 8 b iii)	-	271
Finance expense (Note 12)	(804)	(1,195)
Other income	121	116
	(683)	(808)
Change in net liabilities attributable to the Balancing Pool deferral account (Note 13)	(2,551,136)	(464,109)

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

Statements of Cash Flows

(in thousands of Canadian dollars)	2016	2015
Cash flow provided by (used in)		
Operating activities		
Change in net liabilities attributable to the Balancing Pool deferral account	(2,551,136)	(464,109)
Items not affecting cash		
Amortization, depreciation and impairment (Note 10 a)	330,888	332,555
Reclamation and abandonment provision (Note 12)	(75)	2,764
Power purchase arrangement provision (Note 13)	1,761,114	96,700
Fair value changes on Small Power Producer contracts (Note 8 b ii)	6,048	4,341
Fair value changes on Hydro power purchase arrangement (Note 8 b i)	222,670	81,286
Fair value changes on financial investments (Note 9)	121,707	54,087
Finance expense (Note 12)	804	1,195
Reclamation and abandonment expenditures (Note 12)	(486)	(4,047)
Net change in other assets:		
Intangible assets (Note 7)	(139,837)	-
Long-term receivable (Note 6)	(7,824)	-
Power purchase arrangement lease obligation (Note 10 b)	(250,987)	-
Net change in non-cash working capital:		
Trade and other receivables	(61,064)	2,965
Trade and other payables	297,543	2,227
Net cash provided by (used in) operating activities	(270,635)	109,964
Investing activities		
Interest, dividends and other gains	(119,884)	(116,124)
Sale of investments (Note 9)	687,212	332,000
Purchase of intangible assets (Note 7)	(9,452)	-
Purchase of property, plant and equipment (Note 10 a)	-	(56)
Net cash provided by investing activities	557,876	215,820
Financing activities		
Hydro power purchase arrangement net (payments) receipts (Note 8 b i)	(18,468)	33,866
Payment of power purchase arrangement lease obligation (Note 10 b)	(61,524)	(61,145)
Small Power Producer contracts net (payments) receipts (Note 8 b ii)	(6,077)	(5,960)
Payment of the Consumer Allocation (Note 14)	(190,167)	(324,113)
Net cash used in financing activities	(276,236)	(357,352)
Change in cash and cash equivalents	11,005	(31,568)
Cash and cash equivalents, beginning of year	5,073	36,641
Cash and cash equivalents, end of year	16,078	5,073

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, liabilities, 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 "EUA") 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 EUA the Corporation is required to operate with no profit or loss (Note 14) 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 EUA 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 EUA 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.

Following the PPA terminations, in 2016 the Government of Alberta enacted changes to the EUA which allows the Alberta Treasury Board and Finance to make loans to the Balancing Pool at the recommendation of the Minister of Energy and to guarantee the Balancing Pool's obligations. The Government of Alberta also enacted changes in 2016 to the *Balancing Pool Regulation* which stipulates the Consumer Collection for 2017 is set at $65 million for the year. Any cash shortfall that the Consumer Collection is unable to satisfy will be financed by funds obtained through the loan agreement with the Government of Alberta and recovered from electricity consumers over the period of January 1, 2021 to December 31, 2030 (Note 18).

Revenues

The Balancing Pool has four primary sources of revenue:

i) Sale of electricity and generating capacity

The Balancing Pool earns revenue from the sale of electricity sourced from the following PPAs: Genesee, Battle River 5, Sheerness, Keephills, Sundance A, Sundance B and Sundance C.

The Balancing Pool earns revenue from the sale of generating capacity from the sale of two 100-megawatt ("MW") strip contracts for the associated offer rights and energy output of the Genesee PPA. The contracts commenced on November 1, 2014 and were expected to expire on October 31, 2017.

See Note 15 for events related to the strip contract terminations.

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")

Pursuant to Section 85 of the EUA, the Balancing Pool holds the Hydro PPA. As such, the Balancing Pool has retained the right to the market value of the associated electricity and is responsible for the PPA obligations from certain hydro plants in the province of Alberta. The cash flow associated with the Hydro PPA is calculated based on the electricity market 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 loss.

iii) Investment income and changes in fair value of investments

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

iv) Payments (refunds) in lieu of tax ("PILOT")

Pursuant to Section 147 of the EUA, the Balancing Pool collects (refunds) a notional amount of tax from electricity companies controlled by municipal entities that are active in Alberta's competitive electricity market that are as a result of subsection 149(1) of the *Income Tax Act (Canada)* otherwise exempt from the payment of tax under that Act or the *Alberta Corporate Tax Act*. The Balancing Pool does not calculate instalment payments or refunds and it does not audit PILOT filings. PILOT instalments are calculated by the payer and PILOT filings 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 Owners of the various generation assets that are operated under the terms of the following PPAs: Genesee, Battle River 5, Sheerness, Keephills, Sundance A, Sundance B and Sundance C.

ii) Small Power Producer ("SPP") contracts

Under the provisions of the *Small Power Research and Development Act*, public utilities were required to enter into production contracts with small power producers who own and operate eligible power production facilities.

Under the provisions of the *Independent Power and Small Power Regulation*, the Balancing Pool must pay to the public utility any deficit or receive any surplus realized by the public utility from the production contracts. The net present value of these estimated payments is recorded as a liability and any revaluation adjustment is included in net results of income.

iii) 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 EUA, which amounts are included in mandated costs.

