balancingpool

2020
Annual Report

MESSAGE TO STAKEHOLDERS FROM THE BOARD CHAIR

Greg Clark

This past year was unlike any before it. The pandemic and resulting economic crisis has had wide-ranging impacts on people, communities, institutions and organizations in Alberta and around the world. The Balancing Pool was no exception.

Our team responded quickly, implementing our Business Continuity Plan earlier than many organizations and transitioning seamlessly to remote operations. I could not be more proud of how quickly and thoughtfully the management team and Board reacted to a truly unprecedented situation.

As the electricity market changed, the Balancing Pool changed with it. We adapted to new market realities with sensible strategies, maintaining an intense focus on our legislated mandate to act in a commercial manner. Strong financial management allowed the Balancing Pool to remain ahead of schedule in repaying our Government of Alberta loan, while also providing $36.1 million in support of the Utility Payment Deferral Program to allow Albertans to defer their utility payments as we entered our first lockdown.

The year 2020 is also noteworthy in the history of Alberta's energy-only electricity market, as it marked the end of the 20-year Power Purchase Arrangements ("PPAs"). I am pleased to say that the intent of the PPAs has been met, and Albertans today enjoy the benefits of a fair, efficient and openly competitive electricity market. While the Balancing Pool no longer has a position in the wholesale electricity market, we continue to support Albertans during these unprecedented times.

Aside from the wind down of trading operations, many of our obligations related to the PPAs will remain ongoing for some time. Numerous commercial and legal matters, with potentially significant consequences to consumers, will be a top priority. The Balancing Pool's structure was designed specifically to manage these matters.

As we move into 2021 we have reduced the size of our Board in keeping with our reduced responsibilities. I want to offer my sincerest thanks to Sandra Scott and Adam Hedayat for their contribution to the Balancing Pool through challenging times. Their work has left the organization much stronger than it was when they joined the Board — our organization, and Albertans, owe them our thanks.

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 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 14, 2021

GOVERNANCE OF THE BALANCING POOL

Adhering to the *Electric Utilities Act (2003)*, the Minister of Energy appoints members of the Balancing Pool's Board of Directors on the basis of their cumulative expertise in order to enhance the performance of the Balancing Pool in exercising its powers and carrying out its duties, responsibilities and functions.

The Balancing Pool's Current Board

Greg Clark

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

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. Michelle has worked in private practice and in the utilities, health and post-secondary sectors and is currently the Vice-President and General Counsel at MacEwan University. 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 is also 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

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 designation from the Institute of Corporate Directors.

Remuneration of Board Members

A summary of remuneration Members were eligible to receive in 2020, is as follows:

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

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

2020 Meeting Attendance and Remuneration

Balancing Pool Board Member	Board	Audit & Finance	Governance & Human Resource	2020 Remuneration ($)[2]
Greg Clark	11 of 11	4 of 4	4 of 4	85,000
Adam Hedayat	11 of 11	4 of 4	4 of 4	46,200
Michelle Plouffe	11 of 11	4 of 4	4 of 4	51,200
Greg Pollard	11 of 11	4 of 4	4 of 4	63,020[3]
Sandra Scott	11 of 11	4 of 4	4 of 4	46,200
Attendance	55 of 55	20 of 20	20 of 20	

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

2 *2020 remuneration includes base retainer, Committee Chair retainer and Member meeting fees.*

3 *Includes remuneration for special committee Chair fees.*

REPORT FROM THE PRESIDENT AND CEO

Benjamin Chappell

The unprecedented global health and economic crisis defined 2020. The crisis brought with it challenges the likes of which none of us have ever faced, and it also acted as a catalyst for sudden and rapid change in our society, including how we work, socialize, shop, and manage our health.

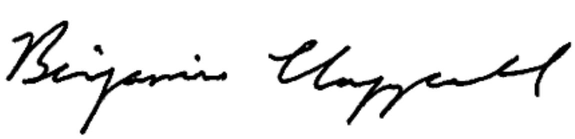
I am incredibly proud of how the Balancing Pool responded to the challenges of 2020. The successful execution of our strategy over the past years allowed our organization to enter the crisis from a position of strength. Our commercial team adapted its Power Purchase Arrangement ("PPA") management strategies in reaction to deteriorated market fundamentals, always guided by the Balancing Pool's mandate to manage the PPAs in a commercial manner. These efforts coupled with careful financial planning allowed us to finance a substantial portion of the Government of Alberta's Utility Payment Deferral Program, which permitted Alberta electricity consumers and retailers to defer utility payments through the peak months of the economic lockdown. Even with these new financing obligations and the presence of weak market conditions, the Balancing Pool had no need to increase its borrowing over the course of the year, and it remains ahead of its original loan repayment schedule. These successes of 2020 all took place while our staff transitioned seamlessly to a full remote working environment for the first time.

Alberta's electricity consumers benefit from the Balancing Pool's financial position through the Consumer Allocation. The collection from consumers fell again this year, falling from $2.50 per megawatt hour ("MWh") in 2020 to $2.30 per MWh in 2021. Even with the recent years' collections, the Balancing Pool has remitted a net amount of over $4 billion to consumers over the course of its mandate.

2020 also marked another significant change for the Balancing Pool and Alberta's electricity industry, but one that has been long expected: the expiration of the PPAs. The PPAs were one of the primary mechanisms used by the Government of Alberta to introduce competition into the supply of electrical power over a 20-year period. As I look back on the transition that took place over the last 20 years, it is clear to me that the market has matured into the fair, efficient, and openly competitive one that its architects intended. With the expiration of the PPAs, all generation facilities formally subject to the PPAs are now under the control of the facilities' owners, and the Balancing Pool no longer has an active position in the market.

Over the coming years, the Balancing Pool's strategic focus will be on resolving outstanding claims associated with the PPAs. The Balancing Pool is required to backstop certain events related to the PPAs, including events of force majeure, changes in law, PPA unit destruction, PPA party default, unit decommissioning, and PPA termination. Alberta electricity consumers must ultimately fund valid claims, and it is the Balancing Pool's obligation to assess, verify, and sometimes dispute them. The Balancing Pool will continue to ensure consumer funds are protected while simultaneously providing generators the payments they are entitled to receive.

I would like to conclude by thanking the people that enabled the Balancing Pool to not only persevere through 2020s challenges, but to also be in a position to support our industry and the people of Alberta. Thank you to our dedicated staff, our engaged Board of Directors, and our valued industry stakeholders. We now venture forth on the new path that lays before us with hope on the horizon and a new-found resiliency and courage that only weathering a crisis can bring.



Benjamin Chappell
President and Chief Executive Officer

April 14, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") dated April 14, 2021, should be read in conjunction with the audited financial statements of the Balancing Pool for the years ended December 31, 2020 and 2019. The financial statements for the year ended December 31, 2020 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.

Results at a Glance

Years ended December 31	2020	2019
Volume — gigawatt hours ("GWh")		
Genesee Power Purchase Arrangement ("PPA")	5,905	6,211
Sheerness PPA	3,050	4,689
Keephills PPA	4,343	4,643
PPA ancillary services	653	417
Hydro PPA electricity	1,633	1,621
Hydro PPA ancillary services	1,268	1,265
Small Power Producer	-	9
Total electricity and ancillary service volume	16,852	18,855
Price — per megawatt hour ("MWh")		
Average electricity market price	$46.72	$54.88
Consumer Collection		
Consumer collection per MWh	$2.50	$2.90
Consumer collection *(in thousands of dollars)*	145,404	172,985
Financial Results *(in thousands of dollars)*		
Statement of Income and Comprehensive Income		
Revenue from contracts with customers	786,450	1,055,569
Other income (loss)	(2,502)	44,035
Expenses	797,867	892,488
Income (loss) from operating activities	(13,919)	207,116
Other income (expense)	(23,155)	(35,285)
Change to the Balancing Pool deferral account	(37,074)	171,831
Statement of Financial Position		
Total assets	333,033	586,858
Total liabilities	1,144,732	1,361,483
Net liabilities attributable to the Balancing Pool deferral account	(811,699)	(774,625)

Expiry of the Power Purchase Arrangements ("PPAs")

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.

