



Presentation to

South Asia Regional Initiative for Energy

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Agenda

- **Balancing Pool Overview**
- **Power Purchase Agreement (PPA)**
- **Market Achievement Plan (MAP)**
- **Consumer Allocation**





Balancing Pool Overview

Balancing Pool Overview

- One of three companies created by the Department of Energy to guide transition of the Alberta electricity market through the deregulation process
- Formed in 1998 with the intention that the Balancing Pool would receive and distribute the proceeds from the 2000 Power Purchase Arrangement (PPA) auction as well as to financially backstop those PPAs sold in the auction

Balancing Pool Overview

- Mandated to act in a commercially prudent manner
- Balancing Pool physical assets are offered into the market place based on a commercial offer strategy
- We have our own independent Board of Directors who report directly to the Minister of Energy



Balancing Pool Overview

- We work independently of the AESO and MSA but our policies and activities do not impede upon their mandates
- With physical assets being offered into the market, we are treated similarly to other market participants
- The Balancing Pool complies with all market rules and guidelines

Balancing Pool Overview

2004/05 Metrics

Market Prices:

	<u>2004</u>	<u>2005</u>
Average Pool price:	\$54.59	\$70.19
Market Heat Rate	8.8	8.3

PPA Generation Volumes (in GWh):

	<u>2004</u> (GWh)	<u>2005</u> (GWh)	<u>Avg Cap Factor</u>
Sheerness	6,013	5,886	89%
Genesee	6,279	6,073	91%
Clover Bar (to Sept. 30)	163	25	0.5%
Hydro (fixed volume)	1,650	1,650	N/A

Balancing Pool Overview

Other

- The Balancing Pool is also responsible for other matters that was part of the regulated regime:
 - Small Power Producers
 - Isolated Generation Remediation
 - HR Milner plant
 - Payment in lieu of taxes





Power Purchase Arrangement



Power Purchase Arrangement (PPA)

- Before deregulation, all generation in Alberta was owned and operated by three non-Government fully-integrated utilities (Epcor, Transalta, Atco)
- PPAs were the methodology chosen to allocate the output of the legacy generators in Alberta without forcing divestiture from the original owners
- Market power mitigation was a major concern of this initiative



Power Purchase Arrangement (PPA)

- Terms of the PPA run from 3-20 years depending on the age of the existing facility
- Energy and capacity outputs belonged to the buyer of the PPA in return for paying the fixed and variable costs of the generator owner
- At the end of 20 years the asset and all its outputs revert back to the owner



Power Purchase Arrangement (PPA)

- PPAs are a product of legislation, not a contract
- Assets that did sell in the original PPA auction were sold to non-Government market players
- Balancing Pool has the responsibility to backstop these PPAs for Force Majeure and termination as required
- Backstopping these low probability high risk items was designed to minimize discounting of the original auction prices

Power Purchase Arrangement (PPA)

Results from original PPA auction in August 2000:

Buyer	Plant	MW's	Term
EPCOR	Sundance C	710	2020
	Battle River	663	2020
TransCanada	Sundance B	706	2020
	Sundance A	280	2017
Enmax	Keephills	766	2020
	Wabamun	548	expired
AltaGas	Sundance A	280	2017
Duke	Rossdale	203	expired
	Rainbow	93	2005
Balancing Pool	Genesee	762	2020
	Sheerness	756	2020
	Clover Bar	628	terminated

- Market feedback indicated the auction was too large, the terms were too long and the PPA risks were onerous.
- Led to a small number of players participating and the general view was the PPA sale prices were heavily discounted at the expense of consumers.



Market Achievement Plan



Market Achievement Plan

MAP I

- From 2000-2003, energy output from the Balancing Pool held PPAs were sold under a firm financial arrangement of varying volumes and prices in the market place
- This resulted in a net profit of \$1.2B. Of this \$1.2B, approximately \$800M plus the original \$1.1B from the original PPA auction was returned to consumers through a consumer rebate program



Market Achievement Plan

MAP II

- From 2003-2006, energy and capacity output from the Balancing Pool PPAs were sold employing derivative strips of approximately 100 MW volumes
- These strips were sold to a number of existing and new market participants which increased liquidity and participation in our markets
- As well as increasing the number of new players in our market, these physical derivatives also allowed the transfer of offer rights to the stripholders

Market Achievement Plan

MAP II Products

	UNITS	STRIPS
PEAKING <i>Clover Bar</i>	4 x 157 MW, each with 20 MW of Ancillary Services	4 x 157 MW, each with 20 MW of Ancillary Services
BASE LOAD		
<i>Genesee</i>	2 x 381 MW, each with 80 MW of Ancillary Services	6 x 100 MW 2 x 81 MW, each with 80 MW of Ancillary Services
<i>Sheerness</i>	2 x 378 MW, each with 80 MW of AGC Ancillary Services	6 x 100 MW 2 x 78 MW, each with 80 MW of Ancillary Services

