



**balancing**pool

Condensed Interim Financial Statements (unaudited)

**Balancing Pool**

For the three and nine months ended September 30, 2017

**NOTICE OF NO AUDITOR'S REVIEW OF INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim financial statements of the Balancing Pool have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements.

Calgary, Alberta  
October 17, 2017

## Financial Review

The condensed unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) except for the valuation adjustments for the Hydro PPA, Small Power Producer contracts and other long-term obligations, which are recorded on an annual basis.

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

### Results at a Glance

	<i>Three months ended September 30</i>		<i>Nine months ended September 30</i>	
	2017	2016	2017	2016
<b>Volume – gigawatt hours (“GWh”)</b>				
Genesee Power Purchase Arrangement (“PPA”)	1,653	1,719	4,712	4,747
Battle River 5 PPA	405	371	1,160	1,074
Sheerness PPA	1,410	1,348	4,188	2,621
Sundance A PPA	720	822	2,421	1,742
Sundance B PPA	922	1,027	2,816	1,813
Sundance C PPA	1,055	1,395	3,127	2,613
Keephills PPA	1,250	1,280	3,751	2,105
Hydro PPA electricity	477	479	1,428	1,253
Hydro PPA ancillary service	302	302	935	940
Small Power Producer	14	24	53	103
<b>Total electricity and ancillary service volumes</b>	<b>8,208</b>	<b>8,767</b>	<b>24,591</b>	<b>19,011</b>
<b>Price – per megawatt hour (“MWh”)</b>				
Average Pool price	\$24.57	\$17.94	\$22.09	\$17.02
<b>Other</b>				
Consumer collection (allocation) per MWh	\$1.10	\$(3.25)	\$1.10	\$(3.25)
<b>Financial Results (in thousands of dollars)</b>				
Total revenues	187,043	141,965	503,224	197,878
Total expenses	184,814	272,621	502,521	1,476,326
Income (loss) from operating activities	2,229	(130,656)	703	(1,278,448)
Change in net liabilities attributable to the Balancing Pool deferral account	1,368	(130,857)	(996)	(1,279,052)
<b>For the period ended (in thousands of dollars)</b>			<b>September 30, 2017</b>	<b>December 31, 2016</b>
Cash, cash equivalents and investments			29,714	31,762
Total assets			303,067	314,573
Total liabilities			2,222,017	2,281,361
Net (liabilities) assets attributable to the Balancing Pool deferral account			(1,918,950)	(1,966,788)
Consumer collection (allocation)			48,834	(190,167)

## Assets

### Trade and other receivables

Trade and other receivables balance at September 30, 2017 includes September 2017 sale of electricity revenues receivable for the PPA fleet and the Consumer collection.

### Long-Term Receivable

The long-term receivable of \$7.9 million, comprised of cash and emission credits receivable, is related to the negotiated settlements reached in 2016 on the termination of certain PPAs.

### Investments

At September 30, 2017 the investment account balance was \$12.3 million. Over Q2 2017, the investment portfolio was drawn down by \$3.4 million relative to 2016 year-end to meet PPA obligations.

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

### Hydro Power Purchase Arrangement

The Hydro power purchase arrangement ("Hydro PPA") is recorded as an asset at the net present value of the estimated net cash receipts over the remaining term of the contract, which expires on December 31, 2020. Future revenues are estimated based on the notional energy and reserve (ancillary services) volumes set out in the Hydro PPA and management's best estimate of the future market price of energy and reserves. 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.

At September 30, 2017, the net present value of the Hydro PPA increased by \$10.6 million from December 31, 2016. The fair value of the Hydro PPA increased over the third quarter due to the expectation the Hydro PPA would be remitting payments contrary to receiving payments. The fair value of the Hydro PPA over 2017 was determined during the 2016 year-end valuation process. Actual results that differ from estimated results are reflected on the Statement of Income (loss).

### Intangible Assets

Intangible assets include emission credits held for compliance purposes. At September 30, 2017, the Balancing Pool held 7.5 million tonnes of emission credits. Approximately 7.0 million tonnes of the emission credits held were received as part of the negotiated settlements on certain terminated PPAs.