The Balancing Pool's business activities after December 31, 2020 will include 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, resolving other legal matters, collection of funds from retailers related to the Utility Bill Deferral Program, acting as agent for Small Scale Generators and settlement of certain financial accounts.

Legislated Duties

The Balancing Pool's legislated duties include or included the following:

- Act as a risk backstop for the PPAs in relation to extraordinary events;
- Act as a Buyer for the PPAs that were not sold in the public auction held by the Government of Alberta in 2000, or that were subsequently terminated by third party Buyers;
- Manage the PPAs held by the Balancing Pool in a commercial manner, and/or terminate them with the Owners if appropriate;
- Allocate (or collect) any forecasted cash surplus (or deficit) to (from) electricity consumers in Alberta in annual amounts;
- Manage the financial accounts arising from the transition to a competitive generation market on behalf of consumers;
- Fund the decommissioning and reclamation costs associated with certain generation facilities in Alberta;
- Hold the Hydro PPA and manage the associated stream of receipts or payments;
- Participate in regulatory and 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 Energy.

Novel Coronavirus (“COVID-19”)

With the outbreak of COVID-19, the Balancing Pool has deployed its business continuity plan in order to protect the health and safety of Balancing Pool personnel and to ensure the Balancing Pool continues to execute its mandate. All Balancing Pool personnel have been working remotely since March 16, 2020 and will continue to do so for an indefinite period of time. The Balancing Pool has not experienced a significant impact to daily operations as a result of COVID-19.

The spread of COVID-19 in Alberta and the restrictions imposed by various levels of government have impacted the demand for electricity, which has resulted in lower future Alberta power prices. Lower power prices reduced Sale of Electricity revenue from the thermal PPAs and the Hydro PPA.

The Government of Alberta initiated a program that became effective May 12, 2020 and permitted residential, farm, and small commercial businesses to defer the payment of utility bills for 90 days. The Balancing Pool received a Ministerial Order from the Minister of Energy on April 22, 2020 directing the Balancing Pool to reserve $119.0 million for the 90-day Utility Payment Deferral Program to assist retailers with funding. At December 31, 2020 the Balancing Pool has issued $36.1 million in funding to the retailers and received repayments of $27.0 million from retailers leaving a balance of $9.1 million to be collected. During the first four months of 2021, the Balancing Pool collected a further $3.3 million leaving a balance of $5.6 million at March 31, 2021.

Market Surveillance Administrator (“MSA”) Settlement

The Alberta Utilities Commission (“AUC”) approved a settlement agreement on January 14, 2020 between the MSA and the Balancing Pool. Under the terms of the agreement, the Balancing Pool agreed to report publicly in its quarterly and annual reports on the activities undertaken to operate the PPA units in a commercial manner.

The Balancing Pool has pursued various strategies to manage the PPAs that it held in a commercial manner.

The Sundance B and C PPAs were terminated effective April 1, 2018 and the Battle River 5 PPA was terminated effective October 1, 2018. The Balancing Pool continued to evaluate the economics of the remaining PPAs (Genesee, Sheerness and Keephills) to determine if any of these PPAs were potential candidates for termination. Due to the high termination payments associated with the remaining PPAs, the Balancing Pool determined these terminations would not be commercially justifiable.

The Balancing Pool examined the option of selling PPA capacity. A third-party expert assessed market conditions in 2017 and 2018 and concluded there would be insufficient interest in a PPA capacity sale to generate the competitive tension necessary for the Balancing Pool to receive fair market value for the capacity sold. The Balancing Pool continued to assess the prospect of selling PPA capacity into 2019, but concluded these market issues had not been resolved. As such, the Balancing Pool was of the opinion it would not receive fair market value if it were to sell PPA capacity. By 2020, the short time remaining before the PPAs expired became insufficient to complete a sales process, rendering a capacity sale impractical.

The Balancing Pool had the option to employ its historical offer strategy or to consider alternative offer strategies, as it deemed appropriate, as long as it continued to fulfil its mandate to manage generation assets in a commercial manner. Following a rigorous strategic review process, the Balancing Pool elected to augment its internal operational capabilities and began employing alternative offer strategies in the second quarter 2019. The Balancing Pool continued to monitor the results from its alternative offer strategies and made adjustments to these strategies as appropriate.

During the months of April, May, June, and July 2020, the Balancing Pool and its advisors expended a great deal of time and effort considering the possible costs and benefits of a PPA-unit shutdown strategy during periods of very low prices brought about by the COVID-19 pandemic and the resulting economic slowdown. Ultimately the Balancing Pool, exercising reasonable commercial judgment, determined that the benefits of unit shutdowns, if they materialized at all, were low and were greatly outweighed by the costs, practicalities of implementation, and regulatory and legal risks of the strategy. The Balancing Pool's conclusions were consistent with its obligations under the *Electric Utilities Act* to act responsibly, to manage risks prudently, and to manage generation assets in a commercial manner.

The Balancing Pool also continued to undertake other commercial activities over the period it held the PPAs. During 2020, the Balancing Pool sold 653 GWh in ancillary services for total revenue of $9.4 million. During that same period, the Balancing Pool retired 0.6 million tonnes of emission credits to satisfy environmental compliance charges, resulting in a $2.3 million gain. The gain on emission credits is a result of procuring emission credits at a price lower than the Climate Change Emission Management Fund rate of $30 per tonne.

Assets

Details of Assets *(in thousands of dollars)*	2020	2019
Cash and cash equivalents	223,737	96,037
Trade and other receivables	109,192	85,650
Long-term receivable	-	1,980
Right-of-use assets	89	290,010
Property, plant and equipment	15	14
Hydro Power Purchase Arrangement	-	110,667
Intangible assets	-	2,500
Total assets	333,033	586,858

Trade and Other Receivables

Trade and other receivables balance at December 31, 2020 includes amounts receivable for sale of electricity, ancillary service revenues and consumer collection for December 2020. Trade and other receivables also include $9.1 million receivable from retailers related to the Utility Payment Deferral Program and $34.4 million receivable for the historical line loss rule proceeding related to the Hydro PPA.

Long-Term Receivable

Amounts outstanding for the long-term receivable were received and paid in full in December 2020. The amounts due were related to the negotiated settlement reached on the termination of certain PPAs in 2016.

Right-of-Use Assets

Right-of-use assets were established for the PPAs and office lease on January 1, 2019 on adoption of *IFRS 16, Leases*. Over the course of 2020, $290.0 million in amortization and depreciation was recorded. At December 31, 2020 the value of the right-of-use assets for the three PPAs was nil as the PPAs expired on December 31, 2020.

Hydro Power Purchase Arrangement

The value of the Hydro PPA at December 31, 2020 was nil as the PPAs expired on December 31, 2020.