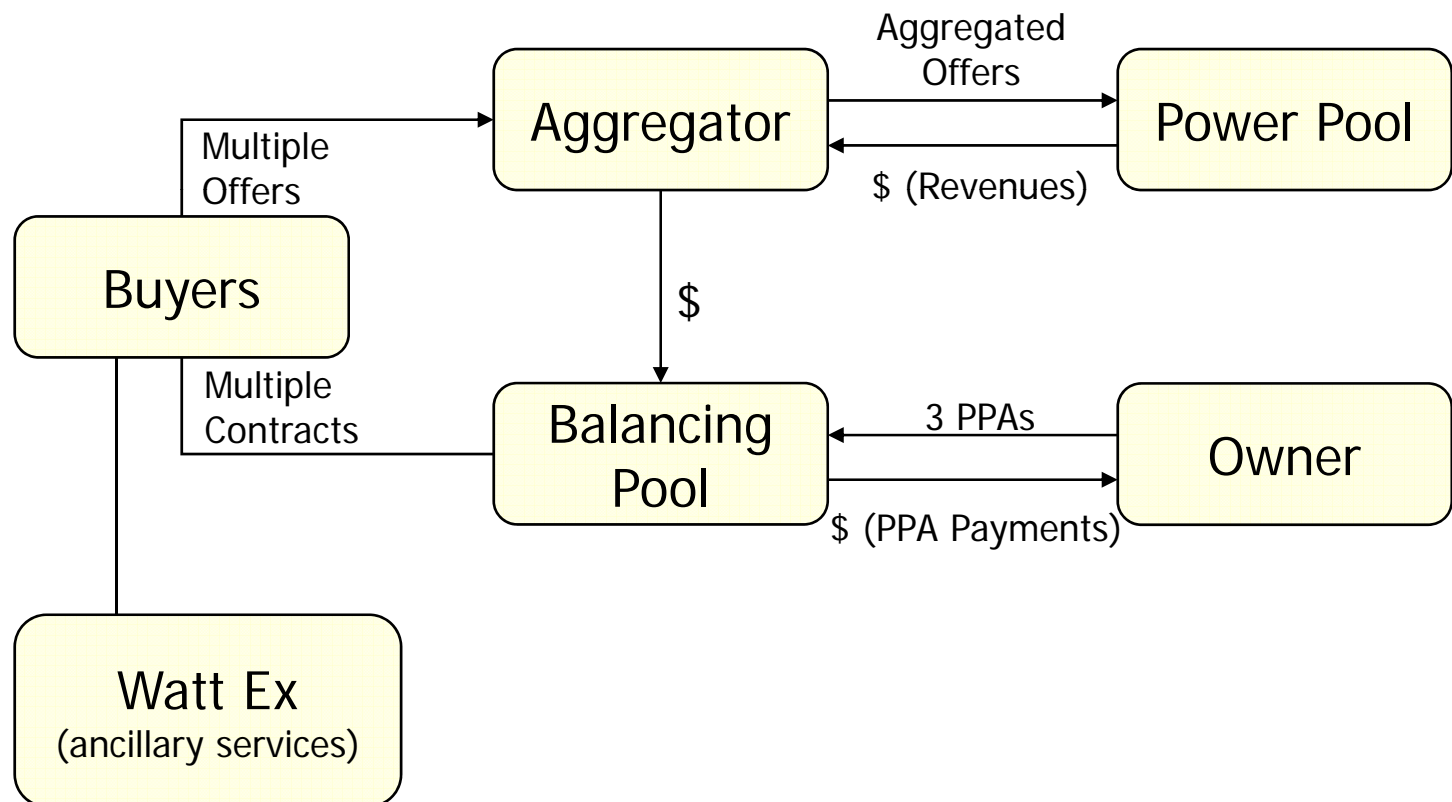
Market Achievement Plan

MAP II Auction

<u>Company</u>	<u>Clover Bar</u>	<u>Sheerness</u>	<u>Genesee</u>	<u>Total</u>
Constellation	157	100	300	557
UBS	157	278		435
El Paso	157	100		257
Direct Energy		100	100	200
Sempra	157			157
AltaGas			100	100
Seegen			100	100
TransCanada		100		100
Enmax			81	81
BP Energy			81	81
Candela		78		78
Total	628	756	762	2,146