## Liabilities

### Trade and Other Payables

Trade and other payables decreased in Q3 2017 relative to year-end 2016 due to the Consumer Allocation switching from a liability (distribution to electricity consumers in 2016) to a receivable (collection from electricity consumers in 2017).

### Related Party Loans

At September 30, 2017, the Balancing Pool has issued short-term discount notes to the Government of Alberta for \$467.7 million. This includes interest accrued to September 30, 2017 at interest rates that range from 0.7% to 1.5%.

### 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 Producer 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 Pool 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 Pool 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.

The net present value of the SPP contract liability at September 30, 2017 decreased by \$4.3 million from year-end 2016. The decrease in fair value is attributed to amortization of the SPP value as determined in the 2016 year-end valuation process.

### Reclamation and Abandonment Provision

The reclamation and abandonment provision represents an 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 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 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 1 year of PPA termination. This provision does not apply to PPA-related generating unit's termination dates that occur after December 31, 2018.

The decrease in the reclamation and abandonment provision from December 31, 2016 primarily reflects payments of \$0.4 million for the Isolated Generation project offset by accretion expense of \$0.2 million.

### **Other long-term obligations**

As counterparty to the PPAs, the Balancing Pool is required to make monthly payments to the owner of the generating units 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 PPA's: Battle River 5, Sheerness, Sundance A, Sundance B, Sundance C, Keephills and Genesee.

The onerous contract provision at September 30, 2017 was \$1,367.0 million reflecting a reduction of \$490.9 million relative to December 31, 2016. The reduction of the provision represents the actual cash losses incurred by the PPAs for the first nine months of 2017. The onerous contract provision is re-valued on an annual basis.

### **Balancing Pool Deferral Account**

The Balancing Pool deferral account decreased from December 31, 2016 primarily due to \$48.8 million collected from electricity consumers offset by an operating loss of \$1.0 million.

## Revenues

### Sale of Electricity

Details of Sale of Electricity <i>(in thousands of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Battle River 5	11,689	7,182	28,083	19,335
Sundance A	16,605	15,290	53,335	29,578
Sundance B	24,825	19,068	66,939	31,057
Sundance C	24,847	24,968	68,274	43,737
Sheerness	35,465	24,497	93,822	44,337
Keephills	29,579	22,207	82,230	35,288
Genesee	39,280	26,102	101,982	67,723
Total Sale of Electricity	182,290	139,314	494,665	271,055

Revenue from the sale of electricity is comprised of revenues from the various PPAs as detailed on the table above. Sale of electricity increased in Q3 2017 relative to Q3 2016 due to the higher actual realized electricity market price in Q3 2017 relative to Q3 2016.

### Change in Fair Value of Hydro Power Purchase Arrangement

Revenue from the Hydro PPA increased in Q3 2017 relative to Q3 2016 due to higher actual cash receipts received in 2017 than those forecast in the 2016 year-end valuation. Cash receipts were higher in 2017 because of the higher actual realized electricity market price.

### Payments In Lieu of Tax

Payments (refunds) in Lieu of Tax ("PILOT") receipts (payments) 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 they were subject to income tax. PILOT payments remitted by the municipal entity are subject to audit by Alberta Tax and Revenue Administration. The Balancing Pool has no control over the PILOT amounts remitted by the municipal entities or the re-assessments issued by Alberta Tax and Revenue Administration.

Total PILOT revenues in Q3 2017 were higher than Q3 2016 due to lower costs related to litigation in Q3 2017 relative to Q3 2016.

## Expenses

### Cost of Sales

Details of Cost of Sales <i>(in thousands of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Power Purchase Arrangement costs	332,241	303,169	985,519	686,103
Amortization and depreciation on assets and power marketing costs	101	19,150	170	55,198
Cash losses recorded against other long-term obligations	(149,950)	(53,435)	(490,854)	(119,660)
Total Cost of Sales	182,392	268,884	494,835	621,641

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 Pool price have a minimal impact on the PPA capacity payments

Total PPA costs of \$332.2 million in Q3 2017 include the costs associated with the PPA fleet. The increase in PPA costs for Q3 2017 relative to Q3 2016 is due to increased costs associated with the Specified Gas Emitters Regulation obligations.

Over Q3 2017, losses from the PPAs of \$150.0 million were recorded against the onerous contract provisions established for the PPAs.

