



# 2022 Annual Report



**balancing**pool

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## Message to Stakeholders from the Board Chair

This year marked a continuation of the orderly wind-down of the Balancing Pool, a process that started following the expiry of the 20-year Power Purchase Arrangements ("PPAs") on December 31, 2020.

Commercial and legal matters, with potentially significant consequences for consumers, were an important focus again this year and we are pleased to report significant progress. A number of matters remain ongoing and we will continue to manage these prudently to completion.

I would again like to thank the Board of Directors and Balancing Pool staff for their tireless efforts in a remarkable year. The results of these efforts have been nothing short of incredible, especially given the challenging environment in which we have been operating.

Finally, I would like to thank our stakeholders and partners in government, agencies, industry and ratepayers for the constructive relationships we have maintained and for their ongoing support and perspective as we continue to tackle the important work ahead of us.



Greg Clark  
*Chair*

April 12, 2023

## Governance of the Balancing Pool

Adhering to the *Electric Utilities Act (2003)*, the Minister of Affordability and Utilities 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

**Greg Clark, Chair**, is a community leader and entrepreneur. In 2006 he co-founded a technology consulting firm which led some of Calgary's largest content management and compliance implementations in the energy, oil and gas industry. The firm earned a distinction as one of Alberta's 50 fastest growing companies and was named one of Canada's top 250 information technology companies. He taught business management at the University of Calgary Faculty of Continuing Education and has extensive experience in strategic management consulting focused on information technology and knowledge management. Greg served his community in the Legislative Assembly of Alberta as MLA for Calgary-Elbow from 2015 to 2019. He holds an MBA in Executive Management with specialization in Knowledge Management from Royal Roads University, a BA from the University of Victoria and his ICD.D designation from the Institute of Corporate Directors.

**Michelle Plouffe** has 25 years of legal and leadership experience. She obtained her Bachelor of Arts degree (with distinction) (1992) and her Law degree (1995) both from the University of Alberta. Ms. Plouffe has worked in private practice and in the utilities, health and post-secondary sectors and is currently the City Solicitor at the City of Edmonton. She is a seasoned Director with diverse senior level operational experience in complex organizations, providing extensive leadership, innovative solutions and value creation to all facets of operations. She is a trusted advisor who has proven expertise providing sound legal and strategic advice to boards and senior leadership. Michelle Plouffe is currently a member of the Balancing Pool Board of Directors, and a Director on the Kids Kottage Foundation Board. She is a member of the Law Society of Alberta Equity, Diversity and Inclusion Advisory Committee.

**Greg Pollard** has more than 40 years of experience in the energy sector in both Canada and internationally. 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.

## Remuneration of Board Members

A summary of remuneration Members were eligible to receive in 2021, is as follows:

Chair - retainer \$85,000 / year

Member - retainer \$27,500 / year

Board meetings - \$1,100 / meeting

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

Effective January 1, 2021, consistent with the reduction in Board size, the Audit and Finance and Governance and Human Resources Committees were eliminated.

## 2022 Meeting Attendance and Remuneration

| Balancing Pool Board Member | Board    | 2022 Remuneration (\$) <sup>(1)</sup> |
|-----------------------------|----------|---------------------------------------|
| Greg Clark                  | 8 of 8   | 85,000                                |
| Michelle Plouffe            | 8 of 8   | 36,300                                |
| Greg Pollard                | 8 of 8   | 36,300                                |
| Attendance                  | 24 of 24 |                                       |

<sup>(1)</sup> 2022 remuneration includes base retainer and Member meeting fees.

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*Year Ended December 31, 2022*

## Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") dated April 12, 2023, should be read in conjunction with the audited financial statements of the Balancing Pool for the years ended December 31, 2022, and 2021. The financial statements for the year ended December 31, 2022, 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)* ("EUA") and its supporting regulations.

### Expiry of the Power Purchase Arrangements

The thermal PPAs (Genesee, Keephills and Sheerness) and Hydro PPA expired on December 31, 2020. Offer control of these PPAs reverted back to the PPA Owners effective January 1, 2021.

This has eliminated a number of Balancing Pool's legislated duties and related risks, however several of our obligations related to the PPAs remain ongoing through 2022. Commercial and legal matters, with potentially significant consequences to consumers, were a top priority this year.

### Results at a Glance

| <b>Financial Results</b><br><i>(in thousands of dollars)</i>        | <b>2022</b> | <b>2021</b> |
|---------------------------------------------------------------------|-------------|-------------|
| <b>Statement of Income and Comprehensive Income</b>                 |             |             |
| Consumer collection per MWh                                         | \$2.20      | \$2.30      |
| Revenue from contracts with customers (Consumer collection)         | 131,656     | 135,798     |
| Other income (loss)                                                 | 24,021      | (16,326)    |
| Expenses (income)                                                   | (1,526)     | 8,388       |
| Income from operating activities                                    | 157,203     | 111,084     |
| Other income (expense)                                              | (15,866)    | (12,308)    |
| Change to the Balancing Pool deferral account                       | 141,337     | 98,776      |
| <b>Statement of Financial Position</b>                              |             |             |
| Total assets                                                        | 69,743      | 51,553      |
| Total liabilities                                                   | 641,330     | 764,477     |
| Net liabilities attributable to the Balancing Pool deferral account | (571,587)   | (712,924)   |

## Legislated Duties

The Balancing Pool's legislated duties include the following:

- Allocate (or collect) any forecasted cash surplus (or deficit) to (from) electricity consumers in Alberta in annual amounts;
- Fund the decommissioning and reclamation costs associated with certain generation facilities in Alberta;
- Participate in dispute resolution processes;
- Act as the default market participant and provide settlement functions in relation to certain projects developed under the *Small Scale Generation Regulation*;
- Administer and provide financing for certain aspects of the Utility Payment Deferral Program; and,
- Fund initiatives in the electricity industry at the direction of the Minister of Affordability and Utilities.