The Hydro PPA was recorded as an asset at the net present value of the estimated net cash receipts over the term of the contract, which expired on December 31, 2020. Future revenues were estimated based on the notional energy and reserve (ancillary services) volumes set out in the Hydro PPA and management's best estimate of future energy and reserve prices. Corresponding expenses reflected the obligations for the remaining term of the contract as set out in the Hydro PPA.

The Hydro PPA was recorded as a financial asset since TransAlta Corporation ("TransAlta"), the owner of the hydro plants, retained offer control of the hydro assets under the terms of this PPA.

Intangible Assets

Intangible assets include emission credits held for compliance purposes. Over the course of the 2020 year, the Balancing Pool retired 0.6 million tonnes worth of emission credits to satisfy carbon levy charges associated with the PPAs. At December 31, 2020 the Balancing Pool held no inventory of emission credits.

The retirement of the emission credits resulted in a $2.3 million reduction to the Balancing Pool's carbon levy charges associated with the PPAs. This reduction was achieved due to the procurement of emission credits at a lower cost than the Climate Change and Emissions Management Fund and the *Technology Innovation and Emissions Reduction Regulation* rate of $30 per tonne of carbon dioxide equivalent ("CO_2e").

Liabilities

Details of Liabilities *(in thousands of dollars)*	2020	2019
Trade and other payables	399,712	212,524
Related party loan	706,478	705,984
Lease liability	91	410,116
Reclamation and abandonment provision	38,451	32,859
Total liabilities	1,144,732	1,361,483

Trade and Other Payables

Trade and other payables at December 31, 2020 primarily include PPA obligations due to plant Owners as well as accrued liabilities for the historical line loss proceeding, amounts owing for the 2020 carbon levy on the PPAs and miscellaneous liabilities. The balance at December 31, 2020 is higher than the prior year primarily as a result of a change in the timing for the settlement of the 2020 carbon levy. In 2019, the carbon levy was cash-settled quarterly and for the fiscal year 2020 will be cash-settled in June 2021.

Related Party Loan

At December 31, 2020 the Balancing Pool had $706.5 million in short-term and long-term notes issued to the Government of Alberta including accrued interest of $6.5 million on the long-term note. No new borrowing occurred over the course of 2020.

In early 2021, the Balancing Pool re-financed two discount notes for a total of $203.0 million.

Lease Liability

During 2020, $417.5 million in lease payments were remitted for the PPAs and the office lease. Interest of $7.4 million was recorded over the course of the year. An adjustment related to the lease liability of the three PPAs was applied, thereby increasing the lease liability by $0.05 million. At December 31, 2020 the lease liability for the three PPAs was nil as the arrangements expired on December 31, 2020.

Reclamation and Abandonment Provision

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

The terms of the 2001 Asset Sale Agreement for the H.R. Milner generating station between the Balancing Pool and ATCO Power Ltd ("ATCO") enabled the ongoing operation of the facility by ATCO on behalf of the Balancing Pool. The Balancing Pool assumed liability for the costs of decommissioning the station at the end of operations. When the asset was subsequently sold by the Balancing Pool to Milner Power Limited Partnership in 2004, the Balancing Pool retained the liability for decommissioning the generating station. A bilateral agreement was reached in 2011 with Milner Power Limited Partnership where the Balancing Pool's exposure to decommissioning costs is capped at $15.0 million in nominal dollars.

Under the *Isolated Generating Units and Customer Choice 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 *(in thousands of dollars)*	2020	2019
H.R Milner	10,216	8,908
Isolated Generation sites	418	1,978
Sundance A decommissioning	27,817	21,973
Total reclamation and abandonment provision	38,451	32,859

The increase in the H.R Milner provision primarily reflects a reduction to the discount rate ($1.6 million) and payment of liabilities in the current period ($0.4 million). The decrease was partially offset accretion on the provision of $0.2 million.

The provision for the Isolated Generation sites decreased due to payments issued over the course of 2020 of $1.6 million. It is anticipated that the Isolated Generation project will be coming to a conclusion 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. The change in assumptions resulted in a $5.5 million increase 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 matter will be before the AUC over the course of 2021 with a possible decision released by the second quarter of 2022.

Balancing Pool Deferral Account

Balancing Pool Deferral Account *(in thousands of dollars)*	2020	2019
Deferral account, beginning of year	(774,625)	(946,456)
Change to the Balancing Pool deferral account	(37,074)	171,831
Deferral account, end of year	(811,699)	(774,625)

The Balancing Pool's deferral account liability increased by $37.7 million at 2020 year-end relative to the prior year. The increase in the deferral account liability is primarily the result of lower revenues from the sale of electricity from the PPAs, the consumer collection and Payments in Lieu of Tax ("PILOT") receipts.

Operations

Revenue from Contracts with Customers

Details of Revenue from Contracts with Customers *(in thousands of dollars)*	2020	2019
Sale of electricity and ancillary service revenue	641,046	882,584
Consumer collection	145,404	172,985
Total revenue from contracts with customers	786,450	1,055,569

Sale of Electricity and Ancillary Service Revenue

Sale of electricity and ancillary service revenue in 2020 is comprised of revenues from the PPAs the Balancing Pool held during the year. Revenues from sale of electricity for 2020 decreased relative to 2019 primarily due to the lower realized market price for 2020 relative to 2019.

During 2020, the Balancing Pool sold approximately 653 GWh in ancillary services for total revenue of $9.4 million.

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 2020, the Balancing Pool Board of Directors approved a consumer collection of $2.50 per MWh of demand, resulting in an annual amount of $145.4 million collected from electricity consumers. The consumer collection for 2020 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 10 years to December 31, 2030.

Consumer collection revenue decreased for 2020 relative to 2019 as the collection rate from consumers decreased from $2.90 per MWh of demand in 2019 down to $2.50 per MWh of demand in 2020. In late 2020, the Board of Directors approved a consumer collection of $2.30 per MWh of demand in 2021.

Other Income (loss)

Details of Other Income *(in thousands of dollars)*	2020	2019
Change in fair value of Hydro Power Purchase Arrangement	(19,608)	20,152
PILOT	15,856	21,149
Interest income	1,250	2,341
Change in fair value of Small Power Producer Contracts	-	393
Total other income (loss)	(2,502)	44,035

Change in Fair Value of Hydro Power Purchase Arrangement

Details of Changes in Fair Value of Hydro PPA *(in thousands of dollars)*	2020	2019
Accretion and current year change	(19,608)	3,196
Historical line loss credit	-	(32,191)
Re-valuation of Hydro PPA	-	49,147
Total change in fair value of Hydro PPA	(19,608)	20,152

Accretion and current year change decreased for 2020 relative to 2019 as a result of lower realized cash receipts received in 2020 than forecast in the prior year's valuation. Realized cash receipts decreased as a result of the lower realized electricity market price in 2020 relative to the price used to forecast the receipts. The fair value of the Hydro PPA at December 31, 2020 is nil due to the expiry of the arrangement. Included in receivables is $34.4 million due to the Balancing Pool from TransAlta for the historical line loss adjustments related to the Hydro PPA.

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 it 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 (in thousands of dollars)	2020	2019
Instalments received for current tax year	9,950	12,996
Instalments received for prior tax years	6,026	15,463
Instalment re-allocations and refunds for prior tax years	-	(9,622)
Audit costs	(120)	2,312
Total PILOT revenue	15,856	21,149

Total PILOT revenue for 2020 decreased relative to 2019 due to lower PILOT instalments received in the prior year.

