

Direct Energy Regulated Services
AUC RULE 005: ANNUAL REGULATED RATE TARIFF (RRT) FINANCIAL AND OPERATIONAL RESULTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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Purpose of RRT Schedules

Schedule 1 – Net income statement

To provide a high level breakdown of revenues and expenses associated with the provision of the regulated rate tariff electricity services including the net income (or return) achieved by the providers both including and excluding any regulatory cost disallowances.

Schedule 2 – Revenue by customer class

To provide a detailed revenue breakdown of energy, non-energy and flow-through revenue by customer category relevant to each provider.

Schedule 3 – Sites and energy sales by customer class

To provide a breakdown of the average number of sites and energy sales by customer category relevant to each provider.

Schedule 4 - Energy and operating expenses

To provide a detailed breakdown of expenses associated with the provision of regulated retail energy services. Expenses are separated into commodity costs, trading and procurement charges and other non-energy expenses.

Schedule 5 - Debt capital employed and interest expense

To provide actual and allocated debt carrying costs charged to the provider (normally from the parent company) with an adjustment for any regulatory interest cost disallowances.

Schedule 6 - Income tax / PILOT

To provide the detailed tax calculation used to determine the income tax provision or PILOT for the regulated operations of the provider.

Schedule 7 - Capital assets continuity schedule

To provide a summary of capital assets in use and construction work in process (CWIP) assets, including additions, retirements, transfers and any adjustments.

Schedule 8 - Manpower summary

To provide a breakdown of the capitalized and expensed labour costs and human resources as expressed in full time equivalents (FTE's). The costs shown here are embedded in the total operating expense identified in schedule 4.

Schedule 9 – Reserve accounts

To provide a summary of the transactions that occurred in the provider's reserve accounts for the year.

Schedule 10 – Affiliate transactions

To identify transactions with affiliates. Since some providers are not required to report under the inter-affiliate code of conduct (which requires affiliate transaction reporting), this schedule was retained for transparency.

Schedule 11 - Reconciliation from audited income statement to regulatory schedules

To provide a reconciliation from the audited income statement to the regulated rate providers reported income.

Regulated Rate Provider: Direct Energy Regulated Services
REGULATED RATE TARIFF INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31
(\$000s)

Line No.	Description	Cross-Ref. from	2017	2016	Variance higher/(lower)	Variance %
Revenue						
1	Revenue	Sch 2	\$ 229,675	\$ 224,320	\$ 5,355	2.4%
2	Revenue offsets and other adjustments	Sch 2	\$ 1,171	\$ (2,405)	\$ 3,576	-148.7%
3	Total Revenue		<u>\$ 230,846</u>	<u>\$ 221,915</u>	<u>\$ 8,931</u>	<u>4.0%</u>
Expenses						
4	Energy and operating expenses	Sch 4	\$ 53,416	\$ 61,442	\$ (8,026)	-13.1%
5	Interest	Sch 5	\$ -	\$ -	\$ -	0.0%
6	Income tax	Sch 6	\$ 2,301	\$ 406	\$ 1,895	467.0%
7	Depreciation & amortization	Sch 7	\$ -	\$ -	\$ -	0.0%
8	Flow-through expenses	Sch 11	\$ 168,778	\$ 158,730	\$ 10,048	6.3%
9	Total Expenses		<u>\$ 224,494</u>	<u>\$ 220,577</u>	<u>\$ 3,917</u>	<u>1.8%</u>
10	Regulatory net income/(loss)	Sch 11	<u>\$ 6,352</u>	<u>\$ 1,338</u>	<u>\$ 5,014</u>	<u>374.7%</u>
Reconciliation						
11	Regulatory net income/(loss)	Sch 11	\$ 6,352	\$ 1,338	\$ 5,014	374.7%
12	Less: Regulatory cost disallowances	Sch 11	\$ (312)	\$ (846)	\$ 534	(0.63)
13	Adjusted regulatory net income/(loss)		<u>\$ 6,664</u>	<u>\$ 2,184</u>	<u>\$ 5,548</u>	<u>254.0%</u>

Note: Line item definitions are defined on cross-referenced schedules.

Line No.	Variance Explanation:
1	Revenue increased due to higher prices in 2017. 2016 Revenue is re-categorized to illustrate 2016 impact only. Total Revenue amount remains the same.
2	Revenue offsets have increased due to lower unbillable customers provision in 2017 and higher penalty revenue. 2016 Revenue is re-categorized to illustrate 2016 impact only. Total Revenue amount remains the same.
4	Energy and Operating Expenses have decreased due to lower supply costs and lower G&A.
6	Income Tax has increased due to higher income.
8	Flow-through expenses increased due to impact of Distributor's adjustments to credit the customers in 2016 and 2017 rates increase.