## Assets

| Details of Assets<br>(in thousands of dollars) | 2022          | 2021          |
|------------------------------------------------|---------------|---------------|
| Cash and cash equivalents                      | 52,470        | 32,963        |
| Trade and other receivables                    | 17,270        | 18,556        |
| Right of use assets                            | 2             | 27            |
| Property, plant and equipment                  | 1             | 7             |
| <b>Total assets</b>                            | <b>69,743</b> | <b>51,553</b> |

## Trade and Other Receivables

Trade and other receivables balance at December 31, 2022 primarily include amounts receivable for the consumer collection for December 2022 (\$12.0 million) and receivables for Payments in Lieu of Tax (\$5.2 million). Amounts outstanding for the Utility Payment Deferral Program have been fully collected.

## Liabilities

| Details of Liabilities<br>(in thousands of dollars) | 2022           | 2021           |
|-----------------------------------------------------|----------------|----------------|
| Trade and other payables                            | 5,144          | 11,468         |
| Related party loan                                  | 610,738        | 710,825        |
| Reclamation and abandonment provision               | 25,446         | 42,157         |
| Lease liability                                     | 2              | 27             |
| <b>Total liabilities</b>                            | <b>641,330</b> | <b>764,477</b> |



## **Trade and Other Payables**

Trade and other payables at December 31, 2022 primarily include operating expenses, obligations related to commercial matters and accruals for the Utility Consumer Advocate. The balance at December 31, 2022 declined relative to the prior year primarily due to the reversal of previously accrued legal fees related to a historical force majeure claim.

## **Related Party Loan**

At December 31, 2022 the Balancing Pool had \$610.7 million in short-term issued to the Government of Alberta including accrued interest of \$5.3 million.

## **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 (Sundance A).

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. In 2022, the Balancing Pool and Milner Power Limited Partnership amended the bilateral agreement wherein Milner Power Limited Partnership assumed responsibility to decommission the station at the end of operations. The Balancing Pool returned the collateral held to Milner Power Limited Partnership including a payment of \$10.1 million representing the balance to the decommissioning obligation.

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

Pursuant to Section 5 of the *Power Purchase Arrangements Regulation*, 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.

In December 2018, TransAlta submitted a decommissioning application to the AUC for Sundance A in accordance with the *Power Purchase Arrangements Regulation*.

| Details of Reclamation and Abandonment Provision<br>(in thousands of dollars) | 2022          | 2021          |
|-------------------------------------------------------------------------------|---------------|---------------|
| H.R. Milner                                                                   | -             | 9,476         |
| Isolated Generation sites                                                     | 113           | 132           |
| Sundance A decommissioning                                                    | 25,333        | 32,549        |
| <b>Total reclamation and abandonment provision</b>                            | <b>25,446</b> | <b>42,157</b> |

The decrease in the H.R. Milner provision reflects the 2022 amendment to the bilateral agreement between Balancing Pool and Milner Power Limited Partnership. In the amended agreement, the collateral held by the Balancing Pool was returned to Milner Power Limited Partnership, including a payment of \$10.1 million representing the balance of the decommissioning obligation.

The provision for the Isolated Generation sites decreased due to payments issued over the course of 2022 of \$0.01 million. It is anticipated that the isolated generation project will be concluding in the next year or two.

The assumptions underlying the provision for the decommissioning of the Sundance A PPA have changed based on information submitted to the AUC by TransAlta. The change in assumptions resulted in a \$7.5 million decrease to the provision. The Balancing Pool disputes several aspects of TransAlta's decommissioning plan submitted to the AUC for Sundance A. It is expected that the decommissioning application will be considered by the AUC in 2023 with a possible decision released by end of 2023.

### Balancing Pool Deferral Account

| Balancing Pool Deferral Account<br>(in thousands of dollars) | 2021             | 2021             |
|--------------------------------------------------------------|------------------|------------------|
| Deferral account, beginning of year                          | (712,924)        | (811,699)        |
| Change to the Balancing Pool deferral account                | 141,337          | 98,776           |
| <b>Deferral account, end of year</b>                         | <b>(571,587)</b> | <b>(712,924)</b> |

The Balancing Pool's deferral account liability decreased by \$141.3 million at 2022 year-end relative to the prior year. The decrease in the deferral account liability is primarily the result of collection from electricity consumers.

## Operations

### Revenue from Contracts with Customers (Consumer Collection)

The consumer collection is reviewed and approved annually by the Board of Directors of the Balancing Pool in accordance with the *Balancing Pool Regulation*. For 2022, the Balancing Pool Board of Directors approved a consumer collection of \$2.20 per MWh of demand, resulting in an annual amount of \$131.7 million collected from electricity consumers. The consumer collection for 2022 was determined in accordance with the revised *Balancing Pool Regulation* which stipulates the consumer collection is determined by calculating the annual collection amount over the next 8 years to December 31, 2030.

Consumer collection revenue decreased for 2022 relative to 2021 as the collection rate from consumers decreased from \$2.30 per MWh of demand in 2021 down to \$2.20 per MWh of demand in 2022. The Board of Directors approved a consumer collection of \$2.20 per MWh for fiscal year 2023.

### **Other Income (loss)**

| Details of Other Income (loss)<br><i>(in thousands of dollars)</i> | 2022          | 2021            |
|--------------------------------------------------------------------|---------------|-----------------|
| Payments in lieu of tax (PILOT)                                    | 23,446        | (16,901)        |
| Interest income                                                    | 575           | 575             |
| <b>Total other income (loss)</b>                                   | <b>24,021</b> | <b>(16,326)</b> |

### **Payments 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*. In general, 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 timing and amount of PILOT instalments remitted by the municipal entities or adjustments and/or refunds in relation to reassessments of prior years.

| Details of PILOT<br><i>(in thousands of dollars)</i>      | 2022          | 2021            |
|-----------------------------------------------------------|---------------|-----------------|
| Instalments received for current or prior tax year        | 23,080        | 9,987           |
| Instalment re-allocations and refunds for prior tax years | -             | (26,768)        |
| Audit (costs) recovery                                    | 366           | (120)           |
| <b>Total PILOT revenue (refunds)</b>                      | <b>23,446</b> | <b>(16,901)</b> |

Total PILOT revenue (refunds) for 2022 increased relative to 2021 due to PILOT refunds issued in the 2021 calendar year.