Expenses

Details of Expense (in thousands of dollars)	2020	2019
Cost of sales	776,795	871,966
Mandated costs	5,069	4,700
General and administrative	6,690	5,155
Commercial dispute costs	2,320	123
Reclamation and abandonment provision	6,993	10,544
Total expenses	797,867	892,488

Cost of Sales

Details of Cost of Sales (in thousands of dollars)	2020	2019
PPA costs (including PPA lease payments)	906,096	1,026,445
PPA lease payments (applied to lease liability)	(417,327)	(437,736)
Power marketing costs	187	1,442
Small scale generation costs	147	-
Amortization and depreciation	289,975	299,660
Gain on emission credit retirement	(2,283)	(17,845)
Total cost of sales	776,795	871,966

PPA costs include plant capacity payments, variable operating costs including incentive payments, transmission charges and change-in-law charges. Changes to the electricity market price have a minimal impact on the PPA capacity payments.

PPA costs of $906.1 million in 2020 decreased relative to 2019 primarily due to lower PPA costs associated with the Sheerness PPA.

On adoption of IFRS 16, the portion of the capacity payment that is based upon indices and rates (capital recovery charge, indexed fuel charge and indexed operational and maintenance charge) has been classified as the fixed lease payment. The fixed lease payment portion of the total capacity payment is used to estimate the lease liability. As the capacity payments are invoiced by the plant Owner, the fixed lease payment portion of the total capacity payment is recorded against the lease liability. The balance of the capacity payment is expensed through the income statement. Over the course of 2020, the total capacity payments invoiced for the three PPAs was $431.6 million. The fixed lease payment portion of $417.3 million was applied to the lease liability and the balance of the capacity payment invoiced of $14.3 million was expensed through the income statement.

Amortization and depreciation decreased in 2020 relative to the same period in 2019 as a result of a reduction to the lease liability for the PPAs recorded on December 31, 2019.

A gain of $2.3 million was recorded on the retirement of emission credits. The gain on emission credits is a result of procuring emission credits at a price lower than the Climate Change Emission Management Fund rate of $30 per tonne.

Mandated Costs

Details of Mandated Costs *(in thousands of dollars)*	**2020**	**2019**
Utilities Consumer Advocate ("UCA")	5,058	4,593
Transmission Facilities Cost Monitoring Committee ("TFCMC")	11	107
Total mandated costs	5,069	4,700

Mandated costs in 2020 increased relative to 2019 primarily due to a revised estimate for the UCA.

Commercial Dispute Costs and PPA Provision Expense

Commercial dispute costs and PPA provision expense *(in thousands of dollars)*	**2020**	**2019**
Force majeure, other PPA and dispute costs	2,320	2,294
PPA provision (recovery) expense	-	(2,171)
Total commercial dispute costs and PPA provision expense	2,320	123

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

Commercial dispute costs of $2.3 million for 2020 represent legal and consulting expenditures related to disputed force majeure claims from prior years as well as other PPA-related commercial disputes and the Sundance A decommissioning application before the AUC. There were no new force majeure claims initiated in 2020.

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 December 2016, the Government of Alberta enacted changes to the EUA that allow Alberta Treasury Board and Finance to lend funds to the Balancing Pool at the recommendation of the Minister of Energy.

The Balancing Pool's primary uses of funds were for payment of the obligations associated with the PPA terminations.

Cash and Cash Equivalents *(in thousands of dollars)*	2020	2019
Cash and cash equivalents, beginning of year	96,037	175,851
Net cash provided by operating activities	480,911	574,266
Net cash used in investing activities	(11,956)	(64,894)
Net cash used in financing activities	(341,255)	(589,185)
Cash and cash equivalents, end of year	223,737	96,037

Outlook

As per changes to the *Balancing Pool Regulation* enacted in December 2017, effective January 1, 2021, the annual consumer collection from electricity consumers in Alberta was set at $2.30 per MWh, for an estimated annual consumer collection amount of $130.0 million (2020 – $2.50 per MWh, $145.4 million consumer collection).

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 or was exposed to in executing its mandate include the following:

Force majeure risk

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

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

Power market price volatility risk

As counterparty to the thermal PPAs, Hydro PPA and Small Power Producer Contracts, the Balancing Pool was exposed to power market price volatility risk.

The Alberta market prices for electricity are settled at spot market prices and are dependent on many factors including, but not limited to, the supply and demand of electricity, generating and input costs, natural gas prices and weather conditions.

Unit destruction

In the event that a unit was destroyed and could not be repaired by the Owner, the Balancing Pool could have been required to pay the Net Book Value less any Insurance Proceeds to the Owner of the unit.

Change in law risk

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

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

The *Carbon Competiveness Incentive Regulation* ("CCIR") and *Technology Innovation and Emissions Reduction Regulation* ("TIER") impose an output-based benchmark on all generation facilities in the electricity industry. The net emissions for a facility may not exceed the output-based allocation applicable to that facility. Under circumstances where the actual emissions intensity exceeds the benchmark, the facility will have to bring its net emissions down by applying emission performance credits, emission offsets or fund credits.

The Balancing Pool was subject to risk associated with material changes to TIER that could have impacted the value of the PPAs.

PPA decommissioning risk

If a PPA Owner elected to decommission its facility, the Balancing Pool may be 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.

Liquidity

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

COVID-19

With the outbreak of COVID-19, the Balancing Pool has deployed its business continuity plan in order to protect the health and safety of Balancing Pool personnel and to ensure the Balancing Pool continues to execute its mandate. The Balancing Pool does not anticipate a significant impact to daily operations as a result of COVID-19.

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").

The CEO and the Controller have evaluated the design and operating effectiveness of the Balancing Pool's ICFR as of December 31, 2020 and, based on the evaluation, have concluded that the controls are effective in providing such reasonable assurance. There are no changes to the internal controls that have materially affected the Balancing Pool's ICFR during 2020.

Commitments and Contingencies

Refer to Note 15 of the Balancing Pool's audited financial statements for the year-ended December 31, 2020 for a description of commitments and contingencies.

Subsequent Events

Refer to Note 18 of the Balancing Pool's audited financial statements for the year-ended December 31, 2020 for a description of subsequent events.

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 item:

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.

Forward-Looking Information

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

FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

Independent auditor's report

To the Board of Directors of the Balancing Pool

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Balancing Pool as at December 31, 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Balancing Pool's financial statements comprise:

- the statement of financial position as at December 31, 2020;
- the statement of income (loss) and comprehensive income (loss) 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.

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 Balancing Pool 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.

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
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
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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.

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 Balancing Pool'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 Balancing Pool or to cease operations, or has no realistic alternative but to do so.