2. Basis of Presentation

These financial statements for the year ended December 31, 2016 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 the year ended December 31, 2015.

These financial statements were authorized and approved for issue by the Board of the Balancing Pool on April 26, 2017.

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 and investments, which are measured at fair value.

Revenue Recognition

(a) Sale of electricity and generating capacity

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

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 and unrealized 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 (refunds) in lieu of tax

PILOT funds are accrued based on instalments received from or refunds paid to a municipal entity for a particular tax year. PILOT payments are calculated by the municipal entities and are subject to assessment and audit by Alberta Tax and Revenue Administration. Adjustments, if any, arising from audits are recorded in the current year.

Income Taxes

No provision has been made for current or deferred 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 on deposit at the bank.

Trade and Other Receivables and Prepaid Expenses

Trade and other receivables are classified as loans and receivables and are measured at amortized cost less any impairment.

Intangible Assets (Emission Credits)

Emission credits, which have been purchased or acquired through PPA negotiated settlements and held for compliance purposes, are recorded by the Balancing Pool as indefinite life intangible assets. These assets are recognized initially at fair value based upon a market price. Emission credits held for compliance purposes are not amortized, but are expensed as the associated benefits are realized.

The emission credits will be used to satisfy future environmental compliance obligations of the PPAs associated with the *Specified Gas Emitters Regulation* and the Climate Leadership Plan.

Long-Term Receivables

Cash settlement amounts due from a former PPA counterparty are accounted as long-term receivables with fixed payments receivable on each of December 31, 2018, 2019 and 2020. These assets were recognized initially at fair value. After initial recognition they are measured at amortized cost using the effective interest method less any impairment losses. The effective interest method calculates the amortized cost of a financial asset and allocates the interest income over the term of the financial asset using the effective interest rate.

Further emission credits due from a former PPA counterparty expected to be received by December 31, 2020 are recognized as long-term receivables (see Note 13 and 15).

Hydro Power Purchase Arrangement and Small Power Producer Contracts

The Hydro PPA and SPP contracts are derivative financial instruments classified as held for trading. They are recorded as of the period end date at their fair value. Fair value is measured as the present value of the estimated future net payments to be received (or paid) under the contracts and reflects management's best estimate based on generally accepted valuation techniques and supported by observable market prices and rates when available. Fair value for these contracts is based on forecasting future prices using a merit order dispatch model.

Electricity Price Risk Management and Financial Instruments – Risk Management Asset and Liabilities

The Balancing Pool may utilize 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 floating 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 recognized 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
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 Corporation as the lessee. A lease is considered to be 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 capitalized at the lease's commencement at the fair value of the leased property.

Each lease payment is allocated between the liability and expenses.

The capitalized 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 value of the Genesee PPA is stated at cost, less accumulated depreciation and amortization.

The Genesee finance lease obligation is now recognized and reported as part of other long-term obligations. See Notes 10 and 13 for events related to impairment and recognition of an onerous contract for the Genesee PPA.

Impairment – Non-Financial Assets

For the purpose of impairment testing, non-financial assets are 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 – a cash generating unit ("CGU").

The carrying amounts of non-financial assets 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 amount recoverable from the asset 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 net future cash flows discounted to their present value. The discounted cash flow is determined 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 Loss and Comprehensive Loss.

Impairment losses recognized in prior years are reassessed 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 depreciation and amortization, if no impairment loss had been permitted to be recognized.

Impairment – Financial Assets

Financial assets have been assessed for indicators of impairment at the end of each reporting period. Receivables are carried at amortized cost. The amount of any impairment loss is recognized as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. Any impairment loss is recognized in the Statement of Loss and Comprehensive Loss. Should the amount of the estimated impairment loss increase or decrease following a subsequent event, the previously recognized impairment loss is adjusted through the Statement of Loss and Comprehensive Loss.

Reclamation and Abandonment Obligations

Reclamation and abandonment obligations include legal obligations requiring the Balancing Pool to fund the decommissioning of 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 as 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. 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 expenditures 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 (loss).

Pursuant to Section 7 of the *Power Purchase Arrangements Regulation*, 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 to generation units that are decommissioned after December 31, 2018.

The reclamation and abandonment provision includes an estimate of the expected future costs associated with PPA decommissioning costs. Any underfunded decommissioning liabilities are passed to the Balancing Pool in circumstances where a plant Owner elects to discontinue operations and decommission the respective plant following a PPA termination or PPA expiry.

The discount rate used to value these liabilities is based upon the risk-free rate and adjusted for other risks associated with these liabilities.

Provisions for Onerous Contracts (Other long-term obligations)

A provision for an onerous contract is recognized when the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be derived from the contract. The provision is measured at the lower of the expected cost of terminating the contract and the expected cost of continuing performance under the contract. The Balancing Pool has recognized onerous contract provisions for the following PPAs: Battle River 5, Sheerness, Sundance A, Sundance B, Sundance C, Keephills and Genesee. The provisions for onerous contracts have been classified as part of other long-term obligations on the Statements of Financial Position.

The discount rate used to measure these liabilities is based upon the risk-free rate. Where the Balancing Pool expects some or all of the provision will be reimbursed by a third party, the expense relating to any provision is presented in the Statement of Loss and Comprehensive Loss net of the reimbursement. The expected reimbursement receivable is recognized as an asset if it is virtually certain that the reimbursement will be received and the amount receivable can be measured reliably.