### **Expenses**

| Details of Expense<br><i>(in thousands of dollars)</i> | 2022           | 2021         |
|--------------------------------------------------------|----------------|--------------|
| Cost of sales                                          | 144            | 7,437        |
| Mandated costs                                         | 4,111          | 3,827        |
| General and administrative                             | 1,897          | 3,095        |
| Commercial disputes recovery                           | (891)          | (10,236)     |
| Reclamation and abandonment costs (recovery)           | (6,787)        | 4,265        |
| <b>Total expenses</b>                                  | <b>(1,526)</b> | <b>8,388</b> |

## Cost of Sales

| Details of Cost of Sales<br><i>(in thousands of dollars)</i> | 2022 | 2021  |
|--------------------------------------------------------------|------|-------|
| PPA final true-up costs and other costs (recovery)           | (17) | 7,278 |
| Small scale generation costs                                 | 130  | 52    |
| Amortization and depreciation                                | 31   | 107   |
| Total cost of sales                                          | 144  | 7,437 |

## Mandated Costs

| Details of Mandated Costs<br><i>(in thousands of dollars)</i> | 2022  | 2021  |
|---------------------------------------------------------------|-------|-------|
| Utilities Consumer Advocate ("UCA")                           | 4,111 | 3,837 |
| Transmission facilities cost monitoring committee ("TFCMC")   | -     | (10)  |
| Total mandated costs                                          | 4,111 | 3,827 |

Mandated costs in 2022 increased relative to 2021 due to a revised estimate for the UCA. The TFCMC has been eliminated.

## Commercial dispute costs (recovery)

| Commercial dispute costs and Force Majeure Recovery<br><i>(in thousands of dollars)</i> | 2022    | 2021     |
|-----------------------------------------------------------------------------------------|---------|----------|
| Force majeure and commercial dispute (recovery)                                         | (5,000) | (12,000) |
| Commercial dispute costs                                                                | 4,109   | 1,764    |
| Total commercial costs and Force Majeure recovery                                       | (891)   | (10,236) |

The Balancing Pool reached a settlement with a counterparty and reversed \$5 million in previously accrued legal fees, related to a historical force majeure event.

Commercial dispute costs of \$4.1 million for 2022 represent legal and consulting expenditures related to PPA-related commercial disputes, the Sundance A decommissioning application and other legal matters.

## Liquidity and Cash Flow

To manage liquidity risk, the Balancing Pool forecasts cash flows for a period of 12 months and beyond to December 31, 2030. In addition, the Balancing Pool may borrow funds from Alberta Treasury and Finance.

| Cash and Cash Equivalents<br><i>(in thousands of dollars)</i> | 2022      | 2021      |
|---------------------------------------------------------------|-----------|-----------|
| Cash and cash equivalents, beginning of year                  | 32,963    | 223,737   |
| Net cash provided by (used in) operating activities           | 135,705   | (181,093) |
| Net cash used in financing activities                         | (116,198) | (9,681)   |
| Cash and cash equivalents, end of year                        | 52,470    | 32,963    |

## **Risks and Risk Management**

The Balancing Pool is or was 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 electricity industry. At the time 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:

### *PPA decommissioning risk*

If a PPA Owner had elected to decommission its facility, the Balancing Pool may have been required to recompense the Owner for a portion of its decommissioning costs. The Balancing Pool would be financially liable for decommissioning costs exceeding the amounts the Owner had collected prior to deregulation and subsequently through the PPA payments.

In December 2018, TransAlta submitted an application to the AUC to decommission the Sundance A unit. The Balancing Pool disputes several aspects of TransAlta's decommissioning plan. The Balancing Pool faces no other risk in regards to PPA decommissioning other than the Sundance A unit.

### *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 International Financial Reporting Standards ("IFRS").

## **Contingencies and Commitments**

Refer to Note 13 of the Balancing Pool's audited financial statements for the year ended December 31, 2022 for a description of contingencies and commitments.

## **Subsequent Events**

Refer to Note 17 of the Balancing Pool's audited financial statements for the year ended December 31, 2022 for a description of subsequent events.

## **Related Party Transactions**

Refer to Note 16 and Note 17 of the Balancing Pool's audited financial statements for the year ended December 31, 2022 for a description of related party transactions.

## **Accounting Policy Changes**

The Balancing Pool prepares its financial statements in accordance with 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**

TransAlta's decommissioning plan submitted to the AUC for Sundance A has been used to estimate the costs of reclamation and abandonment for the Sundance A unit. The current and long-term portions of the provision are based upon management's best estimate of the timing of the costs.

### **Contingencies and Commitments**

The Balancing Pool has been named in certain legal claims and arbitrations as part of the normal course of business. The Corporation has evaluated each claim based on its merits. The final outcome of these legal matters are uncertain and may impact the Balancing Pool's financial results.

## **Forward-Looking Information**

Certain information in this MD&A is forward-looking information. 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.

## **FINANCIAL STATEMENTS**

*Years Ended December 31, 2022 and 2021*



## Independent auditor's report

To the Board of Directors of Balancing Pool

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### Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Balancing Pool (the Corporation) as at December 31, 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### What we have audited

The Corporation's financial statements comprise:

- the statement of financial position as at December 31, 2022;
- the statement of income and comprehensive income for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

#### Independence

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

PricewaterhouseCoopers LLP  
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In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### **Responsibilities of management and those charged with governance for the financial statements**

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

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

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### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants

Calgary, Alberta  
April 12, 2023

| <b>Balancing Pool<br/>Statements of Financial Position</b><br>(in thousands of Canadian dollars) | <b>2022</b>      | <b>2021</b> |
|--------------------------------------------------------------------------------------------------|------------------|-------------|
| <b>Assets</b>                                                                                    |                  |             |
| <b>Current assets</b>                                                                            |                  |             |
| Cash and cash equivalents                                                                        | <b>52,470</b>    | 32,963      |
| Trade and other receivables (Note 5)                                                             | <b>17,270</b>    | 18,556      |
| Right-of-use assets (Note 7)                                                                     | <b>2</b>         | 25          |
|                                                                                                  | <b>69,742</b>    | 51,544      |
| <b>Right-of-use assets (Note 7)</b>                                                              | <b>-</b>         | 2           |
| <b>Property, plant and equipment</b>                                                             | <b>1</b>         | 7           |
| <b>Total Assets</b>                                                                              | <b>69,743</b>    | 51,553      |
| <b>Liabilities</b>                                                                               |                  |             |
| <b>Current liabilities</b>                                                                       |                  |             |
| Trade payables and other accrued liabilities (Note 9)                                            | <b>5,144</b>     | 11,468      |
| Current portion of related party loan (Note 16)                                                  | <b>610,738</b>   | 206,952     |
| Current portion of reclamation and abandonment provision (Note 10)                               | <b>25,418</b>    | 169         |
| Current portion of lease liability (Note 11)                                                     | <b>2</b>         | 25          |
|                                                                                                  | <b>641,302</b>   | 218,614     |
| <b>Reclamation and abandonment provision (Note 10, Note 13)</b>                                  | <b>28</b>        | 41,988      |
| <b>Lease liability (Note 11)</b>                                                                 | <b>-</b>         | 2           |
| <b>Related party loan (Note 16)</b>                                                              | <b>-</b>         | 503,873     |
| <b>Total Liabilities</b>                                                                         | <b>641,330</b>   | 764,477     |
| <b>Net liabilities attributable to the Balancing Pool deferral account (Note 1, 12)</b>          | <b>(571,587)</b> | (712,924)   |
| <b>Contingencies and commitments (Note 13)</b>                                                   |                  |             |
| <b>Subsequent events (Note 13, Note 17)</b>                                                      |                  |             |

*On behalf of the Balancing Pool:*



**Greg Clark**  
Chair



**Greg Pollard**  
Vice-Chair

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

| <b>Balancing Pool</b>                                           |                 |             |
|-----------------------------------------------------------------|-----------------|-------------|
| <b>Statements of Income and Comprehensive Income</b>            | <b>2022</b>     | <b>2021</b> |
| <b>(in thousands of Canadian dollars)</b>                       |                 |             |
| <b>Revenue from contracts with customers</b>                    |                 |             |
| Consumer collection (Note 3)                                    | <b>131,656</b>  | 135,798     |
| <b>Other income (loss) from operating activities</b>            |                 |             |
| Payments in lieu of tax                                         | <b>23,446</b>   | (16,901)    |
| Interest income                                                 | <b>575</b>      | 575         |
|                                                                 | <b>24,021</b>   | (16,326)    |
| <b>Expenses (income)</b>                                        |                 |             |
| Cost of sales (Note 14)                                         | <b>144</b>      | 7,437       |
| Reclamation and abandonment costs (recovery) (Note 10, Note 13) | <b>(6,787)</b>  | 4,265       |
| Mandated costs (Note 16)                                        | <b>4,111</b>    | 3,827       |
| General and administrative                                      | <b>1,897</b>    | 3,095       |
| Commercial disputes recovery (Note 15)                          | <b>(891)</b>    | (10,236)    |
|                                                                 | <b>(1,526)</b>  | 8,388       |
| <b>Income from operating activities</b>                         | <b>157,203</b>  | 111,084     |
| <b>Other income (expense)</b>                                   |                 |             |
| Finance expense (Note 8)                                        | <b>(16,377)</b> | (13,983)    |
| Other income                                                    | <b>511</b>      | 1,675       |
|                                                                 | <b>(15,866)</b> | (12,308)    |
| <b>Change to the Balancing Pool deferral account (Note 12)</b>  | <b>141,337</b>  | 98,776      |

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

| <b>Balancing Pool<br/>Statements of Cash Flows</b><br><i>(in thousands of Canadian dollars)</i> | <b>2022</b>      | 2021      |
|-------------------------------------------------------------------------------------------------|------------------|-----------|
| <b>Cash flow provided by (used in)</b>                                                          |                  |           |
| <b>Operating activities</b>                                                                     |                  |           |
| Change to the Balancing Pool deferral account                                                   | <b>141,337</b>   | 98,776    |
| Adjustments for                                                                                 |                  |           |
| Amortization and depreciation (Note 7)                                                          | <b>31</b>        | 107       |
| Reclamation and abandonment provision (Note 10)                                                 | <b>(6,787)</b>   | 4,265     |
| Finance expense (Note 8)                                                                        | <b>16,377</b>    | 13,983    |
| Reclamation and abandonment expenditures (Note 10)                                              | <b>(10,214)</b>  | (617)     |
| Net change in non-cash working capital:                                                         |                  |           |
| Trade and other receivables                                                                     | <b>1,285</b>     | 90,636    |
| Trade payable and other accrued liabilities                                                     | <b>(6,324)</b>   | (388,243) |
| <b>Net cash provided by (used in) operating activities</b>                                      | <b>135,705</b>   | (181,093) |
| <b>Financing activities</b>                                                                     |                  |           |
| Lease payments (Note 11)                                                                        | <b>(25)</b>      | (102)     |
| Payments on related party loan (Note 16)                                                        | <b>(641,044)</b> | (698,710) |
| Proceeds from issue of related party loan (Note 16)                                             | <b>540,077</b>   | 702,671   |
| Finance expense paid on related party loan                                                      | <b>(15,206)</b>  | (13,540)  |
| <b>Net cash used in financing activities</b>                                                    | <b>(116,198)</b> | (9,681)   |
| <b>Change in cash and cash equivalents</b>                                                      | <b>19,507</b>    | (190,774) |
| <b>Cash and cash equivalents, beginning of year</b>                                             | <b>32,963</b>    | 223,737   |
| <b>Cash and cash equivalents, end of year</b>                                                   | <b>52,470</b>    | 32,963    |

*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 formed to facilitate policy implementation and to support the functioning of the electricity industry for the benefit of Albertans. The *Electric Utilities Act (2003)* ("EUA") and certain regulations made under it established the mandate of the Balancing Pool, which was principally to manage certain assets, liabilities, revenues, and expenses associated with the ongoing evolution of 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)*. With the proclamation of 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 Corporation.