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

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 Balancing Pool'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 Balancing Pool'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 Balancing Pool 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 14, 2021

STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)	2020	2019
Assets		
Current assets		
Cash and cash equivalents	223,737	96,037
Trade and other receivables (Note 5)	109,192	85,650
Right-of-use assets (Note 9)	89	289,921
Current portion of long-term receivables (Note 6)	-	1,980
Current portion of Hydro Power Purchase Arrangement (Note 8 b i)	-	110,667
Intangible assets (Note 7)	-	2,500
	333,018	586,755
Right-of-use assets (Note 9)	-	89
Property, plant and equipment	15	14
Total Assets	333,033	586,858
Liabilities		
Current liabilities		
Trade payables and other accrued liabilities (Note 11)	399,712	212,524
Current portion of related party loan (Note 17)	202,932	202,765
Current portion of reclamation and abandonment provision (Note 12)	263	676
Current portion of lease liability (Note 13)	91	410,025
	602,998	825,990
Reclamation and abandonment provision (Note 12, Note 15)	38,188	32,183
Lease liability (Note 13)	-	91
Related party loan (Note 17)	503,546	503,219
Total Liabilities	1,144,732	1,361,483
Net liabilities attributable to the Balancing Pool deferral account (Note 1, 14)	(811,699)	(774,625)
Contingencies and commitments (Note 15)		
Subsequent events (Note 18)		

On behalf of the Balancing Pool:

Greg Clark, *Chair*

Greg Pollard, *Vice-Chair*

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

STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian dollars)	2020	2019
Revenue from contracts with customers		
Sale of electricity and ancillary service (Note 3, Note 17)	641,046	882,584
Consumer collection (Note 3)	145,404	172,985
	786,450	1,055,569
Other income (loss) from operating activities		
Changes in fair value of Hydro Power Purchase Arrangement (Note 8 b i)	(19,608)	20,152
Payments in Lieu of Tax	15,856	21,149
Interest income	1,250	2,341
Changes in fair value of Small Power Producer Contracts	-	393
	(2,502)	44,035
Expenses		
Cost of sales (Note 16)	776,795	871,966
Reclamation and abandonment provision (Note 12, Note 15)	6,993	10,544
Mandated costs (Note 17)	5,069	4,700
General and administrative	6,690	5,155
Commercial dispute costs and Power Purchase Arrangement provision expense	2,320	123
	797,867	892,488
Income (loss) from operating activities	(13,919)	207,116
Other income (expense)		
Finance expense (Note 10)	(23,310)	(35,391)
Other income	155	106
	(23,155)	(35,285)
Change to the Balancing Pool deferral account (Note 14)	(37,074)	171,831

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

STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)	2020	2019
Cash flow provided by (used in)		
Operating activities		
Change to the Balancing Pool deferral account	(37,074)	171,831
Adjustments for		
Amortization and depreciation (Note 9)	289,975	299,660
Reclamation and abandonment provision (Note 12)	6,993	10,544
Power Purchase Arrangement provision	-	(2,132)
Line loss provision	-	(32,191)
Fair value changes on Small Power Producer Contracts	-	(393)
Fair value changes on Hydro Power Purchase Arrangement (Note 8 b i)	19,608	(20,152)
Finance expense (Note 10)	23,310	35,391
Emission credits retired (Note 7)	14,446	89,279
Reclamation and abandonment expenditures (Note 12)	(1,973)	(2,299)
Net change in other assets:		
Long-term receivable (Note 6)	1,980	1,961
Net change in non-cash working capital:		
Trade and other receivables	(23,541)	115,599
Trade payable and other accrued liabilities	187,187	(92,832)
Net cash provided by operating activities	480,911	574,266
Investing activities		
Purchase of property, plant and equipment	(9)	(16)
Purchase of emission credits (Note 7)	(11,947)	(64,879)
Net cash used in investing activities	(11,956)	(64,895)
Financing activities		
Hydro Power Purchase Arrangement net receipts (Note 8 b i)	91,059	77,016
Lease payments (Note 13)	(417,483)	(437,891)
Payments on related party loan (Note 17)	(734,548)	(1,037,767)
Proceeds from issue of related party loan (Note 17)	735,419	829,491
Finance expense on related party loan	(15,702)	(19,983)
Small Power Producer Contracts net payments	-	(51)
Net cash used in financing activities	(341,255)	(589,185)
Change in cash and cash equivalents	127,700	(79,814)
Cash and cash equivalents, beginning of year	96,037	175,851
Cash and cash equivalents, end of year	223,737	96,037

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 exists 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 establish the mandate of the Balancing Pool, which is 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 14). 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 Energy of the Government of Alberta ("Minister of Energy").

The Balancing Pool is required to respond to certain extraordinary events during the operating period of all of the Power Purchase Arrangements ("PPAs"), such as force majeure, PPA unit destruction, PPA Buyer or PPA Owner default, or the termination of a PPA. In the event of termination of a PPA by a PPA Buyer, the Balancing Pool assumed the rights and obligations of the PPA Buyer pursuant to that PPA at the time of termination (assuming the PPA continues). Under the EUA the Balancing Pool was required to manage generation assets in a commercial manner.

The head office and records of the Balancing Pool are located at Suite 2350, 330 - 5th Avenue S.W., Calgary, Alberta, Canada.

Activities of the Balancing Pool

The initial allocation of assets and liabilities to the Balancing Pool was charged to a deferral account. Differences between annual revenues and expenditures are also charged or credited to the Balancing Pool deferral account.

The EUA requires that the Balancing Pool forecast its revenues and expenses. Any excess or shortfall of funds in the accounts is to be allocated to, or provided by, electricity consumers over time.

Expiry of the Power Purchase Arrangements (“PPAs”)

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

The Balancing Pool’s business activities after December 31, 2020 will include 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, resolving other legal matters, collection of funds from retailers related to the Utility Bill Deferral Program, acting as agent for Small Scale Generators and settlement of certain financial accounts.

Revenue from Contracts with Customers

i) Sale of electricity, ancillary service and generating capacity

The Balancing Pool earned revenue from the sale of electricity and ancillary service sourced from the PPAs it held, namely, Genesee, Sheerness and Keephills.

Electricity that was not otherwise contracted was sold into the spot market. Ancillary services from the PPAs were sold to the Alberta Electric System Operator (“AESO”) through a competitive exchange.

ii) Consumer collection

Pursuant to Section 82 of the EUA, the Balancing Pool collects or allocates an annualized amount from customers. 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) Hydro Power Purchase Arrangement (“Hydro PPA”)

Pursuant to Section 85 of the EUA, the Balancing Pool held the Hydro PPA. As such, the Balancing Pool retained the right to the market value of the associated electricity and was responsible for the PPA obligations from certain hydro plants in the Province of Alberta. The cash flows associated with the Hydro PPA were based on the electricity market price multiplied by a notional amount of production, less PPA obligations as outlined in the PPA. The expected net present value of these estimated payments was recorded as an asset and any revaluation adjustment is included in net results of income (loss).

ii) 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.

iii) Payments (refunds) in Lieu of Tax ("PILOT")

Pursuant to Section 147 of the EUA, the Balancing Pool collects (refunds) a notional amount of tax from electricity companies controlled by municipal entities that are active in Alberta's competitive electricity market 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 and force majeure. The Minister of Energy may direct the Balancing Pool to fund specific payments under Section 148 of the EUA, which amounts are included in mandated costs.

2. Basis of Presentation

These financial statements for the year ended December 31, 2020 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, 2019.

These financial statements were authorized and approved for issue by the Board of the Balancing Pool on April 14, 2021.

3. Summary of Significant Accounting Policies

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

Basis of Measurement

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

Revenue from Contracts with Customers

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

(a) Sale of electricity and ancillary services

Revenues from the sale of electricity and ancillary services are recognized on an accrual basis in the period in which generation occurred, which is the point in time when control of the goods and services passes to the customer. Sale of electricity and ancillary services 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. Furthermore, no significant judgments or estimates are required with respect to the recognition of revenue associated with the sale of electricity and ancillary services.

(b) 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) Hydro Power Purchase Arrangement

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

(b) Investment income

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

(c) Payments (refunds) in Lieu of Tax

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

Intangible Assets (Emission Credits)

Emission credits, which have been purchased or have been acquired through PPA-negotiated settlements, and which are held for compliance purposes, are recorded by the Balancing Pool as limited life intangible assets. Emission credits are limited to a life between six to eight years depending on the vintage. These assets are recognized initially at fair value based upon a market price. Purchased emissions credits are measured at cost on the purchase date. Emission credits held for compliance purposes are not amortized, but are expensed as the associated benefits are realized.