SCHEDULE 2

Regulated Rate Provider: Direct Energy Regulated Services
REVENUE BY CUSTOMER CLASS
FOR THE YEAR ENDED DECEMBER 31
(\$000s)

Line No.	Description	2017		
		Residential	Commercial	Total *
Revenue:				
1	Energy revenue	\$ 22,578	\$ 21,851	\$ 44,429
2	Non-energy revenue	\$ 11,508	\$ 4,961	\$ 16,468
3	Flow-through revenue	\$ 109,928	\$ 58,849	\$ 168,777
4	Total revenue	\$ 144,014	\$ 85,661	\$ 229,675 (to Sch 1)
Revenue offsets and other adjustments:				
5	Final notice fees			
6	Title search fees			
7	Application fees			
8	Penalty revenue			\$ 1,798
9	Other			\$ (626)
10	Total revenue offsets and other adjustments			\$ 1,171 (to Sch 1)
11	Total			\$ 230,846 (to Sch 11)

Line No.	Description	2016		
		Residential	Commercial	Total *
Revenue:				
1	Energy revenue	\$ 26,457	\$ 23,755	\$ 50,211
2	Non-energy revenue	\$ 10,791	\$ 4,588	\$ 15,379
3	Flow-through revenue	\$ 104,538	\$ 54,191	\$ 158,730
4	Total revenue	\$ 141,787	\$ 82,533	\$ 224,320 (to Sch 1)
Revenue offsets and other adjustments:				
5	Final notice fees			
6	Title search fees			
7	Application fees			
8	Penalty revenue			\$ 1,323
9	Other			\$ (3,728)
10	Total revenue offsets and other adjustments			\$ (2,405) (to Sch 1)
11	Total			\$ 221,915

* If other customer categories exist, please insert and report in an additional column(s).

Line No.	Line Item Definitions:
1	Energy revenue: revenue associated with the energy charges billed.
2	Non-energy revenue: revenue associated with administration charges or customer charges (billed at a fixed amount per day or month).
3	Flow-through revenue: revenue associated with the total distribution tariff, transmission tariff, franchise fee, and local access fee charges billed to customers, on behalf of the distribution utility.
5	Final notice fees: this fee is the result of final notice prior to cut-off for nonpayment.
6	Title search fees: fees associated with the recovery of costs for land title search costs and business registries costs (used to locate owners of a premise when there is no applicant for service and the meter is registering consumption or the site is being charged idle distribution / transmission charges by the distribution company).
7	Application fees: fees charged by the provider to set up service.
8	Penalty revenue: revenue associated with the collection of late fees charged to accounts when customers do not pay their bills on time.
9	Other: includes all miscellaneous revenues that are not accounted for in another line.
10	Total revenue offsets and other adjustments: sum of lines 5 through 9.
11	Total: equal to line 4 plus line 10.
Line No.	Variance Explanation:
1	Energy Revenue is lower due to decreased customer count and lower consumption.
2	Non-energy revenue is higher due to non-energy true-up riders in 2017, offset by non-energy deferred revenue true-up.
3	Flow-through Revenue increased due to impact of Distributor's adjustments to credit the customers in 2016 and 2017 rates increase.
9	Other Revenue offsets have decreased due to lower unbillable customers revenue provision in 2017.
2016-2&9	"Non-Energy Revenue" and "Other costs" for 2016 were re-categorized to illustrate 2016 impact only. Total revenue amount has not changed.

Regulated Rate Provider: Direct Energy Regulated Services
SITES AND ENERGY SALES BY CUSTOMER CLASS
 FOR THE YEAR ENDED DECEMBER 31

Line No.	Description	2017		
		Residential	Commercial	Total *
1	Sites - average	91,358	32,728	124,087
2	Energy sales (MWh)	596,994	578,916	1,175,910
3	Energy sales per site (kWh/site)	6,535	17,689	9,477

Line No.	Description	2016		
		Residential	Commercial	Total *
1	Sites - average	96,401	34,221	130,622
2	Energy sales (MWh)	621,791	571,240	1,193,031
3	Energy sales per site (kWh/site)	6,450	16,693	9,133

* If other customer categories exist, please insert and report each additional customer category in a separate column.

Line

- No. Line Item Definitions:
- 1 Sites - average: number of sites based on monthly average for the calendar year. A "site" is generally defined as being the finest or lowest level of consumption or usage data. A "site" generally represents a meter installation.
 - 2 Energy sales (MWh): total energy billed and accrued for the applicable customer class.
 - 3 Energy sales per site (kWh/site): line 2 multiplied by 1,000 and divided by line 1.

Notes

- 1 Sites - average declined by 5% or 6,535 sites.
- 2 Energy sales (MWh) declined by 1.4% or 17,121 MWh.
- 3 Energy Sales per site has increased by 3.8%.