Under the EUA, the Corporation is required to operate without a profit or loss (Note 12). No share capital for the Corporation has been issued.

The Balancing Pool Board of Directors (the "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 Affordability and Utilities of the Government of Alberta ("Minister of AU").

The head office and records of the Balancing Pool are located at Suite 520, 330 - 5<sup>th</sup> Avenue SW, 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.

The Balancing Pool's business activities included the collection of funds from electricity consumers, payments (refund) in lieu of tax, repayment of the outstanding loan with the Provincial government, resolving outstanding commercial and legal disputes related to the PPAs, collection of funds related to the Utility Bill Deferral Program, acting as agent for Small Scale Generators and funding the Utility Consumer Advocate and funding certain decommissioning obligations.

### Revenue from Contracts with Customers

#### i) Consumer collection

Pursuant to Section 82 of the EUA, the Balancing Pool collects or allocates an annualized amount from electricity customers. The consumer collection from the AESO is being accounted for as revenue of the Balancing Pool. The Balancing Pool has applied judgment in determining that the consumer collection collected via rate Rider F, as specified in the EUA, is analogous to a contract with a customer. The legislation contained in the EUA established the Balancing Pool's right to recover operating shortfalls from electricity customers via Rider F of the AESO tariff and can be interpreted as a contract with a customer.

## **Other Income**

### **i) 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.

### **ii) Payments (refunds) in Lieu of Tax ("PILOT")**

Pursuant to Section 147 of the EUA, the Balancing Pool collects installments (refunds) a notional amount of tax from electricity companies controlled by municipal entities that are active in Alberta's competitive electricity market and are otherwise exempt from the payment of tax under the *Income Tax 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.

## **Expenses**

### **i) Cost of sales**

Under the terms of the various PPAs, the Balancing Pool was obligated to pay certain fixed and variable costs to the PPA Owners of the various generation assets. Included in Cost of Sales are costs associated with the administration of the Small Scale Generation Regulation.

### **ii) Other costs**

Under the terms of government legislation, the Balancing Pool is obligated to make payments to certain entities for such matters as reclamation and abandonment. The Minister of AU may direct the Balancing Pool to also 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, 2022, 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, 2021.

These financial statements were authorized and approved for issue by the Board of the Balancing Pool on April 12, 2023.

## **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.

### **Revenue from Contracts with Customers**

The Balancing Pool applies IFRS 15, *Revenue from contracts with customers*, for its revenue arrangements.

### **(a) Consumer Collection (Allocation)**

Upon adoption of IFRS 15, consumer collection revenue is recognized in the statement of income and comprehensive income on an accrual basis in the period in which amounts are charged (refunded) to electricity customers based on an annualized tariff amount, which is the point in time when control of the goods and services passes to the customer. Consumer collection revenue is measured at the fair value of the consideration received or receivable. The Corporation has elected to recognize revenue based on amounts invoiced.

The timing of revenue recognition does not result in any contract assets or liabilities and there are no unfulfilled performance obligations at any point in time. The Balancing Pool has applied judgment in the application of its accounting policy that the consumer collection (allocation) represents a contract with a customer in the scope of IFRS 15 (see Note 1).

### **Other Income (Expense) Recognition**

#### **(a) Investment income**

Investment income resulting from interest is recorded on an accrual basis when there is reasonable assurance as to its measurement and collectability.

#### **(b) Payments (refunds) in Lieu of Tax ("PILOT")**

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, or other legal proceedings, are recorded in the current year, upon receipt.

### **Income Taxes**

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

### **Cash and Cash Equivalents**

Cash and cash equivalents are comprised of cash on deposit at the bank.

### **Trade and Other Receivables**

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

### **Leases**

The Corporation has recognized a lease liability and right-of-use asset for the office lease. Lease liability for the office lease is measured at the present value of the remaining lease payments.

Right-of-use assets was recognized for the office lease and are amortized on a straight-line basis over the remaining term of the office lease.

### **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. PP&E, which comprises office equipment, is depreciated on a straight-line basis over a three-to-five-year useful life.



## **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. 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 Income and Comprehensive Income.

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**

The Corporation applies IFRS 9, *Simplified approach to measuring expected credit losses*, which uses a lifetime expected loss allowance for all trade and other receivables. To measure the expected credit losses, trade receivables and other receivables have been grouped based on shared credit risk characteristics and the days past due.

Trade and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Corporation, and a failure to make contractual payments for a period of greater than 120 days past due.

No impairment provision has been recorded at December 31, 2022, related to trade and other receivables. The Corporation considers trade and other receivables to be low risk.

## **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 5 of the *Power Purchase Arrangements Regulation*, a PPA Owner may apply to the Alberta Utilities Commission ("AUC") to receive from the Balancing Pool the amount by which decommissioning costs related to a former PPA unit exceed the amount the PPA Owner collected from consumers before January 1, 2001 and subsequently through the PPA, provided that the unit has ceased generating electricity and the application is made within one year of the termination or expiration of the PPA. Section 5 of the *Power Purchase Arrangements Regulations* does not apply after December 31, 2018.

The reclamation and abandonment provision includes an estimate of the expected future costs associated with decommissioning costs for the Sundance A unit.

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

#### **Other Provisions**

Provisions for obligations are recognized when the Balancing Pool has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a risk-free discount rate that reflects current market assessments of the time value of money. The increase in the provision due to the passage of time is recognized as finance expense.

#### **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 Judgment in Applying Accounting Policies

Management has made critical judgment in applying accounting policies, such as concluding that the consumer collection (allocation) is accounted for as revenue (refund of revenue) from a contract with a customer (Note 1, 12).

This critical judgement has been made in the process of applying accounting policies and has a significant effect on the amount recognized in the financial statements.