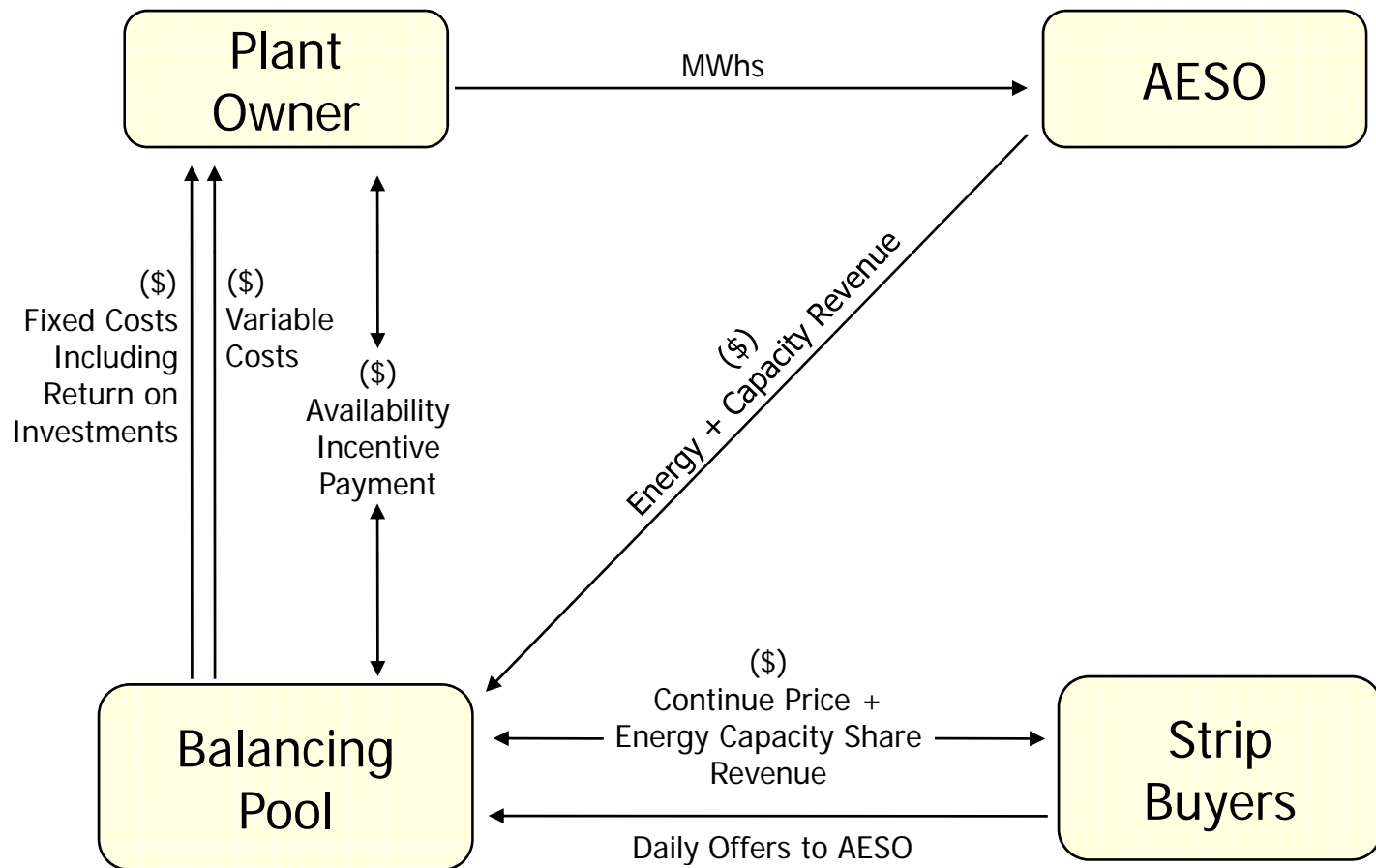
Market Achievement Plan

Strip Contract Interfaces



Market Achievement Plan

Strip Contract Interfaces





Market Achievement Plan

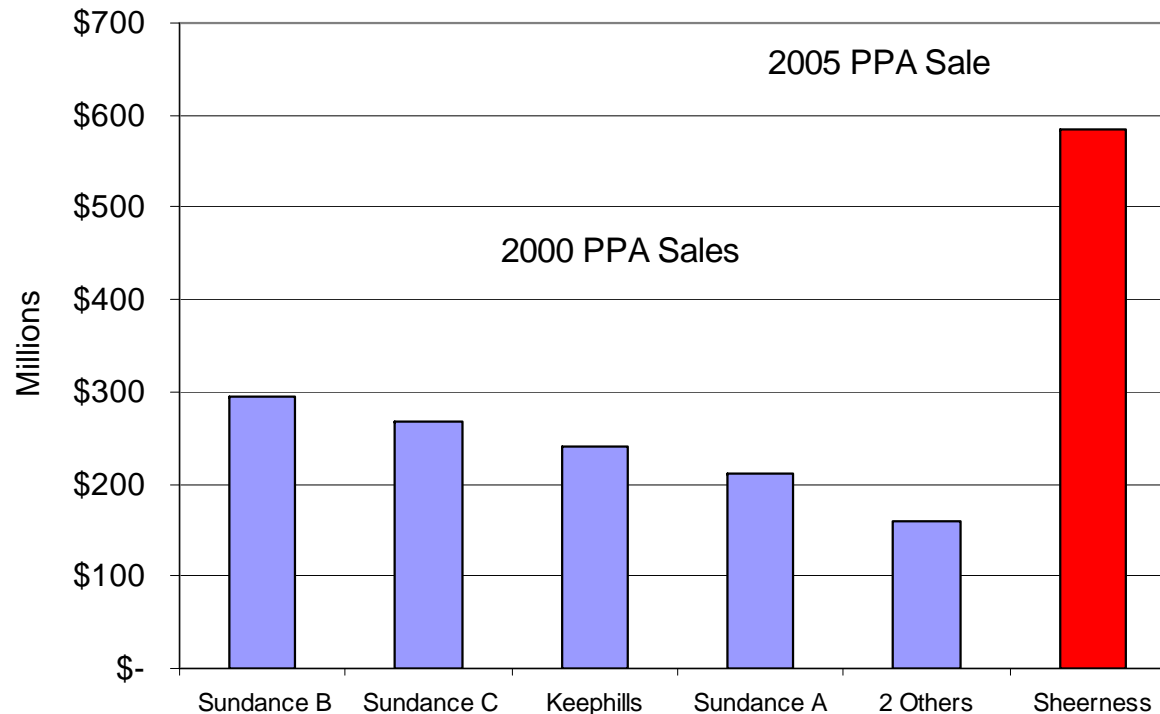
MAP III – Sale of Sheerness PPA

- Effective January 2006, Sheerness plant was offered for sale as either derivative strips or full output to term of PPA
- Bid evaluation process compared the best package of strip bids to the full output to term PPA bid
- Successful bid was from TransCanada for \$585M for the entire Sheerness PPA term
- Sale price was \$750M+ above reserve price set in original 2000 PPA auction

Market Achievement Plan

MAP III – Sale of Sheerness PPA

Comparison of PPA Sale Prices





Market Achievement Plan

Clover Bar PPA Termination

- Conducted economic review of the Clover Bar PPA as part of assessment for early termination
- Shortfall of over \$50M per year on Clover Bar PPA for the remaining five years of the PPA term
- Unable to negotiate any changes that would decrease the costs or increase the value of the PPA



Market Achievement Plan

Clover Bar PPA Termination

- On October 1, 2005 the Balancing Pool terminated the Clover Bar PPA, with a termination payment of \$83M
- PPA Fixed costs avoided: \$262 million
Termination Payment: \$ (83)million
Net Savings: \$179 million
- Epcor subsequently announced plans to decommission the plant and replace it with 140 MW gas peaking plant



Consumer Allocation

Consumer Allocation

- Balancing Pool has the legal right to receive funds from consumers to cover any financial shortfalls

OR

- Allocate funds to consumers if there is a surplus in our accounts based on the term life of the Balancing Pool (2020)



Consumer Allocation