The emission credits are expected to be used to satisfy future environmental compliance obligations of the PPAs associated with the *Carbon Competitiveness Incentive Regulation* for 2019 and *Technology Innovation and Emissions Reduction Regulation* for 2020. Compliance obligations resulting from emissions are recognized as a provision and measured at the market value of allowances needed to settle the obligation.

Long-Term Receivables

Cash settlement amounts due from a former PPA counterparty were accounted for as long-term receivables. These assets were recognized initially at fair value. After initial recognition they are measured at amortized cost using the effective interest method less any impairment losses. The effective interest method calculates the amortized cost of a financial asset and allocates the interest income over the term of the financial asset using the effective interest rate.

Hydro Power Purchase Arrangement

The Hydro PPA is a derivative financial instrument classified as and measured at fair value through profit or loss. The PPA is recorded as of the period end date at its fair value. Fair value is measured as the present value of the estimated future net payments to be received (or paid) under the arrangement and reflects management's best estimate based on generally accepted valuation techniques and supported by observable market prices and rates when available. Fair value for these contracts is based on forecasted future prices.

Leases

The PPAs transferred to the Balancing Pool substantially all the benefits and some of the risks of ownership and therefore the arrangements are classified as finance leases, with the Corporation as the lessee. A lease is considered to be a finance lease when the terms of the lease transfer substantially all of the risks and rewards incidental to ownership of the leased assets to the lessee. Finance leases are capitalized at the lease's commencement at the fair value of the leased property. The Corporation has recognized lease liabilities and right-of-use assets for the PPAs on adoption of IFRS 16, *Leases*. The Corporation has also recognized a lease liability and right-of-use asset for the office lease.

Lease liabilities are measured at the present value of the remaining lease payments for the PPAs and the office lease. The lease liabilities have been discounted at the Balancing Pool's one year borrowing rate of 1.8% (2019 – 1.9%).

Right-of-use assets have been recognized for the PPAs on adoption of IFRS 16, *Leases*. The right-of-use asset has been amortized on a straight-line basis over the life of the PPAs and 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, such as decreased forward electricity prices. If any such indication exists, then the amount recoverable from the asset is estimated. The recoverable amount is the greater of the value in use or fair value less costs to dispose.

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

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

Impairment – Financial Assets

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, 2020 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 PPA decommissioning costs.

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 Judgments in Applying Accounting Policies

Management has made critical judgments in applying accounting policies, including when:

- concluding that the consumer collection (allocation) is accounted for as revenue (refund of revenue) from a contract with a customer (Notes 1, 14); and
- forecasting future power prices and capacity factors.

These critical judgments have been made in the process of applying accounting policies and have a significant effect on the amounts recognized in the financial statements.

After December 31, 2020, forecasting future power prices and capacity factors is no longer subject to critical judgments as the PPAs expired on December 31, 2020.

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. As a consequence, there is a significant risk of a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- Hydro Power Purchase Arrangement (Note 8 b i)
- Intangible assets (Note 7)
- Reclamation and abandonment provision (Note 12)
- Contingent legal matters (Note 15).

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.

After December 31, 2020, the Hydro PPA and intangible assets are no longer subject to key sources of estimation uncertainty.

5. Trade and Other Receivables

(in thousands of dollars)	December 31, 2020	December 31, 2019
Trade receivables	98,069	76,950
Retailer receivables	9,123	-
Other receivables	2,000	8,700
	109,192	85,650

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 received a Ministerial Order from the Minister of Energy on April 22, 2020 directing the Balancing Pool to reserve $119.0 million for the 90-day utility payment deferral program to assist retailers with funding. At December 31, 2020 the Balancing Pool has issued $36.1 million in funding to the retailers and received repayments of $27.0 million from retailers.

At December 31, 2020 no accounts receivable amounts are past due.

6. Long-term Receivables

(in thousands of dollars)	December 31, 2020	December 31, 2019
Opening balance, long-term receivable	1,980	3,941
Accretion	20	39
Cash received from PPA settlement	(2,000)	(2,000)
Closing balance, long-term receivable	-	1,980
Less: Current portion	-	(1,980)
	-	-

$2.0 million in cash was received in December 2018, 2019 and 2020 in relation to the PPA settlements reached in November 2016.

7. Intangible Assets

(in thousands of dollars)	December 31, 2020	December 31, 2019
Opening balance, emission credits	2,500	26,899
Additions from purchases	11,947	64,879
Retirement of emission credits	(14,447)	(89,278)
Closing balance, emission credits	-	2,500

At December 31, 2020, the Balancing Pool had no emission credits (2019 – $2.5 million). Emission credits can be used to offset environmental compliance obligations associated with the PPAs. In 2020, the Balancing Pool purchased $11.9 million (2019 – $64.9 million) in emission credits. Over the course of 2020, $14.4 million (2019 – $89.3 million) in emission credits were retired to satisfy PPA environmental compliance obligations.

No impairments of emission credits were recognized during the year ended December 31, 2020 (2019 – $nil).

8. Accounting for Financial Instruments

8. a) Risk Management Overview

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

Market Risk — Power

i) Fluctuating Market Prices: Changes in the market price for electricity and ancillary services affected the amount of revenues that the Balancing Pool received from the thermal and Hydro PPAs. Electricity prices are volatile, and are affected by supply and demand, which in turn are influenced by fuel costs (e.g. natural gas prices), weather patterns, plant availability and power imports or exports. Economic activity is a key contributor to market price risk as it relates to the demand for electricity. Market price risk may be managed through the use of financial forward sale contracts for electricity.

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

iii) Capacity Payment: The Balancing Pool is exposed to interest rate risk in relation to the annual capacity payments.

Market Risk

i) 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.

ii) Counterparty Credit Risk: The Balancing Pool was exposed to counterparty credit risk. In the event of a default on payments from counterparties to the Hydro PPA, a financial loss may have been experienced by the Balancing Pool. Credit risk is managed in accordance with the Credit Policy which requires that all counterparties maintain investment-grade status level. Status of counterparty credit was regularly monitored by management and the Audit and Finance Committee. The Balancing Pool had minimal credit risk related to its receivables and cash as they consisted primarily of amounts owing from the AESO, a government-related entity. The Balancing Pool does not consider any of the trade or long-term accounts receivable to be impaired or past due. Bad debts related to the Utility Payment Deferral Program will be collected through a COVID rate rider approved by the AUC.

iii) 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 17).

The following table 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.

	1 year	2 – 5 years	Total
(in thousands of dollars)	December 31, 2020		
Trade payables	81,284	-	81,284
Other accrued liabilities	318,428	-	318,428
Related party loan – principal	201,184	498,802	699,986
Related party loan – interest	1,748	4,744	6,492
Reclamation and abandonment	263	38,188	38,451
Lease liability	91	-	91
Total	602,998	541,734	1,144,732
(in thousands of dollars)	December 31, 2019		
Trade payables	61,931	-	61,931
Other accrued liabilities	150,593	-	150,593
Related party loan – principal	197,393	498,476	695,869
Related party loan – interest	5,372	4,743	10,115
Reclamation and abandonment	676	32,183	32,859
Lease liability	410,025	91	410,116
Total	825,990	535,493	1,361,483

8. b) Analysis of Financial Instruments

i) Hydro Power Purchase Arrangement

The Balancing Pool was the counterparty to the Hydro PPA, a financial arrangement recorded as an asset at the present value of estimated amounts to be received, net of Hydro PPA obligations, over the remaining term of the Hydro PPA.