Accounting Standards Issued But Not Yet Adopted

The IASB issued the following standards, which are issued 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.

IAS 7 – *Statement of Cash Flows* – amendments have been issued to improve disclosures of changes in financing liabilities to allow users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments to IAS 7 are effective for annual periods beginning on or after January 1, 2017.

IFRS 15 – *Revenue from Contracts with Customers* – replaces the previous revenue recognition standard with a single and comprehensive framework for revenue recognition to ensure consistent treatment for all transitions. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

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 includes guidance on the classification and measurement of financial assets and financial liabilities, impairment of financial assets and a new hedge accounting model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

IFRS 16 – *Leases* - in January 2016, the IASB issued IFRS 16 Leases, which replaces the current IFRS guidance on leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The approach to lessor accounting will remain unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 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 use 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 in applying accounting policies, including when:

- forecasting future power prices and capacity factors;
- estimating the probability that specific PPA Owners will elect to decommission the PPA-related generating units within one year of termination of the PPA;
- assessing the impact of events related to the termination of certain PPAs and the related commitments (Note 15) and provisions (Note 13) arising therefrom; and
- assessing whether the carrying amount of the Genesee PPA finance lease asset is recoverable (Note 10).

These critical judgements 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 10)

ii) Hydro power purchase arrangement (Note 8 b i)

iii) Intangible assets (Note 7)

iv) Reclamation and abandonment provision (Note 12)

v) Other long-term obligations (Note 13)

vi) Small Power Producer contracts (Note 8 b ii)

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, 2016	December 31, 2015
Trade receivables	75,137	16,004
Other receivables	2,020	89
	77,157	16,093

6. Long-term receivables

(in thousands of dollars)	December 31, 2016	December 31, 2015
Cash settlement receivable from PPA settlements (Note 15)	5,824	-
Emission credits receivable from PPA settlements (Note 15)	2,000	-
	7,824	-

7. Intangible Assets

(in thousands of dollars)	**Emission Credits**
At January 1, 2016	-
Additions from purchases	9,452
Additions from PPA settlements received (Note 15)	139,837
At December 31, 2016	149,289

8. Accounting for Financial Instruments

8. a) Risk Management Overview

The Balancing Pool's activities expose the Balancing Pool to a variety of financial risks: market risk (including fluctuating market prices, plant availability, risks associated with PPA payments and receipts 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 revenues that the Balancing Pool receives from the PPAs, including the Hydro PPA. 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 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. Economic activity is a key contributor to market price risk as it relates to the demand for electricity. Market price risk may be managed through the use of financial forward sale contracts for electricity.

ii) Plant Availability: Changes in plant availability can impact the expected level of generation output 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 availability. 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.

iii) Capacity Payment: The Balancing Pool is exposed to interest rate risk in relation to the annual capacity payments. A 1% increase to the long-term government bond rate would increase the annual capacity payments by an estimated $19.2 million for the terminated PPAs. Likewise a 1% decrease to the long-term government bond rate would decrease the annual capacity payments by an estimated $19.2 million.

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.

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 has historically been 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 were 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 were expected to be invested in fixed income securities. The investment policy required 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. In April 2016, the Board of Directors approved a liquidation strategy for the investment portfolio.

The table below is a summary of the significant sector concentrations within the investment portfolio at December 31, 2016 and 2015.

	% of Total Fund Value					
	2016			2015		
Sector	Fixed Income Portfolio %	Canadian Equity Portfolio %	Global Equity Portfolio %	Fixed Income Portfolio %	Canadian Equity Portfolio %	Global Equity Portfolio %
Information technology	-	-	-	0.1	5.6	11.7
Financials	-	-	73.8	22.4	38.9	18.7
Energy	-	-	-	4.7	15.1	5.0
Health care	-	-	0.8	0.0	0.0	13.8
Consumer staples	-	-	-	0.1	7.3	12.0
Industrials	-	-	-	0.2	13.5	12.8
Consumer discretionary	-	-	-	0.1	8.0	12.2
Utilities	-	-	-	2.2	2.1	0.2
Infrastructure	-	-	-	7.4	0.0	0.0
Materials	-	-	21.6	0.4	6.0	6.3
Telecommunication services	-	-	3.8	2.3	3.3	3.9
Federal	-	-	-	14.9	0.0	0.0
Provincial / municipal	-	-	-	26.5	0.0	0.0
Cash & cash equivalents	100.0	-	-	18.7	0.2	3.4
Total	100.0	-	100.0	100.0	100.0	100.0

Over the course of 2016, the Balancing Pool has drawn down the investment portfolio from $704.7 million at December 31, 2015 to $15.7 million at December 31, 2016.

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 maintain investment-grade status level. Status of counter-party credit is regularly monitored by management and the Audit and Finance Committee. The Balancing Pool has minimal credit risk related to its receivables as they consist primarily of amounts owing from the AESO, a government-related entity. The Balancing Pool does not consider any of the trade accounts receivables 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 will adjust the Consumer Collection according to the *Balancing Pool Regulation* and borrow from the Government of Alberta. The changes to the EUA, enacted in December of 2016, provide the Balancing Pool with the capacity to borrow from the Government of Alberta (Note 18).