- After the initial refund of MAP1 and PPA sale proceeds the Balancing Pool had sufficient operating funds available to continue operation without requesting or refunding any deficits or surpluses
- In 2006 \$1/MWh of consumption was refunded to consumers for a total of \$55 million. These funds were due to the proceeds of the Sheerness plant sale as well as operating income from our other assets
- In 2007 \$3/MWh of consumption will be refunded for a total of \$165 million



Genesee Sales Process

Genesee Sales Process

Upcoming MAP III

- PPA represents 762 MWs of base load coal-fired capacity
- Genesee station has reliable performance with over 94% historical availability factor
- Value to existing participants is an opportunity to diversify plant risk
- Value to new participants is immediate low risk entry into Alberta power market

Genesee Sales Process

Upcoming MAP III

- Term: offering varying maturities of 3, 5, 10 years and full term
- Contract Size: offering strip contract sizes of 25, 81 and 100 MWs
- PPA Risk Sharing for change of law re: Kyoto
- Also accepting bids for whole PPA to term

Genesee Sales Process

Upcoming MAP III

- Flexibility in contract size and maturity dates will allow participants to bid where they see the most value, and optimize the value of MAP sale process
- It is anticipated that demand for Genesee PPA capacity will be very high
- Balancing Pool will establish reserve prices, and MAP contracts will be sold only if bid prices exceed reserve prices



Genesee Sales Process

Upcoming MAP III

- The timing of the Genesee Sale will follow the finalization of the DOE's regulatory process and proposed market power initiative
- The Genesee sale process will resume no earlier than Q2 2007



**For further questions
please call:**

**The Balancing Pool
(403) 539-5350
or see our website**

www.balancingpool.ca