The notional production of electricity under the Hydro PPA was 1,626 gigawatt hours ("GWh") per annum for 2020. Hydro PPA receipts were settled on a monthly basis.

The Hydro PPA expired on December 31, 2020. At December 31, 2020, the net present value of the Hydro PPA was nil (2019 – $110.7 million).

Under the terms of the Hydro PPA, the Balancing Pool has remitted to TransAlta Corporation ("TransAlta") charges related to line losses for the previous 20 years. The AUC, in its decision released in December 2017, ruled that the methodology for which line losses is calculated will be revised, dating back to 2006. The revised methodology will result in a credit for line loss charges previously paid by the Balancing Pool to TransAlta. Under the terms of the PPA, TransAlta will be required to pass the line loss credit onto the Balancing Pool. An estimate of $34.4 million has been included in accounts receivable for the historical line loss settlement period of 2006 to 2013.

Hydro Power Purchase Arrangement *(in thousands of dollars)*	2020	2019
Hydro Power Purchase Arrangement, opening balance	110,667	135,340
Accretion and current year change	(19,608)	(28,995)
Line loss credit	-	32,191
Net cash receipts	(91,059)	(77,016)
Revaluation of Hydro Power Purchase Arrangement asset	-	49,147
Hydro Power Purchase Arrangement, closing balance	-	110,667
Less: Current portion receivable	-	(110,667)
	-	-

8. c) Fair Value Hierarchy

Financial instruments carried at fair value are categorized as follows:

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	December 31, 2020			
Assets				
Cash and cash equivalents	223,737	-	-	223,737
	223,737	-	-	223,737
	December 31, 2019			
Assets				
Cash and cash equivalents	96,037	-	-	96,037
Hydro Power Purchase Arrangement	-	-	110,667	110,667
	96,037	-	110,667	206,704

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 are determined using quoted market prices in active markets.

iii) Level 3

Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Changes in valuation methods may result in transfers into or out of an assigned level. There were no transfers between Level 3 and Level 2. The Hydro PPA and Small Power Producer Contract values are determined using discounted cash flow forecast methods and supported by observable market prices when available. Methodologies have been developed to determine the fair value for these contracts based on forecast of the hourly electricity market price in Alberta's hourly market using proprietary third-party merit order dispatch model. Management reviews the discounted cash flow forecasts on an annual basis.

9. Right-of-Use Assets

(in thousands of dollars)	Genesee PPA	Keephills PPA	Sheerness PPA	Office Lease	Total
At January 1, 2019	271,217	152,942	174,846	393	599,398
Amortization and depreciation	(135,608)	(76,471)	(87,423)	(152)	(299,654)
Reassessment of lease liability	(6,506)	(1,471)	(1,757)	-	(9,734)
At December 31, 2019	129,103	75,000	85,666	241	290,010
Less: Current portion	(129,103)	(75,000)	(85,666)	(152)	(289,921)
	-	-	-	89	89
At January 1, 2020	129,103	75,000	85,666	241	290,010
Amortization and depreciation	(129,238)	(75,684)	(84,893)	(152)	(289,967)
Reassessment of lease liability	135	684	(773)	-	46
At December 31, 2020	-	-	-	89	89

During 2020, $290.0 million in amortization and depreciation was recorded and a reassessment of the lease liability of $0.05 million was recorded due to a change in the monthly lease payments for the PPAs. This reduction to the liability has been applied to the right-of-use assets for the PPAs. Effective December 31, 2020, the Genesee, Keephills and Sheerness PPAs expired.

10. Finance Expense

(in thousands of dollars)	2020	2019
Interest expense – related party loan	15,326	18,948
Interest expense – lease liability	7,412	15,991
Accretion expense – reclamation and abandonment	572	452
	23,310	35,391

11. Trade Payable and Other Accrued Liabilities

(in thousands of dollars)	2020	2019
Trade payables	81,284	61,931
Accrued liabilities – Greenhouse gas obligation	237,852	66,891
Accrued liabilities – Line loss provision	67,902	68,440
Accrued liabilities – Other	12,674	15,262
	399,712	212,524

12. Reclamation and Abandonment Provision

(in thousands of dollars)	H.R. Milner Generating Station	Isolated Generation Sites	Sundance A Generating Station	Total
At January 1, 2019	10,469	1,756	11,937	24,162
Net increase (decrease) in liability	(1,459)	2,190	9,813	10,544
Liabilities paid in year	(298)	(2,001)	-	(2,299)
Accretion expense	196	33	223	452
At December 31, 2019	8,908	1,978	21,973	32,859
Less: Current portion	(279)	(397)	-	(676)
	8,629	1,581	21,973	32,183
At January 1, 2020	8,908	1,978	21,973	32,859
Net increase (decrease) in liability	1,552	(20)	5,461	6,993
Liabilities paid in year	(399)	(1,574)	-	(1,973)
Accretion expense	155	34	383	572
At December 31, 2020	10,216	418	27,817	38,451
Less: Current portion	(177)	(86)	-	(263)
	10,039	332	27,817	38,188

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

Under the Asset Sale Agreement for the H.R. Milner generating station between the Balancing Pool and ATCO Power Ltd ("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. As at December 31, 2020, a total of $4.6 million has been paid for decommissioning the Milner generating site, leaving a balance of $10.4 million remaining. A further $0.2 million is expected to be incurred in 2021. These costs have been discounted at the risk-free rate of 0.15% (2019 – 1.7%). At December 31, 2020, the provision was increased by $1.6 million (2019 – $1.5 million decrease) to reflect a change in the discount rate. Expenditures of $0.4 million were incurred in 2020 (2019 – $0.3 million).

12. b) Isolated Generation Sites

Under the *Isolated Generating Units* and *Customer Choice Regulations of the EUA*, the Balancing Pool is liable for the reclamation and abandonment costs associated with various Isolated Generation sites. Expenditures of $1.6 million (2019 – $2.0 million) were incurred in 2020. Pursuant to the Negotiated Settlement Agreements approved by the AUC, the ultimate payment of these costs must be reviewed and approved by the Remediation Review Committee. The Remediation Review Committee was established to monitor, verify and approve all costs associated with the reclamation and abandonment of the Isolated Generation sites. Estimated reclamation and abandonment costs have been discounted at 0.15% (2019 – 1.7%). The provision is based upon management's best estimate and the timing of the costs. Management anticipates the Isolated Generation projects will conclude at the end of 2022.

12. c) Decommissioning Costs of PPAs

Pursuant to Section 5 of the *Power Purchase Arrangements Regulation*, a PPA Owner may apply to the 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 31, 2020, the Balancing Pool recorded a $5.5 million increase (2019 – $9.8 million increase) to the provision for decommissioning the Sundance A unit. In December 2018, TransAlta submitted an application to the AUC to decommission Sundance A. The provision for Sundance A is based upon management's best estimate of decommissioning costs. Estimated decommissioning costs were discounted at 0.15% (2019 – 1.7%). The AUC will determine the amount owed to TransAlta. See also Note 15.