Regulated Rate Provider: Direct Energy Regulated Services
ENERGY AND OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31
(\$000s)

Line No.	Description	Cross-Ref. from	2017	2016	Variance higher/(lower)	Variance %
Physical spot market						
1	AESO - energy charges		\$ 28,630	\$ 23,203	\$ 5,427	23.4%
2	AESO - retail adjustment to market (RAM)		\$ 31	\$ (76)	\$ 107	-141.5%
3	AESO - trading charges		\$ 405	\$ 407	\$ (2)	-0.4%
4	AESO - uplift charges		\$ 4	\$ 3	\$ 1	33.2%
5	AESO - other		\$ (22)	\$ (24)	\$ 1	-6.4%
6	Physical forward market costs (outside the power pool)				\$ -	-
Financial forward market						
7	Net hedging cost (revenue)		\$ 6,309	\$ 18,523	\$ (12,214)	-65.9%
8	NGX - trading charges/auction fees		\$ 41	\$ 30	\$ 11	35.2%
9	Other electricity procurement costs		\$ -	\$ -	\$ -	-
Other operating expenses (Note)						
10	Credit costs		\$ 582	\$ 510	\$ 72	14.2%
11	Billing & customer care		\$ 8,536	\$ 8,892	\$ (356)	-4.0%
12	Corporate allocations	Sch 10	\$ 506	\$ 1,265	\$ (759)	-60.0%
13	Operational and administration costs		\$ 2,642	\$ 3,081	\$ (439)	-14.2%
14	Bad debts expense		\$ 5,751	\$ 5,628	\$ 124	2.2%
15	AUC administration fee	Sch 9	\$ -		\$ -	0.0%
16	Hearing costs	Sch 9	\$ -		\$ -	0.0%
17	Independent advisor and intervener (consultation parties) costs		\$ -		\$ -	0.0%
18	Other		\$ -		\$ -	-
19	Total energy and operating expense		<u>\$ 53,416</u>	<u>\$ 61,442</u>	<u>\$ (8,026)</u>	<u>-13.1%</u>

Note The expenses reported above should exclude regulatory disallowances, as defined on schedule 11. Any disallowed expenses should be reported on schedule 11, column H.

Line No. Line Item Definitions:
1 AESO - energy charges: the cost of energy (electricity) based on hourly consumption and hourly pool prices as calculated by the AESO and identified on the AESO pool

- 2 AESO - retail adjustment to market (RAM): charges related to a post final adjustment mechanism (PFAM) made in the settlement of load, for the collection/payment required to offset the RSA (retailer specific adjustment) as identified on the AESO pool statement.
- 3 AESO - trading charges: total trading charges applicable to power pool transactions.
- 4 AESO - uplift charges: total annual uplift charges as calculated by the AESO and identified on the AESO pool statement.
- 5 AESO - other: includes all charges on the AESO pool statement not included in any other line item above.
- 6 Physical forward market costs (outside the power pool): any costs associated with forward physical transactions that are settled outside the AESO power pool.
- 7 Net hedging cost (revenue): includes costs or revenues associated with financial contracts (e.g. financial swaps) facilitated by an exchange or broker.
- 8 NGX - trading charges/auction fees: any charges or fees associated with electricity contracts traded on the NGX.
- 9 Other electricity procurement costs: includes all other expenses directly related to the procurement of electricity. Providers are required to either file a copy of their service agreement with their related trading floor (if one exists) that details the calculation and use of the transfer price, or a detailed explanation of how the transfer price is calculated and its use, especially with regard to prior period adjustments and costs recovered in the energy rate, but expensed directly by the provider.
- 10 Credit costs: costs associated with collateral requirements (parental guarantee, letter of credit) trading exchanges or counterparties.
- 11 Billing & customer care: costs related to billing, call center and other customer support functions.
- 12 Corporate allocations: allocated corporate overhead based on AUC approved methodologies.
- 13 Operational and administration costs: expenses associated with the management of the RRT, including salaries, consultant fees, and travel expenses.
- 14 Bad debts expense: the amount of non-collectible accounts receivable associated with RRT billings.
- 15 AUC administration fee: a fee sufficient to pay for the Commission's estimated net expenditures associated with carrying out its powers, duties and functions as assessed by the AUC under Rule 025.
- 16 Hearing costs: costs associated with proceedings for RRT applications that are approved by the Commission.
- 17 Independent advisor costs & intervener (consultation parties) costs: expenses related to work conducted by an independent advisor and consultation parties associated with electricity energy price setting plans.
- 18 Other: includes all expenses not accounted for in line items above. Please identify.

Line No. Variance Explanation:

- 1-5 2017 AESO costs are higher primarily due to higher commodity costs.
- 1-5 2016 Numbers are adjusted to reflect correct categorization. Total expense amount stays the same.
- 7 Hedging costs decreased in 2017.
- 12 Corporate allocations are lower in 2017.