The table below analyzes the Balancing Pool's non-derivative and net-settled financial and other 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	Total
	December 31, 2016			
Trade payables	120,918	-	-	120,918
Other payables	7,209	201,069	5,985	214,263
Current portion of Hydro PPA	1,675	8,378	-	10,053
Small Power Producer contracts	984	4,918	5,437	11,339
Reclamation and abandonment	612	3,059	26,361	30,032
Other long-term obligations	86,617	1,359,744	411,453	1,857,814
Total	218,015	1,577,168	449,236	2,244,419
	December 31, 2015			
Trade payables	53,570	-	-	53,570
Other payables	5,690	8,744	6,576	21,010
Genesee power purchase arrangement lease obligation	15,381	46,143	250,987	312,511
Small Power Producer contracts	817	4,085	6,466	11,368
Reclamation and abandonment	487	2,438	26,864	29,789
Other long-term obligations	7,367	36,833	52,500	96,700
Total	83,345	98,210	343,393	524,948

8. 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 2017 to 2020. Hydro PPA receipts or payments are settled on a monthly basis.

The remaining term of the Hydro PPA is four years to December 31, 2020. At December 31, 2016, the net present value of the Hydro PPA was estimated at $38.4 million (2015 – $242.6 million). Key assumptions in this valuation are a discount rate of 10.2% (2015 – 10.1%) and an estimated forecast average market electricity price of $32.35/megawatt hour ("MWh") for the period between 2017 through to 2020 (2015 – $48.95/MWh for 2016 to 2020).

Hydro Power Purchase Arrangement *(in thousands of dollars)*	**2016**	**2015**
Hydro power purchase arrangement, opening balance	242,633	357,785
Accretion and current year change	(20,109)	19,126
Net cash payments (receipts)	18,468	(33,866)
Revaluation of Hydro power purchase arrangement asset	(202,561)	(100,412)
Hydro power purchase arrangement, closing balance	38,431	242,633
Less: Current portion payable (receivable)	10,053	(26,147)
	48,484	216,486

The estimated value of this asset varies 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 estimated forecast average market price is increased or decreased by 10% and the discount rate is increased or decreased by 1%, all other inputs being constant.

	Impact of change to price volatility		**Impact of change to discount rate**	
	Increase price by 10%	**Decrease price by 10%**	**Increase discount rate by 1%**	**Decrease discount rate by 1%**
(in thousands of dollars)	**December 31, 2016**			
Change in fair value as at December 31, 2016	9,219	(9,219)	(1,319)	1,376
	December 31, 2015			
Change in fair value as at December 31, 2015	52,375	(52,375)	(7,394)	7,730

ii) Small Power Producer Contracts

One Small Power Producer contract with a total allocated capacity of 10 MW (2015 – 20.5 MW) at December 31, 2016 remains active (2015 – 2). The contract price is $79.70/MWh and the contract completion date is February 15, 2019. Under this contract, the price that the Small Power Producer receives from the counterparty utility company is fixed. 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, 2016, the net present value of cash flows from the Balancing Pool for these contracts was estimated to be $11.3 million liability (2015 – $11.4 million liability). The estimated value of this liability varies based on the assumptions used and there is a high degree of measurement uncertainty. The key assumption used in this valuation is an estimated forecast average market electricity price of $29.02/MWh for 2017 through to 2019 (2015 – $46.19/MWh for 2016 to 2019).

Small Power Producer Contracts *(in thousands of dollars)*	**2016**	**2015**
Small Power Producer contracts, opening balance	(11,368)	(12,987)
Accretion and current year change	(1,391)	(1,301)
Net cash payments	6,077	5,960
Revaluation of Small Power Producer contracts	(4,657)	(3,040)
Small Power Producer contracts, closing balance	(11,339)	(11,368)
Less: Current portion	5,902	5,834
	(5,437)	(5,534)

The value of these contracts varies depending on the assumptions used in the valuation. The following table summarizes the impact on the Small Power Producer Contract value when the estimated forecast average market price is increased or decreased by 10%, all other inputs being constant.

	Impact of change to price volatility		**Impact of change to discount rate**	
	Increase price by 10%	**Decrease price by 10%**	**Increase discount rate by 1%**	**Decrease discount rate by 1%**
(in thousands of dollars)	**December 31, 2016**			
Change in fair value as at December 31, 2016	601	(602)		
	December 31, 2015			
Change in fair value as at December 31, 2015	(1,234)	1,234	(181)	186

iii) Financial Derivatives – Electricity Price Risk Management Activities

The Balancing Pool may enter into derivative swap contracts to manage its exposure to changes in electricity prices. At December 31, 2016, the Balancing Pool had no derivative swap contracts outstanding (2015 – no derivative swap contracts outstanding). These swap contracts require payments to (or receipts from) counterparties based on the differential between the fixed contract price and variable electricity market prices as published by the AESO. At times when the Balancing Pool sells volumes forward, the swap contracts typically allow the Balancing Pool to receive a fixed price for the hedged volumes and require the Balancing Pool to remit the floating price to the counterparty.

Amounts settled under financial derivative contracts are recorded on an accrual basis in revenue against the applicable exposure.