13. Lease Liability

(in thousands of dollars)	Genesee PPA	Keephills PPA	Sheerness PPA	Office Lease	Total
At January 1, 2019	340,830	225,640	274,886	393	841,749
Finance expense	6,476	4,287	5,222	6	15,991
Lease payments	(175,150)	(116,360)	(146,226)	(155)	(437,891)
Reassessment of lease liability	(6,505)	(1,471)	(1,757)	-	(9,733)
At December 31, 2019	165,651	112,096	132,125	244	410,116
Less: Current portion	(165,651)	(112,096)	(132,125)	(153)	(410,025)
	-	-	-	91	91
At January 1, 2020	165,651	112,096	132,125	244	410,116
Finance expense	3,001	2,031	2,377	3	7,412
Lease payments	(168,786)	(114,811)	(133,730)	(156)	(417,483)
Reassessment of lease liability	134	684	(772)	-	46
At December 31, 2020	-	-	-	91	91

The Balancing Pool has recognized lease liabilities in relation to the Genesee, Keephills and Sheerness PPAs and the office lease. The lease liabilities have been discounted using a rate of 1.8% (2019 – 1.9%).

14. Capital Management

The Balancing Pool's objective when managing capital is to operate as per the requirements of the EUA, which requires the Balancing Pool to operate with no profit or loss and no share capital and to forecast its revenues, expenses, and cash flows. Any excess or shortfall of funds in the accounts is to be allocated to, or provided by, electricity consumers over time. During 2016, the Alberta Government enacted amendments to the *Balancing Pool Regulation* that 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.

Balancing Pool Deferral Account *(in thousands of dollars)*	2020	2019
Deferral account, beginning of year	(774,625)	(946,456)
Change to the Balancing Pool deferral account	(37,074)	171,831
Deferral account, end of year	(811,699)	(774,625)

In December 2019, the Board of Directors approved a 2020 consumer collection of $2.50/megawatt ("MWh") for a total collection from electricity consumers of $145.4 million in accordance with the *Balancing Pool Regulation*. In October 2020, the Board of Directors approved a 2021 consumer collection of $2.30/MWh for an estimated total collection from electricity consumers of $130.0 million in accordance with the *Balancing Pool Regulation*.

15. Contingencies and Commitments

Reclamation and Abandonment

TransAlta has submitted an application to the AUC to decommission Sundance A and is seeking $46.0 million (2019 - $41.4 million) in funding from the Balancing Pool. The Balancing Pool disagrees with several aspects of the application. The Balancing Pool has a provision of $27.8 million to decommission Sundance A. 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 has filed a statement of defence and will vigorously defend the claim. The Balancing Pool considers the claim to be without merit. Furthermore, Section 92 of the *Electric Utilities Act* provides the Balancing Pool with strong liability protection for such claims. As at December 31, 2020, no contingent liability has been recorded (2019 - $nil).

Legal Claim

On January 27, 2021, the Balancing Pool received a statement of claim from a power producer related to the line loss rule proceeding and it is seeking $10.3 million in damages from the Balancing Pool. The Balancing Pool is preparing its statement of defence and considers the claim to be without merit. At December 31, 2020, no contingent liability has been recorded.

Market Surveillance Administrator ("MSA") Investigation

On August 5, 2020 the Balancing Pool received Notice of Investigation from the MSA. The MSA is investigating to assure itself that the Balancing Pool is complying with all of its obligations and ensuring the Balancing Pool acted within the limits of the PPA framework and in accordance with the laws that govern Alberta. To date, there has been no finding of fault and the Balancing Pool has not accrued any contingent liability in respect of this matter.

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.

16. Cost of Sales

(in thousands of dollars)	2020	2019
Cost of Power Purchase Arrangements and power marketing	488,956	590,151
Small scale generator costs	147	-
Gain on the retirement of emission credits	(2,283)	(17,845)
Amortization and depreciation on right-of-use assets	289,975	299,660
	776,795	871,966

Included as a reduction to cost of sales is a gain on the retirement of emission credits in the amount of $2.3 million (2019 – $17.8 million). The gain on emission credits is a result of procuring emission credits at a price lower than the Climate Change Emission Management Fund rate of $30 per tonne.

On adoption of IFRS 16, the portion of the capacity payment that is based upon indices and rates (capital recovery charge, indexed fuel charge and indexed operational and maintenance charge) has been classified as the fixed lease payment. The fixed lease payment portion of the total capacity payment is used to establish the lease liability. As the capacity payments are invoiced by the PPA Owner, the fixed lease payment portion of the total capacity payment is recorded against the lease liability and not recorded through the income statement. The balance of the capacity payment is expensed through the income statement.

17. Related Party Transactions

Key Management Compensation

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

Key Management Compensation *(in thousands of dollars)*	2020	2019
Salaries, other short-term employee benefits and severance	519	822
Total	519	822

Government-Related Entity

The Balancing Pool considers itself to be a government-related entity as defined by IAS 24 – *Related Party Disclosures* and applies the exemption from the disclosure requirements of Paragraph 18 of IAS 24 – *Related Party Disclosures*. The members of the Board are appointed by the Minister of Energy of the Government of Alberta. The financial information of the Balancing Pool is being consolidated by the Ministry of Energy.

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.

(in thousands of dollars)	Interest Rate	December 31, 2020
Long-term note due on Sept. 13, 2023	2.65%	503,546
Short-term discount note due on Feb. 18, 2021	0.14%	74,986
Short-term discount note due on Mar. 26, 2021	0.18%	127,946
		706,478
Less: Current portion		(202,932)
		503,546

	Interest Rate	December 31, 2019
Long-term note due on Sept. 13, 2023	2.65%	503,219
Short-term discount note due on Jan. 02, 2020	1.97%	127,986
Short-term discount note due on Feb. 24, 2020	1.97%	74,779
		705,984
Less: Current portion		(202,765)
		503,219

At December 31, 2020, the Balancing Pool had $706.5 million (2019 – $706.0 million) in short-term discount and long-term notes issued to the Government of Alberta, including accrued interest of $6.5 million (2019 – $5.6 million). During 2020, payments of $14.8 million were remitted on the outstanding loan. Fair value of the loan is the same as the amortized cost of borrowing. During 2020, interest of $15.3 million was paid on the related party loan (2019 – $18.9 million).

Directed by the Minister of Energy, the Balancing Pool is mandated to make payments to the Office of the Utilities Consumer Advocate ("UCA") to cover 80% of their annual operating costs and to the Transmission Facilities Cost Monitoring Committee ("TFCMC") to cover 100% of their annual costs. In 2020, the Balancing Pool expensed $5.0 million (2019 – $4.6 million) for the UCA and $0.01 million (2019 – $0.1 million recovery) for the TFCMC.

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 2020, the Balancing Pool collected $145.4 million (2019 – $173.0 million) from electricity consumers through the AESO's transmission tariff.

The AESO also operates the spot market in Alberta and remits payment for electricity sold in the spot market. In 2020 the Balancing Pool received $631.6 million (2019 – $875.2 million) related to the sale of electricity for the PPAs.

18. Subsequent Events

Related Party Transactions

On February 18, 2021 and March 26, 2021 the maturing related-party short-term notes were re-financed with the terms noted below.

(in thousands of dollars)	Interest Rate	Amount re-financed
Short-term discount note due on May 19, 2021	0.10%	75,000
Short-term discount note due on June 24, 2021	0.14%	128,000

CORPORATE INFORMATION

BALANCING POOL CONTACTS

PRESIDENT AND CEO
Benjamin Chappell

COMMERCIAL TEAM
Eagle Kwok, Vice-President, Commercial
MacKenzie Kehler, Director, Commercial and Environmental Compliance

CORPORATE TEAM
Sharleen Gatcha, Director, Operations
Mimi Ng, Manager, Compliance and Special Projects

FINANCIAL TEAM
Michelle Manuliak, Controller
Lauren Pollock, Financial Accountant

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