Regulated Rate Provider: Direct Energy Regulated Services
DEBT CAPITAL EMPLOYED AND INTEREST EXPENSE
 FOR THE YEAR ENDED DECEMBER 31
 (\$000s)

Note : This schedule is not applicable as there is no debt on the balance sheet

2017

Line No.	Description	Series	Issue Date	Maturity Date	Coupon Rate	Principal Amount	Net Underwriting Discount/(Premium) & Expense	Total Amount	Effective Cost Rate %	Principal Outstanding at Year-End	Interest Expense
Long term- debt											
1					0.00%				0.00%		
2					0.00%	\$ -	\$ -	\$ -	0.00%	-	-
3					0.00%	\$ -	\$ -	\$ -	0.00%	-	-
4					0.00%	\$ -	\$ -	\$ -	0.00%	-	-
5					0.00%	\$ -	\$ -	\$ -	0.00%	-	-
6	Total long-term debt					\$ -	\$ -	\$ -	0.00%	-	\$ -
7	Total short-term debt								0.00%		
8											
9											
10											
11											
											Less: interest related to non-regulatory
											Less: regulatory interest cost disallowance
											Total interest expense <u>\$ -</u> (to Sch 1)

2016

Line No.	Description	Series	Issue Date	Maturity Date	Coupon Rate	Principal Amount	Net Underwriting Discount/(Premium) & Expense	Total Amount	Effective Cost Rate %	Principal Outstanding at Year-End	Interest Expense
Long term- debt											
1					0.00%	\$ -	\$ -	\$ -	0.00%	-	-
2					0.00%	\$ -	\$ -	\$ -	0.00%	-	-
3					0.00%	\$ -	\$ -	\$ -	0.00%	-	-
4					0.00%	\$ -	\$ -	\$ -	0.00%	-	-
5					0.00%	\$ -	\$ -	\$ -	0.00%	-	-
6	Total long-term Debt					\$ -	\$ -	\$ -	0.00%	-	-
7	Total short-term Debt								0.00%		
8											
9											
10											
11											
											Less: interest related to non-regulatory
											Less: regulatory interest cost disallowance
											Total interest expense <u> </u> (to Sch 1)

SCHEDULE 6

Regulated Rate Provider: Direct Energy Regulated Services
INCOME TAX/PAYMENT IN LIEU OF TAXES (PILOT)
FOR THE YEAR ENDED DECEMBER 31
(\$000s)

Line No.	Description	Cross-Ref. from	2017	2016	Variance higher/(lower)	Variance %
1	Income / (Loss) for RRT (before taxes)	Sch 11	\$ 8,653	\$ 1,744	\$ 6,909	396.2%
2	Permanent differences		\$ 4	\$ 5	\$ (1)	-20.0%
3	Timing differences		\$ 26	\$ 684	\$ (658)	-96.2%
4	Taxable Income / (Loss)		\$ 8,683	\$ 2,433	\$ 6,250	256.9%
5	Combined tax rate		27.0%	27.0%		
6	Current tax provision		\$ 2,308	\$ -	\$ 2,308	0.0%
7	Adjustments to current tax provision		\$ (0)	\$ 589	\$ (589)	-100.0%
8	Future income tax provision		\$ (7)	\$ (183)	\$ 176	-96.2%
9	Total Income Tax Provision	Sch 11	\$ 2,301	\$ 406	\$ 1,895	467.0%

(to Sch 1)

Tax rates:

10	Federal	15.0%	15.0%
11	Provincial	12.0%	12.0%
	Combined	27.0%	27.0%

Line

No. Line Item Definitions:

- 1 Income for RRT (before taxes): the Regulated Rate Tariff income before tax deductions.
- 2 Permanent differences: amounts recorded in revenue and expenses that are neither taxable nor deductible in accordance with income tax legislation.
- 3 Timing differences: amounts recorded in revenue and expense for accounting purposes in a period that does not coincide with the taxation year in which the related amounts are allowed in computing net income for income tax purposes (example, depreciation and amortization included for accounting purposes and capital cost allowance allowed for income tax purposes).
- 4 Taxable income: the amount of income for RRT adjusted for permanent and timing differences, used in the calculation to determine the current tax payable (line 6).
- 5 Combined tax rate: combined federal and provincial tax rate in accordance with applicable tax legislation.
- 6 Current tax provision or PILOT: the income taxes that the utility would pay to the provincial or federal governments if the entity is considered to be a taxable Canadian corporation, or, if the entity is owned by a municipality, it is the amount to be paid to the Balancing Pool under the Payment In Lieu Of Taxes regulation AR 112/2003 and is equal to the amounts determined in accordance with the federal and Alberta income tax legislation.
- 7 Adjustments to current tax provision: can include prior or current year (over)/under provisions or any other adjustments. Provide a detailed explanation of any adjustments reported.
- 8 Future income tax provision (if applicable): provide a detailed explanation of amount reported.
- 9 Total income tax provision: the amount shown in line item 6 on schedule 1, as the total income tax expense recognized for regulatory purposes as approved by the AUC.

Line

No. Variance Explanation:

- 1-6 Tax provision for current year is higher due to higher taxable income.
- 8 Future income tax provision relates to timing differences.