8. c) Fair Value Hierarchy

Financial Instruments carried at fair value are categorized as follows:

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
	Level 1	**Level 2**	**Level 3**	**Total**
(in thousands of dollars)	**December 31, 2016**			
Assets				
Cash and cash equivalents	16,078	-	-	16,078
Investments – fixed income securities	-	15,684	-	15,684
Hydro power purchase arrangement	-	-	48,484	48,484
	16,078	15,684	48,484	80,246
Liabilities				
Hydro power purchase arrangement	-	-	10,053	10,053
Small Power Producer contracts	-	-	11,339	11,339
	-	-	21,392	21,392
	16,078	15,684	27,092	58,854
	December 31, 2015			
Assets				
Cash and cash equivalents	5,073	-	-	5,073
Investments – fixed income securities	-	353,295	-	353,295
Investments – equity securities	135,209	216,215	-	351,424
Hydro power purchase arrangement	-	-	242,633	242,633
	140,282	569,510	242,633	952,425
Liabilities				
Small Power Producer contracts	-	-	11,368	11,368
	-	-	11,368	11,368
	140,282	569,510	231,265	941,057

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. Fair values for equity investments are determined using quoted market prices in active markets.

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 pooled equity and fixed income investments are determined using quoted market prices in active markets.

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 when available. Methodologies have been developed to determine the fair value for these contracts based on forecast of hourly electricity market price in Alberta's hourly market using proprietary third party merit order dispatch model. 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, 2016 and 2015 are disclosed in Note 8 b i) and in Note 8 b ii).

9. Investments

	December 31, 2016		December 31, 2015	
(in thousands of dollars)	Market Value	Cost	Market Value	Cost
Fixed income securities	15,670	15,670	353,295	350,950
Canadian equities	-	-	135,209	108,540
Global equities	14	15	216,215	123,523
Total investments	15,684	15,685	704,719	583,013

(in thousands of dollars)	2016	2015
Investments, beginning of year	704,719	974,682
Interest and dividends	4,749	26,502
Realized capital gains	115,135	89,622
Sale of investments	(687,212)	(332,000)
Unrealized capital loss	(121,707)	(54,087)
Investments, end of year	15,684	704,719

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**	**Total**
Unrealized market gain, December 31, 2014	5,152	59,776	110,865	175,793
Changes in value attributable to:				
Change during the year	5,633	(15,531)	45,433	35,535
Realized gain on sales of investments	(8,440)	(17,576)	(63,606)	(89,622)
Net change during the year	(2,807)	(33,107)	(18,173)	(54,087)
Unrealized market gain, December 31, 2015	2,345	26,669	92,692	121,706
Changes in value attributable to:				
Change during the year	(987)	12,143	(17,728)	(6,572)
Realized gain on sales of investments	(1,358)	(38,812)	(74,965)	(115,135)
Net change during the year	(2,345)	(26,669)	(92,693)	(121,707)
Unrealized market (loss), December 31, 2016	-	-	(1)	(1)

10. Property, Plant and Equipment and Related Lease Obligation

10 a) Property, Plant and Equipment

(in thousands of dollars)	**Genesee PPA**	**Office Equipment**	**Total**
Costs			
Balance as at December 31, 2014	1,505,670	519	1,506,189
Additions	-	56	56
Balance as at December 31, 2015	1,505,670	575	1,506,245
Additions	-	-	-
Balance as at December 31, 2016	1,505,670	575	1,506,245
Accumulated Amortization, Depreciation and Impairment			
Balance as at December 31, 2014	842,301	444	842,745
Amortization and Depreciation	110,561	34	110,595
Impairment loss	221,960	-	221,960
Balance as at December 31, 2015	1,174,822	478	1,175,300
Amortization and Depreciation	66,170	40	66,210
Impairment loss	264,678	-	264,678
Balance as at December 31, 2016	1,505,670	518	1,506,188
Net Book Value			
As at December 31, 2015	330,848	97	330,945
As at December 31, 2016	-	57	57

During 2016, an impairment loss of $264.7 million has been recorded with respect to the Genesee PPA as a result of the decline in forward market electricity prices and increased environmental compliance costs. The key assumption used to determine the recoverable amount is the estimated forecast average electricity market price of $22.57/MWh for 2017, $32.43/MWh for 2018, $32.07/MWh for 2019 and $42.32/MWh for 2020.

10 b) Genesee Power Purchase Arrangement Lease Obligation

Under the terms of the EUA in 2001, the Balancing Pool assumed the role of the counterparty to the unsold Genesee PPA, which was subsequently 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)	
2017	61,361
2018	62,385
2019	63,456
2020	63,785
	250,987

The Genesee PPA lease obligation has been reclassified to other long-term obligations as the arrangement represents an onerous contract (Note 13).