### Mandated Costs

Mandated costs of \$1.8 million represent expenditures for the Utilities Consumer Advocate, Transmission Facilities Costs Monitoring Committee and the Retail Market Review Committee.

## Balancing Pool Statement of Financial Position (unaudited)

<i>(in thousands of Canadian dollars)</i>	September 30, 2017	December 31, 2016
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	17,398	16,078
Trade and other receivables	65,316	77,157
Current portion of Hydro power purchase arrangement (Note 4a)	8,088	-
	90,802	93,235
<b>Long-term receivable</b>	7,867	7,824
<b>Investments (Note 3)</b>	12,316	15,684
<b>Property, plant and equipment</b>	35	57
<b>Hydro power purchase arrangement (Note 4a)</b>	40,927	48,484
<b>Intangible assets (Note 2)</b>	151,120	149,289
<b>Total Assets</b>	303,067	314,573
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	350,546	372,123
Related party loans (Note 5)	467,680	-
Current portion of Hydro power purchase arrangement (Note 4a)	-	10,053
Current portion of Small Power Producer contracts (Note 4b)	5,144	5,902
Current portion of reclamation and abandonment provision (Note 6)	3,500	3,671
Current portion of other long-term obligations (Note 7)	1,010,976	1,446,361
	1,837,846	1,838,110
<b>Small Power Producer contracts (Note 4b)</b>	1,912	5,437
<b>Reclamation and abandonment provision (Note 6)</b>	26,275	26,361
<b>Other long-term obligations (Note 7)</b>	355,984	411,453
<b>Total Liabilities</b>	2,222,017	2,281,361
<b>Net liabilities attributable to the Balancing Pool deferral account (Note 8)</b>	(1,918,950)	(1,966,788)
<b>Contingencies and commitments (Note 9)</b>		

**Balancing Pool**  
**Statements of Income (loss) and Comprehensive Income (loss)**  
**(unaudited)**

<i>(in thousands of Canadian dollars)</i>	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Revenues</b>				
Sale of electricity	182,290	139,314	494,665	271,055
Sale of generating capacity	-	8,879	716	42,977
Changes in fair value of Hydro power purchase arrangement (Note 4a)	4,639	(6,524)	7,521	(17,300)
Changes in fair value of investments (Note 3)	(3)	(80)	33	(6,576)
Investment income – interest and dividends	73	656	206	4,603
Payments in lieu of tax	44	(280)	83	(96,881)
	<b>187,043</b>	<b>141,965</b>	<b>503,224</b>	<b>197,878</b>
<b>Expenses</b>				
Cost of sales	182,392	268,884	494,835	621,641
Mandated costs	1,827	-	5,547	842,502
General and administrative	1,051	111	3,096	1,862
Force majeure costs	52	1,829	227	5,486
Investment management costs	10	1,212	21	2,784
PPA provision (recovery) expense	(15)	40	(44)	509
Changes in fair value of Small Power Producer contracts (Note 4b)	(503)	545	(1,161)	1,542
	<b>184,814</b>	<b>272,621</b>	<b>502,521</b>	<b>1,476,326</b>
<b>Income (loss) from operating activities</b>	<b>2,229</b>	<b>(130,656)</b>	<b>703</b>	<b>(1,278,448)</b>
<b>Other income (expense)</b>				
Other income	-	-	13	-
Finance expense	(861)	(201)	(1,712)	(604)
	<b>(861)</b>	<b>(201)</b>	<b>(1,699)</b>	<b>(604)</b>
<b>Change in net assets (liabilities) attributable to the Balancing Pool deferral account</b>	<b>1,368</b>	<b>(130,857)</b>	<b>(996)</b>	<b>(1,279,052)</b>