Regulated Rate Provider: Direct Energy Regulated Services
CAPITAL ASSETS CONTINUITY SCHEDULE
 FOR THE YEAR ENDED DECEMBER 31
 (\$000s)

CAPITAL ASSETS

Line No.	Property Group	Balance at 12/31/2016	2017 Additions	2017 Retirements	2017 Transfers	2017 Adjustments	Balance at 12/31/2017
1	Office furniture and equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Computer equipment	\$ 1,207	\$ -	\$ (711)	\$ -	\$ -	\$ 496
3	Software	\$ 2,713	\$ -	\$ (284)	\$ -	\$ -	\$ 2,429
4	Other (list separately)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Subtotal	\$ 3,919	\$ -	\$ (995)	\$ -	\$ -	\$ 2,925
6	Capital Work In Progress / Assets Under Construction	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7	Total	\$ 3,919	\$ -	\$ (995)	\$ -	\$ -	\$ 2,925

ACCUMULATED DEPRECIATION

Line No.	Property Group	Balance at 12/31/2016	2017 Additions	2017 Retirements	2017 Transfers	2017 Adjustments	Balance at 12/31/2017
8	Office furniture and equipment	-	\$ -	\$ -	\$ -	\$ -	\$ -
9	Computer equipment	\$ (1,207)	\$ (17)	\$ 711	\$ -	\$ 17	\$ (496)
10	Software	\$ (2,713)	\$ (117)	\$ 284	\$ -	\$ 117	\$ (2,429)
11	Other (list separately)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	Total	\$ (3,919)	\$ (134)	\$ 995	\$ -	\$ 134	\$ (2,925)
13	Depreciation / amortization adjustment		\$ 134				
14	Total depreciation and amortization expense		\$ -	(to Sch 1)			

Line No. Line Item Definitions:

- 1-5 Asset classifications are not universally defined for RRT providers. Each provider is to include additional asset classification line items to those shown above as deemed necessary.
- 6 Capital Work In Progress / Assets Under Construction: the balance of expenditures recorded for capital projects that are still in progress at year end.
- 8-12 Accumulated depreciation reported by asset classifications as reported under capital assets. Depreciation expense also appears on Schedules 1 and 11.
- 13 This line is to account for any necessary adjustments to reconcile line 14 to line 7 on schedule 1. If adjustments are made, an explanation should be provided as to the nature of the adjustments.
- 14 The total depreciation & amortization amount is the result of the total on line 12 less any adjustment entered on line 13.

Line No. Variance Explanation:

2,3, 9 & 10 Fully depreciated items in 2017.

**Regulated Rate Provider: Direct Energy Regulated Services
MANPOWER SUMMARY
FOR THE YEAR ENDED DECEMBER 31**

COST OF MANPOWER

Line No.	Description	2017	2016	Variance higher/(lower)	Variance %
1	Salaries and wages	\$ 1,994	\$ 2,298	\$ (304)	-13.2%
2	Employee benefits	\$ 426	\$ 26	\$ 401	1559.4%
3	Contracted labor	\$ -	\$ -	\$ -	-
4	Gross manpower expenses	\$ 2,420	\$ 2,323	\$ 97	4.2%
5	Less: Capitalized manpower	-	-	-	-
6	Less: Other reductions in manpower (specify)	-	-	-	-
7	Net manpower operating expense	\$ 2,420	\$ 2,323	\$ 97	4.2%

FULL TIME EQUIVALENTS (FTE'S)

Line No.	Description	2017	2016	Variance higher/(lower)	Variance %
8	Regular employees - gross	16.2	17.8	(1.6)	-8.8%
9	Temporary employees - gross	-	-	-	-
10	Contract staff - gross	-	-	-	-
11	Gross FTE's	16.2	17.8	(1.6)	-8.8%
12	Less: Capitalized manpower	-	-	-	-
13	Less: Other reductions in manpower (specify)	-	-	-	-
14	Net operating FTE's	16.2	17.8	(1.6)	-8.8%

Line

- Line No. Line Item Definitions
- 1 Salaries and wages: the total amount of salaries and wages (full time, temporary and casual employment) charged to the provider. This value does not include the cost of salaries and wages embedded in corporate cost allocated to the provider for the provision of services.
- 2 Employee benefits: the total amount of employee benefits in addition to the total salaries and wages charged to the RRT business in line 1.
- 3 Contracted labor: the total amount of contracted labor charged to the RRT business. Where contractor charges include both materials and labor, only the labor component of the charges shall be included in this line.
- 5 Capitalized manpower: the total amount of salaries, wages, benefits and contracted labor charges in lines 1, 2 and 3 that were capitalized.
- 6 Other reductions in manpower: reductions to the gross manpower expenses not accounted for under capitalized manpower (line 5).
- 8 Regular employees - gross: the number of full time equivalent (FTE) positions related to the salaries and wages of regular (permanent) employees (either full or part-time) in line 1 above.
- 9 Temporary employees - gross: the number of FTE positions related to the salaries and wages of temporary employees in line 1 above.
- 10 Contract staff - gross: the number of FTE positions related to the contracted labor expense in line 3 above.
- 12 Capitalized manpower: the number of FTE positions related to the total amount of salaries, wages, benefits and contracted labor charges capitalized in line 5.
- 13 Other reductions in manpower: reductions to the gross FTE's not accounted for under capitalized manpower (line 12).

Line

- Line No. Variance explanation
- 2 Benefits for both DRT and RRT were primarily recorded to DRT.