## Key Sources of Estimation Uncertainty

Since the determination of certain assets, liabilities, revenues and expenses is 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. Consequently, there is a significant risk of a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- Reclamation and abandonment provision (Note 10)
- Contingent legal matters (Note 13)

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

| <i>(in thousands of dollars)</i> | 2022   | 2021   |
|----------------------------------|--------|--------|
| Trade receivables                | 12,076 | 15,558 |
| Retailer receivables             | -      | 1,911  |
| Other receivables                | 5,194  | 1,087  |
|                                  | 17,270 | 18,556 |

On May 12, 2020, the Government of Alberta initiated a program that permitted residential, farm, and small commercial businesses to defer the payment of utility bills for 90 days. The Balancing Pool issued \$36.1 million in loans during 2020. Over the course of 2021 and 2022, the Balancing Pool received re-payments of \$36.1 million directly from retailers and through the Utility Payment Deferral Program rate rider.

At December 31, 2022, no accounts receivable amounts are past due.

## 6. Accounting for Financial Instruments

### 6.a) Risk Management Overview

The Balancing Pool's activities expose the Corporation to interest rate risk and liquidity risk.

- Interest Rate Risk:** The Balancing Pool is exposed to interest rate risk on the related party loan. There is the possibility that the value of the related party loan will change due to fluctuations in market interest rates.
- 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 16).

The following below analyzes the Balancing Pool's financial and other liabilities into relevant maturity groupings based on the remaining period from the period end date to the contract maturity date.

| <b>December 31, 2022</b><br><i>(in thousands of dollars)</i> | <b>1 year</b>  | <b>2 - 5 years</b> | <b>Total</b>   |
|--------------------------------------------------------------|----------------|--------------------|----------------|
| Trade payables                                               | 1,314          | -                  | 1,314          |
| Other accrued liabilities                                    | 3,478          | 352                | 3,830          |
| Related party loan – principal                               | 604,239        | -                  | 604,239        |
| Related party loan – interest                                | 6,499          | -                  | 6,499          |
| Reclamation and abandonment                                  | 25,418         | 28                 | 25,446         |
| Lease liability                                              | 2              | -                  | 2              |
| <b>Total</b>                                                 | <b>640,950</b> | <b>380</b>         | <b>641,330</b> |

  

| <b>December 31, 2021</b><br><i>(in thousands of dollars)</i> | <b>1 year</b>  | <b>2 - 5 years</b> | <b>Total</b>   |
|--------------------------------------------------------------|----------------|--------------------|----------------|
| Trade payables                                               | 658            | -                  | 658            |
| Other accrued liabilities                                    | 4,018          | 6,792              | 10,810         |
| Related party loan – principal                               | 206,894        | 499,130            | 706,024        |
| Related party loan – interest                                | 58             | 4,743              | 4,801          |
| Reclamation and abandonment                                  | 169            | 41,988             | 42,157         |
| Lease liability                                              | 25             | 2                  | 27             |
| <b>Total</b>                                                 | <b>211,822</b> | <b>552,655</b>     | <b>764,477</b> |

## 6. b) Fair Value Hierarchy

Financial instruments carried at fair value are categorized as follows:

### December 31, 2022

| <b>December 31, 2022</b><br><i>(in thousands of dollars)</i> | Quoted prices<br>in active<br>markets for<br>identical assets | Significant<br>other<br>observable<br>inputs | Significant<br>unobservable<br>inputs | Total  |
|--------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------|---------------------------------------|--------|
| <b>Assets</b>                                                | Level 1                                                       | Level 2                                      | Level 3                               |        |
| Cash and cash equivalents                                    | 52,470                                                        | -                                            | -                                     | 52,470 |
|                                                              | 52,470                                                        | -                                            | -                                     | 52,470 |

| <b>December 31, 2021</b><br><i>(in thousands of dollars)</i> | Quoted prices<br>in active<br>markets for<br>identical assets | Significant<br>other<br>observable<br>inputs | Significant<br>unobservable<br>inputs | Total  |
|--------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------|---------------------------------------|--------|
| <b>Assets</b>                                                | Level 1                                                       | Level 2                                      | Level 3                               |        |
| Cash and cash equivalents                                    | 32,963                                                        | -                                            | -                                     | 32,963 |
|                                                              | 32,963                                                        | -                                            | -                                     | 32,963 |

**i) Level 1**

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

**ii) Level 2**

Assets and liabilities in Level 2 include valuations using inputs other than Level 1 quoted prices for which all significant inputs are observable, either directly or indirectly. Fair values for fixed income investments were 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.

**7. Right-of-Use Assets**

| <i>(in thousands of dollars)</i> | <b>2022</b> | <b>2021</b> |
|----------------------------------|-------------|-------------|
| At January 1                     | 27          | 89          |
| Amortization and depreciation    | (25)        | (99)        |
| Additions                        | -           | 37          |
| At December 31                   | 2           | 27          |

**8. Finance Expense**

| <i>(in thousands of dollars)</i>                          | <b>2022</b> | <b>2021</b> |
|-----------------------------------------------------------|-------------|-------------|
| Interest expense – related party loan (Note 16)           | 16,087      | 13,924      |
| Interest expense – lease liability                        | -           | 1           |
| Accretion expense – reclamation and abandonment (Note 10) | 290         | 58          |
|                                                           | 16,377      | 13,983      |

**9. Trade Payable and Other Accrued Liabilities**

| <i>(in thousands of dollars)</i>           | <b>2022</b> | <b>2021</b> |
|--------------------------------------------|-------------|-------------|
| Trade payables                             | 977         | 658         |
| Accrued liabilities – Historical line loss | 45          | 511         |
| Accrued liabilities – Mandated costs       | 3,197       | 3,349       |
| Accrued liabilities – Other                | 925         | 6,950       |
|                                            | 5,144       | 11,468      |