**Balancing Pool**  
**Statements of Cash Flows (unaudited)**

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
<b>Cash flow provided by (used in)</b>				
<b>Operating activities</b>				
Change in net assets attributable to the Balancing Pool deferral account	1,368	(130,857)	(996)	(1,279,052)
Items not affecting cash :				
Amortization and depreciation	7	16,552	22	49,658
Power purchase arrangement provision (Note 7)	-	-	-	842,502
Fair value changes on Small Power Producer contracts (Note 4b)	(503)	545	(1,161)	1,542
Fair value changes on Hydro power purchase arrangement (Note 4a)	(4,639)	6,524	(7,521)	17,300
Fair value changes on financial investments	2	(59)	1	121,766
Finance expense	861	201	1,712	604
Reclamation and abandonment expenditures (Note 6)	(99)	(59)	(403)	(375)
Power purchase arrangements losses (Note 7)	(149,950)	(53,435)	(490,854)	(119,660)
Net change in other assets:				
Long-term receivable	(15)	-	(44)	-
Net change in non-cash working capital	2,244	24,072	(9,737)	172,883
Net cash used in operating activities	(150,724)	(136,516)	(508,981)	(192,832)
<b>Investing activities</b>				
Interest, dividends and other gains	(35)	(511)	(134)	(119,776)
Sale of investments	-	267,000	3,501	577,000
Purchase of intangible assets	-	-	(1,831)	-
Net cash (used in) provided by investing activities	(35)	266,489	1,536	457,224
<b>Financing activities</b>				
Hydro power purchase arrangement net cash receipts (payments) (Note 4 a)	2,579	(3,882)	(3,063)	(15,561)
Payment of power purchase arrangement lease obligation	-	(15,381)	-	(46,143)
Small Power Producer contracts net receipts (payments) (Note 4b)	(796)	(1,305)	(3,121)	(5,120)
Proceeds from issue of Loans (Note 5)	137,116	-	466,115	-
Receipt (payment) of the Consumer Allocation (Note 8)	16,344	(46,466)	48,834	(139,702)
Net cash (used in) provided by financing activities	155,243	(67,034)	508,765	(206,526)
<b>Change in cash and cash equivalents</b>	4,484	62,939	1,320	57,866
<b>Cash and cash equivalents, beginning of period</b>	12,914	-	16,078	5,073
<b>Cash and cash equivalents, end of period</b>	17,398	62,939	17,398	62,939

## Condensed Interim Notes to Financial Statements (unaudited)

### 1. Basis of Presentation

These condensed interim financial statements for the nine months ended September 30, 2017 are unaudited and have been prepared by management in accordance with IAS 34 'Interim Financial Reporting' ("IAS 34") as issued by the International Accounting Standards Board ("IASB") with some exceptions. Financial instrument valuation adjustments for the Hydro PPA and the SPP contracts are processed on an annual basis as is the valuation adjustments for other long-term obligations.

The disclosures provided below are incremental to those included with the annual financial statements. These interim condensed financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2016.

### 2. Intangible Assets

At September 30, 2017, the Balancing Pool held 7.5 million tonnes of emission offset credits valued at \$151.1 million (Dec. 31, 2016 - \$149.3 million). No impairments of emission credits were recognized during the quarter ended September 30, 2017.

### 3. Investments

<i>(in thousands of dollars)</i>	Nine months ended September 30, 2017		Year ended December 31, 2016	
	Market Value	Cost	Market Value	Cost
Fixed income securities	12,315	12,317	15,670	15,670
Global equities	1	1	14	15
<b>Total investments</b>	<b>12,316</b>	<b>12,318</b>	<b>15,684</b>	<b>15,685</b>

### 4. Accounting for Financial Instruments

#### a) Hydro Power Purchase Arrangement

At September 30, 2017 the value of the Hydro PPA was \$49.0 million (Dec. 31, 2016 - \$38.4 million). The Hydro PPA is revalued at each year-end. The estimated value of this asset will vary significantly depending on the assumptions used and there is a high degree of measurement uncertainty associated with these assumptions.

<i>(in thousands of dollars)</i>	Nine months ended September 30, 2017	Year ended December 31, 2016
Hydro power purchase arrangement, opening balance	38,431	242,633
Accretion and current year change	7,521	(20,109)
Net cash payments (receipts)	3,063	18,468
Revaluation of hydro power purchase arrangement asset	-	(202,561)
Hydro power purchase arrangement, closing balance	49,015	38,431
Less: Current portion	(8,088)	10,053
	<b>40,927</b>	<b>48,484</b>

## b) Small Power Producer Contracts

At September 30, 2017 the value of the SPP contracts was a \$7.1 million liability (Dec. 31, 2016 - \$11.3 million). The SPP contracts are revalued at each year end.