Regulated Rate Provider: Direct Energy Regulated Services

RESERVE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31

(\$000s)

Line No.	Description	Balance at 12/31/2016 (Note 1)	Costs incurred (Note 2)	Recovery through Rates	Balance at 12/31/2017 (Note 1)
1	AUC Administration Fee				\$ -
2	Hearing Costs				\$ -
3	Energy Deferrals-EPSP				\$ -
4	Non-Energy Deferrals	\$ 8,993		(8,990)	\$ 3
5	Total	\$ 8,993	\$ -	\$ (8,990)	\$ 3

NOTES

Note 1: Positive balance indicates a receivable; negative balance indicates a liability

Note 2: Non energy deferrals reflect provision for Administration rate true-up, approved by AUC and to be implemented in 2017

Line

No. Line Item Definitions:

- 1 AUC administration fee: a fee sufficient to pay for the Commission's estimated net expenditures associated with carrying out its powers, duties and functions as assessed by the AUC under Rule 025.
- 2 Hearing costs: costs associated with proceedings for RRT applications that are approved by the Commission.
- 3 Providers are to add line items for any additional reserve accounts approved by the AUC.

Line

No. Variance Explanation:

- 4 Deferred revenue was recovered from the customers through the rate riders applied in 2017.

**Regulated Rate Provider: Direct Energy Regulated Services
AFFILIATE TRANSACTIONS**

FOR THE YEAR ENDED DECEMBER 31

(\$000s)

Line No.	Affiliate name	Nature of Service	2017 Net	2017 Revenue	2017 Expense	2016 Net	Variance higher/(lower)	Variance %
1	Direct Energy Business	Energy purchases	\$ -	\$ -	\$ -	\$ -	\$ -	0.0%
2	Direct Energy Marketing Ltd.	Corporate allocations	\$ 506	\$ -	\$ 506	\$ 1,265	\$ (759)	-60.0% (to Sch 4)
3	Direct Energy Marketing Ltd.	Salary Allocations	\$ 397	\$ -	\$ 397	\$ 505	\$ (108)	-21.5%
4	Direct Energy Limited Partne	Billing & Back Office	\$ 6,922	\$ -	\$ 6,922	\$ 7,187	\$ (266)	-3.7%
5	Total		\$ 7,824	\$ -	\$ 7,824	\$ 8,957	\$ (1,133)	-12.7%

Line

No. Line Item Definitions:

1-4 Services with affiliates are not universally defined. Providers are to add line items for any additional transactions with an affiliate.

Column definitions:

2017 Net: sum of 2017 revenue and 2017 expense columns.

2017 Revenue: affiliate transactions that are recorded as a revenue to the RRT provider.

2017 Expense: affiliate transactions that are recorded as an expense to the RRT provider.

2016 Net: sum of prior year affiliate transactions (may be a credit or debit).

Line

No. Variance Explanation:

- 1 No affiliate transactions as energy purchases are from AESO.
- 2 & 3 Corporate allocations decreased in 2017.
- 4 Decreased due to lower number of customers in 2017.

Regulated Rate Provider: Direct Energy Regulated Services
RECONCILIATION FROM AUDITED INCOME STATEMENT TO REGULATORY SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2017
 (\$000s)

Line No.	Description	2017 Audited Income Statement	Non RRT Related Adjustments	Regulatory Cost Disallowances	RRT Portion
1	Revenue	\$ 230,846	\$ -	\$ -	\$ 230,846
2	Adjustment for revenue not associated with RRT operations				
3	Total	\$ 230,846	\$ -	\$ -	\$ 230,846 (to Sch 2)
4	Expenses				
5	Energy and operating expenses	\$ 53,416	\$ -	\$ -	\$ 53,416 (to Sch 4)
6	Flow through expenses	\$ 168,778	\$ -	\$ -	\$ 168,778 (to Sch 1)
7	Adjustment for expenses not associated with RRT or disallowed	\$ -	\$ -	\$ 312	\$ (312)
8	Total	\$ 222,193	\$ -	\$ 312	\$ 221,881
9	Depreciation and Amortization	\$ -	\$ -	\$ -	\$ -
10	Adjustment for expenses not associated with the RRT or disallowed				
11	Total	\$ -	\$ -	\$ -	\$ - (to Sch 7)
12	Interest Expense				
13	Adjustment for expenses not associated with the RRT or disallowed				
14	Total	\$ -	\$ -	\$ -	\$ - (to Sch 5)
15	Income before tax	\$ 8,653	\$ -	\$ (312)	\$ 8,965 (to Sch 6)
16	Income Tax	\$ 2,301	\$ -	\$ -	\$ 2,301
17	Adjustment for expenses not associated with the RRT or disallowed				\$ -
18	Total	\$ 2,301	\$ -	\$ -	\$ 2,301 (to Sch 6)
19	Net Income	\$ 6,352	\$ -	\$ (312)	\$ 6,664 (to Sch 1)

Providers are to add line items for any additional adjusting entries if not listed here.