11. Trade and Other Payables

(in thousands of dollars)	**December 31, 2016**	**December 31, 2015**
Trade payables	120,918	53,570
Accrued liabilities	251,205	21,010
	372,123	74,580

12. Reclamation and Abandonment Provisions

(in thousands of dollars)	H.R. Milner Generating Station	Isolated Generation Sites	Cost to Decommission PPAs	Total
At January 1, 2015	11,854	6,518	11,505	29,877
Net increase in liability	800	2,731	(767)	2,764
Liabilities paid in period	-	(4,047)	-	(4,047)
Accretion expense	474	261	460	1,195
At December 31, 2015	13,128	5,463	11,198	29,789
Less: Current portion	-	(2,925)	-	(2,925)
	13,128	2,538	11,198	26,864
At January 1, 2016	13,128	5,463	11,198	29,789
Net increase in liability	1,133	1,832	(3,040)	(75)
Liabilities paid in period	-	(486)	-	(486)
Accretion expense	355	147	302	804
At December 31, 2016	14,616	6,956	8,460	30,032
Less: Current portion	-	(3,671)	-	(3,671)
	14,616	3,285	8,460	26,361

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

Under the Asset Sale Agreement for the H.R. Milner generating station between the Balancing Pool and ATCO Power Ltd, which was executed in 2001, the Balancing Pool assumed liability for the costs of decommissioning the station at the end of operations. When the asset was subsequently re-sold to Milner Power Limited Partnership 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 exposure to future decommissioning costs was capped at $15.0 million. It is estimated that these costs will be incurred in 2020. These costs have been discounted at 0.6% (2015 – 2.7%) yielding the present value of the related liability. At December 31, 2016, an increase of $1.1 million (2015 - $0.8 million increase) was recorded to reflect a change in the discount rate.

12 b) Isolated Generation Sites

Under the *Isolated Generating Units and Customer Choice Regulations of the EUA*, the Balancing Pool is liable for the reclamation and abandonment costs associated with various Isolated Generation sites. Expenditures of $0.5 million (2015 – $4.0 million) were incurred in 2016. 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, verify and approve all costs associated with the reclamation and abandonment of the Isolated Generation sites. Estimated reclamation and abandonment costs have been discounted at 0.6% (2015 – 2.7%). The provision is based upon management's best estimate and the timing of the costs. Management anticipates the Isolated Generation projects will conclude at the end of 2018. At December 31, 2016, an increase of $1.8 million (2015 – $2.7 million increase) was recorded to reflect a change in estimation to complete the project.

12 c) Decommissioning Costs of PPAs

Pursuant to Section 7 of the *Power Purchase Arrangements Regulation*, 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 funding from the Balancing Pool. The amount of funding provided by the Balancing Pool is the amount by which the decommissioning costs exceed the decommissioning amounts the Owner collected from related consumers before January 1, 2001 and subsequently through the related PPA. Subject to AUC approval, Owners are eligible to collect this shortfall provided that the unit has ceased generating electricity. This provision does not apply to units that cease operations after December 31, 2018.

At December 31, 2016, the Balancing Pool recorded a $3.0 million decrease (2015 – $0.8 million decrease) to the provision for decommissioning the PPAs. The provision is based upon management's best estimate of decommissioning costs, assessment of the impact of Provincial and Federal environmental legislation on the ongoing viability of the various units and the probability an Owner of a generating unit will elect to retire the unit within the timeframe and to then make an application to the AUC to proceed with decommissioning. Estimated decommissioning costs were discounted at 0.6% (2015 – 2.7%). The estimate of the decommissioning costs before discounting and probability weighting is $8.6 million.

13. Other Long-Term Obligations

(in thousands of dollars)	Genesee	Battle River 5	Sundance A	Sundance B	Sundance C	Keephills	Sheerness	Total
At January 1, 2015	-	-	-	-	-	-	-	-
Net increase in liability	-	96,700	-	-	-	-	-	96,700
Losses	-	-	-	-	-	-	-	-
At December 31, 2015	-	96,700	-	-	-	-	-	96,700
Less: Current portion	-	(44,200)	-	-	-	-	-	(44,200)
	-	52,500	-	-	-	-	-	52,500
At January 1, 2016	-	96,700	-	-	-	-	-	96,700
Net increase in liability	626,650	136,348	144,579	277,444	218,661	298,970	497,432	2,200,084
Losses	-	(81,491)	(53,687)	(77,669)	(68,492)	(42,443)	(115,188)	(438,970)
At December 31, 2016	626,650	151,557	90,892	199,775	150,169	256,527	382,244	1,857,814
Less: Current portion	(215,197)	(151,557)	(90,892)	(199,775)	(150,169)	(256,527)	(382,244)	(1,446,361)
	411,453	-	-	-	-	-	-	411,453

Pursuant to Section 96 of the EUA, following Buyer-initiated terminations in Q1 and Q2 of 2016, the Battle River 5 PPA, Sundance A, Sundance B, Sundance C, Sheerness and Keephills PPAs were transferred to the Balancing Pool. While the Balancing Pool continues to hold the PPAs, it will assume responsibility for ongoing capacity payments and other PPA-related costs and is responsible for selling the output into the wholesale power market.

Based on the estimated forecast average electricity market price of $22.57/MWh for 2017, $32.43/MWh for 2018, $32.07/MWh for 2019 and $42.32/MWh for 2020, the unavoidable costs of meeting the obligations under the PPAs is expected to exceed the economic benefits derived from the PPAs. As a result, onerous contract provisions have been recognized and measured at the lower of the present value of continuing the PPAs and the expected costs of terminating them. Cost of termination includes the estimated net costs of holding the PPAs over the minimum six-month notice period preceding such termination plus a termination payment. For purposes of measuring the onerous contract provision under IFRS, the minimum six-month notice period is estimated to commence on January 1, 2017, except for PPA terminations which have not yet been settled. For PPA terminations which have not yet been settled, management has estimated that the minimum six-month notice period is estimated to commence on July 1, 2017. The termination payment represents the net book value of the units which is estimated at $1.4 billion. The estimated future costs for the PPAs were discounted at 0.6%, except for Genesee's future costs which where discounted at 1%.