Small Power Producer Contracts <i>(in thousands of dollars)</i>	Nine months ended September 30, 2017	Year ended December 31, 2016
Small Power Producer contracts, opening balance	(11,339)	(11,368)
Accretion and current year change	1,161	(1,391)
Net cash payments	3,121	6,077
Revaluation of Small Power Producer contracts	-	(4,657)
Small Power Producer contracts, closing balance	(7,056)	(11,339)
Less: Current portion	5,144	5,902
	(1,912)	(5,437)

## 5. Related Party Loans

In January 2017, the Balancing Pool signed a loan agreement with the Government of Alberta (“GOA”). The loan agreement was established through Alberta Treasury Board and Finance to fund operating losses of the Balancing Pool. At September 30, 2017 the Balancing Pool has issued discount notes in the amount of \$467.7 million to the GOA. The short-term discount notes issued to the GOA have maturity dates ranging from 60 to 90 days and corresponding annual interest charges that range from 0.8% to 1.5%.

## 6. Reclamation and Abandonment Provision

<i>(in thousands of dollars)</i>	H.R. Milner Generating Station	Isolated Generation Sites	Cost to Decommission PPAs	Total
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
At January 1, 2017	14,616	6,956	8,460	30,032
Liabilities paid in period	-	(403)	-	(403)
Accretion expense	71	34	41	146
At September 30, 2017	14,687	6,587	8,501	29,775
Less: Current portion	-	(3,500)	-	(3,500)
	14,687	3,087	8,501	26,275

## 7. Other Long-Term Obligations

<i>(in thousands of dollars)</i>	Genesee	Battle River 5	Sundance A	Sundance B	Sundance C	Keephills	Sheerness	Total
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
At January 1, 2017	626,650	151,557	90,892	199,775	150,169	256,527	382,244	1,857,814
Losses	(98,359)	(49,518)	(59,361)	(70,293)	(65,842)	(53,736)	(93,745)	(490,854)
At September 30, 2017	528,291	102,039	31,531	129,482	84,327	202,791	288,499	1,366,960
Less: Current portion	(172,307)	(102,039)	(31,531)	(129,482)	(84,327)	(202,791)	(288,499)	(1,010,976)
	355,984	-	-	-	-	-	-	355,984

During the first nine months of 2017, \$490.9 million in losses related to the PPAs was recorded against other long-term obligations. Other long-term obligations are re-valued at each year-end.

## 8. Capital Management

As per the requirements of the *Electric Utilities Act (2003)*, the Balancing Pool's objective when managing capital is to operate with no profit or loss and no share capital and to forecast its revenues, expenses, and cash flows.

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

<i>(in thousands of dollars)</i>	Nine months ended September 30, 2017	Year ended December 31, 2016
Balancing Pool Deferral Account		
Deferral account, beginning balance	(1,966,788)	774,515
Change in net assets attributable to the Balancing Pool deferral account	(996)	(2,551,136)
Receipt (payment) of Consumer Allocation	48,834	(190,167)
Deferral account, ending balance	(1,918,950)	(1,966,788)

## 9. Contingencies and Commitments

### Terminated Power Purchase Arrangements

Pursuant to Section 96 of the EUA, when a PPA is terminated by a Buyer, 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 power purchase arrangements. 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 Alberta Utilities Commission, 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 million in cash and has recognized intangible assets (emission credits) of \$139.8 million and long-term receivables (cash receivable and emission credits receivable) of \$7.8 million 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 of the unit(s) underlying the PPA. 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.

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.

On July 14, 2017, ENMAX PPA Management Inc. ("ENMAX") filed and served a Statement of Claim, asking the Court for injunctive relief requiring the Balancing Pool to make a decision respecting the termination of the Keephills PPA.

### **Payments 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 proceeding 790 (“LLR”), 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 Alberta Utilities Commission (“AUC”) determined that it has the jurisdiction and authority to retroactively adjust the line loss factors and the methodology dating back to 2006.

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 a worse case estimate of the potential liability using the AESO’s Incremental Loss Factor method with load.

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 which are likely to be lower than the current estimate reflected in these financial statements.