## 10. Reclamation and Abandonment Provision

| <i>(in thousands of dollars)</i> | <b>H.R. Milner<br/>Generating<br/>Station</b> | <b>Isolated<br/>Generation<br/>Sites</b> | <b>Sundance A<br/>Generating<br/>Station</b> | <b>Total</b> |
|----------------------------------|-----------------------------------------------|------------------------------------------|----------------------------------------------|--------------|
| At January 1, 2021               | 10,216                                        | 418                                      | 27,817                                       | 38,451       |
| Increase (decrease) in liability | (529)                                         | 104                                      | 4,690                                        | 4,265        |
| Liabilities paid in year         | (226)                                         | (391)                                    | -                                            | (617)        |
| Accretion expense                | 15                                            | 1                                        | 42                                           | 58           |
| At December 31, 2021             | 9,476                                         | 132                                      | 32,549                                       | 42,157       |
| Less: Current portion            | (100)                                         | (69)                                     | -                                            | (169)        |
|                                  | 9,376                                         | 63                                       | 32,549                                       | 41,988       |
| <b>At January 1, 2022</b>        | 9,476                                         | 132                                      | 32,549                                       | 42,157       |
| Increase (decrease) in liability | 627                                           | 49                                       | (7,463)                                      | (6,787)      |
| Liabilities paid in year         | (10,145)                                      | (69)                                     | -                                            | (10,214)     |
| Accretion expense                | 42                                            | 1                                        | 247                                          | 290          |
| At December 31, 2022             | -                                             | 113                                      | 25,333                                       | 25,446       |
| Less: Current portion            | -                                             | (85)                                     | (25,333)                                     | (25,418)     |
|                                  | -                                             | 28                                       | -                                            | 28           |

### 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 ("ATCO"), which was executed in 2001, the Balancing Pool assumed the 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. On July 6, 2022, the Balancing Pool and Milner Power Limited Partnership amended the bilateral agreement wherein Milner Power Limited Partnership assumed responsibility to decommission the station at the end of operations. The Balancing Pool returned the collateral held to Milner Power Limited Partnership including a payment of \$10.1 million representing the balance of the decommissioning obligation. At December 31, 2022, the Corporation has no further obligation related to decommissioning H.R. Milner generating station.

### 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 \$0.4 million (2021 – \$0.1 million) were incurred in 2022. 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 4.52% (2021 – 0.76%). The provision is based upon management's best estimate and the timing of the costs.

### c) Decommissioning Costs of PPA Units

Pursuant to Section 5 of the *Power Purchase Arrangements Regulation*, a PPA Owner may apply to the Alberta Utilities Commission ("AUC") to receive from the Balancing Pool the amount by which decommissioning costs related to a former PPA unit exceed the amount the PPA Owner collected from consumers before January 1, 2001 and subsequently through the PPA, provided that the unit has ceased generating electricity and the application is made within one year of the termination or expiration of the PPA. Section 5 of the *Power Purchase Arrangements Regulations* does not apply after December 31, 2018.

In December 2018, TransAlta submitted an application to the AUC as well as three amendments to decommission Sundance unit A. On December 31, 2022, the Balancing Pool recorded a \$7.5 million decrease (2021 – \$4.3 million increase) to the provision for decommissioning the Sundance A unit. The provision for Sundance A is based upon management's best estimate of decommissioning costs. Estimated decommissioning costs were discounted at 4.52% (2021 – 0.76%). The AUC will determine the amount owed to TransAlta. See also Note 13.

## 11. Lease Liability

| <i>(in thousands of dollars)</i> | 2022 | 2021  |
|----------------------------------|------|-------|
| At January 1                     | 27   | 91    |
| Finance expense                  | -    | 1     |
| Lease payments                   | (25) | (102) |
| Reassessment of lease liability  | -    | 37    |
| At December 31                   | 2    | 27    |

## 12. 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 defined the method by which the Balancing Pool would calculate the amounts to be allocated to, or provided by, electricity consumers through to 2030. 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.

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

| <b>Balancing Pool Deferral Account</b><br><i>(in thousands of dollars)</i> | 2022      | 2021      |
|----------------------------------------------------------------------------|-----------|-----------|
| Deferral account, beginning of year                                        | (712,924) | (811,699) |
| Change to the Balancing Pool deferral account                              | 141,337   | 98,776    |
| Deferral account, end of year                                              | (571,587) | (712,924) |

In December 2021, the Board of Directors approved a 2022 consumer collection of \$2.20/MWh for a total collection from electricity consumers of \$131.7 million in accordance with the *Balancing Pool Regulation*. In October 2022, the Board of Directors approved a 2023 consumer collection of \$2.20/MWh for an estimated total collection from electricity consumers of \$132.0 million in accordance with the *Balancing Pool Regulation*.

## 13. Contingencies and Commitments

### Reclamation and Abandonment

TransAlta has submitted an application as well as three amendments to the AUC to decommission Sundance A and is seeking \$59.8 million (2021 - \$76.0 million) in funding from the Balancing Pool. The Balancing Pool disagrees with several aspects of the application. A provision of \$25.3 million (2021 - \$32.5 million) to decommission Sundance A has been recorded. The final amount due will be determined by the AUC.

### Legal Claim

On June 12, 2019, the Balancing Pool received a statement of claim from a power producer seeking \$17.5 million in damages from the Balancing Pool. The Balancing Pool considers the claim to be without merit. Section 92 of the *Electric Utilities Act* provides the Balancing Pool with strong liability protection for such claims.

On August 6, 2021, the Court of Queen's Bench granted the Balancing Pool's application to strike the entire claim. The claimant appealed the ruling. On March 3, 2022, the Court of Queen's Bench dismissed the claimant's appeal, and the claim was struck entirely. On April 1, 2022, the claimant filed an appeal with the Court of Appeal of Alberta. On December 6, 2022, the Court of Appeal of Alberta dismissed the issues raised in the Appeal by the claimant. The Balancing Pool was ultimately successful in defending this claim.

### Legal Claim – Line Loss Proceeding

On January 27, 2021, the Balancing Pool received a statement of claim from a power producer related to the line loss rule proceeding and is seeking \$53.2 million (2021 - \$10.3 million) in damages from the Balancing Pool. The Balancing Pool's statement of defense has been filed. The Balancing Pool considers the claim to be without merit.