Should the Balancing Pool not terminate some or all of the PPAs in 2017 and instead continue to hold them to the end of their respective terms, the Balancing Pool's financial exposure would increase materially. Future cash flow requirements may include operating losses where the price in Alberta's hourly wholesale electricity market is less than the operating costs over the period of 2017 through to 2020. It is expected operating costs would include amounts associated with the *Specified Gas Emitters Regulation* and the Climate Leadership Plan for all of the PPAs for the period of 2017 through to 2020. Revenue is also dependent on generating capacity factors of the different PPAs, which can vary for each PPA.

As of the approval date of these financial statements, a final determination of which PPAs to terminate has not been made, therefore actual costs will be higher than those reflected in other long-term obligations.

As disclosed in Note 10, the Genesee PPA finance lease asset was fully impaired as at December 31, 2016 due to the decline in forward market electricity prices and increased environmental compliance costs. Furthermore, the existing Genesee PPA lease obligation has been reclassified to other long-term obligations as an onerous contract and an additional onerous contract provision has been calculated by taking the unavoidable costs that will be incurred under the contract, excluding those that were previously included within the Genesee PPA Lease Obligation, less any estimated revenue.

See Note 15, Contingencies and Commitments, for additional information with respect to the termination of PPAs and subsequent negotiation of settlement agreements.

14. Capital Management

The Balancing Pool's objective when managing capital is to operate as per the requirements of the EUA 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 2016, the Alberta Government enacted amendments to the *Balancing Pool Regulation* that extends the life of the Balancing Pool to December 31, 2030.

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

Balancing Pool Deferral Account *(in thousands of dollars)*	**2016**	**2015**
Deferral account, beginning of year	774,515	1,562,737
Change in net liabilities attributable to the Balancing Pool deferral account	(2,551,136)	(464,109)
Payment of Consumer Allocation	(190,167)	(324,113)
Deferral account, end of year	(1,966,788)	774,515

In November 2015, the Balancing Pool's Board of Directors approved a Consumer Allocation of $3.25/MWh for a total distribution to electricity consumers of $190.2 million. In December 2016, the Board of Directors approved a Consumer Collection of $65.0 million in accordance with the *Balancing Pool Regulation*.

15. Contingencies and Commitments

Termination of Power Purchase Arrangements

Pursuant to Section 96 of the EUA, except for an Owner's termination for destruction, where a PPA is terminated 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 unprofitable or more unprofitable 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 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.

During the latter part of 2015 and first quarter of 2016, the Balancing Pool received notices of termination for six of the seven PPAs. The Balancing Pool immediately assumed responsibility for all financial obligations associated with the terminated PPAs.

On July 25, 2016, the Attorney General of Alberta filed an application with the Alberta Court of Queen's Bench seeking declarations relating to the validity of certain provisions of the Battle River 5 PPA, Sundance A PPA, Sundance B PPA, Sundance C PPA, Sheerness PPA and Keephills PPA. The Attorney General also sought judicial review of the Balancing Pool's decision to accept termination by ENMAX PPA Management Inc. of the Battle River 5 PPA. The Balancing Pool, the AUC, ENMAX PPA Management Inc. and other parties with interests in PPAs were named as respondents.

On November 24, 2016, the Government of Alberta reached settlement agreements with the Buyers of the Sundance A PPA, Sundance B PPA, Sundance C PPA, and Sheerness PPA. As a result of these settlement agreements, as at December 31, 2016 the Balancing Pool received reimbursement of $39.0 million in cash in relation to the onerous contract provisions disclosed in Note 13 and has recognized intangible assets (emission credits) of $139.8 million (Note 7) and long-term receivables (cash receivable and emission credits receivable) of $7.8 million (Note 6) in relation to reimbursements relating to the onerous contract provisions. The reimbursements have been recorded as an offset against the expenses related to the provision for other long-term obligations in the Statements of Loss and Comprehensive Loss.

In addition, the Balancing Pool has agreed to assume all obligations, including past obligations, as the Buyer under the Sundance A PPA, Sundance B PPA and Sheerness PPA. The Balancing Pool has recorded a provision in other long-term obligations for the line loss rule proceedings for Sundance A, Sundance B, Sheerness and Genesee PPAs. The Balancing Pool is currently not aware of any other proceedings or liabilities outstanding.

For those PPAs which have been or which may ultimately be returned to the Balancing Pool, the Balancing Pool has the option to hold the PPAs, resell the PPAs or to terminate the PPAs by paying the Owner a termination payment equal to the net book value. Should the Balancing Pool not terminate the PPAs in 2017 the financial obligations of the Balancing Pool as it relates to the PPAs will be higher (Note 13).

These financial statements do not reflect the potential outcome of ongoing settlement negotiations between the Government of Alberta and the other PPA Buyers, except for measurement considerations with the termination option under the other long-term obligation provision (Note 13).

Genesee PPA Energy Strip Contracts

In the last quarter of 2014, the Balancing Pool sold two 100-MW strip contracts for generating capacity from the Genesee PPA (representing 26% of the total Genesee PPA capacity). The two contracts commenced on November 1, 2014 and were contracted to expire on October 31, 2017. Terms of the contracts required the purchaser to pay a fixed monthly fee established by a competitive bid process and amounts intended to cover certain PPA costs payable by the Balancing Pool.