Note: A regulatory cost disallowance is a cost incurred by a regulated rate tariff provider in the course of business, but the Commission specifically disallowed the inclusion of the cost in a rate setting decision or an AUC rule.

Independent Auditor's Report

To Those Charged With Governance of Direct Energy Regulated Services – Gas & Electricity

We have audited the accompanying financial statements of Direct Energy Regulated Services – Gas & Electricity, which comprise the balance sheet as at December 31, 2017, and the statement of operations and retained earnings, for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management in accordance with the basis of accounting as disclosed in note 2 of the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting as described in note 2 of the financial statements, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements are prepared, in all material respects, in accordance with the basis of accounting described in note 2 of the financial statements.

Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to note 2 to the financial statements, which describes the basis of accounting. The accounting policies used and the disclosures made are not intended to and do not comply with all requirements of International Financial Reporting Standards. The financial statements have been prepared to assist Direct Energy Regulated Services – Gas & Electricity to prepare its financial reporting for the purpose of filing with the Alberta Utilities Commission. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for Direct Energy Regulated Services - Gas & Electricity and the Alberta Utilities Commission and should not be distributed to or used by parties other than Direct Energy Regulated Services - Gas & Electricity and the Alberta Utilities Commission.



Chartered Professional Accountants
April 26, 2018
Calgary, Canada

**Direct Energy Regulated Services -
Gas & Electricity**
(a business unit of Direct Energy Marketing Limited)

Financial Statements
December 31, 2017 and 2016

(in thousands of Canadian dollars)

Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

Balance Sheets

As at December 31

(In thousands of Canadian dollars)

	2017	2016
Assets		
Current assets		
Cash	-	873
Short-term investments	-	7,001
Accounts receivable	166,077	117,145
Deferred accounts	8,996	9,303
Intra-company receivables	79,798	68,613
	<u>254,871</u>	<u>202,935</u>
Deferred income taxes	921	2,520
Capital assets, net (note 3)	955	1,631
	<u>256,747</u>	<u>207,086</u>
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	176,500	139,808
Customer deposits	11,833	7,239
	<u>188,333</u>	<u>147,047</u>
Equity and retained earnings		
Equity- OTIP share scheme	1,792	-
Retained earnings	66,622	60,039
	<u>68,414</u>	<u>60,039</u>
	<u>256,747</u>	<u>207,086</u>

The accompanying notes are an integral part of the financial statements

Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

Statements of Operations and Retained Earnings

For the years ended December 31

(In thousands of Canadian dollars)

	2017	2016
Revenue		
Gas and electricity	<u>1,144,733</u>	<u>947,667</u>
Expenses		
Gas supply cost	844,381	677,260
Electricity supply cost	204,249	202,008
Customer care	47,054	48,993
General and administrative	39,295	31,516
Amortization	<u>676</u>	<u>1,338</u>
	<u>1,135,655</u>	<u>961,115</u>
Income (Loss) before income tax	<u>9,078</u>	<u>(13,448)</u>
Provision for income taxes		
Current	2,740	(227)
Deferred	<u>(245)</u>	<u>(578)</u>
	<u>2,495</u>	<u>(805)</u>
Net Income (Loss)	6,583	(12,643)
Retained earnings – Beginning of year	60,039	72,682
Net Income (Loss)	<u>6,583</u>	<u>(12,643)</u>
Retained earnings – End of year	<u>66,622</u>	<u>60,039</u>

The accompanying notes are an integral part of the financial statements

Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

Notes to Financial Statements

For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars)

1 Basis of presentation

This financial information of Direct Energy Regulated Services - Gas & Electricity (“DERS”) has been prepared by the management of Direct Energy Marketing Limited (“Direct Energy”). DERS is a business unit of Direct Energy, an incorporated entity in Canada. The ultimate parent of Direct Energy is Centrica plc, a company incorporated in the United Kingdom.

DERS had an adjustment to the 2016 opening retained earnings balance as previously reported. The adjustment reflected an equal and offsetting amount to intra-company receivables and retained earnings.

Retained earnings- Beginning of year (as previously reported)	76,300
Prior period adjustment (a)	(3,618)
Retained earnings- Beginning of year (as restated)	72,682

- a) From 2004 through 2008, DERS adjusted the financial statements to remove costs that DERS would not seek recovery on. As such, the removal of these costs created higher retained earnings than the financial system reflected. The removal of this amount adjusts retained earnings to match the financial system of record.

2 Summary of significant accounting policies

Regulation and Basis of Accounting

DERS is regulated by the Alberta Utilities Commission (AUC), which administers the acts and regulations covering such matters as rates, financing, accounting, operations and service areas. These matters are specifically outlined in AUC decisions and guidelines for Gas Cost Flow through Rate (GCFR) and the Regulated Rate Tariff (RRT) negotiated settlement.

The financial information has been prepared in accordance with accounting policies summarised in the following notes. Generally, the accounting policies have been derived from the recognition and initial measurement criteria contained in applicable International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) with certain exceptions as noted in the specific policy notes below.

The preparation of financial statements in conformity with the accounting policies as disclosed, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Significant estimates include amortization of capital assets, accrued receivables and liabilities.

Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

Notes to Financial Statements

For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars)

This financial information includes the results of operations of DERS for the years ended December 31, 2017 and 2016 on a stand-alone basis for regulatory purposes. The financial information does not include the cost of Direct Energy's investment in DERS or any expenses related to that acquisition.

Revenue Recognition

Revenues are recognized on the accrual basis, which includes an estimate of the value of gas and electricity consumed by customers in the year, but billed subsequent to year-end. Revenues are collected based on the rates approved by the AUC. Commodity costs for gas are treated as flow-through items.

Certain current year billed rates are interim pending the final decision on the 2017-2018 application.

Natural Gas Supply Costs

Natural gas supply costs are based on the actual cost of natural gas purchases. However, variances in the cost of supply may arise due to differences in initial and final settlement, between final settlement and consumption billed to customers, and final adjustments in gas prices. Costs are adjusted for variances from forecast, and the variances are deferred until the following month's Gas Cost Flow-through Rate (GCFR) filing.

Electricity Supply Costs

Electricity supply costs are based on the actual cost of electricity purchases. However, variances in the cost of supply may arise due to differences in initial and final settlement, between final settlement and consumption billed to customers, and final adjustments in electricity prices. These variances are recorded as supply costs in the period that they are identified.

Income Taxes

DERS follows the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized based on the estimated tax effects of temporary differences of carrying values of assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are recognized using income tax rates substantively enacted on the balance sheet date. The effect of a change in income tax rates on the deferred income tax assets and liabilities is recognized in net income in the period of change.

Cash

Cash balances are balances held in banks.

Short Term investments

Short term investments consist of customer deposits held in trust at fair value.

Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

Notes to Financial Statements

For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars)

Accounts Receivable

Accounts receivable include amounts for billed and unbilled energy consumption and are reduced by a provision for bad debts.

Deferred Charges

The AUC, through its decision, has approved the use of deferral accounts.

Energy and non-energy revenue is deferred to the extent it is over (under) collected from customers, until approval from AUC is obtained to refund to, or collect from, customers.

Intra-company

Intra-company represent the net receivable/ payable owed to/by DERS from/to other Direct Energy business units for goods and services provided from/to DERS and net cash position. These costs were incurred in the normal course of business and were recorded at the amounts exchanged between the parties.

Financial Instruments

The fair values of cash, short term investments, accounts receivable, deferred accounts, accounts payables and accrued liabilities, and customer deposits approximate the carrying amounts of these instruments due to the short period to maturity.

3 Capital assets

Capital assets costing more than \$5 with life exceeding one year are recorded at cost and depreciated over five years on a straight-line basis, in accordance with IFRS.

			2017	2016
	Cost	Accumulated depreciation	Net	Net
Software and hardware	14,763	13,808	955	1,631

Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

Notes to Financial Statements

For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars)

4 Guarantees

As at year end, Centrica plc has provided guarantees related to DERS obligations. These guarantees cover the following items:

	2017	2016
Guarantees for gas supply contracts	37,762	57,995

These values reflect actual exposure at December 31, 2017, rather than the full value of the guarantee. The fees associated with these guarantees and letters of credit are included in general administration costs.

5 Contractual obligations

Direct Energy has a 10-year Master Service Agreement (“MSA”) with Direct Energy LP, from June 2014 to December 2024. Direct Energy LP will provide customer care, billing, credit and collection services for customers of DERS at fair market value rates as supported by external benchmarking studies. Direct Energy may terminate this agreement without cause with a 1-year notice period.

6 Segmented information

DERS is responsible for the management of two regulated operations, one related to the provision of regulated retail gas services, the other related to the provision of regulated retail electric services. The segmented information related to these operations is shown below:

	2017			2016		
	Gas	Electricity	Total	Gas	Electricity	Total
Revenue	913,887	230,846	1,144,733	725,752	221,915	947,667
Expenses	913,462	222,193	1,135,655	740,944	220,171	961,115
Earnings/(Loss) before taxes	425	8,653	9,078	(15,192)	1,744	(13,448)
Income tax expense (recovery)	194	2,301	2,495	(1,210)	405	(805)
Net Earnings	231	6,352	6,583	(13,982)	1,339	(12,643)
Deferred account	9,625	292	9,917	1,121	8,182	9,303
Capital assets (net)	955	-	955	1,631	-	1,631

Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

Notes to Financial Statements

For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars)

7 Related party transactions

Entity	Relationship	Transaction	Recorded as	2017	2016
Direct Energy Marketing Ltd. (DEML)	Affiliate	Corporate charges	General and administrative	231	365
Energy Management Group (a division of DEML)	Affiliate	Gas supply costs	Gas supply costs	263,723	234,010
			Salaries	838	856

All the above transactions are in the normal course of business and are measured at the exchange amount.

8 Contingencies

The Company is defendant in many legal actions arising in the normal course of business. The Company believes that any liabilities that might arise pertaining to any such matters would not have a material effect on its consolidated financial position.