At December 31, 2022, no contingent liability has been recorded (2021 - \$nil).

### Arbitration - Line Loss Proceeding

In April 2021, a power producer gave notice to the Balancing Pool of a formal arbitration proceeding regarding the historical line loss proceeding. The power producer is seeking \$56.6 million from the Balancing Pool for historical line loss amounts invoiced by the AESO to the power producer. The Balancing Pool considers the matter to be without merit. The arbitration concluded in December 2022. On April 11, 2023, the arbitration panel released its decision in favour of the Balancing Pool.

At December 31, 2022, no contingent liability has been recorded (2021 - \$nil).

### Legal Claim

On April 28, 2022, the Balancing Pool received a statement of claim from a power producer seeking \$483.0 million in damages from the Balancing Pool. The Balancing Pool considers the claim to be without merit. Section 92 of the *Electric Utilities Act* provides the Balancing Pool with strong liability protection for such claims. Balancing Pool's legal counsel is preparing the statement of defense.

At December 31, 2022 no contingent liability has been recorded.

### Other Legal Claims

The Balancing Pool is involved in other legal claims and legal proceedings arising in the ordinary course of business. Although the outcome of such matters cannot be predicted with certainty, the Corporation does not consider the Balancing Pool's exposure to litigation to be material to these financial statements. Accruals for litigation, claims and assessments are recognized if the



Balancing Pool determines that the loss is probable and the amount can be reasonably estimated. The Balancing Pool believes it has made adequate provisions for such legal claims.

#### 14. Cost of Sales

| <i>(in thousands of dollars)</i>                     | 2022 | 2021  |
|------------------------------------------------------|------|-------|
| Power Purchase Arrangements costs (recovery)         | (17) | 7,278 |
| Small scale generator costs                          | 130  | 52    |
| Amortization and depreciation on right-of-use assets | 31   | 107   |
|                                                      | 144  | 7,437 |

#### 15. Commercial Dispute costs (recovery)

| <i>(in thousands of dollars)</i>    | 2022  | 2021     |
|-------------------------------------|-------|----------|
| Force Majeure recovery              | -     | (12,000) |
| Commercial dispute costs (recovery) | (891) | 1,764    |
|                                     | (891) | (10,236) |

In 2022, the Balancing Pool incurred \$4.1 million in commercial dispute costs and recorded a \$5.0 million recovery in legal fees previously accrued, resulting in a net recovery of \$0.9 million.

#### 16. 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.

| <b>Key Management Compensation</b><br><i>(in thousands of dollars)</i> | 2022 | 2021 |
|------------------------------------------------------------------------|------|------|
| Salaries, other short-term employee benefits and severance             | 481  | 480  |
|                                                                        | 481  | 480  |

##### 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 AU. The financial information of the Balancing Pool is consolidated with the Ministry of Affordability and Utilities.

In January 2017, the Balancing Pool signed a loan agreement with the Government of Alberta. The loan agreement will remain until December 31, 2030 when all outstanding loan amounts are due to be paid back to the provincial government. As the Balancing Pool has short-term and long-term related party notes outstanding which mature prior to December 31, 2030, the Balancing Pool expects to repay maturing notes through its consumer collection (Note 12) or refinance maturing notes outstanding with the Government of Alberta (Note 17), subject to the terms of the loan agreement. Details of the Balancing Pool's related party loans outstanding are as follows:

| <i>(in thousands of dollars)</i>                  | <b>Interest Rate</b> | <b>2022</b> |
|---------------------------------------------------|----------------------|-------------|
| Short-term note due on September 13, 2023         | 2.65%                | 504,199     |
| Short-term discount note due on January 10, 2023  | 3.56%                | 19,980      |
| Short-term discount note due on February 14, 2023 | 4.11%                | 86,559      |
|                                                   |                      | 610,738     |

| <i>(in thousands of dollars)</i>                 | <b>Interest Rate</b> | <b>2021</b> |
|--------------------------------------------------|----------------------|-------------|
| Long-term note due on September 13, 2023         | 2.65%                | 503,873     |
| Short-term discount note due on January 20, 2022 | 0.19%                | 54,967      |
| Short-term discount note due on March 15, 2022   | 0.30%                | 151,985     |
|                                                  |                      | 710,825     |
| Less: Current portion                            |                      | (206,952)   |
|                                                  |                      | 503,873     |

At December 31, 2022, the Balancing Pool had \$610.7 million (2021 – \$710.8 million) in short-term discount and long-term notes issued to the Government of Alberta, including accrued interest of \$5.3 million (2021 – \$5.6 million). During 2022, net payments of \$116.2 million (2021 - \$9.6 million payment) were remitted on the outstanding loan. Fair value of the loan is the same as the amortized cost of borrowing. During 2022, interest of \$14.1 million was paid on the related party loan (2021 – \$13.6 million).

Directed by the Minister of AU, the Balancing Pool is mandated to make payments to the Office of the Utilities Consumer Advocate ("UCA") to cover 80% of their annual operating costs. In 2022, the Balancing Pool expensed \$4.1 million (2021 – \$3.8 million) for the UCA.

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 2022, the Balancing Pool collected \$131.7 million (2021 – \$135.8 million) from electricity consumers through the AESO's transmission tariff.

## **17. Subsequent Events**

### **Related Party Transactions**

The discount note that matured on January 10, 2023 (Note 16), was paid in full. The short-term note that matured on February 14, 2023, was re-financed with the terms noted below.

| <i>(in thousands of dollars)</i>             | <b>Interest Rate</b> | <b>Amount re-financed</b> |
|----------------------------------------------|----------------------|---------------------------|
| Short-term discount note due on May 15, 2023 | 4.51%                | 67,000                    |

## **CORPORATE INFORMATION**

### Balancing Pool Contacts

#### **EXECUTIVE**

Sandra Scott, President and CEO

#### **FINANCIAL**

Michelle Manuliak, Controller

#### **ADMINISTRATION**

Ivy Webb, Executive Assistant|Office Manager

#### **Auditors**

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#### **Counsel**

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