A negotiated settlement was reached in March 2016 with one of the strip buyers resulting in the termination of the strip contract. A negotiated settlement was also reached in December 2016 with the other strip buyer resulting in the termination of the other strip contract as part of the PPA settlements discussed above.

Revenue from the sale of the energy strip contracts, including termination revenue of $14.3 million has been recorded in sale of generating capacity and termination revenue on the Statements of Loss and Comprehensive Loss.

Payments (Refunds) In Lieu of Tax

Alberta Tax and Revenue Administration has issued notices of re-assessment for several tax years (dating back to 2001) to a municipal entity that has been subject to PILOT. The municipal entity has disagreed with many aspects of the notices of re-assessment and has filed notices of objection for those tax years. The municipal entity has proceeded with litigation to resolve the various tax matters. A number of these matters were resolved through negotiations and the courts in 2016, which has resulted in the pending refund of $96.0 million to the municipal entity, which has been reflected as a refund of revenue by the Balancing Pool. This refund has been accrued in trade and other payables. Approximately $61.7 million remains under dispute with the municipal entity for the tax years of 2001 through to 2015. A provision of $30.3 million has been recorded in relation to the disputed matters and reflected as a refund of PILOT revenue. This provision has been accrued in trade and other payable.

Line Loss Rule Proceeding

The Line Loss Rule ("LLR") proceeding, currently underway before the AUC is intended to address complaints regarding the *ISO Transmission Loss Factor Rule and Loss Factor Methodology*. Line loss factors form part of transmission charges that are paid by generators in Alberta. The Balancing Pool is exposed to retroactive line loss adjustment for certain PPAs.

In January 2015, the AUC determined that it has the jurisdiction and authority to retroactively adjust the line loss factors and the methodology dating back to 2006.

The AUC has been presented with three methodologies for calculating retroactive line loss adjustments, the first being the AESO methodology based on Incremental Loss Factor with load scaling. The second is the AUC methodology based on Incremental Loss Factor with generation scaling. The third method is the Maxim methodology. A description of the various methodologies can be found in the AESO's exhibits presented in 790-140.3 of the LLR proceeding.

The Balancing Pool will incur additional charges as a result of the retroactive adjustments to line loss factors. An estimated provision in the amount of $114.0 million has been recorded in other long-term obligations for the LLR proceeding. The estimate has been prepared using the AESO's Incremental Loss Factor method with load scaling as data was available to calculate an estimate.

Various matters before the AUC regarding the LLR proceeding are under review and appeal including the retroactive and prospective line loss factors and the AUC's decision regarding its authority and jurisdiction. The actual line loss retroactive adjustment will be dependent upon the loss factors and methodology approved by the AUC which the Balancing Pool estimates may be higher or lower by 10% than the current estimate reflected in these financial statements.

Disputed Amounts

Disputed amounts for commercial matters such as force majeure and various interpretations of the PPAs are expensed as incurred and reversed on recovery.

16. Cost of Sales

(in thousands of dollars)	December 31, 2016	December 31, 2015
Cost of power purchase arrangements and power marketing charges	1,012,423	210,571
Losses on PPAs recorded against other long-term obligations	(438,970)	-
Amortization and depreciation on assets	66,210	110,595
	639,663	321,166

17. 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 services is shown below.

Key Management Compensation *(in thousands of dollars)*	2016	2015
Salaries and other short-term employee benefits	561	639
Total	561	639

Government-Related Entity

The Balancing Pool considers itself to be a government-related entity as defined by IAS 24 – *Related Party Disclosures* – and applies the exemption from the disclosure requirements of Paragraph 18 of IAS 24 – *Related Party Disclosures*. 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 2016 and 2015.

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 its annual operating costs and 100% of the annual costs for the Transmission Facilities Cost Monitoring Committee ("TFCMC") and the Retail Market Review Committee ("RMRC").

In 2016, the Balancing Pool expensed $5.4 million (2015 – $4.8 million) for the UCA and $0.7 million (2015 – $1.0 million) for the TFCMC and RMRC in aggregate.

The Balancing Pool also considers the AESO a government-related entity. The EUA requires the Balancing Pool to forecast its revenues and expenses with any excess or shortfall of funds in the accounts to be allocated to, or provided by, electricity consumers over time. Pursuant to the EUA, the AESO facilitates the collection or distribution of any excess or shortfall through an annualized amount included in the AESO's transmission tariff. In 2016, the Balancing Pool distributed $190.2 million to electricity consumers through the AESO's transmission tariff (2015 – $324.1 million distributed).

18. Subsequent Events

In January 2017 the Balancing Pool signed a loan agreement with the Government of Alberta. The loan agreement was put in place through Alberta Treasury Board and Finance to fund operating losses of the Balancing Pool, including obligations associated with the terminated PPAs. From January 1, 2017 to April 4, 2017, the Balancing Pool borrowed $232.0 million to meet its current cash flow obligations. The short-term discount notes issued to the Government of Alberta have maturity dates ranging from 31 to 90 days and corresponding annual interest charges that range from 0.9% to 1%.

In April 2017 the Balancing Pool issued PILOT refunds of $6.6 million to a municipal entity subject to PILOT for refunds that relate to prior tax years, which were accrued in 2016 (Note 15).

Corporate Information

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